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Report of the Expert Meeting on the Impact of Access to Financial Services, including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth

Held at the Palais des Nations, Geneva, from 12 to 14 November 2014

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I. Chair's summary

A. Opening statements

1. The Director of the Division on International Trade in Goods and Services, and Commodities delivered an opening statement on behalf of the Secretary-General of UNCTAD. He stressed that the topic of the meeting, access to financial services – or financial inclusion – is of high relevance for the development agenda, including the post-2015 framework. It can contribute to poverty reduction and economic and social development, particularly for women and youth. This importance has also been increasingly recognized by international forums such as the Group of Eight or the Group of 20 (G20), with the latter endorsing nine principles for innovative financial inclusion. Similarly, a network of financial regulatory authorities from several developing countries have become committed to policies and regulations towards financial inclusion by adopting the "Maya Declaration". This relevance is enhanced by the linkages between access to financial services and remittances, a particularly meaningful source of private financial flows for many developing countries. The Director stressed UNCTAD's readiness to support States members' endeavours to foster financial inclusion through its analytical and operational pillars of work, including its work on the Services Policy Reviews; the contribution of migrants and remittances to development; trade and development implications of financial services; and multi-year expert meetings on services, trade and development.

2. The Head of the Trade Negotiations and Commercial Diplomacy Branch of the Division introduced the secretariat's background note (TD/B/C.I/EM.6/2) entitled "Impact of access to financial services, including by highlighting remittances on development: Economic empowerment of women and youth". She presented a definition of financial inclusion as the effective access and use by individuals and firms of affordable and sustainable financial services from formal providers. In this context, she recalled that only 34 per cent of firms in developing countries had a bank loan and, in 2011, only 50 per cent of people had an account with a formal financial institution. Women, youth, the poor, rural populations, migrants and those engaged in the informal economy were particularly affected. Only 47 per cent of women and 37 per cent of youth between 15 and 24 years old had a formal account. She underlined that financial inclusion was a complex and multifaceted phenomenon that required policy responses in several public policy domains. Governments could play an important role in financial inclusion by developing a sound regulatory and institutional framework, setting standards, overseeing effective measures to protect consumers, and considering direct intervention. A tailored and comprehensive policy mix towards financial inclusion should include building a robust institutional environment; considering simultaneously objectives of financial inclusion, financial stability and financial integrity; ensuring adequate infrastructure, including communications and energy; promoting technological innovation; collecting and analysing data towards evidence-based policies; promoting competition and consumer protection; considering direct measures, such as subsidies and mandatory requirements, particularly towards universal access; applying regulation in a proportionate manner; defining differentiated requirements to attend different needs, whenever feasible; promoting demand through financial literacy and availability of information; and, when adequate, increasing the use of financial services by the Government.

3. Participants commended the secretariat's background note for its comprehensive and high-quality analysis and discussion. The discussions centred around the exchange of experiences and lessons learnt oriented towards best-fit and coherent national and international policies, regulatory and institutional frameworks, and other measures aimed at

financial inclusion. The discussion also focused especially on remittances, particularly for the benefit of women and youth.

B. Informal sessions

Trends in financial services and financial inclusion

4. Participants deliberated on the importance of financial inclusion to economic and social development, particularly for women and youth. One participant drew attention to severe income disparity as a global risk and how it was affected by financial exclusion, noting that 83.3 per cent of total wealth was concentrated in 8.4 per cent of the world population. He also noted that those included in the remaining 91.6 per cent of the population, although with modest average wealth holding, represented more than US$40 trillion when considered together. Thus, they formed a group with potential to attract innovative financial services and products. The share of adults in developed countries that have a formal account was more than twice that of developing countries. In every region, women had a lower account penetration compared to men. In India, only half the population had access to financial services, and in Nigeria 39.7 per cent were financially excluded. In the latter country, certain segments of the population were more severely affected – 43.5 per cent of women remained financially excluded, and farmers and dependents were excluded at levels of 51.6 per cent and 48.4 per cent, respectively. Research conducted in Kenya revealed that people with physical disabilities were particularly vulnerable to financial exclusion, with women affected in a disproportionate manner. In countries with differential treatment under the law or by custom, women were less likely than men to have an account, to save or borrow. One participant mentioned that measures to achieve financial inclusion may not impact equally women and men, and additional efforts were required to ensure benefits for segments that were more prone to financial exclusion. Another participant stated that the incorporation of financial inclusion in the post-2015 development agenda required careful reflection on how to measure it. Beyond the number of people included, measures could include 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.

