

# Big FinTechs, digital currencies and CBDC impacts on least developed countries

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# Agenda

Introduction - UNCDF UNDP Big FinTech impact on LDCs technical papers

Overview of Digital Currencies, Stablecoins and CBDCs

Opportunities

Key challenges and risks

Risk Mitigation Opportunities

Recommendations

Questions



# THEME 1 : BigFintechs and their Impacts on Sustainable Development



Dialogue on Global Digital Finance Governance

Technical Paper 1.1  
**BigFintechs and their impacts on sustainable development**  
Katherine Foster, Sofie Bakstad, Marjin Bos, Sangita Gazi, Charlotte Melkun and Becky Dwyer

The findings of the Dialogue on Global Digital Finance Governance are packaged into three thematic areas:

**Executive Summary**

**Theme 1**  
BigFintechs and their impacts on sustainable development

- Technical Paper 1.1 BigFintechs and their impacts on sustainable development
- Technical Paper 1.1B BigFintechs and their impacts on macroeconomic policies
- Technical Paper 1.2 Digital currencies and CBDC impacts on least developed countries

**Theme 2**  
Corporate governance innovations

- Technical Paper 2.1 BigFintechs and the UN SDGs: the role of corporate governance innovations

**Theme 3**  
BigFintechs and international governance, policymaking and the SDGs

- Technical Paper 3.1 Policymakers, BigFintechs and the United Nations Sustainable Development Goals
- Technical Paper 3.2 BigFintechs and international governance, policymaking and the UN Sustainable Development Goals: the SDGs in the international governance of finance
- Technical Paper 3.3 A principles-based approach to the governance of BigFintechs

BigFintechs (BFTs) have become new giants of global finance bringing with them key new challenges, particularly for emerging and developing economies. The purpose of this Technical Paper is to garner a more robust understanding of the emerging impacts (positive and negative) of BFTs across the full spectrum of the Sustainable Development Goals (SDGs), to better inform the dialogue around a new generation of governance innovations to address such impacts, particularly with regard to least developed countries (LDCs).

The current focus of research and practical approaches to fintech regulation, governance and supervision are viewed as the domain of the financial sector and, to a limited degree, the technology sector. These approaches relate to the innovations underpinning emerging technology in delivering financial services, with a global focus on issues of privacy, financial security, money laundering, taxonomy, benchmarks and overall financial integrity and stability.

However, BFTs are playing an increasing role in shaping (both positive and negative) a sustainable future,<sup>1</sup> including issues that have previously been considered outside the realm of examination. To date, there has been little research on the impact of BFTs on the SDGs. This paper examines the impact of BFTs on the SDGs, with a particular focus on LDCs. It also examines the impact of BFTs on the SDGs in the international governance of finance.

Gracia M. Ripani, Larissa Torres, <sup>1</sup> Digital Finance and Development Impact Report (2020) (Digital Finance and Development Impact Report), 117 (2020), available at <https://www.un.org/development/desa/dest/2020>; see also Torres, *Supervision of Digital Finance: A Regulatory Approach*, 17 (2020), available at <https://www.un.org/development/desa/dest/2020>; Torres, *Supervision of Digital Finance: A Regulatory Approach*, 17 (2020), available at <https://www.un.org/development/desa/dest/2020>; Torres, *Supervision of Digital Finance: A Regulatory Approach*, 17 (2020), available at <https://www.un.org/development/desa/dest/2020>; Torres, *Supervision of Digital Finance: A Regulatory Approach*, 17 (2020), available at <https://www.un.org/development/desa/dest/2020>.

Dialogue on Global Digital Finance Governance

Technical Paper 1.1B  
**BigFintechs and their impacts on macroeconomic policies**  
Katherine Foster, Sofie Bakstad, Sangita Gazi and Marjin Bos

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**Executive Summary**

This paper follows directly from Technical Paper 1.1, "BigFintechs and their Impact on Sustainable Development," which examines the positive and negative impacts of BigFintech (BFT) activities across the full spectrum of the Sustainable Development Goals (SDGs), particularly with regard to Least Developed Countries (LDCs). This paper serves as an extension of the analysis, specifically on the findings with regard to SDGs 16 (peace, justice and strong institutions) to focus on the macroeconomic impact of BFT actors and activities on LDCs. To accomplish the extended analysis, we first address the limitations in bridging BFT activity, SDG indicators and LDC macroeconomic policy impacts. We draw upon the outline of the complex and opaque money chains, expanding service offerings across multiple business verticals and the complex ecosystem models that amplify BFT impacts for LDCs as outlined in Technical Paper 1.1. We discuss the key barriers in advancing the analysis including the limitations of the frameworks, tools, indicators and data, to measure the macroeconomic impacts particularly within the LDC context. Our findings demonstrate that the current narrative "digital economy" sees digital growth, maturity and market penetration in LDCs largely as positive developments. However, it fails to address the potential for adverse impacts on LDCs specifically owing to BFTs' complex models and business activities. We then outline the regulatory challenges related to BFT actors, multiple factors including the cross-border nature of BFT ecosystems and activities, the narrow scope of those digital services, the limitations of foreign exchange rules and taxation classification.

