

G20 Financial Inclusion Action Plan

Financial Inclusion Experts Group

1. Executive Summary

More than two billion adults continue to lack access to financial services and the millions of micro-, small- and medium-sized enterprises (MSMEs) face difficulties in accessing finance. Financial inclusion is fundamental for improving the livelihoods of the poor and in supporting MSMEs, the engines of economic growth and job creation, to start, grow and thrive.

The G20 reiterates its strong commitment to financial inclusion and recognizes the benefits of universal access to financial services. The G20 notes the overarching and cross-cutting nature of financial inclusion and therefore has included financial inclusion as one of the main pillars of the development agenda.

Building on the progress made since the Toronto Summit, the G20 has developed an Action Plan for improving financial inclusion, which provides a set of six concrete and pragmatic action areas to advance financial inclusion for individuals, households and MSMEs and promote the application of the G20 Principles for Innovative Financial Inclusion. The G20 has also identified the winning proposals of the SME Finance Challenge and developed a financing framework to support the implementation of the winning proposals and to scale-up successful SME financing models.

Working with the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the International Finance Corporation (IFC), the G20 will launch a Global Partnership for Financial Inclusion (GPFI) to provide a systematic coordination and implementation structure for the Financial Inclusion Action Plan. The GPFI, which builds on the strength and the process of the current G20 Financial Inclusion Experts Group (FIEG), will provide an inclusive platform for all G20 countries, and non-G20 countries - in particular developing countries- and relevant stakeholders for peer learning, knowledge-sharing, policy advocacy and coordination on financial inclusion. These efforts on financial inclusion will only be successful if they are supported by reliable data and common indicators, and the GPFI will work to improve the quality and quantity of data needed to effectively design national policies and targets and monitor progress. The G20 also commits to support the strengthening of member and non-member countries' capacities on financial inclusion policy development and implementation.

Consistent with the G20 Development Framework for Strong and Balanced Growth, the G20 recognizes the importance of enhancing the role of developing countries, including the low income countries (LICs), in the efforts to achieve balanced and sustainable economic growth and eradicate poverty. In this context, the G20 requests AFI, a network of developing country financial sector policymakers, to facilitate the participation of the non-G20 developing countries into the activities of GPFI and global discussions on financial inclusion.

The G20 will build and strengthen a wide range of partnerships to advance financial inclusion. To this end, standard setting bodies will be encouraged to strengthen synergies between financial inclusion and their own mandates. The private sector is also key to extending financial inclusion and the G20 will encourage further private sector activities to increase access to financial services. Coordination of G20 actions with other national, regional and international initiatives on financial inclusion is also critical.

The G20 is committed to making progress in advancing financial inclusion and outcomes of the Action Plan will be regularly reviewed by the Leaders.

2. Introduction and background

“We have launched the SME Finance Challenge and commit to mobilizing funding for implementation of winning proposals, including through the strong support of the MDBs. We have developed a set of principles for innovative financial inclusion.”

(Paragraph 33, Main body of the Toronto Declaration)

At the Pittsburgh Summit in September 2009, G20 leaders committed to improving access to financial services for the poor. This included launching the G20 Financial Inclusion Experts Group (FIEG) to ‘scale up the successful models of small and medium sized enterprise (SME) financing’ and identify ‘lessons learned on innovative approaches to providing financial services..., promote successful regulatory and policy approaches and elaborate standards on financial access, financial literacy, and consumer protection’.

At the Toronto summit in June 2010, G20 leaders reiterated their commitment to improve access to financial services for the poor and launched the G20 SME Finance Challenge - a call to the private sector to put forward its best proposals for how public finance can maximize the deployment of private finance on a sustainable and scalable basis – with a commitment to mobilize funding for implementation of the winning proposals. Leaders also endorsed a set of Principles for Innovative Financial Inclusion, aimed at forming the basis of a concrete and pragmatic action plan for improving access to financial services amongst the poor.

The G20 commitment to financial inclusion recognises the benefits of universal access to financial services and acknowledges that more than two billion adults do not have access to formal or semi-formal financial services and that millions of micro-, small- and medium-sized enterprises (MSMEs) face a serious lack of access to finance. Financial inclusion is fundamental for improving the livelihoods of the poor as it enables them to run their businesses, build assets, smooth consumption, and manage risks. Including MSMEs in the financial system is particularly important because they are the engines of economic growth and employment generation and key factors for reducing poverty. Financial inclusion is not only an end in itself. It is also required for, and complementary to, financial stability and financial integrity. Appropriate and affordable savings and credit products, payment and money transfer services (both domestic and international) as well as insurance, are all important. In this context, the G20 notes the overarching and cross-cutting nature of financial inclusion and therefore has included financial inclusion as one of the main pillars of the development agenda.

Developing the G20 Principles for Innovative Financial Inclusion and launching the SME Finance Challenge were important first steps towards building a framework to improve access to a full range of financial services for unserved and underserved individuals, micro, small and medium enterprises.

