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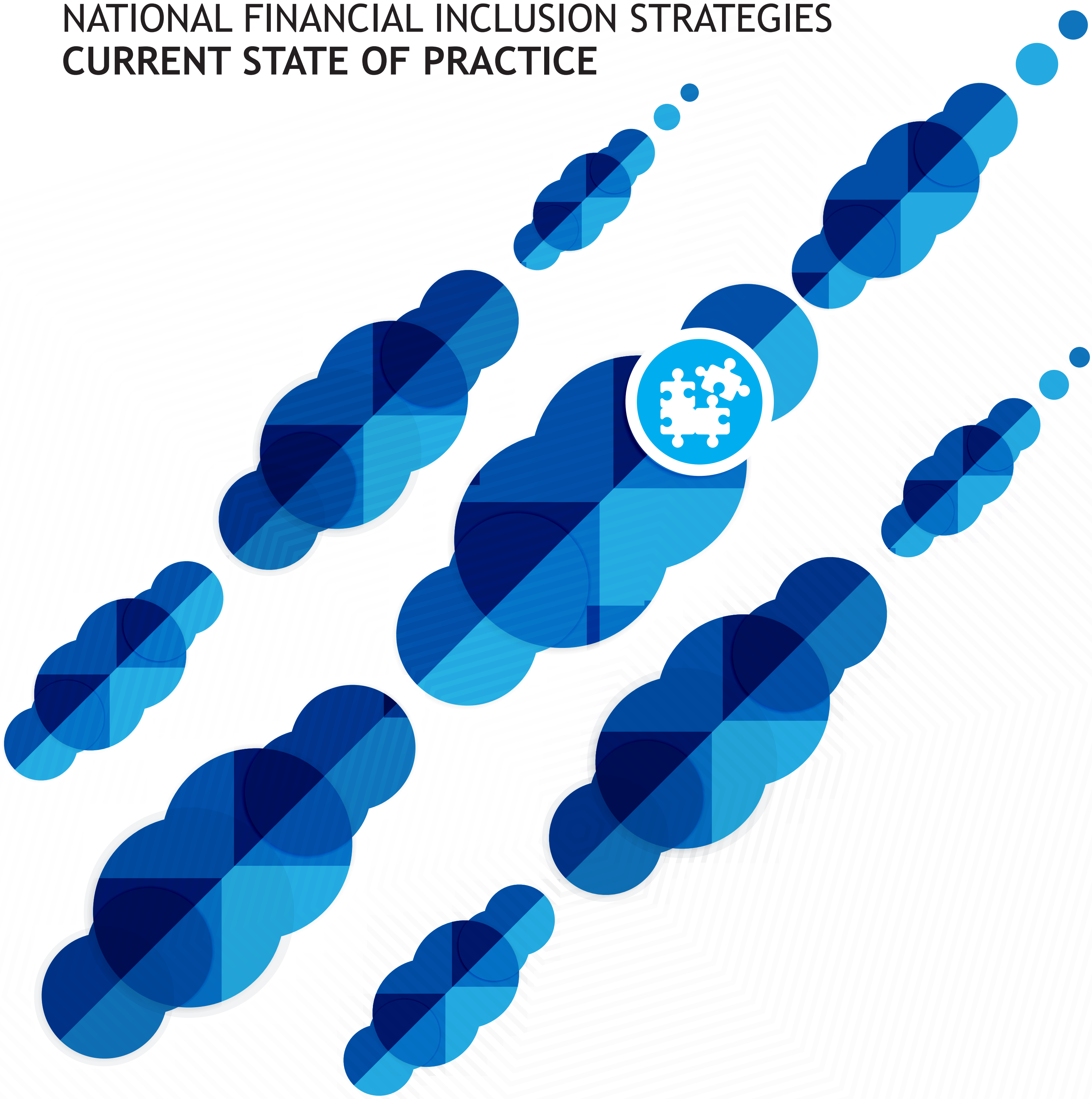
NATIONAL FINANCIAL INCLUSION STRATEGIES
CURRENT STATE OF PRACTICE



AFI FISPLG PUBLICATION

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About this publication

AFI working group publications are developed specifically for policymakers. These publications capture the actual experiences and challenges faced by leading policymakers from developing countries as they innovate and implement new or reformational policy solutions in their country.

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CONTEXT

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National financial inclusion strategies (NFIS) have gained a great deal of traction in recent years and are becoming an increasingly common policy approach of many member institutions in the Alliance for Financial Inclusion (AFI).

The Maya Declaration of 2011 contributed significantly to this heightened interest in national strategies. Of the 57 institutions that had made commitments under the Maya Declaration by the end of September 2015, 35 have committed to formulating and implementing an NFIS and of these 35 countries, 16 have already formulated one. Other evidence points to AFI members' interest as well. A poll taken at the 2012 AFI Global Policy Forum held in Cape Town, South Africa, showed that 97% of respondents thought a national strategy was essential to accelerate financial inclusion. This surge in interest is also due to better available data on the acuteness of the financial exclusion problem and a better understanding of the power of strategic approaches to achieve financial inclusion objectives.

Policymakers' overwhelming confidence in national strategies as a policy tool is demonstrated even more clearly by the growing number of countries that have already formulated one, or are in the process of doing so. At last count, 31 AFI members, or approximately 33% of the AFI Network (as of 20 May 2015), have an NFIS, and another 27 countries, or 28% of member countries, are at various stages of developing one. Of the 31 countries with an NFIS, 8 (26%) are low-income countries, 12 (39%) are lower-middle income countries, 10 (32%) are upper-middle income countries, while just one (Russia) is a high-income country.

This policy choice is supported not only by AFI, but also by the G20, the World Bank and regional development banks such as the African Development Bank, among others. AFI has provided grant support to a number of its members to prepare national strategies, or for related activities, such as conducting demand-side surveys and brainstorming workshops or participating in knowledge exchange visits to learn from the experiences of other countries. The G20 has supported the development of national strategies through the nine Principles for Innovative Financial Inclusion[1]

1 Global Partnership for Financial Inclusion (GPFI) and AFI, 2011.

TABLE 1. AFI MEMBER COUNTRIES WITH A NATIONAL FINANCIAL INCLUSION STRATEGY (NFIS)

COUNTRIES WITH AN NFIS, YEAR APPROVED AND LEAD INSTITUTION(S) (TOTAL: 31 COUNTRIES)	COUNTRIES AT VARIOUS STAGES OF FORMULATING AN NFIS AND LEAD INSTITUTION (TOTAL: 27 COUNTRIES)
Asia & Pacific (8 countries) India (2014, MoF); Indonesia (2012, MoF and CB); Malaysia (2011, CB); Papua New Guinea (2013, CB); Pakistan (2015, CB and MoF); Philippines (2015, CB); Solomon Islands (2010, CB); Vanuatu (2013, CB).	**Asia & Pacific (9 countries)** Bangladesh (CB); Bhutan (CB); Cambodia (CB); China; Fiji (CB); Mongolia; Nepal (CB); Samoa (CB); Thailand (MoF)
Africa (8 countries) Burundi (2014, Ministry of Finance and Economic Development Planning); Liberia (2008, CB); Malawi (2010, MoF); Madagascar (2012); Namibia (2010, MoF and CB); Nigeria (2012, CB); Rwanda (2012, Ministry of Finance and Economic Planning and CB); Tanzania (2013, CB)	**Africa (7 countries)** Congo; Ethiopia (CB); Mozambique (CB); Swaziland (MoF); Sierra Leone (CB); Senegal(MoF); Uganda (CB)
Middle East and North Africa (1 country) Morocco (2008, CB)	**Middle East and North Africa (4 countries)** Egypt (CB); Jordan (CB); Palestine (CB); Yemen (CB)
Latin America and the Caribbean (10 countries) Brazil (2011, CB); Colombia (2014, MoF); Ecuador (2013); Haiti (2014, CB); Honduras; Mexico (2007, Secretariat of Finance and Public Credit); Nicaragua; Panama;Paraguay (2014, CB); Peru (2015, Ministry of Economy and Finance)	**Latin America and the Caribbean (6 countries)** Bolivia; Chile (Ministry of Planning); Costa Rica; Dominican Republic; El Salvador (CB); Nicaragua; Trinidad and Tobago (CB)
Europe and Central Asia (4 countries) Belarus (2013, CB); Russia (2008); Tajikistan (2012); Turkey (2014, Undersecretariat of Treasury)	**Europe and Central Asia (1 country)** Armenia

Sources: AFI FISPLG, Pacific Islands Regional Initiative (PIRI) and The World Bank Financial Inclusion Strategies Resource Center endorsed by G20 Leaders in 2010. In 2011, the participants of the first G20 Global Partnership for Financial Inclusion (GPFI) Forum agreed that, "the GPFI should continue to provide support to countries that are improving or developing financial inclusion strategies."[2] Reinforcing G20 support, the Mexican G20 Presidency established the G20 Financial Inclusion Peer Learning Program in 2012. Twelve countries renewed their commitments under the Maya Declaration at the G20 Leaders' Summit[3] and agreed to participate in the FIPLP together with five more countries that had committed to developing national strategies and coordinating mechanisms.[4] In 2012, AFI established the FISPLG to assist with the implementation of the G20 Financial Inclusion Peer Learning Program and provide a platform for AFI members interested in sharing knowledge on national financial inclusion strategies. Forty-eight institutions from 40 countries, representing all geographical regions, had become members of the FISPLG by August 2015. Meanwhile, in 2012, The World Bank launched its Financial Inclusion Support Framework to provide assistance to countries to formulate and implement national strategies systematically. Haiti, Indonesia, Paraguay, Pakistan, and Rwanda have all received assistance through this program.