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Dialogue on Global Digital Finance Governance

Technical Paper 1.2  
**Digital currencies and CBDC impacts on least developed countries (LDCs)**  
Katherine Foster, Sofie Bakstad, Sangita Gazi and Marjin Bos

The findings of the Dialogue on Global Digital Finance Governance are packaged into three thematic areas:

**Executive Summary**

The purpose of this Technical Paper is to garner a more robust understanding of the potential macroeconomic impacts and related regulatory challenges of central bank digital currencies (CBDCs) and other digital currency initiatives on developing countries. This paper begins from a point of recognition that the landscape of digital currencies, their associated taxonomy as well as related regulations are still evolving alongside their potential implications. As such, we focus on the different types of digital currencies previously in circulation, delineating these from those on the near and immediate horizon. We employ an umbrella definition to encompass CBDCs and digital ledger technology (DLT)-based currencies including stablecoins, as well as earlier versions of digital money, as subsets of digital currency to examine the evolution of macroeconomic impacts on developing countries as well as the emerging regulatory gaps. We cluster key elements and draw assumptions across common parameters in research, for the sake of consistency and to retain the focus on advancing the understanding of the broader macroeconomic impacts on least developed countries (LDCs).

We begin with the evolution of mobile money and e-money as a subset of digital currencies and their well-understood positive impact on financial inclusion. We then briefly touch upon the regulatory challenges related to the new monies of mobile financial services providers and the implications on the traditional commercial banking sector to many, including its consumer protection. We also examine the implications of regulatory gaps and the potential for money inclusion in the market dominance of BigFintech (BFT) companies offering e-money. The

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Dialogue on Global Digital Finance Governance

Annexes 1-6 Technical Paper 1.1  
**BigFintechs and their impacts on sustainable development**  
Katherine Foster, Sofie Bakstad, Marjin Bos, Sangita Gazi, Charlotte Melkun and Becky Dwyer

**Annex 1: BigFintech and Sustainable Development Goals (SDG) tiered impact tables**

Based on our tabulated data, case studies and research, we identified impacts (intentional and unintentional and both positive and negative) across a range of environmental, social and economic SDGs for the LDCs. We determined three tiers of impacts: (I) from direct service offerings; (II) from integrated services, operations, infrastructure and processes; and (III) from business models, the value chains and the overall ecosystem (vertical and horizontal integration) including cumulative and systemic impacts. A summary table of the tiered impacts is provided in Technical Paper 1.1 while the full version by BFT category is provided below.

This categorization is a concluding descriptive rather than normative or prescriptive tool to help better understand the intended and unintended and the positive and negative impacts across BFTs' direct services and operations, as well as the broader ecosystem and value chains of BFTs on LDCs. We believe this warrants further examination and such a tool is currently used to define Scope 1, 2 and 3 climate emissions, could serve to better understand the scope of SDG impacts as well as fund regulatory implications.

BFT CATEGORY LEVEL, TIERED IMPACT TABLES	Tier 1 Impacts: from direct services offering	Tier 2 Impacts: from services, operations, infrastructure and processes	Tier 3 Impacts: from business model, value chain and ecosystem (vertical and horizontal integration) including cumulative and systemic impacts
<b>Direct service offerings</b>	Direct service offerings include the direct products and services offered by BFTs to their customers. These offerings are generally positive and can directly address the development impacts of LDCs and both positive and negative.	Direct service offerings include the infrastructure and processes that support the direct service offerings. These offerings are generally positive and can directly address the development impacts of LDCs and both positive and negative.	Direct service offerings include the business model, value chain and ecosystem (vertical and horizontal integration) including cumulative and systemic impacts. These offerings are generally positive and can directly address the development impacts of LDCs and both positive and negative.

