UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

Remittances and financial inclusion

Thirteenth Coordination Meeting on International Migration, New York, 12-13 February 2015

Presentation of lessons learnt from the Expert Meeting on the Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth, Geneva, 12-14 November 2014

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Main topics

Road map on financial inclusion policies / options

- Trends and issues in financial inclusion:
  - Developments in financial services, in remittances, state of play of financial inclusion, obstacles for financial inclusion;
- Areas to improve access to financial services:
  - New technology and mobile money;
  - Innovative business models;
- Remittances and financial inclusion:
  - Development role, costs, maximizing the development impact of remittances;
- Policies and regulations:
  - Supply side and demand side;
- Financial inclusion, trade agreements and regulatory reform:
  - Trade policy and regulatory concerns, shift in regulatory focus;
- Recommendations
  - Financial inclusion, policy and regulatory frameworks;
  - Trade, migration and post-2015.

Context

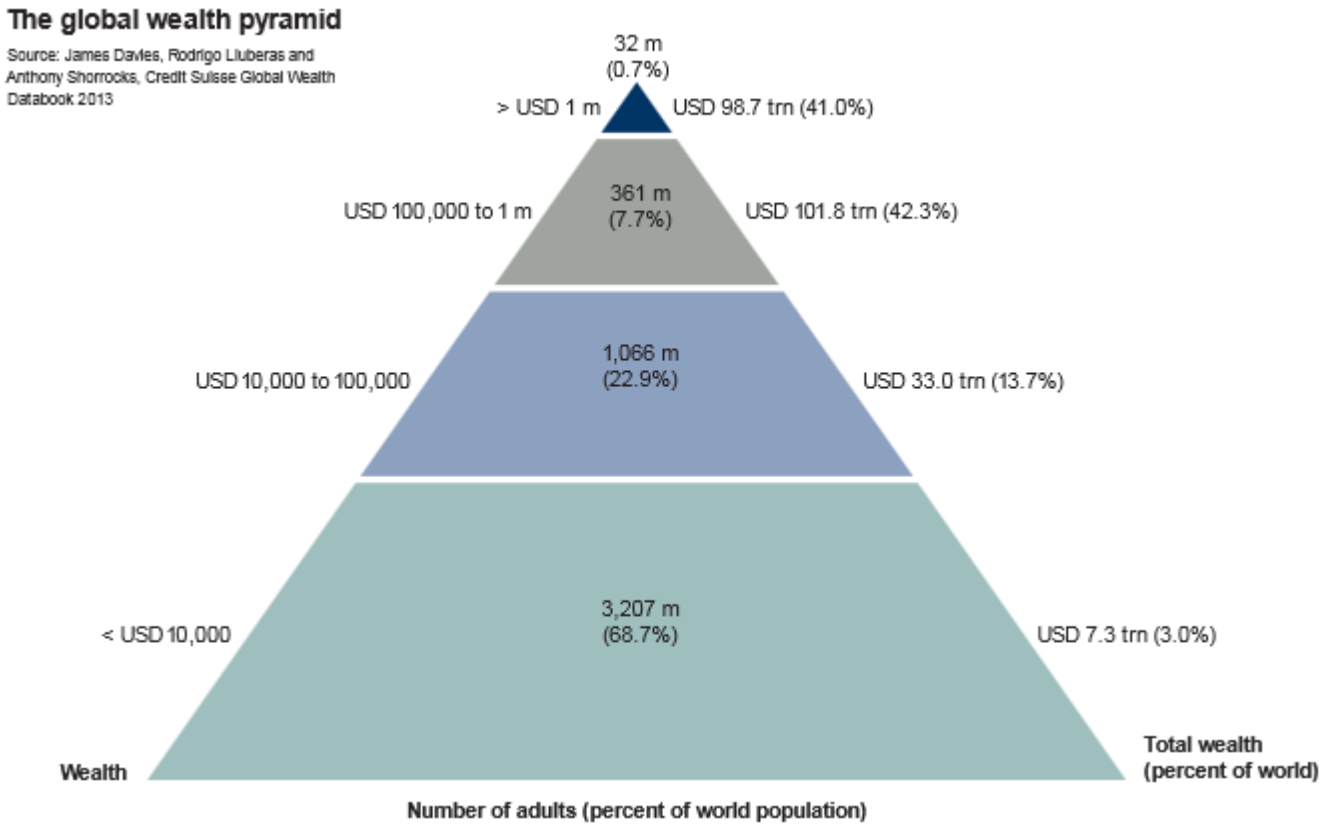
Financial inclusion and the post-2015 development framework

- Defined as “effective access and use by individuals and firms of affordable and sustainable financial services from formal providers”;
- Is an important element of the post-2015 SDGs:
  - Contribution to poverty reduction (target 1.4) and economic development: agriculture (2.3), general support to economic growth, job creation and innovation (8.3), and infrastructure (9.3);
  - Recognises the inclusiveness potential: poor and vulnerable (target 1.4), women (5a), formalization and growth of micro and SMEs (8.3);
  - Recognises importance of domestic financial institutions (target 8.10);
- Increasingly recognised by international fora such as the G20;
- In the post-crisis regulatory reform, financial inclusion gathered policy attention along with financial stability and prudential regulation;
- Is also important in maximizing the developmental impact of remittances by formalizing their flows, reducing their transfer costs and facilitating their investment into productive activities.

Context

Income disparity is a global risk affected by financial exclusion:

- 83.3% of total wealth is concentrated on 8.4% of the world population.



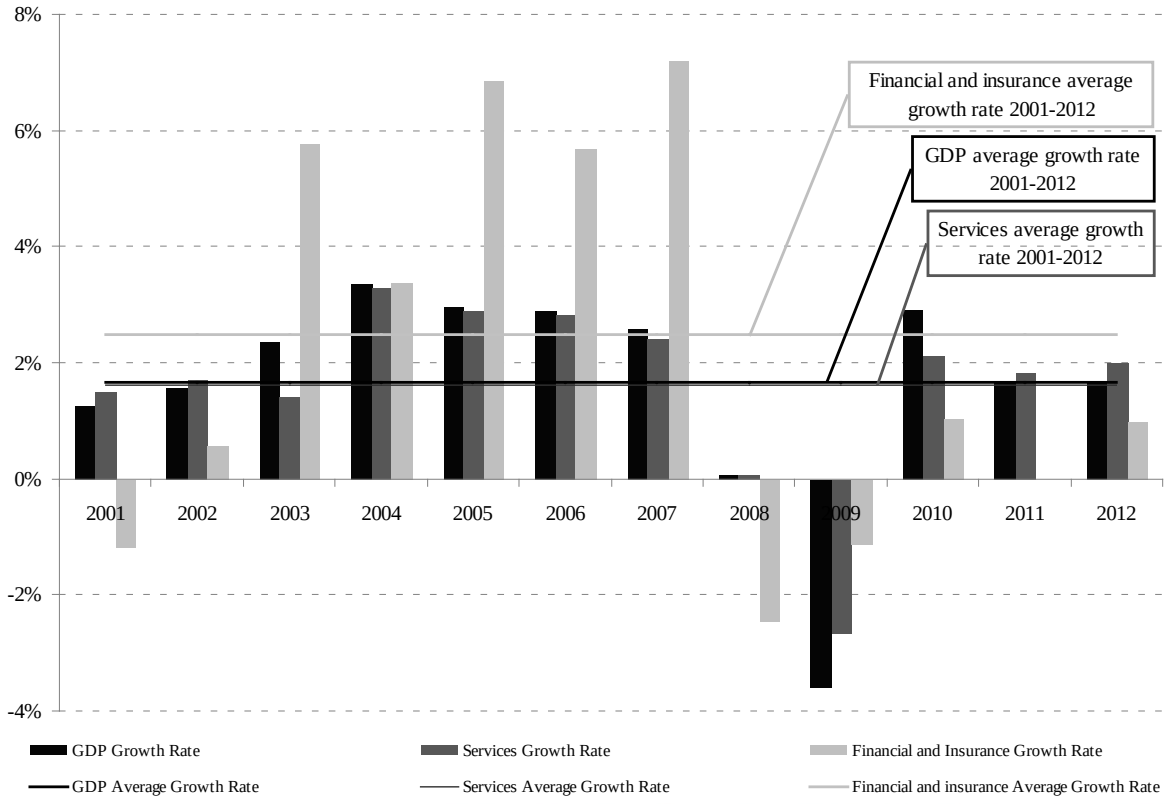
Developments in financial services

Financial services can contribute to output and employment

- Encompass activities with high value added and qualified jobs;
- In OECD countries, grew faster than GDP and the overall services sector in the pre-crisis, decelerating afterwards growing less than GDP and the overall services sector after the crisis.

OECD countries: annual change in GDP, services and financial services, 2001-2012 (%)

Source: UNCTAD based on OECD



Developments in financial services

Financial services play an important multidimensional role:

- Provide inputs for activities in the primary, industrial and tertiary sectors & individuals (as infrastructure services);
- Through banking, securities and insurance services, facilitate domestic and international transactions, mobilize domestic savings and broaden the credit availability;
- Facilitate trade (e.g., letters of credit, insurances).