Against this backdrop and leading up to the Seoul Summit, the FIEG had a number of G20 meetings as well as outreach and consultations with non-G20 countries and stakeholders to advance the work of FIEG and develop a concrete and pragmatic Action Plan. During this process, it became clear that there is a critical need to enhance the role of developing countries (i.e. developing countries from the G20 and beyond), which include low income countries (LICs), in the G20 process for the following reasons: (i) the knowledge on and ownership of financial inclusion issues are primarily originating from such countries; (ii) 90% of the financially excluded population resides in these countries; and (iii) to relate to the main G20 mandate of global economic cooperation for balanced and sustainable economic growth, it is essential to have high-level commitment and participation of the developing countries themselves in the action. This approach is also very much consistent with the G20 Development Framework.

Other issues requiring consideration include to:

- better coordinate and collaborate with multiple stakeholders, including the private sector, standard-setting bodies, and on-going projects and initiatives among others, in the national, regional and global level,
- improve measurement and data on financial inclusion across several dimensions, including access, usage, quality, formality and impact,
- design effective and evidence-based policies,
- set priorities for action and
- monitor progress on financial inclusion.

Based on these considerations and the progress made to date, the next steps will include taking concrete actions to encourage the application of the G20 Principles for Innovative Financial Inclusion, mobilizing funding for the winning proposals of the SME Finance Challenge and establishing an inclusive partnership platform that builds on the strength of the current FIEG structure and activities.

FIEG has identified six ‘concrete and pragmatic’ action areas that effectively use the high-profile and economic leadership of the G20 to advance financial inclusion and developed two main implementation steps: the establishment of a Global Partnership for Financial Inclusion and the establishment of a SME Trust Fund to ensure effective implementation of the actions and commitments.

The Action Plan brings together the work of FIEG Access through Innovation (ATI) and Small and Medium Enterprise (SME) Finance Sub-Groups. It builds upon the results of the two Sub-Groups’ reports, the Innovative Financial Inclusion Report and the SME Finance Stocktaking Report. The Action Plan provides two main implementation steps, six action areas with objectives, outcomes, and the specific activities required.

The outcomes of the Action Plan will be presented to Leaders through a GPFI progress report at the 2011 Summit. The GPFI Coordinating Board will meet at least twice a year to report on the progress made. The G20 and non-G20 countries are encouraged to publish and share information on progress made in delivering on the above actions and commitments.

3. Main Steps for Implementation

*A) **Establish a Global Partnership for Financial Inclusion (GPFI):** The G20 will establish a GPFI, a consultative mechanism including non-G20 countries and other key stakeholders to maximize the impact of the G20’s work on financial inclusion.*

Objective: To have an inclusive partnership mechanism to take forward the G20’s work on financial inclusion; facilitate efficient and effective coordination to support various on-going financial inclusion efforts; monitor progress over time; and ensure continuity on financial inclusion in global discussions.

Activities:

- The GPFI will develop and implement a strategy for improving awareness of the G20 Principles for Innovative Financial Inclusion in order to expand participation in efforts to improve financial inclusion consistent with the principles. This will include:

- Promoting the G20 Principles with governments, the private sector, international organisations and other stakeholders.
- Highlighting the benefits of increased financial inclusion to economic and social welfare through households and firms. Examples include outlining the link to job creation, risk management by the poor, women empowerment, and improved health and education outcomes.

The GPMI will launch and coordinate a number of task forces led by the countries to address specific financial inclusion issues in areas where the G20 can add value to existing initiatives. The first task force will be a Financial Inclusion Data and Measurement Task Force to improve the quality and quantity of financial inclusion data relevant for households/ individuals and MSMEs.¹ To build on the stocktaking exercise of the SME Finance Sub-group of the FIEG, another task force will be created to build a knowledge base of the most efficient and effective public interventions for SME financing and further develop lessons learned and best practices in this area. Further task forces will draw on relevant experience and ongoing initiatives to strengthen cooperation.

- The GPMI will undertake information sharing and coordination to support and maximise the impact of the numerous initiatives on financial inclusion, monitor progress on financial inclusion over time, and ensure continuity in global discussions. This should include non-G20 countries and partner institutions on financial inclusion.
- The GPMI will organize a GPMI Forum and establish a SME Finance Forum based on the work of the task force mentioned above and building on existing and ongoing initiatives and involving relevant stakeholders.
- The GPMI will encourage the development of further tools and diagnostics for financial inclusion and work to promote understanding, access and usage of existing and newly developed tools through outreach and awareness activities, such as developing a dedicated website. These tools will also serve to further promote the G20 Principles for Innovative Financial Inclusion. These tools will cover multiple dimensions of financial inclusion interventions. Examples of tools include (list is not exhaustive and not in any specific order):
 - CGAP's Self-Assessment Guide on Regulation of Branchless Banking (Principle 7 - Knowledge).
 - World Economic Forum's (WEF) Mobile Financial Services Readiness Scorecard, being developed using the G20 Principles for Innovative Financial Inclusion.
 - A comprehensive risk framework and policy notes for the mobile money business environment being developed by the AFI Working Group on Mobile Financial Services (Principle 8 - Proportionality).
 - The Financial Literacy Assessment Tool of the OECD (Principle 5 - Empowerment).
 - The ILO's tool to track the impact of financial inclusion on job creation, protection against vulnerability and formalization.
 - The Access to Insurance Initiative's Micro-insurance Regulatory and Capacity Diagnostic Tool Kit.
 - A tool to check the availability of remittances data for financial inclusion, developed by the German Technical Cooperation (GTZ).

