



2021 GPI PROGRESS REPORT TO G20 LEADERS

G20 Summit, Rome, 30-31 October 2021

Outline

This Report summarizes the Global Partnership for Financial Inclusion (GPII) key deliverables and activities from December 2020 to October 2021. It presents the main achievements under the Italian G20 Presidency, in compliance with the provisions of the GPII 2020 Financial Inclusion Action Plan (G20 2020 FIAP) and the GPII Terms of Reference (TOR), as approved in October 2020 under the Saudi Arabia G20 Presidency.

The Report is structured as follows:

- Background
- The G20 2020 FIAP: prioritized topics, action areas and deliverables in 2021
 - Digital financial inclusion
 - SME finance
- Recommendations to the G20 Leaders
- List of GPII documents in 2021

Background

In 2021, the newly appointed Co-Chairs – working together with the Italian G20 Presidency and the Troika – led the work of the GPFi, which implemented a work-plan that, coherent with the provisions contained in the newly adopted G20 2020 FIAP, has been able to advance the Partnership's core mandate.

In 2021, GPFi actions aimed at reaffirming the G20 Leaders' commitment to advance financial inclusion benefiting all countries and people, especially vulnerable and undeserved groups. The relevance of these objectives have been further underlined by the damaging impact of the COVID-19 pandemic across the world, with its severe disruptions in economic activities and threats to socio-economic life, particularly for undeserved segments such as micro, small and medium enterprises (MSMEs), the poor, migrants and women.

The 2021 GPFi Annual Plan delivered upon the G20 Presidency's Priorities and addressed the issue of the relationship between financial inclusion and digital transformation in a post COVID-19 world. Moreover, it tackled the issue of remittances and of the most effective actions needed to support them, including in times of crisis. Finally, it engaged with all stakeholders and standard setting bodies to further promote the integration of financial inclusion in their policies.

In particular, the G20 2020 FIAP invites to identify the lessons learned, the ongoing challenges and the most effective policy options to mitigate the negative consequences of the pandemic, in particular through the use of responsible digital financial services (DFSs).

To respond to this auspices, six reports have been prepared by GPFi Implementing Partners (IPs) to support the objectives put forward by the G20 Presidency and those contained in the G20 2020 FIAP. The reports analyze the impact of the pandemic on the financial resilience of individuals and MSMEs, the new risks of financial exclusion and those linked to cyber fraud, due to the increased digitalization of financial services and products. The reports highlight, on the one hand, which policies have been adopted by countries to mitigate the adverse consequences of the pandemic and of the increased digitalization on financial inclusion and, on the other hand, in a longer-term perspective, what actions have been taken to increase financial literacy, especially digital, and to provide greater protection for financial customers in the face of new digital risks.

Informed by the main results stemming from these reports, the GPFi under the Italian G20 Presidency has delivered a **G20 Menu of Policy Options for digital financial literacy and financial consumer and MSME protection** *"Enhancing digital financial inclusion beyond the COVID-19 crisis"*, endorsed by G20 Finance Ministers and Central Bank Governors as well as by G20 Leaders. The Menu builds upon those actual measures implemented by countries that have proved successful in tackling the new challenges posed by the pandemic and by the increased digitalization of financial services. The aim is to suggest viable and operational solutions to effectively increase the awareness of individuals and MSMEs on the opportunities and risks of digital finance, on the one hand, and improve consumers and MSMEs protection able to foster digital financial inclusion, on the other hand.

The Partnership held three Plenary Meetings during the year, in March, June and October.

The first day of the June event was dedicated entirely to the issue of remittances, hosting the workshop "Remittances in times of crisis and beyond". The workshop was attended by a large audience of participants from both member and non-member countries. It was an occasion to bring to the table the different perspectives of receiving and sending countries, service providers, as well as international organizations.

In October, the GPFi and the G20 Presidency hosted the two-day High-Level Symposium "Coping with New (and Old) Vulnerabilities in the Post-Pandemic World", with the aim to draw

conclusions on the priorities for the current year. The Symposium saw the involvement of G20 member countries, participating non-G20 countries, implementing and affiliated partners, as well as representatives of the private sector and academia.

