ADFIAP

DevTalks

MAGAZINE

MAY 2024 ISSUE

REVVING UP THE FINTECH REVOLUTION

IN DEVELOPMENT FINANCE

CULTIVATING IMPACT
BY FINANCING GREEN INNOVATIONS

Since 1973, BPMB has been a key partner in Malaysia's sustainable and inclusive development agenda. Its impact assessment framework, Measuring Impact on National Development (MIND), developed in collaboration with the World Bank Group in 2021, has enabled BPMB to evaluate the positive and negative impacts of projects and prioritize financing.

In 2022, a BPMB-funded project transforms the pulp and paper industry with a focus on environmental sustainability, integrating non-wood green pulp and paper production with renewable energy and zero waste technology, embracing the Waste-to-Value and Waste-to-Energy concept. The positive impacts identified through MIND, include:

SDG 9
INDUSTRY, INNOVATION & INFRASTRUCTURE

Technological Advancements:
- Integrates patented Preconditioning Refiner Chemical-Recycle Bleached Mechanised Pulp (PRC-RBMP) technology, a major breakthrough in the pulp and paper industry, with renewable energy and waste recovery innovations

SDG 10
REDUCED INEQUALITIES

Socioeconomic Impact:
- Expected to create up to 119 job opportunities for locals, improving livelihoods and supporting community growth.

SDG 12
RESPONSIBLE CONSUMPTION & PRODUCTION

Water Conservation:
- Reduction of 1 million m³ of clean water annually, recycling 200,000 m³ for Empty Fruit Bunch (EFB) paper and pulp production with advanced technology.

Utilisation of Waste Resources:
- The Pulp and Paper Mill converts 16,667 metric tonnes of palm oil waste into a profitable resource, promoting circular economy principles

SDG 13
CLIMATE ACTION

Contribution to Environmental Preservation:
- Approximately 170,000 trees are preserved annually, absorbing 4.25 million kg of CO_2 yearly (*a tree absorbs approximately 25kg of CO_2 per year**), contributing to climate change mitigation

**source: https://rb.gy/78dmje*

Ongoing Impacts & Future Potential:
While significant strides are made in realising the outlined impacts, the project's full potential continues to unfold. Impacts such as job creation and environmental conservation evolve over time, demonstrating the enduring benefits of sustainable development initiatives.

BPMB is the winner for Association of Development Financing Institutions's (ADFIAP)
Environmental Development Award 2023

www.bpmb.com.my

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BPMB
Malaysia Development Bank

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EDITORIAL

Every year, we gather our members to take stock of the gains we have made as the focal point of development finance institutions (DFIs) in the Asia-Pacific region, as well as the challenges we face, especially against the backdrop of a rapidly changing global landscape.

This year's 47th ADFIAP Annual Meetings theme is "DFIs' Role in Sustainable Finance Ecosystem: Cultivating a Climate-Smart and Sustainable Future."

We see this occasion as an opportune time for us to publish the maiden issue of **DEVTALKS MAGAZINE**, which aims to serve as a knowledge resource and a useful platform for our members, stakeholders, thought leaders, and experts to share ideas and insights on issues affecting the sustainable finance sector.

In this issue, we focus on the emergence of financial technology (fintech) and how this will affect and shape the role of DFIs. As we stand on the cusp of significant climate changes, it is imperative that DFIs take a proactive stance in shaping a sustainable financial ecosystem.

Thanks to the Agricultural and Rural Development Banks (ARDBs) for playing gracious hosts to our annual gathering. We are also grateful to the following institutions for making this publication possible with their advertising support: PT Sarana Multi Infrastruktur (Persero), Land Bank of the Philippines, Bank Pembangunan Malaysia Berhad, Eurasian Development Bank, Esquire Financing Inc., ASKI Group, and the Small Business Corporation, and to our editorial partner, Writers Edge, for being our co-publisher.

Happy reading!

ENRIQUE I. FLORENCIO
ADFIAP Secretary General

ADFIAP shares journey at Meetings Africa

ADFIAP showcased its initiatives and best practices in promoting sustainable development across the Asia-Pacific region during the Meetings Africa 2024 in Johannesburg, South Africa from February 26 to 28, 2024.

ADFIAP Secretary General Enrique I. Florencio shared ADFIAP's sustainability mission and engaged with key personalities in the events and meetings industry. He emphasized the importance of integrating environmental, social, and governance (ESG) principles into the decision-making processes of development financing institutions to drive positive impact and long-term sustainability.

Fiji women entrepreneurs get financial backing

Recognizing the significant contributions of women-led businesses to the local economy, the Fiji Development Bank (FDB) recently signed the ADB's Women Entrepreneurs Finance Code.

"This offers a powerful source of working capital that further paves the way for a brighter future, not only for these women-owned businesses, but also for their families and our nation as a whole," said FDB CEO Saud Minam. "We believe that investing in women entrepreneurs is not only the right thing to do, but also a smart economic strategy that benefits the entire community."

Muscat dev't bank has new CEO

The Development Bank (DB), a development finance institution in the Sultanate of Oman, has announced the appointment of Hussein bin Ali Al Lawati as its new CEO, effective February 25, 2024.

Al Lawati brings with him over 18 years of experience in the banking and finance sector with expertise in planning, innovation, growth, and strategic partnerships. His most recent role was as the CEO of Muscat Finance Company.

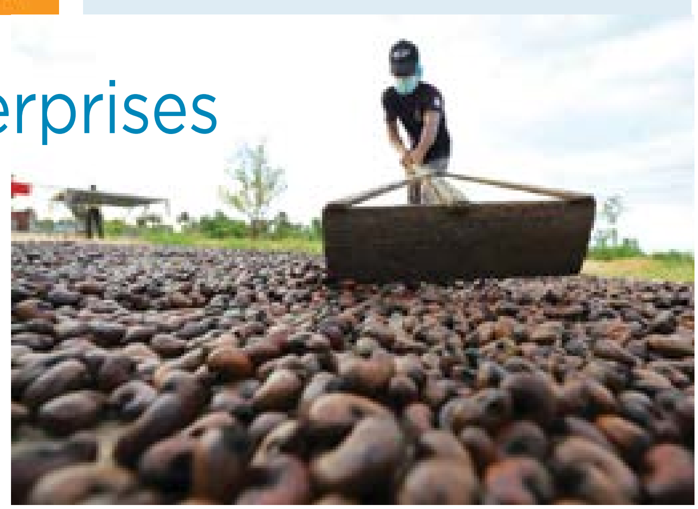
Eng. Mohamed bin Abu Bakr Al Ghassani, chairman of the Development Bank, highlighted Al Lawati's extensive banking experience, particularly in project finance, asset management, and corporate transition. He emphasized Al Lawati has the depth of experience to lead the Development Bank during a period of breakthrough in finance, management, and operations.

Events in 2024

ADFIAP Training Institute

- **May 27-31**: Fostering Sustainable Finance and Development
- **June 3-14**: Certificate in Development Bank Associate (ACCP Level 1)
- **June 17-21**: Certificate in Development Bank Associate (ACCP Level 2)
- **July 22-26**: AI, DFIs, Climate Change, and You!
- **August 26-30**: Study Tour Program on Green Finance
- **October 7-11**: Averting Financial Losses and Business Disruption through Operational Risk Management

ARDB backs rural enterprises



The Agricultural and Rural Development Bank (ARDB) bared plans to allocate $30 million in 2024 to bolster agricultural development and support rural enterprises.

The funds will support the production of cashew and other crops such as rice, reflecting ARDB's commitment to advancing various sectors within the agricultural industry.

Secretary of State Phan Phalla highlighted the government's support for cashew production through ARDB and SME Bank, with a $30-million loan already provided to the sector and an additional $30 million earmarked for the current season.

