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UNITED NATIONS SECRETARY-GENERAL'S SPECIAL ADVOCATE FOR INCLUSIVE FINANCE FOR DEVELOPMENT

Foundational Building Blocks for Financial Inclusion

Insights and Call to Action to Reach the Last Mile

Foundational Building Blocks Working Group,
United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA)

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This note is the key output of the Foundational Building Blocks Working Group (FBBWG) of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA).[1] The group is composed of financial inclusion experts from organizations that are part of the UNSGSA's Reference Group.

Working group members include senior representatives from the Alliance for Financial Inclusion (AFI), Better Than Cash Alliance (BTCA), Bill and Melinda Gates Foundation (BMGF), CGAP, the Office of the UNSGSA (O/UNSGSA), the United Nations Capital Development Fund (UNCDF), and the World Bank Group (WBG).[2]

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1 The benefits of financial inclusion and the remaining unbanked

Much has changed in financial inclusion since 2009, when Her Majesty Queen Máxima of the Netherlands was appointed the UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA). The United Nations has adopted Sustainable Development Goal (SDG) 8.10.2 to accelerate the adoption of digital solutions to improve access to accounts at financial institutions, while 17 other SDGs include targets related to financial inclusion.[1] The G20 has approved eight high-level principles of financial inclusion as a basis for national action plans.[2] Sixty-three jurisdictions have a national financial inclusion strategy (NFIS) either in place or under development, while 56 have a national digital finance and fintech strategy in place or under development.[3]

In that same time, the share of adults with an account has risen to 74 percent, driving the number of unbanked adults down by over half a billion worldwide.[4] With growth in account ownership, people have become more adept at using—and have more opportunities to use—their accounts to store money, receive and make direct digital payments, build up savings, and apply for credit. For example, growth in the share of adults in low- and middle-income countries (LMICs) who now use digital payments—55 percent as of 2022, and 84 percent of account holders—has outpaced growth in account ownership.

Such usage demonstrates the real-world value of having an account and creates a motivation for account ownership. That these changes have happened so quickly is an amazing accomplishment, and a testament to the efforts of governments, policymakers, advocates, and financial service providers (FSPs) to develop pro-poor policies and products.

Yet, more than 1.5 billion people in LMICs still cannot take advantage of these products because they lack basic access to financial services. Certain groups are even more vulnerable to being left out of the formal financial system, which has been highlighted in various G20 Global Partnership for Financial Inclusion (GPFI) publications. This includes women (Saudi Arabia, 2020; Turkey, 2015), youth (Saudi Arabia, 2020), older adults (Japan, 2019), and other vulnerable populations such as migrant workers (Italy, 2021) and forcibly displaced persons (Germany, 2017).
Owning an account is crucial for economic development. Without one, unbanked adults must instead rely on cash, which can be less

1 For additional information, see: https://sdgs.un.org/goals/goal8.

2 For additional information on the G20 High-Level Principles for Digital Financial Inclusion, see: https://www.gpfi.org/sites/gpfi/files/documents/G20%20High%20Level%20Principles%20for%20Digital%20Financial%20Inclusion%20-%20Full%20version-.pdf.

3 For additional information, see: https://www.worldbank.org/en/topic/financialinclusion/brief/ficpsurvey.

4 Unless otherwise noted, all data in this chapter is from the World Bank Global Findex database. To download the full Global Findex 2021 report and related issue and regional briefs, survey questionnaire, and the full databank, visit: https://www.worldbank.org/en/publication/globalfindex.

flexible to use, time consuming and expensive to collect, and more easily lost or stolen. All this makes it harder to receive payment for work, to benefit from government social payments, to get support from social or familial networks, or to store money safely, make payments, or save for the future.

Without an account, people also find it harder to use digital financial services (DFS), access savings, borrowing, and insurance products, and achieve and maintain financial health. In LMICs, 86 percent of adults worry about at least one common expense, including medical bills, school fees, everyday expenses, and old age, and 44 percent worry about all four of these issues. Only slightly more than half of adults globally are considered financially resilient, which means they could get extra money to cover a significant unanticipated expense without much difficulty within 30 days. This is a critical necessity given the increase in climate-related events to which so many low-income communities are vulnerable.[5]

Financial inclusion brings benefits that help people mitigate worries and enhance their well-being. Research consistently shows that managing money with an account allows people to save,[6] manage income shocks,[7] and spend more on education or health care,[8] all of which reduce poverty and improve development outcomes. Having an account might also help the self-employed to manage their business income more safely and effectively.[9] Women with their own accounts become more empowered and have more say over household spending.[10]

Financial inclusion advocates must build on the momentum of the past decade. The following section summarizes who the unbanked are, what has worked to successfully bring them into the formal financial system, and what financial inclusion advocates can do now to tackle the access barriers that remain.

Financial inclusion built on a foundation of digitalization

Some of the most exciting advances in financial inclusion over the past decade have occurred in some of the world's poorest communities, supported by advances in digital technology. By "financial inclusion", we mean that individuals and firms can access a transaction account or electronic instrument that can be used to store money and send and receive payments; safely use a range of appropriate financial services, including savings, payments, credit, and insurance; and leverage affordable and appropriate financial tools to improve their well-being.[11] Here, we focus on owning an account, as account ownership is a precondition for

[5] Global Findex defines financial resilience for an individual as the ability to access, without much difficulty, extra money equal to 5 percent of their economy's per capita gross domestic product (GDP) within 30 days.

[6] Blumenstock, J., Callen, M., and Ghani, T. 2018. "Why Do Defaults Affect Behavior? Experimental Evidence from Afghanistan." *American Economic Review,* 108 (10): 2868–901.

[7] Moore, D. et al. 2019. "Building Resilience through Financial Inclusion: A Review of Existing Evidence and Knowledge Gaps." Brief, Innovations for Poverty Action, Washington, DC.

[8] Haseeb, A. and Cowan, B. 2021. "Mobile Money and Health-care Use: Evidence from East Africa." *World Development,* 141: 105392.

[9] Allen, F., et al. 2016. "The Foundations of Financial Inclusion: Understanding Ownership and Use of Financial Accounts". *Journal of Financial Intermediation* 27: 1-30.

[10] Ashraf, Nava, Dean Karlan, and Wesley Yin. 2010. "Female Empowerment: Further Evidence from a Commitment Savings Product in the Philippines." World Development 38 (3): 333–44.

[11] This is the definition of financial inclusion used by the World Bank Universal Financial Access (UFA) Goal and Global Findex. For more, see: Demirguc-Kunt, A. et al. 2022. "The Global Findex Database: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19". Washington, DC: World Bank.

accessing formal financial services and reaping the benefits.

As of 2022, 69 percent of adults in LMICs owned a financial account, either at a bank (or similar deposit-holding, traditionally brick-and-mortar institution, such as a credit union, banking cooperative, or microfinance institution (MFI), referred to here for simplicity as "banks") or with a primarily digital financial services (DFS) provider, such as a fintech or mobile money operator. This represents a 66 percent increase in account ownership in LMICs over the previous decade.

While this progress is worth celebrating, it has not happened evenly across the globe nor through the same means in every country. The remaining unbanked live almost exclusively in LMICs. The following success stories highlight the different paths that countries have taken to connect their citizens to the formal financial system.

From China to Senegal, technology has helped countries increase account ownership

Many national financial inclusion success stories share a common thread: that digital technology has played a significant role in expanding financial access. This has happened at both the front end of financial services delivery, through the channels and instruments that FSPs offer customers, and through the back-end information infrastructure that makes it more efficient and less expensive to perform transactions.[12] This has translated into significant, real-world benefits for people across widely different contexts, some of them through digital public infrastructure (DPI)—public, society-wide systems that ease identity verification, payments, and consent-based data exchange.

Sub-Saharan Africa, for example, is a financial inclusion success story enabled by technology. Across the region, mobile money contributed to a near-doubling of account ownership rates between 2011 and 2022. In Senegal, the introduction of mobile money has led to steady increases in account ownership, with 56 percent of adults now having an account of any kind—a significant increase from just 6 percent of adults in 2011. Mobile money account adoption grew faster than bank account ownership between 2014 and 2021.

Another digital financial success story is Brazil, where regulatory reforms launched in 2013 encouraged fintech providers to offer new digital payment products and help increase financial inclusion. Lower-income households saw account ownership rise when Brazil digitized government-to-person (G2P) payments through the Bolsa Familia Program (BFP), which merged multiple existing conditional cash transfer (CCT) programs into one electronic benefit card (EBC) linked to bank accounts at Brazil's state-owned bank. Alongside these efforts, between 2011 and 2021, account ownership increased by almost 30 percentage points to reach 84 percent of all adults. High account ownership proved a massive benefit for the country during the COVID-19 health crisis, when the central bank launched the low-cost and interoperable Pix payment platform for small-value, high-volume payments and used it to deliver social payments directly into the accounts of people

[12] For additional information, see: Denyes, L.S., et al. 2021. *Merchant Payments and Digital Financial Services Handbook.* Washington, DC: World Bank.

in need. As a result, more than 30 percent of the population received a government payment in 2021, most of them digitally, making it cheaper and safer for both the government and recipients.

In China, a number of platform technology firms expanded from their core business models in non-financial markets (for example, e-commerce, search engines, and social media) to offer payment services. When combined with national policies such as the Plan for Advancing the Development of Financial Inclusion (2016-2020)–a bold and comprehensive policy aimed at expanding access, usage, and quality of financial products and services–these companies and their product offerings helped increase the share of adults with accounts to 90 percent, a 25-percentage point increase between 2011 and 2021. The country also more than doubled the share of banked adults who use digital payments between 2014 and 2021. Now, nearly everyone with an account uses them.

India has pursued broad-based financial inclusion by addressing several structural barriers with financial sector policies and enabling access to identity documents (IDs), which 28 percent of adults in LMICs say is a barrier to account ownership. In 2006, the Reserve Bank of India (RBI) launched a series of efforts to support financial inclusion and financial literacy. This included permitting banks to provide banking services through agents to reach adults in the "last mile" of rural and underserved areas. The RBI also adopted a risk-based approach to know-your-customer (KYC) requirements, required banks to open Basic Savings Bank Deposit Accounts (BSBDA) for all individuals with no minimum balance and, over time, added banking requirements for technology infrastructure that supported financial inclusion. Concurrently, the Indian government addressed the country's ID access challenge by launching the national Digital Aadhaar ID number for citizens–an example of DPI. Once Aadhaar was in place, financial system regulations were adjusted to allow adults to open a basic transaction account remotely using their Aadhaar number. These initiatives collectively drove account ownership in the country up to 80 percent of adults by 2017, and effectively eliminated the account access gender gap.

These examples offer important lessons on what works to increase financial inclusion. In all four cases, a reliable, convenient, and nationally available digital solution or service created the foundation for many unbanked adults to acquire accounts. These solutions were able to take hold because the government launched programs to fill connectivity gaps and promote digital solutions. Additionally, the popularity and extensive adoption of private-sector solutions facilitated widespread digitalization and connectivity for underbanked populations. While there is no single path to achieving greater financial inclusion, the foundations of connectivity and digitalization help inclusion programs to take root.

With these lessons in mind, we turn to examining who remains unbanked and the access barriers they continue to face.

Who are the unbanked?

For most unbanked adults, there is no single factor that cuts them off from the formal financial system. Instead, there are multiple intersecting barriers that make financial services costly and hard to access. These barriers are often more difficult to overcome due to factors such as location, individual characteristics, and social or cultural factors.

The geography of the unbanked

Virtually all the world's unbanked adults live in LMICs, with slightly more than half concentrated in just seven countries. These countries are, by number of unbanked adults: India (230 million), China (130 million), Pakistan (115 million), Indonesia (100 million), Nigeria (64 million), Bangladesh (57 million), and the Arab Republic of Egypt (50 million). It is not a coincidence that all these countries, except for Egypt, are in the top 10 most populous nations in the world. Large populations spread over large landmasses create added challenges for national financial inclusion programs. For example, although we highlight China and India as success stories for their efforts at promoting financial account ownership, their populations are so large and spread over such a wide geographic area that their 89 percent and 78 percent financial inclusion rates still leave tens of millions of people excluded from the formal financial system.