It is not surprising that national financial inclusion strategies have gained traction so quickly, since the logic appears simple: greater financial inclusion promises more inclusive growth and development, while national strategies have the potential to accelerate financial inclusion. Empirical evidence appears to support this position. For example, the South Africa Financial Sector Charter helped raised the percentage of banked adults from 46% to 64% in four years, and six million basic bank accounts (Mzansi accounts) were opened. In the United Kingdom, a Financial Inclusion Task Force contributed to halving the number of unbanked adults through a variety of policy measures. Reinforcing this evidence, the World Bank recently reported that countries that have launched an NFIS have achieved much higher levels of financial inclusion than other countries in recent years. The evidence from countries such as Brazil, Malaysia, Namibia and Tanzania supports this assertion.

The growing number of national financial inclusion strategies across all regions shows the influence of knowledge and peer learning on strategy development. However, it is important to note that practices tend to change over time based on how much knowledge is shared through mechanisms such as peer learning, and the extent to which this knowledge is applied in the strategy formulation process.[8] Assessing the current state of practice of NFIS has other limitations, as well. First, there is no systematic database in place with general data on NFIS or on the specific practices different countries have adopted. Even the scattered data that is available relates mainly to the formulation of national strategies, while very little data is available on implementation and progress monitoring and evaluation. Second, there is no agreement on what should legitimately be included in an NFIS. For example, some people tend to include macroeconomic development strategies even though these may not significantly or strategically address the core issues of financial inclusion.[9]

WHAT IS A NATIONAL FINANCIAL INCLUSION STRATEGY?

A national financial inclusion strategy (NFIS) is a comprehensive public document that presents a strategy developed at the national level to systematically accelerate the level of financial inclusion. An NFIS is developed through a broad consultative process involving, among others, public and private sector stakeholders engaged in financial sector development.[7] Typically, a NFIS will include an analysis of the current status of, and constraints on, financial inclusion in a country, a measurable financial inclusion goal, how a country proposes to reach this goal and by when, and how it would measure the progress and achievements of the NFIS.

Source: Definition developed by the members of the AFI Financial Inclusion Strategy Peer Learning Group (FISPLG)

This paper covers NFIS practice in relation to two different, but essentially interlinked phases of the strategy process: formulation and implementation (which also includes progress monitoring and evaluation). The objective of the paper is to provide an overview of the practices different countries have adopted and highlight recent developments. Data and information have been drawn from a multitude of sources, including the formal national financial inclusion strategies of AFI members,[10] the Alliance for Financial Inclusion (AFI) and the FISPLG, which has so far held six meetings since it first met in October 2012 in Abuja, Nigeria. A number of small-scale sample surveys on NFIS administered at some of the FISPLG meetings have enriched this data to some extent. FISPLG members have also provided additional data on request to clarify and elaborate the data. However, gaps in data remain. As a result, this paper pays more attention to formulation practices than the implementation phase, but this does not mean implementation practices are less important.

2 Global Partnership for Financial Inclusion (GPFI), 2012, p. 8.

3 The 12 countries are Brazil, Fiji, Indonesia, Kenya, Malawi, Mexico, Nigeria, Peru, Rwanda, Tanzania, Uganda and Zambia.

4 The five countries are China, Colombia, South Africa, Turkey and Uruguay.

5 The World Bank, 2014a, p. 101.

6 Ivo Jenik, 2015.

7 The World Bank defines a financial inclusion strategy (FIS) as "road map of actions, agreed and defined at the national or subnational level, that stakeholders follow to achieve financial inclusion objectives." See World Bank, 2012.

8 The phrase "strategy process" refers to the process of formulating, implementing, monitoring and evaluating progress and assessing the impact of a financial inclusion strategy.

9 An example of such a macroeconomic development strategy is Kenya's Vision 2030. This document deals briefly with financial services under its economic pillar, but is not an NFIS in part because it does not have strategic measures, priorities, time-specific targets and an implementation plan for financial inclusion (See The Government of Republic of Kenya, 2007). The same is true for Senegal's "Plan Sénégal Emergent" 2035, which details financial inclusion objectives but does not go beyond that to meet the more specific requirements of a financial inclusion strategy.

10 We have drawn extensively on the strategy documents and experience of 15 countries: Brazil, Burundi, Haiti, India, Indonesia, Liberia, Malawi, Namibia, Nigeria, Paraguay, Pakistan, Philippines, Rwanda, Tanzania and Turkey.

CURRENT STATE OF PRACTICE IN THE FORMULATION OF NATIONAL FINANCIAL INCLUSION STRATEGIES

The first phase of the NFIS process is formulation. However, since the formulation process involves a range of activities, countries tend to adopt different practices. It is therefore useful to divide these practices into the following sub-categories:

- Leadership
- Organizing
- Approaches
- Consultative process
- Data and diagnostic studies
- Content
- Incorporating national targets
- Setting priorities
- Budgeting
- Lessons from other countries
- Funding agency involvement
- Implementation
- Coordination mechanisms
- Working groups and technical committees
- Communicating the strategy
- Action plans
- Monitoring and evaluating progress

LEADERSHIP

The importance of leadership is well recognized by policymakers in developing and emerging countries, as well as by other stakeholders such as the G20, which has made leadership the first of its nine Principles for Innovative Financial Inclusion.[11] As the 2010 AFI Survey Report on Financial Inclusion Policy states, "strong leadership is always the foundation behind the development of a national vision and strategy for financial inclusion." [12] Leadership is essential to cultivating a strong commitment to financial inclusion across a diverse range of stakeholders and putting financial inclusion at the center of national policy agendas.

In most countries — 12 of the 24 countries for which we have reliable data — central banks have taken the lead. These countries include, for example, Belarus, Brazil, Liberia, Nigeria, Papua New Guinea, Malaysia, Morocco, Tanzania and Solomon Islands. In 15 of 20 countries where strategy formulation is at various stages, the central bank is also leading the process. These countries include Nepal, Samoa, Ethiopia, Fiji and Trinidad and Tobago. The reason is relatively easy to understand. As AFI's Pacific Islands Working Group (now the Pacific Islands Regional Initiative) has noted, "central banks are well positioned to take a leadership and coordination role to help maximize efforts, overcome barriers and steer activities towards shared goals."[13] Alfred Hannig, Executive Director of AFI, concurs that a central bank "typically has the respect of other government agencies and greater political independence allowing it to overcome barriers and steer activities towards shared goals." [14]

In other countries, the Ministry of Finance has taken the leadership role, such as Colombia, India, Malawi, Thailand and Swaziland. In still other countries, the central bank has shared leadership with the Ministry of Finance or other key ministry. For example, the Central Bank of Burundi shared responsibility for formulating the NFIS with the Ministry of Finance and Economic Development Planning, and in Pakistan the central bank shared the leadership role with the Ministry of Finance. However, there is geographical variation. Data suggests that central bank leadership is less common in the Latin American and Caribbean region than in the Asia Pacific region. In a smaller number of countries, national strategies are formulated by an inter-agency committee under the leadership of the central bank or Ministry of Finance. In Paraguay, the strategy was formulated by the National Financial Inclusion Committee, which consisted of senior-level representatives from the Central Bank of Paraguay, Ministry of Finance, National Institute of Cooperatives and the Ministry of Planning. In the Philippines, an inter-agency body of representatives from 12 agencies, plus the Bangko Sentral ng Pilipinas (BSP, the central bank), carried out this task. This body was chaired by the Governor of the BSP. In Turkey, the Financial Stability Committee led the process.[15] Whether the leadership and coordination role is taken up by the central bank or another national institution, the one taking the lead must have, among other things, a formal or informal mandate for financial inclusion and sufficient convening power to bring all relevant government and private sector stakeholders together.

ORGANIZING

Leadership is critical, but how leading institutions organize themselves to formulate a national strategy is equally important. Evidence indicates that institutions organize themselves in extremely diverse ways. Brazil, for example, began the process by creating a financial inclusion project at the central bank in 2009, while Mexico set up a National Financial Inclusion Council in 2011. In the Philippines, Bangko Sentral ng Pilipinas established an Inclusive Finance Steering Committee in 2012 made up of all Deputy Governors of the BSP and chaired by the Governor. The Central Bank of the Solomon Islands and the National Bank of Rwanda set up a National Financial Inclusion Task Force, while Nigeria's central bank set the process in motion in 2011 with a Financial Inclusion Strategy Project. Paraguay's central bank in created the

11 GPFI and AFI, 2011.
12 AFI, 2010a.
13 Pacific Islands Working Group, 2011.
14 Alfred Hannig, 2013.
15 The Financial Stability Committee (FSC), chaired by the Deputy Prime Minister, was established in June 2011. The other members of the FSC are the Undersecretary of Treasury, the Governor of the Central Bank of Turkey, the Chairman of the Banking Regulation and Supervision Agency, the Chairman of the Capital Markets Board of Turkey and the Chairman of the Savings Deposit Insurance Fund.

