

## Concept Note: 6<sup>th</sup> Annual G24/AFI Policymakers Roundtable on Financial Inclusion

1. The G24/AFI Policymakers' Roundtable at the IMF & World Bank Spring Meetings, now in its sixth year, provides a high-level platform for engaging developing and emerging country policymakers in discussions on globally relevant financial inclusion policy issues.
2. In 2014, for the second year, the G24/AFI Policymakers' Roundtable on Financial Inclusion will be held on the theme of "The AFI Peer Learning Initiative with global Standard Setting Bodies" (SSBs).
3. At the previous Roundtable held in April 2013, G-24 and AFI members developed a proposal to establish a peer learning initiative together with global standard setting bodies (SSBs) to:
  - provide a structured mechanism for members to review, and provide inputs to ongoing initiatives by the SSBs to give due consideration to financial inclusion; and
  - develop a comprehensive risk framework that takes full account of the risks of financial exclusion as well as the risks to financial integrity and stability.
4. At the AFI Global Policy Forum in Kuala Lumpur in September 2013, a specially convened Leaders Roundtable was held where AFI Leaders endorsed the proposal for a peer learning initiative with the SSBs. A new sub-committee of the AFI Steering Committee ("Global Standards Sub-Committee") is now being established to oversee this initiative to build a platform for peer learning on country experiences with SSBs.
5. During this year's G24/AFI Policymakers' Roundtable, a presentation will be made on "The AFI Peer Learning initiative with global Standard Setting Bodies (SSBs)", outlining a proposed work plan for AFI Members and SSBs to work together to advance peer learning on the topic of global standards and financial inclusion.
6. The presentation will be followed by two panel discussions to inform the key elements of the work plan:
  - The first panel will focus on country experiences of the proportionate implementation of the global standards. Given the need for policymakers and regulators in developing and emerging countries to embrace innovation and new business models to achieve greater levels of financial inclusion, proportionate implementation of global standards is imperative. All SSBs have embraced the principle of proportionality, yet achieving

“proportionality in practice” remains a challenge for national policymakers and regulators. This panel discussion will seek to identify success factors and challenges encountered in implementing proportionality.

- The second panel discussion will highlight the risks of financial exclusion, seen from different country perspectives. At the previous G24/AFI Policymakers Roundtable in 2013, participants proposed the development of an extended risk framework that appropriately takes into account the financial exclusion risks that may arise from the adoption of inflexible regulatory approaches. Such an extended risk framework should:
  - recognize the comparatively low systemic risk of basic banking products targeted at the poorest consumers;
  - assess the adverse consequences of financial exclusion for financial integrity and financial stability;
  - acknowledge the additional risk to socioeconomic stability that can be caused by financial exclusion;
  - take full account of the negative consequences of over-indebtedness and the importance of appropriate consumer protection measures;
  - acknowledge the risks of migration to less integrated sectors of the banking system; and
  - recognize and incorporate learning from the diversity of country experiences.

This panel discussion will provide the opportunity for participants to provide their thoughts on the key risks of financial exclusion in order to guide the further development of the extended risk framework under the peer learning initiative.

7. Following the two panel discussions, a moderated discussion will focus on agreement of clear next steps for the AFI peer learning initiative with SSBs, and discussion of key messages for the SSBs from the AFI Network.

## Annex: The AFI Member proposal for peer learning with global Standard Setting Bodies (SSBs)

1. Since the call by G20 Leaders at their November 2010 Summit in Seoul, Republic of Korea, to “international relevant Standard Setting Bodies to consider how they can further contribute to encouraging financial inclusion, consistent with their respective mandates”, SSBs have launched a range of initiatives to follow this call, and they have advocated a proportionate risk based approach in applying international standards to financial inclusion and microfinance activities.<sup>1</sup> In addition to the financial inclusion initiatives of individual SSBs, there has been considerable progress in convening the SSBs to discuss progress, both through the Global Partnership for Financial Inclusion (GPII), and under the leadership of Her Majesty Queen Máxima of the Netherlands in her capacity as the United Nations Secretary General’s Special Advocate for Inclusive Finance for Development.
2. Complementing these existing initiatives, G-24 and AFI members have developed and supported a proposal to establish a peer learning initiative together with the SSBs: (a) to provide a structured mechanism for AFI members to review, and provide inputs to, initiatives by the SSBs to give due consideration to financial inclusion; and (b) to develop a comprehensive risk framework that takes full account of the risks of financial exclusion as well as the risks to financial integrity and stability.<sup>2</sup> The proposal was developed at the 5<sup>th</sup> Annual G24/AFI Policymakers’ Roundtable held in Washington D.C. at the IMF & World Bank Spring meetings in April 2013, and further shaped through discussions with representatives of the SSBs at the high-level conference “Developing & Developed Country Perspectives on Financial Inclusion: a Global Dialogue”, held in Frankfurt, June 2013.

