

ADB Regional Workshop on FinTech Development in the CAREC Region

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Financial Technology for Regional Cooperation in Central Asia Regional Economic Cooperation Countries: The People's Republic of China





People's Republic of China

- Introduction
 - Fintech overview in the People's Republic of China (PRC)
- Fintech indicator system
 - Institutional arrangement and regulatory frameworks
- PRC's Fintech development in CAREC region
- Globalization of PRC's Fintech companies
- Legal issues and further consideration
- Crowdfunding assessment





INTRODUCTION

	PRC
Population	1.4 billion
Population density	145 persons per km ² / (83 rd)
Urban population	65%
Capital city	Beijing

Industry	32.6%
Wholesale	9.7%
Financial intermediation	8%
Agriculture	7.6%
Construction	7%
Real estate	6.8%
Transport, Storage and Post	4.1%
Information transmission software and IT service	3.8%
Leasing and bus services	3.1%
Hotels & Catering service	1.6%
Others	15.8%





FINTECH OVERVIEW

Population	Cellular Mobile Connections	Internet Users	Active Social Media Users
1.45 billion	1.63 billion	1.02 billion	983.3 million
+0.3%	+1.8%	3.6%	5.6%
63.4 (urbanization)	112.6% out of population	70.9% out of population	68% out of population

Source: www.datareportal.com , Feb, 2022

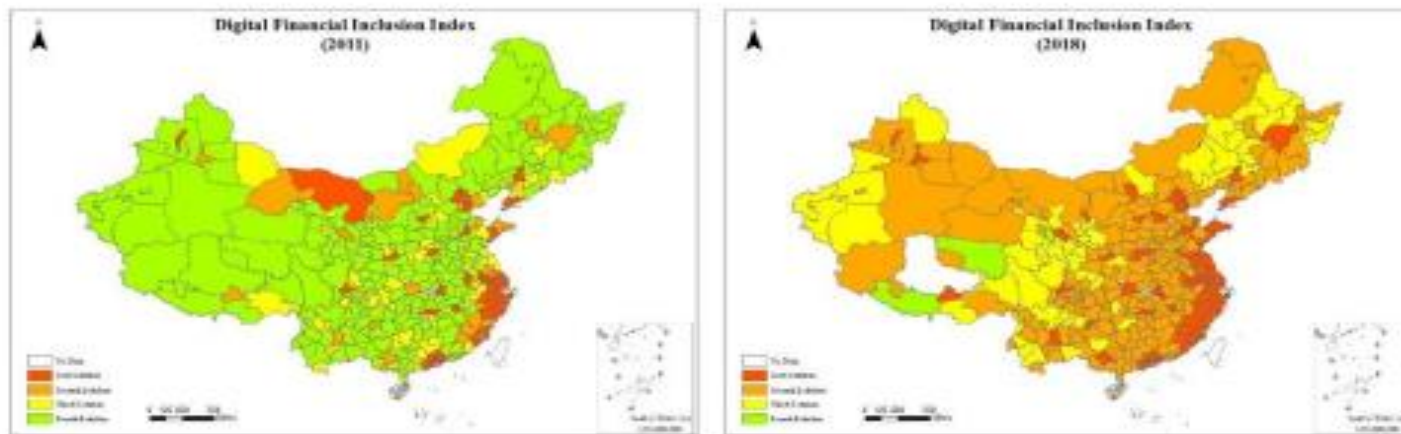
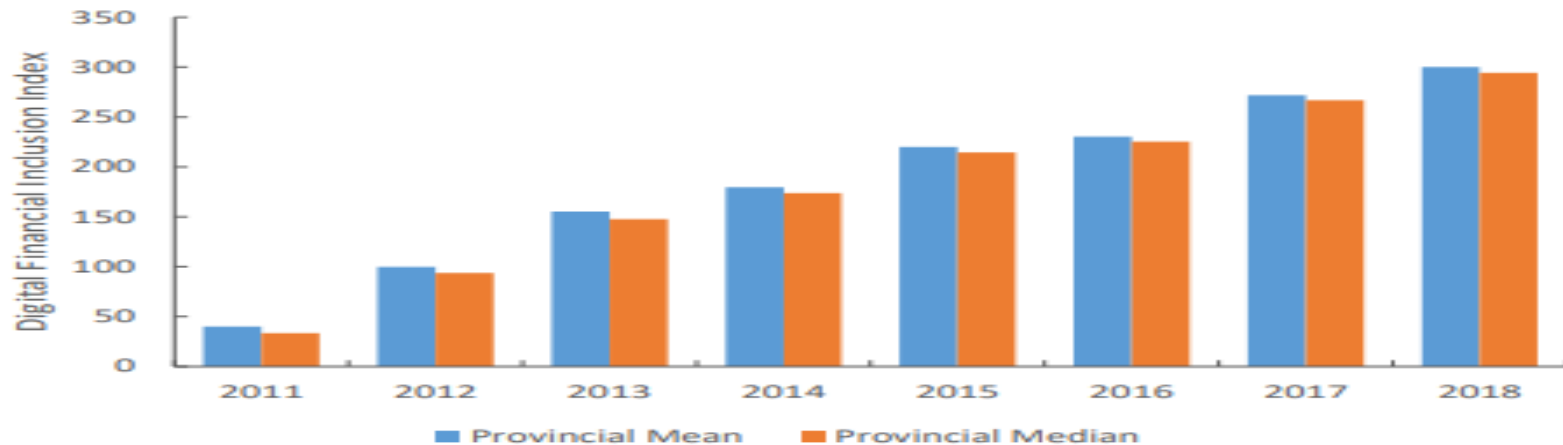
Commonly used fintech products:

