

INCLUSIVE FINANCIAL INTEGRITY IN NAMIBIA, MONGOLIA, PARAGUAY AND SRI LANKA: CASE STUDIES AND LESSONS LEARNED



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EXECUTIVE SUMMARY

Inclusive Financial Integrity involves aligning Anti-Money Laundering/ and Countering the-Financing of Terrorism/Countering the Financing of Proliferation of Weapons of Mass Destruction (AML/CFT/CPF) obligations with financial inclusion policy objectives.

There are essential pillars for Inclusive Financial Integrity, namely: risk assessments and exemptions (or partial exemptions) based on proven low-risk; national strategies; national coordination; risk-based supervision; universal access to reliable and independent ID verification documentation, including digital ID; simplified due diligence in lower risk scenarios, including a broader range of acceptable ID documents; an enabling regulatory framework for non-face to face onboarding; and an inclusive national payments framework.

The four case study countries within this report have built these pillars in varying degrees.

Overall, all four countries have made significant strides over the last decade in progressing the twin objectives of AML/CFT/CPF and financial inclusion.

All four countries have identified financial inclusion products and lower risk sectors using the World Bank's national risk assessment methodology and self-assessment tools. No country has used the flexibility within the FATF standards to exempt or partially exempt AML/CFT/CPF obligations based on proven low-risk. In some cases, there is no provision in the country's AML/CFT/CPF law to allow for full or partial exemption.

Twin and aligned strategic objectives in AML/CFT/CPF and financial inclusion provide a more fertile ground for Inclusive Financial Integrity. The four countries have shown that aligned national financial inclusion strategies and AML/CFT/CPF strategies, with Inclusive Financial Integrity reflected in both are more conducive, but not essential.

There is clear operational coordination between AML/CFT/CPF and financial inclusion, aided by the fact that lead agencies for both areas are co-located within the central bank of the four countries. There are no joint meetings between the national AML/CFT/CPF and financial inclusion committees, and implementation of Inclusive Financial Integrity is decentralized in most instances.

AML/CFT/CPF supervisors have included the implementation of simplified due diligence in their supervisory purview, but from a compliance perspective and less from a financial inclusion perspective, which is understandable given the remit of AML/CFT/CPF supervisors.

THE FOUR CASE STUDIES WITHIN THIS REPORT:

NAMIBIA



MONGOLIA



PARAGUAY



SRI LANKA



There are significant benefits of a national ID system, although access to such a system is not universal in the four countries. A mandatory ID document is required for customer due diligence (CDD) in all four countries, although alternative forms of ID documentation that meet the reliable and independent test are accepted for lower risk customers and sectors such as customers of cooperatives. The lack of universal ID documentation remains an obstacle to financial inclusion.

The four countries have taken different approaches with simplified due diligence. Some have identified or designed a basic bank account with tiered structures and regulated that the basic account be subject to simplified CDD, in addition to having general risk-based simplified CDD.

Arguably, a government directive combined with flexibility for financial institutions to undertake simplified due diligence where low-risk is proven have had a greater impact on developing Inclusive Financial Integrity.

Sri Lanka recently established a legal, regulatory and institutional framework for direct access by reporting entities to government held national ID information. This will reduce the cost of onboarding lower-income customers relative to their profitability. Namibia, Mongolia and Paraguay are actively exploring providing online access for electronic or digital ID verification.

Countries have provided a certain level of flexibility allowing for certified true copy or official PDF version of ID documents to be submitted by mail or email for lower risk customers. In general, onboarding involves the physical presentation of ID documents at a branch or agent of the financial institution. This may be challenging for the financially excluded if the branches or agents are not located nearby.

There is some regulatory ambiguity on the acceptance of smartphone apps for biometric ID verification, despite the lack of direct access to national ID databases.

The four country case studies have identified the need for additional guidance both by the FATF and countries on simplified CDD and non-face to face customer onboarding as priority areas for regulatory attention.

While financial sector supervisors have issued guidance on higher risk scenarios, there has been limited guidance on lower risk scenarios for financial institutions.

Mobile money, including mobile banking has contributed to financial inclusion. Nevertheless, the uptake of mobile money is lower among some countries despite the high mobile phone ownership rate because of lower financial literacy.

The mutual evaluation processes applying the FATF assessment methodology have progressed, resulting in not just greater compliance with the FATF's risk-based approach, but also advanced financial inclusion. While there may be numerous reasons why countries may amend their legal frameworks, partially compliant ratings in mutual evaluation reports have driven legal and regulatory reforms.

For example, Sri Lanka amended its CDD rules in 2016 to provide for risk-based simplified CDD, commensurate with addressing other gaps. Sri Lanka was incentivized to amend its rule to comply with the FATF standards as part of the mutual evaluation follow-up process. The country was rewarded with an upgrade to largely compliant from non-compliant on Recommendation 10 (CDD), as part of 11 upgrades to largely compliant as part of the APG first mutual evaluation follow-up report 2016.

The FATF standards have led countries to enact the required regulations for simplified due diligence. FATF Recommendations 1 and 10 have advanced the cause of Inclusive Financial Integrity, at least its legal building blocks.

The effectiveness component of the FATF assessment methodology (Immediate Outcomes 3 and 4 on supervision and preventive measures) does not focus on lower risk scenarios and simplified due diligence. Unlike for technical compliance, there are consequently a lack of incentives for national government authorities to focus on the effective implementation of simplified due diligence, or exemptions (including partial) where there is proven low-risk.

Overall, while the risk-based approach is now reflected in AML-CFT legislations, it has not been fully implemented.

1. INTRODUCTION AND BACKGROUND

While there are many barriers to financial inclusion, important actions have been undertaken to overcome them. The focus of this report is on the barriers and actions to advance financial inclusion that are specifically linked to Anti-Money Laundering /Countering the-Financing of Terrorism/ Countering the Financing of Proliferation of Weapons of Mass Destruction (AML/CFT/CPF).

There is no universal definition of Inclusive Financial Integrity. It essentially refers to the sound alignment between financial inclusion and AML/CFT/CPF outcomes with respect to the formulation and implementation of related policy and regulation.¹ Effective implementation of Inclusive Financial Integrity policies and regulations can also specifically benefit the financial inclusion of women, youth, rural populations and forcibly displaced persons, whom research suggests are disproportionately excluded from the financial system by traditional, paper-based norms. This can contribute towards achieving sustainable development that leaves no one behind.

In response to the importance of Inclusive Financial Integrity to the financial inclusion agenda, the Alliance for Financial Inclusion (AFI) Global Standards Proportionality Working Group (GSPWG) and Centre for Financial Regulation and Inclusion (Cenfri) developed a policy toolkit titled ‘Inclusive Financial Integrity: A Toolkit for Policymakers’ to provide key considerations and recommendations that can be leveraged by our members at the country-level. The toolkit references and fully complements Financial Action Task Force (FATF) Standards and financial inclusion guidance related thereto. AFI works closely with the FATF and several of the FATF-Style Regional Bodies (FSRBs) to advance the attainment of Inclusive Financial Integrity across our member jurisdictions.

This report builds on the toolkit. The four AFI member case studies respond to strong member demand to receive policy guidance and technical capacity building support in the field of aligning robust regimes for AML/CFT/CPF together with proportionate, enabling regulatory approaches for financial inclusion. The four

member jurisdictions selected based on recent, positive progress in advancing financial inclusion and AML/CFT/CPF objectives within their jurisdictions are Sri Lanka, Mongolia, Namibia and Paraguay.

The overall objective of the report is to present four AFI member case studies that explore their experiences in advancing Inclusive Financial Integrity, and to provide a set of best practices in aligning AML/CFT/CPF and financial inclusion policy objectives to support uptake in access to, and usage of, quality formal financial services. The case studies include the following three thematic areas:

- > How the focus countries have advanced financial inclusion objectives in recent years, including through leveraging digital technologies.
- > How the countries have established effective AML/CFT/CPF regimes compatible with global standards and national financial integrity objectives.
- > The alignment and coordination between these two policy objectives to promote inclusive financial integrity at the national level.

These concrete case studies will enable the dissemination of practical learning and best practices through the AFI network, towards enhancing AFI members’ capacities to advance Inclusive Financial Integrity within their respective jurisdictions.



Toolkit:
Inclusive Financial
Integrity: A Toolkit for
Policymakers

> [View here](#)

¹ Alliance for Financial Inclusion and CENFRI. p.3, Inclusive Financial Integrity: A Toolkit for Policymakers, AFI and CENFRI p. 3. Available at: <https://www.afi-global.org/publications/inclusive-financial-integrity-a-toolkit-for-policymakers>

2. WHAT IS INCLUSIVE FINANCIAL INTEGRITY?

There is no formal definition of Inclusive Financial Integrity. It essentially describes aligning financial inclusion and AML/CFT/CPF outcomes with respect to the formulation and implementation of related policy and regulation.²

Financial exclusion is a condition or state whereby individuals and communities lack access to formal financial services that could have a significantly positive impact on their livelihoods and well-being. Since financial exclusion disproportionately impacts those in low-income and developing countries, it compromises the achievement of the Sustainable Development Goals (SDGs) as well as national development objectives.³

The aim of the FATF is to set international standards and promote effective implementation of legal, regulatory and operational measures to combat money laundering, terrorist financing and the financing of proliferation, and other related threats to the integrity of the international financial system.

The FATF 40 Recommendations set out a comprehensive and consistent framework of measures that countries should implement to combat money laundering and terrorist financing, as well as the financing of proliferation of weapons of mass destruction. Countries

have diverse legal, administrative, and operational frameworks and different financial systems, and cannot all take identical measures to counter these threats. The FATF Recommendations, therefore, set an international standard, which countries should implement through measures adapted to their particular circumstances.

The FATF has a long-standing commitment to supporting financial inclusion. This is an important cross-cutting issue that impacts the work of the FATF and, ultimately, its ability to combat illicit finance. The FATF has completed significant work in this area in recent years, including a supplement on CDD to the FATF's Guidance on financial inclusion. There is also a strong focus on financial inclusion in the FATF's recent work on digital ID, and their response to COVID-19, and their 2021 Project on Mitigating the Unintended Consequences of the FATF Standards.

The FATF has worked with FATF-style regional bodies (FSRBs) to ensure that financial exclusion issues are highlighted as a potential ML/TF/PF risk. The FATF methodology contains a reference to the level of financial exclusion as one of the other contextual factors, which might affect the ML/TF/PF risks and increase or reduce the effectiveness of AML/CFT/CPF measures. However, a review of mutual evaluation reports (MERs) reveals that in most cases, they do not contain an assessment of the extent to which financial exclusion could be influencing the level of effectiveness of the AML/CFT/CPF system of the country.

2 Alliance for Financial Inclusion and CENFRI. Inclusive Financial Integrity: A Toolkit for Policymakers, 3. Available at: <https://www.afi-global.org/publications/inclusive-financial-integrity-a-toolkit-for-policymakers/>

3 Ibid, 3.



Mongolian goatherder in the Middle Gobi. (Goddard_Photography/iStock)

3. STATUS OF FINANCIAL INCLUSION AND AML/CFT/CPF IN THE FOUR COUNTRIES

3.1. INTRODUCTION

This chapter provides a summary of the status of financial inclusion and AML/CFT/CPF in each of the four countries to provide contextual background information to the subsequent discussion on Inclusive Financial Integrity.

Two main areas are examined to provide an overview of financial inclusion and AML/CFT/CPF implementation in each of the four countries: Possession or use of an account at a regulated financial institution or mobile money provider for financial inclusion; and the overall level of compliance with the FATF 40 Recommendations for AML/CFT/CPF respectively.

3.2. NAMIBIA

A small country of about 2.5 million people with a long coastline on the South Atlantic, bordering South Africa, Botswana, Zambia and Angola, Namibia is the driest country in Sub-Saharan Africa, and is rich in mineral resources, including diamonds and uranium.⁴



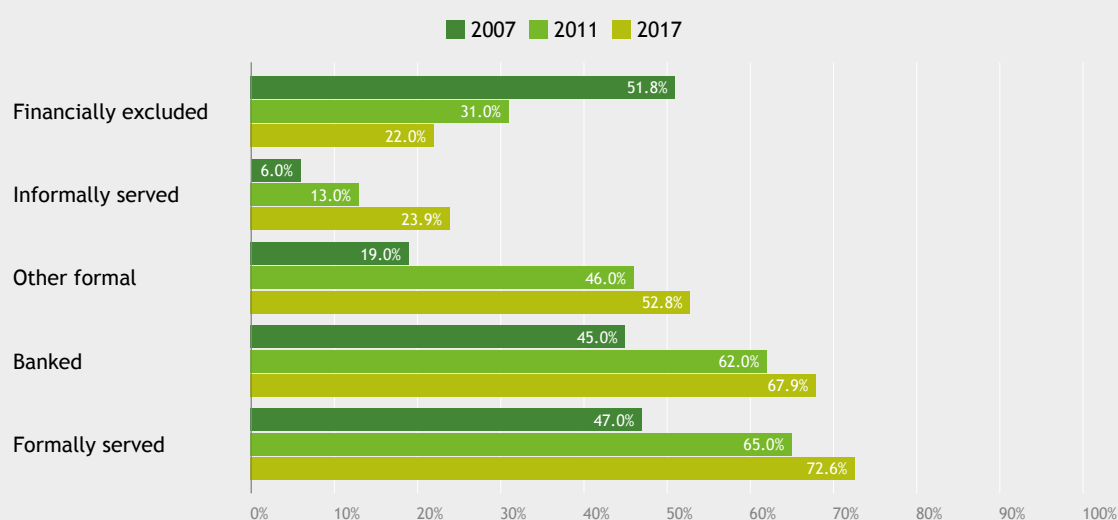
FINANCIAL INCLUSION

The 2017 Namibia Financial Inclusion Survey is the fourth of such surveys conducted in the country and the first conducted by the Namibia Statistics Agency. The main findings are summarized in the below chart.⁵ In summary, 72.6 percent of the Namibian adult population used financial products or services either from banks or non-bank financial institutions, 67.9 percent of the adult population used at least one product or service offered by a bank, and more than half (52.8 percent) used at least one formal non-bank product or service.

Financial exclusion of the adult population is skewed to the following groups:

- > **Rural areas** - 27.1 percent compared to 17.5 percent for urban areas
- > **Men** - 23.9 percent compared to 10.2 percent for women
- > **Adults** whose highest level of education is kindergarten or day-care (100 percent) and adults that never attended school (42.0 percent)

FIGURE 1: 2017 NAMIBIA FINANCIAL INCLUSION SURVEY MAIN FINDINGS, %



Source: Namibia National Financial Inclusion Survey Brochure, p. 23, Figure 27.

4 World Bank. 2021. Namibia Overview. Available at: <https://www.worldbank.org/en/country/namibia/overview>

5 Namibia Statistics Agency. 2017. The 2017 Namibia Financial Inclusion Survey, 11. Available at: https://NFIS_2017_Report.pdf

Overall, the use of banking channels was considered the most comfortable access point for financial services as shown in the chart below from the survey.

59.6% The main barriers to banking included the lack of money to save (59.6 percent), the least reported barrier was the inconvenience of banking hours (0.1 percent)

While 9 percent stated the lack of required documentation by banks as an exclusion factor. Ownership of ID and passports, which are some of the main requirements to access formal banking products and services, was high at 88.3 percent.⁶

AML/CFT/CPF

The IMF provided an update of Namibia's AML/CFT implementation in its 2018 Financial System Stability Assessment.⁷ The report found that since the 2009 mutual evaluation report, Namibia had made significant progress, notably by criminalizing money laundering and terrorism financing, and implementing a freezing mechanism for terrorist assets.

The Bank of Namibia and the Namibia Financial Institutions Supervisory Authority have both adopted a risk-based approach to AML/CFT/CPF supervision in the banking sector and non-bank financial institution (NBFIs) sector, respectively. Namibia has recently undergone its second Eastern and Southern Africa Anti-Money Laundering Group (ESSAMLG) mutual evaluation, which commenced with a desk review in August 2020. Their onsite assessment, which was previously scheduled in June 2021, was postponed due to COVID-19.⁸ The status of Namibia's compliance with the FATF 40

Recommendations will be known once the mutual evaluation report is adopted and published.

3.3. MONGOLIA

Mongolia is a relatively large country with a small population of around 3.37 million people dispersed across 1,564,116 km². About 50 percent live in the capital while the remaining 50 percent herd livestock in the countryside.



FINANCIAL INCLUSION

Mongolia undertook a Financial Accessibility Survey in 2018 which was conducted by the Financial Regulatory Commission and the National Research and Consulting Centre. It found that 91.9 percent of citizens accessed formal financial services from commercial banks, 9.3 percent through NBFIs, 3.4 percent through savings and credit cooperatives, and 5.2 percent responded that they did not receive financial services.

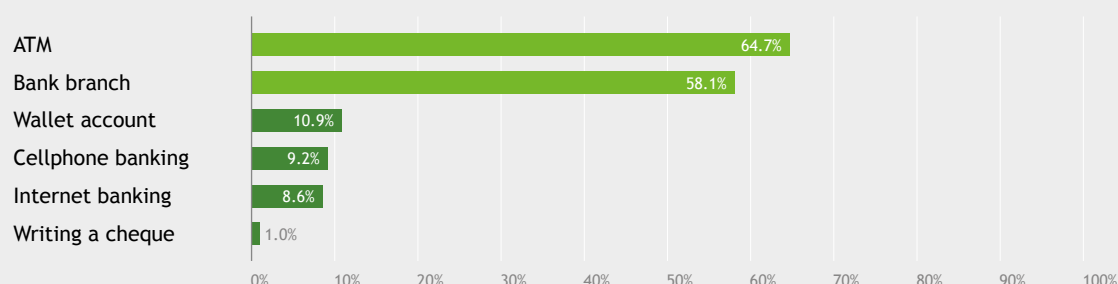
92.1% The survey also found that 95.6 percent of citizens had at least one account with a commercial bank and 92.1 percent were actively using their accounts (refer to figure 3 opposite).

