

Diagnostic and programming framework to promote financial inclusion

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Making Access Possible



This report was produced by the UN Capital Development Fund (UNCDF), FinMark Trust, and the Centre for Financial Regulation and Inclusion (Cenfri)

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Partnering For A Common Purpose

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.



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Making Access Possible

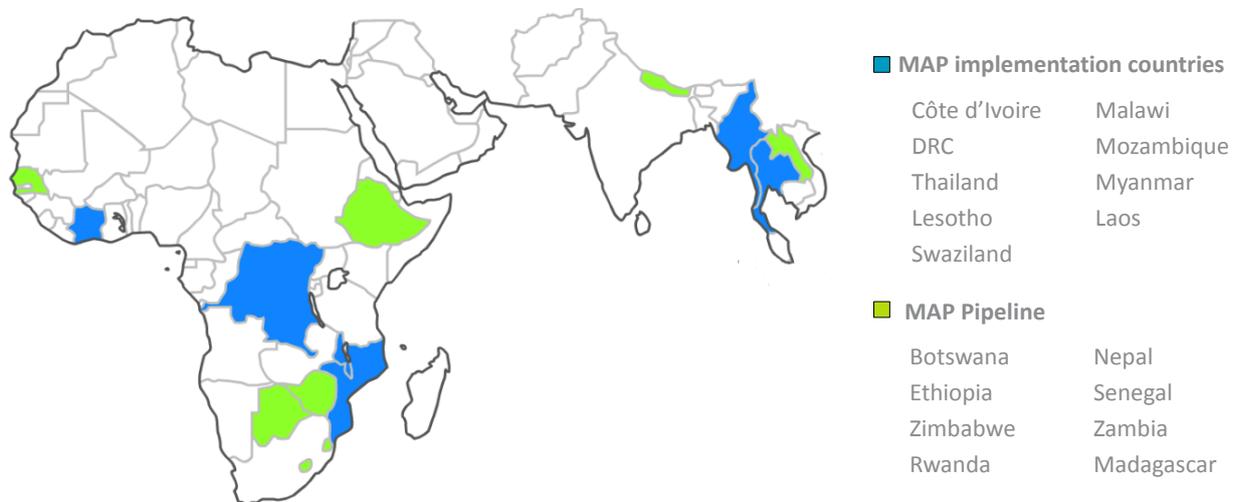
Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. Some of the benefits include:

- Identifying opportunities to expand financial inclusion and the obstacles to doing so;
- Providing an integrated view of financial services covering demand, supply and regulation across all product areas;
- Identifying the drivers of market development in order to enable stakeholders to manage changing environments and systems in transition;
- Focuses on improving welfare through financial services that offer value to consumers and not just extending the coverage of financial products;
- Engaging a wider set of stakeholders (including some not traditionally involved in the delivery of financial services) in the stakeholder process to encourage market development.

The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level.

The MAP framework has been developed by UNCDF in partnership with FinMark Trust and Cenfri and is intended to become a public good that can advance the global financial inclusion agenda. The partnership leverages their experience in financial inclusion development, aligning their respective strengths in implementation, primary demand-side research and diagnostic composition.

Presence of MAP diagnostic since launch



Making Access Possible – Some early lessons on developing national strategies and roadmaps

Introduction and background

Financial inclusion has become a priority for policy-makers and regulators in financial sector development globally. The issue came to the attention of the G20 starting with its initial commitment at the Pittsburgh Summit in November 2009 and continued through the development of the Nine Principles of Financial Inclusion adopted at the Toronto Summit in June 2010, the case studies and action plans drafted and the establishment of the Global Partnership for Financial Inclusion (GPFI) in 2011, and the adoption of the Basic Set of Financial Inclusion Indicators at Los Cabos in June 2012. Financial inclusion is seen as a major contributor to the achievement of a number of Millennium Development Goals (MDGs), particularly MDG 1, the eradication of poverty and extreme hunger, and MDG 3, which promotes gender equality and the empowerment of women. In fact, many see it as even more central to the Sustainable Development Goals that are being discussed for the post-2015 agenda. Some 38 countries have now made commitments as part of the Maya Declaration launched by the Alliance for Financial Inclusion (AFI), primarily focusing on the development of national strategies for financial inclusion, which emphasizes the following:

- Creating an enabling environment that increases access and lowers costs of financial services, including through new technology
- Implementing a proportionate regulatory framework that balances financial inclusion, integrity and stability
- Integrating consumer protection and empowerment as a pillar of financial inclusion

There are a number of generally complementary initiatives on financial inclusion that feature an increasing emphasis on a comprehensive approach with a sequenced package of reforms, leading to more significant improvements in financial inclusion that are beneficial to both new and existing customers.

The MAP programme is UNCDF's response to these global developments and commitments in financial inclusion. It is a concerted effort by UNCDF to respond more effectively to the needs of countries based on practical experience on the ground and to ensure that our programming is responsive to the needs of countries and its citizens. This paper presents a high-level outline of the MAP programme, the development of the roadmap, and key lessons from its implementation thus far.

The analysis driving the MAP diagnostic

By design, the MAP programme seeks a structured and defined in-country stakeholder process. While the exact specifications of the process may vary from country to country depending on the local context and culture, the broad parameters for implementation remain largely the same. The MAP process was specifically designed to guarantee that there is a formal process around financial inclusion. This is to ensure buy-in throughout the course of the project among the varied and often diverse stakeholders as well as to ensure that there is follow-through on implementation after the completion of the diagnostic exercise.

In the course of the MAP scoping exercise, it became clear that most countries have a number of activities and interventions around financial inclusion, however, what was also clear was that these were often uncoordinated, parallel, and sometimes duplicate efforts that rarely included a clear implementation plan setting forth how to achieve the vision and goals outlined in the national strategy. Unsurprisingly, this results in many countries having a number of activities around financial inclusion underway with little achievement of the ultimate goal of increased access. In the case of South Africa, it took a focused effort from Government, a compact from private sector, enforced market intervention through both policy and market-making and a robust annual dataset measuring financial inclusion to help move financial inclusion from 46% to 73% over a period of 10 years¹.

¹ FinScope 2002-2013

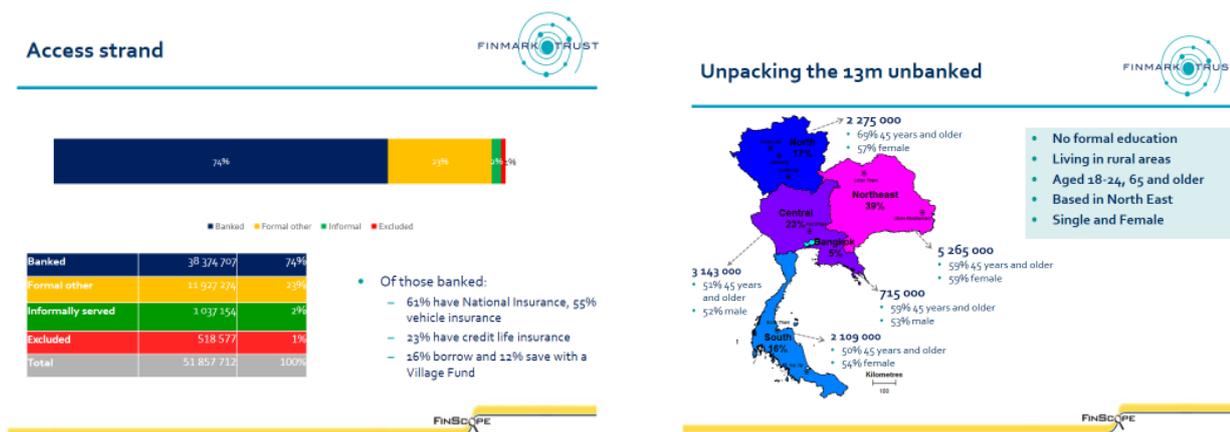
The MAP diagnostic was designed taking into consideration the current scattered efforts of various stakeholders at country level while also looking at the larger market development agenda around financial inclusion. This drove the choice around analytic tools, such as FinScope for the demand side, and the policy, regulatory, and supply-side diagnostic. While there are a variety of options that can assist in terms of the data available, FinScope was chosen as a nationally representative study of the key indicators of financial inclusion. The reasons for these are unpacked in detail below. Other available datasets include Findex, the World Bank’s Financial Development Barometer, national household surveys, and a whole range of other combinations of datasets. To date, this has traditionally been the analytical approach on financial inclusion – to use available demand-side data and indeed, this is still valid. However, the MAP diagnostic found that there were limitations to this approach.

