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CDF



# INCLUSIVE FINANCE

INCREASING ACCESS TO FINANCIAL SERVICES

# THE CHALLENGE

Today 2.5 billion adults - more than half of the world's working adults - are excluded from formal financial services. This is most acute among low-income populations in emerging and developing economies, where approximately 80% of poor people do not have access. Including them in the formal economy is a critical contribution to poverty reduction, tackling inequality, and fostering inclusive growth.

Access to formal financial services is essential to the ability of individuals and households to manage their lives and build their futures. Positive correlation has also been found between increased financial inclusion and lower inequalities, showing that financial inclusion promotes pro-poor growth.

As a means to broader development goals, financial inclusion is critical to the Post-2015 Agenda. Access to finance cannot be the privilege of a few, but should be available to all and can be a means to reduce inequalities, particularly for the most vulnerable, including those living in rural areas, women and youth.

Access to financial services is also essential to the ability of businesses to invest, employ people, and grow and is therefore an essential element of an inclusive growth. It is also tied to the financing for development agenda, especially in relation to mobilization of domestic resources, given the direct links between domestic saving rates and long term economic growth.



# OUR APPROACH

UNCDF's mission is to reduce poverty in the world's 48 least developed countries (LDCs); promoting financial inclusion is one of its key strategies for doing so. UNCDF focuses first and foremost on LDCs with a special commitment to challenging environments – remote rural areas and countries emerging from conflict.

For UNCDF, **Financial Inclusion** is achieved when all individuals and businesses have access to and can effectively use a broad range of financial services that are provided responsibly, and at reasonable cost, by sustainable institutions in a well-regulated environment. There is a strong consensus that increased levels of financial inclusion – through the extension of savings, credit, insurance, and payment services – contributes significantly to sustainable economic growth.

UNCDF is supporting **31 LDCs** (20 in sub-Saharan Africa and 11 in Asia), and serving **8 million active clients** through the Financial Service Providers (FSPs) in which it invests. UNCDF has focused on supporting savings-led FSPs, given the dual benefit of FSPs using local sources to fund growth and positive findings from client impact studies on the benefits of savings. **Sixty-five per cent** of clients are women.

UNCDF has strengthened and continues to improve its systems to support financial inclusion; it is ranked in the top two of all agencies scored by CGAP's SmartAid reviews since its inception: "Over the years, UNCDF has established a solid base of good practice, whose oversight and execution lie with seasoned and competent professionals. Many of its strengths are reference points for peer institutions." (CGAP SmartAid Report 2013).

## Why Financial Inclusion

"The poor are typically excluded from formal sector opportunities. They live and work in the informal economy—not by choice, but by necessity. They are both producers and consumers, and they need financial access to build assets, create and sustain livelihoods, manage risks, and smooth consumption.

Without access to formal financial services, poor families must rely on informal mechanisms: family and friends, rotating savings schemes, pawn-brokers, moneylenders, money under the mattress. These informal mechanisms are insufficient, can be unreliable, and are often very expensive. Thus, financial exclusion imposes large opportunity costs on those who most need opportunity" (CGAP, Strategic Directions 2014-2018).

