NATIONAL FINANCIAL INCLUSION STRATEGIES
A TOOLKIT

AFI WORKING GROUP PUBLICATIONS ARE DEVELOPED SPECIFICALLY FOR POLICYMAKERS. THIS TOOLKIT HAS BEEN PREPARED USING THE FRAMEWORK DEVELOPED BY THE FINANCIAL INCLUSION STRATEGY (FIS) PEER LEARNING GROUP SUB-GROUP ON FINANCIAL INCLUSION STRATEGY TOOLKIT, TO SUPPORT THE FORMULATION OF NATIONAL FINANCIAL INCLUSION STRATEGIES.

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CHAPTER 1: INTRODUCTION

Financial inclusion is a major priority of the member institutions of the Alliance for Financial Inclusion (AFI), and a growing number have formulated national financial inclusion strategies (NFIS) in recent years to accelerate financial inclusion in their countries and achieve financial inclusion goals and objectives in a coordinated manner.

> 31 AFI member institutions have an NFIS (as of the end of July 2015).
> 28 countries are at various stages of formulating an NFIS.
> Six member institutions have expressed interest in formulating an NFIS, but have yet to begin the process.

Members of the Financial Inclusion Strategy Peer Learning Group (FISPLG) believe a toolkit on how to formulate an NFIS would be of immense value to all three categories of countries:

> **Countries with an NFIS** could share insights with both countries currently engaged in the process and those who have not yet begun, while also gaining insights into how to improve the implementation of their own national strategies and better monitor and evaluate their progress.
> **Countries currently formulating an NFIS** could manage the strategy development process more effectively and efficiently.
> **Countries yet to begin the process** could make more informed decisions and plan the start of their strategy development more efficiently.

A toolkit will also help countries to improve the overall quality of the formulation, implementation, and monitoring and evaluation of their national strategy.

WHAT IS THE NFIS TOOLKIT?

The NFIS toolkit provides practical guidance on formulating and implementing national financial inclusion strategies, and then systematically and efficiently monitoring and evaluating progress over time.

WHO IS THIS TOOLKIT FOR?

This toolkit is intended mainly for public sector policymakers taking a leading, hands-on role in the development of a national financial inclusion strategy, or those planning to develop one. The toolkit has three main objectives:

> to give key stakeholders a comprehensive picture of what is required to develop an NFIS
> to help lead institutions approach the task in an organized, systematic and efficient way
> to help stakeholders develop a high-quality NFIS.

Although the toolkit covers the entire strategy process,[1] the primary emphasis is on developing national strategies and incorporating various aspects of implementation into the final strategy. It is important to note that the toolkit does not go into the micro-details of formulating or implementing an NFIS. The toolkit also focuses on formulating a stand-alone NFIS.

WHAT IS A NATIONAL FINANCIAL INCLUSION STRATEGY?

A national financial inclusion strategy (NFIS) is a comprehensive public document formulated at the national level to systematically accelerate the level of financial inclusion in a given country. An NFIS is developed through a broad consultative process involving, among others, national public and private sector stakeholders engaged in the development of the financial sector.[2] Typically, an NFIS will include an analysis of the current status and constraints on financial inclusion, a measurable financial inclusion goal, how the country proposes to reach this goal and by when, and how it would assess the progress and achievements of the NFIS.

WHAT IS REQUIRED TO DEVELOP AN NFIS?

It is critical from the outset to have a clear understanding of what will be required to develop an NFIS. However, most policymakers struggle in the early stages to understand what is needed. Very broadly, an NFIS requires:

> A decision by a national-level political authority or key agency responsible for the development of the financial sector.
  - This decision may be made by the Minister of Finance, the Prime Minister/Head of State, the Governor or Monetary Board of the Central Bank, or the regulatory authority for the country's financial institutions. In general, the person who makes this decision also becomes the main champion for the NFIS.
  - If there is no such high-level direction, appropriate authorities will need to make the decision and identify a champion for the strategy.
  - Who makes and announces this decision is tremendously important for the entire strategy process. If it is made at the highest political and financial levels, support for the decision will trickle down and across related institutions. This greatly facilitates the strategy process once it is underway.

The AFI Maya Declaration has been a trigger for national financial inclusion strategies in many countries. Thirty-five AFI member countries have NFIS commitments, which have helped prepare them for the task of formulating an NFIS. Of these 35 countries, 17 have already formulated their strategies.