A key component of the MAP diagnostic is to link financial inclusion to household demand for services. Financial transactions play an integral role in the daily lives of most people, especially those living in poverty,² yet they are frequently compelled to use informal, often sub-optimal services. Research has shown that poor households utilize a range of informal methods to manage their daily needs, including “storing savings at home, with others, and with banking institutions; joining savings clubs, savings-and-loan clubs, and insurance clubs; and borrowing from neighbours, relatives, employers, moneylenders, or financial institutions.”³ These mechanisms are not ideal, particularly in protecting the poor from short-term and long-term household risks and shocks, but they are useful reference points for governments and the private sector in their efforts to make markets work for the poor. By understanding the needs and demands of poor households, policy, product, and service solutions can be developed that better serve their needs and reduce inequalities of access. With greater access to a range of financial services, poor and low-income households and businesses can generate income, build assets, smooth consumption, and manage risks. FinScope – with over 10 years of use in more than 15 countries – was identified as the most robust tool to provide in-depth data on individuals, their life stages, attitudes, income, and financial livelihoods.

The analysis below illustrates the flexibility of FinScope in providing both high-level data on financial inclusion as well as allowing for in-depth analysis on potential market opportunities.

FinScope data highlighting profile of financially included and the opportunities for the unbanked

Source: FinScope, MAP Thailand, 2013



The global financial inclusion agenda recognizes that a diversity of providers are required, combined with a robust regulatory environment and enabling infrastructure. Increasingly, policymakers, regulators, and supervisors are recognizing that high levels of financial exclusion poses a risk to political stability and impedes economic advancement and as such, they are willing to balance the ultimately mutually-reinforcing needs for financial stability, financial integrity, and financial inclusion. “A key challenge is how to create the broader interconnected ecosystem of market actors and infrastructure needed for safe and efficient product delivery to

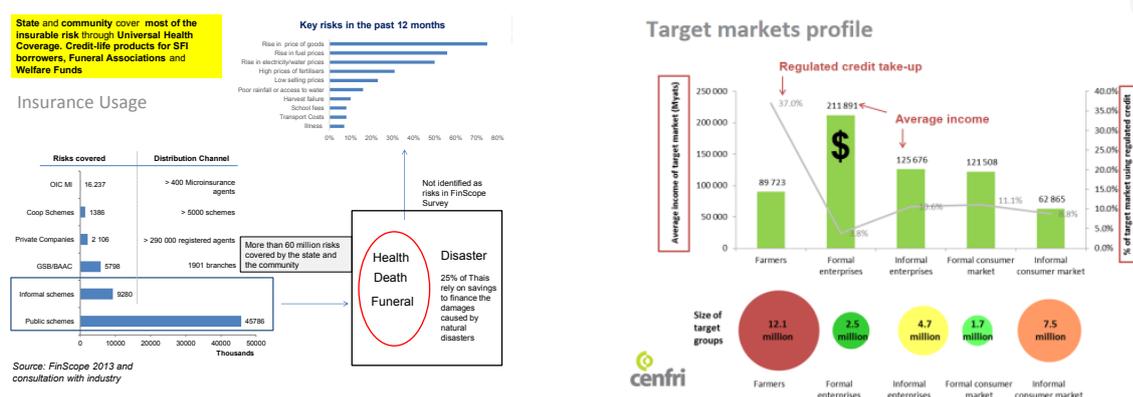
2 World Bank, 2011. Findex data.

