Bringing smart policies to life

The AFI survey on financial inclusion policy in developing countries: Preliminary findings

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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.

Nevertheless, 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.

A better and broader understanding of financial instability risk within financial innovation is a key prerequisite for scaling-up particularly in the area 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. Systematic global and regional efforts are needed to refine and spread insight on these areas widely. Mechanisms that help leverage existing insight need to be strengthened.

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.

Rationale and background

Access to sustainable and secure financial services contributes directly to increasing income and reducing vulnerability for the poor. Bringing more people, and therefore more money, into the formal financial system can lead to overall economic growth and development, and increased stability in developing country economies.

Policymakers in developing countries have an important role to play in creating the conditions for improved access, and thereby unlocking the economic potential of their populations. The potential for economic growth and poverty alleviation through the development of a more inclusive financial services sector has been recognized by leaders in developing and developed countries and is emerging as a priority issue on political agendas.

Financial inclusion means building a financial system that serves as many people as possible in a country. Developing country policymakers have recognized that the complex and multidimensional factors contributing to financial exclusion will require a 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.

Why are financial systems not inclusive of the poor? Policymakers and regulators broadly recognize two types of barriers to financial inclusion. Supply-side barriers such as transaction costs and poor regulatory frameworks hinder the quantity and quality of financial products and services. Demand-side barriers restrain the capacity of individuals to access available services and products. These include socio-economic and cultural elements, challenges posed by the lack of formal identification systems, ability to track an individual's financial history, and low levels of financial literacy, in addition to the absence of appropriate consumer protection mechanisms. Policymakers are therefore seeking comprehensive approaches to policy that strategically overcome supply- and demand-side barriers simultaneously for maximal results.

In late 2009 and early 2010, the Alliance for Financial Inclusion (AFI) surveyed its global membership base with the primary purpose of taking an inventory and conducting a high-level analysis on the current state of policies and practices relating to financial inclusion in developing countries. The survey was sent to nearly 80 central banks and other policymaking bodies in Africa, Asia and Latin America. In addition to assessing the written responses, AFI followed up with a sample of 20 countries through in-depth telephone interviews to gain further insight into the way some countries are strategically facing financial exclusion challenges.

The survey requested information on four broad areas:

- Current activities to increase access to and use of financial services by the country's poor;
- Political processes underlying decision-making in this area;
- Major obstacles and/or bottlenecks faced by regulators and policymakers; and
- Policymaker needs with regards to design and implementation of more efficient strategies and policies.

Survey questions were open-ended and qualitative. While this approach made the collection and coding of information more difficult, it increased the richness and variety of responses obtained. Survey results have been complemented by secondary materials, which help provide the overall context and an enhanced picture of current practices, as well as allowing for the incorporation of policymaker experience beyond the respondent countries.

This paper is a preliminary synthesis of the ongoing survey process. It aims to inform current global financial inclusion discussions by painting a portrait of regulatory and policymaking approaches to financial inclusion adopted by AFI members in developing countries. It will also

inform the future work development and areas of focus for the AFI network but also have a number of critical implications for global financial inclusion initiatives.

The paper is not an exhaustive summary on financial inclusion best practice, nor is it an in-depth research report based on systematic data collection efforts. A variety of excellent analysis in this area is already available. The paper therefore complements existing research and data collection efforts on the state of financial inclusion in developing countries.[1]

The paper captures current trends and a multiplicity of approaches taken by developing countries as they innovate and experiment with different methods to increase access to financial services and create enabling policy frameworks. The key lessons learned from policymakers and regulators in developing countries to-date can inform those involved in developing or implementing financial inclusion policies and strategies around the world.

