



**G20 GERMANY 2017**  
HAMBURG

**GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION**  
**GERMAN 2017 PRIORITIES PAPER**

# GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION (GPI)

## German 2017 Priorities Paper

### Background

A functioning and stable financial system is a prerequisite for a functioning national economy. Only if households and businesses have the possibility to set up bank accounts for savings deposits, take out loans, purchase insurance, and make and receive money transfers, is it possible for sustainable economic structures to develop. Financial inclusion, i.e. sustainable financial systems that offer all households and businesses access to a decent range of financial services, is therefore a key element for achieving sustainable pro-poor economic growth and fostering employment, especially in the case of women and young people. That is why Financial Inclusion is a key component of the 2030 Agenda and an essential factor for the achievement of the Sustainable Development Goals.<sup>1</sup> Better developed financial systems can make the task of reducing poverty and economic inequalities more achievable.<sup>2</sup> Access to secure and sustainable financial services also helps create more stability in national and international financial systems.<sup>3</sup> It is part of the G20 contribution towards creating more sustainable and more resilient societies.

Despite enormous progress in recent years, there are still more than 2 billion people<sup>4</sup> and about 300 million companies without any access to formal financial services<sup>5</sup>. This is particularly the case in sub-Saharan Africa. Here, more than 70% of the adult population is without access to formal financial services. For women, the likelihood that they will have an account with a formal financial institution is 9 percentage points lower than for men.<sup>6</sup>

The rapid development and roll-out of digital technologies in recent years has, in particular, created new possibilities for bringing about positive changes in this situation. Digital solutions offer innovative approaches when it comes to the provision and design of financial services. For example, remote regions can also be reached cheaply and products can be better adapted to the needs of customers.

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<sup>1</sup> Klapper, El-Zoghbi, Hess: Achieving the Sustainable Development Goals. The Role of Financial Inclusion. April 2016; [https://www.unsgsa.org/files/3114/6489/8605/sdgs\\_paper\\_final\\_003.pdf](https://www.unsgsa.org/files/3114/6489/8605/sdgs_paper_final_003.pdf)

<sup>2</sup> An overview of this discussion can be found in: Beck, Thorsten; Demirgüç-Kunt, Asli; Levine, Ross (2007) Finance, Inequality and the Poor, Working Paper, World Bank.

<sup>3</sup> IMF: Financial Inclusion: Can It Meet Multiple Macroeconomic Goals? – <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1517.pdf>.

<sup>4</sup> Khan, H. R. 2011. Financial inclusion and financial stability: are they two sides of the same coin? Address by Shri H. R. Khan, Deputy Governor of the Reserve Bank of India, at BANCON 2011, organised by the Indian Bankers Association and Indian Overseas Bank, Chennai, India, 4 November.

<sup>5</sup> Global Financial Inclusion (Global Findex) Database, World Bank, Washington DC; <http://www.worldbank.org/globalfindex>

<sup>6</sup> IFC, McKinsey (2010): Two trillion and counting.

<sup>6</sup> The Global Findex Database 2014.

## Germany's GPI priorities

Guided by the three pillars of the German G20 Presidency in 2017: **building resilience; improving sustainability; and assuming responsibility**, the GPI will develop ongoing processes further and will support the implementation of the G20 Financial Inclusion Action Plan. Important priority areas are:

1. Review and Update of the Financial Inclusion Action Plan: 2030 Agenda and Digitisation
2. Implementation of the High Level Principles for Digital Financial Inclusion: Opportunities and Risks of Digital Financial Inclusion
3. Implementation of the G20 Action Plan on SME Financing
4. Financial Inclusion of Vulnerable Groups: Forcibly Displaced Persons

Cross-cutting issues will be taken into account and there will be a special focus, as far as inclusion is concerned, on gender, youth, poor people and rural areas.

