Summary of Technical Papers

BigFintechs & Sustainability: A necessary convergence

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

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

Executive summary

The rapid rise of global digital finance players (BigFintechs) in which technology has come to play a key role in driving an upsurge in growth, scale and diversification into financial services has taken many by surprise. From China's Ant Group to India's Paytm, Amazon, Facebook and Google in the US, Mercado Libre in Latin America, ride-hailing services in Southeast Asia, mobile money in Africa and many more, BigFintechs' dominance and impacts on sustainable development are increasingly felt, both at home and internationally, and have only accelerated during the Covid-19 pandemic.

From charismatic antitrust actions to new data regulations, the world has advanced a series of measures in response to the new challenges brought by BigFintechs. Yet, we have not come up with a broader and more systematic consideration of the impacts of BigFintechs beyond financial regulatory and data governance considerations, for example across social, economic, and environmental domains, particularly in developing economies. As a result, there has not been a clear strategy as to how those impacts can be enhanced if positive or mitigated if negative, and how developing countries might benefit from BigFintechs in their pursuit of the UN Sustainable Development Goals (SDGs).

Understanding the SDG impacts of BigFintechs is challenging, firstly due to the fragmentation in our lenses of analysis: BigFintechs are often approached in terms of component parts (i.e., their financial services offerings, core business operations, and extended ecosystems), rather than holistically, preventing a more dynamic view of impacts across their ecosystems and related implications

The Dialogue on Global Digital Finance Governance was established by the UN Secretary General's Task Force on Digital Financing of the SDGs. During its investigations, the Task Force recognized that digitalization is not only reshaping the world of finance; it is also driving the emergence of a new generation of global, dominant digital finance platforms (BigFintechs) with increasing cross-border spillover effects on many areas of sustainable development across the world, particularly in developing economies.

The potential impacts of these platforms are both positive and negative, and one of the main challenges in addressing them is that existing policy approaches to BigFintechs have mostly focused on narrow, although important, financial stability, consumer protection and market integrity issues, and some aspects of data, Internet and competition regulation, but have remained largely disconnected from the broader SDG/ESG debate. Another issue is that the governing arrangements of such platforms have seldom involved developing economies, where their impacts are often strongest, and the potential for transformation is greatest.

The Dialogue was established to explore the nexus of BigFintechs and sustainable development. Its goal is to catalyse governance innovations that take greater account of the SDG impacts of BigFintechs and are more inclusive of the voices of developing nations. To this end, the Dialogue has produced a series of Technical Papers that bring new, complementary perspectives on these issues. The papers have been drafted by commanding experts in the field and have been peer-reviewed by leading institutions and academics.

The Dialogue on Global Digital Finance Governance is hosted by the Swiss and Kenyan Governments and stewarded jointly by the United Nations Development Programme (UNDP) and United Nations Capital Development Fund (UNCDF).

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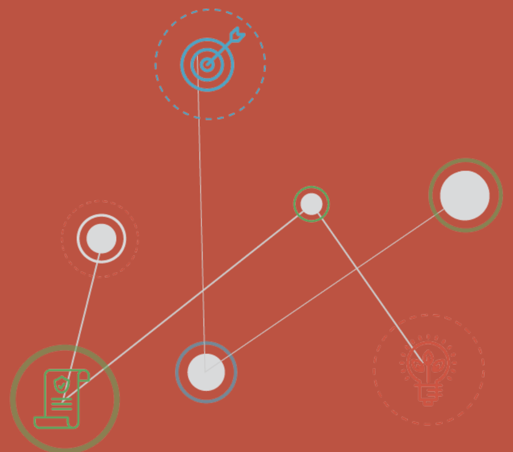


for the full spectrum of SDGs. Their technology-driven, global, complex, cross-sector business models with embedded finance make the task at hand more difficult, an issue further exacerbated by the inability of current reporting and monitoring standards to capture these impacts across their extended ecosystems and value chains, many of which operate in developing economies. Secondly, current regulatory processes from financial regulation to data governance, telecom and internet regulation and competition regulation, are only addressing a narrow, although important, aspect of BigFintech impacts.

Collectively, these can limit some of the risks and mitigate the market and data advantages of BigFintechs, relevant to issues such as access, fair competition, price discrimination and privacy, but do not address the underlying SDG issues, particularly outside of home market. Potential issues in developing economies range from tax base erosion through to crowding out of local SMEs, worsening working conditions for digital workers, negative environmental impacts, widening inequalities, impacts on macroeconomic and monetary policies, and many more. While the impacts of BigFintechs can also be positive, from financial inclusion to gender equality and new livelihood opportunities, the absence of reference to sustainability in current approaches and weak understanding of the SDG trade-offs can lead to the exclusion of environmental and social risks from systemic risk consideration, and limit developing countries' abilities to harness the opportunity and leapfrog towards sustainable development.

Against this backdrop of regulatory gaps and fragmentation, and with a rapidly developing SDG/ESG regulatory landscape, corporate governance could play a role in addressing some of the sustainability-related challenges raised by BigFintechs. Current practice shows new ways in which public interest decisions of BigFintechs, which are essentially about the SDGs, could be balanced with commercial interests, from external governance mechanisms to embedding sustainability considerations in statutory regulation and advancing direct Board oversight, to broadening the stakeholder base to include developing nation stakeholders into governance, to sector-specific self-regulatory models. These need to be further pursued and should be inclusive of developing nations' interests.

Greater international cooperation will play an important role at the nexus of BigFintechs, the SDGs and developing countries. In this context, such cooperation should seek to address five key principles: (1) ensure the foundational objectives of financial stability, financial integrity, consumer and investor protection, market integrity; (2) support core developmental objectives, seeking to balance potential risks of BigFintechs with the potential for enhancing SDG outcomes; (3) advance responsibility of BigFintechs themselves, with incentives and frameworks to encourage the pursuit of beneficial SDG outcomes; (4) develop appropriate oversight and enforcement; and (5) instill a commitment to sustainable development within BigFintechs and promote operationalization of that commitment.

This approach provides a first step towards establishing the foundational financial regulations and creating reflexive and context-sensitive regulatory policies. Furthermore, it will guide regulators in considering how their decisions affect broader economic and social indicators, and implementing regulatory policies that facilitate or, at the very least, do not negatively affect the attainment of SDGs.

