

WHERE DO I START?



DEFINE THE PROBLEM (I.E., MARKET GAP) AND ITS LINK TO YOUR DEVELOPMENT PRIORITIES

Talk to consumers, businesses, tech firms, donors, and financial service providers; identify market gaps and challenges at each level of the market system that might influence your ability to make sustained progress toward priority development outcomes.

Identify how the market gap relates to your priorities as a donor (e.g., a focus on smallholder families, asset-building for youth or women, or digitized government services). Clarify if and why your focus will be on financial services in a certain sector or market segment (e.g., smallholders, agriculture value chains, women, youth, or MSMEs).

ENABLING ENVIRONMENT

Key areas to investigate for potential barriers to digital finance, FinTech, and inclusion

- Are policymakers committed to financial inclusion or to harnessing digital technology?
- Is there a government-wide plan to foster a digital economy or digitize public services?
- Is there an adequate regulatory framework that enables innovation in financial services and ensures consumer protection? Can non-banks enter the marketplace?
- Does the public sector have resources or the capacity to initiate digitization of services?
- Does the financial regulator have the resources or tools to effectively supervise the marketplace for digital finance?
- Does the private sector have an effective way to discuss policy with the government?
- Does the marketplace have well-resourced, capable support functions in place, such as capacity-building services, public-good information and data, or industry associations?

MOBILE CONNECTIVITY AND DIGITAL INCLUSION

For each priority market segment or harder-to-reach community, consider:

- Is there reliable, robust network connectivity? Of what quality?
- Is there reliable energy access? Sufficient for what electricity needs?
- Are mobile devices and the cost of data affordable and readily available? Smartphones?
- Are digital services available in local languages or designed to accommodate and improve digital literacy?



FINANCIAL SERVICES PROVIDERS

- Do service providers have the right capital to design, test, or launch tech-enabled financial services or reach target market segments effectively?
- Do service providers have an interest or incentive to explore new market segments?
- Do service providers have an adequate organizational structure for rolling out tech-enabled financial services?
- Do service providers have the right expertise to design or manage tech-enabled financial services that respond to market needs?
- Do service providers have sufficient knowledge about the needs and behaviors of target market segments, including the barriers and incentives driving or preventing adoption?
- Do service providers have an appropriate, realistic (and sustainable) market segmentation strategy?
- Do potential institutional customers (gov'ts, businesses) have viable options for commonly requested services, including bulk payments, bill payments, salaries, per diems, social transfers, and vendor payments?
- Do potential individual and MSME customers have a full suite of tech-enabled financial services to choose from, including payments, transaction and savings accounts, credit products, and insurance?
- How competitive is the financial sector, including its openness to new market entrants?
- What are the partnership dynamics within commonly encountered service provider relationships (such as between foreign and local firms; MNOs and financial institutions; incumbents and new entrants; and private and state-owned enterprises)?

CONSUMERS, BUSINESSES, GOVERNMENT

For each priority market segment or harder-to-reach community, inquire:

- Is there adequate understanding of how to use digital tools (like mobile phones, APIs, QR codes, and others)?
- Is there adequate understanding of basic financial services and how to access them?
- Is there sufficient trust in institutions that provide formal or digital financial services?
- Is there sufficient awareness of the utility and function of digital financial services?
- Is there sufficient opportunity to interact with and test digital financial services, such as through trusted friends or family?
- Is there sufficient incentive to shift from purely informal financial behaviors?
- Is there wide availability of reliable ID documentation for identifying customers (KYC)?
- Is there a way for customers to submit or escalate complaints and have problems resolved in a timely, fair manner?



SCOPE OUT MARKET ACTORS, MARKET DYNAMICS, AND ROLE FOR THE PRIVATE SECTOR

Identify stakeholders and key relationships with a role in or influence over identified gaps or challenges. Pay attention to the role the private sector plays or can play in relation to the gap you have identified.

