The G20 and Financial Inclusion

Perspectives and Suggestions from Developing Countries of the Commonwealth and Francophonie

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Abbreviations

AML/CFT	anti-money laundering and combating the financing of terrorism
ATISG	access through innovation sub-group
ATM	automated teller machine
CGAP	Consultative Group to Assist the Poor
DWG	development working group
FATF	financial action task force
GPFI	Global Partnership for Financial Inclusion
IFI	independent financial institution
LIC	less-industrialised country
MSME	micro, small and medium enterprise
POS	point of sale
SME	small and medium enterprise
UNCDF	United Nations Capital Development Fund

Executive summary

The Commonwealth and Francophonie, two associations representing more than 100 countries and 2.5 billion people, welcome the G20 focus on financial inclusion as it will assist association countries to strengthen financial inclusion. The two associations include most of the world's poorest and most vulnerable countries, many of whom have the greatest degree of financial exclusion. However, the association countries also provide excellent examples of best practice from which many other developing countries and regions may be able to learn, so the two associations and the G20 are natural partners in promoting financial inclusion.

The G20 development working group (DWG) has taken important steps to address financial inclusion in a systematic manner. Its progress is having a valuable impact in promoting financial inclusion in the poorest, smallest and most vulnerable countries. The systematic approach being taken by the G20 can be usefully augmented. Evidence and best practice from across the Commonwealth and Francophonie suggests that there are four sets of practical steps which can be taken by the DWG to deepen and make even more effective its work on financial inclusion. These include specific actions within the G20's existing agenda on financial inclusion, new institutional innovations by the G20, further proposals to promote financial inclusion based on evidence across the two associations, and elements of the G20's action plan to embrace the specific challenges of the world's poorest, smallest and most vulnerable countries.

How the G20 might help Commonwealth and Francophonie developing countries

- Make the G20's work on SME finance more appropriate for their members.
- Develop a set of measures of data on financial inclusion suitable for association countries.
- Roll out principles for effective financial inclusion.
- The G20 could ask IFIs to re-consider its DWG lending policies towards small and vulnerable states so that those countries become better financially included.

New proposals to promote financial inclusion

- There could be more region-specific programmes for the Pacific, Caribbean, or African regions. Such programmes could improve, for example, access to private equity for SMEs.
- There could be further initiatives and capacity building on insurance and m-financial services.
- There could be more south–south learning programmes including among Commonwealth and Francophonie states.

Collectively, these point to three specific suggestions for the G20 DWG's Action Plan on Financial Inclusion for 2011/12.

New action plan for G20 on ideas for financial inclusion of poorest, smallest and most vulnerable countries for 2011/12

- Roll out appropriate principles for financial inclusion and develop data and measures.
- Review IFI lending policies towards countries, and reconsider or re-apply the financial action task force (FATF) principles in small states.
- Design new initiatives such as south–south learning among the Commonwealth nations.

The G20 is very important for the Commonwealth and Francophonie, but the Commonwealth and Francophonie can also be important partners for the G20. More specifically, the two associations can help the G20 in a number of respects: (1) analysis and research; (2) consensus building; (3) knowledge sharing; and (4) global advocacy.

1. Introduction

The Commonwealth and Francophonie, representing more than 100 countries and 2.5 billion people, welcome the G20 focus on financial inclusion as it will assist association countries to strengthen financial inclusion. The two associations include the majority of the world's small states and the majority of the world's smallest, poorest and most vulnerable countries, many of whom have the greatest degree of financial exclusion. But the association countries also provide excellent examples of best practice from which many other developing countries and regions may be able to identify lessons of best practice. The two associations and the G20 are therefore natural partners in promoting financial inclusion.

The G20 summit in Seoul of November 2010 adopted the Seoul Development Consensus on Shared Growth which sets out a number of principles through which the G20 engages on development and includes an annex with a number of actions connected with nine pillars of growth: infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilisation and knowledge sharing.[1]

The two associations, Commonwealth and Francophonie, have played an active role in G20 issues. Commonwealth countries make up a quarter of the G20 membership and together with the Francophonie have highlighted the plight of the non-G20 from an early stage. A Commonwealth Finance Ministers Meeting (October 2010) welcomed a Commonwealth role in promoting G20 dialogue. An illustration has been the joint Commonwealth/Organisation Internationale de la Francophonie (OIF) submission to G20 members in the lead-up to the G20 Toronto Summit in July 2010, *pressing for wide-ranging innovation in finance*, to help catalyse improved access to and levels of finance for the most vulnerable. A key building block in this is financial inclusion (Commonwealth Secretariat, 2010).

The Commonwealth and Francophonie have shown a keen interest in a number of areas relevant for the work by the G20, ranging from growth and resilience in regions varying from the Caribbean to the Pacific, to trade and financial inclusion.

The structure of this paper is as follows. Section 2 examines the emergence and evolution of financial inclusion at the G20. Section 3 highlights the challenges affecting financial inclusion and some of the solutions, building on evidence from association countries. Section 4 offers four sets of practical proposals for enhanced G20 focus on financial inclusion in promoting the interests of these countries; section 5 concludes with a series of practical actions which the two associations can take to help the G20 and others with an interest in promoting financial inclusion to achieve these proposals.

[1] For details see: http://media.seoulsummit.kr/contents/dlobo/E4._ANNEX2.pdf

2. Financial inclusion at the G20

Financial inclusion at the G20 has evolved over time. It was the subject of the Pittsburgh Summit in 2009, the Toronto and Seoul meetings in 2010 and has been included as one of the pillars of growth in the work of the G20's development working group to be implemented by the time of the meeting in Cannes in November 2010. At Seoul (November 2010), the G20 leaders committed to actions in five policy areas with details of specific commitments by G20 members set out in the supporting document. The Seoul Development Consensus for Shared Growth (see Annex I in website references) sets out *a multi-year action plan on development*, and includes nine specific areas of focus of the DWG. One of these pillars focuses on *financial inclusion.*

The G20's development working group (DWG) set three specific actions in the financial inclusion pillar (see Annex II 'Multi-Year Action Plan on Development' in website references):

1. The establishment of a global partnership for financial inclusion (GPFI);
2. The development of a finance framework for financial inclusion coupled with the announcement of an SME finance challenge; and
3. Implementing a G20 financial inclusion action plan to promote the G20's principles for innovative financial inclusion (see box 1).

Box 1. Principles for innovative financial inclusion

Access through innovation sub-group (ATISG) developed nine principles for innovative financial inclusion that were extracted from CGAP's diagnostic work and a survey conducted by the Alliance for Financial Inclusion. The nine principles endorsed by leaders in the Toronto summit were the following:

1. **Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
2. **Diversity:** Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
3. **Innovation:** Promote technological and institutional innovation as a means to expand financial system *access and usage*, including by addressing infrastructure weaknesses.
4. **Protection:** Encourage a comprehensive approach to consumer protection that recognises the roles of government, providers and consumers.
5. **Empowerment:** Develop financial literacy and financial capability.
6. **Co-operation:** Create an institutional environment with clear lines of accountability and co-ordination within government; and encourage partnerships and direct consultation across government, business and other stakeholders.
7. **Knowledge:** Use improved data to make evidence-based policy, measure progress, and consider an incremental 'test and learn' approach acceptable to both regulator and service provider.
8. **Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
9. **Framework:** Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based anti-money laundering and combating the financing of terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

Global partnership for financial inclusion (GPFI)

Working with the Alliance for Financial Inclusion, Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC), the G20 leaders committed to

launching (Action 1) the global partnership for financial inclusion as an inclusive platform for all G20 countries, interested non-G20 countries and relevant stakeholders to carry forward the G20's work on financial inclusion, including implementation of the financial inclusion action plan. The GPFI's efforts will include helping countries put into practice the principles for innovative financial inclusion, strengthening data for measuring financial inclusion, and developing methodologies for countries wishing to set targets. The G20 leaders agreed that the GPFI should report to the G20 on its progress at the November 2011 summit in Cannes, France.

The G20 leaders initially launched a G20 financial inclusion expert group (FIEG) working with the CGAP, the IFC and other international organisations. This led to the creation of two sub-groups on SME finance and access through innovation (CGAP, 2010d) focusing on financial stability, financial inclusion and consumer protection. The GPFI followed the FIEG in 2010.

The sub-group on SME finance under the GPFI had examined the scaling up of SME financing and improving the policy environment for successful models of SME financing. The SME finance stocktaking report (IFC, 2010) included 164 case studies with policy suggestions on legislation, regulation and supervision; financial market infrastructure; and public intervention and support mechanisms. The group will develop a policy framework and IFC (2010) identified a number of possible elements behind such a framework: developing country-specific diagnostics and strategies; developing a supportive legal and regulatory framework; strengthening the financial infrastructure; designing effective government support mechanisms; building consistent and reliable data sources on SME finance; and building capacity of financial institutions.