International flows become important:

- Cross-border exports in financial services reached around $445 billion in 2013 with an annual growth rate of 10% for 2000-2013;
- Developed countries account for 80% of global exports but developing countries exports grew faster (12%). Developing countries are still net importers of financial services;
- Asia accounts for 80% of developing countries' exports ($68b 2013);
- The consideration of financial inclusion needs to factor in the increasing trade in financial services.

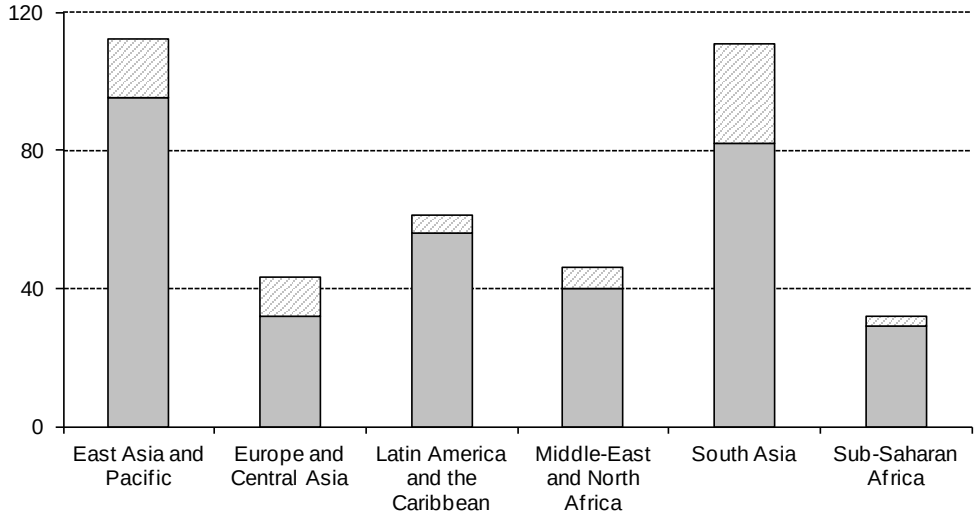
Developments in remittances

International remittance flows have been significant:

- Reached $551 billion in 2013, of which $414 billion to developing countries where they represent a major source of external finance:
  - Probably an underestimation since it only accounts for formal channels;
  - 40% of these flows went to rural areas according to IFAD;
  - Reflect higher number of international migrants - 232 million in 2013 (3.2% of world population), 48% of which are women;
  - Grew between 2010-2013 in all developing regions and, in LDCs, grew faster than FDI and ODA between 2003 and 2012.

Changes in remittance inflows by developing region, 2010 and 2013 ($billion)

Source: The World Bank

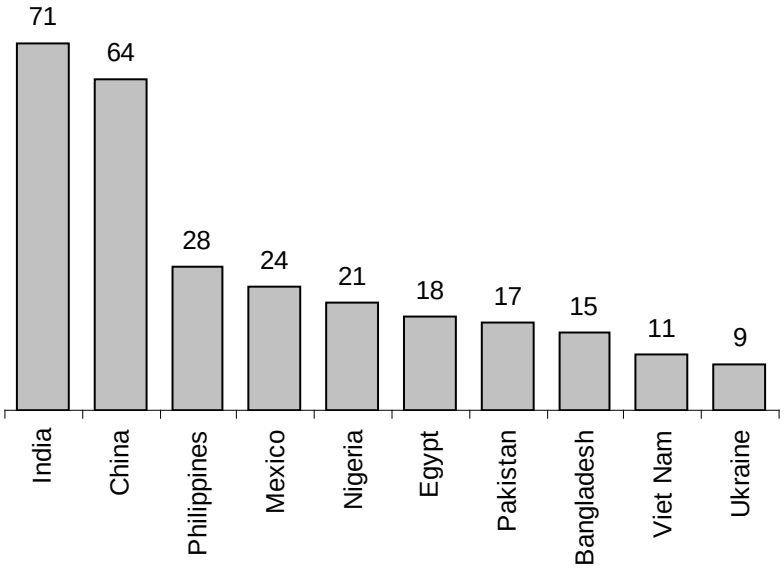


Developments in remittances

Remittances flows are important for several countries:

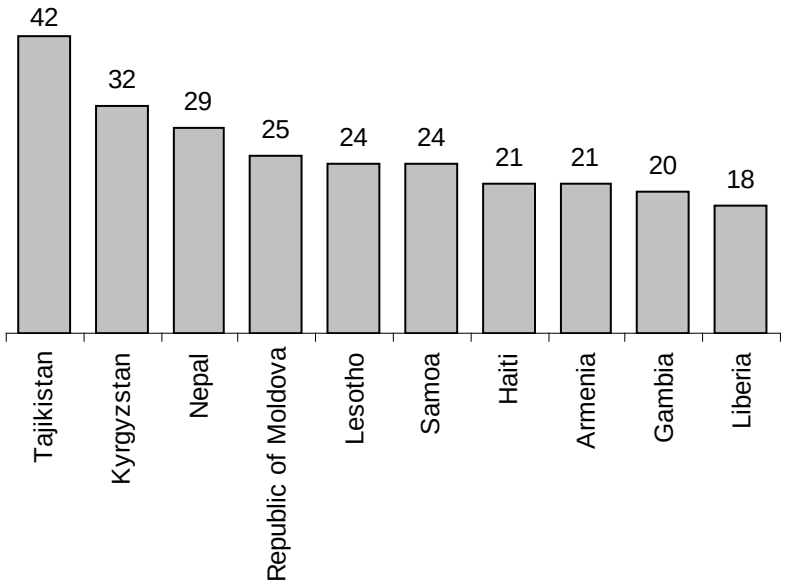
Forecast for top 10 receivers of remittance flows, 2014 ($billion)

Source: The World Bank



Top 10 receivers of remittance flows, 2013 (% of GDP)

Source: The World Bank



State of play of financial inclusion

Financial inclusion is key for income and welfare opportunities:

- Basic payment, savings and insurance services benefit the poor;
- For firms, lack of access to financing is a major obstacle, affecting SMEs, microenterprises and new firms in developing countries:
  - In DCs, only 34% of firms have a bank loan (51% in developed countries). Informal firms (80% of microenterprises and SMEs) face major challenges in financial access;
  - Relates to targets 2.3, 8.3 and 9.3 of the OWG proposal for post-2015;
- In 2011, only 50% of people over 15 years had an account with a formal financial institution (2.5 billion adults do not have it):
  - Women and youth (15-24 years) lagging behind (only 47% of women and 37% of youth have a formal account);
  - Relates to targets 1.4, 2.3, 5a of the OWG proposal for post-2015;
- The share of adults in developed countries that have a formal bank account is more than twice that of developing countries.

State of play of financial inclusion

Better measurement of financial inclusion is central:

- Better measurement and availability of meaningful data supports evidence based policy options and the incorporation of financial inclusion in the post-2015 agenda:
  - Density – or account with formal financial institution – is often used;
  - Indicators on the distribution of financial inclusion by segments of the population may assess the differentiated impact on women, rural population, or other usually underserved;
  - Information on what is the access to different types of financial services is also important to characterize the status of financial inclusion;
- The Financial Access Survey of the International Monetary Fund (IMF) and the Global Findex Database of the World Bank are important first steps;
- Countries should follow leading efforts to collect and analyse comprehensive data that enable meaningful indicators and evidence-based financial inclusion policy.

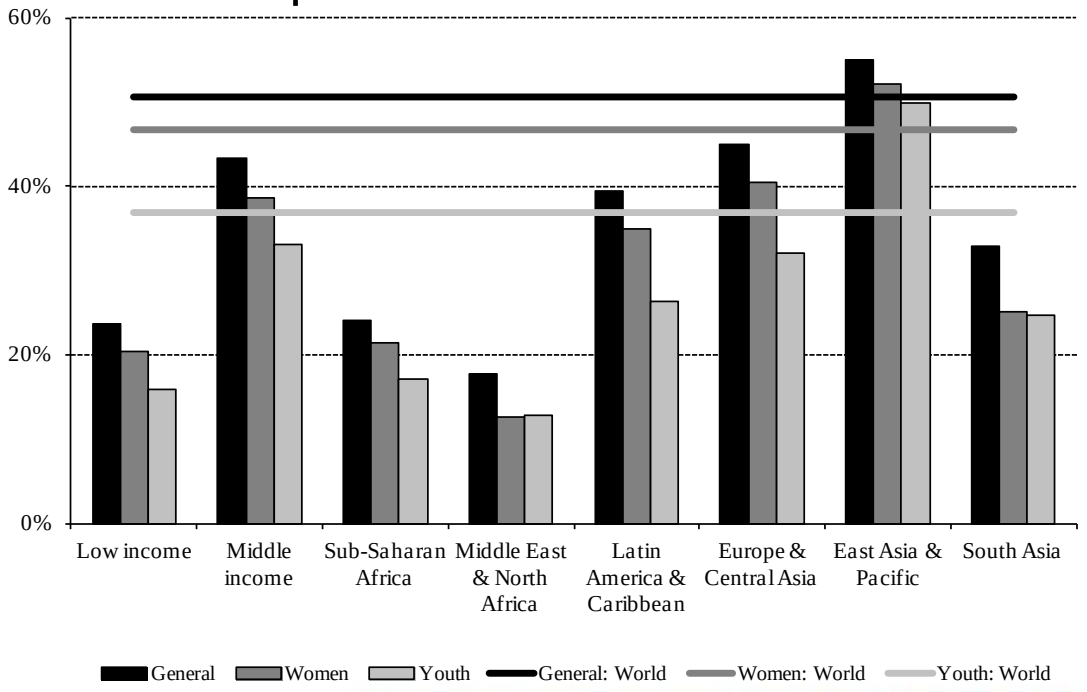
State of play of financial inclusion

Heterogeneity in financial inclusion among developing countries:

- Middle income countries have an account penetration rate that doubles the one of low income countries;
- Asia and the Pacific exceed the global average of account penetration (including for women and youth) while Middle East and North Africa and Sub-Saharan Africa lag behind. Women lag behind more in LAC and youth in Europe and Central Asia.