6 Ibid, 11.

7 International Monetary Fund. March 2018. Namibia, 2018 Financial System Stability Assessment, 27. Available at: <https://www.imf.org/en/Publications/CR/Issues/2018/03/15/Namibia-Financial-System-Stability-Assessment-4572>

8 Namibia FIC Annual Report. August 2021. Available at: <https://www.fic.na/FIC-Annual-Report-2020-2021.pdf>

FIGURE 2: 2017 NAMIBIA FINANCIAL INCLUSION SURVEY, USE OF BANKING CHANNELS, %



Source: Namibia National Financial Inclusion Survey Brochure, p. 12, Figure 14.

There are some major reasons why a high percentage of the adult population has an account with the banking sector. One factor could be the requirement to open a bank account to receive government payments. Related to this is that the banking sector is predominately government-owned, with three government-owned banks accounting for 70 percent of the sector's assets which facilitates adoption of government policies on financial inclusion. There is also a relatively high level of consumer financial literacy which is an enabling driver.

The Mongolian government introduced the Mongolian Human Development Fund which distributes revenues from the mineral and mining sectors with the objective of redistributing wealth. According to the Brookings Institution, Mongolia has one of the developing world's largest shares of adults receiving government transfers—at 35 percent—with two-thirds of these payments made directly into bank accounts.⁹

According to the Financial Accessibility Survey 2018, only 1.4 percent said they did not have a bank account because of a lack of documentation. Other reasons

stated were a lack of funds at 11.3 percent and a lack of understanding on how to open an account at 9.9 percent - refer to figure 4 below.¹⁰

AML/CFT/CPF

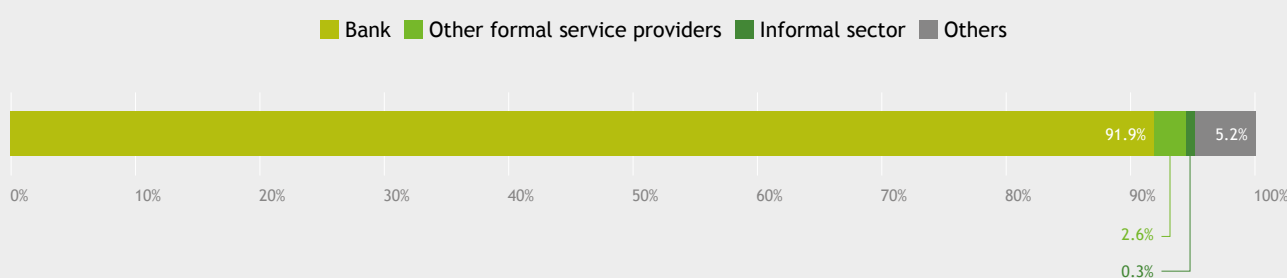
The mutual evaluation report of Mongolia was adopted in September 2017 by the Asia-Pacific Group on Money Laundering (APG). The country received low or moderate ratings on the 11 Immediate Outcomes on Effectiveness and 20 partially compliant or non-compliant ratings out of the FATF 40 Recommendations. Based on the results of the assessment as contained in the report, Mongolia was automatically referred to the FATF International Cooperation Review Group (ICRG)¹¹ and added to the grey list at the FATF plenary in Paris in October 2019.

9 Leora Klapper. 5 June 2017. Brookings Institution. Available at: <https://www.brookings.edu/blog/future-development/2017/06/15/can-universal-basic-income-boost-financial-inclusion-and-transparency/>

10 Financial Regulatory Commission and NRCC LLC. 2018. Sample Survey to Assess the Financial Inclusion of Mongolia.

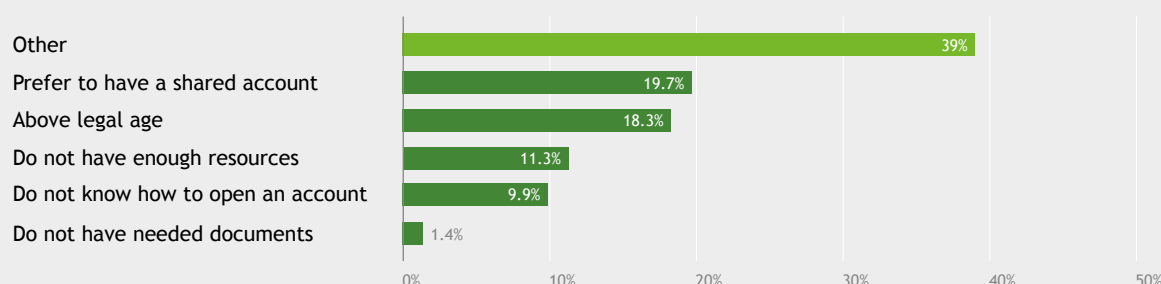
11 Ibid, 11.

FIGURE 3: MONGOLIAN FINANCIAL INCLUSION RESEARCH FINDINGS, %



Source: Mongolian Financial Inclusion Research Findings. Financial Regulatory Commission and the National Research and Consulting Centre.

FIGURE 4: MONGOLIA'S FINANCIAL ACCESSIBILITY SURVEY 2018, %



Source: Mongolian Financial Inclusion Research Findings. Financial Regulatory Commission and the National Research and Consulting Centre.

Under the FATF grey list process, a country is given an action plan to implement, normally with a deadline of 18 months. The progress of the country is reviewed in February, June and October of each year by the FATF plenary. The findings are published on the FATF's website, and reporting entities globally are called upon to apply enhanced due diligence to customers and transactions linked to those countries. A lack of progress beyond the 18-month deadline may result in a country referred to the "blacklist" in which case stronger counter-measures are required.

Mongolia exited the FATF grey list's enhanced monitoring process at the FATF plenary in October 2020, within 12 months. This is a feat achieved by only one other country (including all the grey list process iterations over two decades). The exceptional progress was made due to extensive enhancements to its AML-CFT framework because of political commitments at the highest level, and at all levels of government, including both elected representatives and government officials.

These enhancements were also recognized by the APG in its mutual evaluation follow-up process, with 20 upgrades from non-compliant or partially compliant, to largely compliant or above. Only two of the 40 FATF Recommendations remained partially compliant in mid-2021. They are Recommendations 8 on Non-Profit Organizations (NPOs) and 15 on New Technologies. FATF Recommendation 15 was amended by the FATF to include virtual assets (VAs) and virtual asset service providers (VASPs) after Mongolia's mutual evaluation report was adopted by the APG and therefore reassessed as part of the follow-up process. To achieve a largely compliant or compliant rating, both FATF Recommendations require actual implementation. Merely enacting laws or regulation would not be sufficient.

3.4. PARAGUAY

The Republic of Paraguay is a landlocked country lying on both banks of the Paraguay River, bordering Argentina to the south and southwest, Brazil to the east and northeast, and Bolivia to the northwest. The country, with a total area of 406,752 km², had a population of 7.35 million in 2021.¹²



FINANCIAL INCLUSION

Paraguay completed a financial inclusion survey in 2013 as a prelude to the development of its National

Financial Inclusion Strategy 2014 - 2018. The survey found that 58 percent of adults in Paraguay used some sort of formal or commercial financial products to manage their day-to-day finances, but 42 percent of adults were excluded from the formal financial system.

This number was largely driven by the strong presence of cooperatives and mobile money providers in Paraguay, which together reached 40 percent of the population. Paraguay has one of the largest financial cooperative systems in the region in terms of the percentage of the population served.¹³

42% The 42 percent of excluded adults were disproportionately in the low-income bracket, with a primary education or less, and were unemployed or out of the workforce.

Of the "extreme poor" which accounted for 10 percent of the population, monthly per capita household income was below the extreme poverty line of PYG302,285 (USD70). Two-thirds of the extreme poor were in rural areas, and women and persons with disabilities were disproportionately represented. They were also the least likely to have national IDs.¹⁴ For the 71 percent of Paraguayan adults - approximately 3.2 million people - who lacked a formal account, the main barriers to access were a lack of money (51 percent) and documentation (24 percent). The requirements to show proof of income and employment were significant barriers to financial inclusion. Each of these last two reasons was reported by about one in five unbanked Paraguayans.

Based on the World Bank Global Findex Database 2021, only 27 percent had an account with a financial institution, a decrease from 31 percent in 2017. Interestingly, for mobile money accounts 38 percent had such an account, which is an increase from 2017's figure of 29 percent.

AML/-CFT/CPF

The last mutual evaluation and detailed assessment report of Paraguay was undertaken and published by

¹² National Statistics Institute of Paraguay. 2021. Projections of national population, urban and rural areas, for gender and age. Available at: https://www.ine.gov.py/Publicaciones/Biblioteca/documento/7eb5_Paraguay_2021.pdf

¹³ World Bank. 2014. National Financial Inclusion Strategy 2014-2018 of Paraguay, 8. Available at: <https://documents1.worldbank.org/curated/en/727661468286821941/pdf/953920WP00Box30I0Inclusion0Strategy.pdf>

¹⁴ Ibid.

the IMF in 2009. Since that report, Paraguay has made numerous amendments to its AML/CFT/CPF regulations, or issued new ones. These include extending targeted financial sanctions to include financing the proliferation of weapons of mass destruction; mandating designated non-financial businesses and professions (DNFBPs) as subject entities; and obligating natural and legal persons involved in activities associated with VAs as obliged entities.

While there are multiple financial supervisors, the Secretariat for the Prevention of Money or Property Laundering (SEPRELAD), as the lead agency, is empowered to promulgate enforceable resolutions for all obliged entities and has promulgated numerous resolutions in recent years to expand the scope of sectors and transactional activities subject to AML, CFT and CPF. Importantly, these new resolutions related to CDD include measures for simplified due diligence.

The most recent mutual evaluation commenced in 2020. The process was delayed because of travel restrictions due to COVID-19. The Grupo de Acción Financiera de Latinoamérica (GAFILAT)¹⁵ assessment team eventually undertook the onsite visit to Paraguay from 23 August to 3 September 2021, and the report was adopted by GAFILAT and published in September 2022.¹⁶

3.5. SRI LANKA

The Democratic Socialist Republic of Sri Lanka is an island country that covers a total area of 65,610 km². Its coastline is 1,340 km long. Sri Lanka has a population of approximately 20.3 million people.



FINANCIAL INCLUSION

The Central Bank of Sri Lanka undertook the National Financial Inclusion Survey 2018-19 marking the first focused survey on financial inclusion in Sri Lanka. The primary objective was to identify the general landscape in the country to design appropriate policies to overcome obstacles towards improving financial inclusion.¹⁷

According to the survey, bank account ownership stood at 90 percent. Only around 9 percent of Sri Lankans had an account with a registered finance company (including the banking sector), around 20 percent in government community banks and around 10 percent in microfinance. In terms of mobile money accounts, the survey reported low ownership and usage of mobile money accounts, and low penetration of online and telephone banking.

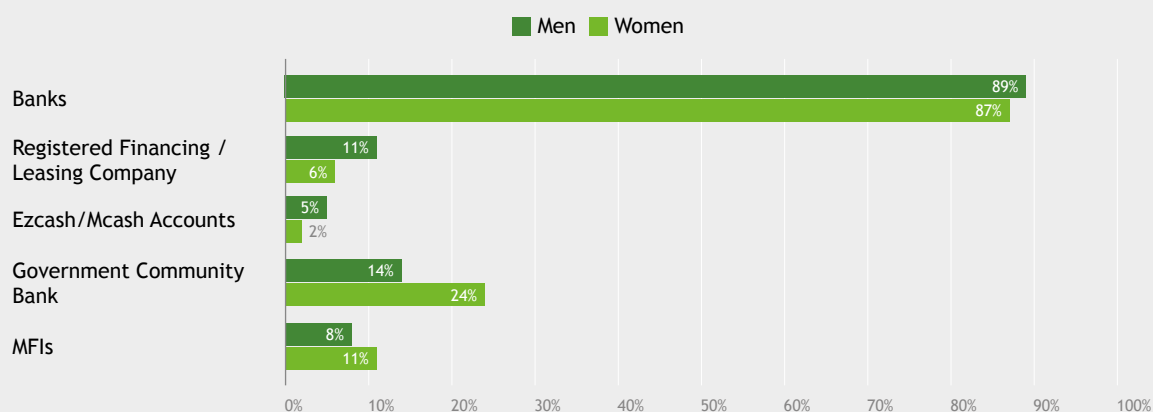
The above chart provides the same information disaggregated by gender. The survey included a gender focused report on “Women Matter! Findings from Sri Lanka’s National Financial Inclusion Survey 2018-19.” The report confirmed that men and women have similar levels of account ownership. In terms of gender, the percentages of men and women with account ownership at a bank were 89 percent and 87 percent, respectively.

¹⁵ GAFILAT is the Financial Action Task Force of Latin America.

¹⁶ GAFILAT. Noticias. Available at: <https://gafilat.org/index.php/es/noticias/144-visita-in-situ-del-gafilat-al-paraguay-en-el-marco-de-la-4ta-ronda-de-evaluaciones-mtuas-del-gafilat>

¹⁷ Central Bank of Sri Lanka. National Financial Inclusion Strategy for Sri Lanka (2021-2024), 6. Available at: <https://www.cbsl.gov.lk/NFIS/Summary.pdf>

FIGURE 5: ACCOUNT OWNERSHIP BETWEEN MEN AND WOMEN, %



Source: Central Bank of Sri Lanka. National Financial Inclusion Strategy for Sri Lanka (2021-2024), 27.

The rates are lower for account ownership with NBFIs, such as community banks, microfinance institutions and mobile money. Notably, the reliance on microfinance institutions and government community banks was higher for women than men.

24%

For example, account ownership for women with government community banks was 24 percent compared to 14 percent for men. For microfinance institutions, the percentages were 11 percent and 8 percent for women and men, respectively.¹⁸

The survey found that the stringent requirements of financial service providers was an obstacle to financial inclusion despite an enabling regulatory environment. Financial institutions may decide not to apply simplified due diligence or require proof of income for all customers which is enhanced due diligence. These obstacles are compounded by other factors, such as the lack of physical access, financial literacy, lack of customized products and high fees.

AML/CFT/CPF

Sri Lanka's Mutual Evaluation Report was adopted by the APG in July 2015. The country was also referred to the FATF "grey list" process in October 2017 based on the results of its mutual evaluation report, as Sri Lanka was rated low or moderate on 10 of the 11 Immediate Outcomes (one was rated substantial), and 27 of the 40 FATF Recommendations were rated non-compliant or partially compliant on technical compliance.

Post the adoption of the report, Sri Lanka made significant strides in progressing its AML/CFT/CPF regime to further comply with the FATF standards, eventually exiting the FATF grey list process in October 2019. Since the adoption of the report in 2015, Sri Lanka has received upgrades to largely compliant or compliant for 19 FATF Recommendations, and is rated compliant or largely compliant with 35 of the 40 FATF Recommendations.

3.6.CONCLUSION

All four countries have made tangible progress in increasing the percentage of their populations access to the formal financial sector. Not surprisingly, where the banking sector is the dominant financial sector, ownership of bank accounts contributes to a significant percentage of account ownership. Where cooperatives are significant, such as in Paraguay, bank account ownership is lower.

All four countries have also made progress on AML/CFT/CPF. This is publicly acknowledged for Sri Lanka, Mongolia and Paraguay as their respective assessment bodies namely APG and GAFILAT have completed and published their mutual evaluation reports and mutual evaluation follow-up reports. Namibia's will mostly likely be adopted soon.

18 International Finance Corporation. 2020. Women Matter! Findings from Sri Lanka's National Financial Inclusion Survey 2018-19. Available at: <https://documents1.worldbank.org/curated/en/484581587110814426/pdf/Women-Matter-Findings-from-Sri-Lanka-s-National-Financial-Inclusion-Survey-2018-19.pdf>



Young man using tablet outdoors at urban setting, Sri Lanka. (pikselstock/Shutterstock)

4. NATIONAL AND SECTORAL RISK ASSESSMENTS IN SUPPORT OF INCLUSIVE FINANCIAL INTEGRITY

4.1. INTRODUCTION

FATF Recommendation 1 on risk assessment and risk-based approach requires that countries identify and assess the ML, TF and PF risks on three levels, as shown in table 6 below. The requirements on PF risks are more limited to sanction evasion and avoidance. Moreover, there is a requirement to keep the risk assessment up-to-date, but the FATF standards do not prescribe a timeframe or how many years.

Only the designated government authority or authorities may approve an exemption, even where low-risk is proven. Alternatively, a reporting entity may individually apply to seek such an exemption, either in full or part. Both would require a legislative basis to issue such an exemption. Globally, very few countries have exempted a sector even if assessed as low-risk. There are more partial exemptions for various reasons, or because an activity is conducted occasionally or on a limited basis.

4.2. NAMIBIA



The Financial Intelligence Act 2012, Article 70, provides the legal basis for the Minister to exempt all, or any of the AML/CFT/CPF obligations. The Financial Intelligence Regulations 2015 further articulates the process. Article 33 (1) of the regulations allows an applicant to seek relief from some of the obligations without nullifying the basic requirement of identifying a client or

TABLE 6: FATF RECOMMENDATION 1

NATIONAL RISK ASSESSMENT (NRA)	SECTORAL RISK ASSESSMENT (SRA)	INSTITUTIONAL RISK ASSESSMENT (IRA)
<ul style="list-style-type: none"> > National threats, vulnerabilities and risks - high, medium or low > Whole of government - all relevant government agencies > Input from reporting entities 	<ul style="list-style-type: none"> > Sectoral threats, vulnerabilities and risks - high, medium or low > Sectoral supervisors - e.g. financial sector AML-CFT supervisors and FIU > Informed by the NRA > Input from reporting entities 	<ul style="list-style-type: none"> > Institutional wide threats, vulnerabilities and risks - high, medium or low > Individual reporting entities > Informed by the NRA and SRA

FROM AN INCLUSIVE FINANCIAL INTEGRITY PERSPECTIVE, THE LOWER RISK SCENARIO IS MORE RELEVANT AS FATF RECOMMENDATION 1 ALLOWS COUNTRIES TO APPLY:

EXEMPTIONS

Exempt all, or part of the AML/CFT/CPF measures such where there is proven low-risk, or where an activity is carried out on an occasional or limited basis. This could be for a sector or certain reporting entities within a sector, or certain financial services.