Data measurement

Work by the data measuring sub-group has also progressed. According to the plans, financial inclusion indicators are centred around access and usage (firms and households). Access relates to the ability to use formal financial services, i.e. minimal barriers to opening an account, and covers physical proximity and affordability. This can be measured by the number of access points (for cash in and out) per 10,000 adults at a national level and segmented by type and relevant administrative units, percentage of administrative units with at least one access point, percentage of total population living in administrative units with at least one access point. Usage of financial services/ products relates to regularity, frequency and length of time used. For households and individuals this can be measured by percentage of adults with at least one type of regulated deposit account, percentage of adults with at least one type of regulated credit account, as well as percentage of adults with at least one type of regulated insurance product, and percentage of adults with a regulated savings or investment account. Examples include number of active deposit and loan accounts per 10,000 adults. For firms this can be measured as percentage of SMEs with at least one type of regulated deposit or credit account.

SME finance challenge

The G20 SME finance challenge (Action 2) received 350 proposals for innovative models for scaling up private SME finance and 14 winners have been selected (see appendix E). The G20 has constructed an SME finance framework to mobilise grant, risk capital and private financing by using existing funding mechanisms and the new SME finance innovation fund to finance the winning proposals and other successful SME financing models. Canada, Korea, the United States and the Inter-American Development Bank committed $528 million to the framework through grants and co-financing.

Concerning policy commitments by G20 members, Indonesia's development policy and Brazil's financial sector policy were geared towards financial inclusion. In the first case, Indonesia will intensify and expedite financial inclusion initiatives to support government 'pro poor, pro job, and pro growth' economic policies. Indonesia will also expand the coverage of Kredit Usaha Rakyat (KUR), a programme to increase access to credit for small and medium enterprises, and improve its distribution mechanism. In the other case, the government of Brazil has launched initiatives to further deepen banking services and make them more broadly available to society.

Progress of G20 work from a Commonwealth and Francophonie perspective

Financial inclusion has been an important part of the G20 leaders' process from the start, becoming a key pillar behind *inclusive, sustainable and resilient growth* (as mentioned in the G20 principles). Considerable progress has been made, e.g. new institutions or networks (GPFI) have started, principles have been designed, and the SME finance challenge has been announced.

The G20 could further help the smallest, poorest and most vulnerable, through implementation of frameworks and data gathering. The G20 are developing a data template but many data are missing for small states. The SME policy framework is still being developed and needs to consider the specificities of the poorest countries in the future. The SME finance challenge could also further benefit the smallest or poorest states. The pillar on financial inclusion covers issues mainly within countries and is less concerned with ensuring that all types of countries are financially included. Indeed, the G20 principles may actually require such a cross-country focus complementary to the current in-country approach towards financial inclusion (i.e. focusing on SMEs).

3. Overcoming barriers to financial inclusion in the Commonwealth and Francophonie

Financial inclusion is the process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy (Sarma and Pais, 2008). Financial inclusion has three dimensions: accessibility, availability and usage. The members of the Commonwealth and Francophonie have been among the leaders in promoting financial inclusion. There is extensive practical experience in financial inclusion across the countries, which reflects not only the full range of institutional, structural and capacity challenges in strengthening financial inclusion, but also successes.

Countries in the Commonwealth and Francophonie have undertaken a wide range of initiatives promoting financial inclusion, including microfinance institutions, technological and market innovation, private investment initiatives and financial literacy training initiatives.[2] The Commonwealth Secretariat and the Organisation Internationale de La Francophonie have supported several initiatives by providing analysis and research, consensus building and advocacy. In this section, we analyse the factors that constrain financial inclusion at the household, firm and country level. Successful stories across the Commonwealth and Francophonie are reported at each stage of the analysis, since they can enrich the G20 financial inclusion initiative by suggesting valuable knowledge sharing.

3.1 Households' access to finance

In most developing countries less than half the population has a bank account. There is evidence that between 2.1 billion and 2.7 billion adults (i.e. 72 per cent of the adult population in developing countries) are financially excluded (Chaia et al., 2009; CGAP, 2009). The experience varies widely across the range of Commonwealth and Francophonie countries. In Kenya only 19 per cent of the population had access to formal financial services in 2006 (IFC, 2009), while in 2010 37 per cent of 33 million South African adults did not have a bank account (National Treasury of South Africa, 2011). In Solomon Islands an estimated 85 per cent of the population is without access to financial services (McCaffrey, 2010).

While experiences across the Commonwealth and Francophonie differ, collectively the evidence suggests that eight factors influence access to finance, especially by the poor. These comprise:

- *Employment* is the main source of household income. The challenge for poor people is that their income is not only low, but also irregular and unreliable – e.g. in the case of people with seasonal occupations – so that they cannot afford financial services. A study by Johnson and Nino-Zarazua (2009) shows that in Kenya people employed on domestic chores, dependent on pension/transfers, and employed in other people's farms in full-time or seasonal work are more likely to be financially excluded than people whose income comes from farming, livestock or fishing. On the other hand, the latter are more likely to be financially excluded than government employees. In Uganda, empirical evidence shows that people dependent on pensions and transfers or those whose income is from farming, livestock and fishing are more likely to be financially excluded than people who run their own business. Ellis et al. (2010) find that not having or earning enough money is a severe constraint to borrowing in both Kenya and Tanzania.

[2] The Commonwealth has been active in a number of financial inclusion projects, and in recent years there have been substantial country-specific initiative within the Francophonie to promote financial inclusion, with the challenges increasingly addressed in the context of developing banking systems. The Francophonie, in particular, has focused on operations for capacity building in microfinance.

The Commonwealth and Francophonie countries have put in place microfinance organisations to raise income levels across the poorer sectors and provide financial services to financially excluded people (see box 2). However, while microcredit and other forms of microfinance are considered vital to cope with poverty in countries such as India, Bangladesh and South Africa (Collins et al., 2009), the evidence on whether microfinance is able to lift people out of poverty is still mixed (CGAP, 2010a). Indeed, a recent randomised controlled trials study by Banerjee et al. (2009) finds no evidence that new branches of a microfinance bank improve household income or consumption in India, while Dupas and Robinson (2009) find that microsavings rather than microcredit lead to short-term welfare improvements in Kenya. So, the relevance of microfinance institutions depends on specific circumstances and cannot be assumed to work across the board in all situations.

Box 2. Microfinance institutions: the case of Bangladesh, India and Cameroon

In Bangladesh the Grameen Bank, which dates back to 1976, designed a credit delivery system with the following objectives: (i) extend banking facilities to poor men and women; (ii) eliminate the exploitation of the poor by money lenders; (iii) create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh; (iv) bring the disadvantaged, mostly the women from the poorest households, within the fold of an organisational format which they can understand and manage by themselves; and (v) reverse the age-old vicious circle of 'low income, low saving & low investment', into a virtuous circle of 'low income, injection of credit, investment, more income, more savings, more investment, more income'. The Grameen Bank was awarded the 2006 Nobel Prize and together with other microfinance organisations it was serving over 20 million people at the end of 2009.

On the other hand, SKS in India is the fastest-growing microfinance institution in the world with a number of clients which increased from 0.6 million in 2006 to almost 7 million in 2010.

In Cameroon microfinance institutions first appeared in 1963, but their growth began to escalate in the early 1990s. Several microfinance institutions in the country have been successful, thus raising many Cameroonians out of poverty. For example, UNICS plc alone more than doubled its number of accounts between 2007 and 2009, from just below 13,000 to approximately 26,000. However, compared with countries such as India and Bangladesh, the lack of infrastructure, especially in rural regions, a lower population density in much of the country, and loan delinquency may to some extent deter the success of microfinance in Cameroon.

Sources: Commonwealth Secretariat (2010); Long (2009); http://www.grameen-info.org/

- *Gender:* women and single household mothers are usually more exposed to volatile income and unemployment, and their literacy rates tend to be lower than that of men. This significantly limits their access to credit. According to FinScope, for example, in Zambia 68.4 per cent of women are financially excluded compared with 64.4 per cent of men (Economist Intelligence Unit–Barclays, 2010). In Fiji, only 30 per cent of rural women own a bank account (either individually or jointly) compared with 45 per cent of men (Sibley and Liew, 2009).

  The issue of financial exclusion of women has been addressed in different Commonwealth countries through microfinance organisations and co-operative rural banks – e.g. in Sri Lanka (see box 3), or by promoting women's access to financial literacy training programmes and women's entrepreneurship.