- payment, clearing, and settlement
- deposits, lending, and financing
- investment management
- underlying technical services

	2013	2018
Alipay	100 million	900 million
We chat	350 million	1.1 billion
Provincial median index	33.6%	294.3%
Official financial sector	12.8 trillion Yuan	19.3 trillion Yuan



Convergence of regional finetch development in China, 2011 and 2018



Note: Each year, municipalities are divided into four tiers according to levels of development in that year: tier 1 (red, most advanced), tier 2 (orange), tier 3 (yellow) and tier 4 (green, least developed).



Major institutions:

- People's Bank of China (PBC)
- China Banking and Insurance Regulatory Commission (CBIRC)
- China Securities Regulatory Commission (CSRC).
- local financial regulatory bureaus (LFRB)

Major macro policies:

- *The Internet Finance Development Opinions.*
- *The 13th Five Year Development Plan for Information Technology in Chinese Financial Industry*
- *Fintech Development plan 2022-2025*



Major regulations in subdivided fields:

- Opinions of the state council on promoting the innovative Development of Cloud Computing and Cultivating New Business Forms of the Information Industry issued by State Council in January 2015
- Guiding opinions of the state council on Vigorously advancing internet plus action issued by the State Council in 2015
- Notice of the State council on issuing the Action outline for Promoting Development of Big Data
- Notice of the State council on issuing the Development Plan new generation of Artificial Intelligence.
- Interim Measures for the Administration of the internet loans of commercial banks in July 2020.
- Administrative Measures for the Payment Services provided by non-financial institutions in June 2010.
- Regulations on non-banking payment institutions.
- Interim Measures for the Administration of the Business Activities of Online lending information intermediary institutions in 2016
- Administrative Measures for online Micro credit Business in 2020
- Cybersecurity Law of the People's Republic of China in 2016



In April 2020, four Chinese government departments led by the PBC issued opinions on financial support for the construction of the Guangdong-Hongkong-Macao greater Bay Area in which mechanism to study and establish a cross-border financial innovation regulatory sandbox proposed, and it is also the first time that the concept of sandbox regulation has been directly stated in the Chinese financial regulatory rules.