SIMPLIFIED DUE DILIGENCE

Allow for simplified measures for some AML/CFT/CPF measures where lower risk has been identified and this is consistent with the country's assessment of its ML, TF and PF risks.

reporting a suspicious transaction or activity report. Article 33 (2) allows an applicant to seek total exemption from the AML/CFT/CPF obligations. The grounds for granting such an exemption include proven low-risk.

Namibia undertook a comprehensive update to its National Money Laundering, Terrorist and Proliferation Financing Risk Assessment (NRA) 2020, which was approved by the Namibian Cabinet in September 2021. There were some updates in 2015/16. The NRA also included a module on financial inclusion, surveying the progress and the ongoing effort to align financial integrity and financial inclusion. The NRA assessed the implementation of the Basic Bank Account, which was first identified in the NRA 2012, and money or value remittance services (MVTs), e.g. e-money. The NRA concluded that both had been implemented in accordance with their low-risk status.¹⁹

Namibia had previously completed an NRA in 2012. It concluded that the legal framework did not allow proportionate regulation to be applied. The NRA reinforced the importance of the proposed amendments to the Financial Intelligence Act 2009 to incorporate a risk-based approach, also noting the risks posed by the high level of financial exclusion. The Financial Intelligence Act was amended in 2012 to allow financial

institutions to design proportionate AML/CFT/CPF control measures which are sensitive and aligned to the assessed ML, TF and PF risks.²⁰

Neither the NRA 2012 nor the NRA 2020 identify or recommend any sectors for exemption from AML/CFT/CPF obligations because of proven low-risk. The same applies to the ML and TF sectoral risk assessment conducted in 2018, or as revised and updated in 2020.

The Namibia Financial Institutions Supervisory Authority (NAMFISA) completed a sectoral risk assessment in 2020 of the non-banking financial sector. The NAMFISA assessed unlisted investment managers and special purpose vehicles and short-term insurance as low-risk. For the two most relevant sectors, the friendly societies and top 52 microlenders, the ML risk of both sectors was rated low, but neither was rated low for both ML and TF.²¹

19 FIC. NRA 2020. 2021. Available at: [https://www.fic.na/NRA 2020.pdf](https://www.fic.na/NRA%2020.pdf)

20 National Anti-Money Laundering and Combatting the Financing of Terrorism Risk Assessment Report of Namibia. October 2012. Available at: [https://www.fic.na/NRA 2012.pdf](https://www.fic.na/NRA%2012.pdf)

21 NAMFISA. 2020. ML, TF and PF Sectoral Risk Assessment for the Non-Banking Sector Under NAMFISA'S Supervision. Available at: <https://www.namfisa.com.na/wp-content/uploads/2020/04/Sectoral-Risk-Assessment-Report-2020.pdf>



Female Herero MSME with sewing machine, Namibia. (znm/iStock)

While the NAMFISA sectoral risk assessment of 2020 identified two low-risk sectors (short-term insurance, and special purpose vehicle and pension funds), there was no proposal to exempt these two sectors based on the risk assessment. In any event, they do not provide financial services most relevant for financial inclusion. The Financial Intelligence Centre conducted a ML and TF sectoral risk assessment of banks, lending and DNFBPs which was published in September 2018, and revised and updated in July 2020. No sectors were assessed as low-risk.

4.3. MONGOLIA



Mongolia undertook its first NRA in 2016. The NRA assessed the ML and TF risks in the banking, other financial sectors and DNFBPs. The 2016 NRA did not identify any sectors or products and services as low-risk, and therefore, any possible exemption in part, or all of the AML/CFT/CPF obligations. In addition to the NRA and its updates, the Financial Regulatory Commission (FRC) in 2018 conducted a sectoral risk assessment, i.e. Money Laundering Risk Assessment Report 2018 of all its covered sectors, namely the securities, non-insurance, NBFIs, and savings and loan cooperatives. The 2018 report was updated in 2019 on insurance, real estate, NBFIs, securities, and savings and credit cooperatives.

The 2019 sectoral risk assessment, similar to the 2018 assessment, identified the savings and credit cooperative sector as low-risk because of numerous factors. There was, however, no recommendation to exempt the sector from AML/CFT/CPF obligations. No products were identified as low-risk.

While not finalized, the financial inclusion section of Mongolia's NRA 2020 - including savings and loan cooperatives and insurance, and also some financial services products - was rated as low-risk. None were recommended for exemption. Only some insurance products and some micro products targeted at financial inclusion were recommended for simplified CDD. Neither the AML/CFT law nor the preventive measures regulations provide for exemption from all, or parts of the AML/CFT/CPF obligations. The regulations only provide for simplified CDD.

4.4. PARAGUAY



Paraguay completed its first NRA in January 2016. It was a milestone objective of the country's first Paraguayan Strategic Plan for the Fight Against Money Laundering, Terrorism Financing and Financing the Proliferation of Weapons of Mass Destruction (PEEP), which was

approved on 11 June 2013. The NRA was updated in 2018 using the World Bank NRA methodology, and the results were published in August 2018.

The NRA did not appear to comprehensively examine sectoral risk and financial products and services, nor did it identify any sector, group of reporting entities, customers or products and services as low-risk, and therefore suitable for exemption from all, or some of the AML-CFT obligations.²² The AML law No. 1015 and AML-CFT resolutions issued by SEPRELAD, the country's lead AML/CFT/CPF authority, do not provide for a legal basis for partial or full exemptions from the AML/CFT/CPF obligations.

4.5. SRI LANKA



Sri Lanka published its first NRA in 2015 using the World Bank methodology which included a component on financial inclusion. The financial sectors assessed under the NRA were banking, securities, insurance and NBFIs. The latter covered e-money providers, cooperatives and informal service providers. No sectors were assessed as low-risk nor were there any recommendations to exempt any sectors from AML/CFT/CPF obligations.

The NRA found certain financial inclusion products suitable for simplified due diligence. The products were assessed as lower risk because customers were natural persons, international remittances were not permitted, and there were limits on the number of transactions within a set period. For example, microloans to lower-income borrowers who typically lack collateral, stable employment and a verifiable credit history. The deposits were considered micro deposits with limited electronic fund transfers.

While the NRA identified some products as suitable for simplified CDD, none were recommended to be exempted in part, or some, from the AML/CFT/CPF obligations. The proposed measures did include the application of simplified due diligence. The Financial Transaction Reporting Act 2006 and rules issued by the Central Bank of Sri Lanka do not provide for exemptions from all, or some of the AML/CFT/CPF regulations. The rules only provide for simplified CDD. The Financial Intelligence Unit of Sri Lanka updated the NRA including through a financial inclusion product risk assessment using the World Bank methodology. The working group consists of public and private sector participants. The new NRA was completed in 2022.

²² Note: The latest NRA updates are not publicly available and may contain sectoral risk assessments.

4.6. LESSONS LEARNED

The World Bank risk assessment methodology and self-assessment tools have been useful in helping countries develop their capacities to collect and analyze information in order to understand their ML and TF risks and apply a risk-based approach. The tools include a financial inclusion module to facilitate the identification of specific financial services products, for example, a basic bank account that would be suitable for simplified due diligence. All four countries have identified financial inclusion products and actions items using the World Bank risk assessment methodology and tools.

The standalone financial inclusion module is one of the main advantages of the World Bank methodology and self-assessment tools from an Inclusive Financial Integrity perspective. There are other NRA risk assessment tools, but they do not have the financial inclusion module. Importantly, the World Bank methodology and tools have been used extensively and were evaluated under the mutual evaluation processes of the FATF and FRSBs, and IMF country assessments.

Both the NRA and SRA are resource intensive and time-consuming processes. Therefore, it is important for countries to implement the NRA or SRA recommendations. The benefit of an NRA or SRA from an Inclusive Financial Integrity perspective is they both provide the arguments and evidence for exemption or partial exemption from, or to remove unnecessary or unintended AML/CFT/CPF obstacles to financial inclusion.

None of the four countries made any recommendations for full or part exemption because of proven low-risk, even where low-risk had been identified. This is consistent with the approach taken globally as it may be too risky to exempt a whole sector. It is low relative to other sectors, but it may not be sufficiently low-risk to justify an exemption. Consideration could have been given for more complete use of the exemption provision - for some, if not all, of the AML/CFT/CPF obligations based on proven low-risk. This does require a legislative basis to permit exemptions. Where simplified measures have been identified, they pertain more to the application of simplified CDD under FATF Recommendation 10. There are legal provisions in all four countries on simplified CDD, but not exemptions.

There is room to further raise awareness of the benefits of the NRA and SRA for financial inclusion. Officials involved in the NRA and SRA are normally AML/CFT/CPF officials, and not involved in financial inclusion. The same is true of private sector input. Greater participation of financial inclusion officials or financial institutions serving lower-income groups may lead to more complete use of the exemption or simplified measures and provisions under FATF Recommendations 1 and 10. Countries may want to include an exemption provision in their AML/CFT/CPF law. Subject to such a provision, countries may also want to consider exempting sub-groups within a sector, or if not all AML/CFT/CPF obligations, at least some. Alternatively, countries can provide a legal basis for a reporting entity to apply to be exempted from all, or some of the AML/CFT/CPF obligations based on proven low-risk.

This latter approach may be feasible for low-risk sectors such as micro lending and savings and loan cooperatives. Some micro lenders or cooperatives could be exempt from some of the AML/CFT/CPF obligations.

5. ALIGNMENT OF AML/CFT/CPF POLICIES AND NATIONAL FINANCIAL INCLUSION STRATEGIES

5.1. INTRODUCTION

FATF Recommendation 2 requires that countries have national AML/CFT/CPF policies that are informed by the identified risks, regularly reviewed, and require that national strategies be reflected in agency level strategic plans or business plans.

While there are no international standards on financial inclusion, best practices recommend that countries adopt national financial inclusion strategies. Policymakers in the AFI network have reached a consensus that National Financial Inclusion Strategies (NFIS) are essential in coordinating financial inclusion policies and ensuring they are based on sound data and that the impacts are robustly monitored.²³ Similar to AML/CFT/CPF, national strategies should be reflected in agency level strategies, business plans or tactical plans.

For Inclusive Financial Integrity, the two strategies should overlap so they are harmonized in their twin objectives of removing barriers posed by AML/CFT/CPF measures. Many developing countries have overarching long-term development goals and targets. Aligned strategies in AML/CFT/CPF and national financial inclusion provide support for those broader development goals. Greater access to and usage of quality formal financial services for low-income households are an integral part of the overall economic and social development strategies of countries. Likewise, efforts to reduce corruption and other illicit proceeds are important contributors towards the same national development objectives.

5.2. NAMIBIA



Namibia's Vision 2030 adopted in 2004 provides a framework for the long-term national development of the country. Namibia's fifth National Development Plan 2017/18-2021/22 formulates a shorter-term strategy to achieve the longer-term Vision 2030. Objectives include good governance, financial sector infrastructure and social transformation. These and other objectives provide an enabling policy environment for AML/CFT/CPF and financial inclusion.

The Namibian Financial Sector Strategy: 2011-2021 which launched in 2011, presented an overarching 10-year strategy for the financial sector, supporting the country's broader Vision 2030 strategy. This strategy singles out financial inclusion as a pre-requisite for ensuring inclusivity in economic growth and prosperity, and provides a critical pathway to ensuring that marginalized segments of society are included in the benefits emanating from financial services.²⁴

26%

One clear financial inclusion objective is to improve access to financial services and products for eligible Namibians by reducing the lack of access from 51.7 percent in 2011 to 26 percent in 2021.

Importantly, the financial sector strategy recognized the nexus between financial integrity and financial access. Therefore, the aim includes reducing access requirements to low-risk customers (who in most cases have low-incomes), so that entry is made possible without compromising the integrity and stability of the financial system.²⁵

The national financial inclusion survey of 2017 observed that ownership of ID and passports, which are some of the main requirements to access banking products and services, was at 88.3 percent. A significant percentage of the population, 11.7 percent, was excluded due to the lack of acceptable ID documentation.

The NRA 2021 included an updated Action Plan for three years commencing in 2022. None of the Action Plan items is specifically targeted at financial inclusion. Some action items, such as developing sector specific guidance and availing access to the national identification database by reporting entities will assist with broader financial inclusion efforts. In August 2021, the Namibian cabinet adopted the new National Strategy on Anti-Money Laundering and Combatting the Financing of Terrorism. Unlike the previous strategy, the new strategy has AML/CFT/CPF aligned with the financial inclusion outcome in the Financial Sector Strategy.

²³ Alliance for Financial Inclusion. Financial Inclusion Strategy Peer Learning Group (FISPLG). Available at: <https://www.afi-global.org/working-groups/fis/>

²⁴ Republic of Namibia. 2011. The Namibian Financial Sector Strategy: 2011-2021, 6. Available at: <https://www.bon.com.na/NFIS.pdf>

²⁵ Ibid, 31.

The focus on financial inclusion and AML/CFT/CPF are reflected in the business plans and annual reporting of the two lead financial sector supervisors, namely the Bank of Namibia and NAMFISA. The former includes a section on progress of the Financial Sector Strategy and its five main objectives in its annual report. The Financial Intelligence Centre within the Bank of Namibia provides a separate annual report. For NAMFISA, increasing financial inclusion is one of the nine main objectives of its 2020-21 business plan while its annual report includes progress on AML/CFT/CPF and separately on financial inclusion-related initiatives.

5.3. MONGOLIA



The State Great Hural in 2020 adopted Mongolia's "Vision-2050" Long-Term Development Policy which consists of nine fundamental goals and 50 objectives, and will be conducted over three periods: 2020-2030, 2031-2040, and 2041-2050. There are numerous objectives conducive to financial inclusion, including objective 4.3 - Smart financial markets, which is aimed at developing a multi-pillar and inclusive financial system connected to international financial markets. Specific references are made about AML/CFT/CPF, and separately on growing microfinance institutions.

Currently, Mongolia does not have a standalone national financial inclusion strategy. The Financial Regulatory Commission has drafted a "National Program to improve financial inclusion in Mongolia" for approval by the Financial Stability Council. The national payments system strategy with the Bank of Mongolia leading implementation is also conducive to financial inclusion which includes mobile banking and e-money.²⁶

The Mongolian Parliament adopted a National Strategy for Anti-Money Laundering and Counter-Financing of Terrorism (2017-2019 Mongolian National AML-CFT Strategy) in May 2017, however, it did not include any explicit reference to financial inclusion objectives.

Mongolia is in the process of preparing a new national AML/CFT strategy for consideration and adoption by the Great Hural in late 2021. The draft of this new strategy adopts the recommendations contained in the new NRA of 2020 and also includes specific action items such as adopting a separate national financial conclusion strategy that is aligned with the national AML-CFT strategy.

The medium-term strategies of the two financial regulators in the country, namely the Bank of Mongolia and Financial Regulatory Commission include direct references to financial inclusion. Under Strategic

Objective 3.1 in the Financial Regulatory Commission's Medium-Term Strategic Plan 2018-21, there is a direct reference to strengthening the system of financial inclusion. Other strategic objectives such as 3.2 - Introduce technology-based financial products and services, and 2.2 - Enhance financial literacy of the public, are all supportive of inclusive inclusion.²⁷

Financial inclusion efforts on the part of the Bank of Mongolia and the Financial Regulatory Commission have been focused on promoting financial literacy, with the former being the lead agency for the country's National Program for Financial Literacy.²⁸

93.8% Mongolia has made great strides in enabling 93.8 percent of adults to have access to financial accounts.

The lack of financial literacy remains an obstacle to the broader use of financial accounts for savings and loans, as 8.4 percent had not used the account over the survey period.

5.4. PARAGUAY



The Government of Paraguay has laid out within its National Development Plan a series of objectives and development goals for 2030, including universal financial inclusion. Paraguay's plan acknowledges that financial inclusion is one of three necessary components (together with social and economic inclusions) to achieve an inclusive society. As mentioned, the Strategic Plan of the Paraguayan State (PEEP) was adopted in 2016. SEPRELAD is the coordination agency for the PEEP. The PEEP does not include a specific reference to financial inclusion. Nevertheless, Goals 8 and 9 of the PEEP include the implementation of a risk-based approach by reporting entities and supervisory authorities. The PEEP was revised in 2018 following updates to the NRA.²⁹

26 Mongol Bank. 2021. Overview of the Payment System in Mongolia. Available at: <https://www.mongolbank.mn/eng/listpaymentsystem.aspx>

27 Financial Regulatory Commission. 12 September 2018. FRC's Medium-Term Strategic Plan 2018-2021. Available at [http://www.frc.mn/resource/frc/Strategic Plan.pdf](http://www.frc.mn/resource/frc/Strategic%20Plan.pdf)

28 Mongol Bank. 2021. Financial Literacy. Available at: <https://www.mongolbank.mn/eng/financialliteracy.aspx>

29 SEPRELAD. 2016. Strategic Plan of the Paraguayan State (PEEP) to Combat Money Laundering and the Financing of Terrorism. Available at: <https://www.seprelad.gov.py/evaluacion-nacional-de-riesgos-plan-de-accion-i20>

The risk-based pronouncements in the PEEP provide broad policy support for Paraguay's National Financial Inclusion Strategy (ENIF in Spanish name for Estrategia Nacional de Inclusión Financiera) 2014-18 which sets out four objectives to be met by 2018. Specific reference to "appropriate, flexible, risk based Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime" is included under the nine principles guiding the ENIF.

For the ENIF objective "Quality and affordable services available to all people in Paraguay through a diverse and competitive marketplace", a key performance indicator included the need to "Issue clear guidance on what is and is not needed to open a regular savings account". This KPI was aimed at addressing the findings in the financial inclusion survey which showed that the second highest (24 percent) self-reported barrier to financial inclusion was a lack of documentation (the highest barrier was lack of money at 51 percent).

The reported barriers included AML/CFT/CPF requirements and those imposed by financial institutions. This item was identified as a quick win because providing guidance was a policy action that supervisors could implement quickly. The ENIF noted that "This will also require striking a balance between inclusion and financial sector integrity as referred to in the fourth objective of this strategy".³⁰

A National Report was prepared on the results of the ENIF. Notable key findings included: an increase in the population having access to financial products and services; an increase in basic savings accounts through electronic money wallets; and an increase of 25 percent from 2015 to 2017 in the inclusion of those under 30 years of age.³¹ A new ENIF document is being developed.

