



## **2018 Progress Report to the G20 Leaders**

*G20 Summit, Buenos Aires, 30 November - 1 December 2018*

## Outline

This report summarizes the Global Partnership for Financial Inclusion (GPFI) activities from December 2017 to November 2018. It presents the main achievements under the Argentina's Presidency and describes the outlook into the start of the Japanese Presidency.

The report is structured as follows:

- Recommendations to the G20 Leaders
- GPFI Priorities in 2018
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## Recommendations to Leaders

- To encourage policymakers in both G20 and non-G20 countries to use the G20 Financial Inclusion Policy Guide when developing, implementing and evaluating financial inclusion strategies, plans and programmes. Specially, when intending to use digital financial services.
- To take actions to harness digitisation to financially include those individuals and MSMEs operating in the informal economy.
- To further implement the G20 High-Level Principles for Digital Financial Inclusion, in particular through promoting the G20 Financial Inclusion Policy Guide, peer exchange and the sharing of good practices.
- To highlight the gender dimension in financial inclusion and incentivise the gender-disaggregated data collection.
- To lift the development of a safe and efficient system of digital customer identification and verification and to encourage the achievement of greater international coordination on digital onboarding policies.
- To encourage the FSB and the relevant SSBs to advance dialogue on issues related to the supervision and oversight of the fast-changing landscape of digital financial inclusion and recognise continued progress on enhancing collaboration, coordination and information sharing among SSBs on crosscutting issues of relevance to financial inclusion in the work of multiple SSBs and other global bodies.
- To highlight the importance of developing an interoperable payments infrastructure and creating incentives for consumers to use and retailers accept of digital payments.
- To reaffirm the need for continued action to reduce the cost of sending remittances, while ensuring the quality of remittance services and their impact on local economic development.
- To encourage the GPFI to support the implementation of the Financial Stability Board's action plan on correspondent banking by monitoring the recommendations on 'the use of innovation in the remittances sector'.
- To encourage the responsible use of alternative data in credit reporting.
- To encourage the identification of the risks for consumers and raise awareness of using digital financial services.
- To recognise actions in the Roadmap on financial inclusion of Forcibly Displaced Persons to expand access to and usage of appropriate financial services for this vulnerable group.

- To encourage the GPFI to streamline its work program and structure so it continues to support economic growth, financial stability and reducing inequality.

## GPFI 2018 Priorities

Argentina's Presidency theme has been "building consensus for fair and sustainable growth". In this context, Argentina's main priority for the GPFI for 2018 has been the interaction between digitisation and informality. By boosting the access and use of formal financial services by unserved and underserved individuals and MSMEs by means of digitisation, financial inclusion is paramount to this goal.

Access to and use of financial services plays a critical role in supporting inclusive and sustainable development. Despite remarkable progress in the financial inclusion agenda, there is still a gap in access, use, and quality. Access to and use of financial services is affected by the interplay of demand-side and supply-side factors. Demand constraints such as income insufficiency, poor education and financial illiteracy, and supply constraints such as distance and high costs due to an underdeveloped payments infrastructure are important determinants of financial exclusion. This gap is more prominent when disaggregated by gender. As a result, many individuals and firms have no safe and reliable way to save, invest, make payments and insure against risk. This has negative repercussions for livelihood, productivity, growth and inequality.

Informality, understood as "all economic activities by workers and economic units that are in law or in practice not covered or insufficiently covered by formal arrangements", is an important demand constraint to financial inclusion. Households and small businesses in the informal economy find it particularly difficult to access and use formal financial services. Additionally, financial exclusion of both individuals and MSMEs is more widespread in countries where the size of the informal economy is greater.

Digitisation, or the adoption of digital technologies and approaches, offers the potential to enable broad-based financial inclusion especially the one driven by informality. The increasing adoption of digital technologies and approaches, together with effective supervision, can expand the scale, scope and reach of financial services, closing the remaining gaps in financial inclusion, especially those associated with informality. Digitisation offers an easy-to-implement opportunity to address the eligibility, affordability and physical barriers to formal financial access, facilitating the introduction of new products and services, and improving the information environment. To leverage the potential value of digitisation in the informal economy, widespread mobile connectivity and ownership are important preconditions to reap the benefits.

