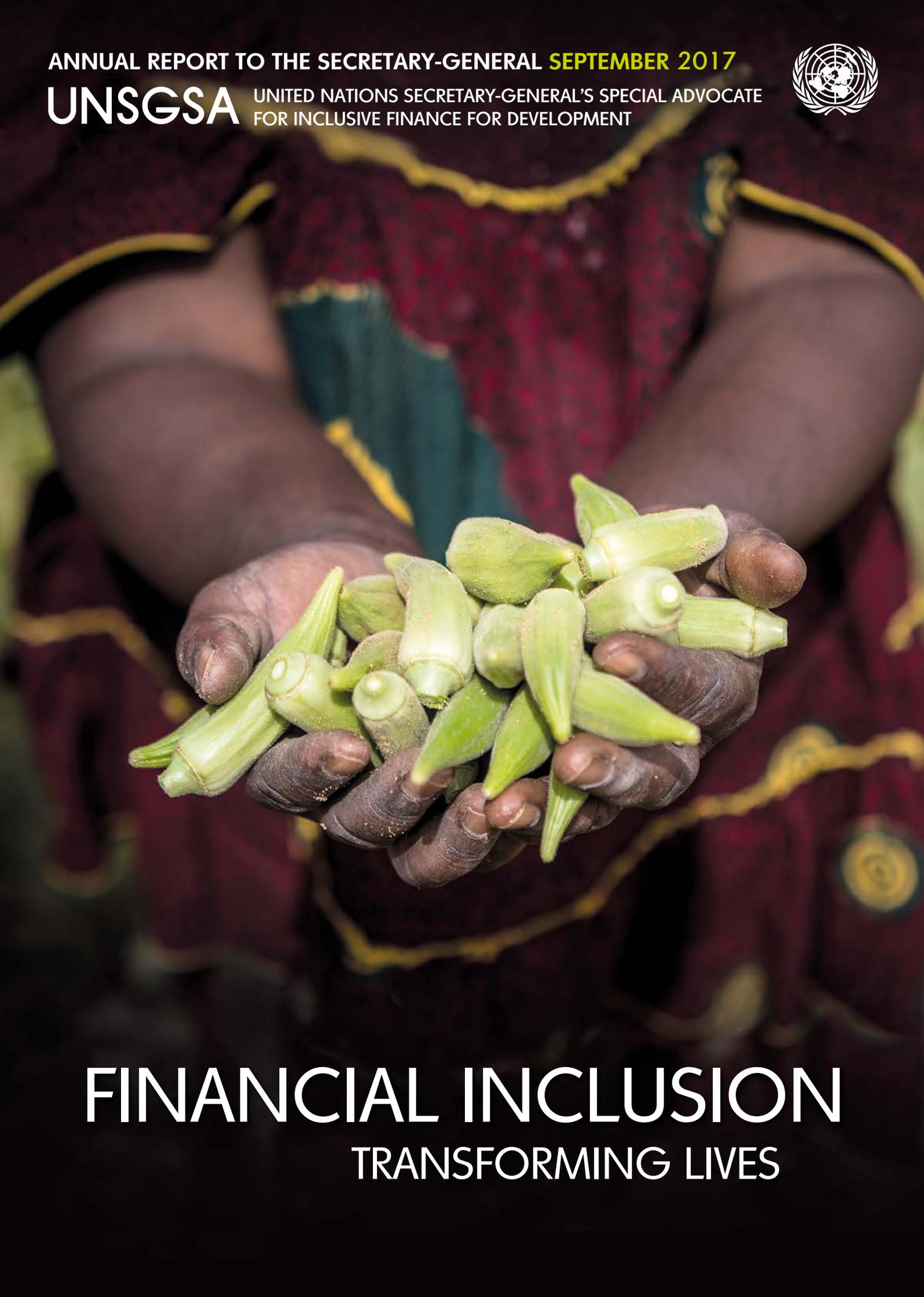


ANNUAL REPORT TO THE SECRETARY-GENERAL **SEPTEMBER 2017**

UNSGSA UNITED NATIONS SECRETARY-GENERAL'S SPECIAL ADVOCATE
FOR INCLUSIVE FINANCE FOR DEVELOPMENT



FINANCIAL INCLUSION

TRANSFORMING LIVES





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Message from the UNSGSA

Financial inclusion is now firmly established as a powerful tool to improve lives and strengthen development. Much work has been done, met by much success, but the path forward has not grown easier.

As I reviewed my priorities as UNSGSA this year, I reflected on what will be required to speed progress as we enter a new, more demanding phase of our work. The story of Ibu Susanti, a honey and tea seller in Indonesia (*opposite; story page 7*), illustrates a number of points we will need to address.

Like hundreds of millions of people, Ibu Susanti lives far from a bank and she finds it hard to save money at home to meet her children's needs. Recognizing a business opportunity in these unserved customers, a local bank created an account with people like her in mind. Collaborating closely with low-income customers, they designed a no-fee savings account accessed by cell phone and supported by nearby shopkeepers who serve as agents for the bank.

Ibu Susanti now saves regularly and can pay her daughter's school fees. And she has a new goal: to set aside enough for her daughter to attend high school.

This story touches on the priority issues that I have chosen for my work:

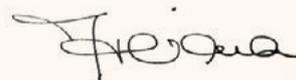
- **Customer-centricity:** A sharper focus on customers will significantly influence whether they take up financial services and use them in ways that improve their lives. In the case of Ibu Susanti, the bank's move to involve customers in the design of the product, rather than taking a top-down approach, encouraged it to address cost, convenience, and simplicity; the result was a more customer-centric product.
- **Supportive regulations for digital financial inclusion:** Ibu Susanti's bank was able to offer a product she finds valuable because new regulations made it possible for local shopkeepers to function as banking agents so she doesn't have to travel. Making sure policies support digital financial inclusion is vital.
- **Development impact:** Ibu Susanti's children are attending school thanks to her use of financial

services—specifically savings, which allows her to set aside funds for fees and transport. Financial inclusion can help achieve many of the Sustainable Development Goals by reducing poverty and hunger, improving education and health, and promoting economic and gender equality.

- **Reaching neglected populations:** Globally, women like Ibu Susanti are less likely than men to have access to financial services. The need to reach neglected groups including farmers, small and medium-sized enterprises, the poor, and women lies at the very heart of financial inclusion.

Technology holds extraordinary potential but the stakes are higher than ever. The impact of digital finance has been demonstrated on multiple levels, from poverty reduction to GDP growth. Yet technology carries significant risks that demand appropriate regulation, good provider practices, and customer preparation. In addition, persistent low account usage makes it clear that the one-size-fits-all approach to products and customers does not work.

I have now served as UNSGSA for eight years and my experience has given me confidence that solutions will be found. I want to offer deep thanks to those partners who have contributed so much to financial inclusion and who have made my own work possible. Progress only has value if it is shared by all. I look forward to continuing our work together so that universal financial inclusion becomes a reality.



H.M. Queen Máxima of the Netherlands
United Nations Secretary-General's Special Advocate
for Inclusive Finance for Development





The Path of Financial Inclusion

The narrative of financial inclusion has great power but it has never been simple: Two billion people are excluded from the financial system, the great majority of them poor. Solving this problem could change the face of development.

It's the *how* behind this story that presents the challenge. Financial inclusion is a highly technical realm involving finance, policy, technology, business, data, research, and political decision-making. With day-to-day work of such great complexity, it's possible to lose sight of the bigger picture.