5.5. SRI LANKA



The Sustainable Sri Lanka 2030 Vision and Strategic Path report adopted in 2019 seeks to harmonize the economic, social and environmental dimensions of the sustainable development triangle. The report identified the balanced inclusive green growth path that will facilitate the national transition from "Conventional Sri Lanka 2018" to "Sustainable Sri Lanka 2030". Two key themes are poverty and inclusive growth, and the identified remedies for both included improving access to financial services for the poor.³²

Sri Lanka's Cabinet of Ministers adopted the country's first National Financial Inclusion Strategy 2021-2024 in March 2021.³³ The development of this strategy was a multi-stakeholder effort led by the Central Bank of Sri

Lanka. The strategy provides an official definition of financial inclusion in Sri Lanka and responds to the gaps or obstacles to financial inclusion identified in the earlier financial inclusion survey of 2018/19.

The strategy also carries forward some key recommendations contained in the NRA of 2015. The NRA included a priority Action Plan with a sub-component on financial inclusion. The following were identified action items to overcome known gaps or obstacles pertinent to inclusive financial integrity:

- > **Strategy:** establish a financial inclusion policy framework based on a clear definition of financial inclusion.
- > **Regulatory:** issue new regulations to encourage financial inclusion products.
- > **Simplified measures:** issue new simplified KYC-CDD rules for financial inclusion products.
- > **Limited access by low-income groups:** introduce a basic savings account with a simplified due diligence and tier structure.
- > **Lack of ID:** citizens without a national ID should be issued with national ID cards as a priority task.
- > **Payment of social benefits:** every citizen is to automatically be issued with a National Electronic Bank Account when receiving their ID card.

Financial inclusion is a state where all individuals and enterprises in Sri Lanka can access high-quality, appropriate, secure, and affordable financial services based on their needs, make an informed choice and use these services efficiently and effectively to support their economic activities and improve the quality of their lives.

Sri Lanka National Financial Inclusion Strategy 2021-2024

30 World Bank. December 2014. National Financial Inclusion Strategy 2014-2018 of Paraguay, 4. Available at: <https://documents.worldbank.org/>

31 National Committee for Financial Inclusion (CNIF). 2017. National Report on Financial Inclusion 2017. Available at: https://enif.paraguay.gov.py/National_Report_2017.pdf

32 Presidential Expert Committee. January 2019. Sustainable Sri Lanka 2030 Vision and Strategic Plan. Available at: https://www.researchgate.net/publication/327221768_Sustainable_Sri_Lanka_2030_Vision_and_Strategic_Path

33 Central Bank of Sri Lanka. 2021. National Financial Inclusion Strategy for Sri Lanka (2021-2024). Available at: <https://www.cbsl.gov.lk/>

There are four core pillars of the financial inclusion strategy. Pillar 1 - Digital Finance and Payments - is the most relevant to Inclusive Financial Integrity and includes eight objectives, including one recommended by the NRA: "Streamline the Know Your Customer (KYC) process to ensure standardization and introduce a tiered approach with proportionate barriers to entry that are dictated by respective risks."

The multifaceted responses are aimed at addressing some major gaps and underlying issues. Some of the gaps are pertinent to broader issues of financial inclusion such as customer preference for use of cash and the low acceptance of electronic payments, including mobile money accounts and online banking.

THE UNDERLYING CAUSES THAT ARE MORE RELEVANT TO INCLUSIVE FINANCIAL INTEGRITY INCLUDE:

- > No centralized digital ID database
- > Emerging technologies need more timely and consistent regulatory guidance
- > Absence of market-wide clarity on the ability to conduct e-KYC and lack of tiered KYC rules

LIKEWISE, SRI LANKA'S NATIONAL AML/CFT POLICY 2015-2020 UNDER OBJECTIVE 6 OF THE FIVE OBJECTIVES INCLUDED THE FOLLOWING:

- > Introducing simplified CDD framework for financial inclusion products and low-risk groups.
 - Issues Rules on simplified CDD
- > Identifying low risk financial inclusion products and target groups.
 - Establish a working group on Financial Inclusion
- > Encouraging the launching of financial inclusion products to low-risk groups

Sri Lanka's National AML/CFT Policy 2015-2020 has concluded and a new strategy is being developed. The National Financial Inclusion Strategy, which commenced in 2021, is aligned with the AML-CFT policy as it continues and expands on the identified policy actions pertaining to Inclusive Financial Integrity.

The objectives of the Central Bank of Sri Lanka's business plan include both implementation of AML/CFT/CPF and financial inclusion. The lead agency for each resides within the central bank, and the bank reports

on progress for both in its annual report, noting the Financial Intelligence Unit also has its own separate annual report.

Sri Lanka's Financial Intelligence Unit, with the central bank, is in the process of updating the NRA with an objective of formulating the national AML/CFT/CPF Strategy for Sri Lanka post the 2015-2020 strategy. The findings and policy implications of the financial inclusion strategy will be used to inform the AML/CFT/CPF strategy for the next five years.

5.6. LESSONS LEARNED

It is important to have standalone strategies on AML/CFT/CPF and financial inclusion. While their individual remit is broader than Inclusive Financial Integrity, the goals or objectives should be aligned where the two strategies overlap on this important issue.

The links between the strategic goals of AML/CFT/CPF and financial inclusion should also support and be connected to the country's overarching national development goals. As demonstrated by the four countries in preparing an AML/CFT/CPF strategy, consideration must be given to the existing financial inclusion strategy and surveys, and vice versa, i.e. a national AML/CFT/CPF strategy and NRA. The chronologies of the NRA and of national AML/CFT/CPF vis-a-vis the financial inclusion survey and strategy were not always aligned, as they occurred at different times. This is not necessarily a gap, as it provides for a process for continuous improvements and refinements.

National strategies alone are insufficient. Policies or national action plans must be reflected in the business or tactical plans and strategies of the lead agencies. Performance expectations and rewards should be at the operational level, otherwise, there could be a disconnect between national strategies and implementation.

6. ALIGNMENT OF NATIONAL AML-CFT COORDINATION AND INCLUSIVE FINANCIAL INTEGRITY

6.1. INTRODUCTION

Best practices in financial inclusion call for national coordination mechanisms, while FATF Recommendation 2 specifically requires that countries have national AML-CFT coordination mechanisms. AFI undertook a survey of countries and published the results in the National Coordination and Leadership Structure Survey Report, July 2017.³⁴ Normally, there are designated lead operational agencies for both thematic areas with coordination at both the national and operational levels - this should also be the case for Inclusive Financial Integrity.



Survey Report:
National Coordination
and Leadership Structure
Survey Report

> [View here](#)

6.2. NAMIBIA



The National Financial Sector Strategy established the inter-ministerial Financial Inclusion Council chaired by the Prime Minister. In addition to the Financial Inclusion Council, there is an Advisory Body to the Council chaired by the governor of the Bank of Namibia. The Financial Literacy Initiative Secretariat, Ministry of Finance, Economic Policy Advisory Services, is the lead agency for financial inclusion in the country. It coordinates financial inclusion activities with the Bank of Namibia, particularly the Financial Intelligence Centre, on AML/CFT/CPF matters and with major financial institutions. The secretariat also coordinated

the launch of the informational brochure on the Basic Bank Account.

The Anti-Money Laundering and Combatting the Financing of Terrorism and Proliferation Council (the AML/CFT Council) is the lead coordination mechanism in Namibia for AML-CFT and CPF. The Financial Intelligence Centre in the Bank of Namibia is the lead agency.

There are no formal joint meetings between the AML/CFT Council and the Financial Inclusion Council, nevertheless, there is operational coordination. The functions of the Financial Intelligence Centre, as stated in its 2020 Annual Report, include “ensuring the balance between AML/CFT and CPF measures and Financial Inclusion Initiatives aligned with Namibia’s Financial Sector Strategy”. The Financial Intelligence Centre essentially acts as the lead coordination agency on Inclusive Financial Integrity.

In 2018, the Bank of Namibia coordinated the preparation of the 2018 Interim Review Report for the Financial Inclusion Council Advisory Body, which examined what had been achieved over the previous seven years since the adoption of the National Financial Sector Strategy in 2011. The interim progress report, prepared with the information received from various agencies implementing the financial inclusion strategy, was tabled at the first meeting of the Financial Inclusion Council in 2019.³⁵

6.3. MONGOLIA



Mongolia has a well-established national coordination mechanism for AML/CFT/CPF. The National Council for Combating Money Laundering and Terrorist Financing was established in accordance with the Prime Minister's Decree No. 70 of 20 April 2017. The Minister of Justice and Home Affairs is the Chair and 15 government agencies are represented including the Bank of Mongolia and the Financial Regulatory Commission. The Financial Information Unit, which is the country’s financial intelligence unit, within the Bank of Mongolia, is the lead coordination agency in the country.

³⁴ Alliance for Financial Inclusion. July 2017. National Coordination and Leadership Structure Survey Report. Available at: https://www.afi-global.org/wp-content/uploads/publications/2017-07/AFI_FIS_leadership_survey_AW_digital.pdf

³⁵ Bank of Namibia. 2018. Annual Report 2018, 57. Available at: <https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/7c/7c8d9d1a-0cad-4745-ab1b-61991ab32781.pdf>

The National Council's terms of reference are sufficiently broad for the Council to consider financial inclusion related concerns such as de-risking, promoting simplified due diligence for lower-risk individual customers, and considering exempting certain sectors because of proven low-risk. While the National Council serves at a policy level, Mongolia created the Cooperation Council in 2019 to provide an operational coordination mechanism. It works within the Bank of Mongolia, with the FIU head as the Deputy Chair.

As mentioned previously, there is no national financial inclusion strategy. In its absence, there is also no standalone financial inclusion committee in the country, however, the Financial Stability Board does oversee this area as part of its responsibilities.

The Financial Regulatory Commission is the lead operational agency for financial inclusion, working closely with the Bank of Mongolia. The Commission, as mentioned, supervises non-bank financial institutions such as savings and loan cooperatives. Also worth noting is that both agencies are AML/CFT/CPF supervisors for financial institutions in the country. This facilitates smoother coordination within the two agencies on Inclusive Financial Integrity and between the two supervisors in the absence of a standalone financial inclusion committee.

6.4. PARAGUAY



The National Financial Inclusion Committee includes senior officials from the Central Bank of Paraguay, Ministry of Finance, National Institute of Cooperatives and the Ministry of Planning. This committee, which established thematic ad hoc working groups, is responsible for implementing the ENIF and is chaired by the Minister of Finance. Beneath the National Financial Inclusion Committee is a technical team comprised of these same organizations with an Executive Secretary responsible for managing implementation of the ENIF. The Financial Inclusion Office, led by the Executive Secretary, supports the work of this committee.

Established in 2016, the Inter-Institutional Committee of the National System on AML/CFT includes the Central Bank of Paraguay, Ministry of Finance, National Institute of Cooperatives and Technical Secretariat of Planning. The committee's function includes, among other objectives, coordinating the application of a risk-based approach to assigning resources and implementing measures to prevent or mitigate money laundering and the financing of terrorism.³⁶

There are no joint meetings between the two national coordination committees but there is coordination at the operational level. The Financial Inclusion Office is located at the Finance Ministry while the Superintendency of Banks and Superintendency of Insurance are co-located within the Central Bank of Paraguay. These different areas of the central bank jointly participate in the process of preparing regulations including simplified due diligence. Under the ENIF, there is a Savings Working Group which focuses on documentation and other requirements and barriers to open a savings or basic account, agent banking, CDD and AML/CFT/CPF.

6.5. SRI LANKA



The Sri Lankan cabinet established the National Financial Inclusion Council when it approved Sri Lanka's National Financial Inclusion Strategy in March 2021. The council serves as a high-level body providing overall leadership, policy guidance and strategic direction for the national strategy with the support of a management committee, and is co-chaired by the Secretary to the Ministry of Finance and the Governor of the Central Bank of Sri Lanka.

The Regional Development Department in the Central Bank of Sri Lanka is the secretariat to the council. Prior to the formation of the council, there were no formal national coordination mechanisms. The Regional Development Department also acts as the lead agency, responsible for developing and implementing a financial inclusion strategy. The department's mandate includes:

- (1) ensuring access to finance for the micro, small and medium scale enterprises, through credit support schemes implemented by the Central Bank of Sri Lanka, and
- (2) improving the financial literacy of the public, including new and existing entrepreneurs.

Sri Lanka's national AML/CFT body, the Advisory Board for the Financial Intelligence Unit, was established in 2006 and serves as the reviewing body for national AML/CFT/CPF policies. The Governor of the Central Bank of Sri Lanka chairs the Advisory Board for the Financial Intelligence Unit. The board is tasked with deciding on AML/CFT/CPF policy matters and consists of heads of key ministries and institutions.

36 SEPRELAD. Available at <https://www.seprelad.gov.py/evaluacion-nacional-de-riesgos-plan-de-accion-i20>

There are no joint meetings between the National Financial Inclusion Council and the AML/CFT committee. At the operational level, the Central Bank of Sri Lanka acts as the 'engine room' for both. Within the central bank, the Regional Development Department serves as a member in the working groups on the new NRA 2021 led by the FIU.

Likewise, the Financial Intelligence Unit is a member of one of the working groups under the National Financial Inclusion Council. Accordingly, both departments are guided by the financial inclusion strategy and action items, and undertake regular operational coordination.

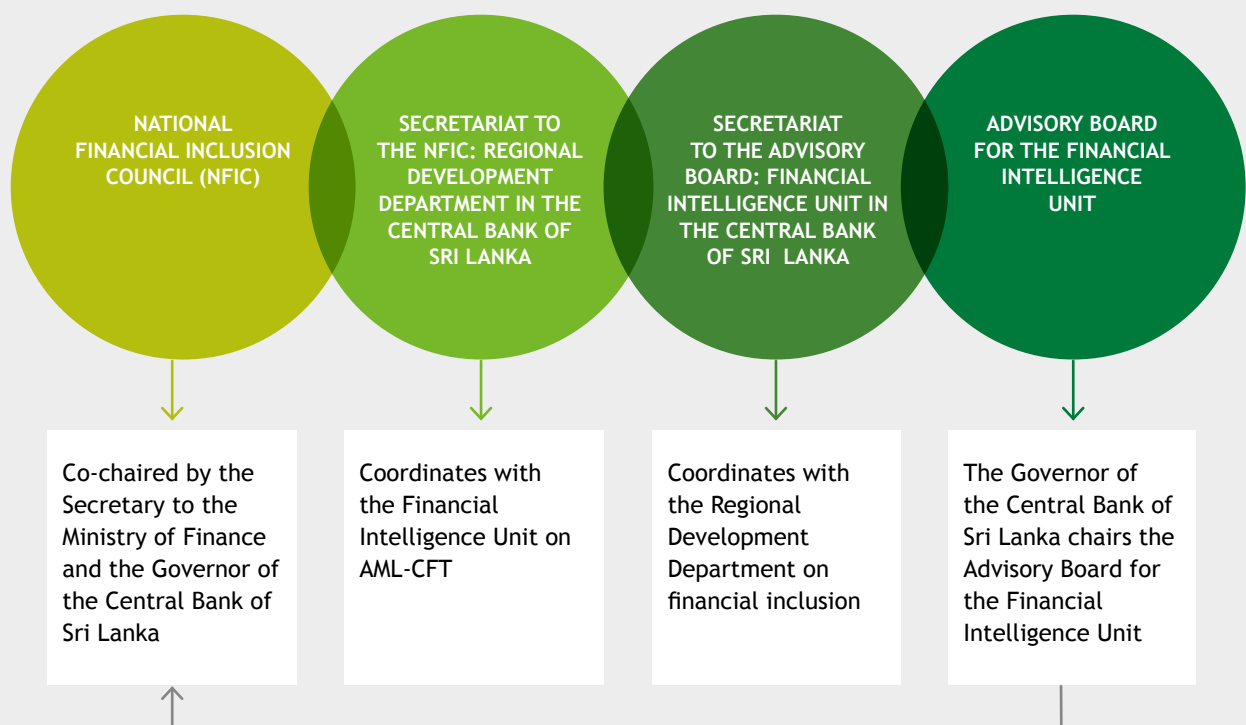
6.6. LESSONS LEARNED

It is important to have national coordination mechanisms to harmonize activities in Inclusive Financial Integrity such as undertaking risk assessments and financial inclusion diagnostics, preparing strategies, developing regulations on simplified due diligence and implementing other action items.

Sri Lanka is a good example of a country with an effective national coordination mechanism with the diagram below summarizing the situation in the country. Both the Advisory Board and NFIC are chaired or co-chaired by senior officials and lead authorities located in the Central Bank of Sri Lanka.

A more structured approach at the national policy level may be useful. This can cover either financial inclusion or AML/CFT/CPF in the respective meeting agenda of both national coordination committees or it could be more formal, with coordination on Inclusive Financial Integrity being specified in both the AML/CFT/CPF strategy and financial inclusion strategy.

The relevant lead agencies do meet to coordinate their efforts on AML/CFT/CPF or financial inclusion. A more structured approach, involving the formation of a working group on Inclusive Financial Integrity, may result in greater alignment in strategies and activities, and potentially, the pooling of limited resources.



7. NATIONAL ID, DIGITAL ID, CDD AND E-KYC-CDD

7.1. INTRODUCTION

This chapter discusses acceptable ID documentation and means of verification for KYC and ongoing CDD.

FATF Recommendation 10 on CDD mandates that financial institutions must identify and verify the following:

- > Customer
- > Any beneficial owner of the customer
- > Any person acting on behalf of the customer

Individual customers are the focus, for the purposes of this report, as this category is the most relevant for financial inclusion. For verification of individual identities, the FATF standards require that an ID document be reliable and independent, although what constitutes either is not prescribed. Given the importance of FATF Recommendation 10 on ID verification, a country's determination of acceptable ID documents is critical for Inclusive Financial Integrity.

Government-issued national IDs are an excellent means of achieving Inclusive Financial Integrity. Inflexible application, however, may lead to financial exclusion. Even in countries that have national ID systems, such as in the four case study countries, some disadvantaged groups may not hold a national ID for various reasons.

For non-national ID holders, it is unlikely they would also hold a passport or driver's license - the two other normally accepted government-issued documents.