¹ See action item 4 (Improve Data) for further details on data and measurement and Annex 2 for the Data Task Force Terms of Reference.

- The Due Diligence Tool to Address the Risk of Client Over-Indebtedness, developed by the German Development Bank (KfW) (Principle 4 – Protection).
 - A hands-on Check List for Promoting Responsible Finance at Institutional and Macro Levels developed by the KfW. (Principle 4 - Protection).
- The G20 will form a GPFI Coordinating Board and request the Alliance for Financial Inclusion (AFI), the Consultative Group to Assist the Poor (CGAP), and the International Finance Corporation (IFC)² to become the main implementing partners. In addition, the G20 will ask AFI to facilitate the participation of non-G20 countries, in particular developing countries, in GPFI activities and discussions.

Expected Outcomes: The GPFI will build on the country-led strength of the FIEG, and continue to engage member countries and expand its engagement with non-G20 countries and key stakeholders in order to maximise the impacts of the wide range of financial inclusion efforts.

B) Mobilize Funding for Financial Inclusion: *The G20 will mobilize funding for the implementation of winning proposals of the SME Finance Challenge and increased demand for technical support in the implementation of the G20 Principles for Innovative Financial Inclusion.*

Objectives: To have a funding framework for the winning proposals of the SME Finance Challenge, through leveraging existing funding mechanisms, and establishing a SME Trust Fund and a possible structured investment fund.

Activities:

- Resources for implementing the SME Finance Challenge will be mobilised on the basis of an agreed financing framework that will pool voluntary contributions in a coordinated manner from development institutions, donors and private parties. This will occur through the use of existing mechanisms, a new SME trust fund and a possible new structured investment vehicle. It is expected that the World Bank, regional Multilateral Development Banks (MDBs), and Development Finance Institutions (DFIs) will join G20 countries and other funding partners to commit their voluntary support to finance winning SME Challenge proposals.
- Encourage the undertaking of rigorous analysis on funding needs for targeted financial inclusion capacity building and technical assistance to support the application of the G20 Principles for Innovative Financial Inclusion, as envisaged under the GPFI.

Expected outcomes: The G20 SME Finance Challenge will identify the most innovative and scalable models for using public resources to leverage private capital for SME Finance. Funding will allow these projects to be scaled up and may spur their adoption by International Financial Institutions (IFIs), DFIs, public and private donors and private sector players. An analysis of funding needs will determine whether there are increased

² The three institutions will work together under the GPFI as main implementing partners and collaborate in various GPFI activities. The specific activities defined in the FIEG Action Plan for the different implementing partners are based on the current and on-going activities and provide clarity on the main responsible institution, but are not intended to limit other implementing partners (or participating institutions of the GPFI) from participating in these activities. It was suggested that the IMF, as well, should be involved in these activities, but its participation will be discussed at the next co-chair's meeting.

funding needs for targeted financial inclusion capacity building and technical assistance to support policymakers in the application of the G20 Principles for Innovative Financial inclusion.

4. Key Action Items

1) Commitment to implement G20 Principles for Innovative Financial Inclusion under a shared vision of universal access: *Each G20 member commits to a concrete step(s) to implement the G20 Principles for Innovative Financial Inclusion under a shared vision of universal access driven by a country-led approach .*

Objective: To demonstrate G20 leadership in implementing the G20 Principles for Innovative Financial Inclusion.

Activities:

- Each G20 country commits to one or more concrete step(s) to progress the implementation of at least one of the G20 Principles for Innovative Financial Inclusion and invites non-G20 countries to join in the efforts. G20G20Actions could include G20 countries advancing the G20 Principles through relevant steps, such as clarifying existing coordination mechanisms on financial inclusion (Principle 6 - Cooperation), undertaking a self-assessment on the level of financial exclusion within their country (Principle 7- Knowledge) or exercising leadership (Principle 1) by developing a sound national financial inclusion plan.³ Action steps could also include identifying ways in which G20 countries can support partner countries in progressing implementation of the G20 Principles.
- The G20 requests AFI and CGAP to continue to support country-led financial inclusion policy reforms through their peer exchange activities and grant programs and/or technical assistance in consistent with the G20 Principles for Innovative Financial Inclusion.

