SECOND PLENARY MEETING OF THE GLOBAL PARTNERSHIP FOR FINANCIAL INCLUSION

1-2 July 2024

CO-CHAIR'S SUMMARY

On 1 -2 July 2024, the Global Partnership for Financial Inclusion (GPFI) met in Fortaleza, Brazil, for the second Plenary Meeting under Brazil G20 Presidency.

1. Inaugural and Opening Session

Mr. Elmano de Freitas, Governor of Ceará, welcomed all participants by recalling the motto of the Brazilian G20 Presidency and highlighting the importance of working together to build a more equitable world. Education and good regulations are key to accompanying customers in accessing and using financial services in a rapidly changing scenario.

Carolina Barros, the Deputy Governor for Institutional Relations, Citizenship, and Conduct Supervision of the Central Bank of Brazil (BCB), emphasized the role of financial inclusion in building a more sustainable and just world. Access to quality financial services empowers individuals, fosters entrepreneurship, and drives economic growth. Additionally, it provides the resilience necessary for individuals and small businesses to cope with extreme weather events. The climate tragedy occurring in the southernmost region of Brazil may not be an isolated event, and we should be prepared to cope with such events more and more in the future. She thanked the Co-Chairs for their efforts in completing this year's deliverables that will be a milestone in the work of the GPFI in the coming years.

The GPFI Co-Chairs thanked the Brazilian Presidency for their hospitality in the beautiful city of Fortaleza and welcomed the participation of the African Union representatives to the GPFI Plenary.

2. Session I – Update on Remittances

The Co-Chair, Magda Bianco, introduced the session by inviting all Members to reflect on how to proceed with the GPFI work on remittances: National Remittance Plans and their annual updates have not proven entirely effective even after the standardisation efforts performed in 2021. While the plans are well-prepared, not all countries participate, and it remains a complex exercise. The group could consider a more impactful monitoring exercise by exchanging best practices and by shifting attention to receiving countries.

Subsequently, IFAD presented the report 'Promoting Financial Inclusion through the Digitalization of Remittances,' produced in collaboration with the World Bank in 2023 under the India G20 Presidency. The report aims to provide a compendium of best practices, showcasing the benefits of digital solutions in reducing remittance costs and enhancing financial inclusion. It reveals that remittances grow steadily each year, surpassing foreign direct investments and official development assistance, and remain stable even during the periods of crisis. Additionally, their costs are decreasing in most countries. Regarding the relationship between remittances and financial inclusion, IFAD emphasized the importance of promoting better access to remittances in recipient countries, especially in rural areas. Country diagnostics of IFAD also revealed that know your customer (KYC) and customer due diligence (CDD) requirements were key impediments to remittance access by low-income, rural households and women. Furthermore, efforts should be made, including financial education initiatives, to enhance the utilization of transferred funds. This involves promoting savings products and other services beneficial for recipient families, engaging more innovative intermediaries, fostering advances, and encouraging the market to offer tailor-made services that promote inclusion, particularly for disadvantaged groups. Digitalization represents an unmissable opportunity to improve remittance use in recipient countries, especially among financially underserved individuals for whom remittances serve as their first interaction with the financial system. From an infrastructure perspective, digitalization can lead to greater speed, reduced costs, enhanced transaction security, as well as increased integrity and transparency, aligning with FATF standards. In this regard, the cross-border interlinkage of fast payment systems is paramount.

All members expressed appreciation for the report, reaffirming the importance of remittances for financial inclusion. Safe and efficient infrastructures to process international payments are essential, as well as having a sound customer and data protection framework in place in receiving countries. Several members acknowledged the commitment of their countries to interlink national fast payment systems to improve the processing of cross-border retail payments. One member highlighted the importance of establishing clear connections between remittances and the other deliverables prepared by the GPFI as well as coordinating GPFI work with other G20 groups addressing cross-border payments and regional payment systems.

