



THE MAP EFFECT IN ASEAN  
Regional closure impact report  
2012–2021

*In April 2012, UNCDF and the Swedish International Development Cooperation Agency (SIDA) signed a four-year partnership framework for inclusive growth and sustainable development; the intention was to channel Swedish investment to a range of innovative UNCDF programmes supporting financial services development and local development finance for the poor in least developed countries (LDCs).*

Together with support from the Government of Luxembourg and numerous partnerships and country programmes, this formed the MAP pilot and the initiation of the proof of concept for the financial inclusion work in the Association of Southeast Asian Nations (ASEAN) region.

The design for the MAP implementation initially focused on Thailand and Myanmar, followed by Cambodia and Lao PDR, as well as Nepal (in the South Asian Association for Regional Cooperation, or SAARC).

Together with the Asian Development Bank, MAP piloted a country diagnostic in 2013 in Thailand. In 2014 in Myanmar, MAP for the first time piloted its full programme (through the generous funding and support of LIFT and subsequently UK Aid). This was followed in 2014 by approval for MAP in Lao PDR (through the Australian-funded programme MAFFIP), in Nepal in the same year (through the UK Aid-funded Unnati programme), and in Cambodia

in 2015 (with the support of UNCDF's Australian-funded SHIFT programme) – with diagnostics being completed in these three countries in 2015, 2016 and 2017, respectively. Following the pilot phase, the Government of the Netherlands generously funded the MAP programme for two funding phases, from 2017 to 2023.

Over the course of the programme period, government partners have contributed in numerous ways to the MAP programme, while sharing their limited resources – human and financial alike. They have also enthusiastically joined in on the journey, buying into the vision of financial inclusion as a mechanism for achieving inclusive economic growth in their countries and in the region; and, through their participation, they have helped to shape financial inclusion theory and practice, in a truly multi-stakeholder endeavour of North–South and South–South collaboration.



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#### ABOUT THE COVER

The cover design represents the progress achieved by the MAP programme demonstrated by the connectivity in a working system where all parts come together with a common goal. People, data, finances and policy fit together to create business solutions that address inclusive growth and sustainable development.



## *Challenging financial exclusion in ASEAN and Nepal*

*This report tracks the UNCDF MAP financial inclusion implementation in the ASEAN region (focusing here on the four ASEAN countries of Thailand, Myanmar, Lao People's Democratic Republic (PDR) and Cambodia, and a fifth country, Nepal) from 2012 until the programme's official closure in the region in 2021.*

These are the countries where UNCDF has continued to assist country governments on financial inclusion policy implementation and on monitoring and evaluation (M&E) after the initial country diagnostic.

Since its inception and piloting in its Asia region, the MAP programme has evolved and strengthened its conceptual underpinnings: the five countries' active participation and contribution have been instrumental in allowing UNCDF, through this practice, to codify effective financial inclusion approaches in developing countries and LDCs.

Although the MAP programme continues its financial inclusion work strongly in West and Southern Africa, its official closure in ASEAN and Nepal in October 2021, concluding almost a decade of financial inclusion work in the region, provides a good opportunity for reflection on achievements. Accordingly, this report highlights the activities that have been instrumental in attainment of the national and regional financial inclusion goals, as captured in national financial inclusion strategies and in the agreed national financial inclusion roadmaps and resulting action plans.

In addition to an inventory of tangible deliverables achieved (see Table 3), the following strong areas of emerging impact in the market development agenda can be highlighted:

#### TECHNICAL CAPACITY BUILT:

- **in data generation, collection and analysis:** MAP has actively modelled consumer-focused survey design, and market data collection and analysis procedures. Through emphasising active stakeholder participation and data ownership, the programme has built country governments' capacity in crafting data strategies and collecting and analysing market data in support of national aspirations.
- **in evidence-based policymaking and regulation:** MAP has guided and supported stakeholders to participate in practically applying the best available current market data and data analytics to their policymaking, policy implementation and regulatory work.

**EVIDENCE BASE AND MARKET DATA:** Formulating financial inclusion policy and successfully implementing it requires accurate and granular population survey data, particularly on low-income segments (who comprise the majority of the population in developing countries and LDCs). Yet such datasets were lacking in the ASEAN MAP participating countries and Nepal. MAP's deployment of the FinScope nationally representative consumer livelihoods surveys in-country has provided countries with locally generated and locally owned data for an accurate picture of their consumer markets – particularly low-income and vulnerable consumers – which is becoming critical in the context of 'leaving no-one behind' and solving the inequality/growth puzzle.

#### DATA SUPPORT TO GIVE LDCs A SEAT AT THE REGIONAL TABLE:

More developed countries have solid data collection functions and sophisticated analytical capabilities, often with entire departments focused purely on collecting and analysing data. The ASEAN MAP participants and Nepal, newly armed with their compelling livelihoods and market data and analyses, along with strengthened capacity, have been empowered to join the regional conversation on evidence-based policy; they have contributed actively to a cohesive and coherent regional structure with concomitant capabilities, particularly in working with and serving the more complex, socioeconomically vulnerable market in new ways as a regional cohort.

#### IN-COUNTRY POLICY COHERENCE ON FINANCIAL INCLUSION:

MAP engaged with policymakers in each participating country to make evidence-based financial inclusion-related decisions situated within a coherent and larger policy framework linked to national (and regional) objectives. In the early stages of countries' participation in the MAP



programme, 'financial inclusion' was understood and presented in relatively simple terms: a means of increasing access to financial services. Over time, though, and through lessons from in-country implementation, understandings evolved, with financial inclusion coming to be appreciated as a viable mechanism for supporting countries' inclusive economic growth aspirations, linking to the UN sustainable development goals (SDGs). The governments of the ASEAN MAP participants and Nepal have demonstrated willingness to buy into this expanded conception of financial inclusion.

**POLICY IMPLEMENTATION AND ACCOUNTABILITY THROUGH MEASUREMENT SUPPORT:** Built into the MAP process is setting agreed targets and tracking implementation, which has significantly increased levels of transparency around countries' financial inclusion initiatives and the related impact of policy implementation.

### *Increased levels of self-determination*

Given success in combating financial exclusion in the ASEAN MAP participants and Nepal (see Figure 1), and the improved levels of market development achieved, the country governments are committed to taking the financial inclusion and inclusive growth agenda forward. A solid foundation of financial inclusion has been laid, and governments are now well equipped and capacitated to build on that, using their strong evidence bases and the national coordination mechanisms put in place during the programme period. The fact that the M&E frameworks and processes are embedded within the national institutional structures of policy implementation empowers countries to continue implementing their financial inclusion action plans beyond the MAP programme period. Furthermore, the national M&E frameworks and processes mirror the regional, and this congruence both bolsters the sustainability of the individual countries' financial inclusion efforts and aids regional harmonisation.

### *Great progress achieved: reducing exclusion, increasing inclusion*

In 2017, a regional target of reducing the level of financial exclusion to an average of 30% by 2025 was set (with the precise definition of 'financial exclusion' varying slightly per country based on its national policy framework on financial inclusion and the relationship of that to the country's financial sector development). In the last five years of the programme's involvement, from 2017 to October 2021, a notable reduction was achieved in the levels of financial exclusion.



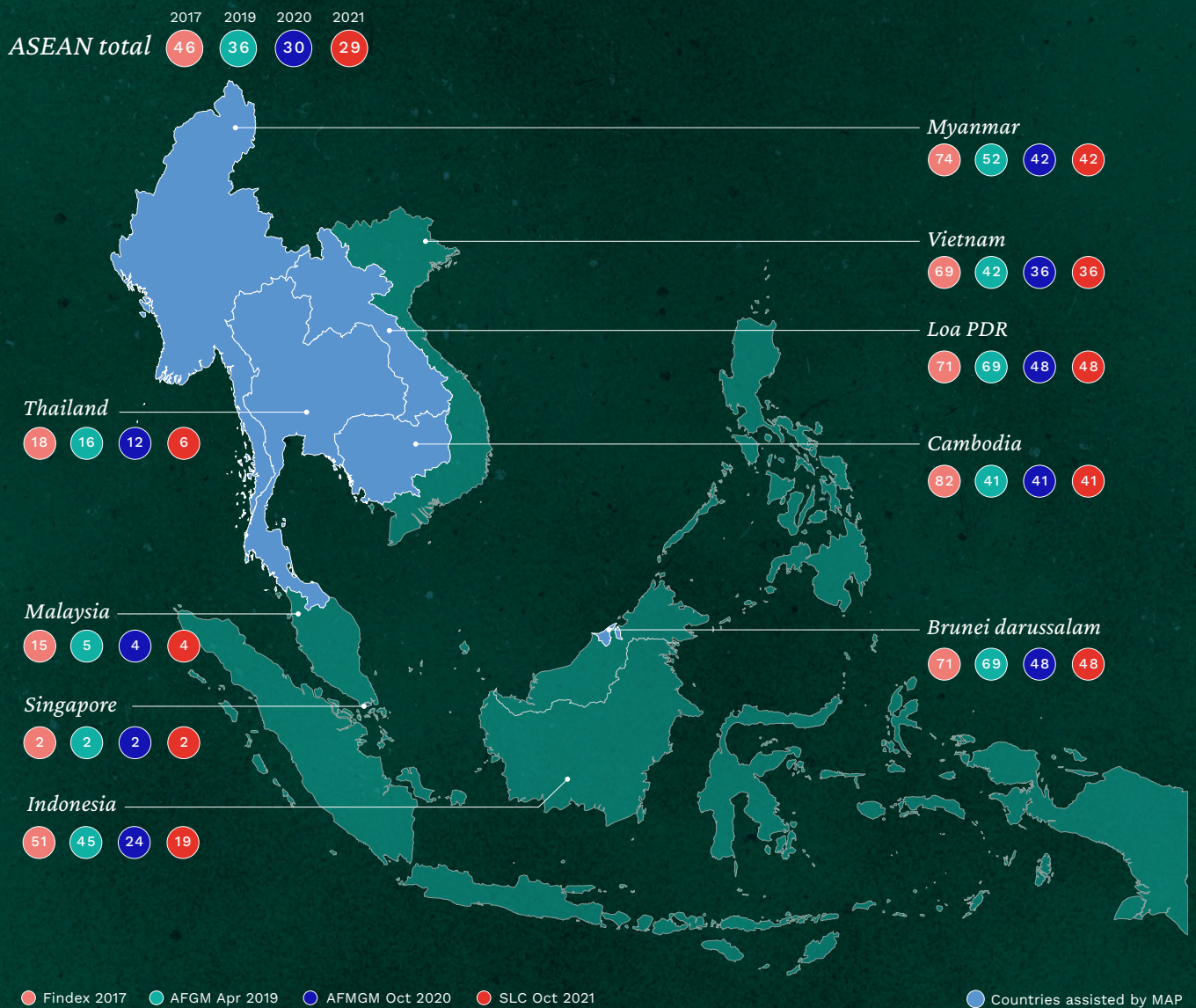
While great strides against financial exclusion have been made in most ASEAN countries (excluding Singapore, Brunei Darussalam and the Philippines), the biggest reductions have been seen in the MAP participating countries, along with Indonesia and Vietnam (see Figure 1).

The average level of financial exclusion in ASEAN reached a low of 29% in 2021; that is to say, ASEAN succeeded in reaching its 2025 financial inclusion target four years ahead of schedule.

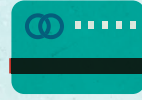
Similarly, in Nepal, formal financial inclusion increased from 61% in 2014 to 90% in 2022, meaning the country succeeded in reaching – in fact, surpassed – its target of 75% by 2022.

**FIGURE 1**

Current level of financial exclusion for ASEAN member states (% of adults)



For Singapore, Findex data was used to approximate national data. For Brunei Darussalam, national data used the Findex methodology. AFGM is ASEAN Finance Ministers and Central Bank Governors. SLC is Senior Level Committee (on Financial Integration). Source: UNCDF (2021)



# *The MAP financial inclusion approach and process*

*In each participating country, the aim is to improve the functioning of the country's financial sector and provision of financial services i.e. payments, transactions, savings, credit and insurance.*

To this end, the MAP programme works closely with the country government and appropriate stakeholders in the context of national policy and regulatory frameworks.

## **WHAT? THE FOLLOWING OBJECTIVES RELATED TO THE DOMESTIC FINANCING SPACE ARE THE FOCUS:**

- **Significantly growing the market for financial services provision** – that is to say, better serving the financing needs of a greater proportion of the country's population.
- **Strengthening the country's financial sector** and increasing its functionality, robustness and thus sustainability.
- **Steering the market for financial services towards improved inclusivity** as a means of combatting financial, economic and social exclusion and supporting the country's inclusive economic growth aspirations.

## **HOW? MAP SUPPORTS THE COUNTRY'S POLICYMAKERS, REGULATORS AND OTHER APPROPRIATE STAKEHOLDERS TO:**


- **Constructively critique their current policy and regulations** to identify those that are inhibiting market growth.
- **Develop a strategic vision on financial inclusion**, including its relationship to the country's inclusive growth aspirations, and including too a range of viable delivery modalities.
- **Gather and use up-to-date livelihoods and market data, and policy (through M&E) to highlight investment opportunities** at a scale significant enough to be viable for financiers.

To achieve the objectives, MAP employs a diagnostic approach, arising from the programme's unique analytical framework; in each participating country, MAP gathers accurate, nationally representative demand, supply and regulatory data via its diagnostic. The focus of the diagnostic is the country's consumers – and especially low-income and vulnerable consumers: their household and individual income, economic activity, and financing needs, including current usage of financial services (formal and

informal). In this way the diagnostic provides an accurate and detailed picture of market demand for financial services in the country. Furthermore, the MAP diagnostic goes beyond a focus on extending coverage of financial products, to improving welfare through offering value to consumers.

The diagnostic then serves as the basis for multi-stakeholder dialogue – i.e. between government, regulators, other relevant stakeholders, and donors at country level. MAP guides the stakeholders in the development of a mutually agreed country-specific financial inclusion roadmap with financial inclusion policy target areas and recommendations, from which an action plan for implementation is derived.