This year, as the UNSGSA mandate was renewed by the UN Secretary-General, Queen Máxima and her partners reflected on where financial inclusion stands and how to increase the UNSGSA's advocacy impact, always with a focus on strengthening human development.

Many issues warrant close attention but several priorities emerged from these conversations:

1) ensuring that financial services have a positive impact on people's lives; 2) adapting policies and practices for difficult-to-reach groups including farmers, women, and small businesses; 3) fostering technology-enabled financial inclusion with supportive policies; and 4) cutting across these three areas, encouraging dialogue between the public and private sectors and promoting customer-centric solutions. These strategic priorities serve as touchstones for the UNSGSA's work.

EVERYONE'S BUSINESS

For financial inclusion to make progress, governments, researchers, development actors, and businesses must work closely together. But ultimately the innovative solutions needed to fulfill our mission will come largely from the private sector.

The Special Advocate is increasingly emphasizing the vital role of the private sector across all of her strategic priorities. This translates into close discussions with leading CEOs at the World Economic Forum and other gatherings and during roundtables with the local private sector during her country visits. She has regularly advised governments to include businesses in the development process of national financial inclusion strategies.

She has emphasized the importance of dialogue between the private sector and policymakers. And this past year she launched a conversation between private-sector financial technology or fintech companies, regulators, and the standard-setting bodies.



How can financial inclusion help build women's entrepreneurship? The Special Advocate addressed this issue at the Women20 Summit in Berlin, April 2017. Panelists included German Chancellor Angela Merkel and IMF head Christine Lagarde.

Certainly more work is needed to build the business case for financial inclusion. But companies around the world are taking an active role in making financial inclusion a reality. The private sector must be—and increasingly is—part of the solution.

Customer-centricity

“Financial inclusion has made impressive headway, but we have to question whether we are advancing fast enough,” the Special Advocate wrote this year in the foreword to the G20 Financial Inclusion Action Plan.

Millions of people have opened accounts that are completely unused or dormant (see *Dormant Accounts, below*). Mobile accounts had a 69 percent dormancy rate in 2016 according to the GSMA, a level that has hardly changed over the last five years.

Agent banking—whereby local shopkeepers provide basic financial services on behalf of banks and financial service providers—is not immune from this problem either. Experts report rates for dormant agent activity in some countries as high as 80 percent, although official figures are not available. And traditional banks face similar problems.

“Zero balance, zero activity, and zero impact on human lives,” the Special Advocate observed at the World Economic Forum.

In financial inclusion, as in life, there is rarely a single solution to a complex problem. But this year the UNSGSA has emphasized one player who has received less attention from efforts to make progress on financial inclusion—the end customer.

“The question we have to address is why people aren’t using these services?” she asked at the World Economic Forum. “On the most direct level, the answer is that what is being offered isn’t what people want or need. The missing ingredient is customer-centricity—putting customers first, understanding what they want and need, communicating with them at every point, and learning from them.”

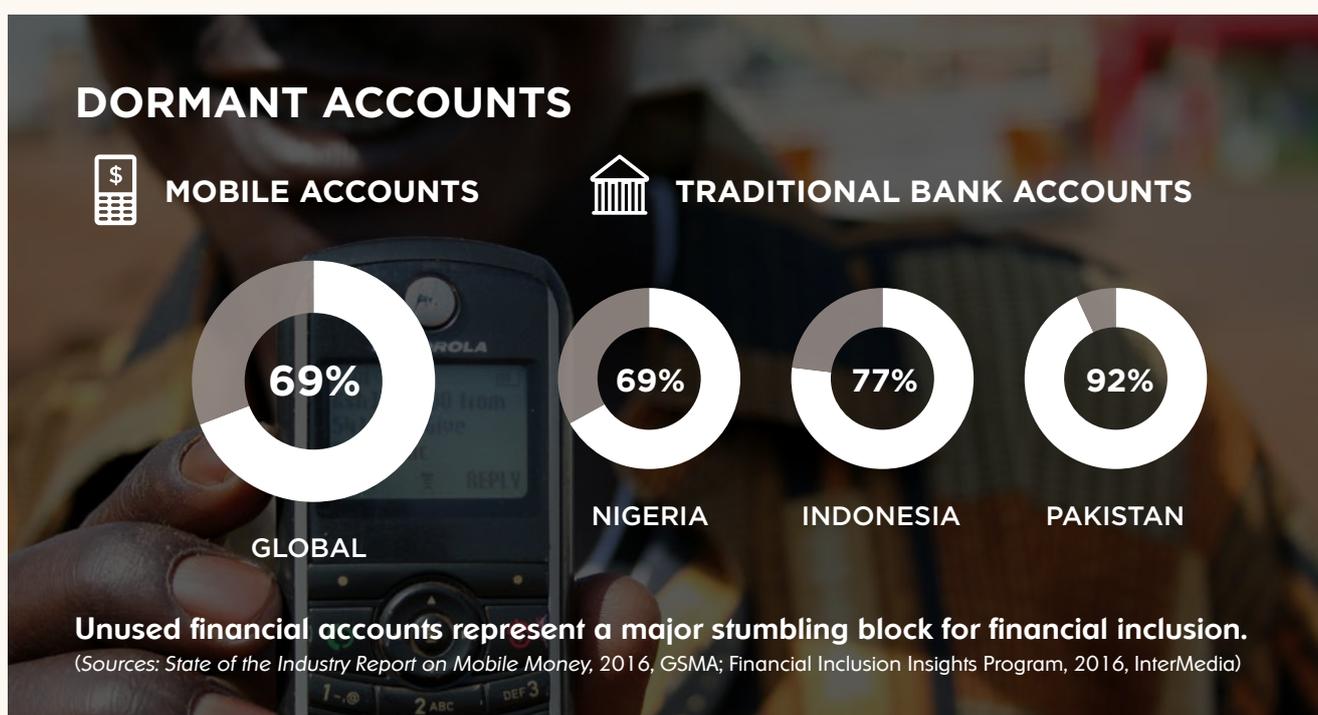
Customer focus across the board

Customer-centricity plays a cross-cutting role in the UNSGSA strategy for the simple reason that taking customers carefully into account drives the success of every other strategy.

When providers and policymakers look at financial inclusion through the lens of the customer experience—recognizing the hurdles they face in understanding and using digital financial services safely and effectively—explanations for low usage come clearly into view.

Inconsistent mobile connectivity, for example, is one of the most powerful barriers to usage (see *The Downside of Downtime, page 8*).

Customer-unfriendly practices can also take a big toll on consumer confidence and usage, including terms and conditions that aren’t clear, poor business practices and unfair contractual terms.



WOW! A HUMAN-CENTERED SUCCESS STORY

When development experts think about impact, they think about people like Ibu Susanti. A tea and honey seller in Cisarua in West Java, Indonesia, she has struggled to set aside enough money for her three children's needs. The closest bank isn't close at all, and she can't afford its fees. So Ibu Susanti, like many low-income people, used to keep her earnings in a box at home. Saving enough money for her daughter's education expenses was a big challenge.

For millions of people in Indonesia and around the world, mobile technology offers the opportunity to access affordable basic financial services at the touch of a button. But many of these innovative tools have not gained a lasting foothold—witness the 69 percent dormancy rate for mobile money.

BTPN, an Indonesian bank, has worked to reverse this trend by designing a customer-centric digital savings account, managed by banking agents and aimed specifically at low-income customers like Ibu Susanti. Turning its back on the traditional one-size-fits-all approach, BTPN employed a human-centered design process that involved low-income customers and agents in every step of product development, from initial design through prototyping.