At the end of the session, IFAD recalled the relevance of the Joint statement by the Global Partnership for Financial Inclusion on the occasion of the United Nations' International Day of Family Remittances on June 16, 2023, and promised to come back in September with a proposal for a more impactful monitoring of the remittance market.

3. Session II – New G20 Action Plan on MSME Finance

Before inviting the IFC, OECD and World Bank to jointly present the draft, Chanchal Sarkar, Co-chair, stated in his remarks that the specific ask of the deliverable is to identify crucial action areas and concrete initiatives/actions for countries to fill the gaps in MSME financing and improve access, also with a focus on utilizing innovative digital infrastructures, including Digital Public Infrastructure (DPI), for removing various traditional barriers in order to enhance financial inclusion and requested the membership to make comments keeping these in the backdrop. The Implementing partners mentioned that the action plan is based on empirical evidence using countries' examples, with a focus on digital infrastructures and, among them, Digital Public Infrastructure (DPI), and is applicable to both G20 and non-G20 countries. They also explained that they reached out to the Sustainable Finance Working Group (SFWG) to avoid duplication of the Action Plan with the SFWG work. They also mentioned that the document outlines a series of market failures, categorizing them into two groups: those related to the inherent characteristics of MSMEs (e.g., opacity, lack of collateral, higher risk) common to both advanced and emerging countries, and those more prevalent in emerging countries, related to the financial system's structure (e.g., limited competition, missing markets). Innovations - including digital infrastructures such as DPI, digital loans, alternative data usage, embedded finance, and streamlined decision-making processes - can help mitigate these issues. However, risks must be carefully managed, such as algorithm distortions, cybersecurity, complexity, and concentration.

To address the failures, the document proposes eight horizontal and eight vertical policies that countries can draw inspiration from to tackle MSME financial challenges in line with their national context. Attention to women and youth is a cross-cutting theme in the Action Plan, aiming to enhance access to finance for MSMEs run by segments of the population typically underserved.

Members appreciated the efforts made towards drafting the Action Plan and welcomed the shared draft, wishing to send more detailed comments in writing. Many members desired to share their country' experiences in bridging MSME finance gap. Many members appreciated the focus on women and youth, as they represent a significant stake in MSMEs in some countries. Many members appreciated the focus on the role of digital infrastructures, including DPIs, in addressing MSMEs financing issues. One member requested more attention to informal MSMEs.

On the box on climate adaptation and mitigation efforts, some members welcomed the reference to climate finance that is crucial to help MSMEs to face climate-related issues, recognizing it as both a past and future challenge, appreciating the effective and timely coordination with the G20 SFWG. Two members expressed concerns that this topic is already discussed in the G20 SFWG and may be beyond the scope of the 2023 FIAP. Climate-related constraints on financing could impose additional challenges on MSMEs, creating barriers for their participation in Global Value Chains, and may result into financial exclusion, instead of inclusion.

Additionally, one member asked for guidance on the way forward and, in particular, whether the group intends to launch a survey to understand which policies are already in place in different countries. One member suggested to include more rationale on MSME financing in the introduction and pointed out that it is important to identify concrete recommendations to address the challenges mentioned in the document. Several members reiterated that all policy options should not be binding, as already mentioned in the Action Plan.

The Co-Chair Magda Bianco concluded the session by clarifying that the action plan is a multiyear deliverable: the next two years will be devoted to implementing the action plan, collecting best practices – also through webinars - and deciding on possible surveys. The Co-Chair Chanchal Sarkar reinforced his initial remarks urging to focus on the specific ask of the deliverable (i.e. requirements of the deliverable as agreed in the 2023 FIAP) and in the context of MSMEs financing.

Session 3: Last Mile Access and Quality Inclusion through digital infrastructure, including Digital Public Infrastructure (DPI), Consumer Protection and other FIAP objectives.