The issue of acceptable ID documentation is linked to legal identity. If AML/CFT/CPF laws or regulations allow for other acceptable ID documents when a person has a valid reason for not possessing the necessary papers to obtain a national ID, then this particular obstacle is no longer an issue.

In addition to the types of ID accepted in a country, globally, there are normally three accepted forms for how ID documents are verified, as shown in the table below.

The FATF standards do not mandate address verification, although many countries still require this as a rule rather than risk-based. The lack of acceptable proof of address documentation has been recognized in numerous international studies including those by AFI, as another major obstacle to financial inclusion.

Given the three means of ID verification, the ability of reporting entities to verify the customer's identity in a non-face-to-face format, online or remotely, is important when the customer is unable to be physically present at a branch or with an agent. Non-face-to-face onboarding is not conditional on a digital ID system as shown by numerous countries that allow online onboarding and non-face-to-face verification. However, it is conditional with the existence of an enabling regulatory environment, such as a strong KYC and CDD regulation.

THREE FORMS OF VERIFICATION THAT ARE INDEPENDENT AND RELIABLE

ORIGINAL ID DOCUMENT

For verification purposes, the original document needs to be presented, photocopied and attested.

CERTIFIED TRUE COPY OF THE ORIGINAL ID DOCUMENT

A certified or notarized true copy by someone legally authorized when the customer is unable to produce original documents.

ELECTRONIC OR DIGITAL VERIFICATION USING DATA OR INFORMATION

Alternatively, if feasible, electronic or digital verification may be undertaken.



7.2. NAMIBIA

Namibia has a national biometric ID system. The Ministry of Home Affairs and Immigration is responsible for issuing the national identification (NID) card to citizens or permanent residents who are 16 years or older. It is mandatory to hold a national identification card for identification. Blue identification cards are issued for citizens whereas permanent residents have blue and pink cards. There is a process in place for de-duplication of information before the card is issued, and biometric information is stored both in the database (full set) and on the card (left thumb).³⁷

A birth certificate is required to obtain the national ID. According to the Ministry of Home Affairs and Immigration, 87.8 percent of all Namibian citizens hold a birth certificate while 1.5 percent had other non-Namibian birth certificates in 2016. The Ministry further state that 82.9 percent of the population holds Namibian identification documents, i.e. a national ID, passport or driver's license. According to the findings of the National Financial Inclusion Survey, ownership of ID or passports, which are some of the main requirements to use formal banking products and services, was high at 88.3 percent in 2017, which is consistent with the Ministry of Home Affairs and Immigration's figures.³⁸

As noted in the NRA 2020, possessing a national identification ID or passport is essential as these are some of the main requirements that permit access to financial and non-financial services, such as banking, insurance, etc. The higher the number of people issued with formal identification documents, the more enhanced are the AML/CFT/CPF combatting measures. This inherently reduces national risk vulnerability.³⁹

The Financial Intelligence Act 2012 details CDD requirements, although it does not specify the acceptable documents for ID or address verification. The obligations are further detailed in the Financial Intelligence Regulations: Financial Intelligence Act 2012 promulgated in January 2015. Article 13: Verification of Identification Information in the regulations specifies the acceptable ID documents which include a national ID, passport, Namibian driver's license, UN-issued ID documents for refugees and birth certificate for minors. The Financial Intelligence Centre issued a guidance note on customer identification and record-keeping. First issued in December 2009, it was revised in December 2015. The first guidance note clarified in Section 9 that accountable or reporting institutions are not required to verify the residential address and contact particulars or details of any natural person referred to in the FIU Act.

Financial institutions do not have direct access to the Ministry of Home Affairs and Immigration ID database to electronically verify the authenticity of the presented customer information. Therefore, it is not common or standard practice for new customers to be onboarded online. A new customer will need to either visit a branch or an agent to complete the onboarding process. This situation was highlighted in the national financial inclusion survey - verification of the client's ID information was difficult due to the inability to connect to a national identification database.⁴⁰

Namibia has identified the legal obstacles for reporting entities to access identification data from the Ministry of Home Affairs and Immigration. In response, there is a proposal for the Identification Act of 1996 to be repealed by the Civil Registration and Identification Bill (CRIB). If passed, reporting entities will be able to view the ID data, subject to certain privacy and probity provisions set out therein.

The Guidance of December 2015 recognizes the risks and challenges in the absence of reporting infrastructure or accountable institutions to verify customers remotely. The guidance acknowledges the challenges of ID verification during non-face-to-face onboarding, and highlighted the need for a risk-based approach in designing and implementing customer verification procedures including risk mitigation measures.

For non-face to face onboarding, there is some flexibility in how ID documentation is presented by the customer. Article 17 of the regulations states that, unless otherwise indicated in these regulations or determined in writing by the Financial Intelligence Centre, any document, record or report, as well as copies, required under these regulations may be kept or submitted in electronic form. The regulatory approach appears to allow accountable or reportable institutions to be innovative and apply a risk-based approach in the uptake of technology for customer ID verification. There are emerging providers using mobile applications that

37 World Bank Group. April 2016. Identity Management System Analysis Namibia, 16. Available at: <https://documents1.worldbank.org/curated/en/184451466711154296/Namibia-Identity-Management-System-Analysis-Report.pdf>

38 Namibia Statistics Agency. 2017. Namibia Financial Inclusion Survey (NFIS), 13. Available at: <http://www.fli-namibia.org/namibia-financial-capability-survey-2017.pdf>

39 Namibia. September 2021. NRA 2020, 161. Available at: <https://www.fic.NRA.2020.pdf>

40 World Bank. November 2014. Financial Regulation for Financial Inclusion in Paraguay, 30. Available at: <https://enif.Financial Regulations for Financial Inclusion.pdf>

provide for non-face-to-face onboarding using biometric verification (e.g. selfie against a national ID) that do not require access to the government database.

These biometric verification systems require a risk assessment and prior approval from the Bank of Namibia before their launch. Such biometric ID systems are less robust than those that provide online validation with data on national IDs held by the Ministry of Home Affairs and Immigration. An example is the Fintech provider Mobipay.

MOBIPAY REVOLUTIONIZES PAYMENTS WITH IDAAS

MobiPay's newest development is IDaaS powered by Mobipay, a cloud-based Identity as a Service solution for corporate and government clients, incorporating facial and fingerprint recognition, proof of life, document scanning and management.

Mobipay was licensed by the Bank of Namibia as an E-Money Issuer in 2010, and then licensed 10 years later by the Payment Association of Namibia (PAN) as a Payment Service Provider, Payment System Provider and Payment Intermediary.

Digital payment providers like MobiPay must enforce strict regulations such as KYC to prevent money laundering and identity theft. As manual processes are costly, cumbersome and cannot be concluded in real-time, unsupervised self-serve remote identity verification is strongly on the rise worldwide.

For an automated remote selfie verification like MobiPay's IDaaS, strong and powerful presentation attack detection (PAD) is a mechanism for noticing spoofing attempts typically associated with identity theft. PAD detects spoofing attacks such as impersonations using a photo or video of another person.

This provides clients with third party access via API and the app to establish a customer's identity including proof of life physically (in-branch) or remotely (web or app), thereby reducing fraud and traditional KYC costs and meeting regulatory requirements, while allowing individuals to seamlessly identify themselves digitally for all kinds of services.

For NAMFISA supervised financial institutions, as technology evolves some microlenders have systems in place for prospective borrowers to complete the loan applications and then scan and email all supporting documents. The prospective borrower only has to visit the microlender's premises in-person to sign the loan agreement.⁴¹

7.3. MONGOLIA



The Ministry of Justice and Internal Affairs is the government authority for the country's national ID system, also known as the citizen ID. The Mongolian government decided in 2008 to replace the country's previous national identification system with a new electronic ID card, the e-ID card for its citizens. The card stores personal data with a biometric fingerprint ID system linked to a secure database serving government agencies such as the electoral authority, tax and customs.

While biometric, it is not a digital ID system because financial institutions cannot access the government database for customer verification purposes for non-face-to-face or remote onboarding. The stated goal of the e-ID card is to allow for easier online access to government services and for digital transactions. Reporting entities are using the "KHUR", the national electronic information exchange system. This system, however, requires that customers physically visit a branch or agent as verification is via a fingerprint biometric reader. There is a range of data available on the KHUR system, including national ID card, birth certificate, address, registration number, and taxpayer information.

The AML/CFT law of Mongolia, as amended in 2020, states in Article 5.2.1. that if a customer is an individual, the original or notarized copy of the citizen ID, i.e. national ID, or passport is the only acceptable verification of ID permitted. The notarized copy of an identity card is accepted only if delivered by post. Bank of Mongolia's AML/CFT preventive measures, as amended in January 2021, reiterates the ID verification standards of the citizen ID or passport under Article 3.2.⁴²

Under Mongolia's legal framework, AML/CFT regulations promulgated by the Bank of Mongolia are applicable to all reporting entities, including non-banking financial institutions supervised by the Financial Regulatory Commission. The regulations allow financial institutions to determine address information and verification, as well as employment details, based on their internal control procedures. Read together with other articles in the law and regulations, a risk-based approach is permitted.

41 NAMFISA. 2020. ML/TF/PF Sectoral Risk Assessment for the Non-Banking Sector Under NAMFISA'S Supervision, 101. Available at: <https://www.namfisa.com.na/wp-content/uploads/2020/04/Sectoral-Risk-Assessment-Report-2020.pdf>

42 Bank of Mongolia. January 2021. The Regulation of Preventive Measures on Anti-Money Laundering and Combatting Financing of Terrorism. Available at: <https://fiu.mongolbank.mn/eng/regulation.aspx?id=01>

As previously mentioned, Mongolia undertook their Financial Accessibility Survey 2018 conducted by the Financial Regulatory Commission and the National Research and Consulting Center, which noted that only 1.4 percent of those surveyed said they did not have a bank account because of a lack of documentation. Mongolia's birth e-registration system automatically grants a national ID number to a baby after birth. A citizen ID card is compulsory for any citizen 16 years or older.

The Bank of Mongolia's AML/CFT regulations do not permit remote electronic verification. Nevertheless, the flexibility for a notarized copy to be submitted by mail provides a practical alternative for remote onboarding in the absence of electronic or digital KYC. The regulations allow for remote onboarding to the extent that a notarized copy may be mailed to the financial institution to complete the ID verification and CDD process. Some financial institutions allow new customers to submit their ID details via their websites (based on a sample) or equivalent app using smartphones, and to complete the process at a branch or with an agent.

The updated NRA 2020 examined the issue of customer onboarding. Identified obstacles include limited flexibility in acceptable ID documentation for citizens without the national ID, the inability to onboard remotely, and the lack of access by reporting entities (such as savings and loans cooperatives) beyond the banking sector to the KHUR system. These are areas targeted for further enhancements as part of the new national AML/CFT/CPF strategy.

7.4. PARAGUAY



Paraguay has the Cédula de Identidad, or national ID card, which is issued by the Ministry of the Interior - Identification Department, National Police. An applicant must submit their birth certificate, and marriage certificate or foreign passport, if applicable. All residents must carry the Cédula de Identidad. The Cédula de Identidad provides an electronic identity for online transactions. As stated in the official website, once the national ID card has been acquired, a resident may apply for an electronic ID, and obtain services and documents that require it offered by the state in digital form.

At this stage, it is not accessible by obliged entities for ID verification purposes. Nevertheless, it is still potentially useful since once an electronic ID has been created, the holder can generate an electronic proof of ID card in PDF format.⁴³ This allows non-face-to-

face onboarding through the "certified/notarized true copy" channel. As this is a relatively new initiative, only 152,386 citizens have so far obtained an electronic identity as of July 2021.

For CDD, AML Law No. 1015/1997, articles 14 and 16 require obliged subjects to identify and verify their customers, respectively. However, the AML Law does not specify which ID documents are acceptable. For individual customers, it merely states that the identification will consist of the proof of identity itself. This is the same approach in SEPRELAD issued resolutions, notably SEPRELAD Resolution No. 70/2019 on AML/CFT for financial institutions (except cooperatives). Similar to the AML law, Article 25 of Resolution 70 requires the type and number of the identity document provided to be recorded and verified, but is silent on actual ID documentation.

The AML/CFT regulatory framework does not limit acceptable ID to national ID or passports. That said, financial institutions have essentially relied on these two documents, with use of the national ID as the most common. A quick review of the websites of some major banks in Paraguay offering a basic savings account lists the national ID as the only acceptable ID verification document.

92.5%

In fact, 92.5 percent of the population has a government-issued national ID.

While this situation has improved, in absolute terms, a significant number of the country's citizens do not possess the national ID. These observations were made in the national financial inclusion survey which showed that 24 percent of respondents cited the lack of documentation as the reason for not having an account.

⁴³ Government of Paraguay. 2021. Electronic Identity Frequent Questions. Available at: <https://www.paraguay.gov.py/identidad-electronica/preguntas-frecuentes-creacion>

The national financial inclusion survey also noted the challenges in the verification of the client's ID information since obliged entities could not connect to a national identification database.⁴⁴ This situation has not changed. As such, the only way obliged entities are able to currently meet their AML/CFT/CPF obligations is to either be presented with the original ID or obtain a notarized true copy. Resolutions 70/2019 and other CDD related resolutions do not provide for e-KYC and CDD. As already mentioned, those with an electronic ID can provide the digital original of their ID (which can be downloaded from the government's website) by email, online, at a branch or to an agent.

Given the focus of financial inclusion on lower-income groups including those in rural areas, the available electronic ID options have limited benefits at this stage, as the target groups have most likely not acquired an electronic ID. If customers only provide a photocopy, there is a greater risk of false ID presentation.

7.5. SRI LANKA



Sri Lanka's National Identity Card (NIC) is issued by the Department for Registration of Persons. The NIC is available only to citizens, and mandatory for any person 15 years and over. An applicant must submit their birth certificate, and marriage certificate, if applicable.⁴⁵ The department has initiated an electronic National Identity Card (eNIC); implementation is in the early stages and only being issued to new applicants. The benefits of the eNIC, which feature a machine-readable barcode and stored biometric data, include easier and quicker means of establishing one's identity with government agencies and financial institutions, greater security and a central database for recognized institutions to confirm a person's identity.

According to the Digital Identity Country Report: Sri Lanka (GSMA 2019), Ownership of the National Identity Card (NIC) is high, reported at 95 percent for men and 90 percent for women, with only small pockets of Sri Lankan society less likely to own a NIC. However, gender issues remain a barrier to access the NIC. The report noted that factors preventing the acquisition of the NIC include birth records being lost or damaged, and literacy. Women are also unlikely to hold a passport or driver's license, thus exacerbating the ID gap.⁴⁶

For AML/CFT/CPF obligations, Rule 27 in the Financial Institutions (CDD) Rules, No. 1 of 2016 specifies that the acceptable ID verification documents are official personal identification or any other identification document that bears a photograph of the customer. For

instance, national identity card, valid passport, or valid driver's license.

The acceptable ID documents for banks and other financial institutions regulated by the Central Bank of Sri Lanka are those mentioned above. For the purpose of financial inclusion, microfinance institutions, cooperative societies and other semi-formal financial inclusion service providers accept ID documents issued by other independent and reliable sources, given the financial products are limited and have monetary thresholds. For example, in such instances, a pensioner's photographic ID which carries a national identity card number is accepted.

Traditionally, while new customers may complete a new customer application form online, the account opening process cannot be completed until the customer presents either the NIC, passport, or driver's license (or alternative for non-central bank supervised financial institutions) at a branch or agent of a financial institution. To overcome this obstacle, Sri Lanka issued the Revised Guidelines for Non-Face-to-Face Customer Identification and Verification Using Electronic Interface Provided by the Department for Registration of Persons, No. 3 of 2020 on 30 December 2020. These Guidelines provide alternative methods to meet the requirement of "verification against the original document" for individual customers who are natural persons as detailed in existing CDD rules on both ID and address.

Related to these guidelines is the Central Bank of Sri Lanka's Financial Technology Regulatory Sandbox established in February 2020. Financial institutions using algorithmic authentication must seek FIU approval under the sandbox parameters to undertake remote verification. The sandbox allows for broader use rather than being tied specifically to the guidelines on non-face-to-face electronic verification.⁴⁷ The central bank formed a committee to develop a blockchain-based KYC platform and an open banking proposal. Both initiatives will further facilitate customer onboarding by financial institutions, and therefore, be beneficial for financial inclusion.

44 World Bank. November 2014. Financial Regulation for Financial Inclusion in Paraguay, 30. Available at: <https://enif.FinancialRegulationsforFinancialInclusion.pdf>

45 Sri Lanka Department for Registration of Persons. 2015. NIC Project. Available at: <https://www.drpf.gov.lk/Templates/eNIC.english.Department-for-Registration-of-Persons.html>

46 GSMA. 2019. Digital Identity Country Report: Sri Lanka. GSM Association, 2. Available at: <https://www.gsma.com/mobilefordevelopment/wp-content/uploads/2019/02/Digital-Identity-Country-Report-Sri-Lanka.pdf>

47 Central Bank of Sri Lanka, February 2020. Financial Technology Regulatory Sandbox of the Central Bank. Available at: https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/about/20200214-FinTech-Regulatory-Sandbox-of-CBSL-Framework-e.pdf

NON-FACE-TO-FACE CUSTOMER IDENTIFICATION AND VERIFICATION USING ELECTRONIC INTERFACE

Revised Guidelines for Non-Face-to-Face Customer Identification and Verification Using Electronic Interface Provided by the Department for Registration of Persons, No. 3 of 2020 on 30 December 2020

The guidelines were issued to facilitate verification of identity (verification against the original document) when onboarding non-face-to-face individual customers (natural persons) using the electronic interface provided by the Department for Registration of Persons (DRP). Essentially, the guidelines provide alternative methods to meet the requirement of “verification against original document” for individual customers who are natural persons without the need to physically present the ID documents at a branch or to an agent.⁴⁸

The guidelines are comprehensive and provide a step-by-step approach to electronic or digital verification of the claimed customer identity. They set acceptable standards for digital imagery, customer ownership of the imagery device (e.g. mobile phone), mandatory real time video, staff interface during video, geographic identifier (e.g. GPS), algorithmic authentication, and other measures.