1 In this toolkit, the phrase "strategy process" refers to formulating, implementing, and monitoring and evaluating the progress of a financial inclusion strategy.

2 The World Bank defines a financial inclusion strategy (FIS) as a "road map of actions, agreed and defined at the national or subnational level, that stakeholders follow to achieve financial inclusion objectives". See World Bank, 2012.

Countries that did not include an NFIS in their original Maya Declaration commitments can update them to energize, formalize and initiate the process. The Maya Declaration can even be used as a trigger by countries that do not have Maya Declaration commitments, but are interested in developing an NFIS.

> A dedicated team of senior-level staff to develop the NFIS.
  - A decision to develop an NFIS is necessary but not sufficient to accomplish this ambitious task. A dedicated team is required to develop the strategy in consultation with relevant stakeholders. A national strategy is not a task for a single individual. Financial inclusion is a complex, multifaceted and wide-ranging issue, and many public and private sector institutions are engaged in different aspects of financial inclusion. A team can do a better job of bringing diverse perspectives from various institutions and completing tasks more quickly.

> Reliable and recent data, at least on the supply of financial products and services. Although demand-side data is extremely useful, national strategies have been formulated in some countries without this data.

> An institutional structure to coordinate[3] the work related to the development of the NFIS.
  - A coordination structure is critical, and may be separate from the team actually developing and writing the strategy. Members of the coordinating structure typically come from senior levels of major stakeholder institutions in both the public and private sectors. Including private sector representatives is essential to keeping the sector engaged in the process, incorporating their views on the strategy, and ensuring the strategy is aligned with their technology and business models. The coordination structure must have sufficient and well-suited financial and human resources, as well as clear terms of reference to ensure activities are carried out systematically. More importantly, however, a coordination structure "must have a legitimate mandate and strong leadership"[4] to be successful.

NFIS COORDINATION STRUCTURE

There is a vast difference between coordination structures for promoting financial inclusion in general and those charged specifically with developing an NFIS. A country may already have a general coordination structure for financial inclusion, but the terms of reference for this entity may not include coordinating the development of an NFIS. It also may not have the necessary resources. For example, in 2012, the Reserve Bank of India created the Financial Inclusion Advisory Committee (FIAC) to spearhead financial inclusion efforts. Coordinating the development of an NFIS was not a specific task of the FIAC, however, and in 2014, India's NFIS was developed by the Ministry of Finance.

In Solomon Islands and Fiji, the coordination of national financial inclusion strategies was a major task of the National Financial Inclusion Task Force. In Swaziland, the Ministry of Finance set up a Financial Inclusion Task Team with a mandate to develop an NFIS.

TERMS OF REFERENCE FOR AN NFIS COORDINATION STRUCTURE

The coordination structure must have clear terms of reference (TOR) to ensure its work is carried out systematically and transparently. Having a TOR also helps the Chair of the coordination structure to manage the work of the coordinating body.

A typical TOR may include:

> Background on the NFIS that explains, among other things, the decision and mandate for formulating the strategy
> Goal of the coordinating body (CB)
> Roles and responsibilities of the CB
> Operational rules and procedures, including frequency of meetings; the procedure for establishing specialized working groups as and when necessary; a decision-making system; and the establishment of a secretariat or sub-unit to support the activities of the CB
> Membership of the CB (member institutions and level of representation)
> Procedure for selection of a chairperson
> Functions of the supporting secretariat or sub-unit
> Reporting procedures
> Term of the CB

THE THREE PHASES OF DEVELOPING AN NFIS

An NFIS can be developed in a variety of ways, which makes it difficult to provide a list of precise, sequential stages.

This framework consists of three distinct phases, with particular objectives and key activities to be carried out in each phase. The three phases are:

> Pre-formulation
> Formulation
> Implementation and measurement

3 For a detailed discussion of coordination structures for financial inclusion, see Sarah Fathallah and Douglas Pearce, 2013, "Coordination Structure for Financial Inclusion Strategies and Reforms", World Bank.

4 Sarah Fathallah and Douglas Pearce, 2013, "Coordination Structure for Financial Inclusion Strategies and Reforms", p. 4, World Bank.

CHAPTER 2: PRE-FORMULATION PHASE

The main objective of this phase is to establish an institutional structure for completing the necessary tasks, assessing the data and key information available, and summarizing them in a succinct concept paper that helps senior management understand the main issues and tasks involved in formulating an NFIS.