The result is BTPN Wow!, a no-fee savings account accessed by the simplest cell phone with only a single bar of signal—all crucial requirements for its customers. Wow! supports the priority that customers place on savings and payments by offering an interest-bearing account at their fingertips that allows them to move money in and out to save according to their goals, pay bills, purchase items in installments, and buy phone credits. Nearby shopkeepers who serve as Wow! bank agents can open accounts in five minutes, accept deposits, and withdraw cash for customers.

The cost, convenience, flexibility, and simplicity of Wow! work perfectly for Ibu Susanti—just as it was designed to do. She is now able to save regularly. She can pay her daughter's school fees. And she has a new goal: to send another of her children to high school.

So how has BTPN Wow! worked out when it comes to the larger goals of financial inclusion? In its first two years, **active usage is 38 percent**, well ahead of the regional average of 19 percent for mobile money accounts and the Indonesian average of 23 percent for traditional bank accounts. Wow! has gained 1.5 million low-income clients with equal numbers of women and men, and around 70 percent live in rural areas. So here we see human-centered design—making a difference in human lives by listening to the voices of low-income clients.



A BTPN Wow! customer in Jakarta conducts a transaction with the help of an agent. The Special Advocate discussed digital financial services with agents and customers, including these two women, during her country visit in August 2016.

Even when access is smooth, providers can create services and user interfaces without attention to the end-user. Products designed for customers who are not literate have to be very different than for those who can read—for example smartphone apps that use icons instead of words. In Pakistan in 2016, the Special Advocate met with illiterate women who are able to manage their own accounts because they can use a fingerprint ID rather than a PIN—a small detail that makes a big impact on adoption.

Other customer-centric solutions are beginning to flourish. While the gender gap in financial inclusion has hardly changed in recent years (less than a quarter of mobile network operators know their clients' gender, according to the GSMA), momentum on sex-disaggregated data is building. Some providers have turned to human-centered design for product development (see WOW!, page 7), and others are focusing on user experience. In the Philippines, one bank reportedly doubled usage of savings products when it realized that customers weren't engaging with SMS messages and so switched to voice messages.

Financial policymakers in the Philippines and Mexico are using consumer research methods like mystery shopping, which involves central bank employees posing as low-income customers, in order to understand the effectiveness of consumer protection policies related to digital services. In Ghana, the central bank used a behavioral mapping of actual consumer complaints to develop a new consumer recourse policy.

Indeed, customer-centricity plays a central role in virtually every approach to financial inclusion. It is time to leave “one size fits all” behind.

Digital Financial Inclusion

The evolution and impact of digital finance have been transformative.

Mobile money was first launched in the Philippines only fifteen years ago and is now available in two-thirds of the developing world; in 2016, 35 mobile money providers had more than one million active accounts. Thanks to mobile money, nearly one in ten of Kenya's poorest households have been lifted out of poverty (see Proof Positive, page 16). In China, close to a million banking agents are delivering basic digital financial services directly to local communities,



especially in rural areas. And the rapid spread of smartphones, data analytics, and new digital products, approaches, and players are changing the landscape in Bangladesh, Myanmar, Pakistan, Peru, Tanzania, and far beyond.

Low-cost, far-reaching digital solutions are broadly believed to hold the key to financial inclusion. But with their use remaining low overall, the Special Advocate focused closely on what it will take to unleash both access and use.

Embracing opportunities

For innovations in financial technology—fintech—to significantly improve financial inclusion, the UNSGSA and her partners note that certain key prerequisites need to be met (see box, page 9). Responsibility for many of these elements goes beyond the realm of the financial sector, including physical infrastructure and internet connectivity, but financial regulators, policymakers, and providers still operate many of the levers that can drive financial inclusion.

This year the Special Advocate emphasized the importance of a deeper and continuous dialog between these major players in the fintech arena. Bringing together innovative fintech companies with national regulators and the standard-setting bodies is an essential first step to establish good practices for regulating and supervising technology-enabled innovation.

During her country visits in Indonesia, Argentina, and Viet Nam, she met with fintech companies and held discussions with policymakers about using technology to foster financial inclusion, for example, by designing regulations that enable the rapid deployment of agents and a broader diversity of digital finance providers.

Confronting risks

Balancing innovation and risk in the digital era represents

one of the greatest challenges for both the public and private sectors, the Special Advocate stressed at Davos and the G20, and in remarks to the standard-setting bodies. Fintech has captured the imagination of governments, businesses, civil society, and development experts but, like digital finance more broadly, it poses very real risks, especially for low-income customers.

Lack of cyber-security and data privacy, over-indebtedness, and outright fraud represent active threats to customers and could undermine long-term trust in digital finance.

As digital data becomes increasingly widespread, it can be misused as well. One emerging concern is attached to the algorithms that providers use to make decisions about customers. When those algorithms reinforce existing disparities, the result is discrimination, intentional or not—yet another form of financial exclusion.

KEY PREREQUISITES FOR INCLUSIVE FINTECH

Few topics are surrounded by the same volume of buzz and speculation as fintech. While the term means different things to different people, the UNSGSA's office and partners have developed a working definition: **fintech in a broad sense can be understood as technology-enabled innovation in financial services.**

The next question is more complex: What will it take for fintech to thrive and further unleash financial inclusion? In May the Special Advocate and Klaas Knot, head of De Nederlandsche Bank, co-chaired a day-long discussion between leading regulators, fintech companies, and partners from her Reference Group to explore this issue. One of the results was the following list of key preconditions required for takeoff.

- **Data privacy**—customer data is the gold mine of digital finance but its misuse could destroy customer trust.
- **Cybersecurity**—low-income people are vulnerable to cyber-threats just as corporations and wealthy individuals are, but stolen funds hurt even more.
- **Identification**—around 1.5 billion people lack the formal IDs needed to open financial accounts.
- **Physical infrastructure**—including reliable electricity to fuel mobile phones and computers.
- **Mobile connectivity**—1.6 billion people do not have mobile network coverage, without which phone-based digital finance is a non-starter.
- **Interoperability**—so that people using different digital services can transact easily with each other.
- **Financial and digital literacy**—to help customers understand what goes on with their money...and how to work the phones and computers that provide them access to accounts.
- **Fair competition**—a level playing field so that banks, mobile network operators, and all kinds of new innovators can compete for neglected markets.



The UNSGSA and DNB Governor Klaas Knot (far right) hosted a group of fintech innovators and regulators who discussed how to enhance the power of fintech to promote financial inclusion.

INDONESIA

Indonesia's dynamic growth over the last 15 years has helped cut poverty in more than half. Still, 40 percent linger right above the poverty line, their economic prospects in need of further protection. To build further on this progress, the government has made a commitment to extend financial inclusion to three-quarters of adults by 2019.

Reaching this milestone will not be easy, particularly given Indonesia's vast geography of 922 inhabited islands. But some of the needed groundwork has already been laid. A broad range of financial institutions are serving low-income customers; regulatory reforms have encouraged agent banking, e-money, and other technological solutions; and the government is expanding internet access and mobile phone connectivity, digitizing the national ID system, and strengthening financial literacy. The percentage of adults with an account has almost doubled since 2011 but 64 percent still do not have access to financial services.

Way forward

At the invitation of President Joko Widodo, Queen Máxima and her delegation visited Indonesia in August 2016 with the objective of helping to accelerate financial inclusion. After meetings and discussions with customers, businesses, and policymakers, the UNSGSA made two primary recommendations:

National strategy

President Widodo signed the national financial inclusion strategy during the UNSGSA's visit. In their discussion they agreed on the importance of high-level leadership, private-sector involvement, and ministerial coordination to implement the strategy. Throughout her



The UNSGSA visit to Indonesia in August 2016 has helped spark renewed activity to expand financial services to excluded populations. During their meeting, President Widodo signed the country's financial inclusion strategy, an important step towards building a comprehensive set of solutions for Indonesia.



