

President's Global Development Council

A call to action on financial inclusion

The GDC believes financial inclusion should be a greater priority of US development assistance than it is today: the need is significant, the opportunity great, and the potential role of the USG and its private and public sector partners profound. We recommend four specific top-priority actions, in addition to several specific elements further in this memo:

- *The USG should use its role in the G20 and with the World Bank to bring together existing financial inclusion forums to better define the specifics of a global public and private sector plan to achieve universal financial access within the next decade.*
- *The USG should issue an innovation challenge – backed by patient risk capital and rigorous research – to support new products, business models, regulatory innovations and non-traditional mindsets critical to achieving that plan.*
- *The USG should increase its development assistance for financial inclusion, partner better with the private sector, and make its assistance more effective by increasing the visibility and coordination of efforts across the US government.*
- *The USG should use its role in the G20 to call for the establishment of a collective goal to address other important barriers to and enablers of financial inclusion such as digital access, land and property rights for women, and ease of remittances.*

The Global Development Council (GDC) enthusiastically welcomes recent USG contributions to financial inclusion as part of the US government's development assistance strategy and its engagement with the G20. In the next decade, digital banking – done safely and securely – has the potential to transform the lives of the poor and give them more control over their assets. The GDC believes financial inclusion should be a top priority of US development assistance in the effort to end extreme poverty, deserving even greater and more focused efforts than today. To this end, and at your request, we set out recommendations for action in the note below including for enhanced action at the G20 this year.

More than 2 billion adults—including 1.1 billion women—lack a bank account and access to other formal financial services, and this lack of access means lack of stability, security or the ability to adjust for daily life challenges. **Just 41 percent of adults in developing economies have a bank account**, some of which are poorly suited for their needs. For adults living in extreme poverty, this number drops to 20 percent. **Most poor people lead very complex, active financial lives.** Unfortunately, they also live in a world where they have to use cash, physical assets, or informal financial institutions. These tools are insecure, expensive, and hard to use.

The GDC is persuaded by evidence that, properly undertaken, financial inclusion contributes to strong, sustainable and balanced growth. We believe widespread access to and participation in the financial system can expand opportunities, help reduce income inequality, unleash productive activities, and boost job creation; for households we believe it can smooth and increase household consumption, enhance investments in the health and education of children, and directly help poor people better manage risk and absorb financial shocks. We believe safety, security and the protection of privacy are critical and achievable in the drive toward financial inclusion. We see this as an area where the US can make transformational contributions through its unparalleled innovation economy, and its ability to convene across both the public and private sectors.

We recommend the USG, working with development partners, adopt as a top priority of its development assistance the goal of helping countries around the world to achieve universal access to affordable and well-regulated basic financial services, including (1) accounts with value storage and transaction capabilities (ideally including domestic transfer capabilities); (2) savings products (ideally interest bearing and insured up to a certain level); (3) credit products that meet the consumption smoothing and particular business needs of the working poor; and (4) insurance products. This package would need to be supported by financial education and consumer protection, and further refined as evidence becomes available particularly on credit and insurance products.

Countries will of course need to own their own financial inclusion agendas, ultimately being responsible for the deployment, accessibility, security, and regulation of financial services within their own borders. Starting points vary as do demographic and socioeconomic characteristics. And yet the GDC sees several common barriers that need – and can – be lifted in an effort to broaden and deepen access to basic financial services around the world, and we believe USG action should prioritize addressing these barriers.

Importantly, the GDC does not believe universal access should be conceived as delivering the current definition of banking, savings or insurance services – in their current forms – to more and more people. **Transformational progress requires fundamental re-configurations to the provision, design, use, and even regulation of financial services.** The established institutions – banks and regulators – will need to join hands with new and disruptive platforms “from other worlds” to achieve success; a functional and inclusive payments network will be essential. Critically, we believe full financial inclusion depends on digital banking and almost certainly includes important roles for both banks and non-banks.

The design of financial products and their distribution channels needs to better incorporate user-centric design principles, modern technology, better interface, and innovative business models in order to increase demand. Common back-end platforms must be available to all financial service institutions. Basic financial education must cross linguistic, literacy, gendered and technological borders. The concept of – and technology used for – credit verification needs to be modernized, including by better incorporating data and behavioral science innovations. The regulatory framework for payment banks and correspondent banks needs to evolve to allow new players to enter and operate in the market efficiently while also ensuring those new players operate soundly. And all this will need to be done with an additional lens on hardest-to-reach populations, especially rural residents, women and other marginalized segments. We know that women, for example, are often the most enthusiastic and productive users of savings products when given the opportunity and the right product, and that this significantly improves the lives of their whole families.

We see several critical opportunities for action:

Agenda Setting

- The G20 should strengthen its call on all countries to **establish national financial inclusion initiatives with quantitative targets** for vastly increasing the number of people using financial services. This process can be spearheaded by working with those who have been first movers sharing their best practices. Due to their profound relevance to achieving these targets, the G20 may also wish to **recommend the establishment of broadband coverage and personal ID goals.**
- The USG should push the financial inclusion initiatives of the G20 (Global Partnership for Financial Inclusion) and World Bank (Universal Financial Access by 2020) to come together to **develop a**

coherent global plan for achieving universal access goals. Awareness- and coalition-building are necessary but not sufficient; progress on financial inclusion requires a clear vision of the public and private architecture of the future, and a better sense of how committed country leadership can move “from here to there”. Both these global forums need to better **involve the private sector** – large and small, and in a provider-agnostic way.

- The G20 and USG should flag the particular challenges and benefits of reaching women and in particular should include **quantitative coverage targets by gender**, and should monitor progress through better gender-disaggregated data.
- Finally, the GDC calls on the USG and other donors to **recommit to financial inclusion in their own development assistance budgets**, as well as the budgets of the multilateral development banks they support.

Innovation

- The USG – ideally in collaboration with G20 governments – should **issue an innovation challenge** for new products, new business models, technologically-disruptive mindsets, and new approaches to solve major roadblocks to achieving the plans described above. Such a challenge should define target product/business profiles and offer co-investment capital; the creation of a common back-end platform for payments systems ought to be included.
- The USG – in partnership with other G20 members – should **pool concessional finance to serve as risk capital** to support innovative financial technology companies participating in this challenge.
- This innovation system could operate in a series of virtual or real incubators for financial inclusion with hubs around the world. The viability and social impact of innovations should be **rigorously tested** throughout so they come to market with sufficient evidence to support deployment at scale.

Regulation

- As part of the global plan, the G20 should have a specific focus on new **models of regulation that will coordinate regulatory approaches across digital platforms, banking regulators, and competition authorities to collectively manage the digital financial space** – developing and promoting models of optimal intergovernmental coordination, crowd-sourcing new tools and techniques for supervision, and possibly raising the profile of rankings to help share best practices.

Supportive Actions

- The USG should call on G20 governments to commit – and make progress against – the **Better than Cash Alliance** goals to give momentum to efforts to digitize government payments and receipts, including social transfers. Progress on G2P payments will provide the scaffolding on which to build additional financial services.
- The USG should hold a **coordinated interagency policy forum – with committed leadership from the White House** – for US agencies involved in financial inclusion to improve coordination and raise visibility and ambitions. We recommend defining this group broadly to identify indirect opportunities to encourage the transition from cash to digital payments.
- The USG should support and expand ongoing work on the Women Economic Empowerment and Financial Inclusion Index (WEEFI) as part of the Global Findex.