

# Financial Inclusion Strategies Reference Framework



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# Financial Inclusion Strategies

## Reference Framework

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# Preface

Financial inclusion is emerging as a priority for policymakers and regulators in financial sector development, with an increasing number of countries introducing comprehensive measures to improve access to and usage of tailored financial services, informed by a fast-growing body of experience and knowledge. More than 60 countries have initiated financial inclusion reforms in recent years. The growing priority placed on financial inclusion is illustrated by the commitments made by financial regulators from more than 20 developing countries to financial inclusion and to financial education under the Maya Declaration.

G20 leaders had committed to improve access to financial services for the poor at the Pittsburgh Summit in November 2009 and a Financial Inclusion Experts Group (FIEG) was created to expand access to finance for household consumers and micro, small-, and medium-sized enterprises. The FIEG developed the Principles for Innovative Financial Inclusion, which were endorsed during the Toronto Summit in June 2010.<sup>1</sup> These nine principles, derived from the experiences and lessons learned from policymakers throughout the world, underpin the Financial Inclusion Action Plan endorsed at the Korea Summit in November 2010, which called for the creation of the Global Partnership for Financial Inclusion (GPFI) as the mechanism to execute the G20 commitment. In 2011, the GPFI documented the experiences of 11 countries that have already implemented some of the principles, and proposed a number of concrete recommendations moving forward.<sup>2</sup>

Mexico has prioritized the commitment of G20 and non-G20 countries to create national platforms mandated with achieving financial inclusion, and to develop national strategic action plans to meet financial inclusion targets, alongside financial education and consumer protection measures, in its “International Financial Inclusion Agenda” for the 2012 G20 Presidency. This Reference Framework was prepared at the request of the Mexico G20 Presidency. It builds on and profiles the following: country models and examples, the work of the GPFI through its three subgroups (Principles for Innovative Financial Inclusion and Standard Setting Bodies Engagement, SME Finance, and Financial Inclusion Data and Measurement), the Alliance for Financial Inclusion (AFI), IFC, CGAP, the World Bank, UNCDF, Asia-Pacific Economic Cooperation (APEC), and others.

It is anticipated that future versions of this Framework will be revised, as country inputs are received, for example with technical inputs, models, and lessons learned submitted by ministries of finance and financial regulators, development partners, and financial sector bodies (such as industry associations, responsible finance networks). An online version of the Reference Framework will provide access to a wide set of materials, including country case studies, and will facilitate experience and knowledge-sharing among a broad set of actors, and would complement AFI’s peer to peer mechanism for financial regulators.

<sup>1</sup> The Principles for Innovative Financial Inclusion are: leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality and framework.

<sup>2</sup> Alliance for Financial Inclusion (AFI) 2011. *The G20 Principles for Innovative Financial Inclusion: Bringing the Principles to Life*, prepared on behalf of the G20’s GPFI, available at [www.gpfi.org](http://www.gpfi.org)

# Abbreviations and Acronyms

<b>AFI</b>	Alliance for Financial Inclusion	<b>FSI</b>	Financial Soundness Indicators
<b>AML/CFT</b>	Anti-money laundering and combating financial terrorism	<b>G2P</b>	Government to person
<b>APEC</b>	Asia-Pacific Economic Cooperation	<b>GIZ</b>	Gesellschaft für Internationale Zusammenarbeit
<b>ATISG</b>	Access through Innovation Sub-Group	<b>GPFI</b>	Global Partnership for Financial Inclusion
<b>ATM</b>	Automatic teller machine	<b>HH</b>	Household
<b>BSP</b>	Bangko Sentral ng Pilipinas	<b>ICR</b>	Insolvency and creditor rights
<b>CDD</b>	Customer due diligence	<b>IFC</b>	International Finance Corporation
<b>CEMLA</b>	Centro de Estudios Monetarios Latinoamericanos	<b>IMF</b>	International Monetary Fund
<b>CGAP</b>	Consultative Group to Assist the Poor	<b>INFE</b>	International Network for Financial Education
<b>CNBV</b>	Comisión Nacional Bancaria y de Valores	<b>KPI</b>	Key performance indicator
<b>CNSF</b>	Comisión Nacional de Seguros y Fianzas	<b>KYC</b>	Know Your Customer
<b>CONDUSEF</b>	Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros	<b>MFI</b>	Microfinance Institution
<b>CPFL</b>	Consumer Protection and Financial Literacy	<b>MSMEs</b>	Micro, small, and medium enterprises
<b>DFID</b>	Department for International Development	<b>NAFIN</b>	Nacional Financiera
<b>ENEF</b>	Estratégia Nacional de Educação Financeira	<b>OECD</b>	Organization for Economic Development and Cooperation
<b>FAS</b>	Financial Access Survey	<b>POS</b>	Point of sale
<b>FATF</b>	Financial Action Task Force	<b>RBI</b>	Reserve Bank of India
<b>FIDWG</b>	Financial Inclusion Data Working Group	<b>RDB</b>	Regional Development Bank
<b>FIEG</b>	Financial Inclusion Experts Group	<b>ROSC</b>	Reports on Observance of Standards and Codes
<b>FSB</b>	Financial Stability Board	<b>SACCO</b>	Savings and Credit Cooperative
		<b>SBS</b>	Superintendencia de Banca, Seguros y AFP
		<b>SMEs</b>	Small and medium enterprises
		<b>SSBs</b>	Standard-setting bodies
		<b>UNCDF</b>	United Nations Capital Development Fund

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# I. Introduction

Financial inclusion strategies can be defined as road maps of actions, agreed and defined at the national or subnational level, that stakeholders follow to achieve financial inclusion objectives. Successful strategies coordinate efforts with the main stakeholders, define responsibilities among them, and state a clear planning of resources by, for example, prioritizing targets. A strategy can promote a more effective and efficient process to achieve significant improvements in financial inclusion, and is ideally prepared with the private sector in order to establish and achieve shared, achievable goals for financial inclusion.

A comprehensive approach to financial inclusion addresses at least three aspects: access to financial services and products; usage of financial services and products; and quality of financial services and products, defined by consumer ability to benefit from new financial services and products (and linked to consumer protection and financial capability). Through expanded access, consumers are able to adopt new financial services and products from formal institutions. Actions to expand financial access can first identify potential barriers faced by institutions to reach lower-income and underserved customers and then catalyze or implement measures to address these barriers. The second aspect, usage, refers to the regularity and frequency of the adoption of financial services and products. A comprehensive strategy promotes not only the adoption of financial products and services, but also the ability of customers to take full advantage of them. The

third aspect relates to the degree to which consumers can benefit from financial services. Financial inclusion efforts to reach new customers should be “responsible,”<sup>3</sup> incorporate a strong consumer protection framework, and promote financial literacy among customers. Informed and financially educated customers will benefit more from financial services—for example, through a better understanding of what type of financial product best suits their individual needs, and more accurately assessing risks associated with that product.

This Reference Framework was prepared as a resource for policymakers, regulators, and partner development agencies, as an accessible reference point for existing financial inclusion approaches, or for preparing new financial inclusion strategies. The Framework consists of eight sections. In the first section, a discussion of the key components that define financial inclusion strategies is presented. The second section centers on financial inclusion data, including an analysis of available data and diagnostics, and potential core financial inclusion indicators. The third section presents recommendations from different experiences on the institutional structure suitable to support financial inclusion strategies. Options for public sector actions (policy and regulatory reforms, financial infrastructure, public interventions) and then private sector responses follow in the next two sections. Support frameworks for design and implementation of financial inclusion commitments and strategies from development agencies are outlined in the final section.

<sup>3</sup> Responsible Finance in this context connotes a financial environment in which “Products are thoughtfully designed, offer reasonable value-for-money, and minimize potential harm, such as over-indebtedness. Delivery practices... do not rely on aggressive sales, coercive collections, or other inappropriate behavior. Clients receive clear, comprehensible information... When problems or misunderstandings arise, customers have accessible and effective mechanisms for resolving them” (CGAP 2011).

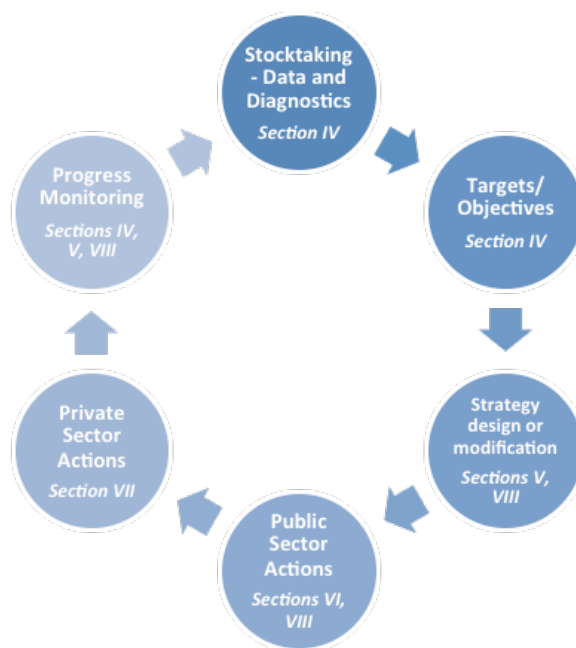
## II. Financial Inclusion Commitments

An increasing number of countries are committing to improving access to and usage of financial services, informed by a fast-growing body of country experience and knowledge. While more than 60 countries have introduced reforms to stimulate an expansion of financial inclusion in recent years, there is an increasing emphasis on a comprehensive approach with a sequenced package of reforms conducted by a range of relevant actors, leading to more significant improvements in financial inclusion that are beneficial for new consumers.

Financial regulators from more than 20 countries have made financial inclusion commitments under the “Maya Declaration,” to i) create an enabling environment that increases access and lowers costs of financial services, including through new technology; ii) implement a proportionate regulatory framework that balances financial inclusion, integrity, and stability; iii) integrate consumer protection and empowerment as a pillar of financial inclusion; and iv) use data to inform policies and track results.<sup>4</sup>

This Reference Framework outlines the following components for these comprehensive financial inclusion strategies/plans, with actions and examples set out for each. Table 1 outlines approaches that have been used by countries for each component, and examples of how countries have tailored country commitments to fit their individual market structure, institutions, financial inclusion characteristics, and political context.

**FIGURE 1. FINANCIAL INCLUSION STRATEGY COMPONENTS**



*Note: This is a highly stylized representation. Countries will be at different stages for each component, and components may not be sequential.*

<sup>4</sup> For further information, see [www.afi-global.org/gpf/maya-declaration](http://www.afi-global.org/gpf/maya-declaration)



**TABLE 1. FINANCIAL INCLUSION STRATEGY COMPONENTS: OVERVIEW OF MODELS AND EXAMPLES<sup>5</sup>**

COMPONENT, SECTION OF THIS FRAMEWORK	POTENTIAL COUNTRY COMMITMENT	MODELS	COUNTRY EXAMPLES
<b>Data and Diagnostics, Targets/Objectives, Progress Monitoring</b> Sections IV, V, VIII Stock-taking to inform strategy and targets, and to monitor targets and evaluate progress	Collect data, formulate indicators, synthesize recommendations and insights from diagnostics, align targets and broader objectives.	Regulator/, Household/ Enterprise Surveys, Financial Inclusion & Responsible Finance diagnostics	Data: South Africa (FinScope, Financial Consumer Protection report), Kenya (National Financial Access Survey), India (National Sample Surveys) Peru (Financial Literacy Survey), Mexico (comprehensive data approach)
	Align targets for financial inclusion indicators, and broader objectives, and monitor progress toward achieving them.	G20 basic financial inclusion indicators, supplemented by tailored national indicators	Financial regulators increasingly track financial inclusion indicators, e.g., SBS Peru, RBI India.
<b>Strategy-Building, strategy-revision</b> Sections III, V, VIII Strategy design or modification, institutional structure to support the strategy	Develop or update a strategy document, whether as a standalone document or as a component of a broader financial sector strategy. With buy-in from government, regulators, financial sector.	Charters, strategies, action plans, components of financial sector strategies	Indonesia (Financial Inclusion Strategy), Kenya (Financial Access Partnership), South Africa (Financial Sector Charter)
	Put in place a cross-agency coordination structure for supporting and ensuring strategy implementation.	National platform for coordinating financial inclusion (e.g., council, task force). A dedicated financial inclusion unit in regulator or ministry of finance can also lead reforms.	Brazil, Mexico (Financial Inclusion Council), Indonesia, United Kingdom (Financial Inclusion Taskforce) , India (Committee on Financial Inclusion, 2008; Taskforce on MSMEs, 2010)
	Ensure that adequate regulatory and supervisory capacity is in place to implement and monitor reforms and to ensure that financial inclusion does not lead to instability or to harmful consumer impacts.		

<sup>5</sup> This is an indicative rather than an exhaustive list.

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**TABLE 1. FINANCIAL INCLUSION STRATEGY COMPONENTS: OVERVIEW OF MODELS AND EXAMPLES<sup>5</sup>**

COMPONENT, SECTION OF THIS FRAMEWORK	POTENTIAL COUNTRY COMMITMENT	MODELS	COUNTRY EXAMPLES
<b>Public Sector</b> <b>Actions:</b> Policy, Regulation, Financial Infrastructure Section VI	Commit to introducing policy and legal reforms, and to developing financial infrastructure, in order to promote responsible financial inclusion (consistent with financial integrity and stability priorities), and enable/stimulate the needed financial sector response.	Banking agent regulation	India, Brazil, Kenya, Mexico
		Payments systems development, to underpin electronic transactions, use of technology	
		Regulation simplifying procedures for access to finance	India (special provisions in Know Your Customer guidelines, no-frills accounts), Pakistan, Colombia, Mexico
		Legislation allowing alternative financial products/ services, and e-money	Indonesia (Islamic finance and development of Sharia banking policies) Jordan (leasing law, secured transactions and land registration reforms) Philippines (e-money models, including bank and non-bank)
		Promote development of market-level infrastructure (national IDs, national switches, credit information systems)	India (UIDAI)
		Channel social payments (e.g., benefits), wages, and procurement through financial accounts	Brazil (Bolsa Familiar) Mexico (Oportunidades) India (Bihar, health payments) <a href="http://www.cgap.org/gm/document-1.9.56703/FN76.pdf">www.cgap.org/gm/document-1.9.56703/FN76.pdf</a>
		Financial literacy and consumer protection initiatives	Brazil (consumer protection framework) Peru (financial literacy programs to teachers, virtual classroom website) India (financial literacy project launched by RBI)

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**TABLE 1. FINANCIAL INCLUSION STRATEGY COMPONENTS: OVERVIEW OF MODELS AND EXAMPLES<sup>5</sup>**

COMPONENT, SECTION OF THIS FRAMEWORK	POTENTIAL COUNTRY COMMITMENT	MODELS	COUNTRY EXAMPLES
<b>Private Sector Actions</b> Section VII	Financial institutions respond to targets and to the improved enabling environment and introduce products, delivery mechanisms, and processes that significantly and responsibly expand financial inclusion.	Accessible financial accounts for savings/payments	Brazil, Canada, India, Indonesia (Tabunganku), Mexico, South Africa (Msanzi accounts), United Kingdom, European Union
	Development of viable business models for low-income customers is key. Current business models still limited.	Mobile banking products that provide access to a broad range of financial services	Still being developed – several high-profile examples and a fast-evolving area, e.g., Kenya, Tanzania, Haiti
<b>Implementation Support Framework</b> Section VIII	Where demanded, donors and technical partners can provide technical assistance, data, financing, and other forms of support to the design and implementation of financial inclusion strategies.	Microfinance through retailer networks, SME finance through the supply chain (also factoring)	Technical assistance, data and analysis, financing, risk-sharing, risk assessment on financial integrity, capacity-building  Extensive support provided, but nevertheless gaps and challenges remain. Comprehensive packages of support could be designed in parallel with financial inclusion strategy design.