Department of Financial Inclusion and an inter-agency technical team in 2013, and in 2014, Paraguay's Office of the President established a National Financial Inclusion Committee, which in turn appointed an Executive Secretary to be responsible for the oversight, coordination and implementation of the strategy.[16] The Ministry of Planning in Chile created a Financial Inclusion Unit in 2011 to drive the process. In Swaziland, the Ministry of Finance set up a Financial Inclusion Task Team with a mandate to develop an NFIS. The Task Team consisted of members from the Ministry's Microfinance Unit, the central bank and the Financial Services Regulatory Authority. To convey the importance of the task, the Government of Egypt has assigned responsibility for the NFIS process to the recently established high-level Economic Development Council.

What all of these different efforts and approaches show is that lead institutions across all geographical regions have made a concerted effort to approach the strategy process in a systematic manner, and that the initial organizational structure is critically important for building broad ownership and momentum for the strategy formulation process.

APPROACHES

A review of strategy formulation practices shows that countries primarily adopt one of two fundamentally different approaches. Many countries, including Burundi, Haiti, India, Indonesia, Liberia, Malawi, Nigeria, Paraguay, Pakistan, Peru, Philippines, Solomon Islands and Tanzania, have created stand-alone national financial inclusion strategies. A number of other countries at various stages of the formulation process — Fiji, Palestine, Swaziland, Thailand, and Trinidad and Tobago — have also used this approach. Clearly, stand-alone national strategies have become the dominant approach. In Malawi and Mozambique, for example, where financial sector development strategies were already in place, the lead institutions opted to formulate a stand-alone NFIS. In a sample of 24 countries, 75% applied the stand-alone modality, and all seven countries that launched national strategies in the last 12 to 14 months have used this approach as well.[17]

The other type of NFIS is an **embedded or derived strategy**. Embedded or derived national financial inclusion strategies are positioned within, or derived from, an overall financial sector development strategy or other macro-strategies, such as national economic growth or development strategy.[18] For example, Namibia added financial inclusion to its Financial Sector Strategy 2011–2021, which, among other things, advocates for the "need to enhance access to financial products and services for the low income and less privileged segments of the population". Mexico's National Development Plan for 2007–2012 provided strategic direction for financial inclusion, including financial consumer protection and financial literacy.[19] Zambia, meanwhile, derived directions for financial inclusion from its Financial Sector Development Plan (Phase I and II). Rwanda's financial inclusion strategy sits within the Financial Sector Development Program II (2013-2017),[20] and Malaysia embedded its financial inclusion strategy in its Financial Sector Blueprint 2011–2020. Nepal anticipates getting strategic direction for financial inclusion from a development strategy for the financial sector, which is currently being prepared.

Overall, the preference for stand-alone national strategies appears to reflect the influence of measurable NFIS commitments made under the Maya Declaration by most AFI member countries, and the firm determination of members to pursue a more "focused" approach. Stand-alone strategies cover a shorter period than embedded strategies. The average period covered by the 14 stand-alone strategies in this study is 4.92 years. Of the three embedded strategies included in this study, one covered 10 years, the other 11 years and the third – Rwanda's strategy – covered five years.

CONSULTATIVE PROCESS

Participatory approaches are considered critically important to the successful implementation of any strategy. In the case of national financial inclusion strategies, this means broad and in-depth consultations with relevant stakeholders in the public and private sectors, as well as civil society. The extent to which countries have taken a participatory approach to formulating their financial inclusion strategies is an important question. A country profile survey updated at the sixth meeting of the FISPLG showed that stakeholder consultation is widely practiced. Fifteen countries with national strategies indicated they consulted with other government institutions and private sector agencies, including associations of providers of financial products and services. Civil society organizations were also consulted by most of the countries.

The first generation national strategies (those formulated before the Maya Declaration) did not consult the private sector extensively. However, evidence suggests that the breadth and depth of consultation with the private sector have increased substantially in recent years, particularly with mobile network operators and insurance service providers. In general, this reflects a growing recognition that the private sector can play a central role in accelerating financial inclusion in most countries, particularly through more effective and efficient use of new technology and innovative business models. The private sector was so involved in formulating Tanzania's National Financial Inclusion Framework (NFIF), for example, that the Tanzania National Council for Financial Inclusion launched it as "a public-private stakeholders' initiative."

Consultations are generally carried out with financially excluded groups as well, but information on the extent of these consultations is scant, and the representation of the

16 World Bank, 2014b, p. 37.

17 Bank Negara Malaysia, 2010, pp. 82-86.

18 This definition was developed by Nimal Fernando, AFI Associate, who introduced the concept of "embedded/derived strategies" into the typology of NFIS approaches.

19 GPFI and AFI, 2011, p. 2.

20 The Government of Rwanda, 2012.

poorest, low-income rural women, and women who operate MSMEs, is even less clear. When these groups are consulted, it is typically through focus group discussions. Whether the use of demand-side surveys can make up for any gaps created by inadequate consultations with a strategy's intended target groups remains an open question.

Approaches to consultation vary greatly across countries. Haiti's central bank went to stakeholder consultations with a draft NFIS in hand and refined it based on the feedback it gathered. The BSP in the Philippines followed the same approach, using a "consultative draft" for regional consultations with stakeholders. The State Bank of Pakistan carried out stakeholder consultations prior to drafting the strategy, and again after completing the basic framework of the strategy. Burundi and Nigeria also consulted stakeholders at two stages: prior to preparing a draft strategy and after the draft was completed. The Bank of Tanzania consulted stakeholders throughout the entire process of formulating the strategy.

While no analysis has been done on the merits of these different approaches, it appears that consultations at early stages may be better at bringing all important stakeholders on board, creating a shared vision and generating strong commitment to the cause. However, those who have gone to consultations with an initial draft in hand argue that this helps to conduct the consultations in a systematic way when there are many stakeholders who want to actively participate. [21]

DATA AND DIAGNOSTIC STUDIES

There is now consensus among policymakers, financial service providers and other stakeholders on the importance of data and high-quality diagnostics for the development and implementation of national financial inclusion strategies.[22] Most countries make a concerted effort to use reliable, recent and comprehensive data as much as possible to formulate their strategy. By moving away from a heavy dependence on supply-side data, many countries are clearly recognizing demand-side data on financial services access and usage is critically important. This data allows them to not only formulate a sound and comprehensive NFIS, but also to effectively address issues arising from the interplay between supply-side and demand-side barriers to financial inclusion.[23] It also shows the work of both the AFI Financial Inclusion Data Working Group and the GPFI Data Working Group is having an impact, and that it is now widely recognized that providing relevant and quality financial services has a major impact on the welfare of a population.[24]

Demand-side surveys on financial inclusion have been used more extensively in African countries than elsewhere, such as Burundi, Malawi, Namibia, Nigeria, Rwanda, Tanzania and Zambia. A demand-side survey carried out in Burundi provided a solid basis for policymakers to not only build a stakeholder consultation program, but also to identify barriers to financial inclusion. In addition, the survey findings provided useful insights into focus areas of the national strategy.[25] Indonesia, Pakistan and the Philippines, among others, have recently conducted demand-side surveys to inform strategy formulation. Paraguay used a 2013 demand-side financial inclusion survey as a benchmark to formulate its NFIS. The Reserve Bank of Fiji is using national demand-side survey data to formulate its second NFIS, while Samoa's central bank is using the Financial Service Access and Usage Demand Side Survey it completed in April 2015 to gather critical data for the formulation of its NFIS.

Many policymakers have also found that the availability of better and more recent data enables them to establish realistic national targets in the NFIS, and that it provides a credible basis for developing key monitoring indicators and establishing reasonable benchmarks for monitoring progress. As the Head of the Financial Inclusion Team of Banco Central do Brasil has noted, "without good data, it is impossible to define indicators to build a proper financial inclusion agenda for the country."[26] Efforts to gather and improve the availability of reliable demand-side data have generated additional positive effects: they have catalyzed interest in financial inclusion among many stakeholders in the public and private sectors, and contributed to an informed public discourse, knowledge and understanding on financial inclusion, all of which are critically important to good policymaking.

According to more recent reliable data, most policymakers rely on diagnostic studies to shape their NFIS. As the World Bank's Financial Inclusion Strategies Reference Framework noted, "diagnostics provide an analytical and often in-depth assessment of financial inclusion and financial infrastructure, which can be very valuable in informing the design, prioritization, and sequencing of policy and legal reforms, and of public interventions. Diagnostic assessments can be comprehensive in scope or focused on a particular sector or issue."[27] A FISPLG survey found that 8 out of 14 AFI member countries with national strategies relied on comprehensive diagnostics to formulate them.

In general, policymakers have relied on comprehensive diagnostic studies to identify the most binding constraints on financial inclusion at a given point in time, to receive better guidance on selecting target groups, to set goals and to design measures to address these constraints. For example, Tanzania's NFIF gives priority to poor rural households and their enterprises and low-income women and youth, with a special focus on children. Based on diagnostics, Tanzania has also chosen to prioritize proximity, robust electronic platforms, robust information and easy client on-boarding, and informed customers and consumer protection. Although India's strategy does

21 This point was made by Rochelle Tomas of the BSP at the sixth meeting of the FISPLG held in Kuala Lumpur in June 2015.