Main factors for China's Fintech Development:

- Unregulated
- Government investment
- Supply shortfalls in formal sector
- Strong demand /SME and low and middle income families in rural area
- Economics of scale





China Fintech development in CAREC

Internet Infrastructure, access, and usage

Country	Internet Users, 2019 (million)	Internet Penetration, 2019 (% of population)	Households with Internet Access, 2018 (% of households)	Households with a Computer, 2018 (% of households)	Mobile Connections, 2019 (million)
Azerbaijan	8.05	80	78	64.10	11.29
PRC	854.50	59	60	55.00	1,610.00
Georgia	2.70	68	70	62.11	5.57
Kazakhstan	14.73	79	88	78.50	25.45
Kyrgyz Republic	3.06	47	21	23.29	9.73
Mongolia	2.20	68	23	36.45	4.42
Pakistan	76.38	35	22	16.15	164.90
Tajikistan	2.42	26	12	14.83	10.04
Turkmenistan	1.56	26	11	10.73	4.79
Uzbekistan	18.34	55	80	38.50	25.14
CAREC-10a	137.09	50	41	35.00	288.25
All CAREC countries	991.59	51	43	37.00	1,898.25
World	4,540.00	59	55	47.10	7,950.00

China Fintech development in CAREC

Electronic Payment Capacity and Use, 2017

Country	Share of Respondents Who					
	Own a Debit Card	Own a Credit Card	Used a Debit or Credit Card to Make a Purchase	Used the Internet to Pay Bills or Purchase Online	Made or Received Digital Payments	Used Mobile Phone or Internet to Access Account
Azerbaijan	24.6	5.3	7.4	9.4	24.6	2.0
PRC	66.8	20.8	41.9	48.8	67.9	39.8
Georgia	39.9	14.6	18.5	13.5	53.0	9.4
Kazakhstan	39.7	20.0	25.5	24.3	53.9	18.2
Kyrgyz Republic	19.3	3.6	6.7	5.0	36.1	5.8
Mongolia	75.7	3.2	60.8	17.1	85.3	38.4
Pakistan	8.3	1.0		8.0	17.7	7.6
Tajikistan	15.9	5.7	10.8	12.8	43.9	8.3
Turkmenistan	37.9		5.6	2.0	34.3	2.2
Uzbekistan	24.1	0.6	25.0	7.1	34.2	6.7
CAREC-10a	28.8	6.1	20.0	10.0	39.4	10.0
All CAREC countries	32.3	7.6	22.5	13.5	42.0	12.7
World	47.7	18.4	32.6	29.0	52.3	24.9

- Ant and Tencent's primary motivations and strategies for fintech globalization
 - Chinese and international digital payment network or e-wallets.
 - Support and invest in current and future fintech leaders around the world.
- Alibaba's focus has been on investing larger sums or controlling stakes in a relatively small select number of firms in the fintech, e-commerce and supply chain sector,
- Tencent invest smaller individual stakes in a wider range of companies including: online media, content creation and gaming.
- Chinese officials are moving away from infrastructure-heavy lending and development to focus on health (i.e. Health Silk Road), green technology (Green Silk Road), and consumer and digital services (Digital Silk Road), raising the profiles of these offshoots formed over the past few years.
- Launched in 2016, the Digital Silk Road serves to leverage the innovations and capital of China's private and state-owned tech firms.
- China's technology development model has already set a precedent, especially for emerging market economies across Asia, Latin America and Africa.

Legal issues:

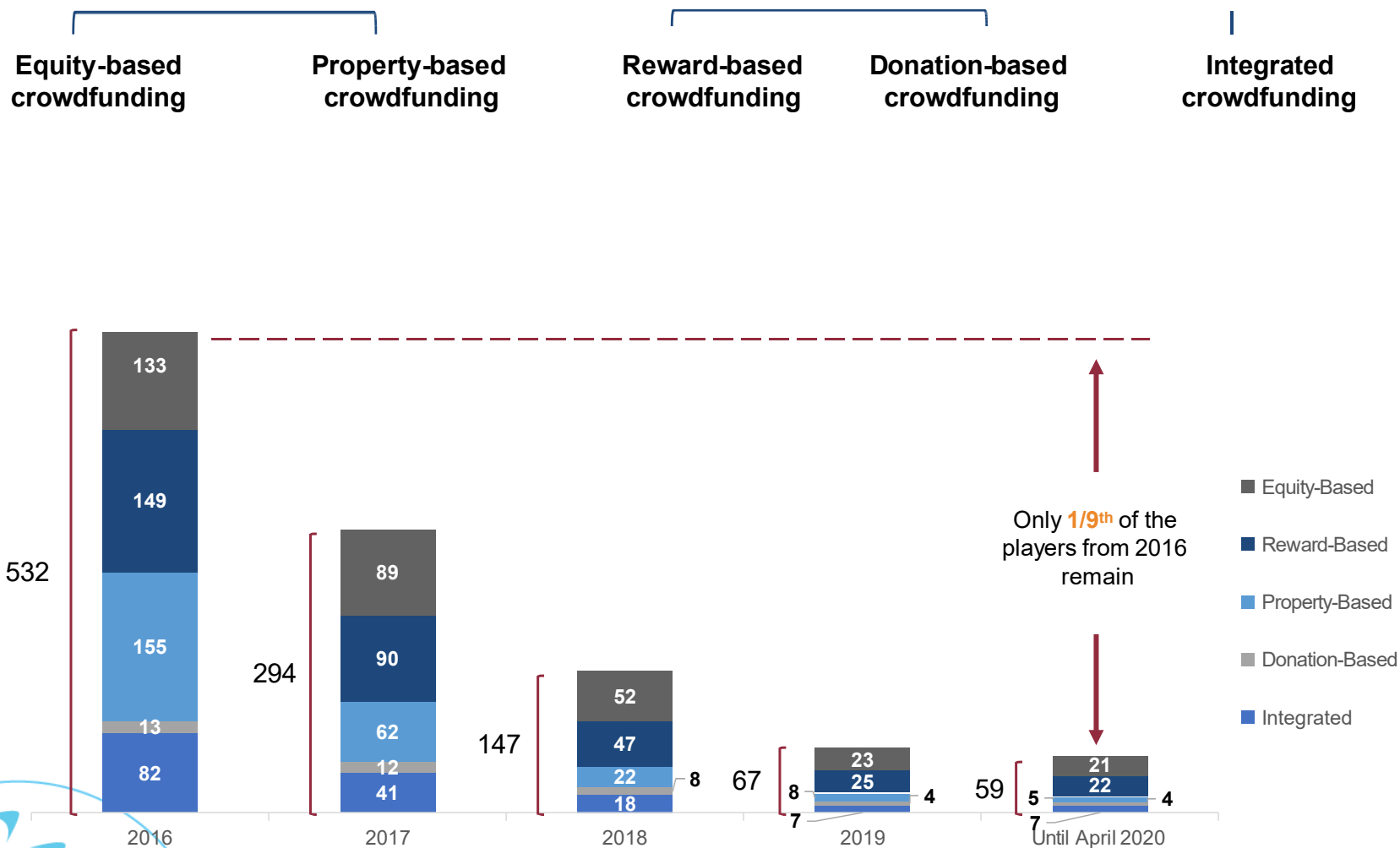
- Legal uncertainties
- Legal transactions
- Abuse of data

The current system needs to be reorganized to manage financial stability in the modern digital world:

- the regulating structure needs to be changed from an organization-oriented to a function-focused.
- regulation framework should be developed based on universal banking model which is relied on evidence and reality.
- regulators need to use innovative policy tools to monitor and manage financial risk
- Support for innovation and fair competitiveness
- Strengthen consumer protection

CROWDFUNDING READINESS ASSESSMENT AND COMPARISON BETWEEN CHINA, GEORGIA, AND MONGOLIA

Crowdfunding categories in China



Source: Qianzhan industry consulting, Zhongchoujia crowdfunding info center designed by Daxue consulting

