



GPIFI PRIVATE SECTOR ENGAGEMENT STRATEGY

Universal financial inclusion requires bringing the 2.0 billion people (or about half the working age population) currently excluded, into the formal financial system. Just as big a challenge is the credit gap for formal and informal micro, small and medium enterprises in emerging and developing economies, estimated at US\$2 trillion. Financial Inclusion helps build domestic savings, bolster household, domestic and financial sector resilience, and stimulate business and entrepreneurial activity. The cumulative effect of widespread exclusion is increasing inequality, and slower growth and development.

The Global Partnership for Financial Inclusion (GPIFI) was created by the G20 to meet the challenge of promoting access to finance for individuals and businesses. It has made strong progress. Because of the work of the GPIFI and the G20's commitment to financial inclusion, policy makers are beginning to acknowledge that an inclusive global financial system supports the financial policy goals of stability, integrity and consumer protection. Engaging private sector is fundamental to build secure, productive environment to achieve a greater scale and sustainable financial inclusion.

Private sector engagement, as a core area of the GPIFI Financial Inclusion Action Plan (2014-2018), would make a significant contribution to advancing the inclusive financial inclusion. It would also foster learning and collaboration across governments including G20 and non-G20 members and enable the private sector and policy makers to advance the policy environment for financial inclusion.

The GPIFI Private Sector Engagement Strategy aims to advance and showcase the right type of dialogue at the global level. The Strategy seeks to maximize the positive contribution of the private sector to advance financial inclusion.

Realizing the G20's broader goals of restoring growth and creating jobs can only be realized if there is greater private sector engagement in all the GPIFI workstreams. Engagement between policy makers and providers is critical to policy makers' understanding of financial inclusion, particularly the innovative business models of digital financial inclusion, as recognized in the G20 Principles on Innovative Financial Inclusion. **Principle 6. Cooperation** provides as follows: *“Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders”* (emphasis added). The same is also true to position policy makers and the SSBs to strike the right balance between “enabling” and “protective” policy –

and to develop standards and guidance that foster such a balance – given that *enabling* policy is key to a viable business case for providers on the supply side and that protective policy is key to an attractive and sustainable value proposition for financial excluded and underserved customers on the demand side.

Given the complexity of combinations of banks, non-banks and non-financial firms involved in financial inclusion (especially digital financial inclusion), all GPMI Subgroups need to engage with a challenging range of private sector stakeholders, not all of which have recognized “aggregators” such as a global industry association. Instead, multiple aggregators are relevant, as well as leading innovators that are not necessarily represented by any single industry body.

The private sector, including financial institutions, financial markets infrastructure providers, and larger firms in supply/value chains accounts, and will account, for the bulk of financing for smaller companies. Fintech companies provide ways to surmount the information asymmetries and other service cost barriers that have discouraged SME finance growth. Their work is particularly useful for the smallest firms, and for SME finance as a whole in lower income developing countries, where conventional financial information is particularly scarce and (heretofore) expensive to obtain.

Objective:

Create a strong public-private sector partnership for setting priorities and implementing reforms to promote financial inclusion in G20 and non-G20 countries.

Components:

1. Improve coordination between G20 and B20

To date, G20/B20 cooperation in SME finance has been somewhat ad hoc, though there is strong agreement on many key issues. The B20’s SMEs and Entrepreneurship and Financing Growth task forces both work on matters within the SME subgroup’s agenda, but there have been no joint events or outputs so far. By contrast, there have been cases of parallel events on similar topics, such as the concurrent meetings in June this year in Izmir and Paris on SME finance matters.

We propose to improve coordination through establishing more formal representation for the SME Finance subgroup, the SMEs and Entrepreneurship Task Force, and the Financing Growth Task Force at each other’s events. These B20 task forces regularly contribute to the G20 Finance and other Ministers’ deliberations, and often advocate for similar reforms as the GPMI – but separately. Bringing the public and private working groups closer together could increase the influence and adoption of common recommendations.