22 AFI, 2010b, p. 10.

23 AFI's Financial Inclusion Data Working Group (FIDWG) has encouraged the use of demand-side surveys for policymaking and has published a Guideline Note on this topic. See FIDWG, 2013.

24 The Governor of the Central Bank of Malaysia, in a keynote address at the 2014 AFI Global Policy Forum, rated the provision of relevant and quality financial services as the number one priority to advance financial inclusion to the next level. See Zeti Akhtar Aziz, 2014.

25 Banque de la République du Burundi and the AFI Financial Inclusion Data Working Group, 2014.

26 Kabir Kumar and Yanina Seltzer, 2012.

27 World Bank, 2012, p. 25.

not explicitly mention diagnostics, a range of studies on access and use of financial services by different population segments were used to formulate it. Papua New Guinea and Fiji used financial sector assessment to inform their strategy formulation. Burundi has used diagnostics in a similar manner to fine-tune targeting and ways to address barriers to financial inclusion. Diagnostics enable policymakers to identify financial inclusion measures that suit the local context and help to allocate limited resources more efficiently.[28]

This emerging practice of using diagnostics to formulate national strategies appears to involve using a series of sectoral and sub-sectoral diagnostic studies, rather than a single all-encompassing study. This appears to be a more sound practice given the multiple dimensions and complexity of financial inclusion. Mozambique, for example, is combining a diagnostic review of consumer protection and financial literacy, an analysis of financial inclusion and financial capability household survey data, and other studies, to formulate its strategy. Indonesian policymakers have also used various special studies: a review of MSME finance supply, a G2P payments landscape study, and remittance and national identity assessments. Peru used several qualitative and quantitative diagnostics, and Pakistan used a number of sector or issue-focused studies together with the main stocktaking diagnostic. Paraguay also used a supply-side assessment of financial inclusion, an assessment of the legal and regulatory framework for financial inclusion, and a World Bank consumer protection financial literacy diagnostic to inform the national strategy.

CONTENT

The content of a national strategy generally covers a wide range of areas, from basic but fundamentally important issues, such as the justification for a strategy and the vision of the strategy, to the analysis of the state of financial inclusion in the country and the focus areas and major issues the strategy will address. The scope of the content can therefore differ widely across different national strategies. Evidence suggests that the scope of strategies has widened substantially in the last five years. First generation national strategies, Liberia's and Malawi's, for example, focused on financial inclusion in the context of the microfinance sector. Second generation strategies, however, go well beyond microfinance.

The literature on national financial inclusion strategies describes "vision" as the foundation of a strategy. It is typically a concise, inspirational and aspirational statement that defines medium- to long-term goal(s) of the strategy. Given the importance of a vision statement, most national strategies include one. Some of these statements are included in Table 2 below. It appears many countries overlook the need for a timeline in their vision statement, and some do not provide measurable goals.[29] A well-crafted vision statement is power-packed because it can convey a strong and clear message to all stakeholders. However, there is little evidence to conclude that countries have deliberately designed vision statements to accomplish this. Some strategies do not include a clearly identifiable vision statement at all.

TABLE 2. VISION STATEMENTS OF SELECTED NATIONAL FINANCIAL INCLUSION STRATEGIES

Indonesia	To achieve a financial system that is accessible by all layers of the community to promote economic growth, poverty reduction and income equality in Indonesia.
Paraguay	Quality and affordable financial services for all people in Paraguay who want them through a diverse and competitive marketplace.
Peru	Improve the welfare of Peruvians through financial inclusion.
Philippines	Have a financial system that is accessible and responsive to the needs of the entire population toward broad-based and inclusive growth.
Tanzania	All Tanzanians regularly use financial services and payment infrastructures to manage cash flows and mitigate shocks. These are delivered by formal providers through a range of appropriate services and infrastructure, with dignity and fairness.

Sources: National financial inclusion strategies of the respective countries

A definition of the term "financial inclusion" is an important component of a typical NFIS. How financial inclusion is defined is vitally important because it draws the boundaries for the strategy, and determines the policy measures and actions that can be legitimately included in the strategy to achieve the stated goal(s). A definition also largely determines who the stakeholders will be, who is likely to benefit from the strategy, and how. The task of crafting a definition for the strategy is not simply good practice; it is fundamentally important to all aspects of the strategy.

Given there are different definitions of financial inclusion, both nationally and internationally, those who have formulated national strategies seem to have preferred to develop their own definition for the purpose of the strategy. They have relied on definitions adopted by other countries, local context and dimensions of financial inclusion to be emphasized. It appears that many countries first develop a basic definition through discussions within a small technical group, typically the lead agency, then refine it at a broader internal consultation before submitting it for final revision at a larger stakeholder consultation. Pakistan, for example, seems to have followed this practice. Most countries review the definitions used in other countries as guidance on this task.

28 It is important to note that a diagnostic approach to identifying binding constraints and designing potentially effective measures to address development problems does not only apply to financial inclusion strategies. This approach is used in many other areas as well, such as strategies for broader economic growth.

29 A "vision" is a concise statement that can provide guidance to strategy development. A good vision includes at least two main components: a clear measure of success and a specific time frame. It must also be aspirational and inspirational.

Generally, the definition of financial inclusion in most national strategies incorporate access, usage and quality of a range of financial products and services offered by formal service providers, either to particular target groups or all segments of the population. In many cases, there is an emphasis on measuring financial inclusion. Although this varies between countries, efforts to craft a granular definition demonstrate that countries have recognized a good definition is central to formulating a sound strategy. However, there are still some glaring inadequacies: there is no specific mention of financial products in some definitions, and some strategies do not provide a clear-cut definition at all. For example, the chapter on financial inclusion in the Financial Sector Blueprint (2011–2020) of Malaysia (considered the financial inclusion strategy of Malaysia), despite presenting an excellent and concise description of financial inclusion,[30] does not provide a precise definition.

30 Bank Negara Malaysia, 2011, p. 82.

TABLE 3. DEFINITIONS OF "FINANCIAL INCLUSION" IN SELECTED NATIONAL FINANCIAL INCLUSION STRATEGIES

COUNTRY	DEFINITION INCLUDED IN THE STRATEGY DOCUMENT	MAIN ELEMENTS EMPHASIZED IN THE DEFINITION
Burundi	"Permanent access by the adult population to a set of financial products and services (i) offered by formal and sustainable financial institutions, governed by adequate regulations, (ii) that are diversified, affordable and adapted to the needs of the population, and (iii) used by the latter for the purpose of contributing to the improvement of the conditions of their socioeconomic life."	> Permanent access > Range of services > Offered by formal, sustainable, regulated financial institutions > At affordable cost > Quality > Use **Remarks:** The definition refers only to supply from financial institutions. Covers both financial products and services.
Indonesia	"The right of every individual to have access to a full range of quality financial services in a timely, convenient, informed manner and at affordable cost in full respect of his/her personal dignity. Financial services are provided to all segments of the society, with a particular attention to low-income poor, productive poor, migrant workers and people living in remote areas."	> Right to have access > Full range of financial services > Quality of financial services > Timeliness and convenience > Consumer protection > Covers all segments of society > Special focus on selected target groups **Remarks:** The definition refers to the right of every individual to have access, but does not explicitly cover financial products.
Nigeria	"Financial inclusion is achieved when adults have easy access to a broad range of formal financial services that meet their need and are provided at an affordable cost."	> Ease of access > Use of a broad range of financial products and services > Quality of products and services > Affordability **Remarks:** Covers both products and services.
Paraguay	"The access to and usage of a range of quality, timely, convenient and informed financial services at affordable prices. These services are under appropriate regulation that guarantee consumer protection and promote financial education to improve financial capabilities and rational decision-making by all segments of the population."	> Access, usage and quality > Consumer protection elements > Affordability > Financial education and capability > Refers to appropriate regulation **Remarks:** Covers all segments of the population, but does not mention financial products.
Peru	"Access to and usage of appropriate financial services by all segments of the population."	> Access and usage > Quality > Covers all segments of the population
Tanzania	"The regular use of financial services, through payment infrastructures to manage cash flows and mitigate shocks, which are delivered by formal providers through a range of appropriate services with dignity and fairness."	> Regular usage > Range of services > Supplied by formal providers > Consumer protection **Remarks:** Does not mention target groups. Does not cover financial products

How countries justify their national strategy is another important issue. Most strategies are justified on the basis of a combination of three different, but interrelated factors: a relatively high level of financial exclusion in the country; the complexity, long-term nature and multiple stakeholders characteristic of financial inclusion; and the potentially significant contribution of financial inclusion to financial stability, a robust financial sector, inclusive economic growth and poverty reduction. The relative weights given to each of these factors appear to vary across countries, with virtually all low-income countries in different regions giving the most weight to inclusive economic growth and poverty reduction, and explicitly less weight to financial stability concerns. Pakistan, for example, was driven to formulate a comprehensive NFIS by "the persistence of financial exclusion in the face of long-standing efforts to promote inclusion."[31] According to India's Minister of Finance, Corporate Affairs and Defense, launching India's financial inclusion strategy was a necessity given that less than two-thirds of households in the country had access to banking facilities after 67 years of independence.