5. In the Philippines, only 26.6 per cent of adults had deposit accounts and only 10.5 per cent of adults had obtained a loan from a formal financial institution in the past year. The barriers related to the country’s archipelago geography posed a great challenge to financial access, reflected in several indicators: 37 per cent of the 1,634 cities and municipalities did not have a banking office; 43 per cent of the total number of deposit accounts and 71 per cent of the total amount of deposits were concentrated in the National Capital Region of the country. Defining financial inclusion as a state where there was effective access to a wide range of financial services for all Filipinos, the central bank had defined a vision for an inclusive financial system. It had as objective the presence of a wide range of financial services serving different market segments; financial services that were well designed and priced, and tailor fitted to market needs; strong, sound and duly authorized financial institutions that used innovative delivery channels; effective interface of bank and non-bank products and delivery channels; use of technology and innovation towards financial inclusion; adequately educated, informed and protected citizens; and comprehensive and robust financial inclusion data and measurement. With this vision, the national strategy for financial inclusion was defined as a financial system that was accessible, envisaging broad-based and inclusive growth, focusing on clients and particularly on the traditionally underserved.

6. The discussion underlined that the concept of financial inclusion should encompass several services including, for example, savings, credit, payments, deposits, and insurance.

These services were pivotal to income and welfare opportunities since they facilitated transactions and mobilized savings. Under the right conditions, access to finance may enable firms to pursue growth opportunities and promote job creation. The experience of Nigeria revealed that the savings account was the most significant product and that people considered financial services important mainly due to ease of access, safety of funds, and convenience.

7. The debate also focused on several barriers to financial inclusion. A survey from the World Bank identified self-reported barriers to the use of formal accounts, including lack of money, costs, the ownership of an account by a family member, distance, documentation constraints, and lack of trust, among others. Another survey in Nigeria identified irregular income, unemployment and distance as the major impediments to having an account. It also identified determinants of financial inclusion such as the level of education, connectivity, capacity to generate surplus, and availability of financial providers. The comparatively lower level of education and income of women could partially explain their greater exclusion. In Bangladesh, lack of financial literacy was considered a major barrier for financial inclusion. The National Survey for Financial Inclusion in Mexico determined, among others, that costs, poor financial knowledge and lack of trust were important challenges to address. These determinants were important to design policy responses and could be classified according to what they influence: access, usage or uptake. For instance, awareness about the financial product was important for generating uptake. Research in Kenya confirmed that the identification of these determinants benefited from multisectoral partnerships and required more and better data.

8. Participants also referred to structural impediments to access to financial services. The example of India suggested that such impediments included poor infrastructure, uneven regulation, monopolies and cartelization. Policies and regulations should foster competition to avoid market concentration, and to promote diversification of the sector, which could also act as a deterrent of external shocks. Along with the necessary infrastructure, particularly in communication and energy, policies and regulations also needed to aim to avoid undersupply in rural areas and to the poor. For example, if not adequately regulated, information asymmetry could lead to undersupply of credit, and moral hazard may lead to excess supply and indebtedness. Particular attention was given to the need to simultaneously pursue financial inclusion, financial integrity and financial stability. This was also underlined by the G20 principles for innovative financial inclusion. There were arguments suggesting that broad-based access to financial services may contribute to financial stability if such access was properly managed by an adequate regulatory and supervisory framework. The failure of this framework would possibly impede the potential synergies between financial inclusion and financial stability to be harvested. It was also noted that overly stringent regulations aimed at greater integrity and stability might create undue barriers to access to financial services. Further research is needed to identify possible synergies or compromises among these competing regulatory objectives. The way in which these objectives were managed was pivotal, and the regulatory and institutional framework played a central role in that management.

9. In China, efforts aimed at favouring financial access in rural areas began in the mid-1990s. A mass expansion of financial services occurred after the turn of the century, with a dramatic acceleration during the present decade. This had led almost half a billion people to accede various forms of financial services, including online. A participant mentioned some of the factors that contributed to this progression in financial inclusion. These included universal access requirements, namely concerning the minimal financial services in all towns and villages. Factors also encompassed the presence of alternatives, such as automatic teller machines and mobile units, and of models, for instance local banks, rural cooperatives and postal banks. They also included public–private competition, taking place within the framework of a highly regulated domestic financial market. In India, fast growth

in gross domestic product in the early 2000s had led to a boom in many financial services, including microfinance schemes and ad hoc loans for infrastructural investment. However, inadequate regulation and unethical business practices were mentioned as being among the major causes of financial scams and the collapse of several microcredit networks. This had generated a widespread lack of trust among the population, compounding the difficulties of promoting financial inclusion. The main strategies to address these issues in India included developing a sound institutional mechanism, revising regulation, increasing the banking network, and promoting the Government's growing use of financial services. It was noted, in the Bangladesh experience, that some structural barriers to access to financial services existed, including the undersupply of financial services and the dominant position by a few banks over the area of mobile banking.