To improve coordination, each entity would identify a representative who would be made an official implementing partner for the other entities, becoming an informed party with respect to all work planning and implementation activities. This is similar to current practice by APEC and ABAC with respect to coordination for Asia-Pacific region matters, and to the new public-private dialogue opened up by the Alliance for Financial inclusion. Such an arrangement would

facilitate joint initiatives including public events, collaborative research/analysis, and even investments (new Challenge programs, new public-private investment platforms such as an expanded Small Business Initiative, IFC/Goldman Sachs Women Entrepreneurs Opportunity Facility, etc.).

2. Use the Alliance for Financial Inclusion Public-Private Dialogue platform

AFI's Public-Private dialogue platform is a unique, collaboration framework, launched jointly by AFI members and private sector leaders at the 2014 AFI Global Policy Forum. Subsequently, at the Leaders PPD Round Table hosted by AFI and VISA, Inc. in Davos Switzerland in January 2015, the AFI PPD was recognized by private sector leaders as a "one-stop shop to dialogue with financial regulators and policymakers in developing and emerging markets across the world." The AFI PPD provides a platform for policymakers, regulators and the private sector to engage in frank, systematic knowledge exchange on technical issues and policy implications of emerging products and technologies. Through this dialogue, the AFI PPD aims to identify for its membership key regulatory opportunities to scale up innovation, encourage investment, and advance financial inclusion at the national and regional level.

3. Ongoing and planned engagement strategies – by GPFI Subgroup

a. SME Finance

Over and above an improved coordination with the B20, sustaining strong public-private collaboration in SME finance requires strong, sustained communications between three key groups: regulators/policymakers, financial services providers and the entrepreneurs themselves. GPFI and its implementing partners to date have established two platforms related to SME finance which facilitate such exchange and cooperation: the SME Finance Forum, and the AFI Public/Private Dialogue platform.

The *SME Finance Forum's* ongoing conversion into a global membership network including financial institutions, fintech companies and development finance institutions transforms this GPFI project into a sustainable public-private partnership. To date, over 100 private, public and mixed ownership institutions have committed to membership. These members will become key partners for the GPFI in identifying priorities, collecting/analyzing information, and advocating for reforms to unblock obstacles and open up new opportunities to expand SME finance and close the finance gap. The SME Finance Forum also has been building bridges between the three constituencies, providing advice and support to AFI's SME finance working group, and assisting both the B20's Financing Growth Task Force, and its newly formed World SME Forum (WSF), a body intended to carry the global voice of SMEs.

The subgroup plans to make use of AFI's public-private dialogue platform, noted above, in implementing its agenda. The subgroup's other implementing partners provide additional channels for connecting to the private sector's voice in SME finance. The World Bank Group's Enterprise Surveys provide valuable data, refreshed every few years, from representative entrepreneurs about satisfaction with SME finance services in their countries. CGAP's and the World Bank's FINDEX surveys have broadened to obtain more annual information about

financing for the smallest firms. OECD's SME Finance Scoreboard offers country-level data on SME finance supply in a growing number of countries. In addition, the Business and Industry Advisory Committee to the OECD (BIAC) brings perspectives from a broad range of private sector stakeholders to international policy dialogue on SME and entrepreneurship issues, and finance in particular. Broadening the range of private sector partners can enrich the work of the subgroup, and their participation at sub-group events could be considered, as appropriate.

The IFC monitors the MSME finance portfolios of its hundreds of financial institution partners world-wide and shares this information with the SME Finance Forum, which makes this data available in aggregated form. IFAD provides connections to small farmers operating in supply chains.