Expected outcomes: G20 policy action towards advancing the G20 Principles for Innovative Financial Inclusion will expedite progress towards the *Shared Vision on Financial Inclusion* and providing access to financial services to the currently excluded households and MSMEs in a safe and sound manner.

2) Further Encourage Standard Setting Bodies (SSBs): *G20 Leaders recognise commitments by SSBs to support financial inclusion and encourage SSBs to further explore coordinated information sharing on the complementarities between financial inclusion and their own mandates.*

Objectives: To support and catalyze SSBs' progress on financial inclusion within the context of their respective mandates and to share the information with each other and other stakeholders.

Activities:

- G20 Leaders recognise and further encourage the progress made by SSBs, including through the following:

³ Examples of national policy actions towards Principle 1 (Leadership) include Mexico's commitment to full financial inclusion by 2012, China's three year plan on providing access to finance to all of China's townships, India's plan to offer financial services to 500,000 additional villages by 2012. Examples of country actions towards progressing Principle 4 (Protection) include Mexico adopting product-based transparency rules, Indonesia establishing a Business Competition Supervisory Commission that empowers clients through increased transparency of information and the Philippines implementing a *Truth in Lending Act* that specifically addresses disclosure of information.

- The Financial Action Task Force (FATF) made financial inclusion one of its priorities for the coming year. To implement this priority, FATF will review its Recommendations to ensure that the risk-based approach is clarified and strengthened (advocated in Principle 8). Furthermore, FATF will be providing more detailed guidance on AML/CFT and financial inclusion (as recommended in Principle 9).
 - The Basel Committee on Banking Supervision's (BCBS) consultative paper on "Microfinance activities and the Core Principles for Effective Banking Supervision", which was agreed at its July 2010 meeting, contains specific references to the need to balance regulation and supervision with ensuring financial inclusion (consistent with Principle 9). Its International Conference of Banking Supervisors held in September 2010 included specific sessions related to financial inclusion.
 - In June 2010 the Committee on Payment and Settlement Systems (CPSS) approved the mandate for a new Working Group on Retail Payments, which are critical to financial inclusion. This will focus initially on innovations (as advocated in Principle 3). The first results of the Group's work are expected by the end of 2011. In addition, at the June meeting it was agreed to establish a joint CPSS-World Bank forum on retail payments.
 - The International Association of Insurance Supervisors (IAIS) launched the Access to Insurance Initiative (A2II) in 2010.⁴ In response to the G20, the IAIS plans to develop further supervisory materials on the applicability of Insurance Core Principles (ICPs) and standards in 2011-2012, which will focus on tools, guidance and training on micro-insurance.
 - The International Association of Deposit Insurers (IADI) has recently established a Financial Inclusion Subcommittee (FIS) of IADI's Research and Guidance Committee (RGC) to provide a forum for IADI to focus on issues related to financial inclusion and engage with the G20 on financial inclusion. Consumer protection issues and financial literacy (Principles 4 and 5) are a core mandate for IADI.
- G20 Leaders encourage enhanced communication between SSBs and other stakeholders, highlighting the complementarity of financial inclusion and their mandates. This could include joint statements, cross references between websites and building on existing collaboration efforts. The GPMI will also advance the communication between SSBs and other stakeholders.
 - G20 Leaders encourage SSBs to develop simple informational products to improve understanding of how their rules can be applied to financial inclusion, including the application of Principle 8 (Proportionality) and examine how they can progress Principle 4 (Consumer Protection) and Principle 5 (Empowerment) within their mandates.

Expected outcomes: The current significant and simultaneous actions by SSBs on financial inclusion indicate a fundamental shift in the perceived role of the global financial system. The global financial system must be sound, stable, prudent and combat money laundering and terrorism. It must, however, also serve the global population, seeking to reach those who until now have been unserved and underserved. These goals can be complementary – the more people in the formal financial system, the greater the chances for monitoring other elements of a safe financial system. Knowledge sharing and improved understanding of standards will increase country-level understanding of the complementarity between financial integrity, financial stability and financial inclusion.

⁴ The Access to Insurance Initiative is a global partnership between the IAIS, the German Ministry of Economic Cooperation and Development (BMZ) together with the German Technical Cooperation (GTZ) who acts on its behalf (and who hosts the Secretariat of the Initiative), the CGAP, the International Labour Organisation (ILO) and the South Africa-based FinMark Trust. (www.access-to-insurance.org)

3) Work with the private sector: *G20 Leaders recognise that the private sector is key for extending financial inclusion and encourage further private sector activities to increase access to financial services, consistent with the G20 Principles for Innovative Financial Inclusion.*

Objective: To harness public and private sector cooperation on efforts aimed at increasing the delivery of financial services to households and MSMEs.