Box 3. Financial inclusion for women: the case of Sri Lanka

Several initiatives have been taken towards financial inclusion of women by Sri Lanka and in the South Asian region generally. For example, rural financial institutions such as licensed commercial banks, licensed specialised banks, microfinance institutions, co-operative rural banks, the SANASA Thrift and Credit Cooperative Movement, Sarvodaya Economic Enterprise Development Services (SEEDS) and other non-governmental organisations have provided easy access to credit for women, particularly in the villages, estates and among fishing communities, leading to satisfactory results. Indeed, at the end of 2007, the Small Farmers and Landless Credit Project (SFLCP), Poverty Alleviation Microfinance Project (PAMP) and SANASA thrift and credit societies have been successful in providing loan facilities at 93 per cent, 76 per cent and 70 per cent, respectively, for women. Approximately 8,681 women have obtained financial and credit facilities under the SFLCP revolving funds loan scheme, while 39,388 women have benefited under PAMP. Among others, SEEDS has been in the forefront, reporting a total loan value of Rs1.9 billion at the end of 2007, of which 67 per cent has been for women borrowers.

This is a valuable example for the G20's efforts to promote financial inclusion through *empowerment*.

Source: Jayamaya (2008).

- *Age*: young people in developing countries are more at risk of unemployment, and this undermines their potential access to credit. In a similar way, old people who do not have any source of income or depend on small pensions are also more at risk of financial exclusion. Age is found to have a strong impact on financial inclusion in both Kenya and Uganda (Johnson and Nino-Zarazua, 2009). In Kenya, young people (18–24 years old) are more likely to be financially excluded than older people, while in Uganda the 18–24 age group and people over 45 years old appear to be more at risk of financial exclusion.

  The Commonwealth Secretariat has supported a number of initiatives to overcome the issue of financial exclusion of young people. For example, in partnership with the Corporation Bank, it has promoted the Youth Enterprise Financing Programme in India which aims to develop a model for economic and social inclusion of young people aged 18 to 35 years (especially women) in enterprise development activities, specifically MSMEs, which can then be rolled out across other countries of the Commonwealth.[3]

- *Education*: evidence from the Commonwealth and Francophonie shows that poor education represents a significant barrier to accessing and properly using formal financial services since it limits people's capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being. In several countries, rural people report that one barrier to their access to finance compared to urban people is represented by lack of financial literacy (see, among the others, Ellis et al., 2010). A survey conducted in Ghana in 2007, also reveals that financial literacy was low among urban Ghanaian adults (ATISGm, 2010). Lack of financial education appears to be one of the main barriers to financial inclusion in Pacific islands (i.e. Fiji, Samoa, Solomon Islands, Vanuatu, Papua New Guinea, Timor-Leste; see AFI-PIWG, 2011).

[3] See http://www.thecommonwealth.org/files/234761/FileName/Promotnig%20Gender%20Responsive%20and%20Incluisive%20Financing-Corporation%20Bank.ppt

Promoting financial literacy has become a key objective for members of the Commonwealth and Francophonie, especially over the last few years. Several successful financial literacy training programmes have been introduced in Caribbean and Pacific small island developing states with the support of the Commonwealth Secretariat (see box 4).

An extensive financial literacy programme was launched in Ghana in 2008 to enhance people's knowledge of financial topics and build a relationship of trust between consumers and financial service providers (ATISG, 2010). In January 2009 the National Strategy for Financial Literacy and Consumer Protection – one of the first national strategies on financial literacy in Africa – was adopted, promoting activities such as the Financial Literacy Week, 'road shows' in rural areas, and the development of training materials on loans, savings, insurance and investment (ATISG, 2010).

Significant advances in financial literacy were also achieved in South Africa, where the Financial Services Board has engaged in a number of activities such as organising community outreach and awareness workshops to improve knowledge of basic concepts and consumer rights, playing tapes in taxis that provide basic financial education messages, providing training materials for teachers, incorporating financial education into the curriculum in schools, and establishing the Financial Education Foundation to fund financial education activities (ATISG, 2010).

Box 4. Financial literacy training programmes in Caribbean and Pacific small states

Starting in 2007, a number of Caribbean small island developing states – including Jamaica, Trinidad and Tobago, and Dominica – in collaboration with the Commonwealth Secretariat launched financial literacy training programmes that reached around 1,200 students. These programmes aimed to teach young people how to manage effectively their personal finances by promoting a better understanding of how savings and investment can be channelled to personal development and how debt can affect personal lives; and they were supported by training manuals for students as well as trainers.

In 2010 the focus of financial literacy programmes moved from students to trainers. Indeed, two regional workshops were organised by the Commonwealth Secretariat in the Caribbean and Pacific region with the aim of building regional capacity to take forward financial literacy programmes at the national level. In addition to Jamaica, Trinidad and Tobago, and Dominica, other countries such as Anguilla, Antigua and Barbuda, Belize, Grenada, Guyana, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and The Grenadines, and The Bahamas took part to the initiative. Some of these initiatives were very successful. For example, the 'Financial Literacy Initiative, Phase One Project 2008' undertaken in Jamaica was awarded the UWI Principal's prize for the research project with the greatest business/economic/development impact.

Pacific small islands have also introduced financial literacy programmes. For example, the national bank of Vanuatu in collaboration with the Commonwealth Secretariat has launched a financial literacy training programme to increase the participation of rural populations in the formal financial system over 2010–11. The expectation was that 25,000 new accounts would be opened and 1,000 new microfinance loans would be approved by the end of the project. Numerous programmes for improving financial literacy and capability have also been launched in other Commonwealth and Francophonie countries in the Pacific region, including in Fiji Islands, Samoa, Solomon Islands, Papua New Guinea, Tonga, Kiribati and many others as reported in appendix B. These serve as excellent examples of best practice within the two associations, which offer valuable insights for the G20's financial inclusion initiatives. The G20's efforts to promote financial inclusion can be informed by this evidence in the Commonwealth and Francophonie which shows how the goal of extending banking to the wider population may be achieved through empowerment.

Sources: Commonwealth Secretariat (2010); Pacific Islands Forum Secretariat (2010).

- *Geographic location*: physical distance from financial institutions could represent a major obstacle for the poor in accessing finance, since branches and ATMs tend to be located in rich areas. In Botswana, for example, there is just one branch per

10,000 square kilometres (Demirguc-Kunt et al., 2008). Kenya has approximately 4 million bank accounts for a population of 31 million (IFC, 2009).

Branchless banking has become an important way to overcome the issue of physical distance of financial institutions since it has the potential to reach vast numbers of low-income, unbanked people at affordable prices with a wide range of products (CGAP, 2010b). The United Nations Capital Development Fund (UNCDF) estimates that the average mobile penetration in LICs could increase from its current value of 28 per cent to nearly 40 per cent by the end of 2011.[4]

In recent years, branchless banking has flourished in the Commonwealth countries. This approach allows delivery of financial services to a significantly greater number of poor people by using non-bank retail agents (e.g. post offices) or information and communication technologies rather than conventional bank branches. In Pakistan, for example, the national post office infrastructure was used for expanding outreach thanks to a pilot partnership between the First Microfinance Bank Limited and Pakistan Post (ATISG, 2010). In Fiji and Papua New Guinea, platforms have been developed to allow people to make financial transactions over their mobile phones, while in other Pacific countries, such as Solomon Islands, banks are using wireless point-of-sale (POS) devices to reach clients (McCaffrey, 2010). The most remarkable and successful example of mobile banking is perhaps represented by M-PESA in Kenya (see box 5).

Box 5. M-PESA: successful introduction of branchless banking

The mobile money transfer service M-PESA was launched in 2007 in **Kenya** by Safaricom, which is part of the Vodafone Group. M-PESA is an SMS-based system that enables users to deposit, send, and withdraw funds using their mobile phone. Customers do not need to have a bank account and can transact at any of the country's over 11,000 agent outlets. Registration and deposits are free and most other transactions are priced on the basis of a tiered structure to allow even the poorest users to be able to use the system at a reasonable cost. Transaction values are typically small, ranging from US$5 to US$30.

This service has grown rapidly since its launch and by the end of 2009 it was used by over 8 million subscribers (40 per cent of Kenya's adult population). This number further increased to 10 million in 2010. In a country where there are only 4 million bank customers this is clearly a service that poor people need.

The impact of M-PESA on financial inclusion in Kenya is significant: people with access to banking services increased from 18.9 per cent to 22.6 per cent of adults in the period 2006-09, while people with access to other formal services more than doubled from 7.5 to 17.9 per cent over the same period (ATISG, 2010).

This evidence from Kenya provides a useful example of best practice in the Commonwealth and Francophonie, which can aid the G20's efforts to promote access and usage of finance by encouraging *innovation* and *diversity* of financial services and providers.