The government's initiatives aim to enhance cashew processing capabilities, boost exports, and address challenges faced by small and medium-sized enterprises in the industry.

ADFIAP AWARDS

For 27 years now, the ADFIAP Awards has been shining the spotlight on individuals and institutions which have contributed significantly to the socio-economic progress of their countries.

Launched in 1997 at the Summit on Development Finance in Manila, the ADFIAP Awards has given annual recognition to ADFIAP member-institutions that have created a positive impact on areas such as the environment, small and medium enterprises, infrastructure, technology, trade, local economy, corporate governance, and corporate social responsibility.

The ADFIAP Awards will be one of the highlights of the 47th ADFIAP Annual Meetings in Phnom Penh, Cambodia. Congratulations to all the winners!

Human Capital Development

Winners

State Development Corporation "VEB.RF"
Accompanied Residence for People with Mental Disorders

PT Sarana Multi Infrastruktur (Persero)
Empower for Tomorrow: Igniting Potential through PT SMI – Indonesia Endowment Fund for Education (LPDP) Talent Forge

Merit Awardees

ASKI Group
(ASKI Skills and Knowledge Institute, Inc.)
Development of Emerging Leaders through the Comprehensive Management TrainingProgram

Momentus Global Health Diagnostic Tool (HDT) for National Development Bank
Broadly Available Tool to Development Banks (multilateral, regional, national, sub-national)

Development Bank
On the Job Training Program (HR Department)

Environmental Development

Winner

Bank of Industry & Mine (BIM)
BIM's Environmental Development Projects
(a) Purification and recycling of Wastewater
(b) Combined-Cycle Plant and Solar Energy Farm

Merit Awardees

National Bank for Agriculture and Rural Development (NABARD)
JIVA (Agroecological Transformation Programme)

Development Bank of Kazakhstan, JSC
Kazchrome TNC JSC "Construction of Sludge Processing Plant of the Donskoy Mining and Processing Plant in Khromtau"

State Development Corporation VEB.RF
Wastewater treatment plants' development on Sakhalin Island

SME Development

Winners

Fiji Development Bank
FDB Small and Medium Enterprise Sustainability Package

Small Industries Development Bank of India (SIDBI)
Changing the Landscape of Micro/Artisanal Cluster through Project Green Inclusivity (Project GRiT) – Turning the Cluster "Green"

Merit Awardees

Esquire Financing Inc.
Savya Financial Center

PT Sarana Multi Infrastruktur (Persero)
Tenun.In: End-to-end Solution for Empowerment of Women Weavers in Sikka, East Nusa Tenggara

Tekun Nasional Malaysia
TEMAN TEKUN | Group Financing Scheme

Bank Industry and Mine
Sisakhat Chevil Cheshmeh

Infrastructure Development

Winners
China Development Bank
Suzhou Ancient City Preservation and Renovation Project

Landbank of the Philippines
Brightness Lending Program

Merit Awardees
PT Sarana Multi Infrastruktur (Persero)
Driving Sustainable Growth: PT SMI's Groundbreaking Sustainability-Linked Loan

Export-Import Bank of India
Various Infrastructure Development Projects

Development Bank of the Philippines
DBP's Solar Merchant Power Plant Financing Program

Pag-IBIG Fund (Home Development Mutual Fund)
The Pag-IBIG Fund Direct Developmental Loan Program in support of the Philippine Housing Program

Technology Development

Winner
Development Bank of Japan, Inc. (DBJ)
Support for the Development of Medical Devices for the Treatment of ARDS through Special Investment Operations

Merit Awardees
Small Business Corporation
Machine Learning-Based Credit Scoring Model for Micro Enterprises

Bank Pembangunan Malaysia Berhad
Malaysia Steel Works (KL) BHD ("Masteel")

Eurasian Development Bank (EDB)
Digitalization of PPP Potential in Central Asia: A Comprehensive Programme

Trade Development

Winners
State Development Corporation VEB.RF
Financing a project to set up the Agrilogistics Centre in Uzbekistan

Eurasian Development Bank
Fund for Digital Initiatives - BEE-ONLINE.ru

Merit Awardee
Small Medium Enterprise Development Bank Malaysia Berhad (SME Bank)
SME Bank Xcess 2023

Local Economic Development

Winners
JSC "Development Bank of the Republic of Belarus"
One District – One Project

State Development Corporation VEB.RF
The Digital Platform of Russian Cities – Goroda.RF

Merit Awardees
ASKI Group (ASKI Multipurpose Cooperative)
Establishment of Women-led Community Store in Nueva Ecija

Fiji Development Bank
The FDB loan for Women Entrepreneurs

Development Bank of Japan Inc. (DBJ)
DBJ's Publication on the Regions x Transition: Wide-Area Strategies Centered on Energy and Related Industries

ADFIAP AWARDS

Financial Inclusion

Winners

National Bank for Agriculture and Rural Development
CBS in Rural Cooperative Banks

PT Sarana Multi Infrastruktur (Persero)
Empowerment-focused CSR: Boosting SMEs through Financing for Financial Inclusion

Merit Awardee

Landbank of the Philippines
ASA Philippine Foundation, Inc. (A Microfinance NGO) "Project: Nanay First"

Corporate Governance

Winner

Bank Pembangunan Malaysia Berhad (Bank Pembangunan)
Bank Pembangunan's Organisational Anti-Corruption Plan 2022 -2026 (OACP)

Merit Awardee

ASKI Group (Alalay Sa Kaunlaran Microfinance Social Development, Inc.)
Alignment of Corporate Governance Framework in the Local and International Standards

Corporate Social Responsibility

Winner

Perbadanan Usahawan Nasional Berhad (PUNB)
Corporate Social Responsibility (CSR) Punb Celcomdigi - Let's Give Back Kuala Tahan, Jerantut, Pahang

Merit Awardees

DFCC Bank PLC, Sri Lanka
DFCC Read the Way - Educational Support Programme

Small Medium Enterprise Development Bank
Malaysia Berhad (SME Bank) - SME Bank iTEKAD Penjana Komuniti

IPDC Finance Limited
Narail Express Gym and Sports Academy

Special Awards

Best Sustainability Report

Development Bank of Kazakhstan, JSC
PT Sarana Multi Infrastruktur (Persero)

First Payor

Eurasian Development Bank

Best Website

Development Bank of Kazakhstan JSC
Alliance Finance Co. PLC

Individual Awards

Oustanding CEO Award

Mr. Rajan Uttamchandani
Chief Executive Officer
Esquire Financing Inc.

Distinguished Person

H.E. Dr. Kao Thach
Royal Government Delegate in-charge as Chief Executive Officer
Agricultural and Rural Development Bank (ARDB)

‘A meaningful assignment’

H.E. Dr. Kao Thach has been in the financial sector for more than two decades now. Since 2014, he has been leading the charge at the state-owned Agricultural and Rural Development Bank (ARDB). He considers his delegation by the Royal Government of Cambodia as “a remarkable move” that paved the way for his transition as a development banker. In this Q&A, Dr. Thach shares his insights and how he feels being recognized as the **Distinguished Person of the Year** in this year’s highly coveted ADFIAP Awards.

How would you describe your career in banking?

I have been involved in the financial sector, especially in the securities sector, for more than two decades. It was a remarkable move, delegated by Royal Government of Cambodia, to be a development banker in 2014. I constantly envision contributing to poverty alleviation, economic growth, and sustainable development. My compassion to farmers, as well as to the agriculture development in Cambodia, are also key factors in my decision to become a development banker. Additionally, promoting and improving the agriculture sector and rural areas are the key priority policies for the Royal Government of Cambodia to enhance socio-economic development. I have committed to optimize my knowledge and expertise which I can contribute to support the government’s effort.