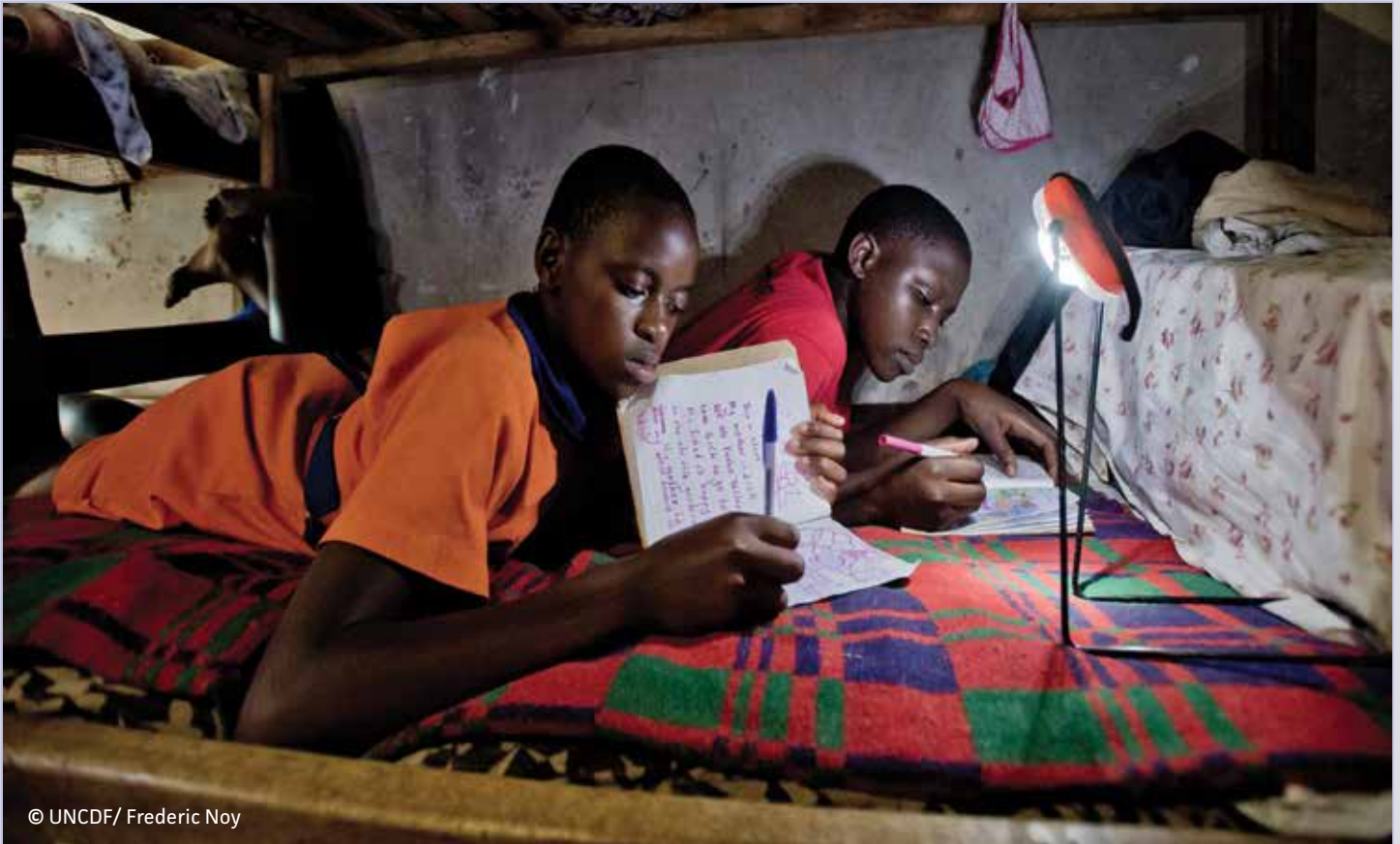
# IN FOCUS

Mrs. Honewa Kuwik and her husband have been Oil Palm growers for the past 20 years in the Galai oil palm Land Settlement Scheme area in Papua New Guinea. Like many rural people, they saved their money by burying and hiding it in and around their home, taking turns to stay at home, in fear that their savings would be stolen.

One day, Honewa saw a MiCash Agent sign at her local trade store, West Eagle Trading. She approached the agent, Mrs. Petronila Kinga, and explained that she wanted to open a MiCash Bank account on her mobile phone and deposit some money. Then she took out an old plastic shopping bag, removed layers of rags and held out a collection of dirty crumpled notes and dusty old coins. "Where did you get the money from?" asked the agent, smiling as she opened the account and transacted the deposit.

