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**Bringing smart policies to life**

**Funding Proposal for the Government of Australia (AusAid)**

**For support to:**

**AFI’s activities on the G20 Global Partnership for Financial Inclusion (GPFI)**

**and**

**the management of the Pacific Island Working Group**

**--- June 2011 - December 2012 ---**

*Date of proposal: May 2011*

# SUMMARY

# At the Seoul summit in December 2010, the G20 nominated the Alliance for Financial Inclusion (AFI) as a key implementing partner of the Global Partnership for Financial Inclusion (GPFI).

# Complementary to the grant provided by the Bill & Melinda Gates Foundation, AFI is seeking funds from AusAid to cover activities included under this new mandate, including the support to developing case studies on the G20 Principles for Innovative Financial Inclusion and promoting the Principles, working with Standard Setting Bodies, and organizing the first meeting ever of GPFI back-to-back with its annual Global Policy Forum in Mexico.

In addition, AFI facilitated the formation of the **Pacific Island Working Group** in December 2009 upon the request of the Governor of the Reserve Bank of Vanuatu on behalf of six Pacific Island Central Banks. The group’s objective was to identify key issues relating to financial inclusion applicable to all countries and utilize the AFI platform to help advance knowledge and strategic responses to increase access and use of financial services in the islands.

Over the course of the last year AusAid provided substantial support to the Pacific Island Working Group (PIWG), which ensured the continuation of the group and provided a renewed momentum to its activities on financial inclusion. Building up on these achievements and the good collaboration with AusAid, AFI will use funds from Australia to cover administrative support to manage the Working Group’s activities and ensure continued dialogue and consultation with AusAid in the region.

Funding from the Government of Australia will contribute to AFI’s overall goal of facilitating access to formal financial services for an additional 50 million people. More specifically, AFI’s work on the GPFI will provide exposure to existing effective solutions in developing countries, thereby empower non-G20 countries and bring their concerns and challenges to the global agenda. AFI’s work in the Pacific Region will contribute to removing obstacles and challenges on financial inclusion policy and creating an enabling regulatory framework that promotes greater access to financial services and ensures a safe and sound environment for people to manage their wealth.

AFI believes that facilitating knowledge exchange and peer learning as well as providing financial support to develop and implement policy initiatives will contribute to increasing access to and use of financial services for the unbanked, and thereby contribute to the four outcomes of the strategy for Australia’s aid program 2010-2015 on ‘Financial Services for the Poor’, in particular outcome 1 (a policy and regulatory environment that allows institutions offering financial services for the poor to enter the market and grow) and outcome 4 (increased client capacity to understand and utilize financial services effectively).

AFI focuses on all evidence-based policies that increase access to financial services and welcomes all strategic partners who can help our members achieve our goal, in line with the Paris Declaration.

**Introduction**

AFI’s approach, which is supported by the Bill & Melinda Gates Foundation, is based on the assumption that effective policy solutions exist in and mostly originated from developing countries and knowledge exchange, peer learning and providing financial resources will enable countries to bring about policy reforms that lead to greater inclusion to financial services for the poor. More specifically, AFI believes that:

* Policymakers want to implement effective financial policies and will do so if they have access to additional resources, experts, and knowledge.
* A policy network, with modalities such as online platform, exchange visits, working groups, policy champion programs etc., is the right mechanisms for “unlocking” the existing knowledge of policymakers
* The policy solutions formed as a result of policymakers’ participation in AFI are the right solutions for reaching the poor
* The policy areas in which AFI works are areas through which greater financial inclusion can be achieved (quality of services, greater outreach, etc.).

By the activities supporting below, AusAid will contribute to AFI’s goal of facilitating access for an additional 50 million people to formal financial services by 2015.