Policies and regulation for financial inclusion

10. Many speakers emphasized that Governments played an important role in designing and implementing a comprehensive policy mix to promote financial inclusion, ideally through participative processes involving all stakeholders. These included measures for extending supply and affordability of services through an enabling regulatory and institutional framework. For instance, to build a robust institutional mechanism, India had established the Financial Inclusion Advisory Committee. Regulatory guidelines were being reviewed in the country towards more access to financial services, including regulation covering banking correspondents, mobile banking, and relaxation of norms where possible, including "know your customer" (KYC) and e-KYC requirements. The financial inclusion strategies in India had increased the number of banking outlets to 384,000, of which 115,350 opened during 2013–2014. The example of Bangladesh also recognized the importance of strong institutions. The country's Central Bank was mandated to seek not only financial stability but also financial inclusion, and strategies were focused on determinants of exclusion, such as poverty, lack of infrastructure, and cumbersome paperwork requirements. In the Philippines, the Central Bank had created the Inclusive Finance Steering Committee. Key policies and regulations included a widened range of products, an expanded virtual reach and an expanded physical network. In Mexico, it was reported that the major national financial authorities had representatives in the National Council for Financial Inclusion – recent regulatory changes covered, for instance, banking agents and mobile banking.

11. It was reported that research revealed that competition policy was an important part of expanding access, as supported by the example of China where the promotion of competition between public and private entities was catalytic to greater financial inclusion. The regulatory and institutional framework should also envisage consumer protection. In the Philippines, the framework for enhanced consumer protection included revised rules for the Truth in Lending Act, regulation for market conduct, and mechanisms for consumer assistance.

12. Participants noted that direct measures such as subsidies and mandatory requirements were often focused on universal access. These included obligations to offer basic financial services, reduction or exemption of requirements to accede to these services, priority lending and, in some cases, lower interest rates with easy repayment and no profit margin. In India, measures included a simplified branch authorizition and the development of no-frills accounts. In Bangladesh, it was reported that a major financial inclusion campaign had started in 2008. The measures introduced included changed bank opening rules to favour the growth of rural banks, lowered minimum deposit rate, assisted access to banking services for people with disabilities, and facilitated loans for people in areas affected by natural disasters and farmers. Inclusion of women was also an important mandate, with every bank outlet obliged to have a desk dedicated to women, a requirement to disburse 15 per cent of commercial funds to women, and the possibility of loans without

collateral to women who had personal guarantees. Moreover, all garment workers – who were mostly women – were required to open bank accounts, and they were allowed to do so with minimum deposits.

13. Discussions focused on the proportionality of the regulatory frameworks. The experience of the Philippines provided two examples in this regard. Regarding microfinance, the regulatory points of balance were determined in areas such as capital adequacy, credit risk, risk management and governance. These served as the basis for the definition of diverse microfinance products with different features targeted at specific market needs. On digital financial services, requirements on risk management, capital, liquidity and others were applied in a proportionate way to non-bank providers. In these cases, ring fencing of e-money operations and transaction limits were implemented. The experience of Mexico provided another example regarding proportional regulation applied to deposit accounts to facilitate the opening process: it was reported that there were four levels of accounts, three of them with simplified requirements. In these cases, risks were managed with special controls, including limits on monthly deposit amounts, on who could open the account, and on how the money could be accessed.

14. Participants observed that policies could also envisage the promotion of more and better demand for financial services. These could include the use of financial services by Governments, for instance through payments by electronic transfer to bank accounts, which helped to bring others into formal financial services. The Reserve Bank of India had been promoting the payment of direct benefit transfers, such as pensions, through electronic transfer. Evidence from research confirmed that these policies should also envisage the availability of information and improved financial literacy and consumer empowerment. In the experience of Nigeria, financial education was important to generate trust in the system and facilitate adoption of financial services and products. In general, efforts in this area could encompass the institutionalization of financial training in the education system. Nevertheless, well-designed and targeted interventions, including the dissemination of information outside the school system and outreach programmes, were more likely to work. Attention was drawn to the importance of “teachable moments”, such as a change in job or a new mortgage, and of leveraging social networks to disseminate information. Improvement of financial literacy was crucial in India. The Reserve Bank of India had created the “Project Financial Literacy”,[1] aimed at disseminating information regarding the Central Bank and general banking concepts to various target groups, including school and college students, and rural and urban poor people.

15. Participants noted that the principles endorsed by the G20 for innovative financial inclusion and the ones enshrined in the Maya Declaration were in line with these supply and demand policies. The principles focused on competition, consumer protection and empowerment, promotion of technological innovation, proportional regulation, and collection and analysis of comprehensive data. One participant made reference to the Financial Access Survey of the International Monetary Fund and to the Global Findex Database of the World Bank as important first steps. These should be followed by country-led efforts to collect and analyse comprehensive data that enabled meaningful indicators and evidence-based financial inclusion policy. It was observed that moving from principles to specific actions was central to achieving progress in poverty reduction and economic and social development. A participant from Nicaragua underlined that the findings and recommendations of the Services Policy Review developed for his country were taken into account in the definition and implementation of policies for the financial sector. In this context, he thanked the UNCTAD secretariat for this work.

[1] See http://www.rbi.org.in/financialeducation/home.aspx.