ENABLING ENVIRONMENT

- Central bank and the regulatory authority(s) responsible for competition and consumer protection
- Ministry of finance
- Ministry of ICT or telecommunications
- Ministry responsible for identity policy and systems, if any
- Ministries or offices responsible for large payment disbursements or collections, such as those focused on health, agriculture, social safety nets, salaries, and revenue collection
- Industry and trade associations (e.g., bank, MFI, FinTech, tech, or sector-focused bodies)

MOBILE CONNECTIVITY AND DIGITAL INCLUSION

- Mobile network operators (MNOs)
- Internet service providers
- Tech and innovation ecosystem (e.g., app developers, innovation hubs)
- Distribution networks for mobile handsets, airtime, and SMS

FINANCIAL SERVICES PROVIDERS

- Banks
- Payment system actors (e.g., switch operators, payment processors, card networks, aggregators, ACH)
- Electronic money issuers (EMIs) (i.e., mobile money providers)
- Cooperatives and credit unions
- Microfinance institutions
- FinTech providers and other technology vendors
- Distribution networks for financial access points (e.g., bank branches, ATMs, non-bank agents, POS devices)

INVESTORS, INTERMEDIARIES, INNOVATION COMMUNITY

- Incubators, accelerators, boot camps
- Impact investors (e.g., angel investors, foundations, philanthropic investment funds)
- Venture capital and private equity funds
- Institutional investors
- Development finance institutions (DFIs)
- Entrepreneur networks

CONSUMERS, BUSINESSES, GOVERNMENT

Relevant Stakeholders Will Depend on the Sector (e.g., agriculture, health, energy)

- Individual consumers (e.g., poor, youth, women, urban poor, rural areas)
- Small-scale businesses (e.g., merchants, traders, smallholder farmers)
- Larger businesses (e.g., input suppliers, processors, manufacturers, employers)
- Social protection agencies and public-sector employers



SELECT THE ENGAGEMENT MODEL(S) THAT BEST HARNESS THE VALUE-ADD OF THE DONOR AND PRIVATE SECTOR

Collaborate with willing stakeholders to design an engagement attuned to their incentives and focused on the market gaps or challenges you have identified. The engagement could take many forms, both formal and informal, and involve either financial or non-financial support.

The table below lists a set of generic types of engagements and their underlying vehicles, loosely categorized by whether engagement involves financing, operations, or an explicit focus on the market-system as a whole. The chosen engagement should reflect not only the gap being addressed but also the needs of the partners involved: what does the donor or the private sector partner want from the engagement and how might the broader market system evolve in response to the donor contribution? These engagements could be applied to the pursuit of any one of the five playbook objectives outlined in this playbook.

MARKET SYSTEM (OR ECOSYSTEM)-WIDE

| TYPE OF ENGAGEMENT | DESCRIPTION | UNDERLYING VEHICLE |
|--|---|---|
| Policy reform and advocacy | Provide forum or resources to enable dialogue among market stakeholders and the government to permit greater openness for market innovation | Technical assistance, convening, advocacy |
| Strengthening of market support functions | Collaborate with market stakeholders and the government to create or equip critical enablers (e.g., credit bureaus, consumer protection mechanisms, industry codes of conduct, capacity-building organizations, associations) | Technical assistance, grants, convening |
| Formulation of new financial tools | Provide resources to develop or test financial tools that can address challenges faced by the ecosystem (e.g., foreign-exchange risk, collateral requirements) | Technical assistance, grants, contract |
| Foundational research on market gaps, business models, market segment needs | Collaborate with local stakeholders to fill knowledge gaps that impair private sector-led delivery of inclusive financial services to priority market segments | Technical assistance, grants |