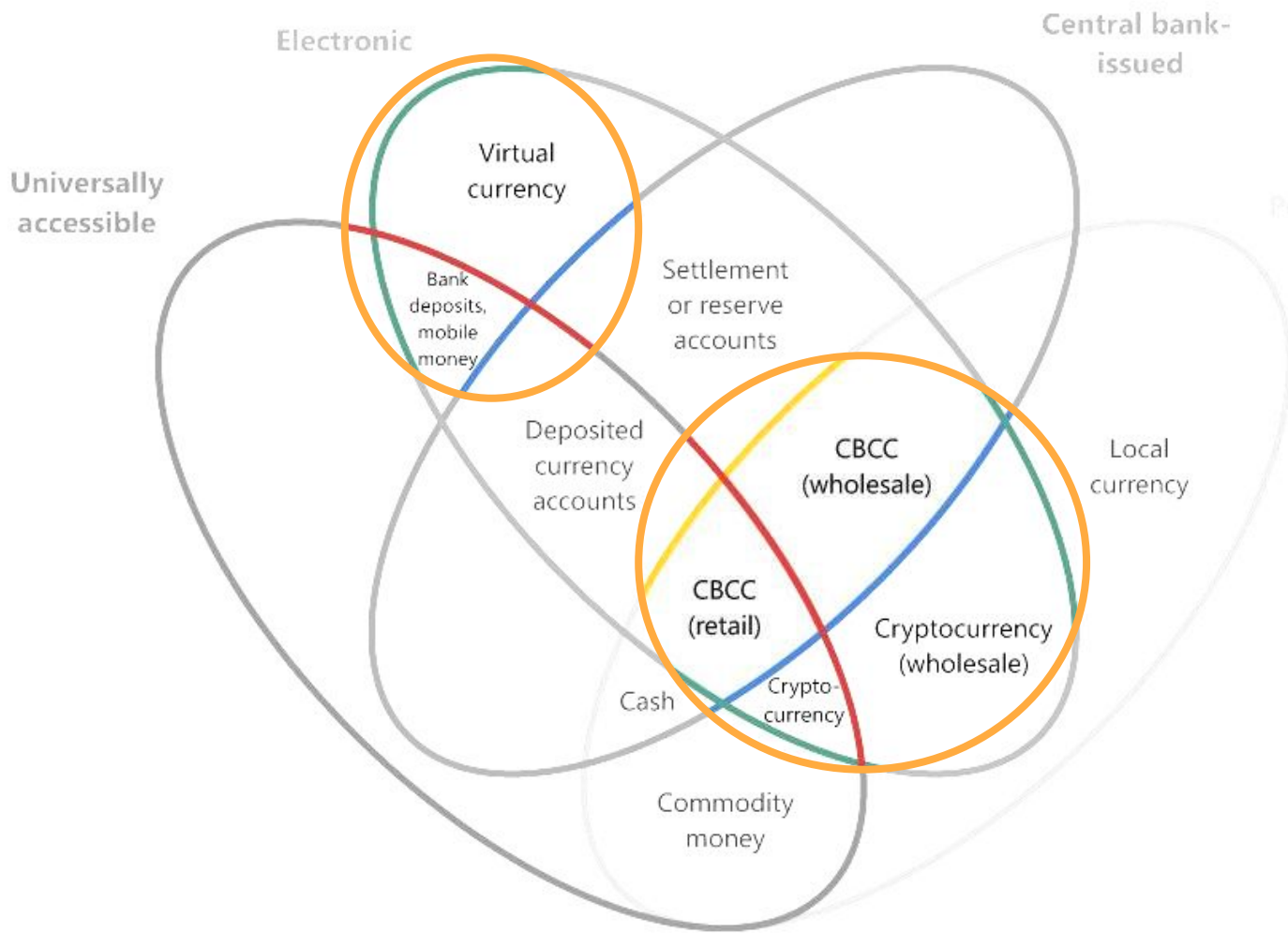
Technical Paper 1.2: BigFintechs and their impacts on sustainable development - Annexes 1-6

Download: <https://www.unpd.org/publications/towards-inclusive-sdg-aligned-governance-global-fintech-platforms-bigfintechs>



## Central Bank Digital Currencies (CBDCs) and other digital currency initiatives

- Recognizes evolving landscape of digital currencies, their associated taxonomy, related regulations and potential implications.
  - Focused on those in circulation
  - Umbrella definition CBDCs DLT based currencies and digital money
  - Market dominance of BigFintech companies
  - Focus on macroeconomic impacts
  - Specifically for developing countries
- Key examples and sections
    - African Context
    - Covid-19 implications
    - Shadow banking
  - Potential risks and implications of fragmented regulatory approaches
  - Emerging technology and governance structures
  - Need for governance innovation and change management strategies



- Focus on non-bank Digital Currencies
- Emphasis on impact of these instruments in Big FinTech context
- Analysis of the greater impact on LDCs
- Key highlights from the report are in black
- Additional opportunities, based on report's findings are in teal