Innovative business models and financial services

16. Some participants underlined that product design can foster wider use of financial services when addressing market failures, consumer needs and behavioural issues. One example was a commitment account, where customers were obliged to save according to predetermined rules. By accepting to use such an account, people minimized overspending.

17. The discussion focused on how the interaction between different networks for the provision of financial services could expand access. This interaction had been facilitated by new payment technologies and had enabled the use of banking correspondents. These were entities that performed transactions on behalf of banks, such as post offices and retail agents. In India, the Reserve Bank had issued the Guidelines for Use of Business Correspondents to expand coverage of financial services. Globally, post offices had an important role because of their reach, having the largest network that also covered rural areas, their affordability and because they were open to anyone. It was observed that the Universal Postal Union estimated that 1 billion people in over 50 countries were banked through postal systems, which was the second largest contributor to financial inclusion worldwide. In Brazil, the postal bank had opened 10 million accounts in 10 years. In Yemen, postal financial services included a higher percentage of women than traditional banks. Services provided by postal operators also included international money transfers, government payments, insurance and savings. It was observed that their business models ranged from acting as a cash merchant to a fully fledged postal bank with a more complete set of financial products and services, including credit. It was stated that, in China, the postal bank was the largest lender.

18. Participants said that although the network of post offices was the largest, it remained finite. Furthermore, their provision of financial services was still subjected to limitations in communication infrastructures. Therefore, creating synergies between postal and digital financial services was important for financial inclusion. In fact, with the increasing relevance of mobile money, the postal services had explored several models of interaction with mobile technologies that built on their experience, trust and proximity to clients. These models ranged from the basic use of mobile technologies to modernize and connect post offices, to postal services acting as cash merchants for a mobile network operator (MNO), building partnerships with MNOs, building their own platform and using MNOs only as pipelines, or developing their own mobile operator to provide services directly to customers by leveraging the networks of MNOs. It was reported that, in West Africa, the International Financial System application was available on mobile phones and tablets and was an example of mobile technologies modernizing and connecting post offices. It was observed that in Burundi, ECOCASH was available in post offices that acted as cash merchants for an MNO in the country. In Tunisia, the post had launched partnerships with several MNOs to provide financial services. The Barid Bank Mobile, in Morocco, had built its own platform independent of MNOs and used them only as pipelines. In Italy, the postal services had created Poste Mobile, which was its own mobile operator. Participants observed that there was no one-size-fits-all model, with each model having its advantages and disadvantages.

19. It was noted that banking services could also be provided with developmental objectives through state-owned, cooperative, development and community banks. These banks allowed productive investment, compensated credit crunch and promoted competition in oligopolistic markets. A participant noted that experience of financial reform in Mexico had encouraged development banks to become real growth drivers and had included measures to facilitate the provision of loans to the productive sector by commercial banks. One participant emphasized the importance of supporting initiatives with potential to increase productivity, and technology and innovation levels. In this regard, he mentioned the example of the Brazilian Development Bank, cooperative models in

China, northern Italy and Spain, and community banks in Colombia where such productive initiatives had led to positive results.

20. Participants observed that microfinance services could be provided by several institutions. These usually targeted the underserved and lower-income segments that were often ignored or not covered fully by traditional commercial banks. Since the 1970s, microfinance had been growing in many countries with or without special regulation. It had sometimes financed the underserved households and small and medium-sized enterprises (SMEs) in developing countries. Criticism of microfinance suggested that it was used more for consumption than investment and that it could cause moral hazard leading to oversupply of lending to non-creditworthy clients and therefore to overindebtedness. One participant underlined that this oversupply had led to lack of trust and that overindebtedness had been followed by further informalization of the economic activities and financial instability of the poor. Moreover, this moral hazard had had an opportunity cost by deviating financing from formal SMEs not covered by microcredit and that could have entailed real growth opportunities. This had diminished the creation of sustainable local economies based on industrial policies, technology and innovation strategies focused on formal enterprises. It was noted that this pointed to the importance of the previously mentioned models to provide financial services with developmental objectives. These could include credit unions for small consumer loans, cooperatives for SME working capital, community and state-owned development banks to support SME investments, and hybrid credit institutions if dedicated supplier credit was required. Some participants mentioned that there were still needs for financial services that could be adequately addressed through microfinance services, especially since they had evolved from narrower microcredit services. This debate underlined the importance of further assessment of the role of microfinance services and of the adequate regulatory and institutional framework for such services.

Remittances and financial inclusion

21. Participants said that remittances represented major and usually steady flows of private funds that increased household income. They were mostly used for consumption, including of social services such as health and education, and contributed to economic and human development. It was noted that in 2013, 230 million migrants worldwide sent US$551 billion in remittance flows, of which US$414 billion to developing countries. This was considered to probably be an underestimation, since it accounted only for what was sent though formal channels. According to one speaker, 40 per cent of these flows went to rural areas. The importance of the human rights-based and migrant-centred approach to remittances was also highlighted. To harness the benefits of remittances, it was necessary to ensure the protection of migrant workers, good governance of labour migration and policies based on international standards and social dialogue. One participant stressed the importance of building partnerships to address the protection of the human rights of migrants. Trade policy could also be relevant since trade and cooperation agreements could provide a platform to promote the temporary movement of natural persons and greater recognition of qualifications for services providers.

