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FINANCIAL INCLUSION FOR DEVELOPMENT:
BETTER ACCESS TO FINANCIAL SERVICES FOR WOMEN, THE POOR, AND MIGRANT WORK

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This study builds on the longstanding work of UNCTAD in the area of financial services and remittances. This work has provided substantive inputs to intergovernmental processes, including the multi-year expert meeting on trade, services and development as well as to UNCTAD technical assistance on Services Policy Reviews. The contents of this publication also build on UNCTAD's work on the linkages between trade, services, remittances, and migration, including in support to the Global Forum on Migration and Development (GFMD) and to the United Nations Network on Migration.

The views expressed in this paper are those of the author and do not necessarily reflect the views of UNCTAD.

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NOTE

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ABBREVIATIONS

AFI	Alliance for Financial Inclusion
AML	anti-money laundering
ATM	automatic teller machine
CAFRAL	Centre for Advanced Financial Research and Learning
CARIFORUM	Caribbean Forum
CFT	combating the financing of terrorism
COVID-19	coronavirus disease
DCGI	Digital Currency Global Initiative
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
FIAP	G20 Financial Inclusion Action Plan
FDI	foreign direct investment
FG DFC	Focus Group on Digital Currency including Digital Fiat Currency
FG DFS	Focus Group on Digital Financial Services
G8	Group of Eight
G20	Group of Twenty
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GFMD	Global Forum on Migration and Development
GPFI	Global Partnership for Financial Inclusion
ICT	information and communications technology
IFAD	International Fund for Agricultural Development
ITU	International Telecommunication Union
KNOMAD	Global Knowledge Partnership for Migration and Development
KYC	know your customer
KYCC	know your customer’s customer
LDC	least developed country
MFN	most favoured nation
MNO	mobile network operator
MSME	micro, small and medium-sized enterprise
OECD	Organization for Economic Co-operation and Development
POS	point of sale
RCA	revealed comparative advantage
RTA	regional trade agreement
SDG	Sustainable Development Goal
SME	small and medium-sized enterprise
SOMO	Centre for Research on Multinational Corporations
STRI	services trade restrictiveness index
TNCDB	Trade Negotiations and Commercial Diplomacy Branch
TSD	Trade in Services and Development
UIBE	University of International Business and Economics
UNCTAD	United Nations Conference on Trade and Development
UPU	Universal Postal Union
WTO	World Trade Organization

Introduction

Access to financial services is critical to the achievement of the 2030 Agenda for Sustainable Development. Despite progress in recent years, significant gap remains between developed and developing economies. In 2017, 94 per cent adults in developed economies had an account[1] compared to 63 per cent in developing economies. The poor, less educated, youth and women tend to be more excluded.

Financial inclusion thus remains a key development concern, which has become more acute with the coronavirus disease (COVID-19) pandemic. The restrictive measures adopted by many governments to curb the spread of COVID-19 have led to income losses, with the most serious impact felt by low-income households.

Several factors make such effects particularly penalizing for migrant workers. Labour migration is highly focused on the services sector, accounting for around 70 per cent of migrant jobs already in 2013 (ILO, 2015). Many of these are manual workers in construction, domestic and tourism services (ILO, 2018). As such, these migrants are more exposed to low-wages and pro-cyclical economic downturns, and are more affected by mobility restrictions, due to their manual nature. In several low and middle-income countries, 75 per cent of migrant women and 70 per cent of migrant men are informal workers (Amo-Agyei, 2020), which exacerbates the effects of the economic downturn. Low social protection, insufficient information about rights, or difficulties regarding visas and permits with expiration dates that remained inflexible despite lockdowns and layoffs, make the effects of unemployment more severe to migrant workers (ILO, 2020). Women migrants represent 42 per cent of migrant workers globally (IOM, 2020a). They suffer a disproportionate impact of the COVID-19 pandemic, also because women are more involved in domestic and care work.

The plight of migrant workers is propagated to their countries of origin through diminished remittance flows. Further to the economic impacts on migrant workers, these have more limited access to remittance transfer services due to restrictions to physical mobility and to a reduction on the number of transfer providers, which were also affected by the pandemic (United Nations, 2020). A decline in remittance flows of US$142 billion is forecasted for 2020, relative to the previous year. Of these, a reduction of US$109 billion is forecasted in flows to developing economies. This is a 20 per cent drop in remittance inflows in 2020, both globally and for developing economies (World Bank, 2020a).This

plunge in remittance means a significant reduction in income for millions of people. As remittances are critical to bridge household income gaps in countries of origin, their reduction increases the vulnerability to any forthcoming global recession. As an average of 75 per cent of remittance transfers are used for essentials such as food, education, health, and housing,[2] this reduction in remittances exacerbates the vulnerability of remittance-receiving households to health risks associated to the pandemic. In this context, it is even more important to apply financial inclusion policies that facilitate the access to speedy, safe, and affordable remittance transfer services.

Those hit the hardest by the economic impacts of the pandemic will also be the ones who to suffer from poor access to payment, credit, and other financial services. These most vulnerable need targeted policy responses, including financial inclusion policies to facilitate better access to financial services at affordable and sustainable cost.

Access to financial services is central for development and is mentioned in several goals and targets of the 2030 Agenda for Sustainable Development. The importance of reducing the transaction costs of remittances is also acknowledged in the agenda's Sustainable Development Goals (SDGs). Financial inclusion has become a key policy agenda of many countries, since it can contribute to poverty reduction.

Against the above background, this study examines the importance of improving access to financial services as a policy objective to achieve sustainable development that "leaves no one behind". The study is structured as follows. Chapter I examines the trends and key issues regarding financial inclusion, in particular physical, economic, regulatory, and cultural factors that hamper people's access to financial services. Chapter II discusses the linkages between remittances, financial inclusion, and trade and investment policy. The chapter focuses on the special needs of migrant workers for effective and less-costly financial services in support of more efficient remittance flows, which is of special importance in face of the COVID-19 challenges. Chapter III is devoted to digital financial inclusion, a trend which has assumed growing importance in recent years, and also explores other business models and services to extend financial inclusion. Chapter IV identifies policies, initiatives and measures that are required to improve financial inclusion, targeting in particular the vulnerable and underserved groups, as well as micro, small and medium sized enterprises (MSMEs). Chapter V concludes with policy implications and recommendations at the national and international level.

I.

Trends and issues in financial inclusion

A. Access to financial services and development

Financial services play a pivotal role in the functioning of markets and the economy and contribute to economic and social development. The relevance of financial services for the economy is manifold. In its own right, financial services contribute to output, foreign direct investment (FDI) and employment. As infrastructure services, financial services have meaningful linkages with the economy at large, providing valuable inputs for activities in the primary, industrial, and tertiary sectors and for individuals. Through banking, securities and insurance services, financial services facilitate domestic and international transactions, mobilize, and channel domestic savings and broaden the availability of credit for MSMEs and households.

Access to financial services is therefore central for development as manifested in several SDGs and targets of the 2030 Agenda for Sustainable Development (Table 1). Access to financial services can also contribute to facilitated, speedier, safer, and less costly remittances and to maximizing the development role of remittances (UNCTAD, 2013). This is important from a development perspective, as a 10 per cent rise in remittances may contribute to a 3.5 per cent reduction in the share of people living in poverty (UNCTAD, 2015). This is a major reason why the SDG target 10.c calls for reducing the transaction costs of migrant remittances to less than 3 per cent, and eliminate remittance corridors with costs higher than 5 per cent, by 2030.

Table 1. Services in Sustainable Development Goals

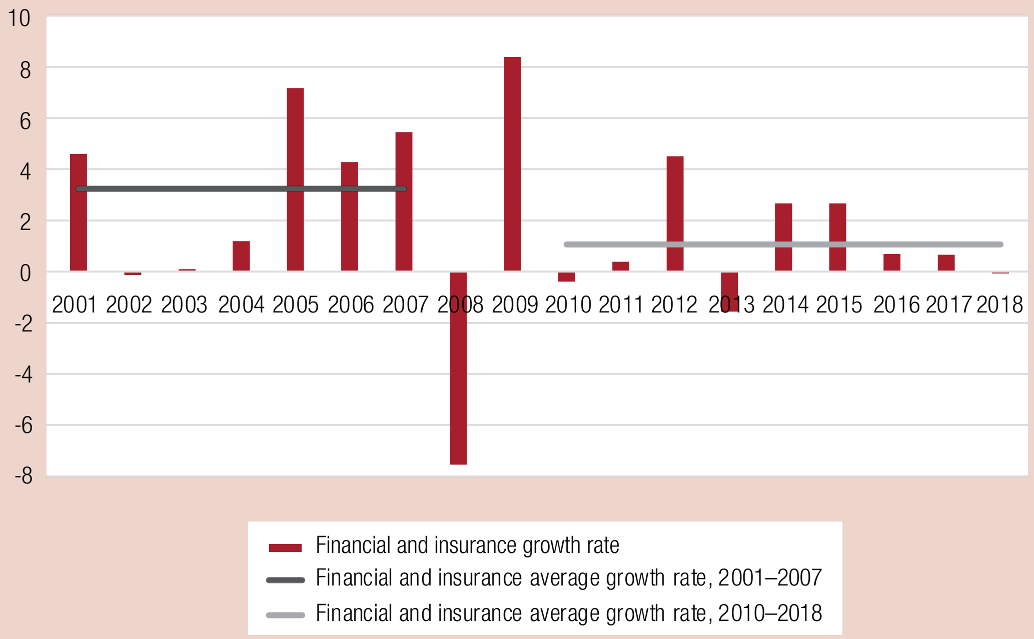
Goal	Target/indicator
Goal 1 End poverty	1.4 – By 2030, ensure that all men and women (…) have access (…) to basic services, (…) new technology and financial services, including microfinance
Goal 2 End hunger; Achieve food security	2.3 – By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to (…) productive resources and inputs, knowledge, financial services (…)
Goal 3 Ensure health and well-being	3.8 – Achieve universal health coverage, including financial risk protection, access to quality essential health-care services (…)
Goal 5 Gender equality, empower women and girls	5.a – Undertake reforms to give women (…) access to (…) financial services (…)
Goal 8 Economic growth, employment	8.3 – Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services 8.10 – Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
Goal 9 Infrastructure, industrialization, innovation	9.3 – Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services (…)
Goal 10 Reduce inequality within and among countries	10.5 – Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations 10.c – By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent
Goal 17 Partnerships for the goals	17.3.2 – Volume of remittances (...) as a proportion of total GDP

Source: UNDESA: https://sdgs.un.org/goals

B. Recent developments in financial services and remittances

Financial services output has typically grown faster than total gross domestic product (GDP) in the period preceding the global financial and economic crisis in 2008/2009. Within countries that are the members of the Organization for Economic Co-operation and Development (OECD), financial services grew at an average annual growth rate of 3.2 per cent between 2001 and 2007, faster than the overall services sector and GDP.[3] The growth rate declined significantly after the 2008/2009 global financial and economic crisis, to an average annual growth rate of 1.1 per cent between 2010 and 2018 (Figure 1). Still, the subsector represented a non-negligible 6 per cent of OECD's GDP in 2018 and several activities within financial services have high value added.

Figure 1. Countries of the Organization for Economic Co-operation and Development: Growth in financial and insurance services, 2001–2018 (Percentage)



Source: UNCTAD based on OECD.