Burundi's NFIS, for example, is aligned with the objectives of the Strategic Framework for Growth and the Fight Against Poverty. The strategy of the Philippines is aligned with the Philippine Development Plan and its broader objective of inclusive growth. Malaysia sees its financial inclusion agenda as a key component of the country's inclusive growth strategy.[32] A small number of countries, such as Indonesia and the Philippines, have cited the potential of financial inclusion to reduce income inequality as a rationale for developing an NFIS. This does not appear to be a common justification, however, which seems somewhat puzzling given the greater emphasis on this in recent years, as well as the growing recognition of the adverse consequences of income inequality on inclusive economic growth. [33]

Because national strategies are justified in part based on the positive impact they could have on inclusive economic growth and poverty reduction, measures incorporated into the strategies tend to establish a strong link with the real sector, going beyond a mere emphasis on expanded financial products and services for the financially excluded. Policymakers seem to have recognized that the nexus between financial inclusion and the real sector will enable national strategies to better harness the transformative power of financial inclusion. As a result, the scope of national strategies has broadened in recent years. For example, Tanzania's NFIF gives high priority, among other things, to addressing financial inclusion issues in the agricultural sector and rural areas, which includes low-income small farmers and agricultural enterprises making a greater contribution to productive employment. The same is true for Burundi's strategy. Both Nigeria and Indonesia have emphasized access to, and use of, financial services for MSMEs. Pakistan's strategy includes a heavy emphasis on MSMEs and the agricultural sector, among other things.

The increasing emphasis on SMEs and microenterprises indicates recognition of their potential to create more and better employment opportunities, as well as the critical role of employment in poverty reduction. Essentially, those countries that rely on a national strategy do so primarily because financial inclusion matters not only for financial stability, but also for the development of the real sectors that generate tangible benefits for the population. This suggests that financial inclusion has matured to such an extent that it is recognized as a cornerstone of a broader economic development framework. Stated another way, financial inclusion is no longer considered as an end in itself, but as a means to an end.

A content analysis of national financial inclusion strategies reveals a number of important practices. A common practice in many strategies is to focus on both supply- and demand-side constraints. This is an important development because, for many years, financial sector policymakers and regulators focused only on supply-side barriers, such as service providers' transaction costs and inadequacies in regulatory frameworks that hindered the supply of financial services. Little attention was paid to demand-side constraints, such as high consumer transaction costs, lack of formal identification documents to open accounts at formal financial institutions and use their services, and low financial literacy and financial capabilities. India's strategy is critical of previous efforts in the country that focused "only on the supply side". Current practices suggest that this asymmetry has declined significantly. The attention now being given to financial literacy and consumer protection, as well as recognition of the central role of demand-driven products and services, reveal the extent to which countries are emphasizing demand-side issues.

Another practice gaining traction is broadening the strategic emphasis beyond access to include usage and quality of financial services. This is understandable for two main reasons: first, usage has an impact on the welfare of users and their households; second, in most countries, despite relatively high access levels or account ownership, usage remains disappointingly low. In India, a Grameen Foundation study found that more than 80% of bank accounts are inactive.[34] In Latin America and the Caribbean, only 6.2 million mobile accounts out of 14.9 million registered accounts are active. Globally, the percentage of active accounts (90-day) is estimated at 35% of registered mobile money accounts in 2014.[35] In Tanzania, 90% of the adult population have access to a mobile money account, but only 43% are active users. Hence, Tanzania's NFIF focuses, among other things, on the measures needed to increase usage among owners of mobile money accounts. A similar emphasis on usage of financial services by the unserved and under-served appears in the recently formulated national strategies of countries such as Pakistan, Paraguay and the Philippines. The quality of financial products and services provided by financial and non-financial institutions is also a major focus area of most recent strategies.

31 State Bank of Pakistan and Ministry of Finance, 2015, p. viii.

32 Bank Negara Malaysia, 2011, p. 82

33 See Liliana Rojas-Suarez. 2014. In this paper, Rojas-Suarez points out the strong negative relationship between financial inclusion and income inequality. Income inequality has moved to the forefront of public debate in most developing and emerging economies in recent years.

34 Microfinance Gateway, 2014

35 Mireya Almazán and Jennifer Frydrych, 2015

Again, the strategies of Pakistan and the Philippines are examples. The emphasis on quality is reflected in the attention given to customer-centric products and services, consumer protection issues, and financial education and literacy, among other areas.

The expansion of coverage of NFISs to include financially excluded firms in addition to households or individuals has become a common a practice[36]. This is one of the factors differentiating national financial inclusion strategies from the microfinance development strategies of the 1990s. The increased emphasis on private sector firms in national strategies reflects a clear recognition that a large proportion of MSMEs still do not have access to formal financial services and are unable to fully contribute to inclusive development goals. For example, in Tanzania, the national baseline survey report of 2012 showed that only 10.6% of MSMEs had access to finance from formal institutions. The national strategies of Indonesia, Namibia, Nigeria, Pakistan, Indonesia and Tanzania, among others, suggest that these countries have made a conscious effort to address financial inclusion issues affecting not only individuals, but also firms, and MSMEs in particular. Banks in Pakistan are lending to only about 6% of the estimated 3.2 million SMEs in the country, and only about 5% of all SMEs receive a loan for working capital. Pakistan's NFIS therefore proposes to lower the barriers to financial services for SMEs and establish a technical committee to develop a detailed implementation plan. Namibia's strategy clearly recognizes that "apart from individuals, SMEs also face serious access problems."[37] Paraguay's strategy focuses not only on medium-sized firms, but also large firms without access to banking services given that over 50% of medium-sized firms and 12% of large firms remain financially excluded.

Virtually all national financial inclusion strategies formulated in recent years pay a great deal of attention to digital financial services (DFS). This is not surprising given the extremely high mobile phone penetration in most countries, and the potential it offers for scaling up financial inclusion, particularly to remote areas and unbanked low-income people. A number of national strategy measures emphasize DFS, most commonly those focused on expanding branchless banking modalities including agent networks; measures to improve payment infrastructure and regulatory frameworks relating to DFS; and improving financial literacy to facilitate DFS, among other efforts.

At least four more developments in the content of national strategies deserve mention. One is the growing trend to include microinsurance. The national strategies of Burundi, India, Pakistan, Paraguay and the Philippines, among others, address insurance issues. The inclusion of insurance highlights the importance of bringing insurance regulators into the consultation process. The second development is the greater attention being paid to gender issues, which is often covered as a cross-cutting issue in national strategies. The third development is a greater emphasis on remittances. Remittances are a key component of the national strategies of the Philippines and Haiti, for example. The fourth development is the inclusion of Islamic finance in the national strategies of countries with a significant Muslim population. Pakistan's and Indonesia's strategies, for example, pay a great deal of attention to Islamic finance.

It has been a common practice in most countries to include financial education as a major component of their national strategies. This is not surprising given that low financial literacy has been identified as one of the major obstacles to financial inclusion in most developing and emerging economies. However, most recent evidence seems to suggest an increasing number of countries are choosing to address financial education and literacy issues through stand-alone financial education or financial literacy strategies. The countries that have chosen this path include Chile, Colombia, India, Indonesia, Malawi, Mexico, Malaysia, Peru, South Africa and Zambia.[38] However, some countries, such as India, Peru, Malawi and Indonesia, despite having stand-alone financial education strategies, have included financial education/literacy in their NFIS as well. The reasons behind this choice are unclear. While duplication does not seem to be a good practice, the merit of moving financial education and literacy from a national strategy to a stand-alone financial education/ financial literacy strategy deserves in-depth analysis, which is beyond the scope of this paper.

Not surprisingly, countries without stand-alone financial education strategies have made financial education/ literacy an integral component of their national strategies. Paraguay and Haiti include financial education within the scope of their strategies, and Burundi has also chosen to incorporate financial education into its NFIS. Turkey's strategy is devoted largely to financial education and financial consumer protection, in addition to financial access. The Republic of Congo has also decided to include financial education in its NFIS. As part of its Maya Declaration Commitments, Trinidad and Tobago's national financial inclusion strategy will focus on financial education and consumer protection.

The story of consumer protection is different. Virtually all countries with national strategies have included consumer protection as an integral component. Consumer protection has received a great deal of attention in the national strategies of Namibia, Pakistan, Peru, Philippines, Paraguay, Haiti, Rwanda and Turkey, for example.

36 Recent research clearly shows the importance of expanding financial services to financially excluded firms to achieve inclusive growth objectives. See Asli Demiguc-Kunt, et al., 2008.

