afi Alliance for Financial Inclusion
Bringing smart policies to life

The 2010 AFI survey report on financial inclusion policy in developing countries

Contents

Executive summary

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

Developing country policymakers have recognized that financial exclusion is the result of complex and multidimensional factors, and therefore requires a comprehensive set of providers, products, and technologies that will work within and reflect the particular socioeconomic, political, cultural, and geographic conditions in their countries.

Despite these differences, a number of common trends and barriers were identified through the AFI survey on financial inclusion policy in developing countries.

Emerging trends include the recognition that the role of policymakers is changing and leadership is important to successful financial inclusion strategies and response; that microfinance can be used as an entry point for improving access; that new technology is a very important but not the only consideration for developing country policymakers looking to improve access; that savings are the fundamental element of financial inclusion initiatives; that banks have an important role to play in reaching the poor with their services; and that financial inclusion policy should focus not only on supply concerns, but on consumer demand as well.

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

There is no standard response for rapid replication in most places, but it is clear there is enormous potential to promote tailor-made solutions for financial inclusion based on good practices witnessed in "champion" countries.

Adopting comprehensive, country-specific policies that respond to both demand- and supply-side barriers is the most effective way for countries to foster financial inclusion. Openness and demand for technology-based solutions and partnerships between the public and private sectors are helping to foster access, but these must be introduced gradually within the broad range of evidence-based policy solutions for effective 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 the risks associated with financial innovation is a key prerequisite for scaling up financial inclusion, particularly technology-based services. Mobile financial services are currently limited primarily to payments, but advances in a handful of countries have demonstrated how innovative leadership and partnerships with banks or microfinance institutions can offer banking services including savings and allowing for financial intermediation. Systematic global and regional efforts are needed to refine and communicate insight on financial risks, and mechanisms that help leverage existing insights need to be strengthened.

The movement towards evidence-based policy through improved data collection may help some countries take an important next step: adopting realistic self-determined targets for financial inclusion policies against which they can monitor their progress and make necessary policy adaptations. Quantitative objectives such as these could become a major incentive to build global commitment to tackle and overcome financial exclusion.

Rationale and background

Access to sustainable and secure financial services contributes directly to higher incomes and reducing the vulnerability of 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 in unlocking the economic potential of their populations. Leaders in developing and developed countries are recognizing the potential for economic growth and poverty alleviation through the development of a more inclusive financial services sector, and this is emerging as a priority issue on political agendas around the world.

Financial inclusion means building a formal financial system that also serves low-income populations with a variety of financial services. 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 reflect the socioeconomic, political, cultural, and geographic conditions in their countries.

Why do financial systems not include 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 that hinder the quantity and quality of financial products and services.

Demand-side barriers that restrict the capacity of individuals to access available services and products. These include socioeconomic and cultural factors, lack of formal identification systems, inability to track an individual's financial history, low levels of financial literacy, and the absence of appropriate consumer protection mechanisms.

Policymakers are therefore seeking comprehensive approaches to policy that strategically and simultaneously overcome supply- and demand-side barriers.

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, which provided further insight into the ways some countries are strategically approaching 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;
- Policymaker needs with regards to designing and implementing 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. Survey results have been complemented by secondary materials that help to provide the overall context and an enhanced picture of current practices, as well as incorporate policymaker experience beyond the respondent countries.

Rationale and background

This paper is a synthesis of the survey process. It aims to inform current global financial inclusion discussions by illustrating the regulatory and policymaking approaches to financial inclusion adopted by AFI members in developing countries. It will also inform the future work and areas of focus for the AFI network, and have a number of critical implications for global financial inclusion initiatives more broadly.

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

This 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 of financial inclusion include: "Finance For All? Policies and Pitfalls in Expanding Access," World Bank, November 2007; *Banking the Poor: Measuring Banking Access in 54 Economies*, World Bank, October 2008; "Cross-Country Variation in Household Access to Financial Services," Patrick Honohan, World Bank, 2006; "Financial Access 2009: Measuring Access to Financial Services around the World," Consultative Group to Assist the Poor (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-only an estimated 4% of the population in Germany and 9% in the United States go without basic access to services.[2] In the world's smaller and less mature economies, however, financial exclusion rates reach exorbitant levels-approximately 88% of the financially excluded live in Latin America, Asia, and Africa. In this sense, financial inclusion poses policy challenges on a scale and with an urgency that is unique to developing countries.[3]

There is no recipe, single product, or technological innovation to improve financial inclusion. Rather, policymakers in developing countries must craft a set of solutions that best suits their country's institutional, socioeconomic, financial, and political circumstances. For example, while El Salvador is exploring how publicly owned banks can play a more critical role in reaching out to the unbanked, Jordan is promoting interbank and bond markets to increase 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 are concentrating their efforts on empowering people to make better use of existing products. Despite these differences, our survey results identified several common elements and trends in financial inclusion policies in developing countries.