Beyond prioritizing countries with the highest number of unbanked adults, we should also consider economies with the lowest financial inclusion rates relative to their populations. Globally, 14 countries have account ownership rates lower than 30 percent—in nine of them, less than a quarter of adults have an account. Examples include South Sudan, Niger, and Iraq. Notably, seven of these nine countries are classified as fragile and conflict-affected situations (FCS). Financial exclusion is also acute in Small Island Developing States (SIDS), where financial institutions face challenges reaching sufficient scale given their small populations. Given the heightened risk of extreme weather events in island economies, adults in these regions could greatly benefit from a secure, affordable, and convenient place to store their money outside their homes.

Figure 1. Being a woman, low-income, rural, and out of the formal workforce make it more likely to be unbanked

Share of the unbanked (%)

	# of Financially Excluded	Women	Poor [1]	Rural	Self Employed [2]	Young [3]
LMICS	1.47B (31%) Adult Population: 4.74B	55	47	44	28 / 47	31
Low Income	252M (65%) Adult Population: 388M	55	46	52	39 / 39	37
Lower Middle Income	887M (38%) Adult Population: 2.34B	54	44	44	25 / 50	33
Upper Middle Income	358M (18%) Adult Population: 2.01B	56	54	32	28 / 44	22
International Development Association (IDA) Only	390M (56%) Adult Population: 700M	57	46	50	37 / 40	34
FCS	319M (57%) Adult Population: 555M	56	47	46	36 / 40	36
Climate Vulnerable	1.18B (41%) Adult Population: 2.9B	54	45	45	29 / 46	33

Note: Numbers beside shaded donuts indicate the prevalence of the column group among the unbanked. For row group estimates of the number of unbanked individuals who are members of each column group, multiply the percentage by the total number of unbanked in the row group.

Excluded (gray) groups include, respectively: 'unbanked men'; 'unbanked adults in the richest 60% of households in a country'; 'unbanked urban residents 'unbanked adults who are wage employed (or a small number who are unemployed)', and 'unbanked adults' who are aged 25+.

[1] 'Poor' denotes adults in the poorest 40% of households in a country.

[2] Red shading represents self-employed adults, orange denotes those out of the workforce.

[3] Adults aged 15-24 are classified as 'young'.

Individual characteristics that make it more likely to be unbanked

Even in countries with millions of unbanked adults, or a large relative share, there are divisions between those who have financial access and those who do not (in Figure 1, vulnerable populations are shown in red). Cross-country regression estimates show that unbanked adults are:

- significantly more likely to be women than men;
- more likely to live in the lowest 40 percent of households by income versus in the wealthiest 60 percent;
- more likely to have attended school at most through the primary grades versus completing secondary or more;
- more likely to be out of the workforce than in it;
- more likely to be younger than 24 years old than older; and
- more likely to live in rural areas.

Over 800 million of the more than 1.5 billion unbanked adults in LMICs—55 percent—are women. The gender gap in account ownership has been intractable, given that it persists even in LMICs with high rates of account ownership, such as Brazil, China, Kenya, Russia, and Thailand, as it does in economies where less than half the population is banked, such as Egypt, Guinea, and Pakistan.

Poverty, education level, and rural residency all affect the likelihood of being unbanked. Almost 700 million unbanked adults in LMICs (47 percent of unbanked) live in the poorest 40 percent of households and over 900 million (63 percent of unbanked) have a primary education or less. 650 million unbanked adults (44 percent of unbanked) are rural dwellers. This percentage is higher in regions with high reliance on agriculture, such as in Sub-Saharan Africa, where 55 percent of unbanked adults live in rural areas.

In addition, over 400 million unbanked adults in LMICs (28 percent of unbanked) are self-employed (shown in red in Figure 1), whereas nearly 700 million unbanked adults (47 percent of unbanked) are out of the workforce (shown in orange in Figure 1). This highlights the significant challenges in developing financial services tailored to those without regular income. Having regular employment does not guarantee financial inclusion, however, as evidenced by the 250 million unbanked adults (17 percent of unbanked) who are wage workers potentially receiving regular wage payments in cash These individual characteristics all overlap. The same systemic issues that make it difficult for a person to open a bank account may also make it difficult for them to finish their education, or to get and keep a steady job. For example, people living in poverty in rural areas may have to travel long distances to the closest bank, school, or place of employment.

Social and environmental issues that influence financial access

Beyond the individual factors that reduce access to accounts or the motivation to open one, there are social and environmental issues that also have an impact on financial inclusion. They include, but are not limited to, climate vulnerability and violent conflict. Both can cut people off from income sources and financial assets while also creating expenses, such as damage to personal property and medical costs, and potential interruptions to public benefits.

Climate-vulnerable economies, for example, are often low- or lower-middle income.[13] People living in climate-vulnerable LMICs are more likely to experience more significant disaster impacts, such as losing access to electricity, clean water, food, or health services, compared with people who experience extreme weather events in high-income economies.[14] For those who rely on agriculture as a primary source of income, loss of assets and income when a natural disaster strikes is a significant risk.[15] Access to an account enables access to a range of regulated financial services, including digital payments, savings, insurance, and credit, which can strengthen the resilience of adults vulnerable to climate change. Yet, more than four out of five of the world's unbanked adults, or more than 1 billion people, live in the most climate-vulnerable economies.[16]

Why people remain unbanked

There are common barriers that keep people from owning or using a financial account. When asked why they do not have an account, unbanked adults most often mention at least one, and usually more than one, of the following reasons: a lack of money (which they believe means they do not need an account or cannot meet opening or minimum balance requirements); the perceived high cost of financial services; geographic distance from a branch; relying on a family member with an account to transact for them; a lack of government-issued ID or other identity verification needed to open an account; and a lack of trust in financial institutions.

In economies where digital financial services are widely available, as with mobile money in Sub-Saharan Africa, a lack of a mobile phone adds to the barriers of cost, distance, ID access, and trust as a common reason for not having an account.

The expansion of mobile money accounts and mobile banking means that adults increasingly access and use accounts via mobile phones. Yet, nearly 500 million unbanked adults (33 percent) do not have a mobile phone and nearly 1 billion unbanked adults (67 percent) do not have access to the internet in LMICs.

The issue of trust, which a quarter of unbanked adults worldwide report as a reason for not having an account, is complicated by the fact that it can be violated in a variety of ways. For example, when a financial service provider (FSP) cannot protect a customer from fraud, including data breaches, phishing attacks that trick customers into sharing personal data, and other cybersecurity issues, or when a bank or agent charges unexpected or illicit fees.

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13 Notre Dame Global Adaptation Initiative Country Index: https://gain.nd.edu/our-work/country-index/.

14 Original data analysis using data collected by Gallup for Lloyd's Register Foundation World Risk Poll. For additional information, see: Lloyd's Register Foundation. 2021. "A Resilient World? Understanding Vulnerability in a Changing Climate".

15 Hallegatte, S. et al. 2020. "From Poverty to Disaster and Back: A Review of the Literature." *Economics of Disasters and Climate Change,* 4: 223–247.

16 Inclusive Green Finance Working Group of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development. 2023. "Inclusive Green Finance: A Policy and Advocacy Approach".

An individual's financial skills and confidence using accounts can also influence their perception of trust, a challenge given that over 900 million (63 percent) of unbanked adults in LMICs say they could not use a bank account without help. Women in LMICs are 10 percentage points more likely than men to express a lack of financial confidence, which may reduce their ability to avoid consumer protection risks, such as exploitation, high and hidden fees, over-indebtedness, fraud, and discrimination.[17]

Individuals, financial regulators, and financial institutions share responsibility for contributing to an ecosystem of financial inclusion. Financial regulators and supervisory agencies help create an environment for pro-poor, consumer-friendly service delivery. That includes establishing and enforcing a robust consumer protection regime, including updated monitoring systems to identify the types of financial risks in the market. FSPs can take steps to ensure that users fully understand product features and fees, including clearly communicating terms and conditions in a convenient format, and embedding design features in their products that enhance the financial well-being of customers.

Just as the geographic, individual, and social dynamics associated with the unbanked overlap and intersect, so too do these more universal barriers. That may be one reason fintech-enabled accounts, such as mobile money, have driven such significant financial inclusion gains in the countries where they are available. By offering a more affordable pricing structure for low-value, high-frequency transactions, and making it accessible either remotely or through local agent networks, they address some of the biggest barriers of distance, cost, and relevance with one service. Some customers may also trust local merchants and telecom agents more than an anonymous and distant bank teller.

Addressing the barriers and driving enablers to account ownership

The combined impact of barriers and confidence point to ways in which government policy and programs, consumer education and protection, and financial product design, can help address the issues of distance, cost, and trust that prevent unbanked adults from embracing formal financial services.

It helps to begin by looking at what has worked in the past to promote more widespread financial inclusion. For instance, policy-related factors, such as opening financial systems to increased competition, encouraging digital banking technologies, and channeling government payments through bank accounts, all play an important role.[18] Receiving a payment is a powerful on-ramp for financial account ownership and usage. Thirty-seven percent of adults in LMICs and 54 percent of existing bank account owners opened their first account to receive a direct payment. These payments came either from their government as a social disbursement or public-sector wage, or from a private-sector employer. These payments gave people an explicit and clearly beneficial reason to have an account.

[17] For a discussion of consumer financial protection, see: Garz, S. et al. 2021. "Consumer Protection for Financial Inclusion in Low- and Middle-Income Countries: Bridging Regulator and Academic Perspectives". *Annual Review of Financial Economics,* 13(1): 219–246.

[18] For additional information, see: Barajas, A. et al. 2020. "Financial Inclusion: What Have we Learned So Far? What Do We Have to Learn?" International Monetary Fund Working Paper 2020/157.

Governments and private employers around the world have already made significant inroads into digitalizing G2P and wage payments.[19] Opportunities remain, however, given that there are about 87 million unbanked adults in LMICs who still receive G2P payments in cash (6 percent), as well as 166 million unbanked adults (11 percent) who receive cash-based private-sector wage payments. Critically, among unbanked adults in climate-vulnerable economies, nearly 70 million (6 percent) report receiving G2P payments only in cash, which can result in delayed aid for people in need and a slower recovery process. Another area ripe for payment digitalization is the agriculture sector, given that most adults who sell agricultural goods or livestock globally receive their payments only in cash. In Sub-Saharan Africa, 141 million people receive agricultural payments in cash only (21 percent), 66 million (47 percent) of whom are women.

The most successful initiatives combine efforts to reduce barriers to access and encourage product innovation. These can include regulators adopting risk-based approaches to customer due diligence (CDD) that embrace digital IDs and other innovations that manage risk while increasing convenience for end users; addressing access to internet and wireless infrastructure to increase the number and convenience of access points; and enabling non-exclusive agent networks to provide in-person services in remote locations. Combined with relevant digital products, payment digitalization, ongoing consumer education, and consumer protection frameworks that help build consumer confidence and trust in new, digitally-enabled channels, these provide the building blocks for public- and private-sector actors to create solutions that give customers an incentive to open and use accounts. The following chapters will present some of these approaches.

[19] For additional information, see: Demirguc-Kunt, A. et al. 2022. "The Global Findex Database: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19". Washington, DC: World Bank.

2 Policy and regulatory considerations for digital financial inclusion in the last mile

2.1. Introduction

This chapter synthesizes lessons from the global experience to identify the key elements, or foundational building blocks, that financial markets should have in place to serve those who remain financially excluded in the "last mile". The term "last mile" refers to the world's 1.5 billion unbanked. It is a multidimensional term, as it refers to the geographic, individual, and social and environmental characteristics described in the previous chapter which, combined, describe a heterogeneous group of financially excluded people.

The foundational building blocks proposed here address, in a whole-of-market way, the persisting barriers to financial inclusion. Together, these building blocks **reduce the costs** of serving last-mile communities, **create business models** that enable financial service providers (FSPs) to develop a **responsible financial offer** that can bring **greater value** to last-mile populations, and support the **policy and regulatory frameworks** that enable it all to happen.

The Annexes complement this chapter by discussing in more detail how these public policies and investments can be tailored to address barriers to financial inclusion faced by three specific last-mile groups: women, migrants, and people living in fragile and conflict-affected situations (FCS).