22. It was pointed out that high transfer costs were major impediments to remittance flows and it was therefore important to make transfer systems less costly and more efficient. One of the targets proposed for the sustainable development goals was to reduce transaction costs to less than 3 per cent of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent by 2030. The global average of transfer costs was 8.1 per cent in the second quarter of 2014. Remittance costs had decreased for all developing regions, but in many LDCs costs still ranged from 14 to 20 per cent.

23. Participants said that a first step to achieve increased access and reduced costs was to promote an enabling environment. Advocacy efforts and gathering data that would

enable evidence-based policies were important. It was also necessary to promote competition and intermediation and address, for example, exclusivity contracts. Innovation and technology could play an important role, and the particular importance of mobile money schemes was mentioned. The combined use of banking, postal and telecommunication networks could lower costs and enhance access to low-income recipients in remote locations. Regulation should promote interoperability of platforms or even shared infrastructure to reduce operational costs, increase networks, facilitate competition and achieve economies of scale. Payment and settlement systems should facilitate cross-border payments. Improving transparency and information on the costs associated with each channel, for example through price databases, would enable senders to choose the most cost-efficient options.

24. Several speakers noted that if remittances were spent on consumption and other non-productive expenses, the funds received were not leveraged and dependency was created. In this sense, financial inclusion was important because linking remittances to financial services such as savings, loans and insurance, together with scalable models of investment for migrants and their families, could incentivize the channelling of these funds into investments in productive activities, social services and infrastructure. This could enhance the development impact of remittances in the local and nationwide economy and could also develop financial services by increasing demand. It was important to keep in mind that remittances were private funds and that the focus should be on providing migrants and their families with financial options and tools, such as diaspora funds and bonds, which would allow them to best manage and maximize the impact of their funds. Financial education and counselling could contribute to these efforts. Tax and credit incentives to induce investments could also be considered. Diaspora associations, employers' and workers' organizations could play a role in providing information on these possible 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. In this context, migration could also have an impact on economic and social development.

New technologies to improve access to financial services

25. Speakers observed that research revealed that technology had an important role in promoting inclusion by reducing transaction costs and increasing financial security. In this context, regulators should allow competing providers and consumers to take advantage of technological innovations. In India, the goal was to adopt an approach that was technology driven but neutral in terms of technology platform. According to the International Telecommunication Union, key issues regarding digital financial services were access to technology, promotion of network interoperability, licensing for a level playing field, and coordination between different regulators. This coordination could apply to the interaction between financial and telecommunication regulators and also to the interaction between regulators of several countries. One participant noted that a partnership between all actors, including regulators and operators, was required for the expansion and functioning of mobile financial services. Adoption of new technologies had also to be coupled with measures to prevent overextension and information security risks. A participant observed that this last point was supported by the Chinese experience in which some technological solutions, such as Internet platforms and "peer-to-peer" platforms needed regulatory caution, including in regard to data accuracy and privacy issues. Another participant highlighted that other regulatory concerns included general consumer protection and financial transparency. In this regard, Governments had an important role to play in developing digital financial services in a way that contributed to financial inclusion.

26. The example of Bangladesh was cited as confirming the contribution of technology to financial inclusion. Electronic fund transfer and e-clearing house were spreading and the

Central Bank had recently issued the information and communications technology (ICT) security guide for installing ICT in banking services. Technology aiming to facilitate the provision of services and to reduce their costs was also referred to in the case of Nigeria. In this country, a shared services platform provided innovative initiatives that facilitated electronic transactions and simplified the process of opening accounts. These initiatives included biometric identification, a workflow platform allowing banks to share references electronically, a platform enabling exchange of payments from person to person, interbank transfer services, and authentication systems for online payments. In this last example, it was reported that the buyer was more protected as the money was sent to the seller only when the buyer had received the goods. In China, the e-commerce company Alibaba had opted to establish its own e-payment system, which had soon expanded to banking, investment, and clearing house for cross-border merchandise trade. The company now had a network of affiliated financial entities that enabled business-to-consumer services. One of these entities, Alipay, had in 2013 approximately 300 million users of its online and mobile payment services. This example underlined how technology could contribute to developing the right ecosystem for e-finance. It had also enabled crowd funding initiatives, as an alternative to support ventures, by allowing the raising of contributions from a large number of people. Alibaba's platform integrated consumers, manufacturers, customs clearing, transport and several financial services such as credit, foreign exchange and insurance.

