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Expert Meeting on

THE IMPACT OF ACCESS TO FINANCIAL SERVICES, INCLUDING BY HIGHLIGHTING THE IMPACT ON REMITTANCES ON DEVELOPMENT: ECONOMIC EMPOWERMENT OF WOMEN AND YOUTH

12-14 November 2014

OPENING STATEMENT

by

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Opening remarks by:

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Single-Year Expert Meeting on the Impact of Access to Financial Services,
Including by Highlighting Remittances on Development:
Economic Empowerment of Women and Youth
Geneva, 12 November 2014

Madame Chairperson,
Excellencies,
Distinguished Panellists,
Ladies and Gentlemen,

On behalf of Dr Kituyi, Secretary General of UNCTAD I wish to welcome you all to this *Single-Year Expert Meeting on the Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth*. The topic of this meeting – access to financial services, or "financial inclusion" - is of high relevance to the development agenda.

By financial inclusion, we mean "the effective access and use by individuals and firms of financial services from formal providers". This can contribute to poverty reduction, economic and social development, particularly for women and youth, and has become an important element of the international policy agenda, including the post-2015 development agenda.

The importance of financial inclusion has also been increasingly recognised by international fora such as the G-8 or G-20 (which endorsed in 2010, 9 principles aiming an enabling policy and regulatory environment for innovative financial inclusion). Similarly, some 108 developing countries have also adopted "Maya Declaration", a set of principles to guide their regulatory institutions in promoting financial inclusion.

Financial inclusion is also a complex and multifaceted phenomenon, and as such requires policy responses in several public policy domains. From a universal access perspective, it can be an element to consider in the post-crisis financial regulatory reform. We should also note that financial inclusion matters in maximizing the development impact of remittances, which is a particularly important source of external finance for many developing countries.

I believe that the three day expert deliberation we are holding will enhance our understanding on this important topic, and allows us to better appreciate factors affecting the state of financial inclusion and measures to improve it and explore future options for further cooperative efforts and research.

Trends in financial inclusion

It goes without saying that financial services play an important role in the economy and impact peoples' welfare in different fashions. UNCTAD has worked on different dimensions of this topic including in 2007 we contributed to the international discussion on the "trade and development implications of financial services."[1] We have continued this examination in our Multi-year expert meetings on services, trade and development which takes place on a yearly basis since UNCTAD XII.

We have recently seen that international trade in financial services have become an essential component of the sector, with cross-border exports reaching around $445 billion in 2013. While most of it, about 80 per cent, originates in developed countries, the financial crisis of 2007/2008 has highlighted the potential contagious effect of financial services in spreading the crisis throughout the world with dire consequences of the most vulnerable segment of the world population. This underlines the cautious approach adopted by many developing countries in trying to supervise financial services.

Despite the growing size and importance of financial services, lack of access represents a major impediment for income opportunities and economic welfare of individuals, particularly for the poor, women and youth. In 2011, only 47 per cent of women and 37 per cent of youth have a formal account. And we should also note the disparities between developed and developing countries; where in the former the share of adults with an account with a formal financial institution is more than twice that of the latter.

The lack of access to finance is also an enormous obstacle for firms to innovate, create jobs and grow. This affects particularly small and medium enterprises and micro-enterprises. A survey from the World Bank finds that only 34 per cent of firms in developing countries have a bank loan, whereas the share is 51 per cent in developed countries.

A variety of factors are at the root of the lack of access of individuals and firms to financial services. The lack of disposable money and the cost of accounts are major constraints. And it is important to realize that people may not trust financial institutions, in particular where the financial sector is underdeveloped. This reminds us of the importance of financial knowledge and literacy to promote more access and better usage of financial services.

Measures to improve financial inclusion

Ensuring universal, equitable and affordable access to financial services is challenging and requires policy and regulatory intervention at various levels. This is particularly because financial services are prone to market failure arising from information asymmetry but not only.

When not adequately regulated, information asymmetry could result in undersupply of credit to particular groups of the population, such as people in rural areas and the poor, and moral hazard might cause excess supply and indebtedness. In this context, regulations have to be adaptable to the economic and social climate in which financial services operate.

In this light, recent national and international efforts have witnessed emerging new and innovative avenues to address the complex issue of financial inclusion, and these have centered, most notably, on four areas: (i) the application of new technologies; (ii) elaboration of innovative business models; (iii) efforts aimed at improved financial

[1] Expert meeting on trade and development implications of financial services (20-21 September 2007).

literacy, and; (iv) capitalizing on increased flows of remittances and the use of international trade and cooperative frameworks.

New technologies to improve access to financial services

You may recall we have held an informative discussion on this topic on the occasion of the 50th anniversary of UNCTAD regarding how mobile money has a role in cutting the costs of remittances (*"Cutting the Costs of Remittances: The Role of Mobile Money: Interactive debate"*, 20 June 2014). These new mobile payments and mobile banking services have significantly reduced physical and economic barriers impeding financial access.

Although financial operations with a mobile phone are not a panacea for financial inclusion, they present important advantages. Most significantly, data reveals that they are more gender neutral and youth friendly. Mobile phones have higher coverage and lower costs than other networks. Mobile money also facilitates some sectoral products like electronic wallets for farmers and low-cost credit for agricultural development.

Innovative business models and financial services

Another important avenue for addressing financial inclusion is innovative business models that seek to address traditional barriers to access to financial services. Microfinance, for example, targets the underserved households, small and medium enterprises and self-employed entrepreneurs in developing countries. Since these business models have existed for some time, there is a wealth of experiences and lessons we want to consider.