Building on high-level principles for financial inclusion to identify foundational building blocks

The foundational building blocks for inclusive digital financial systems are derived from the high-level principles (HLPs) for digital financial inclusion proposed by the GPFI in 2016 (see Box 1), the guidelines for their implementation published and presented in 2022, and the Payment Aspects for Financial Inclusion presented in 2017. These principles reflect the framework on which the analysis in this chapter builds on.[20]

From the principles and implementation guidelines we synthesize the core elements, or foundational building blocks, that should be in place once those principles are implemented. The proposed building blocks are presented in Figure 2.

For each of the building blocks, we explain why they matter for financial inclusion in the last mile, and offer implementation considerations that address some of the challenges facing last-mile populations even when these building blocks are in place.

[20] See GPFI, 2016; BIS and World Bank, 2017; and GPFI 2022.

BOX 1 High-level principles for financial inclusion

PRINCIPLE 1: Promote a Digital Approach to Financial Inclusion

Promote digital financial services as a priority to drive development of inclusive financial systems, including through coordinated, monitored, and evaluated national strategies and action plans.

PRINCIPLE 2: Balance Innovation and Risk to Achieve Digital Financial Inclusion

Balance promoting innovation to achieve digital financial inclusion with identifying, assessing, monitoring and managing new risks.

PRINCIPLE 3: Provide an Enabling and Proportionate Legal and Regulatory Framework for Digital Financial Inclusion

Provide an enabling and proportionate legal and regulatory framework for digital financial inclusion, taking into account relevant G20 and international standard setting body standards and guidance.

PRINCIPLE 4: Expand the Digital Financial Services Infrastructure Ecosystem

Expand the digital financial services ecosystem-including financial and information and communications technology infrastructure-for the safe, reliable and low-cost provision of digital financial services to all relevant geographical areas, especially underserved rural areas.

PRINCIPLE 5: Establish Responsible Digital Financial Practices to Protect Consumers

Establish a comprehensive approach to consumer and data protection that focuses on issues of specific relevance to digital financial services.

PRINCIPLE 6: Strengthen Digital and Financial Literacy and Awareness

Support and evaluate programs that enhance digital and financial literacy in light of the unique characteristics, advantages, and risks of digital financial services and channels.

PRINCIPLE 7: Facilitate Customer Identification for Digital Financial Services

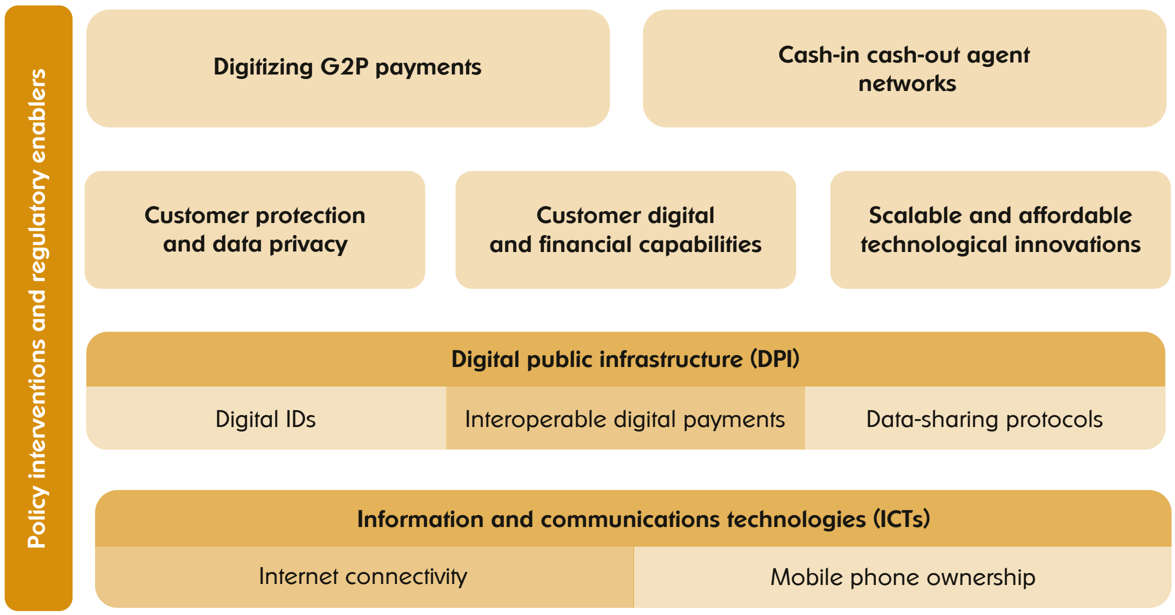
Facilitate access to digital financial services by developing; or encouraging the development of, customer identity systems, products and services that are accessible, affordable, and verifiable and accommodate multiple needs and risk levels for a risk-based approach to customer due diligence.

PRINCIPLE 8: Track Digital Financial Inclusion Progress

Track progress on digital financial inclusion through a comprehensive and robust data measurement and evaluation system. This system should leverage new sources of digital data and enable stakeholders to analyze and monitor the supply of - and demand for – digital financial services, as well as assess the impact of key programs and reforms.

Source: GPFI, 2016.

Figure 2. Foundational building blocks to enable financial inclusion of last-mile populations at scale



2.2. Ensuring affordable access to information and communication technologies and digital public infrastructure

Information and communication technologies (ICTs)

The reach and affordability of ICTs at the last mile is critical for financial inclusion. From a geographical standpoint, the ability to remotely connect with customers living in remote areas (e.g. peri-urban or rural areas) has revolutionized service delivery channels for individuals living there.[21] The expansion of ICTs in these areas can significantly reduce the costs of financial service delivery, which have tended to be much higher for people in remote areas.

For this reason, although many relevant policy and regulatory frameworks for ICTs may fall outside the mandate of financial policymakers and regulators, the increasing overlap of ICTs and the financial industry should encourage them to explore coordination and collaboration with their counterparts in the ICT sector. This coordination should aim to define joint implementation strategies that have, as one of their objectives, the inclusion of unbanked populations.[22]

[21] Highet, C., et al., 2021.

[22] GPFI, 2017.

Some lessons on how to make it easier for last-mile populations to benefit from ICTs are presented below.

Key implementation considerations in the last mile: In competitive markets, the main goal should be to enable public and private providers of mobile network and internet connectivity to viably offer services to last-mile communities.[23] More successful strategies involve public-private partnerships that offer a targeted public subsidy (e.g. through credit guarantees, debt or equity funding, or small grants) to providers to offer these services. Providers, meanwhile, can invest in a cooperative model that allows them to share common infrastructure in last-mile areas (e.g. shared mobile network towers and fiber network).[24] Together, provider subsidies and a cost-sharing approach not only improve the viability of service delivery in these areas, but also lower the price that customers pay for these services. Part of the public subsidy can also be targeted directly to particularly vulnerable groups to acquire mobile phone devices and data plans. These direct subsidies to last-mile customers tend to be more effective when accompanied by efforts to develop their digital and financial capabilities, which can increase the value they may see in owning a phone and using the internet.[25] Lastly, the promotion of more government services through the use of mobile and internet networks helps add to the service bundles offered to last-mile customers and improves the potential revenue lines that providers can generate in last-mile areas.[26]

Example

One way to promote public-private partnerships for ICTs in the last mile has been demonstrated by the European Union (EU). For the past 20 years, the EU has expanded mobile networks through tower-sharing schemes. This has driven down unit costs, led to higher returns on investment, and increased competition, resulting in lower prices, wider reach, and higher quality coverage in rural areas.[27] Infrastructure sharing has also had positive impacts in LMICs. According to the International Finance Corporation (IFC),[28] in Colombia, the price of mobile phone calls rose by 0.15 percentage points (pp) until 2011, when the country's two largest MNOs transferred a large portion of their tower portfolio to an independent company that managed these towers as shared infrastructure. The price of calls as a percentage of income per capita declined by 1.5 pp per year and the price of mobile broadband fell by 3.3 pp per year between 2012 and 2017. In Nigeria, after the three largest mobile network operators (MNOs) transferred their assets to independent tower companies, the price of mobile internet access as a percentage of gross national income (GNI) per capita declined by 3 pp per year, compared to just 0.4 pp the year before.

[23] GSMA, 2024.

[24] See Amin, R., Gallegos, D., 2023; Gallegos et al., 2018.

[25] Highet, C. et al., 2021.

[26] World Bank, 2023.

[27] Koutroumpis, P., et al., 2023.

[28] Strusani, D. and Houngbonon, G., 2020.

Digital public infrastructure (DPI)

Digital public infrastructure (DPI) is defined as “interoperable, open, and accessible infrastructure supported by technology to provide essential, society-wide, public and private services digitally such as identification, payments, and data exchange”.[29] Digital IDs, interoperable digital payments, and data exchange protocols all support financial inclusion. By lowering costs and barriers to market entry, they increase competition for various types of FSPs, resulting in improved access, affordability, and innovations in DFS, particularly in last-mile areas.[30]

The following analysis examines the relevance of DPI for excluded population segments in the last mile and shares important considerations for overcoming the barriers they face, even when some DPI components are in place.

Digital IDs

Digital IDs can be more accurate and affordable than physical IDs, making them especially useful for people in remote or underserved areas. Good practices in realizing the potential of digital ID systems to enhance financial inclusion[31] have been well documented, including in a toolkit for regulatory authorities on digital IDs for financial inclusion and the G20 Digital Identity Onboarding report.[32] These good practices should continue to be pursued in markets where they may have not yet been implemented to enable financial inclusion in the last mile. However, given the challenges of reaching last-mile populations effectively, we offer the following additional considerations.

Key implementation considerations in the last mile: Since vulnerable groups in last-mile areas are diverse and tend to be excluded from all sorts of services, there is usually little information about them. In such cases, it is best to conduct a local assessment in collaboration with community organizations to identify the constraints they face to participating in a proposed ID initiative (e.g. assess the documentation available and alternative ways to verify identity through community groups).[33] Insights collected can inform more effective implementation strategies for ID systems and enable more valuable ID use cases.[34] The development of feasible offline solutions should also be prioritized, given that most last-mile populations have limited mobile and internet connectivity. Recent developments include the use of IDs that have QR codes digitally signed by the issuing authority and can be verified in offline settings. Other potential solutions include smart cards that store information for offline verification.[35]

[29] GPFI and World Bank, 2023.
[30] GPFI and BTCA, 2018.
[31] World Bank, 2019.
[32] GPFI and World Bank, 2018.
[33] IDPrinciples, 2023.
[34] World Bank, 2024.
[35] See MOSIP, 2024; World Bank ID4D, 2023.

Example

To streamline Nigeria's multiple identity systems, the Nigerian Identity Management Commission (NIMC) created a new national identity database built around the issuance of unique national identity numbers (NINs) and a multipurpose ID smartcard with offline verification capabilities. To stimulate the use of the ID card, the NIMC offered networked financial services as one application. Since 2013, it has been partnering with Mastercard, Visa, and Verve, a local payment network. It also partnered with local banks to link the ID cards to pre-paid bank accounts so that they could be used to pay for goods and services. By 2023, there were 104 million people with NINs in Nigeria, well on track with the country's targets.[36]

Interoperable digital payments

Digital payments delivered through transactional accounts[37] have been the primary gateway for accessing other financial services in many LMICs. However, the customer experience is often fragmented due to the closed-loop operations[38] of MNOs, financial institutions, and third-party providers. This fragmentation results in higher operational costs for providers, limited value for customers, and inconsistent customer experiences and service offerings. Last-mile populations are particularly sensitive to these frictions, given the high costs of providing service to the areas where they live and the tendency of first-time users to distrust FSPs. A good first-time customer experience is, therefore, essential. Interoperable payment systems can help address these frictions by reducing barriers for customers to use DFS offerings outside their provider network, removing barriers to market entry for smaller FSPs, and creating economies of scale that reduce operational costs by leveraging shared systems and infrastructure.[39]

Given the challenges of serving last-mile populations effectively, we propose the following considerations.