[1] Key works on the state on financial inclusion include: "Finance For All? Policies and Pitfalls in Expanding Access." By The World Bank, November 2007.; "Banking the Poor: Measuring Banking Access in 54 Economies" by The World Bank, October 2008; "Cross-Country Variation in Household Access to Financial Services." By Patrick Honohan, 2006; "Financial Access 2009: Measuring Access to Financial Services around the World" By CGAP, 2009

Financial inclusion policy trends

An estimated 2.5 billion adults worldwide are currently without access to even basic formal financial services. In mature economies, rates of exclusion tend to be low – for example only an estimated 4% of the population in Germany and 9% in the United States go without basic access to services.[2] But in the world's smaller and less mature economies, financial exclusion rates reach exorbitant levels—approximately 88% of the financially excluded live in Latin America, Asia or Africa. In this sense, financial inclusion poses policy challenges on a scale and with an urgency that is unique for developing countries.[3]

Financial inclusion cannot be addressed by a single product or technological innovation, and therefore policymakers are focusing on a set of solutions best fitting to their national contexts in pursuit of increased financial access for poorer populations. There is no a single pre-determined recipe for improving financial inclusion, and developing country policymakers are in the best position to evaluate their unique institutional, socio-economic, financial and political circumstances and pursue the strategy that best fits. Thus, while El Salvador is exploring how publicly owned banks can play a more critical role in reaching out to the unbanked, Jordan is using macroeconomic measures and the promotion of the inter-bank and bond markets with the aim of increasing the availability of credit to poor people. While countries like Brazil and Egypt are focused on strengthening channels for delivering new products, others like Peru and Indonesia concentrate their efforts on empowering people so they can make better use of already existing products. Nevertheless, our survey results highlighted some reoccurring elements or trends that define and typify the landscape of financial inclusion policies across developing countries.

Changing role of policymakers

Finding solutions to encourage greater financial inclusion has not typically been a core activity of central banks and/or other financial system regulators. But the widespread realization that financial inclusion is critical for poverty alleviation, balanced economic growth and economic stability has resulted in growing leadership and ownership of the issue by policymakers. In part, the vibrant demand for AFI membership could be viewed as an indicator of new interest amongst policymakers, and specifically regulators, for whom promoting financial inclusion historically tended to fall outside of their traditional functions but is now of central interest. The policy environment will critically determine the scope and speed at which the financial access gap across countries and regions will be closed. Beyond promising a more demanding role for policymakers in future, the process of financial inclusion policy creation in developing countries is itself undergoing profound changes. Developing countries are increasingly setting their own agendas and helping their peers do the same. Instead of adopting wholesale solutions, they are themselves increasingly innovating powerful policy solutions that boost scale of access to finance. Particularly in the field of technology-enabled financial services, some countries have become policy champions among their peers in other countries, who often do not have access to information about effective policies that can improve access to financial services.

Leadership is manifesting itself in different ways around the world. The Bank of Thailand has emphasized the importance of financial inclusion in its recent second Financial Sector Master Plan and is entering discussions with the commercial banks on business models that can help to reach the rural poor. At the heart of Kenya's strategy to grow into middle-income country within the next decade is the plan to bring millions of people into the formal financial system. This national objective stewarded by the Kenyan central bank helps to guide and prioritize a range of activities from public, private, and non-profit sector players. The Superintendence of Peru has adopted financial inclusion as a cross-cutting priority for the whole institution, creating specific working

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[2] Peachy, S. and Roe, A. (2004). *Access to finance – what does it mean and how do savings banks foster access?* Brussels, World Saving Bank Institute.

[3] Chaia, A., Dalal, A., Goland, T., Gonzalez, M.J. Morduch, J. and Schiff, S. (2009). *Half the world is unbanked*, Financial Access Initiative, Framing Note, October 2009.

groups in each department to enhance their performance from the perspective of financial inclusion. Malaysia's Financial Sector Master Plan includes meeting socioeconomic objectives such as improving access to financing for priority sectors (such as SMEs and Agriculture), providing advisory services to small borrowers, and providing banking services to non-urban areas.