The G20 2020 FIAP: prioritized topics, action areas and deliverables in 2021

Digital Financial Inclusion: Action Area 1

The first deliverable envisaged by the G20 2020 FIAP for 2021 is to:

“Analyze the COVID-19 implications on individuals’ financial inclusion and financial resilience, particularly for women and other underserved and vulnerable groups, and the roles of financial inclusion to mitigate the COVID-19 impact in the society. Against this backdrop, identify policy options, in particular through the use of responsible digital financial services as well as recommendations on how to respond to DFI challenges and risks through financial consumer protection (taking account of the work of the G20/OECD Task Force on Financial Consumer Protection)”

To fulfil this commitment, the following reports were delivered:

The Impact of COVID-19 on Digital Financial Inclusion (by the World Bank). The report offers an overview of the impact of COVID-19 on digital financial inclusion of individuals with a focus on digital payments. The report notes that the pandemic has pushed for increased regulatory flexibility to facilitate the expansion of the supply of and the access to digital financial services. Technology allowed for the design of more targeted financial products aimed at facilitating the inclusion of vulnerable and underserved groups, but the expansion of supply and demand of digital financial services should go hand in hand with an increased effort of policymakers on building financial capabilities of vulnerable groups and updating financial consumer protection strategies to the new financial environment.

Supporting Financial Resilience and Transformation Through Digital Financial Literacy (by the OECD/INFE). The report highlights the need not to maintain or rebuild the previous state rather to push for transformation towards enhanced financial inclusion and resilience, aiming at ultimately supporting greater financial well-being. It discusses the concept of financial resilience and its relationship with financial inclusion, financial literacy and financial well-being. It then offers a wide range of case studies, looking at the role of digital financial education initiatives in tackling financial resilience and vulnerability. It concludes by proposing a set of effective approaches based on the lessons learnt from the case studies in ensuring that the digital delivery of financial literacy programs sustains individual financial resilience and long-term well-being. The effective approaches are consistent with and complement the provisions of the OECD Recommendation on Financial Literacy, which was welcomed by the G20 Finance Ministers and Central Bank Governors on 9-10 July 2021.

Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19 (by the G20/OECD Task Force on Financial Consumer Protection). The report provides a summary of the impact of the pandemic on financial consumers and financial inclusion, a global view of the measures implemented to support financial inclusion and protect financial consumers, and sets out the lessons learnt and effective approaches that can be drawn from the experience. The report discusses the role of financial consumer protection and financial inclusion policies in supporting the financial resilience and fair treatment of consumers during the pandemic, especially vulnerable consumers. Financial consumer protection is a cross-cutting theme in the G20 2020 FIAP, and

the lessons learnt and effective approaches will feed into the review of the G20/OECD High-Level Principles on Financial Consumer Protection, first endorsed by G20 Leaders in 2011.

Digital Financial Inclusion: Action Area 2

The second deliverable envisaged by the G20 2020 FIAP for 2021 is to:

“Review the progress on National Remittance Plans against the commitments in the G20 Plan to Facilitate Remittance Flows (2014) and release the biennial update on the National Remittance Plans with a particular focus on the analysis of the impact of COVID-19 on remittances flows. Based on the analysis of the lessons learned, develop a list of possible short-term mitigating and long-term support measures aimed at promoting digital payment services”.

As mandated by G20 Leaders, the GPGI in 2021 continued to have a leading role in the facilitation of the flow of remittances also by supporting country-led actions to reduce average remittance transfer costs to below 3 per cent by 2030, compared with the current average global cost of around 6.38 per cent.

As part of the leading role in the National Remittance Plans (NRPs) process, the GPGI has released:

- the *2021 Update to Leaders on Progress Towards the G20 Remittance Target*, which includes each jurisdiction’s achievements in the implementation of their existing NRPs with a particular focus on the analysis of the impact of COVID-19 on remittances flows;
- the *2021 Biennial Update* of the NRPs, based on a new template prepared by the World Bank and the International Fund for Agricultural Development (IFAD), the aim of which is to improve the quality and quantity of information for across the board comparisons and draw the rightest support measures for the short- to longer-run. The formal update of NRPs according to the new template was carried out by the end of October.

