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Financial inclusion: a factor in economic growth and stability

The potential of financial inclusion to combat poverty and support economic growth is widely recognised, but making progress on this front requires strong leadership and coordination

By Alfred Hannig, executive director, Alliance for Financial Inclusion

Central banks and other policymaking bodies from across the globe are increasingly pursuing financial inclusion because of its contribution to financial stability, a strong financial sector, overall economic growth and poverty reduction. However, financial inclusion is a cross-cutting national economic development issue that requires the participation and cooperation of many government ministries, the private sector and civil society players.

Stakeholder coordination

Given the multiplicity of government actors involved in financial inclusion policy, leadership and a single coordinating body are key to setting a common direction. Although countries have taken different approaches, it is becoming common for the central bank to take a leadership role in coordination, often by chairing a council that unites private and public stakeholders. The central bank is well placed to take on this role of coordination as it typically has the respect of other government agencies and greater political independence, allowing it to overcome barriers and steer activities towards shared goals.

A survey of 30 Alliance for Financial Inclusion (AFI) member institutions on organising for financial inclusion found that 21 institutions had created a specific financial inclusion unit within the central bank and four had a national coordination mechanism for financial inclusion led by the central bank.

'Leadership' is the first of the G20 Principles on Innovative Financial Inclusion and it encourages policymakers to cultivate a broad-based government commitment to financial inclusion and alleviating poverty. AFI compiled 11 case studies showing how countries are bringing the G20 principles to life, and leadership emerged as an essential foundation for implementation of these principles. In these case studies, the most effective approaches to financial inclusion were backed by leadership at the political and regulatory levels, as well as a will to bring about change with the complete commitment and capacity of all players.

The strength of commitment from policymakers and regulators to financial inclusion is tangible, marked by a shift from talk to action as central banks organise internally to implement their commitments and take a leadership role in coordinating as well as maximising the work of the stakeholders within their countries.

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AFI members, policymakers and financial regulators from developing and emerging countries, reaffirmed the urgency and importance of financial inclusion with the Maya Declaration, a framework for domestic and collective network commitments to bring more of the world's 2.5 billion poor into the formal financial sector. The Maya Declaration was crafted out of a consultation process and three days of deliberations at the 2011 Global Policy Forum (GPF) in Riviera Maya, Mexico.

The declaration recognises the role that financial inclusion policy plays in creating financial stability and integrity, fighting poverty, and promoting inclusive economic growth in developing and emerging countries.

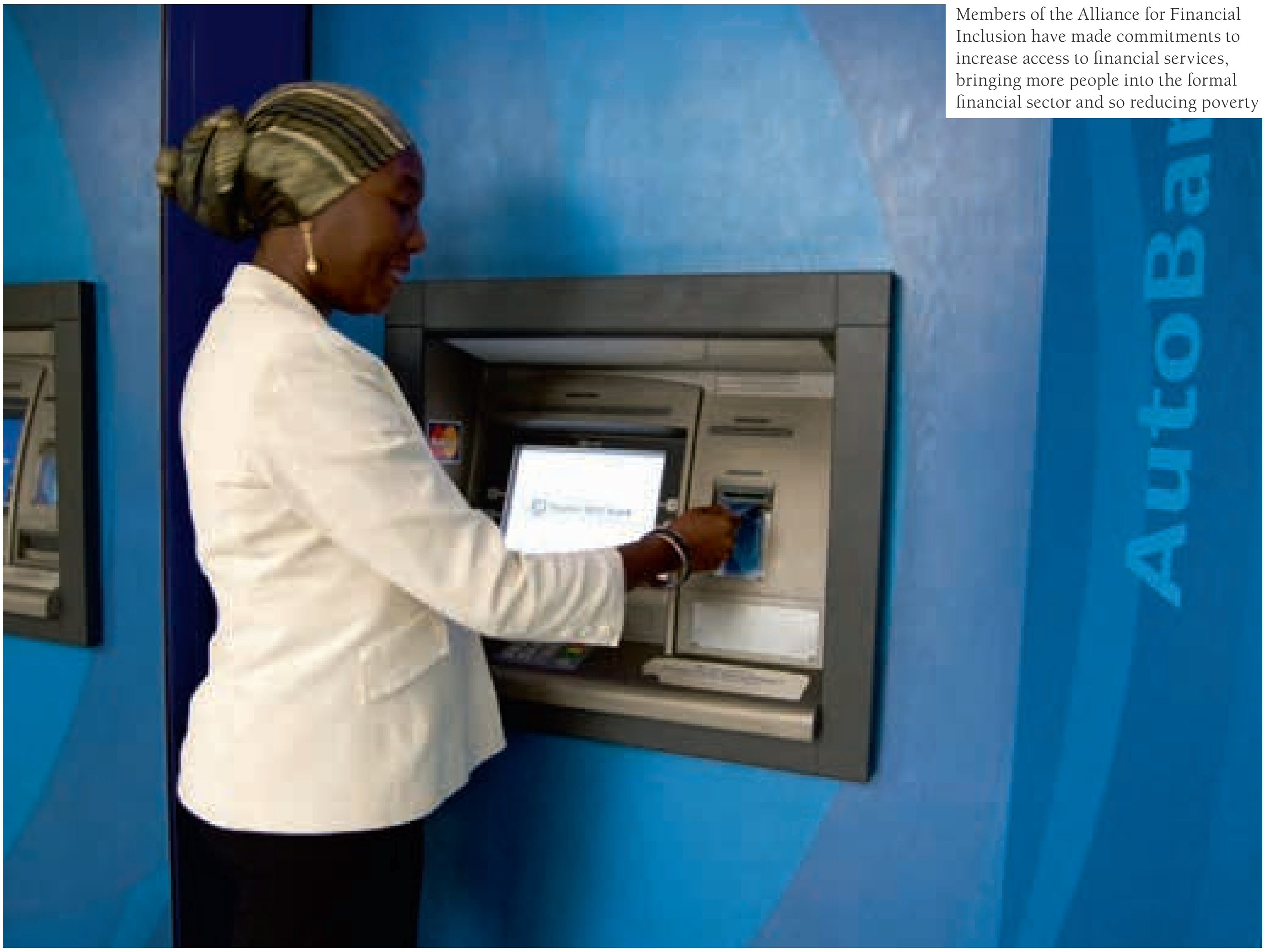
Through this initiative, AFI members have reaffirmed the importance of peer-to-peer knowledge exchange and learning among financial regulators and policymakers to help develop and implement innovative and relevant policy solutions. More significantly, the declaration commits the AFI network of developing country financial authorities to four concrete actions to increase access to financial services. They commit to:

- Create an enabling environment to harness new technology that increases access and lowers costs of financial services;
- Implement a proportional framework that strengthens the links between financial inclusion, integrity and stability;
- Integrate consumer protection and empowerment as a key pillar of financial inclusion; and
- Utilise data to inform policymaking and track results.

Commitments to action

Since the adoption of the declaration at the 2011 GPF, 38 AFI members responded with concrete commitments outlining their specific goals and targets. Some highlights included:

- Banco Central do Brasil pledged to launch the National Partnership for Financial Inclusion by the end of 2011;
- The Bank of Tanzania pledged to expand financial access to 50 per cent of its population by 2015 through mobile financial services and other initiatives;
- CNBV Mexico committed to establishing banking agents or branches in every municipality by 2014;
- The Central Bank of Nigeria will work to reduce the number of unbanked people by 50 per cent by the year 2020;
- The Reserve Bank of Malawi will introduce agent banking in 2012;
- The Bank of Zambia will aim to increase



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Members of the Alliance for Financial Inclusion have made commitments to increase access to financial services, bringing more people into the formal financial sector and so reducing poverty

financial inclusion to 50 per cent in two years, while the National Bank of Rwanda set a target of 80 per cent by 2017; and
- SBS Peru pledged to enact a new law regulating electronic money before the end of 2012.

The efforts of these policymakers have already started to pay dividends. Banco Central do Brasil, CNBV Mexico, the Reserve Bank of Malawi and SBS Peru are among those to have already achieved their targets and are in the process developing even more ambitious goals, while those with longer term commitments have been reporting progress.

Why does all this matter? To use just one example, according to a recent World Bank analysis of Mexico's drive to increase financial inclusion, a 10 per cent increase in inclusion rates can boost the number of new businesses by five per cent, employment by seven per cent and annual growth of GDP by three per cent. Apply those numbers globally and the potential impact of smart financial inclusion for economic health becomes apparent. Consider also how lower unemployment and greater prosperity could affect poverty and stability, and the untapped power of financial inclusion is clear. In short, everyone wins by embracing financial inclusion.

Today, financial inclusion has finally taken its rightful place as a key element of the mainstream discussion on global economic development. Financial inclusion is a field that can provide lasting and significant benefits in both the developing and the developed world, improving the health of the world economy and providing valuable tools to reduce poverty. ■

The Alliance for Financial Inclusion is a global network of financial policymakers from over 100 institutions in more than 85 developing and emerging countries, working together to increase access to financial services for the poor.