### 1. Review and Update of the Financial Inclusion Action Plan (FIAP) and GPI Structure

The 2017 review and update of the FIAP, which was announced in the revised 2014 FIAP<sup>7</sup> and reaffirmed by the leaders in the Hangzhou Action Plan, will enable appropriate attention to be given to the global challenges and opportunities of the present time. This concerns the following areas:

- Stocktaking and assessment of activities to date.
- Aligning the FIAP with the 2030 Agenda and the Addis Ababa Action Agenda, and addressing the opportunities and challenges for financial inclusion through advances in digitisation.
- Improving accountability through the establishment of a regular process for reviewing the results framework.
- Reviewing and finalising the GPI Terms of Reference and the sub-group ToRs.
- Defining a clear process for appointing implementing partners and affiliated partners. Steering the process and involving all GPI members (member states, implementing and affiliated partners) through the German Presidency.

### 2. Implementation of the High Level Principles for Digital Financial Inclusion

In all fields of life, but especially in the financial sector, digitisation is advancing rapidly, and is changing or enabling a range of innovative business models. Just within the period from 2011 to 2014, digital business models gave 700 million additional people access to financial services.<sup>8</sup> Under the German Presidency the GPI will take key first steps to implement the High-Level Principles for Digital Financial Inclusion<sup>9</sup> adopted by the leaders at the Hangzhou Summit.

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<sup>7</sup> 2014 FIAP, p.9. Available: <http://www.gpi.org/publications/financial-inclusion-action-plan>

<sup>8</sup> The Global Findex Database 2014

<sup>9</sup> <http://www.gpi.org/publications/g20-high-level-principles-digital-financial-inclusion>

This concerns the following fields of action:

- Focusing the FIAP more clearly on the opportunities and risks of digitisation.
- Drawing up a stock-taking report on “Digital Opportunities to Close the SME Credit Gap: Potential of ‘alternative data’ for SME Finance in the SME Finance Sub-Group”.
- Preparation of the topic “Data Security and Consumer Protection in the Context of Digital Financial Services” (Principle 3,<sup>10</sup> Principle 5<sup>11</sup>) within the framework of a stock-taking report. GPI input for and participation in the Responsible Finance Forum with the topic “Opportunities and Risks in Digital Financial Services – How do we best protect consumers and their privacy?”
- Study on “Emerging Practices of Digital Financial Inclusion” on country cases for digital financial inclusion. This study is intended to promote peer exchange between countries.

### 3. Implementation of the G20 Action Plan on SME Financing

Under the German Presidency we will continue working on the **implementation of the G20 Action Plan on SME Financing**,<sup>12</sup> which was adopted in 2015 under the Turkish Presidency.

Specifically, the Action Plan confirms the key role of the following framework conditions for SME financing: a) improving framework conditions for credit reporting for SMEs; b) reform measures meant to facilitate borrowing by broadening the range of acceptable collateral to include movable assets; c) reforming the legal framework for insolvency.

- Under the German Presidency, for the first part of the Action Plan there will be a self-assessment by all G20 countries regarding the status of frame conditions for SME financing. The **Implementation Framework of the G20 Action Plan on SME Financing**<sup>13</sup> adopted at the 2016 Hangzhou Summit will be used for this. The Presidency will consolidate these country reports in one baseline report, to be updated every two years.

Furthermore, the Action Plan highlights the need for further analytical work in the following areas: a) innovative financing instruments for SMEs; b) closing SME data gaps; c) the possible role of various instruments for long-term SME financing. The following work is suggested in this regard:

- At the G20 Summit in Hangzhou the G20 representatives reaffirmed that promoting SMEs and integrating them into global supply chains is an important driver for sustainable development and therefore enjoys a high priority. Investigations are to be conducted in order to find out how innovative financing models may promote the integration of SMEs into sustainable global supply chains.

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<sup>10</sup> Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion.

<sup>11</sup> Establish Responsible Digital Financial Practices to Protect Consumers.

<sup>12</sup> <http://www.gpfi.org/publications/g20-action-plan-sme-financing-joint-action-plan-g20-gpfi-sme-finance-sub-group-and-iiwg>.

<sup>13</sup> <http://www.gpfi.org/publications/g20-action-plan-sme-financing-implementation-framework>.