In this sense, Argentina has developed a G20 Financial Inclusion Policy Guide to assist regulators and policymakers to harness digitisation to financially include those individuals and MSMEs in the informal economy. To do so, it has focused on four key enablers:

1. Digital on-boarding.
2. Digital payments infrastructure.
3. Use of alternative data for credit reporting.
4. Financial consumer protection, financial literacy and data protection.

Digitisation is not a means to formalisation, yet access to formal financial services can contribute to reduce informality in the long run. Access to formal financial services can increase the credibility of constrained individuals and firms, helping them overcome the entry cost into the formal sector. It can also boost productivity, reducing the opportunistic informality and the number of individuals and MSMEs that choose to produce and trade in the informal sector. However, informality remains a complex issue that requires policy action on several fronts, such as in the areas of institutional development and employment regulations.

## Work undertaken, achievements and prospects

### G20 Financial Inclusion Policy Guide

The final output of the work for 2018 was a the G20 Financial Inclusion Policy Guide, which integrated the work of each of the GPFI Subgroups into a unified deliverable on which policymakers in G20 and non-G20 countries can rely to advance financial inclusion. In addition, a number of actors outside the government may play an important role in delivering digital financial services to the informal sector, including civil society organizations, professional associations and the broad private sector. Concerted efforts by the public and the private sector are therefore critical to capture the opportunity offered by digitisation.

The G20 Financial Inclusion Policy Guide outlines a set of key non-binding policies to financially include individuals and firms in the informal economy by means of digitisation. It brings together evidence and consensus-based policy recommendations and guidance on four policy areas. These areas are deemed important to the fair and affordable inclusion of individuals and MSMEs operating in the informal economy into the formal financial sector. These areas include:

- A. Digital on-boarding.
- B. Digital payments infrastructure.
- C. Use of alternative data for credit reporting.
- D. Financial consumer protection, financial literacy, and data protection.

The G20 Financial Inclusion Policy Guide suggests key policy measures that could be considered in applicable national financial inclusion strategies and country level actions aiming at financial inclusion, always taking into account country contexts and national circumstances. It includes key building blocks which need not be implemented in sequence, providing flexibility and an opportunity to be used as a check list, if desired. While the G20 Financial Inclusion Policy Guide is gender-neutral, policymakers and stakeholders are encouraged to have regard to any particular barrier to women's financial

inclusion when implementing the recommendations included in this document.

All the policy areas of the G20 Financial Inclusion Policy Guide are being piloted and implemented in both G20 and non-G20 countries in Latin America, Africa, Asia and the European Union with the collaboration and involvement of the GPFI Implementing Partners. It is expected that these pilots continue in 2019.

### Regulation and Standard Setting Bodies Subgroup

Pursuant to Action Area 3 of the 2017 FIAP, one focus of the work of the Regulation and Standard Setting Bodies Subgroup was the development of input to the G20 Financial Inclusion Policy Guide to advance digital on-boarding systems while complying with customer due diligence requirements (and related requirements pertaining to combating money laundering and terrorist financing) across countries. This work was intended to help advance the implementation of Principle 7 of the G20 High-Level-Principles for-Digital Financial Inclusion (“Facilitate Customer Identification for Digital Financial Services”), which calls for the development of a safe and efficient system of digital customer identification and verification. Argentina expects that this work will also contribute toward achieving greater international coordination on digital on-boarding policies. This work built upon the work of the Chinese and German G20 Presidencies.

Additionally, the GPFI Subgroup on Regulation and SSBs continued working on Action Area 3 of the 2017 FIAP, which calls for the GPFI to promote the mainstreaming of financial inclusion in the work of the standard-setting bodies (SSBs) and other relevant global bodies and to increase understanding of the interdependence of financial inclusion, stability, integrity, and consumer protection. Subgroup activities also contributed to Action Area 4 of the 2017 FIAP, which calls for the GPFI to encourage effective and consistent incorporation of financial inclusion in the financial sector assessments. As to both the Subgroup’s relevant Action Areas, the Fourth FSI-GPFI Conference on Global Standard-Setting Bodies and Innovative Financial Inclusion (4th FSI-GPFI Conference) has been key. Taking place at the Bank for International Settlements on 25–26 October