Changing role of policymakers

Finding ways to encourage greater financial inclusion has not typically been a core activity of central banks and financial system regulators. That is changing, however, with a widespread realization among policymakers that financial inclusion is critical for poverty alleviation, balanced economic growth, and economic stability. In part, the vibrant demand for AFI membership could be viewed as an indicator of new interest among policymakers, specifically regulators, who are showing increased leadership on the issue of financial inclusion. The policy environment will be a critical arena for determining the scope and speed at which the financial access gap can be closed across countries and regions. The role of policymakers in developing countries will also become more demanding as financial inclusion policymaking gains strength and the process evolves. Policymaking is already undergoing profound changes as developing countries are increasingly setting their own policy agendas and helping their peers do the same. Instead of adopting wholesale solutions, they are innovating unique and powerful policy solutions.

Leadership in financial inclusion policy is manifesting itself in different ways around the world:

The Reserve Bank of Fiji is taking a leadership role as the chair of a National Financial Inclusion Taskforce established to drive and monitor financial inclusion strategies. Repeatedly, survey respondents emphasized the place of financial inclusion policies in key planning documents such as financial sector development or master plans and poverty reduction strategies. This signals an important mandate and leadership role for financial sector policymakers in this country.

The Bank of Thailand has emphasized the importance of financial inclusion in its recent Financial Sector Master Plan and is entering discussions with the country's commercial banks on business models that can help to reach the rural poor.

At the heart of Kenya's strategy to become a middle-income country within the next decade is a plan to bring millions of people into the formal financial system. This national objective, stewarded by the Central Bank of Kenya, helps to guide and prioritize a range of activities from public, private, and non-profit sector players.

The Banking Superintendence of Peru (la Superintendencia de Banca Seguros y AFP) has adopted financial inclusion as a cross-cutting priority for the whole institution, creating specific working groups in each department to enhance their performance on financial inclusion.

2 Peachy, S. and Roe, A. "Access to finance—what does it mean and how do savings banks foster access?" World Savings Banks Institute (WSBI), January 2006.

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

In Malaysia, the Central Bank of Malaysia Act 2009 (which will guide the actions of future generations of central bankers) stipulates that one of the primary functions of the Bank is to promote an inclusive financial system. Malaysia's Financial Sector Master Plan also 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 in rural areas.

Finally, in Ghana, the next round of its Financial Sector Strategic Plan is expected to encompass financial inclusion supported by an elaborate financial literacy program

Microfinance as an entry point

Technology-driven solutions and new delivery channels for financial services are quickly gaining ground, but a developing country policymaker's first exposure to financial inclusion is still likely to be 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 take deposits or otherwise intermediate funds. Many of the countries surveyed, such as Pakistan, Malawi, Niger, Yemen, and Bangladesh, have a national microfinance strategy or a suite of microfinance policies in place, but have not yet developed an overall financial inclusion strategy or approach. Developing countries have been using a variety of policy options to transform and commercialize 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 considerably expanded financial access in countries such as Bolivia, Indonesia, and Uganda, but have not yet closed the access gap. Such policies are led or heavily supported by central banks or bank supervision authorities, and it is clear that even as private sector and donor attentions shift towards new technology-based solutions, conventional microfinance still requires the attention of policymakers. Countries are at varying levels of implementation, which indicates there is a continued need for member learning in this area.

New technology on the horizon

The use of information and communication technology has great potential to reduce transaction costs and expand and diversify financial services. It also opens up new options for non-bank players, such as mobile network operators and banking agents, to play a significant role in the provision of financial 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 challenge partly explains why new electronic or technology-based financial services have so far gained momentum in only a handful of countries, some of which have kept regulation to a minimum.