Microfinance as the entry point

Despite expanded availability of and interest in technology-driven solutions and new delivery channels, a developing country policymaker's first exposure to financial inclusion is often still typically related to the notion of microfinance. As the microfinance sector has grown and matured, it has necessitated the development of policies to support financial intermediation, and cope with non-bank financial actors that have started to take deposits or otherwise intermediate funds. Many of the countries surveyed have a national microfinance strategy in place, but may not yet have identified an overall financial inclusion strategy or approach. Developing countries are using a variety of policy options to promote the transformation and commercialization of microfinance institutions (MFIs), institutionally strengthen MFIs, allow charity or non-profit MFIs to operate easily, supervise the conduct of microlenders and offer financing facilities for MFIs. Some regulators are encouraging commercial banks to downscale their operations to participate in microfinance activities, either by establishing specialized departments, subsidiaries, or wholesale lending to MFIs.

These initiatives have led to considerable additional financial access in some countries such as Bolivia, Indonesia or Uganda, but have failed to produce significant increase on a broader scale. Such policies are either led or heavily supported by central banks or bank supervision authorities. It is clear that even as private sector and donor attentions shift towards technology-based solutions, policymakers continue to have conventional microfinance on their radar. Countries are at varying levels of implementation, demonstrating a continued need for member learning in this area. For other countries in which microfinance has become an established element within national financial strategies, there is an opening for other financial inclusion innovations to gain a similar status.

New technology on the horizon

The use of information and communication technology has great potential to reduce transaction costs and allow for the expansion and diversification of financial services. It also opens up new options for non-bank players, such as mobile network operators or banking agents, to get involved with the provision of these services via mobile telephones or other devices. However, regulators have the difficult task of trying to find the appropriate balance between supporting growth-enhancing innovation while at the same time implementing prudent regulation and effective risk-based supervision. This partly explains why new electronic or technology-based financial services have so-far gained momentum only in a handful of countries, and in some of these with regulation thus far kept to a minimum.

Examples of regulatory initiatives to support technological-based options for increasing access to finance innovations were not overly forthcoming through survey answers and discussions. Apart from the often cited and widely recognized Kenyan m-pesa case, there are ongoing efforts to put supporting regulation related to mobile money into place: the Philippines, another leader in mobile money has enabled the use of this innovation through guidelines on the issuance of electronic money, published in BSP Circular 649 in March 2009. In Pakistan, enabling mobile money has not been limited to regulation, but supporting polices have been adopted regarding favourable taxes on imported technology which aim to ensure consistent tax treatment for mobile banking operations across provincial and district authorities to facilitate outreach.[4] Countries where there are significant physical barriers to access such as numerous and distant islands to be

[4] See "Access through Innovation Lessons Learned and General Principles on Regulating Branchless Banking" by CGAP for more details.

reached as is the case in the Maldives and some Pacific Island Nations are also taking initial steps to create enabling regulation.

Savings as a cornerstone
It is widely recognized by developing country policymakers that helping the poor accumulate savings in a safe and accessible way can reduce vulnerability and open doors for future opportunities relating to business, social obligations, or education. Russia, for example, has put a set target of engaging 50% of the population that is currently unbanked in savings activities at the core of its strategy for economic growth and development. For regulators, the significant concern remains the need to prudentially regulate any institutions that offer savings facilities and intermediate funds.

There are several avenues through which policymakers are looking to encourage savings. One is to graduate microfinance institutions into deposit taking entities as described above. This has also happened in Cambodia for example, and is pending in Tanzania under a current review of the 2005 microfinance regulations. Introduction of No-frills accounts offered by commercial banks and targeted specifically at low-income clients is another channel identified towards increasing savings. This year, Indonesia launches 'TabunganKu' (MySaving), a national low admission-no fee saving scheme offered through 70 commercial banks and more than 700 rural banks to reach approximately 80 million un-banked adults. Accounts will be opened with a low minimum balance and no maintenance/administrative fees on active accounts.

When outlining their strategy for promoting savings in Russia, policymakers cited the need for complimentary activities relating to financial education to ensure its success.

