

OPERATIONALISING THE UNIVERSAL TRUSTED CREDENTIALS

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CONTRIBUTOR

Francesca Puricelli

Sustainable Finance Specialist with
UNDP's Singapore Global Centre

Content

Executive summary	3
Introduction	4
<hr/>	
Key insights and lessons learned	
Perspectives of regulators	5
Perspectives of commercial financial institutions	6
Perspectives of tech partners	7
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Conclusion	7
About the author	7



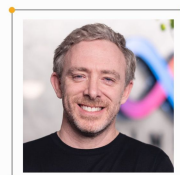
Operationalising the Universal Trusted Credentials - lessons learned, challenges



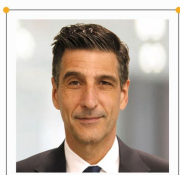
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Head of Public Policy,
Payments & Financial
Services
Amazon



Caroline Wehrle
Senior Policy Advisor
Sustainable Finance
State Secretariat for
International Finance (SIF)



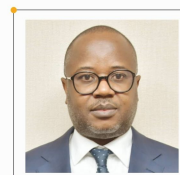
Dominic Williams
Founder & Chief Scientist
DFINITY Foundation



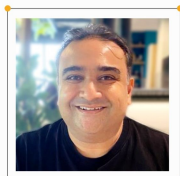
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Deputy Chief
Executive Officer
Sathapana Bank



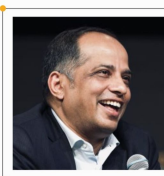
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Marques Sevillano**
Director Financial Innovation
and Market Infrastructures.
Bank of Spain



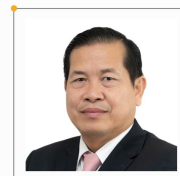
**Dr Maxwell
Opoku-Afari**
First Deputy Governor
Bank of Ghana



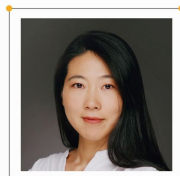
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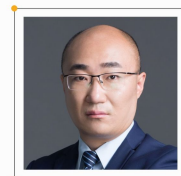
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Chief FinTech Officer,
Monetary Authority of
Singapore & Chair of the
Board of Directors, Elevandi



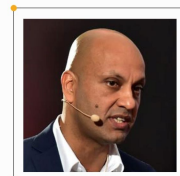
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National Bank of Cambodia



Xue Tan
Head of Business
Development, Asia
Global Legal Entity Identifier
Foundation (GLEIF)



Yan Meng
Chief Executive Officer
Ample Fintech



AIAZE MITHA
Global Lead, Digital Finance
and SDGs
United Nations Development
Programme (UNDP)

Executive summary

Universal Trusted Credentials (UTC) present significant growth potential for MSMEs, particularly in emerging economies, where financing gaps due to collateral issues and high interest rates are prevalent. Already, the initiative has facilitated loan disbursements and training for thousands of MSMEs in target countries, and broader collaboration with more banks complementing national governments leadership can enhance its impact.

This insight was highlighted by participants at a recent roundtable held during the Point Zero Forum 2024, organised by the United Nations Development Programme (UNDP) and the Monetary Authority of Singapore (MAS). The roundtable gathered diverse stakeholders to explore potential roll-out of the initiative across various regions together with the related benefits and challenges, after a year of implementation experience.

The discussion underscored the economic benefits of the UTC, particularly in enhancing financial inclusion and supporting MSMEs' growth and formalisation. Challenges such as informality among businesses and the difficulty of uncollateralised loans were noted, with UTC seen as a solution to discover businesses, leverage financial inclusion tools, and create efficiencies through connectivity.

Discussants identified having the trust of banks as a crucial factor of success, alongside the need for a ready infrastructure and ecosystem with clear utility value for all stakeholders. The integration of fintech in cross-border trade and the need for scaling the initiative were considered essential for broader impact. The need for a

tamper-proof, resilient, and decentralised system to ensure security and international success was stressed, along with the necessity of addressing both economic and technological challenges through public-private partnerships. Lastly, effective governance and international recognition were identified as key to expanding the geographical scope and attracting international banks.

Overall, the roundtable highlighted the importance of leadership, trust, collaboration, technological integration, and security in the successful implementation and expansion of the UTC initiative. Continued dialogue and cooperation among all stakeholders will be essential to realise the full potential of Universal Trusted Credentials on a global scale.

Introduction

The Universal Trusted Credentials (UTC) initiative, launched by the United Nations Development Programme (UNDP) and the Monetary Authority of Singapore (MAS), represents a pioneering effort to enhance financial inclusion and streamline cross-border transactions for micro, small, and medium-sized enterprises (MSMEs) through the use of digital credentials. The initiative was officially introduced at the Singapore FinTech Festival in November 2023, [with the publication of a comprehensive white paper](#) detailing its framework, objectives, and potential impact on global financial ecosystems.