The roadmap is instructive on the relevant stakeholders to drive activities, with emphasis placed on active multi-stakeholder involvement (not just senior government officials). For example, financial regulators (bank surveillance, national payment systems, credit regulators) are important for driving financial inclusion initiatives in the policy areas related to their regulatory purview, even though policymakers might be the primary holders of the roadmap.



*The development of the roadmap requires the MAP implementation team to work through the governance structures set up at country level to drive implementation of financial inclusion policy action and to consolidate funding (from donors and governments) for a common objective.*

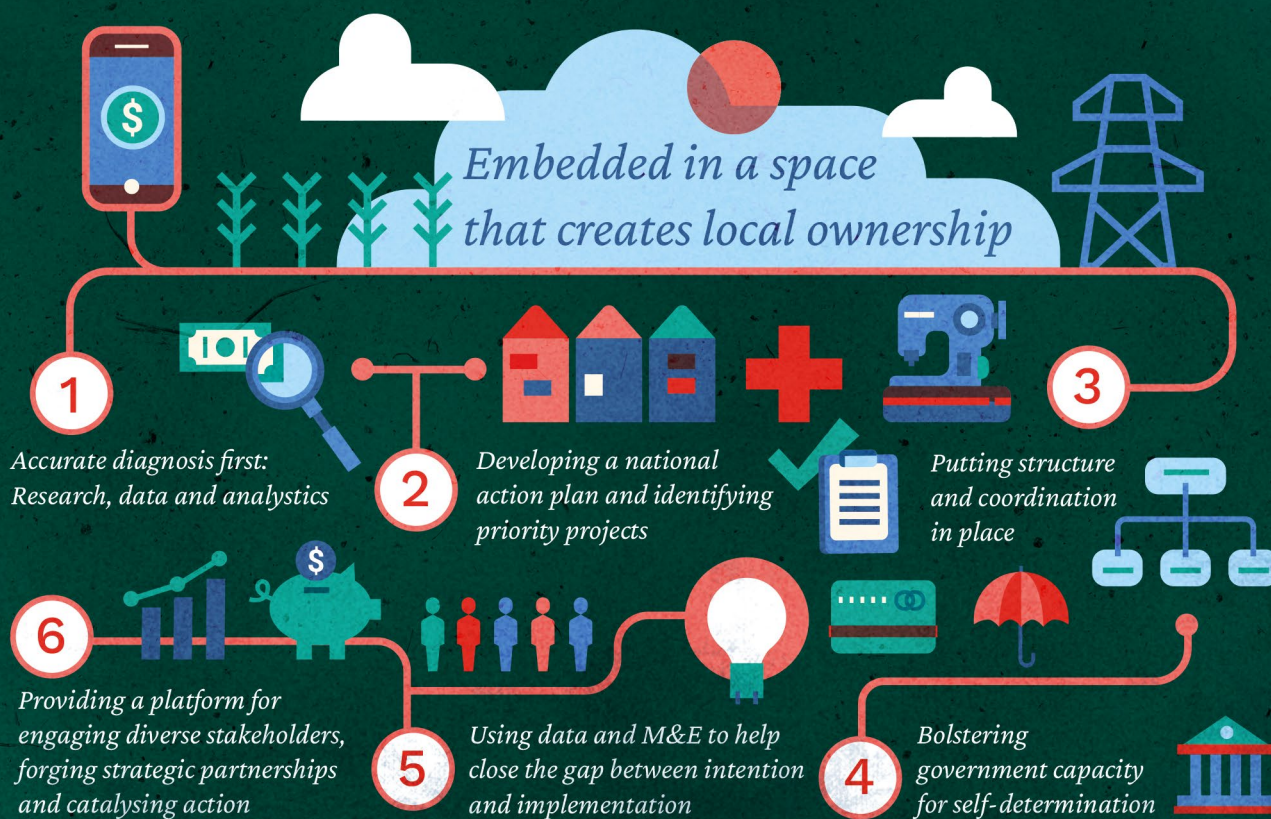
The culmination of the MAP process is national policy development. Thereafter, countries take the lead on implementation, with policy accountability being enabled by the national M&E structures and process. Transparency and accountability are emphasised both through the shared objectives and metrics and through broad agreement between various government departments to provide data and track progress. (MAP also provides capacity building and training of stakeholders on M&E as requested.) This ongoing monitoring at national level of implementation of the agreed recommendations greatly increases the chances of strengthening domestic financing environments, and regional bodies with mandates for financial inclusion are also engaged to help monitor country-level progress. The outcome is a healthier, more sustainable financial ecosystem, at country level and for the region.

MAP also provides support to implement MAP diagnostic ‘refreshes’, which are follow-up diagnostics that focus on assessing the level of impact achieved in terms of the policy goals that were set in the initial roadmap. The refresh diagnostics make it possible to update the country’s national financial inclusion strategy on the basis of the updated MAP research and findings and in line with countries’ evolving economic priorities and growth aspirations.

Figure 2 shows the focus areas for MAP’s work in order to achieve the financial inclusion objectives in-country.

FIGURE 2

MAP's six focus areas for supporting governments to improve financial inclusion delivery



*The MAP approach strongly emphasises national ownership of the evidence bases and policymaking processes:*

- In the research process, close attention is paid to the local political economy and government objectives.
- The financial inclusion recommendations are wherever possible in line with national aspirations and manifestos of the government of the day, with areas for possible intervention chosen to resonate with existing government objectives (e.g. MSME development, agriculture and food security, poverty reduction, and supporting low-income households).
- Countries are supported to identify and prioritise solving their real, knotty problems (rather than attempting to apply existing theoretical solutions).
- MAP supports the establishment of a governance structure in-country to provide institutional support – during the programme period and into the future – for policy implementation.
- The last stage of the MAP process involves complete local ownership – which is effectively the transfer of the coordination and support functions – when the MAP programme exits a country.



## Delivering impact

Over the course of the programme period in the region, countries demonstrated substantial progress in terms of tangible deliverables, and MAP delivered impact above this across four broad areas.

### Countries' progress on tangible deliverables

During the MAP programme period, three of the five countries that are the focus of this report developed a national financial inclusion strategy, or NFIS (see Table 1), while by the end of the period Nepal had made limited progress on an NFIS. Despite such variations between countries, all five of them created structures for financial inclusion coordination and implementation, and started implementing the recommendations from their financial inclusion roadmap.

The MAP diagnostic has been used by national governments of these five countries to develop their financial inclusion implementation plans and an M&E framework to support the pursuit of reaching their respective national financial inclusion goals. Each country's action plan focus and implementation progress, along with UNCDF's broader support provided to these action plans, is discussed in the country section of this report.

**TABLE 1**

Implementation of NFIS and financial inclusion roadmap recommendations: progress summary, by country

	THAILAND	MYANMAR	LAO PDR	CAMBODIA	NEPAL
Has NFIS document (draft or final)	✓	✗	✓	✓	✗
NFIS period or proposed period	2017–2021	n/a	2018–2025	2019–2025	n/a
Adopted by government	✓	n/a	✓	✓	n/a
Structures for FI coordination and implementation	✓	✓ but disbanded	✓	✓	✓
Implementation of financial inclusion roadmap recommendations	Ongoing	✓ but paused	Ongoing	Ongoing	Ongoing

Note: With the coup in Myanmar in 2021, UNCDF suspended further support to the country in the framework of the MAP programme, awaiting further developments.

MAP provided additional support in the form of refresh diagnostics and survey innovation; four of the five countries (Thailand opted rather for independent implementation) implemented refresh diagnostics after a period of time, to track policy implementation progress and to inform strategic changes to their strategy based on lessons learned and changing market contexts. And three of the four refresh diagnostics relied on innovative models of data gathering to inform demand-side insights: two (Lao PDR and Cambodia) using a mobile survey methodology and one (Nepal) involving a new data partnership with the World Bank’s International Finance Corporation (IFC) that includes a financial inclusion module in an existing Living Standard Measurement Survey (LSMS).

The MAP approach also resonated at the regional level by building on the bottom-up – i.e. country-based, multi-stakeholder – approach taken with the individual participating countries. Over the period, the programme achieved a number of tangible country- and region-level deliverables and activities that speak to the approach already outlined above; and the four MAP ASEAN countries (along with five other ASEAN member states) also participated in the regional monitoring progress initiative facilitated by UNCDF. In addition, UNCDF provided participating countries with consultations and technical feedback on request in relation to financial inclusion as it related to prevailing economic and political realities.


Table 2 shows the tangible deliverables in relation to the MAP methodology at a national level across the ASEAN region and in Nepal.

**TABLE 2**  
MAP in ASEAN and Nepal (2012–2021): tangible deliverables

COUNTRY	THAILAND	MYANMAR	LAO PDR	CAMBODIA	NEPAL	TOTAL
Country diagnostic conducted	1	1	1	1	1	5
Livelihoods datasets for financial inclusion provided	1	2	1	1	2	7
Mobile tracker surveys (topline indicators)	-	-	1	1	-	2
Financial inclusion roadmap drafted	1	1	1	1	1	5
NFIS developed/adopted	1	-	1	1	-	3
National action plan, M&E framework and tracking	-	1	1	1	1	4
MAP refresh implemented	-	1	1	1	1	4
Regional M&E tracking	2	1	2	2	2	9
Participation in MAP regional learning and sharing events	3	2	3	3	1	12
Participation in MAP global learning and sharing events	1	1	1	1	1	5

### *An expanded understanding of financial inclusion – through practice*

Financial inclusion has been a priority policy objective of country governments in ASEAN. Each country, being at a different stage of policy implementation and different stage of economic development, has adopted its own national approaches to financial services market evolution and formal financial inclusion to drive economic growth. Beyond being considered an important contributor to the achievement of national objectives and the SDGs, in recent years (prior to the pandemic) financial inclusion has been seen as a key contributor to achieving positive economic development for ASEAN; and now it is also understood as a key policy instrument for addressing the pandemic's impact on households and businesses. Working in collaboration with developing countries and LDCs and bringing the latest learnings from its technical work to the region, MAP has integrated financial inclusion as a key policy instrument contributing to ASEAN's Vision 2025, in the process also evolving the MAP financial inclusion approach.



*As participating country governments' priorities and needs changed, and countries expressed the need to link financial inclusion policy implementation to inclusive growth in order to achieve the SDGs, the MAP understanding of financial inclusion also broadened.*

The programme evolved its technical framework – beyond its initial (fairly limited) focus on policies that reduce barriers to low-income households' access and usage of formal financial services, and beyond simply tracking the number of services accessed and used. Now the emphasis expanded to how financial services could add value to low-income and vulnerable households by increasing their access to 'the four crucial needs': basic services and infrastructure, healthcare, education, and income-earning opportunities (in the form of SME development). Positioning financial services provision in this way was key to MAP's drawing of the linkage between financial inclusion and the attainment of broader inclusive economic growth and SDG objectives (and allowed for a nuanced understanding of the importance of financial inclusion in growing the domestic finance environment). Such linkage was more explicitly pursued in the more developed ASEAN countries, although the countries that participated in the MAP programme also actively pursued an expanded understanding of financial inclusion through the updated technical framework of the MAP refresh diagnostics.

While the emphasis has been on growing countries' domestic financing systems, MAP has emphasised that, where possible, regionally aligning such efforts makes more sense than isolated national efforts, given financial inclusion's evident linkages to inclusive growth and the SDGs.

### *Impact delivered in four broad areas*

Beyond the tangible deliverables achieved (see Table 3), over the decade of operation in the Asia region MAP achieved impact in four broad areas, as discussed in greater detail below.

## IMPACT

### **BUILT CAPACITY IN EVIDENCE-BASED POLICYMAKING AND REGULATION**

National governments represent a powerful additional tool in the SDG toolbox to pool energy and effort towards attainment of the common, agreed objectives. In working to improve public-sector performance and delivery, however, many governments are challenged by human resource and other capacity constraints and the pressure to simultaneously address multiple and competing agendas. In addition, financial sectors operate within dynamic socioeconomic and technological contexts, making it imperative that country governments and regional platforms have the ability to regularly revise and update their policies and market-based interventions.

MAP plays a direct role in building technical capacity in-country, by providing a participatory role and data ownership for national statistics offices in the collection of data, and by organising stakeholder workshops, especially involving personnel from the central bank, the finance ministry, regulators and government departments. (Typical focus areas for technical capacity-building sessions include strategy and planning, change management, and information-sharing on specialist financial inclusion-related topics.) MAP also relies on a national financial inclusion ‘champion’ to lead implementation and drive coordination in the form of an in-country financial inclusion unit.

In ASEAN, UNCDF’s research, data analysis and stakeholder-based approach have strengthened regional and country-based initiatives and implementation capacity, helped create a national focus and coordination mechanism for achieving set targets, and been instrumental in modelling successful financial inclusion implementation using a bottom-up approach that strengthens the potential for regional and country self-determination (rather than a top-down approach that retains high levels of control and expertise at donor level). Thailand completely internalised its financial inclusion coordination function at an early stage of participation, while the other four MAP countries in the region each set up a coordination mechanism for data collection, the diagnostic development process, and implementation of the roadmap and NFIS recommendations.

It is also worth noting that the National Bank of Cambodia was co-chair of the regional working group for financial inclusion (WC-FINC) in 2021/2022.

At a regional level, the MAP approach focused on running regional learning and sharing events such as in Singapore (2019), Brunei Darussalam (2019) and Cambodia (2020), with stakeholders also attending the global learning event in New York (2018). Furthermore, delegates from Lao PDR and the ASEAN secretariat, responsible for the oversight of financial inclusion, attended a regional Southern African Development Community (SADC) learning event in 2019 to learn about national structures for and approaches to roadmap implementation, based on the approach taken by the SADC governments in implementing the MAP technical frameworks for the roadmaps.

*The objective with the learning and sharing events is to bring together policymakers, financial sector stakeholders and development actors to act as mutual sounding boards, discussing opportunities and challenges that, based on their national experience, need attention and action for inclusive economic growth and development.*

## IMPACT

### **BUILT CAPACITY IN DATA GENERATION, COLLECTION AND ANALYSIS, AND PROVIDED EVIDENCE BASE**


While successful financial inclusion initiatives depend on evidence-based policymaking, developing countries often lack reliable data. There is typically inadequate information available in the economy as a whole. MAP countries – the LDCs in particular – actively collect population sample survey data, but this is mostly insufficient for engaging at a detailed level for specific development areas like financial inclusion, which means governments are unable to form an accurate picture of the low-income market, including levels of financial inclusion and exclusion. Where there is a dearth of robust consumer data, supply-side regulatory data (e.g. bank account statistics) is often used as a proxy, for purposes of illuminating market development and movement. Not surprisingly, though, the picture it paints is inadequate (not least because of duplication of account data).