A critical role for banks in financial inclusion
While the sample here clearly shows certain leanings given the mandate of regulators to serve the banking sector – the reflection coming out of the survey that banks have a critical part to play in financial inclusion should not be understated. In the South Pacific, the governors of five central banks in the region recently recognized that it is not possible for the handful of small, specialized, non-bank institutions operating there to serve three quarters of the population which is financially excluded, but that the whole financial system needs to better serve the needs of the poor, starting with the existing formal banking offerings. In India, Indonesia, and Egypt, banks are expected to be the backbone of a system that reaches the poorest. In India, banks have been advised by the regulator to self-set financial inclusion plans and seek approval for these plans at the board level.

Regulators are seeing that financial inclusion is in part a distribution issue and often stipulate loosening licensing requirements for opening new bank branches as a step towards facilitating the outreach of banks to otherwise expensive to reach areas. In Pakistan the revision and liberalization of the branch licensing policy of the State Bank of Pakistan will facilitate outreach by allowing banks to make their branch housing decisions within broad policy parameters. Kenya in addition to the successful regulatory openings for mobile payments is also exploring the revision of branching requirements towards making use of banking agents. Banks are also extending their outreach through the use of technology such as mobile phones and correspondents.

Financial inclusion policy going beyond supply
Traditionally the role of policymakers in the area of financial inclusion has been on the supply-side, either through public provision of financial services or enabling regulation. There is a distinct shift in this approach demonstrated by the attention given by financial sector policymakers to fair consumer protection and financial capability. The new policy emphasis is on empowering financial service consumers, who are vulnerable to abuse, so they can make a better use of existing products. Financial education, consumer protection, and financial transparency

are some of the issues receiving more attention from regulators. For example, Peruvian regulators require prior approval of consumer contracts used by financial institutions, disclosure of interest rates, commissions and fees and prohibit unilateral contract modifications by financial institutions. Malaysia's central bank conducts outreach activities on rights and responsibilities of customers, targeting women, students, rural communities and pensioners who may be most vulnerable. Under the Indonesian Banking Architecture, banks' annual business plan must include banking education activities that cover the benefits, risks, and fees of banking products as well as the rights and obligations of both the bank and customer.

Prioritizing evidence-based policy
Increasing emphasis on financial inclusion data collection is being made by regulators to inform the decision-making process. For many countries, data is simply unavailable or very limited. For others, existing data provides an over-simplistic view of financial inclusion. All countries remark how important it is to have reliable data capable of illustrating the many aspects of the multidimensional access problem to help well inform decision-making processes, to set priorities for action and to monitor progress. The trend here is towards linking policies to current realities and projecting how these will affect markets for the future. This decreases the reliance on the loose hypotheses that previously served as the base for policy. These initiatives demonstrate a new commitment by policymakers to the impact of the regulations and policies they adopt. Countries are at different stages of measuring financial inclusion often starting with gathering the right supply-side data that is more readily available to regulators and supervisors before moving on to demand side surveys. Outstanding examples come from Mexico and Thailand where policymakers are not only at the forefront of rolling out systematic domestic efforts for financial inclusion measurement but are also spearheading cross-country activities on a global scale to clarify and standardize basic data definitions and collection methodologies.

What does it take to be a successful financial inclusion policy innovator?

What do countries like Brazil, Kenya, the Philippines, Bolivia, Indonesia or Uganda have in common?

What are the commonalities among the profiles of regulators behind these innovations?

Vision
The most successful countries all have a clear vision about the challenges and opportunities posed by their financial system and what they want it to achieve in the future for their country. Strong leadership is always the foundation behind the development of a national vision and strategy for financial inclusion. This leadership also empowers policymakers to be innovative, and take reasonable risks inherent to making the changes needed to create a more inclusive financial sector. Although a regulator's main concern is always the safety and soundness of financial systems – those that have made the most progress have been willing to explore new routes or to use new tools to enhance traditional financial activities.

Broad based government commitment
A key success factor is the level of political backup central banks and regulators receive. The level of political awareness and support is directly proportional to the level of development of financial inclusion strategy and policy.