3 Daryl Collins, Jonathan Morduch, Stuart Rutherford, Orlanda Ruthven. “Portfolios of the Poor.” Princeton, 2009.

the poor.”⁴ As financial inclusion moves beyond traditional providers of financial services and is driven by rapid innovations around technology and distribution channels, it becomes essential to include new public policy actors in the process – such as ministries of agriculture, social welfare, and telecommunications – and to bring together a range of other providers and players in new value chains, such as insurance companies, mobile network operators, technology companies, and agricultural suppliers, amongst others. The supply-side diagnostic has been designed to take these factors into consideration. Though significantly adding to both costs and timeframes, it has enabled an in-depth understanding of country requirements and allowed for detailed roadmap design.

The dataset has allowed for the flexibility to conduct detailed data analysis as well as cross-tab and segmentation with an equally in-depth supply-side analysis. The FinScope dataset also creates initial baseline data that can be used to continuously track the progress of financial inclusion in a given country. The slides below illustrate the detailed analysis that was done in order for Thailand and Myanmar to develop market insights using both demand and supply-side data.

Detailed analysis incorporating both demand and supply-side data

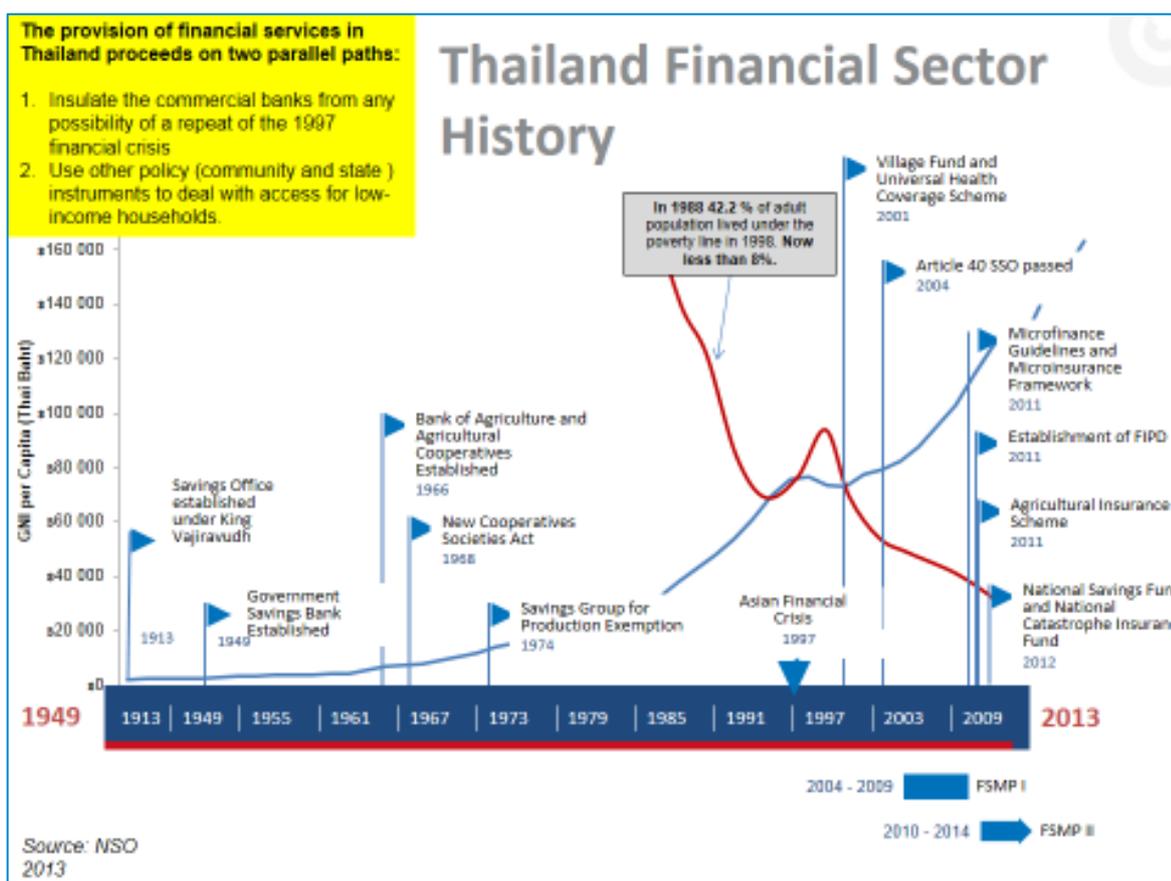


Source: MAP Thailand, 2013 and MAP Myanmar, 2014

However, data and analysis alone do not provide the full picture. Every country has a history and a context that drives both the market and investors in the sector as well as household behaviour. Neither of these operates in a vacuum. For example, South Africa’s apartheid past and the new government’s focus on increased economic empowerment of the