37 Namibia, 2011, p. 28

38 OECD, 2013.

INCORPORATING NATIONAL TARGETS

Until recently, when a country formulated an NFIS, a common practice was to include only a qualitative or quantitative headline target. However, it is clear that the Maya Declaration, announced by AFI in 2011, has strongly encouraged many member countries to make specific measurable commitments and incorporate them into their national strategies as concrete targets. A number of countries that have launched strategies recently have moved beyond the practice of just setting a headline target, and instead set detailed sub-targets that would contribute to achieving the headline target for financial inclusion. The financial inclusion strategies of Nigeria, Tanzania and Paraguay are good examples. Nigeria provides a headline target and a range of sector-level targets, as well. The headline target is to reduce financial exclusion in the country from 46% of the adult population to 20% by 2020. The targets for insurance and credit access are 40%, savings is set at 60% and payments at 70%. Tanzania, another country that has made commitments under the Maya Declaration, has set more than 12 concrete targets in its NFIF. Paraguay has set targets for savings, credit, insurance, payments and financial education. India has set a target to open 75 million basic banking accounts within a year by mid-August 2015.

It appears that policymakers committed to financial inclusion are increasingly recognizing the importance of setting national targets, and the practice of incorporating detailed targets is quickly gaining traction. A major reason appears to be the powerful incentives they generate to achieve the stated outcomes. A sense of ownership is vitally important. National targets are not imposed by an external agency or interests, therefore, achieving them is a matter of pride for the country and for the major stakeholders involved.[39] As noted in a recent joint report to GPFI by CGAP and IFC,[40] "setting targets is a way to focus energy on the most impactful goals and galvanize action to achieve scale in financial inclusion." Country-led target-setting creates real buy-in and increases the likelihood that a financial inclusion target will result in concrete action. Thus, it is not surprising to observe the value being placed on incorporating national targets in national strategies.

Different countries have used different approaches to set these national targets. The type of approach that is used is important because it tends to influence the incentives for achieving targets differently. Most countries use variants of two approaches. One approach is to take current data relating to the concerned target to reflect the expected effect of the key measures included in the strategy. Tanzania appears to have taken this approach. Some other countries use a benchmark-based approach in which current levels in benchmark countries are taken as a basis and adjustments are made to this base level to reflect the effect of the measures outlined in the strategy. Nigeria has followed this approach (see Table 4 below). In some cases, different targets in the same national strategy have been set using different approaches. Regardless of the approach, it is common to use stakeholder consultations to refine the targets because it is widely recognized that top-down approaches to target setting is unlikely to be very effective.

While targets are common in national strategies, the adoption of the practice seems to vary across countries. In most cases, only end-of-period targets are given. This is the case with Burundi, for example. Paraguay also sets end-of-period targets for each thematic area (i.e. savings, credit, insurance, payments, financial education, consumer protection and vulnerable populations). A small number of strategies provide detailed national targets for both interim periods and the end of the period, which allows progress to be monitored systematically.

NIGERIA: NATIONAL FINANCIAL INCLUSION STRATEGY TARGETS

UNIT	TARGETS	2010	2015	2020
% of Adult Population				
	Payments	21.6	53	70
	Savings	24	42	60
	Credit	2	26	40
	Insurance	1	21	40
	Pensions	5	22	40
Units per 100,000 Adults				
	Branches	6.8	7.5	7.6
	MFB Branches	2.9	4.5	5
	ATMs	11.8	42.8	59.6
	POS	13.3	442.6	850
	Mobile Agents	0	31	62
% of Population				
	KYC ID	18	59	100

TABLE 4. HOW DID NIGERIA SET ITS NATIONAL TARGETS?

VARIABLE/ PRODUCT (SELECTED)	CURRENT LEVEL	TARGET FOR 2020	BASIS USED
Financial Exclusion (overall target)	46.3% (2010)	20%	Based on analysis of teh country situation and other country experience
Savings	424.3% (2010)	60%	Based on improvement of best in class Kenya at 48%
Credit	1% (2010)	40%	Based on improvement of best in class South Africa at 36%

39 Nimal Fernando, 2014a.

40 CGAP and IFC, 2013, p. 2.

SETTING PRIORITIES

Setting priorities is another important practice in the formulation of national strategies. In the context of an NFIS, this means "selection of policies, activities or target groups to which relatively high importance needs to be attached in the effort to achieve the goals articulated in the national strategy."[41] The strategies generally include a hierarchy of priorities: prioritizing barriers to be addressed; prioritizing policies to address the chosen barriers; prioritizing activities within selected policy areas; and prioritizing target groups whose financial exclusion issues are to be addressed. Most countries have used this general framework to varying degrees.

In most national strategies, regulatory barriers have been given highest priority, and development of agent banking regulation is a high priority activity within regulatory policies. For target groups, the poor and rural populations are given high priority in most cases. Countries seem to have made their decisions based on a range of factors, including the local context. For example, Indonesia's NFIS explicitly targets those groups with the greatest need or unmet demand for financial services and has identified three segments of the population (low-income poor, working poor and near poor) and three cross-cutting categories (migrant workers, women and people living in remote areas).[42] Nigeria, on the other hand, has chosen to prioritize six areas: tiered KYC regulations; regulatory framework for agent banking; national financial literacy framework; consumer protection framework; mobile payment system and other cashless policies; and the implementation of credit enhancement schemes and programs.[43]

While setting priorities is a common practice, it is not always clear on what basis these decisions are made. Since formulating a national strategy is essentially about making choices about what and what not to do, it is important to be systematic when setting priorities to achieve the desired results within the specified period.

BURUNDI'S NFIS BUDGET

According to the NFIS of Burundi, an estimated 36.7 billion BIF (approximately US$ 23.5 million) is required to implement the strategy, excluding the estimated 175.6 billion BIF (about $113 million) required to refinance financial institutions. Approximately 81% of the total budget is for the second objective (to make quality financial services and products available that meet the needs of the national strategy's target groups). Of the total estimated budget of 36.7 billion BIF, 62.2% is expected to come from development aid. This again is excluding the funds required to refinance financial institutions. The reliance on development aid suggests the budget for the NFIS is vulnerable.

Source: Budgetary data is from the NFIS of Burundi

However, given that most national strategies aim to do too many things within a relatively short period, it is doubtful whether countries have taken a systematic approach to setting priorities. On the whole, it is fair to conclude there is ample room for improvement.

BUDGETING

It is widely recognized there must be a strong link between a strategy and the budget required to execute that strategy. Many financial inclusion policymakers and other stakeholders involved in strategy formulation share this view. However, dealing with the financing aspects of strategy implementation is not a practice that has taken root. In fact, very few national strategies provide budgetary details. For example, despite having otherwise very comprehensive strategies, Pakistan's NFIS, Paraguay's NSFI, Nigeria's NFIS and Tanzania's NFIF do not deal with budgetary issues. Turkey's strategy does not provide a budget, but makes some reference to budgets needed to coordinate the strategy's two action plans. In contrast, Burundi's NFIS includes a detailed budget broken down by objectives and sub-objectives. Given the range of public and private sector stakeholders that may be involved in implementing an NFIS, it may be difficult to provide details on budgetary requirements in most cases. However, overlooking the financing side entirely cannot be considered good practice.

LESSONS FROM OTHER COUNTRIES

Whether and to what extent countries draw on the experiences of other countries to formulate an NFIS is an important question. Many countries seem to take these experiences into account either directly or indirectly, and this practice seems to have been reinforced by the emphasis AFI and the G20 have placed on peer learning, as well as by AFI's regional initiatives on financial inclusion. In formulating Nigeria's national strategy, policymakers conducted an "assessment of peer countries for international benchmarking purposes." The assessment included Malaysia, Mexico, Brazil, South Africa, India, Indonesia, the Philippines, Kenya, Ghana, Pakistan and Uganda. This analytical approach to formulating the Nigerian strategy also used "global best practices."[44] In Tanzania, a definition of "financial inclusion" was developed after a careful review of definitions adopted by a number of countries within and outside the region. A Palestinian team visited Tanzania to learn from its experience formulating the NFIS, while policymakers from the Banco Central de Reserva de El Salvador visited Colombia, Mexico and Peru for peer learning to get insights into developing an NFIS for El Salvador. While these countries have directly used the experiences and lessons from other countries to formulate their own NFIS, others, such as Indonesia, have drawn on lessons and experiences indirectly through the G20 "Principles for Innovative Financial Inclusion." The G20 Principles were developed based on the experiences and lessons of policymakers around the world. This is important because it suggests that peer learning and knowledge exchange visits can contribute to the improvement of the strategy process.

44 Central Bank of Nigeria. 2012.

India has learned lessons primarily from previous efforts to promote financial inclusion in the country, rather than from other countries, and has used these lessons to adopt a new approach to the national strategy. This approach focuses on households and both rural and urban populations, and includes a structured monitoring mechanism at central, state and district levels.

FUNDING AGENCY INVOLVEMENT

Given the extensive and deep interest in financial inclusion among the global and regional development community, and the strong endorsement it has given to strategic approaches to financial inclusion, it is natural to expect a degree of country-level involvement from funding agencies in the formulation of national strategies. Evidence indicates there is strong demand for assistance with strategy formulation from these agencies from a growing number of countries. Although it appears few of the national strategies launched in the last five years have been drafted primarily by external parties, there have been substantial inputs from lead agencies and other major stakeholders. Whether this is a sound practice for NFIS formulation is debatable and merits special attention from AFI in general and the FISPLG in particular. Moreover, funding agencies and other stakeholders in the global development community must seriously examine how to best support the strategy development process without undermining local ownership and involvement and the powerful incentives these create to implement national strategies successfully.