Lastly, it will inform more consistent and flexible development of international and domestic regulatory policies, and more sustainability-aligned corporate action. This is a defining moment for developing countries and the world. How issues of BigFintech governance are addressed today can and will affect our collective attainment of the SDGs. In advancing global responses, it bears to recognize that the most affected, positively and negatively, are not always in the countries where BigFintechs originate, and that solutions should be inclusive, considerate of SDG trade-offs, particularly in developing contexts, and empower all stakeholders to play their part.

We need collective wisdom more than ever.
Going forward, the Dialogue will focus on building capacity around its findings in developing economies, whose role is essential. Together with willing partners, it will facilitate a working group of LDCs to explore sustainability-aligned governing arrangements of BigFintechs, and design a set of guiding principles which will be shared more broadly as a public good. The Dialogue will also investigate corporate governance solutions which can drive greater consideration of key SDG impacts and developing country interests by BigFintechs. Lastly, the Dialogue will engage with key governance institutions in disseminating and facilitating deeper engagement with its findings.

The Rise of BigFintechs

Over the last decade, digitalization has disrupted finance across developed and emerging markets. From the digitalization of global wholesale markets to the explosion of Fintech startups and platforms, through to digital finance developments in developing countries with China, India, and Kenya leading, and the increasing interaction between Big Tech and finance, digitalization has impacted every aspect of finance starting with access, availability and affordability. For example, mobile money platforms built on the back of GSM connectivity have turned mobile devices into transactional interfaces and are now used by over 1 billion people[1]. In Kenya, M-Pesa transactions amounted to nearly half of the country's GDP in 2018[2] while EcoCash transacted in value the equivalent of 90% of Zimbabwe's GDP in 2019. Digitalization has further unbundled and automated existing financial processes. 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[3]. Along the way, digitalization has driven a fundamental shift in how companies are harnessing technologies such as big data, artificial intelligence, blockchain and cloud computing to innovate financial products, create new markets and build competitive advantage.

Simultaneously, digitalization has driven the emergence of a new generation of global digital finance players (BigFintechs) in which technology has come to play a key role in driving an upsurge in growth, scale and diversification into financial services, from China's Ant Group to India's Paytm, Amazon in the US, Mercado Libre in Latin America, ride-hailing services in Southeast Asia and mobile money platforms in Africa[4].

Such BigFintechs are originating from social media, e-commerce and technology companies diversifying into the provision of regulated financial services; others are evolving from non-tech industries, existing financial institutions, or large data, telecoms and infrastructure providers to the financial sector, native FinTech companies, TechFin platforms and incumbent financial institutions seeking to transform into tech companies. Some will originate in the form of digital currencies, with varied goals and approaches. The mechanics however are the same: merging finance and technology to drive network effects. In today's world, any company operating across a large retail user base could literally harness technology to improve user experience and from there get into financial services and eventually morph into a BigFintech.

BigFintech (BFT) Category	Examples of Organizations Active in this Category
Payment platforms *Regional mobile money providers and global payment platforms* Alternative / Crypto currencies and Central Bank Digital Currencies, bank cash on ledger	*Ant Group / Alipay, Apple, Fnality, Facebook Novi, Google Pay, JPM Coin, MTN, Paytm, Central Banks (eg People's Bank of China), Safaricom, Tencent (WeChatPay)*
e-Commerce / Marketplace platforms *Online platforms or marketplaces, connecting sellers with buyers (products or services)*	*Amazon, Alibaba, eBay, Fiverr, Jio, Jumia, Reliance, Upwork*
Social Media platforms *Venturing into payments & social commerce*	*Facebook Novi / Diem, Tencent / WeChat*
Data and cloud services *Providing data and infrastructure services to financial players*	*Amazon Web Services, Alibaba Cloud Services, Azure, Google Cloud, Ethereum, Microsoft,Next Gen DLT*
TechFin platforms *Originating from tech players venturing into financial services and digital livelihoods.* **Cryptocurrency Exchanges**	*Airbnb, Amazon, Apple, Binance, Grab, Mechanical Turk, Uber*
Incumbents / Mature "FinTechs" *Digitalizing global banks and financial actors, in retail or wholesale*	*Blackrock, JP Morgan, Mastercard, SaxoBank, Swift, Visa*

1 'Global Mobile Payment Users 2019', 24 Oct 2019, emarketer. https://www.emarketer.com/content/global-mobile-payment-users-2019

2 'Half of Kenya's GDP Moved through Mobile Phones in 2018: The Power of Mobile Money Transaction in Kenya', Soko Directory, 25 January 2019, https://sokodirectory.com/2019/01/half-of-kenyas-gdp-moved-through-mobile-phones-in-2018/

3 The Economist, "The Stockmarket is Now Run by Computers, Algorithms and Passive Managers", 5 October 2019. https://www.economist.com/briefing/2019/10/05/the-stockmarket-is-now-run-by-computers-algorithms-and-passive-managers

4 BigFintech, A New Paradigm

It is widely recognized that BigFintech developments have contributed to improving our lives, from supporting remote payments to allowing millions in lockdown to buy household essentials online during the Covid-19 pandemic, to channeling trillions of dollars of stimulus packages in cash transfers, and in many more ways. For example, M-Pesa, which now has 42 million active customers across seven countries in Africa, has enabled low-cost transactions during the pandemic, empowered women with their savings, unlocked access to credit for both individuals and small businesses and facilitated pay-as-you-go models that are enabling millions not only to access clean energy but to also become green asset owners. Similarly, e-commerce platforms have played a key role in providing much needed financing to third-party resellers on their platforms, particularly during the pandemic.

But it is equally true that the emergence of BigFintechs is challenging established regulatory frameworks and structures in multiple ways: they often originate from non-financial industries, merge technology and finance, their reach is cross-border and cross-sector, and their effects, positive and negative, are both complex to address and accelerating. Indeed, BigFintech growth has only accelerated during the pandemic. For example, Amazon published a record profit in the first three months of 2021, up 220% compared to the same period in 2020[5]. Similarly, Facebook's and Google's revenues have surged during the pandemic[6], raising economic concerns and amplifying already existing antitrust ones.

A Tale of Unstoppable Growth and Rising Concerns

As the world shifts towards digital, BigFintechs command a privileged market position through their unique ability to harness large numbers of users, unparalleled access to data and sophisticated technology-driven approaches to building financial ecosystems, fending off competitive pressures while absorbing economic rent[7]. For example in China, Alipay and WeChatPay accumulated more than 1.7 billion users in 2019, gaining unparalleled insights into the transactions and financial needs of virtually every person in China. WeChat, China's popular messaging app, has a user base of more than 1 billion people[8], a solid base to further expand its online marketplace. Facebook's Novi will be able to harness Facebook's 2.7 billion users and identity mechanisms in advancing its payments platform[9]. Google has launched its own debit card, potentially amassing colossal amounts of additional data on consumer behavior and preferences, paving the way for its expansion into banking[10].