The objective of the initiative is to establish a scalable approach to building data-driven characterisation of MSME creditworthiness and business footprint in the form of an individual data profile called Universal Trusted Credential (UTC). The aim is to promote a local and global environment where financial institutions can determine and deem the "intent to pay" and the "ability to pay" - as derived from the UTC - as acceptable metrics for credit evaluation, rather than emphasising collateral.

The UTC improves entire digital finance ecosystems by driving market consensus for and access to relevant, verified, and trusted MSME data, incentivising innovative credit evaluation processes that enable financial institutions to better serve the business needs of MSMEs. It increases the operational efficiency across the ecosystem by instilling trust and transparency, enables Financial Service Providers (FSPs) to evaluate MSMEs more accurately with reduced case management and costs, and help MSMEs receive faster, wider, and cheaper financing, including cross-border.

A first dialogue on the UTC was held at the Singapore FinTech Festival in November 2023, where initial feedback and insights were gathered from various stakeholders, including central banks, private banks, fintechs, and international organisations. The roundtable on 3 July at the Point Zero Forum was a platform for old and new stakeholders to reflect on the progress made by the initiative, after a full year of UTC implementation experience. This dialogue aimed to assess the progress made to date, share experiences by implementing banks, and discuss the benefits and challenges encountered by different regions and actors. By bringing together a diverse group of stakeholders, the roundtable sought to foster collaboration and identify strategies to enhance the effectiveness and reach of the UTC initiative.

Key insights and lessons learned

The roundtable highlighted the substantial economic benefits of the UTC, especially in promoting financial inclusion and aiding the growth and formalisation of MSMEs. It was acknowledged that challenges such as business informality and the difficulty of obtaining uncollateralised loans persist, but the UTC was seen as a promising solution.

By leveraging financial inclusion tools and enhancing connectivity, the UTC can identify businesses and create efficiencies. The role of banks was emphasised, with their trust being essential for the success of the initiative. Additionally, the importance of a ready infrastructure and ecosystem with clear utility value for all stakeholders was underscored.

The discussion also touched on the integration of fintech in cross-border trade and the necessity of scaling the initiative for a broader impact. Addressing both economic and technological challenges through public-private partnerships was highlighted as vital, and effective governance and international recognition were identified as key to expanding the geographical scope and attracting international banks.

Overall, the conversation underscored the need for a collaborative approach to maximise the benefits of UTC and ensure its successful implementation. Let us examine the detailed insights that emerged from the conversation, specifically by exploring the viewpoint of each UTC ecosystem player: central banks, private banks, and tech partners.

Perspectives of regulators

Central banks involved in the project and who have started the implementation of the UTC domestically aligned on the growth potential for MSMEs catalysed by the UTC. In these countries, according to the World Bank's data on average MSMEs represent more than 90% of all firms and 70% of the workforce and 50% of their domestic GDP, however they are still facing a significant financing gap, primarily due to issues with collateral and high interest rates.

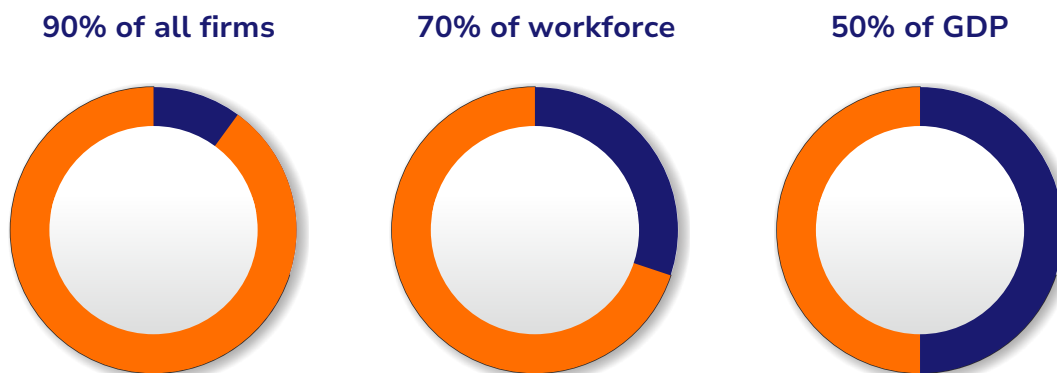


Figure 1. MSMEs key figures in emerging economies (averages)

Since its launch, the UTC initiative has helped to enhance financial inclusion and supported the growth of MSMEs, as well as to build ecosystems where the UTC roll-out can thrive. For example, after a year of implementing the UTC initiative, the Bank of Ghana observed significant growth potential within MSMEs, where the UTC facilitated easier access to credit by eliminating the need for collateral and reducing fraud risks. A notable outcome was the disbursement of half a million USD in loans and training and certification of over 4,000 MSMEs in financial literacy modules. In Cambodia, the initiative led to the establishment of a Working Group chaired by the National Bank of Cambodia, aimed at guiding and supervising the UTC implementation domestically; the group engages as members government agencies and ministries, as well as private sector partners, thus creating a diverse ecosystem, which is proving foundational for the initiative success.