Proportion of people with a formal bank account by income and region, 2011 (%)

Source: UNCTAD based on the World Bank



State of play of financial inclusion

Some examples:

- In India only half of the population has access to financial services;
- In Nigeria, 39.7% is financially excluded. Women (43.5%), farmers (51.6%) and dependents (48.4%) remain more excluded;
- In the Philippines, only 26.6% of adults have a deposit account. Archipelagic barriers matters: 43% of deposit accounts and 71% of the amount of deposits are in the National Capital Region;

Heterogeneity exists also within countries:

- Research in Kenya revealed that people with physical disabilities are particularly vulnerable to financial exclusion, with women affected in a disproportionate manner;
- In countries with differential treatment under the law or by custom, women are less likely then men to have an account, save or borrow;
- Measures to achieve financial inclusion may not impact equally women and men, and additional efforts are required to ensure benefits for segments that are more prone to financial exclusion.

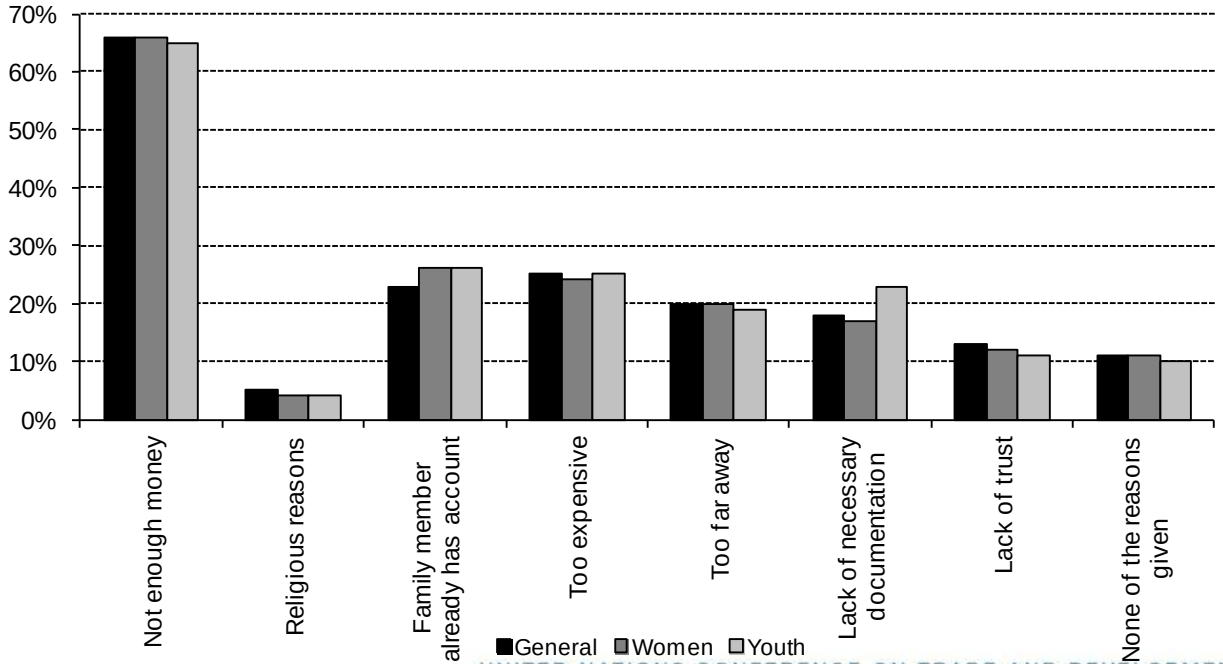
State of play of financial inclusion

There is a variety of reported obstacles for financial inclusion:

- No demand for bank accounts from people across gender, age groups and geography, and firms:
  - Lack of disposable money is a main reason for having no account;
  - Exclusion for physical, economic, administrative and psychological barriers such as cost, travel distance, paperwork and lack of trust in banking system;
  - These barriers mainly affect the poor, women, youth, rural population, informal workers and migrants.

Self-reported barriers to use of formal accounts, 2011 (%)

Source: Demirguc-Kunt et al (2012)



State of play of financial inclusion

Determinants of financial inclusion are important:

- Research in Kenya confirmed that the identification of determinants benefits from multi sectoral partnerships and requires more and better data;
- General determinants include: level of education, connectivity, capacity to generate surplus, availability of financial providers;
- Some country examples:
  - A survey in Nigeria identified irregular income, unemployment and distance;
  - In Bangladesh, lack of financial literacy is considered a major barrier;
  - A survey in Mexico identified, among others, costs, poor financial knowledge, and lack of trust;
- The identification of the determinants of financial inclusion allows to design targeted policy responses.

State of play of financial inclusion

Structural and regulatory issues for financial inclusion:

- Universal access requires addressing several issues:
  - Infrastructure constraints, particularly in communication and energy;
  - Low bank penetration in rural areas;
  - Heavy documentation requirements excluding workers in rural areas, informal sector or migrants lacking official wage slips, tax payments or residential proof;
- Adequate regulation is necessary:
  - Information asymmetry may lead to undersupply of credit to particular groups, and moral hazard may lead to excess supply and indebtedness;
  - Imperfect competition could lead to market concentration, undersupply in rural areas and to the poor;
  - Undiversified sector could be vulnerable to external shocks and unstable supply;
- Excessive regulation may deter access to financial services:
  - Anti money laundering regulation with stringent requirements may create bias against low value added customers;
- Policies should seek efficient markets and equitable and affordable access to financial services. They should pursue simultaneously financial inclusion, financial stability and financial integrity.

Options to improve financial inclusion

Possible avenues to improve financial inclusion:

- The underprivileged form a group with potential (together their wealth represents more than $US 40 trillion) to attract innovative financial services and products that could benefit them;
- New technology and innovative business models to improve supply and outreach of financial services;
- Improved financial literacy and capacity by users;
- Extension and better affordability of traditional financial services, including greater access to bank branches and lending.

Technology reduces physical and economic barriers:

- The provision of financial services was improved by technology in the past – credit and debit cards, prepaid cards, ATMs;
- Exponential ICT progress opens the way for new services as mobile payments and mobile banking, with the potential for financial inclusion – in particular in rural and remote areas, benefiting from the rapid uptake of mobile telephony in developing countries.

New technologies

Technology reduces transaction costs and increases financial security:

- Regulators should allow competing providers and consumers to take advantage of technological innovations:
  - In India, the approach is technology driven but neutral in terms of platform;
- According to the International Telecommunications Union (ITU), key issues regarding digital financial services are:
  - Access to technology, promotion of network interoperability, and licensing for level playing field;
- Coordination is necessary:
  - Coordination between different regulators (between financial and telecommunication regulators and also between regulators of several countries);
  - Partnerships between all actors, regulators and operators, is required;
- New technologies need to be coupled with measures to prevent information security risks, consumer protection and transparency:
  - In China with some technological solutions, such as Internet platforms and “peer to peer”, need regulatory caution in regard to data accuracy and privacy issues.

New technologies

Some country experiences:

- The example of Bangladesh:
  - Electronic transfers and e-clearing house were spreading and the Central Bank issued the ICT security guide for installing ICT in banking services;
- The example of Nigeria:
  - Initiatives to facilitate electronic transactions and simplify the process of opening accounts are provided by a shared services platform;
  - These include biometric identification, a workflow platform allowing banks to share references, a platform for exchange of payments from person to person, interbank transfer services, and authentication systems for on-line payments;
- The example of China:
  - Alibaba (e-commerce company) developed its own e-payments system, which expanded to banking, investment and clearing house for cross-border goods trade. It has now a network of affiliated financial entities (e.g., Alipay had in 2013 approx. 300 million users of its on-line and mobile payment services);
  - Technology contributed to developing the right ecosystem for e-finance. It has also enabled crowd funding initiatives. Alibaba's platform integrated consumers, manufacturers, customs clearing, transport and several financial services such as credit, foreign exchange, and insurance.