Examples of regulatory initiatives to support technologies that increase access to finance innovations were limited in survey answers and discussions. Apart from the often cited and widely recognized Kenyan M-PESA case, there are some other efforts to put regulations in place to support the use of mobile money. The Philippines, a leader in mobile money, established guidelines for issuing electronic money in March 2009 (published in BSP Circular 649). In Pakistan, mobile money initiatives have not been limited to regulation—favorable tax policies on imported technology have also been adopted that aim to ensure consistent tax treatment for mobile banking operations across provincial and district authorities and to facilitate outreach. Countries that have significant physical barriers to access, such as the Maldives and Pacific island nations where there are many distant islands, are also taking initial steps to establish regulations for new mobile technologies.

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 to opportunities in business, social obligations, or education. Russia, for example, has set a target of engaging 50% of its population currently without financial services in savings activities. This target is at the core of its strategy for economic growth and development. For regulators, the primary concern is to carefully regulate institutions that offer savings facilities and intermediate funds.

There are several avenues through which policymakers are trying to encourage savings. One is to graduate microfinance institutions into entities that accept deposits, as described earlier. This is already happening in Cambodia and Zambia and is underway in Tanzania, where 2005 microfinance regulations are being reviewed. Another option is the introduction of "no-frills" or basic bank accounts offered by commercial banks, which are designed for low-income clients and feature low or no fees. Finally, minimum balance requirements—and the development of appropriate supporting products—is another channel that has been identified to increase savings.

This year, Indonesia launches "TabunganKu" (MySaving), a national low admission-no fee savings scheme offered through 70 commercial banks and more than 700 rural banks to reach approximately 80 million unbanked residents. In Malaysia, a minimum interest rate payable to savers in basic savings accounts has been established. Russia and other countries have identified financial education activities as an important part of a successful policy strategy to increase savings. In a growing number of countries, government cash transfers are deposited directly into basic bank accounts, promoting the use of savings accounts.

A critical role for banks

Whereas the survey sample clearly shows certain leanings given the mandate of regulators to serve the banking sector, the assertion that banks have a critical part to play in financial inclusion should not be understated. In the South Pacific, governors of five central banks recently recognized that it is not possible for the handful of small, specialized, non-bank institutions operating there to serve the three-quarters of the population that is financially excluded. Rather, the entire financial system needs to better serve the needs of the poor, starting with banking offerings that are already in place. 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 draft their own financial inclusion plans and seek approval for these plans at the board level.

Regulators are recognizing that financial inclusion is in part a distribution issue, and often stipulate loosening licensing requirements for new bank branches in areas that are difficult or expensive to reach. 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 exploring ways to revise branching requirements and to set up banking agents. Technology such as mobile phones and banking correspondents are providing the channels for banks to extend their outreach.

Financial inclusion policy going beyond supply

Traditionally, financial inclusion policy has focused on supply, either through public provision of financial services or enabling regulation. Lately, however, there has been a distinct shift in this approach, demonstrated by the attention financial sector policymakers are giving to fair consumer protection and financial capability. Today, the policy emphasis is on empowering financial service consumers who are vulnerable to abuse to make better use of existing and new products. Financial education, consumer protection, and financial transparency are some of the issues receiving more attention from regulators.

For example, Peruvian regulators are requiring 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 the rights and responsibilities of customers in order to educate and empower consumers to take greater responsibility for managing their own finances. This outreach specifically targets groups who can be the most vulnerable—women, students, rural communities, and pensioners. The bank also encourages professionalism among service providers by providing guidelines on market conduct, robust surveillance, and timely enforcement. Redress mechanisms have also been established to mediate differences between consumers and service providers. Under the Indonesian Banking Architecture, a bank's 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. Ghana has taken consumer protection one step further by establishing a National Strategy for Financial Literacy and Consumer Protection in the Microfinance Sector.

Prioritizing evidence-based policy

Regulators increasingly emphasize data collection as an important part of decision-making in financial inclusion policy. For many countries, data is simply unavailable or very limited. For others, existing data provides an overly simplistic view of financial inclusion. All countries remark how important it is to have reliable data capable of illustrating all aspects of the multidimensional access problem, to help 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 in the future. This reduces reliance on the loose hypotheses that have traditionally served as a basis for policy. It also demonstrates a new commitment by policymakers to the impact of the regulations and policies they adopt.

Countries are at different stages of measuring financial inclusion, with the majority initially gathering supply-side data, which is more readily available to regulators and supervisors, and then moving on to demand-side surveys for a more complete picture. Outstanding examples come from Mexico and Thailand, where policymakers are not only rolling out systematic efforts for measuring financial inclusion at the national level, but are also spearheading activities to clarify and standardize data definitions and collection methodologies that can be applied on a global scale.