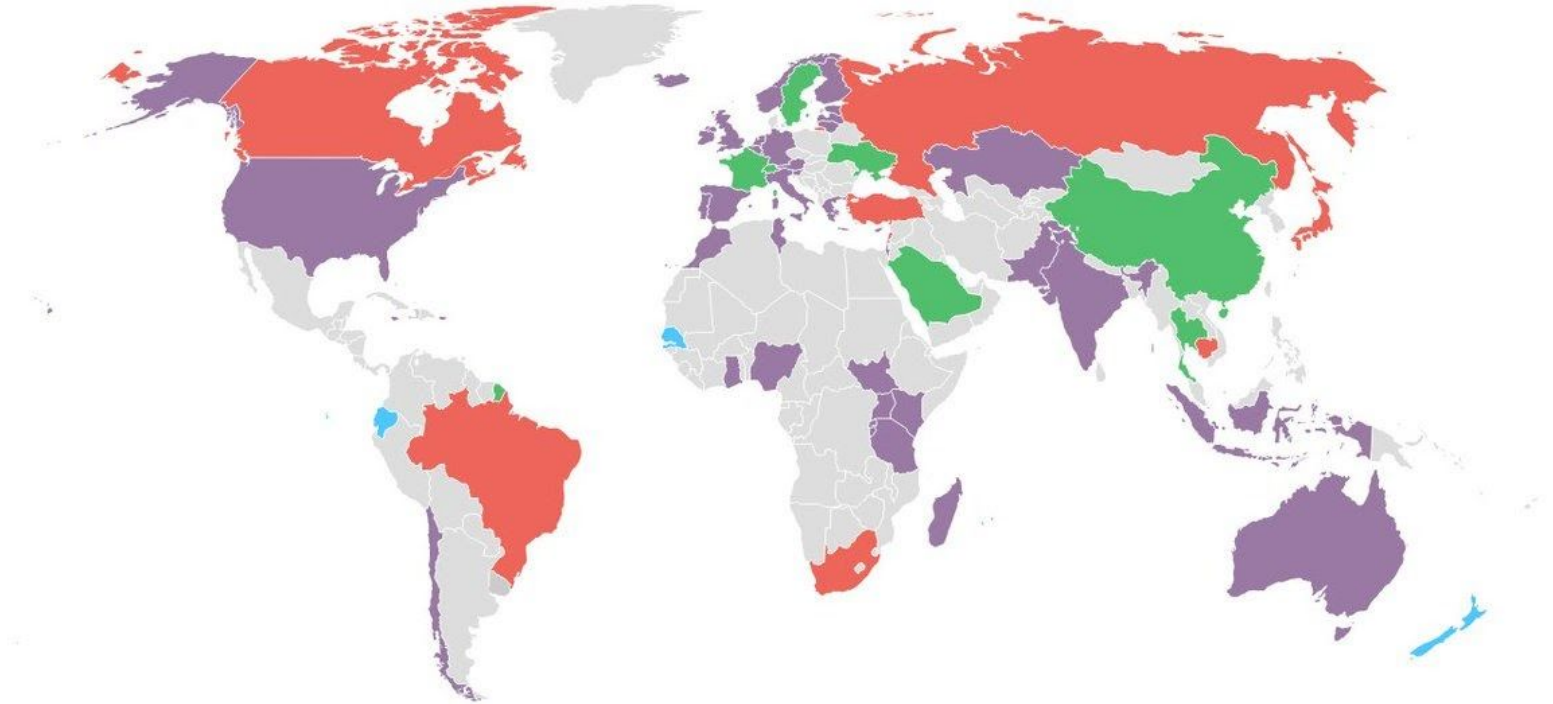
# Privately issued currencies

- True cryptocurrencies are limited in supply
- Private sector has been leading in issuing alternative currencies - MM and others
- US OCC has declared banks can use **stablecoins** as equivalent to other currency
- Banks now starting to offer stablecoins for customer use, e.g. **JPM Coin**, **Visa** using USD Coin, **Finality USC** backed by multiple banks
- Diem proposed USD stablecoin which will be available on wallets through **Facebook**
- **Amazon** is hiring digital currency experts for a launch in Mexico

Issuer	Underlying currency	Collateral	Risk
Bank, e.g. JPM Coin 'Cash on Ledger'	US\$, EUR, other stable fiat currencies	Fractional reserve limits, i.e. no external or central bank collateral requirement but offset 1:1 against bank issued currency <sup>43</sup>	Inherits risk of issuing bank (part of fractional reserve by extension—holding same risks and subject to same rules)
Central Bank, e.g. PBOC	National currency	n/a, issued under national monetary policy money supply limits	Inherits risk of national currency
Consortium of banks, e.g. Finality	US\$, CAD, GBP, EUR, YEN	Cash reserve at central banks (Finality)	Partially that of bank but supported by national currency because of cash reserve
Non-bank Fintech (fiat backed stablecoins), e.g. Tether	National currency	Cash reserve in commercial bank	Inherits risk of the holding commercial bank; however (as with Tether), requires transparency to maintain confidence. It also threatens financial stability as it carries the traditional risks of private sector-mandated stablecoins being 'too big to fail' and 'too connected to fail'. Furthermore, it carries the risks of impacting countries' monetary policy transmission and may threaten the effectiveness of the central bank's functions as a lender of last resort <sup>44</sup>
Non-bank Fintech (collateral backed), e.g. MakerDAO DAI	US\$, EUR, other stable currencies	Collateral reserve held as digital assets	Managed by Fintech and governed by Board, Foundation, etc.
Non-bank Fintech (fiat backed, multiple currency) e.g. Diem	US\$ + YEN + CHF + GBP + EUR...	Can include fiat currency and bonds (i.e. Diem originally proposed a mixture of cash and bonds held in a Swiss Commercial Bank)	Inherits risk of holding commercial bank BUT not clear how currency valuation and fluctuations would be managed