## III. Financial Inclusion Strategies

### Key Messages:

■ **A financial inclusion strategy can be characterized by six components:** i) stock-taking: data and diagnostics; ii) targets and objectives; iii) strategy-building or revision; iv) public sector actions: policies, regulation, and financial infrastructure; v) private sector actions; and vi) progress monitoring.

■ **Each country context varies, including in terms of availability of data and diagnostics, institutional capacity to implement reforms, financial market structure, level of financial infrastructure, and political priorities.** To fit each country context, tailored approaches can be built by national entities using the reference material, examples, and guidance set out in this Framework. Many countries already have many of the components of a financial inclusion strategy in place.

■ **Financial inclusion is interlinked with financial stability, financial integrity, market conduct, and the financial capability of consumers, and should be prepared with reference to analysis and objectives for those areas, irrespective of whether the financial inclusion strategy is a standalone document or a component of a broader financial sector development strategy.**

■ **Financial inclusion strategies (whether standalone or part of a broad financial sector development strategy) provide a framework for prioritizing reforms and actions, including for priority areas at country level, for example small and medium enterprise (SME) finance, rural finance, or financial education.**

National financial inclusion strategies (in whatever form) have the potential to catalyze significant improvements in financial inclusion for households and enterprises, through a coordinated, prioritized, and comprehensive framework for actions that ensures maximum impact within institutional and resource constraints. The aim of a financial inclusion strategy, or action plan, can be to bring together initiatives from the public sector, financial and nonfinancial institutions, and other stakeholders to expand and improve financial inclusion, while maintaining sufficient focus on financial stability, integrity, and market conduct. Policymakers and regulators, for example, can implement an organized package of reforms to encourage private sector activity and innovation in line with financial inclusion targets.<sup>6</sup>

Financial inclusion strategies can be broad in scope, covering public and private sector actions. They can stand alone, or can be a component of broader financial sector development strategies.<sup>7</sup> Strategies can also focus on certain areas where the need for actions has been highlighted, such as SME finance (through a “compact,” for example) or financial education action plans, or they can cover a broader set of actions to address different barriers to financial inclusion.<sup>8</sup> Financial inclusion is interlinked with financial stability, financial integrity, market conduct, and the financial capability<sup>9</sup> of consumers, and should be prepared with reference to

<sup>6</sup> Policymaker and regulator roles include: building infrastructure, driving transaction volume and implementing an organized package of reforms. See: Ehrbeck, Tilman, Mark Pickens, and Michael Tarazi. 2012. “Financially Inclusive Ecosystems: The Roles of Government Today.” Focus Note 76. Washington, D.C.: CGAP, February.

<sup>7</sup> For example the World Bank is working with seven African countries to support Financial Sector Development Strategies, all of which include financial inclusion components.

<sup>8</sup> Another area strategies have focused on is microfinance. For more information on microfinance strategies, see Duflos and Glisovic-Mezieres (2008).

<sup>9</sup> Financial capability encompasses the knowledge (literacy), attitudes, skills, and behavior of consumers with regard to understanding, selecting, and making use of financial services.

analysis and objectives for those areas, even if the financial inclusion actions are not part of a broader financial sector strategy.

The process of elaborating, implementing, and monitoring a financial inclusion action plan, or strategy, can be characterized by six components (not necessarily sequential – each country context is complex and some components will already be better developed than others, while political economy, social, and technological factors vary): i) stock-taking: data and diagnostics; ii) targets and objectives; iii) strategy-building or revision; iv) public sector actions: policies, regulation, and financial infrastructure; v) private sector actions; and vi) progress-monitoring. Policy consensus can be needed throughout, and may to an extent be institutionalized through multiyear commitments, coordination mechanisms, institutional mandates and roles, and the involvement of civil society and the private sector. As Asia-Pacific Economic Cooperation (APEC) states, “the development of a National Financial Inclusion Strategy needs commitment from all the different actors but especially a strong leadership from the government by including this as an integral component of overall financial sector growth and poverty reduction strategy.”<sup>10</sup>

### Financial Inclusion Strategy Components

Country-level financial inclusion actions, as part of a formal strategy or not, typically include the following components to some degree, although this is a stylized typology and countries will be at different stages for each. The Reference Framework explores each component in subsequent sections:

1. **Stock-Taking: Data and Diagnostics:** enable policymakers, regulators, and stakeholders to better understand the baseline or starting point in terms of access to and usage of financial services, barriers to financial inclusion, and how to address them within limited institutional capacity and resources. Banks and other financial service providers can design products and delivery mechanisms that are more viable and tailored to the financial needs of the unbanked. Data and analysis can therefore underpin reforms and innovation.
2. **Targets and Objectives:** targets and broader objectives are determined at the country level. Targets for financial inclusion indicators can be informed by data and diagnostics, and progress in meeting them can be tracked through those indicators.<sup>11</sup> Not all financial inclusion-related objectives can yet be translated into measurable indicator targets – for example, financial capability measurement techniques are yet to be distilled into widely accepted headline indicators, and “proportionality” in regulation that tailors implementation to level of risk implies an approach rather than an exact measure – so broader objectives are also appropriate. The private sector should be encouraged to contribute in setting targets and objectives, as they will be key actors in reaching them, and targets set without private sector involvement may be unrealistic or may lead to suboptimal actions designed to meet targets rather than to sustainably scale up financial services. To some degree, benchmarking indicator levels and objectives progress relative to other countries (such as regional neighbors or countries with similar per capita income) can be helpful.
3. **Strategy-Building or Revision:** a strategy, or action plan, can be set out – or an existing strategy can be modified – to identify and align activities and roles for all actors concerned in meeting those targets and objectives, and providing or identifying a coordination mechanism or institutional structure to ensure that the strategy is implemented. Commitments by regulators and governments are essential to enable and stimulate private sector actions. The involvement of the private sector (and civil

<sup>10</sup> For an APEC review of the development of financial inclusion strategies, see APEC Financial Empowerment Financial Inclusion Working Group (2011).

<sup>11</sup> The World Bank, with funding from the Russian Financial Literacy and Education Trust Fund, is working on a framework for assessing financial capability.

society) is also important to ensure that the financial inclusion strategy is achievable and has wide ownership. Voluntary private sector commitments can be an effective means of promoting financial inclusion and financial capability. Banks and other financial institutions must take a leading role in achieving financial inclusion, spurred on by competition, the threat of regulation, and monitoring, and in line with market opportunities. Financial inclusion units in ministries of finance or regulators can lead and monitor the design and implementation of financial inclusion strategies, while task forces or coordination bodies can be set up with the private sector to understand barriers, develop shared objectives, engage wider participation, and encourage shared ownership. A national platform for coordinating and/or monitoring implementation of the strategy can take the form of a financial inclusion council, task force, or other body.

4. **Public Sector Actions: Policies, Regulation, and Financial Infrastructure:** the public sector and regulators can implement a comprehensive package of reforms to encourage financial sector activity and innovation in line with the financial inclusion strategy targets. Financial infrastructure is essential to enable lower costs and risks for financial service providers serving new low-income customers, including credit information systems, secured transaction frameworks, and efficient and secure payments systems. Regulation should target the elimination of barriers and bottlenecks that impede private sector action, and should be proportional (risk-based) and flexible enough to allow new business models and financial service innovations that extend financial inclusion while ensuring financial stability and integrity.
5. **Private Sector Actions:** the introduction of financial services, new business models, and delivery mechanisms that expand access to

and usage of financial services. Technology, financial infrastructure, and enabling policy and legal reforms can allow lower-income and more “difficult to reach” consumers to be viably served, and the introduction of a wider and more appropriate suite of financial products to fit household and enterprise needs.

6. **Progress-Monitoring:** progress toward achieving the strategy’s targets would benefit from ongoing monitoring. Not only achievement of financial inclusion targets and objectives should be assessed, but also the effectiveness of the reforms, products, or delivery mechanisms introduced, and associated risks, so that changes can be made to the strategy implementation as needed. Feedback distinguishing successful actions from actions that are not can be used to revise the strategy and increase its success. Indicators can be tracked on a frequent and regular basis, using data from national surveys (and global cross-country surveys as a complement), while less-frequent impact evaluations can provide a rigorous assessment of interventions’ effects and their cost-effectiveness.

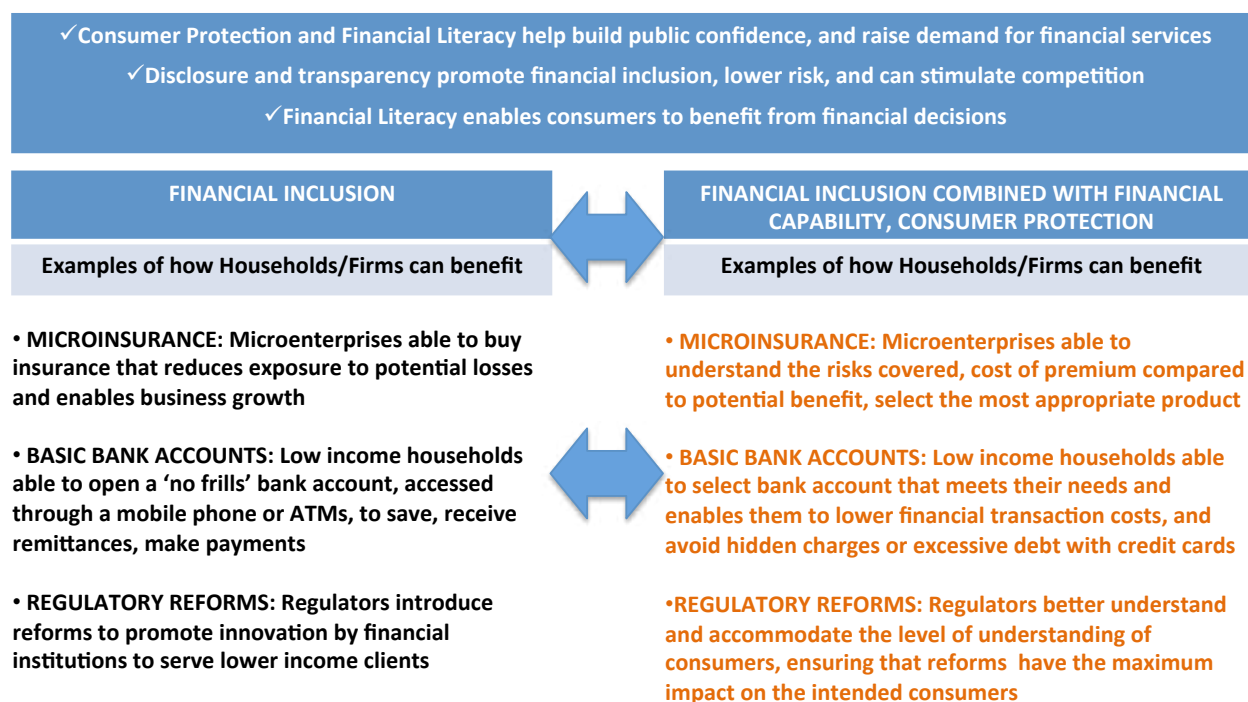
### Responsible Finance and Financial Inclusion Strategies

Financial capability and consumer protection can be components of a “responsible” financial inclusion strategy. As access to financial services increases, it is important that new customers, and existing customers with access to new services, can make well-informed decisions about how best to manage and use financial services. In addition, since new providers and delivery mechanisms open up scope for consumer fraud and abuse, proper consumer protection frameworks should be in place. Measures to strengthen consumer protection frameworks and enforcement, and to raise financial consumer awareness and capability, need to be introduced alongside or as part of financial inclusion strategies.

Responsible financial inclusion can lead to stronger positive impacts and lower risks at the individual, firm, financial institution, financial sector, and economy levels. Where consumers are not well protected or unable to make informed decisions about any type of financial service, or where products or institutions are not well monitored, the impacts of financial inclusion can be reduced or even negative. This was clearly illustrated by the subprime housing loan crisis in the United States, the recent payments protection insurance scandal in the United Kingdom, and microcredit repayment crises in India, Morocco, and elsewhere.

Consumer protection and financial capability can be incorporated as pillars of financial inclusion strategies, as “responsible” financial inclusion strategies, or in parallel. In the case of Brazil, its National Strategy for Financial Education (ENEF) promotes financial education activities that extend beyond financial inclusion, such as preparing consumers at all income levels for complex financial decisions that they are required to make, such as retirement planning. Brazil’s strategy is a public-private partnership among four national financial system regulators and supervisors; five ministries and state secretariat; national, state, and municipal education bod-

**FIGURE 2. RESPONSIBLE FINANCIAL INCLUSION STRATEGIES**



ies; and nongovernmental entities. Peru's Financial Inclusion Strategy, on the other hand, promotes actions toward greater access and usage of financial products and services, complemented with strong consumer protection and financial literacy components, to help new clients develop the capacity to make informed and responsible financial decisions, reducing the negative effects from potential abuses by financial service providers.

### SME Finance Compact and Financial Inclusion Strategies

The Global Partnership for Financial Inclusion (GPI) Sub-Group for SME Finance is committed to support countries that wish to prioritize SME finance within financial inclusion strategies or as related initiatives. An "SME Finance Compact" is envisaged that could be incorporated as a focus

area for a financial inclusion strategy. Central to such a compact would be a focus on actions to establish an enabling environment for SMEs' access to financial services, including i) formulation of country-specific recommendations for a policy framework for a feasible and implementation-oriented program of SME development under three optional areas: (1) legislation, regulation, supervision, (2) financial market infrastructure, and (3) public intervention and support mechanisms; ii) measures to improve women entrepreneurs' access to capital informed by the "Strengthening Access to Finance for Women-Owned SMEs in Developing Countries" report; and iii) measures to improve access to finance for agricultural SMEs, building on the GPI policy recommendations laid out in the report "Scaling Up Access to Finance for Agricultural SMEs."



## IV. Financial Inclusion Data to Underpin Strategy Design and Monitor Progress

*Corresponding Stages: Stock-Taking: Data and Diagnostics, Targets and Objectives, Progress-Monitoring*

### Key Messages:

■ **Country-level data and diagnostic assessments inform the design and sequencing of reforms, and can also be valuable to the private sector for adapting the design and delivery of financial services.**

■ **Indicators for financial inclusion can be used to set national targets and to monitor of progress toward those targets. Core indicators consistent with the proposed G20 Basic Indicators prepared by the GPMI Sub-Group on Data and Measurement are as follows:**

1. *Formally banked adults: Percentage of adults with an account at a formal financial institution [can be broken down by gender]*
2. *Adults with credit from regulated institutions: Percentage of adults with at least one loan outstanding from a financial institution [can be broken down by gender]*
3. *Formally banked enterprises: Number or percentage of SMEs with accounts*
4. *Enterprises with outstanding loan from a regulated financial institution: Number or percentage of SMEs with outstanding loan*
5. *Points of service: Number of branches per 100,000 adults*

■ **Adoption of these indicators would allow for ownership by each country to set its own targets, as well as for benchmarking with peer countries. Secondary indicators and targets can be developed to further fit country priorities.**

Data play a critical role in the policymaking process, from design and implementation to monitoring and evaluation. With rigorous, objective, and reliable key performance indicators, policymakers can accurately diagnose the state of financial inclusion, agree on targets, identify existing barriers, craft effective policies, and monitor and measure policy impact. Private sector targets can also be developed based on household or firm data that financial access surveys can provide.

Efforts to collect better data on financial inclusion have been increasing in recent years. Countries where the statistical departments are not sufficiently developed can use data collected by external sources in the interim, while developing the necessary infrastructure to collect their own data, since external sources typically are less in-depth and tailored than country surveys.<sup>12</sup>

This section is informed by the work of the GPMI Sub-Group on Data and Measurement, including the 2011 report “Financial Inclusion Data- Assessing the Landscape and Country-Level Target Approaches,” and the sub-group’s recommendations on financial inclusion, data stock-taking and gap analysis, key performance indicators,<sup>13</sup> and initial approaches to country-level target-setting.