Sources: IFC (2009); ATISG (2010); Commonwealth Secretariat (2010); and http://microfinance.cgap.org/2010/08/02/m-pesa-mobile-money-video/

Other successful technological advances in the financial sector have been introduced in South Africa, notably the Mzansi bank account initiative (see box 6).

[4] See http://www.uncdf.org/english/microfinance/uploads/brochures/brochure_banking.pdf

Box 6. Mzansi bank account: a success story

South Africa has introduced several innovative banking approaches to reach people without local branches. The initiatives include domestic money transfer systems, community banking mobile banking accounts, prepaid cards, virtual payments, pure cashback at point of sale and others.

The most interesting initiative was probably the Mzansi bank account which was launched in 2004 by the four largest South African banks and the Postbank, in line with the Financial Sector Charter (FSC) that required banks to make banking more accessible to all communities. The Mzansi bank account is an entry-level transactional account based on a magnetic strip debit card platform, which allows its subscribers to use the entire network of automated teller machines (ATMs) and debit card-accepting point-of-sale devices for transactions as well as any branch of any of the participating banks.

A study by Bankable Frontier Associates (2009) shows that the Mzansi initiative has been a success: a total of 6 million new accounts were opened, most of them (around 90%) by people who had not previously used the bank where the account was opened; and two-thirds of whom had never before had a bank account anywhere. Another study by Bankable Frontier Associate (2010) has identified certain shortcomings of the initiative arguing that there is a weak relationship between the Mzansi nitiative and a higher use of banks and savings (this is not surprising given how many Mzansi users were previously unbanked).

The Mzansi initiative is another useful example of best practice in the Commonwealth and Francophonie, which can inform the G20's efforts in promoting financial inclusion by encouraging *innovation* and *diversity* of financial services and providers.

Sources: ATISG (2010); Bankable Frontier Associates (2009, 2010).

- *Qualifying requirements*: financial institutions lend to borrowers who satisfy a number of requirements such as minimum account balance, availability of collateral or guarantor, proper documentation, fees, and others, that in many cases are out of reach of poor people. Indeed, people surveyed in Kenya identify excessive charges and to a less extent the lack of guarantor as one of the main barriers to finance access (Ellis et al., 2010).

  Initiatives to lessen the qualifying requirements for opening a bank account were introduced in different Commonwealth and Francophonie countries, for example in South Africa (box 7).

Box 7. Initiatives to lessen qualifying requirements in South Africa

In South Africa, different initiatives were introduced to streamline the qualifying requirements for opening a bank account in order to promote financial inclusion. In 2002, when one third of adults were not able to provide documentary proof of their residential address as required for opening an account, an exemption eliminating the need to obtain and verify address details was issued. Moreover, in 2006 banks were allowed to open mobile-phone-operated bank accounts with lower transaction limits and without having to undertake face-to-face customer due diligence.

An evaluation conducted in 2008 reveals that while lowering transaction account did not create problems, the relaxed record-keeping has raised some concerns.

The G20's efforts to strengthen financial inclusion can be valuably informed by this evidence from South Africa which points to the importance of a proper regulatory *framework* to achieve a financial inclusive system.

Source: ATISG (2010).

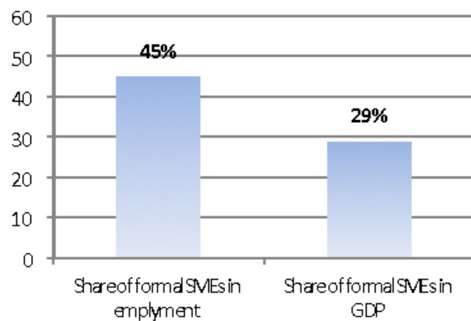
- *Small transactions*: for financial institutions the collection and dispensing of small amounts of cash is associated with high transaction costs. Therefore, in order to ensure that each branch generates enough revenue to cover its cash-handling costs, banks limit the distribution of banking outlets to areas where their average customer transacts larger (and therefore more profitable) sums of cash (Alexandre et al., 2011). The poor who can undertake only limited amount of transactions therefore remain financially excluded.

- *Ethnic and cultural factors*: evidence across the Commonwealth and Francophonie suggests that minorities, immigrants or people belonging to the lowest quintiles of income distribution may encounter discrimination by financial institutions when trying to access to finance. Moreover, there are still countries where it is culturally unacceptable for woman to do such things as open an account or start a business.

3.2 SMEs' access to finance

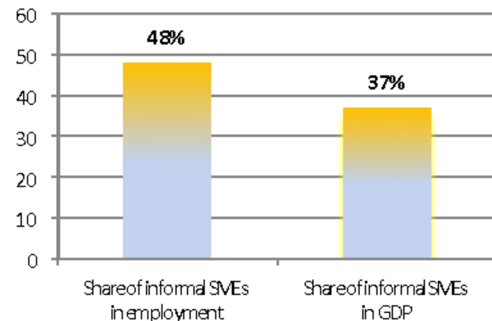
A second key challenge across Commonwealth and Francophonie members concerns small and medium enterprises (SMEs)' access to finance. SMEs in the two associations play a key role in promoting economic activity. At the global level, in developing countries SMEs contribute to about 45 per cent of employment in the formal manufacturing sector and 29 per cent of GDP (figure 1). These numbers become even higher when taking into account the contribution of SMEs operating in the informal sector which amounts to 48 per cent of employment and 37 per cent of GDP (figure 2).

Figure 1. Share of formal SMEs in employment and GDP in developing countries



Source: Adapted from IFC (2010).

Figure 2. Share of informal SMEs in employment and GDP in developing countries



Source: Adapted from IFC (2010).

Evidence across the Commonwealth and Francophonie closely mirrors global trends. A useful example from among Francophonie member countries is that of Cameroon, where SMEs employ more than 20 per cent of the total labour force (Ayyagari et al., 2003). In Pakistan, SMEs contribute over 30 per cent to the GDP, and employ about 70 per cent of the labour force in manufacturing industry, services, and trade (Nenova et al., 2009). On the other hand, a survey carried out by the Associated Chambers of Commerce and Industry of India (ASSOCHAM) reports that the contribution of SMEs to the country's GDP is expected to increase to 22 per cent by 2012 from a value of 17 per cent in 2009.[5] Ayyagari et al. (2003) shows that SMEs employ 33 per cent of total labour force in Kenya, 38 per cent in Malawi, 52 per cent in Ghana, 39 per cent in South Africa, 32 per cent in Tanzania, and 37 per cent in Zambia.

[5] See http://news.franchiseindia.com/smallbusiness/SMEs-Share-in-GDP-to-rise-says-ASSOCHAM-808/

Nevertheless, SMEs face significant financial (and non-financial) constraints to growth which tend to be more severe than those experienced by larger firms. According to the World Bank Enterprise Surveys 2006–09, the likelihood of a small firm having access to a bank loan in low-income countries is about a third of that for a medium-sized firm, and less than half that for a larger firm. Moreover, in low-income countries 43 per cent of small firms view access to finance as a major obstacle to their growth and development against 38 and 33 per cent of medium-sized and large firms respectively.

Evidence across the two associations illustrates that there are several factors which make it difficult for SMEs in developing countries to access external finance. These can be classified into two main categories: supply-side factors and demand-side factors.

Supply-side factors

- *Small amount of transactions*: the amounts of financing required by SMEs, especially by start-ups, is much smaller than the minimum thresholds set by financial markets in order to deal with the issue of fixed transaction costs, thus making the cost of accessing finance prohibitive for SMEs.

- *Lack of transparency*: in order to cope with problems of opacity and information asymmetry when dealing with SMEs, financial institutions tend to demand collaterals which cannot be offered by SMEs since they usually do not dispose of much assets such as equipment, machinery, or land. In a similar way, banks charge high interest rates and fees to SMEs and impose excessive documentation requirements which further enhance the cost of accessing finance for SMEs. Poor credit information from credit registries and bureaus, and weak creditor rights are recognised as key financial constraints for SMEs (IFC, 2010). Djankov et al. (2007) on a sample of 129 countries including Commonwealth and Francophone developing economies find that effective credit information through credit registries can lower financing constraints especially in developing countries.

- *Limited tailored financial services*: financial services tend to be customised for large enterprises so the maturity as well as the amount of credit offered is usually excessive compared to SMEs' needs.

- *Limited competition*: the low degree of competition among financial institutions reduces the incentive to innovate and communicate about products to SMEs. In Kenya, a study by Migiro and Wallis (2006) shows that difficulty in obtaining information on financial sources is perceived by SMEs as a barrier to accessing finance.

- *Physical inaccessibility*: the lack of a well-established network of branches limits SMEs' opportunities to obtain credit services. Physical inaccessibility appears to be a severe financial constraint for SMEs in Commonwealth and Francophonie countries where the ratio of bank branches to adults is among the poorest in the world.