And where competition exists, it becomes the target of acquisitions, as evidenced by the GAFAM's (Google, Apple, Facebook, Amazon, Microsoft) massive talent grab in the Artificial Intelligence (AI) industry in 2019.[11] Beyond acquisitions of AI firms, BigFintech (and Big Tech more generally) have adopted active, and by some judgements, aggressive acquisition strategies domestically but also globally, which can be argued to have had adverse effects on both competition and entrepreneurship in emerging markets[12]. BigFintechs have become a driving force behind technology concentration, with the GAFAM alone having collectively made 770 acquisitions[13].

Inevitably, market concentration leads to more data concentration, which in turn fuels data monetization practices that can put consumers at risk, reinforce market dominance and challenge existing price-based competition frameworks. Notably, the process by which data is harvested by BigFintechs and more broadly corporate AI applications has been and continues to be of interest to both regulators and civil society stakeholders. While AI applications for advancing new types of information-based, collateral-free financing are showing promising prospects, concerns have also been raised around AI's failings, notably the implicit gender, race and other biases.

Unsurprisingly, data concentration and individual privacy are the issues that have attracted the most attention in recent months. BigFintechs have indeed undergone much scrutiny from regulators, both in China and in the US, but also in the EU, India and other markets, and their outsized market power and the colossal amounts of data that they command have triggered strong regulatory responses. From the EU's new "Digital Services Act Package" that fosters competitiveness among digital services providers and protects digital consumer rights, to the UK's new code of conduct to govern dominant tech platforms[14], to the US Department of Justice's filing of an antitrust lawsuit against Google on internet search and advertising markets, to the US Federal Trade Commission's recent antitrust action against Facebook and China's move

5 https://www.nytimes.com/2021/04/29/technology/amazons-profits-triple.html

6 https://www.reuters.com/technology/facebook-quarterly-revenue-beats-expectations-2021-04-28/

7 https://www.ft.com/content/17460a66-1592-11e8-9e9c-25c814761640

8 CNBC. 2019. "Everything you need to know about WeChat – China's billion-user messaging app" https://www.cnbc.com/2019/02/04/what-is-wechat-china-biggest-messaging-app.html

9 https://www.washingtonpost.com/business/2019/07/12/why-governments-around-world-are-afraid-libra-facebooks-cryptocurrency/

10 Financial Times, 'Google in Talks to Move into Banking', 13 November 2019, https://www.ft.com/content/7c4eb71c-0610-11ea-a984-fbbacad9e7dd

11 https://venturebeat.com/2019/12/23/how-the-big-5-bolstered-their-ai-through-acquisitions-in-2019/

12 https://blogs.lse.ac.uk/usappblog/2020/11/07/us-and-chinese-tech-firms-increasingly-play-a-game-of-pac-man/

13 https://www.cbinsights.com/research/tech-giants-billion-dollar-acquisitions-infographic/

14 https://www.gov.uk/government/news/new-competition-regime- for-tech-giants-to-give-consumers-more-choice-and-control-over-their-data-and-ensure-businesses-are-fairly-treated

on BigFintech platforms and e-commerce triggered by their systemic relevance, the attention is increasing on BigFintechs. It is noteworthy that while the critical role of data in financing decisions is well understood, the broader SDG impacts of data monopolies are seldom understood and remain largely unaddressed beyond traditional competition.

The rise of Ant Group in China and the issues that have unraveled since its aborted Initial Public Offering (IPO) at the end of 2020, and the new Information Technology Rules released by the Ministry of Electronics and Information Technology in India in early 2021[15], raise other questions about regulation of BigFintechs in emerging markets and the considerations, beyond purely technical regulatory, that are at play and might affect the future of the industry. It also raises questions about the role of capital markets, which have benefitted immensely from listing of tech firms including BigFintech firms.

But these are not the only concerns. In question are BigFintechs' broader societal impacts, from tax base erosion in countries where economic value is extracted through tax arbitrage, an issue that has been championed by the Organization for Economic Co-operation and Development (OECD) with their proposal of a minimum global tax rate[16], through to other concerns such as potential negative effects on quality of work, sustainable livelihoods, and freedom of choice through behavior influencing. Many of these issues are fundamentally linked to human rights and are hence directly or indirectly connected to the SDGs. Indeed, analysis by the Danish Institute of Human Rights shows that more than 90% of the SDG targets are intrinsically linked to specific provisions of international and regional human rights instruments and labor standards.[17]

To these societal concerns could be added environmental considerations. At a time when BigFintechs are announcing ambitious net zero commitments[18], questions are asked about their broader ecosystems and supply chains[19], many of which are operating across a range of economies with weaker policy frameworks.

In the United States and elsewhere, regulators are increasingly looking at anti-trust solutions. Yet, the re-organization of tech platforms without explicitly considering their conflicts of interest, leading for example to unfair competition or abusive exploitation of data, may not solve underlying concerns around BigFintechs' negative effects on attaining the SDGs.

15 https://iapp.org/news/a/information-technology-rules-2021-suggest-big-changes-for-big-tech-in-india/

16 https://www.oecd.org/going-digital/topics/tax/

17 3.2 Paper

18 https://www.bloomberg.com/news/articles/2021-04-07/tech-firms-are-setting-the-most-ambitious-net-zero-goals-green-insight

19 SDG impacts of BFTs

Addressing these issues and aligning BigFintechs with sustainable development outcomes will require enhanced international governance beyond traditional financial stability and consumer protection considerations to also address negative societal and sustainable development externalities. It will also require corporate governance innovations that address the challenges of BigFintechs, often exacerbated by the effects of digitalization.

Sustainability Challenges of Big Fintechs

The expansion of BigFintechs in developing economies has been facilitated by the increasing availability of mobile phones and internet connectivity, and relatively favorable regulatory terms against the promise of greater financial inclusion. In turn, it has given rise to new risks and vulnerabilities in these countries, including across a broad range of SDG outcomes (refer to Technical Paper 1.1).