The GPGI also supported the accomplishment of a report entitled “**Resilience in the Market for International Remittances During Covid-19 Crisis**”, produced by the WB and IFAD, which aims to shed light on the impact that the pandemic had on the remittances market amid an unprecedented switch to digital channels. Relying on a broad set of country-level experiences, the report distils the main lessons learned on how to ensure continued resilience of remittance flows against the occurrence of adverse shocks. The need of cooperation and coordination between public and private sectors appears to be key in this regard. Moreover, since many migrants in sending countries have reduced their assets to support families back home, it appears to be paramount to capitalize on remittances in terms of their capacity to reinforce the link between saving, investment and insurance, also with the support of appropriate digital financial education policies.

To bring remittances under the attention of GPGI’s member countries and international community, in June the GPGI organized the **Workshop “Remittances in times of crisis and beyond”**, which provided a thorough perspective – from receiving and sending countries, from service providers as well as from international organizations – on the challenges that are still present in the market and need to be tackled. All the interventions highlighted that important progress has been achieved in this area, especially in reducing the average cost of transfers. The remarkable outcomes of the workshop has been welcomed by the FMCBGs during their formal meeting in July.

The GPGI is taking also advantage of the remittances being an important part of the G20 Roadmap on cross-border payments. The G20 has made enhancing (i.e. making faster, cheaper, more transparent and more inclusive) cross-border payments, including remittances, a priority during the Saudi Arabia’s Presidency. The building blocks identified in the roadmap aim to

holistically improve the cross-border arrangements and include a number of measures directly relevant to remittances. Therefore, it appears to be paramount for the GPFi to continue to engage with regulation and standard setting bodies (SSBs) – such as the FSB, the CPMI and the FATF – to ensure that the implementation of the roadmap on cross-border payments, including remittances, take into adequate consideration the inclusion and economic development perspective.

SME Finance: Action Area 1

The third deliverable envisaged by the G20 2020 FIAP for 2021 is to:

“Analyze the impact of the COVID-19 pandemic on financial inclusion for SMEs and the role of financial inclusion to mitigate it, especially for those SMEs that are informal and women-led; identify lessons learned and the ongoing challenges; and develop policy options to mitigate negative longer-term consequences, including matters of sustainable development”.

To fulfil this commitment, the following reports were produced:

MSME Digital Finance: Resilience and Innovation during COVID-19 (by IFC/SME Finance Forum). Relying on a wide range of country-level experiences, including in least developed ones, the report analyses the role that digitalization played in supporting the access to financial services of MSMEs during the outbreak of the COVID-19 pandemic. The report aims at shedding light on whether digital financing innovations have been critical to smaller firms in coping with the emergency, assessing its untapped potential in the post-crisis landscape and discussing the risks and benefits related to a wider use of digital financing tools and channels. It also suggests the main benefits and risks related to a wider use of digital financing tools, services and channels due to the crisis, as well as assess the untapped potential of digitalization transformation for MSMEs in the post COVID-19 landscape.

Navigating the Storm: MSMEs’ Financial and Digital Competences in Covid-19 Times (by the OECD/INFE). The report analyses the relationship between MSMEs’ financial literacy, digitalization and the impact of the COVID-19 crisis. It relies on a dedicated data collection exercise promoted by the G20 Presidency using the OECD/INFE 2020 survey instrument to measure the financial literacy of MSMEs. Fourteen G20 and non-G20 members participated in the data collection on a voluntary basis.

Both reports aim at tackling the issues related to how the pandemic affected MSMEs. Small businesses form the backbone of many economies and represent, including the informal sector, about 90 per cent of all enterprises and about 50 per cent of employment worldwide, while accounting for between 60 and 70 per cent of global GDP. The pandemic hit businesses very hard, also reflecting their greater difficulties to access formal financial services and to build adequate liquidity buffers to compensate for temporary shortfalls in earnings. The reports offer a complementary perspective, being related to both the supply and the demand side of DFSs.