27. The discussion focused on mobile money schemes through which financial services were offered through wireless applications, including the possibility to use the mobile phone to store money, and make transfers or payments. These schemes permitted broader coverage, benefiting from high penetration of mobile phones, and had lower infrastructure costs. They were more gender neutral and youth friendly. Furthermore, they had the potential to incentivize the use of banking services by establishing linkages with bank accounts to provide other services such as savings, credits and insurances.

28. It was observed that new technologies, and mobile money schemes in particular, had been used to transfer international remittances contributing to reduce transfer costs and making remittances of small amounts viable. One participant drew attention to developments in this area that had been focused on interoperability, partnerships with traditional providers of remittance transfers and currency exchange at lower fees. Several models for interaction were available, including online, mobile, remitting to a cash substitute, and remitting a direct payment. Mobile-related data points were also facilitating credit by providing information that enables the assessment of credit risk. These data points could refer to mobile phone usage and include purchases, frequency of calls, location, and demographic information. They could also refer to mobile money usage such as the amount in a savings account, and frequency of payments. In some cases, data points concerning an online footprint might be available, encompassing online ratings, social media connections, utility payments, and government statistics. Speakers noted that savings could also be promoted by mobile technology, by facilitating access and interfaces, and by increasing the willingness to save by making available data analytics on customers' financial lives. Technology was also relevant for insurance, since it increased individual access to relevant products and promoted a collective insurance model to reduce risk. Building on current platform services for mobile money services, provided, for example, by Ericsson and Tagattitude, mobile money schemes should develop to a point where any mobile money device could be a commerce tool.

29. In Kenya, the mobile money scheme M-PESA had, at the end of March 2012, 15 million active customers. With over 37,000 mobile money agents, M-PESA was linked to 25 banks and could be accessed via 700 automatic teller machines. Under this platform, domestic mobile transfers between consumers still predominated, but the reception of international mobile transfers via Western Union from around the world was also available.

Notably, it was stated, M-PESA alone processed more transactions domestically within Kenya than Western Union did globally. Consumers could make or receive mobile payments. Other financial services such as transfers, savings, credit and insurance, linking mobile money to bank accounts, were also provided.

30. Speakers said that mobile money schemes could 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 MNO centric, where a non-bank issued e-money and kept an equivalent asset value in pooled accounts in regulated banks. Mixed models could also be developed. The choice of model was related to the specific regulatory situation of each country, but one participant noted that the regulatory focus should be enabling innovation without prescribing a specific model. In India, where there was a bank-led model, mobile banking was led by financial institutions and based on the Operative Guidelines for Mobile Banking Transactions by Banks, issued by the Reserve Bank of India. It was central in the country's financial inclusion policy. In the Philippines, this potential had also been recognized, as there was a 110 per cent ratio of mobile phones to population and a large percentage of the unbanked population had a mobile phone. One participant mentioned that standardization of systems used in mobile money businesses, within a country and at the international level, was necessary to explore their potential. It was important to support standardization efforts by an adequate institutional framework at the international level. It was also necessary to consider risks related to fragmentation of standards, namely obstacles to the proliferation of technologies that, more often than not, required economies of scale. Decisions on technology convergence or coexistence should attend these market needs but, above all, ensure that standards do not become barriers for developing-country operators to participate and serve their populations.

31. The participants noted that, although promising, mobile money was not a panacea for financial inclusion. Even though it represented a high number of transactions, these were often of smaller values than traditional instruments. One participant noted that it might be difficult to replicate the results of mobile money in Kenya since these results depended on the critical mass of users that was developed and were directly related to the specific regulatory environment. The experience of Malawi suggested that high access rates to mobile money did not necessarily imply similar levels of usage of financial services. Mobile money users were mostly interested in paying for mobile phone airtime. Furthermore, the amount of mobile money converted into actual currency was limited due to low levels of liquidity in mobile money agents. One participant emphasized that cultural issues could also affect usage and, in that regard, pointed out that some women could not have access to a phone unless a man or her family agreed.

32. Research in Kenya revealed that the benefits of technological solutions for financial inclusion were not reaching many poor people without access to smartphones. Moreover, many of these solutions were not suitable for some people with disabilities. People with visual disability, for instance, had 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. This confirmed that, although with potential inclusive effects, most technological solutions were market driven, requiring business sustainability and often a sufficient base of users. It was important to combine these requirements with the specific needs of the underserved to maximize the inclusive potential of technology. This required understanding the different needs of diverse people and focusing on their well-being. Therefore, an engagement between operators and Governments would be required to devise an appropriate regulatory framework and other actions, including awareness-raising.