# Central Bank Digital Currencies Landscape

● Pilot ● Development ● Research ● Cancelled ● Inactive





# Advantages of CBDCs for governments

## Retail:

- Presents **financial inclusion** opportunities
- Meets the future payment needs of a **digital economy**
- Avoids the risks of new, **under regulated** or **defined** forms of private money such as stablecoins
- Creates more **resilient** payments
- Offers **cross border** payments opportunities

## Commercial/Wholesale:

- **RTGS** opportunities
- Reduces friction in **securities settlements**
- Transparency for securities and DFIs can lead to deepening of **capital markets**
- Reduces cross border friction for better **trade**

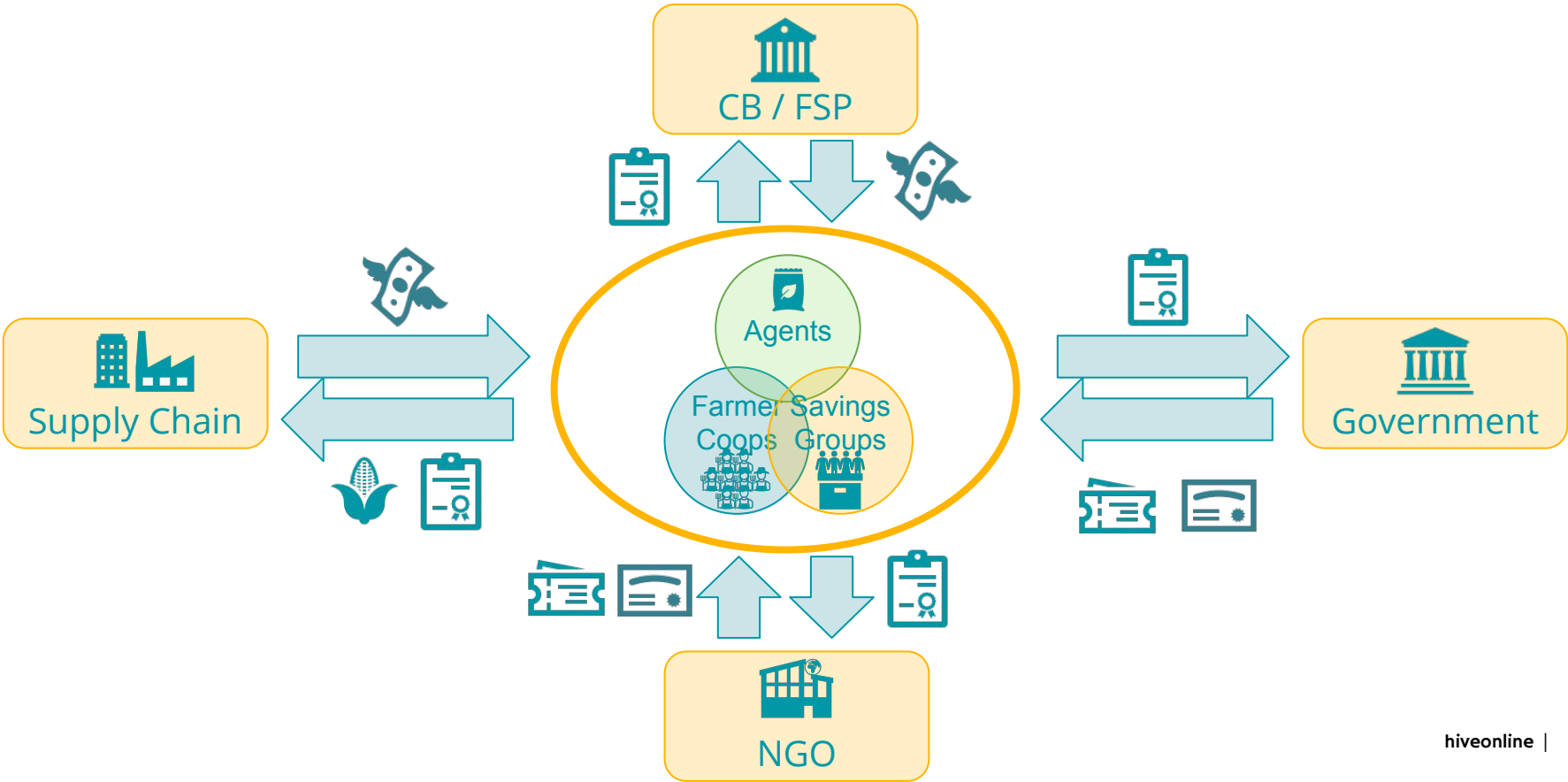
# Digital economy opportunities for citizens