Mobile money

Financial inclusion benefits from mobile money schemes:

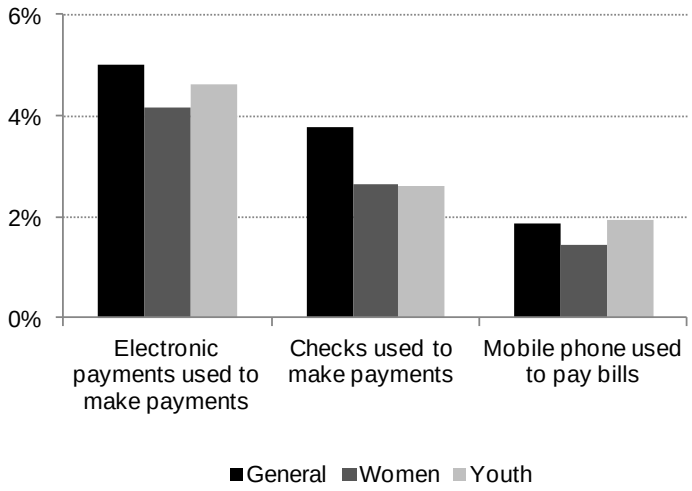
- Mobile network operators offer financial services through wireless applications, including the possibility to use the mobile phone to store money, make transfers (facilitating remittances) or payments:
- Mobile money devices could become commerce tools;
- Experience in Kenya:
  - M-PESA had, in March 2012, 15 million active customers. With over 37000 mobile money agents, was linked to 25 banks and 700 ATMs;
  - Domestic mobile transfers between consumers still predominate, but the reception of international mobile transfers via Western Union from around the world is also available. It processes more transactions domestically within Kenya than Western Union does globally;
  - Consumers can make or receive mobile payments. Other financial services such as transfers, savings, credit and insurance, linking mobile money to bank accounts, are also provided.

Mobile money

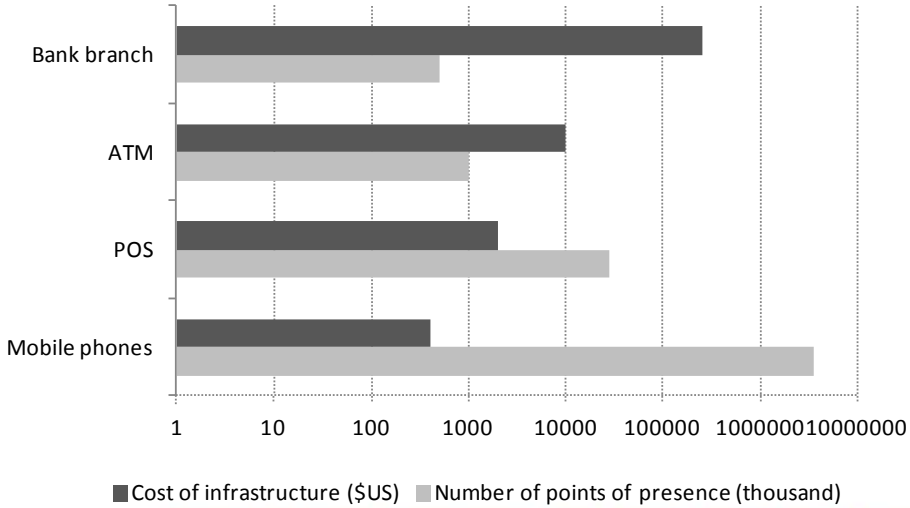
Important advantages of mobile money schemes:

- Incentivises use of banking services by establishing linkages;
- Allows for sectoral development (e.g. credit and insurance mobile financial products for farmers promote agricultural development);
- Information on mobile money usage may help credit scoring;
- It is more gender neutral and youth friendly and it has lower infrastructure costs and broader coverage.

Developing countries: methods of payment, 2011 (percentage)
Source: UNCTAD based on the World Bank



Cost of infrastructure ($US) and number of points of presence (thousands) by channel of delivery
Source: UNCTAD based on the CGAP. Note: logarithmic scale.



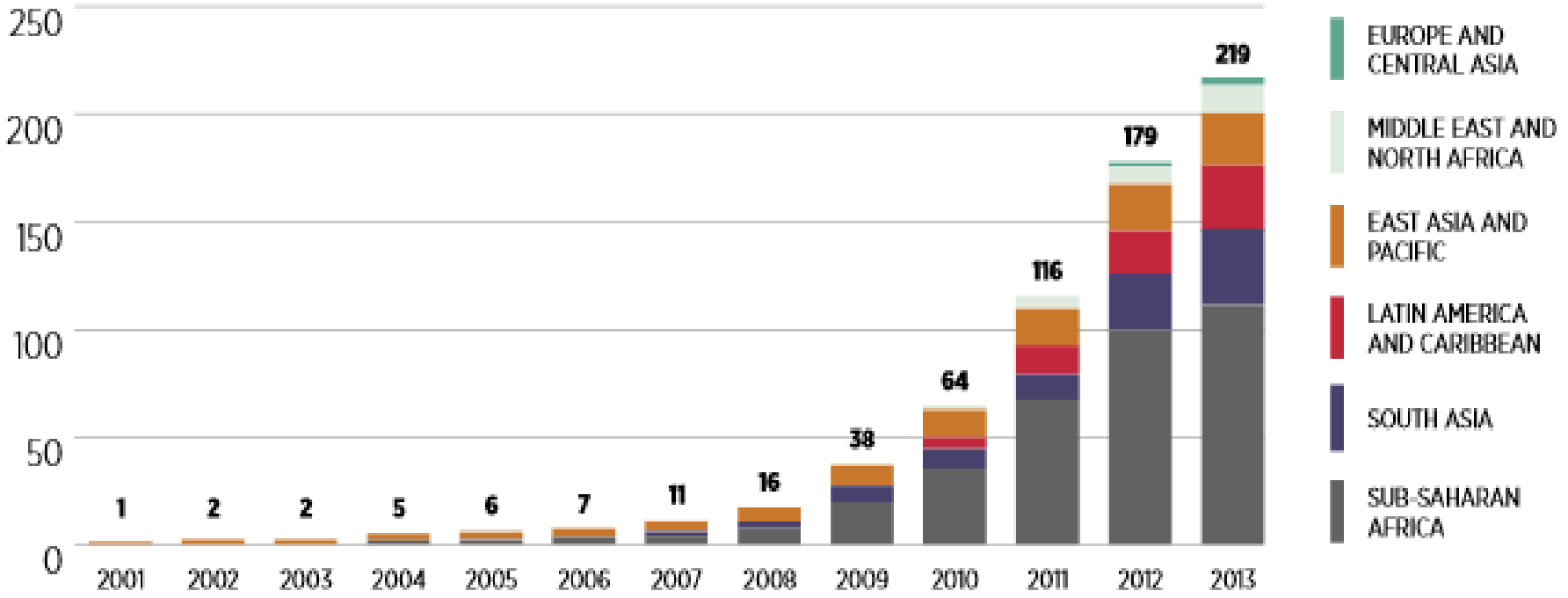
Mobile money

Mobile money schemes growth:

- In July 2014 there were almost 250 mobile money schemes in developing countries (130 in March 2012).

FIGURE 1

NUMBER OF LIVE MOBILE MONEY SERVICES FOR THE UNBANKED BY REGION (2001-2013; YEAR END)



Source: GSMA

Mobile money

Some applications of mobile money schemes:

- International remittances:
  - Contribute to reduce transfer costs, making viable remittances of small amounts;
  - Developments are focused on interoperability, partnerships with traditional providers of remittance transfers, and exchange at lower fees;
  - Several interaction models are available, including on-line, mobile, remitting to a cash-substitute, and remitting a direct payment;
- Credit:
  - Mobile-related data provides information enabling the assessment of credit risk;
  - This data may refer to mobile phone usage (e.g. purchases, frequency of calls, location and demographic info), mobile money usage (e.g. amount in savings account, frequency of payments), on-line footprint (e.g. on-line ratings, social media connections, utility payments, and government statistics;
- Savings:
  - Contribute to facilitate access and interfaces, and by increasing willingness to save by making available data analytics on customers' financial lives;
- Insurance:
  - Increases individual access to relevant products and promotes collective insurance model to reduce risk.

Mobile money

Mobile money schemes through different business models:

- Bank centric or MNO centric (mixed models can be developed):
  - In bank centric (e.g. India), banks have sole control on accounts that can then be managed through other channels such as mobile phones;
  - In MNO centric, non-bank issues e-money and keeps equivalent asset value in pooled accounts in regulates banks;
- Choice of model is related to the specific regulatory situation of each country. The focus should be in enabling innovation without prescribing a specific model;

Standardization of systems used in mobile money:

- It is necessary, within a country and at an international level and requires support from an adequate institutional framework;
- Consider risks related to fragmentation of standards, namely obstacles to the proliferation of technologies that require scale;
- Decisions on technology convergence or coexistence should attend market needs but, above all, ensure that standards do not become barriers for developing country operators to participate and serve their populations.

Mobile money

Mobile money is not a panacea for financial inclusion:

- It still accounts for a smaller value of transactions than traditional instruments:
  - In Kenya, the daily value of transactions between banks is almost 700 times larger than between M-PESA accounts;
- Results in Kenya may be hard to replicate since they depend on the critical mass of users and on the specific regulatory environment;
- High access rates to mobile money may not imply similar levels of usage of financial services:
  - Mobile money users in Malawi are mostly interested in paying for mobile phone airtime and cash-out is limited due to low levels of liquidity of agents;
  - Cultural issues could affect usage (e.g. some women cannot access the phone unless a man on her family agrees);
- Although with potential inclusive effects, an engagement between regulators and operators is required to maximize this potential:
  - In Kenya, poor people without access to technology are not financially included;
  - Many of these solutions are not suitable for people with disabilities (e.g. people with visual disabilities have to rely on others, with risks of sharing information).

