WHY THE G-20 MUST PRIORITIZE FINANCIAL INCLUSION TO PROMOTE GLOBAL GROWTH

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Framing the Issue

Financial inclusion is one of the key pillars of the G-20's development agenda. Past G-20 summits have acknowledged that a key driver for broad-based and inclusive economic growth is access to financial services such as bank accounts, savings institutions, formal payment channels and insurance services. At the 2009 Pittsburgh Summit, G-20 leaders committed to improving access to financial services for the majority of the world's poor by launching the Financial Inclusion Experts Group (FEIG) to "scale up the successful models of small and medium enterprise (SME) financing… [and] identify lessons learned on innovative approaches to providing financial services" (G-20 Leaders Statement). At the Toronto Summit in 2010, the G-20 launched the SME Finance Challenge, aimed at getting the private sector to offer suggestions for how public finance can best leverage private finance to promote financial inclusion. The summit also endorsed the "G-20 principles for innovative financial inclusion" that embody a comprehensive action plan by different actors to enhance financial access (see Principles for Innovative Financial Inclusion).

At the Seoul Summit later that year, the G-20 launched the Global Partnership for Financial Inclusion (GPFI) and an SME Finance Innovation Fund—both implementation mechanisms for the G-20 financial inclusion action plan (see Seoul Summit Leaders' Declaration). As the G-20 leaders meet in June, increasing financial inclusion should remain a priority. Today, the majority of people in developing countries—up to 2.5 billion people— still do not have access to any form of formal financial services according to the GPFI, and financial exclusion is particularly pronounced in sub-Saharan Africa where less than a quarter of the people aged 15 and over have a formal bank account (World Bank 2011); a lack of access to financial services is also a significant barrier to the participation of women and youth in the economy.

With rising unemployment, especially among youth populations, a promising strategy to absorb the millions of unemployed in poor countries is through the promotion of small and medium-sized enterprises (SMEs). Data show that SMEs represent 45 percent of all jobs in the developing world but a big constraint to their growth is limited access to financial services. Of the estimated 25 to 30 million formal small enterprises in the developing world, roughly half lack access to formal banking services (GPF 2011a).

New technologies, particularly mobile financial services, are making it increasingly easier for the poor and unbanked to access financial services at relatively low cost. In Kenya, for example, about 86 percent of those with mobile phones use them to make financial transactions (World Bank 2012). Utilizing mobile financial services is a promising strategy to increase financial inclusion but a number of policy issues must be addressed to increase its potential.

Policy Considerations

While mobile phone use has increased rapidly in Africa over the last decade, the potential to adopt mobile financial services remains largely unexploited. According to the World Economic Forum, "[o]nly a few smaller countries have seen adoption of mobile financial services reach more than 10 percent of the adult population." A World Bank study also reveals that 12 percent of people in sub-Sahara Africa have made a financial transaction via mobile phone in the past year. But in every other region in the world, that number is smaller than 5 percent (World Bank 2012). There are many country-specific barriers that prevent the "graduation" from the standard and traditional uses of mobile phones to the penetration of mobile banking technology.

Therefore, policy considerations for G-20 leaders at the summit in Mexico should focus on the various constraints that hinder the adoption of mobile financial services technology. One particular concern relates to managing the risks associated with the integrity of mobile financial services, which are basically the result of the dynamic and decentralized nature of the industry. Second, many countries do not have the capacity to effectively establish the necessary institutions and regulations to optimize the expansion of mobile banking and financial services. Even in those countries where mobile banking and financial services have expanded greatly, there is still room to increase its use in other areas such as insurance, savings and loans.

A third critical issue that could increase the efficiency and lower the cost of mobile banking is interoperability between provider platforms. Specifically, platforms for mobile financial services are often different between providers and should therefore be redesigned to be compatible with each other.

Action Items for the G-20

Building on the Mexico G-20 GPFI, at the upcoming summit in Los Cabos, the G-20 should undertake the following actions to further expand access to mobile banking and financial services:

- Support the creation of new financial products in the mobile financial services sector by encouraging stronger partnerships between indigenous savings groups, formal banks and the mobile financial services industry (World Economic Forum 2011).
- Assist with global knowledge sharing on mobile financial services between countries by facilitating the free flow of experiences, best practice and technology from countries such as Kenya and Indonesia (GPFI 2011b).
- Assist developing countries in establishing appropriate regulatory frameworks that allow for innovation and competition while reducing the risks of systemic defaults and the risks associated with electronic money transfers such as money laundering and financial terrorism.

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GREEN GROWTH: G-20 LEADERS CAN SET THE STAGE FOR RIO+20

Katherine Sierra

Framing the Issue

The 2010 Seoul Summit first introduced the concept of green growth to the G-20 agenda. With job creation at the center of the global recovery, green growth strives to simultaneously accelerate growth and job creation while also meeting the world's environmental and social challenges. The green growth agenda aims to do this by using technology and innovation as key levers to drive job creation and create new competencies. Specifically, the agenda looks to find new sources of growth through innovation-oriented policies that capitalize on new technological advances—particularly in clean energy and innovations that take advantage of information and communication technologies. These aspirations were echoed last year in Cannes, where G-20 leaders committed to implement policies to spur the innovation and deployment of clean and efficient energy technologies. Green growth will once again be on the agenda for the G-20 leaders when they meet in Los Cabos, Mexico.

The upcoming G-20 meeting in Los Cabos comes just days before leaders gather in Rio de Janeiro to celebrate the 20th anniversary of the United Nations Conference on Sustainable Development. Green growth is also on the agenda for that meeting (the Rio+20 Conference), and G-20 leaders can send a strong signal of support to those gathering at Rio that, despite difficulties, investment in green growth can be good for both economic growth and the environment.