Demand-side factors

- *High risk of default*: SMEs are characterised by limited capacity for accounting, budgeting and planning as well as ineffective credit information systems and collateral regimes which increase their probability of default and also losses of lenders in case of default.

- *Profitability*: smaller firms' profits are much less attractive than those of larger firms.

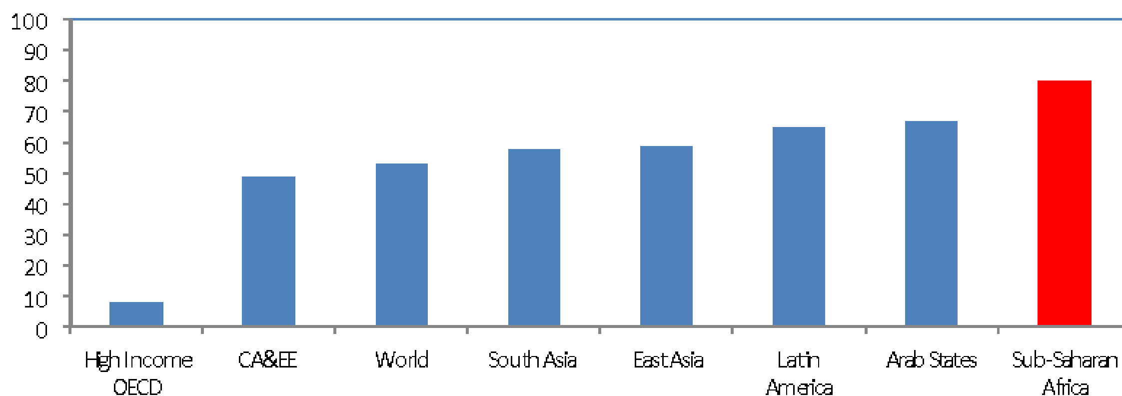
- *Cultural factors* such as a fear of loss of independence may lead firms, especially family-owned SMEs, to rely on internal or informal financing sources rather than external finance.

3.3 Access to finance across countries

Access to finance at both the household and firm level varies across countries (and regions), so the challenges of financial inclusion are not just a problem within each country, but also an issue of some (small) countries versus others.

Estimates suggest that globally 2 billion poor people are financially excluded, and exclusion rates can reach almost 80 per cent in some low-income countries. In sub-Saharan Africa alone, around 80 per cent of the adult population (i.e. 325 million people) do not have access to or do not use financial services, while in high-income OECD countries the percentage of people without access to financial services is just about 8 per cent (see figure 3).

Figure 3. Percentage of adult population without access to finance



Source: Adapted from Chaia et al., 2009. Notes: CA&EE stands for Central Asia and Eastern Europe.

Moreover, in sub-Saharan Africa only 12 per cent of households hold a deposit account with a formal financial institution, against 91 per cent in high income countries such as the United States (National Treasury of South Africa, 2011).

Comparisons across countries are even more striking. Indeed, while financial exclusion rates in Canada amount to only 4 per cent, in emerging economies such as China, Brazil and South Africa they range around 55 per cent, and their values are even higher in developing countries such as Kenya and Zambia where exclusion rates are 73 and 77 per cent respectively (Demirguc-Kunt et al., 2008).

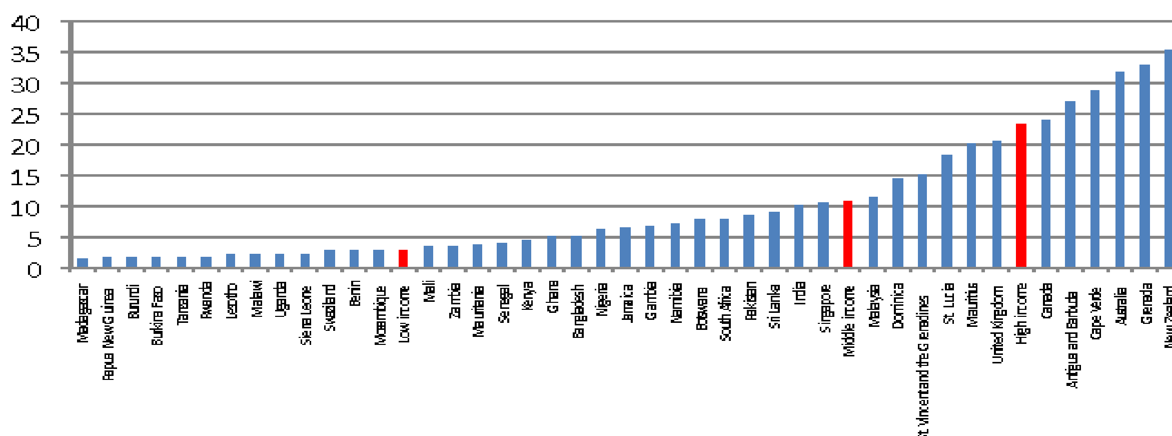
According to the index of financial inclusion developed by Sarma (2010) taking into account the three dimensions of financial inclusion (accessibility measured as banking penetration, availability of banking services, and usage), a significant group of Commonwealth and Francophonie developing countries (i.e. Bangladesh, Pakistan, Kenya, Albania, Papua New Guinea, Uganda, and Madagascar) is characterised by low values of financial inclusion compared to developed countries such as Austria, Belgium and Denmark, and emerging economies such as Russia (see appendix C). [6].

[6] The Index of financial inclusion (IFI) is computed as a weighted average of the three basic dimensions of an inclusive financial system: (i) banking penetration (BP), (ii) availability of banking services (BS), and (iii) usage of

When dealing with differences in access to finance across countries, the evidence shows that small states in the Commonwealth and Francophonie, especially small island developing states such as those in the Pacific, might encounter additional constraints to financial inclusion compared to other low-income countries. This is due to the fact that small states such as Vanuatu and Samoa suffer from remoteness from global financial and trade markets and are characterised by low-density population settlements, which make it unattractive and possibly unviable for private finance institutions to provide banking branches and related services to these countries (AFI-PIWG, 2011). Indeed, the Executive Director of the United Nations Capital Development Fund argues that in the South Pacific there are small island states where traditional banking models do not make sense (Economist Intelligence Unit–Barclays, 2010). Experience across the two associations therefore suggests that there is a crucial need to find alternative solutions to promote financial inclusion in small island developing states. The Pacific financial inclusion working group including Fiji, Samoa, Solomon Islands, Vanuatu, Papua New Guinea and Timor-Leste has identified microfinance and mobile money as the top priorities in order to improve financial inclusion (AFI-PIWG, 2011).

Figure 4 compares the number of commercial bank branches per 100,000 adults in selected Commonwealth and Francophonie member states and other LICs. As we can see, the numbers can go from less than two in Madagascar and Papua New Guinea to more than 35 in New Zealand, with a meagre average of three in all low-income countries. Looking at small island states, it appears that these economies are heterogeneous in terms of financial inclusion. The number of commercial banks branches per 100,000 adults is low in Papua New Guinea and Jamaica amounting to less than 2 and 7 respectively, but it is much higher in Dominica (14.5) and Grenada (32.9).

Figure 4. Branches of commercial banks per 100,000 adults in selected LICs and Commonwealth member states

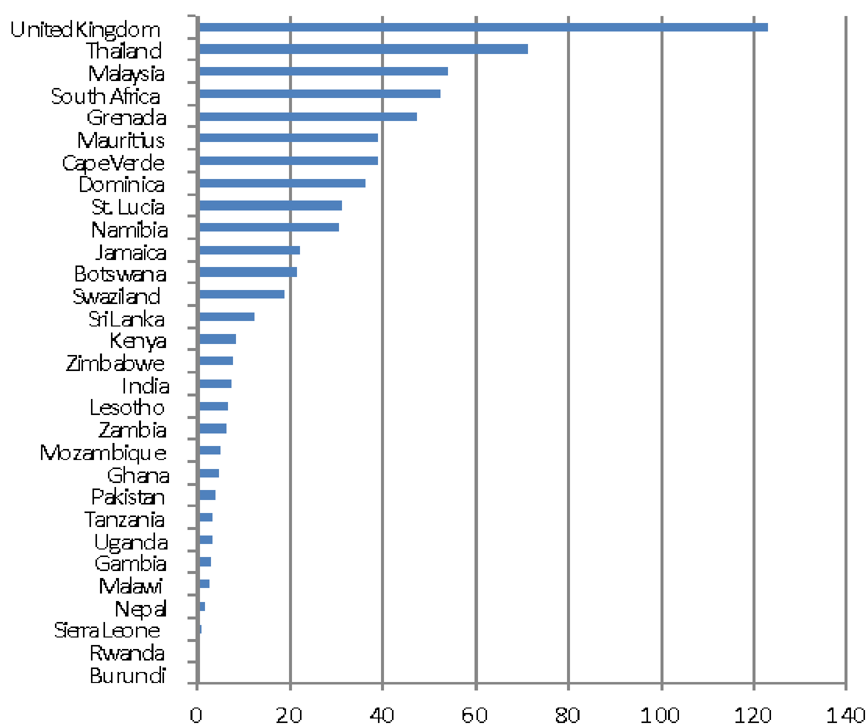


Source: CGAP, Financial Access, 2010.

the banking system (BU). BP has a weight equal to 1 and is measured by the number of bank accounts as a proportion of the total adult population. BS has a weight equal to 0.5 and is the weighted average of two sub-indices: (i) bank branch index (number of bank branches per 100,000 population with a 2/3rd weight), and (ii) ATM index (number of ATMs per 100,000 population with a 1/3rd weight). BU has a weight equal to 0.5 and is proxied by the volume of credit and deposit as a proportion of the country's GDP. For more technical details on the IFI, see Sarma (2010).