Digital financial services

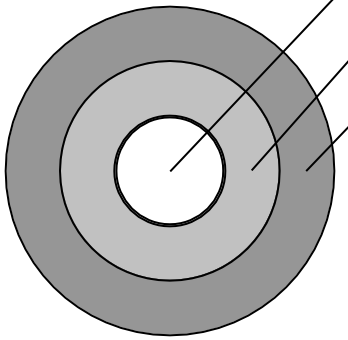
Focus Group on Digital Financial Services:

- The ITU has set up the Focus Group to:
  - Analyse ICT solutions for financial inclusion, secure mobile financial services and emerging technologies that can be standardized by ITU;
  - Identify best practices related to policy, regulatory and institutional frameworks, consumer and fraud protection, business models and ecosystems towards implementation at a global scale;
- Participants include representatives from government, central banks and other regulatory and supervisory bodies, banking and telecom operators, technology companies and others from the private sector, academia and international organizations;
- Several working groups are established under the Focus Group to progress with specific approaches:
  - Digital Financial Services Ecosystem, Co-Chaired by UNCTAD;
  - Consumer experience and protection;
  - Interoperability;
  - Technology, innovation and competition.

Digital financial services

Working Group on Digital Financial Services Ecosystem:

- Draft mapping of the ecosystem:

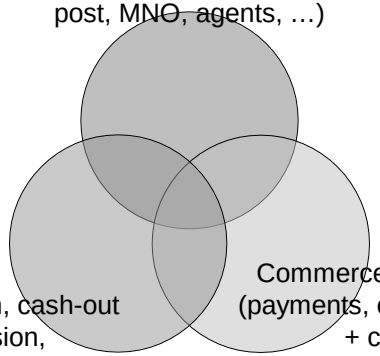


Financial services

Infrastructure

Regulation, supervision and standard setting

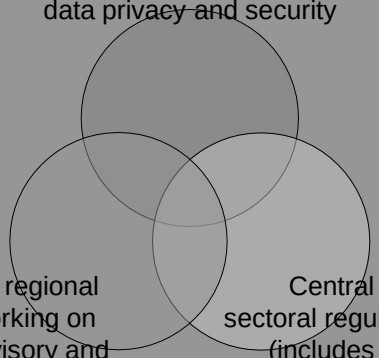
Banking (deposits, savings, payments, credit, investments, …), insurance and securities (from any provider: financial institutions, post, MNO, agents, …)



Interaction: cash-in, cash-out payroll, pension, remittances, taxes

Commerce: financial services (payments, credit, insurance, …) + cross-selling (customs clearance, transport, currency exchange, …)

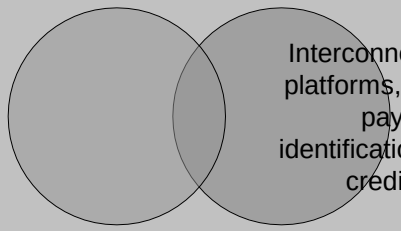
Competition, consumer protection and empowerment (links to education), data privacy and security



International and regional organizations working on regulatory, supervisory and standardization issues

Central banks and other sectoral regulators and supervisors (includes goals of inclusion, stability and integrity)

ICT, energy, transport



Interconnection/interoperability platforms, settlement schemes, payment systems, identification and authentication, credit information, …

Innovative business models

Innovative business models address traditional access barriers:

- Product design that meets market failures, consumer needs, and behavioural obstacles can foster use of financial services:
  - Weather-related agricultural risks may be addressed by innovative insurance;
  - Commitment account, where customers are forced to save according to predetermined rules, minimizes behavioural issues leading to over spending;
- The interaction between different networks is facilitated by new mobile banking and payment technologies.

Banking services may be provided with developmental objectives:

- State-owned, cooperative, development and community banks, and Islamic finance may complement some private banking services:
  - These banks allow productive investment (80% of total assets in South Asia), compensate credit crunch, and promote competition in oligopolistic markets;
- Example: credit financial inclusion may be pursued by an integrated action of Islamic commercial banks, rural banks and cooperatives;
- Other examples: Brazilian Development Bank, cooperative models in China, northern Italy and Spain, community banks in Colombia.

Innovative business models

Correspondent banking contributes to financial inclusion:

- The use of banking correspondent leverage on existing networks of agents and institutions (e.g., post offices, retail agents):
  - In Brazil there is a reduction of regulation and the enlargement of correspondent networks (e.g., lottery agencies and riverboat banks in the Amazon);
  - The Reserve Bank of India issued the Guidelines for Use of Business Correspondents to expand coverage of financial services;
- Posts have long been serving as correspondents that may offer a full range of legally independent and regulated financial services:
  - Posts have the world's largest physical network, with twice as many offices (500 thousand) as commercial bank branches (275 thousand) in developing countries, and operate in remote areas (80% of post offices in Sub-Saharan Africa are in small and medium-sized towns/rural areas with 83% of the population);
  - UPU estimates that 1 billion people in over 50 countries are banked through postal systems. The postal bank in Brazil opened 10million accounts in 10 years;
  - Services include international money transfers, government payments, insurance and savings. Business models range from cash-merchants to full fledged banks, with products including credit. The postal bank in China is the largest lender;
- In Yemen, postal financial services include a higher % of women than traditional banks.

Innovative business models

Synergies between postal and digital financial services:

- Necessary since the postal network, although the largest, remains finite and still with limitations in communication infrastructure;
- The post explored several models of interactions with mobile technologies, building on its experience, trust and proximity to clients and considering the increasing importance of mobile money:
  - Basic use of mobile technology to modernise and connect posts. In West Africa, International Financial System (IFS) app is available on mobile phones / tablets;
  - Posts acting as a cash-merchant for a mobile network operator (MNO). In Burundi, ECOCASH is available in post offices acting as a cash-merchant;
  - Building partnerships with MNO. In Tunisia, the post launched partnerships with several MNO to provide financial services;
  - Building its own platform and using MNO only as pipelines. The Barid Bank Mobile, in Morocco, built its own platform independent of MNO;
  - Developing its own mobile operator to provide services directly to customers by leveraging the network of MNO. In Italy, the post created Poste Mobile which is its own mobile operator;
- There is no one-size fits all model, with each of them having its advantages and disadvantages.

Innovative business models

Microfinance is not consensual:

- By microfinance institutions, commercial and development banks;
- Criticism on microfinance:
  - It is used more for consumption smoothing and risk management rather than investment and entrepreneurship among the poor;
  - Moral hazard of relaxed credit screening leading to oversupply of lending to non-creditworthy clients and therefore to over-indebtedness;
  - Oversupply has led to lack of trust and over-indebtedness was followed by further informalization of the poor's economic activities and financial instability;
  - Moral hazard has an opportunity cost by deviating financing from formal SME not covered by microcredit and that could entail real growth opportunities. This diminishes the creation of sustainable local economies based on industrial policies, technology and innovation strategies focused on formal enterprises.
- Potential of microfinance:
  - Targets lower-income segments, unbanked/under-banked, often ignored or not fully covered by traditional commercial banks, and has provided financing to SME in developing countries;
  - There are still needs that can adequately be addressed through microfinance services, especially since they had evolved from narrower microcredit services.

Remittances and financial inclusion

Strong relationship between remittances, financial inclusion and poverty reduction:

- Remittances represent major and usually steady flows that increase household income and spent in social services (e.g., health and education):
  - Increased international attention - The UN Conference on Sustainable Development and the High-Level Dialogue on Migration and Development;
  - Importance of human rights-based and migrant centred approach to remittances, ensuring protection of migrant workers, and policies based on international standards and social dialogue;
- Remittances contribute to increasing demand of financial services by making recipients more inclined to join the formal financial sector:
  - Providers have recognised this potential and started to offer additional services along with remittance accounts;
- Remittances as financial inflows and the expansion in financial services will contribute to economic and human development. A 10% rise in remittances may lead to 3.5% reduction in the share of people living in poverty.

Remittances and financial inclusion

Transfer costs are major impediments to remittance flows:

- Importance of making transfer systems less costly and more efficient;
- A 5% reduction on remittance costs is estimated to yield $15 billion in savings;
- South-South remittances are costly due to factors including lack of information and lack of competition (e.g., exclusivity contracts);
- One of the targets proposed for the SDGs is to reduce the transaction costs to less than 3% of migrant remittances and eliminate remittance corridors with costs higher than 5% by 2030;
- G-8 and G-20 agreed on the target of reducing the global average transfer costs to 5% of remittances in 5 years (it was 8.1% in the second quarter of 2014).