What is your vision for ARDB?

I have been serving ARDB, a state-owned bank, as Chief Executive Officer since 2014. ARDB’s ambition is to be a leading financing institution focusing on the development of the agricultural and rural sector in Cambodia. This profession could be described as a “meaningful assignment,” delegated by the Royal Government of Cambodia. Since then, farmers and all stakeholders in the agriculture value chain have been receiving more support through government special fund financing that aimed to foster economic growth and increase living standards, especially of people living in remote areas. Development financing concerns, not only providing financial support, but also building resilience for beneficiaries.

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‘Journey of empowering potential’

Mr. **Rajan Uttamchandani** is a development banker on a mission: to “empower potential.” Since he founded Esquire Financing Inc. (EFI) in 2011, he has been leading a purpose-driven institution that aims to provide efficient and flexible funding to small and medium enterprises (SMEs) wherever they are in the Philippines. In this Q&A, Mr. Uttamchandani tells the story of his career and how it opened the door to being recognized as the **CEO of the Year** in this year’s ADFIAP Awards.

Please describe your banking career.

My career has been a journey of empowering potential. I started in traditional banking, gaining a deep understanding of financial systems and risk management. It became clear to me, however, that traditional models often overlooked the crucial role of SMEs in driving economic growth. This sparked my passion for development banking, allowing me to focus on creating solutions that cater to the unique needs of these businesses.

What led you to pursue a career as a development banker?

Witnessing the positive impact of financial inclusion on communities, particularly on the lives of individuals like my grandfather and father, ignited my passion for development banking.

My grandfather, due to his circumstances, had to leave home and work tirelessly to support his family. My father followed a similar path, building a business from the ground up to secure a stable future for generations to come.

Their stories exemplify the resilience and immense potential within our communities. Through development banking, I saw the opportunity to empower countless others like them.

By providing SMEs with the right financial tools and resources, we empower them to, not only build successful businesses, but also become catalysts for job creation, poverty reduction, and sustainable growth. It's about fostering a ripple effect that strengthens communities and builds a brighter future for our nation. This aligns perfectly with my desire to contribute meaningfully to the growth of our country and the people who call it home. I find immense satisfaction in helping dreams flourish and knowing that together, we can build a more prosperous future.

What are your thoughts on receiving the "CEO of the Year" award from ADFIAP?

Receiving this prestigious award from ADFIAP is a humbling honor. It is a testament to the hard work and dedication of our entire team who share the vision of empowering SMEs.

However, it's also a call to action, further motivating us to continue innovating and expanding access to capital, fostering a brighter future for the development banking sector and the Philippines.

> *"I find immense satisfaction in helping dreams flourish and knowing that together, we can build a more prosperous future."*

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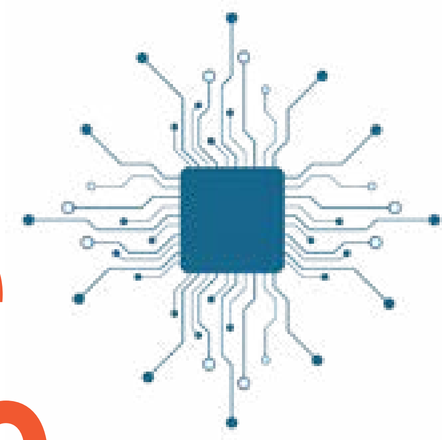
What are your thoughts on receiving the "Most Distinguished Person" award from ADFIAP?

Receiving this award is a great honor for my ARDB staff and management. It means our contributions to sustainable development through providing financing and enhancing local communities' living standards have been recognized.

Specifically, that's the result of the Royal Government of Cambodia's stipulation in the National Policy of Agricultural Development 2022-2030 which is a guidance for ARDB to design agricultural financing products to support all stakeholders in the agricultural value chain.

Winning such an award could also provide me and my ARDB team opportunities to further collaborate with ADFIAP and other stakeholders, share insights and best practices, and inspire others to contribute to the advancement of development finance initiatives.

Fintech: Boon or Bane to Sustainable Development?



Fintech (short for 'financial technologies') has been the buzzword for years now in the business world, especially after COVID-19 accelerated everything digital. Fintech has been disrupting traditional financial services, including mobile payments, money transfers, loans, fundraising, and wealth management. But how does it impact sustainable development financing?

In this Q&A, we asked the CEOs of some ADFIAP member-DFIs how fintech is reshaping their business and the way forward.

How does your institution view fintech?

H.E. Dr. Thach Kao
CEO, Agricultural and Rural Development Bank (ARDB)

As a development bank, ARDB typically views fintech through the lens of fostering economic growth, financial inclusion, innovation and promoting sustainability.

- Promoters of Financial Inclusion: Fintech is a valuable partner in promoting financial inclusion by expanding access to financial services for underserved populations. Fintech innovations such as mobile banking, digital payments, and alternative credit scoring can help bridge the gap between traditional banking services and unbanked or underbanked individuals and communities.

- Production Cost Efficiency: Fintech can be recognized as drivers of innovation within the financial sector and as catalysts for modernizing financial systems, introducing new technologies, and improving efficiency in areas such as lending, payments, and risk management.

- Collaborative Opportunities: Typically, banks may seek to collaborate with fintech companies to leverage their innovative solutions and expertise in addressing development challenges. These collaborations can take various forms, including funding support, technical assistance, and knowledge sharing, to promote sustainable development goals.

Overall, development banks often view FinTech as valuable solutions in advancing the mission of promoting economic development, financial inclusion, innovation, and promoting sustainability. By supporting and engaging with fintech companies, development banks can leverage the potential to drive positive change and create lasting impact in communities around the world.

Is fintech beneficial or detrimental to sustainable development?

The impact of fintech on sustainable development can vary, depending on how their products and services are designed, implemented, and regulated. However, we could think of some of the potential benefits as the following:

- Financial Inclusion: Fintech has the potential to significantly expand financial inclusion by reaching underserved populations, such as those in rural or remote areas, through digital banking solutions. By providing access to basic financial services like savings accounts, payments, and credit. FinTech can empower individuals and small businesses to participate more fully in the economy.

- Efficiency and Cost Reduction: Fintech innovations, such as digital payments and online lending platforms, can streamline financial processes and reduce transaction costs for both providers and consumers. This efficiency can make financial services more accessible and affordable, particularly for low-income individuals and communities.

- Support for Sustainable Finance: Fintech can play a role in promoting sustainable finance by facilitating investments in environmentally and socially responsible projects. For example, they may offer crowdfunding platforms for renewable energy initiatives or tools for tracking and managing sustainable investments.

- Data-Driven Solutions: Fintech players often leverage data analytics and artificial intelligence to develop tailored financial products and services. By analyzing consumer behavior and financial patterns, FinTech can better understand and predict the needs of underserved communities and design solutions that address specific sustainability challenges.

Mr. Rajan Uttamchandani
CEO
Esquire Financing Inc.

We view fintechs as valuable partners in the development banking landscape. Their agility and innovative solutions can complement existing structures, reaching a wider base of unbanked or underbanked entrepreneurs. Fintechs can streamline processes, automate tasks, and offer alternative credit scoring models that can benefit underserved segments of our nation.

Fintechs hold immense potential to promote sustainable development. By providing faster and more affordable financial services, they can empower eco-conscious businesses and foster financial inclusion that drives sustainable practices. However, responsible partnerships are crucial to ensure transparency, data privacy, and ethical lending practices.

How can fintechs and DFIs work together to make a more significant and positive contribution to sustainable development?

We see numerous potential collaborations with fintechs. These could include co-creating innovative lending products tailored for specific sectors, leveraging their data analytics capabilities for risk assessment, and exploring blockchain technology for secure and transparent transactions. Ultimately, a collaborative ecosystem will be key to unlocking the full potential of both DFIs and fintechs.