Financial platform scandals stimulated government's supervision

Measures for the Administration of Public Fundraising Platform Services, Basic Technical and Managerial Specifications of Online Fundraising Platform for Charitable Organizations were published, and these policies **regulated the donation-based crowdfunding activities.**

P2P platforms were failing to pay investors' dividends and interests, resulting in a large number of closures and liquidations causing billions of yuan in loss to over a million investors. Since then, the government started to **suspend all debt-based crowdfunding businesses** in China and strengthened the supervision of all types of online financial programs.

2016

02



2018

04



01



2014

Guidelines for the Management of Private Equity Crowdfunding was published, and it **normalized the performance of the equity-based crowdfunding platforms.**

03



2017

Many equity-based crowdfunding platforms closed down, include 36kr, an equity-based crowdfunding platform hosted by a leading technology media. Since then, the government **enhanced the supervision** and all the equity-based platforms transformed to **online private equity platforms.**

Source: Peking University, Lantai law firm designed by Daxue consulting

There are less regulations on reward-based crowdfunding

There are no specific laws for reward-based crowdfunding, which falls under the application range of Contract Law and Administrative Measures for Online Trading.

For IP derivatives, Intellectual Property Law regulates that investors should invest in the usage of IP rather than the IP itself because all the revenue shall be made based on usage

Policies standardize equity-based crowdfunding platforms

Must have at least 5 million CNY registered capital in China and two or more senior managers with 3 or more years of working experience in finance or information technology

Any individual or company can not launch any equity-based crowdfunding activity without the permission of China Securities Regulatory Commission

Number of investors for each program should be less than 200 and public advertisement is not allowed

Not allowed to provide external guarantee* or equity entrustment** for crowdfunding projects or provide services for the transfer of equity or other forms of securities

Prohibited to concurrently engaged in P2P lending or online microfinance business.

Not allowed to finance themselves or related parties

The legal definition of donation-based crowdfunding activities is uncertain

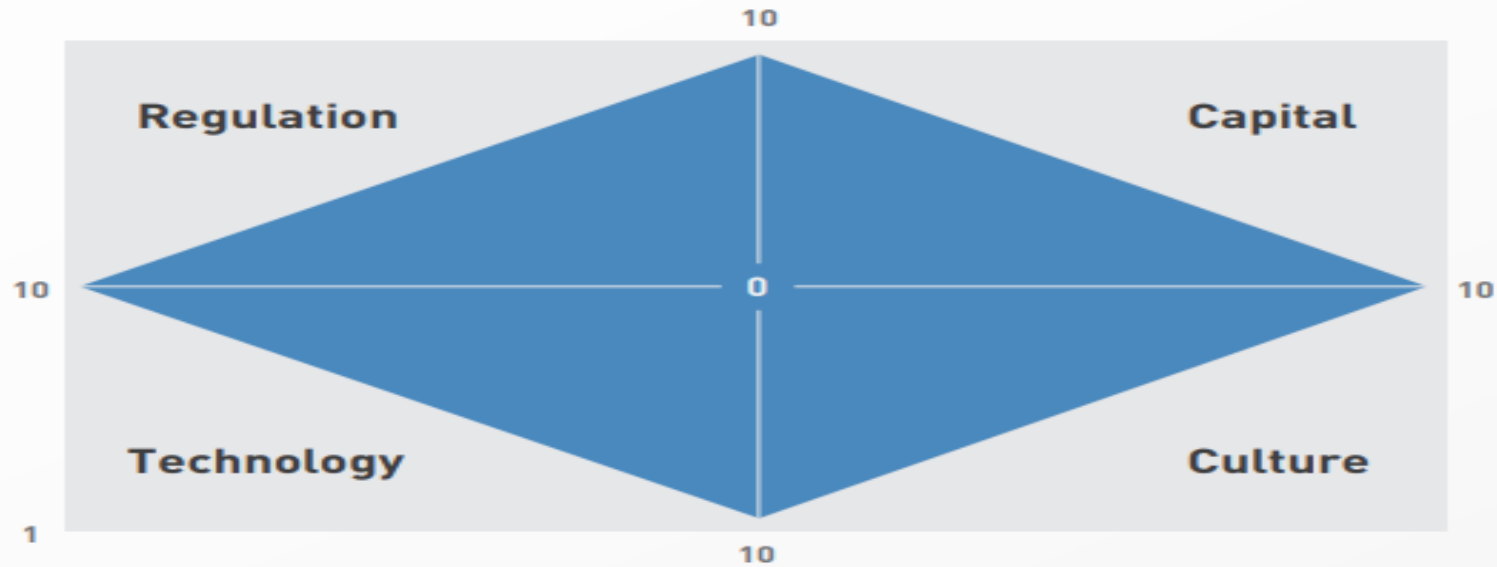
Policies for the Administration of Public Fundraising Platform Services and China's Basic Technical Specifications for Charitable Organizations' Internet Public Fundraising Information Platforms specify that individuals are not allowed to publicly raise charity funds online.