Digitizing social welfare payments and expanding banking services will help Indonesia work toward 75% financial inclusion by 2019.

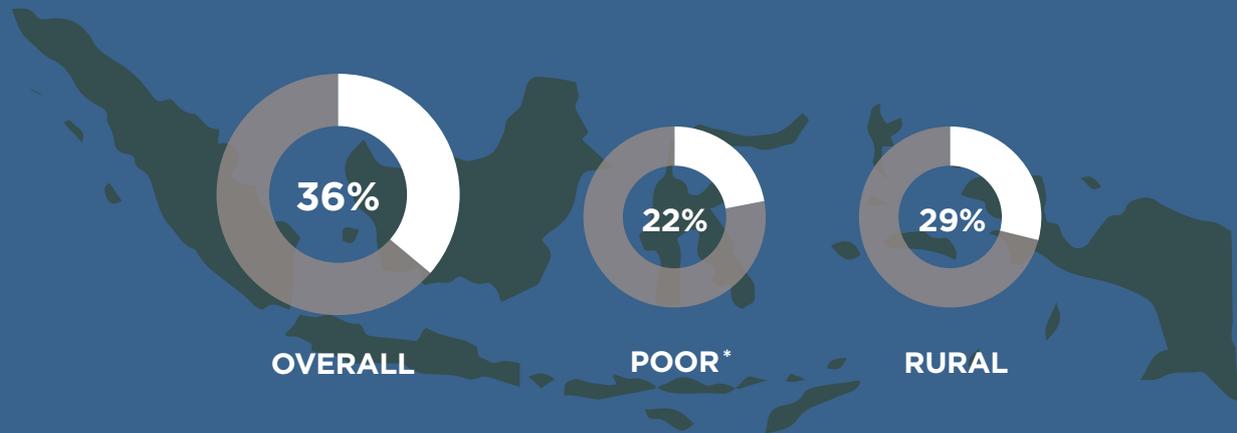
visit she encouraged establishing accountable working groups, numerical targets, and systems to monitor success—tools she has found to be indispensable for driving progress.

Digital financial services

Digital technology offers the greatest opportunity for Indonesia to provide financial services to the poor, and to isolated and rural populations. Currently less than one percent of Indonesians use mobile money. To push digital finance far higher, the Special Advocate highlighted several opportunities:

- Create a **level playing field** so that all providers, including MNOs, can compete to provide financial services;
- Develop a **digital payments infrastructure with full interoperability** so that customers of all financial institutions can easily transact with each other;

FINANCIAL INCLUSION IN INDONESIA



Financial inclusion is measured in terms of account ownership among adults.

**Specifically, the poorest 40%*

(Source: Global Findex Database 2014)

- Significantly **increase the number of banking agents** serving isolated communities;
- Develop **customer-centric services** to ensure usage;
- Transform **government-to-person payments from cash into digital**. Government social welfare assistance reaches 15.5 million households but only 16 percent receive payments into accounts. Changing this represents the kind of low-hanging fruit that can fuel progress.

Next steps

Indonesia has moved forward quickly in the last year. The National Financial Inclusion Council Secretariat was established and working groups are being staffed. The main two regulators of financial providers have agreed to harmonize e-money and agent regulations; they have already streamlined licensing so that agents can serve both sets of customers, with plans to extend harmonization to products as well. Partners like the Better than Cash Alliance, the Gates Foundation, Women's World Banking, and the World Bank are involved in supporting local stakeholders. Step by step, progress is unfolding.



Mobile money and local banking agents offer great promise to rural Indonesians, who are currently excluded from financial services.

Hard-to-reach populations

Of the two billion people who remain excluded from the financial system, certain groups have proven particularly difficult to reach. Financial exclusion is most common by far among the poor in developing countries. Rural households account for almost three-quarters of global poverty, and in developing countries 75 percent of these are financially excluded. The gender gap in financial inclusion remains stubbornly unchanged at 9 percentage points in developing countries. And more than 200 million small businesses in emerging markets lack access to finance.

Each of these groups poses its own complex and distinctive challenges. But the need to reach all of them lies at the very heart of financial inclusion. The Special Advocate is focusing on how to speed progress at the global and national levels among three groups in need of particular attention.

Women

Women are widely acknowledged to deliver the highest return for social and development investment, but in developing countries 63 percent lack even basic financial accounts.



Innovative financing for small business, including the use of moveable collateral, can be particularly helpful for women, who are more likely than men to lack credit histories.

For women to be economically empowered, the Special Advocate has emphasized, we need a gender-inclusive financial system. But to get there, change is needed regarding laws, norms, the provision of IDs, financial and digital literacy, and product design. Underlying all of these is a widespread lack of gender-disaggregated data.

Queen Máxima has consistently advocated for better data collection, a position that has gained increasing support. The Gates Foundation's substantial investment in this area last year has been amplified by significant new efforts by the Alliance for Financial Inclusion, the GSMA, Women's World Banking, the World Bank, and others.

The mobile industry is also moving to improve its understanding of the women's market (although GSMA has found that only 23 percent of mobile network operators know the gender composition of their clients). Through GSMA's Connected Women initiative, 25 mobile network operators in low- and middle-income markets are taking such steps as increasing the number of female agents, making services more appealing to women, and improving female digital literacy. But women's access to mobile technology lags considerably behind that of men, which puts them at a disadvantage as financial services are increasingly delivered by phone.

Farmers

Isolated rural populations in developing countries are often unserved by traditional banks, not to mention roads and electricity, and they represent one of the toughest challenges for financial inclusion. But ignoring this population is not an option: Much of the world's food is grown by smallholder farmers, many of whom struggle to survive in the face of increasingly erratic weather, crop failure, or limited market access.

Demand for financing by smallholder farmers is estimated at \$450 billion, but less than 2 percent of this need is being met. Crop insurance, loans to purchase seed, remittances to tide a family over till the crops come in...these financial services are not available to support smallholder farmers.

Digital services have long been seen as the best solution for those living in remote rural areas. And innovations are certainly on the rise, such as digitally paid and operated water and power. But progress on agricultural finance is slow and technology by itself will not resolve the issue.

ENGENDERING A COMMUNITY

The gender gap in financial inclusion has hardly changed since 2011 and relatively little research has been aimed at narrowing the divide. The situation is starting to change, but knowledge and action are scattered.

In November 2016, the Women's Financial Inclusion Community of Practice was launched to address this very issue. Inspiration for this new project sprang from the UNSGSA Reference Group's working group on gender. As its members discussed the landscape of women's financial inclusion, they realized the need for a centralized platform to share knowledge, identify challenges, discuss good practices, and solve common problems.

Facilitated by CGAP and with support from the Gates Foundation, the new Community of Practice supports collaboration and conversation between researchers, practitioners, and donors. With sub-working groups on technology, social norms, and measurement and data, representatives from 125 organizations are pressing forward with this urgent—and no longer overlooked—topic.



Narrowing the gender gap in financial inclusion will take a collective effort among researchers, practitioners, and donors—and thus was born the Women's Financial Inclusion Community of Practice.

In her country visit to Viet Nam, the Special Advocate encouraged the inclusion of smallholders as the country's national financial inclusion strategy is developed. And she visited rural clients to explore how value-chain financing can help when farmers face constraints obtaining credit due to lack of capital, collateral, or credit history, as well as irregular cash flows.