The system is still in its infancy. Once the MOUs are signed by financial institutions with the DRP, the institutions will be given access to the DRP electronic interface via a username and password. The institution will then be able to search for the identification number of the potential customer which has been acquired through the online customer onboarding interfaces or apps. The interface will display the scanned photo and the identification details of the individual for verification.

In terms of privacy, the DRP requires that institutions obtain a customer’s consent to access their identification details from the DRP database. Accordingly, the institutions are taking measures to obtain the consent of customers prior to accessing their details using the DRP interface.

Access by reporting entities include a fee which is currently LKR25.00 per verification - about USD12 cents.

The guidelines provide an exciting development in non-face-to-face onboarding, particularly in light of the physical distancing requirements during the recent COVID-19 pandemic.

7.6. LESSONS LEARNED

The national ID is an excellent source for reliable and independent ID verification. Nevertheless, access to the national ID is not universal. According to the 2021 Global Findex, some 27 percent of adults without a bank account cited the lack of necessary documentation as a barrier to access. And numerous global studies have identified inflexible CDD documentation requirements as an obstacle to financial inclusion.⁴⁹

The objective of Inclusive Financial Integrity is well-served by a flexible approach. As shown by the four countries, while the national ID is the main ID verification document, other ID credentials beyond the national ID, passport or driver’s license are needed for those who do not possess a national ID, particularly low-risk customers of lower risk financial institutions such as microfinance and cooperatives.

Countries should consider amending their AML/CFT/CPF laws or regulations to include a broader list of acceptable ID documentation when the customer cannot provide the national ID. Examples globally include using a suitable referee or referees that would meet the requirement of being independent and reliable. Should the acceptable alternatives be clearly stated, less reporting entities would revert to the national ID for verification purposes. This approach has been used globally to facilitate access to regulated financial services. Importantly, they have been accepted in the mutual evaluation reports of assessment bodies applying the FATF assessment methodology.

Reporting entities’ access to government held ID information requires a legal basis, either by amending an existing law, or promulgating a new law. Clearer guidance or regulations in the form of e-KYC and CDD regulations may further facilitate the uptake of workable solutions in the absence of financial institutions accessing the ID databases of government authorities. The regulation or guidance will need to address related issues such as management of identity fraud, data protection, and data privacy measures.

LAW - REMOTE ID VERIFICATION

REGULATION - REMOTE ID VERIFICATION

GUIDANCE - REMOTE ID VERIFICATION

48 Central Bank of Sri Lanka. 2020. Revised Guidelines for FIC. Available at: <http://fiusrilanka.gov.lk/docs/Guidelines/2020/Guideline-03-2020.pdf>

49 Alan Gelb and Diego Castrillon. December 2019. Identifying and Verifying Customers: When are KYC Requirements Likely to Become Constraints on Financial Inclusion? Centre for Global Development, Working Paper 522, 1. Available at: <https://www.cgdev.org/publication/identifying-and-verifying-customers>

8. SIMPLIFIED CUSTOMER DUE DILIGENCE

8.1. INTRODUCTION

Under FATF Recommendation 10, financial institutions are required to assess the risk of customers and apply the appropriate level of due diligence, as follows:

RELATIONSHIP BETWEEN CUSTOMER RISK AND LEVEL OF CDD

SIMPLIFIED LOWER RISK	STANDARD MEDIUM RISK	ENHANCED HIGHER RISK
--------------------------	-------------------------	-------------------------

For higher-risk customers, enhanced due diligence is mandatory, while for lower-risk customers, simplified due diligence is optional. The FATF standards stipulate the conditions under which a country may apply simplified CDD, but not that simplified measures must be applied.

The FATF standards do state that a range of possible simplified due diligence measures are acceptable, as summarized in the table below.

SIMPLIFIED CDD MEASURES ON CUSTOMERS⁵⁰

- a) Collecting only the essential customer information, i.e. full name, ID document details
- b) Delaying the verification of customer identity (and beneficial ownership) after the opening of the account subject to a monetary transaction threshold or account functions
- c) Accepting a broader range of ID documents that may be regarded as reliable and independent
- d) Reducing the degree of ongoing CDD updates and account monitoring
- e) Not collecting information on the purpose of the relationship but inferring the purpose by the account and transactions to be used
- f) Not requiring address verification
- g) Accepting natural person customers as the beneficial owner

NOT if there is suspicion of money laundering or terrorism financing

Simplified due diligence must include identification and verification of the customer. Not verifying the ID will not meet the FATF standards, unless there is a formal exemption from the AML/CFT/CPF obligations based on proven low-risk. As noted, verification could be delayed, and restrictions placed on the account until verification has been completed. Simplified due diligence should not include the requirement for source of wealth or funds. Under the FATF standards, this is associated with enhanced due diligence for higher-risk customers. If there are doubts on the customer's source of wealth or funds, then it is unlikely the customer is a lower-risk customer. Simplified due diligence cannot be applied if there is suspicion of money laundering or terrorism financing, irrespective of whether or not the product (e.g. basic savings account) or the customer is in the target group for financial inclusion purposes.

The FATF explicitly includes as one lower-risk example "financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes." Accordingly, it could be reasonable to apply simplified CDD measures for products fulfilling these conditions, provided that lower-risk circumstances have been confirmed, based on a risk assessment, conducted at the national, sectoral or at the institutional level.⁵¹



8.2. NAMIBIA

In line with the Financial Sector Strategy and dovetailed with the AML/CFT regulations and guidance, the Bank of Namibia in consultation with the banking industry, introduced the Basic Bank Account (BBA) in 2015. The BBA is targeted at individuals earning NAD2,000 (about USD173) per month or less. No proof of income is required to open an account, and there are no monthly fees charged by banks. Simplified CDD applies in ID verification using the national ID and address verification is not required.

The Bank of Namibia and the four major banks in the country at the time issued a joint promotional brochure of the benefits of having a BBA. The four banks have different names for the basic bank account, such as the FNB CardWise Zero, Bank Windhoek's EasySave account and Nedbank4All.⁵²

50 FATF. 2012. The FATF Recommendations (Updated June 2021). Available at: <https://www.fatf-gafi.org/fatfrecommendations>

51 FATF. 2017. Guidance on AML/CFT Measures and Financial Inclusion. Available at: <https://www.fatf-gafi.org/publications/fatfgeneral/documents/financial-inclusion-cdd-2017.html>

52 Bank of Namibia. 2012. Introducing the Basic Bank Account. Available at: <https://www.bon.com.na/CMSTemplates/Bon/Files/bon.com.na/f7/f765385d-e87d-4807-84aa-7dfe00344b66.pdf>

The importance of the BBA was reaffirmed in the Bank of Namibia Determination Under the Payment System Management Act 2013, No 516 of December 2009. The determination clearly states in Article 6 that the provision of a BBA and depositing cash free of charge is an initiative that would encourage more Namibians to become part of the formal financial ecosystem and is aimed at removing excessive fees which were a barrier to access.⁵³

All commercial banks have introduced the BBA. Based on statistics collected on the financial inclusion module as part of the NRA updates in 2020, the number of BBAs increased from 192,610 in 2020 to 251,969 by April 2021. Statistics are not available for earlier years.

TABLE 1: VOLUME OF ACTIVE BBA ACCOUNTS OVER THE YEARS⁵⁴

YEAR	VOLUME (NUMBER OF BBA ACCOUNTS)
2019	Data not available
2020	192,610
2021 (APRIL)	251,969

The Bankers Association of Namibia Code of Banking Practice is committed to delivering certain special product or service offerings that are specifically designed for members of a target market group, for example, products aimed at previously unbanked Namibians and low-income earners such as the BBA.⁵⁵

The Financial Intelligence Centre Guidance Note of December 2015 highlighted that banks should develop graduated customer acceptance policies and procedures, noting the importance of a risk-based approach to customer acceptance policies and that they should not be unduly restrictive to deny access to banking services, especially for people who are financially or socially disadvantaged. The Guidance recommended that minimum CDD be applied when opening an account for individual customers with small account balances, except in the case of suspicion of money laundering or terrorism financing, consistent with the regulations.

8.3. MONGOLIA

As previously mentioned, Mongolia's focus on simplified due diligence is articulated in the business plans or strategies of the Bank of Mongolia and Financial

Regulatory Commission. The agency level strategic goals overcome the absence of a national financial inclusion strategy and the absence of a financial inclusion objective in its 2017-2019 National AML/CFT Strategy. Article 5.5. in the AML/CFT law of Mongolia, as amended in 2020, introduced the principle of risk-based, simplified CDD. The amendments to the AML/CFT law removed the rules-based approach which previously only provided simplified due diligence in very limited circumstances, and not for natural person customers.

The Bank of Mongolia AML/CFT Preventive Measures Regulation of January 2021 permits risk-based simplified due diligence, except where there is a suspicion of ML or TF. Financial institutions and other reporting entities are permitted to apply simplified due diligence measures for customers assessed as lower-risk. Simplified CDD measures could include, but are not limited to, reducing the frequency of customer identification updates and reducing the degree of ongoing monitoring and scrutinizing of transactions.

The Preventive Measures Regulation signifies significant progress to advance Inclusive Financial Integrity in Mongolia. The reference to "not limited to" provide greater flexibility for financial institutions to apply the risk-based approach. Nevertheless, the only acceptable ID verification documentation is limited to the citizen ID or passport.

While the AML/CFT regulatory framework provides reporting entities discretion to apply simplified due diligence where there is proven lower-risk, at this stage, Mongolia has not prescribed specific financial products as suitable for simplified CDD. The financial inclusion component of the NRA 2020 examined financial products suitable for a focused approach and further identified that inclusive insurance products and micro products for low-income and vulnerable people could be suitable.⁵⁶

53 Bank of Namibia. 2009. Determination Under the Payment System Management Act 2013. Available at: <https://gazettes.africa/archive/na/2013/na-government-gazette-dated-2013-12-03-no-5355.pdf>

54 Bank of Namibia, PSSD.55

55 Bankers Association of Namibia. 2013. Code of Banking Practice in Namibia. Available at <https://www.bon.com.na/Publications/The-Code-of-Banking-Practice-in-Namibia.aspx>

56 FRC Resolution No. 407 of 2015 states that "Inclusive insurance" is defined as a voluntary insurance product intended to cover every citizen, the terms and conditions of the insurance contract are simple, and the amount of insurance premiums and number of conditions for refusal to indemnify are small.



The financial inclusion section included recommendations to develop a more enabling regulatory environment for simplified due diligence for lower ML and TF risk products and services, and formulate a manual for reporting entities explaining steps to conduct simplified CDD. There are plans for a detailed simplified due diligence and guidance manual as part of the Action Plan annexed to the new National AML-/CFT/ CFP Strategy 2022-2026.

While no specific products have been designed or prescribed, as mentioned, Mongolians access to bank accounts has been partly driven by the government's annual cash transfers to its citizens which required commercial banks to open accounts for all eligible citizens, without a service fee. In this context, this broader wealth transfer policy has essentially achieved the same goal as the aim of simplified CDD.

8.4. PARAGUAY



The implementation of simplified due diligence is an objective in both the PEEP and the NFIS. Both strategies are aligned on this objective. A key performance indicator in the financial inclusion strategy involves issuing clear guidance on what is, and what is not needed to open a regular savings account.

There have also been a number of regulatory initiatives on simplified due diligence. SEPRELAD in 2013 introduced resolution 349/2013 to allow banks to offer simplified BBAs. Customers can open a simplified account with only a national ID and a signed form. There is no monthly maintenance fee and no minimum opening amount or balance. Customers are allowed at least three balance inquiries and four withdrawals monthly via ATM, agents, or other branchless banking mechanisms (e.g. mobile devices, internet) free of charge. SEPRELAD resolution No. 269 of 25 August 2014 further called upon all financial institutions supervised by the Central Bank of Paraguay to adopt simplified verification measures for customers assessed as lower-risk, noting that some time had elapsed since the promulgation of the PEEP. The focus is on simplifying the verification process for ID documentation for lower-risk customers.

SEPRELAD resolution 70/2019 issued in March 2019 provided detailed regulations for simplified due diligence. Articles 26-28 state that obliged subjects may apply the simplified due diligence of its natural person customers classified as "Low-Risk", who use the savings account for national currency transactions, credit cards, exchange operations, and transfers received

as family assistance. There are separate monetary thresholds specified for a basic savings account, exchange operations and transfers, with a two-tier structure for basic savings accounts.

According to a GMSA report, a customer may open a mobile money account in Paraguay by allowing the customer to register by taking a photo of their ID card and a photo of themselves and sending the two in together.⁵⁷ In general, the required information includes the full name, type of ID document and its number and address. The language does not specify the national ID. There is no requirement to verify the address, just the ID.

8.5. SRI LANKA



The National AML/CFT Strategy 2015-2020 included the goals of identifying financial inclusion products and promoting awareness of financial inclusion. There was a specific action item or objective on issuing rules on simplified due diligence for financial inclusion products and low-risk groups.

Sri Lanka's NRA did identify financial inclusion products offered by financial institutions, although they were limited. The Central Bank of Sri Lanka did not prescribe these as the focus of simplified CDD. Instead, it identified major reasons precluding the supply of financial inclusion products, such as compliance costs associated with detailed CDD obligations, and made recommendations to enact simplified due diligence measures as one response. The CDD rules were amended in 2016 to provide for simplified CDD commensurate with the risk. Simplified CDD includes delayed verification for low-risks, except where there is suspicion of ML and TF, or specific higher risk scenarios. The rules do not mandate that low-risk must be identified through an adequate analysis of risks by the country or finance business. There are no other simplified due diligence measures permissible in the rules.

The regulatory framework is sufficiently flexible to allow the identification provided during SIM card registration in Sri Lanka to be used to open a basic mobile money account.

⁵⁷ GMSA. 2019. Overcoming the Know Your Customer Hurdle: Innovative Solutions for the Mobile Money Sector. Available at: <https://www.gmsa.com/overcoming-the-know-your-customer-hurdle-innovative-solutions-for-the-mobile-money-sector/>

These accounts may hold balances up to LKR10,000 (USD877) and allow transfers of up to LKR5,000.⁵⁸ Sri Lanka is in the process of updating its financial inclusion product risk assessment as a part of the new NRA. More detailed guidance will be issued once the update is completed.

8.6. LESSONS LEARNED

The four countries have taken a mixed approach in regulating simplified due diligence. All have established the legal basis for simplified due diligence in their AML/CFT/CPF laws or regulations and some countries have also proactively “designed” or identified a financial product and established parameters for its use. Both are risk-based and not mutually exclusive.

In the context of a risk-based approach, directives issued by regulatory authorities whereby they design, identify or prescribe a low-risk product (e.g. basic bank account) suitable for simplified due diligence may be more supportive of financial inclusion. Such an approach has the added advantage of mitigating ML and TF risks through a tiered structure, and prescribing an acceptable account fee structure. This should be combined with flexibility for financial institutions to undertake simplified due diligence where low-risk is proven.

Globally, countries are becoming more interventionist in supporting access to the formal financial sector for their citizens and residents, at least to a basic bank account. For example, the European Union Parliament enacted a Payment Accounts Directive in 2014 that established a legal right for all persons legally residing in the European Union to hold a basic bank account. Of course, the AML/CFT/CPF obligations must still be met before the account is opened.

It is unclear to what extent financial institutions have adopted risk-based simplified due diligence beyond the above circumstances. Risk-based simplified due diligence is more likely to be adopted when dealing with publicly-listed companies, government authorities and regulated financial institutions, as they are generally accepted as low-risk customers.

Beyond the issuance of directives to provide financial inclusion products, regulatory authorities will need to provide further incentives or guidance for the adoption of simplified due diligence based on financial institutions own customer or product risk assessments. These incentives could be through the use a regulatory

sandbox approach on simplified due diligence where a certain level of regulatory safe harbor is provided. Alternatively, this may involve the issuance of sanctions for the failure to implement simplified due diligence.

The FATF and national AML/CFT/CPF supervisors should issue more detailed guidance on simplified due diligence, while FRSBs could provide greater technical assistance and training in this area. The four countries, like most other, have disseminated guidance documents on higher risk situations, which is understandable as mitigation measures on higher risk customers and transactions are mandatory, but less so for simplified due diligence. This focus on higher risk mirrors that of the FATF network and national AML/CFT/CPF supervisors.

The simplified CDD measures should include the full scope allowed under FATF Recommendation 10, such as a broader list of acceptable ID verification documentation and other reduced measures as mentioned in the introduction section of this chapter. Simplified CDD could include acceptance of smartphone applications to undertake biometric verification, even in the absence of direct access to government ID databases. This may reduce the onboarding costs for this category of customers.

As indicated in the chapter on CDD, there is sufficient flexibility in the AML/CFT/CPF regulations of some case study countries to accept scanned copies of ID documents as a form of ID verification for lower-risk customers. This alone would not meet the FATF requirement of reliable and independent because of the greater risk of false presentation through tampering with the original ID. In combination with other measures, such as a selfie or video call, specifying the resolution of the scanned copy, or asking for multiple scanned ID documents from different sources (e.g. national ID, employee ID), this may further mitigate any risk, noting there should be proven low-risk before a scanned copy is accepted. Moreover, the functionality of the account can be limited to basic tier one, with progression to broader functionalities dependent on physical confirmation of a national ID at a branch or with an agent.

58 Ibid.

9. MOBILE MONEY AND INCLUSIVE FINANCIAL INTEGRITY

9.1. INTRODUCTION

FATF Recommendation 10 requires ongoing CDD. In practice, mobile money enables more efficient ongoing transaction monitoring and CDD. This chapter examines the extent to which mobile money supports ongoing account usage, once open, particularly by lower-income groups, as not all accountholders are active users of their financial accounts. The earlier chapters cover Inclusive Financial Integrity at the customer onboarding stage.⁵⁹

WHAT IS MOBILE MONEY?

Mobile money, defined as the provision of financial services through a mobile device, covers financial services without a bank account such as mobile banking, using a mobile or similar device to access and execute banking services, including check deposits, balance inquiries, and payment transfers.⁶⁰ For ease of reference, mobile money in this chapter also covers mobile banking.

WHY IS MOBILE MONEY IMPORTANT?