- At the plenary session in Chengdu, the GPI agreed to continue working on the topic of access to financing for rural SMEs. Under the German Presidency the GPI SME Finance Sub-Group – in line with the Action Areas of the 2014 FIAP – will look more closely at the question of how political decision-makers can support rural SMEs in adapting to climate change and in transforming themselves into climate-smart SMEs by expanding financial services.

#### 4. Financial Inclusion of Vulnerable Groups: Forcibly Displaced Persons

For forcibly displaced persons, access to affordable, secure and quickly usable financial services (financial inclusion) is often unavailable or inadequate in host countries; this is especially true for women. This reduces their chances of coping with difficult situations, using their socio-economic skills and potential, and thus contributing to socio-economic development in their receiving country or in their country of origin. Under the German Presidency this highly relevant area of development policy will be placed on the international agenda. This concerns the following fields of action:

- Defining concrete fields of action on the basis of available surveys and drafting policy recommendations.
- Consultation with relevant non-G20 countries
- Medium-term extension of the defined focus on vulnerable groups such as women and young people to include displaced people, and anchoring this topic as a cross-cutting issue in the work of all working groups.

In 2017, the GPI and its sub-groups will further pursue the work on other important topics, i.a. on remittances, financial literacy and the implementation of the GPI White Paper on “Global Standard-Setting Bodies and Financial Inclusion”.

#### Remittances

Remittances are a key source of income for millions of households and businesses. With an anticipated volume of 453 billion US dollars in 2016, remittances are many times higher than all official development assistance (ODA) commitments. At the same time, for many of the remitters and the recipients of remittances, these payments are their first contact with the formal financial system and are therefore an important entry point for other financial services. The G20 commits to continue its efforts to reduce the costs for money transfers, thereby supporting the goals of the 2030 Agenda.<sup>14</sup> Under the German Presidency the GPI will continue its various efforts in regard to remittances, including efforts to strengthen competition, making use of new digital technologies, improving transaction infrastructure or strengthening customer protection. In 2017, for example, national remittances plans will be updated and the progress made by individual G20 countries with

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<sup>14</sup> The 2030 Agenda envisages a reduction in the costs for money transfers to bring them down to below 3% and the elimination of remittance corridors with transfer costs above 5%.

regard to the frame conditions for remittances will be measured. Knowledge sharing and peer learning will also be continued and strengthened. Furthermore, the goal of the GPI is to deepen work on the topic of de-risking and intensify the existing exchange with standard setters (especially the FATF), in order to improve the regulatory framework conditions for remittances.

### **Financial literacy**

Financial inclusion also concerns the ability to use financial services and being able to pay for them. In order to be able to deal appropriately with the risks entailed when making use of financial services, a certain level of financial literacy is required. In order to acquire information about the level of financial literacy in the G20 countries, a report using the range of instruments drawn up by the OECD/INFE is planned. The report will serve as a first step in order to assess the effectiveness and influence of financial literacy programmes.

### **Key dates**

Germany will organise two formal GPI meetings in 2017. These meetings will be complemented by telephone conferences and, if appropriate, by workshops for the sub-groups and side events in the margins of other meetings.

**GPI Workshop**, Review and Update of the Financial Inclusion Action Plan, 23 January 2017, Wiesbaden

**GPI Meeting**, 24 January 2017, Wiesbaden

**GPI Forum**, 2-3 May 2017, Berlin

**GPI Plenary**, 4 May 2017, Berlin

### **Dates of GPI-related events:**

**G20 Conference: “Digitising finance, financial inclusion and financial literacy”** – 25-26 January 2017, Wiesbaden (back-to-back to the GPI Meeting)

**G20 Workshop: “Helping SMEs go global – Moving forward in SME Finance”** – 24 February 2017, Frankfurt.

**Responsible Finance Forum: “Opportunities and Risks in Digital Financial Services – How do we best protect Consumers and their Privacy?”** – 27-28 April 2017, Berlin (back-to-back to the GPI Forum)