FINANCING-RELATED

| TYPE OF ENGAGEMENT | DESCRIPTION | UNDERLYING VEHICLE |
|---|--|-------------------------------------|
| Seed-funding | Funding provided to early-stage, higher-risk, and potentially higher-reward projects or companies to demonstrate their viability to the marketplace, thus facilitating a path to scale via private investors | Grants |
| Co-funding / co-investment | Direct investment alongside private sector partner, combining assets and expertise from both parties | Grants |
| First-loss capital | Grant funds used to absorb the first loss of an investment (whether debt or equity), thus protecting other investors at the outset of the investment and catalyzing participation of private sector investors in development projects | Grants, repayable grants |
| Buying down of management fees | Funding for the cost of managing a higher-cost market segment, thus reducing management fees that other private sector investors would need to pay to market levels | Grants |
| Partial credit guarantee | Agreement to cover a portion of the losses arising from the default of loans extended to what private sector investors would otherwise consider too risky | Guarantee |
| Insurance, hedging, or other risk-mitigation product | Funds to launch a risk-mitigation vehicle adapted to a particular market risk (e.g., weather-related or currency-related) | Grants, guarantee |
| Pay-for-results incentive payments | Incentive payments provided to private sector investors only upon proof that financing has been extended to target market segments or firms (with incentive payments triggered by metrics agreed to by the donor and private sector investors) | Grants, contract milestone payments |
| Development impact bonds | Funds used to repay private sector investors that supply upfront financing for a development program, with repayment triggered only if an impact evaluator determines that the programs (or companies) have achieved a pre-agreed-to outcome | Grants, contract milestone payments |
| Enterprise funds | Funds used to structure and finance a standalone investment vehicle designed to invest in targeted geographies, sectors, or market segments | Grants |
| Fee offset structured for a blended finance facility | Funds used to offset initial operating expenses needed to structure and launch a blended finance facility, with the fund manager relying on the donor partnership to crowd-in further public and private sector investors | Grants |

OPERATIONS SUPPORT

| TYPE OF ENGAGEMENT | DESCRIPTION | UNDERLYING VEHICLE |
|---|--|---|
| Capacity-building and training for fund managers or financiers | Funds used to sponsor training of investors or provide direct technical assistance to equip expansion into new markets, sectors, or segments, such as to build capacity to fundraise, conduct market research, develop staff skills, or undergo strategic planning | Grants, technical assistance |
| Technical assistance “sidecar” fund | Funds used to sponsor technical assistance for investees of one or more investment funds related to a priority geography, sector, or market segment | Grants |
| Pre-investment technical assistance and capacity-building | Funds used to provide technical assistance to firms (MSMEs) intended to equip them to be ready to seek and manage additional investment (i.e., increase investment-readiness) | Grants |
| Post-investment technical assistance and capacity-building | Funds used to provide technical assistance to investees or borrowers of one or more investors or financiers | Grants, technical assistance |
| Sponsor creation or operations of matchmaking platform for investment or financing | Funds used to develop or launch a platform (or organization) that links providers of capital with those seeking financing in a priority geography, sector, or market segment | Grants, technical assistance |
| Market research | Conduct market research to fill gaps on targeted issues about a priority geography, sector, or market segment, such as to identify investment opportunities to inform investor decision-making | Technical assistance, contract, convening |

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WHERE CAN I LEARN MORE?

Resources for Forming Partnerships or Pursuing Private Sector Engagement to Achieve Market System Change

- [Private Sector Engagement Policy](#) (USAID)
- [Partnership Insights - a Set of Tools and Resources for Practitioners](#) (USAID)
- [Pay for Results in Development: A Primer for Practitioners](#) (USAID, 2017)
- [A Market Systems Approach to Financial Inclusion: Guidelines for Funders](#) (CGAP, 2015)
- [Development Credit Authority](#) (USAID)
- [The Art of Market Facilitation](#) (FSD Africa, 2016)
- [Evaluating Systems and Systemic Change for Inclusive Market Development](#) (USAID, 2014)
- [Market Facilitation - Practitioner Job Support Tools](#) (SEEP Network).