At a regional level, too, countries are expected to set financial inclusion targets and track them on an ongoing basis. Yet the vast differences in levels of development – and in available budgets – mean that without their data generation and analysis capacity being intentionally strengthened, MAP countries struggle to participate and contribute at the regional level.

Policymakers in such situations are coming up with ‘solutions’ in the absence of clear understanding or prioritising of the specific problems needing to be addressed.

But by focusing on gathering and analysing household-level livelihoods and market data (i.e. on the micro level of people’s real-economy activities), MAP offers a bridge between policymakers and the people they need to serve. The MAP version of financial inclusion is consumer-centred and livelihoods focused; the programme actively conducts nationally representative livelihoods-based market surveys and diagnostic studies, with the FinScope Consumer Survey being instrumental to this process.

While the Global Financial Inclusion Database Surveys (Findex) have been successful in providing headline numbers (e.g. account penetration) across countries, FinScope has gone far beyond that; it enables in-depth insights into the state of countries’ financial inclusion as it relates to people’s lives and livelihoods, and into the potential to grow the market for financial services. Evidence to date has shown the FinScope survey yields rich, granular data on consumers’ uptake and usage of a range of (formal and informal) financial services, per livelihoods segments (e.g. farmers, salaried workers, dependants), which can be further disaggregated by demographic indicators such as geographic location (urban/rural), age and gender, to provide insights into investment opportunities for financially including larger sections of the population. The evidence base supplied by MAP is perceived by the participating countries as highly valuable, as demonstrated by the fact that they now routinely rely on the MAP demand-side data for regional reporting purposes, despite the availability of Findex data.



*A further benefit of the MAP methodology in terms of countries’ effective policymaking and implementation is the emphasis on access to sufficiently up-to-date consumer data.*

Thailand very early on in its MAP participation (since the very first MAP diagnostic, in 2013) enthusiastically adopted an internally owned survey methodology for financial inclusion, which it has been implementing on a periodic basis. The other four MAP countries have followed a different path, all having approved updated data collection surveys (in various forms) subsequent to their initial MAP diagnostics and data-collection efforts.

## FOSTERED POLICY AND REGULATORY COHERENCE ON FINANCIAL INCLUSION

The MAP process in-country kicks off with the research efforts to gather high-quality in-country consumer data related to the market for financial services, in conjunction with building an understanding of country context: financial services-related policy and regulation, and macroeconomic, socioeconomic, infrastructure, and other contextual realities.

*The relevant stakeholders are involved from the outset, and the resulting holistic view of the country makes it possible, through multi-stakeholder consultation, to agree on the pressing problems that are unique to that country and political economy. The data then serves as the focus for further multi-stakeholder agreement on a financial inclusion roadmap and action plan priorities.*

Crucially, the agreed financial inclusion objectives are located within – i.e. aligned with – national development objectives, which link to the SDGs, which allows for strengthened and coherent implementation. The MAP emphasis on financial inclusion for inclusive growth and social and economic inclusion resonates with countries' existing aspirations and allows for country-specific problem-solving interventions to be designed.

As financial services provision moves towards greater variety in supply as well as in consumer demand, designing regulatory structures to manage far more complex and differentiated markets (including low-income and vulnerable consumers) is another key challenge for governments. In addition, there is the need to integrate new services and providers into the mainstream of financial policy. Through participation in the MAP programme, country governments have built their expertise and capacity in steering their regulatory regimes towards increased responsiveness and stability.

Such policy and regulatory coherence contributes greatly to harmonised regional policy and improvement initiatives. ASEAN's regional financial inclusion initiatives are in line with and supportive of the economic objectives of ASEAN's Vision 2025 blueprint, with strengthened regulation facilitating the seamless movement of goods, services, capital and labour. The regional financial inclusion commitment is helping combat inequality and promote inclusive economic growth, supporting MSME development, and generally enabling socioeconomic development across the region.

UNCDF's success in locating financial inclusion within the larger national and regional policy and regulatory frameworks is evidenced by country governments' adoption of financial inclusion as a mechanism for growth, and the linking to the SDGs in the three most recent refresh diagnostics, as well as the adoption by the regional WC-FINC and ASEAN member states of the inclusive growth focus in the most recent regional monitoring progress report.<sup>1</sup>

## STRENGTHENED POLICY ACCOUNTABILITY

Integral to the MAP approach are the agreed strategy (roadmap or NFIS) and the resulting action plan, implementation of which is monitored periodically. By setting and tracking implementation targets and activities, the stakeholders have built transparency into the approach through policy accountability.

*In the ASEAN countries of Myanmar, Lao PDR and Cambodia, and in Nepal, the following results were achieved against targets:*

**MYANMAR:** The 2015 roadmap included the objectives of increasing financial inclusion (defined in that instance to mean using at least one financial product or service provided by a formal financial service provider) in Myanmar from 30% of the adult population in 2014 to 40% by 2020, and increasing the proportion of the adult population with more than one product from 6% to 15%. Both of these objectives had been achieved by 2018: two years ahead of schedule. As part of this achievement, financial inclusion increased for all of the key target market segments: farmers, the self-employed, and irregular earners (low-income informal employees). These achievements reflected wide-ranging improvements in Myanmar generally – in its economy, society, and policy frameworks – that were supported by the actions laid out in the financial inclusion roadmap.

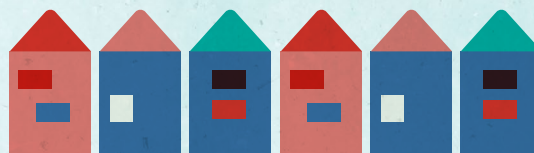
**LAO PDR:** By 2021, 10 of the 53 activities set out in the 2018–2025 roadmap (FIRM) had been concluded, and another 22 were partially concluded or in progress. Despite this partial completion, success has been achieved in a number of priority areas, the most prominent of which has been enhancement of the payment system regulatory environment and infrastructure. Impressive levels of market development have been achieved for payment services, with increased number and range of providers, distribution channels, and services available and used. Most notably, the level of access to formal financial services increased from 47% in 2014, to 58% in 2021, against a target of 65% by 2025.

**CAMBODIA:** There has been considerable progress since 2018 on various recommendations in the MAP diagnostic. The Financial Sector Development Strategy 2016–2025 adopted by the Council of Ministers has supported progress on activities. The 2019–2025 National Financial Inclusion Strategy (NFIS) adopted by the National Bank of Cambodia (NBC) synthesises the main findings and recommendations and proposes action areas. Targets in the strategy include reducing the financial exclusion of women by 50% (from 27% to 13%), and diversifying formal financial services usage from 59% to 70% by 2025. While the financial exclusion of women has actually increased since 2015 (from 27% to 38%), their access to formal financial services remained stable over the period (at 60%). Access to formal financial services (for all adults), on the other hand, grew to 67% by 2021.

**NEPAL:** There has been considerable progress on the various recommendations set out in the initial MAP diagnostic (2016). The Financial Sector Development Strategy (FSDS) 2017–2022 adopted by the finance ministry has aided progress, as there is considerable policy alignment; many of the FSDS activities and implementation issues and recommendations support and promote activities outlined in the financial inclusion action plan. The 2017–2022 Nepal Financial Inclusion Action Plan, adopted by the central bank on the basis of the 2016 MAP diagnostic research, synthesises the findings and recommendations and presents a way forward on the recommended action areas for financial inclusion. Among the targets set out in the 2017–2022 roadmap is increasing formal financial inclusion to 75% by 2022 (from 61% in 2014), and reducing the financially excluded as a proportion of the population from 18% to 3%, so as to create economic empowerment. Due to delays in the 2021/2022 IFC Financial Access Survey (FAS), which is being conducted in partnership with MAP, the programme is assisting the Government of Nepal to conclude analysis on the new nationally representative livelihoods survey, which is making updated data available. The survey finds that formal financial inclusion increased from 61% in 2014 to 89.3% in 2022.

**ASEAN REGION:** The level of financial exclusion (defined slightly differently by each participating country) in ASEAN was on average 44% in 2017 (using available country-level data either at or before 2017). Based on that figure, a regional target of reducing the level of financial exclusion to 30% by 2025 was set by WC-FINC, with financial inclusion progress monitored annually. Since 2017, substantial progress has been made; by the time of MAP's official closure in 2021, the average level of financial exclusion in ASEAN had dropped to 29%, which means ASEAN reached its 2025 target an impressive four years ahead of schedule.

While this increase in financial inclusion is admirable, there continue to be stark differences among countries in the region. For example, Singapore, Malaysia and Thailand have an average level of financial access of 88% (formal bank account ownership), while Cambodia, Myanmar, Lao PDR and Vietnam have significantly lower levels of formal bank account ownership (on average 27%). Moreover, some population segments experience higher levels of financial inclusion than others; for example, digital payments are reaching the ASEAN youth, the rich and the educated much faster than they are reaching ASEAN's poor and especially those living in the LDCs. The gap in access to digital payments between those with lower levels of education and those with higher seems to be widening for most of ASEAN's citizens, creating the risk of a digital divide if the introduction of new technologies fails to empower people.



## *Learnings from a decade of action*

### *Developing domestic finance markets: from micro-finance to financial inclusion*

Over the past two decades, growing out of both the success and limitations of the microfinance market, development policy has focused on improving access to financial services at scale – combining the twin objectives of development and commercial viability. Today, financial inclusion is about steering financial markets towards improved functioning and thus sustainability: capable of serving diverse segments with differentiated products, thereby meeting the needs of consumers across the income and livelihoods spectrum closer to where they are and what they actually need. At the policy level and within countries, market evolutions and structural changes have provided the impetus to create much broader domestic financing environments, involving multiple, interconnected stakeholders and enabling infrastructure for safely and efficiently serving larger portions of countries' populations (i.e. including low-income and vulnerable households).

*Increasingly clear is that governments, as the policymakers and market arbitrators, have a critical role in developing these more inclusive financial sectors. Governments in developing countries have come to appreciate financial inclusion as a viable mechanism for growing domestic financing by 'leaving no-one behind'.*

MAP's detailed research, data and diagnostics, including in Asia over the course of the programme, have provided governments with insight into how low-income and vulnerable consumers 'make a plan' to access financial services to meet their economic needs; despite poverty, they spend money on crucial basic services like education, healthcare, and utilities (e.g. energy and water). While people's money thus greases the wheels of the national, regional and global financing systems, such consumers are far removed from those systems because they are likely to be operating on the economic margins and in the informal sector. Formally financially including such consumers through provision of financial services (payments/transactions, savings, credit and insurance) is a crucial element of the domestic

financing environment because it lowers consumers' transaction costs, increases opportunity to invest in future earning potential, saves people time, increases their levels of privacy and security with regard to finances, and boosts resilience through mitigating risks faced at a household level. Financial inclusion thus enables governments, through evidence-based policymaking, to redirect existing finance flows at household level through more formal channels, making it possible to aggregate these flows and potentially leverage them for investment purposes.

### *What next? Financial inclusion contributing to inclusive domestic finance markets*

With financial inclusion's emphasis on the role of domestic financial systems as enablers for or lubricants of the real economy, MAP has urged governments and investors to take a long-term view in order to develop inclusive markets that can lead to growth. Going forward, governments in the region will advance their financial inclusion agendas and implementation independent of the MAP programme, while continuing to benefit from financial inclusion's 'triple impact factor' in the context of sustainable finance, namely:

- A lack of financial inclusion is a sustainability risk for a country's financial sector and the wider economy. By contrast, responsibly bringing more households into the formal financial system diversifies risks for banks and increases the depth of the financial system overall, while causing money to reticulate at the local level. Financial sector stability in turn tends to enhance the public's trust in financial systems and the use of financial services.
- Financial inclusion achieves a range of primary and secondary positive social benefits, which are often self-reinforcing and can produce environmental benefits too. (For instance, increased income-earning opportunities also mean households have more income to spend on improved – healthier – energy sources, which, in turn, tend to be better for the environment.)
- Financial inclusion positively changes the dynamics of financing in a national context, potentially making it more sustainable by empowering a new set of financing stakeholders and actors, in the process making space for new models of business and delivery.

*Domestic resource mobilisation encourages and enables efficient investment in areas that promote the country's structural transformation and sustainable development, providing a viable, long-term strategy for national economic growth.*

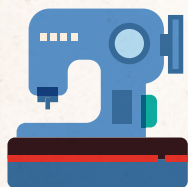
*Building a healthy and flourishing domestic financing environment allows countries the policy space for more control of their development process, which in turn strengthens the implicit social contract between government and its citizens. A strong domestic finance market:*



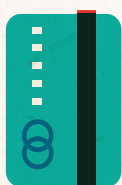
- Reduces dependence on external capital inflows and their associated conditionalities, including official development assistance, foreign borrowing, and foreign direct investment; this allows for setting growth and development priorities from the bottom up, allowing governments to respond to their own priorities.



- Increases reliance on domestic resources for public revenue generation via financing inclusive basic services and infrastructure, through an implicit contract between the state and households and the firms that generate such services (i.e. utility companies). This entails high levels of cooperation between the state and domestic entities, which strengthens the national institutional environment and improves governance.



- Enables more stable domestic resource mobilisation, reducing exposure to volatile foreign capital flows while generating employment and increasing linkages with the rest of the domestic economy, thereby increasing potential for inclusive growth.<sup>2</sup>



# Country-level progress

*The following sections trace the interplay, in the participating ASEAN MAP countries and Nepal, between government policy and regulation, on the one hand, and market evolution of traditional financial services, on the other.*

We show, country by country, how the MAP programme has attempted to provide a way forward for financial inclusion to evolve by embedding itself more deliberately in the domestic financing agenda. In each country, on the basis of the detailed MAP diagnostics, the programme has led the appropriate stakeholders in looking at the underlying market dynamics and identifying recommendations and activities in the roadmap for the national financial inclusion policy.<sup>3</sup>

MAP's analysis of the financial inclusion implementation action plans of four of the countries shows that actions can be grouped into nine broad categories, which can be further grouped into three broad action areas.<sup>4</sup> Together, these areas of intervention are required to catalyse markets using multiple 'levers' for impact.