The diversity and emerging success of national-level policy initiatives are indicative of a vibrant and dynamic global policy environment for financial inclusion. Developing countries are not only taking the lead in driving financial inclusion through better and more systematic policies, but are also at the forefront of innovating financial inclusion policies. There is huge potential for scaling up what has already been tested and implemented successfully in ùchampionû countries like Kenya, Philippines, Peru, and Brazil. However, it is important not to lose sight of the unresolved 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.

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

What do successful countries have in common? What qualities do the regulators behind emerging policy innovations share?

Vision

The most successful countries have a clear vision of the challenges and opportunities posed by their financial system and what they want it to achieve in the future. Strong leadership is always the foundation of the development of a national vision and strategy for financial inclusion, and this leadership empowers policymakers to be innovative and take reasonable risks to create a more inclusive financial sector. Although a regulator's main concern is always the safety and soundness of a financial system, those who 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 factor for success is the level of political backup central banks and regulators receive. The degree of government awareness and support is directly proportional to the level of development of a country's financial inclusion strategy and policy.

Building on success

Champion countries have all experienced a "financial inclusion breakthrough point". This breakthrough point occurs when a significant success is realized, which then gives politicians, leaders, and regulators the confidence to explore new areas and tools. 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 to the whole financial system, as may have been feared initially.

Barriers to financial inclusion

While many developing countries demonstrate a strong commitment to include the full 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 extent they would like. This section does not intend to provide an exhaustive description of the obstacles preventing access to and use of financial services, rather, it describes the dimensions of the hurdles developing country policymakers are currently facing. It is important to keep 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 regulatory mechanisms, market uptake is critical. However, our survey indicated that this has been a challenge in some places. Passing regulations to improve access to and use of financial services does not guarantee increased access and, increasingly, new players such as mobile network operators are moving into financial markets to become the primary 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 incentive structures needed to motivate financial service providers to pursue harder-to-reach markets. Thus, financial institutions may not have the right motivation, or business case, to venture out of their comfort zone to explore new areas of activity. Policymakers in Indonesia highlighted a pragmatic approach that helped to overcome this challenge: discussions with banks that included setting realistic financial inclusion targets. In Brazil, a breakthrough for financial inclusion came when transactions through banking correspondents became profitable because of a policy decision to channel social payments through accounts accessible through banking agents. Recognizing the role of market uptake, the supervisory body in Mexico (the CNBV) is playing a large role in gathering data on financial inclusion and creating a database of this information accessible to the private and public sector alike.

Coordination among policymakers

Financial inclusion policymaking involves multiple stakeholders from various 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, and the Ministry of Agriculture. Coordinating the efforts and perspectives of relevant agents is critical for designing and implementing effective financial inclusion reforms and policies. Lack of coordination can hamper this process and increase risks such as bad timing and improper sequencing of regulatory changes. Coordination becomes particularly important as new partnerships are fostered with players such as telephone companies or the postal service, which are regulated by other bodies. Countries such as Yemen signalled that they aspire to improve coordination efforts, and others are already embarking on such efforts with the leadership of a 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 a single national policy on financial inclusion. Instead, key parts of their approach have been framed through the National Strategy on Microfinance, and various government initiatives have undertaken financial inclusion initiatives related to their legal mandate and within their areas of jurisdiction.

Absence of reliable data

The absence of reliable data on financial access and use (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 challenge in many developing countries. This poses a major obstacle to policymakers' ability to make well-informed decisions and 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 generates low levels of political awareness and action.

Regulators are often mandated to collect supply-side data from the institutions they supervise. However, this type of data may overestimate outreach because of double counting or fail to recognize access through "semi-formal" financial service providers, such as certain microcredit institutions. This limits the usefulness of such data in subsequent policymaking. Reported efforts at collecting demand-side data are limited and often not led by regulators themselves, but by a partnership with bureaus of statistics and external players. Regulators indicated that policymakers addressing financial inclusion are often unable to embark on expensive demand-side data collection efforts because they lack the budget or mandate for these activities, which do not have a clearly assigned overseeing authority.