By leveraging each other's strengths, DFIs and fintechs can create a powerful force for sustainable development. DFIs can provide fintechs with access to capital and regulatory expertise, while fintechs can offer their agile solutions and wider reach to DFIs. This collaborative approach will enable them to create a more inclusive financial system, support eco-friendly businesses, and drive financial literacy, ultimately forging a path towards a more sustainable future for all.

What potential partnerships and collaborations with fintech do you envision?

H.E. Dr. Thach Kao
CEO, ARDB

Fintechs and DFIs can collaborate in several ways to enhance their contributions to sustainable development:

- Financial Inclusion Initiatives: DFIs can partner with fintech companies to develop and deploy innovative financial products and services tailored to underserved populations. This could include digital banking solutions, and mobile payment platforms, designed to reach individuals and small businesses in remote or marginalized communities.

- Capacity Building and Technical Assistance: DFIs can provide funding and technical assistance to support the growth and scalability of fintech startups focused on sustainable development objectives. This assistance may include mentoring, training, and access to networks and resources to help fintech companies navigate regulatory challenges, refine their business models, and scale their impact.

- Investment and Co-Financing: DFIs can invest directly in fintech companies that demonstrate a commitment to sustainable development goals. By providing capital and expertise, DFIs can help fintech expand their reach, develop new products, and improve their operational efficiency while advancing broader development objectives.

- Data Sharing and Collaboration: DFIs and fintech can collaborate on data-sharing initiatives to better understand the financial needs and behaviors of underserved populations. By leveraging data analytics and artificial intelligence, they can develop more targeted and effective solutions to address specific development challenges, such as access to credit, savings mobilization, and insurance coverage.

- Policy Advocacy and Regulatory Engagement: DFIs can advocate for policies and regulatory frameworks that support responsible fintech innovation and promote financial inclusion and sustainability. By engaging with policymakers, regulators, and other stakeholders, DFIs can help create an enabling environment for fintech companies to thrive while safeguarding consumer protection, data privacy, and financial stability.

- Impact Measurement and Reporting: DFIs and fintech can collaborate on measuring and reporting the social, environmental, and economic impact of their initiatives. By adopting common impact metrics and standards, they can enhance transparency, accountability, and learning, and demonstrate the value of their contributions to sustainable development outcomes.

Mr. Saud Minam
CEO
Fiji Development Bank (FDB)

Partnerships and collaborations with fintechs have allowed FDB to improve and protect its database systems, improve payment systems, and reduce transfer risk which will eventually help consumers, the Bank, and the relevant stakeholders that contribute to the economy as a whole.

As one of its collaborative efforts, FDB has ushered in a new era of customer service in Fiji and inclusivity with the launch of an AI-based chatbot on its website on 6 October 2023. The Bank plans to further enhance the chatbot by enabling translations in the two main ethnical vernaculars in Fiji (iTaukei and Hindi).

What opportunities and challenges do you see from the increasing prominence of fintechs in both the financial sector and sustainable development?

Opportunities with fintechs in the financial sector and sustainable development include increasing business options and reducing dependence on the traditional banking system.

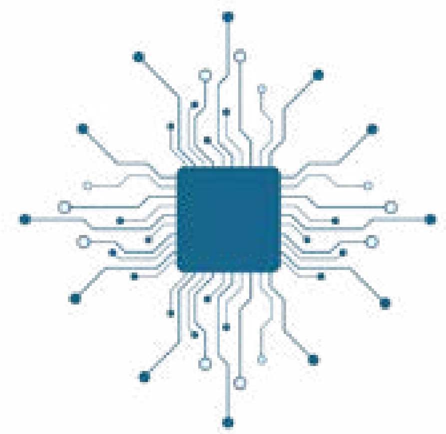
Numerous obstacles confront the fintech sector: recurring security breaches, a lack of transparency, intense rivalry, governmental laws, and poor customer experience are a few notable examples.

One thing is for sure, opportunities can allow access to finance more easy, cheap, user-friendly and convenient. For instance, an app that farmers can use to record their farm production costs, acquire quotations from suppliers, submit an online loan application, all from the tips of their finger using their mobile phone at their farm.

The vantage point would be affordable annual licence fees for the relevant stakeholders to provide mutual agreement on collaborating for increased marketing and sales drive, monitoring and evaluation of products, etcetera.

Farm owners or businesses who have the drive and experience to carry out its operations under environmentally sustainable development practices but lack the skills and understanding of financial literacy such as financial statements and analysis to ensure that the business is sustainable can use the app to provide analyzed data information and assist business decision making that revolves around the following: cost of a single product, contribution to a variety of products, regular cost and price monitoring for various products, projections for financing and investments with annual cash flow, customer satisfaction study, cost-price-based value chain analysis, development Impact assessment, and mitigation analysis.

Integrating blockchain technology and artificial intelligence (AI) to monitor system vulnerabilities, detect fraudulent behavior more effectively, lower risks, and improve online banking's overall security using machine learning and AI is very important for cyber-security systems, and implementing appropriate laws for the betterment of society is critical in the future.



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Blockchain in Finance: Beyond Cryptocurrencies

By Sesiri Pathirane
CEO and Director
London Institute of Business and Technology

In an era where technology relentlessly reshapes our economic landscapes, blockchain emerges as a paradigm-shifting force, particularly within the financial sector.

At the London Institute of Business and Technology (LIBT), we recognize the profound impact that blockchain technology is poised to have — not just on global finance, but as a catalyst for systemic change in numerous industries.

This article explores the foundational aspects of blockchain technology, its transformative applications in finance, and the dual-edged sword it represents for development finance institutions. By delving into these topics, we aim to illuminate the pathways through which blockchain can enhance or disrupt traditional financial paradigms.

What is blockchain, and how does the financial industry use it?

Blockchain is a digital ledger technology that records transactions across multiple computers in such a way that the registered transactions cannot be altered retroactively. This technology underpins cryptocurrencies like Bitcoin and Ethereum but has broader applications across various sectors, including finance.

In the financial industry, blockchain is used for several key purposes:

- Payments and Money Transfers: Blockchain enables faster and more secure cross-border payments by minimizing the need for intermediaries, which traditionally slow down the process and increase costs.
- Clearing and Settlement Systems: By using blockchain, financial institutions can reduce the time needed for clearing and settlements from days to minutes by allowing real-time transaction data recording and verification.

- Trade Finance: Blockchain facilitates more efficient trade finance processes by automating and securing supply chain operations, providing transparent tracking of goods and verification of transactions.
- Fraud Reduction: Due to its decentralized nature, blockchain significantly lowers the chances of fraudulent activities as every transaction is recorded, verified, and visible across its network.
- Identity Management: Blockchain can securely manage digital identities in the financial sector, allowing for the secure storage and management of digital identities, crucial for KYC (Know Your Customer) and AML (Anti-Money Laundering) processes.

How does blockchain technology improve security, transparency, and efficiency in finance?

- Security: Blockchain's decentralized nature means it does not have a central point of failure and is, therefore, less susceptible to fraud and cyber attacks. Each transaction is encrypted and linked to the previous transaction.
- Transparency: Every transaction on a blockchain is visible to all participants and cannot be changed once confirmed. This transparency helps reduce misconduct and ensures compliance across the financial ecosystem.
- Efficiency: Blockchain automates and streamlines processes traditionally handled by multiple intermediaries in the financial sector. This reduction in intermediary involvement not only speeds up processes but also cuts down on costs and errors.

What are the potential benefits and challenges of using blockchain for development finance institutions (DFIs)?