## **POLICY AND REGULATION**

- Rules and certainty
- Oversight/coordination
- Capacity and research

## **INFRASTRUCTURE**

- Infrastructure and supporting ecosystem

## **PROVISION AND TAKE-UP TAKE**

- Provision
- Products
- Distribution
- Credit information and collateral
- Demand-side impact (catalyse demand, consumer protection etc.)





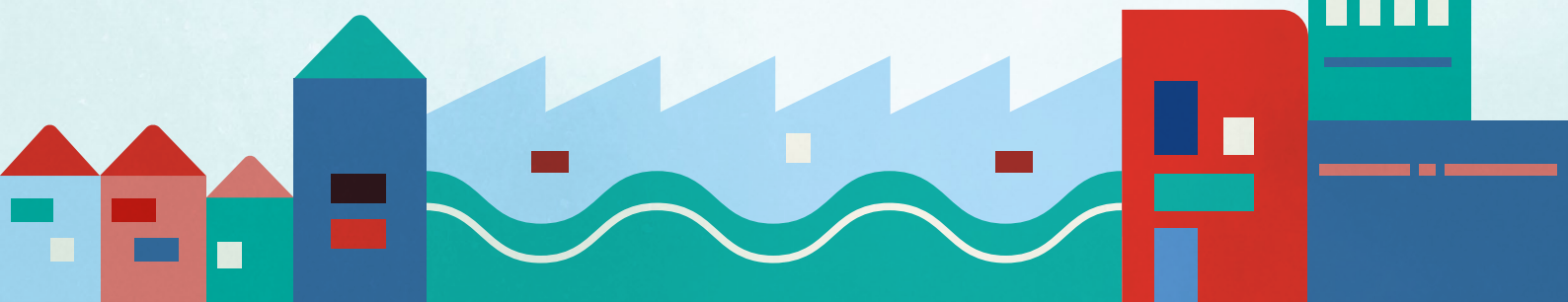
# Thailand

*Thailand was the very first MAP pilot country. The implementation of the nationally representative financial inclusion livelihoods survey (FinScope Thailand 2013) kicked off the process whereby UNCDF, working in partnership with the Asian Development Bank (ADB), assisted the Government of Thailand to develop the evidence base for a national financial inclusion policy.*


MAP supported capacity building in undertaking livelihoods-focused financial inclusion surveys by working in collaboration with Thailand's National Statistics Office and the Bank of Thailand. A synthesis report was presented at the National Stakeholder Forum; on the basis of that report and UNCDF technical inputs, ADB developed a financial inclusion roadmap for implementation as part of its broader technical advisory role to the Thai government. The government has subsequently successfully internalised full ownership of financial inclusion policy implementation in Thailand. The Bank of Thailand has been conducting their own financial inclusion household surveys since that time: in 2013, 2016, 2018 and 2020.<sup>5</sup>

The importance of promoting financial inclusion has been recognised by the government, and the country has seen a collaborative effort by all relevant authorities to promote individuals' access to financial services in terms of both usage and quality. In the second half of the 2010s, two major financial inclusion-related plans were introduced, by the Ministry of Finance and the Bank of Thailand, respectively, followed by a variety of initiatives to promote the levels of financial inclusion.

The Ministry of Finance developed a National Financial Inclusion Strategy (2017–2021) with three pillars: generating income and improving financial capacity for low-income people; enhancing the capabilities of financial services providers to improve financial inclusion; and improving financial infrastructure to accommodate financial inclusion. Various initiatives run under the NFIS, and linked to each pillar, have gradually helped to improve financial inclusion in the country in different areas of the strategy.



In parallel, the Financial Sector Master Plan Phase III (2016–2020), developed by the Bank of Thailand, places great emphasis on being inclusive (along with ‘competitive’, ‘connected’, and ‘sustainable’), with the aim of satisfying the diverse needs of business and individuals via appropriate financial services delivered through a variety of channels at fair prices.



*These efforts and collaborative plans contributed to the country’s achievement of an overall level of financial access of 94.3% in 2020.<sup>6</sup>*

In 2021, Thailand recognised that the COVID-19 pandemic had deepened poverty, undermined employment and increased the cost of financial services, all of which was bound to have impacted the most socioeconomically vulnerable segments of the population. Accordingly, the commitment to financial inclusion as an important ongoing mechanism for alleviating the impact of adversity on household incomes was strengthened, with an emphasis on risk mitigation (especially in the form of insurance), cost savings, and ensuring efficient and timely transactions. Looking ahead, Thailand aims to further develop digital financial infrastructures to enhance the country’s financial inclusion with several initiatives; key among these is expansion of the centralised national digital ID verification and authentication platform, under a regulatory ‘sandboxing’ exercise, to cover the areas of capital markets, insurance and lending. Other digital finance-related initiatives currently under way include the introduction of application programming interface (API) standards for bank statements, and of a virtual banking licence.

Based on the shared financial inclusion technical process undertaken with MAP, which has included extensive collaboration towards building capacity, Thailand has been a key partner in UNCDF’s regional financial inclusion efforts.

Using their own resources, including their own internally developed financial inclusion data, Thailand participated actively in the regional learning and sharing event in Singapore in 2019 and the MAP regional monitoring progress initiatives in 2020 and 2021.

# Myanmar

## Financial inclusion impact on lives and livelihoods

### OUR JOURNEY THUS FAR

Myanmar formulated the following national vision for financial inclusion (2015): Increase Financial Inclusion in Myanmar from 30% in 2014 to 40% by 2020, and adults with more than one product from 6% to 15%, with a full range of affordable, quality and effective financial services (which comply to internationally recognised standards on responsible finance) by getting all stakeholders to work together in an integrated manner.



Formal financial inclusion increased from 30% included (in 2013) to 48% included (in 2018), while reliance on informal financial products and services decreased.



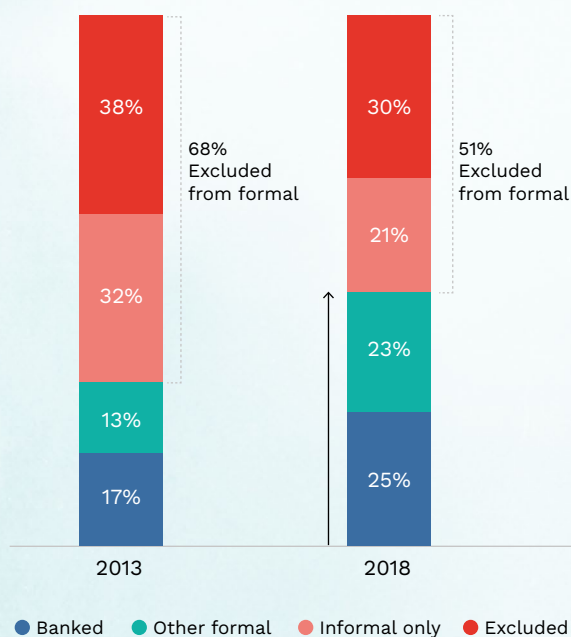
This demonstrated market growth for financial services and increasing comfort among consumers with using formal financial services.



Depth of usage (i.e. use of multiple formal financial products or services) increased dramatically up to 2018 (the last data received).

FIGURE 3

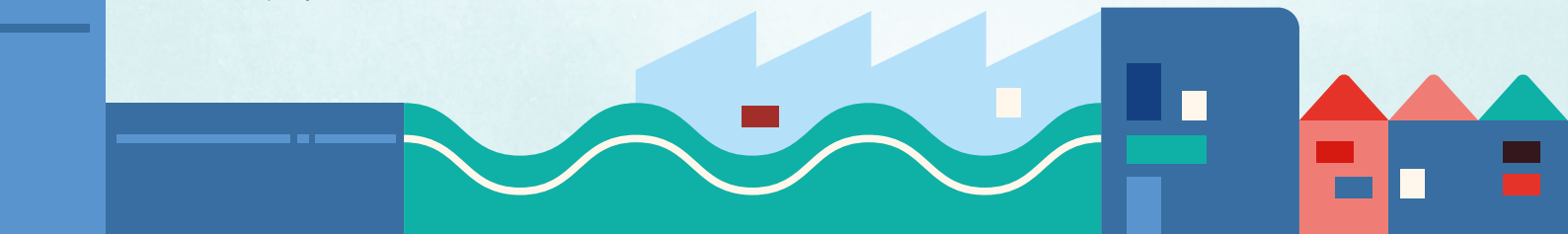
Myanmar financial access strand, 2013 vs 2018




Note: Myanmar achieved its financial inclusion targets two years ahead of schedule: 2018 rather than 2020. The 2021 coup in that country meant a suspension of the MAP programme there.  
Source: FinScope Myanmar 2013, 2018

### STRENGTHENING THE FINANCIAL INCLUSION ECOSYSTEM FOR THE LOW-INCOME IN MYANMAR

- 1 Country diagnostic conducted.
- 2 Livelihoods datasets for financial inclusion provided.
- 1 Financial inclusion roadmap drafted.
- 1 Roadmap recommendations being implemented.
- ✓ Structures for national coordination and implementation in place.
- ✓ Implementation action plan developed.
- 1 MAP refresh implemented.
- 1 National action plan/M&E framework and tracking developed.
- 1 Regional M&E tracking initiated.
- 3 South-South collaboration: participation in MAP regional and global learning and sharing events.





*The first full MAP process ever to be undertaken was in Myanmar, with the 2014 MAP Myanmar diagnostic being the first time the programme undertook the full MAP methodology to assess the level of financial inclusion in a country.*

The programme's inception in Myanmar was triggered by the common realisation among stakeholders of the dire lack of reliable data in the financial inclusion ecosystem at the dawn of the country's new era of democracy. UNCDF, together with development partners under the auspices of the UNDP-led country programme, assisted the Government of Myanmar to create a national financial inclusion policy and set up implementation structures; the 2013 nationally representative livelihoods survey, the 2014 diagnostic on financial inclusion, and the financial inclusion roadmap 2015–2020 constituted the required evidence base to inform national financial inclusion policy, with the roadmap serving as the guiding document for government implementation of the financial inclusion action plan.

The roadmap proved effective in supporting the government and key market players to build a common vision of a desired future for financial inclusion, and the roadmap targets were largely achieved by 2018 – two years ahead of the 2015 roadmap target of achieving 40% financial inclusion by 2020. Formal financial access (through banks and other formal financial institutions such as MFIs and cooperatives) increased from 30% to 48% of the adult population; and hence the rate of formal exclusion fell from 70% to 52%. Similarly, depth of usage of financial products increased dramatically; in 2013, only 6% of adults used more than one financial product from a formal financial services provider, but by 2018 this had risen to 17%.

The period since 2013 – when the process of gathering the nationally representative livelihoods survey that would underpin the country diagnostic commenced – has been one of rapid change, both in Myanmar and internationally (although the MAP programme has been suspended in that country since the 2021 coup). The country has seen political and economic reform, new policy initiatives, and major progress with regard to financial sector development. Internationally, the SDGs have been widely adopted as both targets and a framework for policy actions, within which financial inclusion plays an important role.

*This environment has supported major achievements with respect to financial inclusion in the country; there have been increases in the use of banks and non-bank financial institutions alike. Reliance solely on informal financial services has shown a decline, with adults increasingly using informal financial services providers as a complement to formal services.*

**PARTNERING TO BUILD INSTITUTIONAL CAPACITY:** Over the period 2013 to 2020, UNCDF supported the Government of Myanmar – and, in particular, the Financial Regulatory Department of the Ministry of Planning and Finance (FRD) – to develop the evidence base and set up implementation structures to develop the national financial inclusion strategy. The roadmap implementation structures were put in place in 2015 and further revised following national elections in 2016. The FRD, with support from the microfinance, insurance and pensions regulator, is primarily responsible for financial inclusion policy and the implementation of related support activities in Myanmar.

**ENABLING COHERENCE IN POLICY COORDINATION AND IMPLEMENTATION:** The FRD started implementing the financial inclusion roadmap under the aegis of an Inter-Ministerial Steering Committee (IMSC) in June 2015. In order to bring greater focus and to lead and support the implementation of various aspects of the roadmap, the IMSC established three working groups, covering: the banking sector (Bank Working Group); microfinance, insurance, cooperatives and other non-bank financial institutions (Non-bank Working Group); and the policy framework (Policy Working Group). The working structures met regularly, coordinating implementation of activities as identified in the annual action plans. In addition, a number of other relevant supporting structures and bodies, which serve as anchors for efforts to promote financial sector development and financial inclusion, were established: the Development Assistance Coordination Unit (DACU); the Development Assistance Policy; the Coordination of Financial Sector Technical Assistance to Myanmar (COFTAM); and the Cooperation Partners Group (CPG).

The financial inclusion roadmap proposed that the goal of financial inclusion in Myanmar would be best assured by pursuing two main outcomes: the strengthening of the financial sector so that it would be better able to support financial inclusion; and ensuring financial inclusion in three priority segments that had been chosen in line with government policy and objectives: agriculture, MSMEs, and low-income households. In 2018, the UNCDF refresh diagnostic showed that these objectives had largely been met, ahead of the roadmap target date of 2020 (see Table 3).