Identity documents

Many countries lack national identity documents and systems required for financial service providers to perform Know Your Customer (KYC) procedures and open accounts, and even in countries that do, low-income clients might not possess such documents. Countries such as Ghana, Malawi, and India are engaged in large-scale initiatives to create national identification or registration systems that, among other advantages, can satisfy KYC requirements. The extent of the challenge that Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) standards have posed to countries varies. 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, which can hinder the expansion of financial services. Tanzania reports that the impact of these standards on access has been difficult to measure because the standards were only recently adopted (2007). To surmount the barrier that identity documents can create, policies have been adopted that allow the use of alternative forms of identification, such as electoral registration cards and letters from community leaders for low risk accounts.

Understanding, trust, and protection

Many policymakers identified consumer protection as a central pillar of their financial inclusion strategy. Some countries like Peru cited demand-side barriers and emphasized policies that empower people to be aware of financial services and make good use of them. Other countries cited consumer protection challenges related to the supply of financial services, such as overindebtedness. In Thailand, the importance of consumer protection and financial education is evidenced by its prominent place in the definitions and demand-side surveys that are used to measure financial inclusion.

Although it originated in developed countries, the recent financial crisis has put a spotlight on consumer protection and led to political caution regarding unfettered access to financial services. Financial crises can have long-lasting effects, particularly eroding trust in the financial system and reducing people's willingness to use it. This problem can be perceived in regions like Latin America, which was heavily affected by the phenomena of hyperinflation during the 1980s and the *corralito* more recently. Lack of trust is also reflected in low levels of use of financial products (mainly savings accounts), in the importance of hard currencies in daily transactions, and in the abundance of offshore bank accounts in countries that are considered to be safer (for those who can afford it).

Challenges of the political process

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

Barriers to 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 their technical proposals changed beyond recognition when they are subjected to the political process in parliaments. In Guatemala, a bill regulating microfinance activity was changed so much by politicians in successive drafts that it was emptied of proposals by regulators, making it effectively useless. Constant innovations and changes in this sector push regulators to react quickly to new challenges and opportunities in the market. When this does not happen, regulatory frameworks quickly become obsolete and unable to satisfy the needs of customers and financial institutions.

Lessons learned

Numerous lessons have emerged from the dialogue with our members and the trends and barriers identified in our survey. These lessons will help to shape AFI's future activities and approach as well as the work of others who are advancing financial inclusion.

A new openness and demand for technology solutions

Policy innovations that make use of advanced information and communication technologies are still the exception in developing country policy frameworks and financial sector strategies, but interactions with AFI members clearly indicate openness to learning, experimentation, and scaling up these technologies. Policymakers see the significant opportunities technology offers to leapfrog some of the biggest obstacles to expanding financial services, and seek to adopt these in a way that does not compromise the safety of customers or the stability of the financial system.

The critical significance of identifying the risks involved in providing mobile financial services has meant that many technology-based solutions have stopped short of full financial inclusion, with services limited to payments. However, through innovative leadership and partnerships with banks or microfinance institutions, a handful of countries are leading the way in offering a range of banking services, including savings, allowing for financial intermediation.

Many developing country regulators appear to still be familiarizing themselves with the potential risks of these innovations, with many showing interest in learning from those early movers who established clear regulatory guidelines. To promote this exposure and understanding, peer-to-peer learning initiatives and documentation and analysis of advances are important.[4]

Partnerships between the public and private sectors

Public-private dialogue and consultation are critical for creating sound and balanced regulation and building constructive partnerships that promote financial access. Financial inclusion, policymakers and regulators contend, is impossible without the participation and support of private actors. When solid business models, appropriate product features, and consumer protection measures are in place, public-private partnerships have the potential to promote both outreach and access. Policymakers and regulators also agree that their interventions and enforcement measures should not be coercive, and that communicating and aligning 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 help to create regulation and foster innovations in access. This has been important in previous efforts to design microfinance regulatory frameworks and it appears to be a key condition for building better understanding of the risks and opportunities of technology-based 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 who has faced similar realities, concerns, challenges, and pressures. Exchanges of experience across countries and regions are considered credible, unbiased, and a trusted source of information. Countries leading the way in financial inclusion policymaking have developed their own national solutions and are in high demand from countries in the early stages of financial inclusion policy who want to learn and adapt based on an understanding of their own local realities. While there is no standard solution or silver bullet for rapid replication in most places, there is enormous potential to promote tailor-made solutions with practical suggestions and good practices from those who have been through the process.

[4] For example, "Policy Principles for Expanding Financial Access," Center for Global Development (CGD) Task Force on Access to Financial Services, October 2009.