Benefits:

- Increased Access to Finance: Blockchain can help DFIs extend their services to underbanked regions, using decentralized systems that reduce operational costs.
- Enhanced Aid Tracking: Blockchain provides an immutable record of where aid money goes, reducing the risk of corruption and ensuring that funds are used for their intended purposes.
- Improved Financial Inclusion: By facilitating cheaper, more accessible financial services, blockchain can play a significant role in improving financial inclusion, helping DFIs reach economically disadvantaged individuals.

Challenges:

- Regulatory Uncertainty: The lack of clear regulations regarding blockchain can be a significant hurdle for DFIs, as they need to navigate complex legal landscapes.
- Technology Adoption: Integrating blockchain into existing systems can be costly and time-consuming. There's also a need for technical expertise to manage and maintain blockchain systems.
- Scalability Issues: Blockchain technology, particularly those that use proof-of-work mechanisms, faces challenges in scaling up for widespread use without compromising performance or security.

Blockchain technology offers promising advancements in security, transparency, and efficiency for the financial industry, including DFIs. However, realizing its full potential involves overcoming significant regulatory, technological, and scalability challenges. These factors must be carefully considered by stakeholders aiming to implement blockchain solutions in their operations.

About the Author
Sesiri Pathirane is a visionary leader and the founding CEO / Director of the London Institute of Business and Technology (LIBT), an institution renowned for its innovative approach to education and commitment to excellence. With a passion for empowering individuals through education, Pathirane has played a pivotal role in shaping LIBT into a globally recognized hub for distance higher learning.

TRENDWATCHER

The Rise of Neobanks

By John Alianza
Group Head of Business Development, ADFIAP

Neobanks are digital-only banks that operate exclusively online, without traditional physical branches. They provide banking services such as savings accounts, payments, loans, and investment opportunities through mobile apps and websites.

Neobanks emerged as a response to the increasing digitalization of financial services and the growing demand for convenient, accessible, and user-friendly banking solutions.

The growth of neobanks can be described as rapid, disruptive, and transformative. Here are some key aspects that illustrate this growth:

- Global Expansion: Neobanks or digital banks, are now popping up all over the world, not just in one place but in places like Europe, North America, Asia-Pacific, and Latin America. This growth is because more people want digital banking options, and many countries have rules that help these new banks get started.

- Increased Market Share: Neobanks are gaining a big chunk of customers, especially younger and tech-savvy ones. They are popular because they are easy to use, offer good deals, and focus a lot on digital offerings, which draw people away from regular banks.

- Diverse Product Offerings: Neobanks have grown to do more than just basic banking. Now they offer savings and checking accounts, debit and credit cards, loans, ways to invest money, tools to help manage your money, and even personalized advice on how to handle your finances better.

- Innovative Technologies: Neobanks use cool new tech like AI, machine learning, blockchain, and data crunching to make things better for customers. They make things easier, give personalized advice, and keep your money safe with top-notch security.

- Partnerships and Ecosystem Integration: Neobanks frequently team up with fintechs, tech firms, and other banks to broaden their range of services and build complete financial setups. This partnership lets customers access a wide array of financial products and services all in one place.

- Regulatory Adaptation: Neobanks have tackled regulatory hurdles by partnering closely with regulators and following updated fintech rules. Several places have even set up special licenses or testing areas (sandboxes) to help digital banks grow while still following the rules and protecting customers.

- Customer-Centric Approach: Neobanks focus on making things easy for customers, with smooth sign-up processes, tailored advice, helpful support, and clear fees. This customer-first strategy has built strong loyalty and positive word-of-mouth among their users.

Digital Disruption

Neobanks' disruptive impact on traditional banking lies in their ability to leverage technology, lower costs, innovate rapidly, and deliver superior customer experiences tailored to the digital era. This challenges traditional banks to modernize their operations, improve digital offerings, and find ways to compete in an increasingly digital and customer-centric financial landscape.

Here are some of the ways neobanks have been disrupting traditional banking:

- Digital-First Approach: Neobanks operate entirely online, offering a seamless and convenient banking experience through mobile apps and websites. This contrasts with traditional banks that rely heavily on physical branches.

- Lower Fees and Competitive Rates: Neobanks often have lower operating costs due to their digital nature, allowing them to offer competitive interest rates on savings accounts and loans, as well as reduced or no fees for transactions and account maintenance. This pricing model challenges traditional banks that may have higher fees and interest rates.

- Innovative Products and Services: Neobanks introduce innovative financial products and services that cater to specific customer needs. These may include budgeting tools, automatic savings features, real-time transaction alerts, and personalized financial advice. This provides a level of customization and functionality that traditional banks may struggle to match.

- Agile and Flexible Operations: Neobanks are more agile and flexible in adapting to market trends, customer feedback, and technological advancements. They can quickly implement new features, update their apps, and respond to changing customer preferences. Traditional banks, on the other hand, may face more bureaucratic processes and legacy system constraints.

- Focus on User Experience: Neobanks prioritize user experience by offering intuitive interfaces, fast account setup processes, 24/7 customer support, and transparent fee structures. This customer-centric approach enhances satisfaction and loyalty among customers, many of whom value seamless digital interactions.

- Partnerships and Ecosystem Integration: Neobanks often collaborate with fintech companies, payment providers, and other third parties to expand their product offerings and create comprehensive financial ecosystems. This integration allows customers to access a wide range of financial services within a single platform, reducing the need to engage with multiple providers.

Two Sides of the Coin

Challenges faced by neobanks include regulatory complexities, competitive pressures, cybersecurity risks, customer acquisition costs, and operational scalability. Overcoming these challenges requires a combination of strategic planning, technological innovation, regulatory compliance, customer-centricity, and effective risk management practices.

For development finance institutions (DFIs), the rise of neobanks presents both opportunities and challenges.

Opportunities

- Financial Inclusion: DFIs can learn from neobanks' way of doing things online to use digital tools and help more people get into banking, especially those who live far away or don't have easy access to regular banks.

- Innovative Financing Solutions: Neobanks come up with new ways to lend money and use digital payments that can help with projects that are good for the environment and society. DFIs can take these ideas from neobanks and create their own ways to fund projects that help the environment and communities, like special bonds for green projects, small loans for businesses, or investments that make a positive impact.

- Efficiency and Transparency: Neobanks use digitalization and blockchain technology to make financial tasks smoother, faster, and more transparent. This can help DFIs cut costs, see transactions better, and be more accountable when funding and reporting on projects.

- Data-driven Decision Making: Neobanks use smart computer programs to study how people act with money, figure out if someone can repay a loan, and offer services that fit each person's needs. DFIs can use these same tools to make smart choices based on data, find investments that help the environment, and see how well their projects are doing.

- Partnerships and Ecosystem Development: Neobanks team up with tech companies and others to build a bigger network. DFIs can join in to work together on new ideas, learn from each other, and use their strengths to support finance that helps the environment and communities grow.

Challenges

- Regulatory Compliance: Neobanks operate in a complex regulatory environment that may vary across jurisdictions. DFIs, too, need to navigate regulatory challenges related to digital banking, data privacy, cybersecurity, and compliance with environmental and social standards.

- Risk Management: Neobanks face risks such as cyber threats, financial instability, operational disruptions, and regulatory changes. DFIs must assess these risks when considering digital banking operations, implement robust risk management practices, and ensure that sustainability considerations are integrated into risk assessment frameworks.

- Digital Divide: While neobanks can enhance financial inclusion, they also risk exacerbating the digital divide if marginalized communities lack access to digital infrastructure, connectivity, or digital literacy skills. DFIs should address these barriers to ensure that the benefits of digital finance reach all segments of society.

- Impact Measurement: The digital nature of neobanks may pose challenges in measuring the social and environmental impact of their activities. DFIs need reliable metrics, tools, and methodologies to assess the sustainability performance of neobank partnerships and investments accurately.