Resources for Objective 1: Learn Customer Needs

- [Customer-Centricity Guide](#) (CGAP, 2017)
- [FinScope survey methodology](#) (FinMark Trust)
- [Market Segmentation](#) (CGAP)
- [Financial Diaries](#) (BFA Global)
- [Digital Financial Solutions to Advance Women's Economic Participation](#) (BTCA, 2015)
- [Financial Diaries with Smallholder Families](#) (CGAP, 2016)
- [The Human Account](#) (Dalberg, 2018)

Resources for Objective 2: Improve Enabling Environment

- [G20 High-Level Principles on Digital Financial Inclusion](#) (GPII, 2016)
- [Accelerators to an Inclusive Digital Payments Ecosystem](#) (BTCA, 2016)
- [The Opportunities of Digitizing Payments](#) (BTCA, GPII, World Bank, 2014)
- [Beyond Financial Inclusion: Financial Health as a Global Framework](#) (CFI and CFSI, 2017)
- [Basic Regulatory Enablers for Digital Financial Services](#) (CGAP, 2018)
- [Integrating Gender and Women's Financial Inclusion Into National Strategies](#) (AFI, 2017)
- [Regulatory Sandboxes and Financial Inclusion](#) (CGAP, 2017)
- [Good Practices for Financial Consumer Protection](#) (World Bank, 2017)
- [Data Collection by Supervisors of Digital Financial Services](#) (CGAP, 2017)
- [FinTech, RegTech and SupTech: What They Mean for Financial Supervision](#) (Toronto Centre, 2017)
- [Models to Engage Innovators](#) (RegTech for Regulators Accelerator, 2017)
- [Responsible Digital Payments Guidelines](#) (BTCA, 2016)

Resources for Objective 3: Jumpstart Market Entry

- [Breaking the Pattern: Getting Digital Financial Services Entrepreneurs to Scale in East Africa & India](#) (Village Capital, 2017)
- [Beyond the Pioneer: Getting Inclusive Industries to Scale](#) (FSG, 2014)
- [Open APIs](#) (CGAP)
- [Mobile Money in Emerging Markets: The Business Case for Financial Inclusion](#) (McKinsey & Company, 2018)
- [Ecosystem Accelerator Africa: Tech Hubs Landscape 2018](#) (GSMA)

Resources for Objective 4: Build Sustained Demand

- [How Financial Institutions and FinTechs Are Partnering for Inclusion](#) (CFI, 2016)
- [Digital Financial Services and Risk Management Handbook](#) (IFC, 2016)
- [Alternative Delivery Channels and Technology Handbook](#) (IFC, 2015)
- [Driving Sales Through Digital Working Capital Loans for Small Merchants](#) (BTCA, 2018)
- [Beyond Fintech: A Pragmatic Assessment Of Disruptive Potential In Financial Services](#) (WEF and Deloitte, 2017)
- [Data Analytics and Digital Financial Services](#) (IFC, 2017)
- [Demystifying Digital Lending: How Digital Transformation Can Help Financial Service Providers](#) (Accion, 2018)
- [Breaking Barriers: Enabling Scale for Digital Finance Innovations for Smallholder Farmers in Sub-Saharan Africa](#) (Village Capital, 2016)

Resources for Objective 5: Extend to “Last Mile”

- [Behavioural Interventions That Advance Financial Inclusion](#) (insight2impact, 2018)
 - [Nudges for Financial Health: Global Evidence for Improved Product Design](#) (IPA, 2017)
 - [Designing Successful Distribution Strategies for Digital Money](#) (Helix Institute of Digital Finance, 2015)
 - [Agents of Change: How the Human Touch Is Bringing Digital Financial Services to New Customers in India](#) (CFI, 2017)
 - [Electronic Payments Toolkit](#) (NetHope, 2015)
 - [Gateway Guide to Women's Financial Inclusion](#) (CGAP)
 - [Gateway Guide to Youth Financial Inclusion](#) (CGAP)
 - [The Fight for Light: Improving Energy Access Through Digital Payments](#) (BTCA, 2017)
 - [Guide to the Use of Digital Financial Services in Agriculture](#) (USAID, 2016)
 - [The Role of Digital Payments in Sustainable Agriculture and Food Security](#) (BTCA, 2017)
 - [How Digital Finance Could Boost Growth in Emerging Economies](#) (McKinsey & Company, 2016)
-