<sup>12</sup> Even in countries where statistical departments are not well developed, there have been efforts to conduct and support financial inclusion household surveys. For instance, FinScope Survey collects detailed demand-side data in various African countries.

<sup>13</sup> The Key Performance Indicators of the report are based on the AFI Core Set of Indicators developed by the AFI Financial Inclusion Data Working Group (FIDWG), currently being piloted by 15 countries.

## Dimensions of Financial Inclusion

Indicators can measure at least three dimensions: access, usage, and quality.

**Access:** the capacity that financial institutions have to provide financial services and products, which is linked to the regulatory, market, and technology environments. Examining access requires identifying potential barriers that institutions face in providing their services and products, or that clients encounter in using them. Access indicators reflect the depth of outreach of financial services, such as penetration of bank branches or point of sale (POS) devices in rural areas (information that can be obtained from supply-side data); or demand-side barriers that customers face to access financial institutions, such as cost or information.

**Usage:** the way in which clients use financial services, such as the regularity and duration of the financial product/service over time (for example, average savings balances, number of transactions per account, number of electronic payments made). In order to use financial products, firms or households must have access to them. However, having access does not mean that everybody will use financial products. Thus, not every firm or individual who does not use financial services should be classified as “excluded” or “unbanked,,” and likewise every firm or individual that has theoretical access to financial services is not automatically financially included. Usage indicators can be developed from demand-side information, which can also capture financial services provided by informal financial providers.

**Quality:** the ability of the financial service or product to meet the needs of the consumer. Quality measures reflect the degree in which financial products and services match clients’ needs, the range of options available to customers, and clients’ awareness and understanding of financial products. Indicators of quality proxy for convenience, product-fit, transparency, safety, consumer protection, and financial literacy. Hence, quality indicators can be developed with information from both demand- and supply-side surveys. However, to measure quality, these surveys must contain more complex information, such as detailed product characteristics, terms of the contract, or awareness of consumers.

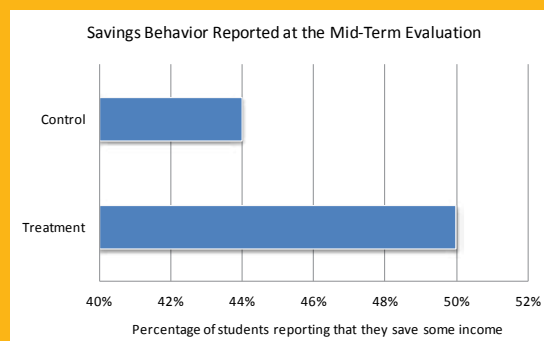
A fourth dimension to measure financial inclusion is its impact on firms and households. Financial inclusion policies would benefit from more rigorous impact evaluations that assess an intervention’s effects and cost-effectiveness. Impact evaluations can be complex and challenging to perform, since they require data beyond financial information, and statistical methodologies to convincingly attribute causality rather than correlations. However, these evaluations are needed to understand the influence that deeper financial inclusion has on firms’ and households’ outcomes, such as businesses’ performance or human capital investments. The “Impact Assessment for SME Finance Policies Framework” being developed by the World Bank for the GPF Sub-Group on SME Finance will provide resources for policymakers and regulators in this area.

## BOX 1. EVALUATING BRAZIL'S FINANCIAL EDUCATION PROGRAM

To evaluate the impact of the National Strategy for Financial Education in Brazil (ENEF) on students' financial behavior, schools were randomly assigned to either treatment (participating in the financial education program) or control groups (not participating in the program). Preliminary findings from this evaluation suggest that students from schools participating in the program experienced significant and sizable increases in their average level of financial proficiency. The financial education program is estimated to have increased participating students' financial knowledge by 3.6 points.

Compared with students from the control group, students in the financial education program also reported improved financial attitudes and behaviors, such as higher scores for financial autonomy, larger fraction of students with intention to save, and larger fraction of students actually saving some of their income. Spending habits also improved for students in the treated schools: 16 percent of students in the treatment group reported keeping a monthly list of their expenses, a behavior encouraged by the financial education curriculum, compared with 13 percent in the control group. Students in the program were also less likely to shop with a credit card or to buy things using installment plans, showing more self-control and planning behaviors.

*Source: Bruhn et al. (2011).*



### How is financial inclusion monitored at the country-level?

Financial inclusion is measured through indicators that summarize information provided by users of financial products and services (through demand-side surveys to individuals, households, or micro, small, and medium enterprises – MSMEs) or information obtained from financial providers (through supply-side surveys to financial institutions or through reporting to financial regulators). Demand- and supply-side data are complementary rather than substitutes, and should be used in combination for better policymaking.

Demand-side data collection efforts can consist of either adding financial inclusion questions to national surveys, such as a census or household budget survey, or implementing a standalone survey on financial inclusion. These country-level efforts can be broader (covering larger samples of the popula-

tion) or deeper (collecting more detailed information related to access, usage, quality, and impact of financial services).

The advantages of collecting new data via a stand-alone survey dedicated to financial services usage include the breadth of topics that can be covered and the level of detail in the questions. The survey designer can also choose the unit of analysis (individuals, households, MSMEs, or financial institutions). The disadvantages are that these surveys can be very costly to implement and thus are often done in a one-off manner. This makes it much harder to achieve the continuity necessary for effective monitoring over time.

The advantage of using existing surveys is that the survey methodology is already established, and thus the marginal costs of adding questions on usage of financial services is low. This also helps to ensure continuity over time – once a financial ser-

## BOX 2. SUPPLY- AND DEMAND-SIDE DATA

Demand-side data offer detailed information directly from users of financial services (e.g., individuals and firms). This information is important to understand financial needs (met and unmet) of users, barriers encountered when seeking formal financial services and products, and information of users by socioeconomic and demographic characteristics (e.g., degree of financial inclusion by income, occupation, age, or gender groups).

Supply-side data typically offer information from regulated financial institutions. These data allow identifying relevant issues of financial inclusion such as geographical access (by location of branches), pricing of different products and services, and penetration or usage of products and services.

While demand-side data offer detailed information on many dimensions of financial inclusion directly from users, household and firm surveys are costly and thus less frequent. Supply-side data, on the other hand, offer a low-cost alternative with more frequent data at the expense of a set of rather broad indicators on only formal and regulated providers in general.

Ideally, countries can measure and monitor financial inclusion by combining frequently collected supply-side data with more detailed and rich demand-side information. Because supply-side data can be collected on a more frequent basis, these data allow trends to be assessed at an institutional level, and are particularly important in managing the nexus around inclusion and stability from a supervisory point of view. Demand-side data can help guide policies to groups where inclusion has not reached, or identify which population groups concentrate the use of financial products and services.

vices module is embedded within a larger multitopic survey, it is likely to remain in the survey. The disadvantages of this approach are that space for financial questions is typically very limited, survey module designers may have little control over which questions eventually get in, and the unit of analysis is dictated by the design of the multitopic survey.

### Data Collection Efforts Worldwide

There are a number of cross-country data initiatives available to regulators in order to develop standardized indicators of financial inclusion. These initiatives range from demand-side surveys to supply-side information, and they vary in the scope of countries that are covered, and in the frequency in which they are collected. Tables 2 and 3 presents the most widely available surveys.

Of note, a substantial new effort to collect global data on financial inclusion is ongoing by the World Bank and Gallup, with support from the Bill & Melin-

da Gates Foundation. This is the first source of data on financial inclusion to offer a periodic tracking of individuals' financial choices over time. The "Global Financial Inclusion Indicators" (Global Findex) has been available since April 2012 ([www.worldbank.org/globalfindex](http://www.worldbank.org/globalfindex)) and is a new public database that can be used to track global policy and progress to improve access to financial services. Its goal is to reliably measure financial inclusion in a consistent manner over a broad range of countries and over time, allowing for cross-country comparisons. The data were collected through interviews about their finances with at least 1,000 people per country in 147 countries through the Gallup World Poll survey over the 2011 calendar year. The Gates Foundation has funded three triennial rounds of comprehensive data collection. In addition, annual data will be available on the use of formal bank accounts and credit. This new public database will document financial access across genders, ages, geographic regions, national income levels, and other indica-

TABLE 2. COMPARISON OF MULTI-COUNTRY *SUPPLY-SIDE* DATA SURVEYS ON FINANCIAL INCLUSION

SURVEY	DESCRIPTION	FREQUENCY	COUNTRY COVERAGE	PUBLICLY AVAILABLE
IMF Financial Access Survey (FAS)	Cross-country data on penetration and usage of financial services collected from regulators	Annual	Global	Yes
Global Payment Systems Survey (World Bank)	Snapshot of the payment and securities settlement systems in both advanced and emerging economies	Biannual	Global	Yes
Global Remittance Prices (RPW) database	Data on the cost of sending/receiving small amounts of money from one country to another.	Every 6 months	Global	Yes
Financial Institutions Survey (World Bank)		Irregular	Global	No
MIX	Detailed operational and financial statement data from Microfinance institutions	Irregular	Over 110 countries	Partially
BankScope	Database with information on public and private banks. Detailed balance sheet and income statements per bank	Irregular	Selected countries	No
FinStats	Data on validated equities, gilts, fund prices, currencies, dividends, and indices	Irregular	Selected countries	No
IMF-International Financial Statistics (IFS)	Collects eight financial inclusion indicators from regulators of roughly 190 countries	Varies	Global	Yes
IMF Financial Soundness Indicators (FSI)	Indicators of financial soundness that assess strengths and vulnerabilities of financial systems	Varies	Global	Yes

Source: Adapted from IFC (2011).

TABLE 3. COMPARISON OF MULTI-COUNTRY *DEMAND-SIDE* DATA ON FINANCIAL INCLUSION

SURVEY	DESCRIPTION	FREQUENCY	COUNTRY COVERAGE	PUBLICLY AVAILABLE
Findex	Cross-country, nationally representative survey of households' finances	Triennial rounds, annual rounds for selected questions	Global	Yes
Enterprise Survey (World Bank)	Firm-level surveys, representative sample of a country's private sector. Broad range of business environment topics including access to finance measures	Every few years	Over 125 countries	Yes
Consumer Protection, Financial Literacy Surveys (World Bank)	Nationally representative survey of financial literacy, consumer protection awareness, money management, and usage of financial products	One time, with potential to repeat	Selected countries: 17 to date	Yes
Living Standards Measurement Study (LSMS)	Multitopic, nationally representative household data. Module on access to and usage of financial services available for some countries	Irregular	Selected countries	Partially
FinScope	Nationally representative study of consumers' perceptions on financial services and issues	Irregular	14 in SSA, Pakistan, and India	No
MECOVI	Information about the people's living conditions with data on financial access rates	Irregular	12 in LAC	No
Financial Diaries	Year-long household survey that examines financial management in poor households	One year-long survey	South Africa, India, and Bangladesh	No

Source: Adapted from IFC (2011).

Note: SSA = Sub-Saharan Africa; LAC = Latin America and the Caribbean.

tors. This data will allow researchers and policymakers to measure and compare how individuals use bank accounts and other financial products, and to make evidence-based financial policies. Indicators developed from this survey may complement other sources, including country-led efforts.

Another value of this dataset is the questionnaire, which was piloted and executed in 147 countries around the world, and translated into 142 languages (available upon request). Countries are free to adopt questions from this survey into their own data collection. For example, if a country were to include these questions in a triennial survey, the country could use the Global Findex annual series to complete a panel over time. Two questions that will be asked annually by the Gallup World Poll are:

- Do you, either by yourself or together with someone else, currently have an account at a bank, microfinance institution, [insert all applicable institutions, such as a credit union, a cooperative, the post office, etc.], or another financial institution? An account can be used to save money, to make or receive payments, such as with a debit card, or to receive wages and remittances.

- In the past 12 months, have you, personally, borrowed any money from a bank, [insert financial institutions displayed in previous question], a microfinance institution, or another financial institution?

Both supply- and demand-side data are useful to develop indicators to monitor progress in financial inclusion. Annex 2 discusses four sets of indicators in more detail, which can be used by policymakers to improve their financial inclusion monitoring.

### Core Financial Inclusion Indicators

Indicators for financial inclusion can be used for the national process of setting financial inclusion targets and monitoring progress toward them. The GPFII Sub-Group on Data and Measurement<sup>14</sup> has developed a “Basic Set” of headline, or core, indicators ahead of the G20 Summit in June 2012, shown in table 4. These indicators are derived from country-led data gathering, including financial institution data collected by financial regulators, and household/firm surveys, and need not be dependent on the global surveys listed in the third column.

<sup>14</sup> Implementing Partners for this sub-group are IFC, CGAP, World Bank

TABLE 4. PROPOSED G20 BASIC SET OF FINANCIAL INCLUSION INDICATORS

CATEGORIES	INDICATORS	EXISTING GLOBAL SOURCE (IF RELEVANT)	DIMENSION OF FINANCIAL INCLUSION MEASURED
1 Formally banked adults	% of adults with an account at a formal financial institution	Global Findex	Access, Usage
	Number of depositors per 1,000 adults OR number of deposit accounts per 1,000 adults	IMF FAS	
2 Adults with credit by regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution	Global Findex	Access, Usage
	Number of borrowers per 1,000 adults OR number of outstanding loans per 1,000 adults	IMF FAS	
3 Formally banked enterprises	% of SMEs with an account at a formal financial institution	WB Enterprise Surveys	Access, Usage
	Number of SMEs with deposit accounts/ number of deposit accounts OR number of SME depositors/number of depositors	IMF FAS	
4 Enterprises with outstanding loan or line of credit by regulated institutions	% of SMEs with an outstanding loan or line of credit	WB Enterprise Surveys	Access, Usage
	Number of SMEs with outstanding loans/number of outstanding loans OR number of outstanding loans to SMEs/number of outstanding loans	IMF FAS	
5 Points of service	Number of branches per 100,000 adults	IMF FAS	Access

Core indicators consistent with the proposed G20 Basic Set, prepared by the GPFI Sub-Group on Data and Measurement and underlined in table 4, are as follows.

- Formally banked adults:** Percentage of adults with an account at a formal financial institution [can be broken down by gender]
- Adults with credit from regulated institutions:** Percentage of adults with at least one loan outstanding from a financial institution [can be broken down by gender]
- Formally banked enterprises:** Number or percentage of SMEs with accounts
- Enterprises with an outstanding loan from a regulated financial institution:** Number or percentage of SMEs with an outstanding loan
- Points of service:** Number of branches per 100,000 adults

The first four indicators measure the usage dimension and can best be obtained from demand-side data. Countries that do not collect data to develop these indicators can use Findex or Enterprise Survey data, or can include questions from these surveys in their national surveys. The fifth indicator can be obtained from supply-side data collected by the central bank or ministry of finance, and measures geographical access of formal financial providers at the national level. These core indicators then can be tailored (through sub-indicators) to monitor context-specific issues, such as the fraction of women with financial accounts, the proportion of female-owned firms with a bank loan, or the fraction of adults from rural areas using formal credit.



Box 3 illustrates how data and diagnostics are helping shape implementation of the financial inclusion strategy of Mexico.

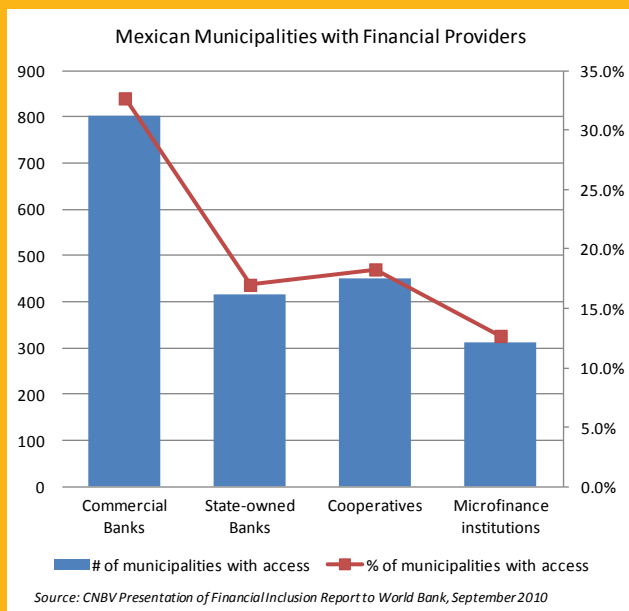
### BOX 3. DATA INFORMING FINANCIAL INCLUSION REFORMS: MEXICO

Data collection and analysis play a central role in Mexico's financial inclusion strategy. The National Banking and Securities Commission (CNBV) has pursued a comprehensive data collection strategy to understand the dimensions of the finance access challenge, inform policy decisions, influence the business models of providers, and monitor progress.