**PART I: Promote the effective implementation of the 2011 Global Partnership for Financial Inclusion (GPFI) workplan**

**Background**

The GPFI is the main implementing mechanism of the Financial Inclusion Action Plan endorsed by G20 leaders at the Seoul summit in November 2010. It provides an inclusive platform for G20 countries, non-G20 countries, and relevant stakeholders for peer learning, knowledge sharing, policy advocacy and coordination. Its overall objectives are to:

1. facilitate an efficient and effective information sharing mechanism to coordinate the various on-going financial inclusion efforts inclusive to non-G20 and relevant stakeholders,
2. facilitate coordination among the different initiatives of the G20 that has an impact on/ or relevant to financial inclusion, such as the financial consumer protection and other development pillars
3. provide systematic monitoring of progress over time in implementing the G20 Financial Inclusion Action Plan with a focus on G20 commitments  to improve the global state of financial inclusion
4. launch and coordinate task forces to address specific financial inclusion issues in areas where the G20 can add value to existing international activities (i.e. such as the current three sub-groups).

Together with the Consultative Group to Assist the Poor (CGAP) and the International Finance Corporation (IFC), the Alliance for Financial Inclusion (AFI) was selected as a key implementing partner for the GPFI. Its three work streams, for which sub-groups were formed, are (1) Principles and engagement with the Standard Setting Bodies (SSB); (2) SME financing and (3) Financial Inclusion Data and Measurement.

AFI’s role as an implementing partner is to take the lead in the work related to the application of the G20 Principles for Innovative Financial Inclusion through sharing experience among G20 and non-G20 developing and emerging countries. The Principles were developed by the Access though Innovation Sub-group (ATISG) and endorsed by the G20 Leaders last year and the National Treasury of Australia was one of the Co-chairs of the ATISG. In addition, AFI is also tasked to support the work related to the SSBs, in particular in collaboration with the Financial Action Task Force (FATF) through AFI’s Financial Integrity Working Group.

Objectives of the first sub-group include (i) to promote the G20 Principles for Innovative Financial Inclusion into wider practice; (ii to provide support and recommendations to the relevant standard setting bodies (SSBs) on incorporating financial inclusion into their core work; and (iii) to foster the incorporation of financial inclusion in financial system assessments.

Leveraging its Financial Inclusion Data Working Group, AFI will also lead in coordinating data efforts in close collaboration with CGAP and IFC and other GPFI partners such as the IMF and research institutions. The objectives of the third sub-group are:

1. To strengthen the global and national dialogues and capacity in measuring financial inclusion, including qualitative aspects such as gender, socioeconomic characteristics, financial literacy, and consumer protection.
2. To form a general consensus (among the different stakeholders, including G-20 and non-G-20 countries, and regional and global data efforts in financial inclusion) on definitions of the components of financial inclusion, Key Performance Indicators (KPIs), and consistent methodologies.
3. To provide guidance and good practice example to countries implementing financial inclusion data initiatives.
4. To make informed recommendations to the G-20 on global numeric targets for financial inclusion KPIs and develop the appropriate frameworks and structure to track progress in this area.

To facilitate coordination and information sharing activities, AFI will also organize the first GPFI Forum back-to-back with the AFI Global Policy Forum together with the Ministry of Finance of Mexico. In addition, AFI will ensure that the views and knowledge from developing countries, in particular non- G20 countries are represented in the global financial inclusion discussions and GPFI activities.

# Project Description

1. **G20 Principles for Financial Inclusion**

The G20 Principles for Innovative Financial Inclusion provide guidance for policy and regulatory approaches to innovative financial inclusion. These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.

They aim to (i) foster the safe and sound adoption of innovative, adequate, low-cost financial service delivery models; (ii) help provide a framework of incentives for the various bank, insurance, and non‑bank actors involved, while ensuring fair conditions of competition between all financial service players; and (iii) foster affordable financial services that respond to customer’s needs in both quality and range[[1]](#footnote-1).

Goal (Financial Inclusion Action Plan): G20 policy action towards advancing the G20 Principles for Innovative Financial Inclusion will expedite progress towards a shared vision on financial inclusion and providing access to financial services to the currently excluded households and micro and small to medium-sized enterprises (MSMEs) in a safe and sound manner.

Outcome: Increased global visibility for the Principles the application of these principles in developing countries.