According to Basic Technical Specifications of Online Fundraising Platform for Charitable Organizations and Basic Managerial Specifications of Online Fundraising Platform for Charitable Organizations, personal help and online mutual assistance are not charity fundraising, and the information provider is responsible for authenticity

Since donation-based crowdfunding does not belong to charity fundraising, it doesn't not fall under the constraint of Charity Law, and beneficiaries do not have the obligation to guarantee the transparency of the fund usage by law



CROWDFUNDING READINESS ASSESSMENT AND COMPARISON BETWEEN CHINA, GEORGIA, AND MONGOLIA



Technology and education are necessary components.

Does a **culture** of entrepreneurship exist and is entrepreneurship considered a reputable career path?

Regulation can both enable and deter entrepreneurship and crowdfunding depending on its structure and scope.

The availability of **capital** is usually one of the most prominent missing elements when attempting to build a successful entrepreneurial ecosystem.

Georgia: challenges and opportunities

- **Resources and competences/capabilities:** Based on Georgia's unique R&C, limited potential for **Market-driven** crowdfunding ecosystem.
- Thus **Policy-driven** approach: Focus on the key stakeholders' engagement and facilitating interactions among them.
- **Ecosystem around CF** – government and international institutional banks create a **supportive mechanism** for leading the innovation; **business incubator** to support the start up candidates to be advertised on the CF and **marketplace** embedded on the CF to support commercialization as well as access to local and international markets for local investors

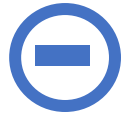


- **Demographics and market size** - relatively small country and population.
- Already the great reach to SMEs via **strong and digitally agile banking sector** - Georgian banks were not burdened with legacy systems and built internal processes from scratch using relevant IT solutions, which has made them more agile and able to absorb innovation.
- Insignificant **number of the startup companies**.
- **Investment culture and literacy**
- **Strong middle class**
- ***Government support** to incentivize retail investments*



- **Policy** - legal system, including Banking legislation is being harmonized with the EU. Open Banking, Digital Banking regulation are based on ECB guidelines. Georgia is ranked # 6th by the easy doing business by World Bank.
- **Talent** - Georgian banking sector has developed significant talent base in the past three decades. It could be seen as a certain advantage (though not the core) for the development of the CF platforms.