Key implementation considerations in the last mile: The effects of interoperable digital payment systems on financial inclusion in the last mile is still being actively researched. Emerging considerations suggest the importance of monitoring industry responses to interoperability at the last mile, which may vary depending on dominant market dynamics. Based on recent analysis,[40] the introduction of interoperability with adequate governance consistently results in lower fees for customers and more diverse financial offerings over time. However, for last-mile communities to reap the benefits,

[36] World Bank, 2024.

[37] Refers to a financial account that can be used for deposits and withdrawals from a variety of services related to payments, savings, credit, and insurance.

[38] "Closed-loop operations" refers to accounts or wallets that can only be used for transactions related to services offered by only one service provider and its commercial partners.

[39] Negre, A. and Cook, W., 2021.

[40] See research from the National Bureau of Economic Research (NBER) and the Bank for International Settlements (BIS), Brunnermeier et al., 2023 and Bianchi et al., 2023.

there seems to be a need for FSPs to share processes and infrastructure, such as mobile network towers, agent networks, and anti-money laundering/combating the financing of terrorism (AML/CFT) processes. Without such industry collaboration, the benefits of interoperability felt in the wider market may not automatically transfer to last-mile communities. The lower customer fees and smaller FSP margins that interoperability can bring may discourage the upkeep of ICT and financial infrastructure in remote areas where return on investment (ROI) tends to be lower. In such cases, maintaining rural service coverage has involved the use of public subsidies to maintain ICTs and financial infrastructure (as explained in the ICT section), together with policies that promote interoperability.

Example

Brazil's Pix is an interoperable instant payment system that facilitates quick, cost-effective, and secure payments and transfers for customers and businesses. By promoting fair and open access to all financial sector players, Pix enables financial inclusion and encourages competition, reducing costs and supporting diverse participants and innovative solutions. Features like alias systems, payment notifications, and the use of QR codes have been particularly beneficial in attracting lower-income and underserved populations.[41] As of 2023, two years after its launch, around 86 percent of individuals aged 16 and older use Pix, with almost half of the population using DFS for the first time.[42]

Effective and safe data-sharing protocols

As the digital trails of low-income customers grow and the capabilities of data analytics improve, new opportunities are emerging to advance financial inclusion at the last mile. Reducing information asymmetrie between customers, FSPs, and other third-party providers can enable the development of innovative products and services that meet diverse customer needs and encourage the use of transaction accounts.[43] It can also support the provision of credit for customers who lack the credit scores and collateral traditionally required by FSPs. To capture this potential in a safe and transparent manner, data-sharing protocols are needed. These protocols help to standardize how data is shared in various innovative financial models that rely on open APIs, open banking, open finance, or open data.[44]

Related to data-sharing protocols is the need for credit reporting systems, collateral registries, and fraud reporting systems. This type of financial infrastructure can be leveraged in creative ways to reduce information asymmetries between FSPs and last-mile customers.[45]

Strategies that explore how to realize the potential of data-sharing protocols in last-mile settings could begin by assessing the percentage of people who are financially excluded (i.e. vulnerable segments of last-mile populations) but are nevertheless digitally included through the use of a mobile phone. These digitally included vulnerable groups are expected to progressively build a digital footprint.

[41] World Bank, 2022.
[42] Frost et al., 2024.
[43] Plaitakis, A. and Staschen, S., 2020.
[44] Jenik, I., et al., 2024.
[45] See Women's World Banking, 2022; GPFI, 2018.

As mentioned in Chapter 1, many last-mile population segments in LMICs do not have a mobile phone. Others do, however. In Latin America, East Asia and Pacific, Middle East and North Africa (MENA), and East Europe and Central Asia, 75 percent or more of the financially excluded own a mobile device. Research by the Consultative Group to Assist the Poor (CGAP) has explored the types of data trails that digitally included vulnerable groups are generating, and how this data may be leveraged to promote financial inclusion. These groups tend to be concentrated in India, China, Indonesia, Nigeria, and Bangladesh. Their data transactions–related to air-time top-ups, messaging, and social media–can help FSPs design more valuable financial services for vulnerable customers.[46] Service providers outside the financial sector are also collecting data from vulnerable population segments who are digitally included, like fast-moving consumer goods (FCMG), utilities, and agribusiness companies. Responsible use of this data can also help FSPs assess their customers' financial needs.[47] Last-mile populations may also generate other data that could be digitalized and made available through data-sharing protocols like social payments and other government transfers, or census data like demographics and asset information.

To explore the potential of data-sharing protocols to promote financial inclusion at the last mile, we propose the following considerations related to policy and regulation.

Key implementation considerations in the last mile: Good practices in inclusive data-sharing protocols, including transparent participation, governance, and standards, should be developed in collaboration with service providers in other sectors of the economy that may hold valuable data and insights related to last-mile populations.[48] This highlights the importance of open data, which can enable data sharing with actors outside the financial sector. Governments can facilitate public-private dialogue to design data-sharing protocols that keep customer prices low, while also defining viable provider interchange fees for new commercial partnerships.[49] As these data-sharing protocols are put into practice and new provider partnerships emerge, regulators would need to consider how to build their capacities, as the mandate of data-sharing agreements and the diversity of providers may expand. It is important to monitor the effects of data-sharing protocols to ensure the digital data trails of last-mile population segments continue to grow, and to monitor the mainstreaming of data-sharing protocols, which can minimize the risk of a digital divide excluding these segments from the benefits of digital financial services.

[46] See Fernandez and Salman, 2023; Fernandez and Caire, 2024.

[47] World Economic Forum, 2019.

[48] Jenik, I., et al., 2024; Plaitakis, A. and Staschen, S., 2020.

[49] CGAP, 2019.

Example

Colombia's eGovernment Strategy was introduced to improve procedures and digital public services for both companies and households. One key initiative under this strategy is the Digital Citizen Services initiative, which facilitates and simplifies the process of filing and accessing key documents, such as birth certificates and medical records. An electronic authentication system, along with the "carpeta ciudadana" data exchange, ensure the process is reliable and secure. This initiative seeks to ensure secure data exchange between different public entities and to enable the verification of citizen information. The eGovernment strategy also includes the Open Data (Datos Abiertos) initiative, part of Colombia's national development plan, which aims to make government data publicly available and encourages the development of financial apps, among others, that use the data.[50]

2.3. Digitalizing large government-to-person (G2P) payments

As mentioned in Chapter 1, G2P payments are an important entry point to the formal financial system, and have contributed to the progress in financial inclusion seen to date. Financially excluded populations are often recipients of government cash transfers, especially those that prioritize poor people and women.[51] For recipients, G2P payments make it possible to use their transaction account for other types of financial services. For FSPs, distributing these payments can provide a sufficiently strong business case to serve last-mile communities.[52]

Drawing on experiences with implementing G2P payments in last-mile settings, we propose the following considerations.

Key implementation considerations in the last mile: There are three main considerations when digitalizing large G2P payments in last-mile settings. First, enabling G2P procurement rules that allow a range of eligible FSPs to distribute G2P payments increases the likelihood of customers finding more convenient and less costly ways to use their account. As minimum eligibility requirements are set, it is important to consider the proximity of FSP service points to beneficiaries, in addition to legal and capacity requirements.[53] Second, it is important to prioritize the digitalization of programs that reach beneficiaries in the last mile (e.g. women), as the reach of FSPs often does not extend to last-mile areas. G2P programs can be leveraged to mobilize joint public-private investments to establish service points in last-mile communities and experiment with new service bundles that would make accounts more valuable for beneficiaries.[54] Finally, centralizing and integrating G2P programs within the government's single public financial management system increases the likelihood of more efficient administrative and digital systems (rather than digitizing each G2P program one at a time).[55] However, a centralized approach

[50] Taken from GPFI and World Bank, 2023.
[51] Chen, G. and May, M., 2021.
[52] Hernandez, E. et al. 2020.
[53] Cook and Lennox, 2023.
[54] Cook and Lennox, 2023.
[55] World Bank, 2020.

can pose significant obstacles in terms of public sector reforms and coordination, which may not make it viable in the short term. G2P program implementers should assess how close they can get to the ideal, and work to get closer over time.[56]

Example

The Zambian Ministry of Community Development and Social Services (MCDSS) took a novel approach to designing its new G2P payment system. Participants in the Support to Women's Livelihoods (SWL) initiative can decide for themselves which FSP they want to deliver their social protection grant and into what kind of account. MCDSS launched this effort in late 2016 because no single FSP could service all the initiative's target communities. By the end of 2017, the first round of payments had been transferred into commercial bank accounts, mobile wallets, ATM cards, and post office accounts. Two years on, at the end of 2018, 12,748 women were enrolled and 12,084 had received their grant payments through the new multi-provider payment system.[57]

2.4. Far-reaching and inclusive agent networks

Extensive and inclusive cash-in and cash-out (CICO) agent networks are fundamental for transitioning from cash-based to digital financial systems, particularly in LMICs with large informal labor markets in which most financially excluded people work. There is a strong correlation between financial inclusion and the proximity of agents to customers, as convenient and reliable support services help customers to convert cash to electronic money (and vice versa), answer basic questions about services, and handle transaction requests.[58]

The expansion of agent networks into last-mile communities has been quite limited given the high operational costs in these settings. However, digital technology is enabling new agent business models that aggregate various services at a single agent outlet. This allows for higher-value service bundles to be offered to low-income customers while also enabling economies of scale and expanding the scope of service delivery. This significantly lowers operational costs and makes it progressively more viable to operate in last-mile communities.[59] Yet, reaching last-mile populations at scale will require public-private investment models that can overcome the systemic gaps in income, assets, and education between rural and urban agents. Narrowing these gaps would make more rural and women entrepreneurs eligible to become agents.[60]

Based on a review of the global evidence, we offer the following considerations for implementing such a public-private collaboration.

Key implementation considerations in the last mile: There are three main considerations. First, the training required to onboard rural agents at scale is the biggest cost for FSPs expanding their agent network coverage into last-mile

[56] Limestone Analytics, 2022.

[57] Baur-Yazbeck et al., 2021.

[58] See CNBV Mexico, 2018; Hernández, E., 2019; and Hernández, E., et al., 2020.

[59] See GSMA, 2018; Hernandez and Blackburn, 2022.

[60] See Hernández, E., Martinez, C., 2023; OECD, 2023; and OECD, 2016.

communities. This cost discourages investment even when FSPs recognize the long-term strategic benefit of expanding into these areas. The expansion of rural agent networks at scale has been most successful when governments jointly invest with FSPs in time-bound rural agent training programs, using a training curriculum designed with FSPs to meet market requirements. Second, the minimum due diligence requirements for agents to operate often do not match the reality of most rural entrepreneurs. Regulators should conduct local assessments to understand the constraints and capacities of rural agents, which can inform simplified know-your-agent requirements that are risk-based and can be met by most rural entrepreneurs. Finally, efforts to expand agent network coverage into last-mile communities should prioritize the recruitment of women agents. Evidence shows that women agents are more effective at serving more vulnerable customers, including other women.

Example

In 2016, India's National Rural Livelihood Mission began implementing the Bank Sakhi program in Bihar State. The program supported rural women to become banking agents for public and private banks, thereby expanding the provision of doorstep financial services in rural communities. The program recognized the larger investment required to train rural women, who tend to have less income and education than rural men due to social norms. The program covered the cost of training and certifying eligible rural women to become agents, provided them with grants to cover initial working capital and loans to acquire agent devices, and linked the trained female agents (Bank Sakhis) to public and private banks, which then recruited them. By 2022, there were 110,000 Bank Sakhis active in rural communities across 20 states in India. An evaluation of the program revealed that Bank Sakhis reached more vulnerable customers than traditional agents, and their average monthly income increased by 280% per year from before they were an agent.[61]

[61] Hernandez et al., 2023

2.5. Ensuring adequate consumer protection, customer centricity, data privacy and security, and digital and financial literacy

Financial consumer protection and customer centricity

Financial consumer protection (FCP) frameworks are increasingly relevant as the financial ecosystem becomes more complex and pose greater risks, especially to last-mile population segments who tend to have lower digital and financial capabilities.[62] For example, global surveys of financial system fraud have revealed an 83 percent increase in fraudulent mobile app transactions, including SIM card swaps, account takeovers, and social media scams.[63] According to the World Bank's Global State of Financial Inclusion and Consumer Protection (FICP) report, most countries have an FCP regulation in place, but implementation lags. While 97 percent of responding jurisdictions report having a FCP regulation in place, only 75 percent report engaging in any supervision and enforcement activities, such as data collection or analysis of customer complaints.[64]

Countries are also increasingly adopting a customer-centric or customer-outcomes approach for consumer protection, focused on fostering financial products and services that meet customer needs, enhance their financial control, help to manage economic shocks, build resilience, and support long-term financial goals.[65]

Drawing on the experience of LMICs where FCP frameworks have been implemented in last-mile settings, we propose the following considerations to inform policy.