Building on success
Champion countries have all experienced a "financial inclusion breakthrough point". The breakthrough point occurs when a significant success is realized, which then gives politicians, leaders and regulators the confidence to explore new areas and tools and build on early successes. For example, creating more enabling frameworks for microfinance has shown most central banks that opening formal financial systems to customers previously considered unbankable does not pose a risk for the whole financial system, as may have been initially perceived or feared.

Developing countries are not only taking the lead in driving financial inclusion through better and systematic policies but are also at the forefront of innovating financial inclusion policies. There is a huge potential for scaling-up of what has been tested and implemented successfully in 'champion' countries such as Kenya, Philippines, Peru, and Brazil among others, however, it is important not to lose sight of the unsolved regulatory issues that arise with the risks of financial innovation. This is particularly important at a time when increased efforts of policymakers to boost financial inclusion have been interrupted by the financial crisis.

Barriers to financial inclusion

While many developing countries are showing high commitment to including the whole spectrum of their populations in the formal financial system, they have come up against barriers that make it difficult to tackle financial exclusion to the degree to which they would aspire. This section does not intend to provide an exhaustive description of the obstacles preventing access to and use of financial services. However, it describes the dimensions of those hurdles developing country policymakers are currently facing. It is important to have in mind that these barriers do not occur in isolation – on the contrary, they tend to be inter-connected and mutually reinforcing.

Market response

For financial inclusion to be expanded through enabling regulation, market uptake is critical, and surveys indicated that this has been a challenge in some places. Passing regulation to improve access to and use of financial services does not guarantee increased access. And, increasingly new players such as mobile network operators are entering financial markets and become actual suppliers of financial services.

Regulators may face challenges in predicting or understanding market uptake because of a lack of clarity surrounding business models and the resulting incentive structures needed to motivate financial service providers to pursue harder to reach markets. Thus, financial institutions often do not have the right motivation, or business case, to abandon their "comfort zone" and explore new areas of activity. Policymakers in Indonesia highlighted the role of pragmatic discussion with banks to overcome this challenge, which involves the setting of realistic financial inclusion targets. In Brazil there was a financial inclusion breakthrough point in the model for banking correspondents when transactions became profitable because of a policy decision to channel social payments through accounts accessible through agents.

Coordination amongst policymakers

Financial inclusion policymaking involves multiple stakeholders from different public institutions. For example, in Sierra Leone institutional responsibility for financial inclusion lies with the Bank of Sierra Leone, the Ministry of Finance, the Ministry of Trade & Industry as well as the Ministry of Agriculture. The absence of platforms to bring relevant agents together may hamper the correct design and implementation of financial inclusion reforms and policies. Lack of coordination also increases the risk of bad timing and sequencing of regulatory changes. Countries such as Yemen signalled they aspire to improving coordination efforts and others are already embarking on such efforts with the leadership of the central bank. Though coordination is a challenge, it does not appear to be a deal-breaker: the Philippines has made strides in financial inclusion in the absence of 'one' national policy on financial inclusion, but with key parts of the approach framed through the National Strategy on Microfinance, and with various government initiatives undertaking financial inclusion initiatives related to their legal mandate and within their areas of jurisdiction.

Absence of reliable financial data on access and usage

The absence of reliable data (even for baseline issues such as "how many people have no access to or make little use of financial services?" or "who are they and where do they live?") is still a reality in many developing countries. This poses a major obstacle to policymakers' ability to make well-informed decisions as well as to monitor the progress of financial inclusion initiatives. Without data, financial inclusion enters a vicious cycle – no data means it is difficult to have a complete picture of the situation in the country, which in turn results in lack of political awareness and few subsequent actions being taken. Regulators indicated that policymakers addressing financial inclusion are often unable to collect data and therefore develop informed policy because they lack the budget or mandate for these activities as this policy area lacks a clearly assigned overseeing authority.

It is often in their mandate that regulators collect supply-side data from the institutions they supervise. However, a number of providers and other contributing factors are not taken into consideration through this method, including access through unregulated "semi-formal" financial service providers, such as microfinance. This limits the usefulness of such data in subsequent policymaking. Reported efforts at collecting demand-side data are also limited, and often not led by regulators alone but in partnership with bureaus of statistics and external players. The desire for better data to allow for appropriate policymaking is clear and has been confirmed by the strong demand for participation in the AFI data working group spearheaded by Bank of Thailand.