- Accessible, domestic denominated CBDCs offer the opportunity to increase **financial inclusion** and financial resilience
- Well regulated alternative digital financial services can **lower the barriers to entry** for the most vulnerable
- Safe store of value for **financially excluded**, especially women
- Interoperability opportunities with **foreign currencies**
  - Boosts trade opportunities
  - Reduces supply chain friction

Which leads to...

- CBDCs and Stablecoins both create a digital **financial history**, without the high cost barrier of Telco issued mobile money
- Digital assets such as tokens can move value within closed loop economic systems without the risk of cash
- Opportunities to interact with other **value systems**, e.g. community currencies, bloc currencies

# Digital economy for smallholders and women



# Risks of BFT Stablecoins and CBDCs



- Accessible foreign currency stablecoins and CBDCs could accelerate **currency substitution**
- Could accelerate the **digital divide** if only accessible via e.g. smartphones
- Extension of **shadow banking** to less well defined/regulated businesses - not protected by deposit guarantee schemes
- Without clear governance, stablecoins could reduce central banks' ability to implement **monetary policy**
- CBDCs could reduce liquidity in **commercial banking** system, especially where there is low trust in the system
- Free/low cost transactions will compete with **Mobile Money** providers
- Monopolistic Big FinTech companies can reach **more customers** than any bank
  - Novel **business models** transcend national borders - hard to regulate
  - US regulators will protect **US interests**
  - Facebook has **2.7bn** monthly active users including >250m in Africa
  - Diem wallets issued by Facebook could reach **more subscribers** than any mobile money or bank network
  - Risk of **USD** denominated **peer to peer** payments and **store of value**
- e-Yuan could potentially become alternative **substitute currency**
  - Dependent on accessibility
  - Not yet clear whether China will be pursuing e-Yuan for international payments

# Examples of Risk Mitigation strategies for LDCs

- Issue **domestic CBDCs**
  - Multi-layered for **universal inclusion**
  - Offline, **device independent** (e.g. cards) to maximise inclusion
  - Provides **traceability** and opportunities for implementing **monetary policy**
- Authorise domestic denomination stablecoins
  - Clear **definition** in line with Basel recommendations
  - Mitigate **currency substitution** in the short term
  - Advance **financial inclusion** via fintechs
  - Reduce barriers to entry to encourage **competition** for monopolistic BFTs
- Issue bloc digital currencies
  - Control **exchange** rates
  - Mitigate currency **substitution**
  - **Trade** opportunities
  - Control **monetary policy**
  - Provide smooth path for **domestic** CBDCs
- Consider authorising **community currencies** and clarify regulations for shadow banking
  - Design regulations to **protect** most vulnerable
  - Clear definition of **boundaries** will help issuers
  - Close **loopholes**

# Recommendations

- International **collaboration** is key
  - Complex integrated business models need a regional approach to combat **monopolistic** behaviours of Big FinTechs
  - Align **definitions** and **regulation** of new assets
  - Balance **interoperability** to encourage trade, and threat of currency substitution
  - New approaches require effective **change management**
- Domestic digital currencies must be **attractive** and **accessible** to citizens
  - Level the field for the most **vulnerable**
  - Avoid extending the **digital divide** with conscious design choices
  - Encourage participation by **private sector** in domestic issuance
- Acknowledge that stablecoins are here to stay and create relevant **frameworks**
  - Encourage innovation by **clearly defining** digital assets
  - Create **competition** by authorising compliant businesses offering domestic denomination stablecoins
- A **holistic, integrated** approach to Big FinTech regulation is critical to concrete change
  - LDCs will feel a deeper **economic, social** and **environmental** impact
  - Combines financial **regulation, competition** policy and **data privacy**
- Encourage alternative financial structures that promote **inclusiveness**, e.g.
  - Community currencies
  - Voucher schemes
  - Savings group formalisation

# Appendix

Supporting materials



# Bahamas Sand Dollar example

- Piloted 2019, rolled out October 2020
- Issued by Central Bank, distributed via commercial financial sector
- Banks, credit unions and payments firms
- Tiered KYC for different limits, allowing for a level of financial inclusion without bank account
  - Balances of up to \$500 and \$1,500 in transactions per month with email address or phone number only
  - Balance up to \$8,000 with full bank KYC
- Motivation was financial inclusion and addressing a lack of physical banking infrastructure
- Free transactions (for now)
- Available on smartcards or smartphones - not feature phones
- Minors can use with parental consent
- Severe penalties for data breaches
- Interoperability between bank accounts and CBDC accounts
- Plans to allow interoperability between FIs (not yet in place)