Financial inclusion, trade agreements and regulatory reform

33. Experts also deliberated on the interlinkage between national regulatory efforts aimed at universal access and financial inclusion on the one hand, and trade liberalization affecting financial services under multilateral, plurilateral and regional processes on the other. Governments also applied measures to promote financial inclusion, such as incentives to promote access in remote areas; promotion of information and data exchanges to mitigate credit risk; and investing in expanding the financial infrastructure to areas with perceived low profitability. Recent research from the World Trade Organization (WTO) suggested that these policies did not generally contradict with WTO rules (for example, national treatment or market access obligations). One speaker underlined that the “prudential carve-out” was a central element of the General Agreement of Trade in Services in regard to financial services, defining conditions under which WTO members were free to take prudential measures. He also stressed that no trade dispute had dealt with such measures, and no disputes were raised on measures taken for prudential reasons as regards financial services. These policies did not necessarily entail barriers to trade or a discriminatory treatment vis-à-vis foreign services providers. Furthermore, according to the WTO rules architecture, Governments had the possibility to undertake partial liberalization with limitations and renegotiate existing commitments with appropriate compensation. However, in practice, renegotiating existing commitments remained difficult to achieve. One participant mentioned that liberalization commitments, under the right conditions, may have a positive effect in promoting efficiency and competitiveness in the domestic financial market and, hence, on financial inclusion.

34. International efforts had been made to measure “trade restrictiveness” of national measures affecting services trade. The Services Trade Restrictiveness Index developed by the Organization for Economic Cooperation and Development was presented as an inventory of regulatory impediments to trade in services, including banking and insurance. Data showed a cross association between lower index score and the level of financial sector development and financial efficiency. This database also corroborated the observation that mode 3 is the predominant form of the supply of financial services, and mode 1 was less frequent, as cross-border supply of financial services could imply the opening of the capital account. Several participants highlighted the need for caution in interpreting the data. As there were various public policy goals pursued by national regulators, it was difficult to disentangle trade restrictive measures from others such as prudential regulations and consumer protection measures. A participant drew attention to some assumptions and judgements built into the construction of such an index, which could skew results towards policies not favourable to financial inclusion. The country coverage of the database – essentially limited to Organization for Economic Cooperation and Development member countries – was noted as calling for additional caution in generalizing the observation drawn from the data. Furthermore, the causal relation between liberalization and financial inclusion should not be determined by correlation alone. Trade liberalization was not to be taken in isolation as complementary policies, such as supervision and competition, were necessary. In addition, there was no one-size-fits-all approach, as there were differences across countries concerning technology, social objectives and regarding the role of commercial banks versus other financial actors.

35. One speaker highlighted the relevance of trade liberalization for national regulatory efforts, including in universal access and financial regulations, drawing on the example of the Economic Partnership Agreement between CARIFORUM and the European Union. Financial services commitments contained best-endeavour language regarding information-sharing and using international standards as a basis to regulate the sector. She noted that one criticism often raised was that the Agreement guaranteed European services suppliers access to CARIFORUM markets without due regard to universal access obligations. Another was that the Agreement brought limitations to a Government’s “right to regulate”

and to related policy objectives. In her view, the safeguards in the agreement needed to be reinforced to explicitly recognize the right of Governments to regulate, including on foreign direct investment and on the ability to act in face of difficulties with the balance of payments, crises or other adverse conditions.

36. Attention was given to the implications of the presence of foreign suppliers for financial inclusion in the context of financial services liberalization. It was mentioned that foreign suppliers often exhibited major presence in developing country markets and could have a bearing on efforts aimed at national inclusion. Several participants noted that these suppliers often pursued certain strategies such as focusing on the most profitable segments of clients and the most profit-making services ("cherry picking"). This could lead to excluding banking in rural areas and preventing, for example, SMEs and farmers from accessing productive credit. Furthermore, foreign banks tended to repatriate their profits, without reinvesting in the host country, to use host-country savings for investment abroad, 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 was thus considered as an important consideration, and policy space to implement the measures needed to be preserved. In this regard, statutory financial inclusion obligations, for example, could prove to be useful. These included the requirement that the licensed number of branches is linked to the number of branches opened in rural areas. Obligations could also include mandatory lending to SMEs and commitments to priority sector lending, schemes of lower interest rates for people living in poverty, prohibition to refuse basic financial services to poor clients, and others. Accordingly, there was need to take these financial inclusion issues into account in approaching trade negotiations affecting financial services and complement them with a robust regulatory and institutional framework. Additionally, it was argued that developing countries considered using exceptions and, ultimately, updating trade rules to better address their regulatory objectives, particularly relating to financial inclusion.

37. It was observed that ongoing plurilateral services negotiations for the Trade in Services Agreement tended to be more comprehensive in scope and less flexible in nature, seeking to achieve greater liberalization, including in financial services. Foreign service providers were expected to receive national treatment on a horizontal basis, and the trend was not to permit new trade restrictive mechanisms in services, including by "stand-still" requirements. Furthermore, the "ratchet clause" automatically incorporated further future liberalization measures. Several speakers noted that such initiatives could challenge the right of Governments to regulate to pursue public interest. There were also concerns that investors' rights were placed over social needs. A point was made that privileges conferred on investors had been supported by investor–State dispute settlement decisions and Governments had had to make hefty settlements because of measures taken in the public interest. One participant emphasized that it seemed prudent for Governments participating in the Trade in Services Agreement or other trade agreements, including the ones involved in negotiations of mega-regional agreements, to consider carefully the implications of moving towards deeper liberalization. Lessons learnt from the recent international financial and economic crisis should be taken into account in the negotiations of mega-regional agreements, such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, to determine adequate levels of policy space, for example, for needed prudential regulatory measures. Another relevant topic regarding the negotiations of mega-regional agreements was the competitive neutrality goal between state-owned enterprises and private companies. While the elimination of possible structural advantages could address potential anti-competitive effects, many countries had stressed the importance of state-owned enterprises in delivering public policy goals, including access to financial services.