Small businesses

In developing economies, small and medium-sized enterprises (SMEs) account for half of total employment and a third of GDP. However, their opportunity for growth is severely limited due to inequities in credit and financing. Women-owned small businesses have a particularly tough time, as do farmers.

In Argentina, the Special Advocate highlighted the financial inclusion of SMEs as a priority and encouraged

leaders to address their needs as the country develops its national financial inclusion strategy.

While “there is no magic recipe for improving SME financing,” she later noted in the annual Duisenberg Lecture in Washington, “improving overall conditions for enterprise operations is important, specifically increasing the know-how of financial service providers.”

Other steps could also help open up small business finance, including building stronger credit reporting and reforms allowing SMEs to provide moveable collateral as the basis for lending. This last solution could be particularly helpful for women, who lack credit histories more commonly than men.

“But most promising is the incursion of fintech,” the Special Advocate noted—“using big data to reduce the costs to financial service providers of assessing their risk and maintaining their credit portfolios.”

ARGENTINA

The Special Advocate often observes that financial inclusion is a universal issue, one that needs to be addressed in every country. The situation in Argentina illustrates her point with great clarity.

Although Argentina is a middle-income country with the third-largest economy in Latin America, around a third of the population lives in poverty. Economic growth remains slow, inflation is persistently high, and the country lags behind its neighbors in terms of savings and credit.

Only half of Argentina's adults have access to formal financial services—a figure that drops to 44 percent among the poor. But both public and private actors are taking meaningful steps to change that situation, including concerted efforts to increase the use of digital payments, protect customers from inflation, and help financial institutions increase their outreach to excluded populations.

Planning for progress

The Special Advocate and her delegation visited Argentina in October 2016 at the invitation of President Mauricio Macri to lend support to the country's financial inclusion efforts. In meetings with members of the private and public sectors, the UNSGSA emphasized certain key opportunities that will enable Argentina to increase financial inclusion:

- **National strategy**

As Argentina begins to develop its strategy, the UNSGSA emphasized the need for strong ministerial



Small businesses in Argentina have limited access to the finance they need, a complex issue that fintech may be able to help address.



Argentina's President Mauricio Macri met with the Special Advocate during her October 2016 country visit to discuss how financial inclusion can unlock economic opportunity for the country's citizens

governance; a data-driven and participatory design process; ongoing coordination; measurement against indicators during the implementation stage; and active private sector participation.

- **Small business finance**

In Argentina small businesses account for at least half of GDP, but the credit they receive represents only 3 percent of GDP. The Special Advocate acknowledged that there is no quick fix for this, but she emphasized the promise of fintech solutions to help open up opportunity by reducing costs and helping assess risks.

- **Technology-enabled financial services**

Argentina has many of the most important building blocks in place for digital financial inclusion, but what is missing is a way for people to use these services in their daily lives. The Special Advocate highlighted the value of regulations to enable the development of banking agent networks.

Since the UNSGSA's visit, Argentina has actively begun laying the groundwork for its financial inclusion strategy. The Inter-American Development Bank has drafted a diagnostic, with input from AFI, CGAP, the UNSGSA, and the World Bank, and it will guide the strategy's development once approved by the National Strategy Council.

Development Impact

As UNSGSA, Queen Máxima has made a point of emphasizing the last two words of her title: the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development. "Achieving financial inclusion is not an end in itself," she has said many times, "it is the means to an end." That end is human development, improving the lives of those who need help the most.

The development impact of financial inclusion lies in its capacity to help people unlock opportunity by investing in their futures and protecting against hardship. During an era of rising global inequality, financial inclusion is a powerful tool to empower those living at the base of the economic pyramid. As countries move forward with their commitments to achieving the Sustainable Development Goals (SDGs), financial inclusion offers an effective lever to reduce poverty and hunger, and improve health, education, gender equality, and economic equality.

Financial inclusion is widely embraced and research demonstrating the precise mechanism of its impact continues to grow. Most notable is a recent study demonstrating a reduction in poverty among mobile money users—a development impact of the highest order. (See *Proof Positive*, page 16.)

National visions, national action

Global efforts to press forward with financial inclusion—

including the World Bank's Universal Financial Access initiative and commitments from the G20's Global Partnership for Financial Inclusion (GPII)—are vital for progress. But concrete action takes place primarily in developing countries.

In recent visits to Indonesia, Argentina, and Viet Nam, the Special Advocate focused attention on the complex process of building national financial inclusion strategies, which can embed financial inclusion into broader national development strategies. Strategies bring together relevant government authorities, define goals, and set numeric targets. But the best-laid plans will come to nothing without rigorous implementation, supported by a coordinating group that includes both the public and private sectors.

Indonesia has made a commitment to significantly extend financial services in the next two years. And both Argentina and Viet Nam are making progress on a path that more than 50 countries have taken.

How are we doing?

Success depends on multiple factors, not the least measuring and reporting. The Special Advocate has long stressed the importance of gathering and disseminating evidence and data to understand where development impact lies and to show us the way forward. "Measuring allows us to identify gaps, assign priorities, and allocate scarce resources at the right time to the right places," she



Financial inclusion offers a brighter future for people at the bottom of the economic ladder—including small business owners, who make up half the working population in many countries.

noted during a discussion with UN member states in the Group of Friends of Financial Inclusion.

Many countries have made commitments to expanding financial inclusion as part of their campaigns to reach the SDGs, but without gathering data, progress will be impossible to gauge and the SDGs will remain elusive. While measurement isn't an easy task for national governments, the World Bank's Global Findex database already tracks many of the most important indicators related to financial inclusion.

Other, less data-driven forms of reporting are also tremendously valuable. As countries begin to implement the GPF's principles on digital financial inclusion and the action plan on SME finance, the Special Advocate has encouraged reporting on results so that success stories can be showcased—such as India's progress using digital ID to address know-your-customer needs—and mentoring relationships developed between countries. This kind of collaboration will be decisive for creating the kind of change that can open development opportunity for billions of people.

PROOF POSITIVE: MOBILE MONEY UNDERCUTS POVERTY

"Poverty is almost as difficult to eradicate as it is to endure," the Special Advocate wrote in a July 2016 op-ed in the *Jakarta Post*.

For the development community and its financial inclusion subset, poverty reduction can seem like a distant hope (at least in terms of long-term peer-reviewed results). But a groundbreaking study demonstrates that mobile money can lift people out of poverty, particularly women.

The details are both inspiring and instructive. Simple access to mobile money brought 2 percent of Kenyan households out of poverty—almost 200,000 families. Among the very poorest users,

nearly one in ten got enough of a boost to lift them out of extreme poverty.

The impact on women was transformational. Not only did women save more and invest more back into household well-being, but poverty was reduced among women-headed households by 8.6 percent. Most surprising, access to mobile money led 185,000 women to leave subsistence farming and begin their own businesses, starting down a path that could offer a better life for their families.

Reference: Tavneet Suri and William Jack, "The long-run poverty and gender impacts of mobile money." Science, Dec 2016, vol. 354, no. 6317.



CULTIVATING SOLUTIONS FOR FARMERS

In a country like Viet Nam, where almost half the workforce is engaged in agriculture, sustainable economic growth will depend on finding solutions that allow farmers to flourish. As the country evolves, the need is arising to develop innovative finance to support the conversion of agriculture into a more dynamic sector.