*Digital money*

*>80% of narrow money*

# Distribution of Money

Category	Value (\$ Billions, USD)	Source
Silver	\$44	World Silver Survey 2019
<b>Cryptocurrencies</b>	<b>\$1,060 (\$746 BTC)</b>	<b>CoinMarketCap</b>
Global Military Spending	\$1,981	World Bank
U.S. Federal Deficit (FY 2020)	\$3,800	U.S. CBO (Projected, as of April 2020)
<b>Coins &amp; Banknotes</b>	<b>\$6,662</b>	<b>BIS</b>
Fed's Balance Sheet	\$7,037	U.S. Federal Reserve
The World's Billionaires	\$8,000	Forbes
Gold	\$10,891	World Gold Council (2020)
The Fortune 500	\$22,600	Fortune 500 (2019 list)
Stock Markets	\$89,475	WFE (April 2020)
<b>Narrow Money Supply</b>	<b>\$35,183</b>	<b>CIA Factbook</b>
Broad Money Supply	\$95,698	CIA Factbook
Global Debt	\$252,600	IIF Debt Monitor
Global Real Estate	\$280,600	Savills Global Research (2018 est.)
Global Wealth	\$360,603	Credit Suisse
Derivatives (Market Value)	\$11,600	BIS (Dec 2019)
Derivatives (Notional Value)	\$558,500	BIS (Dec 2019)
Derivatives (Notional Value - High end)	\$1,000,000	Various sources (Unofficial)

Source: <https://www.visualcapitalist.com/all-of-the-worlds-money-and-markets-in-one-visualization-2020/>

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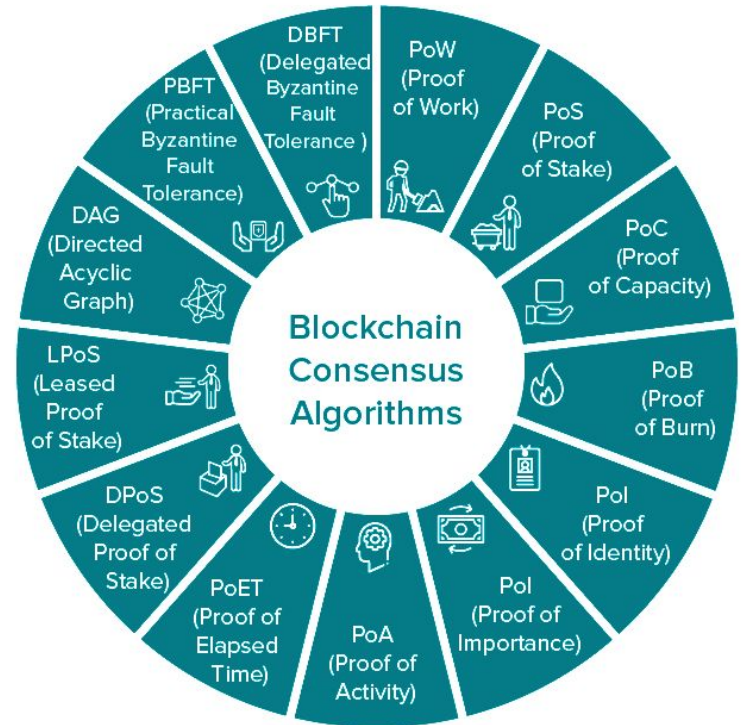
# CBDC Design Considerations

- Account or Token based - impacts accessibility and anonymity
  - Account based requires KYC/account to be held
  - Token based more like cash, anyone (with a wallet) can hold it
  - Can be hybrid
- Bank issued or CB issued?
  - E.g. Sweden considering holding accounts at Central Bank - potential management issues
  - Can impact liquidity in commercial banking system
- Telco / Fintech channels?
  - Impacts financial inclusion
- Interoperability
  - With bank accounts
  - With foreign CBDCs
  - With other digital assets
- Used to implement monetary or fiscal policy?
  - No country has yet announced its intention to do so
  - Could apply interest rates on deposits to encourage saving
  - Or demurrage to stimulate spending
  - Could levy tax on payments at source
- Online or offline?
  - Offline transactions carry risks and asynchronous reconciliation
- Blockchain or “old” tech?
  - China not yet using blockchain but assumption is that they will - advocating blockchain interoperability
  - Rapidly evolving technology