The first step taken was to analyze existing data from financial survey providers. Information from financial inclusion reports, such as the percentage of municipalities without bank branches, drew immediate public attention to the issue of financial inclusion. The data collected began to influence public policy and private sector decision making. For example, Bansefi, the major national savings development bank, used the CNBV's database to plan the installation of a large number of POS devices to manage payouts of government cash transfers. Further, the CNBV's pursuit of data has created a clear focal point for the national debate on financial inclusion and has supported the creation of partnerships with other agencies; for example, in a partnership with CONDUSEF, the consumer protection agency, CNBV will carry out focus groups on financial literacy.

The 2011 National Household Survey of Financial Services Usage was designed and collected to construct a complete view of financial inclusion in Mexico. This national demand-side survey includes household motivations for using financial services as well as barriers to greater usage. The survey is expected every three years and will complement other CNBV initiatives to deepen and broaden its financial inclusion data efforts. The survey has been designed by CNBV and is housed at the National Institute of Statistics and Geography (INEGI). Drawing on the institutional capacity and reputation of the INEGI is intended to ensure sustainability and confidence among those people interviewed

Sources: AFI (2010a and 2010b) and Hernandez-Coss (2010).



## Diagnostics as a Complement to Data

Diagnostics provide an analytical and often in-depth assessment of financial inclusion and financial infrastructure, which can be very valuable in informing the design, prioritization, and sequencing of policy and legal reforms, and of public interventions. Diagnostic assessments can be comprehensive in

scope or focused on a particular sector or issue. Financial Sector Assessment Program diagnostics are the most comprehensive and in-depth tool, and the World Bank is introducing a stronger focus on financial inclusion to those assessments. These are complemented by a range of detailed assessments on key areas relevant to financial inclusion, including those outlined in table 5.

TABLE 5. FINANCIAL INCLUSION AND INFRASTRUCTURE DIAGNOSTICS

DIAGNOSTIC ASSESSMENTS	DESCRIPTION	COUNTRY EXPERIENCE
Financial Sector Assessment Programs (FSAPs), FSAP Updates (WB)	Provide a comprehensive and in-depth analysis of a country's financial sector (strengths and vulnerabilities) and assess its potential contribution to growth and development.	Global coverage. 12 planned in FY13
Insolvency and Creditor Rights Reports on Observance of Standards and Codes (WB)	Provide summary assessments of the observance of selected standards relevant to private and financial sector development and stability.	Multiple countries covered; 7 planned in FY13
Remittance and Payment Diagnostics (WB)	Provide an in-depth analysis of payment, securities settlement, and/or remittance systems based on international standards, and recommendations to authorities.	Over 100 conducted
Credit Reporting Diagnostics (WB)	Provide an in-depth analysis of credit reporting systems based on international standards, and recommendations to authorities.	5 planned in FY13
"Color" books (WB)	Describe the payment and securities settlement systems of selected countries with a view to identify possible improvement measures.	23 published
Consumer Protection, Financial Literacy Diagnostics (WB)	Systematic analysis of the legal, regulatory, and institutional frameworks for consumer protection in financial services, programs of financial education.	15 conducted; action plans in 12
Corporate Governance (WB)	Assesses corporate governance of financial sector.	Multiple countries covered
UNCDF ("MAP")	Financial Inclusion Roadmap Exercise: comprehensive methodology linked to FinScope surveys.	Planned

*Note: Diagnostics not publicly available are submitted to the regulator or ministry of finance, which decides how to share the findings.  
WB = World Bank.*

## V. Institutional Structure to Support a Financial Inclusion Strategy

*Corresponding Components: Strategy-Building and Revision; Progress-Monitoring*

Significantly improving and expanding financial inclusion can require a coordinated partnership and participation among regulators, government agencies, the private sector, and civil society. A coordination council or task force can provide a national platform for the leadership and the momentum to implement the strategy commitments. The coordination entity may need official authorization to empower their leadership, such as a parliamentary decree or being chaired at a sufficient senior political level (for example by the Office of the Prime Minister or President) or it could achieve credibility by being representative of the leading actors in implementing the financial inclusion strategy.

A financial regulator or ministry of finance can take an operational lead for public sector actions on regulation, policies, and financial infrastructure, because they can most effectively place financial inclusion in the broader context of financial stability, financial integrity, and market conduct priorities. An amendment to the remit of the financial regulator may be needed to formally recognize financial inclusion as a goal. A broad range of public sector actors – such as financial intelligence units, labor and employment ministries, and tax and customs agencies – can have roles to play and can be represented in the overall coordination structure.

Cooperation is one of the G20 Principles for Innovative Financial Inclusion, and it is important that public sector leadership is fully engaged with the private sector. This G20 Principle is as follows: “create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.” Table 6 summarizes the institutional structure established to coordinate financial inclusion in various countries.

### Key Messages:

■ **Leadership – the first Principle for Innovative Financial Inclusion – is needed to coordinate actions and maintain drive and momentum for reforms.** *A National Platform for Financial Inclusion can play this role, and can also ensure that progress in reaching targets is monitored, and changes to strategy content are identified and implemented to improve effectiveness.*

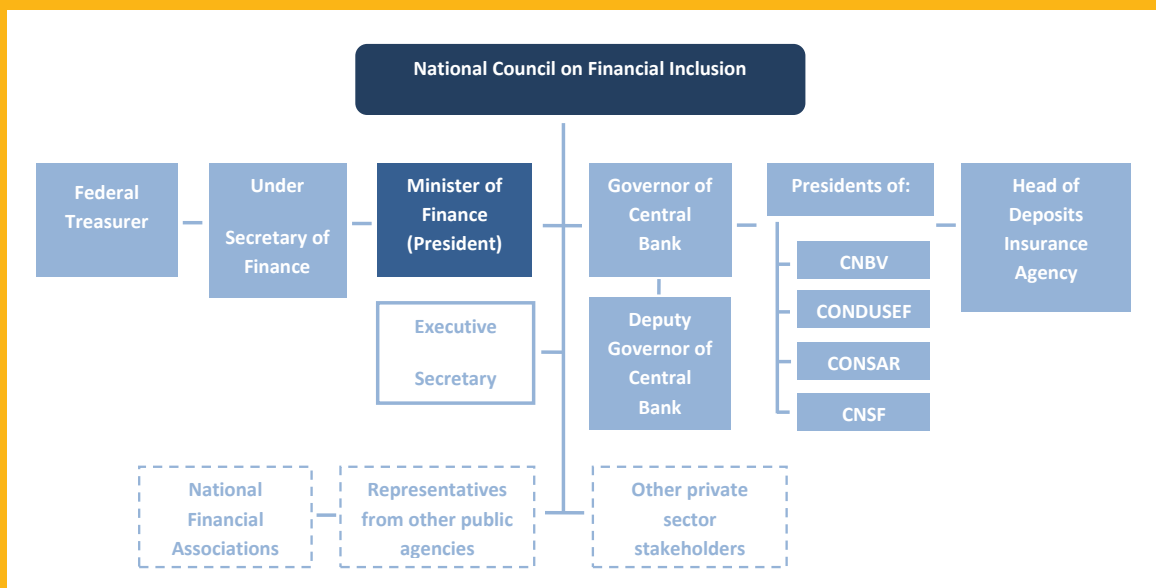
■ **A dedicated unit in a financial regulator or ministry of finance can provide an operational lead on public sector actions, including on regulation, policies, and financial infrastructure.** *A broad range of public sector actors also have roles to play.*

TABLE 6. INSTITUTIONAL STRUCTURE TO COORDINATE FINANCIAL INCLUSION

COUNTRY	COORDINATION BODY
<b>Kenya</b>	In Kenya, financial inclusion monitoring is supervised by the Central Bank (CBK). In 2005, CBK partnered with the Financial Sector Deepening (FSD) Kenya and other financial sector players and stakeholders under a private-public partnership arrangement, the Financial Access Partnership (FAP), to monitor and measure levels of access to financial services with reliable data collected in a regular basis.
<b>Korea</b>	The Financial Supervisory Commission (FSC) is Korea's lead agency for financial inclusion policy. FSC works closely with other agencies such as the Small and Medium Business Administration. In addition, the Money Lending Policy Council is responsible for monitoring money lending regulations.
<b>Brazil</b>	In 2009, the Financial Inclusion Project at the Central Bank was created with the objective of integrating various stakeholders to develop effective policies for financial inclusion. A major part of the project was the collection, organization, and analysis of data and research on various issues related to financial inclusion (such as the expansion of correspondent banking across regions in Brazil). In November 2011, the National Partnership for Financial Inclusion was launched.
<b>Indonesia</b>	The Vice President's (VP) Office in Indonesia is responsible for coordinating all efforts toward financial inclusion. The VP Office coordinates national policy initiatives in close consultation with the central bank or Bank Indonesia (BI). Since the VP Office took responsibility, several steps to advance financial inclusion in the country have been taken (an online case study will be posted on the Indonesia Financial Inclusion Strategy process).
<b>United Kingdom</b>	In the United Kingdom, the Financial Inclusion Taskforce was an independent body that advised HM Treasury and monitored and evaluated progress on financial inclusion. The taskforce was launched on February 2005 and was composed of members drawn from the private, public, and nonprofit sectors, who served in a personal capacity, and on a voluntary basis. The taskforce concluded its work in March 2011, making final recommendations for government and the private sector.
<b>United States</b>	To support financial literacy in the United States, the Financial Literacy and Education Commission was established with the Financial Literacy and Education Improvement Act of December 4, 2003. The act named the secretary of the treasury as chairperson of the commission and mandated the commission's composition to include the heads of 20 federal agencies, such as the labor, education, and agriculture departments, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the White House Office of Public Engagement (FLEC 2011).
<b>Philippines</b>	The Bangko Sentral ng Pilipinas created a Microfinance Unit in 2002, which was transformed into the Inclusive Finance Advocacy Staff in 2007, in recognition of the importance of a broader objective of financial inclusion.
<b>Mexico</b>	To provide an institutional mechanism to facilitate coordination among these agencies, the National Council on Financial Inclusion was created in 2011 (see Box 4). The objective of this council is to organize the different entities working on financial inclusion in the country, from regulatory agencies to social development and consumer protection agencies. For countries like Mexico, with a variety of social programs that can be leveraged to promote financial inclusion, this council represents an important achievement. The Council will coordinate proposals for financial inclusion policies and their implementation, formulate guidelines of a National Policy on Financial Inclusion, define medium- and long-term goals for financial inclusion, propose the necessary changes in the financial sector, and obtain information from the private sector on programs and actions related to financial inclusion.

The public sector structure for supporting financial inclusion in Mexico is set out in Box 4.

#### BOX 4. THE INSTITUTIONAL STRUCTURE OF FINANCIAL INCLUSION IN MEXICO



In Mexico, the Ministry of Finance and Public Credit has been the coordinator of the financial sector. Two Ministry of Finance agencies are involved in financial inclusion: the National Banking and Securities Commission (CNBV) and the National Commission for the Protection of Users of Financial Services (CONDUSEF).

CONDUSEF is a public institution aimed at consumer protection. It is in charge of promoting financial education among the Mexican population; developing products and tools that give support, advice, and orientation to users of financial services; and pursuing an equal and fair relationship between financial institutions and users of their products and services. CNBV carries out the supervisory and regulatory functions regarding the operation of all financial entities, and within its regulation branch, the Access to Finance Unit was created in 2007 to concentrate all issues related to access to finance in Mexico.

## VI. Public Sector Actions: Policies, Regulation, and Financial Infrastructure

### *Corresponding Component: Public Sector Actions*

*“Market failures related to information gaps, the need for coordination on collective action, and concentrations of power mean that governments everywhere have an extensive role in supporting, regulating, and sometimes directly intervening in the provision of financial services.” (Demirguc-Kunt, Beck, and Honohan 2008)*

An increasingly rich set of guidelines and technical resources is available<sup>15</sup> to countries in designing, prioritizing, and sequencing policy and legal reforms and measures to strengthen financial infrastructure. This section provides an overview framework of reference, referring to further materials, resources, and country models for more detailed guidance. The menu of options available includes regulatory reforms, financial infrastructure, and public interventions. Reforms can remove barriers to financial service innovation and delivery, and to households and firms accessing financial services. Financial infrastructure development lowers costs and risks of providing financial services, and can enable innovation and new products and services. Complementing these policies, public interventions can potentially compensate for deficiencies in the market or in the enabling environment, or catalyze private sector supply-side responses, for example, through channeling payments through bank accounts and electronic transfers, or through a risk-sharing mechanism that encourages banks to lend to new sectors and clients.

Surveys confirm that the introduction of comprehensive reform programs and clear mandates can accelerate progress toward financial inclusion (for example, the CGAP/World Bank Financial Access 2010 report). Regulators with a financial inclusion strategy are likely to have more financial inclusion topics under their purview and more resources and staff dedicated to working on these matters. This can more effectively catalyze the private sector response that is needed to dramatically raise financial inclusion. For example, reforms that strengthen financial infrastructure underpin the introduction of low-cost and lower-risk products and delivery models that are critical to expanded financial inclusion.

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#### **Key Messages:**

- *Policy and regulatory reforms and financial infrastructure development that are based on good quality diagnostics and data can enable the expansion of financial inclusion, to the benefit of households and firms.*
  - *Public sector initiatives and market interventions can be justified in certain cases due to market failures, or to incentivize private sector actions in the interim while reforms and financial infrastructure are put in place.*
- 

<sup>15</sup> Annex I lists key references. The Global Partnership for Financial Inclusion, the Alliance for Financial Inclusion, the APEC Financial Inclusion Working Group, and entities such as the World Bank, CGAP, IFC, and OECD, have developed materials and provided fora for exchange of country experiences and models. The Peer Learning Program, referred to in the later Implementation Support Framework section, will further facilitate cross-country information sharing and technical dialogue, including online. .

During 2009 countries implemented responsible financial inclusion-related regulations that spanned from: promoting rural finance (42 countries), regulating microfinance institutions (45 countries), or enabling regulations for branchless banking (36 countries). (Financial Access, 2010) The three most frequent regulations were on consumer protection (56 countries), know your customer requirements (48 countries), and reforms aimed at improving access to finance for SMEs (47 countries). Regarding consumer protection, most countries regulated their disclosure requirements and recourse mechanisms. Many of these countries are in the early stages of drafting a strategy on consumer protection. Yet while countries were very active in consumer protection reforms, they were not as active in financial literacy policies.

## Policies and Regulation

An enabling policy and regulatory environment is needed to promote the expansion of financial inclusion. Sound legal and regulatory frameworks that are effectively enforced promote market development and competition, while subjecting financial institutions and agents to sound and appropriate prudential regulation and rules of conduct in order

to protect consumers and depositors as well as to ensure market stability. Thus, several objectives need to be balanced, including financial inclusion. Regulators and supervisors play a key role in the design and implementation of an enabling environment for financial inclusion.

The role of government as rule maker is crucial to enable innovative financial inclusion business models and to stimulate greater competition, complemented by prudential regulation and supervision. The subprime crisis in the United States illustrates the consequences of an improper prudential regulation that encouraged clients to borrow beyond their ability to pay. As stated in the World Bank's Finance for All (Demirguc-Kunt, Beck, and Honohan 2008), "The same competition that can help foster access to financial services can also result in imprudent lending binges if it is not accompanied by a proper regulatory and supervisory framework." A challenge that governments face is that regulation and legislation must be flexible and up to date enough to adapt to the increasingly complex financial inclusion technologies, such as mobile banking, POS device networks, or electronic money, and to the roles that nonbanks can play in delivering financial services.