- Competition and Disruption: Neobanks compete with traditional banks and fintechs, potentially disrupting existing financial ecosystems. DFIs must adapt to this changing landscape, foster collaboration among DFIs, stakeholders, and leverage the strengths of neobanks to achieve sustainable development objectives effectively.

ADFIAP brought together industry experts, financial institutions, and technology partners to discuss the ADFIAP Open Finance Initiative project. The meeting was held at the headquarters of the New Rural Bank of San Leonardo in the province of Nueva Ecija in northern Philippines.

Navigating the Digital Banking Landscape with ADFIAPNET: A Development Banking Revolution

ADFIAP is actively assisting its members in navigating the digital banking landscape by introducing ADFIAPNET services. This proactive approach underscores ADFIAP's dedication to ensuring its members remain current and competitive in the swiftly evolving financial realm.

The ADFIAP Open Finance Initiative aims to revolutionize the financial services sector by leveraging open banking principles and modern technology to enhance customer experience, streamline operations, and drive innovation.
At the heart of this ambitious project is the implementation of a robust core banking system that will serve as the foundation for future digital transformation efforts.

Central to this endeavor is the concept of open finance, which entails leveraging technology and data sharing to foster greater connectivity and simplicity in banking. This collaborative approach allows member banks to partner with other members and or technology firms, enabling the delivery of improved and contemporary financial services to clients.

In a recent gathering of key stakeholders involved in the ADFIAP Open Finance Initiative project, significant strides were made towards the implementation of a cutting-edge core banking system. A demo showcasing the substantial progress made in the new ADFIAPNET core banking system fund transfer was held during the stakeholders' meeting at the headquarters of the New Rural Bank of San Leonardo in the province of Nueva Ecija. Integration with local payment gateways was also discussed, emphasizing seamless interoperability and improved accessibility of payment systems.

The roadmap for the San Leonardo project was unveiled, offering a comprehensive overview of the envisioned progress. Unveiling of the "proof of concept" of ADFIAPNET will be one of the highlights of the 47th ADFIAP Annual Meetings in Phnom Penh, Cambodia. Attendees were briefed on preparations, objectives, and expectations, with tasks assigned for a successful execution.

With the core banking system implementation at the forefront of their efforts, the ADFIAP Open Finance Initiative is poised to set new standards for the industry and deliver tangible benefits to customers and stakeholders alike.

Unlocking Sustainable Credit

Integrating ESG into Credit Scoring

By Enrique Florencio
Secretary General, ADFIAP

As climate change concerns heat up, financial institutions face mounting pressure to consider Environmental, Social, and Governance (ESG) criteria when evaluating creditworthiness. Unlike traditional credit scoring methods that often ignore long-term sustainability and environmental impacts, integrating ESG factors into credit scoring processes is essential.

Here are some of the compelling reasons:

- Risk Management: ESG factors can provide valuable insights into the long-term sustainability and resilience of the businesses or projects being financed. By incorporating ESG considerations into credit scoring, development finance institutions (DFIs) can better assess and manage potential risks related to environmental, social, and governance issues.

- Financial Performance: Companies that effectively manage ESG risks and opportunities are more likely to be financially sustainable in the long term. Integrating ESG factors into credit scoring can help DFIs identify high-performing and low-risk investments, leading to better financial performance of their portfolios.

- Regulatory Compliance: Many countries and regulatory bodies are increasingly focusing on ESG disclosure and transparency. By considering ESG factors in their credit scoring processes, DFIs can ensure compliance with evolving regulations and standards related to sustainability and responsible investing.

- Stakeholder Expectations: Investors, clients, and other stakeholders place growing importance on ESG considerations in investment decisions. DFIs that integrate ESG factors into their credit scoring processes can demonstrate their commitment to social responsibility and sustainable development, which can enhance their reputation and stakeholder relationships.

- Impact Measurement: DFIs have a mandate to promote sustainable development and social impact. By incorporating ESG factors into credit scoring, they can more effectively measure and report on the environmental and social impact of their investments, aligning their activities with their development objectives.

ADFIAP integrates ESG factors into its credit scoring models through the ADFIAP Sustainability Metrics Platform, a comprehensive digital solution tailored for ESG data management and credit scoring. Members can do self-diagnostics to assess their ESG performance against predefined criteria and benchmarks. This self-assessment helps institutions identify areas of strength and improvement in their ESG practices, providing valuable insights for credit risk evaluation. One of its key features is an AI-powered Credit Scoring System that focuses on ESG factors for bank clients.

How ESG performance impacts credit scoring

Imagine an oil and gas industry firm with a poor ESG performance record, a history of environmental violations, workplace safety issues, and weak corporate governance practices. Due to these factors, the company faces several risks that could affect its creditworthiness such as:

- Regulatory Risk: Its poor environmental record exposes it to regulatory risks such as fines, penalties, and potential legal actions. Non-compliance with environmental regulations could lead to significant financial liabilities, impacting the company's cash flow and ability to meet its debt obligations.

- Reputational Risk: Negative publicity surrounding the company's ESG practices could damage its reputation among customers, investors, and other stakeholders. This could result in a loss of business, difficulty attracting investment, and higher costs of capital.

- Operational Risk: Weak workplace safety practices increase the likelihood of accidents and disruptions to operations. This could lead to production delays, increased costs, and lower revenue, all of which could impact the company's ability to generate cash flow to service its debt.

- Transition Risk: As the world transitions to a low-carbon economy, companies in high-carbon industries like oil and gas face risks related to changing regulations, shifting consumer preferences, and technological advancements. Failure to adapt to these changes could result in stranded assets and decreased profitability.

In this example, the company's poor ESG performance increases its credit risk by exposing it to various financial, operational, and reputational risks. Lenders and investors may view the company as a higher credit risk and demand a higher interest rate or impose stricter lending terms to compensate for these risks. On the other hand, companies with strong ESG performance may enjoy lower borrowing costs, better access to capital, and enhanced long-term financial performance.

Challenges in ESG integration

Incorporating ESG considerations into credit assessments is challenging due to factors such as data availability and quality, the subjective nature of ESG factors, lack of standardization, complex analysis and integration processes, and cost implications.

Navigating regulatory requirements and stakeholder expectations further adds to this complexity. However, collaborative efforts and advancements in technology, analytics, and regulation are driving initiatives to overcome these challenges and integrate ESG effectively into credit assessments for improved risk management and sustainable finance.

The future of ESG integration in credit scoring is evolving significantly. Financial institutions recognize ESG's importance, leading to standardized frameworks and AI-driven analysis for better risk assessment. Regulatory mandates and investor demand for transparency drive ESG integration. This enhances lending decisions, reduces risks, attracts sustainable investors, and improves institutional reputation, aligning with sustainable finance goals.

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Driving Digital Transformation

By Tigran Sargsyan
Vice Chairman of the EDB Management Board Eurasian Development Bank

The history of the Eurasian Development Bank's Fund for Digital Initiatives (EDB FDI) dates back to 2020 when the digital agenda became one of the priorities of the Bank's activities. On June 30, 2020, EDB made a decision to create a special fund that would specialize in the formation of tools and practices for the digital transformation of the EDB member countries.

Main activities of the EDB FDI

The EDB FDI's activities encompass a wide range of areas ranging from the digital transformation of public services, healthcare, education, and labor market development, to ecology and tourism.

The Fund aims to support and finance the digital projects that contribute to the improvement of already existing business processes and to the creation of new ones. Another objective is to expand cooperation between the countries of the region. The programs annually approved by the FDI focus on the initiatives aimed at creating a cross-border digital infrastructure, improving international electronic document management, increasing the investment attractiveness of the region and, in general, helping accelerate the digital development of the Bank's member countries by promoting new digital projects and tools.