Outside the city of Da Lat, Dinh Xuan Toan is experiencing some of those solutions. For many years he grew vegetables on his family farm in the Central Highlands. The region's temperate climate makes it ideal for agriculture, but he struggled to maximize the farm's potential and support his family.

A few years ago, he and a small group of local farmers joined an agriculture support program called Hortidalat, a multipronged effort to accelerate the development of modern greenhouse vegetable production. Mr. Toan learned how to develop business plans, how to select and care for crops to strengthen his market success, how to operate a greenhouse, and how to apply for the loan he would need to build it. In short, he learned how to be a small businessman.

For Mr. Toan, the impact of this training and opportunity has been impressive. His income has grown three to four times. Thanks to his greenhouse he can produce a high-quality crop of basil that he is able to market consistently all year. In nearby greenhouses, other farmers are growing tomatoes, peppers, lettuce, and other in-demand products, their success fueled by a similar mix of practical support and financial assistance.

Mr. Toan is clearly a satisfied customer. He would love to have several more greenhouses, he told the Special Advocate during her recent visit. But can this comprehensive model, involving business training, technical assistance, market access, and financing, become a practical solution on a national scale? As Viet Nam works to transform its agricultural sector, it's clear that the availability of financing is just one part of the solution.



Transforming agriculture can require more than financing. Thanks to technical assistance, business training, market access, and financing, Dinh Xuan Toan has been able to multiply his income significantly, but the process is complex.

VIET NAM

Within just one generation, Viet Nam has undergone an extraordinary transformation from being one of the world's poorest nations to achieving lower-middle-income status. While financial inclusion has also increased sharply, the majority of Vietnamese still do not have a formal bank account.

Now, the country is looking to build on the progress of the past several years and to expand inclusive growth, including in key sectors such as agriculture and small business.



During a passionate discussion, the Special Advocate and National Assembly Chair Nguyen Thi Kim Ngan tried to identify solutions that could strengthen financial inclusion in Viet Nam.

Strategy for success

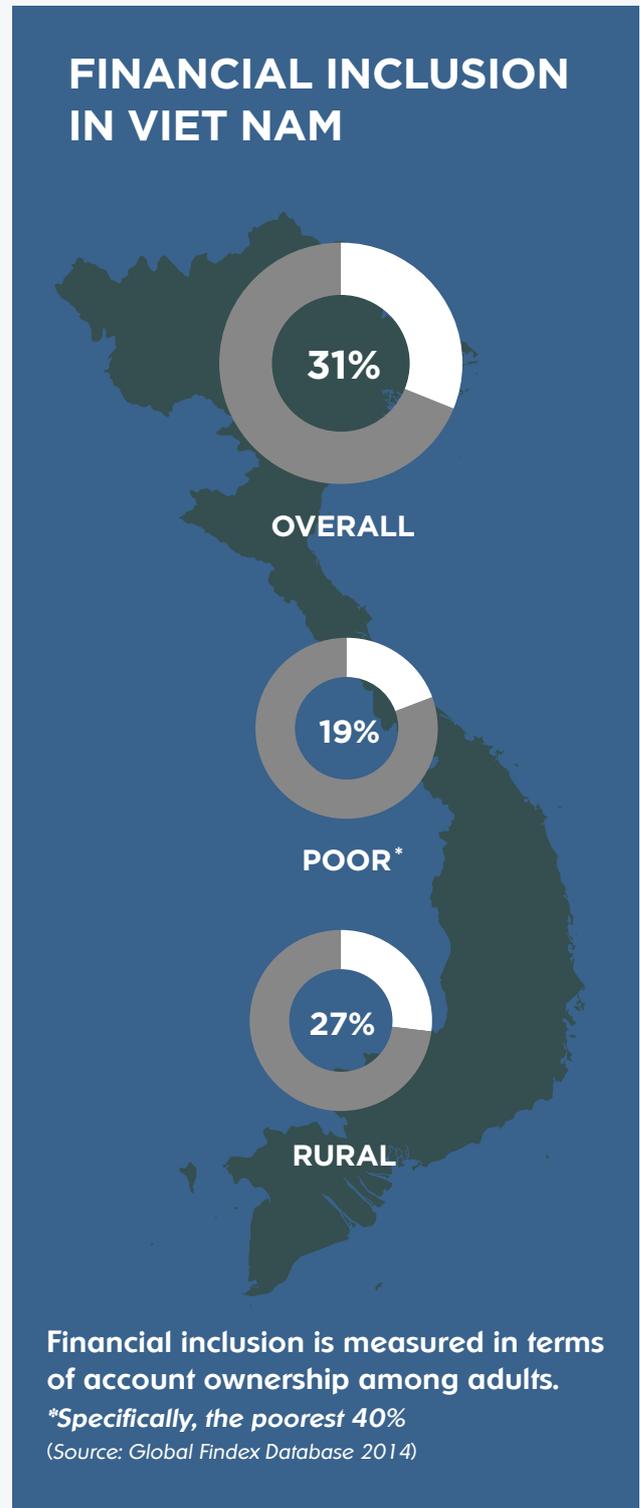
At the invitation of Prime Minister Nguyen Xuan Phuc, the Special Advocate and her delegation visited Viet Nam in May/June 2017 to provide insight on the policy and regulation landscape and the nascent national financial inclusion strategy. She met with members of the public and private sectors and highlighted several focus areas for expanding financial inclusion:

- **National strategy**

The Special Advocate proposed a two-stage process for the strategy. The first step will be the creation of a draft outlining the overall objective and vision. Based on feedback, the next step will be to develop a strategy with a comprehensive action plan aligned with the country's existing development plan.

- **Finance for agriculture and small business**

Agriculture employs 42 percent of the country's





Innovative financing for agriculture and small business will help Viet Nam continue its path toward full financial inclusion.

workforce but receives only 10 percent of total financing. The UNSGSA recommended establishing an agri-finance task force to propose innovative ways to help farmers plan, develop, and finance their enterprises, including through value-chain financing. Similarly, she noted that small businesses need greater access to flexible financing.

• **Technology-enabled financial services.**

Viet Nam has one of the highest rates of mobile phone usage in the region but demand for digital financial services is low. The Special Advocate recommended deploying more agents in underserved areas, adjusting regulation to facilitate digital payments, and opening the financial sector to non-bank providers.

The UNSGSA and her partners plan to work closely with Viet Nam to advance the goals set forth during this visit.

This will include providing support during the creation of the national strategy, and offering guidance on topics including agent networks, alternative collateral for small business lending, and innovative agriculture financing.



Outside Da Lat, local farmers and the Special Advocate discussed innovative ways for them to expand their enterprises.



The Road Ahead

In a time of rising inequality, leading policy makers, development and civil society organizations, and business leaders around the world are increasingly embracing financial inclusion as a powerful tool for equal progress.

Global support for financial inclusion is effectively unanimous and numerous countries are successfully expanding financial access. But legitimate concerns exist. Can technology cause problems for the financial sector? Are we exposing the poor to new unforeseen dangers? Will access really translate into usage and then impact?

Financial inclusion cannot afford to stall. When the next iteration of the Global Findex is released in less than a year, we will see how far we have come since its last update in 2014—what is working, what isn't, and where.

Digital rewards and risks

The financial inclusion community has identified digital technology as the most promising way to lower costs and reach excluded populations. These solutions continue to evolve with dizzying speed. Efficient and effective fintech innovations that could hardly be imagined five years ago will change the face of financial inclusion decisively in the future.

Some of the most significant of these new ideas involve digital data. Biometric IDs are already being used in India and Pakistan. In China, Ant Financial has provided credit to more than 4 million small businesses using customer data rather than banking history. Other solutions include digitized government payments, crowdfunding, and person-to-person lending.