*Transactions can be trusted  
without intermediaries*

# What is Blockchain?

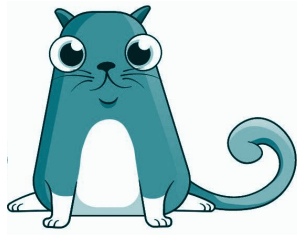
- Blockchain is a type of Distributed Ledger Technology (DLT) - other types exist such as DAG (directed acyclic graph)
- The technology enforces compliant behaviour without the need for intermediaries
- Cryptographic locks ensure past transactions can't be overwritten or altered
- Each is unique but fungible, like a bank note
- Decentralisation vs utility - different types of consensus algorithms
- Digital assets "know" which wallet owns them and their full history



# Digital Assets

*Digital assets represent different types of value*

- Cryptocurrency is the “base unit” of most blockchains, a digital asset that can only run on that blockchain - Bitcoin is best known
- Tokens are transferable assets built on top of blockchains, with different characteristics
  - Utility tokens
  - Stablecoins
  - Security tokens
  - NFTs
  - Certificates
  - Identity
- Many blockchain platforms provide template tokens, e.g. Ethereum’s erc20 (Utility), erc1400 /1410 (Security Tokens), erc721 (non-fungible) or Hyperledger Indy (identity management)



- “Smart contract”, “State” “Chaincode” etc are terms used to describe self-executing mini programmes that are triggered when certain conditions are met
- Smart Contracts usually transfer digital assets





# **Theme I: BigFintech Impacts Sustainable Development (LDCs)**

## **Paper Overviews**

Background Material



# THEME 1 : BigFintechs and their Impacts on Sustainable Development



BFT category	Examples of organizations active in this category
<b>Payment platforms</b> <i>Regional mobile money providers and global payment platforms—including alternative currencies, CBDC (along with synthetic CBDCs), stablecoins, bank cash on ledger, credit card companies</i>	<i>Alipay (Ant technology group), Apple Pay, Fidelity, Facebook, Google Pay, JPM Coin, MTN, Paytm, People's Bank of China, Safaricom, Tencent (WeChatPay)</i>
<b>e-commerce/marketplace platforms</b> <i>Online platforms for marketplaces, connecting sellers with buyers (products or services) B2B, B2C, C2C</i>	<i>Amazon, Alibaba, eBay, Fiverr, Jio, Jumia, Reliance, Upwork, Mercado, Facebook Diem</i>
<b>Social media platforms</b> <i>Venturing into payments and social commerce</i>	<i>Facebook Marketplace, Facebook Pay, Diem, SME Grants, WeChat</i>
<b>BigTech cloud services</b> <i>Providing data and infrastructure services to financial players</i>	<i>Amazon Web Services, Alibaba Cloud Services, Azure, Google Cloud, Ethereum, Microsoft, Next Gen DLT</i>
<b>Techfin platforms</b> <i>Originating from tech players venturing into financial services and digital livelihoods.</i>	<i>Airbnb, Amazon, Apple, Binance, Grab, Mechanical Turk, Uber, including cryptocurrency exchanges</i>
<b>Incumbents/mature 'Fintechs'</b> <i>Digitalizing global banks and financial actors, in retail or wholesale</i>	<i>Blackrock, JP Morgan, Mastercard, SaxoBank, Swift, Visa</i>

## Limitations of BFT Categorization

- BFT generally examined in terms of their component parts
- Fragmented examinations of risks and regulations
- Assumption of positive “enabling narrative” of digital economy and financing for sustainable development

## Ecosystem of Activities and Systemic Impacts

- BFTs often originate from non-financial industries
- Complex integrated and rapidly evolving business models
- Undertook holistic and systemic perspective of BigFintech Business models, activities and potential impacts



## Tools Developed and Employed

- 1) BFT-SDG Landscape Tool
- 2) Case Studies
- 3) CSR-ESG-SDG Combined Lens

4) Tiered Impact Table		
Tier 1	Direct service offerings	Positive and negative impacts related to direct intended goals and the direct (unintended) effects
Tier 2	Services, operations, infrastructure and processes	Positive and negative individual and institutional effect impacts.
Tier 3	Business model, value chain and ecosystem (vertical and horizontal integration)	Cumulative and systemic impacts related to activities stemming from inherent business models and ecosystems (across regulatory sectors)

*Tools Available in Annex*





## Landscape visualization of BGT impacts on SDG in LDCs



Positive and negative impacts



## Findings and Conclusions

- Complex integrated business models transcending
  - National and sectoral boundaries
  - Governance frameworks
- Integrated and invisible impacts
  - Beyond “enabling narrative” and related governance discussion
- Deeper economic, social and environmental impacts for LDCs
- CSR-ESG-SDG Lens
  - Growing gaps re impact measurement
  - Core operations vs opaque supply chains
  - End to end integrated services
  - Monopolistic data collection