### Leaders’ Roundtable at the 2013 AFI Global Policy Forum (GPF) and subsequent progress

3. The *AFI members’ proposal for peer learning with the SSBs* was unanimously endorsed at a Leaders’ Roundtable held at the AFI Global Policy Forum (GPF) in Kuala Lumpur, September 2013, a closed-door meeting offering an opportunity for leaders of institutions that are spearheading the implementation of innovative policies for financial inclusion to share views on policy issues of high importance. Leaders’ agreed that the proposal should begin with AFI members sharing practical information on country experiences with implementing global standards. AFI members also highlighted the benefits of this peer learning exercise for the SSBs, namely, receiving feedback from a diverse range of developing and emerging countries on issues arising from implementing the global standards on the ground. Finally, participants emphasized the need to take sufficient account of the systemic risks of financial exclusion and over-indebtedness through an integrated and comprehensive risk framework.

<sup>1</sup> Seoul Development Consensus, <http://www.g20.utoronto.ca/2010/g20seoul-consensus.pdf> p.8

<sup>2</sup> For further information on the extended risk framework please see <http://www.afi-global.org/library/publications/risks-redefined-afi-member-proposal-peer-learning-ssbs-extended-risk-frameworks>

4. During the second part of the Leaders' Roundtable, Leaders welcomed the participation of Her Majesty Queen Máxima of the Netherlands and Mr. Karl Cordewener, Deputy Secretary-General of the Basel Committee for Banking Supervision (BCBS). Participants heard how the Basel Consultative Group (BCG), an outreach arm of the BCBS, has initiated a financial inclusion work stream that is currently focusing on conducting a "Range of Practice survey", which will in turn inform a review of the BCBS's 2010 Guidance on the Supervision and Regulation of Microfinance.<sup>3</sup> The BCBS welcomed dialogue with AFI members to inform and add value to this process. AFI Members agreed that the BCBS survey is an important initiative which serves as a starting point to obtain facts on the ground. Support was also voiced for a technical workshop to facilitate more jurisdictions to provide inputs to the survey and the consultative microfinance guidance paper. Together with Her Majesty Queen Máxima and Karl Cordewener of the BCBS, the leaders agreed to a number of concrete steps:
  - AFI members will develop an internal mechanism within the network for sharing experiences with proportionate implementation of the global standards;
  - peer learning amongst AFI Members can be structured at both the Leaders level and at the working level to bring together the unique views from different regions;
  - Leaders welcomed the potential opportunity for AFI Members to participate in a 3<sup>rd</sup> high-level meeting of SSBs on financial inclusion to be co-hosted by Queen Máxima and Stefan Ingves, Chair of the BCBS, in October 2014;
  - AFI will support the coordination of members' inputs into the BCBS Range of Practice Survey and revisions to its Guidance on Microfinance and explore the proposal for a technical workshop; and
  - In the longer term, AFI members will support the development of a proposal for an extended risk framework that could be developed in collaboration with the SSBs, which takes into full account the systemic risks of financial exclusion.
5. Further to the Leaders' Roundtable, the AFI Steering Committee endorsed a work plan for AFI's work with the SSBs, and has supported the establishment of a new Sub-Committee of the Steering Committee to guide AFI's work in this area. The Sub-Committee will comprise 7 member institutions reflecting geographical diversity from across the AFI network (currently 117 member institutions from 94 countries<sup>4</sup>) and with relevant experiences of implementing the global standards.

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<sup>3</sup> Microfinance activities and the Core Principles for Effective Banking Supervision (August 2010), <http://www.bis.org/publ/bcbs175.htm>

<sup>4</sup> For a full list of AFI Member Institutions, please see [www.afi-global.org/afi-network/members](http://www.afi-global.org/afi-network/members)

6. The responsibilities of the AFI Sub-Committee on Global Standards will include (but not be limited to):
  - overseeing the development of a mechanism within AFI for knowledge sharing on the proportionate implementation of global standards, including the selection of cases to be documented;
  - encouraging inter-regulator coordination within AFI member countries in the proportionate implementation of global standards (for example by documenting best practices); and
  - overseeing the conceptual development of an extended risk framework which takes full account of the risks of financial exclusion.
  
7. Additionally, AFI Members have been invited to document their experiences and challenges in balancing proportionate implementation of the global standards with promotion of financial inclusion ahead of the high-level meeting of SSBs to be convened by H.M. Queen Máxima and Stefan Ingves, Chairman of the BCBS, to take place on 2 October 2014 in Basel.