The way forward

38. Experts suggested some of the possible areas that UNCTAD could usefully address in relation to fostering access to financial services and enhancing the contribution of remittances to development, including for the empowerment of women and youth. These included the following:

(a) Fostering cooperation between institutions working on financial inclusion;

(b) Continuing and scaling up its work on Services Policy Reviews, in particular regarding analysis of financial services and financial inclusion;

(c) Analysing the role of Governments in complementary and coherent policies, regulatory frameworks and governance for financial inclusion;

(d) Exploring the role of Governments in interacting with financial services providers to maximize the benefits of innovative business models towards financial inclusion;

(e) Undertaking analytical work, including national case studies to identify success factors, and generating more understanding about microfinance mechanisms and digital finance services in developing countries towards adequate financing of SMEs and overall financial inclusion;

(f) Examining further mobile money schemes towards increasing their contribution to financial inclusion;

(g) Promoting coordination between regulators within countries and internationally, in collaboration with new and existing applicable standard-setting bodies, towards more inclusion through digital financial services;

(h) Providing support to cooperation and partnerships between telecommunications and financial providers of digital financial services, including banks;

(i) Studying specific barriers that migrants, in particular exploited and irregular migrants, face in accessing financial services, envisaging better conditions to transfer remittances;

(j) Contributing to the assessment of remittance costs in support of the post-2015 development framework in respect of the contribution of remittances to development;

(k) Reviewing how remittances are used by their recipients, to have deeper information on how to maximize their impact on development;

(l) Supporting discussions on international regulations of financial services and on the implementation by developing countries of reforms derived from the Basel III framework;

(m) Providing analytical work and capacity-building activities on financial inclusion, including the perspective of women and youth, and contributing to the use of tailored rather than generic policies;

(n) Providing continuous analytical and technical support on ways and means to promote financial inclusion in trade negotiations affecting financial services.

II. Organizational matters

A. Election of officers

(Agenda item 1)

39. At its opening plenary meeting, the expert meeting elected the following officers:

Chair:	Ms. Carmen Elena Castillo (El Salvador)
Vice-Chair-cum-Rapporteur:	Mr. Aleksandr Tselyuk (Belarus)

B. Adoption of the agenda and organization of work

(Agenda item 2)

40. At its opening plenary meeting, on 12 November 2014, the expert meeting adopted the provisional agenda for the session (TD/B/C.I/EM.6/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Impact of access to financial services, including by highlighting remittances on development: Economic empowerment of women and youth
4. Adoption of the report of the meeting

41. Also at its opening plenary meeting, the expert meeting agreed that the Chair should summarize the discussions.

C. Adoption of the report of the meeting

(Agenda item 4)

42. At its closing plenary meeting, on 14 November 2014, the expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance*

1. Representatives of the following States members of UNCTAD attended the session:

Albania
Algeria
Angola
Austria
Bangladesh
Barbados
Belarus
Bosnia and Herzegovina
Brazil
Burkina Faso
Chile
China
Côte d'Ivoire
Dominican Republic
Ecuador
Egypt
El Salvador
Estonia
Ethiopia
Georgia
Germany
Ghana
Greece
Haiti
Jamaica
Jordan
Kenya
Madagascar
Malawi
Malaysia
Mexico
Mozambique
Myanmar
Nicaragua
Nigeria
Oman
Panama
Paraguay
Philippines
Republic of Korea
Saudi Arabia
Senegal
Spain
Trinidad and Tobago
Turkey
Uganda
United Republic of Tanzania
Venezuela (Bolivarian Republic of

2. The following member of the Conference was represented at the session:

Holy See

3. The following intergovernmental organizations were represented at the session:

International Organization for Migration
Organization for Economic Cooperation and Development
Pacific Islands Forum Secretariat
South Centre

4. The following United Nations department and regional commission were represented at the session:

Department of Economic and Social Affairs
Economic and Social Commission for Western Asia

* For the list of participants, see TD/B/C.I/EM.6/INF.1.

5. The following specialized agencies and related organization were represented at the session:

Food and Agriculture Organization
International Fund for Agricultural Development
International Labour Organization
International Monetary Fund
International Telecommunication Union
Universal Postal Union
World Bank Group
World Trade Organization

6. The following non-governmental organizations were represented at the session:

General category

International Network for Standardization of Higher Education Degrees
Third World Network