Bringing smart policies to life

The AFI survey on financial inclusion policy in developing countries

Executive summary

Financial inclusion poses policy challenges on a scale and with an urgency that is unique for developing countries, which house nearly 90% of the world's unbanked population.

Developing country policymakers have recognized that complex and multidimensional factors contribute to financial exclusion and therefore require a comprehensive variety of providers, products and technologies that work within and are a reflection of the socio-economic, political, cultural, and geographic conditions in their countries.

The fundamental re-thinking of the role of governments and central banks in finance triggered by the crisis has built opportunities to unlock the potential of the already existing reform drive to advance financial inclusion policies that foster economic resilience.

A number of common trends and barriers can be identified. Emerging trends include the recognition of the changing role of policymakers and the importance of leadership to successful financial inclusion strategies and response; that microfinance can be used as an entry point for issues of access; that new technology is a very important – but not the only – consideration for developing country policymakers; that savings are the cornerstone of responses; that banks have an important role to play; and that financial inclusion policy can and should not only focus on the supply-side.

Commonly identified barriers include issues of market response; need for greater stakeholder coordination; lack of reliable data as well as national identity documents and systems; and the need for greater consumer understanding, trust and protection.

Depending on the level of development of financial inclusion policy, there appear to be three broad groups of countries—some early leaders, others for whom financial inclusion is a priority but much more policy development is needed, and others for whom chronic structural challenges in the financial sector mean financial inclusion may not be among the top priorities at this time.

While there is no standard global solution for rapid replication in most places, it can be concluded that there is enormous potential to promote tailor-made solutions based on available good practices.

Adopting country-specific, comprehensive policies at the country level that respond to both demand- and supply-side barriers will be most effective in fostering financial inclusion. There is openness and demand for technology-based solutions and Public-Private Partnerships to foster access, though these must be gradually introduced within the broad range of evidence-based effective policy solutions for financial inclusion. Policymakers expressed a preference and need for two-way knowledge exchange opportunities with their peers to encourage learning from the experience of others.

The movement towards evidence-based policy through improved data permits a potential next step for some countries: adopting realistic self-set targets when designing financial inclusion

policies against which they can monitor their progress and make necessary policy adaptations. Quantitative objectives of this kind to be agreed upon by a larger number of countries could become a major incentive to build global commitment to effectively overcome financial exclusion.

Conclusion and outlook

Post-crisis opportunities to promote financial inclusion hinge on the careful analysis of the risks posed by financial innovations that boost transactions of the poor. A small number of countries leading regulatory innovations to promote greater financial inclusion have demonstrated that an appropriate balance between financial openness and regulations that limit potential risks of financial instability can be established. A better and broader understanding of risks of financial innovation in this area is a key prerequisite for scaling-up and particularly relevant in the field of technology-enabled financial services. Mobile financial services are mostly limited to payments and are not connected with financial intermediation. However, advances from a handful of countries have shown paths to safely extending beyond payments to banking services such as deposits through innovative leadership and partnerships with banks or microfinance institutions. Therefore systematic global and regional efforts are needed to refine and spread these insights widely enabling those countries not yet equipped with the appropriate solutions but actively looking for sustainable options to create a conducive environment for financial inclusion to adapt and scale-up successful innovations, and finally reach their financial inclusion breakthrough point. Mechanisms that help leverage existing insights on better understanding of risks need to be strengthened.

Developing country policymakers understand that policies to create conducive environments for financial innovation to take place, and efforts to ensure consumer protection and financial capability, are complimentary. The recent post-crisis debate with its focus on responsible finance confirms this thinking. Adopting comprehensive policies at the country level that respond to both demand- and supply-side barriers will be most effective in fostering financial inclusion.

Peer learning and exchange is increasingly underlined as playing a crucial role in leveraging proven solutions for developing country policymakers. For the larger group of countries that are showing high demand for such exchanges a regional approach seems to be most appropriate. However, it has also become clear that some countries are at the earlier stages of the learning cycle. They therefore demand focused support for capacity building in addition to the direct learning from those ‘champion’ countries that have so far been leading financial inclusion innovation. A targeted and systematic funding strategy to provide adequate financial support for the countries where funding and capacity building are the major issues in promoting financial inclusion can be an additional area for global effort.

A global policy response based on the a leadership and ownership from the developing countries, closer international cooperation, and strong and coordinated partnerships between relevant public and private sector stakeholders at national and international level can be useful to most effectively support the various groups of countries.

Finally, there is a momentum for encouraging developing countries to self-set their financial inclusion objectives. Quantitative objectives of this kind to be based on more reliable data on access and usage and to be agreed upon by a larger number of countries could become a major incentive to build global commitment to effectively address and overcome financial exclusion.