Project Activities of the Fund

Over the years of its operation, the Fund has implemented many important projects that were highly praised, both by the leadership of shareholder countries and the international community.

The Fund's flagship project, the COVID-19-Free Travel mobile app, made it possible to ensure the movement of citizens of the Bank's member countries (and of the majority of countries of the Eurasian region) under the conditions of the pandemic. The application gave its users the opportunity to quickly and easily receive the results of tests processed in trusted laboratories, embark on a trip, and present the test results at control points in the form of a green QR code.

The COVID-19-Free Travel became extremely popular: nine Eurasian countries formed the pool of app users. The application architecture is unique, too: it makes it possible to store personal data both in the user's phone and in the country of the user's main residence, which conforms to the national laws of the member countries. In October 2022, the application received the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) Sustainable Award in the Technology Development category for its top quality and the important role it played in overcoming the pandemic consequences.

Another initiative that was highly praised by experts was the project focusing on the development of the BEE-ONLINE.ru international digital platform that received an FDI grant. The platform was designed to help its users engaged in fashion and light industry develop and scale up their businesses. The platform is geared towards providing fashion industry with specialized services in such spheres as manufacturing, trade, design, logistics, vocational education, consulting and financial services, supplies of materials, accessories, equipment, etc. The project won in the Trade Development category at the ADFIAP Awards held at the ADFIAP Annual Meetings in May 2024.

One of the early (and most significant) FDI projects was the Work in the EAEU mobile app. The project aims to simplify the registration procedure of labor migrants and to help them search for jobs in the desired country of employment. The project provides for the digitization and optimization of processes related to labor migration of EAEU and CIS citizens to the EAEU member states. Currently available in Russia, Armenia, and Kyrgyzstan, the application grants its users access to both public and commercial services; they can apply for and receive necessary documents and use the digital services of the destination country, as well as get information about vacancies in the EAEU countries. The development and launch of the application became possible, thanks to the support of the governments of Eurasian countries.

The International Professional Development Platform, currently being developed with the FDI's grant support, also aims to improve the EAEU labour market. The Platform grants its users access to a vast range of services that enhance professional development and promote advanced international standards, technologies and skill models; additionally, it facilitates information exchange with potential partners and employers of project participants, as well as works towards the formation of individual professional journeys through the implementation of measures for skill assessment and development.

Eurasian Development Bank
Digital initiatives foundation

The ATTILAN International Digital Rehabilitation Platform project has a strong social mission and aims at improving the quality of life of people with musculoskeletal disorders. The main objectives of the project are to strengthen international cooperation initiatives in the field of rehabilitation of people with disabilities; to develop tools for organizing an industry-specific digital ecosystem; and to improve the quality of life of people suffering from musculoskeletal disorders and various diseases. At this stage, the project encompasses a collaboration of prosthetics centers, doctors, patients with upper and lower limb prostheses, and manufacturers of bionic upper and lower limb prostheses and wheelchairs with electric (microprocessor-based) drives. Therefore, by introducing innovative solutions, the Fund makes its contribution to the improvement of the quality of life and health of people residing in three countries: Russia, Kazakhstan, and Kyrgyzstan.

In addition, it would be fair to point out a number of initiatives in the sphere of digital infrastructure development and public services transformation. Thus, the Fund supports a project focusing on the creation of an Electronic Vehicle Passport System in Kyrgyzstan. The project objective is to modernize and digitalize the process of issuing electronic documents for vehicles and ensuring their compliance with the EAEU Customs Union international standards. The initiative is being implemented in partnership with the state-owned Infocom company and aims to effectively integrate the system into the unified customs territory and to improve control and accessibility of vehicle data.

The FDI also supports the Investment Committee of the Ministry of Foreign Affairs of the Republic of Kazakhstan in its initiative to create a National

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Cybersecurity in fintech app development

By Wouter De Bruycker
Co-founder & CEO
The Nest

Cybersecurity is not merely an important aspect of fintech app development, it's absolutely critical. In my experience, the financial sector is especially targeted by cybercriminals, given the value of the data involved.

The design and development phase of a fintech app must have cybersecurity as a central focus, not a sidenote. This ensures the protection of user data, maintains trust, and complies with stringent regulatory requirements.

Essentially, robust cybersecurity measures are the backbone of any successful fintech application, protecting against financial fraud and cyberattacks.

Advanced Tips for Securing Financial Applications

1. Embrace DevSecOps: Integrate security into the software development lifecycle from the start. This approach encourages collaboration between development, security, and operations teams, by implementing automated validation and testing within the development pipeline before code ends up in production.
2. Zero Trust Architecture: Implement a zero-trust security model that assumes no actor or system is trustworthy by default, regardless of their location in relation to the network perimeter.
3. Secure Coding Standards: Follow secure coding guidelines, such as OWASP's Top Ten, to mitigate common vulnerabilities. Regular code reviews and pair programming can also enhance security posture.
4. Threat Modelling: Conduct regular threat modelling sessions to identify potential security threats and vulnerabilities within your application. This proactive approach helps in prioritizing and mitigating risks before they can be exploited.
5. Rigorous Patching Process & Rapid Update Distribution: Establishing a rigorous process for applying patches and distributing updates rapidly is essential in safeguarding against vulnerabilities. A structured approach to patch management ensures that security flaws are addressed promptly, reducing the window of opportunity for attackers to exploit known issues.
6. Implement Strong Authentication and Authorization Mechanisms: Utilize multi-factor authentication (MFA) and role-based access controls to minimize the risk of unauthorized access.
7. Advanced Encryption Techniques: Utilize state-of-the-art encryption methods for data at rest and in transit. Techniques like homomorphic encryption allow for data to be processed in its encrypted form, enhancing data privacy and security.
8. Immutable Logging and Monitoring: Implement immutable logging to ensure that log data (critical for identifying and analysing attacks) cannot be altered. Combine this with real-time monitoring and anomaly detection systems to quickly identify suspicious activities.

Tools and Technologies

- Security Information and Event Management (SIEM) Systems: SIEM systems are indispensable for their real-time analysis of security alerts generated across applications and network hardware. They aggregate and correlate data from various sources, facilitating early detection of potential threats and breaches.
- Endpoint Detection and Response (EDR): EDR tools go beyond traditional endpoint protection by actively monitoring for and responding to threats. They provide comprehensive visibility into endpoint data, allowing for the detection of sophisticated attacks and enabling immediate response to incidents.
- Advanced Endpoint Protection: This technology is crucial for defending against malware and zero-day vulnerabilities through real-time threat prevention. It forms the first line of defence in a multi-layered security strategy, working in tandem with EDR to protect endpoints from various attack vectors.
- Cloud Access Security Brokers (CASBs): CASBs play a critical role in cloud security by offering enhanced visibility and control over data across cloud services. This is especially important for fintech applications that increasingly rely on cloud infrastructure, ensuring that data security and compliance policies are consistently applied.
- Intrusion Detection and Prevention (IDP) Systems: IDP systems monitor network and system activities for malicious activities or policy violations. These tools are essential for identifying and preventing attacks in real time, thereby safeguarding the integrity of financial transactions and data.
- Code Pipelines with Integrated Security Scanning: Implementing continuous integration/continuous deployment (CI/CD) pipelines that incorporate static and dynamic code analysis tools ensures that security is a continuous focus throughout the development process. These tools help identify vulnerabilities early, allowing for remediation before deployment.
- Static and Dynamic Code Scanners: These scanners are pivotal in identifying potential security issues within code bases. Static code analysis tools review code at rest to detect vulnerabilities, while dynamic code analysis tools assess running applications to identify runtime vulnerabilities, offering a comprehensive view of potential security weaknesses.
- Secure Coding Plugins for IDEs: Integrating secure coding plugins directly into developers' IDEs provides immediate feedback on security best practices and potential vulnerabilities, fostering a culture of security-aware development and enabling developers to write more secure code from the outset.
- Quantum Cryptography: On the horizon of emerging security technologies, quantum cryptography represents a significant leap forward. It promises to revolutionize data protection by making communications virtually unbreakable, leveraging the principles of quantum mechanics.
- Artificial Intelligence (AI) in Security: AI technologies are increasingly integral to fintech security strategies. They enhance threat detection and response capabilities by analysing vast datasets to identify patterns indicative of cyber threats, automating responses to known issues, and predicting potential vulnerabilities.