The future of our societies will be shaped by technology, for good and for bad. Threats related to digital financial services are hard to predict and preparation is vital. Growing digital inequality may reinforce rising economic inequality, including in the arena of financial inclusion but extending far beyond it. And a World Bank study suggests that technology could also put great pressure on traditional paths to economic growth, particularly in low-income countries.

Laying the foundations

How best to bring alive positive innovations while preparing for risks? The Special Advocate and her partners have identified a set of prerequisites—policies

and infrastructure—needed in order for digital finance to take off and unleash financial inclusion.

These include data privacy, cybersecurity, IDs, infrastructure such as reliable electricity, connectivity, interoperability, financial and digital literacy, and fair competition. Notably, their provision falls largely outside the financial sector. The financial inclusion community must make a vigorous case on behalf of these elements with the governments, regulators, and businesses best positioned to make progress quickly as they work together going forward.

Co-creation

With a strong interest in exploring promising solutions for increased usage and impact of financial services, the Special Advocate will continue to look closely at the benefits of customer-centricity. The key to this approach lies in its commitment to co-creation. This means financial providers working closely with customers to develop products and services that really work for both parties. A collaborative approach like this shows particular promise for one of financial inclusion's biggest hurdles: the fact that, as things stand now, customers in the developing world are not actively using the services provided.

This kind of cooperation offers the larger financial inclusion movement a powerful tool that has not yet been fully embraced. Finding solutions that work for everyone will require regulators and providers to engage actively with low-income customers; governments and businesses to co-design the objectives and action plans of national strategies; fintech innovators to help regulators create supportive rules; and digital operators to work with the standard-setting bodies to design principles that can protect customers as well as the financial system.

To find a breakthrough in digital finance, avoid serious setbacks that could harm customers, and change the trajectory of economic empowerment for the poor, we need to co-create solutions that work for many.

ANNEXES



About the UNSGSA

Designated in 2009 by the UN Secretary-General Ban Ki-moon as his Special Advocate for Inclusive Finance for Development (UNSGSA), Her Majesty Queen Máxima of the Netherlands is a leading global voice advancing universal access to affordable, effective, and safe financial services. She emphasizes that financial inclusion accelerates progress toward numerous development and economic goals such as poverty alleviation, job creation, food security, gender equality, and equitable growth.

Collaborating closely with global and national partners, she raises awareness, encourages leadership, works to break down barriers, and supports action to expand financial inclusion. She draws on her first-hand experiences gained through country visits and conversations with low-income families, small business owners, policymakers, and others to identify which financial services and policies can really make a difference for lives, livelihoods, and communities.

Queen Máxima regularly consults with and convenes leadership from diverse sectors—linking government leaders, finance authorities, mobile phone companies, agriculture experts, fintech innovators, development partners, and others—helping people and institutions learn from each other and form new collaborations. Within the UN system, she engages with programs to share best practices about how financial inclusion complements and advances their missions. As honorary patron of the G20 Global Partnership for Financial Inclusion since 2011, she works to advance the G20 Financial Inclusion Action Plan. She also serves as a Global Agenda Trustee for the World Economic Forum's Global Challenge Initiative on the Future of the Global Financial System.

Advisory and Administrative Arrangements

The UNSGSA's work is done in partnership and with wide consultation among the many stakeholders working to advance financial inclusion—and those affected by it. She collaborates closely with an advisory Reference Group of leading international organizations in financial inclusion to share expertise and suggest strategic opportunities that she can advance through advocacy and partnerships. Reference Group members include:

Alliance for Financial Inclusion	International Finance Corporation	UN Development Programme
Better Than Cash Alliance	International Monetary Fund	UN Department of Economic and Social Affairs
Bill & Melinda Gates Foundation	Omidyar Network	The World Bank
Consultative Group to Assist the Poor	UN Capital Development Fund	

Members of the Reference Group and many other in-country and global partners play an important role in converting advocacy into action. The UNSGSA also consults widely with UN country teams, financial standard-setting bodies, private financial institutions, companies, donors, and civil society organizations. A small staff works closely with the UNSGSA and her secretariat in The Hague to coordinate and advance her UN and G20 activities. The office of the UNSGSA is housed at UNDP at the Bureau of External Relations and Advocacy in New York and receives generous financial support from the Bill & Melinda Gates Foundation.

Financial Inclusion in the Netherlands

According to the World Bank, 99 percent of people in the Netherlands are connected to the financial system, but there are still aspects of financial inclusion there that require attention. Queen Máxima champions access to finance, entrepreneurship, and financial literacy and education, including for children and youth, in the Netherlands. In doing so she conveys best practices and insights from Dutch and international experiences. She is a member of the Dutch Committee for Entrepreneurship and Finance and honorary chair of the Money Wise Platform, a national partnership that promotes financial literacy.

More information

UNSGSA: www.unsgsa.org – G20 GPF: www.gpfi.org – Royal House of the Netherlands: www.koninklijkhuis.nl

UNSGSA Activities, 2016–2017

Indonesia Country Visit, 30 August–1 September 2016

The UNSGSA met with President Joko Widodo as well as Minister of National Development and Planning Bambang Brodjonegoro; Chairman of OJK Muliawan D. Hadad; Minister of Finance Sri Mulyani Indrawati; Coordinating Minister of Human Development and Culture Puan Maharani; Minister of Foreign Affairs Retno L.P. Marsudi; Governor of the Bank of Indonesia Agus Martowardojo; Coordinating Minister of Economic Affairs Darmin Nasution; and with the private sector and development partners. During a field visit to Bogor, she met with customers and agents who are delivering digital financial services. She also delivered a speech at the Indonesia Fintech Festival & Conference, published an op-ed in the *Jakarta Post* (see below), and took part in roundtables on the national financial inclusion strategy and on technology-enabled financial services.

UNSGSA partners: Better Than Cash Alliance, Bill & Melinda Gates Foundation, International Finance Corporation, Omidyar Network, United Nations Development Programme, World Bank.

Opinion column, “For Indonesia Technology Holds a Key to Financial Inclusion”
Published in the *Jakarta Post*, 29 August 2016

“Jumpstarting Financial Inclusion in Indonesia: The power of technology, strategy, regulation, and customer-centricity”
Speech at the Indonesia Fintech Festival and Conference, Jakarta, Indonesia, 30 August 2016
“Our goal is human development. By dismantling the barriers to safe, effective, and transformative financial services, Indonesia is poised to create a sustainable world that works for all.”

“Digital Financial Inclusion, Financial Exclusion, and De-risking: A Conversation with the SSBs” (co-chair)
Basel, Switzerland, 30 September 2016

“I hope that this gathering will be the first in a continuous dialogue between standard setters and fintech that will explore multiple perspectives on how provision and usage of financial services are likely to be changed in the future. I would like to support this collaboration so that it becomes a long-term platform between standard setters and fintech companies and eventually one that national regulators can benefit from.”



With Germany chairing the G20, Finance Minister Wolfgang Schauble met with the Special Advocate in December 2016 in Berlin to discuss priorities for the German G20 presidency and the GPFI, with a focus on implementing financial inclusion.

“Financial Inclusion Not Exclusion: Managing De-Risking”—the Special Advocate addressed this vital issue during the World Bank Annual Meetings in Washington, D.C., October 2016. She joined a panel with China’s Central Bank President Zhou Xiaochuan, World Bank President Dr. Jim Kim, and others.