IMPLEMENTATION[45]

A strategy is only as good as its implementation. Implementation practices therefore deserve a great deal of attention, particularly from the members of the FISPLG, given their commitment to and keen interest in peer learning to adopt better practices. Key questions on implementation practices include: What are these practices? Why have they been adopted? What are the trends in these practices? Implementation practices vary a great deal because of country context, but despite this diversity and the limited availability of data on implementation, it is still possible to identify commonalities in some practices.

COORDINATION MECHANISMS

Literature on financial inclusion underscores the importance of effective coordination mechanisms for the successful implementation of national strategies. First, financial inclusion policymaking involves multiple stakeholders from various public sector 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 and Industry, and the Ministry of Agriculture. In Tanzania, seven ministries are involved. In Indonesia, in addition to the Bank Indonesia, nine ministries are involved in financial inclusion. Second, beyond public institutions, many private sector institutions have different and important roles to play. Third, policies and regulations introduced by public sector stakeholders have a significant bearing on the activities of private sector stakeholders and the users of financial products and services. Fourth, public-private partnerships have become critically important to achieving financial inclusion goals. Effective coordination plays a key role in fostering such partnerships. It is therefore not surprising that at the 2012 AFI Global Policy Forum, 50% of participants polled identified “national coordination” as the most daunting challenge to developing and implementing a financial inclusion strategy.[46]

Evidence indicates that countries have taken different approaches to coordination.[47] In the United Kingdom, nearly a decade ago, the government established an independent Financial Inclusion Task Force to advise on and coordinate the implementation of the national financial inclusion strategy (2005–2011). Fiji, Solomon Islands, Vanuatu and Rwanda have all established a National Financial Inclusion Task Force, each chaired by the central bank. The Republic of Congo, which is in the process of formulating an NFIS, has also established a National Financial Inclusion Task Force. Namibia has created an Inter-Ministerial Financial Inclusion Council and Advisory Body. Brazil launched a National Partnership for Financial Inclusion in November 2011, and Mexico created a National Council on Financial Inclusion that same year. Nigeria established a Financial Inclusion Secretariat within the central bank to take responsibility for day-to-day reporting, coordination and implementation work.[48] However, giving strategic direction to the implementation process and coordinating initiatives across relevant regulatory bodies has been assigned to the Financial Services Regulation Coordination, a separate entity. Mozambique also has a three-tier coordination and implementation structure for the country’s Financial Sector Development Strategy (FSDS) 2013-2022, which includes financial inclusion as one of its three pillars. This structure consists of a Steering Committee (responsible for the management of FSDS implementation), Technical Advisory Committee (responsible for advising the Steering Committee and guiding implementation of the FSDS) and Strategy Implementation Unit (responsible for management and coordination of the FSDS).

Tanzania has gone further and organized coordination very differently, using a four-tier structure: National Council (NC) at the top of the hierarchy, National Steering Committee (NSC), National Technical Committee (NTC) and National Secretariat. The National Secretariat is a unit located in the Bank of Tanzania to provide secretarial support to the NC, NSC and NTC.[49]

45 Although implementation practices are discussed separately from formulation practices in this paper, this is only for the ease of presentation. We acknowledge that the two are inextricably linked.

46 AFI, 2012, p. 13

47 Fathallah and Douglas Pearce, 2013, p. 1

48 Central Bank of Nigeria, 2012, p. x

49 Tanzania National Council for Financial Inclusion, 2014.

TANZANIA'S NATIONAL COUNCIL

The National Council (NC), chaired by the Bank of Tanzania, is the overarching policymaking body for the national financial inclusion agenda. It is responsible for providing overall strategic direction and oversight of the financial inclusion agenda. Specifically, the NC will:

- Set the strategy for financial inclusion for Tanzania;
- Review and approve the Action Plan to achieve financial inclusion goals;
- Review the progress of the implementation of financial inclusion;
- Clarify policy issues and approve proposals from the Financial Inclusion National Steering Committee; and
- Review any other issues related to the implementation of financial inclusion initiatives as needed, with a view to advising the Government on the best way forward.

The NC includes 19 members from Permanent Secretaries from relevant government ministries, heads of regulatory authorities and practitioners associations.

The ministries represented in the NC include:

- Ministry of Finance of the United Republic of Tanzania
- Ministry of Finance of the Revolutionary Government of Zanzibar
- Ministry of Agriculture, Food Security and Cooperatives
- Ministry of Industry and Trade
- Ministry of Education and Vocational Training
- Prime Minister's Office, Regional Administration and Local Government
- Ministry of Labor, Youth and Employment

Source: National Financial Inclusion Framework of Tanzania

Paraguay has also organized coordination differently. The Office of the President has established a National Financial Inclusion Committee (NFIC) with senior-level representation from Banco Central del Paraguay, Ministry of Finance, Ministry of Planning and the National Institute of Cooperatives. A Technical Team has been set up beneath the NFIC, which has appointed an Executive Secretary. The Executive Secretary and the Financial Inclusion Technical Team have been assigned responsibility for the oversight, coordination and implementation of the NFIS.[50]

Nepal, which is preparing a development strategy for the financial sector, has also established a tiered structure to coordinate and promote financial inclusion. A high-level Financial Sector Coordinating Committee chaired by the Minister of Finance is at the top of this structure. This high-level Committee has created a Steering Committee, also chaired by the Minister of Finance, and a Technical Committee, chaired by a senior deputy governor of the central bank. Taking a different path, Papua New Guinea has set up a National Center for Financial Inclusion for coordination. What factors led these countries to adopt these particular approaches, however, have yet to be explored.

Pakistan's NFIS proposes to establish a four-tier structure, similar to the one in Tanzania, for coordination (and implementation): A National Financial Inclusion Council to be chaired by the Finance Minister to provide overall guidance for governance and coordination; National Financial Inclusion Steering Committee, chaired by the Governor of the Central Bank with overall responsibility for implementation; and technical committees in each focus area (digital payments, agricultural finance, housing finance, awareness and literacy, MSME finance, pensions, Islamic finance, insurance and gender). An NFIS Secretariat will also be established in the central bank, which will be responsible for providing technical, administrative and research support to the NFIS Council, Steering Committee and Technical Committees to ensure smooth implementation.

In general, the practice in many countries has been to establish a coordinating body towards the end of the formulation of a national strategy. There are exceptions, however. The Government of Peru established a Multisectoral Commission for Financial Inclusion responsible for coordination at the middle stage of the strategy formulation process (February 2014). The members of the Commission come from the Ministry of Economy and Finance, Ministry of Development and Social Inclusion, Superintendence of Banking, Insurance and Private Pension Fund administrators, the central bank and the state bank. Some countries, such as Indonesia, have set up a coordination structure only after the launch of the strategy.

In some coordinating bodies there is private sector representation. Tanzania's National Council, National Steering Committee and the National Technical Committee, all have representatives from private institutions. Pakistan's NFI Council and NFI Steering Committee will also have private sector representation. Brazil's National Partnership for Financial Inclusion is a network of public and private actors engaged in coordinated efforts to promote appropriate financial inclusion in the country. However, significant private sector participation is not common. In most countries there is little representation of the private sector in coordination structures, and most have not followed the example of the UK in developing an independent Financial Inclusion Task Force. The UK Government provided a leading role for the private sector in the Task Force. It may be useful for developing and emerging countries to take a close look at the UK practice, with a view to bringing private sector participation into NFIS coordination.

50 World Bank, 2014, p. 35.

TABLE 5. THE ROLE OF WORKING GROUPS AND TECHNICAL COMMITTEES IN IMPLEMENTATION (SELECTED EXAMPLES)

COUNTRY	TECHNICAL COMMITTEE/WORKING GROUP	MAIN TASKS
Pakistan	**Technical Committees:** Digital Payments; Agricultural Finance; Housing Finance; Awareness and Literacy; MSME Finance; Pensions; Gender; Islamic Finance; Insurance	Propose detailed implementation plans; resolve technical issues in the focus area; provide information on the progress of implementation and related targets to the NFIS Secretariat on a quarterly basis; and propose solutions to focus area challenges to the NFIS Steering Committee
Paraguay	**Working Groups (WGs):** Savings; Credit; Insurance; Payments;Financial Education; Consumer Protection; Vulnerable Populations	Tackle selected issues in the focus areas and report on progress to the Executive Secretary
Burundi	Technical Committees will be set up for topics that require large-scale efforts	Assist the Coordination and Monitoring Committee of NFIS in coordinating actions that require large-scale efforts

Sources: NFIS documents of each country

In Tanzania, the main stakeholders signed an agreement to ensure better coordination and smooth implementation of the strategy — a novel practice. In the Philippines, the BSP (the central bank) has also followed this practice, signing a memorandum of understanding with the members of the Inter-agency Consultative Body (12 in total) to reaffirm their commitment to the strategy.

While inter-agency coordination has in general been a high priority, it appears intra-agency coordination has not received the same level of attention, despite the fact that both types of coordination are essential to ensure successful implementation.[51] It has been pointed out that it is difficult, if not impossible, to achieve a reasonably good level of inter-agency coordination if intra-agency coordination is poor. Currently it seems that a more balanced and comprehensive approach to coordination is required in most countries, given that coordination is widely recognized as the most challenging issue in the implementation of national strategies.