Key implementation considerations in the last mile: The increasingly diverse types of FSPs that are operating in LMICs may be regulated by different financial and data authorities with uneven enforcement of financial consumer protection rules. This includes regulators in charge of overseeing FSPs that are often closer to last-mile communities, like financial cooperatives, credit-focused non-bank financial institutions, and digital payment and credit companies. The various regulators covering the FSP and data landscape should coordinate to apply consistent and proportional consumer protection frameworks to the various types of FSPs, especially as they begin serving low-income customers with a more diverse service offering.[66]

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[62] See Women's World Banking, 2024; and Garz, et al, 2020

[63] Chalwe-Mulenga, M and Duflos, E., 2022

[64] World Bank, 2023.

[65] Koning, A., et al., 2022.

[66] See Duflos and Coetzee, 2022; and Hernandez and Faz, 2022.

Example

In 2021, South Africa piloted a customer-outcomes approach to financial consumer protection. Together with a diverse set of FSPs, market conduct authorities, customer representatives, and experts on data and customer experience, they first assessed the roles each stakeholder could play in enforcing the country's FCP regulation. They also determined the intermediate customer outcomes that could be achieved with adequate FCP (e.g. improved complaint resolution, increased account usage among low-income customers, and improved customer risk profile). Then, they translated the desired outcomes into quantifiable indicators (e.g. analysis of top-10 customer complaints, listing agent incentives to help customers with low-cost channels, and tracking customer credit risk profiles). Finally, they analyzed the results and iterated the process and indicators.[67]

Data privacy and security

As digital technologies spread rapidly and people generate more data trails, the use of this data by FSPs involves risks. Data can be lost, stolen, disclosed without consent, or misused, leading to identity theft, loss of important information, or unwelcome or misleading marketing or solicitation. Personal data may also be used for government or corporate surveillance and discriminatory treatment of vulnerable individuals and communities.[68]

Traditionally, data protection regimes rely heavily on individual customer consent, placing an unreasonable burden on customers, especially low-income ones who have less knowledge of and experience with DFS. These customers may not fully understand what they are consenting to or feel they have no choice. Further challenges exist in countries with multiple languages, where last-mile customers may not speak the national language in which consent and disclosures tend to be written. In addition, these individuals tend to access financial services via small or poor-quality devices that make communication challenging to read and store.[69]

It is essential to prioritize data privacy for women, who account for most of the financially excluded, due to their increased vulnerability and potential for reputational harm due to social norms. Women are more conscious of the risks of location tracking, sexual harassment, and sharing their mobile numbers. Because of these concerns, women are more cautious when considering whether to use DFS and are quicker to stop using services if they feel uncomfortable or unsafe.[70]

Furthermore, data privacy regulation in financial markets should be consistently applied across the full range of FSPs. Similar to the issues with FCP frameworks discussed earlier, financial authorities should coordinate with data privacy agencies to ensure data privacy frameworks are applied evenly in markets where financial institutions and other non-financial companies are collaborating to pool customer data sets to find new ways of serving customers.[71]

Key implementation considerations in the last mile: To better accommodate the needs of last-mile communities, the next generation of data privacy and protection could consider shifting

[67] Koning, A., et al., 2022.

[68] UNCDF, 2022.

[69] Medine, D. and Plaitakis, A., 2023.

[70] Keck, M., et al., 2022.

[71] Duflos, E. and Coetzee, G., 2022.

the burden of responsibility from customers to data collectors and users (e.g. FSPs and public agencies). This can be achieved by making FSPs responsible for developing consent, disclosures, and resource mechanisms that are more user-friendly, culturally appropriate, adaptable to multiple languages and literacy levels, and considerate of individuals' different devices. Additionally, offline solutions should be offered for those who prefer to read and save information on paper or who do not have internet or access to a mobile phone.

Example

India has established a data-sharing framework as part of the India Stack. Within this framework, FSPs can share financial data with the consent of their customers. Governed by the policy framework known as the Data Empowerment and Protection Architecture, data is shared in the financial system in a way that aims to restore customer ownership and control over the data they generate. This is facilitated through third-party account aggregators and open APIs. The user experience is designed to be simple, transparent, and easy to understand, even for customers with low financial capabilities. It is clearly indicated which data will be shared, between which institutions, for what purpose, and for how long, and customer consent is requested. This system gives unprecedented power to customers, allowing them greater control over their data to access improved financial products and services.[72]

Digital and financial literacy

The various norms-related gaps that last-mile communities face related to education, income, and assets, also include gaps in financial and digital literacy. Therefore, any holistic approach to financial inclusion in the last mile should consider the delivery of digital and financial literacy training. Recent innovations are making this training more effective, such as simplifying education into actionable steps, personalizing content, delivering concise and timely messages, and ensuring easy access.[73] When digital and financial literacy interventions are effective, confidence in using DFS increases and the fear of making mistakes (due to attitudes stemming from gender or social norms) decreases.

Key implementation considerations in the last mile: There are emerging lessons on how to make digital and financial inclusion training for last-mile communities more effective. Some suggestions include conducting periodic assessments with customers, FSPs, and government financial programs to identify new risks and potential gaps in training offerings. This assessment should inform revisions of digital and financial literacy training. Assessments should be informed by a deep understanding of last-mile customer segments to ensure that educational content is sensitive, localized, and culturally appropriate. Training should also consider the different languages and dialects of the target populations, as well as how last-mile communities receive information, emphasizing convenience and ensuring information is close at hand.[74]

[72] Datwani, L. and Raman, A., 2020.
[73] World Bank, 2021.
[74] See Zia, 2017; OECD, 2019.

Example

In 2013, Pakistan's Benazir Income Support Program (BISP) began digitizing payments to women via debit cards and ATM transfers to improve efficiency and cut costs. However, some women were charged fees by unauthorized "ATM attendants" to cash out, and security issues arose. Among many attempts to solve the situation, the BISP used photographs posted next to the ATMs with graphic illustrations designed with prevailing literacy levels in mind. An evaluation of the approach found that this simple education method significantly boosted women's confidence and allowed them to use ATMs without assistance.[75]

2.6. Promoting a regulatory framework that enables financial service delivery to the last mile

Regulation should enable all types of FSPs to participate in the digital finance market and promote financial inclusion in the last mile.

Having a clear vision of how to achieve this, and an internal champion driving this vision, significantly increases the likelihood that these measures will be adopted, implemented, monitored, and achieve maximum impact in supporting last-mile communities.

As new technologies enable new business and operating models, a wider range of actors become involved. This dynamic environment calls for a holistic approach that considers whether the legal framework, institutional structures, supervisory approach, and organizational culture in rule-setting organizations are adequate and flexible enough to accommodate a range of current and future disruptive innovations, with financial inclusion as a primary policy objective.[76]

Policymakers and regulators can be more proactive in monitoring how new technologies evolve, and be more intentional when assessing how the impact on last-mile populations may differ from the general customer base.

[75] World Bank, 2021.

[76] Dias et al., 2023.

Table 1 details some useful considerations when monitoring and assessing the potential of emerging technologies to advance financial inclusion in the last mile.

Table 1. Considerations when monitoring and assessing the potential of emerging technologies to advance financial inclusion

1. Constantly assess the financial sector regulatory perimeter	Policymakers, regulators, and supervisors may need to reassess the policy and regulatory perimeter given the emergence of disruptive innovations that increasingly involve non-banks and new players from outside the financial sector. These innovations will also require regulating new products, services, and technologies.
2. Manage relationships between different types of authorities	Policy and regulatory authorities for different economic sectors should consider updating and mainstreaming their approach to coordination and collaboration since disruptive innovations often have cross-border or cross-sector impacts.
3. Balance different policy objectives	Policymakers and regulators should systematically explore strategies to identify tradeoffs between financial inclusion and the potential benefits of disruptive innovation for all customer segments. This should help pre-empt social interventions that protect vulnerable groups and allow other members of society to benefit from financial innovation.
4. Be mindful of evolving policy tradeoffs as innovations scale	Regulators can better balance the tradeoffs between stability, competition, concentration, efficiency, and inclusion through various actions, including: • Formulating data collection principles and proactively monitoring market conduct; • Establishing frameworks for open banking and data ownership; and • Revisiting restrictions on product tying and linkages between banking and commerce.
5. Monitor market structure and conduct to maintain competition	Innovations in financial markets may result in a greater concentration of players and platforms. This may promote inclusion and efficiency, particularly in LMICs that do not have a robust, competitive, and inclusive banking sector. However, regulators will need to monitor markets and balance tradeoffs between competition, concentration, efficiency, data protection, and inclusion.

Source: CGAP, 2024 and World Bank, 2024

Key implementation considerations in the last mile: The most conducive regulatory frameworks for financial inclusion in the last mile have common features, including ensuring a level playing field among FSPs while allowing various types of providers to offer diverse solutions. This is evident by the role that MNOs and fintechs have played in some markets to advance financial inclusion, and the regulatory reforms that have enabled their participation. Regulation by service, rather than by type of FSP, is complemented by risk-based, tiered due diligence processes for customers and agents. Lower tiers are simplified processes that suit the realities of the target actors while adequately managing related risks. This approach favors regulatory proportionality, or tailoring regulation to the type of service, complexity of the institution, and risks involved. Regulation should also enable viable processes to test new products and business models and learn the tradeoffs between benefits and risks (e.g. sandboxes). These lessons can inform regulatory revisions, allowing regulation and supervision to evolve as the financial sector innovates.[77]

Example

The financial regulator in China has taken a comprehensive, risk-based, and activity-based approach to regulation over the past two decades that could be described as "test, learn, and adjust". The approach has led to a remarkable expansion of DFS, including among most of the country's rural population. One of the first steps was to build an e-services ecosystem that allowed new payment competitors to enter the market, which established the foundation and safeguards for digital wallets and digital data protection. In 2016, the regulator created a coordinating mechanism to develop consistent rules to mitigate the risks observed as the e-payment market grew. Among others, it created a new regulatory framework for non-bank payment institutions with specific transaction limits, KYC requirements, and features. In 2017, non-bank payment institutions were mandated to deposit client funds directly into designated accounts at the People's Bank of China (PBC) and a new payment system (NetsUnion) was established, with the requirement that all third-party payments be cleared through NetsUnion. Finally, it created a central public clearinghouse that included all types of FSPs, and established a national credit information system that included bank and non-bank players.[78]

[77] Staschen, S. and Meagher, P., 2018.

[78] Meagher, P., 2019.

3 Call to action

3.1. Introduction

Financial inclusion can accelerate progress on the Sustainable Development Goals (SDGs) and support positive development outcomes, including greater resilience in the face of economic and climate shocks. It provides tools that enable the poor to manage and cope with growing inequalities, a volatile macro-economic environment, and climate risks. Given these interconnected crises that are eroding progress on poverty reduction and development, financial inclusion is key to reversing these trends.

This policy note focuses on those in the last mile who have yet to benefit from important gains in financial inclusion. It shows how the application of digital technology in financial intermediation is advancing financial inclusion among those who remain excluded. It also shares lessons on how to address the access barriers these last-mile groups continue to face, making financial inclusion more impactful on broader development outcomes, like women's economic empowerment, poverty reduction, access to quality health care and education, and affordable and clean energy.[79] Women, low-income adults, those with low education, and the self-employed, as well as migrants, people living in climate-vulnerable and fragile and conflict-afflicted situations (FCS) are all represented within the last-mile population and should be prioritized in future financial inclusion efforts.