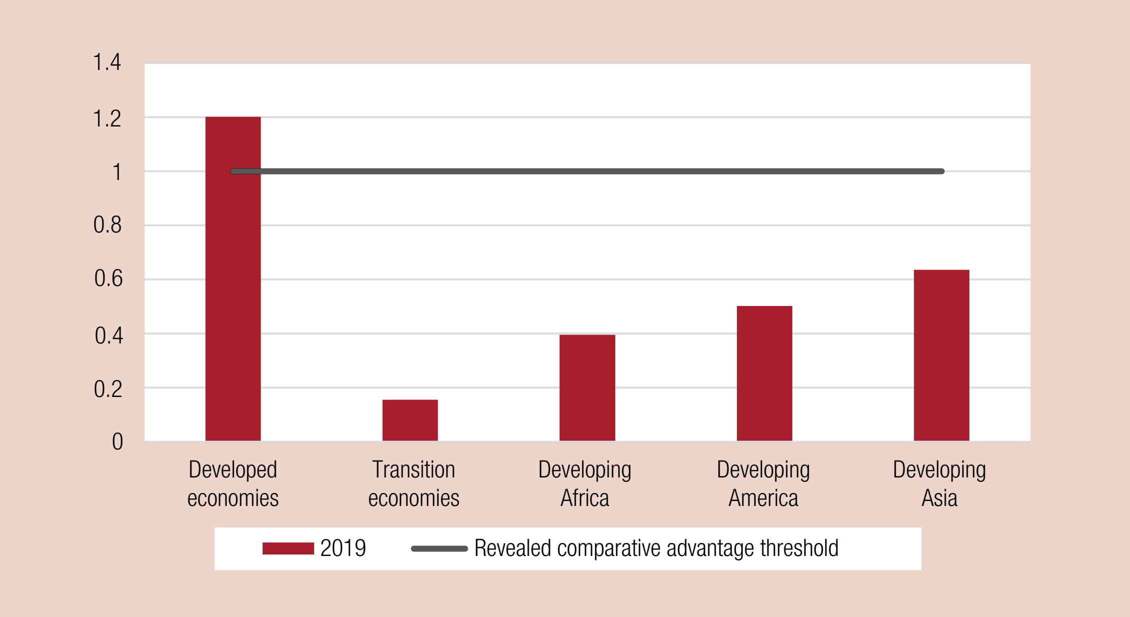
In developing countries, employment in financial services grew by 4.6 per cent annually between 2001 and 2019, faster than in developed economies where it experienced an annual 0.8 per cent growth in the same period. Women accounted for an important 47 per cent of global jobs in financial services in 2019. The corresponding figure in developing countries was 44 per cent in the same year, but the number of female workers in financial services has increased more that of men between 2001 and 2019. These upward trends are important as many activities within services activities require qualified jobs. In 2019, jobs in financial services were projected to account for 1.1 per cent of total employment in developing countries, and 3.5 per cent in developed countries.[4]

In 2019, financial services accounted for 2.8 per cent of global greenfield FDI, US$24 billion (UNCTAD, 2020).

Developing economies are net importers of financial services, with global exports largely dominated by developed economies, although with the recent expansion of some developing countries. This points to the importance of factoring in the foreign supply of financial services into measures aimed at expanding access to financial services to individuals and firms. Cross-border exports of financial services reached US$657 billion in 2019, of which developing countries accounted for 18 per cent, or US$118 billion.[5]

There is a higher specialization of developed economies in financial services exports, as demonstrated with revealed comparative advantages (RCAs) of different groups in financial services in 2019: 1.2 in developed economies compared to just over 0.6 in Developing Asia, 0.5 in Developing Americas and 0.4 in Africa (Figure 2).[6]

Figure 2. Revealed comparative advantages in financial services exports by region and income level, 2019 (Index)



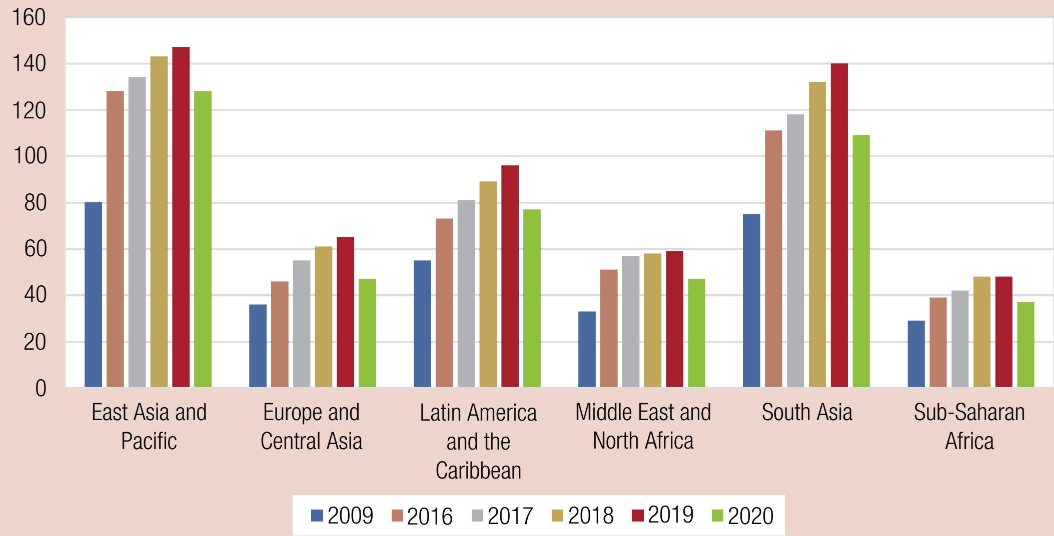
Source: UNCTADstat (https://unctadstat.unctad.org/EN/).

Remittances are transfers of money by migrants to their countries of origin. These include transfers from temporary migrant workers who are providing services in the country of destination. As such, remittances are also related to exports of services through mode 4, of particular relevance to several developing countries.[7] International remittance flows have been significant and growing until 2019, particularly to developing countries, and represent a major source of external finance. Remittances have also been a fundamental source of income for more than 800 million people.[8] In 2019, global remittance flows were estimated to be US$714 billion, with US$554 billion flowing to developing countries (World Bank, 2020a). This reflects the continued increase in the number of migrants. Globally, since 1990, while the population grew 45 per cent, the number of international migrants grew 78 per cent, to reach 272 million persons by mid-2019 (UNDESA, 2019). In 2017, migrant workers were 164 million, representing 64 per cent of total international migrants in the same year (ILO, 2018). In 2013, 71 per cent of the migrant workers were concentrated on services, signalling the relevance of migration for the services sector (ILO, 2015).

Between 2009 and 2019, all developing regions witnessed growth in remittance inflows, with the largest changes observed in East Asia and the Pacific and in South Asia (Figure 3). In 2019, these regions were the biggest absolute receivers of remittances among developing regions. In the same year, the developing regions receiving the lower inflows were the Middle East and North Africa, which received around US$59 billion, and sub-Saharan Africa, which received US$48 billion (World Bank, 2020a).

In terms of GDP share in 2019, which gives more information on the impact of the transfers of funds on national incomes, the main beneficiary countries for each region are expected to be: Tonga (where remittances account for 38 per cent of GDP) in East Asia and Pacific; Kyrgyzstan (29 per cent) in Europe and Central Asia; Haiti (37 per cent) in Latin America and the Caribbean; Occupied Palestinian Territory (16 per cent) in Middle-East and North Africa; Nepal (27 per cent); and South Sudan (34 per cent) in Sub-Saharan Africa (World Bank, 2020a). Remittances account for more than 10 per cent of GDP in 30 countries (IOM, 2020b).

Figure 3. Remittances inflows into developing economies by region, 2009, 2016, 2017, 2018, 2019, and 2020 (Billions of dollars)



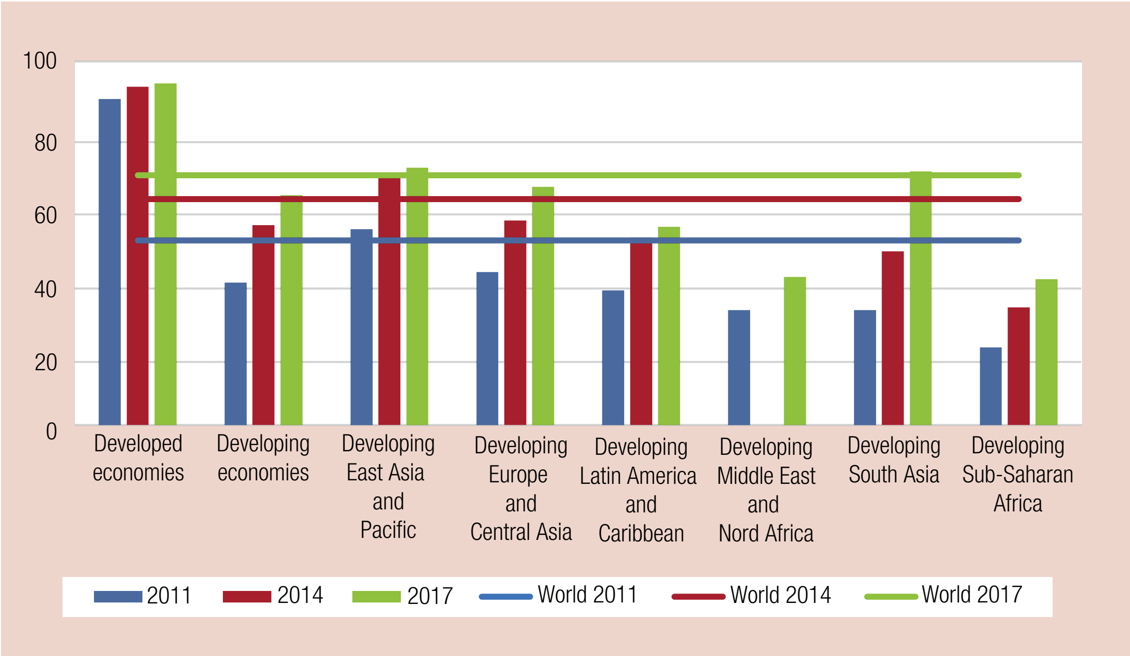
Source: World Bank, 2020a, COVID-19 Crisis Through a Migration Lens, *Migration and Development Brief,* 32.
Note: Estimates for 2019 and forecasts for 2020.

C. Financial inclusion: Gaps between and within countries

Financial inclusion is commonly defined as the proportion of individuals and firms that use financial services. It refers to a state in which all working age adults have effective access to convenient and responsible services delivery at affordable and sustainable cost to customers, including to credit, savings, payments, and insurance from formal providers (GPFI, 2011). While research is being carried out on better measurements of inclusion, density measurement is common. Statistics relating to the number of people having an account in a formal financial institution, be it at a bank or at another type of financial institution, or in a digital money service is particularly useful, as all formal financial activity is tied to accounts. Beyond the number of people included, measures could comprise the distribution of financial inclusion by segments, including geographic segments, to assess the differentiated impact on women, rural populations, or other usually underserved segments and enterprises.

In recent years, the global share of people with an account[9] has increased from 51 per cent in 2011 to 69 per cent in 2017. Despite this progress, large variations in financial inclusion still existed in 2017 in terms of income, region, gender, education level and age, and disparities remain in the access to financial services between developed and developing economies. In 2017, the share of adults in developed economies who have an account at a financial institution or at a digital money service was 94 per cent, compared to 63 per cent in developing economies. In the same year, middle-income countries registered an account penetration rate that almost doubled the one in low-income countries. East Asia and the Pacific is the only developing region whose account penetration rate consistently exceeded the global average. The Middle East and North Africa and sub-Saharan Africa lag behind the global average (Figure 4).

