ESCWA
EGM on Innovation and Technology for achieving the 2030 Development Agenda

November 5th – 7th, 2017

SESSION 7 – Fostering Innovation in Industry
The need for regional collaboration and partnerships to progress emerging industries and support the SDGs: Caribbean Digital Financial Services

Peter Nicholls, Chief Caribbean Knowledge Management Centre, UNECLAC
The UN is all over here
The SDGs of FinTech

- **Goal 1. End poverty in all its forms and around the world**
  - 1.4 equal access to economic resources and basic services, new technologies and financial services, including microfinance

- **Goal 5. Achieving gender equality and empowering all women and girls**
  - 5.a Undertake reforms that grant women equal rights … including access to ownership and control of financial services

- **Goal 8. Promote sustained economic growth**
  - 8.3 Promote policies that support entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro and small and medium-sized enterprises, including through access to financial services
  - 8.10 Strengthening the capacity of national financial institutions to promote and expand access to banking, financial services for all

- **Goal 9. Build Resilient Infrastructures**
  - 9.1 Develop reliable, sustainable, regional and cross-border infrastructures, to support economic development with particular emphasis on affordable and equitable access for all
  - 9.3. Increase access of small industries and other enterprises, particularly in developing countries, to financial services, including affordable credit, and their integration into value chains and markets
  - 9.a To facilitate the development of sustainable and resilient infrastructures in developing countries through increased financial, technological and technical support to small island developing States

- **Goal 10. Reduce inequality in and between countries**
  - 10.5 Improve the regulation and surveillance of global financial institutions and markets and strengthen the implementation of such regulations
  - 10.c By 2030, reduce the transaction costs of migrants’ remittances to less than 3% and eliminate remittance brokers at a cost of more than 5%

- **Goal 16. Promote just, peaceful and inclusive societies**
  - 16.9 by 2030, legal identity, including birth registration, should be provided to everyone in the world
  - (Legal identity is seen as the first step to financial and social inclusion)
Opportunities and risks associated with the advent of digital currency in the Caribbean

Shiva Bissessar

http://repositorio.cepal.org/handle/11362/39860
Survey Instrument

• Designed to establish level of Caribbean Central Bank awareness of digital currency and mobile money solutions

- E-Commerce legislation & banking facilities
- Utility of mobile money solutions
- Requirements to provide remittance services
- Digital currency awareness
- Opportunities & Risks
- Increased participation in digital economy
- Policy options
REPORT OF THE EXPERT GROUP MEETING ON OPPORTUNITIES AND RISKS ASSOCIATED WITH THE ADVENT OF DIGITAL CURRENCY IN THE CARIBBEAN

3 December 2014

REPORT OF THE SECOND EXPERT GROUP MEETING ON OPPORTUNITIES AND RISKS ASSOCIATED WITH THE ADVENT OF DIGITAL CURRENCY IN THE CARIBBEAN

21 April 2015  Port-of-Spain
Expert Group Meeting

• Regional Experts

- E-commerce providers & software developers
- Mobile wallet & digital currency service providers
- Central Bank Policy and AML senior representatives
- Government senior legal representative
- Economics, Finance representatives

• To Discuss

- Status of electronic payments in the region
- Opportunities which digital currencies may present
- Risks which digital currencies may present
- Possible policy options
Findings of the Study
Electronic Money

Wire Transfer
E-Commerce
Payment card

Mobile Money
(i) Complementary
(ii) Collaborative

Utility payment
P2P transfer
e.g. Paym
NFC payments
e.g. ApplePay

Remittance
e.g. BitPesa
P2P via SMS

Enable SMEs to receive payments via payment processors

USE CASES, EXAMPLES

FAMILIAR ← − NOVEL
“Digital currencies represent a potential option for improving services and reducing costs, but are challenged in receiving acceptance among consumers and regulators.”