The Menu of Policy Options and the Recommendations to the G20 Leaders

By distilling the most effective policy responses from the extensive work accomplished by IPs, the GPFi has developed the **G20 Menu of Policy Options for digital financial literacy and financial consumer and MSME protection “Enhancing digital financial inclusion beyond the COVID-19 crisis”**. The aim of the Menu is to provide a guide and inspiration for governments in their efforts to lay the ground for new financial inclusion strategies in the post-pandemic world, with an emphasis on the contribution that digitalization and technological innovation can provide in this regard.

The use of digital payments and financial services increased during the pandemic due to social distancing measures. As a result, many countries have adopted policies to support the individuals most affected by the pandemic, those most vulnerable and micro and small enterprises. Specific protection measures and digital financial education programs have also been launched to accompany these changes. However, it seems clear that, while greater digitalization offers greater opportunities for inclusion – also for the benefit of those previously excluded – the pandemic has highlighted the need for interventions aimed at avoiding new forms of exclusion of the poorest, the weakest, the most marginalized.

Against this backdrop, the Menu presents a set of policy options drawn from country-level good practices worldwide. While recognizing that digital financial inclusion is critically dependent on several enabling factors, this menu focusses only on two of them: digital financial education and financial consumer and MSME protection. In trying to assist countries in their effort to lay the ground for a more inclusive “new financial normal”, the policy options may be taken into considerations by G20 Leaders as possible recommendations.

The *Policy Options* are grouped into three pillars, as follows:

1. Addressing the impact of the crisis and thinking ahead

Key policy options include:

- Supporting individuals and MSMEs by incorporating appropriate hardship arrangements into financial consumer and MSME protection frameworks
- Widening the range of responsible financial instruments available to vulnerable and underserved individuals and MSMEs
- Taking advantage of the momentum to increase financial literacy
- Adopting a coordinated multi-stakeholder approach to strengthen financial inclusion

2. Leveraging digitalisation for a leap forward in financial inclusion

Key policy options include:

- Favouring “protection by design” for new digital financial products and services
- Supporting inclusive financial innovation by embedding financial inclusion objectives in innovation policies
- Deploying data collection and enhance market monitoring to improve financial services
- Using behavioural insights to improve financial consumer and MSME protection and financial education
- Designing inclusive digital financial information and education

3. Addressing new and exacerbated risks and vulnerabilities

Key policy options include:

- Stepping up efforts to identify groups at risk of financial exclusion
- Addressing risks of online fraud and scams and mismanagement of personal data
- Introducing and strengthening effective redress mechanisms to protect financial consumers and MSMEs
- Enhancing the use of digital tools to assist public authorities in favouring inclusion and protection

The policy options reflect as much as possible the diversity of social and policy environment across countries; some of them, however, could require capabilities that may not be equally available in all countries.

ANNEX: REPORTS AND DOCUMENTS PRODUCED

- G20 Menu of Policy Options for digital financial literacy and financial consumer and MSME protection “Enhancing digital financial inclusion beyond the COVID-19 crisis”
- G20/WBG Report on “The Impact of COVID-19 on Digital Financial Inclusion”
- G20/IFC/SMEFF Report on “MSME Digital Finance: Resilience and Innovation during COVID-19”
- G20/OECD Report on “Lessons Learnt and Effective Approaches to Protect Consumers and Support Financial Inclusion in the Context of COVID-19
- G20/OECD-INFE Report on “Supporting Financial Resilience and Transformation through Digital Financial Literacy”
- G20/OECD INFE Report on “Navigating the Storm: MSMEs’ Financial and Digital Competences in Covid-19 Times”
- G20/IFAD/WBG Report on “Resilience in the Market for International Remittances During Covid-19 Crisis”
- 2021 GPMI Progress Report to the G20 Leaders
- 2021 Update to Leaders on Progress Towards the G20 Remittance Target