Figure 4. Share of people with an account, globally, by income level and by developing region, 2011, 2014, and 2017 (Percentage)



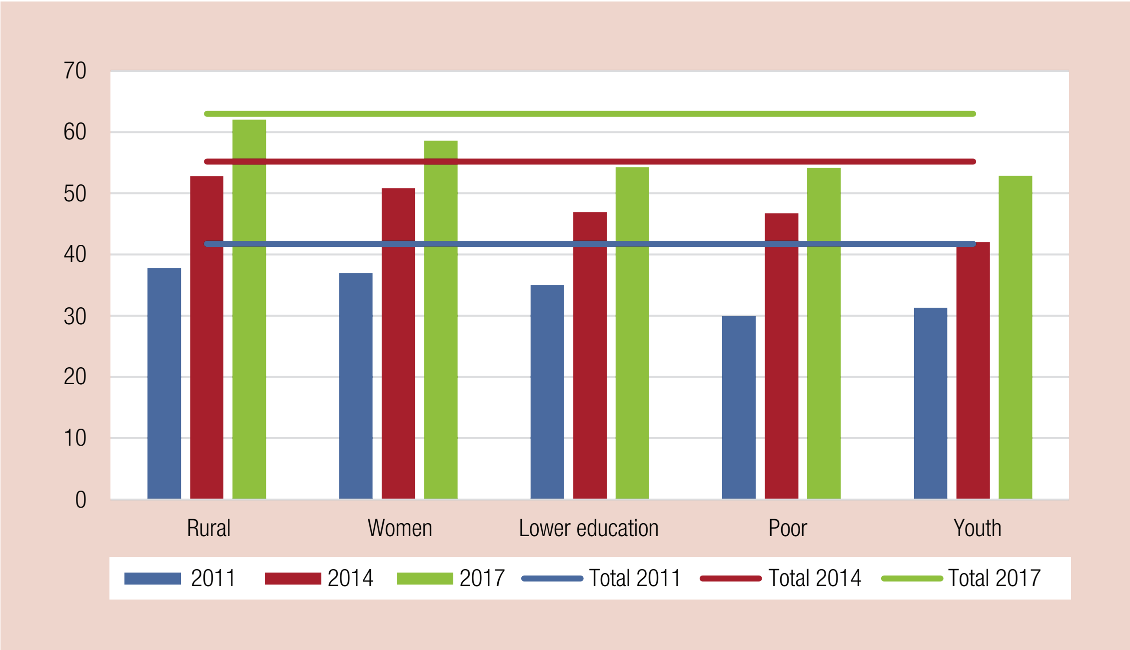
Source: World Bank Global Financial Inclusion database (https://datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database).

In all regions and income groups, as the proportion of women with financial services accounts is lower than the average. Youth demonstrates even a lower ratio, with the exception of Sub-Saharan Africa. The largest disparity between women and the total population, eight percentage points, is observed in the Middle East and North Africa. In Europe, Central Asia, and Latin America and the Caribbean, youth lags further behind than the total rate of access to financial account, with a difference of 15 percentage points.[10] Asymmetric access is also observed among urban and rural population as the former group has easier access to retail access points (bank offices, automatic teller machines (ATMs)) than the latter. In countries with differential treatment under the law or by custom, women may be less likely than men to have an account, save or borrow. Some countries, such as the Philippines, face archipelagic barriers to financial access (UNCTAD, 2014a).

As discussed, 63 per cent of adults (*i.e.* people over 15 years old) in developing economies had an account in 2017. Although much lower compared to developed economies, there has been a significant increase since 2011, when the ratio was only 42 per cent. The portion of women, people with a lower education level, the poor, and youth with an account has also increased. In 2017, 59 per cent of women had an account compared to 37 per cent in 2011. Similarly, 53 per cent of youth had an account in 2017 as compared to 31 per cent in 2011 (Figure 5).

Lack of access to financial services represents a major impediment to income opportunities and the economic welfare of individuals, particularly for the poor, women and youth, as well as for firms, particularly MSMEs. For firms, the lack of access to finance is the biggest obstacle affecting MSMEs and start-ups in developing countries. Start-ups are particularly credit constrained, as lenders have little information on their performance or credit worthiness. Firms in the informal sector face major challenges in accessing finance, as many do not have bank accounts to run their business. Firms that

Figure 5. Share of people with an account, total and by region, gender, education level, income level, and age, 2011, 2014, and 2017 (Percentage)



Source: World Bank Global Financial Inclusion database (https://datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database).

are fully credit constrained amount to 3.6 per cent of firms in OECD economies and to 22.3 per cent in Sub-Saharan Africa. Smaller firms are more likely to be credit constrained than large firms, in all regions (Chavez, 2017). This is an important development barrier, as access to affordable finance is associated with innovation, job creation and growth.

D. Obstacles to financial inclusion

Various factors affecting supply and demand of financial services inhibit the access of individuals and firms to financial services. While some unbanked people and firms exhibit no demand for accounts, most are excluded because of physical, economic, administrative, and psychological barriers such as cost, travel distance, amount of documentation and lack of trust. In 2017, 60 per cent of adults in low-income economies list the lack of disposable money as the reason for having no accounts; 28 per cent in developing economies.[11] These barriers tend to have a disproportionate effect on the poor, women, youth, rural populations, informal workers, and migrants. Affordability of accounts is a major constraint, as fixed transaction costs with small transaction amounts may disproportionately represent a heavy burden. Low bank branch penetration in rural areas could significantly increase access costs. Documentation requirements for opening an account may exclude workers in rural areas, the informal sector, or migrants, owing to the lack of official pay slips, tax payments or proof of residence. Where the financial sector is underdeveloped, people may not trust financial institutions, or their financial knowledge and literacy may be limited.

In Costa Rica, for example, high intermediation margins were found as one source of inefficiency of financial markets, transferring wealth from consumers to banks. High transaction costs increase the recourse to informal and cash-based operations (OECD, 2020). In Nigeria, agent networks were insufficient, especially in rural areas where people may lack trust in agents, in particular when they are recruited from outside the community. Furthermore, many Nigerians lack national identity cards, limiting their access to some accounts (Central Bank of Nigeria, 2018). In Sri Lanka, promoting financial literacy and strengthening consumer protection were important to increase trust and usage of formal financial services (IFC, 2020).

The degree of financial sector development, market structure and regulatory framework also affect financial inclusion. Financial services are characterized by market failures arising from information asymmetry and imperfect competition. When not adequately regulated, information asymmetry could result in an undersupply of credit to a particular population group, or moral hazards causing excess supply of credit and heightened indebtedness. Imperfect competition could lead to market concentration, raising costs of finance and market segmentation, with resultant undersupply in rural areas and the poor. Undiversified financial sectors could increase the economy's vulnerability to external shocks. The existence of such market failures points to the importance of sound regulations and the need for policy to enhance financial inclusion, universal access, competition, and consumer protection.

II.

Remittances and financial inclusion

A. Remittances, financial services, and trade policy

There is a strong relationship between remittance flows, financial inclusion, and poverty reduction. Remittances represent major and usually steady flows of private funds that increase household income and have significant potential to contribute to human and social development, being mostly used for consumption, including of social services such as health and education. Under the right conditions, their impact can be maximized for productive development. International remittances, the money that migrants send home, have become major international financial inflows to developing countries. According to the International Fund for Agricultural Development (IFAD), international remittances to rural areas contribute 4 per cent to the GDP of migrants' countries of origin (IFAD, 2019).

Financial inclusion and remittances can be mutually supportive. Remittances can contribute to achieving universal access on financial services. As it is generally recognized that remittances are usually regular and predictable flows, remittance recipients can be relatively more inclined to join the formal financial sector. This is particularly relevant for lower-income countries that tend to have both higher levels of remittances as a share of GDP and less account penetration. If banks or credit unions are used to transfer remittances, remittance senders and recipients have an incentive to open a bank account. Thus, remittances have the potential to boost demand for financial instruments.

To harness the benefits of remittances, it is necessary to ensure the protection of migrant workers, good governance of labour migration, and policies based on international standards and social dialogue.

Trade policy can play an important role in promoting the contribution of remittance to national development objectives. Trade agreements, and regulatory cooperative schemes may provide a platform through which financial inclusion, the temporary movement of natural persons and remittances can be promoted. Such policies include the promotion of services supply by mode 4 through commitments set out in the General Agreement on Trade in Services (GATS), which have been scarce and have focused mainly on higher-skilled categories.

The offers regarding the operationalizing of the LDCs services waiver, as was adopted as a Ministerial Decision at the 9th World Trade Organization (WTO) Ministerial Conference in Bali in

2013 (WTO, 2013), and preferential market access for services exports from LDCs may potentially contribute to make remittance flows more predictable and stable. This can occur by expanding quotas, providing objective criteria for economic needs tests, and recognizing qualifications. Still, the waiver does not adequately address temporary movement of natural persons. Commitments on the Mode 4 services supplies for the most part is unbound and subject to limitations such as commercial presence requirements. Some preferential treatment provided by WTO members to LDCs under the WTO services waiver include measures such as doubled periods of stay, waived economic needs tests, waived visa fees, and work permits. Regional integration initiatives may also contribute to reducing barriers and may prove to be more amenable to establish a cooperative mechanism on issues such as labour mobility.

The temporary movement of persons has been addressed in several multilateral discussions regarding domestic regulation, in recent years.[12] These have included proposals on processing of visa applications, fees, and examinations that could contribute to such a reduction on barriers to the movement of natural persons. Such proposals have included endeavours to permit the submission of visa applications at any time, including in electronic format; to accept authenticated supporting documents in place of originals; and to aim for authorization fees that are reasonable, transparent and do not restrict the supply of the service. Although there has been no consensus among WTO members on such topics, these discussions have clearly identified key barriers to the provision of services through the temporary movement of persons.

B. Addressing remittances costs

As high transfer costs are major impediments to remittance flows, it is important to make financial services, in particular transfer systems, less costly, more efficient, and transparent. The reduction of remittances' costs may provide receivers with extra income, which would give them further opportunity to consume, save and invest. The relevance of reducing remittance costs to sustainable development is recognized by target 10.c of the SDGs, which is in line with that of reducing the global average costs of remittance transfer from 10 to 5 per cent, as agreed in such platforms as the Group of Eight (G8) and the Group of Twenty (G20). In the third quarter of 2020, a 5 per cent reduction on remittances costs could save US$15 billion per year.[13]

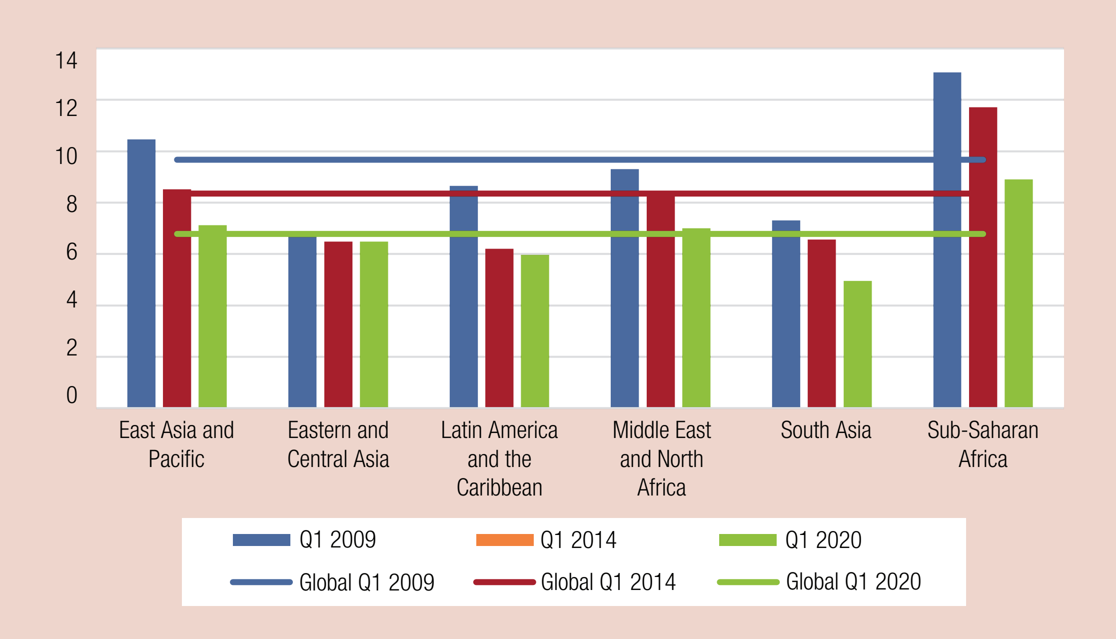
The global average of transfer costs stood at just below 7 per cent of the transferred value in the first quarter of 2020 (Figure 6). Remittance costs have been decreasing for all developing regions but in many LDCs costs are still very high. Sub-Saharan Africa, with an average cost of 9 per cent, remained the region with the highest cost in 2020, although it has significantly declined since 2009. In the same quarter in 2020, the lowest costs were found in South Asia, at 5 per cent. In the third quarter of 2020, there were 84 per cent of all remittance transfer corridors with costs below 10 per cent, above 53 per cent in the first quarter of 2009 (World Bank, 2020b).