2018, the 4th FSI-GPFI Conference focused on the theme implications of FinTech and other regulatory and supervisory developments for standard setting and financial inclusion. The agenda explored key developments in products, services and delivery platforms relevant to reaching financially excluded and underserved populations that are being driven by the adoption and innovative application of FinTech and innovation more broadly by both existing players and new entrants, as well as related developments in regulation and supervision of relevance to financial inclusion. Prepared with the active engagement of the GPFI's co-sponsor, FSI, as well the SSBs, and other relevant global bodies involved, the 4th FSI-GPFI Conference proved in particular the increasing numbers of cross-cutting issues -relevant to multiple SSBs and multiple national authorities, as well as the responses of both to the new challenges and opportunities posed.

Likewise, the Subgroup has continued to support the UNSGSA's engagement with the SSBs, including considerations of likely relevance to the organization of the anticipated Fifth High-Level Meeting of SSB Chairs and Secretaries General convened by the UNSGSA and the BIS with the objective of maximising synergies with the agenda and content of the 4<sup>th</sup> FSI-GPFI Conference.

Furthermore, the Subgroup has contributed to the work on the financial services needs of forcibly displaced persons (FDPs) via coordination and cooperation with the GPFI Temporary Steering Committee that has prepared a G20 Roadmap to be presented to Leaders.

### Looking ahead to 2019

To complete the FIAP by end 2020, the Regulation and Standard Setting Bodies Subgroup will have to continue progress on Action Area 3 and to focus increased attention on Action Area 4. The progress needed regarding Action Area 3 includes: (i) continued support to the SSBs and other relevant global bodies to formulate plans and take concrete steps towards enhanced mechanisms for coordination, collaboration, and information sharing among them on financial inclusion, commencing with increased engagement by the SSBs in planning and coordination of joint activities; (ii) continued increase in private sector participation in SSBs events such as the 4<sup>th</sup> FSI-GPFI Conference (which witnessed a more than five-fold increase in the level of

private sector participation over the previous biennial conference in 2016); (iii) continued increase in the number of countries involving private sector for feedback and consultation on relevant policy making processes related to financial inclusion; and (iv) continued encouragement, support and/or contribution to increased understanding of interdependence of inclusion, stability, integrity, and consumer protection in the work of SSBs and other relevant global bodies.

The specific Action Area 4 activities outlined in the FIAP to encourage effective and consistent incorporation of financial inclusion in financial sector assessments include: (i) contributing to the further development of methodologies and other tools employed in financial sector assessments; (ii) increasing understanding of financial inclusion by financial sector assessors; (iii) promoting better understanding of the lessons learned by national authorities undergoing assessments on implementation of global standards and guidance; and (iv) encouragement, support and/or contribution to reviews and/or analyses of publicly available financial sector assessment reports across the SSBs and FSAPs and Article IV consultation reports. The 4<sup>th</sup> FSI-GPFI Conference represented a significant deepening of the involvement of the International Monetary Fund (IMF) in the activities of the Subgroup and the GPFI more broadly – key to making progress on Action Area 4, given the IMF’s co-leadership of the joint IMF/World Bank Group Financial Sector Assessment Program (FSAP). As the Subgroup is only in a position to influence FSAPs indirectly, further progress on Action Area 4 in 2019 will depend largely on the feasibility of increased interest and engagement on the part the World Bank Group and IMF.

### Markets and Payment Systems Subgroup

The overall goal of the Subgroup is to advance utilization of payment systems and services and remittance flows, in the pursuit of increased and sustainable financial inclusion. The Subgroup focuses on emerging technologies and business models and seeks to incorporate strong links to market-based approaches through engagement with financial service providers. The Subgroup also undertakes activities that establish a supportive environment for remittances, focusing on approaches that seek to reduce transaction costs of and improve access to remittance services.