"I am cleaning my house now," Honewa replied. "I have taken out all the money I have been hiding. In the past, I never felt free to leave my house, but now I can move around freely as I choose."

MiCash is safe, flexible and easy to manage. For rural people, this means no more traveling many kilometers and paying fares to go to the bank or ATM. With MiCash the previously unbanked will now be able to deposit and withdraw cash at local agents where they see the MiCash sign. Teachers and other government workers will be able to receive their salaries and simply transfer their funds on a mobile phone.



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## OUR INVESTMENT INSTRUMENTS

UNCDF provides seed capital – grants and loans – and technical support through Inclusive Finance programmes to ensure that more households and small businesses gain access to credit, savings, insurance and other financial services that expand opportunities and reduce vulnerabilities.

UNCDF's ability to provide risk capital directly to the private sector is helping bring new financial products to underserved and hard to reach markets and spurring innovations. Through its flexible grant and loan instruments, UNCDF supports a wide range of providers (e.g. FSPs, banks, cooperatives, money transfer companies, and mobile networks operators) and financial products and services (e.g. savings, credit, insurance, payment services, remittances).

UNCDF is also paying particular attention to the new drivers of financial inclusion, especially innovative distribution channels and technology. Increasingly a number of non-traditional players are involved in the design and delivery of inclusive financial services. UNCDF is well-placed to help facilitate these partnerships that span public and private sectors.

# OUR WORK

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**COUNTRY PROGRAMMES:** UNCDF inclusive finance programmes help Financial Service Providers reach more poor households and small businesses and are tailored to the contexts of individual countries. UNCDF's country programmes have recently been reoriented through the development of **Making Access Possible (MAP)**, a diagnostic and programmatic framework to expand access to financial services. The MAP framework creates the space to convene a wide range of stakeholders around an evidence-based country diagnostic which leads to the development of national financial inclusion roadmaps. MAP includes an integrated and holistic diagnostic that shifts beyond the narrow supply-led focus to a broader focus on the financial ecosystem.

**GLOBAL PROGRAMMES:** Designed to complement UNCDF country programmes by promoting product and institutional innovations that expand the frontiers of financial inclusion.

**MicroLead** is a global initiative to support the development and roll-out of deposit services by regulated FSPs aiming to reach rural markets. Demand-driven products are offered via alternative delivery channels in combination with financial education so that customers not only have access but actually use quality services. MicroLead is supported by the Bill & Melinda Gates Foundation, The MasterCard Foundation and the LIFT Fund in Myanmar.

**YouthStart**, carried out in partnership with The MasterCard Foundation, aims to reach youth in Sub-Saharan Africa with financial and non-financial services, in particular savings and financial education that are both responsive to youth's needs and protective of their rights.

The **Mobile Money for the Poor (MM4P)** programme aims to adapt mobile money solutions to the more challenging environment faced by many LDCs. It brings banks and mobile network operators together to provide financial services to under-served and hard-to-reach markets, particularly via mobile phones. The MM4P programme is supported by The MasterCard Foundation, the Bill & Melinda Gates Foundation, Sida and the Australian Department of Foreign Affairs and Trade (DFAT).

**CleanStart** aims to lift people out of energy poverty through access to sustainable financial services that provide energy financing solutions. It assists leading institutions to develop financial products that will enable off-grid poor people to afford clean energy technologies. It is supported by UNCDF, the Austrian Development Cooperation, Norad and Sida.

The **Pacific Financial Inclusion Programme (PFIP)** is a joint UNCDF and UNDP programme with support from the Australian Department of Foreign Affairs and Trade (DFAT) and the European Union. It helps to provide sustainable financial services and financial to low-income households. PFIP has initiated and advanced a wide spectrum of financial inclusion measures in the Pacific Islands including financial competency, and mobile money solutions.