Among G8 countries, the average costs of sending money in the first quarter of 2020 from Canada, Germany, Japan, and the United Kingdom of Great Britain and Northern Ireland were above the global average, while costs in Italy, the Russian Federation, and the United States of America were below average. In the same quarter, among G20 countries, South Africa remains the country from where sending remittances is the most expensive with an average of 15 per cent, followed by Japan (9 per cent). The least expensive country from where to send remittances is the Russian Federation (2 per cent), followed by Saudi Arabia (4.5 per cent) (World Bank, 2020b).

Transparency on transfer costs

Improving transparency and information on costs associated with each channel of remittances will enable senders to choose the most cost-efficient options and allow for evidence-based policies.

Figure 6. Remittance costs by developing region, Q1 2009, Q1 2014, Q1 2020 (Percentage)



Source: World Bank, 2020b, *Remittance Prices Worldwide*, Issue No. 35 and World Bank, 2017, *Remittance Prices Worldwide*, Issue No. 21.

Transparency implies that the remittance sender is sufficiently and correctly informed on all the components of the transaction cost (direct fee, exchange rate, taxes, and possible fees to the receiver) and on the speed of the service (Committee on Payment and Settlement Systems & The World Bank, 2007). Lack of transparency by remittance services providers is a major cause of high remittance prices, because it gives no chance to remitters to compare prices and to make an informed decision. This requires data collection, monitoring and evaluation of the available options. Some online databases already offer some information to migrants, for example the Remittance Prices Worldwide from the World Bank,[14] and help them compare remittance services providers' services.

Interoperability among financial institutions

In the third quarter of 2020, commercial banks were the most expensive type of remittance services providers, with an average cost of 11 per cent of the transferred value, while mobile operators were the cheapest, with an average cost of 3 per cent. Money transfer organizations have an average cost of 6 per cent and post offices, which had the lowest cost by some time, now stand at 9 per cent (World Bank, 2020b). Also in the third quarter of 2020, the most expensive mean to fund a transaction was cash, with costs averaging 7 per cent of the transferred value, followed by bank accounts, with 6.8 per cent. The less expensive mean to fund a transaction was mobile money, with 4.5 per cent. Regarding the costs by means of disbursing the value, the most expensive was account-to-account transfer services between different banks with costs averaging 7.2 per cent. This was followed by cash, with 6.4 per cent. The less expensive mean to disburse the value was mobile money, with 5.3 per cent (World Bank. 2020b).

Ensuring interoperability of banking, postal and telecommunication networks may generate more efficient channels, with lower costs and more potential to reach low-income recipients in remote locations. Some countries pool resources of banking, microfinance, and credit unions to expand the whole payment network, thus promoting efficient and broad distribution of remittances (UNCTAD, 2011). Some banks allow for remittance transfers without the need for the sender or the recipient to open an account. Such a multiplicity of channels is important in promoting competition, incentivizing cost-effective channels of remittances, and formalizing informal channels. Policies need to envisage transversal coverage, which means independence from specific technologies. Regulation should promote interoperability of platforms or even shared infrastructure to reduce operational costs, increase networks and financial access, facilitate competition, and achieve economies of scale.

Increased competition among financial institutions

In some cases, remittances can still be costly due to capital controls or prohibition of remittance transfers. Remittance services providers may be given in exclusivity arrangements that limits remittance services only within authorized banks and foreign exchange bureaus, which may also contribute to keeping the transfer costs high. There can also exist lack of information and uncertainty on “lifting fees”, mainly for transfer to bank accounts by remittance services providers. Policies and regulations should foster competition to avoid market concentration. Lack of competition could mean that major money transfer organizations can be free to set and impose their own high prices. For example, back in 2010, Western Union and MoneyGram were able to control two thirds of the market in sub-Saharan Africa (UNCTAD, 2012a).

Other causes of the high prices of remittances include exclusive partnerships between banks and money transfer organizations, although there have been initiatives to end these agreements. Also, anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations, while necessary, contributed to remittances’ costs, although there have been initiatives to simplify AML/CFT regulations for low-value transfers.

New modes of remittance transfer

Remittance transfer payment systems continue to evolve, and new remittance channels and technologies keep emerging. The establishment of regional payment systems in Africa facilitates cross-border payments within these regions. The African Union’s African Institute for Remittances supports members in facilitating removal of obstacles so remittances can be better used as development tools for poverty reduction (ODI, 2014).

Digital solutions have played a crucial role. The Internet as a source of information has contributed to redefining the remittance market share and to reducing the transaction costs of remittances. Digital solutions have also ensured the success of new companies entirely based on online money transfers, such as WorldRemit, and have made possible the adoption of online money transfer procedures by traditional remittance companies, such as Western Union. As a result, the market for remittances is increasingly diversifying in terms of innovative financial products. In particular, the emergence and growth of digital and mobile banking is beneficial to remitters and recipients. Section III.B discusses digital and mobile banking in more detail.

C. Remittances as a source of productive investment

The development impact of remittances can be maximised by providing the options to channel these private funds to investments in the productive sector, social services, and infrastructure. However, a significant share of remittances transferred is spent in household consumption, followed by home-related spending on health and education (UNCTAD, 2013). Financial inclusion becomes important in this context because linking remittances to savings, loans and insurance could provide a greater incentive to channelling these funds to investment in productive activities, social services, and infrastructure. Diaspora funds and bonds could be used as a tool for development financing.

Migrants are motivated to invest in their countries of origin for emotional or social status reasons, but attractive return on investment is required to better attract diaspora investment. Tax and credit incentives have also been used to induce migrants and diasporas to invest in their home countries.

Financial education and counselling could contribute to these efforts. Diaspora associations, and employers' and workers' organizations could play a role in providing information on these tools. Migrants could also increase trade between home and host country through, *inter alia*, nostalgia trade. Products traded in this context could possibly exhibit stronger links to the local economy in the home country (UNCTAD, 2017). Internationally, there is still a progress to be made on leveraging remittances for capital market access at the macro level through further recognition by credit-rating agencies of the importance of remittances.

III.

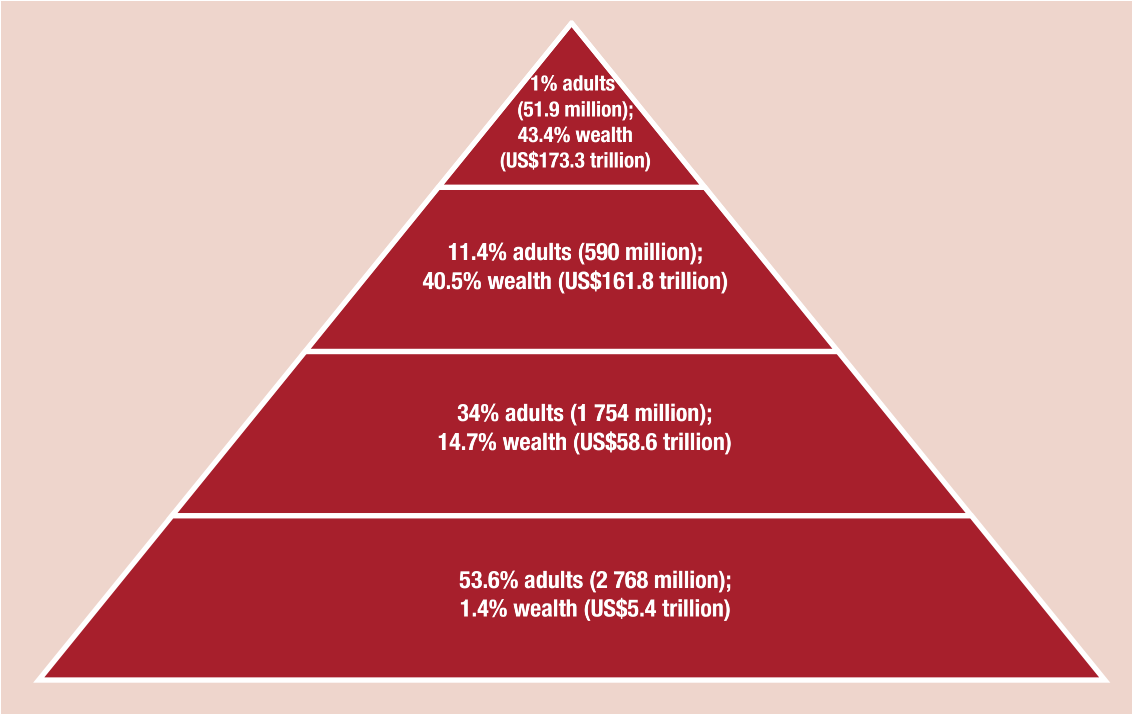
Improving access to financial services: Innovative initiatives

A. Context for improving financial inclusion

The identification of major impediments to financial inclusion allows pointing to possible avenues for addressing such constraints. The use of new technology, digital solutions, and innovative business models to improve the supply and outreach of financial services, together with improved financial literacy and capacity by users, can be among the most prominent avenues. At the same time, increasing affordability of traditional financial services, including greater access to bank branches and lending, remains important, given the amount of financial services – such as credit – still channelled through traditional banking services.

Pursuing options to increase access to financial services is not only of the interest of governments and public institutions that aim to reach development goals through inclusion policies, but also of the private sector. Although the top 10 per cent of the world population owned more than four-fifth of global wealth in 2019, the remaining 90 per cent of the world population represented a significant sum of more than US$60 trillion of global wealth in the same year (Figure 7). Despite holding modest average wealth, this majority of the population forms a group with the potential to attract innovative financial services and products.

Figure 7. Global wealth pyramid, 2019 (Percentage and dollars)



Source: Credit Suisse Research Institute, 2020, *Global wealth report 2020*, October 2020.

B. Digital financial services and mobile money deployment

Exponential progress in information and communications technology (ICT) has opened the way for new financial services and business models exhibiting a significant potential for financial inclusion. Innovative digital financial services, such as mobile and digital payments and mobile and digital banking, have significantly reduced physical and economic barriers impeding financial access, particularly for those living in remote and rural areas. Such services, the importance of which is also recognised by the G20 (G20, 2020), build on ICT services to reduce infrastructure costs and increase coverage. Mobile services have proved to be particularly useful in areas where population density is low and mobile penetration is high (UNCTAD, 2012b).