“It was recognized that the participants in the digital currency industry can benefit from the timely establishment of national regulations, if only to make it clear what the rules are in terms of operating in various countries.” (2014)
“Additionally, regulation can be valuable in terms of promoting public acceptance of these new payment technologies, by enforcing consumer protection measures that would encourage broader trust in these systems.”

“Many tools are already in place that could aid governments and central banks in providing appropriate national frameworks for regulatory supervision of the digital currency industry.”

(2014)
“There has been reluctance on the part of regulators in Caribbean countries to engage on this issue, and to engage with digital currency companies interested in doing business in the region.”

“There remains a significant level of distrust in the region concerning digital currency, on the part of both governments and the population. This reservation exists, in part, because of a number of well-known cases involving the use of Bitcoin for criminal purposes. At times this negative view has overshadowed consideration of the potential benefits of the technology.”

(2015)
Caribbean authorities remain focused on weaknesses and this poses a threat to development of digital currency industry in Caribbean.
UK Approach to Digital Currency

**STRENGTH**
- Decentralized
- Cryptographically Secure
- Anonymous?
- No Double Spend?
- No Reversals
- Minimal Transaction Fees

**WEAKNESS**
- Consumer Protection
- Perception of Usage for Illicit/Illegal Gains
- Money Laundering
- Tax Evasion
- Ponzi Schemes
- Dark Net
- Volatility

**OPPORTUNITY**
- Electronic Payment System
- Low Electricity costs
- Regulatory Framework
  - Central Bank
  - Customs
  - AML/KYC
  - Taxation
  - Investment
  - Investigative Capabilities
  - New Business Models

**THREAT**
- Misunderstanding
- New Dimension to Financial Crimes
- Stifling of Innovation

- Address weakness: AML controls & BSI consumer protection
- Stimulate innovation: £10M for research into innovation of digital currency
Distributed Ledger Technology in Government services (UK)

Source: https://www.gov.uk/government/publications/distributed-ledger-technology-blackett-review
How to address Regulation Challenges

• Look to Global Leaders in the Space:
  • New York - BitLicense
  • United Kingdom - Call for information
  • Singapore – Encouraging innovation

• Q: What about local/regional expertise?
Caribbean Challenges & Opportunities

• Increased participation in the Digital Economy
• Correspondent bank de-risking problem
• Central Bank-issued Digital Currency (CBDC) and Digital Fiat Money
• Intra-regional settlement networks
Better Payment Systems Needed

“It was noted that there is a need for better payment systems within the Caribbean region, and that the high costs and red-tape associated with providing electronic payment options, are significant challenges to those wishing to establish E-Commerce businesses in the region. The region also needs to lower the cost of remittance services.”

(2015)
Caribbean Remittances

- In Haiti, Jamaica and Dominican Republic, total remittances values at 27.8%, 17.2% and 14.1% of GDP respectively, while in Trinidad and Tobago it forms less than 1%.

SDG 10.c By 2030, reduce the transaction costs of migrants' remittances to less than 3% and eliminate remittance brokers at a cost of more than 5%
Stakeholder Partnering
Correspondent banking

Trinidad and Tobago

Jamaica
The Caribbean Association of Banks has indicated that almost 60% of member institutions that it has interviewed report a loss of one or more correspondent banking relationships, and that, even in some cases where relationships have been maintained, key services, such as check clearance and wire transfers, have been discontinued.

HSBC to pay $1.9bn in US money laundering penalties

HSBC has confirmed it is to pay US authorities $1.9bn (£1.2bn) in a settlement over money laundering, the largest paid in such a case.

A US Senate investigation said the UK-based bank had been a conduit for "drug kingpins and rogue nations".

Money laundering is the process of disguising the proceeds of crime so that the money cannot be linked to the wrongdoing.
Reasons for de-risking

• Concerns about **compliance**
  • Anti-money laundering/countering terrorist financing (AML/CFT)
  • International sanctions (especially Cuba)
• Cost of **customer due diligence (CDD)** and concern over respondent bank’s CDD practices
  • Know your customer (KYC)
  • Know your customer’s customer
• Reduction in overall risk appetite
  • Structurally important financial institutions
  • Elevated capital reserve requirements
• **Lack of profitability** of correspondent banking services
Regardless of whether value is transferred through a blockchain or through the traditional wire service, **correspondent banks still have regulatory obligations** with regard to AML/CFT, CDD, tax transparency, and economic sanction regimes.