TABLE 7. OPTIONS FOR POLICY AND LEGAL REFORMS

OPTIONS	NOTABLE EXAMPLES
Regulation (or voluntary private sector commitment) for accessible financial accounts	United Kingdom, European Union, South Africa, India
Responsible Finance: <ul style="list-style-type: none"> <li>■ consumer protection frameworks</li> <li>■ dispute resolution systems</li> </ul>	Australia, Peru, Indonesia, Malaysia, New Zealand
Nonbank financial institution regulation, licensing, supervision: <ul style="list-style-type: none"> <li>■ including for microfinance, leasing, and factoring</li> <li>■ reforms to enable agents to deliver financial services</li> <li>■ proportionate regulation and supervision of small depository institutions, e.g., financial cooperatives</li> </ul>	India, Egypt, Pakistan Brazil, Mexico
Laws and regulation underpinning safe and efficient payment systems, and enabling the growth of electronic money	
Laws and regulation enabling the operation of a modern and comprehensive credit reporting system	

Options for policy and legal reforms are listed in table 7, as an indicative list highlighting promising reforms, rather than an exhaustive one, because the range of available policy and regulatory tools is very wide.

The Philippines central bank has made it a priority to provide an enabling environment for innovation while maintaining an emphasis on the safety and integrity of the financial system and the protection of consumers. Box 5 outlines examples of this approach.

## **BOX 5. BANGKO SENTRAL NG PILIPINAS (BSP): ENABLING REGULATORY ENVIRONMENT**

### **Expansion of Financial Access Points through Micro-banking Offices**

BSP issued regulations (Circular 694, 14 October 2010) to allow banks to expand their physical network even in smaller, hard-to-reach markets, by allowing a simplified branch called a micro-banking office. This provides additional access points to a wide range of financial services (loans, savings, remittances, e-money conversion, bill payment, pay-out services, and limited foreign exchange purchases) while helping address issues of cost and branch viability.

### **Expanding the Virtual Reach of Banks through an Electronic Money Framework**

Through Circulars 649 (09 March 2009) and 704 (22 December 2010), the BSP created a platform for an electronic money ecosystem and efficient retail payments platform. Banks can create linkages with e-money service providers such as telecommunications companies or become e-money issuers either directly or through outsourcing arrangements.

### **Enhancing Loan Transaction Transparency and Consumer Protection**

BSP issued Circulars (730 in 2011 and 754,755 in 2012) that require credit-granting entities (banks, nonbank financial institutions and nonsupervised credit-granting institutions) to calculate and disclose an effective interest rate, and to use a standard format of disclosure to ensure that every borrower is provided with information related to their loan in a manner that is simple and easy to understand, and that is comparable across providers.

*Source: BSP.*



Kenyan financial regulators demonstrated flexibility toward innovations in financial service delivery by allowing Safaricom to develop a mobile phone money transfer service widely known as M-Pesa. This has reached more than 15 million registered users in Kenya, and is an example of the development of a new business model that introduced not only a financial service but a whole new financial ecosystem. Although mobile electronic transfers are still a very limited form of financial service, Kenya is finding that mobile transfers can be a platform to electronically link customers to the formal financial system, enabling a subsequent “product ladder” that can leverage – at least in part – the cost of acquiring and serving customers.

Another prominent case in which regulation released barriers that the private sector faced in expanding financial services was the relaxation by Brazil’s central bank of restrictions on agents as access points for financial services. Brazil’s “correspondent” network program consisted of partnerships between banks and 150,000 agents, and accounts for about 62 percent of the total number of service points in the financial system, making it the largest network of this kind in the world. Every municipality in Brazil now has at least a minimum level of access to financial services.

Accessible bank accounts, or “basic” bank accounts, are increasingly being promoted or mandated, as described in box 6. However, experience has been mixed, with limited enthusiasm from both banks and consumers in many cases, despite often impressive outreach numbers. These will be explored in more detail in the Financial Sector Responses section later in this Framework.

## BOX 6. MOVING TOWARD A BASIC BANK ACCOUNT IN THE EUROPEAN UNION

In the European Union, a substantial fraction of adults are denied access to basic bank accounts. The European Commission therefore recommended to all its members to ensure that all consumers have access to a basic payment account that promotes financial and social inclusion for individuals across Europe. Such accounts are expected to become available at a reasonable charge to consumers, regardless of their country of residence in the European Union or their financial situation. The recommendation stated that “Services inseparably linked to basic payment accounts should include the facility to deposit and withdraw cash into and from the account. They should enable the consumer to make essential payment transactions such as receiving income or benefits, paying bills or taxes and purchasing goods and services, including via direct debit, credit transfer and the use of a payment card.”

By July 2012, the Commission will monitor and assess progress made and will propose any actions needed, including legislative measures, in order to ensure that the objectives of the recommendation are achieved.

*Source: European Commission (2011).*

**Financial consumer protection** sets clear rules of conduct for financial firms regarding their retail customers. It aims to ensure that consumers (1) receive information to allow them to make informed decisions, (2) are not subject to unfair or deceptive practices, and (3) have access to recourse mechanisms to resolve disputes. Clear rules of conduct for financial institutions, combined with improved financial literacy for consumers, will inevitably increase consumer trust in financial markets and will support the development of these markets.

While consumer protection laws should be context-specific, the G20 High Level Principles on Financial Consumer Protection list the following attributes characterizing financial consumer protection regulation:

- **Fair market practices** – Terms of contracts of products and services offered by financial providers must be fair to consumers, and sales promotion materials must not mislead them.

## BOX 7. RESPONSIBLE FINANCE: RESOURCES, PRINCIPLES, GOOD PRACTICES

In November 2010, the G20 Summit asked the Financial Stability Board to work in collaboration with the Organization for Economic Cooperation and Development (OECD) and other international organizations to explore options to advance consumer finance protection and to report by the November 2011 meeting. At the G20's request, a Task Force on Financial Consumer Protection was established. The OECD has also developed Good Practices for Financial Education and Awareness as well as specific good practices on financial education and awareness relating to credit, insurance, and private pensions. In 2008, the OECD created the International Network on Financial Education.

The World Bank has developed Good Practices on Financial Consumer Protection in a consultative process, including with FinCoNet, OECD, the FSB Task Force on Consumer Protection, and the OECD Task Force on Financial Consumer Protection. The Good Practices can be used as an assessment methodology for detailed reviews of a country's legal, regulatory, and institutional consumer protection framework. So far, the Good Practices have been applied by the World Bank to more than 16 countries, with recommendations for Action Plans arising from these assessments. The World Bank is now developing a financial capability measurement toolkit with the Russia Trust Fund for Financial Literacy and Education.

The Consultative Group to Assist the Poor (CGAP) has published consumer protection reports, policy notes on consumer protection, as well as a set of client protection principles targeted to microfinance lenders, developed in collaboration with Accion International and other organizations. CGAP's research and advisory services on financial consumer protection focus on the particular consumer protection needs, behaviors, and experiences of consumers at the base of the pyramid, and the development of appropriate policy responses for this consumer segment (see Brix and McKee 2010.)

- **Equitable treatment** – All customers, irrespective of income, deserve to be treated with equal respect.
  - **Disclosure** – All relevant information to consumers must be fully disclosed, including fees, interest rates, and any other charges.
  - **Redress** – Mechanisms to voice complaints should be available to consumers.
  - **Financial Education** – Consumer education is needed to level the information balance between consumers and providers.
  - **Credit counseling** – Credit counseling services are useful for clients facing overindebtedness problems.
  - **Privacy** – Personal financial information should be private.
- More broadly, including financial literacy and capability as well as financial consumer protection, resources include those set out in box 7.
- A significant barrier to financial inclusion can be the application of financial integrity–related requirements in an inappropriate way. Anti-money laundering and combating the financing of terrorism (AML/CFT) requirements may hinder financial inclusion if, for instance, AML/CFT obligations require identification documents that some segments of the population do not have. Financial inclusion can promote financial integrity by bringing more customers and transactions from cash into monitored formal financial services. Countries can advance financial inclusion by allowing for flexible and proportional AML/CFT regulation that effectively monitors financial integrity without interfering on financial inclusion targets.

### BOX 8. PROPORTIONAL AML/CFT REGULATIONS THAT PROMOTE FINANCIAL INCLUSION

Under the AML/CFT guidelines for India, special provision is made for low-income customers that are unable to produce the standard identification documentation and that seek to open low-balance accounts. In these cases, banks are allowed to open an account as long as the potential client is introduced by another account holder who has been subjected to full customer due diligence procedures, and whose account with the bank is at least six months old and shows satisfactory transactions; or the potential client presents any other proof of identity that meets the bank's standards. In the Philippines, a certificate issued by the head of a village is accepted as an identification proof for potential customers in rural areas.

With respect to “know your customer” requirements, the Financial Action Task Force Guidance on “Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion,, recommends countries to apply a progressive approach to meeting know your customer/customer due diligence (KYC/CDD) requirements. This approach allows for differentiated CDD measures according to the profile of the potential customer. Under this approach, undocumented customers may be able to access very basic and limited financial services, and as customers are able to provide further identification, access to broader services is allowed. Box 9 provides several country examples.

As highlighted by the Financial Action Task Force (FATF), financial integrity and financial inclusion can complement each other more in policies than in practice. A discussion on the links between financial integrity and financial inclusion is provided in “FATF Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion,,” produced by the Financial Action Task Force with the World Bank and the Asia/Pacific Group on

Money Laundering, and “Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance,,” prepared on behalf of the G20’s GPFI.

### Financial Infrastructure Development

Financial infrastructure underpins safe and efficient transactions, and lowers the costs and risks to financial service providers. Critical components of financial infrastructure include the secured transactions framework, credit reporting system, and payments system, as outlined below and in Table 8.

Creditor protection through modern secured-lending legal regimes is associated with higher ratios of private sector credit to GDP. Moral hazard and adverse selection can be reduced if collateral frameworks are improved. Increasing the protection of creditors and debtor’s rights and enforcement mechanisms can lead to a considerable increase in private sector credit to GDP and lowers the level of nonperforming loans (IFC 2011). Effective collateral regimes contribute to financial inclusion by reducing the risks and losses of lenders.

## BOX 9. PROPORTIONAL RISK ASSESSMENTS: COUNTRY EXAMPLES

**Mexico:** authorities have identified risks for financial services to low-income populations based on an assessment of product characteristics and potential vulnerabilities. Based on that assessment, the AML/CFT regulations were modified to establish three levels of account activity (all low-transactional accounts) and corresponding AML safeguards. For level 1, the maximum monthly deposit total is US\$280 (750 Udis and an additional noncumulative balance of 1,000 Udis); US\$1,114 (3,000 Udis) for level 2, and US\$3,715 (10,000 Udis) for level 3.

**Canada:** only remittance transfers of CA\$1,000 or above require customer identification and verification.

**Lesotho:** low-risk customers are classified as those whose monthly gross turnover is less than US\$736. These customers need only one ID to open an account.

**Malaysia:** the Malaysia Bank accepts birth certificates and passports for Malaysian citizens, whereas for noncitizens, refugee cards, student cards, work permits, and letters from college are accepted.

Credit reporting addresses a fundamental problem of credit markets: asymmetric information between borrowers and lenders, which may lead to adverse selection, credit rationing, and moral hazard problems. Regulators and financial market participants are therefore increasingly recognizing the value of credit reporting systems for improved credit risk and overall credit portfolio management, to enhance financial supervision and financial sector stability, and as a tool to enhance access to credit.<sup>16</sup>

Payments systems provide the technical infrastructure, legal framework, and financial settlement mechanisms for financial transactions between market participants: individuals, banks, companies, brokers, retailers, and others. They ensure

that parties can settle transactions quickly, cheaply, securely, and with acceptable risk. Real-time gross settlement systems facilitate the safe and efficient settlement of large-value payments, and payments among financial institutions in general. Retail payments infrastructure, in particular automated clearinghouses, facilitates the processing of retail payment instruments. Interoperability is needed between the various technical platforms supporting the operation of the same payment instrument. Payment card switches are important for interoperability of payment card transactions in a country. Interfaces between external and internal infrastructures to increase automation and reduce operational risks also need attention.

<sup>16</sup> For further information, see World Bank 2011.

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TABLE 8. FINANCIAL INFRASTRUCTURE OPTIONS (EXAMPLES)

**Secured Transactions:**

- Movable collateral registry, insolvency regime

**Payments Systems:**

- Real-time gross settlement systems to facilitate the safe and efficient settlement of retail payment systems
- Retail payments infrastructure, including card switches and other automated clearinghouses
- Interoperability of technical platforms supporting payments instruments

**Credit Reporting Systems:**

- Credit bureau as a component of a modern credit system
- Credit registry to support banking supervision, can provide limited credit reporting services to banks until credit bureau(s) developed
- SME rating agency

**Unique Identities (e.g., biometric IDs)**

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## Public Initiatives and Market Interventions

Policy and regulatory reforms and financial infrastructure development can have delayed impacts, and in the meantime market failures and rigidities can persist, including related to information and perceptions, slowing down financial inclusion improvements. There can therefore be a valid role for time- and scope-limited public sector initiatives and interventions, including to stimulate a faster private sector response.

**Government payments** can be utilized to drive transaction volume, improve the viability of low-

income business models, and bring new customers into the formal financial sector. These payments cover a wide range of economic sectors and activities, and in most cases the overall amount of such flows is significant. Given their magnitude, improvements that lead to higher levels of efficiency, safety, and transparency can have a significant impact in the economy as a whole. Moreover, due to their scale and nature, government payments programs can be leveraged to also become an effective tool in the pursuit of other public policy objectives, like improving access to modern financial products for certain population segments.

TABLE 9: OPTIONS FOR PUBLIC INITIATIVES AND INTERVENTIONS

OPTIONS	NOTABLE EXAMPLES
State Banks or Funds (examples have emerged that have addressed the widespread governance, institutional, and performance weaknesses, and market distortion potential, of state banks to some extent)	Morocco (Credit Populaire), Canada, Chile, Peru (Agrobanco)
Partial Credit Guarantee Schemes (typically a less market-distorting intervention than state banks)	Many countries, e.g., Chile (FOGAPE), India, West Bank/Gaza
Apex facilities to support microfinance or SME finance	India, Turkey, southeast Europe
Responsible Finance: financial awareness campaigns (with civil society, private sector), financial education	
SME Finance-specific: <ul style="list-style-type: none"> <li>■ Trading platforms</li> <li>■ Management training (Business Edge)</li> </ul>	Chile (Chile Compra), Mexico (NAFIN)
Government to Person Payments, Conditional Cash Transfers (linked to bank accounts, as electronic transfers)	India, Mexico, Colombia, Brazil
Central Bank Services (e.g., settlement services in “central bank money”) to private payment and settlement systems to increase their safety and efficiency (longer-term role)	Brazil, India, South Africa

## BOX 10. GOVERNMENT TO PERSON (G2P) PAYMENTS

In 2008, India's National Rural Employment Guarantee Act (NREGA) made more than 45 million payments to poor people living in rural areas. People can receive their G2P payment from post office saving accounts, bank accounts, and village officials. In Andhra Pradesh, a fourth, more technologically advanced, alternative exists: receiving payment through electronic prepaid accounts that are accessed via smartcards issued by two technology firms. So far, the vast majority of accounts remain dormant. Nevertheless, banks expect that over time new customers joining G2P programs will generate additional revenue to them.

For example, it is estimated that approximately 170 million people worldwide receive some form of government to person payments (for example, cash transfers) (Pickens, Porteous, and Rotman 2009). For example, pensions and other social benefits being disbursed through bank accounts or other nonbank prepaid accounts may be the first introduction to such modern payment instruments for an important share of a country's population. Many micro and small enterprises also receive payments from the government as part of contracts involving the provision of services and goods.