previously disenfranchised -- who also happened to be the poorest and most excluded -- was a significant driver of financial inclusion policy in South Africa. Thus, a detailed analysis of the national context had to be conducted, including continuous liaising with Government as the primary driver of the economy and financial inclusion vision, policy, and implementation. Recent thinking on increasing financial inclusion within the context of a political economy approach argues that a solid understanding of local institutions and national incentives and objectives is a prerequisite for sensitive and successful engagement. This develops the space for inclusion opportunities and requires reflexivity from all stakeholders. The MAP analysis together with detailed stakeholder engagement allows for the conclusions and recommendations to be located within the key drivers on the political economy of a given country. The picture below is an illustration from the MAP Thailand analysis, showing that the provision of financial services is inherently linked to a nation’s financial sector history. This formed a central component of Thailand’s analysis – to fully understand both market and consumer behaviour within the historical and political context of Thailand – to a large extent this context then drove the analysis and subsequent recommendations.

4 Ehrbeck, et al, 2012:1.

Analysis of the National Context over a 100 year period for Thailand

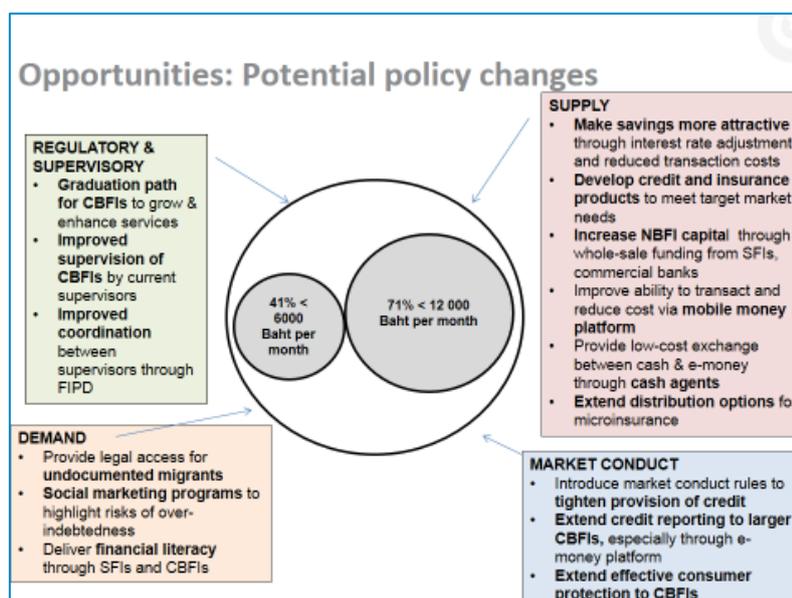


Source: Thailand MAP 2013

Within the context of government commitments to financial inclusion at a global level, it is difficult to definitively link policy and regulation to financial inclusion. A detailed analysis of the supply and demand information can link the implications for policy and regulation, while the stakeholder process ensures commitment and buy-in around the policy process.