**Meetings, World Bank Annual Meetings
Washington, D.C., USA, 7–8 October 2017**

The Special Advocate joined a flagship panel discussion, “Financial Inclusion Not Exclusion: Managing De-Risking,” offered informal remarks at a McKinsey event, “Digital Finance for All,” and delivered the Duisenberg Lecture (*below*) She also met with leaders from Colombia, Indonesia, Mexico, Myanmar, and Pakistan, along with development partners.

“How Can We Further Unleash the Powers of Financial Inclusion?”

The Rabobank Duisenberg Lecture, Washington, D.C., USA, 8 October 2016

“In the end, it does not matter who does it—the banks, the mobile companies, NGOs—as long as we all help by offering opportunities to people in a responsible, affordable and sustainable way.”



The Special Advocate spoke about financial inclusion to students at the Universidad Católica de Argentina, October 2016.

Argentina Country Visit, 11–12 October 2016

The Special Advocate held bilateral meetings with President Mauricio Macri; Vice President Gabriela Michetti; Minister of Education Esteban José Bullrich; Minister of Foreign Affairs Susana Malcorra; former Minister of Finance Alfonso Prat-Gay; and Governor of the Central Bank Federico Sturzenegger. She held roundtables with other government leaders and with private-sector entities including banks, microfinance associations, credit bureaus, and fintech and payment companies. She also delivered a speech to an audience of students and others (*see below*).

UNSGSA partners: Inter-American Development Bank, United Nations Development Programme

**“Discurso sobre Inclusión Financiera para el Desarrollo”
Speech at the Universidad Católica Argentina
Buenos Aires, Argentina, 11 October 2016**

“Esto es para dar oportunidades a todos los argentinos y que ya no sean invisibles al proceso económico.” (“In this way, all Argentinians will have opportunities and cease to be invisible to the economy.”)

**Meetings, World Economic Forum
Davos, Switzerland, 18–20 January 2017**

The Special Advocate met with numerous private- and public-sector and development leaders, and attended sessions on financial inclusion in the digital economy, blended finance, the global fintech revolution (*see remarks below*), and more. She also attended the Finance and Monetary Systems Stewards meeting.

“Customer-centricity: At the Heart of Financial Inclusion and the Core of the Digital Economy”

Speech at Global Fintech Revolution event, World Economic Forum

Davos, Switzerland, 20 January 2017

“Being customer-centric is at the core of a successful digital financial system. It’s good for customers and it’s good for business. So I hope we can expand this focus rapidly in every aspect of how we work.”

“Balancing Innovation and Risks in the Digital Era”

Opening speech at G20 conference, Digitising Finance, Financial Inclusion, and Financial Literacy

Wiesbaden, Germany, 25 January 2017

“How can we harness digital finance to drive financial inclusion? We must take a customer-centric approach, better prepare and empower customers, and put laws and regulations in place that will provide a safe, enabling environment.”



UN member states in the Group of Friends of Financial Inclusion met with the Special Advocate in March 2017 to review progress in building recognition of and ensuring the monitoring of financial inclusion within the SDGs.

The Special Advocate spoke about financial inclusion, economic citizenship, and the importance of financial literacy in May 2017 during the launch of the OECD's financial literacy student assessment 2015.

“The Power of Mobile Money”

Video in collaboration with GSMA, launched at Mobile World Congress February 2017

“In just ten years, mobile money has made amazing strides. It holds great potential to serve the two billion people who remain excluded from financial services. Over the next decade, let us all work together to place the transformational power of mobile money in the hands of those who need it most.”

“The Power of the UN to Advance Financial Inclusion”

Remarks to the UN’s Group of Friends of Financial Inclusion, New York City, USA, 13 March 2017

“I see the necessity to improve our evidence base to better understand how financial inclusion contributes to people’s lives. And to measure our progress towards achieving development goals.”

Speech for Global Money Week

Amsterdam, the Netherlands, 30 March 2017

“That’s what [financial education] is all about—sharing experiences. And it is about empowering children and their being able to know how important this issue is so that we are going to have financially educated economic citizens around the world.”

Panel discussion, “Inspiring Women: Scaling up Women’s Entrepreneurship,” Women20 Summit/German G-20 Presidency Berlin, Germany, 25 April, 2017

“There is no silver bullet to get women more economically empowered. You have to give the whole combination—access to credit, finance, and markets, coaching, and her whole family situation has to come together. It has to be a concerted effort.”

Foreword, G20 Financial Inclusion Action Plan 2017

May 2017

“The 2017 FIAP calls for stronger attention to the poor and vulnerable, and places a much-needed emphasis—which I greatly support—on effective usage of financial services as a crucial step beyond access.”

“Fintech Through the Prism of Financial Inclusion”

Opening remarks at the Fintech and Financial Inclusion Roundtable (co-chaired with Klaas Knot, president of De Nederlandsche Bank)

Amsterdam, the Netherlands, 12 May 2017

“Many of us understand fintech through different prisms, but all of us recognize that its implications require careful thoughts. One of our objectives is to open up dialogue between leading fintech firms and national regulators and supervisors.”

“How Can We Help Small Business Thrive?”

**Speech at the European partner meeting of McKinsey & Company
Amsterdam, the Netherlands, 22 May 2017**

“An ecosystem that encourages businesses to grow includes data, good financing possibilities and public policies for the market to work.”

“Where Do We Stand with Financial Literacy?”

**Speech at the launch of the OECD PISA 2015 financial literacy assessment of students
Paris, France, 24 May 2017**

“I have seen how essential it is to prepare the next generation for economic citizenship. If we want to help young people use all the opportunities available, we will have to provide them with the ability to handle their finances adequately.”

Viet Nam Country Visit, 30 May–1 June 2017

The UNSGSA met with political leaders including President Tran Dai Quang; Chairwoman of the National Assembly Nguyen Thi Kim Ngan; Deputy Prime Minister Vuong Dinh Hue; Minister of Agriculture and Rural Development Nguyen Xuan Cuong; Minister of Labor, Invalids and Social Affairs Dao Ngoc Dung; Minister of Finance Dinh Tien Dung; and State Bank Governor Le Minh Hung. She joined a roundtable on the national financial inclusion strategy (*see below*) and participated in discussions with the private sector, agribusinesses, and development partners. In addition, she visited the agricultural region of Da Lat to see how value-chain financing works for local farmers, and she met with a shop owner providing a mobile wallet aimed at women.

UNSGSA partners: Better than Cash Alliance/United Nations Capital Development Fund, International Finance Corporation, World Bank

“From Commitment to Strategy: Building Financial Inclusion in Viet Nam”

**Remarks at roundtable on preparation of national financial inclusion strategy
Hanoi, Viet Nam, 1 June 2017**

“Viet Nam is well poised to reach financial inclusion and can leapfrog into digital finance. A strong national financial inclusion strategy and its implementation will be the anchor of this.”



Viet Nam’s Deputy Prime Minister Vuong Dinh Hue discussed the potential impact of financial inclusion on the country’s economic progress with the Special Advocate during her country visit in June 2017.

In Hanoi, the State Bank of Viet Nam hosted the Special Advocate and her delegation at a roundtable discussion with ministries and other organizations involved in preparing and coordinating the national strategy for inclusive finance.



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UNITED NATIONS SECRETARY-GENERAL'S
SPECIAL ADVOCATE FOR INCLUSIVE FINANCE FOR DEVELOPMENT

One UN Plaza, 23rd Floor
New York, NY USA 10017
Tel: +1 (212) 906-5316
info@unsgsa.org
www.unsgsa.org

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