Measurable outputs:

* A short paper (including information, guidance and practical cases on innovative financial inclusion, and the application of the Principles) that explains what the “application of the Principles for Innovative Financial Inclusion in practice” means.
* A comprehensive G20 Principles Report, which includes:
* Ten country case studies on the application of the Principles
* A comprehensive analysis on the application of the Principles building on the country cases
* Concrete recommendations and next steps towards advancing the application of the Principles globally

Activities:

* Promote awareness of the Principles by creating an information brochure and short inserts of country examples to be published on various websites
* Promote the Principles in various international forums and conferences
* Document the financial inclusion country cases where the Principles have been successfully applied by countries in meeting their commitments and any future plans they will undertake towards meeting their commitments. Together with the Sub-group Co-Chairs, AFI has identified Korea, Brazil, Russia, UK, Mexico, and Indonesia as relates to G20 members. Non-G20 members include Nigeria, Kenya, Peru and the Philippines
* Draft a comprehensive report on the G20 Principles, providing a summary analysis, next steps and recommendations on how to take the Principles further.
1. **Standard Setting Bodies**

The current significant and simultaneous actions by SSBs on financial inclusion indicate a fundamental shift in the perceived role of the global financial system. The global financial system must be sound, stable, prudent and combat money laundering and terrorism. It must, however, also serve the global population, seeking to reach those who until now have been unserved and underserved. These goals can be complementary – the more people in the formal financial system, the greater the chances for monitoring other elements of a safe financial system.

Goal (Financial Inclusion Action Plan)**:** Better engage with SSBs to provide support and recommendations on incorporating financial inclusion into their mandate. Share knowledge and improve understanding related to standards to increase country-level complementarity between financial integrity, financial stability and financial inclusion.

Outcome: SSBs integrate financial inclusion as part of their core mandate and adopt flexible approaches to standards that have an impact on financial inclusion policies.

Measurable outputs:

* Five case studies with examples of concrete country-level challenges applying SSB standards & guidance, cross-cutting challenges, innovative approaches and best practices of implementing the Standards in line with financial inclusion commitments.

Activities:

* Identify and document country cases of concrete country-level challenges applying international standards & guidance, cross-cutting challenges, innovative approaches and best practices for implementing the Standards
* Advise SSBs and facilitate a dialogue on these concrete cases to further inform the SSBs on how to incorporate financial inclusion into their core work. The GPFI has already identified Brazil, Mexico, Kenya, Philippines and South Africa as countries for these case studies.

This effort will complement the work of CGAP which is drafting a white paper on SSB-specific & cross-cutting topics that have an impact on financial inclusion. CGAP has shared an outline that looks at cross-cutting issues to be addressed and this outline will inform the white paper as well as the framework of the country cases.

1. **First meeting of the GPFI**

The GPFI Forum will represent the first gathering of all G20 member countries, non-G20 partners, key implementing partners and other GPFI stakeholders to:

* Share the progress and outcomes of the GPFI
* Discuss the key issues on financial inclusion with broader stakeholders
* Outreach to other stakeholders including SSBs and private sector on the work and commitment of the GPFI and seek potential/ continuous partnership/ collaboration
* Discuss the future vision of the GPFI and possible action points towards the G20 Leaders Summit in Mexico.

Ensuring synergies with AFI’s Global Policy Forum, AFI is tasked to organize this first meeting of the GPFI together with the Ministry of Finance of Mexico, back-to-back with the AFI Global Policy Forum. The meeting will take place on the 1st October 2011 in the Riviera Maya, in Mexico.

Goal (Financial Inclusion Action Plan): Continued collaboration and coordination between the various financial inclusion stakeholders will ensure consistency and maximum impact of efforts toward financial inclusion.

Outcome: Voices of developing countries are equally represented in the global debate around financial inclusion.

Measurable outputs:

* Successful GPFI Forum organized
* Report capturing the fruitful discussions and next step actions from the GPFI Forum

Activities:

* Organize the first ever G20 GPFI Forum
* Encourage broad-based participation of stakeholders (around 100 participants)
* Develop the agenda together with the GPFI Co- Chairs, France, Korea and Mexico and circulate it to all GPFI members for comments and feedback.

