



2010 United Nations Private Sector Forum on the Millennium Development Goals Thematic Discussion Briefing Note: Financial Inclusion and Innovation to Reach the Poor

Introduction:

Financial inclusion and innovation in financial products play an essential role in reaching the Millennium Development Goals (MDGs) by 2015 by helping to generate additional resources for development, improving the efficiency and effectiveness of development spending, and creating access to finance and basic services in health and education. All this helps the poor to build assets, increase incomes and reduce their vulnerability to economic stress. Innovations in financial products and technology-based delivery methods can expand the reach of financial services and create new opportunities to provide essential services to the poor. Financial products targeting the poor, such as money transfer services, microloans, microinsurance, or weather and catastrophic risk insurance, can have an important transformative effect. The private sector is a primary driver of such innovations, and stronger partnerships between governments and private service providers are essential to fully exploit the potential of financial markets.

Key challenges:

- *Making financial resources available when needed:* Grant financing is often unpredictable and unavailable in sufficient amounts when most needed, particularly when dealing with public health, epidemics, food security and other global public goods.
- *Reducing risks, shocks and volatility for the poor:* Extreme weather such as drought or floods can have a devastating impact on rural households and on food security for the poor. Natural disasters impose disproportionate human and economic losses on the poor and can trap them in permanent poverty.
- *Reducing market uncertainties for the private sector:* There are cases where markets for products and services needed especially by the poor are missing or incomplete because of insufficient incentives for the private sector to invest in their development, production and delivery.
- *Reducing transaction costs for reaching poor and low-income people:* Conventional banking has failed poor and low-income people, finding them too difficult and expensive to serve. For example, two-thirds of adults in the developing world, 2.7 billion people, currently lack access to basic formal financial services such as savings and checking accounts.
- *Developing new ways to safely move money:* Poor people need access to a range of financial services but often lack the safe and secure means to move money around and make small value payments.

Solutions

- **Private capital markets** can make it possible to frontload development aid. For example the International Finance Facility for Immunisation (IFFIm) raises funds — using future donor commitments as collateral to issue bonds — for the purchase and delivery of vaccines to the poorest countries.
- **Private insurance** can help protect the poor against risks. The World Bank and IFC have implemented index-based insurance products that can help protect against natural disasters and weather risk. For example, the Caribbean Catastrophic Risk Insurance Facility recently provided USD 7.75 million to Haiti post-earthquake.
- **Investment incentives** for the private sector can create the environment for the private sector to develop solutions to pressing problems. The World Bank and partners used the Pilot Advance Market Commitment (AMC) for pneumococcal diseases to provide incentives for pharmaceutical companies to develop and deliver vaccines not yet available in developing countries.
- **Technological innovations** can significantly alter the cost, distance and access equation for poor people. Mobile network operators are at the forefront, creating the “roads” on which new products and services can travel. There are over a 100 such implementations and at least one — Safaricom’s M-PESA in Kenya — has reached over 9 million customers in three years, processing to date over USD 300 million in person-to-person transfers on average each month.

- **Foreign capital investments** in microfinance have been booming over the last five years, reaching USD 11 billion as of December 2009. About half is managed by specialized intermediaries called Microfinance Investment Vehicles. There are now about 90 such vehicles in operation, including regulation funds, structured finance vehicles and private equity funds.

Discussion question:

What are the key incentives and benefits for business in this partnership, and how can government and business work together to dramatically increase financial inclusion and innovation in a way that accelerates progress towards achieving the MDGs by 2015?

UN–business partnerships and initiatives that advance these issues:

1. **The CGAP Technology Program:** Co-funded by the Bill & Melinda Gates Foundation and the UK Department for International Development (DFID), the CGAP program supports microfinance institutions, banks, mobile network operators and payment system providers, targeting millions of poor unbanked people in Colombia, Ecuador, India, Kenya, Maldives, Mongolia, Pakistan, the Philippines and South Africa. (www.cgap.org/p/site/c/tech/)
2. **Regional MSME Investment Fund for Sub-Saharan Africa (REGMIFA):** The IFC invested USD 13 million in this collective debt investment vehicle designed to support micro and small businesses in Sub-Saharan Africa. (www.regmifa.com)
3. **International Finance Facility for Immunisation (IFFIm):** To date, IFFIm has mobilized USD 2.3 billion from the capital markets for vaccine purchase and delivery, helping to prevent the deaths of an estimated 5 million children between 2006 and 2015, and another 5 million adult lives thereafter. The World Bank played a key role in designing the Facility and serves as its Treasury Manager. (www.iff-immunisation.org)
4. **The Business Call to Action (BCtA):** This multi-partner and donor initiative with a UNDP-based secretariat challenges and assists companies to undertake business-led initiatives that are commercially viable while addressing specific development goals. (bcta-initiative.org)

Further information on these and other UN–business partnerships that could benefit from additional corporate engagement and support can be found at business.un.org.