**TABLE 3****Progress towards achievement of the roadmap 2015–2020 vision and objectives**

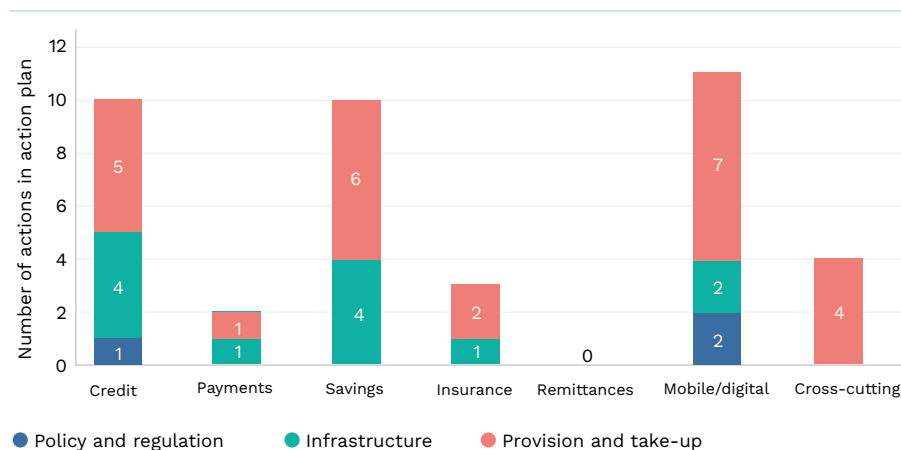
VISION STATEMENT	COMMENT
Increase financial inclusion in Myanmar from 30% in 2014 to 40% by 2020	Achieved
Increase adults with more than one product from 6% to 15%	Achieved
<i>Overall vision</i>	
Full range of affordable, quality and effective financial services (which comply to internationally recognised standards on responsible finance)	In progress (much improved)
Getting all stakeholders to work together in an integrated manner	On track
<i>Sector</i>	
Institution building by utilising and strengthening all categories of financial institutions (as no single type of organisation can provide access to everyone)	On track
Building the market by growing the currently low level of formal intermediation	In progress (significant growth)
<i>Segment</i>	
Farmers: improving financial access in agriculture by increasing the quality and diversity of products to farmers	Achieved
Self-employed: increasing financial access to MSMEs by strengthening institutions best positioned to serve them	Achieved
Informal: providing financial inclusion and resilience to low-income households by creating and incentivising business models and partnerships that are best positioned to provide the services, especially in rural areas	Achieved

Source: Summary based on MAP Refresh Myanmar (2018)

The Myanmar financial inclusion roadmap 2015–2020 can be further understood using MAP’s implementation activity framework (see Figure 4), split across different product areas and the three broad action areas (policy and regulation; infrastructure; and provision and uptake). It is clear that the roadmap prioritises credit, savings, and mobile money/digital financial products, while actions mostly involve interventions focused on provision and uptake, although there is also a substantial infrastructure focus in the area of credit.

**FIGURE 4**

Myanmar action plan: number of activities, by product area and implementation activity



Source: UNCDF analysis using Myanmar action plan

In terms of support for the roadmap activities in Myanmar, UNCDF reported supporting 7 (of 43) activities falling under 7 (of 15) ‘actions’, which fell under 5 (of 6) segments. Of the 7 activities, 6 involved grants, and 1 research. Table 4 summarises the support provided by the UNCDF country office over the period 2014 to 2021.

In 2018, UNCDF supported a refresh diagnostic and an updated representative livelihoods survey, to provide an updated evidence base for tracking financial inclusion implementation and informing strategic changes to policy implementation. Based on the refresh findings, an updated financial inclusion roadmap was developed in 2019.

The 2018 MAP refresh made it possible to obtain a much better understanding of Myanmar’s financial sector and dynamics than was possible in 2013. The 2018 refresh diagnostic found that access to finance for all of the key target market segments (farmers, the self-employed, and low-income informal employees) had been achieved. These achievements reflected wide-ranging changes in Myanmar’s society, economy and policy frameworks, and had been supported by the action plan that flowed from the 2015 roadmap. Based on the enriched understanding arising from the 2018 refresh research, and given the attainment in large part of the 2020 financial inclusion objectives (as outlined in the roadmap 2015–2020), a renewed vision for an inclusive financing landscape was developed.

**PARTICIPATING IN FINANCIAL INCLUSION AT A REGIONAL LEVEL:**

Through UNCDF’s engagement with Myanmar in particular and in ASEAN generally, and with significant support from UNCDF, the Myanmar Ministry of Planning and Finance participated in and successfully submitted tracking indicators and a financial inclusion narrative report to the regional ASEAN monitoring report in 2020. The country’s political circumstances meant Myanmar did not participate in 2022, however.

**TABLE 4**

**UNCDF activities supporting Myanmar financial inclusion roadmap implementation**

ACTION	ACTIVITIES	UPDATES
<i>Low-income</i>		
1.1 Sector reform (MFI, state-owned banks, insurance)	Ensure MFI reform improves their ability to provide credit and collect savings	UNCDF is working with MFIs, providing them with grants and loans to expand their operations and reach to last-mile clients.
1.2 Innovation to increase/deepen rural outreach, and to address shocks in agriculture and health	Increasing/deepening rural outreach	UNCDF supported the Association for Social Advancement (ASA) Microfinance Myanmar in providing financial access in rural areas.
1.3 Transform and strengthen the cooperatives sector to deliver a wider range of financial services	Strengthen the role of cooperatives in provision of credit	UNCDF supported the Association of Asian Confederation of Credit Unions (ACCU) to strengthen the cooperatives sector and increase their credit provision.
<i>Mobilise savings</i>		
3.2 Encourage people to save in general, and then to save formally, by providing them with more options (MFIs, mobile money)	Savings mobilisation via mobile financial services	UNCDF, through ACCU, ASA and Alliance (an MFI), supported over 220,000 people to increase their savings.
<i>Mobilise savings</i>		
4.3 Interoperable digital financial services (DFS) and payment platforms	Interoperability across systems to promote DFS	UNCDF is investing in ModusBox (an enterprise-integration service provider) to create an interoperable payment platform (Mojaloop).
5.1 Digital and financial capability of customers	FSP financial literacy and awareness programmes to help understand the products, usage and financial self-discipline	UNCDF is investing in 5 financial services providers (FSPs) to provide financial literacy to 120,000 women enterprises.
5.3 Gender	Gender focus and monitoring	UNCDF published a policy document on the challenges faced by women to access finance. In addition, UNCDF is implementing the Gender Smart Product Initiative to support FSPs in creating financial products better targeting women.

Source: UNCDF, based on EFA and SHIFT reports (period: 2014 to 2021)

**SOUTH-SOUTH PEER LEARNING:** Prior to the military coup of February 2021, Myanmar was a key counterpart in learning and sharing, including the New York global (2018) and Singapore regional (2019) learning and sharing events aimed at capacitating regulators through learning and sharing from peer countries for financial inclusion policy implementation and monitoring. With the coup in 2021, however, UNCDF suspended further support to Myanmar in the framework of the MAP programme, awaiting further developments.

# Lao PDR

## Financial inclusion impact on lives and livelihoods

### OUR JOURNEY THUS FAR

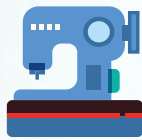
Lao PDR formulated the following national vision for financial inclusion (2018): Improve household welfare by improving their access to financial services so the access is broad, convenient and deep, meeting the needs for livelihoods development; assist households and enterprises to increase economic efficiency and support growth by improving financial inclusion.



Financial access has increased (likely for those with stable incomes) but more people are dependants now, which suggests the 'lower-middle' have been pushed to the bottom of the pyramid.



Formal financial inclusion increased from 47% included in 2014 to 58% included in 2021, and the use of informal financial products decreased.

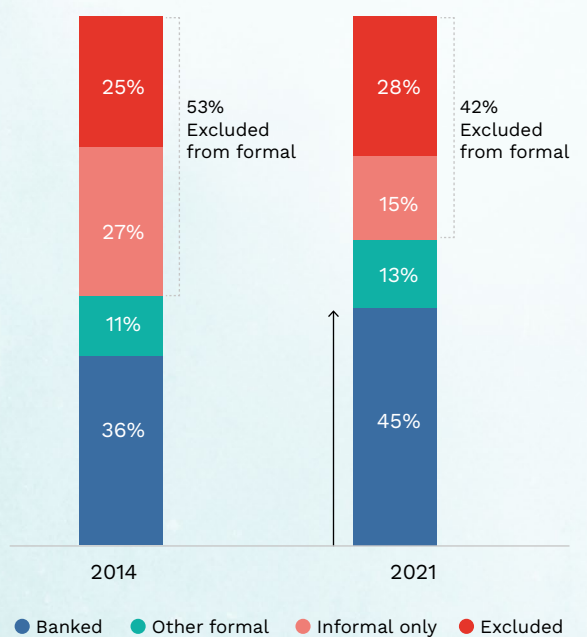


This demonstrates market growth for financial services and increasing comfort among consumers with using formal financial services; it also shows increased depth of usage, with the formally served using more than one type of service.



More than half of those who are 'banked' are low or dormant users of their account.


**FIGURE 5**  
Financial access strand Lao PDR: 2014 vs 2021, and overall progress 2021



Source: UNCDF Cambodia financial inclusion mobile tracker survey report (2021)

### STRENGTHENING THE FINANCIAL INCLUSION ECOSYSTEM FOR THE LOW-INCOME IN LAO PDR

- 1 Country diagnostic conducted.
- 2 Livelihoods dataset/s and/or tracker survey/s for financial inclusion provided.
- 1 Financial inclusion roadmap drafted.
- 1 NFIS developed/adopted and/or roadmap recommendations being implemented.
- ✓ Structures for national coordination and implementation in place.
- ✓ Implementation action plan.
- 1 MAP refresh implemented.
- 1 National action plan/M&E framework and tracking.
- 2 Regional M&E tracking.
- 4 South-South collaboration: participation in MAP regional and global learning and sharing events.



*The country's vision for financial inclusion was established by the Lao PDR Financial Inclusion Roadmap 2018–2025 (FIRM), which was based on the 2015 MAP diagnostic findings and the 2016 MAP roadmap. The FIRM was endorsed by the Governor of the Bank of the Lao PDR (BoL) in August 2019 and publicly launched in January 2021.*

Over the period following the diagnostic (2015 to 2018), UNCDF supported the BoL in developing this policy document on financial inclusion. Seven priority intervention areas highlighted in the MAP diagnostic report for Lao PDR were condensed to five, in a process closely coordinated by the BoL and UNCDF.

The FIRM proposed to realise its vision by:

- Increasing general access to financial services among the adult population from 75% to 85% by the end of 2025.
- Increasing access to formal financial services among the adult population from 47% to 65% by the end of 2025.
- Increasing access to more than one financial product among the adult population from 29% to 60% by the end of 2025.
- Increasing access to financial services among adult women from 76% to 85% by the end of 2025.


Reflecting on progress against the 2016 MAP financial inclusion roadmap and the ongoing FIRM (2018–2025) action plan helps gauge the current situation, identify remaining gaps and prioritise future interventions.

**PARTNERING TO BUILD INSTITUTIONAL CAPACITY:** Over the period, UNCDF supported the Government of Lao PDR – and, in particular, the BoL – in building the evidence base to support development of the national financial inclusion strategy. UNCDF also assisted with inputs on an M&E framework for the roadmap.

**ENABLING COHERENCE IN POLICY COORDINATION AND IMPLEMENTATION:** As at 2021, Lao PDR had no single, dedicated agency with the mandate of overseeing financial inclusion policy development, management and implementation. The FIRM (2018–2025), in fact, identified the issue as a gap and recommended the establishment of a formally mandated steering committee to ensure effective oversight, coordination and implementation of activities to enhance financial inclusion. It further recommended the establishment of technical working groups, in order to identify and discuss financial

inclusion technical issues and propose solutions; and active engagement with the Government Office to solicit formal endorsement of the FIRM as a means of obtaining optimal political support.

Based on the 2015 MAP diagnostic findings and informed also by the country's national objectives for growth and improved livelihoods, the 2016 financial inclusion roadmap's practical recommendations for increasing financial inclusion were: (i) improving the availability and sustainability of credit; (ii) consumer protection and empowerment; (iii) strengthening village funds; (iv) payment ecosystem development; and (v) extending the outreach of banks and other financial services providers (financial outreach). These five practical recommendations were subsequently included in the FIRM as five priorities that would support the FIRM vision and outcomes.



*The FIRM aimed to achieve its outcomes by enhancing formal financial sector infrastructure, encouraging competition, modernising regulation and reducing risks; extending financial services to low-income households and least served groups; and facilitating well-targeted credit to productive enterprises and farmers and for investment in assets.*

Table 5 reflects considerable success in implementation in a number of priority areas. The most pronounced success is in the payment ecosystem; both the regulatory environment and infrastructure have been strengthened and significant market development achieved. Improving the enabling environment for payments has increased the number and range of financial services providers, distribution channels, and payment services offered and used.

Progress in other priority areas has been varied, with some planned activities being completed and others still under way (this is partly related to the nature of many of the activities, which had been planned for the medium or long term). Activities also include sub-activities or tasks. Table 5 summarises progress in line with the five practical recommendations, and distinguishes activities still in process from those partially completed. (Cases in which there is insufficient information to make a clear assessment have also been noted.) Of the 53 activities outlined in the FIRM, 10 activities have clearly been completed; of the remainder, just over half – i.e. 22 activities – have seen some level of progress, while 19 activities have not seen any progress so far (or have unclear progress). Some activities from the FIRM are also identified by the 2021 MAP refresh diagnostic for continued implementation as key priorities, based on their continued relevance.