In addition, digital financial services are more youth friendly. While the proportion of young adults with an account at a financial institution is lower than the proportion of all people with such accounts, the situation is reversed on holding mobile money accounts, where the proportion of youth is higher than the proportion of all users.[15] Digital financial services also have positive externalities such as incentivising the use of banking services by establishing linkages and helping credit scoring by providing information on mobile money usage. The impact of new technologies has been amplified by the private sector's adoption of business models that complement technology platforms.

Digital solutions can range from digitally enabled biometric identification and digital authentication systems for online payments, platforms to share references electronically, digital payments from person to person and interbank transfer services, electronic fund transfer, to e-clearing house. Some e-commerce companies opted to establish its own e-payment systems, and some have expanded to banking, investment, and clearing house for cross-border merchandise trade. This demonstrates how technology can contribute to the development of the right ecosystem for e-finance. In China, for example, Alibaba has a network of affiliated financial service entities that helps Alibaba to provide consumer services. One of these entities, Alipay, in 2020 had approximately 1 billion users of its online and mobile payment services.[16] It has also enabled crowd-funding initiatives by raising contributions from a large number of people. Alibaba's platform has helped consumers, manufacturers, customs clearing, transport and several financial services such as credit, foreign exchange, and insurance be integrated with each other.

Expansion of mobile money deployment

Discussions on digital financial services are often focused on its capacity on mobile money deployment. This permits broader coverage, benefiting from high penetration of mobile phones, and have lower infrastructure costs than bank branches, ATMs, and points of sale (POS). They have the potential to incentivize the use of banking services by establishing linkages with bank accounts to provide other services such as savings, credits, and insurance. Mobile money services are entering the mainstream in many markets where access to financial services is low. It is now available in 96 per cent of countries where less than one third of the population has an account at a formal financial institution.

Mobile money deployments capitalize on the rapid uptake of mobile telephony in developing countries to offer some financial services to rural and marginalized areas. There have been almost 290 mobile money deployments implemented in developing countries in 2019 (GSM Association, 2020a), compared with only 130 in March 2012. The deployments in 2019 correspond to 372 million active users and a transaction value of US$690 billion. In Sub-Saharan Africa, there were 144 of those deployments in 2019 as in the case of Kenya's M-PESA (Box 1), compared with around 60 in 2012.[17]

In fact, Africa's mobile market is expected to have a fast growth of new subscribers – around 140 million new users – between 2019 and 2025. This is second only to Asia and the Pacific, with 247 million new subscribers are anticipated. Together, these two regions are expected to account for two thirds of the growth of new subscribers in the mobile market in this period (GSM Association, 2020b). As many as 30 per cent of mobile phone users in Africa report that they participate in mobile banking (Maloumby and Kingombe, 2016).

Box 1. Kenya: M-PESA

Towards the end of March 2019, M-PESA had 22.6 million active customers. By the end of 2016, more than 10.3 million transactions were done on M-PESA every day and 3.2 trillion Kenyan Shillings were transacted between 1st April 2016 and 30th September 2016. With over 167,000 mobile money agents in March 2019, M-PESA was linked to several banks and could be accessed via many ATMs. The share of the Kenyan population having access to commercial bank accounts increased significantly, largely owing to the proliferation of mobile banking. Financial inclusion among Kenyans grew from 27 per cent in 2006 to over 75 per cent in 2016. Under this platform, domestic mobile transfers between consumers still predominate, but the reception of international mobile transfers by Western Union from around the world is also available. Consumers can make or receive mobile payments to and from a broad array of entities encompassing businesses, monthly payments to utility providers and government agencies. Other financial services linking mobile money to bank accounts are also provided. These include transfers between mobile money and bank accounts, micro savings, credit, and insurance.

Source: M-PESA website (https://www.safaricom.co.ke/personal/m-pesa) and CGAP, 2017, *Banking in the M-PESA Age: Lessons from Kenya*, September 2017.

Mobile network operators have invested in extensive networks and offer financial services through wireless applications, including the possibility to store money in a mobile phone to make transfers or payments. Under these deployments, cash value is held elsewhere, in a bank or in a postal bank, and a network of agents facilitates the conversion of cash into mobile money, cash-in, and the opposite, cash-out. Mobile money may be linked to a bank account to provide access to other financial services such as savings, credits, and insurance. Transfers are the most used services and have the potential to facilitate remittances.

Digital solutions, particularly mobile money deployments, are increasingly used to transfer international remittances, contributing to reducing transfer costs and making viable remittances of small amounts. Developments in this area have focused on improving interoperability, partnerships with traditional providers of remittance transfers, and currency exchange at lower fees, and allowing several modes for remittance transfer, including online, mobile, remitting to a cash substitute and remitting a direct payment. The use of digital and mobile banking will also lift the use of formal channels and may raise the security level of transactions because electronic money instruments, such as digital and mobile banking or prepaid cards, help to reduce the flow of liquidity and the risk of its loss (Maloumby and Kingombe, 2012).

Digital and mobile-related data points are also facilitating credit by providing information that enables the assessment of credit risk. These data points may refer to mobile phone usage and include purchases, frequency of calls, location, and demographic info. They may also refer to digital and mobile money usage such as amount in savings account and frequency of payments. In some cases, data points regarding an online footprint may be available and encompass online ratings, social media connections, utility payments and government statistics. Savings may also be promoted by digital and mobile technology, by facilitating access and interfaces, and by increasing willingness to save via making available data analytics on customers' financial lives.

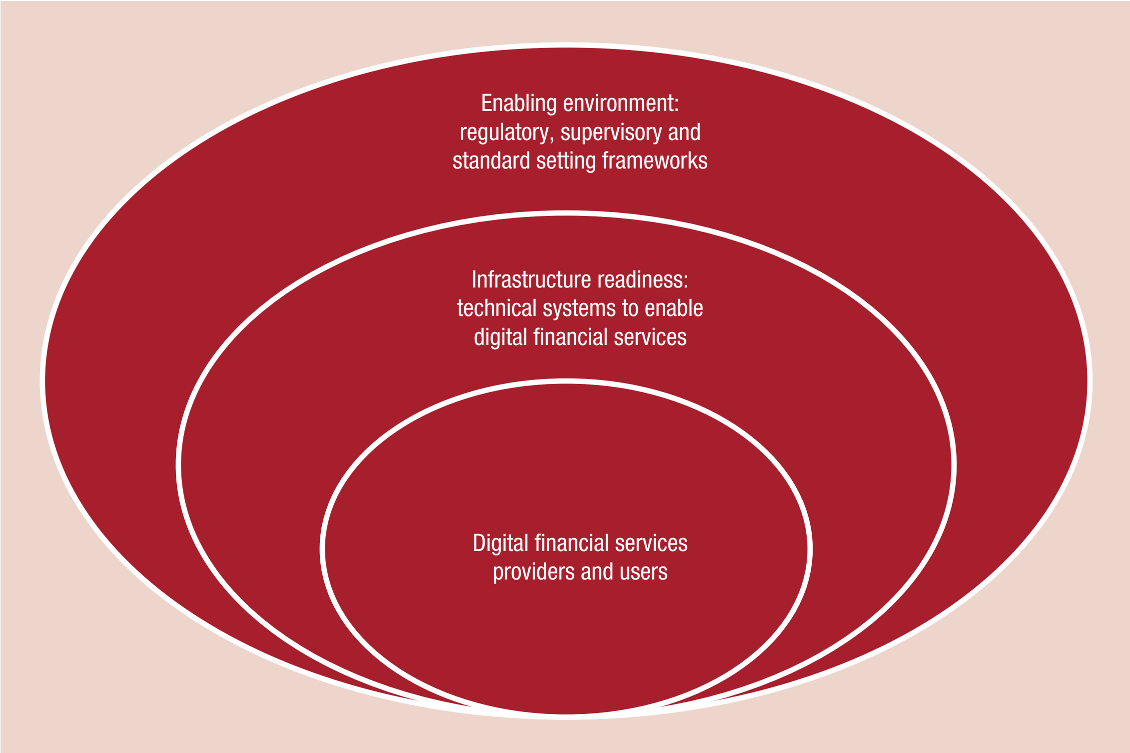
Digital and mobile money has proved to be particularly useful for extending coverage to rural areas and servicing farmers, creating opportunities for related new services and business for agricultural development. When global demand for financial services from smallholders was estimated at US$450 billion back in 2012, only 2 per cent was being met (Maloumby and Kingombe, 2012). This has led digital and mobile money services providers to develop specific digital and mobile financial services for farmers, such as farmer-specific insurance, credit and saving products, and complementary information-based services. It has also led banks to increasingly seek partnerships with digital and mobile money service providers to expand their customer base and take advantage of information related to digital and mobile phone usage patterns and mobile digital and money transactions as alternative solutions for credit scoring systems.

Mobile money deployments can be implemented through different business models. These could be bank-centric, where banks have sole control on accounts that could then be managed through other channels such as mobile phones. On the other hand, these could be mobile network operators-centric, where a non-bank issues e-money and keeps an equivalent asset value in pooled accounts in regulated banks. Mixed models could also be developed. The choice of model is related to the specific regulatory situation of each country.

Enabling environment for digital financial services

Developing digital financial services requires an enabling environment and infrastructure readiness (Figure 8) that addresses challenges such as the infrastructure gap (most notably availability and reliability of energy and ICT services), data and personal privacy issues, fraud and security issues regarding data and payment systems, lack of technological skills, lack of adequate agent networks, and lack of interoperability.

Figure 8. Ecosystem of digital financial services



Source: ITU-T Focus Group on Digital Financial Services, 2017, *Ecosystem*, ITU (Geneva).

Technology has an important role in promoting financial inclusion by reducing transaction costs and increasing the potential for financial security. According to the International Telecommunication Union (ITU), factors that enhance the development of digital financial services include access to technology, promotion of network interoperability, licensing for level playing field, and coordination between different regulators, such as coordination between financial and telecommunication regulators and among regulators of several countries (ITU-T Focus Group on Digital Financial Services, 2017). A partnership between all actors, including regulators and operators, is required for well-functioning digital financial services.

It is desirable for regulation to pay special attention to the needs of the poor, people in rural areas, migrants and MSMEs. Adoption of new technologies also needs to be coupled with measures to prevent information security risks. For example, some technological solutions, such as Internet platforms and "peer to peer" platforms, need regulatory caution, including in regard to data accuracy and privacy issues. This may encompass developing security guides for digital initiatives in financial services, monitoring and evaluating. Other regulatory concerns would include consumer protection and financial transparency. In this regard, governments have an important role to play in developing digital financial services in a way that contributes to financial inclusion.

Use of digital currencies

The reliance in digital technology to promote financial inclusion may expand to the use of digital currencies. These can build on the growth of digital and mobile banking technology while eliminating physical liquidity limitations. Furthermore, digital currencies with distributed ledger technology allow users to make direct peer-to-peer payments also removing the need for a third-party intermediary to process transactions. This increases efficiency regarding banking services and to most mobile banking services using e-money (ESCAP, 2017).

This has also led to considerations about possible central bank digital currencies as a digital form of fiat money to reduce some costs and risks of the payment system, enhancing the potential for financial inclusion (Box 2). Be that as it may, central bank digital currencies need to address operational, cybersecurity risks, privacy issues and its demand will depend on alternative forms of money (IMF, 2018). Furthermore, bridging the many forms of digital divides is key to realising the potential of central bank digital currencies (Gopane, 2019).