As exemplified by M-Pesa, BigFintechs can significantly advance financial inclusion and SMEs' access to much needed capital. Ant Group, Amazon, M-Pesa and Facebook all offer SME-financing solutions in support of economic growth. For example, Ant Group's MyBank offers collateral-free SME lending under the "310 model" where it takes less than three minutes to apply for a loan, less than a second to approve and requires zero human intervention. So far, MyBank has reached over 20 million SMEs, sustaining them through the COVID-19 crisis[20], and is expanding its offering to supply chains and rural and female entrepreneurs. Amazon has provided over USD 3 billion in SME financing directly, and even more through third-party financial institutions including Goldman Sachs and ING.[21]

These are but a few examples of the ways in which BigFintechs are supporting sustainable growth, but systematic and unrestrained collection of personal data has given rise to new issues of consumer protection, data privacy and good data governance: extensive use of AI-based credit assessments with embedded biases can affect SME's ability to access credit, while accumulation of data by one provider can lead to higher switching costs and reduced choices. This is the case with e-commerce platforms, where SMEs access credit against the assets that they trade but are locked-in due to lack of interchangeability of these assets. Similarly, thousands of mobile money agents whose livelihoods solely depend

20 https://www.finextra.com/pressarticle/83097/mybank-unveils-five-year-plan-to-reach-more-smes-across-china-via-supply-chain-finance

21 https://www.finextra.com/pressarticle/83097/mybank-unveils-five-year-plan-to-reach-more-smes-across-china-via-supply-chain-finance

on mobile money transaction volumes are subjected to commission decisions made by such platforms. The role of uncontrolled nano-lending practices resulting in the blacklisting of 2.7 million Kenyans in the national credit bureau has of course been widely debated[22] while the rise of online gambling (USD 40 million in 2019) is raising new concerns.[23]

But the effects of BigFintechs on sustainability go much deeper. One of the challenges to grasping the full impact of BigFintechs comes from the current emphasis on data governance, consumer protection and operational risk management, without proper consideration to their broader effects and related trade-offs, both directly and through their extended ecosystems. This fragmentation in dealing with BigFintech, which are often examined in terms of components parts (financial services and activities) rather than holistically,[24] prevents a more comprehensive view of all impacts across their evolving ecosystems and value chains, and their implications for the full spectrum of SDGs. This is complexified by the effects of digitalization, driving multi-geography and multi-sector businesses with embedded finance and extended supply chains.

This is further exacerbated by the fact that current reporting and monitoring standards are not fit for capturing these broader effects.

Current regulation and CSR self-reporting frameworks seem inadequately equipped for platform business model oversight, particularly complex multi-national businesses, as is evidenced by the many failed attempts by legislators to apply existing regulations to these platforms. For example, while e-commerce and digital marketplaces have improved social and environmental responsibility on core operations and products, they have been criticized for not applying environmental and social standards on their third-party vendors and suppliers which, in the case of Amazon, make up more than 50% of its marketplace.[25] In fact, most alarming is the emergence of a two-tiered approach where core brand operations and initiatives are the focus of positive impacts but where third-party user, marketplace and supplier impacts are not considered, negatively impacting the environment, employment conditions, human rights, gender issues and other inequalities particularly in Least Developed Economies (LDCs) where goods are manufactured.

The table below is extracted from Technical Paper 1.1 and summarizes findings on broader impacts of BigFintechs (BFTs).

Impact tier	Examples of Positive and Negative Impacts
Tier 1 Impacts: **From direct service offerings**	• Access to BigFintech's financial services and markets has a positive impact on poverty (SDG 1) and in reducing inequalities based on gender and other minorities (SDGs 5 and 10). • BigFintech's financial and payment services positively impact SMEs, employment & economic growth (SDG 8) and improvements to industry, innovation, and infrastructure (SDG 9). • Individual or SME loans, including in partnership with local or national banks, enable financial inclusion and economic growth (SDG 8); alternative job opportunities (SDG 8) and economic activities (gig economy) can also help reduce inequalities (SDGs 5 and 10). • Issues of data privacy, security as well as algorithmic bias can negatively impact individual consumers, SMEs, as well as peace, justice and strong institutions (SDG 16). This can also negatively impact gender and other inequalities (SDGs 5 and 10).

22 https://www.codastory.com/authoritarian-tech/mobile-credit-kenya/

23 https://businesstoday.co.ke/status-of-online-gambling-market-in-kenya/

24 FSB (2019), BigTech in finance: market developments and potential financial stability implications, December.

25 https://www.knkx.org/post/activists-push-amazon-do-more-prevent-human-rights-abuses-its-supply-chain

Tier 2 Impacts: **From services, operations, infrastructure and processes**	• Access to technology bolsters industry, infrastructure, economic growth and jobs (SDG 8 & 9) but brick and mortar SMEs are being displaced. • Integrated financial services and payments are driving resilience (SDGs 1), but gender and other inequalities (SDGs 5 and 10) can widen through lack of access to technology. • Gig economy platforms tend to have a negative impact on decent work (SDG 8) due to long work hours, low wages, no job security and lack of employment benefits. • Credit and loan access for individuals and SMEs has bolstered economic activity, but assets (data, products and services) are often locked in (SDG 1). Vendor prices are being depressed or products blocked by market algorithms, increasing poverty and inequalities (SDG 1 and 10), and negatively impacting economic growth (SDG 8). Price manipulation and fraudulent activities occur, impacting individuals, SMEs and institutions (SDG 16). • Defaults on auto or other loans or leases due to the Covid-19 crisis are impacting individuals, increasing poverty (SDG 1) and negatively impacting credit ratings (SDG 8), and financial institutions (SDGs 9 and 16) as well as the services in communities (SDG 11). • Key partnerships and initiatives across BFT categories positively impact good health and wellbeing (SDG 3), responsible consumption (SDG 12) as well as environment (SDGs 14 and 15) and climate initiatives (SDG 13).
Tier 3 Impacts: **From business model, value chain and ecosystem (vertical and horizontal integration) including cumulative and systemic impacts**	• BFTs across categories generally drive positive impacts on work and economic growth (SDG 8) as well as on industry, innovation, and infrastructure (SDG 9) for LDCs, but a diminishing tax base is weakening funding for infrastructure and public institutions (SDG 16) and leading to decreases in public transportation and affordable housing (SDG 11) among other services. • Combined business models and reach are exacerbating inequalities for some population segments or regions especially for women and rural populations (SDGs 5 and 10) and that negatively impacts jobs and economic growth (SDG 8) as well as industry, innovation, and infrastructure (SDG 9). • Increased consumerism and the enabling of fraud, gambling, illicit or illegal activities can result in economic losses and poverty (SDG 1), deterioration of health and wellbeing (SDG 3), excessive consumption (SDG 12). • Tech platforms' data centers are providing access to tech infrastructure for innovation and economic growth (SDG 8 and 9) and are more energy efficient than locally hosted or proprietary servers (SDG 13). However, some BFT investments and activities are linked to deforestation (SDGs 13 and 15). • BFTs underpin and enable a growing number of clean energy, environmental and climate initiatives (SDGs 7, 13, 14 and 15) globally including in LDCs. • Counterfeit items on e-commerce sites fuel activities that undermine democracy, peace, justice and strong institutions (SDG 16) as well as gender (SDG 5) and inequalities (SDG 10). As BFT are not paying benefits or taxes within LDCs, there are diminishing oversight and resources available to address these. • BFT monopolies can lock entire regions and populations into what some are calling "Digital colonialism". Integrated payment platforms with social media and digital currencies can impact not only LDC economies but also the global economy, with implications for LDCs' monetary policies and for global financial stability.