**TABLE 5****Summary of progress on implementation: Lao PDR FIRM (2018–2025)**

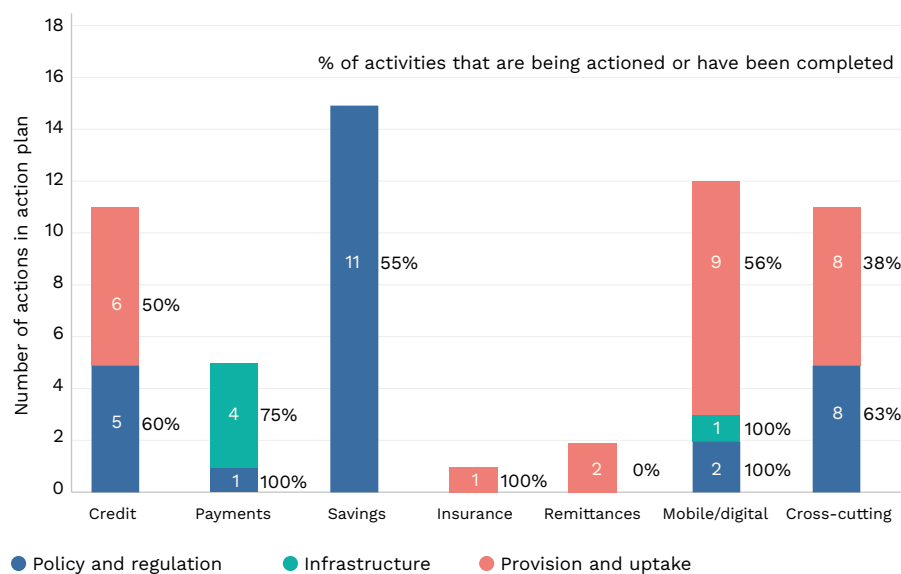
PRIORITY	NUMBER OF ACTIVITIES	FULLY ACHIEVED	PARTIALLY ACHIEVED/IN PROCESS	NOT ACHIEVED/UNCLEAR
Improve the availability and sustainability of credit	11	3	3	5
Consumer empowerment and protection	11	-	7	4
Strengthen village funds for sustainability and relevance to the rural population	9	1	3	5
Improve the payment ecosystem through mobile money, digital financial services, and improved payment infrastructure	17	6	6	5
Extend the outreach of banks and other financial services providers	5	-	3	2

Progress on implementation activities can be further understood using MAP’s implementation activity framework (see Figure 6), split across different product areas and the three broad action areas (policy and regulation; infrastructure; and provision and uptake). The Lao PDR FIRM is clearly prioritising cross-cutting interventions, which in this case relate to regulatory interventions (such as the introduction of tiered know-your-customer regulations), consumer protection and financial literacy, and products and distribution (such as extending distribution networks through bank branches and non-branch channels).

In addition, the Lao PDR FIRM action plan is clearly putting effort into the areas of credit, savings, payments, and mobile money/digital finance-focused interventions, although there is little focus on insurance and remittances. Actions mostly involve policy and regulation as well as interventions focused on provision and uptake. Actions relating to infrastructure are focused on institutionalising the necessary components of the payment ecosystem – working from both the payments perspective and that of mobile money/digital financial capabilities – to allow for efficient payments to be made.

**FIGURE 6**

Lao PDR action plan: number of activities, by product area and implementation activity



Source: UNCDF analysis using Lao PDR implementation plan

*Looking at the number of activities that are either being actioned or have been completed, it is clear that substantial progress has been made in the areas of mobile money/digital financial products, as well as payments, but that more remains to be done in the areas of credit and savings.*

The MAP suggestion is that, going forward, Lao PDR should consider including a greater focus on coordination (given the absence of such actions in the current plan), increase activity relating to expanding provision and uptake, and include more actions focusing directly on consumers.

In terms of support for the FIRM activities in Lao PDR, UNCDF reported supporting two (out of five) priority areas and four (of 54) activities, and also contributed towards the overall FIRM category ‘Outcomes’. Of the interventions, two related to training, while the other three involved grants.


Table 6 summarises the support provided by the UNCDF country office over the period 2014 to 2021.

**TABLE 6**

**UNCDF activities supporting Lao PDR NFIS implementation**

STRATEGY	ACTIVITIES	UPDATES
OUTCOMES	Increase general access to financial services among the adult population from 75% to 85% by the end of 2025; increase access to financial services among adult women from 76% to 85% by the end of 2025.	UNCDF MAFIPP (Making Access to Finance More Inclusive for Poor People) achieved an overall outreach of 168,150 additional users of financial services as of the end of September 2018, comprising 19,971 from DFS: 55% of these additional users are women, in line with the gender proportion target.
<b>PRIORITY 4</b>		
<i>Improving the payments ecosystem through mobile money, digital financial services (DFS), and improved payments infrastructure</i>		
REGULATORY	Finalise draft mobile money regulations to provide more certainty in the regulatory environment for mobile money service providers.	MAFIPP trained staff of the BoL Payments Systems Department (established in March 2018) on the principles of DFS to raise their awareness on the financial inclusion potential of DFS (July 2018).
	Finalise a comprehensive legal, regulatory and reporting framework for payments, encompassing both core, high-value clearing and settlement systems, and retail payments service providers.	MAFIPP supported regulators in strengthening their skills and increasing their awareness of the importance of mobile money.
MOBILE MONEY	Support mobile money systems; get pilots up and running.	UNCDF supported the spread of mobile money through investments in: Banque Franco Lao (in 2017) and BCEL Community Money Express, or BCOME (since 2015) as part of its MAFIPP and SHIFT programme. BCOME, initiated in June 2015, is the MAFIPP flagship project and an aspirational component of several other commercial banks with mass-market retail ambitions; BCOME has about 20,000 regular users through about 400 banking agents present nationwide (although in priority in rural areas), and transactions worth 30 billion Lao kip were processed in December 2018 alone (a volume that has tended to double every 10 months since then).
<b>PRIORITY 5</b>		
<i>Extend the outreach of banks and other financial service providers</i>		
REGULATORY	Remove regulatory barriers to the establishment of new branches by banks, MFIs and leasing companies, such as additional capital requirements.	MAFIPP has successfully developed rural microfinance with the introduction of the ‘Center Meetings’ methodology, whereby credit officers visit locations on a fixed weekly or bi-weekly schedule and collect loan repayments and service savings account deposits and withdrawals. MAFIPP also supported the rural expansion of diverse commercial operators: the commercial private bank ACLEDA, the rural NDTMFI XMI and the urban DTMFI Champa Lao.

Source: UNCDF, constructed using MAFIPP and SHIFT reports (period: 2014 to 2021)



*The 2021 MAP refresh diagnostic emphasised very strongly the importance of the country's financial inclusion efforts supporting its development priorities, and made a number of recommendations in this regard.*

In the interests of better meeting low-income consumers closer to where they are geographically, MAP recommended focusing on enabling the well-regulated financial sector to invest in and expand bricks-and-mortar facilities, in addition to increasing agent and digital footprints. Included in that recommendation was also to increase the focus on meeting the real economic needs – income generation and employment – of the majority of the population (i.e. low-income and vulnerable people) through financial inclusion that would be likely to achieve improvements in the areas of entrepreneurship, gender equality, healthcare, social protection and education.

The MAP refresh diagnostic emphasised the importance of a stable financial regulatory environment, with open, constructive communication and cooperation between the public and private sectors, which would help to stimulate investment in commercial banks, leasing companies and MFIs.

The refresh recommended an increased push by the banking sector to increase rural consumers' uptake of formal savings products and services, as this would grow the market for financial services while intermediating rural financial flows (in the form of savings). Another recommendation was to improve providers' practices with regard to credit scoring and gauging would-be lenders' repayment capacity, as a means of improving the availability and sustainability of credit. And a further recommendation was to prioritise international remittances as an entry point for banks to engage households, especially rural ones, that are formally financially excluded.

Emphasised in the 2021 refresh diagnostic recommendations was that harnessing financial inclusion to support the country's development priorities also requires careful protection of socioeconomically vulnerable groups – specifically, agricultural households, informal micro or small enterprises (IMSEs) and labour migrants – as well as setting strong industry standards on consumer protection.

Finally, the refresh argued that, as a long-term strategy, digital and mobile-based payments should be steadily introduced to support financial and economic inclusion, although in the interim – and likely for a long time to come – cash will play a key role in financial intermediation.

#### **PARTICIPATING IN FINANCIAL INCLUSION AT A REGIONAL LEVEL:**

With UNCDF's assistance, the BoL participated in shaping, and successfully contributed tracking indicators and a financial inclusion narrative report to the regional ASEAN monitoring progress reports in 2020 and 2021. In the 2021 report, the BoL recognised that the MAP refresh diagnostic links financial inclusion more closely to addressing key socioeconomic issues, in the process supporting the five-year National Socio-Economic Development Plan as well as the achievement of the SDGs, which is especially critical during the impact of the pandemic, to support economic recovery.

**SOUTH-SOUTH PEER LEARNING:** Lao PDR was also assisted by UNCDF to engage at regional and global workshops on financial inclusion, including the New York global (2018) and Singapore regional (2019) learning and sharing events aimed at capacitating regulators through learning and sharing from peer countries for financial inclusion policy implementation and monitoring. In 2019, Lao PDR also attended workshops in SADC, sharing peer learning experiences with the SADC MAP countries together with the ASEAN secretariat.

# Cambodia

## Financial inclusion impact on lives and livelihoods

### OUR JOURNEY THUS FAR

Cambodia formulated the following national objective for financial inclusion (2019): Increase access to quality formal financial services by reducing the financial exclusion of women by half from 27% to 13% and increase usage of formal financial services from 59% to 70% by 2025, as well as improve household welfare and support economic growth.



Formal financial inclusion increased from 59% included (in 2015) to 67% included (in 2021), and the use of informal financial products decreased.



This demonstrates market growth for financial services and increasing comfort among consumers with using formal financial services, though the depth of usage (i.e. using more than one type of formal product or service) remains low.

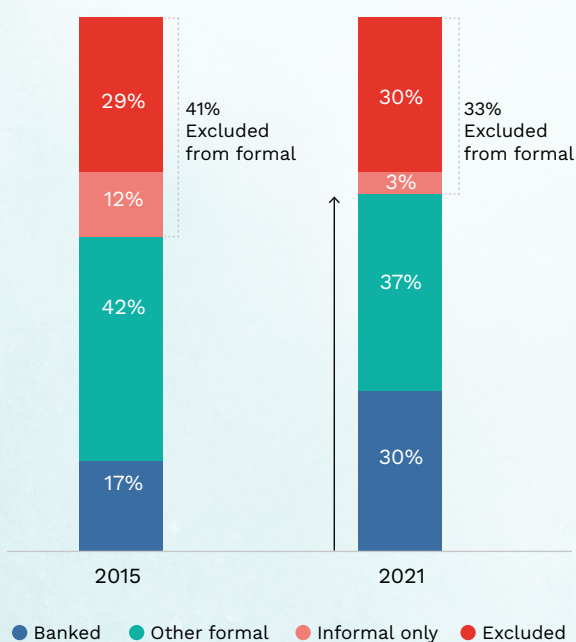


Overall, people have fewer financial products, driven by a decline in the use of credit. More than half of those who are 'banked' are low or dormant users of their account.



Exclusion from formal financial services decreased from 41% (in 2015) to 33% (in 2021), but exclusion from formal and informal services combined remained relatively stable (no change).


**FIGURE 7**  
Financial access strand Cambodia: 2015 vs 2021, and overall progress 2021



Source: UNCDF Cambodia financial inclusion mobile tracker survey report (2021)

### STRENGTHENING THE FINANCIAL INCLUSION ECOSYSTEM FOR THE LOW-INCOME IN CAMBODIA

- 1 Country diagnostic conducted.
- 2 Livelihoods dataset/s and/or tracker survey/s for financial inclusion provided.
- 1 Financial inclusion roadmap drafted.
- 1 NFIS developed/adopted and/or roadmap recommendations being implemented.
- ✓ Structures for national coordination and implementation in place.
- ✓ Implementation action plan.
- 1 MAP refresh implemented.
- 1 National action plan/M&E framework and tracking.
- 2 Regional M&E tracking.
- 4 South-South collaboration: participation in MAP regional and global learning and sharing events.



*The 2017 MAP diagnostic highlighted interventions that would best meet national objectives for growth and improved livelihoods, and formed the basis of a roadmap for defining, prioritising, coordinating, measuring and tracking such interventions.*

The national vision for financial inclusion was established by the 2019–2025 NFIS adopted by the National Bank of Cambodia (NBC), based on the 2017 MAP diagnostic findings and the 2018 MAP roadmap. The NFIS includes targets to increase access to quality formal financial services, reduce the financial exclusion of women by 50% (from 27% to 13%), and diversify formal financial services usage from 59% to 70% by 2025. Reflecting on progress against both the 2017 MAP diagnostic and the ongoing 2019–2025 Cambodia Financial Inclusion Action Plan is useful for gauging the current situation, identifying remaining gaps and prioritising future interventions.

The financial services sector today is better positioned to expand financial inclusion, especially through low-cost, branchless banking (BLB), physical bank branches, and DFS. It is also equipped to provide targeted lending products for SMEs. Improved interoperability among financial institutions has served to enhance payment systems for consumers. Consumers have also benefitted from increased emphasis on financial literacy in conjunction with new regulations aimed at consumer financial empowerment. At the same time, though, progress remains limited in a number of areas, including around unregulated (i.e. informal) for-profit financial services providers (e.g. pawn shops, which still lack registration, monitoring and enforcement).

**PARTNERING TO BUILD INSTITUTIONAL CAPACITY:** Over the period, UNCDF supported the Government of Cambodia – and, in particular, the NBC – to generate the evidence base and set up implementation structures for developing the NFIS. The NBC established a dedicated Financial Inclusion Team in 2020, after restructuring its Directorate General of Banking Supervision into four departments. The team was established under the Supervisory Data Management and Macro-surveillance Department, which is responsible for coordinating, implementing, monitoring and evaluating the NFIS. The department also provides oversight on consumer protection.

**ENABLING COHERENCE IN POLICY COORDINATION AND IMPLEMENTATION:** The Inter-ministerial Working Group on Financial Inclusion Strategy Formulation has been coordinating implementation of the financial inclusion roadmap with the NBC, which chairs the group and coordinates with other relevant government agencies on implementing the six identified priorities (see Table 7).