DFIs Leveraging Fintech Apps

In my interactions with development finance institutions (DFIs), it's clear that fintech apps offer transformative benefits. They enable DFIs to transcend traditional banking limitations, reaching underserved communities with vital financial services. Processing loans more efficiently, monitoring financial health in real-time, and facilitate cost-effective cross-border payments is representing a leap forward in achieving financial inclusion and supporting economic development.

About the Author

Wouter De Bruycker, co-founder & CEO of The Nest, a Belgium-based company supporting startups and entrepreneurs, believes in the innovative potential of ideas. The Nest acknowledges startup challenges and offers essential resources and guidance. His background in business development, finance, and leadership, including CEO roles and successful businesses, provides invaluable expertise. His commitment to connection and inspiration drives The Nest's growth and innovation. Additionally, he serves as the CEO of Infivex IT Solutions Inc., partnering with ADFIAP for its open finance initiative.

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How do you view the disruptions brought about by fintechs among microfinance institutions (MFIs)?

Ms. Jane M. Manucdoc
Executive Director
ASKI Group of Companies, Inc.

Online loan platforms are increasingly posing a threat to MFIs which are not yet ready to digitalize. Fintechs can leverage technology to reach many potential borrowers that traditional MFIs cannot reach due to geographical and operational limitations.

On a positive note, this can lead to greater financial inclusion because many people can now access loans, savings, and microinsurance at their fingertips. Unlike before, they have to visit a physical MFI office to get access to financial services.

What are the opportunities and challenges you see in MFIs collaborating with fintechs?

Opportunities:

- Expanded outreach
- Lower cost of operations, streamlined processes, and reduced admin overhead
- Improved customer experience, easy access 24/7
- Data analytics and credit scoring

Threats:

- Regulatory Challenges: Fast-paced technology may outpace existing regulatory frameworks that could potentially challenge consumer protection and data privacy.
- Risk Management: All innovations come with risks, we need to carefully study the risks associated with adopting new technologies such as cyber security threats and fraud.

What regulatory challenges do you see with the emergence of fintech?

MFIs partnering with fintechs must consider complex regulatory requirements, including those related to data privacy, consumer protection, anti-money laundering, know-your-customer rules, and cybersecurity. Compliance with these regulations is necessary to mitigate legal and reputational risks and maintain the trust of clients and stakeholders.

Among the regulatory challenges are data privacy and security risks because fintechs collect and process vast amounts of data to operate, and the risk of unauthorized access and misuse of personal information may arise. Regulators must ensure that fintech firms adhere to data protection standards implement adequate cybersecurity measures and provide transparent control over the use of customer data.

Another concern is AMLA: fintechs must be accountable to prevent anti-money laundering and other illicit activities. Customer due diligence is a must to make sure that financial transactions powered by fintech are legitimate. Regulators must ensure that fintechs adhere to AMLA regulations and implement effective risk management and controls to detect and prevent fraud/ scams while balancing regulatory compliance with innovations and financial inclusion objectives.

How can MFIs meet regulatory challenges in engaging fintechs?

MFIs should conduct thorough due diligence on potential fintech partners to assess their regulatory compliance, financial stability, reputation, and business practice. This includes evaluating the fintech's licenses and registrations and compliance history, as well as their existing partner institutions. MFIs can also ask for proof of their partnership with similar institutions, that is what we do in ASKI every time we enter into a partnership.

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Digital Investment Platform. This platform strives to improve the investment climate in the country through the creation of a unified information system that will provide comprehensive support to investment projects and investors. The integration of all key stakeholders — from government agencies to financial institutions — will simplify the processes of obtaining permits, getting financial aid and implementing projects. The platform will be an important step towards the attraction of investment into Kazakhstan's economy, thus contributing to the growth and development of the country.

The Fund is also working on other initiatives and is continuously monitoring promising digital projects that comply with the Fund's mandate. One of the tools for finding new projects is the FDI's annual Digital Project Competition. In 2024, its winners were projects in the field of ecology and education.

Expert activity of the FDI

In addition to its project activities, the Fund actively conducts expert research and data analysis. In the spring of 2024, the Fund's team published a collective monograph entitled "Digital Transformation: Eurasian and International Context." The research focuses on fundamental processes of digital transformation both in the region and in the world. The authors argue that these processes will stimulate the transition of Eurasian countries to a new technological pattern of life and thought.
FDI's activities reflect the Bank's commitment to creating a technologically advanced, sustainable and integrated Eurasian space.

Through its projects and initiatives, the Fund makes a significant contribution to the digital transformation of the Eurasian space, thus supporting sustainable development and strengthening technological ties between the member countries.

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The integration of Environmental, Social, and Governance (ESG) factors into credit scoring is a growing trend that is likely to continue evolving in the future.

Here are some ways in which the future of ESG integration in credit scoring may evolve and the potential impacts it may have on the finance sector:

- Increased Standardization: As ESG data and metrics become more standardized and reliable, we can expect to see greater integration of these factors into traditional credit scoring models. Standardization will help improve the comparability and consistency of ESG information, making it easier for lenders to incorporate these factors into their credit risk assessments.
- Advanced Analytics and Technology: The use of advanced analytics, artificial intelligence, and machine learning techniques will enable lenders to better analyze and incorporate ESG data into their credit scoring models. These technologies can help identify correlations between ESG factors and credit risk, leading to more accurate risk assessments and pricing of loans.
- Regulatory Mandates: Regulators are increasingly focusing on ESG considerations in the financial sector. We may see more regulatory mandates requiring financial institutions to disclose their ESG practices, integrate ESG factors into their risk assessments, or report on the impact of ESG risks on their portfolios. This could drive further adoption of ESG integration in credit scoring.
- Investor and Stakeholder Pressure: Investors, shareholders, and other stakeholders are placing greater emphasis on ESG performance and sustainability. Financial institutions that integrate ESG factors into their credit-scoring processes may attract more capital from socially responsible investors and demonstrate a commitment to long-term value creation.
- Risk Mitigation and Long-Term Performance: By integrating ESG factors into credit scoring, financial institutions can better assess the risks associated with their lending activities and make more informed decisions about creditworthiness. This can lead to a reduction in credit losses, improved portfolio performance, and enhanced resilience to ESG-related risks over the long term.

The potential impact of ESG integration in credit scoring on the finance sector includes:

- Improved Risk Management: By incorporating ESG factors into credit scoring, financial institutions can enhance their risk management processes and better identify and mitigate ESG-related risks in their loan portfolios.
- Enhanced Financial Performance: Companies with strong ESG performance may benefit from lower borrowing costs, improved access to capital, and enhanced long-term financial performance. This can create value for both borrowers and lenders.
- Increased Transparency and Accountability: ESG integration in credit scoring can promote greater transparency and accountability in the financial sector, as lenders are required to disclose how ESG factors are considered in their risk assessments.

Overall, the future of ESG integration in credit scoring holds the potential to drive positive change in the finance sector by promoting sustainability, responsible investing, and improved risk management practices.