Examining ATMs outreach we observe that most of the Commonwealth and Francophonie countries have less than 10 ATMs per 100,000 adults, with Burundi and Rwanda representing the lowest quartile with less than one ATM machine for each 100,000 adults. If we compare these numbers with those of OECD countries such as the UK (123 ATMs per 100,000 adults) the gap in financial access becomes even clearer (figure 5). A preliminary regression explaining the number of ATMs per 100,000 adults on the level of income and population for 99 developed and developing countries confirms that there is a country size bias in financial access: smaller countries face greater challenges with financial inclusion.[7]

Figure 5. ATMs per 100,000 adults



Source: CGAP, Financial Access, 2010.

From the perspective of firms, access to finance at the global level appears to be a particularly severe constraint for SMEs in developing countries. Indeed, Beck et al. (2005) shows that the smallest firms are the most adversely affected by financial constraints. Since SMEs tend to be smaller in developing economies than in other countries, we can expect higher financial barriers in developing economies. This is also confirmed by the World Bank Enterprise Survey (2006-09), according to which more than 40 per cent of SMEs in low-income countries report that access to finance is one of their major barriers to growth compared to just 15 per cent of SMEs in high-income countries.

Across the Commonwealth and Francophonie countries, access to finance is particularly constrained to SMEs in small island developing states. This is also partly due to the fact that the biggest DFIs use minimum limits and are often investing equity in the larger countries, so that much available financial support is not serving the smallest countries.

[7] For more details, see appendix D.

3.4 Commonwealth and Francophonie specific constraints to financial inclusion

As this section shows, there are a number of successful cases of financial inclusion in the Commonwealth and the Francophonie. This shows the potential across the Commonwealth. However, there are also a number of specific concerns coming from the observation that many Commonwealth members are small states, including poor small states in the Pacific which face particular challenges to financial inclusion. One way to serve geographically dispersed small island states is through mobile financial services, and one question is how these can be regulated taking into account the peculiarities of small states (box 8).

Box 8. Mobile financial services in the Pacific: a small state approach to financial inclusion

Commonwealth and Francophonie countries in the Pacific region share similar financial inclusion barriers: a very high rate of people without banking services, geographically dispersed islands with low density populations, and challenges related to physical and banking infrastructure. A recent survey on financial inclusion in the Pacific confirmed the follow constraints: lack of financial education among customers, lack of awareness of the importance of financial inclusion by policymakers across government, and socio-geographic constraints of scattered archipelagos with relatively low populations resulting in higher costs for providing financial services and related infrastructure

The Pacific Islands Financial Inclusion Working Group was recently formed and includes Fiji, Samoa, Solomon Islands, Vanuatu, Papua New Guinea and Timor-Leste. The group has identified microfinance and mobile money as the top priorities in order to improve financial inclusion which has not been helped by agent banking. The group created a regulators planning tool capturing the key issues related to mobile money and a planning timeline for addressing them. It also drafted a letter to the regional FATF body – the Asia Pacific Group on Money Laundering (APG) – outlining concerns about AML/CFT guidelines and KYC for the poor.

An important challenge in the area of AML/CFT for mobile financial services (m- financial services) is balancing AML/CFT regulatory frameworks and their implementation with the objectives for greater financial inclusion. Only a few countries have designed regulatory frameworks to supervise m-financial services. M-financial services are seen as payment systems products, and as such financial sector regulators often draw their mandate from either existing banking legislation, or the general authority of the central bank to ensure the safety and efficiency of the payment system. But given the dominance of mobile network operators (MNOs), not banks, in m-financial services, it is important to define appropriate regulatory standards for these services. Fiji is only one of out of the six Pacific countries with specific e-money regulation, which includes a legal definition, because the private sector has already used mobile financial services in the form of payments in Fiji.

The Philippines, Kenya and Pakistan have all developed practical regulatory responses to the emerging business models while simultaneously being cognisant of the need to maintain sound financial stability objectives. In the Philippines and Kenya, both the Bangko Sentral ng Pilipinas (BSP) and the Central Bank of Kenya (CBK) took an experimental approach to the advent of mobile banking. These models are successful examples of mobile financial services; with Kenya's flagship 'M-PESA' service provided by Safaricom currently serving nearly 10 million customers, while in the Philippines, Globe Telecom and G-Cash combined provide services to approximately 6 million people. With microfinance and mobile money being identified as the top priorities, a knowledge exchange visit in June to Bangko Sentral ng Pilippinas (BSP) in Manila was arranged for six Pacific Island working group member central banks.

Global standards for anti-money laundering and combating the financing of terrorism (AML-CFT) compel banks to perform customer due diligence or 'know your customer' (KYC) protocols that require customers to produce piece(s) of personal identification to prove name, address, photograph, and other information (FATF recommendation 5). This regulation makes it nearly impossible for individuals without standard forms of identification to become included in financial services.

This is important for m-financial services which are so important for improving financial inclusion in geographically dispersed small island states. The Pacific group argues that

‘FATF could more clearly provide guidance to countries on how countries may adapt their KYC requirements. For example, greater guidance would be appreciated on how countries could exempt certain sectors under financial sector supervision or certain categories of clientele from the KYC process, either fully or partially. How much justification do we really need for KYC flexibility? We need to encourage and permit KYC flexibility given our local context and situation in the Pacific Island countries. Our people do not have identification documents and we are in need of economic growth – these sectors such as mobile financial services can contribute to the national economy and cannot be constrained, and thus we are not certain how much justification is truly required to present to assessors during the evaluation process?’

Thus one question for small states is whether adaptable AML/CFT regulations (such as ‘relaxed’ or ‘flexible’ KYC) for the local microfinance sector could be applied to regulating mobile financial services. The Group argues that the FATF needs to revisit recommendation 5 in the context of small island states and developing countries in general.

Source: Alliance for Financial Inclusion

In order to improve access to SME finance a number of development finance institutions (DFIs) provide debt and equity specifically to SMEs via SME equity funds. Such DFIs include Industrial Development Corporation (IDC), IFC, EIB, DEG, Proparco, FMO, Cofides and SIFEM. However, as mentioned above a lot of support is currently not serving the smallest and poorest. A new approach to financial inclusion would be to enhance the availability of SME funds for regions with small states such as the Pacific or Caribbean.

4. Suggestions from the Commonwealth and Francophonie for the G20 on financial inclusion

The G20 DWG has taken important steps to address financial inclusion in a systematic manner, focusing on growth and using its network function. Its progress is having a valuable impact in promoting financial inclusion in the poorest, smallest and most vulnerable countries. The systematic approach being taken by the G20 can be usefully augmented. Evidence and best practice from across the Commonwealth and Francophonie suggests that there are four sets of practical steps which can be taken by the G20 DWG to deepen and make even more effective its work on financial inclusion. These include specific actions within the G20’s existing agenda on financial inclusion, new institutional innovations by the G20, further proposals to promote financial inclusion based on evidence across the two associations; and elements of the G20’s Action Plan to embrace the specific challenges of the worlds poorest, smallest and most vulnerable countries.

What can the G20’s existing agenda do to help Commonwealth and Francophonie developing countries?

The G20’s current agenda if suitably adapted can contribute to furthering the association’s aims in three distinct ways.

- Make work on SME finance more appropriate for their members:
    1. The new guidelines for SME (Policy framework) need to be designed and implemented.
    2. Roll out SME finance challenge to include the smallest countries and find finance for it.
- Develop a set of measures of data on financial inclusion suitable for Commonwealth and Francophonie countries. There is still a lack of data on financial inclusion in small states.

The OIF is concerned with insurance and guarantees (not just access to credit) so it would need to ensure that there are good measures for insurance.