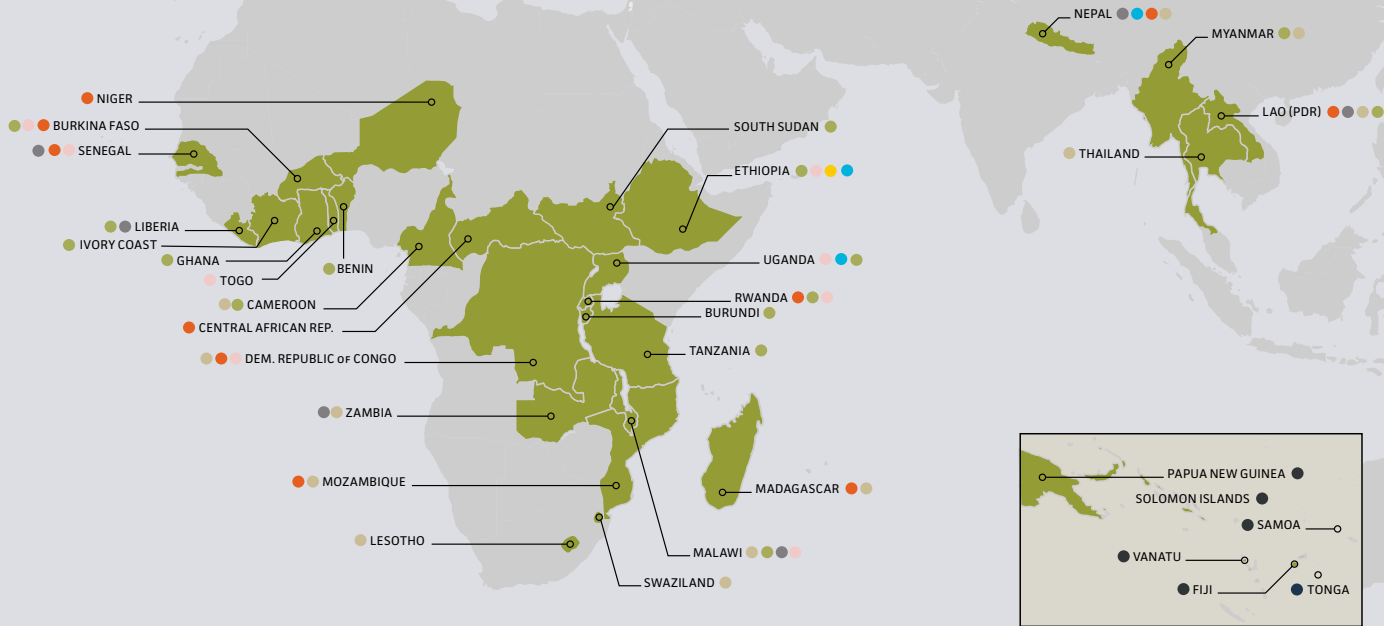
**ADVOCACY:** To further financial inclusion, UNCDF is proud to provide support to Her Majesty Queen Máxima of the Netherlands in her role as the UN Secretary-General's Special Advocate for Inclusive Finance for Development.

UNCDF has been a strong promoter of responsible finance and client protection, at the global advocacy level (member of the Smart Campaign Steering Committee), as well as at industry level (engagement with national associations) and retail level (encouraging partner FSPs to subscribe to and implement the client protection principles).

**The Better Than Cash Alliance (BTCA)** is an alliance of governments, private sector and development organizations committed to accelerating the shift from cash to electronic payments. The BTCA is funded by the Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, USAID and Visa Inc. The UNCDF serves as the secretariat.

**PARTNERSHIP WITH OTHER UN AGENCIES:** UNCDF is also active across the spectrum of inclusive finance issues, including remittances with IFAD, micro-insurance with ILO, and Agricultural Finance with IFAD and the FAO.

# UNCDF'S WORK IN INCLUSIVE FINANCE



UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach

more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives. UNCDF programmes help to empower women, and are designed to catalyse larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals.



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