In 2018, following Action Area 9 from the 2017 G20 Financial Inclusion Action Plan (FIAP) that requires to focus on expanding opportunities for innovative approaches to grow responsible financial inclusion as to incorporate strong links to market based approaches through engagement with financial services providers, including banks and non-banks, and technology providers, the Markets and Payments Systems Subgroup has developed policy guidelines to develop an interoperable payments infrastructure and to create incentives for consumers to use and retailers accept of digital payments. These guidelines have been incorporated into the G20 Financial Inclusion Policy Guide.

Furthermore, regarding the monitoring of the progress of the G20 National Remittance Plans (NRP), this year the Markets and Payments System Subgroup has presented a report on progress towards a reduction in costs made by countries (including interested non-G20 countries) against their NRP presented in 2017.

Additionally, in 2018, the Subgroup, in collaboration with the Regulation and Standard Setting Bodies (SSB) Subgroup, has worked together with the Financial Action Task Force (FATF) and the Financial Stability Board (FSB) through the FSB Remittance Task Force (RTF) to identify and address issues relating to remittance provider's access to banking services. The FSB (RTF) has presented final conclusions and recommendations in a report to G20 Ministers and Governors in March 2018 who should then implement these recommendations. The Subgroup as part of the GPFI will monitor the implementation of the recommendations on innovation through the NRP process. The first report on this should be submitted in 2019.

Finally, the Subgroup has also worked in close collaboration with other GPFI Subgroups and with the Temporary Steering Committee on Financial Inclusion for Forcibly Displaced Persons towards the preparation of the final G20 Roadmap to financially include FDPs to be presented to Leaders.

### Looking ahead to 2019

In 2019, the NRP need to be submitted incorporating the developments on innovations that the FSB required the GPFI to monitor through this subgroup. Almost all the work featured in the 2017 is already on track, but there are still

tasks in all three action areas that demand attention. For instance, the Subgroup should participate in and encourage discussions with key stakeholders and remittance providers on this matter as appropriate, it should explore the impact of de-risking on remittance flows, and with particular focus on engaging with public and private sector stakeholders, support the sharing of knowledge and experience on best practices across the sector, it needs to include data on domestic and international remittances and where appropriate, analysis of this data in reports, it requires to explore opportunities and impediments to the digitization of remittance flows, it should issue reports exploring the ability of innovative digital payments to support the achievement of the Sustainable Development Goals, including their role in optimizing remittances' development impact in the country of destination, and finally it ought to issue report/s exploring the role of digital financial services in supporting women's economic participation, building upon the GPFI Report Digital Financial Solutions to Advance Women's Economic Participation.

### SME Finance Subgroup

Financial inclusion of both households and SMEs has been a priority for the G20 and continued to be highlighted under the Argentina's Presidency. The overall goal of the SME Finance Subgroup is to improve SMEs access to finance both in G20 and non-G20 countries, including low-income developing countries. To do so, it focuses, first, on promoting national and global policy reforms (and support implementation efforts) that facilitate the expansion of financial services to SMEs in G20 and non-G20 countries via the implementation of the G20 Action Plan on SME Financing, the G20 High-Level Principles for Digital Financial Inclusion, the G20/OECD High-Level Principles on SME Financing, and the SME Finance Compact via leverage of the SME Finance Forum; second, on identifying and promoting institutional-level good practice, including specific policy and reporting reforms specifically targeted at helping SMEs from particularly difficult and/or underserved segments, including women entrepreneurs, youth entrepreneurs, rural entrepreneurs, forcibly displaced persons and other vulnerable groups.

Building on previous work, in 2018, the SME Finance Subgroup, together with the International Committee on Credit Reporting (ICCR), has developed

policy guidelines to promote the responsible use of alternative data to enhance creditworthiness and improve the access to cheaper and more reliable sources of credit. These guidelines were used as input in the G20 Financial Inclusion Policy Guide.

Additionally, the SME Finance Subgroup has continued working on ongoing activities and has started working on the implementation of the updated 2017 FIAP.

The Implementation Framework of the G20 Action Plan on SME Financing that was adopted at the 2016 Hangzhou Summit has been rolled out in 2017. In 2018, the Subgroup has continued its outreach activities to non-G20 countries through AFI SME Finance Working Group to encourage roll out and invite non-G20 countries to undertake the self-assessment to identify and prioritize areas of reform.