Box 2. International Telecommunication Union initiatives related to financial inclusion

The first focused initiative of the ITU regarding financial inclusion was the Focus Group on Digital Financial Services (FG DFS), held between 2014 and 2017, to support financial inclusion through the scaling up of digital financial services globally. This initiative was followed by the ITU Focus Group on Digital Currency including Digital Fiat Currency (FG DFC), held between 2017 and 2019, to study the ecosystem of digital fiat currency implementation for financial inclusion. This focus group concluded that a digital fiat currency strategy for financial inclusion can play a significant role in developing countries and LDCs and can transform cross-border payments which would impact remittance flows.

The focus groups were followed by the Digital Currency Global Initiative (DCGI), which was launched in 2020 to assess, *inter alia*, the implications of central bank digital currencies and other digital currencies on financial inclusion. The focus groups were, as the DCGI currently is, open platform for digital financial services stakeholders such as regulators, providers and operators, international organizations, and others. UNCTAD participates in the DCGI and has previously participated in the abovementioned focus groups.

Source: ITU website (https://www.itu.int/en/Pages/default.aspx) and ITU, 2019, *Regulatory Challenges and Risks for Central Bank Digital Currency*, June 2019.

Limitation of digital and mobile money

Digital and mobile money are not a panacea for financial inclusion, as traditional instruments account for a very important portion of the value of transactions. Additionally, it might be difficult to replicate the results of mobile money in Kenya, since these results depend on the critical mass of users, which is directly related to that specific regulatory environment. Furthermore, high access rates to mobile money do not necessarily imply similar levels of usage of financial services, as many mobile money users may be mostly interested in paying for mobile phone airtime. Moreover, the amount of mobile money converted into actual currency was limited due to low levels of liquidity in mobile money agents. In addition, cultural issues could affect usage and some women may not have access to a phone unless a man or her family agree.

The benefits of digital financial services are not reaching poor people without access to smartphones, and many of digital solutions are not suitable for people with disabilities. People with visual disability, for instance, have to rely on others to assist them, incurring risks associated with the sharing of personal information. Elderly people could also be exposed to similar risks. Although there are potential inclusive effects, most technological solutions are market driven, requiring business sustainability and a sufficient base of users. It is important for policymakers to combine these requirements with the specific needs of the underserved population in order to maximize technology's potential upon inclusive development. For this purpose, close coordination between operators and governments is essential to devise appropriate measures to cater for the needs of the underserved population, including through awareness-raising.

C. Innovative business models and services

Innovative business models and services that have emerged recently address traditional barriers to access to financial services, both on a for-profit and non-profit basis, and have created new business opportunities. The design of financial products that address issues such as market failures and consumer concerns can influence users' behaviour. For example, some accounts require account users to save according to predetermined rules, which can reduce the risk of overspending. Innovative insurance products can mitigate weather-related risks in agricultural production and help promote investment and productivity.

Case of microfinance

Since the 1970s, microfinance has been growing in many countries, with or without special regulations. Microfinance is provided by microfinance institutions and commercial banks. Commercial banks, development banks, community banks and regional banks increasingly target lower-income segments of the population and unbanked and under-banked segments, *i.e.* those who are not fully catered by traditional commercial banks. These institutions differ widely in business models. Some of these banks rely on the introduction of banking agents, allowing commercial establishments to offer basic financial services on their behalf, focusing on low-cost accounts targeted at the low-income population. They also differ in coverage and profitability. Some banks are for-profit operation (*e.g.* commercial banks), while others are not-for-profit orientated (*e.g.* development financial institutions). Yet others depend on subsidies for their operations.

Microfinance has greatly helped underserved households, MSMEs, and self-employed entrepreneurs in developing countries. Much of the criticism of microfinance relates to microcredit. It is often argued that microfinance services serve more for smoothing consumption and risk management than for investment and entrepreneurship among the poor and benefits often are concentrated in wealthier households. The expansion of microcredits, relaxed credit screening and underwriting standards could cause an oversupply of lending to non-creditworthy clients and to over indebtedness among low-income debtors. This had led to lack of trust and has in some cases been followed by further informalization of the economic activities and financial instability of the poor. Moreover, this moral hazard has an opportunity cost by deviating financing from MSMEs not covered by microcredit and that could have entailed real growth opportunities.

Still, there are needs for financial services that can adequately be addressed through microfinance services, especially since they have evolved from narrower microcredit services. This debate underlines the importance of further assessment of the role of microfinance services and of the adequate regulatory and institutional frameworks.

Risks with microfinance point to the importance of providing financial services with developmental objectives. This could include credit unions for small consumer loans, cooperatives for MSMEs' working capital, community, and State-owned development banks to support MSMEs' investments, and hybrid credit institutions if dedicated supplier credit were required. State-owned, cooperative, development and community banks, and Islamic finance, have proved to be particularly amenable to extending access to finance to a broader range of untapped population and income groups. State-owned banks have proven resilient in compensating the credit crunch and promote competition in oligopolistic markets. Islamic finance has been provided by commercial banks, rural banks and cooperatives that provide microfinance credit services.

Expanding agent networks

New digital and mobile banking and payment technologies have given rise to technology-based business models that can broaden access to basic financial services through a greater use of correspondent banks, *i.e.* representatives of a bank carrying out transactions on behalf of banks. Such business models leverage existing networks of agents and institutions, such as post offices and retail outlets. They can either offer only elementary transaction services or a broader range of financial services.

Post offices have long been utilized to provide some financial services, particularly basic banking services as a means to expand financial access. They can contribute more to financial inclusion by offering a full range of financial services. Their business models range from acting as a cash merchant to a fully-fledged postal bank with a more complete set of financial products and services, including credit, international money transfers, government payments, insurance, and savings. Post offices have one of the world's largest physical network, with a total of 661 thousand offices in 2015. Furthermore, while banks focus more on cities with denser populations, post offices operate in remote and even disadvantaged areas, as demonstrated by the case in Brazil (Box 3). Some 82 per cent of post offices in sub-Saharan Africa are concentrated in small and medium-sized towns and rural areas, where 80 per cent of the population lives (UPU, 2016).

This capillarity of the post office network, *i.e.* the way in which it is highly branched, can be important for several typically underprivileged population groups to face the challenges of the economic crisis stemming from the COVID-19. In the middle of the pandemic in 2020, post offices have been facilitating small-scale financial transfer from migrant workers to recipients, particularly in rural and remote areas in countries of origin. In the same year, a postal services provider in the United Kingdom undertook an initiative to allow a faster and easier cash access to self-isolating consumers.

Box 3. Brazil: Postal services for financial inclusion and trade

In Brazil, under the name Banco Postal, postal branches acted as banking correspondents, offering the services of the banking partner by accessing their information system in real time. The banking partner was Bradesco between 2002 and 2013 and Banco do Brasil since 2013. This was a part of the Brazilian Government's strategy of supplying financial services to underprivileged people in remote locations, through a system of correspondent banks. This strategy encompassed a gradual reduction of regulatory requirements on correspondent banking. Beyond the partnership with the post offices, financial institutions reached out for other retail establishments, including lottery agencies, and have even developed riverboat banks to take financial services to distant communities along the Amazon River. The national network of post offices offered universal access to postal, express, and basic financial services. Banco Postal opened 10 million accounts on behalf of Bradesco and 4 million new accounts on behalf of Banco do Brasil up to 2016. At a given time during the last decade, a total of 12.4 million people living in 1,525 municipalities in which a post bank agency was opened did not have a bank agency prior to that time. Moreover, Banco Postal was acting as the sole financial intermediary for 5.98 million people. The postal bank, other correspondent banks and traditional bank agencies are mostly complementary networks, with Banco Postal focusing on more low-income clients. The poorest municipalities, equivalent to 29 per cent of the entire population, accounted for 50 per cent of all Banco Postal accounts.

Source: ITU-T Focus Group on Digital Financial Services, 2016, *The Role of Postal Networks in Digital Financial Services*, ITU (Geneva) and UNCTAD, 2014b, *Impact of access to financial services, including by highlighting remittances on development: Economic empowerment of women and youth*, TD/B/C.I/EM.6/2, September (Geneva).

Although the post office network is large, it is finite. Moreover, it is still subjected to limitations in communication infrastructures. In addition, unlike the first decade of the century, the bank network is now larger than the postal network and have developed greater agent networks. It was estimated that in 2016 there were 928 thousand bank branches and agents worldwide, approximately 40 per cent more than postal branches. While there are more post offices than bank contact points in Europe and Central Asia and South Asia, the bank network is larger in all other regions (UPU, 2016).

Post offices remain a practical option in expanding access to financial products because of its coverage, affordability and being open to anyone. Furthermore, when considering the 1.4 million post persons working door to door in 2016, the post still has a very important physical reach. However, there were approximately 1.6 million active mobile money agents in the same year (UPU, 2016).

All things considered, expanding access to financial services would require pursuing the combined effects of different networks. In particular, creating synergies between postal services and digital financial services is important for financial inclusion. In fact, with the increasing relevance of digital and mobile money, postal services explored several interaction models with digital and mobile technologies that build on postal trust and proximity to clients. These models ranged from the basic use of digital and mobile technologies to modernize and connect post offices, to other cases such as postal services acting as cash merchants for a mobile network operator, building partnerships with mobile network operators, building their own platform and using mobile network operators only as pipelines, or developing their own digital or mobile operator to provide services directly to customers by leveraging the networks of mobile network operators.

IV.

Policies and regulations for financial inclusion

A. Policy measures on supply of financial services

Governments play an important role in designing and implementing a coherent policy mix to promote financial inclusion. Measures to achieve financial inclusion may not be gender neutral, and additional efforts may be required to ensure benefits for certain groups of population that tend to be underserved by financial services. Governments also have a role in setting standards for information disclosure and transparency, regulating certain business conduct and overseeing effective recourse mechanisms to protect consumers.

The policy mix needs to include measures for improving affordability of services through sound regulatory and institutional framework, and through a participatory process involving all stakeholders. Many countries have formulated financial inclusion strategies, developed through a consultative process involving public-sector agencies (*e.g.* ministries of finance, central banks), private firms (*e.g.* commercial banks, non-bank financial institutions) and civil society (*e.g.* microfinance organizations). Financial inclusion strategies are often led by central banks, which may be called to pursue such strategies in tandem with financial stability goals.

Regulatory guidelines for financial inclusion

Regulatory guidelines for improving access to financial services should cover banking correspondents, mobile banking, and relaxation of norms where possible, including "know your customer" (KYC) and e-KYC requirements. Strategies to improve access to financial services should focus on the determinants of financial exclusion, such as poverty, lack of infrastructure, and cumbersome paperwork requirements. Policies and regulations may include a widened range of products, an expanded virtual reach, and an expanded physical network.

The principles for innovative financial inclusion endorsed by G20 leaders underpinned the creation of the Global Partnership for Financial Inclusion (GPFI) and remain an important reference for financial access strategies (Box 4). The principles address the importance of creating an enabling policy and regulatory environment for innovative financial inclusion via, among others, promoting competition, providing incentives for the delivery of sustainable financial access, and protecting and empowering consumers to have financial literacy and capability.

Box 4. Global Partnership for Financial Inclusion

The GPFI was created in 2010 at the Seul G20 summit as a platform for G20 countries, other interested countries, and partners to advance financial inclusion globally, expanding access to the underserved. This creation was underpinned by the G20 principles for innovative financial inclusion, which provide guidance for policy and regulatory approaches to improve access to financial services. These nine principles are:

1. Leadership: Cultivate government commitment to financial inclusion to help alleviate poverty;
2. Diversity: Promote competition for financial access, affordable services, and diversity of providers;
3. Innovation: Promote technological and institutional innovation to expand access and usage;
4. Protection: Encourage consumer protection recognising roles of government, providers, and consumers;
5. Empowerment: Develop financial literacy;
6. Cooperation: Encourage accountability, coordination within government, and partnerships;
7. Knowledge: Utilize improved data to make evidence-based policy and measure progress;
8. Proportionality: Build policy and regulatory framework proportionate with risks and benefits involved;
9. Framework: Consider risk-based AML/CFT regime; conditions for use of agents; and interoperability.