Identity documents

Many countries lack national identity documents and systems required for financial service providers to perform KYC procedures and open accounts, and in those countries that do, low-income clients often still do not possess such documents. The extent of the challenge of AML/CFT standards have posed to countries has varied. For some countries only the banking sector is subject to these rules, but in others, such as the Philippines, mobile network operators or other non-bank entities licensed as "electronic money issuers" must abide by these standards and can hinder the expansion of financial services through this channel as well. Tanzania reports that the impact these standards have on access has been difficult to measure because the standards were only recently adopted in 2007.

Understanding, trust, and protection

Many policymakers expressed consumer protection as a central pillar of their overall financial inclusion strategy. Some countries like Peru cite demand-side barriers, putting emphasis on policies that are critical to empowering people so that they are aware of financial services and make good use of them.

Other countries cite consumer protection challenges related to the supply of financial services such as overindebtedness. In Mexico and Thailand the importance of consumer protection (and financial education) as an inextricable part of financial inclusion is highlighted by prominent place in their definitions and demand-side surveys that measure financial inclusion.

Though originating in developed countries, the recent financial crisis, has put the spotlight on consumer protection and the fact that unfettered access to financial services is not politically palatable. Past financial crises may have long-lasting effects. One of them is the erosion of trust in the financial system, reducing people's willingness to use it. This problem is perceived in regions like Latin America, heavily affected by the phenomena of hyperinflation during the 80s or the "*corralitos*" more recently. Lack of trust is reflected in low levels of use of financial products, mainly savings accounts; in the importance of hard currencies in daily transactions; or in the abundance of offshore bank accounts in countries considered to be safer for those who can afford it.

Challenges of the political process

Despite impressive progress in the last years, the level of political awareness on financial inclusion is still insufficient. In some cases financial inclusion is still being perceived by some policymakers as a non-urgent issue, which relegates it to a second level of priority in the political agenda. Namibia mentioned that one of the most important tasks for the financial authorities was to convince policymakers of the importance of financial inclusion.

Financial inclusion requires a dynamic and flexible approach to regulation that is often missing. This is a problem for regulators, who often see how their technical proposals are changed and transformed beyond recognition as they are subject to the political process in Parliaments. The changes introduced by politicians in the successive drafts bill regulating microfinance activity in Guatemala emptied the proposal from regulators, making it effectively useless. Constant innovations and changes in this sector push regulators to react with dynamism to new challenges

and opportunities in the market. When it does not happen, regulatory frameworks quickly become obsolete and therefore unable to satisfy the needs of both customers and financial institutions.

Lessons learned

From the dialogue with our members and the identified trends and barriers numerous lessons have emerged that are valuable to shaping AFI's future activities and approach as well as informing the work of others to advance financial inclusion.

A new openness and demand for technology solutions
Although policy innovations that make use of advanced information and communication technologies are often not yet reflected broadly in developing country policy inclusion frameworks or financial sector strategies the demand survey analysis clearly brings out that policymakers are very open to learning, experimentation and scaling-up. Policymakers do see the large opportunities technology offers to leapfrog some of the most important bottlenecks to increase the supply of financial services and are interested in adopting these in a way that does not compromise safety of customers or the stability of the financial system.

The importance of the risk profile of mobile financial services provision has led many technology based solutions to stop-short of full financial inclusion, with services limited to payments and not services 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.