Activities:

- G20 Leaders recognise important private sector initiatives, including:
 - The GSM Association's goal of reaching 20 million previously unbanked people with mobile financial services by the end of 2012.
 - The World Savings Bank Institute project to double the number of savings accounts opened by poor people.
 - Implementation of innovative outreach programs to reach unbanked people undertaken by the World Council of Credit Unions, with support from the Bill & Melinda Gates Foundation and the government of Mexico.
- Under the umbrella of the GPFI, enhance dialogue and information sharing among the private sector, along with public sector stakeholders and civil society on successful scalable business models for increasing access, financial infrastructure and improving the regulatory framework for financial inclusion and identify innovative partnership models. Leverage IFC's network of over 500 financial institutions operating in emerging and developing markets to further engage the private sector under the GPFI, as well as to share, advance, and disseminate viable business models for financial inclusion.
- Build on the stocktaking exercise of the SME Finance Subgroup of the FIEG to develop lessons learned and best practices for public interventions identified to create a knowledge base of the most efficient and effective interventions for SME financing. In addition further develop and identify lessons learned and best practises for expanding financial inclusion for households.
- Support private sector efforts by encouraging the establishment of an enabling and proportionate legal and regulatory environment, strong financial infrastructure, effective government support mechanisms (where appropriate) and innovative modes of public-private cooperation by establishing a knowledge base on lessons learned and best practices for policy makers to draw on.

Expected outcomes: In response to G20 action encouraging the dialogue between the private and public sector, and establishment of enabling policy and regulatory environments, the private sector will be encouraged to expand financial services to the currently excluded households and MSMEs. The expanded knowledge base of lessons learned and best practices will assist policy makers in planning reforms to promote financial inclusion.

4) Improve data: *G20 Leaders encourage improving the quality of measurement and data on financial inclusion (of households/individuals and MSME). A Financial Inclusion Task Force on Data and Measurement under the umbrella of the GPFI will take the leadership in the development, with the cooperation of various key stakeholders, of analytic tools to assist governments in assessing the state of financial inclusion in their economies and the best policy tools to rectify the identified gaps.*

Objectives: To contribute to and strengthen the global dialogue on financial inclusion data and measurement on progress.

Activities:

- The GPFII Financial Inclusion Task Force on Data and Measurement, working with AFI, CGAP and the IFC, will (i) provide/exchange tools and approaches for G20 and non G20 countries to improve their measurement for the purpose of promoting financial inclusion, increasing awareness of the issue, facilitating target setting, and strengthening and informing national financial inclusion strategies; (ii) harmonize data definitions and collection across institutions and countries to encourage better data collection and comparison; (iii) develop metrics that cover multiple dimensions of financial inclusion (diversity of services and delivery mechanism; access, quality, usage, impact) for more meaningful measurement; (iv) develop methods and approaches to combine household and enterprise data so as to be able to tell the full and coherent story of financial inclusion; and (v) extend data collection to encompass the informal sector.
- Request for consistent collection of supply side data, disaggregated for households, micro, small and medium-sized enterprises, with a mandate for the World Bank/CGAP and IMF to harmonize and coordinate their outreach to central banks and financial regulators within their respective mandates.
- Request for continuity and expansion of demand side data, with a mandate for the World Bank, OECD and ECB to harmonize their global efforts and include more sectors in their data collection efforts such as enterprises with less than 5 employees and the informal sector.
- Request MDBs, IFIs and DFIs to harmonize their reporting on their support for SME Finance, as well as encourage initiatives to make institution level data for SME Finance available, including the collection of supply side data from funders under the leadership of the IFC/CGAP.

Expected outcomes: An increase in the quality and quantity of data will (1) allow for more meaningful cross-country comparison and/or aggregation of financial inclusion; (2) support countries to even better design national financial inclusions policies and targets and better measure their progress; (3) encourage an evidence-based approach to implement the G20 Principles for Innovative Financial Inclusion; and (4) deliver fact-based arguments demonstrating the benefits of financial inclusion on production, employment and income security.

5) Support Capacity-building and Training: *G20 Leaders support capacity building and training including through technical assistance, peer-to-peer learning and regional and international training.*

Objectives: Enhance the skills and knowledge of policymakers and financial sector institutions in financial inclusion policy development and implementation including issues such as consumer protection and financial literacy.

Activities:

- The GPFII will encourage donors (in particular international finance and other development institutions) to scale up their efforts to provide capacity building/advisory services to financial institutions in helping them to expand financial access and usage and also consider qualitative aspects such as consumer protection and financial literacy.

- The GPMI will encourage AFI to strengthen its peer-to-peer learning and its knowledge sharing platform for financial inclusion policy-making and support the policy implementation through grants. The GPMI will ask CGAP to continue its technical assistance and training activities for capacity building and IFC to strengthen capacity building/ training activities at the financial institution and financial infrastructure level, focusing on the development of scalable business models that reach the underserved and unserved market segment.
- The GPMI will consider the needs for increased financial support for peer-to-peer learning and providers of technical assistance. AFI's Member Needs Assessment and demand for CGAP's policy advisory activities suggest that key areas in which countries have requested assistance to further enhance their financial inclusion policymaking efforts include: consultations/awareness building and trainings, policy diagnostics, dissemination of best practices, commentary/technical assistance on written policy reforms; exchange visits and peer reviews to encourage a financial inclusion platform for policymakers to exchange knowledge with global counterparts; support to develop and implement new policy reforms and knowledge resources to inform and support policymakers' in their work on financial inclusion.