The SDG impacts of BigFintechs are as many and as complex as the trade-offs that they would require. The increasing interconnectedness of BigFintechs and the broader financial system present further risks of contagion across the entire financial system, which deserves further research. Our global regulatory architecture, mostly designed around fragmented sectoral mandates, is struggling to cope with increasingly integrated, cross-sectoral business models.

A Fragmented Regulatory Landscape

There are several regulatory processes concerned with BigFintechs, the most relevant being financial regulations, competition and antitrust regulations, telecommunications and internet regulations, and data protection regulations (refer to Technical Paper 3.1 for more information).

Financial regulation

Over a period of 150 years, financial regulation has evolved to address issues of financial stability, market integrity, consumer protection and market efficiency / fair competition. To achieve these goals and prevent undesirable societal harms, financial regulators have developed a range of restrictions and requirements on the providers of financial services. At the international level, a cooperative approach has developed to set agreed standards, with broad policy directions being set by the Group of 20 (G20), with technical support from the Financial Stability Board (FSB) and in coordination with a range of international organizations including the International Monetary Fund (IMF), the Bank of International Settlements (BIS), the International Organization of Securities (IOSCO), the Financial Action Task Force and others. Together, these actors develop voluntary standards in the form of soft laws which are implemented into domestic legal systems by national regulators, with the view to support wider development while balancing risks, both at macro and micro levels, for example through specific licensing requirements.

One of the ways in which BigFintechs challenge this process is that it is often unclear whether their financial services activities fall under existing regulations.[26] The combination of digital technologies and business model innovations raise challenges around which regulations might apply, for example in the case of money balances held in wallets or P2P lending, which do not fit under traditional approaches to deposits and lending activities. Similarly, certain blockchain-based financial products (e.g. digital tokens) may fall under securities regulations but the situation is not always clear. This uncertainty is further exacerbated by regulatory arbitrage, with BigFintechs offering financial services through partner financial institutions to reduce regulatory compliance costs, while transferring risks outside of the regulated sector. Different actions have been taken to improve the regulation of BigFintechs, from the adoption of special national bank charters for Fintech companies in the US[27] to similar developments in the UK and Australia which allow Fintechs to provide limited financial services without having to comply with all regulatory standards, to Mexico's Fintech law[28]. Financial regulators increasingly adopt regulatory sandboxes and innovation hubs to further support innovation in financial services.[29] However, concerns keep arising in relation to BigFintech's size, reach and innovations, the highest profile examples being Facebook's Diem and Ant Group in China.

As a result, international standard setters are investigating related issues,[30] while Chinese policymakers designated Ant Group a systemically important financial institution under new financial holding company legislation. Some argue that addressing the concerns from BigFintechs will require an entity-based approach.[31] What is certain is that BigFintechs are challenging existing approaches to financial regulation and demanding new governance tools.

Antitrust and competition regulation

Similar to financial regulations, antitrust laws and policies are developed internationally. The Organization for Economic Cooperation and Development (OECD), the International Competition Network (ICN) and the United Nations Conference on Trade and Development (UNCTAD) develop voluntary recommendations and policy guidelines aimed at harmonizing competition laws across jurisdictions. At the national level, regulators have broad discretion in their approaches to competition policies, which has resulted in different approaches and regulatory requirements in different jurisdictions. As an illustration, the EU is having a much lower threshold for qualifying economic activities as anticompetitive than does the US.[32]

During early 2021, competition laws have become increasingly relevant in the context of BigFintechs as they continue to harness large numbers of users, unparalleled access to data and technology-driven approaches to strengthen their dominance and, along the way, fend off competition while taking economic rent.[33] BigFintechs have adopted an active, and at times aggressive acquisition strategy domestically but also globally, which has arguably had adverse effects on competition and entrepreneurship in emerging markets.[34]

26 Johannes Ehrentraud, Denise Garcia Ocampo, Lorena Garzoni and Mateo Piccolo, "Policy Responses to FinTech: A Cross-Country Overview ", FSI Insights on Policy Implementation No. 23, 2020, p. 1.

27 See the Office of the Comptroller of the Currency, "OCC Begins Accepting National Bank Charter Applications From Financial Technology Companies", News Release 2018-74, 2018.

28 Hogan Lovells, "Mexico's Fintech Law initiative: What You Need to Know", Debt Capital Markets – Global Insights, 2017, p. 34.

29 Buckley R., Zetzsche D., Arner D. & Veidt R., 'Building FinTech Ecosystems: Regulatory Sandboxes, Innovation Hubs and Beyond', 61 Washington University Journal of Law and Policy (2020).

30 SB BigTech papers.

31 See Restoy, F., "Fintech regulation: how to achieve a level playing field", FSI Occasional paper (2021). See also Carstens, A., "Public Policy for Big Techs in Finance", BIS (2021).

32 Coppola M, Nazzini R., "The European and U.S. Approaches to Antitrust and Tech: Setting the Record Straight", Competition Policy International, 2020, p. 10, available at: https://www.ftc.gov/system/files/attachments/key-speeches-presentations/europe-column-may-2020-full.pdf.