Migration of the international money transfer infrastructure to blockchain technology would not make these obligations – **and their associated costs** – disappear.

But blockchains do present some opportunities...
Blockchains can be used to...

• Make monitoring easier

A blockchain-based settlement network can offer tools to improve surveillance of transactions, which would enable better detection of illicit financial transfers and thereby decrease risk and associated compliance costs.

• Cut out the middleman

A blockchain-based network may eventually offer Caribbean banks the opportunity to bypass correspondent banks altogether.
Central Bank-issued Digital Currency

- Direct issuance of digital currency by central banks, either in parallel with or as a replacement for existing paper currencies

- Every user of a currency would have an account on a blockchain managed by the central bank and would use that account as the primary means for conducting settlements
Central Bank-issued Digital Currency

• Radical economic change

• Highly **auditable** – financial crimes can be more easily detected

• Privacy issue is resolved
  • Except for **Big Brother** watching you (?)
Balancing privacy and auditability
Identity Management

SDG16.9
The issue of Identity

• Article 6 of the Universal Declaration on Human Rights stipulates that "[e]veryone has the right to recognition everywhere as a person before the law."
• SDG16.9 to “provide legal identity to all, including birth registration, by 2030”
• a cross-cutting challenge and imperative

• Affects an estimated **1.8 billion people - 24% of the global population** - without a legal identity,
• including an estimated **three million children** under the age of five in Latin America and the Caribbean.
Digital identity offers significant benefits.

- **Personal:** Unique to you and you only
- **Persistent:** Lives with you from life to death
- **Private:** Only you can give permission to use data
- **Portable:** Accessible anywhere you happen to be

Source: [http://id2020.org](http://id2020.org)
Department for Work and Pensions

• **To distribute welfare support more efficiently and improve policy delivery.**

• Applying DLTs in the registration and payment processes for government grants and benefits to:
  • Prevent financial losses through fraud and error
  • Support the most vulnerable citizens by offering them the benefits of full financial inclusion
  • Support the achievement of the government’s wider policy objectives, especially getting people out of poverty in a sustainable way
  • Offer good value for money and place public expenditure on a sustainable footing
Caribbean FinTech: Bitt

BARBADOS

https://www.bitt.com

https://www.youtube.com/watch?v=qImlTIl3a1o5E
Empower your business with Bitt

Bitt’s merchant teller solution assists your business to grow by making the sales process simple, secure and easy for you and your customers.

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PPPs: Contribute, present, partner

Picture Sources:
ECLAC
http://vrb.al/fintechvids
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https://twitter.com/oliverlgale

Oliver Gale, President and Co-Founder of Bitt Inc and Selby Wilson, CTU Telecommunications Strategist at the signing of the MOU between the two organisations.
Developed locally, Internationally recognized

Picture Sources:
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http://vrb.ai/fintechvids
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MENA’s turn

FINTECH IN THE MIDDLE EAST: A POWERHOUSE IN WAITING?

Could tech-pow may take a few factors, there's a the medium to strength.

Partnering For A New Future: Fintech In the MENA Region

Getting The MENA Ready For A Fintech Revolution

Dubai to Launch a State Issued Blockchain Based Digital Currency

Disruptive technology great news for customers but threatens banks’ business

John Everington and Sarmad Khan
August 28, 2017
Updated: August 28, 2017 12:02 PM

https://www.thenational.ae/business/banking/middle-east-fintech-sector-begins-to-stir-1.623556

https://www.entrepreneur.com/article/304973

http://www.cartermurray.com/middle_east/financialservices/next_money_hub/fintech_in_the_middle_east/


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