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Use financial inclusion to reduce inequality and speed up growth

G20 deliberations identified three policy pillars with priority themes aimed at achieving inclusion

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Financial inclusion has been the key tool used by policymakers globally to reduce poverty and inequality, strengthen the livelihoods of people at the bottom of the pyramid, and spur global growth. Financial inclusion has been a part of the B20 deliberations for a long time. It was first at the Pittsburg Summit in 2009 that a Financial Inclusion Experts Group (FIEG) was set up, which was followed by the setting up of the Global Partnership for Financial Inclusion (GPFI) at the Seoul Summit (2011), the rolling out of a basic set of financial inclusion indicators at the Mexico Summit (2012), the adoption of high-level principles for digital financial inclusion at the China Summit (2016), and the provision of an implementation guide for it at the Indonesia Summit (2022). Throughout the years, concerted efforts have been made at the B20 platform to advance financial inclusion, and while progress has been made, a lot more is yet to be achieved.

The Global Findex Database 2021 of the World Bank estimates that almost 24% of adults globally do not have access to formal financial accounts. Similarly, only 29% of adults placed their savings in a financial institution, and only 28% of adults borrowed from a formal financial institution globally. In a similar vein, micro, small and medium enterprises are also experiencing increased financing disparities. As per a World Bank publication in June, *MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets*, in developing countries, 21% of micro-enterprises are constrained either due to rejection of loan applications or incompatible terms. In case of small and medium enterprises, this statistic stands at 30%. As per the publication *MSME Day 2020* by the World Trade Organization, globally MSMEs contribute around 35% of GDP in developing economies and 50% in developed nations. Closing this funding gap is essential for boosting global growth and generating productive jobs.

It is a global phenomenon across cultures that women face obstacles such as restrictive social norms, mobility constraints, a lack of identification, limited financial literacy, etc, in obtaining basic banking services. This is reflected in the gender gap in bank account ownership, which is more exacerbated in low-income and developing countries. For instance, the gender gap in Sub-Saharan Africa and the Middle East and North Africa is 12 and 14 percentage points, respectively, which is double the average for emerging economies and thrice the average worldwide. Similarly, when it comes to digital payments, men with accounts are typically 6 percentage points more likely than women to use digital payments in developing nations. Women also find it more difficult to raise emergency money. According to World Bank's Findex, in 2021, compared to 59% of men, only 50% of women in developing nations claimed they could consistently come up with emergency cash.

Through continuous deliberations, the B20 taskforce studied the landscape of financial inclusion globally and linked it with the economic empowerment of low-income and underserved groups, including women, small enterprises and farmers. We identified three major pillars that accommodate 11 major priority themes, covering supply- as well as demand-side interventions to lower barriers to financial inclusion.

As a first pillar, there is a need to strengthen the ecosystem and enablers that drive financial inclusion. A lack of innovation in the design and delivery of financial services, low financial literacy levels, limited capacity-building avenues and gender-based exclusion can put a lot of stress on contemporary financial inclusion initiatives.

Therefore, we focused on promoting private sector involvement in financial inclusion through partnerships, enhancing the capacity of individuals and small enterprises through incubation and imparting financial literacy, and promoting gender-inclusive financial services and programmes.

As the second pillar, there is a need to increase the penetration of financial products and services. Besides the low savings and access to financial institutions that Findex 2021 highlighted, globally, insurance penetration is also very low at 7% of GDP. There is also a need to accelerate financial inclusion of the agricultural, rural and migrant segments, which often find it hard to access timely and affordable financial services.

We also focused on reducing the cost of capital for financial institutions, devising innovative distribution channels for the delivery of services, and promoting cross-border payments through the standardization of protocols.

As the last pillar, we strengthened the consumer protection framework to maintain the trust of consumers in new digital products and devising policies that balance protection and innovation.

These pillars are supported by the priority themes identified by the B20 task-force along with measurable policy actions to bring 10 sustainable development goals (SDGs) closer within reach and foster economic empowerment with inclusivity. Our presentation to the G20 includes recommendations on these themes and highlights how innovative use cases and best practices have been deployed to further them.