While many governments have made impressive progress in moving government payments to electronic means, there is a wide disparity. According to the World Bank Global Payment Systems Survey

2010, only 27 percent and 25 percent of cash transfers/social benefits are processed electronically in lower-middle- and low-income countries, respectively. The World Bank has developed "General Guidelines for the Development of Government Payments Programs" that provide a framework for reforms in this area.

The public sector is also a significant buyer of services and goods from SMEs, with common examples being repair and maintenance contracts, office supplies, catering supplies, and transport services. Governments also provide indirect payments in the form of benefits, salaries, or pensions, to households of SME entrepreneurs. SMEs have the potential to use invoices and supply contracts with both the public and private sectors to secure access to financing. For example, they might increase access via factoring or employ the contract as collateral for a loan. The government can introduce mechanisms to facilitate this access to finance. For example, Mexico's NAFIN platform for factoring and value chain finance includes government invoices and contracts with SMEs, thus allowing SME providers to the public sector to also benefit from this financing platform. In Chile, the electronic system for government purchases, known as "Chile Compra," successfully addressed the objective of facilitating access of the domestic small companies to government purchase opportunities. The share of MSMEs in the total volume of purchases increased from 49 percent in 2007 to 55 percent in 2010. The share of SMEs in government purchases is almost double the figure for the whole economy (GPFI, SME Finance Policy Guide, 2011).

**Global Principles and Standards for Financial Infrastructure**<sup>17</sup> provide reference points for regulators and governments in designing and implementing reforms. These include:

- **The CPSS-IOSCO Principles for Financial Market Infrastructures.** This report contains new and more demanding international standards for payments, clearing, and settlement systems. The new standards (called “principles”) are designed to ensure that the essential infrastructure supporting global financial markets is even more robust and thus even better placed to withstand financial shocks than at present. The report contains a single, comprehensive set of 24 principles designed to apply to all systemically important payment systems, central securities depositories, securities settlement systems, central counterparties, and trade repositories (collectively “financial market infrastructures”).
- **CPSS-World Bank General Principles for International Remittance Services.** Published in January 2007, these principles have since been endorsed by the G8, the G20, and the Financial Stability Forum. The principles cover areas such as transparency and consumer protection, payment system infrastructure, legal and regulatory environment, market structure and competition, and governance and risk management. The report also identifies what the role of the remittance service providers and authorities should be to achieve the public policy objective of a safe and efficient market for remittance services.
- **World Bank General Principles for Credit Reporting Systems.** This report describes the nature of credit reporting elements that are crucial for understanding credit reporting and ensuring that credit reporting systems are safe, efficient, and reliable. It intends to provide an international agreed framework in the form of international standards for credit reporting systems’ policy and oversight. These principles are not intended for use as a blueprint for the design or operation of any specific system, but rather suggest the key characteristics that should be satisfied by different systems and the infrastructure used to support them to achieve a stated common purpose, namely Expanded Access and Coverage, Fair Conditions, and Safe and Efficient Service for borrowers and lenders.
- **General Guidelines for Government Payment Programs.** A comprehensive set of guidelines that can assist governments and other stakeholders in developing and operating safe and efficient government payment programs. The 10 general guidelines contained in this report fall under four broad topics: i) safety, efficiency, and transparency; ii) legal and regulatory environment; iii) availability of a payment system infrastructure; and iv) leveraging on government payment programs for other developmental objectives. The general guidelines have been developed by the World Bank in consultation with the International Advisory Group for Government Payments.

<sup>17</sup> All the principles and standards discussed in this section are available at [www.worldbank.org/paymentsystems](http://www.worldbank.org/paymentsystems).



## VII. Private Sector Actions

### *Corresponding Stage: Private Sector Actions*

The financial sector delivers financial products and services, and therefore should be involved in the strategy design and target-setting stages, as well as in the monitoring and coordinating structure – such as a National Platform for Financial Inclusion. If financial institutions have shared ownership of targets and actions – for example, through a charter – then they are more likely to see their achievement as being in their own interest rather than as an imposition, which is key to changing market behaviors over the long term and to sustainable outcomes. The implicit threat of regulation may of course help ensure that financial institutions respond seriously and go beyond their initial comfort zone in rethinking their business models.

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#### **Key Messages:**

■ *The financial sector response determines whether financial inclusion targets are met, through financial institutions introducing new services, adapting existing products and processes, and rolling out new delivery mechanisms.*

■ *Viable business models are still being developed, and an enabling environment is needed that allows innovation and the entrance of non-traditional actors, while ensuring that financial stability, consumer protection, and financial integrity are maintained as priorities.*

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The development of viable business models for serving low-income clients and MSMEs with a wide range of financial services is still ongoing, despite the notable potential and growth of models such as mobile phone banking and electronic money, linking bank accounts to government payments and benefits, index-based insurance, and financially accessible or “basic” bank accounts. Accessible financial accounts (including low-income savings accounts) and innovative retail payments are outlined here as two leading approaches on which other financial services can be built. However, this Framework is not intended to prescribe or second-guess the financial sector’s response to meeting financial inclusion commitments, so these are presented as examples only. The challenge for regulators and policymakers (as outlined in the preceding section) is to provide sufficient space for innovation and the piloting of new products and delivery mechanisms, while not compromising the focus on financial stability, consumer protection, and financial integrity.

#### **Accessible Financial Accounts**

Accounts with financial institutions such as banks or cooperatives that offer a means of storing funds (deposits) and accessing/sending funds (payments) are central to beneficial financial inclusion. Low-cost “no-frills” or “basic” accounts can have

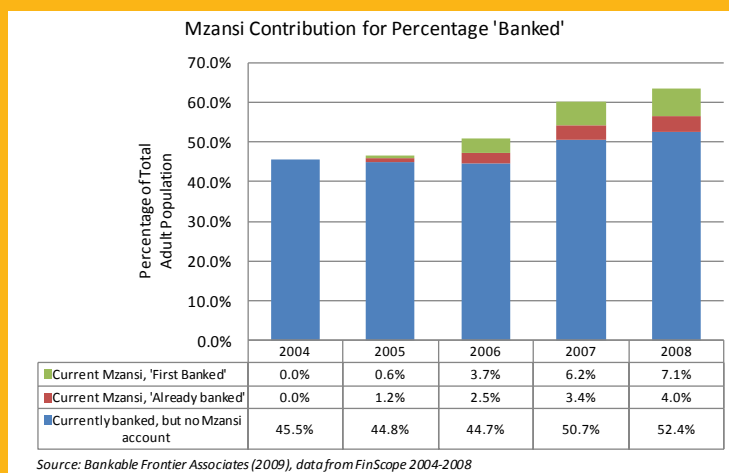
## BOX 11. ACCOUNTS: MZANSI ACCOUNTS

The Mzansi Account was an initiative launched in 2004 through South Africa's Financial Sector Charter to bring basic saving accounts to all South Africans. The major South African banks worked collectively to develop an account that met potential clients' needs, such as affordability and availability. Four years after it was launched, more than 6 million Mzansi accounts had been opened, a significant number in a country with an adult population of approximately 32 million. Today, at least one in ten South African adults currently has an Mzansi

account; and one in six banked people are active Mzansi customers. The engagement of banks in developing and implementing this new product has been essential.

For example, Mzansi account holders can make use of any of the participating banks' ATMs at no additional cost – effectively creating a network of more than 10,000 ATMs across the country and extending the banking platform to the greater community. This is augmented by point of sale functionality available at retailers. Overall, Mzansi accounts have significantly increased access to saving accounts in South Africa, and as a result, close to 80 percent of the population is now within reach of transactional banking savings. However, access to an account may be only a first step toward financial inclusion, and more work is needed to reach the entire path. Some banks are also now attracting clients into less rigid basic bank account products.

*Source: Bankable Frontier Associates (2009).*



less burdensome opening requirements (for example, simplified KYC requirements) and may not offer credit or overdraft facilities at least at first. Accessible financial accounts are now present in countries such as Brazil, Malaysia, India, Mexico, South Africa, Indonesia, the United Kingdom, and Kenya. In India, the reserve bank encouraged banks to create no-frills accounts in 2005, and by June 2010, 35 million such accounts had been opened.

The positive impact on financial inclusion of the Mzansi accounts in South Africa, a result of its Financial Sector Charter, is outlined below. The initial Financial Sector Charter target for new bank

accounts for the major four banks was 2.27 million by end-2008, which was met and has since been far exceeded. However, the cost per transaction for this type of account can still be high for very low-value payments, deposits, and withdrawals. Further innovations to lower delivery and access costs may be needed, which may imply the use of technology, agents, or alternative providers. According to the Bank Association of South Africa, the total number of Mzansi accounts held by the major four South African banks declined by 19 percent during the first half of 2011, related to the closure of dormant accounts, and to banks developing alternative products targeted at the lower end of the market.

Donors and governments are increasingly promoting saving products for low-income people. However the business case for these products is not yet widely proven. The Bill & Melinda Gates Foundation and World Savings Bank Institute are supporting 10 banks to introduce low-value savings accounts, the features of which may be more widely replicable. Eight of those banks are savings banks. Postal networks and savings banks are increasingly being recognized as important potential providers of savings and other financial services to low-income consumers, as are cooperatives in those countries where they are present at scale.

### Innovative Retail Payments

Recent technological developments are leading to the emergence of new retail payment instruments. In general terms, innovative payment products involve the payer maintaining a pre-funded account with an institution (not necessarily a banking or financial institution) and drawing down this pre-funded account to make payments. The payment instruction to draw down the pre-paid funds could be initiated online, via mobile phone, or via specific payment cards issued for this purpose.<sup>18</sup>

In the past decade, perhaps the most widely cited delivery channel innovation is the use of mobile phones as a mechanism to initiate and receive payments. Banks started leveraging the widespread use of mobile phones by extending traditional banking and payment services to mobile phones. To a large extent, mobile phones were treated just as an additional transaction channel. Mobile Money, on the other hand, is a confluence of e-money, a mobile phone in which e-money can be stored and subsequently transferred, and business correspondents/agents as the delivery channels. Mobile Money has the potential to help bring about a dramatic increase in the reach of electronic payment services to broader segments of the population. This potential can be fulfilled through: i) greater competition

### BOX 12. SAVINGS ACCOUNTS IN KENYA

A field experiment conducted in rural Kenya found that having access to a savings account led to substantial increases in business investment. The experiment allowed a randomly selected sample of self-employed earners to open interest-free savings accounts in a village bank. Usage of these accounts among women was high. Moreover, women saving in their accounts were more likely to invest in their business and to increase their expenditure, despite high withdrawal fees.

*Source: Dupas and Robinson (2009).*

by bringing in additional players, including nontraditional ones, to the provision of payment services; ii) creating a new business model based on variable costs recoverable through affordable fees (as compared with traditional payment products which may have higher fixed costs); and iii) creating channels that are more familiar and convenient to first-time users of payment products. Recent experiences have proven to some extent that this possibility is real, but at the same time have made it clear that there are still some significant challenges to fully realizing this potential, including the need for basic payments system infrastructure arrangements. As users become familiar with Mobile Money and develop trust in the product, access to other products like deposits, investment, and insurance could be offered (Cirasino 2012).

The 2010 World Bank survey on innovations in retail payments provides valuable insights, based on responses from 101 central banks, as outlined in box 13.

Some countries have tried telecom-led operating models, in addition to bank-led models. In the case of M-Pesa, a telecom company is the issuer

<sup>18</sup> E-money products are one type of innovative payment product. E-money is a record of funds or value available to a consumer, stored on a payment device such as chip prepaid cards, mobile phones, or computer systems. At the time of transaction, the stored value is read/accessed through an appropriate infrastructure and the value transferred accordingly

of the product and handles activities, including being responsible for customer funds. For telecom models (as well as for other models where a nonbank entity is the legal provider of the service), a range of potential issues need to be addressed. Guidelines for regulating nonbank e-money issuers typically include provisions for “fund safeguarding” to ensure availability of funds when customers redeem the stored value, as well as provisions for “fund isolation,” which ensure that such funds

are not subject to claims by issuer creditors and are not “intermediable” (Tarazi and Breloff 2010). Additional aspects to take into account include the respective remits of the financial and telecom regulators, the application of financial regulations to a nonfinancial service provider, the remit under which telecom companies fall for consumer protection, access to the payments system, and the potential for adding other financial services such as savings.

### **BOX 13. INNOVATIONS IN RETAIL PAYMENTS: GLOBAL PAYMENTS SYSTEMS SURVEY (WORLD BANK)**

- Usage of innovative payment products is increasing, but still much lower than traditional retail payment products. Only 11 countries reported that innovative payment products transactions represent more than 5 percent of total retail payment transactions. However, 70 countries reported increasing usage of innovative payment products, with 19 countries reporting that use of innovative payment products usage is increasing faster than that of traditional payment products.
- While nonbanking players have an important role in the provision of innovative retail payment products/mechanisms, banks remain a significant player in this field. In 73 percent of the innovative retail payment mechanisms reported in the survey, banking entities were actively involved in the provision of the services. However, collaboration among various types of entities is widespread with more than one-third of the products involving joint provision of products/services, almost all of which involve a bank and telecom company. For more than 61 percent of the cases, the underlying account is a bank account, with an additional 17 percent being in a nontraditional bank account. More than 38 percent of the products reported by the central banks use the services of agents, and in about two-thirds of the cases, agents are nonbanking entities such as retailers.
- Customer funds are protected in about 60 percent of the cases. The survey sought responses on the customer protection mechanism used for the innovative products. For about one-third of the products, customer funds are protected by deposit insurance, while in about one-fourth of the products, customer funds are fully backed by deposits. However, about one-fifth of the products are not protected by any protection mechanism.
- The majority of the innovative products/mechanisms have very limited interoperability. Less than 20 percent of the products were reported to be fully or partially interoperable. About 25 percent of the products/mechanisms have some form of interface with traditional payment products.
- Merchant payments, utility bill payments, and person-to-person transfers were the most common transaction types supported by the innovative payment mechanisms. Less than 10 percent of the products supported government to person payments.
- The traditional clearing and settlement infrastructure is in general not used. More than 50 percent of the innovative products reported in the survey were settled on the books of the issuer. Less than 40 percent of the products settle the same day.

## VIII. Implementation Support Framework

*Corresponding Stages: Strategy-Building and Revision, Public Sector Actions, Private Sector Actions*

A financial inclusion strategy can be underpinned with data, analysis, global knowledge, technical assistance, and financing. Countries may wish to request a tailored package of support for country-led financial inclusion actions, whether they are standalone action plans or components of broader financial sector development strategies. Donors can coordinate a tailored and sequenced package of support to fit national financial inclusion strategies, and can work within financial inclusion coordination mechanisms such as the national platforms recommended in this Framework. The capacity of supervisors to cope with an expanded remit in terms of functions, and also the volume and range of financial services provided, may also need to be similarly expanded, through funding support and training.

Development partners such as the World Bank, regional development banks, donors, the IFC, CGAP, the UN, and the Alliance for Financial Inclusion<sup>19</sup> provide a range of complementary forms of assistance. Figure 3 sets out the roles these and other institutions can play in support of country financial inclusion actions. Increased support may be needed for utilizing financial inclusion and

infrastructure diagnostics and data to inform policy and legal reforms, strengthening the capacity of the private sector and civil society to participate in financial target-setting and in design (through consultation) of reforms, capacity-building for low-income country regulators and policymakers; technical tools for real-time impact assessment that can feed into policy implementation; and testing and rolling out viable business models for low-income and MSME clients.