With the aim to improve the harmonisation of SME data collection, the Subgroup conducted a stocktake and developed suggestions for how data resources could be improved through coordination of activities by major collectors. This includes how gender, youth and other key cross-cutting information on SME access to finance can be expanded through this data coordination. In the longer run this work will consider how harmonization of collection methods might be supported through the G20 and its implementing partners.

The Subgroup has finalised the stocktaking of successful practices in financing young entrepreneurs that has been conducted together with the Child and Youth Finance International (CYFI) and the SME Finance Forum.

Moreover, the Subgroup has also worked in close collaboration with other GPFI Subgroups and with the Temporary Steering Committee on Financial Inclusion for Forcibly Displaced Persons towards the preparation of the final G20 Roadmap to financially include FDPs to be presented to Leaders. The Subgroup has analysed the contributions FDP-run small businesses and start-ups to economic development of refugee and host communities and develop recommendations on how to address existing barriers that hinder access to finance for FDP-run SMEs.

## Looking ahead to 2019

In 2019, the Subgroup will focus on measuring progress in the reform areas of the Implementation Framework of the G20 Action Plan on SME Financing. The Subgroup in partnership with the World Bank Group as implementing partner will build on the benchmarking exercise carried out in 2017 and, per Leaders commitment, develop the first progress report. The Subgroup will further support the priorities of the Japanese G20 Presidency in collaboration with the OECD and other implementing partners.

## Financial Consumer Protection and Financial Literacy (FCPFL) Subgroup

The overall goal of the FCPFL Subgroup is to build the capacity of developing and emerging economies to implement audience-appropriate, evidence-based financial consumer protection and financial literacy programs. The Subgroup also focuses on the identification of public, private, and NGO sectors' best practices in consumer protection and financial education policies that support the use of traditional and digital financial products and services.

In 2018, the FCPFL Subgroup had the following tracks of analysis that were focused on implementation and evaluation issues and on further advancing the implementation of the High-Level Principles for Digital Financial Inclusion, especially principles 5 and 6: financial consumer protection and financial literacy; and data protection. Regarding the former, it has developed policy guidelines to identify risks for consumers and raise awareness of using digital financial services. In terms of the latter, the Subgroup has developed high-level guidelines for policymakers on opportunities and challenges of the beneficial use of alternative data. The three outputs have been used as inputs of the G20 Financial Inclusion Policy Guide.

Further, the Subgroup has also worked in close collaboration with other GPFI Subgroups and with the Temporary Steering Committee on Financial Inclusion for Forcibly Displaced Persons towards the preparation of the final Roadmap to financially include FDPs to be presented to Leaders.

## Looking ahead to 2019



There are expected results in both Action Area 5 and 6 that require attention in the following years in order to complete the FIAP.

Action Area 5, to improve the capacity of public authorities and other relevant stakeholders to develop, implement, and rigorously evaluate financial literacy and consumer protection initiatives and policies, presented no activities in 2018. The Subgroup should gather evidence of the effectiveness of on-going country-level technical assistance and capacity building to support financial consumer protection and financial literacy programs in emerging economies and developing countries especially for underserved and/or vulnerable groups, the GPFI and its implementing partners should promote and support activities and publications on data harmonization used to measure financial literacy, the GPFI and its implementing partners should encourage public-private sector collaborations in advancement of responsible finance, financial inclusion, and financial literacy, and the GPFI and its implementing partners scale-up their engagement in financial literacy initiatives, including using digital platforms to complement and support safe and beneficial use of innovative (digital) financial products by consumers, including micro and/or small businesses.

Regarding Action Area 6, to promote consumer protection and financial education good practices for financial products and services, including existing and emerging technologies, with emphasis on underserved and vulnerable groups, the GPFI and its implementing partners should promote the collection of gender disaggregated data to conduct evaluation and dissemination of findings including gender differences on financial literacy and consumer protection and the GPFI will need to support the use of suitable financial technologies and platforms to increase financial wellbeing of MSMEs and vulnerable consumers.