Unpacking the implications for policy and regulation

Source: MAP Thailand, 2013



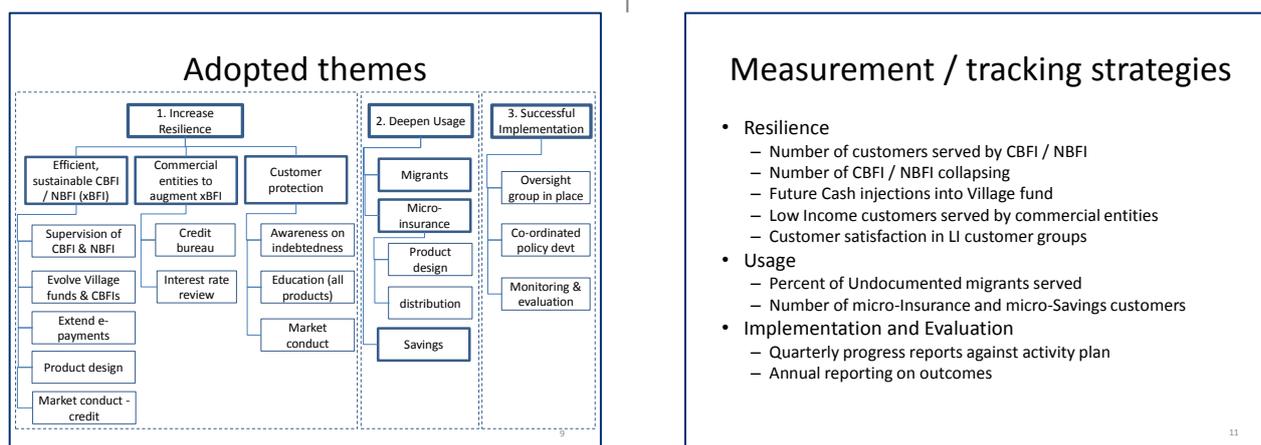
The synthesis of all the data, including both supply and demand side, draws together the overall findings of the diagnostic to identify key opportunities and challenges for financial inclusion and make corresponding recommendations for the roadmap and implementation. The roadmap process is intended to highlight the key areas impacting the growth of financial inclusion and develop potential solutions.

A Roadmap towards increasing financial inclusion

The roadmap is founded on common themes arising from the diagnostic analysis report and identifies opportunities for national development of financial inclusion within focused areas. It is thus able to pave the vision for the future of financial inclusion in a country. This process includes the following:

- Proposed activity costs and target benefits assessed and compared to any alternative pathways or activity delivery mechanisms. The comparisons can be made based on cost effective analysis, value for money analysis or economic additionality analysis
- The assumptions that link the activity to the expected outcome are fleshed out
- Evidence that supports the assumption is provided
- The political economy of the chosen pathways, assumptions, and activities is retested

The final stage of the process is to build consensus from the key stakeholders for the activities, including responsibilities and accountabilities, activities and costs, and timeframes and targets. A consolidated, robust roadmap that has clearly identified opportunities for increasing financial inclusion over time and can be costed and measured is a useful tool to coherently track activities and progress. It also aligns various stakeholders towards a common goal, thus ensuring implementation of the national strategy. The diagram below illustrates the roadmap design in Thailand.



Illustrative analysis of the roadmap development process for a country
Source: MAP Thailand, 2014

Key lessons from the MAP approach and methodology

The MAP diagnostic process was launched in 2012 and since then demand for the application of the MAP methodology in enhancing financial inclusion has been unprecedented. MAP processes are currently underway in Thailand, Ivory Coast, Myanmar, DRC, Malawi, Mozambique, Swaziland, and Lesotho. These countries are at various stages of active implementation, which has provided a good basis for lessons and knowledge sharing.