Mobile money, typically associated with transaction accounts held by the payee or payer (e.g. between family members), offers functionalities and lower costs suited to the financial excluded. It is critical in the context of removing geographic or COVID-19 health restrictions to access financial services. Mobile phones, which have become a vital tool in promoting financial inclusion to the unbanked in developing countries, compensate for inadequate infrastructure namely the lack of branches or physical agents, poor roads, slow postal services, or the stay-at-home orders during COVID-19.

Accessing mobile money is not conditional on internet access. This flexibility removes some of the digital barriers associated with poor internet access or the digital divide by disadvantaged members of society. Lower-income groups typically have mobile phones and are familiar with its use. Of course, internet access provides for more complete use of the benefits of mobile money as the available functionalities on a

mobile phone are much more limited, although it does provide the critical transfer of funds - payments and receipts.

9.2 NAMIBIA



The penetration rate of mobile phones for Namibians is double that of internet access. There were 2.94 million mobile connections in Namibia in January 2021, equivalent to 115 percent of the total population. By comparison, there were only 1.31 million internet users in January 2021 which was 51 percent of the total population.⁶¹ This major difference is important in how financial services are delivered to lower-income segments in society.

The Bank of Namibia's support for digital payments and financial inclusion is reflected in the Namibia National Payment System Vision and Strategy 2021-2025, which launched in February 2021 and aims to increase the number of un- and underbanked consumers in the national payment system.

The latest strategy builds on the earlier National Payment System Vision 2015 that aimed to promote access to payment services by providing market access to non-banks that offer alternative innovative payment services such as mobile money. The legislative basis is the Payment Systems Management Act 2010. Under this framework, the Bank of Namibia licensed providers of e-money, including those using mobile applications.⁶²

The supportive regulatory environment has led to significant changes. According to the Namibia Financial Inclusion Survey 2017, 28.2 percent of the adult population used mobile phone banking, 29.4 percent had wallet accounts (Mobipay, Ewallet, Bluewallet, Easy Wallet) and 12.4 percent had access to internet banking. These figures are consistent with the very high rate of mobile phone ownership, compared to significantly lower internet access. Mobile phone banking transactions were reportedly conducted 1-5 times per month by 35.3 percent of account holders.⁶³

59 FATF. 2017. Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion. Available at: <https://www.fatf-gafi.org/publications/fatfgeneral/documents/financial-inclusion-cdd-2017.html>

60 International Monetary Fund. Available at: <https://datahelp.imf.org/knowledgebase/articles/1906552-fas-what-is-mobile-money-how-is-it-different-from-mobile-banking>

61 Simon Kemp. February 2020. Digital 2020: Namibia. Available at: <https://datareportal.com/reports/digital-2020-namibia>

62 Bank of Namibia. January 2019. Understanding the Namibian National Payment System. Available at: <https://www.bon.com.na/Bank/Payments-and-Settlements/Understanding-the-National-Payment-System.aspx>

63 Namibia Financial Inclusion Survey (NFIS). 2017. Namibia Statistics Agency, 68-69. Available at: <https://nsa.org.na/microdata1/index.php/catalog/32>

The Bank of Namibia, when granting the certificate of authorization, described Mobicash Payment Solutions as “a truly innovative solution towards promoting financial inclusion to cover the unbanked and underbanked population in Namibia”. The central bank noted that half of the Namibian adult population has limited access to basic financial services and live predominantly in rural areas with very little access to basic financial services, such as payment facilities. In addition, there is very little incentive for conventional banks to venture into services for those with little access to banking services. The Bank of Namibia added that, “The extensive costs of establishing branch networks and other problems related to banking further compounded these problems and obstructs the penetration and reach of conventional banks into remote areas.”⁶⁴

9.3 MONGOLIA



The level of internet access is quite high in Mongolia, although still lower than mobile phone ownership. There were 4.469 million mobile connections in Mongolia in January 2021 which was equivalent to 141.8 percent of the total population. By comparison, there were 2.6 million internet users in January 2021 which was 78.7 percent of the total population.⁶⁵

Based on the 2021 Global Findex 59 percent of adults had a mobile money account, compared to just 22 percent in 2017. Importantly, zero percent adults had an inactive account. In terms of usage, 97 percent of accounts holders used their accounts for receiving or making digital payments. The growth in use of mobile money reflects the country’s enabling regulatory framework. Under the Law on the National Payment System 2018 and associated regulations on mobile banking, the Bank of Mongolia licenses e-money and e-money providers. The acceptable payment instruments include mobile banking and e-money.⁶⁶ Mobile banking serves as the backbone of retail banking in Mongolia and has been strongly supported by the Mongolian Bankers Association’s Mongolian Sustainable Finance Principle Guidelines, issued in 2014, which includes a focus on promoting financial inclusion.⁶⁷

In addition to mobile banking services by the banking sector, according to the NRA 2002, up to 31 non-bank financial institutions are reportedly providing electronic payment and remittance services. About 54 percent of customers use one provider engaged in an electronic money service. Customers mostly conduct transactions via non-bank financial institutions to transfer money to their family members.

POWERING MOBILE BANKING IN MONGOLIA

Khan Bank, Mongolia’s largest bank, provides banking services to an estimated 70 percent of Mongolian households. Over half of their customers utilize mobile banking as the bank’s mobile phone apps allow migratory herders to conduct sales transactions remotely.

Khan Bank provides financial services to the rural poor, people that would otherwise lack access to banking services. In many cases, this includes families involved in the production and sale of agricultural products in extremely remote parts of the country, living in marginal households.

9.4 PARAGUAY



There were 7.2 million mobile connections in Paraguay in January 2021 which was equivalent to 100.3 percent of the total population. By comparison, there were 4.92 million internet users which was 68.5 percent of the total population.⁶⁸ According to the financial inclusion survey 2013, 29 percent of adults reported having sent or received money from family or friends living in a different area within Paraguay in the previous year. Approximately 80 percent of senders and 70 percent of receivers reported having used mobile money services for those transactions. About 10 percent of those sending or receiving domestic remittances reported using money transfer services while fewer than five percent reported using banks.

In terms of trends, based on the 2021 Global Findex Database, 38 percent of the adult population had a mobile money account. Importantly, only 3.8 percent on average of an account or financial accounts were inactive in the previous year.

51%

Primarily 51 percent of accountholders used their accounts for receiving or making digital payments.

64 Balancing Act Africa. 2010. MobiPay Now Officially Open in Namibia. Available at: <https://www.balancingact-africa.com/news/telecoms-en/20002/mobipay-now-officially-open-in-namibia>

65 Simon Kemp. February 2021. Digital 2021: Mongolia. Available at: <https://datareportal.com/reports/digital-2021-mongolia?rq=mongolia>

66 Bank of Mongolia. Payment System in Mongolia. Available at: <https://www.mongolbank.mn/paymentsystem>

67 Mongolian Bankers Association - Mongolian Sustainable Finance Principle Guidelines. 2014. Available at: https://www.ifc.org/wps/wcm/connect/05296e6c-86e0-4475-ae0e-2020dca900b/MBA_Principles-and-Guidance-Notes-Mongolia_Final.pdf?MOD=AJPERES&CVID=kKZr0cX

68 Simon Kemp. February 2021. Digital 2021: Paraguay. Available at: <https://datareportal.com/reports/digital-2021-paraguay?rq=paraguay>

The growth in mobile money or banking has been supported by an enabling regulatory framework. The Central Bank of Paraguay introduced new regulations on electronic payments in 2014 covering mobile network operators providing financial services such as transfers, payments and electronic wallets.

9.5 SRI LANKA



There were 30.41 million mobile connections in Sri Lanka in January 2021 which was equivalent to 141.7 percent of the total population.[±] By comparison, there were 10.9 million internet users which was 50.8 percent of the total population.

Despite the enabling environment, high mobile phone ownership and reasonable level of internet access, the National Financial Inclusion Survey 2018-19 discovered a low ownership of mobile money. Even though over 80 percent of Sri Lankans surveyed had mobile phones and mobile money services were available to 90 percent of mobile phone subscribers, only two percent of adults in Sri Lanka actually owned a mobile money account. There is also low regular usage of mobile money accounts. The most common reasons for non-usage by account holders were the lack of need and knowledge on how to use mobile money.

79%

There was additionally a gender gap, as 86 percent of men compared with 79 percent of women owned a mobile phone.

The survey findings indicated that while 62 percent of women said they were aware financial transactions could be conducted through a mobile phone, only 32 percent claimed being comfortable doing so - pointing to the potential contribution that improved digital literacy and digital financial awareness could make to increase mobile money usage.

The study entitled, Sri Lankan Customers' Behavioural Intention to Use Mobile Banking: A Structural Equation Modelling Approach, revealed that the adoption or use of online banking and mobile banking (including telephone banking, etc.) with the exception of ATM services by customers, was very insignificant at less than one percent. Since customers have poor awareness or understanding of these services, it has been challenging for financial institutions to migrate them to digital channels, such as mobile banking.⁷⁰

The Central Bank of Sri Lanka has responded by adopting a more enabling environment. When mobile

money services were initially introduced, the Central Bank of Sri Lanka required that all users have a bank account. When the uptake of these services was observed as being low, the central bank revised its regulations in 2011 releasing 'Mobile Payments Guidelines No. 1 of 2011 for the Bank-led Mobile Payment Services' and 'Mobile Payments Guidelines No. 2 of 2011 for Custodian Account Based Mobile Payment Services'. They essentially opened the market to non-banks, such as mobile network operators, and encouraged interoperability within the system.

The revised regulations allowed customers to register for mobile money accounts without a bank account and helped a leading mobile money service provider increase its registered user base to one million in 2012.

The above findings were prior to the COVID-19 pandemic. As noted in the Central Bank of Sri Lanka's Annual Report 2020, most banks and financial institutions encouraged their customers to use online financial services to minimize their visits to bank branches. This resulted in increased usage of online banking websites and mobile banking applications.

9.6. LESSONS LEARNED

The enactment of a payment law and regulations, together with a national payment strategy inclusive of mobile money and financial inclusion, are essential foundations to leverage the potential benefits from high mobile phone ownership. Nevertheless, certain obstacles remain, and greater financial literacy and education are important to achieve the full benefits of mobile money. Given the lockdowns and movement restrictions in response to COVID-19, the use of mobile money provides a safer means of accessing and using financial services. While there has been no comprehensive study on this topic, anecdotal information suggests this is the case.

The lack of guidance or regulations on non-face-to-face onboarding, including the acceptance of high-resolution scanned ID documents for low-risk customers with risk mitigation measures (e.g. account functionalities limited until the ID is verified in-person) deters the adoption of lower cost solutions.

69 Simon Kemp. February 2021. Digital 2021: Sri Lanka. Available at: <https://datareportal.com/reports/digital-2021-sri-lanka>

70 Samsudeen Sabraz Nawaz and Fadhilah Bt Mat Yamin. 2018. Sri Lankan Customers' Behavioural Intention to Use Mobile Banking: A Structural Equation Modelling Approach, Journal of Information Systems & Information Technology (JISIT), Vol. 2 No. 2, 2. Available at: https://www.academia.edu/35884227/Sri_Lankan_Customers_Behavioural_Intention_to_Use_Mobile_Banking_A_Structural_Equation_Modelling_Approach

10. RISK-BASED SUPERVISION AND INCLUSIVE FINANCIAL INTEGRITY

10.1. INTRODUCTION

FATF Recommendation 26 on the regulation and supervision of financial institutions articulates a risk-based approach for AML/CFT/CPF supervisors. By default, the focus is on higher risk sectors, reporting entities and products or services.

Risk-based supervision of lower-risk sectors is also important from a financial inclusion perspective. Disproportionate legal or regulatory obligations, supervisory expectations and the lack of guidance from supervisors may result in the application of unnecessarily prohibitive CDD in lower-risk sectors or customers, increasing the cost of products and services, and eventually undermining financial inclusion objectives. From an all-inclusive perspective, excessive AML/CFT/CPF obligations may increase overall ML/TF/PF risks.⁷¹

At the sectoral or sub-sectoral level, a risk-based approach includes focusing more supervisory resources on higher-risk reporting entities, namely more frequent and intensive onsite visits. A lesser focus on lower-risk scenarios is not inconsistent with the FATF standards of

a risk-based approach. Relatively lower-risk institutions, such as savings and loan, are spared the burden of regular onsite inspections, which are resource intensive for both the supervisory authorities and financial institutions (or any reporting entity).

At the institutional level, AML/CFT/CPF supervisors normally focus on higher risk products, services and customers. Any gaps in enhanced due diligence or standard due diligence are identified and recommendations are made to improve compliance and effectiveness.

What is not clear is the extent of supervisory examinations of low-risk scenarios where simplified due diligence applies. Examinations may be limited to merely compliance, i.e. based on risk assessments to prove low-risk and adherence to any tiered thresholds, and may not extend to how well financial institutions are implementing simplified due diligence, and on the effectiveness of simplified due diligence in meeting financial inclusion objectives.

While many financial sector supervisors also promote financial inclusion, specifically financial literacy and access, they may lack a clear supervisory mandate or procedures. Even if a mandate is specified, it may not be within the remit of the AML/CFT/CPF supervisory procedures.⁷²

⁷¹ FATF. 2021. Guidance for A Risk-Based Approach to Supervision. Available at: <https://www.fatf-gafi.org/media/fatf/documents/Risk-Based-Approach-Supervisors.pdf>

⁷² Bank for International Settlements. 2015. IFC Report No. 5. Measures of Financial Inclusion - a Central Bank Perspective. Available at: https://www.bis.org/ifc/publ/ifc_finan_inclu.pdf



Femal returning to education to expand her business, Paraguay. (Fernanda_Reyes/Shutterstock)

10.2 NAMIBIA



There are two authorities designated to supervise the financial sector for compliance with the Financial Intelligence Act 2012 obligations. The Financial Intelligence Centre in the Bank of Namibia is the primary supervisor for financial institutions licensed by the Bank of Namibia, which includes banks, currency exchangers, and payment providers. The Financial Intelligence Centre is also the designated supervisor for designated non-financial businesses and professions.

The Financial Intelligence Centre has primary carriage of financial inclusion concerns and, therefore, Inclusive Financial Integrity. The Financial Intelligence Centre employs a risk-based approach to supervision. It had 2,058 accountable or reporting institutions subject to AML/CFT/CPF in 2020.

Of those, the 12 banks, seven lending institutions and six money and value service providers were more relevant for financial inclusion.⁷³

The Namibia Financial Institutions Supervisory Authority (NAMFISA) is the designated supervisor for non-bank financial institutions other than those licensed by the Bank of Namibia. NAMFISA is responsible for licensing microlenders, friendly societies, investment managers, collective investment schemes, pension funds, medical aid funds, short-term insurance and long-term Insurance. Of these, microlenders are the most relevant for financial inclusion.

NAMFISA's Anti-money Laundering and Inspections Department in the Market Conduct Division, as the lead department for AML/CFT/CPF supervision, coordinates its supervisory activities with the Financial Intelligence Centre. NAMFISA prepares and implements an annual Supervisory Plan aimed at guiding its supervisory activities, including offsite supervision and onsite inspections.

Both the Financial Intelligence Centre and NAMFISA apply a risk-based approach to supervision, focusing on the higher risk banking sector and other sectors. There is a reduced focus on lower risk institutions, such as microlenders, lessening their regulatory burden.

The Financial Intelligence Centre onsite examinations of the banking sector include examining whether proper account parameters and mitigating measures are in place commensurate with risks identified for the Basic Bank Account, i.e. the threshold amount is not exceeded to maintain Inclusive Financial Integrity.

There is not, however, a focus on how well, and to what extent, simplified due diligence is being implemented, beyond a compliance focus.

10.3 MONGOLIA



The Bank of Mongolia regulates and conducts AML/CFT/CPF supervision of the banking sector, while the Financial Regulatory Commission is responsible for NBFIs, insurance companies, securities, and savings and credit cooperatives. Both apply a risk-based approach to AML/CFT/CPF supervision. Given their low-risk rating, savings and cooperatives are not burdened with onsite inspections, but still subject to offsite supervision. The focus of both supervisors is on higher risk sectors.

With the January 2021 amendments to the Bank of Mongolia AML/CFT regulations to support risk-based simplified CDD, it is too early to comment on the supervision of simplified due diligence. Previously, simplified CDD regulations were rules-based, but limited to government entities, publicly-listed companies or reporting entities.

10.4 PARAGUAY



SEPRELAD is the designated government agency disseminating all AML/CFT/CPF regulations on obliged entities or subjects including banking, financial entities and electronic payment companies supervised by the Superintendency of Banks in the Central Bank of Paraguay; insurance and brokerages houses supervised by the Superintendence of Insurance in the Central Bank of Paraguay; securities participants supervised by the National Securities Commission (SNV); cooperatives by the National Institute of Cooperatives (INCOOP); in addition to fund remitters and pawnbrokers supervised by SEPRELAD itself.⁷⁴

The main financial sector supervisors have implemented risk-based supervision. The Superintendence of Banks includes in its supervision, questions about low-risk products (for example, basic savings account) and implementation of simplified due diligence as part of its offsite and onsite AML/CFT/CPF supervision. The subject of identity documentation is also examined for compliance.

⁷³ Financial Intelligence Centre. 2020. FIC Annual Report 2019-2020, 36. Available at: <https://www.fic.na/uploads/Publications/AnnualReports/FIC-Annual-Report-2019-2020.pdf>

⁷⁴ World Bank. November 2014. Financial Regulation for Financial Inclusion in Paraguay, 3. Available at <https://enif.FinancialRegulationsforFinancialInclusion.pdf>

10.5 SRI LANKA



Under Section 18 of the Financial Transaction Reporting Act, the relevant supervisory authority for each sector undertakes general AML/CFT/CPF supervision of their licensed financial institutions. Supervision by sectoral regulators, however, is more general in nature and the Financial Intelligence Unit is the main agency for AML/CFT/CPF supervision.

Sri Lanka has continued advancing its risk-based supervision of financial institutions. Beyond financial institutions supervised by the Central Bank of Sri Lanka, there are co-operative rural banks and thrift and credit co-operative societies regulated by the Department of Cooperative Development, with Divinaguma Banks being regulated by the Department of Divinaguma Development. These are all regulated under the Microfinance Act No. 6 of 2016. AML/CFT/CPF offsite and onsite supervision includes examining the procedures of financial institutions to ensure they comply with AML/CFT/CPF obligations. On financial inclusion, questions about available products and related simplified CDD are included in the offsite risk assessment questionnaire, and are further examined during onsite inspections.