One of these tasks is establishing a dedicated Financial Inclusion Unit (FIU) in the lead institution with adequate mid-level staff (initially, three to four staff may be sufficient to operate the FIU). In the early stages, the main task of the FIU is to carry out activities that get the strategy process moving and help senior-level policymakers to raise awareness of NFIS activities within their institutions.

Another major task is to prepare a brief concept paper on the development of the NFIS. In addition to identifying important potential issues, the concept paper may spark conversation within the lead institution(s) and among other relevant major stakeholders about strategic approaches to financial inclusion. When preparing the concept paper, it may be appropriate to think of strategy development as a special project. The concept paper will provide basic information about the project.

A related task is initiating a discussion of the concept paper with key institutional stakeholders, and to agree on a broad methodology for developing the NFIS. It may be useful to discuss the time required to accomplish the task and prepare an indicative timeline that covers all stages, from commencing strategy formulation to launching the strategy. Obviously if a deadline was already specified in the original decision by the political authority or head of the lead institution, the timeframe must be aligned with that. For example, if the Minister of Finance has directed the Ministry of Finance to formulate the strategy before the end of the year, the timeline must be structured to meet this deadline.

"THE NATIONAL FINANCIAL INCLUSION STRATEGY OF __________: A CONCEPT PAPER"

The concept paper should:

- Explain the concept of financial inclusion
- Provide background on the decision to develop an NFIS
- Briefly explain the justification/rationale for the NFIS
- Who may be involved in the process
- Main tasks involved
- Methodology that may be adopted
- A time-bound action plan for the preparation of the strategy
- A rough estimate of the budgetary requirements

CHAPTER 3: FORMULATION PHASE

The FISPLG has conducted a thorough review of NFIS practices in more than 15 developing and emerging countries. It revealed a wide range of approaches, but there were at least four major common tasks in every strategy:

- A comprehensive literature review of financial inclusion in their respective countries and the results of past efforts to accelerate it.
- A thorough survey of available financial inclusion data and sources, and the identification of major data-related issues.
- A review of the national financial inclusion strategies of countries considered to be broadly comparable.
- A review of innovative approaches by comparable countries to scale up financial inclusion in recent years.

DIAGNOSTIC STUDIES

Diagnostic studies are a major task in the Formulation Phase. Diagnostics provide an analytical and in-depth assessment of financial inclusion and financial infrastructure, reveal the current state of financial inclusion in the country in detail, and help to identify binding constraints on financial inclusion and policy priorities that can generate potentially high returns in all or selected dimensions of financial inclusion. Thus, diagnostics are a vital and promising tool for designing truly country-specific national financial inclusion strategies.

Both supply- and demand-side data are required for diagnostic studies. When nationally representative demand-side survey data is not available, it may be helpful to rely on small-scale, micro-level studies on the use of financial products and services.

The AFI Core Set of Financial Inclusion Indicators, together with the AFI SME Financial Inclusion Indicators, can be used as analytical tools in diagnostic studies (see Appendix 1), as appropriate. Typically, diagnostic studies cover population segments such as small and marginal farmers; tenants (depending on the country context); low-income households engaged in the fisheries industry; micro, small and medium enterprises (MSMEs) and their operators; and women-owned or operated SMEs and youth, among others.

When analyzing the access and usage of financial products and services among these segments, attention may be given to different types of service providers, including mobile network operators and other non-banking players engaged in the provision of services. In most countries, a focus on the role of technology in financial inclusion is essential.

Stakeholder consultation is undoubtedly one of the most important tasks in the Formulation Phase. Although it is listed separately, stakeholder consultation is an integral part of diagnostics because it helps to identify many financial inclusion issues and perspectives on both the supply side and demand side. It is important to remember that both the breadth (private and public sector, a range of service providers, served and underserved clients, and unserved potential clients) and depth of consultation are critical. Narrowing these to save time or resources might be counterproductive and result in a less effective strategy. It is also important to sustain the engagement of private sector stakeholders in the consultation

BARRIERS TO ACCESS AND USAGE OF FINANCIAL PRODUCTS AND SERVICES

Access barriers prevent a target market/clients from using financial products and services. These barriers include affordability; physical proximity; appropriateness of product/service features for the target market; eligibility requirements imposed by financial service providers to access the service; and regulatory requirements that influence whether a person can access a product/service or not.

Usage barriers discourage a target market from using a product or service. These may include lack of trust in the service provider; perceptions of the affordability or value of the product/service; level of financial capability of the potential clients; and fear of formalities.