3.2. The way forward

It is time to be both bold and pragmatic. **This policy note calls for a global target to reduce the 1.5 billion people that are financially excluded by half by 2030 and by two-thirds by 2035.**

In addition to these global targets, individual countries with financial inclusion rates below 80 percent should aim to reach that threshold by 2030. Countries where more than 80 percent of the adult population have a financial account should aim to further reduce by half the share of the population without a financial account, using 2024 account ownership rates as the baseline.

Furthermore, 100 percent of adults should have actively transacted at least once in the past year, such as made a deposit, withdrew funds, or made or received a digital payment by 2030.

[79] UNSGSA, BTCA, UNCDF, CGAP, and World Bank, 2023.

Additionally, 100 percent of adults should have made or received a digital payment in the past year by 2035.

Countries should also aspire to equitable account ownership, by setting a target of 80 percent account ownership for both women and men, and 80 percent account ownership for adults in the poorest 40 percent of households as in the wealthiest 60 percent by 2035. Achieving these targets will require unified and urgent action from the public and private sector alike, especially in countries that are in fragile and conflict-affected situations. Relevant stakeholders can consider the following key lessons captured in this policy note:

- Governments can rethink financial inclusion and economic development strategies to explicitly prioritize last-mile population segments, particularly women. A whole-of-government approach—that includes policy, regulation, and supervision, as well as capacity building, research and data collection—will be needed to implement good practices, measure their impact, and adjust to changing dynamics. All this should be done in close dialogue and coordination with the private sector, which will play a key role in delivering inclusive financial market solutions to the last mile.

- Financial regulators play a key role in shaping guidance, incentives, and rules to level the playing field and enable all types of financial service providers to innovate for financial inclusion. Regulations should also focus on reducing barriers to access and use of financial services that are influenced by discriminatory social norms. Regulators are well placed to redouble financial consumer protection and data protection efforts, given the new risks arising from rapid digitalization in the financial sector.

- Donors and technical partners can prioritize technical assistance and support governments and the financial industry to reduce the barriers faced by last-mile population segments. This can include structuring public-private financing mechanisms to help reduce risk of serving last-mile communities.

- Financial institutions can invest in developing the vision, processes, and internal capacities to first understand financial needs in the last mile and, second, develop tailored products and support services that respond to such needs.

- Investors can support financial inclusion by investing in financial service providers that are actively serving the last mile, in addition to partnering with both public- and private-sector actors to promote more affordable and flexible capital to underserved clients.

- Civil society organizations (CSOs) play a key role in ensuring that diverse consumer voices and experiences are heard across the public and private sector, and that policies translate into credible progress in the lives of customers. CSOs are integral to strategy and policy development, and the implementation of financial inclusion programs for underserved groups in local c ommunities.

Annexes: Public policies and investments to accelerate financial inclusion in the last mile: women, migrants, and fragile and conflict-affected situations

Annex 1. Women's financial inclusion

For the first time in the last decade, the gap in access to financial services between men and women decreased to four percentage points. Although the gender gap in LMICs is slightly larger at 6 percentage points, this still marks significant progress compared to the 9 percent gender gap that persisted for several years.[80] This progress has been achieved through technology-enabled, public-sector innovations, such as G2P cash transfers in Brazil and Indonesia, digitizing wage payments in Bangladesh, and women-focused account opening campaigns in India. These efforts led to hundreds of millions of women taking a foundational step towards financial inclusion by opening their first account.

Despite these successes, over 800 million of the more than 1.4 billion global unbanked—or 55 percent—are women. At the current rate of progress,[81] it will take more than 100 years to fully close the gender gap. While recent efforts by the development community and private institutions have provided valuable insights into the types of customer-centric solutions needed to advance women's financial inclusion (e.g. the MFI group loan model and Village Savings and Loans Associations, or VSLAs), new strategies may be necessary to help women who are still not part of the formal financial system.

The next chapter for women's financial inclusion (WFI) will require broader, more coordinated measures that integrate the insights and lessons the financial sector has amassed with broader, system-level interventions across the financial sector and policymaking landscape. This will require: 1) establishing more collaborative efforts and partnerships across financial institutions, policymakers, and industry stakeholders, and 2) a stronger commitment to be gender-intentional from the outset in all financial products, policies, and programs.

Challenges and future directions

Current efforts to advance WFI focus on addressing infrastructural hurdles, such as unequal access to IDs and mobile phones,

[80] Global Findex Database 2021: https://globalfindex.worldbank.org.

[81] Measured as the reduction in the gender gap between the last two Global Findex surveys.

which hinder access to technology-enabled financial products. Programs that build women's capability and trust in the financial system have also been introduced to expand women's access. Beyond these well-known challenges are four less discussed and more systemic barriers that must be tackled to reach the world's 800 million unbanked women:

1. Gender norms that restrict women are reflected in financial sector development and policymaking: It is well understood that gender norms affect women's mobility, agency, and ability to interact with the financial sector. However, institutional and policy reforms are also needed to mitigate the effects of gender norms. Examples include: 1) financial sector guidelines that transform processes, operations, and staffing to be less discriminatory; 2) policy reforms, in matters as diverse as inheritance laws, alternative data use, and collateral requirements; and 3) ensuring wide availability of capital and resources that encourage "norm-busting" product design using new digital technologies, data, and delivery channels. For example, in 2017, Pakistan's Benazir Income Support Program, an unconditional cash transfer program for women, adopted a biometric verification process that streamlined the payment process and required female beneficiaries to collect funds in person. This switch to biometrics saw a tripling in the number of women present to receive cash payments and shifted gender norms, leading to women having greater control over the cash transfer and increased mobility.[82]

2. Lack of gender-disaggregated data and insights to develop customized financial products and services for different segments of women: Financial gender data is foundational to equitable financial systems, but in most markets, supply-side gender-disaggregated data (S-GDD) is scarce. Most financial institutions lack data and insights on women's varied risk appetites, ambitions, and business acumen, and have a limited understanding of the unique challenges women face, such as higher interest and rejection rates for loans, lower savings rates, or higher complaint rates.[83] FSPs may therefore struggle to assess whether existing products are providing value to female customers and identify new business opportunities to serve different segments of women, often leading to the adoption of a "bare minimum" strategy to serve women.

3. Financial services are not designed to support or advance women's livelihoods: Efforts are underway to link financial services with livelihoods, whether by embedding finance within employer or gig platforms or by providing finance for entrepreneurs engaged in formal or informal e-commerce. However, governments and funders must help to facilitate, develop, and scale these interventions. The next stage of WFI should be enabling new forms of partnerships with non-financial actors, focused on employment and entrepreneurship, to tie WFI efforts more closely to women's economic participation.

4. Individual WFI programs, while successful, have not scaled sufficiently to move the needle: A scan of WFI pilots and programs[84] shows a predominance of interventions that do not scale or whose effects are not sustained after

[82] Clark, J.M., et al., 2022. "Using Biometrics to Deliver Cash Payments to Women : Early Results From an Impact Evaluation in Pakistan - Evidence Note" (English). ID4D; Identification for Development. Washington, D.C.: World Bank Group.

[83] CGAP. 2024. "Supply-Side Gender Disaggregated Data for Advancing Financial Inclusion".

[84] CGAP's unpublished research on WFI progress globally, with a spotlight on India and Morocco.

funding ends. While large government programs, like G2P programs, have enabled account ownership for women, more concerted efforts are needed to link individual, disparate efforts to collaborative mechanisms that aggregate and elevate insights and lessons at a higher level. For instance, positioning insights from successful pilots and programs in the national or global public arena, and more concertedly matching public funds for private innovation.

Conclusion

The scale of these challenges demands solutions at the highest levels, as well as ensuring that efforts to design for women's realities, livelihoods, and entrepreneurial journeys remain context-specific. The best actors for this are national governments, which have the power to convene public and private actors with the right expertise and set national priorities to align efforts. Looking ahead, such mandates must be rooted in strategies that are high-impact, customer segment-specific, and focused on key levers to transform WFI. These levers are: 1) developing or improving the national data infrastructure for sex-disaggregated data in the financial sector, 2) establishing rules and guidelines to address gender norms in policy and within financial institutions, especially those that serve the bottom of the pyramid, and 3) ensuring WFI efforts strengthen women's labor market and economic participation through new guidelines, partnerships, and incentives that harness private innovation.

Achieving a step change in WFI will require a tangible shift in how market actors design, implement, and communicate WFI programs of the future. The financial inclusion community and funders can have more impact by channeling resources and influence to support national governments in ushering in a coordinated, whole-of-market response to advance WFI.

Annex 2. Financial inclusion for migrants

Migrants worldwide grapple with financial inclusion challenges stemming from labor market shifts, climate change-induced migrations, forced displacement, and systemic financial barriers. While labor market transformations driven by technological advancements and globalization offer opportunities, they also present obstacles to accessing employment. Climate change-induced migrations compound these challenges, as environmental degradation and natural disasters force individuals to flee their homes, often with meager financial resources. Forced displacement due to conflicts and political instability also make the financial lives of migrants more precarious. Conflicts disrupt livelihoods, destroy infrastructure, and displace populations, leaving migrants with few resources to rebuild their lives. The protracted nature of many conflicts prolongs displacement, financial instability, and dependency on humanitarian aid.

Compounding these challenges is the failure of the global financial system to adequately cater to migrants with banking and financial services that fit their needs. Women migrants are even more excluded due to gender biases and

inequalities. Discriminatory practices, language barriers, and lack of appropriate documentation all prevent migrants from accessing banking and financial products, forcing them to rely on informal financial channels that are more expensive and less secure. These systemic barriers further entrench migrants in cycles of poverty and marginalization, hindering their ability to achieve financial resilience and economic integration in host countries.
281 million people are estimated to be international migrants—people who were born abroad and/or hold foreign citizenship.[85] Sixty percent are labor migrants[86] and 42 percent are displaced.[87] Regardless of their origin or destination, access to affordable financial services is a crucial determinant of economic integration and overall financial security. Despite encountering formidable obstacles, migrants diligently strive to fulfill their basic financial needs and secure their futures. Reliance on remittances, often a lifeline for basic sustenance or for long-term aspirations like homeownership, entrepreneurship, or education, underscores the significance of financial inclusion for migrants.

Challenges and future directions

The same financial products that, at home, could help support financial security and resilience and reduce vulnerability, such as liquid savings, lines of credit, insurance, and pensions, are seldom easy to access outside one's home country. Recent data on the financial inclusion of migrants in the intra-regional corridors of West and Central Africa—Cameroon, Côte d'Ivoire, and Senegal—reveal that **only two out of 10 migrants had a bank account, often in combination with a mobile wallet.[88] Seven out of 10 migrants were using mobile wallets, but these were rarely connected to other financial services. Significant obstacles include complex onboarding processes, language barriers, limited financial knowledge and capabilities, and stringent documentation requirements.** Moreover, 27 percent of migrants distrusted financial institutions, underscoring the need for enhanced trust and safety measures.

The same data in West and Central Africa reveals significant potential to expand financial services for migrants. While mobile wallets and bank accounts are widely used for savings **(81 percent of migrants save formally), access to credit is limited, with only 30 percent using loans and just 7 percent borrowing from formal institutions.** This indicates potential demand for formal credit, including through dedicated loan facilities for migrants. Insurance and pension access is also low, with only 9 percent of migrants having adequate social protection. Most migrants (over 80 percent) receive wages in cash, instead of through digital remittance channels, which could reduce costs. Financial decision-making within households reveals gender disparities, with men predominantly controlling finances. Additionally, about one-third of migrants worry about meeting monthly expenses, with 58 percent finding it challenging to establish emergency funds.

Building inclusive financial systems for inclusion and resilience

1. Breaking barriers to formal financial services:
Despite the clear need, many migrants remain excluded from formal financial services. This is exacerbated by **the prevailing notion (based on**

[85] UN DESA, 2021.
[86] ILO, 2021.
[87] UNHCR, 2023.
[88] UNCDF, forthcoming.

a lack of data) among FSPs that migrants are not a viable market segment. This has resulted in **a lack of tailored products and services, such as language support and culturally sensitive staff,** which further discourages engagement with formal financial institutions. Nevertheless, successful initiatives focusing on **language and cultural adaptation,** along with targeted financial literacy programs and leveraging remittances as a gateway to financial inclusion, offer promising ways to overcome these barriers. When RAKBANK in the United Arab Emirates (UAE) decided to hire women agents, they experienced a significant increase in the onboarding of women migrants among their clients.[89] Efforts to enhance **migrants' financial literacy,** exemplified by SentBe,[90] a women-focused financial literacy program in Korea, signify a growing recognition within the financial sector of the need to **address this underserved demographic and foster their financial resilience.** In 2020, Nepal's IME Pay[91] combined its existing international remittance and mobile wallet services to enable customers to receive international remittance transfers directly into their mobile wallets, while also using the same ecosystem for public sector insurance and pension access for migrants.