**TABLE 7**

**Cambodia NFIS 2019–2025: policy priority areas**

PRIORITY AREA	LEAD GOVERNMENT AGENCY	SUPPORTING GOVERNMENT AGENCIES
<b>PRIORITY 1</b> Encourage savings in formal financial institutions	NBC	Ministry of Economy and Finance (MEF); Ministry of Women’s Affairs
<b>PRIORITY 2</b> Promote innovative credit products for SMEs and MSMEs	NBC, MEF	Ministry of Agriculture, Forestry and Fisheries; Ministry of Industry, Science, Technology and Innovation (MISTI); Ministry of Commerce; Ministry of Social Affairs, Veterans and Youth Rehabilitation; Ministry of Women’s Affairs
<b>PRIORITY 3</b> Enable expansion of payment system capabilities	NBC	MEF; Ministry of Post and Telecommunications
<b>PRIORITY 4</b> Prioritise the development of a well-functioning insurance market	MEF, NBC	Ministry of Agriculture, Forestry and Fisheries; MISTI; Ministry of Planning; Ministry of Women’s Affairs
<b>PRIORITY 5</b> Strengthen the capacity of financial sector regulators	NBC, MEF, Securities and Exchange Regulator of Cambodia	
<b>PRIORITY 6</b> Increase consumer empowerment and sector transparency	NBC	Ministry of Education, Youth and Sport; Securities and Exchange Regulator of Cambodia; Ministry of Commerce; MEF

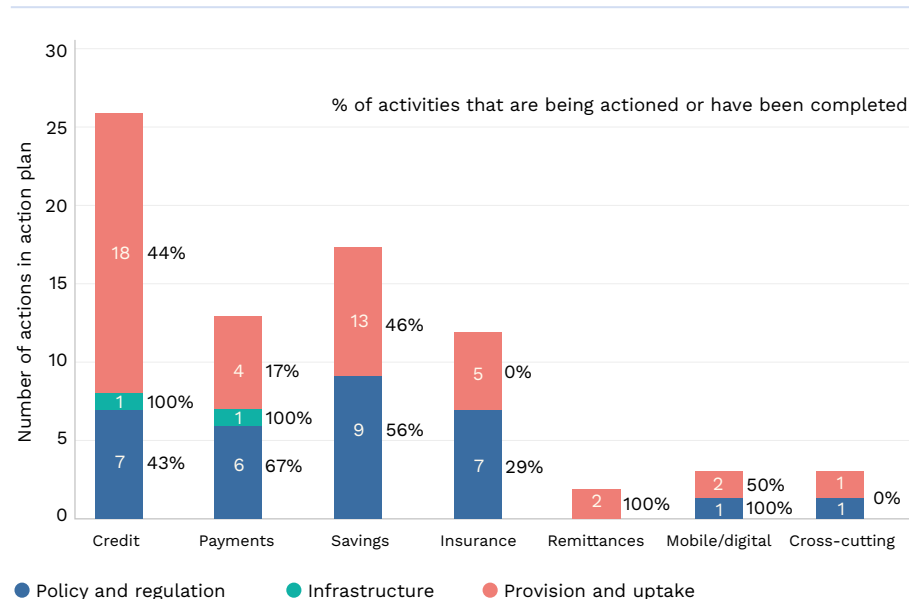
For roadmap implementation, the NFIS action plan outlined 115 activities in the short term (2019–2020), medium term (2021–2022) and long term (2023–2025). In total, 71 of the activities have been completed or are in progress, while 44 remain to be completed under the MAP refresh:

- Of the 40 short-term activities, 25 have been completed or are in progress, while 15 have not seen any progress.
- Of the 50 medium-term activities, 37 have been completed or are in progress, while 13 have not seen any progress.
- Of the 25 long-term activities, 9 have been completed or are in progress, while 16 have not seen any progress.

Progress on implementation activities can be further understood using MAP’s implementation activity framework (see Figure 8), split across different product areas and across the three broad action areas (policy and regulation; infrastructure; and provision and uptake). Clearly evident is that the Cambodia NFIS action plan mostly involves policy and regulation (which includes research activities) as well as provision- and uptake-focused interventions – in other words, that infrastructure is not a focus.

Looking at the number of activities that either are being actioned or have been completed, it becomes clear that credit and savings are being prioritised, and that substantial progress has been made in the areas of credit, payments and savings (although more remains to be done). Cambodia has also shown progress with infrastructure activities and activities relating to rules and certainty. However, given that progress on the six payment-related ‘provision and uptake’ activities is low (17%), and that no progress has been made on the five insurance-related ‘provision and uptake’ activities, the MAP suggestion would be – in addition to maintaining the good progress with credit and payments – to provide support for implementing payments and insurance, particularly relating to provision and uptake. Going forward, more activities to strengthen policy and regulation-related oversight and coordination could also be added.

**FIGURE 8**  
Cambodia action plan: number of activities, by product area and implementation activity



Source: UNCDF analysis using Cambodia implementation plan

Over the period 2018 to 2021, the UNCDF country office provided technical support: 4 (out of 19) priority interventions were supported (see Table 8), with UNCDF providing support within these 4 priority interventions to 5 (out of 100) activities. Of the 4 priority intervention areas, 1 related to grants, while the remaining 3 related to training and technical assistance.

**TABLE 8**

**UNCDF activities supporting Cambodia NFIS implementation**

PRIORITY INTERVENTIONS FOR FINANCIAL INCLUSION	ACTIVITIES	UPDATES
Develop incentives for savings mobilisation	4. Promote and support the design of inbound remittances-linked saving products (particularly cross-border remittances).	UNCDF SHIFT <sup>7</sup> supported Amret Microfinance Institution (AMK) in 2018 and 2019 to offer a full suite of associated services, including cash-in, cash-out, domestic transfers, electronic payment services, and loan repayment, throughout their network of 151 branches, 61 ATM machines and 2,500 agents.
Enhance accessibility of savings products	6. Encourage the increase in depth of financial services usage for clients (savings, credit and payments).	The Data Smart Product Development training conducted by UNCDF SHIFT in 2018 helped FSPs in introducing financial products better targeting the needs of their clients (in the interests of increasing depth of financial services usage). The UNCDF SHIFT team also worked with the Cambodia Microfinance Association and oriented MFIs on increasing depth of usage.
Promote a gender-sensitive strategy	69. Institutionalise gender-disaggregated data collection and analysis for banking and financial institutions (possibly using CBC data) to guide product design. 72. Institutionalise gender-disaggregated data collection and analysis with regard to pawn shops, insurance and microinsurance companies (possibly using CBC data).	Over 100 private sector stakeholders were trained in data analysis and collection, as well as gender-smart product development.
Increase sector monitoring and enforcement, and lead innovation	94. Increase NBC capacities and human resources to register, review, license, monitor and enforce regulations.	UNCDF SHIFT and MAP supported the NBC in monitoring of the NFIS and in tracking gender-disaggregated data. More than 40 public officials were trained in data analysis and collection, as well as gender-smart product development.

Source: UNCDF, constructed based on SHIFT reports (period: 2014 to 2021)

### CO-CHAIRING THE REGIONAL WORKING GROUP ON FINANCIAL

**INCLUSION:** In 2021, the NBC became co-chair of the regional Working Committee on Financial Inclusion (WC-FINC); this is testament to the increased capacity within the NBC to lead the financial inclusion agenda. In the same year, UNCDF completed both a refresh diagnostic and a mobile tracker survey, to provide an updated evidence base to track implementation and inform strategic changes to policy implementation. Through UNCDF's engagement with Cambodia and at the ASEAN level, Cambodia also participated in the regional monitoring progress initiative, to collect and report financial inclusion progress data and indicators to WC-FINC.

**ENABLING BETTER SOUTH-SOUTH COOPERATION THROUGH LEARNING AND SHARING:** Cambodia was assisted by UNCDF to engage at regional and global workshops on financial inclusion.

*At the global learning and sharing event in New York (2018), Cambodia shared with other governments an account of the country's financial inclusion policy progression and the key market developments that were impacting the national policy environment, especially with regard to gender.*

The Singapore regional learning and sharing events (2019) aimed to capacitate regulators through learning and sharing from peer countries for financial inclusion policy implementation and monitoring; participation in this event coincided with Cambodia's initiation of its national M&E process, based on other countries' experience. Interestingly, Cambodia was the only one of the participating countries to have placed access to healthcare on the policy agenda – two years prior to the COVID-19 pandemic.

### CREATING A FUTURE BY BUILDING IT FROM THE BOTTOM UP:

In the 2021 monitoring progress report, the NBC recognised that increasing financial inclusion in the country was more important than ever, given the economic hardships caused by the pandemic and the crucial financial intermediation benefits financial inclusion has to offer. According to Cambodia's report *Development Finance Assessment*,<sup>8</sup> domestic revenue, domestic private investment, and remittances are increasingly the most important source of financing for development in Cambodia, projected to rise to 36% towards the end of 2025. Furthermore, as Cambodia has achieved lower-middle-income status, its development financing needs, along with the available sources of finance, will change. In line with the country's change in income status, some forms of finance, such as grant-funded official development assistance, have fallen dramatically

in recent years. At the same time, however, domestic market development has not kept pace with the country's growth trajectory; and, thus, limited domestic financial markets impede the efficient allocation of resources and risk sharing. Financial inclusion, with its strong linkages to all components of the domestic market, can play a strong role to support Cambodia's growth objectives by leveraging household spending to help fund development objectives, and by aggregating and mobilising capital, thereby contributing to financial sector development and investment. Given current fiscal constraints and low levels of foreign direct investment, local streams of capital will become increasingly important.

Cambodia is continuing to improve its implementation of the NFIS 2019–2025 and the current M&E framework. The country is working with private sector market players and development partners alike and cooperating closely with relevant stakeholders on strengthening its domestic financial sector and financing models, towards inclusive economic growth through increased inclusion of those who are socioeconomically vulnerable.

# Nepal

## Financial inclusion impact on lives and livelihoods

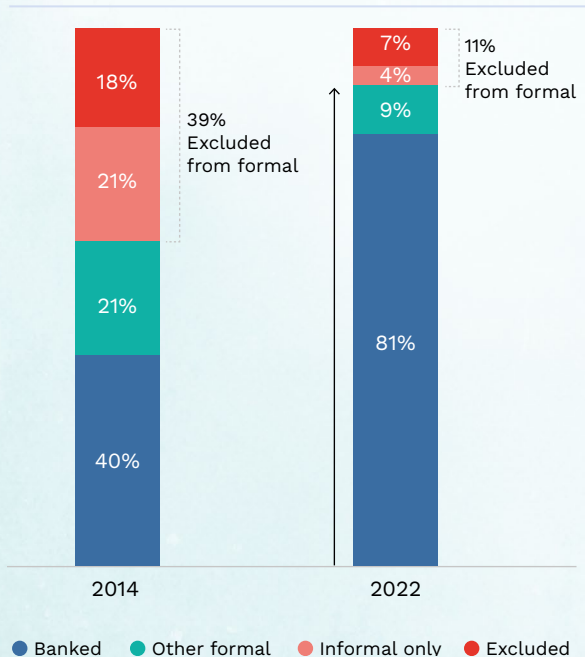
### OUR JOURNEY THUS FAR

Nepal formulated the following national vision for financial inclusion (2017): Increasing formal financial inclusion to 75% by 2022 (from 60% in 2014), and reducing the financially excluded as a proportion of the population from 18% to 3%, so as to create economic empowerment.



Formal financial inclusion increased from 61% in 2014 to 90% in 2022, meaning the country succeeded in reaching, in fact surpassed, its target of 75% by 2022.


**FIGURE 9**  
Financial access strand Nepal: 2014 vs 2022, and overall progress 2021



Source: FinScope, 2014 and IFC A2F, 2021/2022

### STRENGTHENING THE FINANCIAL INCLUSION ECOSYSTEM FOR THE LOW-INCOME IN NEPAL

- 1 Country diagnostic conducted.
- 2 Livelihoods dataset/s and/or tracker survey/s for financial inclusion provided.
- 1 Financial inclusion roadmap drafted.
- 1 Roadmap recommendations being implemented.
- ✓ Structures for national coordination and implementation in place.
- ✓ Implementation action plan.
- 1 MAP refresh implemented.
- 1 National action plan/M&E framework and tracking.
- 2 South-South collaboration: participation in MAP regional and global learning and sharing events.




*Working in collaboration with UNCDF's UK Aid-funded Unnati programme, MAP assisted the Government of Nepal with developing the evidence base, the 2013 nationally representative livelihoods survey, which fed into the 2016 financial inclusion diagnostic, required to create the 2017 national financial inclusion roadmap and action plan, and with setting up financial inclusion implementation structures.*

Nepal's financial inclusion action plan includes the vision of increasing formal financial inclusion to 75% by 2022 and creating economic empowerment by reducing financial exclusion to just 3% of the population. A just-concluded nationally representative livelihoods survey, conducted as part of the 2021 UNCDF-led refresh diagnostic, is providing the Government of Nepal with updated data on the level of financial inclusion, and found that formal financial inclusion had increased to 90% by 2022.

Nepal has implemented the 2017 action plan proactively since its formulation, and there are a number of ways in which the financial services sector, compared to 2016, is now much better positioned to expand financial inclusion – particularly by means of low-cost BLB, physical bank branches, and DFS. Furthermore, considerable progress has been made since 2016 on the various recommendations set out in the 2015 MAP diagnostic study (with the 2021 refresh diagnostic also having identified priority recommendations from the 2016 roadmap to carry over for ongoing implementation). The country's Financial Sector Development Plan (FSDS) 2017–2022 adopted by the Ministry of Finance (MoF) has also aided progress, as many of its activities and implantation issues and recommendations support and promote activities outlined in the financial inclusion action plan.

One of the notable achievements during the implementation phase has been the rapid adaptation and development of digital payments and digital banking services. The timely introduction of the favourable regulations that are now in place has resulted in a proliferation of payment services providers (PSPs) and payment system operators, and even the 'Class D' banking institutions – i.e. the MFIs – have been allowed to operate as PSPs. Similarly, the area of quick response (QR) code retail payments is seeing aggressive growth and bringing a larger number of SMEs into the formal banking sphere.



*The push by government for the settlement of financial transactions through digital means, with the objective of minimising cash transactions following the spirit of the 2019 Digital Nepal Framework,<sup>9</sup> has been instrumental in effecting helpful change.*

Similarly, the operation of the RTGS system has made possible the real-time transfer of funds between banks and facilitated high-value and urgent transactions along with liquidity and risk management.

#### **PARTNERING TO BUILD INSTITUTIONAL CAPACITY:**

A high-level financial inclusion action plan implementation committee was established with representation by senior officials from the central bank as well as the government. The six-member committee comprises: the senior deputy governor of the NRB (as coordinator); the deputy governor of the NRB; the joint secretary (Financial Sector Management Division) of the MoF; the department chiefs of the NRB's Microfinance Promotion and Supervision Department and Payment Systems Department, respectively, as members; and the department chief of the NRB's Financial Institutions Regulation Department as member secretary. The action plan is anchored within the NRB's Financial Inclusion Unit – Microfinance Institutions Supervision Department. In addition to this, both the central bank and the Insurance Board carry out financial inclusion activities, with the central bank's focus on driving the financial inclusion agenda being more explicit (given its dedicated financial inclusion unit under the microfinance department).