SOURCE: Cenfri, Finmark Trust and UNCDF, 2014, "The MAP Toolkits: Making Access Possible".

STAKEHOLDER CONSULTATION OPTIONS

It is rare for a country to use a single tool for stakeholder consultation. In most cases, a combination of tools are used:

- Open public meetings at which stakeholders can freely put forward their views
- Workshops at which representatives of invited stakeholders can express their views
- Roundtable meetings of invited/selected stakeholders
- Focus group discussions in which different population segments can contribute
- Virtual consultations (e.g. electronic mails, online video calls etc.)

DIAGNOSTIC STUDIES FOR FINANCIAL INCLUSION

Diagnostic studies help to:

- Analyze the current state of financial inclusion - Ask a series of questions to reveal the various dimensions of the problem of financial exclusion/inclusion: what population segments are excluded/included; how does the problem differ across different sectors and geographic regions (e.g. urban and rural); and what constraints have been placed on financial inclusion, for example, the extent to which micro, small and medium enterprises (MSMEs) have access to and use financial services; how financial education/literacy/capabilities differ across different population segments; whether women suffer disproportionately from financial exclusion and what factors are contributing to this situation.
- Cover both policy and regulation and the supply and demand side
- Identify the most important constraints on financial inclusion in a country at a given time
- Set goals and targets for financial inclusion and select strategic interventions and policies with the most potential to be effective

Note that it is not necessary to undertake a single study covering all key sectors. Diagnostic studies may consist of a series of sectoral studies. Also note that empirical evidence is essential for good diagnostics, which makes it necessary to have reliable and timely data.

5 Robert Cull et al., 2014, CGAP Focus Note 92.

process. Since they are often likely to have different perspectives, keeping them engaged can generate valuable insights.

There are many ways to organize stakeholder consultation. It could be product- and service-based or issue-based. It could also be organized by type of service provider, such as commercial banks, microfinance institutions, postal banks and mobile network operators engaged or interested in financial inclusion.

While diagnostic studies are an important tool in the NFIS toolbox, it is important to be aware of the limitations of diagnostics.

- Typically, a diagnostic study focuses on the current status and binding constraints of financial inclusion and does not deal with potential future constraints that may require advance action. Special attention must therefore be paid to the constraints that could arise in a dynamic environment over time.
- Diagnostics also do not address the sequence of policy reforms required to achieve a set of objectives, so these issues must be dealt with separately.

CLARIFYING THE RATIONALE FOR AN NFIS

In general, the rationale for an NFIS may be based on the following:

- Unacceptably high levels of financial exclusion
- The persistence of financial exclusion despite efforts to reduce it
- Empirical evidence that suggests a well-designed national strategy can have a major impact on the overall level of financial inclusion
- The potential contribution financial inclusion can make to inclusive growth, poverty reduction and shared prosperity[5]
- The potential contribution of financial inclusion to reducing income inequality
- The potential of financial inclusion to contribute to financial stability. (Although it is important to be aware of how financial inclusion can negatively affect financial stability under certain circumstances.)

The rationale for the strategy may be reinforced even further by explaining the negative effects of persistent or deepening financial exclusion on poverty, inclusive growth, income equality, social cohesion and financial stability.

The importance of access to and usage of financial products and services for households and businesses is universally recognized. Recent empirical evidence from a range of countries in different geographical regions tends to support the need for households and businesses to have financial access.

It is vital to clearly articulate the rationale for a national strategy—it sends the right signal to stakeholders and creates a shared understanding among key policymakers and other stakeholders of the importance of a strategy at a particular stage of financial inclusion. Communicating this goes a long way toward moving strategy development forward, and harnessing the transformative power of financial inclusion for unserved and underserved people and firms (MSMEs).[6]

CRAFTING A MISSION AND VISION FOR AN NFIS

In general, most national strategies include a mission statement and a vision statement. The mission is a brief statement that defines the broad overall purpose of the strategy. Although a mission statement is not essential for an NFIS, including one will help stakeholders to see how the vision of the strategy fits into the overall mission.

FINANCIAL INCLUSION AND FINANCIAL STABILITY

Financial inclusion creates opportunities for many consumers who had previously been excluded from financial markets. If not well managed, financial inclusion—and credit expansion—can undermine financial stability. Extending credit to unproductive projects or unfit clients can expose lenders to higher risks; it can also expose ill-informed borrowers to increased risk of debt distress.