These endorsed principles and the GPFI have taken an important role in advancing the global financial inclusion agenda since 2010 until today. This occurs, for example, through the G20 Financial Inclusion Action Plan (FIAP) which had editions in 2010, 2014, 2017, and 2020 and is implemented by the GPFI. The 2010 G20 FIAP focused on promoting dialogue, small and medium-sized enterprise financing, and financial infrastructure. This allowed for progress in promoting awareness and implementation of the abovementioned principles. The 2014 G20 FIAP expanded the scope to address financial inclusion measurement, responsible access through financial education and consumer protection, and women's empowerment through access to financial services. With the 2017, the GPFI aligned its work with the 2030 Agenda for Sustainable Development, which recognised financial inclusion as an important enabler (Table 1), and examined opportunities and challenges related to digitalization. The focus of the 2020 G20 FIAP is to leverage digital financial inclusion and support the global economy, in the COVID-19 context, with supporting the financial inclusion of MSMEs.

Source: G20 Financial Inclusion Experts Group, 2010, *Innovative Financial Inclusion*, May and GPFI, 2020, *G20 2020 Financial Inclusion Action Plan*, October.

In tandem with the G20 initiatives, developing countries have been adopting principles in promoting financial inclusion through the participation of their central banks, financial supervisors, and other financial regulatory authorities in the Alliance for Financial Inclusion (AFI). The AFI is a network where these institutions share information and commit to deliver concrete financial inclusion results under the principles of the Maya Declaration, to which they have agreed in 2011 (Box 5).

The principles of the Maya Declaration for financial inclusion underline the need to simultaneously pursue financial inclusion, financial integrity, and financial stability. Broad-based access to financial services may contribute to financial stability if such access is properly managed by an adequate regulatory and supervisory framework. But overly stringent regulations aiming at greater integrity and stability might create undue barriers to access to financial services. Further research may be needed to identify how best competing regulatory objectives could be synergized.

Box 5. Alliance for Financial Inclusion and Maya Declaration

The members of the AFI committed in 2011, as a network of financial regulators and policymakers from developing and emerging countries, to several financial inclusion-related principles:

- To draw up a financial inclusion policy that creates an enabling environment for cost-effective access to financial services, making full use of appropriate innovative technology and substantially lowering the unit cost of financial services;
- To establish a sound and proportional regulatory framework that achieves the complementary goals of financial inclusion, financial stability, and financial integrity;
- To promote consumer protection and empowerment;
- To develop an evidence-based financial inclusion policy based on the collection and analysis of comprehensive data and generation of comparable indicators in the network;
- To support financial inclusion for SMEs.

A total of 99 institutions from 88 countries are members of AFI. In 2018, the members of AFI had committed to 235 targets related to the principles of the Maya Declaration, of which 39 per cent were reported as completed. These commitments concentrated first on consumer empowerment (57), followed by commitments on digital financial services (50), data (48), national strategies (40), women's financial inclusion (28), SME finance (24), and global standards (9). This initiative has enabled some accords in specific topics of financial inclusion.

In 2013, the Sasana Accord commits to evidence-based financial inclusion, recognising the importance of measurement. In this context, AFI members have committed to measurable targets.

In 2015, the Maputo Accord supported access to financial services for SMEs to promote inclusive development and foster innovation.

In 2016, Denarau Action Plan focused on women's financial inclusion, which was followed by an increase on the related targets, at least 1 in 28 commitments, corresponding to about 40 per cent of committed members.

In 2017, the Sharm El Sheikh Accord centred on the effects of climate change in reducing financial inclusion and on green finance.

In 2018, the Sochi Accord committed the network to developing policy and regulatory frameworks that balance oversight with innovation in technology-based financial services (FinTech) for financial inclusion.

Source: AFI website (https://www.afi-global.org/) and AFI, 2018, *2018 Maya Declaration progress report*, September.

Striking a balance between financial inclusion and risk management

The prevalence of regulation in the financial sector may result in generating barriers to access to finance. Some policy measures – such as anti-money laundering regulations with stringent requirements on identity and proof of residence, saving and investment regulations creating bias against low-value customers, and cash-based social security benefits – may have a deterrent effect on low-income population access to financial services. De-risking, a practice whereby financial institutions terminate or restrict business relationships with clients, to avoid rather than manage risk, has also restricted access to financial services in several developing countries, including in the Caribbean (UNCTAD, 2016a). Minimizing de-risking calls for real risk-based approaches. This would allow for correspondent banking, highly important for several developing regions

While policies are needed to ensure equitable and affordable access, these should be designed to minimize market distortion by striking a balance between efficiency and equity. It remains necessary to apply best practices in risk management, including stronger KYC requirements, wider use of legal entity identifiers, more effective information sharing, clear know your customer's customer (KYCC) rules, and requirements for anti-money laundering and for combatting the financial terrorism (OECD, 2014). A national identity scheme for individuals may reduce potentially negative impact from the implementation of these practices upon those who have been underserved by financial services.

An enabling policy mix would thus need to balance requirements, *i.e.* better financial inclusion and minimising risks. In the example of microfinance, such balance may be sought in areas such as capital adequacy, credit risk, risk management and governance. On digital financial services, requirements on risk management, capital, and liquidity may be applied to non-bank providers but in a manner that they would not overly restrict their performance. In these cases, "ring fencing" of e-money operations and transaction limits can be implemented. As another example, some countries apply differential level of regulations for opening different type of deposit accounts. Certain accounts may be opened with simplified requirements. In such a situation, risks can be managed with special controls, including limits on monthly deposit amounts, on who can open the account, and on how the money can be accessed.

Differential measures are of special importance to face the economic and financial effects of the pandemic by facilitating access to financial services. This was the case in Mexico in 2010-2011, in the aftermath of the global financial and economic crisis, where the government set four different levels of accounts to cater for people with different levels of financial credibility (UNCTAD, 2014a). The account levels ranged from a basic account with no opening requirements and a US$388 balance limit, to the traditional account with thorough opening requirements and no balance limit.

Measures to promote universal access to financial services

Governments have a particularly important role in promoting universal access to basic financial services and financial inclusion through subsidies and a variety of direct measures. Policies to expand account penetration – such as requiring banks to offer basic or low-fee accounts, granting exemptions from onerous documentation requirements, allowing correspondent banking, and using electronic payments into bank accounts for government payments – can be especially effective. Policymakers may consider introducing universal services obligations through, *inter alia*, priority sector lending, mandatory lending to MSMEs, loans to poor people at lower interest rates with easy repayment rates, prohibition to refuse basic financial services to poor clients, and prohibition of not servicing particular geographic regions.

Measures can also include a focus on the traditionally underserved, to promote an accessible financial system that supports broad-based and inclusive growth. This may include customized bank opening rules to favour the growth of rural banks, lowered minimum deposit rates, assisted access to banking services for people with disabilities, and facilitated loans for people in areas affected by natural disasters and farmers. Measures to enhance financial inclusion of women can take into account specific realities women face in the society. Examples of such measures can include having desks dedicated to women, requirements to disburse some part of commercial funds to women, and the possibility of loans without collateral to women with personal guarantees. When women dominate certain job types, for example workers in textile and garment sectors, they may be provided an opportunity to open a bank account with minimum deposit requirement.

Universal access requirements may be translated into regulation for the banking sector to ensure presence of minimal financial services in all regions of a country by increasing the number of branches and exploring alternatives to physical facilities, including digital solutions, mobile units, and ATMs.

Universal financial access would also benefit from policy to promote interoperability of different networks of financial services provision.

B. Policy measures to cultivate demand for financial services

Policies could also aim at generating demand for better financial services. These could include the use of financial services by governments, for instance through payments by electronic transfer to bank accounts. This can cover the payment of direct benefit transfers, such as pensions, through electronic transfer. Improved financial literacy, capabilities, and consumer empowerment could also increase demand for financial services. Gaining ability through financial education to manage family budgets, do life planning, select appropriate financial products, and make more informed choices concerning the transfer and use of remittances helps consumers to cope with some of the complexity of access to financial services.

The United Nations Guidelines for Consumer Protection[18] provide concrete supply and demand policy guidelines to protect vulnerable and disadvantaged consumers of financial services. This serves as a tool for governments to design and implement measures with a view to reinforce and integrate consumer policies for financial inclusion and for protection in the access and use of financial services. The Guidelines also assist on how governments and financial regulators should devise a regulatory framework that promotes transparency on remittance flows, including clear information on the price and delivery speed of the transfer, exchange rates, all fees and any other costs associated with the process, as well as remedies if transfer fails (UNCTAD, 2016b).

Effective promotion of financial literacy and education requires a multi-stakeholder engagement, with governments playing a coordinating role. In general, efforts in this area could encompass the institutionalization of financial training in the education system. However, well-designed and targeted interventions, including the dissemination of information outside the school system and outreach programmes, can be more effective. “Teachable moments”, such as a change in job or a new mortgage, and of leveraging social networks to disseminate information, are also important.

The principles endorsed by the G20 for innovative financial inclusion and the ones enshrined in the Maya Declaration are in line with these supply and demand policies. They focus on competition, consumer protection and empowerment, promotion of technological innovation, proportional regulation, and collection and analysis of comprehensive data. Moving from principles to specific actions is central to achieve progress in poverty reduction and economic and social development. Findings and recommendations from UNCTAD Services Policy Reviews can support the definition and implementation of policies for the financial sector.

C. Trade agreements and regulatory cooperation for financial inclusion

Trade liberalization and regulatory reform can also play an important role for enhancing financial inclusion. Liberalizing the financial services market may have a positive effect in promoting efficiency and competition in the domestic financial market and, hence, on financial inclusion and may support government’s policy for universal financial access. However, liberalizing the financial services should be achieved under the right conditions, *i.e.* it will improve financial access to those groups who may be considered non-profitable, and it will not undermine the viability of domestic financial services providers at the same time. Potential synergistic interactions between trade policy and financial inclusion policy would require a coherent approach.

To address the potential direct and indirect implications that trade policy could have on national regulatory measures for financial inclusion, governments may evaluate the need to pursue limitations of applicability of trade provisions to legitimate policy and regulatory measures. This includes the "prudential carve-out", a central element of the GATS in regard to financial services, defining conditions under which WTO members are free to take prudential measures. No trade dispute has dealt with such measures, and no disputes were raised on measures taken for prudential reasons as regards financial services, which means the provision is yet to be interpreted by the WTO dispute settlement mechanism. Furthermore, according to the WTO rules architecture, governments may undertake partial liberalization with limitations and renegotiate existing commitments with appropriate compensation. However, renegotiating existing commitments is difficult to achieve.

Effectively regulating foreign firms is a salient issue when there is a substantial presence of foreign banks in domestic financial markets. Trade liberalization needs to be carefully coordinated with adequate domestic regulations to promote financial inclusion. Foreign suppliers may exhibit major market power in a developing-country market and could have a bearing on efforts aimed at improving financial inclusion. Major foreign financial suppliers frequently pursue strategies of cherry-picking the most profitable segments of clients and the most profit-making services. This could lead to excluding banking in rural areas and preventing, for example, MSMEs and farmers from accessing productive credit.