- Roll out principles for effective financial inclusion. This should include financial education of both consumers and governments as both determine financial inclusion, especially in small states. There should also be specific attention to m-financial services and how this would need to be regulated under FATF.

G20 institutional innovations: new lending policies

As we have argued, financial inclusion is partly a small country challenge, even though the G20 have applied the principle to include only financial inclusion within countries. We suggest IFIs should re-consider its lending policies towards small and vulnerable states so that those countries become better financially included. This could include the development of special lending or equity investment programmes for small and vulnerable states. A small and poor country challenge (in co-ordination with the SME challenge), could also be developed.

New proposals to promote financial inclusion

Beyond the existing G20 agenda, three new sets of proposals can be considered:

- There could be more region-specific programmes to promote financial inclusion. Such programmes could improve, for example, access to private equity for SMEs.
- There could be further initiatives and capacity building in the poorest, smallest and not vulnerable states on insurance and m-financial services.
- There could be more south–south learning programmes including among Commonwealth and Francophonie states. For example, Kenya's M-PESA, and the way it was promoted and regulated, may hold valuable information for the promotion of m-financial services in small Pacific / Caribbean states.

New action plan for G20 on ideas for financial inclusion of poorest, smallest and most vulnerable countries for 2011/2012

Collectively, these insights suggest the need for at least four additions to the G20 action plan for 2011/2012.

- Roll out appropriate principles for financial inclusion and develop data and measures;
- Review IFI lending policies towards countries, and reconsider / re-apply the FATF principles in small states;
- Design new initiatives such as south–south learning among the associations;
- Implement multi-year monitoring frameworks with help from the two associations.

5. The Commonwealth and Francophonie as partners of the G20 on financial inclusion

The G20 is very important for the Commonwealth and Francophonie, but the Commonwealth and Francophonie can also be important partners for the G20. More specifically, the two associations can help in a number of respects.

Analysis and research

The two associations can provide new insights and research on key topics of interest. For example, the Commonwealth has a long history of analysing growth and resilience issues, especially with respect to small, vulnerable and the least developed countries. It has also offered a new agenda of aid for trade effectiveness. And more recently it has begun to work on financial inclusion. These are all areas and pillars of interest to the G20 DWG.

Consensus building

There are a number of meetings in the run up to the G20 leaders meetings which can provide a stepping stone for issues of common interest. The Commonwealth Finance Ministers Meeting (CFMM) during the annual IFI meetings and the Commonwealth Heads of Government meeting (CHOGM) in Perth from 28 to 30 October provide ideal opportunities ahead of the G20 leaders meeting of 3 and 4 November in Cannes. On previous occasions, e.g. the CHOGM in Trinidad and Tobago (where President Sarkozy also attended), this was a stepping stone for an agreement on climate finance in subsequent fora.

Knowledge sharing

The two associations provide many of the challenges but also many of the solutions. For example, the Pacific island states would like to understand appropriate regulation of m-financial services, and our study suggests that Kenya provide some of the solutions. Also, middle income countries such as India and South Africa have already developed and improved financial access with valuable lessons for low income countries.

Global advocacy

The G20 agenda on financial inclusion will need to move towards implementation next year. This will involve promoting a set of principles on financial inclusion and ensuring that these principles are implemented and transposed into domestic practice. There is also the need to collect better data on financial access. The two associations and its members can play a critical role in ensuring that regulation is implemented appropriately and that the right data are collected.

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Appendix A. Seoul Consensus, Action Plan on Pillar on Financial Inclusion

FINANCIAL INCLUSION

Given that more than two billion adults are excluded from financial services and millions of micro-, small- and medium- sized enterprises (MSMEs) face serious constraints in accessing finance, financial inclusion is fundamental for improving the livelihoods of the poor and in supporting MSMEs, and work as the engines of economic growth and job creation.

ACTION 1: ESTABLISH THE GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

We will launch the Global Partnership for Financial Inclusion (GPFI) to provide a systematic structure for implementing the G20 Financial Inclusion Action Plan in close collaboration with the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the International Finance Corporation (IFC). (*November 2010*)

The GPFI will (i) facilitate an efficient and effective information sharing mechanism; (ii) coordinate the various financial inclusion efforts (iii) provide systematic monitoring of progress over time (iv) mobilize financial support for activities as needed, and (v) launch and coordinate taskforces to address specific financial inclusion issues (e.g. financial inclusion data). The GPFI will coordinate its work with the APEC initiative and other financial inclusion initiatives.

The progress and annual report of the GPFI will be submitted to the Summit in France.

ACTION 2: SME FINANCE CHALLENGE AND FINANCE FRAMEWORK FOR FINANCIAL INCLUSION

SME Finance Challenge

We will announce the 14 winning proposals of the SME Finance Challenge that offer innovative models for catalyzing private capital for SME finance. (*November 2010*)

Finance Framework for Financial Inclusion

We commit to establishing a finance framework that mobilizes grant and risk capital for winning proposals from the SME Finance Challenge and for scaling up successful SME financing models. The framework will use existing funding mechanisms and the SME Finance Innovation Fund, a newly created multilateral trust fund.

ACTION 3: IMPLEMENT THE ACTION PLAN FOR FINANCIAL INCLUSION

We will adopt the G20 Financial Inclusion Action Plan to promote the application of the Principles for Innovative Financial Inclusion (the Principles) and the lessons learned from the SME stocktaking exercise. (*November 2010*)

The actions to be implemented include (i) advancing the implementation of the Principles through a commitment by each G20 member to implement at least one of the Principles; (ii) encourage the Standard Setting Bodies to further incorporate financial inclusion objectives into their work; (iii) encouraging further private sector activities to increase access to financial services; (iv) strengthening and expanding data availability for measuring financial inclusion and methodologies for countries that wish to set financial inclusion targets; (v) supporting peer-learning capacity building and training; (vi) improving coordination at the national and international levels; and (vii) integrating financial inclusion into financial assessment programs.

The GPFI will submit a progress report on implementation at the next Summit in France (*November 2011*).

Appendix B. Financial literacy programmes in Pacific small islands

Regional Initiative	Participating Countries	Description
Regional Training of Trainers on Financial Literacy for Youth and Young Adults	Cook Islands, Fiji, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Tonga and Vanuatu.	Organised and hosted by Central Bank of Samoa with financial and technical support from Commonwealth Secretariat and Pacific Financial Inclusion Programme. A total of 22 trainers were trained.
www.sendmoneypacific.org	Tonga, Samoa, Fiji, Kiribati, Papua New Guinea, Solomon Islands, Tuvalu, Kiribati and Vanuatu	A website to help remitters in Australia and New Zealand to find the most competitive way of sending money home. This initiative is supported by AusAID and the New Zealand Aid Programme.
National financial competency surveys	Fiji, Papua New Guinea, Solomon Islands and Samoa	With technical support from PFIP, these countries will conduct a survey to measure the level of financial competency among low income households and apply the results to prepare a national financial literacy strategy. The initiative is supported by AusAID and, in PNG, with co-financing from World Bank.
Money Pacific calendar series	Tonga and Samoa	Interactive calendars with financial literacy messages in the vernacular produced jointly by New Zealand Ministry of Pacific Island Affairs, New Zealand Aid Programme, Pacific Corporation Foundation, Reserve bank of New Zealand and the World Bank
Financial education curriculum development	Samoa, Tonga, Cook Islands, Fiji	Forum Education Ministers requested PFIP and Young Enterprise Trust (NZ), working with the Secretariat and donors, to support interested countries. Nine schools are now offering enterprise and financial education at secondary level in Samoa. Cook Islands and Tonga have prepared implementation strategies. Fiji, with AusAID and PFIP support, will start work in October 2010 to integrate financial literacy from class 1 to class13.
Pacific Financial Literacy Training and Development	Tonga, Vanuatu, Papua New Guinea – PSWPS countries plus Solomon Islands, Cook Islands, Fiji and Samoa.	Westpac Banking Corporation executed financial literacy training for guest workers participating in the Australia Pacific Seasonal Workers Pilot Scheme. It involves pre-departure briefings plus training while in Australia. Workshops are also being offered at community levels in non participating countries. The programme is supported by AusAID.
Money Minded Pacific	Cook Islands, Tonga, Samoa, Fiji, Kiribati, Papua New Guinea, Solomon Islands, and Vanuatu	ANZ Bank financed and developed financial literacy training programme delivered by trained banks personnel in all their Pacific branches. Initial focus is to train ANZ's own staff and before extending the training to the community.

Source: Pacific Islands Forum Secretariat (2010).