The findings from onsite and offsite inspections have confirmed compliance with minimum CDD and the tiered account structure.

Financial institutions are implementing delayed verification; reducing the frequency of customer identification updates; lessening the degree of ongoing monitoring; scrutinizing transactions based on a reasonable monetary threshold on volume and frequency of transactions; and not collecting specific information to understand the purpose and intended nature of the business relationship on each and every transaction, given the purpose can be inferred from the financial inclusion product.

10.6. LESSONS LEARNED

The four countries have demonstrated that a risk-based approach supports financial inclusion. Lower-risk financial institutions that have predominately lower-income customers are also less well resourced. Those financial institutions, e.g. micro lenders in Namibia, savings and loans cooperatives in Mongolia, microfinance in Sri Lanka and cooperatives in Paraguay, servicing the lower-income segments of society - do not have the same regulatory burden as higher risk sectors and institutions. They are still required to implement AML/CFT/CPF obligations and subject to onsite inspections; the latter on a less regular basis or as required.

For the banking sector, AML/CFT/CPF supervisors may consider broadening their examinations of simplified due diligence to cover whether the adoption rate is reasonable, or ask to what extent the financial institution has applied simplified due diligence on low-risk customers so that limited compliance resources are better deployed on higher-risk customers. While supervisors may promulgate simplified due diligence for low-risk customers or a financial product, financial institutions may not apply simplified due diligence. The regulatory focus and sanctions on the lack of implementation may incentivize financial institutions.

Additionally, examinations could include whether the existence of other measures for low-risk customers negatively impacted the risk-based approach and financial inclusion. While the additional requirements for source of income or address verification aim to adhere to an AML/CFT/CPF approach, they nevertheless could inhibit financial inclusion. Similar to higher-risk scenarios, where there has been insufficient or inaccurate implementation of simplified due diligence, supervisors should engage with the financial institutions to understand the reasons and make recommendations.

11. FINANCIAL INCLUSION AND THE MUTUAL EVALUATION PROCESS

11.1. INTRODUCTION

Members of the FATF or FSRBs are required to undergo a mutual evaluation for compliance with the 2012 FATF Recommendations. The FATF and FSRBs must use the FATF 2013 Assessment Methodology and follow the FATF universal procedures on mutual evaluations.

None of the four countries are members of the FATF but are members of FSRBs. Mongolia and Sri Lanka are members of the Asia-Pacific Group on Money Laundering (APG); Namibia is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG); and Paraguay is a member of the Financial Action Task Force of Latin America (GAFILAT).

While risk-based CDD was also part of the former FATF standards and assessment methodology, Recommendation 1 on risk assessments and the risk-based approach was introduced in the revised FATF Standards 2012 and assessment methodology 2013. FATF Recommendation 1 provides for an exemption or reduction in AML/CFT/CPF measures in proven low-risk scenarios. Under the mutual evaluation process, the

assessment team examines technical compliance with simplified due diligence for low-risk scenarios under FATF Recommendation 1 and simplified CDD under FATF Recommendation 10 for financial institutions.

The effectiveness assessment component does not include any core issues that address financial inclusion or inclusive financial integrity. That said, the core issues on risk assessments, supervision and preventive measures are sufficiently broad to allow for its inclusion. Under the FATF assessment methodology and the FATF universal procedures, references are made to both higher- and lower-risks. Specifically, the universal procedures require that assessment teams and assessed countries agree on a two-page scoping paper on areas of both higher and lower focus.

From a financial inclusion perspective, there are both advantages and disadvantages of the scoping note. A minimum focus on lower-risk sectors, such as cooperatives, will lessen the regulatory burden, e.g. no need to provide information for the mutual evaluation process and meeting the assessment team. Conversely, the lack of focus on how well, and to what extent, risk assessments have been used to exempt or reduce AML/CFT/CPF measures in proven low-risk scenarios reduces the effectiveness of the mutual evaluation process in advancing Inclusive Financial Integrity.

The FATF standards and their implementation have a tangible impact on financial inclusion. Any recommendations by the assessment team are subject to mutual evaluation follow-up (at least on technical



Observing models of wind farm for sustainable energy, Mongolia. (David Kelley/iStock)

compliance), or under the FATF grey list process for both technical compliance and effectiveness. A mutual evaluation report recommendation on Inclusive Financial Integrity is more likely to be implemented because of international peer pressure.

11.2 NAMIBIA



Namibia's last mutual evaluation report was adopted in August 2007 based on the former FATF standards and assessment methodology. Namibia was rated non-compliant on the former FATF Recommendation on CDD. Since the adoption of the report in 2007, as noted earlier, Namibia has enacted the new Financial Intelligence Act of 2012 and Financial Intelligence Act Regulations of 2015 to provide for a risk-based approach, including on CDD.

Namibia is currently pending adoption of the report of its mutual evaluation conducted by ESAAMLG. The level of progress with the risk-based approach and simplified due diligence under FATF Recommendations 1 and 10 will be known once the report is adopted and published by ESAAMLG.

11.3 MONGOLIA



The APG adopted Mongolia's mutual evaluation report in July 2017 based on the 2013 assessment methodology. On FATF Recommendation 1, Mongolia was rated partially compliant. The report noted that exemptions were not based on proven low-risk and there were no measures to permit reporting entities, including financial institutions to take simplified measures in low-risk scenarios. Recommendation 10 CDD was rated largely compliant. The report, however, concluded that neither the AML/CFT Law or preventive measures regulation provided for simplified CDD.

Subsequent to the adoption of the report by the APG in 2017, Mongolia amended its AML/CFT law and preventive measures regulation. The latter, most recently in January 2021, provides for simplified measures and simplified CDD in low-risk scenarios or for low-risk customers, respectively. FATF Recommendation 1 was re-rated by the APG to largely compliant in 2021 following the amendments to the preventive measures regulation.

11.4 PARAGUAY



GAFILAT adopted the IMF detailed assessment report of Paraguay in July 2009. The report was based on the former FATF standards and old assessment methodology. The IMF report noted the absence of a comprehensive

assessment of ML and TF risks which precluded the application of simplified due diligence. Since the last report in 2009, SEPRELAD, the lead authority on matters relating to AML/CFT/CPF preventive measures, has issued numerous resolutions for banking and other financial sectors to provide a risk-based approach and permit simplified due diligence, as mentioned earlier. The levels of compliance with FATF Recommendations 1 and 10 are not known as the current mutual evaluation has not been completed.

The process was delayed because of travel restrictions due to COVID-19.⁷⁵ The GAFILAT assessment team eventually undertook the onsite visit to Paraguay from 23 August to 3 September 2021. The report was adopted and published by GAFILAT in September 2022.

11.5 SRI LANKA



The last APG mutual evaluation was completed in 2015. This was the first mutual evaluation conducted by the APG using the 2013 assessment methodology. Recommendation 1 was rated partially compliant. The report noted that exemptions were not based on proven low-risk and there were no measures to permit reporting entities, including financial institutions, to take simplified measures in low-risk scenarios. Recommendation 10 was rated non-compliant. On simplified due diligence, the assessment found that no simplified CDD measures had been prescribed for banks and registered finance companies. Requirements for money changers and MVTs providers were also absent.

The report noted that the NRA had identified a need to advance financial inclusion concerns, including allowing for reduced CDD for certain products, and a more specific regulatory framework and guidance for the providers of financial inclusion products. The latter was recommended to mitigate certain vulnerabilities in some potential financial inclusion products, so they would be suitable for simplified CDD. Since the adoption of the report in 2015, Sri Lanka promulgated a new AML/CFT law, Financial Institutions (CDD) Rules, No. 1 of 2016 and other new or amended regulations. Recommendations 1 and 10 were re-rated to largely compliant. Nevertheless, simplified due diligence measures were not predicated on a proven low-risk assessment of the customer, except in the insurance sector.

⁷⁵ SEPRELAD. 2020. Available at: <https://www.seprelad.gov.py/gafilat-posterga-evaluaci-n-mutua-al-pa-s-ante-situaci-n-sanitaria-del-coronavirus-n109>

11.6. LESSONS LEARNED

Based on the experiences of the four countries, the FATF standards have led countries to enact the required regulations on a risk-based approach and simplified due diligence. In this regard, FATF Recommendations 1 and 10 have advanced the cause of Inclusive Financial Integrity, at least the legal building blocks.

There has been less focus on effective implementation of exemptions (or partial exemptions) based on proven low-risk and simplified due diligence for lower-risk customers. The former focused on exemptions not based on proven low-risk, and not on why sectors were not exempted in full or part where low-risk was assessed. For the four countries, this is partly because the legal or regulatory frameworks were not established at the time of the mutual evaluations. Based on other mutual evaluation reports published globally, even where countries are compliant or largely compliant with the FATF standards on simplified due diligence, there has been very limited examination of lower-risk scenarios. There are some notable exceptions. Mutual evaluations are skewed towards higher-risk areas, which is not inconsistent with the risk-based approach and the constrained resources of both the assessment team and the assessed country.

A focus by the assessment team during the mutual evaluation of the implementation of simplified due diligence, in particular, may lead to a productive recommendation for the country concerned. Simplified due diligence is clearly within the purview of the FATF assessment methodology as are exemptions on AML/CFT obligations based on proven low-risks.

The current FATF assessment methodology requires that the assessment team examine how well reporting entities apply enhanced or specific measures under core issue 4.4. in Immediate Outcome 4 (Preventive Measures), namely: (a) PEPs, (b) correspondent banking, (c) new technologies, (d) wire transfer rules, (e) targeted financial sanctions relating to TF, and (f) higher-risk countries identified by the FATF. Inclusive Financial Integrity would be better served if the definition of “specific measures” is broader to include simplified due diligence measures for low-risk scenarios.

The inclusion of an analysis of the effectiveness of simplified due diligence, and any recommendations arising from the findings may further drive its adoption and implementation.

The mutual evaluation process and the FATF grey list process have proven to be effective mechanisms for driving change. This has been already shown in simplified due diligence measures now being reflected in AML/CFT/CPF regulations of the four case study countries. The inclusion of simplified due diligence under core issue 4.4. in Immediate Outcome 4 may not require an amendment to the assessment methodology. An FSRB may amend its mutual evaluation procedures to specify that simplified due diligence should be included in the analysis under that core issue making it an additional requirement.

12. SUMMARY OF KEY TAKEAWAYS

The lessons from the four countries reinforce some experiences identified elsewhere with further details, and provide new insights in other less examined areas in previous studies on aligning AML/CFT/CPF with financial inclusion.

The following are “key takeaways” from the four case studies:

RISK ASSESSMENTS

- a) The World Bank risk assessment methodology and self-assessment tools have been useful to identify specific financial inclusion products. The self-assessment tools include the Financial Inclusion Product Risk Assessment module which is specifically aimed at Inclusive Financial Integrity. Greater use of the findings to partially exempt AML/CFT/CPF obligations on low-risk institutions and products would maximize the benefits of the risk assessments.
- b) Countries may want to include an exemption provision in their AML/CFT/CPF law. This will provide the legal basis for either full or partial exemption, either proactively by the supervisory authorities based on proven low-risk, or upon application by a financial institution, once again based on proven low-risk.
- c) Greater use could be made of NRAs and sectoral risk assessments to identify segments or sub-sectors proven as low-risk that can have certain AML/CFT/CPF obligations exempted.
- d) A greater involvement of financial inclusion officials and financial institutions catering to lower-income groups will help maximize the benefits of the NRA or SRA for Inclusive Financial Integrity.

ALIGNMENT OF NATIONAL AML-CFT AND FINANCIAL INCLUSION STRATEGIES

- e) In order to align national strategies, the crafting of the national AML/CFT/CPF and financial inclusion strategies should draw on each other’s underlying research and reports. The findings of the NRA, sectoral risk assessments and national AML/CFT/CPF strategy should be considered for financial inclusion while the findings of the national financial inclusion survey and any national financial inclusion strategies

should be considered for the national AML/CFT/CPF strategy.

- f) The linkages between the strategic goals of AML/CFT/CPF and financial inclusion should also support and be linked to the country’s overarching national development goals.
- g) National strategies alone are insufficient. Strategies or national action plans must be reflected in the business and tactical plans of the lead agencies. The performance expectations and rewards should also be at the operational level, otherwise, there could be a disconnect between the national strategies and their implementation.

ALIGNMENT OF NATIONAL AML/CFT/CPF AND FINANCIAL INCLUSION COORDINATION

- h) A more structured approach on national coordination is needed. This may simply involve a regular meeting agenda on either financial inclusion or AML/CFT/CPF in the respective meeting agendas of the national committee. Or it could be more formal, where coordination on Inclusive Financial Integrity is specified in the AML/CFT/CPF strategy and financial inclusion strategy.
- i) Operational coordination could also be more structured through the formation of a working group on Inclusive Financial Integrity.

ID DOCUMENTATION

- j) The national ID is an excellent source of reliable and independent verification. It also provides a platform for non-face-to-face onboarding through remote verification using a mobile application. Nevertheless, access to the national ID is not universal. Individual customer ID verification should allow for a broader list of acceptable ID documents for low-risk customers.
- k) A legislative framework needs to be enacted to provide the parameters for reporting entities to directly access national ID information for electronic document verification, even in the absence of a digital ID system. Electronic document verification may reduce the onboarding cost of financially excluded customers relative to their profitability.
- l) Clearer guidance or regulations in the form of e-KYC and CDD regulations (e.g. video face-to-face customer interviews) will further facilitate the uptake of workable solutions to overcome access barriers to the ID databases of government authorities. This guidance will need to address related issues such as management of identity fraud, data protection and privacy measures.

SIMPLIFIED CDD

- m) Countries may want to identify or design a financial product, e.g. basic savings account or mobile money account, as suitable for simplified due diligence. This provides a clear mandate and “safe harbor” for financial institutions to adopt and implement.
- n) A government directive on the rights of citizens and residents to open a basic bank account with simplified due diligence combined with flexibility for financial institutions to undertake simplified due diligence where low-risk is proven will further progress Inclusive Financial Integrity.
- o) AML/CFT/CPF regulations governing simplified CDD should be more explicit on the acceptable measures. This should include a broader list of acceptable ID documentation for low-risk customers and could include the use of biometric ID verification based on an ID scan and selfie in the absence of direct access to government databases on ID.
- p) Guidance should be provided on simplified due diligence to provide a regulatory interpretation of the law or regulations. Purely allowing financial institutions to interpret the regulatory parameters may result in a risk adverse application, and the application of simplified due diligence limited to the tried and tested, i.e. government entities, publicly-listed companies and regulated banking, securities and insurance institutions.

MOBILE MONEY AND INCLUSIVE FINANCIAL INTEGRITY

- q) The enactment of a payment law and regulations, together with a national payment strategy inclusive of mobile money and financial inclusion are essential foundations to leverage the potential benefits from high mobile phone ownership. Nevertheless, certain obstacles remain, and financial literacy and education are important to achieve the full benefits of mobile money.

RISK-BASED AML-CFT SUPERVISION

- r) A risk-based approach to supervision supports financial inclusion. Lower risk financial institutions, which have predominately lower-income customers and offer low-risk financial products, should be subject to less supervisory attention, e.g. less onsite inspections.
- s) Inclusive Financial Integrity is achieved when supervisors ensure compliance with the parameters of simplified due diligence, without any abuse or circumvention of AML/CFT/CPF obligations. Inclusive

Financial Integrity may be even better served when supervisors have a clear mandate to assess the effectiveness of financial inclusion initiatives, such as simplified due diligence, and not merely their compliance.

FINANCIAL INCLUSION AND MUTUAL EVALUATION

- t) There has been very limited examination of lower-risk scenarios, although there are some notable exceptions. A focus by the assessment team on the implementation of simplified due diligence may lead to productive recommendations for the country concerned. Simplified due diligence is clearly within the purview of the FATF assessment methodology as are exemptions on AML/CFT/CPF obligations based on proven low-risks.
- u) The inclusion of simplified due diligence under Immediate Outcome 4 (Preventive Measures) may not require an amendment to the assessment methodology. The FATF or FSRB may amend its mutual evaluation procedures to specify that simplified due diligence should be included in the analysis under this core issue.

TECHNICAL ASSISTANCE AND TRAINING

- v) Technical assistance and training providers should focus more on Inclusive Financial Integrity or simplified due diligence.
- w) The development of a template or model regulation on simplified due diligence would be beneficial. As mentioned, the FATF Financial Inclusion Guidance is a very useful document, but its application has been limited with respect to exemptions, and also the full scope of simplified due diligence. As the World Bank risk assessment tools have demonstrated, there is demand for operational tools and templates. A model regulation on simplified due diligence may facilitate maximizing the benefits of the risk-based approach for Inclusive Financial Integrity.
- x) Further capacity building is needed for effective implementation of the risk-based approach. Logically, sectors rated low-risk should be the subject of reduced AML/CFT/CPF measures - not more. The same applies to sectors rated high-risk - additional mitigating measures should be recommended. While this is not applied consistently in practice, it is critical for the risk-based implementation of the FATF standards.

ACRONYMS

AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
BBA	Basic Bank Account
CDD	Customer Due Diligence
CFT	Countering the-Financing of Terrorism
CPF	Countering the-Financing of Proliferation of Weapons of Mass Destruction
DNFBPs	Designated Non-Financial Businesses and Professions
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
	Low- and Middle-Income Country
FATF	Financial Action Task Force
FIU	Financial Intelligence Unit
GAFILAT	Latin American Financial Action Task Force
ML	Money Laundering
MVTS	Money or Value Transfer Services
NBFI	Non-banking financial institutions
PEP	Politically Exposed Person
PF	Proliferation Financing
ME	Mutual Evaluation
MER	Mutual Evaluation Report
NPO	Non-Profit Organization
NRA	National Risk Assessment
PF	Proliferation Financing
SCC	Savings and Credit Cooperatives
SEPRELAD	Secretariat for the Prevention of Money or Property Laundering
STR	Suspicious Transaction Report
TF	Terrorism Financing
UNSCR	United Nations Security Council Resolution
VAs	Virtual Assets
VASPs	Virtual Asset Service Providers

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