#### **ENABLING COHERENCE IN POLICY COORDINATION AND**

**IMPLEMENTATION:** Various stakeholders are currently driving the financial inclusion agenda. The MoF has the overall mandate with regard to financial sector policy formulation, regulation and coordination. The financial sector management and corporation coordination division of the ministry carries out various financial sector activities. Currently, the ministry is directly implementing the five-year Financial Sector Development Strategy (FSDS) 2017/18–2021/22, in which financial inclusion is one of the outlined activities. The ministry is also working to roll out the next five-year FSDS. The 2017–2022 financial inclusion action plan activities are being driven, as already mentioned, by the Financial Inclusion Unit within the NRB microfinance department.

*In 2020, the unit conducted a rapid assessment of the 2017–2022 roadmap action plan and highlighted the following action areas for boosting implementation:*

### *Priority 1*

Unlock constrained credit and savings markets: in order to mobilise widescale saving and unlock credit, as ways to improve people's ability to efficiently invest in assets and productive capacity.

### *Priority 2*

Improve payment system: in order to develop a cost-effective, reliable and accessible payment system, to benefit the vast majority of the population.

### *Priority 3*

Bolster risk-mitigation capabilities: In order to improve people's capability to face risk events that would have a significant impact on their financial situation, whether current or future.

### *Priority 4*

Enhance and leverage locally based financial service providers:<sup>10</sup> in order to note a key group of supply-side players in the financial inclusion space and explore options for expanding their impact.

### *Priority 5*

Enhance financial inclusion support in national governance: in order to consolidate and support effective financial inclusion efforts across the board (given that policy and legislative frameworks are key determinants of action in the market by public and private actors alike).


### *Priority 6*

Strengthen consumer empowerment, protection and education: in order to prioritise consumer empowerment as a key driver of uptake of financial services.

Of the 53 activities outlined in the 2017 action plan under six priorities and 15 interventions, 10 activities have clearly been completed. The majority of activities, about 38 activities, have seen some level of progress.

There are also instances where some level of progress has been achieved but without the desired outcome having been clearly realised. Around five activities have not seen any progress thus far. The refresh diagnostic conducted by UNCDF in 2021 identified 18 activities from the 2017–2022 action plan for continued implementation as key priorities, based on their continued relevance.

Despite their importance, certain activities failed to achieve the intended development outcomes. For example, the Secured Transaction Registry (STR), which is critical for promoting non-collateralised loans, has not been adopted by the MFIs due to a lack of clarity regarding claims settlement. Furthermore, the intended outcomes for non-collateralised credit products have not been realised.



*Limited progress has also been made in areas where inter-regulatory coordination and approvals are required. On the positive side, about five commercial banks have piloted personal credit products for their customers, based not on collateral but on their own electronic credit appraisal system.*

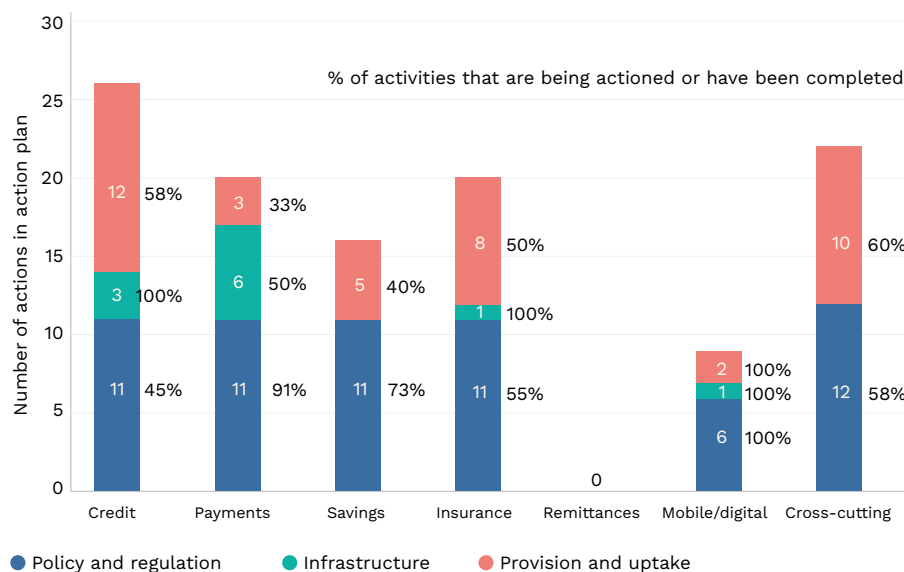
Progress on implementation activities can be further understood using MAP's implementation activity framework (see Figure 10), split across different product areas and the three broad action areas (policy and regulation; infrastructure; and provision and uptake). The Nepal action plan is clearly prioritising credit, payments, insurance and savings, and actions mostly involve policy and regulation as well as provision and uptake-focused interventions, although there are several infrastructure-focused interventions for credit and payments specifically. The action plan also places strong emphasis on further research-related activities (in the areas of credit, payments, savings, insurance and mobile/digital), and they are doing well to progress actions in this area.

Looking at the number of activities that are either being actioned or have been completed, it is clear that substantial progress has been made across most areas of implementation, but that gaps still remain. The infrastructure-related activities are progressing well (although they are few in number), and the policy and regulatory activities are also showing good progress. More progress needs to be made on the activities related to provision and uptake though.

However, the action plan does not include any remittance-specific actions, and has only a limited number of mobile money/digital finance-focused interventions. There are also no activities to support MSMEs specifically, although Nepal is pursuing a number of initiatives in this space. The next action plan should probably include this more intentionally, to ensure efficient coordination across all ongoing activities.

**FIGURE 10**

Nepal action plan 2017–2022: number of activities, by product area and implementation activity



UNCDF has been doing well in Nepal to support government’s action plan for financial inclusion. For instance, UNCDF reported supporting 19 outcomes (out of 40),<sup>11</sup> 12 interventions (out of 15), and 5 priority areas (out of 6). Of the 19 interventions: 7 involved advocacy and research, 2 were proof of concept projects, 6 involved grants, and 8 involved training and technical assistance. Table 9 summarises the support provided by the UNCDF country office over the period 2014 to 2021.

On request of the Government of Nepal, UNCDF partnered with the World Bank’s IFC to launch a new nationally representative livelihoods survey, including a dedicated financial inclusion module, to provide updated data for measuring progress and tracking implementation. Thus, the 2021 refresh diagnostic and the 2021 livelihoods survey are providing an updated evidence base, enabling Nepal to track and assess implementation and make evidence-based, strategic changes to policy implementation.

**SOUTH–SOUTH COLLABORATION AND PEER LEARNING:** Nepal was assisted by UNCDF to engage at regional and global workshops on financial inclusion, including the New York global (2018) and Singapore regional (2019) learning and sharing events aimed at capacitating regulators through learning and sharing from peer countries for financial inclusion policy implementation and monitoring.

**TABLE 9**

**UNCDF activities supporting Nepal action plan implementation**

INTERVENTION	OUTCOMES	UPDATES
<i>Priority 1: Unlock constrained credit and savings market</i>		
<b>INTERVENTION 1:</b> Expand and promote non-collateralised loan products	Accelerate the Implementation of the Secured Transaction Registry (STR) Act	Advocacy: UNCDF has raised the issue of implementation of the STR Act with the MoF in various meetings.
	Developing and promoting value-chain financing	UNCDF conducted a study on issues and challenges related to subsidised agriculture lending. The outcomes of the study were disseminated to stakeholders, including the NRB and the MoF.
		UNCDF conducted a study on warehouse receipt financing and organised stakeholders' discussion on the subject. UNCDF, together with the Nepal Bankers' Association, also developed the User Manual and Tool for Assessment of Cooperatives for Wholesale Lending by BFIs in Nepal.
Expanding the coverage of the Credit Information Bureau	UNCDF advocated with the NRB on bringing borrowers' records from MFIs and financial cooperatives into the Credit Information Bureau. This has been included in NRB regulations and the MFI monitoring system.	
	UNCDF piloted with one of the banks to conduct credit scoring of individuals through digital channels to provide digital credit. The system has been established and digital credit borrowing has started.	
<b>INTERVENTION 2:</b> Affordable and relevant credit products	Leverage the network of MFI and SACCOs to ensure effective implementation of the Deprived Sector Lending Provision	UNCDF has piloted establishing collaboration of Prabhu Bank with cooperatives to connect with Prabhu's core banking system. It has set an example for other banks as well to collaborate with savings and credit cooperatives (SACCOs).
<b>INTERVENTION 3:</b> Long-term savings products with real returns	Introduce long-term savings products by banks and financial institutions	Advocacy: UNCDF had advocated with the NRB and other banks on introducing long-term savings products. The NRB monetary policies have also been promoting long-term savings products.
<b>INTERVENTION 4:</b> Relevant, affordable savings products	Innovative approach to formal banking by leveraging digital payment channels	UNCDF, through various projects with different banks and fintechs, has successfully registered over 600,000 clients in digital channels, 47% of whom are women.
	Introduce market-driven low-cost commitment saving products	UNCDF worked with Laxmi Bank to connect with Dubai-based Al Fardan Exchange (money transfer) to introduce a remittance-linked credit product for Nepali migrant workers in Saudi Arabia.
	Implement the 'One Household One Bank Account' policy, with a free zero-balance account, to unlock savings	More than 33,000 people benefitted from UNCDF's financial literacy trainings, which helped in opening bank accounts.

### Priority 2: Improve payment system

<b>INTERVENTION 1:</b> Develop retail payment infrastructure	Encourage payment service providers to invest in digital infrastructure	UNCDF helped the NRB to develop the Retail Payment Strategy.
	Collaborate with MFIs to utilise their network as cash-in, cash-out touchpoints	UNCDF had supported one MFI (Chhimek) and one SACCO (Sahara cooperative) to digitise their transactions through tablet banking. It has built the foundation for them to offer digital transactions.
	Further the coverage of branchless banking (BLB) outlets and devise strategy for its sustainability	UNCDF worked with the NRB on BLB and helped partner banks to open more than 130 BLB points.
	Expedite the development of retail payment systems	UNCDF helped the NRB to develop the Retail Payment Strategy.
<b>INTERVENTION 2:</b> Increase usability of digital payments	Remittance and bundled products through money transfer operators (MTOs) and digital channels	UNCDF piloted a remittance-bundled credit product with Laxmi Bank.
	Payment for e-commerce, goods and services payment	UNCDF helped the NRB to develop the Retail Payment Strategy.

### Priority 3: Bolster risk-mitigation capabilities

<b>INTERVENTION 1:</b> Facilitate awareness generation on insurance as a risk-mitigation tool	Expansion and promotion of micro-insurance	UNCDF partnered with A2ii and Beema Samiti to devise an action plan for Beema Samiti to promote micro-insurance.
<b>INTERVENTION 2:</b> Improve insurer business models	Expansion and promotion of micro-insurance	UNCDF initiated a project on agri-insurance based on area-yield index.
<b>INTERVENTION 3:</b> Institutional capacity building of the Insurance Board	Institutional capacity building of the Insurance Board	UNCDF partnered with A2ii to conduct workshop/training on micro-insurance for Beema Samiti staff.

### Priority 5: Enhance financial inclusion support in national governance

<b>INTERVENTION 1:</b> Consolidation of all ongoing access to finance projects in Nepal	Consolidation of all ongoing access to finance projects in Nepal	UNCDF drafted the terms of reference for the A2F (Access to Finance) coordination committee, which has been formed at the MoF.
		UNCDF provided a MAP refresh diagnostic (2021), to update the Nepal financial inclusion roadmap.

### Priority 6: Strengthen consumer empowerment, protection and education

<b>INTERVENTION 1:</b> Develop a consumer protection framework		UNCDF provided support to review the Financial Literacy Framework developed by the NRB.
<b>INTERVENTION 2:</b> Consolidate financial literacy and education programmes	Integrate financial literacy course materials into school curriculum	UNCDF advocated with the Ministry of Education, Science and Technology and the Curriculum Development Center to incorporate chapters on financial literacy in school curricula.

Note: The Government of Nepal aims to update its existing financial inclusion indicators based on the new data available in 2022 from the just-completed livelihoods survey. Source: UNCDF constructed, based on A2F reports and UNCDF team in country (period: 2014 to 2021)

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# Endnotes

- 1 UNCDF (2021).
- 2 Often foreign capital flows are heavily concentrated geographically and focused on specific sectors, for instance investment in extractive minerals. While highly capital-intensive, these investments do not generate broad employment and have few linkages with the rest of the domestic economy, thus providing limited potential for inclusive growth.
- 3 Note that further detail, if desired, is available in the MAP country refresh diagnostic reports, which compare the original financial inclusion diagnostic and datasets developed for each of four countries (i.e. excluding Thailand) with the follow-up inclusive growth refresh diagnostics and data. The regional monitoring progress reports provide further insight into progress in financial inclusion and policy implementation at country level and in the region and their evolving market dynamics and policy agendas.
- 4 UNCDF (2022), based on work done for CGAP by Ehrbeck, Pickens & Tarazi (2012).
- 5 These surveys were initiated in 2010 and have since been conducted roughly every two years; available online.
- 6 According to the biennial Financial Access Survey of Thai Households in 2020, this figure of 94.3% for financial access included the households that used at least one financial service from either formal or semi-formal financial services providers. In this context, adults are generally defined as Thai population with the age of equal to or older than 15 years.
- 7 Launched in 2015, UNCDF SHIFT (Shaping Inclusive Finance Transformations) in ASEAN advances financial markets by changing the behaviour of market actors to stimulate investment, business innovations and regulatory reform in growing inclusive enterprises. Further information is available online.
- 8 UNDP (2021).
- 9 GoN, Ministry of Communication and Information Technology (2019).
- 10 This refers to licensed financial institutions such as banks and financial institutions, financial cooperatives, and insurance companies operating in Nepal.
- 11 The Nepal action plan 2017–2022 has 54 activities that can be grouped under 40 outcomes.



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