The subgroup's affiliated partners offer further channels for private sector collaboration. Women's World Banking and the Global Banking Alliance for Women connect to a large number of financial institutions world-wide and, through their monitoring/research efforts, to the institutions' women entrepreneur clients. Child and Youth Finance International provides a key connection to the important constituency of youth entrepreneurs. The International Labor Organization provides unique insights into informal sector entrepreneurship through its regular surveys and other activities. The newest partner, the Microinsurance Network, has not been involved to date, but should grow in importance as technological innovation, particularly surrounding the "internet of things", makes serving SMEs and small farmers viable for the first time for much of the insurance industry.

b. Markets and Payments

Much of the work of the subgroup going forward will involve the private sector, such as in regard to remittances (both banks and non-bank RSPs), telecom companies, technology providers, credit card companies and other financial sector players. The subgroup will develop partnerships with the private sector actors in the payment space, with the objective of improving cooperation in efforts to expand responsible financial inclusion through emerging technologies and appropriate business models.

The interaction with the private sector will include the following:

- ***Current Contacts:*** On 1 September 2014, the GPFI held an outreach Forum on "Digitisation, remittances and women's economic empowerment" in Perth. The Forum attracted over 50 high profile private sector, government and non-government stakeholders, in addition to the GPFI membership. The subgroup will maintain a database of these companies and inform them of relevant activities.
- ***Other private sector players:*** Working through the implementing partners of the GPFI, such as AFI, BTCA, CGAP and the World Bank Group, the subgroup will link with other interested private sector players, focusing particularly on industry representative groups, such as RSP networks and banking associations.
- ***Participation in discussions:*** The subgroup will invite interested companies and industry representative groups to participate in subgroup meetings, provide input on work

undertaken that advances financial inclusion , comment on documents, promote outcomes and otherwise contribute as they wish in a manner consistent with the subgroup’s objectives.

c. Regulation and Standards Setting Bodies

Private sector engagement on a pragmatic, activity-, issue-, and interest-specific basis: The Subgroup will continue engaging with private sector actors in its work on a pragmatic, activity-, issue-, and interest-specific basis, as a means to inform and support the work of the SSBs and other global bodies relevant to financial inclusion, as well as country level policy makers who apply SSB standards and guidance. The emphasis will continue to be on engagement that provides the SSBs and other global bodies in question with the understanding they need to develop standards and guidance that promote enabling and protective policy at the country level.

SSBs and other relevant global bodies relationship to private sector actors: The SSBs and other global bodies with which the Subgroup works have differing relationships with the private sector, and only one – FATF – has a fully institutionalized system of industry consultations regarding its standards and guidance. For all, independence and a ‘safe space’ to carry out their work free from lobbying are of highly valued, and the Subgroup’s respect for this is essential to our collaboration.

Ramifications of innovation: The range of private sector actors in innovative financial inclusion (including non-financial firms) – and changing roles of those actors – add challenges to effective private sector engagement, but also increase its importance. Private sector engagement is an iterative process for the Subgroup. The dynamic nature of innovation calls for constant dialogue and learning. SSBs and policy makers at the country level need to understand and keep pace with technological developments – for example, evolving approaches to establishing and protecting identity – which calls for direct engagement with leading technology innovators.

d. Financial Consumer Protection and Financial Literacy¹ (FCPFL)

Pursuing private sector engagement in the context of the work of the GPFI’s Subgroup on FCPFL will be done with a view to the private sector’s current efforts in supporting financial consumer protection and the sector’s commitment to acting in a fair, transparent, and balanced fashion. The FCPFL Subgroup will seek to better align the private sector’s interest with that of consumers and MSMEs with respect to access to and usage of financial products. It will also include private sector actors’ national and global contributions, specifically expertise and resources, to enhance individuals and MSME’s financial literacy through partnership with public and relevant civil stakeholders.

The Subgroup will use several approaches to achieve these objectives:

- Raise awareness of the B20 on financial consumer protection and financial education policies (including enforcement of existing relevant G20 principles² and guidelines³)

¹ Defined by OECD/INFE and G20 as ‘A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.’

