

EBRD position paper

Consultation on a new digital finance strategy for Europe/FinTech Action Plan

June 2020

Financial services in the era of digital transition

The digital transition and fourth industrial revolution is changing the structures of economies and labour markets in profound ways. Digitalisation was already a major trend pre-Covid-19, affecting the future of work and indeed all sectors in which the European Bank for Reconstruction and Development (EBRD or the Bank) operates. No doubt, there will now be an acceleration of this trend. There is no sector untouched by these technology disruptions, albeit with different levels of intensity, opportunity and risks. Technology – especially digital technology – is opening opportunities to drive competitiveness, inclusion, green growth, integration and resilience. At the same time, technology is also disrupting the way sectors, businesses and consumers function and interact.

The financial sector is not an exception. Digital Finance - or FinTech (i.e. Financial Technology) - has been transformed from a buzzword to a true power of change in the financial sector, by affecting how customers interact with their banks to positively contribute to financial inclusion and enabling access to finance for businesses. The EBRD is fully committed to support the countries where it operates in leveraging the benefits of digital transition, including reaching their full potential in the digital finance sphere by supporting the creation of an efficient, safe ecosystem for digital finance through a combination of transactions, investments, legal reforms and policy engagement. Now more than ever, the COVID-19 pandemic and its economic consequences render it necessary to accelerate the pace of engagement of all stakeholders and step up the actions in digital finance. This is particularly important in order to prevent the creation of a digital divide within and between the countries and their societies.

EBRD engagement in Digital Finance

Since 1991, the EBRD is investing in changing people's lives from Central Europe to Central Asia, the Western Balkans and the Southern and Eastern Mediterranean region. The Bank is owned by 69 countries as well as the EU and the EIB. We have invested over €125 billion in more than 5,100 projects since our inception. With an emphasis on working with the private sector, we invest in projects, engage in policy dialogue and provide technical advice, which fosters innovation and builds modern economies that are competitive, well-governed, green, inclusive, resilient and integrated.

Within this frame and acknowledging the importance of digital transition, the Bank already leverages digital technologies effectively across many activities, including with a progressive ICT Sector Strategy. The EBRD is a leader among Multilateral Development Banks (MDBs) in adopting and applying technology-enabled infrastructure; and the Bank is supporting the G20 in establishing an agenda to accelerate InfraTech. The aim is to realise significant economic, social and environmental value and to advance many aspects of the G20 Quality Infrastructure Investment Principles.

In digital finance, EBRD's approach to working is as dynamic and rapidly changing, as the sector itself. In fact, we believe that the speed of technological change and the range of new entrants to the

financial sector marks a new era in banking and finance and opens up many opportunities in the economies, where the EBRD invests.

The EBRD is highly engaged in building relevant ecosystems by providing technical assistance, including on the legal and regulatory level. We are active in the fields of innovation facilitators (such as regulatory sandboxes), accelerators, crowdfunding and others, while the EBRD is an observer in the Global Financial Innovation Network (GFIN) and we have an active dialogue on digital finance matters with the European Commission, the European Banking Authority (EBA), European Commission's International Association for Trusted Blockchain Applications (INATBA), market participants pioneering in Fintech and other stakeholders.

In parallel, financial investment and development projects with a clear transition impact are at the heart of what we do. EBRD is supporting the development of the venture capital (VC) asset class, including in the Central and Eastern European region, through direct investments in early stage technology companies via the Venture Capital Investment Programme (VCIP) and through investing as a Limited Partner (LP) in VC funds. In parallel, the Bank's Star Venture programme provides advisory and other support to incubators and accelerators in several countries, with the aim of allowing some of their start-ups to raise additional funding from investors and advance with the development of their technology-driven products and services.

Case study - Poland

FinTech was identified in the [EBRD's Capital Market Development Strategy for Poland](#) (a project conducted by the EBRD's Local Currency and Local Capital Markets Development (LC2) team with the Ministry of Finance and with the support of the European Commission- DG REFORM-) as one of the strategic sectors with the potential of becoming a driving force for the Polish economy. As a result of this, we are currently working with the Ministry of Finance in Poland and the European Commission to conduct a Feasibility Study that will assess the viability of innovative technological solutions in the Polish Financial Market. This will culminate in a FinTech Roadmap that will identify the tools, legal changes and supervisory solutions needed to create space for the long-term development of the financial market in Poland. We are simultaneously working with the regulator in Poland with a view to establishing a regulatory sandbox there.