Two main remarks regarding the success of the UTC implementation were made: first, establishing trust between stakeholders was mentioned as crucial for UTC's success. And the central banks' leadership and commitment are considered essential in signalling the importance of the UTC for the whole ecosystem. Secondly, greater collaboration with more (private) banks would enhance the initiative's reach and effectiveness. As a speaker shared, banks play a pivotal role in the financial ecosystem and their involvement is critical, emphasising the necessity to gain their trust for the success of the UTC initiative.

And this resonates with how we at UNDP describe this initiative as “building global consensus around a data-driven, digitally enabled, characterisation of MSME creditworthiness and business trust”, where the emphasis is on building trust between MSMEs and financial institutions.

In terms of next steps for the UTC's successful global expansion, speakers shared that an effective governance mechanism is required to establish a framework criteria and expand the geographical scope of use cases. Once recognised by a few jurisdictions, international banks will be more likely to adopt the UTC.

Perspectives of commercial financial institutions

In emerging economies, where MSMEs are often predominantly informal, making uncollateralised loans is challenging for banks – which are not risk-lovers: the UTC thus has the potential for overcoming informality and tap into this underserved or unserved market segment.

In this context, the benefits of the UTC are multifold. The UTC can translate into a directory to discover businesses (especially those that were previously 'unseen' due to their informal status). Moreover, the UTC initiative can leverage financial inclusion tools such as financial literacy, which can catalyse access to finance as well as contribute to virtuous cycles leading to business formalisation.

The UTC can 'federate the ecosystem', creating efficiencies through connectivity. It is also seen as a solution to overcoming the technological divide: technology has been more of a divider than an equaliser in many contexts, but the UTC, backed by development banks, is overcoming this challenge. It removes the friction of having to integrate too many different systems, and resonates well with both bank clients and credit staff.

Perspectives of tech partners

Another key enabler of UTC is a ready data infrastructure and ecosystem.

The strength of the UTC as a connector is evident. Because of this, security and decentralisation were highlighted as key features when working on developing UTC platforms. The UTC system must be tamper-proof, resilient, and 'unstoppable' to ensure security. To be successful on an international level, the UTC needs to be open and decentralised.

Participants also voiced the need for a public-private collaborative approach, as financial inclusion challenges are not just about lack of technology, but are also an economic model issue; while the tech can enable positive change, the economic model needs to be addressed in a customer-centric manner.

Lastly, the tech component of the UTC has the potential to go beyond enhancing access to finance for MSMEs, but also to improve their environmental sustainability by leveraging the UTC data. For example, utility bills used within the UTC framework can provide valuable data for environmental initiatives, and enhancing MSMEs integration into global supply chains.

Conclusion

In conclusion, the roundtable discussion marked a significant milestone in its journey towards enhancing financial inclusion and empowering MSMEs across the globe. The dialogue, enriched by the diverse perspectives of stakeholders from regulatory bodies, commercial financial institutions, and technology partners, highlighted both the achievements and the ongoing challenges faced during the first year of the initiative's implementation.

The UTC initiative stands at the intersection of technology, finance, and sustainable development. The roundtable discussion underscored the importance of continuous dialogue and collaboration among all stakeholders to maximise the benefits of the UTC. As the initiative progresses, the focus must remain on building trust, enhancing technological integration, and fostering an inclusive and sustainable financial ecosystem. The insights gained from this roundtable will serve as a guiding framework for the next phases of the UTC, ensuring that it not only meets its initial objectives but also adapts and evolves to meet the dynamic needs of MSMEs globally.



Francesca Puricelli
*Sustainable Finance
Specialist with UNDP's
Singapore Global Centre*

Sustainable development professional with a strong background in project management and consulting for not-for-profit organizations and intergovernmental agencies. I specialize in qualitative research, diversity and inclusion, and fostering multi-stakeholder partnerships.

Currently, I serve as a Sustainable Finance Analyst at UNDP's Global Center in Singapore, focusing on financial inclusion for MSMEs. Prior to this, I worked with an impact investment fund, investing in early-stage companies across Myanmar, Cambodia, Pakistan, and India.

I am also a writer on topics related to financial inclusion and sustainability for SMEs

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