- More systematic consultations with self-regulatory and international bodies representing the private sector, as well as individual industry representatives, on key deliverables from GPFi and its implementing partners. This model has been used effectively in promoting GPFi principles and guidelines with the private sector through the G20/OECD Task Force on Financial Consumer Protection and the International Network on Financial Education (INFE).
- Harness existing platforms where dialogue between the public and private sectors can take place on FCP and FL issues in relation to financial access. The OECD/INFE platform can be used to this effect, through the special status offered to self-regulatory bodies and private sector entities within the INFE (affiliates, supporters and key partners), and invitations to open conferences and meetings organized by GPFi and implementing partners on FCP and FL issues. This protocol is currently utilized for global and regional meetings covering these issues, and organized by the OECD and the OECD/INFE.

4. Specific outputs/outcomes from public-private collaboration

a. SME Finance

A stronger public-private sector engagement with the SME finance agenda will open up new, stronger ways to raise issues from the SME subgroup to the GPFi and the wider G20 community. It will bring the private sector more directly into the action research “Knowledge Agenda” as outlined in the Joint Action Plan on SME Finance. This will guide learning, so that outcomes will reflect a broader, stronger consensus, and will be transmitted to the broader audience from a large, more diverse base of support. Examples of areas where this public-private constituency can strengthen the knowledge work and advocacy in SME finance include:

- Further Financial Markets infrastructure improvement best practice guidance (expanding upon existing work, and into new areas beyond those covered in global credit information principles and UNCITRAL)
- Adding private to public support for new platforms for coordinated support for SME finance expansion – this might include structures such as an expanded SME Finance Initiative, a new SME Finance Innovation Challenge, risk sharing structures, and other blended finance vehicles.
- Adding private sector commitments to further “Maya Declaration” public commitments to SME finance, and to financial inclusion in general.

b. Markets and Payments Systems

- *Inventory of activities:* Through its interaction with the private sector, the subgroup will build an inventory of activities and initiatives that advance financial inclusion through

² i.e. the G20/OECD High level Principles on Financial Consumer protection, 2011 and the OECD/INFE High level principles on national strategies for financial education endorsed by G20 leaders in 2012.

³ OECD/INFE Guidelines for private and non-for-profit stakeholders in financial education transmitted to G20 in 2014.

payments systems, as undertaken by private sector, government and other non-government stakeholders, whether alone or in partnership.

- **Public forums:** The subgroup will arrange for at least one high level meeting each year of key stakeholders to raise the profile of, and to discuss, relevant issues related to the expansion of responsible financial inclusion through emerging technologies and appropriate business models.
- **GPI website:** To the extent possible, the subgroup will publish as much of the materials generated by this private sector engagement on the GPI website (www.gpi.org).

c. Regulation and Standards Setting Bodies

Private sector engagement on a pragmatic, activity-, issue-, and interest-specific basis: In keeping with the observations above, the subgroup will continue engaging with private sector actors in its work on a pragmatic, activity-, issue-, and interest-specific basis, as a means to inform and support the work of the SSBs and other global bodies relevant to financial inclusion, as well as country level policy makers who apply SSB standards and guidance. The emphasis will continue to be on engagement that provides the SSBs and other global bodies in question with the understanding they need to develop standards and guidance that promote enabling and protective policy at the country level

d. Financial Consumer Protection and Financial Literacy

Developing partnerships with private stakeholders (in the context of the aforementioned guidelines) at national (with public authorities) and global levels (with GPI and key implementing partners) to improve individuals and businesses' financial literacy (in particular vulnerable segments of the population). Such partnership can involve the development of specific initiatives, data collection and/or research.

Key Performance Indicators:

The following will serve as key measures of the extent to which the private sector engagement strategy for all subgroups is succeeding in its various elements.

- 1. Private sector presence at GPI events (number, breadth/depth)**
- 2. Private Sector presence at the GPI Forum**
- 3. Private sector contribution to GPI initiatives (\$, other forms of support)**
- 4. Private sector (including B20) support for GPI policy recommendations (and influence on uptake by G20 leadership)**