Christine Lagarde
Managing Director of the International Monetary Fund (IMF), 2014

VISION STATEMENT OFFERED BY PRESIDENT JOHN F. KENNEDY FOR THE US SPACE PROGRAM (1961)

"To land a man on the moon and return him safely to earth before the end of the decade."

NOTE: This statement obviously has nothing to do with financial inclusion, but it is a good example of a high-quality vision statement.

Measure of success:
"Land a man on the moon and return him safely to earth."

Time frame:
"Before the end of the decade."

Overall assessment:
Conveys a very clear and powerful message

VISION STATEMENT FROM AN NFIS:

"Improve the welfare of the people of (country name) through financial inclusion."

Measure of success:
Too general and vague: "Improve the welfare of people."

Time frame:
No specific time frame is given

Overall assessment:
Poorly crafted vision that does not convey a message with a high degree of clarity

6 Unserved people and firms are those that do not have access to or use financial products and services offered by formal financial services providers. Underserved people and firms are those that are served, but whose demands are not sufficiently met by formal financial services providers.

The vision is the foundation of the strategy. It is typically a concise, inspirational and aspirational statement that defines the medium- to long-term goal(s) of the strategy. A well-crafted vision statement conveys an unambiguous message and provides both a clear set of directions and framework of expectations within which the strategy can be formulated. In order to provide guidance on the development of the strategy, a vision statement must be measurable and have a timeline in which it will be executed.

It is helpful to develop the vision through brainstorming exercises that make a concerted effort to consider a wide range of perspectives before arriving at widely accepted and shared vision statement. In general, the timeline specified in the vision may go beyond the period covered by the strategy because a typical vision provides a medium- to long-term goal.

DEVELOPING A DEFINITION OF FINANCIAL INCLUSION

Defining the term "financial inclusion" is an essential component of a typical NFIS. How financial inclusion is defined is vital: the definition draws the boundaries of the strategy and the policy measures and actions that can legitimately be included to achieve the stated goal(s). The definition also largely determines who the stakeholders are and who is likely to benefit from the strategy and how. Defining financial inclusion is therefore not just good practice; it is critically important for many important aspects of the strategy.[7]

Once diagnostic studies are complete and the mission and vision statements have been agreed upon, the strategy formulation team can proceed with developing a definition that reflects the local context and the dimensions of financial inclusion likely to be emphasized in the strategy.

Regardless of how it is developed, the definition must:

- Be clear and concise, but also sufficiently granular and measurable
- Indicative of the broader directions financial inclusion is taking in the country
- Cover both financial products and services, not just one
- Cover a wide range of products and services
- Cover a range of financial products and services providers
- Cover the access, usage and quality dimensions of financial inclusion
- Be specific about the target groups of concern
- Cover the provision of financial services to both individuals and firms (MSMEs)

An appropriate definition may be developed by:

- Reviewing definitions adopted by other countries
- Taking into account the target groups, population segments and firms that require financial services and products in order to contribute to and participate in inclusive growth and development
- Beginning with a basic working definition formulated through discussions in a small technical group, typically at the lead agency
- Submitting the initial working definition for broader internal consultation to be further refined before a larger stakeholder consultation arrives at the final version.

In general, the definitions developed for most national financial inclusion strategies incorporate access to, and usage of, a range of financial products and services provided by formal financial services providers to specific target groups or all segments of the population, as well as the quality of these products and services. In many cases, there has been an emphasis on whether the definitions can be measured. Although definitions vary across countries, the more granular a definition, the more a country seems to recognize the importance of a good definition to a sound strategy.

SETTING THE GOAL(S) OF THE NFIS

There cannot be a strategy without a goal. It is therefore essential to define the goal of the NFIS. This goal must express an ambitious, but specific, financial inclusion commitment.

For example, an NFIS may have an overarching goal to increase financial inclusion among the country's adult population from 20% to 40% by 2018. With a single indicator, this goal captures the potential quantifiable impact of all the major activities that will be carried out to achieve the strategy's objectives. The goal may therefore be considered a higher order, all-encompassing objective of the strategy.

The goal of the strategy is different from the vision. The key difference is that the goal is a specific financial inclusion commitment to be achieved during the period covered by the strategy, while achieving the vision overall may extend past this period to achieve a longer-term goal.

The goal must meet four essential requirements. It must be:

- Clear What is to be achieved must be very clear and in line with the strategy.
- Relevant What is to be achieved must be relevant in the country context.
- Measurable What is to be achieved must be measurable.
- Time-bound A time frame must be specified for what is to be achieved.