33 "How internet giants damage the economy and society" https://www.ft.com/content/17460a66-1592-11e8-9e9c-25c814761640

34 Alissa Kole, "US and Chinese tech firms increasingly play a game of Pac-Man" November 7th, 2020 available at https://blogs.lse.ac.uk/usappblog/2020/11/07/us-and-chinese-tech-firms-increasingly-play-a-game-of-pac-man/

The EU's planned Digital Services Act will foster competitiveness among digital service providers and gives hope for the emergence of a common position on tech firms' use of citizen data. In the US, the Congress Investigation in Competition in Digital Markets, released earlier in 2021, looked at Big Tech and their Fintech activities singularly from the perspective of anti-trust. China initiated similar processes, including new draft guidelines on e-commerce and internet platforms antitrust issued by the State Administration for Market Regulation. The regulations are likely to affect China's major BigFintechs such as Tencent and Alibaba, by imposing more restrictions on the use of subsidies, discounts, and other business practices that can affect competition.

Around the world, regulators are re-examining competition laws to tackle the new challenges brought by BigFintechs but are not focusing on governance as a potential solution to societal impacts of BigFintechs, instead anti-trust measures are seen as a priority. Yet, the re-organization of tech platforms without explicitly considering their conflicts of interest may not solve the underlying SDG concerns.

Telecom and Internet regulations

At the international level, the International Telecommunications Union (ITU) sets general principles regarding telecommunications services and facilities, with the objective to promote efficient, accessible and interoperable services, and facilitates the adoption of international treaties and of non-binding recommendations for local implementation. Similarly, the Internet Corporation for Assigned Names and Numbers (ICANN) works with internet registries and registrars to promote greater competition on the internet. BigFintech activities sometimes fall under telecommunications laws, as is the case for mobile money across Africa, of which M-Pesa is the poster example. Although financial services offered by mobile operators are regulated by financial authorities, telecom regulators play a key role in regulating underlying infrastructure, interoperability, fair access to telecoms channels and KYC for instance, which are all relevant to the provision of financial services.

Data regulations

The purpose of data regulation is the protection of personally identifiable information from unlawful or unethical use. To protect personal data, relevant regulations can, among other things, impose restrictions on the collection and processing of personal information, require firms to comply with data security standards, and confine data collection to specific purposes.[35]

Contrary to competition and financial regulations that aim to govern economic activities, data privacy laws often originate from human rights law and the right to privacy. As a result, the scope of privacy law was traditionally confined to the protection of individuals but the use of data in financial and other markets pushed regulators to consider the economic implications of data privacy and widen their regulatory approaches. One of the most notable developments in this area is the European Union's General Data Protection Regulation (GDPR) which imposes data privacy protection obligations on companies that hold, collect, or process the data of natural persons within the EU. Among various other obligations, the GDPR requires companies to process data in a "lawful and transparent manner" and solely for specific purposes. Other countries and international organizations have also adopted or are planning to adopt their own data privacy regulations.

In the context of sustainable development, data privacy regulations can mitigate the risks associated with the broad adoption of technology by BigFintechs and other companies. The ability of BigFintechs to collect and analyse private data on a large scale combined with their control of major digital platforms can undermine fair competition and drive price discrimination. To mitigate these risks, data regulators can play a key role in limiting the data advantages of BigFintechs.

The current fragmentation in regulatory tools does not allow for a comprehensive approach to the management of the risks, and in particular sustainability-related risks, brought by BigFintechs. Furthermore, it is noteworthy that existing regulatory approaches are pursuing specific aims which, although important, do not have a SDG focus and therefore may lead to adverse effects on the SDGs. The absence of reference to sustainability can indeed lead to the exclusion of environmental and social risks from systemic risk consideration, as is the case with more stringent capital requirements which could lead to a reduction in green investments. This is further complicated by the potential adverse effect that the pursuit of a particular SDG could have on other SDGs, or SDG trade-offs, as advanced by the Asian Development Bank Institute (ADBI). This is perhaps most obvious in the

35 See for example the European Parliament and the Council of European Union, General Data Protection Regulation, Regulation (EU) 2016/679, 2016, art. 5.

case of economic SDGs affecting environmental ones. The same complexity may be true for the SDG trade-offs that BigFintech bring with their complex business models. Within this context of regulatory gaps and fragmentation, and with a rapidly developing SDG/ESG regulatory landscape (UN Global Compact, the Equator Principles, the UN Principles for Responsible Investment, the ICMA Green Bond Principles, the UNDP's SDG Impact Standards, WEF's industry agnostic reporting standard), questions can be raised as to what institutional investors are doing in addressing ESG and SDG priorities in the BigFintech sector, many of them naturally intertwined. It can also be asked whether corporate governance could play a role in addressing some of the sustainability-related challenges raised by BigFintechs.

Self-Regulation: Myth or Reality?

In the absence of convergent regulatory approaches to address the growing SDG-impacts of BigFintechs, corporate governance might help articulate alternative responses despite its own challenges in the specific context of BigFintechs and the SDGs.

Existing corporate governance frameworks are relatively vague in requiring or motivating boards to articulate a robust sense of corporate purpose which includes not only an understanding of sustainability factors likely to affect both the company and its stakeholders, but also the company's broader effects on sustainable development, including through its supply chains and extended ecosystems, and throughout the world.[36] At the same time, it bears to recognize that some progress has been made in that sense in continental European countries such as France and Germany, where various reforms have taken place around corporate purpose. One such example is the introduction of the "Enterprise à Mission" in France.

With mounting public pressure and awareness, different businesses, both from within the fintech sector and outside, have attempted to manage their broader societal impacts in various ways. Some of these attempts have unfolded as a response to specific regulatory requirements, for example those developed by the Task Force on Climate-related Financial Disclosures for the Financial sector.

Others have been the result of voluntary mechanisms that individual companies have implemented at the corporate governance level as an attempt to address their impacts on the SDGs, sometimes with greater emphasis on environmental SDGs but also including economic and social SDGs. A notable example of social SDG impact is social media platforms' adverse effects on child cognitive development, which has been highlighted by research.[37]

Across all markets, BigFintechs have recently advanced such voluntary mechanisms and for some, corporate governance innovations. Some examples include the following (refer to Technical Paper 2.1 for more information):

Establishing external oversight models. In a major step towards relinquishing ultimate decision-making power on thorny societal issues, Facebook's CEO established the Facebook Oversight Board. This board is funded by Facebook through a USD 130 million trust, consists of a 20 person panel consisting of journalists, academics, and politicians, is primarily focused on content moderation issues and acts as a Supreme court of sorts. While its sincerity, motivations, and principles have been questioned,[38][39] it points to a new inclination towards external oversight models around societal concerns.