During the session, CGAP, Better than Cash Alliance, the World Bank and the Presidency presented the draft of the document. The report focuses on the individuals and MSMEs who are still financially excluded and constitute a rather heterogeneous group. The report first identifies demand-side barriers (such as low education, lack of trust, distance from access points) and supply-side barriers (such as high costs, social norms, regulatory constraints), that continue to represent obstacles to last-mile financial inclusion. Then, the document proposes the foundational building blocks necessary to serve the last mile, and moves to presenting specific policies beyond the foundational building blocks that help reach these groups. The last part of the report focuses on quality financial inclusion and, in particular, its measurement. The report identifies three relevant areas for quality measurement: 1) product and service design and features; 2) product and service delivery; 3) consumer behaviour and outcomes. Each area is expanded into different elements that can be measured using surveys or administrative data, depending on the country's circumstances. Presenters acknowledged that the work on developing quality financial inclusion measurement approaches and indicators is in its early, exploratory stage.

Members appreciated the work done by the Implementing Partners, especially in describing who the last mile is and identifying barriers to their financial inclusion. An extensive discussion followed the presentation, during which members highlighted the most relevant aspects of the report for their respective countries and provided useful suggestions to improve the document. For instance, some members emphasized the importance of data protection framework given that many policies to achieve the last mile are related to digital. A country suggested including people with disabilities in the report's analysis, as specific barriers exist for them regarding financial inclusion. Additionally, there was interest in investigating the reasons behind the preference for cash usage within the segment of the population that is still financially excluded. Other members requested the inclusion of country-specific examples and elaboration on different forms of private/public collaborations. The members also emphasised the significance of digital transformation, including DPI, Consumer Protection, Data Privacy and Financial Literacy for reaching last mile. Regarding quality of financial inclusion, some members welcomed the GPFI work on reaching the last mile but also fostering quality and suggested insightful improvements. Some members also requested more clarity on the idea of quality of financial inclusion, compared to quality of financial products or to financial inclusion processes, one also questioned about the need of a working definition as part of the deliverable. Two members stated the deliverable should focus on the areas outlined in the 2023 FIAP. Finally, the linkages between this and the work on FWB were largely commented by members, and some members requested that FWB may not be mentioned as it is still under discussion. However, some other members appreciated the linkage established between quality financial inclusion and the discussions on financial well-being, which is crucial to advance the discussion on financial inclusion, and requested this connection between the deliverables to be refined. All members expressed their willingness to send detailed comments in the coming weeks.

The Co-Chair Chanchal Sarkar concluded the session by emphasising the need to adhere to the focus areas of the deliverable defined in 2023 FIAP while working on the document.

Session 4: Other issues

The Inter-American Development Bank (IDB) presented the FINLAC (Financial Inclusion in Latin America and the Caribbean) Initiative. In the presentation, it was stated that while Latin America and the Caribbean have made progress in terms of access to financial services, they still face challenges in the use of formal, accessible, and responsible financial products. The initiative has three main objectives: focusing on the inclusion of specific vulnerable groups (such as rural communities, indigenous and Afro-descendant populations, women, migrants, older adults, and micro and small businesses); enhancing payment ecosystems to facilitate fast retail transactions; promoting digital transformation and enabling responsible and consented financial consumer data sharing with third parties. In 2024, the IDB also launched the Fully Scalable Settlement Engine (FuSSE) project in collaboration with the Bank for International Settlements (BIS). This project aims to provide central banks with open-source technology to facilitate and enhance payment systems. The initiative takes a three-pronged approach to financial inclusion in the region: technological innovation, assistance in designing and implementing public policy, and institutional capacity building.