TABLE 1: EXAMPLE OF AN NFIS GOAL THAT MEETS THE FOUR ESSENTIAL REQUIREMENTS

GOAL	INCREASE THE LEVEL OF FINANCIAL INCLUSION FROM 14% (2015) TO 28% BY 2019
CLEAR	It is clear what is to be achieved: an increase in the level of financial inclusion.
RELEVANT	Given the low level of financial inclusion in this country, this goal is relevant.
MEASURABLE	Whether the country has achieved the stated goal can be measured.
TIME-BOUND	The deadline for achieving the goal is very clear: by 2019

7 The AFI FISPLG Guideline Note on "Defining Financial Inclusion in National Financial Inclusion Strategies", 2015.

DETERMINING THE PERIOD TO BE COVERED BY THE NFIS

This task may appear to be straightforward and simple to accomplish, but in practice it is not. Many factors have to be taken into account when determining the most appropriate time period for an NFIS to cover. Too short a period may not make sense, while too long a period may diminish the rigor with which the strategy can be implemented. The determining factor is the time it will take to achieve the goal and supporting objectives of the strategy. Another important factor is the speed with which technologies that provide financial services are developing and the likely impact this will have on financial inclusion in a country. Technological developments tend to be unpredictable and sudden, which may make a longer period—in which uncertainties loom large—undesirable. Longer periods may also make it more difficult to coordinate the implementation of the strategy. Shorter periods may also help to sustain stakeholder interest and build momentum for implementation.

THE IMPORTANCE OF PRIORITIES IN AN NFIS

The logic behind setting priorities is simple and easy to understand: policymakers need to ensure the limited resources that are available to address financial exclusion are spent on the interventions likely to have the greatest impact. The goal of an NFIS must be achieved within a specific time frame, and setting priorities involves the "selection of policies, strategic measures and target groups to which relatively high importance needs to be attached in the effort to achieve the goal(s) articulated in the strategy."[8]

If there was only one way to make progress with financial inclusion, perhaps it would not be necessary to set priorities. However, financial inclusion is influenced by a multitude of factors and there are many ways to move forward. It is therefore important to choose what and what not to do. Without priorities, there is a risk of spreading limited resources too thin across many areas. Setting priorities also helps to manage complex interactions between diverse stakeholders, and improves the speed and quality of implementation in a variety of ways. In general, priorities convey a strong, clear and succinct message about the focus areas and target groups considered relevant to achieving a goal.

TABLE 2: PERIODS OF SELECTED STAND-ALONE NATIONAL FINANCIAL INCLUSION STRATEGIES

COUNTRY	PERIOD COVERED	NUMBER OF YEARS
BURUNDI	2015-2020	6
HAITI	2015-2019	5
LIBERIA	2009-2013	5
MADAGASCAR	2013-2017	5
MALAWI	2010-2014	5
NIGERIA	2013-2020	8
PAKISTAN	2015-2020	4
PARAGUAY	2015-2018	7
PERU	2015-2021	6
TANZANIA	2015-2021	3

Deciding What Matters: Setting the Priorities of an NFIS

There are five major factors to consider when setting the priorities of a national strategy:

> Goal of the strategy Priorities must be closely aligned with the goal of the NFIS. For example, if the goal is to increase financial inclusion in rural areas, the priorities must be in line with this goal. We describe this as a "strategic fit".

> Country context This has a major effect on the priorities. If a country lacks reliable data on financial inclusion, particularly demand-side data, priority must be given to building an adequate database on financial inclusion. Without reliable and high-quality data, little can be done to systematically accelerate financial inclusion.

> National commitments under the Maya Declaration The priorities of the NFIS must reflect commitments a country has made under the Maya Declaration.

> Empirical evidence To ensure priorities are in line with the country context, they must be based on empirical evidence.

> Time frame of the strategy Priorities are dependent on deadlines. A five-year strategy may have different priorities than a three-year strategy.

When determining the priorities of an NFIS, it may be helpful for policymakers to think of a hierarchy, rather than a singular set of priorities. This hierarchy may include:

> Objectives likely to make the greatest contribution to the goal of the strategy

> Policies likely to make the greatest contribution to each of the objectives

> Activities within each policy area

> Target groups such as MSMEs, small farmers, people living below the poverty line, women and youth

> Geographical areas with high levels of financial exclusion

8 Prioritization in the Context of National Financial Inclusion Strategies, BNM-AFI Financial Inclusion Strategy and Data Training, Kuala Lumpur, Malaysia, Fernando, Nimal, November 2014.