Expected outcomes: Targeted financial inclusion technical assistance and capacity building will support policymakers in the implementation of the G20 Principles for Innovative Financial inclusion and thereby expedite the process of increased financial services delivery to the currently excluded households and MSMEs. Peer-learning and exchange will leverage proven financial inclusion policy solutions. Knowledge resources will inform and support policymakers in their work on financial inclusion. Capacity building will enhance policymakers' skills and knowledge in financial inclusion policy development and implementation.

6) Improve national, regional and international coordination: *G20 Leaders encourage coordination of G20 country actions on financial inclusion with other national, regional and international initiatives on financial inclusion.*

Objectives: To strengthen coordination and collaboration between various national, regional and international stakeholders relevant to financial inclusion, recognizing the complementarity between financial stability, financial integrity and financial inclusion, and advance progress towards universal financial inclusion through the implementation of the G20 Principles for Innovative Financial Inclusion (Principle 1- Leadership and Principle 6- Cooperation).

Activities:

- The G20 leaders encourage national level coordination on financial inclusion among relevant government institutions and promote national leadership for such coordination activities.
- The GPMI will encourage broad-based participation and information sharing between financial inclusion stakeholders and organise a financial inclusion forum. In addition, the GPMI will closely collaborate with other G20 initiatives that have impact on financial inclusion (keeping in mind the complementarity between financial stability, financial integrity, and financial inclusion) and other regional/global initiatives such as the APEC initiative currently being developed, WEF work on financial inclusion and relevant United Nations financial inclusion efforts.

- The G20 asks AFI to continue and advance its cooperation among developing country policy makers and channel their views and inputs to the GPFII and facilitate their participation at the global financial inclusion discussions.
- The G20 will encourage links between work on financial inclusion and other closely linked initiatives such as the Global Remittances Working Group and government transfer programmes (e.g. the Brazilian Bolsa Familiar).

Expected outcomes: Continued collaboration and coordination between the varied financial inclusion stakeholders will ensure consistency and maximum impact of efforts toward financial inclusion.

7) Integrate Financial Inclusion into all types of Financial System Assessments: Recognising the complementarity between financial stability, financial integrity and financial inclusion, G20 Leaders call on governments and relevant national and international bodies to improve the way financial inclusion is built into assessments of financial system performance.

Objective: Improve financial sector assessments, including national financial system/sector assessments and those of other international bodies, to incorporate robust financial inclusion components that yield high quality analysis and actionable recommendations.

Activities:

Encourage all countries to include a robust assessment of the state of financial inclusion in national financial system/sector assessments.

- Call on the WB and IMF, in response to countries' requests for financial sector diagnostics and an examination of financial inclusion in particular, to a) strengthen their approach and apply uniform standards to the way Access to Finance components are covered and b) develop a uniform methodology in this area based on prior experience to deliver the best value to client countries.

Expected Outcomes: National and international financial system/sector assessments will include robust assessments of financial inclusion. This will allow national governments and other stakeholders to take effective targeted action to create a stable and inclusive financial sector.

ANNEX 1. G20 Principles for Innovative Financial Inclusion

G20 Principles for Innovative Financial Inclusion

Innovative financial inclusion means improving access to financial services for poor people through the safe and sound spread of new approaches. The following principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. These principles for innovative financial inclusion derive from the experiences and lessons learned from policymakers throughout the world, especially leaders from developing countries.

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. **Cooperation:** Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
7. **Knowledge:** Utilize 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, 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 reflecting for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.

ANNEX 2. Terms of Reference for the Task Force on Data and Measurement

Global Partnership for Financial Inclusion **Task Force on Data and Measurement** **Terms of Reference**

1. Background

The G20 has identified financial inclusion (for individual households as well as enterprises) as a key driver of economic growth, reduced economic vulnerability for individual household, poverty alleviation, and improved quality of life for people around the world. With this commitment, the G20 is uniquely positioned “to initiate and promote a more integrated global effort” in financial inclusion.

The G20 recognizes data and measurement as an essential foundation from which to move its initiative forward in improving financial inclusion at a global level. As the importance of financial inclusion has taken hold, so has interest in better data at both the global and national level. There exist multiple data sources that can be leveraged. For example, the recent CGAP/World Bank Group (WBG) *Financial Access* report⁵, in its second year of collection and dissemination of global financial inclusion data, is promising as a global benchmark of the state of financial inclusion on an annual basis. The report aims to contribute to the efforts to measure financial access at the country level globally, to develop a consistent database updated on an annual basis, and to analyze and present the data in an annual report. A handful of countries have also developed high quality statistics at the national level. However, more progress can and must be made, notably in increasing the availability and quality of data, harmonizing definitions and approaches for data collection, expanding the scope of collection to include all dimensions of inclusion, resolving aggregation challenges, and ensuring better comparability of data.