Additionally, they have been useful in highlighting areas of development within the MAP approach. Some of the initial learnings from the current country implementation experience are highlighted below:

Keeping pace with the market and the consumer

Markets are dynamic and change very fast in response to similarly fast-evolving consumer demand. It is particularly important to ensure that the diagnostic analysis and process is timely so that they are relevant to the consumers and the evolution of the market. Field implementation of a large survey, especially in LDCs, is complex and takes a long time. FinScope takes on average four to six months to implement from project approval through questionnaire development, field implementation, and final data launch. This means that throughout the course of the project, it is vitally important to ensure that stakeholders remain engaged. Once the data is released, it is just as important to make sure that the data is relevant and linked to the supply side – data is only as powerful as the analysis with which it is coupled. Often the level of data provided is difficult for stakeholders to grasp at the first cut.

Developing a systematic implementation process

The variety of country implementations have generated a significant dataset that includes hard data on market experience, consumer behaviour, and experiences implementing national access programmes. This in turn highlights that there is not one single solution to the implementation of financial inclusion initiatives. Different countries are at different stages of consumer sophistication and market development, and bringing stakeholders on board to assist in identifying the key national players and unpacking the implications of the data for a national conversation on financial inclusion is critical. Involving key players from different sectors can be problematic, and keeping them interested in the long term has proven even more difficult. It requires continuous, focused attention from an independent resource that is able to bring together key players and keep them on board for the duration of the process. Often, countries have a number of simultaneous financial inclusion processes and projects underway that are often largely uncoordinated, duplicating efforts. Finding the right individual to traverse this complex terrain while also ensuring that stakeholders remain interested and involved has posed a challenge for the programme. Highlighting the relevance of programme outputs and the opportunities therein to both private and public sector interests is essential to the success of the roadmap.

Process and cost

MAP's significant in-country presence coupled with previously established government buy-in of UNCDF initiatives has enabled MAP teams to work efficiently and effectively at country level. However, it bears mention that each MAP country has unique needs, which in turn has necessitated some team restructuring and significant management focus throughout the process value chain. While each country has its own dedicated implementation team, there are significant international management resources that back the in-country teams. While we continue to amend each process to ensure that the most efficient and impact-orientated delivery system is in place on the ground, the multiple implementations of MAP have given us the expertise necessary to develop a tight and systematic operations process that also ensures in-country credibility. The MAP diagnostic, particularly the FinScope study, is time-consuming and expensive. However, any custom-generated, nationally representative dataset is expensive, and the benefits have certainly far outweighed the costs in terms of the level of depth of information provided, the amount of interest shown in the data on both international and national levels, and in the ability to build a national roadmap for financial inclusion. A detailed supply-side diagnostic that takes into consideration an in-depth analysis of the various stakeholders and their vision and strategy for the country is also both costly and time-consuming. However, the upfront investment in this enables for detailed, relevant data and recommendations on options for the road ahead.

Conclusion

It is increasingly recognised that a broader ecosystem of providers is necessary to deliver the diverse set of financial services that the poor require. Strategies that remain focused on only one of these providers – such as microfinance institutions, private sector, cooperatives or a single activity such as institution-building – miss the bigger picture and are also unlikely to enable the systemic change required to drive universal financial inclusion, especially for the poor.

This is based on the view that competitive markets are the key means through which innovation and competition will best occur, resulting in falling transaction costs together with the scale and sustainability required to overcome the significant levels of exclusion that remain⁵. The MAP diagnostic aims to facilitate this market development agenda.

The MAP diagnostic explicitly focuses on the demand side, which has allowed for the orientation of the discussion towards people and not just supply-side institutions. It provides the baseline for policymakers to establish financial inclusion targets and create enabling policies, while also nudging the private sector providers to identify new market opportunities. Developing a detailed understanding of the key drivers of financial inclusion offers opportunities to funders to provide patient investment in building markets, while allowing them to structure risk investment in areas that they can take opportunities to leapfrog financial access and usage barriers. The roadmap and coordinated stakeholder processes offer all stakeholders confidence to plan and invest in an orderly way. Subsequently, the post-MAP platforms offer opportunities to refresh the roadmap and keep plans relevant as new opportunities are identified. The key lessons from pilot programmes are that market development to enable financial inclusion is a long road, requiring multiple stakeholders who are focused on long-term engagement to bring about systemic change in difficult environments.