Furthermore, foreign banks may repatriate their profits, without reinvesting in the host country, and not to keep financial reserves in the host country. The ability of governments to implement adequate regulatory measures promoting universal access and financial inclusion is thus as an important consideration, and it is necessary to preserve the policy space in trade agreements to implement such measures. Statutory financial inclusion obligations, such as the requirement of linking the licensed number of branches to the number of branches opened in rural areas, could prove to be useful.

The level of commitments under GATS and regional trade agreements (RTAs) varies across sectors. Financial services exhibit a relatively high level of GATS commitments under WTO. Some banking services may be categorized under GATS Mode 1 of supply of services, when services are provided without requiring foreign backs to establish commercial presence within services importing country's jurisdiction, which is categorised as the Mode 3 of supply of services (Table 2). Developing countries may have a specific concerns over banking services through the Mode 1 of supply, given the fact that exercising regulatory control over foreign banks established within their jurisdiction through commercial presence, *e.g.* establishing subsidiaries, is easier than regulating cross-border supply of banking services.

Efforts have been made to assess the "trade restrictiveness" of measures affecting services trade. This includes the services trade restrictiveness index (STRI) developed by the OECD, an inventory of regulatory impediments to trade in services, including banking and insurance. Data show a certain correlation between a lower index score, *i.e.* lower trade restrictiveness, and the level of financial sector development and financial efficiency. This database also corroborates the observation that Mode 3 is the predominant form of the supply of financial services, with Mode 1 less frequent. Still, as there are various public policy goals pursued by national regulators, it is difficult to disentangle trade-restrictive measures from others such as prudential regulations and consumer protection measures. Trade liberalization is not to be taken in isolation and complementary policies such as supervision and competition are important.

Some RTAs have increasingly moved towards deeper financial liberalization, but increased openness would require reinforced attention to the coherence between trade policy and financial inclusion. With a "standstill clause", commitments may be based on applied levels of market access conditions, not allowing countries to reduce the level of openness below the initial level. With a "ratchet clause", there is an automatic incorporation of future liberalization measures, even if unilateral, in the RTA-

Table 2. Modes of supply of services according to the General Agreement on Trade in Services

Mode	Description
Mode 1 – Cross border trade	Supply of a service from the territory of one Member into the territory of any other Member. Includes, for example, banking services transmitted via telecommunications.
Mode 2 – Consumption abroad	Supply of a service in the territory of one Member to the service consumer of any other Member. Includes, for example, a tourist consuming touristic services outside of his/her country.
Mode 3 – Commercial presence	Supply of a service by a service supplier of one Member, through commercial presence in the territory of any other Member. Includes, for example, the provision of insurance services by domestic subsidiaries of foreign insurance companies.
Mode 4 – Presence of natural persons	Supply of a service by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member. Includes, for example, services provided by accountants, doctors and teachers that are temporarily in another country.

Source: WTO website (https://www.wto.org/) and WTO, 1995, *General Agreement on Trade in Services*.

related commitments. The third party most favoured nation (MFN) clause increasingly incorporated in some RTAs aims to ensure that the parties of an RTA give each other a treatment no less favourable than what they have given to other parties in other agreements. This clause has been included, for example, in the Economic Partnership Agreement (EPA) between the Caribbean Forum (CARIFORUM) States and the European Community and its member States (European Union, 2008).

There are also concerns that investors' rights may be placed over social needs. In certain cases, privileges conferred on investors have been supported by investor–State dispute settlement decisions and governments have had to make hefty settlements because of measures taken in the public interest. Such initiatives may increase the presence of foreign banks and may reduce the scope for policies and regulations promoting universal access if these are not considered under the right of governments to regulate to pursue public interest.

Lessons learned from the international financial and economic crisis should be taken into account in the negotiations of regional agreements to determine adequate levels of policy space, for example, for needed prudential regulatory measures. Recent deep-RTAs have sought to address the potentially anticompetitive effect of Stated-owned enterprises that tend to receive some preferential treatment, including preferential finance. Some regional disciplines have sought to establish "competitive neutrality" between State-owned enterprises and private companies by eliminating such structural advantages. Many countries have stressed the importance of State-owned enterprises in delivering public policy goals, including access to financial services.

V.

Concluding remarks

Ensuring access to financial services for all remains a relevant policy objective for developing countries. Access to financial services contribute to reduce poverty and inequalities and to sustainable development through promoting food security and access to health services, among others. Financial inclusion facilitates speedier, safer, and less costly remittance flows and allows for more options to leverage these funds as sources of productive investment.

Available, affordable, and accessible financial services contribute to the empowerment of the most vulnerable groups, which include women, youth, the poor, people in rural areas, informal workers, migrant workers, and MSMEs. While progress in financial inclusion has been significant in recent years, many remain excluded, particularly in developing countries. Access to financial services can be obstructed by factors ranging from insufficient demand for such services by potential users due to lack of disposable money, high costs of services, physical distance to service providers, burdensome requirements, and lack of trust. **Policymakers and regulators need to assess these underlying challenges to maximize the effectiveness of their strategies to foster financial inclusion. Policy to expand the demand for financial services, such as through financial education and consumer empowerment, may also be pursued**.

The COVID-19 pandemic has increased the need for better access to financial services while disrupting such access at the same time. Reduced income and increased unemployment affect the lives of millions who depend on these flows for food, education, health, and housing, and compounding the economic impact of the pandemic crisis. This underscores the relevance of bringing financial inclusion policies to the centre of policy agendas, particularly in developing countries.

Digital financial services, including mobile money deployments, have been instrumental to improve access to financial services and have been particularly relevant during the COVID-19 to circumvent mobility restrictions and troubled value chains. These solutions have been especially useful to enhance financial inclusion for people in remote and rural areas, youth, and in countries underserved by physical networks of bank branches.

Such digital solutions can work in tandem with banking branches and with correspondent banks and networks of agents – post offices and retail outlets comprised – that can support all types of financial services, including by allowing cash-in and cash-out of digital financial services. **Policymakers can explore the need to promote the provision of digital and non-digital financial services through development banks, microfinance providers, or community banks, which can target more effectively certain segments, such as people with low income and MSMEs**.

Another key factor in designing financial inclusion policies is the ecosystem that underlies the provision of financial services. Adequate access to financial services depends on the existence of a regulatory and supervisory framework and of supporting infrastructure such as energy and ICT services. **This highlights the need for a policy mix that creates the conditions to strengthen both the provision of financial services and the enabling environment such services require.**

Adequate risk management is a centrepiece of the regulatory framework. Risk management can be an important element in a policy mix for encouraging financial services providers to be committed to universal financial access. Direct measures to enhance universal access would include support to infrastructure provision and incentives to increase supply of affordable financial services. Other indirect measures, such as the prohibition of exclusion of particular geographic areas perceived by providers as being less profitable, may need to be paired with direct measures.

Openness to trade in services to allow more financial providers may be an important policy for improving efficiency and competition, when backed up by appropriate regulatory frameworks. However, liberalization in trade in financial services can have an impact on the effectiveness of measures that specifically support financial inclusion (such as universal access policies). **Policymaking on trade openness and financial inclusion require a coherent approach to ensure potential benefits of both measures in improving access to financial services.**

UNCTAD helps countries develop regulatory frameworks for enhancing financial services through its technical assistance, namely via Services Policy Reviews. Services Policy Reviews provide support to policymakers and regulators in assessing the country's potential in production and trade in services, and the robustness of services-related regulations and institutions. This allows countries to identify practical solutions and policy options for improving the performance of key services sectors. The reviews in countries such as Lesotho, Nicaragua, Paraguay, and Uganda, have focused on financial services. UNCTAD has also supported countries in sharing lessons learned and pursuing consensus on financial services economic and trade policies through the intergovernmental meetings it has organized and served. The annex to this study provides a list of selected UNCTAD work on financial services, inclusion, and remittances.

This study is part of the UNCTAD's toolbox to assist countries in developing regulatory frameworks for harnessing the benefits of services for development. UNCTAD stands ready to continue to support its member States to achieve stable and inclusive financial services to all, including in extraordinary circumstances like the COVID-19 pandemic, in pursuit of the 2030 Agenda for Sustainable Development.

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ENDNOTES

[1] The term "account" is defined as one that is established with a formal financial institution such as a bank or at another type of financial institution, or with a digital money service.

[2] See UNDESA: https://www.un.org/development/desa/en/news/population/remittances-matter.html

[3] OECD statistical database, available at: https://stats.oecd.org/

[4] ILO modelled estimates, available at ILOSTAT: https://ilostat.ilo.org/

[5] UNCTADstat, available at: https://unctadstat.unctad.org/EN/

[6] The RCA is an index calculated on trade flows for a specific category of goods or services in a specific country or region. An index value above one indicates a specialization of the country or region in the good or service. The value of exports includes financial and insurance services. RCA values were calculated with trade flow data from UNCTADstat, available at: https://unctadstat.unctad.org/EN/

[7] The General Agreement on Trade in Services defines the flow of people (natural persons) who are suppliers of services in another member of the World Trade Organization as one of the four ways through which services can be supplied internationally. This temporary movement of natural persons is often referred to as the mode 4 of trade in services. See Table 2 for more information on the international modes of supply services.

[8] See UNDESA: https://www.un.org/development/desa/en/news/population/remittances-matter.html

[9] The term "account" is defined as one that is established with a formal financial institution such as a bank or at another type of financial institution, or with a digital money service.

[10] World Bank Global Financial Inclusion database, available at: https://datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database

[11] World Bank Global Financial Inclusion database, available at: https://datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database

[12] See for example: WTO – Communication from some members, 2016, *Domestic regulation – Administration of measures*, JOB/SERV/239/Rev.1; WTO – Communication from some members, 2017, *Domestic regulation – Development of measures*, JOB/SERV/252/Rev.2; and WTO – Communication from a member, 2017, *Trade facilitation agreement for services*, S/C/W/372, TN/S/W/63, S/WPDR/W/58.

[13] See World Bank: https://remittanceprices.worldbank.org/en/about-remittance-prices-worldwide

[14] See World Bank: https://remittanceprices.worldbank.org/en

[15] World Bank Global Financial Inclusion database, available at: https://datacatalog.worldbank.org/dataset/global-financial-inclusion-global-findex-database

[16] See Alipay website: https://intl.alipay.com/

[17] See GSM Association website: https://www.gsma.com/

[18] See the United Nations Guidelines for Consumer Protection, available at: https://unctad.org/system/files/official-document/ditccplpmisc2016d1_en.pdf

Annex

Selected UNCTAD work on financial inclusion and remittances

The Nairobi Maafikiano, adopted at the fourteenth United Nations Conference on Trade and Development (UNCTAD XIV) in 2016, called upon UNCTAD to *"(c)ontinue and reinforce its work on trade in services, services data and statistics and analysis of trade and services for development"*. It also mandated UNCTAD to *"(c)ontinue its work on research and analysis, within its mandate, on enhancing the impact of migrants' remittances on development, including their social and economic benefits, reducing their transaction costs and expanding access to financial services, while respecting their character as private funds"*. This has confirmed and reinforced the mandate under which UNCTAD has done longstanding work on supporting developing countries in exploring the development benefits that can derive from the linkages between financial services, remittances, and migration.

Based on this mandate, UNCTAD had convened expert meetings, provided technical assistance and undertaken research and analysis which included a focus on policies, regulations, and digital solutions that support improved financial access for the underserved. Particular attention was given to the mutually supportive role of financial inclusion and remittances and both their contributions to development. This annex lists selected UNCTAD work focusing or containing these topics. This study greatly benefitted from discussions and inputs from this work.

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