Subsequently, the African Union (AU) was asked to share its efforts on financial inclusion. Accordingly, to this request, the representative of the AU explained that the AU's perspective on financial inclusion aligns with the Sustainable Development Goals (SDGs) and the African Agenda 2063, the continent's strategic framework aimed at achieving inclusive and sustainable development. The goal is to address financial inclusion by supporting financial innovation and literacy, with a particular focus on women, youth, and other excluded segments of the population. In 2022, the AU launched the Women and Youth Financial & Economic Inclusion 2030 Initiative (WYFEI 2030). This project aims to increase the income of women and youth by supporting entrepreneurship and advocating for employment parity. Additionally, it promotes financial sector reform to make innovative financial products and services available, accessible, and affordable to women and youth. The initiative also seeks to implement inclusive, women- and youth-friendly macroeconomic and growth-enhancing policies that enable micro, small, and medium-scale enterprises to survive and thrive. During the discussion, the AU representative also highlighted the work of the African Institute of Remittances, which develops the capacity of Member States of the African Union to implement concrete strategies and operational instruments to use remittances as development tools for poverty reduction.

Session 5: Presidency Priority - Financial Well-Being

The session began with a brief introduction by the two Co-Leads of the Temporary Sub-committee, representing the USA and Brazil. Both emphasized the importance of the work done and acknowledged the challenges and progress made towards reaching an agreement among all stakeholders involved. It was stated by the Presidency that the current proposal represents a good compromise, balances different positions and allows the group to progress in its discussions. The goal is to use a flexible and adaptable approach to arrive at a consensus on a concept of financial wellbeing including a working definition and a preliminary conceptual framework and measurement that countries could refer to in shaping their national strategies towards financial inclusion.

Subsequently, the OECD, CGAP, and the Office of the United Nations Special Advocate for Inclusive Finance for Development (UNSGSA) were invited to present the new draft of the Presidency's priority deliverable on consensual concept, which includes a working definition and a conceptual framework, as well as measurement tools of Financial Well Being.. The presentations highlighted that the report recognizes that the concept of FWB is complex and multifaceted, and as it focuses on the role that access to and use of financial services may play if quality is ensured, it also identifies influencing factors beyond financial inclusion that must be acknowledged. The working definition proposed by the Implementing Partners in the latest version of the document and presented in the Plenary is: "Financial well-being can generally be described as a state in which individuals are able to smoothly manage their financial needs and obligations, can cope with negative shocks, can pursue aspirations, goals and capture opportunities, and feel satisfied and confident about their financial lives."

The new version of the document proposes a preliminary conceptual framework that was previously discussed among implementing partners and subcommittee members. The framework reflects both existing evidence – acknowledging its limitations – as well as a possible chain of results with the expected influence of financial services and related interventions on individuals' financial well-being (theory of change). The framework sets out both the path in which financial sector policies can influence FWB, and the factors that are expected to influence it, but which are outside the control of these policies.

The measurement issue was only briefly discussed as further development will occur in the coming months, taking into account all comments received from the membership.

Many members participated in the debate and appreciated the progress of the work of the Sub-Committee on the FWB note, praising its quality. The flexibility and non-definitive aspect of the proposed working definition was emphasized by several members. Another member noted that not all comments shared previously had been fully incorporated, highlighting the need to explicit financial discipline as one element of FWB. The presidency emphasized that most comments have been incorporated into the document, except for those that contradict with some other members' comments and the coherence of the document. Two members suggested focusing on a concept of FWB rather than a working definition. One member also highlighted the need to distinguish between the concept of FWB and Financial health. Moreover, members highlighted the need to consider the informal sector, the importance of capacity building, behavioral insights, emerging technologies and individuals at the lowest income levels.

Additionally, many members appreciated the work on the conceptual framework and presented several suggestions for improvement, including more elaboration on consumer protection, financial literacy and awareness. Members also requested financial well-being to be consistently referred to as an outcome of financial inclusion policies and suggested that the linkages between these policies and FWB may be made more clearer in the work. The Implementing Partners highlighted that the proposed 'theory of change' within the framework has this very purpose, offering a solid foundation, with assumptions to be backed by evidence to understand the relevance of these linkages as the work progresses. Some members requested that the interface between this work and that of quality of financial inclusion must be clarified, and Co-Leads and Implementing Partners acknowledged this needs to be addressed.