WORKING GROUPS AND TECHNICAL COMMITTEES

Early national financial inclusion strategies used a single technical committee to facilitate implementation, but this practice seems to have changed. A growing number of strategies now use a range of subject-specific technical committees or working groups for implementation. Pakistan, Paraguay and Haiti are a few cases in point. Peru's Multi-Sectoral Financial Inclusion Commission will also create technical groups to work on topics such as financial education and payment systems. A common feature of these committees is private sector and public sector representation. A number of factors may have contributed to this trend. It is possible that successful working group approaches, such as those used by AFI and the G20/GPFI, may have shown that working groups are an effective way to promote financial inclusion. Another reason may be the vast coverage of NFIS and the technical nature of some of the focus areas, making it difficult for a single committee to handle implementation issues effectively. Whatever the reasons, the FISPLG should closely monitor the effectiveness of this practice.

COMMUNICATING THE STRATEGY

Management gurus often highlight the importance of communicating a strategy to all stakeholders to create a shared understanding of the strategy and achieve expected results. Poor communication is generally seen as a major reason why national strategies under-achieve.[52] Clear and effective communication must therefore be a top priority in implementation, and requires a defined communication strategy. To what extent countries with an NFIS have paid attention to this is an important question. However, most national strategies, and the policymakers involved in implementing them, do not appear to have given adequate emphasis to effective communication of the strategy. In most cases, strategy communication seems to be viewed as part of the publicity efforts at the time of launch. This is changing, however. Bangko Sentral ng Pilipinas has recognized the importance of having a communication strategy, and although Tanzania did not have a communication strategy when it launched the NFIF, it recognized the need for one later in the implementation process.

ACTION PLANS

It is considered good practice to use an action plan to improve the implementation of a strategy. As HRH Queen Máxima noted in her speech at the launch of Nigeria's National Financial Inclusion Strategy in October 2012, a time-bound action plan is a "success factor."

Do policymakers apply this practice to the implementation of their national strategies? Like many other practices, it seems to vary significantly across countries. Brazil has included a detailed time-bound action plan to strengthen the institutional environment within the National Partnership for Financial Inclusion. The Solomon Island's strategy is embedded in the National Action Plan for

51 Pakistan's NFIS has identified the need for intra-agency coordination and assigned the responsibility to the NFI Steering Committee.

52 See Roger Martin, 2010.

Financial Inclusion. In Nigeria, an implementation plan has been included as an integral part of the national strategy. This plan separately lists time-bound actions to be taken by the Central Bank of Nigeria and other relevant regulators. In addition, the Nigerian strategy document lists the proposed roles and responsibilities for each of the key stakeholders without any reference to time. The National Strategy of Paraguay includes a broad time-bound action plan for each of its seven focus areas (savings, credit, etc.). The NFIF of Tanzania also provides an elaborate time-bound Implementation Action Plan in an appendix to the strategy document.

A novel feature of a growing number of action plans is “quick-win” or high-priority actions. If these actions can produce results early, it would help to keep stakeholders motivated.[53] The strategies of Haiti and Paraguay both include these. Haiti’s NFIS includes a high-priority short-term action plan plus an action plan for each of the five pillars in the strategy. The draft Action Plan of the NFIS of Pakistan also provides suggested high-level measures with a timeline for addressing the enablers and drivers identified in the strategy.[54] The actions are grouped into two priority categories — “highest” and “high” — to provide guidance to the relevant stakeholders. This categorization also allows progress to be monitored more effectively. The Action Plan in Rwanda’s national strategy is undoubtedly the most comprehensive: it lists 98 high-priority actions, 62 medium-priority actions and 17 low-priority actions for the nine focus areas.

Although the inclusion of an action plan has more or less become common practice, the quality of action plans varies substantially across countries. The main drawback of most plans is that they do not seem to be realistic in terms of addressing the complexity of the issues, the time allotted to complete some of the actions, as well as resource constraints and institutional capacity limitations. Most action plans tend to overlook the institutional reforms that may be required. It is also possible that excessive optimism and imprudent priorities will have a bearing on whether an action plan can realistically achieve its goals. Some strategies do not include clearly drawn action plans. With Indonesia’s strategy, for example, it is difficult to identify a time-bound action plan or something approximating such a plan, although a number of time-bound actions are presented in a matrix for some ongoing initiatives.

MONITORING AND EVALUATING PROGRESS

There is significant country variation in the monitoring and evaluation (M&E) practices adopted to assess progress. However, all of the national strategies clearly recognize the need for an M&E framework. According to the NFIS of Haiti, “financial inclusion targets and commitments need a monitoring and evaluation framework to track progress, and to provide real-time feedback to enable adjustment of policy, regulatory and other measures and addition of new actions to ensure that the implementation of the NFIS is on track.” Encouragingly, most national strategies detail how this will be carried out, who will have the main responsibility for the task and what indicators and mechanisms will be deployed. For example, Tanzania’s NFIF clearly states that the National Council (NC) will be responsible for monitoring and evaluation of the national financial inclusion performance, while “the monitoring and evaluation framework including the requisite performance indicators and targets will be coordinated by the National Secretariat as an implementing organ for the NC.”[55] Nigeria’s strategy has assigned primary responsibility for M&E to the Financial Inclusion Secretariat. While overall responsibility for M&E is assigned to a national-level coordinating body, most strategies require participating individual institutions to monitor their own activities and provide inputs to the national-level body to construct an overall picture on progress using a set of key performance indicators. Countries with recently developed national strategies use the key indicators AFI’s Financial Inclusion Data Working Group (FIDWG) developed for AFI members, as well as the indicators developed by the GPFI. This, among other things, shows it is critically important for the FISPLG to coordinate closely with the FIDWG.

The practice of using demand-side surveys to monitor and assess the progress of implementation seems to be slowly gathering strength. Tanzania used a 2013 demand-side survey for this purpose. Paraguay’s NFIS commits to carry out a full demand-side financial inclusion survey every two years to measure progress against the 2013 baseline survey. This is considered a central feature of the monitoring and evaluation framework of Paraguay’s strategy.

A key objective of M&E is to determine whether the strategy being implemented needs to be refined at any stage. However, there is a dearth of country-specific information on this. One exception appears to be Tanzania. On the basis of more recent data on financial inclusion, Tanzania has increased its national headline target to enable access to formal financial services for 75% of adults by 2016, up from the original target of 50 percent. Whether and to what extent other countries implementing national strategies use the inputs from M&E to fine-tune their strategies remains to be seen.

53 AFI, 2011, p. 36.
54 State Bank of Pakistan and the Ministry of Finance, 2015, Annex 1.
55 Tanzania National Council for Financial Inclusion, 2013, p. 25.

LESSONS FROM PRACTICE AND CONCLUSIONS

A number of lessons may be drawn from this review of country-level practices on national financial inclusion strategies. First, a more concerted effort needs to be made to substantially improve the database on how countries translate knowledge of NFIS into actual practices. Currently available data and evidence on this is inadequate and come from scattered sources of varying levels of quality. This is particularly true for implementation practices. More detailed data and evidence on implementation practices in different country contexts would be extremely valuable for peer learning on the subject. Second, it is necessary to examine whether countries have a tendency to embark on over-ambitious strategies and are not paying adequate attention to aligning the scope of their strategies with its available resources and institutional capacity to implement them. Implementation can no longer be considered separately from formulation — if they are, countries risk their strategies failing. Third, it appears to be necessary to develop and agree on what constitutes a national strategy. The common practice of collating all types of financial sector-related strategies into the category of NFIS does not seem appropriate,[56] particularly for the work of the FISPLG.

It is encouraging to note that better knowledge of national financial inclusion strategies appears to have contributed significantly to the adoption of good practices in NFIS across countries. The knowledge products of AFI working groups, deliberations within the FISPLG and other AFI working groups, and AFI's knowledge exchange programs appear to have played a key role in moving policymakers to adopt better practices in NFIS in recent years. While it is extremely difficult to assess the quality of a strategy — this is primarily revealed by its concrete results — quality strategies and the concept of "quality at entry" has garnered more attention from policymakers. This must continue to be encouraged — a fitting task for the FISPLG.

This review of the current state of practice clearly indicates there are similarities in practices, despite differences in country contexts. Also, as one would expect, there is tremendous diversity in these practices and they continue to evolve. This diversity is undoubtedly fertile ground for peer learning, and to some extent reflects "practice gaps"[57] in the current state of knowledge. These gaps cannot be explained entirely by different country contexts, and it seems that financial inclusion policymakers in general, and the FISPLG in particular, should focus not only on "knowledge gaps" but also on "practice gaps" to effectively achieve their objectives. Despite some impressive progress, the improvement of NFIS practices remains unfinished business and a significant challenge.

56 Until about 2006, it was still possible for a country to have a financial sector development strategy and continue to overlook financial inclusion issues. Therefore, there can be a vast difference between a financial sector development strategy that deals only marginally with financial inclusion and an NFIS.

57 A "practice gap" may simply be defined as the difference between what is known and what is actually applied.

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