Mongolia: challenges and opportunities



- Relatively small market
- Banking sector dominance
- FDI inflow mostly to mining sector
- Lack of institutional investment
- Limited investment fund
- Weak of capital market development

- High account ownership
- Mobile phone usage
- Wider base of young generation
- Neighbouring and high trade volume with China
- Strong traditional banking sector
- Strong support from government on digitalization





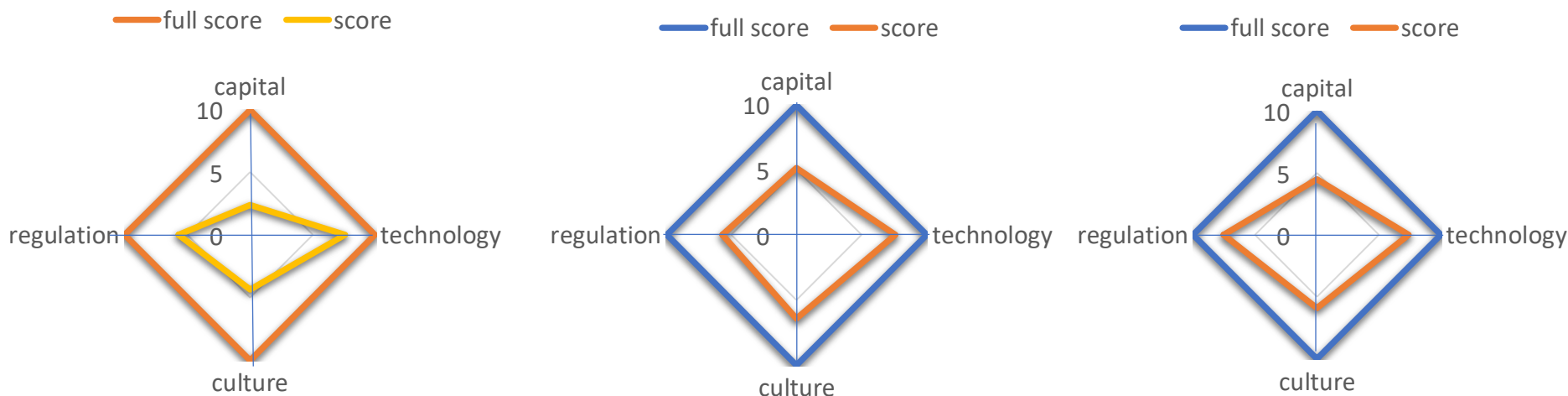
	Score	Current assessment in Mongolia
A. Technology	7.6	Engage in events and use technology and social media to promote crowdfunding and crowdfund investing as a mechanism for promoting entrepreneurship, innovation and jobs
B. Culture	4.3	Continue training and mentorship programs, launch broader initiatives that engage early success stories in actively building the ecosystem, create external linkages for additional capacity.
C. Regulation	5.7	Governments should encourage the use of donation and reward-based crowdfunding and promote a framework for crowdfund investing
D. Capital	2.4	Governments should consider why the private capital markets are not bigger. Is there too much regulation, bureaucracy, costs?
Overall average score	4.9	There is a good chance crowdfunding can be successfully implemented. Rewards-based crowdfunding should be fostered as a first step towards crowdfund investing.

	Score	Current assessment in Georgia
A. Technology	7.4	Engage in events and use technology and social media to promote crowdfunding and crowdfund investing as a mechanism for promoting entrepreneurship, innovation and jobs
B. Culture	5.9	Continue training and mentorship programs, launch broader initiatives that engage early success stories in actively building the ecosystem, create external linkages for additional capacity
C. Regulation	7.5	The country is ready for crowdfund investing. Governments and private sector should look at buy, build or white-label options for crowdfund investing platforms.
D. Capital	4.5	Governments should understand what changes have taken place to encourage capital formation in the private sector and further foster that
Overall average score	6.2	With enabling policy in place, market participants can consider technology platforms they can buy, build or white-label to deploy a credible crowdfunding ecosystem. Government should engage in crowdfunding educational outreach, training and hold crowdfunding events

Mongolia

China

Georgia



Key takeaways from China to Georgia and Mongolia

Mongolia	Georgia
Invest infrastructure	Invest infrastructure
Regulate companies sensible way while strenghten consumer protection	The Availability of capital
The Availability of capital	Investment culture and education
Investment culture and education	Ensure fair competitiveness for innovation
Ensure fair competitiveness for innovation	Policy driven approach for Crowdfunding development



THANK YOU