While setting a global numeric target has been identified as a key action item for the future work of the G20 in financial inclusion, it was agreed during the FIEG meeting in Seoul, 10-11 September 2010 that under the current circumstances there is still insufficient harmonized / easily comparable data and inconsistency in methodologies and definitions to calculate a sound and credible numeric target. While the G20 would still like to move towards setting a global target for financial inclusion, it was agreed that its immediate next step is to focus on consolidating and harmonizing data gathering activities, developing a common understanding on the measurement framework and methodology and determining the key top line indicators to track at the country and global level, supporting the development of new indicators, and supporting countries’ national data collection and target setting activities. To accomplish these objectives, the G20 requested that AFI, CGAP / WBG and IFC develop and draft the terms of reference for a G20 Data and Measurement Task Force.⁶

2. Introduction: The G20 Data and Measurement Task Force

To bridge the data gaps, the G20 will create a Financial Inclusion Data and Measurement Task Force, within the proposed Global Partnership for Financial Inclusion (GPMFI) structure. The overall goal of the Task Force is to improve the quantity and quality of measurement and data on financial inclusion (of households/individuals and MSME).

To this end, the task force has three main objectives. First, the Task Force will contribute to and strengthen the global dialogue on financial inclusion data and measurement and will facilitate concrete actions through direct

⁵ CGAP / World Bank Group, *Financial Access 2010: The State of Financial Inclusion Through the Crisis*, September 2010

⁶ Chair’s summary of third G20 FIEG meeting 10-11 September 2010, Seoul Korea

support of countries implementing data initiatives. Second, the Task Force will engage the different stakeholders, including G20 and non-G20 countries, and regional and global data efforts in financial inclusion, to come to a general consensus on issues of common definitions of the components of financial inclusion and consistent methodologies. To this end, the Task Force will promote more harmonized data across national and international initiatives to allow for greater cross-country comparison and aggregation, while at the same time minimizing duplication and coordinating efforts in critical areas. Third, the Task Force will make informed recommendations to the G20 on global numeric targets for financial inclusion and develop the appropriate frameworks and structure to track progress in this area when the time is appropriate.

This will allow for the necessary groundwork to set and later monitor progress towards realistic global targets for financial inclusion, which will require more data coverage with even better quality (particularly country-led measurement), greater consistency in definitions and methodologies, and improved coordination of the different stakeholders.

The Task force will build on the work already developed by the G20 SME Finance Data working group and the AFI Financial inclusion Data Working Group and will cover both individual/household and SME finance. This task force will be composed of institutions and other entities and representatives that are well-positioned to contribute to the goal of improving financial inclusion data and measurement in developing countries, particularly in non-G20 countries, where the deficiencies in both data as well as financial access for the poor are the greatest. The membership list will build on the G20 SME Finance Data working group membership list.

3. Mandate of Data and Measurement Task Force

The Task Force's mandate consists of the following components:

- Encourage better data collection and sharing on the part of central banks and financial regulators. Provide/exchange tools and approaches for countries to improve their measurement for the purpose of promoting financial inclusion, increasing awareness of the issue, facilitating target setting, and strengthening and informing national financial inclusion strategies.
- Harmonize data definitions and collection across institutions and countries to encourage better data collection and comparison.
- Develop metrics that cover multiple dimensions of financial inclusion (diversity of services and delivery mechanism; access, quality, usage, impact) for more meaningful measurement.
- Develop methods and approaches to combine household and enterprise data so as to be able to tell the full and coherent story of financial inclusion.
- Extend data collection to encompass the informal sector.

4. Action Steps and Timeline

The Task Force will engage in the following action items during the coming year (October 1, 2010 to September 30, 2011), with the goal of laying the groundwork to calculate reasonable global targets for financial inclusion, developing the necessary tools to continue to measure and monitor progress, and fully engaging relevant countries in the process (i.e. countries with high levels of financial exclusion).