While it is still too early to evaluate the impact of the national strategies will have in driving financial inclusion in MAP countries, it is hoped that as the data is compiled, there will be greater knowledge and recognition of these drivers and of the innovations that facilitate better market development for the least developed countries.

⁵ Porteous, 2004, Honohan and Beck, 2007

Annex 1: Profile of UNCDF and Partners

UNCDF: UNCDF has a unique financial mandate within the UN system. It provides investment capital and technical support to both the public and the private sector. The ability to provide capital financing – in the forms of grants, loans and credit enhancement – and the technical expertise in preparing portfolios of sustainable and resilient capacity building and infrastructure projects, makes its mandate complementary to the mandates of other UN agencies. It also positions UNCDF as an early stage investor to de-risk opportunities that can later be scaled up by institutional financial partners and increasingly by philanthropic foundations and private sector investors.

UNCDF has proven its ability to deliver true leverage on smaller and more risky investments and interventions within its core areas of expertise: Inclusive Finance and Local Development Finance. The concept-proven pilot projects and programmes are replicated and brought to scale with the help and the add-on financing of other development partners with different, and yet complementary, mandates.

UNCDF has also a proven track record in developing local public finance capacities, which were brought to a national scale by larger development partners (i.e. World Bank). It is also one of the development agencies most involved in promoting financial inclusion through a market development approach. From an early support to national microfinance strategies in the 1990s, UNCDF has updated its market development approach through the development of a new diagnostic tool and programmatic framework to support the development of national financial inclusion strategies.

UNCDF is the only UN agency mandated to focus primarily on the Least Developed Countries (LDCs), currently supporting 37 out of the 48 LDCs with country programmes, as well as regional and global programmes.

UNCDF's work on inclusive finance seeks to develop inclusive financial systems and ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and a variety of financial products and services (e.g. savings, credit, insurance, payments, and remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer relevant potential for scale. UNCDF's work on local development finance aims at ensuring that people in all regions and locations

FinMark Trust: FinMark Trust is an independent trust based in Johannesburg, South Africa, was established in March 2002 and is funded primarily by UKAid from the Department for International Development (DIFD) through its Southern Africa office. FinMark Trust is a not-for-profit independent trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. In pursuit of its purpose, FinMark Trust supports institutional and organizational development which increases access to financial services in Africa, by conducting research to identify the systemic constraints that prevent financial markets from reaching out to poor consumers, and by advocating for change on the basis of research findings. FinMark Trust focuses on the following areas: FinScope, regional financial integration, affordable housing, rural/agricultural finance, micro insurance and retail payments (www.finmark.org.za)

The Centre for Financial Regulation and Inclusion (Cenfri) is a non-profit think tank based in Cape Town and operates in collaboration with universities in the region. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. We do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market. Focus areas currently are microinsurance, health financing and insurance, AML/CFT, retail payment systems and money transfers. Cenfri is a non-profit (Section 21) company registered in South Africa and was established with support from the FinMark Trust. (www.cenfri.org)

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Box 1: The Post-2015 development agenda: Sustainable Development Goals

The United Nations is in the process of defining a post-2015 development agenda. This agenda will be launched during a summit in September 2015, which is the target date for realising the Millennium Development Goals (MDGs). The SDGs are intended to build upon the MDGs and converge with the post-2015 development agenda. They were selected through a consultative process by an open working group with representative from 70 countries.

Several MDG targets have been met including poverty reduction, access to improved drinking water, gender parity in primary education and political participation of women. Some are on track to being met such as fighting malaria and tuberculosis. However, despite these achievements, large disparities remain between and within countries. This has prompted a shift in emphasis towards sustainable and equitable growth. The proposed SDGs focus on reducing poverty and inequality; improving global health; ensuring inclusive and equitable education; achieving gender equality and empowering women; ensuring access to sustainable water, sanitation and energy; promoting inclusive growth; and protecting the environment.

Source: UN Sustainable Development Knowledge Platform: <https://sustainabledevelopment.un.org/>