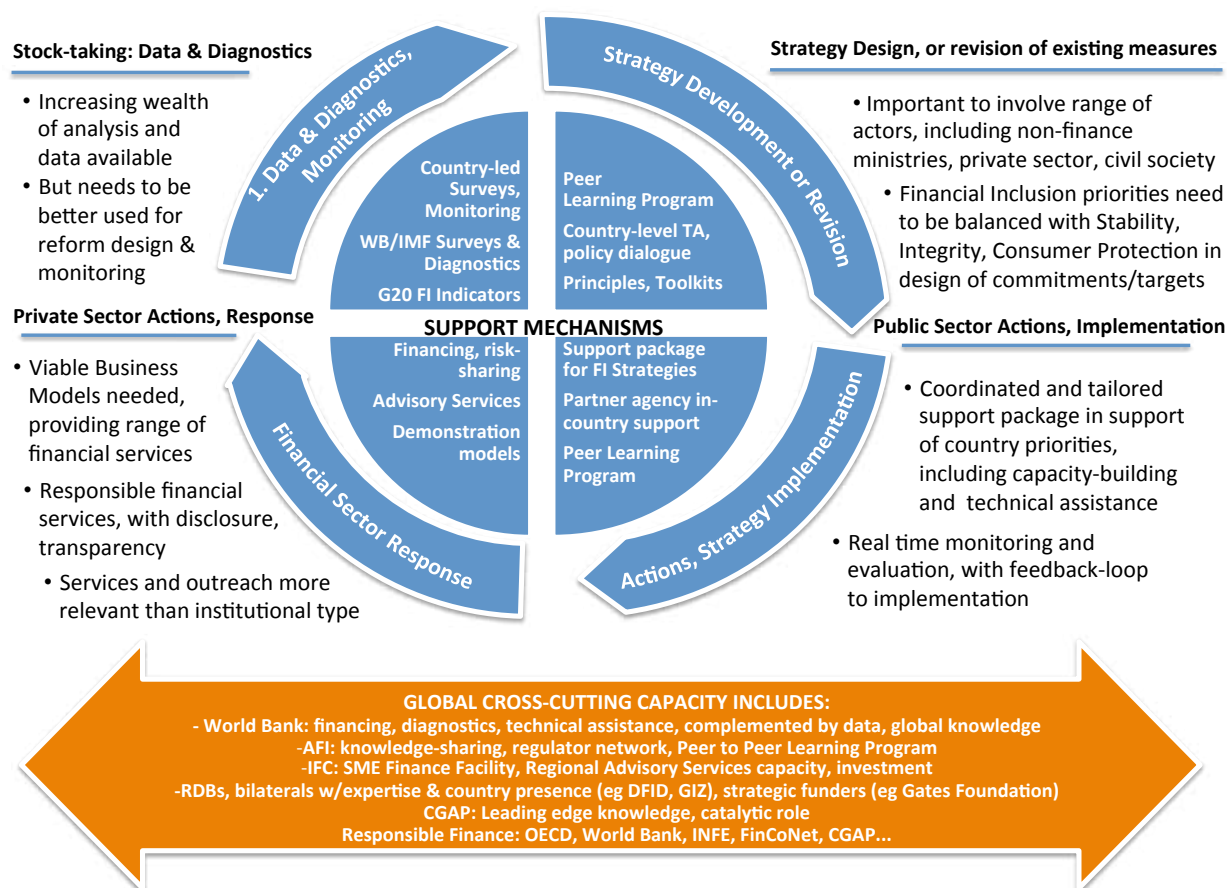
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### Key Messages:

- *The Peer to Peer program facilitated by the Alliance for Financial Inclusion network of financial regulators, the global capacity of the World Bank to support policymakers and regulators and of the IFC to support financial institutions, and the respective strengths and capacity of regional development banks, CGAP, and other development partners, can be harnessed by countries making financial inclusion commitments as they see fit.*
  - *A package of support for financial inclusion can be designed in parallel with financial inclusion strategies, in order to ensure sequenced and effective support to country-led financial inclusion strategy implementation, and in response to country demands and priorities..*
- 

<sup>19</sup> AFI was asked by the G20 in 2010 to strengthen the peer learning platform for financial inclusion policy making, and to monitor and support country commitments under the Maya Declaration.

FIGURE 3. SUPPORT FRAMEWORK FOR FINANCIAL INCLUSION COMMITMENTS AND STRATEGIES: PRIORITIES, MECHANISMS



Note: RDBs: Regional Development Banks, including African Development Bank, Asian Development Bank, Inter-American Development Bank, European Bank for Reconstruction and Development.

For those countries prioritizing SME finance, the GPMI SME Finance Compact (in development) could support the development of innovative models and approaches to address the specific challenges and constraints faced by low-income countries with regards to SME finance. Annex 3 outlines the proposed areas of focus for an SME Finance Compact in more detail, which would include i) establishing an enabling environment for SMEs' access to financial services, ii) working in

partnership with selected least developed countries (LDCs) in sharing experience and successful models, iii) providing capacity-building and technical assistance to support implementation of SME finance strategies and policy frameworks, iv) providing an efficient network platform through the GPMI website and the Global SME Finance Forum, and v) promoting actions to foster financial inclusion, including financial education and consumer protection.

## IX. Conclusions

This Reference Framework rests on the following parameters, which draw from and synthesize the innovative approaches and lessons learned from a range of G20 and non-G20 countries:

### Financial Inclusion Strategies

- Country-level financial inclusion actions typically include the following components, which can overlap and are not necessarily sequential: i) stock-taking: data and diagnostics; ii) targets and objectives; iii) strategy-building or revision; iv) public sector actions: policies, regulation, and financial infrastructure; v) private sector actions; and vi) progress-monitoring.
- Each country context varies, including in terms of availability of data and diagnostics, institutional capacity to implement reforms, financial market structure, level of financial infrastructure, and political priorities. The reference material, examples, and recommendations set out in this Framework, are not prescriptive and can be selectively used as appropriate for each country context.
- Financial inclusion strategies can include a focus on priority areas for a country, such as SME finance, women's access to finance, rural finance, or financial education.
- Financial inclusion is interlinked with financial stability, financial integrity, market conduct, and the financial capability of consumers, and strategies should be prepared with reference to analysis and objectives for those areas, whether the financial inclusion strategy is a stand-alone document or part of a broader financial sector strategy.

### Stock-taking: Data and Diagnostics

- Country-level data and diagnostic assessments inform the design and sequencing of reforms, and can also be valuable to the private sector for adapting the design and delivery of financial services.
- A country can conduct a stock-taking exercise to identify the barriers to financial inclusion, the areas where financial inclusion is restricted (through survey data and diagnostic assessments), and the existing measures and policy/regulatory framework in place as relevant to financial inclusion. Countries can use that analysis and data to design and implement any further actions to address gaps and to ensure that financial inclusion objectives and targets are on track, or to develop a financial inclusion strategy.
- Indicators for financial inclusion can be used for the national process of target-setting, and for monitoring progress in achieving improvements in financial inclusion. Core indicators consistent with the proposed G20 Basic Set of Indicators prepared by the GPMI Sub-Group on Data and Measurement are as follows:<sup>20</sup>
  - *Formally banked adults: Percentage of adults with an account at a formal financial institution*
  - *Adults with credit from regulated institutions: Percentage of adults with at least one loan outstanding from a financial institution*
  - *Formally banked enterprises: Number or percentage of SMEs with accounts*

<sup>20</sup> The first two indicators can be monitored for the population as a whole, and also for women, so that a financial strategy can place particular emphasis on improving financial inclusion for women and tackling gender-specific barriers.

- *Enterprises with an outstanding loan from a regulated financial institution: Number or percentage of SMEs with an outstanding loan*
- *Points of service: Number of branches per 100,000 adults*
- Adoption of these indicators would allow for ownership by each country to set its own targets, as well as for benchmarking with peer countries. Secondary indicators and targets can be developed to further fit country priorities.

#### Institutional Structure

- Leadership – the first Principle for Innovative Financial Inclusion – is needed to coordinate actions and maintain drive and momentum for reforms. A National Platform for Financial Inclusion can play this role, and can also ensure that progress in reaching targets is monitored, and changes to strategy content are identified and implemented to improve effectiveness.
- A dedicated unit in a financial regulator or ministry of finance can provide an operational lead on public sector actions, including on regulation, policies, and financial infrastructure. A broad range of public sector actors also have roles to play.
- The financial sector must be centrally involved in setting financial inclusion targets, in order to ensure that targets are realistic, and that the financial sector takes ownership in achieving them.

#### Public Sector Actions: Policies, Regulation, and Financial Infrastructure

- Policy and regulatory reforms, and financial infrastructure development, which are based on diagnostics and data, can enable expansion of financial inclusion, to the benefit of households and firms.

- Public sector initiatives and market interventions may be justified in limited cases due to market failures, or to incentivize private sector actions in the interim while reforms and financial infrastructure are put in place.

#### Private Sector Actions

- The financial sector response is critical and determines whether financial inclusion targets are met, through financial institutions introducing new services, adapting existing products and processes, rolling out new delivery mechanisms, etc.
- Viable business models are still being developed, and an environment is needed that enables innovation and the entrance of non-traditional actors, while ensuring that financial stability, consumer protection, and financial integrity are maintained as priorities.

#### Implementation Support Framework

- A package of support for financial inclusion can be designed in parallel with financial inclusion strategies, in order to ensure sequenced and effective support to country-led strategy implementation, in response to country demands and priorities.
- Capacity-building support may be needed for countries facing institutional and resource limitations in implementing financial inclusion actions to meet agreed targets and objectives.



## ANNEX 1. FINANCIAL INCLUSION STRATEGIES/ FRAMEWORKS

Country	Data	Targets	Strategy: Agreement on financial inclusion goals	Policy and Regulatory Reforms: Public sector removes regulatory barriers	Financial Sector Response: New financial services and delivery mechanisms	Monitoring progress: Public sector monitors progress on goals
Brazil	<ul style="list-style-type: none"> <li>Financial Inclusion Report (RIF)</li> </ul>	<ul style="list-style-type: none"> <li>To expand basic financial services to all municipalities</li> </ul>	<ul style="list-style-type: none"> <li>National Partnership for Financial Inclusion</li> </ul>	<ul style="list-style-type: none"> <li>Regulations that broadened the range of services offered by correspondents</li> </ul>	<ul style="list-style-type: none"> <li>Correspondent banking model</li> <li>Simplified current and savings accounts</li> <li>Financial services via cell phones</li> <li>Call centers for consumer protection</li> </ul>	<ul style="list-style-type: none"> <li>Progress monitored by the Financial Inclusion Unit (Banco Central do Brasil)</li> </ul>
Canada	<ul style="list-style-type: none"> <li>General Survey on Consumers' Financial Awareness, Attitudes and Behavior</li> </ul>	<ul style="list-style-type: none"> <li>To increase the knowledge, skills, and confidence of Canadians to make responsible financial decisions</li> </ul>	<ul style="list-style-type: none"> <li>Canadian Banking Code</li> <li>National Strategy on Financial Literacy</li> </ul>	<ul style="list-style-type: none"> <li>Legislation on Access to Basic Banking Services</li> </ul>	<ul style="list-style-type: none"> <li>Low cost bank accounts</li> <li>Free encashment of government checks (even for non-customers)</li> <li>Financial literacy web portal</li> <li>National school resource for teachers and financial education providers called The City</li> </ul>	<ul style="list-style-type: none"> <li>Financial Consumer Agency of Canada</li> <li>Canada's Task Force on Financial Literacy</li> </ul>
India	<ul style="list-style-type: none"> <li>All India Debt and Investment survey (undertaken every 10 years)</li> <li>National Sample Survey</li> <li>RBI and other survey data from research institutes</li> </ul>	<ul style="list-style-type: none"> <li>Target of the NRFIP - To provide financial services, including credit, to at least 50 percent of financially excluded households in the country by 2012 through rural or semi-urban branches of commercial banks and through Regional Rural Banks (RRBs). The remaining households have to be covered by 2015.</li> </ul>	<ul style="list-style-type: none"> <li>12th Five Year Plan</li> <li>Statement of Intent signed between Ministry of Finance and Public Sector Banks</li> <li>Financial Inclusion Plans submitted to RBI</li> <li>National Rural Financial Inclusion Plan (NRFIP)</li> <li>Financial Inclusion Committee constituted by the government</li> </ul>	<ul style="list-style-type: none"> <li>Regulatory freedom to open rural and semi-urban bank branches and linking these initiatives with the opening of branches in other areas</li> <li>Guidelines issued for banking correspondent and banking facilitator model for microfinance</li> <li>Simplification of procedures for access to finance (e.g. KYC guidelines, no due certificates from other banks, etc.)</li> <li>Microfinance circular</li> <li>Numerous circulars pertaining to rural and cooperative banking and to priority sector lending for all commercial banks</li> </ul>	<ul style="list-style-type: none"> <li>Basic bank accounts, no-frill bank accounts</li> <li>Banking agents</li> <li>India's extensive post office network is being used to further the inclusion agenda</li> <li>Experimentation with a number of delivery models, financing mechanisms, products and technologies: low-cost/ATM, biometric cards, mobile phones, etc.</li> <li>Banks launching mobile van banking facilities in small villages</li> <li>Partnership model that allows banks to leverage MFIs' loan origination capability</li> </ul>	<ul style="list-style-type: none"> <li>Reserve Bank of India's guidance on Financial Inclusion, specific commission: Khan Commission</li> </ul>
Indonesia	<ul style="list-style-type: none"> <li>Access to Finance Household Survey of Migrant Workers</li> </ul>	<ul style="list-style-type: none"> <li>To diversify and expand the financial services offered to households</li> </ul>	<ul style="list-style-type: none"> <li>National Strategy for Financial Inclusion</li> </ul>	<ul style="list-style-type: none"> <li>Development of BI's Sharia banking policies</li> <li>Credit Guarantee Policy Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of ATM network</li> <li>State-owned pawnshop company to give loans against movable assets</li> <li>Indonesian post office operating in mobile service vehicles and with village agents</li> </ul>	<ul style="list-style-type: none"> <li>Responsibility of the Vice President's Office</li> </ul>

## FINANCIAL INCLUSION STRATEGIES/ FRAMEWORKS (CONT.)

Country	Data	Targets	Strategy: Agreement on financial inclusion goals	Policy and Regulatory Reforms: Public sector removes regulatory barriers	Financial sector response: New financial services and delivery mechanisms	Monitoring progress: Public sector monitors progress on goals
Kenya	<ul style="list-style-type: none"> <li>■ National Financial Access Survey (FinAccess)</li> </ul>	<ul style="list-style-type: none"> <li>■ To raise savings and investment ratios from 14% to 25–30% of GDP</li> <li>■ Deepen penetration of financial services, especially to rural areas</li> <li>■ Double formal financial inclusion to reach 50%</li> </ul>	<ul style="list-style-type: none"> <li>■ Comprehensive Financial Sector Reform and Development (CFSRD) strategy</li> <li>■ Financial Access Partnership</li> </ul>	<ul style="list-style-type: none"> <li>■ Enactment of the Microfinance Act and Regulations</li> <li>■ Banking Act</li> <li>■ Credit Information Sharing</li> <li>■ Enactment of Proceeds of Crime and Anti-Money Laundering Act</li> <li>■ Regulatory framework for SACCOs</li> <li>■ Public sector signaled space for innovation (not rushing to regulate mobile banking before the model is tested)</li> <li>■ Regulators encourage competition through compilation and dissemination</li> </ul>	<ul style="list-style-type: none"> <li>■ Mobile banking (M-Pesa) - new mobile phone based money transfer products</li> <li>■ Post offices and banking agents</li> <li>■ Credit information sharing</li> <li>■ Government payments (G2P) program</li> <li>■ Emergence of specialized providers (e.g., PayNet - national system of ATMs) to a wide range of banks and other financial institutions</li> </ul>	<ul style="list-style-type: none"> <li>■ Central Bank of Kenya</li> </ul>
Mexico	<ul style="list-style-type: none"> <li>■ RIF supply-side dataset</li> <li>■ National Household Survey of Financial Services Usage</li> <li>■ National Survey of Financial Services Competitiveness, Access and Usage</li> <li>■ Financial Abilities Measurement to Improve Products Quality</li> <li>■ MxFLS/ENVIH</li> </ul>	<ul style="list-style-type: none"> <li>■ To improve data collection: have measurements of all financial inclusion components</li> <li>■ To expand access to financial services</li> <li>■ Develop financial literacy and capability in Mexico</li> </ul>	<ul style="list-style-type: none"> <li>■ National Development Plan 2007–2012</li> <li>■ 2008–2012 Financing for Development National Program</li> </ul>	<ul style="list-style-type: none"> <li>■ Reforms of the banking laws enabled nonfinancial entities to provide financial services in rural areas, and permitted creation of specialized niche banks</li> <li>■ New Transparency Law</li> <li>■ Cooperatives and Saving Funds regulation and supervision</li> </ul>	<ul style="list-style-type: none"> <li>■ Banking agents (correspondent banking)</li> <li>■ System for electronic interbank payments</li> <li>■ Central banks of U.S. and Mexico aligned payment systems to facilitate remittances</li> <li>■ Mobile payments</li> <li>■ Simplified accounts</li> <li>■ Niche banks</li> <li>■ Pre-paid debit cards</li> </ul>	<ul style="list-style-type: none"> <li>■ Progress monitored by Access to Finance Unit (CNBV) and Financial Inclusion Council through surveys data and the Financial Inclusion Reports</li> <li>■ Oversight of consumer protection via CONDUSEF</li> </ul>