OBJECTIVES OF THE NFIS

Objectives are the pillars of the strategy goal(s), with each objective contributing to the achievement of the goal(s) and the overall success of the strategy. In a well-formulated strategy, there is complete alignment between a country's strategic approach and the objectives of the strategy itself.

Having comprehensive diagnostics to identify the major constraints on, and opportunities for, financial inclusion will help immensely in developing objectives for the strategy. It is important to note that it may still be possible to set a goal and related set of objectives in the absence of comprehensive diagnostics, but these objectives may not fit well with the final strategy.

SETTING TARGETS FOR AN NFIS

Targets are a conspicuous feature of national financial inclusion strategies. Targets are defined as "quantified subcomponents that will contribute in a major way to the achievement of goal(s)."[9] Many stakeholders involved in promoting financial inclusion at global and national levels have recognized the value of sound targets. According to CGAP and IFC, "setting targets is a way to focus energy on the most impactful goals and galvanize action to achieve scale in financial inclusion."[10] The process of setting targets has many other benefits, as well.

For example, the analytical process may bring data gaps to light or reveal issues in institutional capacity that the diagnostics did not capture. Regardless of the process used, targets in an NFIS must be consistent with the analysis, goals, objectives and strategic measures of the NFIS. This is the litmus test for sound targets.

What is Required to Set Sound Targets?

- As much clarity as possible on the overarching goal and objectives of the strategy
- High-quality data
- Accurate identification of the major barriers to financial inclusion and a sound analysis of how severe they are
- A good assessment of how core enablers for financial inclusion may influence the major dimensions of financial inclusion in a country
- Extensive consultation with key stakeholders, including those in the private sector.

Approaches to Setting Targets

There is no universally accepted way to set targets, but rather a spectrum of approaches. In most national financial inclusion strategies, there are two dominant approaches:

- Adjusting current financial inclusion level(s) of the relevant variable(s) to reflect the expected goal(s) of the strategy. This may include savings accounts, credit accounts or mobile money accounts; and
- A benchmark-based approach that involves at least three key steps:
  - Selecting a group of benchmark countries
  - Using the current levels of financial inclusion of these countries as baselines
  - Making adjustments to these baselines to reflect the expected goals of the strategy

QUALITATIVE AND QUANTITATIVE TARGETS

There are two types of targets: qualitative targets and quantitative targets. Qualitative targets are specific goals that can be considered measurable even without a numeric objective. For example, developing a framework for an SME finance policy by the end of 2016 may be considered a qualitative target. Quantitative targets come with numeric objectives, for example, reducing financial exclusion among adult women to 20% by 2016.

NOW DID NIGERIA SET ITS TARGETS?

VARIABLE PRODUCT	CURRENT LEVEL	TARGET FOR 2020	BASIS USED
FINANCIAL EXCLUSION (OVERALL TARGET)	46.3% (2010)	20%	Based on analysis of the country situation and other country experience
SAVINGS	24.2% (2010)	60%	Based on improvement of best in class Kenya at 48%
CREDIT	1% (2010)	40%	Based on improvement of best in class South Africa at 36%

SOURCE: Nigeria: NIFIS

The Process of Setting Targets

Setting targets involves at least four major sequential steps:[11]

- Step 1:
  Use the assessment of the current state of financial inclusion, goal(s) and objectives as the starting point.
- Step 2:
  Based on the needs of the country, the context, available resources and benchmark basis values, determine targets through consultation with key stakeholders.
- Step 3:
  Apply the "SMART" test tool to determine the soundness of targets and make adjustments if necessary.
- Step 4:
  Select the indicators to monitor progress at the implementation stage.

Testing the Soundness of the Targets

The soundness of each target can be assessed using the "SMART" tool.

9 A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development. The Report of the High Level Panel of Eminent Persons on a Post-2015 Development Agenda, 2013.

10 CGAP and IFC, 2013, "Financial Inclusion Targets and Goals: Landscape and GPFI View. A Note to the Global Partnership for Financial Inclusion".GPFI View. A Note to the Global Partnership for Financial Inclusion".