Appendix C. Country ranking according to the index of financial inclusion (IFI)

Country	Penetration Index	Availability Index	Usage Index	IFI	IFI Rank
Austria	1	1	0.88	0.953	1
Belgium	1	1	0.78	0.908	2
Denmark	1	0.77	1	0.906	3
Spain	0.73	1	1	0.784	4
Greece	0.86	0.62	0.66	0.763	5
France	0.67	0.91	0.72	0.702	6
Norway	0.61	0.55	0.59	0.595	7
Malaysia	0.56	0.25	1	0.53	8
Iran	1	0.13	0.23	0.527	9
Czech Republic	0.69	0.23	0.39	0.525	10
Thailand	0.57	0.19	0.92	0.514	11
Italy	0.34	0.98	0.62	0.439	12
Russia	0.68	0.05	0.18	0.424	13
Bulgaria	0.47	0.31	0.3	0.413	14
Chile	0.42	0.26	0.5	0.404	15
Turkey	0.48	0.23	0.24	0.387	16
Trinidad and Tobago	0.41	0.23	0.27	0.354	17
Lithuania	0.43	0.18	0.18	0.333	18
Romania	0.43	0.23	0.03	0.315	19
Jordan	0.23	0.24	0.96	0.298	20
Brazil	0.26	0.32	0.34	0.283	21
Lebanon	0.16	0.37	1	0.265	22
Dominican Republic	0.31	0.17	0.13	0.253	23
Guyana	0.24	0.08	0.56	0.252	24
Namibia	0.22	0.16	0.4	0.234	25
Colombia	0.27	0.19	0.14	0.229	26
Guatemala	0.21	0.33	0.19	0.227	27
El Salvador	0.21	0.14	0.33	0.213	28
India	0.18	0.1	0.38	0.198	29
Ecuador	0.18	0.18	0.15	0.177	30
Venezuela	0.21	0.16	0.06	0.176	31
Philippines	0.14	0.16	0.32	0.167	32
Bosnia & Herzegovina	0.15	0.07	0.33	0.163	33
Saudi Arabia	0.1	0.19	0.32	0.151	34
Argentina	0.15	0.22	0.09	0.148	35
Honduras	0.14	0.03	0.34	0.148	36
Mexico	0.14	0.22	0.11	0.145	37
Peru	0.14	0.09	0.12	0.125	38
Bangladesh	0.1	0.05	0.26	0.117	39
Pakistan	0.09	0.08	0.25	0.113	40
Kenya	0.03	0.02	0.7	0.105	41
Zimbabwe	0.08	0.07	0.18	0.096	42
Albania	0.06	0.03	0.21	0.079	43
Nicaragua	0.04	0.06	0.24	0.076	44
Bolivia	0.01	0.05	0.33	0.064	45
Papua New Guinea	0.05	0.02	0.11	0.057	46
Armenia	0.04	0.1	0	0.041	47
Uganda	0.02	0.01	0.04	0.021	48
Madagascar	0	0	0.05	0.009	49

Source: Sarma (2010).

Appendix D. Explaining financial inclusion (ATMs per 100,000)

Variable	Coefficient (standard errors)
Income	0.80 (0.07)***
Population	-0.77 (0.08)***
Cons	-3.83 (0.68)***
Nobs	99
R-squared	0.57

Source: Financial Access Database (99 developed and developing countries), WDI, own estimation (robust). Notes: Dependent variable is the number of ATMs per 100,000 adults (2009); level of income (US dollars, 2009); population (2009). *** significant at 1 per cent.

The results suggest that the higher the income the greater the level of financial inclusion (with an elasticity of 0.8), while the smaller the population the weaker the level of financial inclusion (with an elasticity of -0.8).

Appendix E. Winners of the SME finance challenge

	Winners	Type of organisation	Issue being addressed	Country / base
1	Aavishkaar Venture Management Services	Aavishkaar India Micro Venture Capital Fund. Private Institution	Pioneered social risk investing with a view to attract mainstream capital to early stage social enterprises that create social impact and generate wealth.	India (Common wealth)
2	Bank of the Philippine Islands	Private Institution	Access to finance for Sustainable Energy (SE) investments (inclusive of energy efficiency and renewable energy projects) and further promote growth and sustainability of businesses by providing financing solutions that contribute to clients' triple bottom line: profits, people and the planet.	Philippines
3	Barefoot Power	Private Institution	Barefoot Power, a renewable energy company, with Oikocredit, a major Dutch microfinance investor, and the European Infrastructure Fund, have formed an innovative trade finance fund that turns micro-enterprise investments into 20-foot containers of innovative micro businesses. Investing at the top of the supply chain, impact investors fund 80 per cent of invoices Barefoot sources from SME importers.	Australia, (Common wealth)
4	Business in Development (BiD)	Non-profit/NGO/Citizen-sector Organisation	BiD Network's current online SME platform with 35,000 members, is the world's largest. BiD will be rebuilt into a multi-community webplatform that brings together entrepreneurs, investors and coaches. Entrepreneur's need faster and simpler service with better access to local peers, coaches and business angel groups. Investment syndication and GSM mobile apps for low internet areas are part of this	Netherlands, NH
5	Capital Tool Company	Private Institution	TREFI enables suppliers to finance their SME clients through: ● effective risk management and collection tools; and ● efficient refinance of SME credits Synergies with the suppliers processes eliminate almost all operational costs. Using information from suppliers, predictive SME risk ratings are provided and timely payment promoted, substantially reducing risks.	Netherlands, NH
6	Entrepreneurial Finance Lab (EFL)	Private Institution	By assessing an entrepreneur's fundamental intellectual and psychological characteristics, this tool predicts credit risk and upside potential with the same accuracy as traditional credit scoring models, but without requiring any credit history or collateral. This statistically validated tool makes a large portfolio of small SME bank loans economically viable	Peru, LI
7	Equity for Africa (EFA)	Non-profit/NGO/Citizen-sector Organisation	EFA has developed an innovative equipment-based leasing product, tailored to uncollateralised entrepreneurs on the boundary of the SME sector who have the ambition to step up. This is a large market critical to the growth of the SME sector. Public finance is needed to grow this to a scale that will create a demonstration effect for mainstream private investors.	United Kingdom, LND (Common wealth)
8	The European Fund for Southeast Europe (EFSE)	Private Institution	EFSE envisages establishing a specialised local currency SME financing window. The range of financial services for SMEs includes long-term loans and (quasi)-equity instruments via local financial institutions or companies. Furthermore, technical assistance will be provided to local partner financial institutions for developing appropriate financial products for SMEs.	Germany, HE
9	Grassroots Business Fund (GBF)	Non-profit/NGO/Citizen-sector	The East African Rural Enterprise Facility (EAREF) provides asset financing to agricultural SMEs that have been underserved by existing financial service providers. These rural SMEs are not large enough or do not have sufficient collateral to access asset financing from traditional banks, and are prevented from obtaining equipment to increase productivity, expand operations, or generate revenue.	United States, DC, Washington
10	Medical Credit Fund (MCF)	Non-profit/NGO/Citizen-sector Organisation	Primary health SMEs that serve low-income groups are supplemental to public clinics in Africa, but lack access to growth capital due to high lending rates and limited business performance. MCF offers affordable credit and internationally certified medical and business performance programs through local financial and technical assistance providers.	Netherlands, NH
11	MFX Solutions (SEF)	Private Institution	MFX uses a proven approach, pioneered in the microfinance industry, to provide international lenders with currency hedging in markets where it is currently unavailable or unaffordable. This allows them to make local currency loans to SMEs in underserved, volatile markets without incurring the risk of a devaluation.	United States, DC
12	Peace Dividend Trust (PDT)	Non-profit/NGO/Citizen-sector Organisation	Local procurement by donors multiplies the economic impact of aid. The Peace Dividend Marketplace projects help local SMEs win donor procurement contracts, redirecting over $537m into local economies to date. The Factor Finance For Procurement (3FP) concept will increase this by providing Line of Credit guarantees so smaller SMEs can bid on larger contracts, unleashing more aid money locally.	Afghanistan
13	ResponsAbility Social Investments AG	Private Institution	rABOP is a series of funds investing in private equity funds with active interests in SMEs in base-of-the- pyramid markets. rABOP's fund-of-fund concept enables a wide range of private investors to provide non-listed SMEs with risk capital, traditionally the sphere of public investors. This enhances market building and growth	Switzerland
14	Root Capital	Non-profit/NGO/Citizen-sector Organisation	Root Capital is a nonprofit social investment fund that is pioneering finance for grassroots businesses in rural areas of developing countries. We provide capital, financial education, and market connections to small and growing businesses that build sustainable livelihoods and transform rural communities in poor, environmentally vulnerable places.	USA

Sources: http://www.changemakers.com/SME-Finance/winners#tab-section ; http://www.barefootpower.com; www.trefi.com; www.bidnetwork.org; www.efinlab.com;; www.rootcapital.org; www.mfxsolutions.com; www.medicalcreditfund.org; http://www.gbfund.org