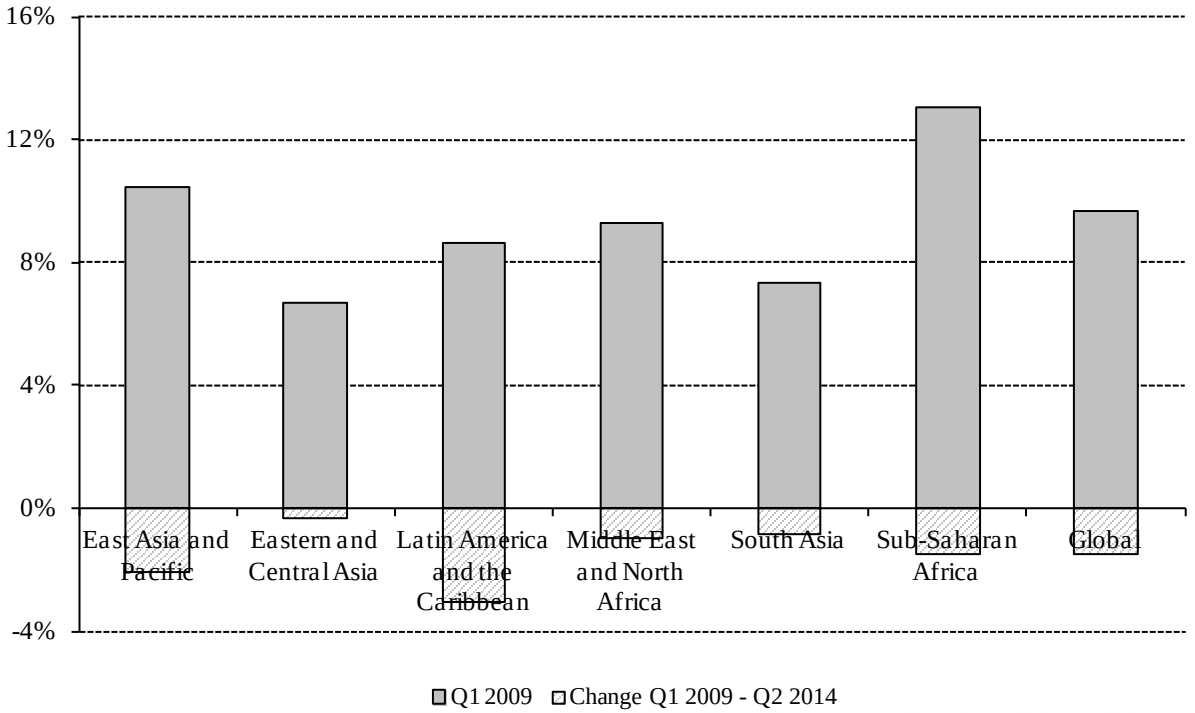
Remittances and financial inclusion

Remittances costs have decreased but not enough:

- The cost of sending remittances decreased for all developing regions but, in many LDCs, costs still range from 14-20%
- Latin America and the Caribbean is the region with the lowest average cost of remittance transfer (5.6%) while Sub-Saharan Africa remains the region with the highest cost (11.6%)

Change in the cost of remittances between 2009-2014, by developing economies

Source: The World Bank



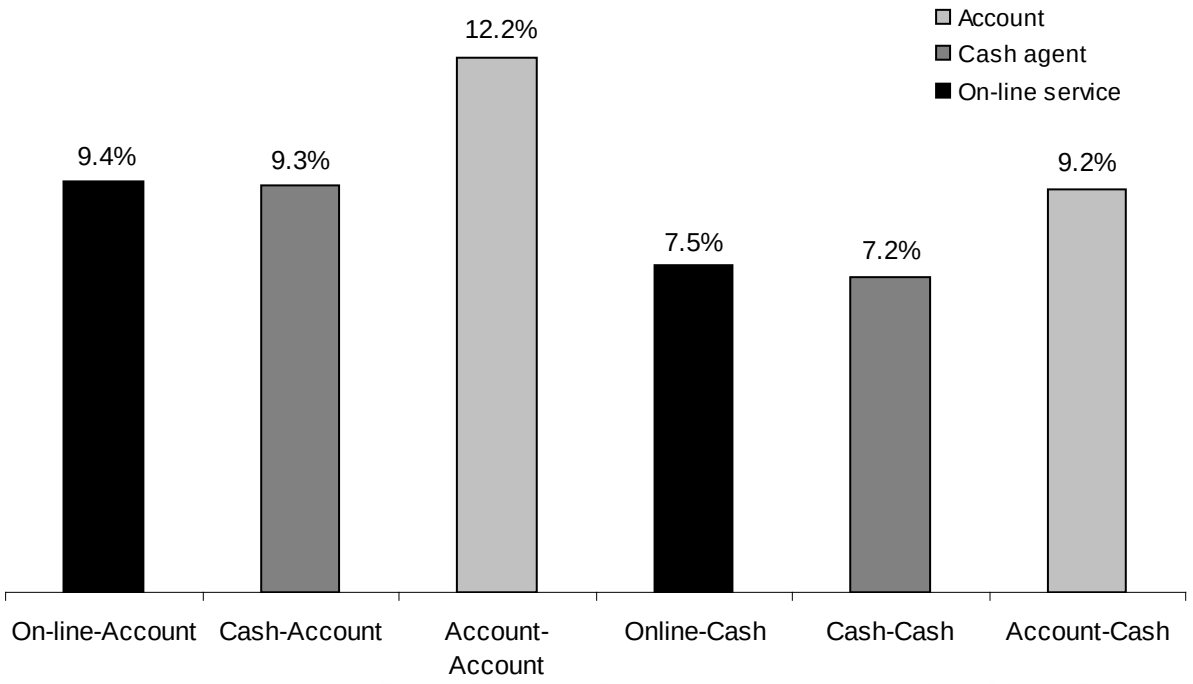
Remittances and financial inclusion

Remittances costs depend on several variables:

- Commercial banks are the most expensive remittance channel (12.1%) while post offices are the cheapest (4.7%)
- Money transfer organizations, present in 85% of migration corridors, have an average cost of 6.6.%
- Account-account is more expensive than cash-cash services

Average remittance price by service model (% of remittance flow)

Source: Dalberg Global Development Advisors



Remittances and financial inclusion

Cost reduction is central to reaping developmental gains:

- Payment and settlement systems facilitate cross-border payments;
- Competition/intermediation help addressing exclusivity contracts;
- Regulation should promote interoperability of platforms or even shared infrastructure to reduce operational costs, increase networks and financial access, facilitate competition and economies of scale;
- The combined use of banking, postal and telecommunication networks may lower costs and enhance the potential to reach low income recipients in remote locations :
  - E.g., Some banks allow for remittance transfer without the need to open an account . This also promotes competition, incentivises cost-effective channels and formalizes informal channels;
  - Innovation and technology, such as mobile money, can play an important role;
- Improving transparency and information on the costs associated to each channel (e.g., price databases) will enable senders to choose the most cost-efficient options:
  - Hence, the importance of data collection and evaluation of available options.

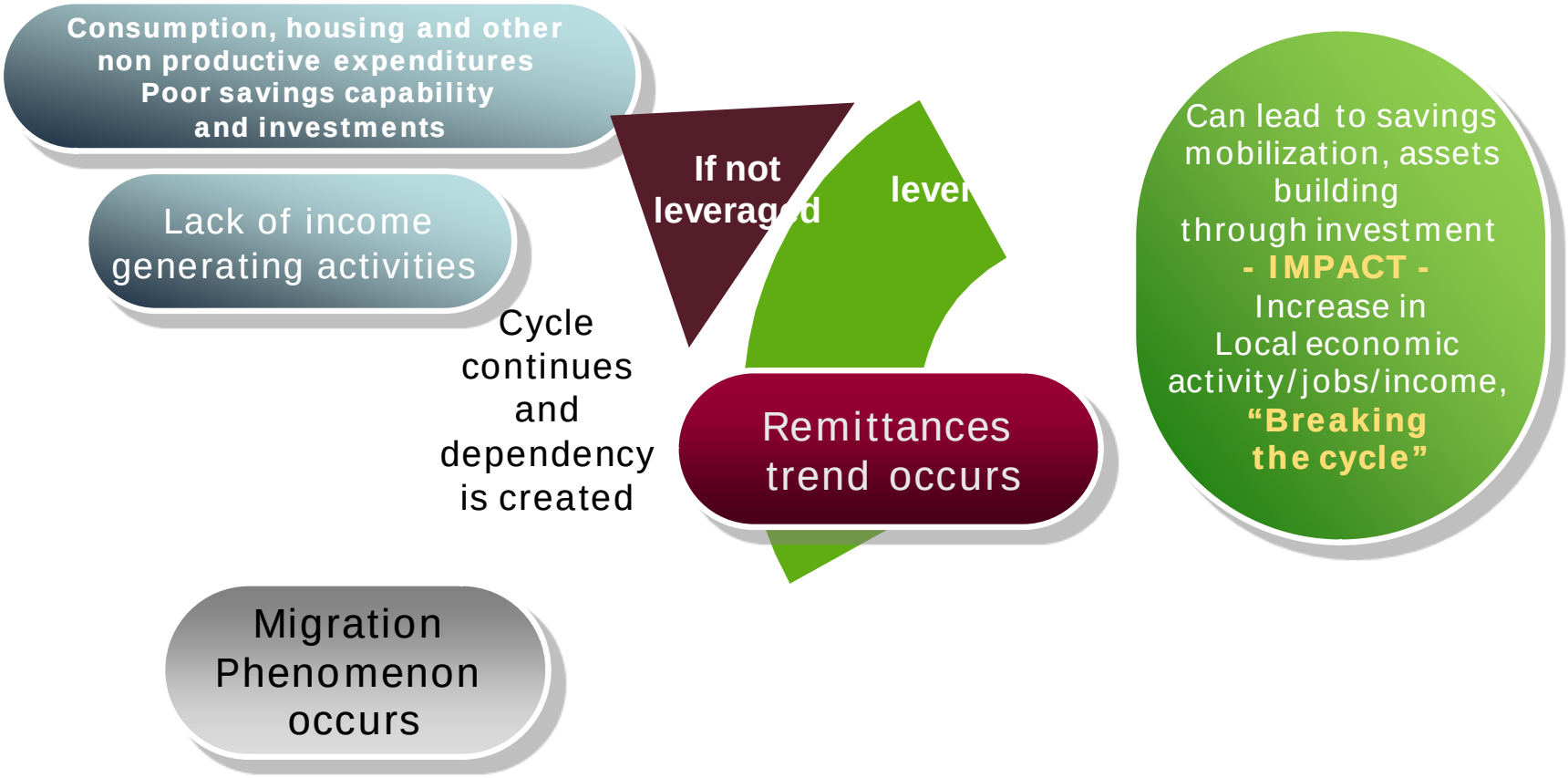
Remittances and financial inclusion

Maximizing the development impact of remittances:

- Remittances are mainly spent in household consumption, health and education. If funds are not leveraged, dependency is created;
- Linking remittances to financial services, together with scalable models of investment, may incentivise channelling these funds to productive activities, social services and infrastructure;
- This can maximize the impact in the local and national economy and can develop financial services by increasing demand;
- It is important to keep in mind that remittances are private funds and the focus should be in providing migrants and their families with financial options and tools to maximize the impact of their funds;
- Diaspora associations, employers and workers' organizations could play a role in providing information on these tools;
- Progress is still needed on leveraging remittances for capital market access through recognition of their importance by credit rating agencies.

Remittances and financial inclusion

Maximizing the development impact of remittances:



Source: IFAD

Remittances and financial inclusion

Options and tools to maximize the development impact of remittances:

- Diaspora funds and diaspora bonds. This includes, for example, diaspora bonds that have been used by Ethiopia, India, Kenya, Nepal, and Philippines and that are in the process of being issued by Nigeria and Trinidad and Tobago;
- Specific Islamic financing products are another example;
- Financial education/counselling could help channelling remittances to productive activities, social services and infrastructure;
- Tax and credit incentives to induce migrants and diaspora to invest in their home countries could also be considered. These instruments have been used in Bangladesh and Brazil;
- Several countries have integrated remittance products into national policies on financial inclusion. e.g. many public Indian banks offer accounts with no fees for remittances.

Policies and regulations

Governments can play an important role developing a sound regulatory and institutional framework ("supply side"):

- Regulating aspects of business conduct and overseeing effective recourse mechanisms to protect consumers, including competition;
- Allowing competing financial services providers and consumers to take advantage of technological innovations;
- Formulating financial inclusion strategies by participative processes including all stakeholders.

Some country experiences on regulation and institutions:

- The example of the Philippines:
  - The Central Bank created the Inclusive Finance Steering Committee;
  - Widened range of products, expanded virtual reach and physical network;
  - Enhanced consumer protection, including through the revision of the rules for Truth in Lending Act, regulation for market conduct and mechanisms for consumer assistance;
- The example of Mexico:
  - The major national financial authorities have representatives in the National Council for Financial Inclusion.

Policies and regulations

Some country experiences on regulation and institutions:

- The example of India:
  - The Financial Inclusion Advisory Committee was established;
  - Revision of regulatory guidelines towards more access to financial services (including in the areas of banking correspondent, mobile banking and relaxation of norms where possible, including Know Your Customer – KYC and e-KYC);
  - Bank outlets increased to 384 000, of which 115 350 opened during 2013-2014;
- The example of Bangladesh:
  - The importance of the institutional framework was also recognised;
  - The Central Bank was mandated to seek not only financial stability but also financial inclusion. Strategies are focused on determinants of exclusion, such as poverty, lack of infrastructure, and cumbersome paperwork requirements;
- The example of China:
  - Universal access (minimal financial services in all towns and villages);
  - Exploring alternatives in presence (ATMs, mobile units) and in models (local banks, rural cooperatives and postal bank – 5th largest bank in China);
  - Guidelines to promote competition, agriculture-related credit and SME support.

Policies and regulations

Proportionality of regulation is a key element of several financial inclusion strategies:

- In the Philippines' microfinance services, the regulatory points of balance were determined in areas such as capital adequacy, credit risk, risk management and governance. These served as the basis for the definition of diverse products with different features targeted at specific market needs;
- For digital financial services in the Philippines, requirements on risk management, capital, liquidity and others were applied in a proportionate way to non bank providers (in these cases, ring fencing of e-money operations and transaction limits were applied);
- In Mexico there are four levels of accounts, 3 of them with simplified requirements (in these cases limits were applied on monthly deposit amounts, on whom can open the account, and on how the money can be accessed).

Policies and regulations

Governments may apply direct measures ("supply side"):

- This may include subsidies and mandatory requirements, including universal services obligations:
  - Obligation to offer basic or low-fee accounts, prohibition to refuse basic financial services to poor clients and prohibition of not servicing particular areas;
  - Exemptions from onerous documentation requirements;
  - Priority sector lending, mandatory lending to SMEs, loan to poor people at lower interest rate with easy repayment and no profit margins.

Some country experiences on regulation and institutions:

- The example of India:
  - Simplified branch authorisation and no-frills accounts;
- The example of Bangladesh:
  - Changed bank opening rules to favour the growth of rural banks, lowered minimum deposit rate, helped access to banking services for people with disabilities, facilitated loans for farmers and people affected by natural disasters;
  - Inclusion of women, with banks obliged to have a desk dedicated to women, a requirement to disburse 15% of commercial funds to women, possibility of loans without collateral for women who have personal guarantee.

Policies and regulations

Policies could also aim at increasing demand for financial services ("demand side"):

- Governments make payments through electronic transfers to bank accounts:
  - The Reserve Bank of India promotes payment of direct benefit transfers, such as pensions, through electronic transfer;
- Supporting availability of information, including by setting standards for disclosure and transparency:
  - In Nigeria, financial education is important to generate trust and adoption;
- Improved financial literacy, capabilities and consumer empowerment could increase demand for financial services, such as through the institutionalization of financial training in the education system, dissemination of information outside the school system and designing reach out programmes:
  - The Reserve Bank of India created the Project Financial Literacy targeting school and college students and rural and urban people.

Policies and regulations

G-20 endorsed 9 principles for innovative financial inclusion:

- Aimed at creating an enabling policy and regulatory environment:
  - Promotion of competition and provision of market-based incentives;
  - Protection and empowerment of consumers to have financial literacy;
  - Promotion of technological and institutional innovation.

Maya declaration (2011) envisages financial inclusion:

- Regulatory institutions from 108 developing countries adopted financial inclusion principles. Some made specific commitments:
  - Enabling environment that makes full use of innovative technology;
  - Proportional regulation for financial inclusion, stability and integrity;
  - Consumer protection and empowerment;
  - Evidence-based financial inclusion policy that collects and analyses comprehensive data and produces comparable indicators;
- The Sasana Accord (2013) aims to strengthen the declaration's effectiveness through measurement, mainstreaming financial inclusion into national policies, and institutional framework.

Moving from principles to specific actions is central to progress in poverty reduction and economic and social development.

Trade policy and regulatory reform

Trade policy and regulatory concerns:

- Trade liberalization efforts need to be coordinated and synchronised with adequate domestic regulation to promote financial inclusion;
- Trade liberalization could have bearing on national regulatory efforts including in universal access and financial regulations;
- Trade dimension of effective regulation is relevant for financial inclusion, for instance through universal access requirements, particularly when there is substantial presence of foreign banks in domestic financial markets;
- The shift in regulatory focus to macro-prudential objectives could also have some bearing in financial inclusion:
  - Strengthening bank capital and liquidity standards under Basel III, and isolating essential banking services in retail banking from high-risk investment banking;
  - E.g. the “Volcker rule” in the United States prohibits deposit taking banks from engaging in most forms of proprietary trading, to curtail the perceived implicit Government guarantee on deposits from being applied to proprietary trading;
  - While many developing countries are yet to apply Basel II and Basel III is not mandatory, these could form best practices to follow.

Trade policy and regulatory reform

Multilateralism and financial inclusion:

- Recent research suggests that policies used by governments to promote financial inclusion do not generally deviate from WTO national treatment or market access obligations. No trade dispute has dealt with measures undertaken for prudential reasons;
- Examined policies to promote financial inclusion encompass: incentives to promote access in remote areas; promotion of information and data exchanges to mitigate credit risk; and investing in expanding the financial infrastructure to areas with perceived low profitability. These policies do not necessarily entail barriers to trade nor a discriminatory treatment vis-à-vis foreign services providers;
- According to the WTO rules' architecture, governments have the possibility to undertake partial liberalization with limitations and renegotiate existing commitments with appropriate compensation;
- Liberalization commitments, under right conditions, may have a positive effect in promoting efficiency and competitiveness in the domestic financial market and, hence, on financial inclusion.