Policy Considerations

The green growth agenda is still in an early stage of development. Its concepts are being tested in a few national contexts, with Korea and Mexico being notable examples. Numerous cities in G-20 countries are also looking to the agenda to create jobs while enhancing economic and environmental performance. International organizations, like the Organization for Economic Cooperation and Development (OECD), the United Nations Environment Program (UNEP) and most recently the World Bank with its latest report "Inclusive Green Growth", are articulating the case for green growth. The Global Green Growth Institute, an international think tank based in Korea, was created to promote these concepts by supporting the development of national strategies and related capacity building.

Though despite summit declarations, implementation has not yet taken off in a concerted way. This is in part because the agenda has been crowded out by continued financial and economic crisis in the eurozone; lack of political consensus in the United States; resistance to some elements—like reducing fossil fuel subsidies; lack of international financing for developing countries to support implementation; and concerns from some developing countries outside of the G-20 that the agenda signals a new form of conditionality.

Green growth advocates call for strategies that emphasize efficiency and productivity as important foundational goals. Demand management policies that price energy and water at levels reflective of externalities are needed, starting with the removal of fossil fuel subsidies and policies that price carbon. Green growth's efficiency goal will be critical as the next generation of infrastructure to support an additional 3 billion people who will be living in cities by 2050—mostly in Asia and Africa—is put into place. Valuation of natural capital in economic accounts will help policymakers make better trade-offs between hard infrastructure investments and solutions that use ecosystems to provide services, such as fresh water sources and natural buffers against water-related disasters. Market mechanisms, such a basin-wide water markets, can provide the signals needed to manage resources—especially in water stressed regions.

While these policies have been in the sustainable development toolkit for decades, they have not been widely implemented. G-20 leaders have also pledged to rationalize and phase-out over the medium term fossil fuel subsidies but with little follow-through. And missing is a global commitment to actions that will lead to a price on carbon sufficient to incentivize the necessary investment and innovation to meet the global climate change challenge. At the same time, subsidy regimes that have been put in place in the absence of these incentives are under pressure from the continued impact of the recession and its attendant fiscal deficits, as well as by pressure from the current euro crisis. In addition, policies that price water and environmental services to reflect the true costs of natural resources are not yet in place.

Despite these barriers, green growth advocates are trying to make these policies more attractive by leveraging new technologies to lower costs and transform business models. Renewable energy technologies are the most often discussed, but breakthroughs and advances in information and communications technologies (ICT) may be just as important. Municipal leaders are experimenting with "smart city" systems that use ICT to manage water and transportation systems more efficiently while reducing resource use. Smart grids can help manage the flow of renewable energy into the grid and can also make distributed energy systems possible. Innovations in irrigation system technology can help meet the growing demand for food while also removing a major source of inefficiency in agricultural energy and water use. Developers are experimenting with the use of energy efficiency and local renewable energy generation technologies to create zero-emission commercial buildings and housing.

Green growth innovation-oriented policies should include: public and private investment in research and development; strategies that nurture coalitions between research institutions and entrepreneurs, like business incubation centers and an enabling environment for venture capital; targeted and transitional subsidies to help innovations move out of the "valley of death" between invention and commercialization where new technologies often falter; and especially for developing countries, financial mechanisms to help commercialize investments in new technologies by backstopping the initial risks as a way of promoting early adopters.

Innovation to support sustainable development is also being supported by a fresh generation of local leaders and multi-stakeholder coalitions. These include the C-40 Cities Climate Leadership Group, a coalition of cities from developed and emerging economies who are committed to taking action. New public-private financing models are being developed like the Joint Initiative on Urban Sustainability, which is being launched by the United States and Brazil to bring together investors and cities to secure innovative financing for sustainable infrastructure investments. The Sustainable Energy for All Initiative—a global coalition between of government, business and civil society under the auspices of the U.N. Secretary General—is looking for breakthrough action on energy access for the poor, renewable energy and energy efficiency. A common thread among these groups is the way they are capitalizing on new green technologies; creating new business models that give incentives to the private sector to find innovative sustainable development solutions; and using limited public funds to leverage private investment and finance.

Action Items for the G-20

At the summit in Mexico, G-20 leaders should continue to reaffirm the importance of the green growth agenda, while signaling support for a few key areas and providing encouragement to the leaders coming together for Rio+20:

- **Pricing natural resources.** G-20 leaders can stress the importance of climate negotiators making progress toward creating policies that set a price on carbon, either through a tax or market mechanism. Leaders should also recommit to implementing the G-20 agreement to eliminate fossil fuel subsidies, setting out more concrete implementation pathways. In addition, the G-20 should commit to introducing natural capital accounting into their own country's economic accounts and pledge to build consensus on this more broadly at Rio.

- **Leveraging international finance.** G-20 leaders should urge key multilateral funders, like the multilateral development banks and specialized funds like the Green Climate Fund, to direct their resources to country-driven green growth investments. Multilateral and bilateral funders should more aggressively support the innovation agenda by leveraging private sector action through mechanisms that reduce risk. And, with the generational opportunity to change the emissions trajectory of cities given rapid urbanization, and the importance of cities as drivers of innovation, financial mechanisms to meet the large sub-national needs for green infrastructure investment should be given priority.

- **Investing in innovation.** G-20 leaders should pledge to step up investment in research and development in their own countries as well as invest in building the R&D capacity in the least developed countries. This could be done through a combination of direct international support through competitive grants as well as support for business incubation centers and financial mechanisms to encourage venture capital in the least developed countries. The G-20 leaders should signal their intent to pursue further liberalization of trade for environmental goods and services so as to also support the diffusion and impact of new technologies.