

Concept note: G-24/AFI policymakers' roundtable at the 2020 International Monetary Fund (IMF) and World Bank Group (WBG) virtual annual meetings

*"Challenges and opportunities for youth financial inclusion in the time of COVID-19"*¹

1. COVID-19 impact & financial Inclusion policy Responses

The coronavirus pandemic has deeply impacted both human health and the global economy, with a severe impact in emerging and developing countries. The International Monetary Fund (IMF) has projected a 3% GDP contraction in developing countries in 2020, whilst income losses are expected to exceed \$220 billion in these economies.² With an estimated 55 per cent of the global population having no access to social protection, these losses will reverberate across societies, impacting education, human rights and, in the most severe cases, basic food security and nutrition.³

Financial inclusion policies have an important role to play both in mitigating the impacts of the crisis, particularly on the most vulnerable segments of society, and in contributing towards an economically inclusive and sustainable recovery. Since the onset of the COVID-19 crisis, AFI has taken stock and compiled a comprehensive dashboard of members' policy responses that address the impact of COVID-19.⁴ These include monetary and fiscal policy interventions, provision of liquidity support for the financial sector, leveraging of digital financial services in the crisis response, and targeted support for small and medium enterprises (MSMEs).

2. Digital financial services (DFS) in crisis response and recovery

The COVID-19 crisis has reinforced the urgency of using DFS to preserve the functioning of financial systems and the security of people during a period of declining demand, reduced supplies, and tightening credit terms. Digital payments, particularly when accompanied by digital financial infrastructure and enabling regulations, help governments quickly and securely make cash transfers to replace lost incomes and support vulnerable populations. AFI's DFS Working Group developed the '*Policy framework for leveraging DFS to respond to global emergencies - case of COVID-19*' which provides policy guidance to regulators within the AFI network and beyond.⁵

Maintaining momentum in usage of digital financial services and protecting the gains of financial inclusion will continue to be key policy priorities in the global recovery from the COVID-19 crisis. On 9 September 2020, AFI members at their virtual AGM adopted the "*Statement of Post-COVID-19 Recovery*", committing to develop and implement financial inclusion policies to facilitate recovery and resilience as well as restore sustainable financial inclusion in the network", including by promoting the adoption and usage of technological innovation.⁶

¹ Youth is defined by the United Nations (UN) as 15-24, for statistical purpose. National definitions vary.

² <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

³ COVID-19: Looming crisis in developing countries threatens to devastate economies and ramp up inequality, https://www.undp.org/content/undp/en/home/news-centre/news/2020/COVID19_Crisis_in_developing_countries_threatens_devastate_economies.html

⁴ AFI COVID-19 Policy Response & Dashboard, <https://www.afi-global.org/afi-covid-19-policy-response>

⁵ https://www.afi-global.org/sites/default/files/publications/2020-06/AFI_DFSWG_COVID_PF_AW_digital.pdf

⁶ <https://www.afi-global.org/publications/3444/Statement-on-Post-COVID-19-Recovery>

3. Youth Financial Inclusion in the time of COVID-19

The COVID-19 pandemic has disproportionately impacted those who - as highlighted by the AFI networks “Kigali Statement” of September 2019 - were already disadvantaged from a financial inclusion perspective including women, youth, older persons, forcibly displaced persons, and persons with disabilities.⁷

Young people are facing multiple shocks from the COVID-19 crisis including disruption to education and training, employment and income losses, which could lead to the emergence of a “lockdown generation”. They are overrepresented in informal economic sectors ravaged by the and, as such, are largely excluded from the formal financial sector and social security schemes. More than one in six young people are out of work as a result of the pandemic, with young women particularly impacted.⁸ The economic crisis caused by COVID-19 has further amplified young people’s need for mechanisms to invest in income-generating activities and improve their resilience in the face of financial shocks.

Closures of schools and other learning spaces has further impacted 94 per cent of the world’s student population, and up to 99 per cent in low and lower-middle income countries (UNESCO, 2020) With many developing countries lacking the necessary digital infrastructure to ensure that classes can continue online, this will have negative medium- and long-term effects on their economic potential and the labor market.

4. Towards a Youth Financial Inclusion Policy Framework

Financial inclusion can be a key tool to support employment and broader economic and social inclusion of the youth population, however barriers from the regulatory, supply and demand side currently leave 47 per cent of young people in developing countries excluded from formal financial services, with young women especially disadvantaged.⁹ DFS and Financial technology (FinTech) innovations hold potential to tap into the ‘youth dividend’, bringing advanced analytic solutions to overcome the traditional barriers of lack of collateral and credit history encountered by excluded youth populations, and enabling more efficient digital onboarding to a range of formal financial services.

In the context of COVID-19 and beyond, developing enabling regulatory environments to support youth entrepreneurs’ access to finance and to facilitate digital access to credit, savings, and insurance products that build financial resilience, should be part of policymakers’ considerations. To support policymakers to identify policy options that will contribute to the financial and economic inclusion of youth now and in the transition to the recovery period, AFI has developed a provisional “*Youth financial inclusion policy framework*” which sets out specific regulatory and public policy approaches recommended to advance youth financial inclusion drawing on members’ implementation experience.¹⁰

⁷ <https://www.afi-global.org/publications/3091/Kigali-Statement-Accelerating-Financial-Inclusion-for-Disadvantaged-Groups>

⁸ International Labour Organization (ILO) Monitor: COVID-19 and the world of work. Fourth edition, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_745963.pdf

⁹ World Bank Group, Global Findex Database 2017, <https://globalfindex.worldbank.org/>

¹⁰ The Framework sets out how youth financial inclusion can be improved by considering regulatory frameworks and public policy initiatives along four dimensions: data collection; national strategies; regulatory and policy reforms; and non-regulatory Interventions.

5. Session scope and format

This first ever virtual G-24/AFI Policymakers' Roundtable at the Annual Meetings will be structured around two inter-linked sessions. The first session will highlight relevant financial regulatory and policy responses to COVID-19 by G-24 and AFI members to mitigate the impacts of the crisis and build towards the recovery.

Key questions for discussions in this first session will include:

- What are the regulatory and policy responses to COVID-19 being implemented by G-24 and AFI members?
- What is the role of financial inclusion in mitigating the impact of COVID-19 and building towards the recovery?
- How should gender-sensitive considerations be integrated in policy and regulatory responses to the crisis?

The second session will focus specifically on the challenges for financial inclusion of the youth population, and detail the key recommendations in the provisional AFI policy framework for youth financial inclusion.

Key questions for discussions in this second session will cover:

- What are the practical solutions to promote and strengthen access to, and usage of, digital financial solutions by the youth (in general) and youth MSMEs (in particular)?
 - What are the best practices to mitigate the impact of COVID-19 on the youth population through DFS policies and regulations?
 - What are the main challenges (risks) in the use of DFS by the youth population and how can financial regulators tackle them?
 - What policy responses should be implemented to strengthen the financial capabilities of the youth population?
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