As part of another project implemented by the EBRD's Legal Transition Programme, with the support of European Commission - DG REFORM we are assisting the Ministry of Digital Affairs of Poland to identify areas where blockchain technology could be deployed. In addition to public sector areas such as healthcare and digital identity, we have also identified tokenisation in the financial sector as another area with transformative potential for the financial institutions in the country, aiding financial stability, increasing transparency but also regulatory reporting and oversight.

EBRD Focus on Delivery:

The EBRD, given its unique mandate, as a trusted and long-standing partner to the European Union, brings the following strengths. First, our **strong presence on the ground** and deep knowledge of the countries where we operate, many of which are European Member-States. Our local presence is of fundamental importance on being able to take targeted action quickly. Secondly, through our unique experience in supporting the **private sector**, we have well established networks, which enable us to remain informed of new developments in the digital finance sphere, not only from incumbent firms, but also from new innovative market players; and thirdly our approach of combining investment with **policy dialogue**, including through our well established cooperation with the European Commission. This is how we ensure that priorities, such as the EBRD's Local Currency and Local Capital Markets Development (LC2) initiative, which is fully aligned with the Capital Markets Union (CMU) Action Plan remain high on the agenda.

Examples of EBRD support in the field of digital finance:

- **Regulatory Sandboxes as Innovation Facilitators (2018-today):** The EBRD, with the support of the European Commission's DG REFORM, is cooperating with national competent authorities in Estonia, Greece and Poland to establish regulatory sandboxes, as to open up innovative solutions in the sphere of financial services to the public. Regulatory sandboxes are schemes to enable firms to test, pursuant to a strict specific testing plan agreed and monitored by the competent authority, innovative financial products and financial services. They allow financial services regulators to be better equipped to advise and supervise new innovative products. Simultaneously, they allow FinTech firms to have a closer relationship with the regulator enabling open dialogue to meet rules and regulations at a faster rate, and at lower cost, always under the light of proportionality.
- **Accelerator development and FinTech support programme (2020-today):** The EBRD, with the support of its partnership network, launched in 2020 a FinTech program with geographic focus on the Baltics, Central and Eastern Europe, the Caucasus and Turkey. The program aims to contribute to the creation of a pre-venture capital Financial Technology (FinTech) ecosystem by providing support to FinTech start-ups via selected accelerators. You may find more on the programme [here](#).

Partnerships:

As a **multilateral bank** with a European heart, we coordinate our work at all levels to ensure maximum impact. In line with our approach and *modus operandi*, we are working in the field of digital finance in partnership with our shareholders, including the EU, G7 and G20.

With the **European Union and its Member States**, our long-standing partner, largest shareholder and donor, we are fully engaged in digital finance. The EU is in a unique position to play a leadership role and to demonstrate the power of collective action.

EBRD's proposals for joint delivery

In order to enable digital finance to flourish, there is a need for coordination among all stakeholders.

In the EBRD's view, the following principles shall apply:

- All actors should **focus on their strengths**. For the EBRD, this includes direct private sector relationships, local presence and capacity, readily available capital and our ability to combine financing with policy engagement and capacity building.
- **Simplicity** is key – for our cooperation but especially for our clients and final beneficiaries. We should keep our coordination lean and support partners by acting in unison.
- Focus on **existing platforms, facilities and instruments**. Scaling up existing structures or, where needed, create new arrangements with accelerated procedures and in-built flexibility.
- Instruments and procedures should be as **flexible** as possible to adjust to the new reality and rapidly changing market conditions.
- **Policy engagement** and rapid dissemination of best practice will be extremely valuable.

In addition to our response to the Digital Finance Consultation, according to the EBRD, the following concrete actions could have a direct positive effect in opening up innovative solutions in finance:

- Continue the collaboration between the EBRD and the European Commission, through the Directorate-General for Structural Reform Support (DG REFORM), for the design, implementation and funding of technical assistance in the sphere of digital finance.
- Maintain and enhance the open dialogue between the EBRD and the European Commission, through the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) and the Directorate-General for Communications Networks, Content and Technology (DG CONNECT) in the fields of policy-making in digital finance.
- Collaborate under the Research, Innovation & Digitalisation window under InvestEU and identify common opportunities to leverage under this.