Broadening stakeholder base to include various interests. An interesting case of designing a more inclusive stakeholder membership is the Diem Association[40], which is responsible for the governance of the Diem network. Although the project was reportedly conceived by Facebook, its current governance consists of diverse businesses and non-profit organizations with some level of representation of developing economy interests through US-based entities focused on advancing financial and digital inclusion around the globe. Members make key decisions for the Diem network, essentially run as a public utility, with Facebook's private interests represented by Novi[41]. Although an imperfect attempt at bringing a more inclusive developing economy lens into the governance of Diem, this example points to what might be possible in the future.

Putting privacy in the hands of users. Apple's decision to let users decide whether they agree to their data being shared across apps, released with iOS14, has been `well received by many organizations including Amnesty

36 Governance and Big Tech: Setting the tone on data, privacy and (mis) information, March 2021 https://www.icgn.org/sites/default/files/ICGN%20Viewpoint_Governance%20of%20Big%20Tech%20_0.pdf

37 Social Media Usage and Development of Psychiatric Disorders in Childhood and Adolescence: A Review, January, 13, 2021 https://www.frontiersin.org/articles/10.3389/fpsyt.2020.508595/full

38 https://www.marketplace.org/shows/marketplace-tech/is-facebook-oversight-board-something-we-actually-need/

39 https://www.ft.com/content/802ae18c-af43-437b-ae70-12a87c838571

40 https://www.diem.com/en-us/

41 https://www.novi.com

International and Human Rights Watch[42]. Whether the change was motivated by Apple's own interests, as claimed by competing app-based platforms, or originated from genuine concerns around privacy and responsible use of data on the part of brokers and online advertisers, it certainly expresses the company's new focus on data governance issues and is an example of self-regulation.

Direct Board oversight over specific SDG issues. Unprecedented resolution from Alphabet's shareholders pushed the company to consider establishing a human rights risk oversight committee to help anticipate and oversee adverse human rights and societal risks of its technologies.[43] A similar resolution filed by Facebook shareholders illustrate how seriously the issue is taken by shareholders and paves the way for the integration of a broader set of SDGs into board oversight structures. However, the influence of shareholders is also limited by multiple class share structures, which calls for broader reforms.

Self-discipline rules. Chinese Ant Group recently published self-discipline rules which aim to strengthen consumer rights protection and construct ethical standards. Measures stipulate for example that small and micro business lending platforms should guide borrowers to use funds reasonably and prevent the funds from flowing into stock and property markets.[44] This is an example of context-responsive self-imposed governance.

Adoption of Benefit Governance. Benefit corporations are traditional for-profit organizations which opt into an expanded purpose, realigned fiduciary duties and additional transparency around impact. From a corporate governance perspective, it means that the company must balance the interests of multiple stakeholders, including employees, consumers, government, investors, suppliers, communities etc and challenges like their environmental footprint. Several companies have already voluntarily adopted that status, from Danone to Lemonade and Amalgamated Bank. Under such arrangement, directors are provided legal protection to balance financial and non-financial interests.

In addition to the abovementioned measures already adopted by some BigFintechs, governance solutions can be "borrowed" from other sectors such as the banking sector, which features systemically important institutions regulated by a separate sectoral standard (the Basel standards on corporate governance). These standards contain relevant concepts such as CRO role – which in the context of BigFintech can be translated in a CTO role.

42 https://www.zdnet.com/article/apples-new-privacy-tool-lets-you-choose-which-apps-can-see-and-share-your-data-heres-what-you-need-to-know/

43 https://www.proxypreview.org/2020/contributor-articles-blog/alphabet-google-needs-board-oversight-committee-on-human-rights

44 https://www.globaltimes.cn/page/202103/1218221.shtml

The "fit and proper standard" for bank board directors is another interesting avenue to potentially explore.

At the same time, national governance approaches such as dual tier boards present in the Germanic legal tradition, can also be considered in an attempt to integrate stakeholder representation in the decision-making process. Other national governance innovations such as the role of a director representing minority shareholders could also be considered with a stakeholder focus/lens. These concepts would, need to be confronted with the legislative frameworks in countries where BigFintechs are domiciled to ensure their legal coherence. The latter observation underscores the need for international coordination at the sectoral level that could resolve such issues as the Basel Committee model addresses banking stability and governance concerns at the supra-national level.

As incomplete as these self-regulatory processes may seem, they underline the pressing need to balance public interest decisions, which are essentially about the SDGs, with commercial interests. Whether self-regulatory approaches can be trusted or whether external regulatory oversight is required, current practice is paving the way for new possibilities and evolutions, from bringing more platforms under the same external governance umbrella to embedding such arrangements in statutory regulation, enhancing existing regulatory architecture for real counter-power, and to the sector itself coming up with more self-regulatory models.

Principles-Based Sustainability-Aligned Governance of BigFintechs

Governing BigFintechs for sustainability will require a mix of regulatory and self-governance approaches. We argue that five principles could form the basis of a new, fit for purpose SDG-aligned governance of BigFintechs (refer to Technical Paper 3.3):

1. Principle One: Ensuring Foundational Financial Regulatory Objectives

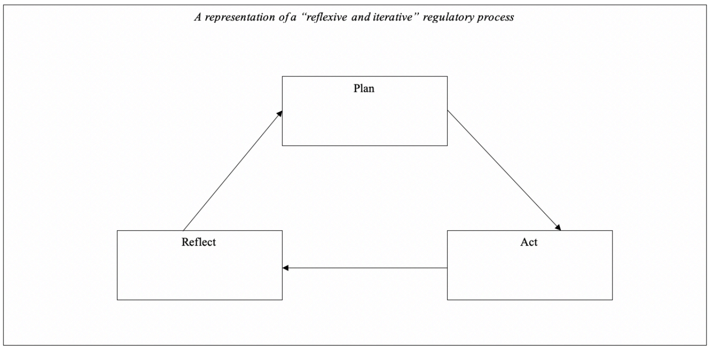
The public policy objectives of financial regulation have evolved to include financial stability, market efficiency and development, financial integrity, and consumer protection. The scope of these objectives is large because finance is seen as essential to support both economic growth and development, in other words sustainable prosperity. Collectively, they would constitute a robust public policy framework for financial market protection and effective governance of BigFintechs. However, additional considerations should also come into play to account for both developing economy and broader SDG contexts.