- 1) Determine and finalize the structure and functions of the Data & Measurement Task Force.
 - a. Finalize the terms of reference, the coordination structure and work plan for the Task Force (December 1, 2010) (see 5,6,7 below for initial proposals)
- 2) Stocktaking and planning
 - a. Through a comprehensive survey exercise of stakeholders and countries, map existing data initiatives and their corresponding frameworks on financial inclusion and access to finance by

- MSMEs, including country-specific and country-led initiatives, the AFI Financial Inclusion Data Working Group, CGAP, IFC, OECD/FINANCIAL NETWORK ON FINANCIAL EDUCATION, BIS, World Bank Group, UNDP, IMF, ILO, as well as private sector data. This mapping exercise will building on the existing information already prepared by the G20 SME Finance Data working group. (by November 1, 2010)
- b. Perform a gap analysis, identifying overlaps in the existing data and areas to expand data. Also perform a feasibility assessment as to the viability of harmonizing existing and future data. As a result develop a plan for how the relevant stakeholders will be engaged and leveraged to fulfill the objectives of the Task Force. Develop a strategy to improve the consistency in existing and planned international and country-led data initiatives. For instance, review the possibility of introducing regulatory requirements on banks and other financial institutions to report on lending by type of borrower. (by February 1, 2011)
- 3) Define the components of financial inclusion and develop a global measurement framework including the common understanding of the definitions
 - a. Develop a consensus among developing countries, MDBs, research institutions, knowledge centers, and other relevant stakeholders on common components and definitions of financial inclusion and standardization of key methodologies for the purpose of comparable measurement. (by June 1, 2011)
 - b. Support the development of new indicators and measurement techniques to capture different dimensions of financial inclusion (e.g. impact measurement and qualitative measures such as consumer protection, financial education, employment, quality of life indicators and other social impact indicators). (Throughout the year)
 - c. Develop the tools and framework to monitor progress on the global status of financial inclusion. (Throughout the year)
 - 4) Implementation of the financial inclusion measurement strategy and framework
 - a. Engage and empower countries to collect data consistent with a common global measurement framework, including reviewing how best to build on existing data sources including public registries and commercial credit bureaus and other private data sources to complement/support the respective data collection efforts.(Throughout the year)
 - b. Harmonize and coordinate both SME and household data initiatives. (Throughout the year)
 - c. If confirmed appropriate based on the stocktaking exercise performed by the Task Force, implement the recommendations from the G20 SME finance data working group (Throughout the year):
 - i. Request that the World Bank/CGAP and IMF collect consistent supply side data, disaggregated for households, micro, small and medium-sized enterprises in order to consolidate and harmonize their global efforts within their respective mandates.
 - ii. Request for continuity and expansion of demand side data from the World Bank, OECD/Financial Network on Financial Education and ECB, harmonizing their global efforts and including more sectors in their data collection efforts such as enterprises with less than 5 employees and the informal sector.
 - iii. Request MDBs, IFIs and DFIs to harmonize their reporting on their support for SME Finance, as well as encourage initiatives to make institution level data for SME Finance available including the collection of supply side data from funders under the leadership of the IFC/CGAP.
 - 5) Recommendations for setting global targets
 - a. Support countries in developing national-level strategies and targets based on measurement results

- b. Develop a set of recommendations for the G20 on setting a reasonable, evidence-based global target informed by national-level strategies and targets for financial inclusion

5. Outputs

Outputs of the above stated action items include:

- 1) Finalized structure and work plan for the Data & Measurement Task Force
- 2) Map of existing data initiatives and a preliminary gap analysis
- 3) A strategy for creating a more complete and consistent financial inclusion data landscape, identifying areas for action in coordinating, harmonizing and/or further developing data on the global- and national-level
- 4) More robust and consistent country-led financial inclusion data
- 5) Greater harmonization among all national and global data initiatives
- 6) Realistic and measureable national financial inclusion targets based on national strategies
- 7) A set of recommendations for global target setting based on bottom-up and top-down analyses and results of data initiatives.

6. Coordination Function and Composition of the Task Force

Moving forward, the Task Force will have to determine the best coordinating structure to fulfill its objectives and tasks efficiently and effectively:

- 1) Leadership: The Task Force can be led by one coordinating member or two jointly. The terms, roles and responsibilities of this post will have to be defined by the Task Force, but in general, the leader will ensure that reasonable action plans are developed, that deliverables are consistent with the G20's objectives, and that country-led initiatives are fully incorporated with the task force's activities. The task force may elect an honorary chair to represent the task force and its concerns.
 - a. Sub-coordinating bodies: Within the overall leadership structure of the Task Force, specific activities can possibly be separated and designated to one member or one sub-group of members to take the lead.
- 2) Membership/Composition of the Task Force: The member list for the Task Force will include the AFI Financial Inclusion Data working Group, IFC and CGAP, and will possibly also draw from the G20 SME Finance Data working group member list. The specific conditions, roles and responsibilities of membership will have to be defined.
- 3) Other stakeholders: As appropriate, particularly for specific technical issues to be addressed by the Task Force, coordination functions must also involve other stakeholders who are not members of the Task Force, including countries actively engaged in issues of financial inclusion.
- 4) Meetings: The Task Force will decide on the frequency of meetings (possibly twice a year) and the best mode for ongoing communication and follow-up throughout the year.

7. Communication

The Data and Measurement Task Force will produce regular progress notes on the agreements reached among the stakeholders, including the relevant countries. The key findings and recommendations will be shared with the G20 countries through the G20 communication mechanisms and will be shared with non-G20 countries through the AFI network and the World Bank Group network on behalf of the G20.