Step-by-step and self-determined objectives

Rather than prematurely adopting advanced technologies, tools, and strategies, most countries consulted favored a step-by-step approach to financial inclusion based on empirical evidence. By recognizing their limitations, countries can develop solutions appropriate to their level of development.

The movement towards data collection and evidence-based policy can push countries that are developing financial inclusion policies to take an important step: determine realistic targets for financial inclusion against which they can monitor progress and make necessary policy adaptations.

International cooperation: three sets of needs

Depending on the level of development of financial inclusion policy, developing countries fall into one of three categories of demand for international cooperation:

The first group of demand comes from countries that have managed to implement successful financial inclusion strategies. Their central banks and regulators have a clear vision and leadership capacity on financial inclusion issues, and regulators receive political support. Other countries recognize financial inclusion champions such as Brazil, Kenya, Peru, Indonesia, and the Philippines, as a valuable resource, and there is strong willingness to learn from their experiences. However, despite their early successes, champion countries insist that the majority of their work lies ahead. More coordination, even higher levels of political support, and more human and technical support are critical for consolidating their advances. In terms of international cooperation, these countries need to actively share their experience and learning, to continue to pioneer innovative solutions, implement these solutions where appropriate, and share their progress. These countries may need additional support in sharing their experience and knowledge with other countries and implementing new solutions.

The second group of demand comes from countries that have initiated reforms and are open to innovations that increase access to financial services. The vast majority of countries fall into this category. This group identifies peer learning as extremely important and seeks to participate actively in mutual learning. These countries have set their own national targets for financial inclusion while adapting or replicating appropriate solutions from elsewhere. There is a strong commitment to achieve their targets and share their progress over time. Additional support may be needed to create a dynamic learning environment and to fund replication and implementation efforts. For these countries, a regional learning approach seems to be a critical issue.

The third group of demand comes from countries that are facing structural problems in their financial systems and for whom financial inclusion is important, but not a top priority. Overburdened with issues such as improving the soundness or stability of the financial system, they see financial inclusion as part of a larger normalization package that improves the overall efficiency of the financial system. These countries typically request financial and technical assistance to implement priority financial sector projects and see financial inclusion playing an important role in future reforms.

This classification of needs and a review of lessons learned help to provide a clearer perspective on how AFI and international cooperation efforts might move forward to further improve access and use of financial services.

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 triggered a fundamental rethinking of the role of governments and central banks in finance, and temporarily shifted the focus of financial policymakers towards regulatory changes and efforts that restore financial stability. For those advancing financial inclusion policies, this has created opportunities to reinvigorate and drive reforms that foster economic resilience.

Post-crisis opportunities to promote financial inclusion hinge on a careful analysis of the potential risks posed by financial innovations that boost access and transactions for the poor. A small number of countries leading regulatory innovations have demonstrated that an appropriate balance can be found between financial openness and regulations that limit the risk of financial instability. A better and broader understanding of these risks is a key prerequisite for scaling up financial inclusion, and is particularly relevant in the field of technology-based financial services. Systematic global and regional efforts are needed to refine and communicate insights on risk, to assist countries seeking appropriate and sustainable solutions in fostering environments conducive to financial inclusion, to drive adaptation, and to scale up successful innovations that push countries to a breakthrough point in financial inclusion. Mechanisms that help leverage existing insights into even better understanding need to be strengthened.

Developing country policymakers understand that policies encouraging environments conducive to financial innovation and efforts ensuring consumer protection and financial capability are complementary. Adopting comprehensive policies at the country level that respond to both demand- and supply-side barriers will be most effective at safely fostering financial inclusion.

Peer learning and exchange is increasingly being identified as a crucial way to leverage proven solutions for developing country policymakers. For most countries with high demand for such exchanges, a regional approach seems to be most appropriate. However, countries that are at earlier stages of the learning cycle are demanding focused support for capacity building in addition to direct learning from other countries. In countries where funding and capacity building are major issues in promoting financial inclusion, a targeted and systematic funding strategy to provide adequate financial support could be an additional area of global effort.

A global policy response based on leadership from developing countries, closer international cooperation, and strong and coordinated partnerships between relevant public and private sector stakeholders at national and international levels, could be the most effective way to support countries at all levels of policy development.

Finally, there is momentum for encouraging developing countries to determine their own financial inclusion objectives. Quantitative objectives that are based on more reliable data about access and use, and that are 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.

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