2. Principle Two: Developing Reflexive and Iterative Regulation

Policymakers and regulators need to adopt an approach to regulation that is both reflexive and iterative, driven by two realities associated with BigFintech growth and activity. First, the technology that they employ is developing rapidly and second, the societal capacity to engage with that technology in developing countries varies widely. Subsequently, regulatory interventions will need to be targeted, but with mechanisms that allow for rapid review and adaptability to new developments.

Substantively, developing country regulators will need to adopt relevant regulations that protect public welfare through efficiency and fair competition, financial stability, market integrity, and consumer protection, all in support of sustainable development. The important corollary to the substantive regulations, however, are the regulatory mechanisms that allow for reflexivity and iteration.

Sourced from Technical Paper 3.3



There are several ways regulators can embed feedback loops into their process as they develop policy, regulation, and capacity. These include innovation hubs, regulatory sandboxes, and transnational regulatory networks.

Innovation hubs usually provide a specific portal by which firms can engage with the supervisor to raise questions and seek clarifications or non-binding guidance about fintech-related issues in the context of compliance with the regulatory framework, licensing or registration requirements, and regulatory and supervisory expectations.

Regulatory sandboxes go a step further and provide a special scheme in which companies can test innovative financial products, services, or business models with actual customers in a controlled environment (a "sandbox") pursuant to a specific testing plan agreed with the supervisor and subject to the application of distinct safeguards.[45]

Transnational regulatory networks can be of further assistance to the extent that they can allow regulators in both developed and developing economies to interact in a much more informal manner and to share techniques, approaches, and lessons learned. One example of a prominent transnational regulatory network is the Financial Action Task Force (FATF), the global money laundering and terrorist financing watchdog. Another example is the Global Financial Innovation Network (the GFIN) which was formally launched in early 2019 by a group of international regulators. Both organizations could play a role in fostering cross-country dialogue and advancing global practices which are more inclusive of the specificities of developing countries.

These institutional mechanisms could build on exchange programs between countries, and further enable developed country regulators to learn about innovative developments in developing countries, and thus consider the impacts of their likely integration into global financial markets and transactions, while enabling developing country regulators to learn about more mature environments and regulatory contexts. This could be a mutually beneficial collaborative endeavor.

3. Principle Three: Fostering Responsible Actors

One of the key challenges is around accountability of BigFintechs, particularly abroad. Relying on home state regulation to guide and oversee BigFintech activities in international contexts presents challenges. One option could be to apply transnational standards of responsible business conduct directly on BigFintechs operating in those contexts. Examples of relevant and pertinent instruments that can apply to BigFintechs include the UN

45 Definitions drawn from European Supervisory Authorities, Fintech: Regulatory Sandboxes and Innovation Hubs (2018), online: <https://esas-joint-committee.europa.eu/Publications/Reports/JC%202018%2074%20Joint%20Report%20on%20Regulatory%20Sandboxes%20and%20Innovation%20Hubs.pdf>.

Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, which are respectively global but limited to human rights, or limited in scope but broader in their applications.

Considering the potential impacts of BigFintechs on environment and/or society in developing countries, insisting upon due diligence, reporting, and disclosure will ensure a minimum level of transparency and accountability. In this context, BigFintechs should be compelled to engage in ESG/SDG due diligence, and relevant regulators should adopt consistently monitored and coherent ESG/SDG due diligence standards.

4. Principle Four: Ensuring Oversight and Enforcement

The application of standards to the BigFintechs directly as proposed in the principle above should be matched with appropriate oversight and enforcement mechanisms. Given the complexity of the actors and the activities in discussion, oversight and enforcement mechanisms should be deployed at various levels of BigFintech operation and impact. This will affect actors and regulators at the entity, national, international, and transnational levels, and means that regulators and policymakers will need to consider the two guiding features of form (entity-based, intra-jurisdiction, inter-jurisdiction, regional, global) and function (third-party audits, dispute resolution remedies).

5. Principle Five: Instilling a Commitment to Sustainable Development

To enhance the responsible conduct of BigFintechs and to better support the attainment of the SDGs, we propose that governance frameworks and initiatives should require a board-level commitment of BigFintechs to incorporate the SDGs into business plans and models, particularly when operating in developing countries. This can be facilitated, for example, by greater multistakeholder coordination or greater representation of developing economy stakeholders.

Through a process of education, due diligence, and disclosures, BigFintechs can support the attainment of the SDGs. This would require developing awareness of BigFintech impacts on the SDGs, including at Board level. Board level engagement is important for two reasons. First, engagement at senior levels enables action by individuals with the authority to commit resources and push the agenda forward. Second, board level engagement communicates to stakeholders that the company takes the matter seriously. In the drive towards sustainable development, concerted and collaborative action by all stakeholders is pivotal.

Principles-Based Sustainability-Aligned Governance of BigFintechs

There are multiple approaches to designing and implementing a principles-based approach to an SDG-aligned governance of BigFintechs. One such approach would rely on a combination of international, regional, and national efforts, building on different regulatory practices and preferences, from permissive approaches to test-and-learn frameworks to more prescriptive regulations. Self-regulation and good self-governance would play a role, balanced by external oversight and utility type regulations. In this scenario regulators and policymakers would cooperate and advance a stacked series of reforms, with developing countries and the LDCs playing a key role in shaping the global agenda in support of their developmental priorities. This of course could take a long time, possibly much longer than the speed at which BigFintechs are shaping our world, but it would represent a major step.

Perhaps this is only a first step in the right direction and the longer-term way forward is about a more profound rethinking of our collective approach to BigFintech governance, an upgrade of the current governance architecture, in ways which can stabilize the global digital space and BigFintech sector. This might be built on existing arrangements and mandates, augmenting them in ways that ensure that they are equipped to address the new challenges and systemic risks of today. Or it could result in a more ambitious approach, a new 'Bretton Woods' for the global digital and digital finance spaces. One thing is certain: we need all the collective vision, leadership and ambition to reposition sustainable development and sustainable prosperity for all at the very center of BigFintech governance, now more than ever.

Going forward, the Dialogue will focus on building capacity around its findings in developing economies, whose role is essential. Together with willing partners, it will facilitate a working group of LDCs to explore sustainability-aligned governing arrangements of BigFintechs, and design a set of guiding principles which will be shared more broadly as a public good. The Dialogue will also investigate corporate governance solutions which can drive greater consideration of key SDG impacts and developing country interests by BigFintechs. Lastly, the Dialogue will engage with key governance institutions in disseminating and facilitating deeper engagement with its findings.

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