2. Empowering migrants through enabling policies and regulations: Establishing an inclusive regulatory framework for the financial inclusion of migrants requires enabling and strengthening interdependent policies and regulations. Licensing considerations must encompass the full scope of remittances and FSPs, with tailored requirements and models that **support both bank-led and non-bank-led entities,** ensuring diverse participation while maintaining systemic stability. To enhance risk-based, tiered access to financial services for migrants, it is crucial **to implement inter-regional and intra-regional policies that recognize and accept foreign identification documents** in host countries' regulatory frameworks. The regulatory environment should also address foreign exchange regimes and restrictions, balancing the need for monetary stability with the accessibility of remittance services. Ensuring **fair access to payment systems infrastructure** is critical, with regulations that promote innovation, competition, and equitable participation for all financial institutions, including through agent engagement. AML/CFT measures must be rigorously enforced, yet balanced **with simplified KYC requirements,** supported by digital identity systems that enhance security and accessibility. **Consumer protection regulations, including transparency, data protection, and effective dispute resolution,** are essential for safeguarding the interests of migrant families. Additionally, robust payment system infrastructure, both domestic and cross-border, should be supported by **bilateral and multilateral agreements to ensure seamless and efficient remittance flows.** Collectively, these regulations create a policy environment that not only facilitates access to affordable finance for migrants, but also strengthens financial inclusion, private sector innovation, and financial resilience within their host and home communities.

3. Developing tailored financial products for social protection: The need for innovative products to **foster migrants' social protection,** including **tailored insurance and pension products,** is critical. No more than three out of every 100 migrants from low-income countries have access to **portable social**

[89] Wachira, M., Kamau, J., and Gonazalez-Caro, A. 2022. "Financial Inclusion of Blue-collar Migrants in the UAE: The Case of RAKBANK and Edenred". UNCDF.

[90] Gonazalez-Caro, A., Rashid, A.A., and Gurung, A. 2024. "Remittances and Financial Inclusion: Understanding the Needs of Migrants Residing in South Korea". UNCDF.

[91] Rashid, A.A., Cao, H., and Gravesteijn, R. 2023. "Integrating Remittance and Mobile Wallet Services: A Case Study of IME Pay in Nepal". UNCDF.

security schemes that could **strengthen their financial resilience.**[92] While still in an early stage of development, existing migrant insurance and pensions offer opportunities for financial resilience. For example, the Ministry of Expatriates' Welfare and Overseas Employment in Bangladesh recently redesigned its mandatory migrant insurance scheme. For the same price, it doubled insurance coverage for life, increased the coverage period from two to five years, and added unemployment indemnity for the initial six months of migration. More than 1.3 million migrants were insured through this policy in the last year alone, 6 percent of whom were women. In recent years, there has been a consistent shift towards public- and private-sector initiatives focused on migrant social protection, as evidenced by similar efforts in India, Nepal, and Sri Lanka, as well as in key destination countries for migrants. Notably, several countries in the Middle East are now implementing measures such as End of Service Gratuity and Unemployment Insurance for migrant workers.

4. Leveraging portable digital identity for affordable financial access: Having a portable digital ID allows individuals to use the digital identity issued in their home country for authentication across borders, eliminating the need for face-to-face identity verification. This technology **helps overcome communication, travel, and logistical barriers that migrants face, and broadens access to financial services,** especially for vulnerable demographics. However, **several challenges impede its development,** such as the **lack of internationally consistent standards for KYC and digital identity,** which affects interoperability, and the **lack of regulatory clarity and data protection issues that hinder trust in digital identity adoption.** Efforts are underway in LMICs to address these challenges. In the East African Community (EAC), a biometric e-passport has been operational in Kenya since 2022.[93] This e-system improves efficiency by removing identity verification barriers and includes security measures against falsification and identity theft. The Economic Community of West African States (ECOWAS) has developed the National Biometric ID Card to promote free movement by replacing residential permits and visas.[94] This ID card, currently used for travel, has been deployed in Ghana, Senegal, and Guinea Bissau under the ECOWAS-European Union Project. In Asia, the Association of Southeast Asian Nations (ASEAN) is implementing the Digital Integration Framework to enable digital payments and real-time secure verification of user identities.[95] These initiatives collectively address various challenges, including lack of legal identification, cybersecurity, and interoperability of ID systems, to promote seamless movement and financial inclusion across borders.

Conclusion

As of 2023, the number of international migrants is estimated to have reached 302.1 million, including a significant number of forced migrants and displaced individuals due to conflicts and climate change. Economic migration continues to be a critical component, with approximately 252 million economic migrants globally.[96] This indicates a complex landscape driven by both voluntary and forced movements, underscoring the need for targeted

[92] UNCDF. 2021. "Scaling the Next Frontiers in Migrant Insurance and Pensions".

[93] Butchley, J. 2023. "Kenya: Introduction of Biometric E-Passport". Envoy Global.

[94] Mayhew, S. 21 December 2015. "Distribution of ECOWAS Biometric ID Cards to begin in January 2016".

[95] ASEAN Digital Integration Framework.

[96] Ratha, D. et al. 2024. "Remittances Slowed in 2023, Expected to Grow Faster in 2024". World Bank Group-KNOMAD, Washington, DC.

financial inclusion strategies that cater to the diverse needs of this growing population. As economic and forced migration persist, financial inclusion becomes crucial for migrants to build credit histories, secure insurance, and manage financial risks. These services are vital not only for enhancing individual financial security, but also for contributing to the broader economic stability and growth of host and home countries.

Achieving meaningful financial inclusion for migrants requires targeted efforts in three critical areas. First, strengthening regulatory frameworks is essential, particularly the recognition of foreign IDs, promoting risk-based, tiered access to financial services, and ensuring seamless cross-border transactions. This demands coordinated inter-regional and intra-regional policies that support both bank-led and non-bank-led service providers, fostering competition while maintaining systemic stability. Second, it is crucial to expand access to tailored financial products, including portable social protection schemes, insurance, pensions, and accessible credit facilities, to address the unique financial needs of migrants and ensure their economic well-being across borders. Finally, leveraging digital identity systems through the development of portable digital IDs and the establishment of internationally consistent KYC standards will enable migrants to access financial services globally. Robust data protection must underpin these efforts to build trust and facilitate economic integration. By focusing on these three areas, policymakers can create a resilient and inclusive financial ecosystem that empowers migrants and supports their contributions to both their host and home countries.

BOX 2 Project Greenback

Project Greenback is an initiative by the World Bank started in 2011 that focuses on improving the market for remittances based on the experiences of end users. It has been implemented in over 11 countries and aims to increase efficiency in the remittance market by addressing the real needs of migrants and their families. The project promotes the digitalization of remittances and financial inclusion for remittance beneficiaries.

Project Greenback follows a bottom-up approach, starting with a specific community or "champion city" to analyze remittance issues and understand the needs of end users. The project then collaborates with providers, regulators, national authorities, and other stakeholders to pilot strategic initiatives in financial education or new financial products for remittance senders and receivers. The goal is to find solutions that benefit all parties and can be scaled up for broader application.

Project Greenback provides a flexible set of activities that span the remittances market, such as: (1) assessing the learning needs of remittance senders and receivers and improving their digital and financial literacy, (2) working with FSPs to ensure better products and delivery of financial education, and (3) working with regulators to convey demand-side information for more informed policymaking.

Given the specific characteristics of remittance beneficiaries, such as potential lack of official identification for both senders and receivers, low and irregular incomes, and limited digital and financial literacy, it is crucial to design products that meet their needs and improve their financial and digital literacy. These factors play a key role in the digitalization of remittances.

Project Greenback complements the World Bank's efforts in financial inclusion and infrastructure development, aiming to bridge information gaps and promote coordination among stakeholders at the country level. The impact of the project can extend beyond the World Bank's involvement as effective initiatives are scaled up by relevant stakeholders.

Source: World Bank

Annex 3. Financial inclusion in fragile and conflict-affected situations (FCS)[97,98]

Financial inclusion is critical for economic stability and development throughout the world, and even more so in countries experiencing fragile and conflict-affected situations (FCS). Equipping people with even basic tools to access funds and make payments in active conflict zones, in the aftermath of climate disasters, or where institutions and rule of law may be extremely weak, is a development imperative, especially as the global fragility landscape continues to deteriorate[99]—by 2030, an estimated 86 percent of the world's poor are expected to live in fragile contexts.[100] This section provides an overview of the current state of financial inclusion in FCS, including challenges, suggested approaches, and opportunities to make financial inclusion work for FCS.

Fragility, conflict, and violence significantly constrain the development of robust financial sectors and inhibit access to financial services to people living in FCS. Fifty-seven percent of adults in FCS are financially excluded, representing approximately 319 million adults, of whom 56 percent are women, 47 percent are poor, 46 percent reside in rural areas, and 46 percent are out of the formal workforce. Women are particularly affected, as they bear the impacts of crises and conflict disproportionately, have approximately 70 percent of the legal rights of men in FCS environments, and only benefit from 40 percent of these rights in practice.[101]

Nevertheless, the challenges faced by the unbanked in accessing financial services in FCS parallel those of the underserved in the rest of the world. Physical accessibility and lack of ID are some of the biggest reported demand-side barriers to financial inclusion in FCS: 36 percent cite that banks are too far away, and 33 percent lack the documents required to open bank accounts (with greater prevalence in LMICs but similar to low-income countries) (see Figure 6 in Chapter 1).

Digital public infrastructure (DPI)—supported by connectivity and the digitalization of payments—are critical enablers of account ownership, but are typically lacking in FCS. Forty-two percent of unbanked adults do not own a mobile phone (25 percent in LMICs) and 78 percent do not have internet access (67 percent in LMICs). Moreover, credit to the private sector in all FCS countries in 2021 was merely 15.4 percent of GDP (116.7 percent in LMICs). Even this figure is an overstatement, however, since it includes middle-income FCS countries. In the poorest FCS economies, such as South Sudan or Afghanistan, credit to the private sector barely reached 3 percent of GDP.[102]

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97 FCV refers to situations in which fragility, conflict, and/or violence are present, but does not refer to any specific list of countries or situations. FCS refers to countries that appear on the World Bank Group's list of Fragile and Conflict-affected Situations. The FCS list is issued by the World Bank Group annually based on the established classification methodology. The countries on the FCS list are a subset of the broader range of countries affected by FCV.

98 The World Bank distinguishes countries in fragility and/or conflict situations (FCS), using the following definitions: 1) Fragility: a systemic condition or situation characterized by an extremely low level of institutional and governance capacity which significantly impedes the state's ability to function effectively, maintain peace and foster economic and social development; 2) Conflict: a situation of acute insecurity driven by the use of deadly force by a group (including state forces, organized non-state groups, or other irregular entities) with a political purpose or motivation. Such force can be two-sided (involving engagement between multiple organized, armed sides, at times resulting in collateral civilian harm) or one-sided (in which a group specifically targets civilians).

99 World Bank Group. 2020. "World Bank Group Strategy for Fragility, Conflict, and Violence 2020–2025".

100 OECD. 2022. "States of Fragility 2022".

101 World Bank, Women Business and the Law, 2021.

102 World Bank. 2023. "World Development Indicators".

Challenges and future directions

FCS is not a homogeneous categorization. Fragility, conflict, and violence are intertwined and multifaceted. Countries may perform well in some areas (e.g. have functioning institutions providing basic services) while being ineffective in others. Fragility is therefore assessed across various dimensions to create an aggregate measure.[103] Conflict and violence can evolve quickly, can afflict an entire country or pocketed regions, and can be linked to the fragility of local institutions or not (e.g. Sri Lanka's internal conflict was not linked to institutional fragility and Haiti's violent organized crime is not necessarily related to political conflict).[104] External factors can also arise to influence these factors (e.g. Ukraine possessed strong external support and well-established infrastructure, which has now faced critical damage in the ongoing war).