With respect to measurement, most members welcomed the work to be carried out while some members recognized the challenges ahead in measurement. Some members mentioned that FWB is a complex concept, and it is important to take into account that some determining factors identified in the conceptual framework lie outside the scope of financial inclusion; it is also important that the measurement tools proposed are comprehensive, fair and adaptable and that they facilitate accurate measurement of the concept. Co-Leads and Implementing Partners reaffirmed that the objective of the work on measurement is to inform policies on how to better achieve financial well-being.

On the importance of the issue, some members commended the Presidency for including FWB in the GPFI agenda. One member also pointed out that FWB may be a powerful model to applied policies but also may be at risk of misuse for mis-selling of financial products, therefore the work should to some extent reflect on it and protect financial well-being, as a desirable social goal, from inappropriate use.

The Co-Chair Magda Bianco concluded the session by echoing members in appreciating the work of the Co-leads and IPs, which marks an important step forward putting the GPFI at the frontier of the reflections on this topic. Co-Chair Chanchal Sarkar reflected upon the need to accommodate views and concerns to move forward under multilateralism, and urged the members to be sensitive about the needs of this group that is unique within the G20 finance track.

Session 6: Open Finance and Financial Inclusion

The session focused on the initiative led by CGAP, in collaboration with the Bank for International Settlements (BIS), the International Monetary Fund (IMF), and the UNSGSA. The goal was to develop high-level principles for open finance, which can yield numerous benefits but also pose risks to financial inclusion.

When implemented in a secure environment, open finance serves as a multilateral data-sharing scheme that allows the transfer of financial data with customer consent. Open finance can support competition, innovation, and customer empowerment, thereby strengthening both the financial sector as well as financial inclusion. It achieves this by reducing barriers to information access, bridging asymmetries between major and smaller operators, facilitating product comparison for consumers, and enabling easier portability of services and switching of providers. Standardization of APIs also lowers access costs and favors the entrance of innovative providers, potentially more efficient. However, increased data sharing and the involvement of new operators introduce new risks related to consumer protection and regulatory oversight. Complex regimes, if not designed appropriately, may continue to leave traditionally excluded individuals behind and inadvertently exacerbate inclusion gaps.

CGAP's objective is to provide a high-level guide based on emerging best practices. The focus is on key aspects of defining objectives, designing, and implementing open finance regimes, avoiding prescriptive measures while offering flexible policy options. The starting point for developing these principles involves identifying the goals of open finance and determining the role of the public sector. Regulation, supervision, and oversight are crucial for successful implementation, necessitating an examination of existing regulations and the responsibilities of relevant authorities. Additionally, as data sharing becomes more prevalent, a robust consumer protection framework and financial education programs are essential to build trust, encourage adoption of these tools, and minimize potential harm. Lastly, in terms of pricing, costs associated with using open finance systems should be as low as possible to ensure access for low-income individuals.

After the presentation, members expressed their interest in exploring the perspectives and implications of open finance. Many shared their experiences and best practices, emphasizing the importance of including financial inclusion as one of the objectives of open banking regimes from the outset to ensure benefits for all. In this regard, the guide to be developed by CGAP is crucial, and there is also scope for further work on this topic by the GPFI.

At the end of the session the Co-Chairs concluded the Plenary **specifying that members would have two weeks (until the 17th of July) to send their comments on the draft documents discussed in the meeting.**

Representatives from Australia, USA, Japan, France, Italia, Switzerland, the Netherlands and the European Commission stated that they condemn the Russian aggression against Ukraine for its economic consequences.

Finally, at the conclusion of the meeting, the Co-Chairs expressed gratitude to all Members, IPs, and relevant stakeholders for their effective cooperation and fruitful discussions. Special thanks were extended to the Presidency for the wonderful hospitality in Fortaleza.

The Brazil G20 Presidency expressed gratitude to all GPFI members, GPFI co-chairs, IPs, and APs, and welcomed everyone to continue working together under the headline:

“Building a just world and a sustainable planet”.

GPFI Co-Chairs - Magda Bianco and Chanchal Sarkar