The initial topics for the agenda include a “big picture” discussion on Financial Inclusion (a common goal for financial inclusion) where a broad vision of universal access can be presented and discussed, discussion with SSBs on incorporating financial inclusion in their core work, the launch and discussion on the comprehensive report of the G20 Principles for Innovative Financial Inclusion, discussion with the private sector on innovative SME financing, and harmonization of financial inclusion data across countries and institutions.

Not only would the deliverables give significant visibility to AusAid during the first GPFI event and beyond, but they would also demonstrate the continued collaboration between the Australian Government and AFI on G20 matters and the renewed commitment of the Australian Government to see the successful implementation of the GPFI.

**Outlook**

Funding from AusAid towards AFI’s GPFI activities will be catalytic and have broader implications for the global financial inclusion context. The following steps are envisaged for 2012/13:

* Replicate the successful practices of the Principles in a number of countries via AFI’s short and long-term grants (complemented by technical assistance when needed), including knowledge exchange activities on the application of the Principles for Innovative Financial Inclusion.
* Distribute the Principles information paper through various on-line channels (i.e. GPFI website, CGAP and AFI website and its network, OECD website, the International Gateway for Financial Education and its network etc.)
* Encourage research on the complementarities among financial stability, financial integrity, financial consumer protection and financial inclusion.
* Encourage and work with the WB and the IMF to build robust financial inclusion components into their financial system assessments, including their Financial Sector Assessment Program (FSAPs), and provide specific suggestions.
* Work with FATF to better integrate financial inclusion into the mutual evaluation methodology and related evaluator training.
* Produce a report on activities underway that generally improve the way financial inclusion is built in to financial sector/system assessments.
* Encourage SSBs to develop informational products to improve understanding of how their rules can be applied to foster financial inclusion, including, but not limited to, the application of Principle 8 (***Proportionality***) and Principle 4 (***Consumer Protection***).
* Encourage enhanced communication between SSBs and other stakeholders, highlighting the complementarity of financial inclusion and their mandates. This could include joint statements, cross references on websites, joint work on issues of cross-cutting relevance, and building consideration of financial inclusion into existing collaboration efforts.
* Promote greater awareness of the SSBs’ work on financial inclusion, and the flexibility available in applying guidance, standards and recommendations in varying country circumstances.

**Timeframe for implementation**

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| 1 May 2011 – 30 June 2011 | Preparation (ongoing) |
| By 30 June 2011  | Staff/consultants hired to support and coordinate AFI’s GPFI activities |
| June-August 2011 | Development of the country cases (both SSBs and Principles) |
| By 31 August 2011 | 5 country cases on SSBs finalized10 country cases on the Principles and the comprehensive synthesis report finalized |
| 1 October 2011 | GPFI Forum (launch of the reports) |
| 13-15 October 2011 | Progress report at G20 FM/CBG Meeting & Deputies Meeting |

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| By end October 2011 | GPFI Forum report finalized |
| 3-4 November 2011  | Cannes Summit (deliverables to be announced) |
| December 2011 | GPFI work plan to be updated |
| January-June 2012 | Implementation of the recommendations from the principles reportFurther engage with SSBs based on the White paper and country case analysis |

**PART II: Support the management and effective implementation of the identified Pacific Island Working Group (PIWG) workplan**

**Background**

The Pacific Islands Working Group (PIWG) was formed upon the request of the governors of six central banks in the region after they had made the decision to put a focus on financial inclusion and get involved in the AFI network at their annual South Pacific Central Bank Governors (SPCBG) Meeting in December 2009. The group got underway with the assistance of the Pacific Financial Inclusion Program (PFIP) of UNCDF who agreed to act as the local secretariat and provide logistical support for the first year of the working group.