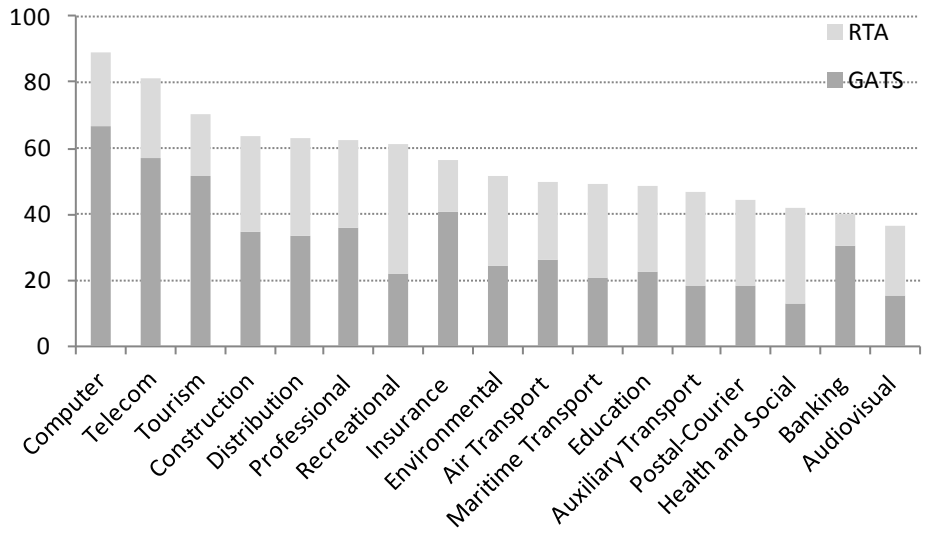
Trade policy and regulatory reform

GATS and RTA commitments vary across sectors and modes:

- Financial services have a relatively high level of GATS commitments but see the least improvements in RTAs (particularly in banking);
- Developing countries have been cautious in banking commitments through mode 1, reflecting the concern that is harder to regulate banks that are not established through commercial presence and fear of opening the capital account as it would be required by mode 1 commitments (cross-border deposit taking and lending).

Average level of GATS and RTA commitments for all countries

Source: UNCTAD based on WTO



Trade policy and regulatory reform

Recent RTAs have moved towards deeper liberalization:

- Commitments may be based on applied levels of market access conditions, including through stand-still requirements that do not allow to decrease the conformity of the measure;
- “Ratchet clause” automatically incorporates future liberalization;
- National treatment may be horizontally applied to all sectors/modes;
- “(Third-Party) MFN” clause aims that a RTA party obtains best possible preferential treatment available in other RTA partners;
- Investor’s rights may be placed over social needs, as it has been supported by Investor-State dispute settlement decisions;
- Some of these approaches may be replicated in the plurilateral Trade in Services Agreement (TISA) and in mega regionals;
- Recent mega-RTA negotiations aimed to address the potential anti-competitive effect of state-owned enterprises (SOEs) by eliminating their possible structural advantages and establishing “competitive neutrality” between SOEs and private companies.

Trade policy and regulatory reform

Example of foreign banks:

- Criticism to liberalization (relates to target 8.10 OWG proposal for post-2015):
  - Sometimes dominating the sector, their strategies often include “cherry picking” the most profitable segments of clients and the most profit-making services;
  - This could lead to not serving or even closing rural area banking and not providing enough productive credit to, for example, SME and farmers;
  - Tend to repatriate profits - not reinvesting in host country, to use host country savings for investment abroad, not to keep financial reserves in host country;
- Statutory financial inclusion obligations may be considered:
  - Requirement that the licensed number of branches is linked to the number of branches opened in rural areas;
  - Mandatory lending to SME and commitments to priority sector lending, scheme of lower interest rates for people living in poverty;
  - Prohibition to refuse basic financial services to poor clients and others.

Example of EU-CARIFORUM Economic Partnership Agreement:

- Criticism: Guarantees European suppliers access without due regard to universal service obligations and limits the right to regulate;
- Safeguards need to be reinforced to recognise the right to regulate and to act in face of difficulties.

Trade policy and regulatory reform

Implications of moving towards deeper liberalization:

- It seems prudent for Governments participating in TISA or other trade agreements, and in negotiations of mega regional agreements, to consider these implications;
- Lessons learnt from the recent international financial and economic crisis should be considered in the negotiations, to determine adequate levels of policy space for needed prudential regulatory measures and robust regulatory and institutional framework:
  - Use of exceptions and, ultimately, updating trade rules;
- Regarding the competitive neutrality goal between SOE and private companies: while the elimination of possible structural advantages could address potential anti-competitive effects, many countries have stressed the importance of SOE in delivering public policy goals, including access to financial services.

Trade policy and regulatory reform

Example of the Services Trade Restrictiveness Index (STRI):

- An inventory of regulatory impediments to trade in services, including banking and insurance, developed by the Organisation for Economic Co-operation and Development (OECD);
- According to this database:
  - Countries with a lower STRI perform better in indicators related to credit and insurance market development;
  - Mode 3 is the predominant form of supply, and Mode 1 is less frequent as cross-border supply of financial services could imply capital account opening;
- Criticism:
  - The focus is on mostly developed countries and that may impose limitations on the extrapolation of insights to developing countries. The causal relation between liberalization and financial inclusion is not determined by correlation alone;
- Trade liberalization is not to be taken in isolation as complementary policies, such as supervision and competition, are necessary;
- There is no “one size fits all” approach, as there are differences across countries concerning technology, social objectives and regarding the role of commercial banks vs. other financial actors.

Trade policy and regulatory reform

Trade policy can be relevant for remittances and financial inclusion:

- Trade and cooperation agreements at regional (e.g. ASEAN) and multilateral levels, and regulatory cooperative schemes, provide a platform through which to promote the temporary movement of natural persons (hence, remittances and financial inclusion):
  - GATS commitments on mode 4 which so far have been scarce and focused on higher-skilled categories;
  - These efforts may expand quotas, provide objective criteria for economic needs tests, and recognise qualifications;
  - The setbacks in the Doha Round have implications (e.g. LDC services waiver);
- Commercially meaningful commitments in mode 4 could bring $150 billion in development gains for developing countries, including a great part with the form of remittances but without including other benefits such as poverty reduction impacts.

Recommendations

Financial inclusion is central to poverty reduction, and inclusive and sustainable development:

- New technology, such as mobile money, reduces physical and economic barriers. Access to technology, network interoperability, level playing field and coordination between regulators and operators are necessary. Standards are necessary but should not become barriers for developing countries;
- Traditional barriers can be addressed by innovative business models, including correspondent (leverage different networks) and state-owned, cooperative, development, and community banks;
- Trade liberalization may promote efficiency in financial services. It needs to be adequately coordinated and paced with domestic regulation to promote financial inclusion and prudential measures;
- Remittances are the major source of external private financial inflows into developing countries, and a promising source of demand for financial services. Hence, safer, faster and less costly remittances could contribute significantly to financial inclusion.

Recommendations

Policy and regulatory framework for access to financial services:

- Many factors contribute to financial exclusion. Measurement is needed because identifying these determinants allows targeted policy responses. Women, youth, rural population, informal workers, and migrants are more severely penalised;
- Policies should seek efficient markets and equitable and affordable access to financial services, pursuing simultaneously financial inclusion, financial stability, and financial integrity;
- Governments have an important role in setting up sound and proportionate regulatory frameworks and incentives to increase supply / affordability of financial services (e.g. promoting competition and universal access, and addressing infrastructure constraints);
- It is also pivotal to expand demand for financial services, for instance through availability of information, financial education and consumer empowerment;
- Moving from principles to specific actions is central to progress in poverty reduction and economic and social development.

Recommendations

Financial inclusion, remittances, trade and post-2015:

- The links between financial inclusion, remittances and trade justify a holistic approach in which the targets for all these subjects should be supported to enhance their synergies and development impact;
- For example, strengthening the role of trade as a means of implementation (goal 17) or in other goals (e.g., 1 – poverty, 8 - economic growth, 9 - infrastructure and industrialization) is important, under the right conditions, for:
  - Financial inclusion: trade may increase efficiency of financial services;
  - Migration: trade may facilitate the temporary movement of natural persons to supply services as one of the means to trade in services, reduce barriers through recognition of qualifications, streamlining recruitment criteria and search for common international standards (thus a universal, rules-based, open, non-discriminatory and equitable multilateral trading system is a global public good that supports at least the 2nd point of the 8-point agenda for action to make migration work);
  - Remittances: trade may enable better migration and financial inclusion.

Recommendations

Financial inclusion, remittances, trade and post-2015:

- As another example, strengthening the role of financial inclusion in the post-2015 development framework, may favour remittances:
  - Flows are facilitated and their costs are reduced;
  - Their developmental impact may be maximized. Savings, loans and insurance services, together with scalable models of investment for migrants and their families (e.g. diaspora funds and bonds), may incentivize channelling these private funds to investments in productive activities, social services and infrastructure;
  - This is highly relevant for the development financing needed for the post-2015 development framework, as discussed in the preparatory process for the 3rd International Conference on Financing for Development in Addis Ababa.

Recommendations

Financial inclusion, remittances, trade and post-2015:

- Targets currently being proposed by the OWG for financial inclusion are important and should be translated into adequate indicators:
  - Metrics should provide disaggregated and development oriented information, thus allowing earmarked policy action, namely regarding the situation of usually penalised segments (women, youth, rural population, informal workers, and migrants) (e.g., financial inclusion of migrants is central for remittances and their development role);
  - For example, the Global Findex provides disaggregated information on several segments – including women, youth, elderly, rural population, lower income. Disaggregated information on migrants would also be welcomed.

Thank You

Link to presentations in the meeting:
http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=495

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