No two FCS are identical, yet they face common challenges that can be addressed in ways that support financial inclusion:

1. FCS are marked by weak institutional frameworks and rule of law, political instability, and economic volatility, which hinder financial development and inclusion and exacerbate fragility. [105] Frequent political changes and economic shocks create uncertainty, deterring investment in financial infrastructure and services. Weak governance and regulatory frameworks complicate the enforcement of financial contracts and the protection of property rights in FCS countries. Concurrently, the lack of financial inclusion entrenches economic and social inequalities and stifles growth. Moreover, the need for digital payments is greater in many FCS contexts due to factors such as shortage of physical cash, risks of theft, and the need to channel government and international support to affected communities in a timely manner. *Central banks play a singular role in improving these outcomes, as they are the key institution managing monetary and exchange rate policy, and undertaking sound financial sector oversight, including financial market infrastructure supervision–all essential to strengthening and preserving financial stability. In fact, central banks are often the only credible institution in FCS contexts.*

2. Potential challenges relating to AML/CFT compliance in FCS can severely affect the ability of domestic financial institutions to maintain international linkages critical for supporting imports, exports, and remittances from migrant workers and the diaspora. *Adopting risk-based and proportionate approaches tailoring financial regulation and supervision to the specific risks (and capacities) of fragile states can suit the FCS context. Weak institutional capacity and impaired rule of law make AML/CFT compliance particularly challenging. However, the inherent flexibility in the international standards allow the crafting of risk-based and proportionate policies and support the advancement of financial inclusion.* For example, in Afghanistan, simplified CDD procedures have been implemented to accommodate those without formal identification, demonstrating a flexible approach. In the case of Somalia, a multi-pronged and coordinated approach was successful in

[103] For example, the World Bank's Country Policy and Institutional Assessment (CPIA) score rates countries against a set of 16 criteria grouped in four clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions.

[104] World Bank. 2023. "Payment Systems and Financial Infrastructures in Economies Affected by Fragility, Conflict and Violence: Global Experiences and Recommendations for Policymakers."

[105] World Bank. 2024. "Financial Sector Policy in Fragile States: A Primer".

restoring a basic level of international linkages, including strengthening institutional capacity, applying risk-based and proportionate policies, regulating non-bank payment service providers, and external accreditation of compliance processes.

3. Payment systems and financial infrastructure are frequently disrupted due to factors like contested legitimacy, lack of trust, destruction of infrastructure, reliance on informal institutions, and restrictions on international payments and trade.[106] Disruptions often lead to markedly low account ownership and digital payment usage (e.g. account ownership in Afghanistan and South Sudan is below 10 percent). The devaluation of the Somali shilling, caused by counterfeit currency printed by armed groups, is illustrative. Building and reconstructing financial infrastructure in FCS involves challenges such as delays in procurement processes, issues with physical infrastructure, and difficulties in achieving financial sustainability. *To create resilient payment systems that can operate in such challenging environments, focus on building trust and integrating informal financial service providers in formal systems. Overly complex regulatory frameworks that cannot be enforced and ignore informal providers are common pitfalls. Frameworks should be realistic, enforceable, and prioritize inclusivity to enhance system resilience.*

4. Basic digital and financial infrastructure for digital financial services are often absent in FCS. *DFS can still play a transformative role in fragile states, but establishing basic digital and financial infrastructure must be done by tailoring it to the needs and capacities of fragile states and leveraging social payments, including humanitarian cash transfers, for opportunities to digitalize (see Box 3).* Successful examples include Somalia's digital payment ecosystem and Mozambique's digital payments to social assistance beneficiaries. Somalia's digital payment ecosystem has seen a significant increase in the number of users and transactions, and its mobile money services are among the most widely used in the world. These services have been brought under a robust, risk-based regulatory framework, with ongoing efforts to make payment services interoperable, allowing different mobile money platforms to work together seamlessly. Mozambique's digital payments have enhanced the efficiency of social assistance programs and included previously unbanked populations.

5. In addition to a lack of basic digital and financial infrastructure, local financial institutions are often analog. *The digital transformation of non-bank financial intermediaries (e.g, MFIs and savings and credit cooperative societies (SACCOS) is therefore also critical.* For example, in Burkina Faso, the Democratic Republic of Congo, and Burundi, governments have been supporting the digital transformation of non-bank financial intermediaries through the creation of shared information and management systems. Such local institutions serve as a bridge between the financial system and institutions in the rest of the country.

[106] World Bank. 2023. "Payment Systems and Financial Infrastructures in Economies Affected by Fragility, Conflict and Violence: Global Experiences and Recommendations for Policymakers".

6. Micro and small enterprises represent a high proportion of FCS economies and can play an impactful role by creating jobs and providing critical goods and services, but are chronically underserved. They can *be reached by supporting non-bank financial service providers, such as MFIs and cooperative financial institutions, which have played a crucial role in providing financial services to underserved populations in FCS (see Box 3). These institutions often remain operational longer than commercial banks during conflicts, offering a financial lifeline to their communities. However, the challenges of FCS contexts greatly impact both the supply and demand for MSME financing, calling for a greater role for government and donor community.* Successful examples include carefully designed financing structures using partial credit guarantees either by government or donors (as seen in Afghanistan and West Bank and Gaza), and matching grants. Pure grants are needed in FCS contexts, in particular to deal with exceptional circumstances. For example, emergency resilience grants were provided in Yemen to farmers and fishers to support food production and jobs within conflict-affected communities. Technical assistance to improve both the supply and demand side are also critical in FCS. For example, with technical support from different programs, including international donors, banks in Libya and Yemen have opened SME units.[107]

7. As noted above, women and women-owned businesses face greater obstacles to accessing finance in FCS. To support women and women-owned businesses, property rights need to be strengthened (including enforcement of equal inheritance rights) so that women have control over assets that can serve as collateral and to access finance. Economies with supportive frameworks for women's legal rights are associated with higher levels of financial inclusion.[108] However, examples of progress in Ethiopia and Nigeria demonstrate the longer-term nature of investment in these reform efforts, including the importance of establishing supportive frameworks to achieve these outcomes. The legal progress can be hampered due to prevailing customary norms, weak enforcement mechanisms, and conflicting rules and norms.[109]

Conclusion

Whereas shallow financial systems and financial exclusion have exacerbated fragility, virtuous cycles are possible. Financial inclusion can contribute to a population better able to cope with shocks and volatility and equipped to meet basic needs, potentially reducing fragility. Financial inclusion in FCS requires a combination of foundational and adaptive interventions that ensure regulatory simplicity and enforceability while integrating informal players, including local market facilitators. Financial sector authorities frequently operate in environments where there is a trust deficit and informal actors have outsized roles. The approaches and policy measures outlined here provide options that are strengthened when undertaken as collaborations, including coordination between governments, international organizations, the private sector, and trusted local actors. Collaborations can support robust financial infrastructure and help share best practices, mobilize resources, and

[107] USAID, 2022.

[108] World Bank, Women Business and the Law, 2024.

[109] World Bank. 2023. "Women's Land Rights in Sub-Saharan Africa: Where do we Stand in Practice?"

provide technical assistance. The success of mobile money in Somalia demonstrates the potential for meaningful progress even in the most challenging context. Five overarching lessons can be gleaned from financial inclusion successes in FCS:

- Start with a rapid but comprehensive diagnosis.
- Be wary of copying institutions, infrastructures, or regulation from non-FCS markets without careful consideration and adaptation to the local context.
- Embrace agile project management approaches.
- Create resilient systems by considering contingencies and redundancies.
- Consider the impact of informality and, where feasible, integrate and harness trusted informal actors.

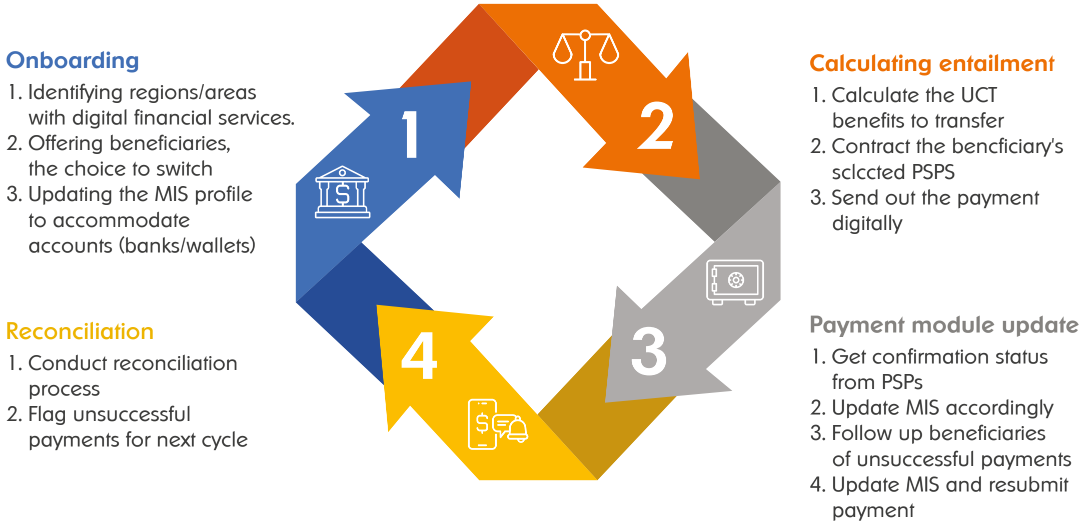
BOX 3 International cooperation, flexible partners and humanitarian social payments: the Unconditional Cash Transfer Program in Yemen

Due to continued armed conflict, Yemen has become the poorest nation in the Middle East and North Africa (MENA) region. Almost 50 percent of its population remains extremely economically vulnerable. The ongoing conflict has resulted in a discontinuity in fiscal, central bank, and trade policies between the Internationally Recognized Governement (IRG) of Yemen based in Aden and the de-facto authority (DFA) in Sana'a. In 2016, the Central Bank of Yemen (CBY) was divided into the CBY in Sana'a and the CBY in Aden. The Aden CBY in the south, which has access to international financial markets, has progressively turned to printing new currency notes to cover the government's deficit, while the CBY in Sana'a continued using the old notes. Each bank prohibited the use of notes issued by the other CBY within its own territory, leading to the use of two different currencies, with two different values and exchange rates.

To help address these needs, through a joint UNICEF/UNDP, World Bank, Yemeni Social Fund for Development program, several social protection projects were introduced, including the Unconditional Cash Transfer (UCT) program covering 1.3 million households in Yemen—29 percent of the population. The program initially made cash payments to households, but in 2023, an agreement was reached with UNICEF to pilot digital payment options for UCT beneficiaries. The digitization program aimed to transfer UCT payments to recipients' bank or e-money accounts opened at participating financial institutions, and link ATMs, agents, and exchange houses as access points.

To address the lack of access to mobile devices and mobile network coverage, the program used cards. It also adopted the use of one of the two currencies based on the residency of the beneficiary, and incentivized users to enroll for ID cards by covering the cost of getting an ID card. However, there have been challenges in this transition. Beyond infrastructural constraints, including lack of mobile network coverage, specific population groups may be hindered in their access to digital payments. For example, older adults or beneficiaries living with disabilities who rely on home visits to receive their benefits. Given the conservative nature of society in Yemen, women are also less likely to have identification documents and mobile phones.

Figure 3. Stages of piloting a digital UCT



Shifting to digital G2P payments nevertheless has many potential benefits that are hoped to be observed in Yemen as this solution becomes fully implemented: (1) improved efficiency of making payments by lowering the cost of disbursing and receiving them, and by increasing the speed of payments; (2) increased transparency of payments, and therefore less likelihood of leakage between senders and receivers; (3) enhanced security of payments and therefore lower incidence of fraud or other financial crime; (4) an important entry point into the formal financial system; (5) increased privacy of payments and control over the funds received, and therefore greater economic empowerment for women.

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