**Progress to-date**

The Pacific Islands Working Group convened for the first time in February 2010 at which time the group examined the current state of financial inclusion in their nations, identified gaps and opportunities, and set its priorities for group activities for the year ahead. With microfinance and mobile financial services being identified as the top priorities, a knowledge exchange visit to Bangko Sentral ng Pilippinas in Manila was arranged via the AFI network platform for six Pacific Island countries in June. Building on key insights gained by the participants during this exchange, a workshop was held in the Pacific in August 2010 where the Islanders pooled their knowledge and tackled some of the key challenges they face to resolve common issues and challenges. The workshop was highly participatory and included role plays, case studies, and round table discussions. The policymakers walked away with roadmaps for action on specific issues including mobile phone financial services, and overcoming strict Know-Your-Customer requirements.

In mid 2010 AusAID began their support of the groups work. One of the first activities was a ‘road show’ on mobile financial services at the request of the members to help brief other colleagues at the central banks about new developments and emerging policy challenges. The groups’ first meeting in March 2011 was hosted by Central Bank of Samoa and covered new topics including financial inclusion data and national strategies. The group also reviewed its progress with policy development around mobile money. This was followed shortly by training on non-bank supervision where AFI was able to engage a leading expert to run an interactive seminar for 18 policymakers from 7 countries. By the end of this period the group had produced four knowledge products.

**Goal**

Through policy exchange and peer learning, make a contribution to creating an enabling regulatory environment that leads to successful design and implementation of financial inclusion policies that promote increase in access to financial services for the poorest populations on the Pacific Islands.

**Outcome**

Pacific Island countries have identified gaps and opportunities for financial inclusion and have a better understanding on their needs and interests. They will have developed an informed action plan on their priority policy solutions to improve access to financial services in their countries.

**Measurable Outputs**

* Successful organization of three group meetings in the Pacific, and one meeting at the Global Policy Forum in Mexico
* Integration of people and knowledge into the global AFI platform, specifically on interactions with AFI working groups on integrity, data and mobile money
* Integration of Pacific countries in other of AFI’s global Working Groups and the AFI online member zone
* Continued needs assessment and facilitation of support to Pacific Island Working Group members
* Identification of grant opportunities to support financial inclusion initiatives in the Pacific.

**Activities**

AFI is seeking resources to complement core funding for the Bill & Melinda Gates Foundation for the management and administration of the Working Group. Funds would be used to manage planned activities and ensure support for tools and resources that the group needs to realize the Working Group objectives. First, AFI is planning to organize and coordinate three working group meetings to be held in the Pacific (July 2011, December 2011, March 2012), including meeting logistics, participant management, agenda and meeting materials development, and follow up. In addition to regular group meetings, AFI will convene Pacific Island leaders at the Global Policy Forum in Mexico. AFI staff manage the development and production of PIWG documents, and assist in meeting facilitation and moderation.

AFI will also facilitate connections to the global AFI network: A two way channel between the PIWG and the rest of the AFI community will be developed. Lessons learned from the PIWG need to be captured and shared with the wider AFI network, and pertinent knowledge and resources from the global network need to be identified and brought to the attention of the PIWG. The coordinator will facilitate this knowledge flow, and look for opportunities to ensure Pacific Island perspectives and experience into the global dialogue and specifically into AFI’s thematic working groups and events.

 **Timeframe for implementation**

These proposed activities span from June 2011 to the end of 2012.

**BUDGET**

The following budget summarizes the estimated costs for activities from May 2011 to December 2012 in support of AFI’s activities related to the Global Partnership on Financial Inclusion (GPFI) and the management of the Pacific Island Working Group (PIWG) complementing core funds from the Bill & Melinda Gates Foundation.



**About AFI**

The Alliance for Financial Inclusion (AFI) is a global network of Central Banks and leading financial regulatory bodies in developing countries that provides its members with the tools and resources to share, develop and implement their knowledge of cutting-edge financial inclusion policies that work.

AFI's goal is to support developing countries to exchange knowledge on financial inclusion policy that will enable an extra 50 million people living under the poverty line to have access to basic financial services by 2012.

Established in September 2008, AFI is managed on behalf of its members by [GIZ](http://www.gtz.de/en/index.htm) (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH - German International Cooperation) with funding from the Bill & Melinda Gates Foundation.

1. From the official ATISG report, May 2010 [↑](#footnote-ref-1)