### GPFI streamlining process

As part of its Presidency, Argentina has reviewed the Finance Track agenda and working arrangements with the objective to ascertain whether there is any scope for streamlining and/or refocusing the agenda. Against this background, Argentina conducted a survey of Finance and Central Bank Deputies in November 2017. In terms of the GPFI, the survey revealed that more than half the members supported the idea of analysing potential

changes to the GPFI.

In light of the survey results, and following subsequent discussions, Finance and Central Bank Deputies agreed at their meeting in March to start discussions to assess the GPFI with a view to examining its working arrangements and agenda. It was further agreed that Ministers and Governors ask the GPFI in July to start discussions in the second half of 2018 with a view to implementing changes in 2020, when the FIAP is to be updated.

At the July meeting in Buenos Aires, Finance Ministers and Central Bank Governors (FMCBG) asked the GPFI to *“streamline its work program and structure so it continues to support economic growth, financial stability and reducing inequality”*. In relation to the way forward, at the July meeting in Buenos Aires, FMCBG agreed that *“to ensure the GPFI continues to make a positive contribution to financial inclusion, we ask that it considers where its work could be rationalised and prioritised. We also ask the GPFI to consider its current structure with a view to more closely aligning it with other working arrangements in the G20 finance track. This includes combining the work of the four GPFI subgroups into one working group, appointment of working group co-chairs and changing its membership arrangements. We expect the GPFI to provide a roadmap by the Leaders’ Summit in December on the path to achieving the requested changes in 2020”*.

Considering this mandate, the GPFI membership has replied to a survey, discussed the desired streamlining outcomes at the October plenary meeting, and a roadmap for streamlining the GPFI’s work programme and structure was prepared.

## Looking ahead to 2019

The Japanese and Saudi presidencies will be in charge of implementing these changes by following the Roadmap. In 2019, the GPFI will review its work program and structure, to incorporate the changes into the governance documents in 2020.



## G20 Roadmap: A Summary of Voluntary Actions for Progressing Towards the Sustainable and Responsible Financial Inclusion of Forcibly Displaced Persons.

The GPFI was asked by the G20 Leaders to continue working on “Financial Inclusion of Forcibly Displaced Persons”, its key priority in 2017, and to develop a G20 Roadmap for ‘sustainable and responsible financial inclusion of forcibly displaced persons by 2018’ (Hamburg Action Plan, 2017).

In 2018, the GPFI and its Temporary Steering Committee (TSC) jointly developed in close cooperation with G20 and non-G20 countries, humanitarian and development agencies, standard-setting bodies, academia, financial service providers, and other relevant international organizations and stakeholders the requested G20 Roadmap, which was sent to the Leaders. The GPFI Workshop on “Financial Inclusion of FDPs” in September 2018 in The Hague convening over 90 participants from 28 countries can be seen as a central building block in developing the roadmap.

The G20 Roadmap builds on the discussions, the identified common challenges and the agreed priority areas for action summarized in the GPFI Policy Paper (2017). It aims at catalysing actions by all relevant stakeholders and provides guidance for all stakeholders by identifying and examining promising, concrete measures and instruments to enhance financial inclusion of FDPs and by delineating respective responsibilities.

## List of GPFI Documents in 2018

- G20 Policy Guide. Digitisation and Informality: Harnessing Digital Financial Inclusion for Individuals and MSMEs in the Informal Economy, GPFI
- G20 Digital Identity Onboarding, GPFI
- Achieving Development and Acceptance of an Open and Inclusive Digital Payments Infrastructure, GPFI
- Use of Alternative Data to Enhance Credit Reporting to Enable Access to Digital Financial Services by Individuals and SMEs operating in the Informal Economy, GPFI
- Data Protection and Privacy for Alternative Data, GPFI
- G20/OECD Policy Guidance - Financial Consumer Protection Approaches in the Digital Age, GPFI
- G20/OECD INFE Policy Guidance - Digitalisation and Financial Literacy, GPFI
- G20 Roadmap: A Summary of Voluntary Actions for Progressing Towards the Sustainable and Responsible Financial Inclusion of Forcibly Displaced Persons, GPFI
- GPFI Work Program and Structure, A Roadmap to 2020, GPFI
- 2018 Update to Leaders on Progress Towards the G20 Remittance Target, GPFI