Many developing country regulators appear to still be familiarizing themselves with the risks of all these financial inclusion innovations, with many showing interest in learning from those early movers that have established clear regulatory guidelines. To continue this exposure and understanding, peer-to-peer learning initiatives and documentation and analysis of advances are important.[5]

Public-Private Partnerships for fostering access
Public-private dialogue and consultation is critical for the creation of sound and balanced regulation that allows for a constructive partnership towards financial inclusion. These partnerships have the potential to promote outreach and simple access through solid business models and usage through appropriate product features and consumer protection. While recognizing the importance of the role played by private actors in promoting financial inclusion, policymakers and regulators agree that their interventions must avoid coercive or enforcement measures. Financial inclusion, they state, is impossible without having the partnership and support of private actors. Communication and an alignment of incentives through dialogue rather than imposition is an important strategy for building bridges with the private sector. Dialogue between policymakers and the industry is also a powerful tool for deciphering and mitigating risks that allow for the creation of regulation that fosters innovations in access. This has been important in previous efforts to design microfinance regulatory frameworks, and it appears to be a key condition to build better understanding of the risks and opportunities of technology-enabled financial services.

Learning from the experience of others
Policymakers expressed a preference for two-way learning opportunities with their peers, stating that it is easier to internalize messages and ideas from a messenger facing similar realities, concerns, challenges and pressures. Exchanges of cross-country and region experience in this way are seen as credible, unbiased and trusted sources of information. Leading countries in financial inclusion policymaking, such as Kenya, the Philippines, or Brazil have created nationally-developed solutions and are in high demand from countries in the initial stages of financial

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[5] For example, "Access through Innovation Lessons Learned and General Principles on Regulating Branchless Banking" by CGAP and "Policy Principles for Expanding Financial Access" by the Center for Global Development Task Force on Access to Financial Services.

inclusion policy who would like to learn and adapt based on the strong understanding of their own local realities. While there is no standard global solution or silver bullet for rapid replication in most places, it can be concluded that there is enormous potential to promote tailor-made solutions based on available general suggestions and good practices.

Step-by-step and self-set objectives

Rather than prematurely adopting technologies, tools and strategies for which they are not ready, most countries consulted favoured the adoption of a step-by-step approach to financial inclusion based on empirical evidence. By recognizing their limitations, countries need solutions appropriate to their level of development.

The movement towards evidence-based policy through data for financial inclusion 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 along these steps and make necessary policy adaptations.

Three-phases of country status

Depending on the level of development of financial inclusion policy, there appear to be three broad groupings of countries that emerge:

The first group has managed to implement successful financial inclusion strategies. Their central banks and regulators have a clear vision, as well as leadership capacity on financial inclusion issues. Regulators receive political support. 'Champions' such as Brazil, Kenya, Peru, Indonesia or the Philippines are seen by other countries as a reference and there is strong willingness to learn from these experiences. However, these and other 'champions' still underline that the largest part of the road is still ahead of them. More coordination, even higher levels of political support and more human and technical means are some of the elements emphasized as critical for consolidation of advances.

The second group are those countries that have initiated reforms and show great openness for innovation to increase access to financial services. The vast majority of countries could fall into this category. This is the group for whom peer-learning is underlined as extremely important. For these countries a regional learning approach seems to be a critical issue.

The third group consists of countries facing major structural problems in their financial systems and for whom financial inclusion is still not a top priority, although they acknowledge its importance. Overburdened with pressing issues such as improving the soundness or stability of the financial system, they see financial inclusion as part of larger normalization package aimed to increase the general level of efficiency of the financial system.

This basic classification, together with the overall lessons-learned allows a clearer perspective on what next steps to improve access to and use of financial services could be.

Conclusion and Outlook

Significant strides have been made in response to financial exclusion. The recent economic and financial crisis with its roots in the financial sectors of the developed world has temporarily shifted the focus of financial policymakers towards regulatory changes and efforts that restore financial stability. However, 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.

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. 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 leadership and ownership from 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.

About AFI

The Alliance for Financial Inclusion (AFI) is a global network of central banks and other financial inclusion policymaking bodies in developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. We connect policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries' individual circumstances.

AFI, 399 Interchange Building, 24th floor, Sukhumvit Road, Klongtoey-Nua, Wattana, Bangkok 10110, Thailand

t +66 (0)2 401 9370 f +66 (0)2 402 1122 e info@afi-global.org www.afi-global.org

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