In addition, our experiences in the global financial crisis have led also to a series reappraisal of certain types of banks that had until then been underestimated in providing essential basic services to a wider range of population. Here I wish to refer to state-owned, cooperative, development and community banks, as well as Islamic finance, which have proven their relevance in effectively complementing mainstream private banking services and contributed to financial inclusion. Some of these banks have been central to productive investment, have proven resilience in compensating credit crunch, and have promoted competition in oligopolistic markets.

Remittances and financial inclusion

In 2013, global remittance flows reached $551 billion, of which $414 billion were to developing countries. In 2014, flows to developing countries are projected to increase to $435 billion. The development potential of remittances have become increasingly recognized as evidenced by the discussion in major international fora such as the United Nations Conference on Sustainable Development and the High-Level Dialogue on Migration and Development.

UNCTAD member States have also long recognized an important contribution that remittances can make to human and social development and tasked us the secretariat to endeavour to foster better understanding on this phenomenon. We have therefore analysed and organized expert discussion on such topics as how the contribution of migrants to development may be enhanced in its trade, investment and development linkages, and how that of remittances may be maximized.[2] Our research has found,

[2] Ad-Hoc Expert Meeting on Contribution of Migrants to Development: Trade, Investment and Development Linkages, 29 July 2009; Expert meeting on maximizing the development impact of

for instance, that a 10 per cent increase in remittances leads to 3.5 per cent reduction in the share of people living in poverty.

When it comes to the interlinkage between remittances and financial inclusion, we should note a relevant bidirectional relationship between remittances and financial services. On the one hand, the effective use of financial services will contribute to facilitating remittance flows. On the other hand, these flows may contribute to increase demand of financial services by making recipients more inclined to join the formal financial sector.

High costs of remittance transfer have been identified as major impediments to remittance flows. In the second quarter of 2014, the global average cost of sending remittances was at 8.1 per cent. Even though it is a new all-time low, it is still central to make transfer systems less costly, more efficient and more transparent. It is estimated that a 5 per cent reduction on remittance costs might yield 15 billion dollars in savings. In the context of the post-2015 SDG discussion, the Open Working Group on Sustainable Development Goals has also proposed an objective of, by 2030, reducing to less than 3 per cent the transaction costs of migrant remittances and eliminating remittance corridors with costs higher than 5 per cent.

Keeping in mind that these are private funds, mostly used for household consumption, it is relevant to provide interesting alternatives, and to enable the banking sector to channel them to investments in productive activities, social services and infrastructure. Financial counselling and diaspora funds could usefully contribute to this goal, with diaspora bonds or specific Islamic financing products as possible tools for development financing.

Policies and regulation for financial inclusion

I cannot stress enough that Governments can play an important role in financial inclusion by developing sound regulatory and institutional framework and considering direct measures such as mandatory requirements. Governments can have a role in setting standards for disclosure and transparency, regulating aspects of business conduct, and overseeing effective mechanisms to protect consumers.

Governments can also lead efforts that promote the demand side of financial services, through well-designed and targeted policies towards availability of information, improved financial literacy, and consumer empowerment.

Financial inclusion, trade agreements and regulatory reform

International trade in financial services increasingly affect developing countries' financial services. Ongoing trade liberalization efforts affecting this sector of services, either multilaterally, plurilatearlly or regionally, could potentially impact national regulatory frameworks on financial services, with notable implications for those aimed at financial inclusion. It is important that these efforts be coordinated and synchronized with adequate domestic regulation to promote financial inclusion, and coherent approaches be adopted towards liberalization and national prudential regulatory efforts.

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remittances, 14-15 February 2011;UNCTAD, Maximizing the development impact of remittances (UNCTAD/DITC/TNCD/2011/8); UNCTAD, Impact of remittances on poverty in developing countries (UNCTAD/DITC/2010/8); UNCTAD, The LDC Report 2012 (UNCTAD/LDC/2012).

In this regard, it remains of utmost importance that post-Bali discussion of operationalizing LDC services waiver towards the provisions of preferential market access on services be effectively operationalized on the basis of the recent collective LDC request.

Conclusions

Let me conclude by underlining that financial inclusion is central to poverty reduction, and inclusive and sustainable development. Many factors contribute to lack of access to financial services, disproportionally penalizing the poor, women, youth, rural population, migrants, and those engaged in the informal economy. I sincerely hope that our discussion during this meeting contribute to enhancing our understanding on this complex issues and facilitate your efforts at devising best-fit national measures to address this important development challenge.

I wish to thank in advance all panellists and participants for sharing their knowledge with UNCTAD's Member States and for engaging in these common efforts towards more and better access to financial services by individuals and firms. The outcome of our debates will also be valuable for UNCTAD's ongoing work on trade in services.

I would also like to congratulate Mme Mina Mashayekhi and her team for the excellent preparations, the background paper and the well crafted programme.

On our part, UNCTAD stands ready to support your endeavours in fostering financial inclusion in your respective county though our analytical and operational pillars of our work. Our research work on financial and insurance services, as well as trade and development implications of migration and remittances, has underpinned our comprehensive work on services, development and trade. We have conducted what we call Services Policy Reviews for a group of developing countries, LDCs and economies in transition. We have long history of providing our advisory and capacity building support on trade negotiations on services both in multilateral ad regional contexts. This work could be of interest in your efforts at devising best-fit coherent national and international regulatory frameworks and measures aimed at financial inclusion, particularly for the benefit of women and youth.

I wish you success in your deliberation. Thank you very much.