## FINANCIAL INCLUSION STRATEGIES/ FRAMEWORKS (CONT.)

Country	Data	Targets	Strategy: Agreement on financial inclusion goals	Policy and Regulatory Reforms: Public sector removes regulatory barriers	Financial sector response: New financial services and delivery mechanisms	Monitoring progress: Public sector monitors progress on goals
Peru	<ul style="list-style-type: none"> <li>■ Financial surveys to measure financial literacy, access and use of financial services</li> <li>■ Set of financial inclusion indicators of access, use, and geographical inequality distribution</li> </ul>	<ul style="list-style-type: none"> <li>■ To raise the level of knowledge about financial services, especially among low income households</li> </ul>	<ul style="list-style-type: none"> <li>■ Planned</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial System Act and Insurance</li> <li>■ Consumer Protection regulation</li> </ul>	<ul style="list-style-type: none"> <li>■ Banking agents</li> <li>■ Financial literacy programs: Programa de Asesoría a Docentes (PAD), Virtual Classroom website</li> </ul>	<ul style="list-style-type: none"> <li>■ Progressed monitored by the Committee on Financial Inclusion (SBS) based on the indicators of financial inclusion collected</li> <li>■ Financial Touch-Point Access (planned) will be an indicator used to provide information on the relationship between financial inclusion and economical well-being</li> </ul>
South Africa	<ul style="list-style-type: none"> <li>■ FinScope Data Survey (annual and national representative household survey of financial services usage)</li> <li>■ Financial Diaries project (year-long intensive household research process with 166 poor households)</li> </ul>	<ul style="list-style-type: none"> <li>■ Based on FinScope Data, the following targets were imposed: <ul style="list-style-type: none"> <li>■ By 2008, 80% of LSM 1-5 (population with average monthly household income of less than 121 pounds) should have: <ul style="list-style-type: none"> <li>■ access to transaction products and services</li> <li>■ access to bank savings products and services</li> <li>■ effective access to life insurance industry products and services</li> </ul> </li> <li>■ - % of LSM 1-5 should have access to formal collective investment saving products and services</li> <li>■ 6% of LSM 1-5 should have access to short-term risk insurance products and services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Financial Sector Charter comprised by government, business, labor, and community representatives</li> <li>■ Financial Advisory and Intermediary Services Act</li> <li>■ Dedicated Banks Bill</li> <li>■ The National Credit Act (2005) and Regulation (2006) to tackle predatory lending and consumer abuses</li> <li>■ Legislative changes to enable cooperatives, savings and loan banks to expand access</li> <li>■ Competition enquiry regarding retail banking and national payment systems</li> <li>■ Proposed micro-insurance discussion paper and focus on insurance industry re: disclosure and unfair charges</li> </ul>	<ul style="list-style-type: none"> <li>■ Banking sector has introduced an easy-to-use and affordable basic bank account (Mzansi)</li> <li>■ Cell phone banking</li> <li>■ Increase the fraction of social transfers that are paid through bank accounts</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial Sector Charter-Reviews in 2009 and 2015 to assess achievements and document impact of financial sector transformation</li> <li>■ FinMark provides market research data and analyses of impact of legislative changes on access</li> </ul>	
United Kingdom	<ul style="list-style-type: none"> <li>■ Family Resources Survey</li> </ul>	<ul style="list-style-type: none"> <li>■ Halve the number of unbanked adults in the United Kingdom</li> </ul>	<ul style="list-style-type: none"> <li>■ Financial Inclusion Taskforce</li> </ul>	<ul style="list-style-type: none"> <li>■ Modern regulatory framework for credit unions to expand small-sum credit</li> <li>■ Electronic money regulation</li> <li>■ Reforms to the regulatory framework for financial services to include the establishment of a new Financial Conduct Authority</li> </ul>	<ul style="list-style-type: none"> <li>■ Basic bank products that can be accessed at local post offices</li> <li>■ Government-funded activities such as the Growth Fund for third sector lenders, financial inclusion champions initiative, debt advice</li> <li>■ Projects and pilots to crack down on illegal moneylenders</li> <li>■ Government changed the way it made G2P payments</li> <li>■ Mobile banking</li> </ul>	<ul style="list-style-type: none"> <li>■ Progress monitored by the Financial Inclusion Taskforce through Financial Inclusion Indicators</li> </ul>

## ANNEX 2. International Financial Inclusion Indicators

Several initiatives are now improving the comparability of financial inclusion indicators across countries. Four of these are profiled here.

### 1. IMF Financial Access Survey (FAS)

Since 2004, the global data collected by the IMF are used to develop the following worldwide indicators of access and usage:

Access Indicators:

- Number of commercial bank branches per 1,000 km<sup>2</sup>
- Number of commercial bank branches per 100,000 adults
- Number of ATMs per 1,000 km<sup>2</sup>
- Number of ATMs per 100,000 adults

Usage Indicators:

- Number of borrowers from commercial banks per 1,000 adults<sup>21</sup>
- Outstanding loans from commercial banks (% of GDP)
- Number of depositors with commercial banks per 1,000 adults<sup>22</sup>
- Outstanding deposits with commercial banks (% of GDP)

<sup>21,22</sup> These indicators are available for only 13 countries. Most countries do not collect this information.

## 2. AFI Core Set of Financial Inclusion Indicators

The AFI Financial Inclusion Data Working Group (FIDWG) formulated a core set of financial inclusion indicators of access and usage of formal financial services by households that, importantly, will be consistent across countries. It is expected that participating countries commit to measure and share their indicators to allow comparisons with other economies. This effort to advance financial inclusion indicators in a standardized framework is designed to ensure country ownership and to be the starting point for more indicators that allow setting realistic and evidence-based targets. The core set of indicators consists of the following indicators of access to and usage of financial products and services:

### Access indicators:

- Number of access points per 10,000 adults at a national level and segmented by type and by relevant administrative units
- Percentage of administrative units with at least one access point
- Percentage of total population living in administrative units with at least one access point

### Usage indicators

- Percentage of adults with at least one type of regulated deposit account (in countries where these data are not available, use as proxy the number of deposit accounts per 10,000 adults)
- Percentage of adults with at least one type of regulated credit account (in countries where this data is not available, use as proxy the number of loan accounts per 10,000 adults)

FIDWG expects countries to collect the core set of indicators on a regular base. Data on access are collected from financial institutions, whereas data on usage are collected from nationally representative demand-side surveys, if available, or from the supply-side data if not. A pilot test of the core set was conducted in 2011 in 12 countries,<sup>23</sup> and feedback from this exercise will further refine this set of indicators. Based on feedback from AFI member countries, the AFI's core set may continue to expand in the next years. The sub-group is also evaluating whether to include additional indicators such as access to regulated insurance products, savings and investment accounts, and indicators concerning SMEs. Moreover, special attention is given to the design of indicators for more complex dimensions of financial inclusion, such as indicators on quality of financial services, financial literacy, barriers to access; access and usage indicators for informal and nonbank providers; indicators on enabling environments; differentiation of active users; and access to finance by women-owned SMEs, agricultural SMEs, and informal businesses. The challenge with these potential indicators is to ensure comparability across countries.

A gap that the AFI core set of financial indicators can help to fill in the future is data from their members on regulation concerning financial inclusion. This will facilitate comparisons among countries related to their regulatory frameworks, such as countries with regulation-enabling banking agents, mobile banking, no-frills accounts, and additional regulation that some countries have been implementing.

One of the key implications of implementing this set of indicators is that their adoption could help guide countries just beginning to measure domestic financial inclusion.

<sup>23</sup> The current list of countries piloting the AFI indicators is: Malaysia, Burundi, Kenya, the Philippines, Mexico, South Africa, Peru, Guatemala, Thailand, Zambia, Brazil, and Uganda.

### 3. Global Findex Core Indicators

The core global Findex indicators are expected to provide valuable information from the demand-side perspective that will allow benchmarking progress with other countries, track progress over time, identify priorities, and provide a baseline for research in financial inclusion topics.

#### Findex Usage Indicators

##### Use of Bank Accounts

- % of adults with an account at a formal institution
  - Purpose of accounts (personal or business)
  - Frequency of transactions (deposits and withdrawals)
  - Mode of access (ATM, branch, etc.)

##### Savings

- % of adults who saved within the past 12 months using a formal financial institution
  - % of adults who saved within the past 12 months using an informal savings club or a person outside the family
  - % of adults who otherwise saved (e.g., in their home) within the past 12 months

##### Borrowing

- % of adults who borrowed within the past 12 months from a formal financial institution
  - % of adults who borrowed within the past 12 months from informal sources (including family and friends)
- % of adults with an outstanding loan to purchase a home or an apartment

##### Payments

- % of adults who used a formal account to receive wages or government payments within the past 12 months

- % of adults who used a mobile phone to pay bills or send or receive money within the past 12 months

- % of adults who used a formal account to receive or send money to family members living elsewhere within the past 12 months

#### Insurance

- % of adults who personally purchased private health insurance
- % of adults who work in farming, forestry, or fishing and personally paid for crop, rainfall, or livestock insurance

In addition, the Findex data will provide flexibility for a country to tailor its indicators by key covariates, such as age, income level, or gender.

### 4. FinScope Indicators

FinScope indicators are produced with data collected by FinScope. These demand-side indicators have helped design policies and track progress in covered countries.

#### Usage indicators

- % of adult population using financial products and services/mechanisms (formal or informal)
- % of adult population formally served (using formal financial products)
- % of population banked (using commercial bank products)
- % of population served by other formal (non-bank) institutions
- % of population informally served (using informal products or mechanisms)
- % of population excluded/unserved (not using any formal or informal product or mechanisms)

## ANNEX 3. SME Finance Compact

The SME Finance subgroup of the GPFi has focused its work over the past two years on identifying the best policies, practices, and business models for lowering the barrier to SME access to capital. The outcome of this work is a set of reports: “Scaling-Up SME Access to Financial Services in the Developing World,” “SME Finance Policy Guide,” “*Strengthening Access to Finance for Women SMEs in Developing Countries*,” and “Scaling Up Access to Finance for Agricultural SMEs,” which document the recommendations that countries committed to improving access to finance for their small businesses can implement. The focus now turns to how to convert this extensive knowledge base into action.

The GPFi Report submitted to the G20 Leaders at the Cannes Summit in 2011 states that “... the ‘SME Finance Compact’ is a novel platform to engage with developing countries. The Compact should reflect the commitment of a core list of these countries to lead the effort in developing and implementing their own national enabling policy framework for SME Finance within their financial inclusion agenda, and, with the support of the GPFi and partnership with the G20, develop innovative models and approaches to address the specific challenges and constraints faced by low income countries with regards to SME finance. The objectives and mechanism of the Compact will be elaborated in time for a potential formal launch at the 2012 Summit in Mexico.”

### Objective

The SME Finance Compact aims to provide a way to move from principles and recommendations to actions that make a difference in developing countries. The Compact will be a vehicle for the G20, through the GPFi, to partner with a limited number of developing countries to lead the effort in developing and implementing SME finance strategies focusing on the enabling environment for SME finance. Through their leadership and reform progress these countries can encourage other countries and contribute to a peer learning process. Guiding principles are:

**Voluntary Membership:** The commitment of all partner countries and GPFi stakeholders, including possible funding and technical assistance commitment, is voluntary and will be based on free dedication.

**Country Driven:** The implementation process should be driven by the selected partner country that decided to launch a national action plan and to seek support from the GPFi.

**Content Will Focus on Enabling Environment:** The SME Finance Compact will focus on measures to improve the enabling environment for SME finance.

### Content

#### I. Establishing an enabling environment for SMEs’ access to financial services

■ Improve national policy framework along the recommendations of the “Scaling-Up SME Access to Financial Services in the Developing World” report (2010)<sup>24</sup> and based on country case examples that enhance access to finance for SMEs and an appropriate methodology to assess impact of SME finance policies (by taking further into account the challenges of developing countries, in particular LDCs).

<sup>24</sup> The SME Finance Stocktaking Report: “Scaling Up SME Financing in the Developing World,” identified SME finance policies and best practices based on 164 case studies, and made recommendations in these areas.

- Recognize the importance of women entrepreneurs' access to capital by incorporating the policy recommendations and best practices identified in the report "Strengthening Access to Finance for Women-Owned SMEs in Developing Countries" into the country-specific national policy framework.

- Acknowledge the important role of access to finance for agricultural SMEs in order to enhance food security by building on the GPFi policy recommendations laid out in the report "Scaling Up Access to Finance for Agricultural SMEs."

- Formulation of country-specific recommendations for a policy framework for a feasible and implementation oriented program of SME development under three optional areas: (1) legislation, regulation, supervision; (2) financial market infrastructure; and (3) public intervention and support mechanisms.<sup>25</sup>

## **II. Working in partnership with selected LDCs in sharing experience and successful models**

- As a business development support mechanism, the SME Finance Compact will promote knowledge sharing through peer-to-peer learning and as a platform for sharing experience in defining the country-based specifications and challenges in their financial inclusive practice. The Global SME Finance Forum (launched in April 2012) will be a supporting virtual platform for this purpose.

## **III. Providing capacity-building and technical assistance to support implementation of SME finance strategies and policy frameworks**

- The aim is to increase knowledge and experience through capacity-building, training, knowledge and information sharing, and, potentially, financing. To formulate an integrated approach for closing the gap for SME finance, the SME Finance Compact partners plan to provide capacity-building for solutions to manage their key challenges and optimize dedicated resources within an understanding of promoting high growth in SME development. .

## **IV. Providing an efficient network platform through the GPFi website and the Global SME Finance Forum**

- Developing countries that choose to develop an action plan with the support of the GPFi and the SME Finance Forum may produce an early outline of their priorities for a national SME finance action plan. As input for this national SME finance action plan, the SME Finance Sub-Group has developed a standardized menu drawn from the GPFi SME Finance Policy Guide. On this basis, it will be easier to find suitable partners within GPFi for supporting the development of a more comprehensive and enhanced individual action plan.

## **V. Promoting actions to foster financial inclusion, including financial education and consumer protection**

- Along with encouraging greater participation in the financial sector, it is important to also encourage countries to adopt rules, institutions, and norms of transparency that can protect new/less-experienced financial actors, including SMEs.

- Mexico has made it a priority to focus on financial literacy and consumer protection for its presidency of the G20. Increasing knowledge about financial literacy and consumer protection for all the facilitators in a country will increase the access to finance for SMEs by enabling them to share risks and costs by allocating of management resources to seek funds.

<sup>25</sup> "SME Finance Policy Guide" (October 2011).



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