11 Fernando, 2014.

TABLE 3: OBJECTIVES OF SELECTED NATIONAL FINANCIAL INCLUSION STRATEGIES

COUNTRY	STATED OBJECTIVES IN THE NATIONAL STRATEGY
BURUNDI	The NFIS includes three objectives: 1 Ensure increased and permanent access to and usage of financial services and products by the population with conditions that encourage access and usage; 2 Make quality financial services and products available that match the needs of the target clientele of the NFIS; and 3 Improve the environment for financial inclusion.
PARAGUAY	The NFIS includes four objectives: 1 Reduce the financial vulnerabilities of families at the base of the pyramid; 2 Promote outreach of financial services in a competitive and secure marketplace; 3 Aid economic development and growth through MSME and large firm access to financial products; and 4 Promote financial inclusion while maintaining a balance with financial sector stability, integrity and the education/protection of consumers.

SOURCE: National financial inclusion strategies of Burundi and Paraguay

TABLE 4: THE SMART TEST TOOL

TESTING CRITERIA	MAIN QUESTIONS TO BE ASKED AND REMARKS
SPECIFIC	Is the target clear, straightforward and specific? > Only clear and specific targets can provide clear signals to stakeholders.
MEASURABLE	Is the target measurable and can its progress be tracked using relevant indicators? > If a target is not measurable, progress toward the target cannot be systematically monitored > Tracking progress creates strong incentives to meet the target > Tracking provides insights into challenges and opportunities > Being measurable compels the use of reliable indicators to monitor progress
ATTAINABLE	Is the target attainable while still being ambitious? > Target needs to strike a balance between being ambitious/aspirational and realistic > Unattainable targets tend to damage the credibility of stakeholders
RELEVANT	Is the target relevant in relation to the country context, stated goal(s) and/or objectives, strategic priorities and strategic measures? > A target that is not aligned with any one of these cannot be considered sound.
TIME-BOUND	Is the target associated with a specific time frame? > A target without a deadline does not send a strong message that it will be achieved > Specifying a deadline encourages stakeholders to act in a timely way

Additional Considerations When Setting Targets for an NFIS

- As much as possible, financial inclusion targets need to cover all three dimensions of financial inclusion: access, usage and quality.
- Country experience has shown that targets focused only on access result in large numbers of unused or underutilized bank accounts, inflicting additional costs on financial institutions.
- Most research studies now agree that usage of financial products and services must be made explicit in NFIS targets.
- Targets should promote financial services in a way that does not undermine financial stability, integrity and consumer protection.
- A target that results in excessive credit being granted to poor households may result in over-indebtedness.
- Targets may encourage service providers to adopt aggressive and inappropriate marketing and sales practices.
- Targets should not compromise the sustainability of financial services
- Providing an excessive amount of credit may undermine the stability of financial institutions if it results in too many non-performing loans.
- Chasing targets without giving adequate attention to the viability of financial services can compromise the sustainability of these services. This is a particular risk for state-owned financial institutions that are subject to government directives.

STRATEGIC MEASURES OF AN NFIS

Strategic measures are the heart of a national financial inclusion strategy. It is therefore vital to develop strategic measures that flow from the goal(s) and objectives of the strategy, as well as the primary findings of the diagnostic studies. Essentially, strategic measures are those required to achieve the stated objectives effectively and efficiently within a stipulated time frame. There are different ways to develop strategic measures. The most widely used approach appears to be identifying the key enablers and drivers of financial inclusion in a country and then designing strategic measures to reinforce and strengthen them. Pakistan has used this approach (see Table 5).

Another approach some countries have taken is to formulate strategic measures for each key objective in the strategy based on what is considered critical to achieving these objectives. Burundi appears to have relied on this approach (see Table 6).

These are not the only possible frameworks that can be used to develop strategic measures. There are other options, such as using a framework organized around focus areas. The following example illustrates this approach.

NOTE: Only quick-win measures are included in the strategic measures column. The actual strategy includes a number of other strategic measures for each focus area. The content has also been slightly edited from the original to be shorter and clearer.

TABLE 5: PAKISTAN: A FRAMEWORK FOR DEVELOPING STRATEGIC MEASURES

DRIVER 1 DIGITAL TRANSACTION ACCOUNTS	> Expand access to digital transaction accounts > Drive scale and viability - digitize payments
DRIVER 2 ACCESS POINTS	Expand and diversify access points
DRIVER 3 FINANCIAL S ERVICES PROVIDERS	Providers develop systems, knowledge and products to serve new market segments profitably and safely
DRIVER 4 FINANCIAL CAPABILITY	Raise financial awareness and capability (consumers, SMEs)
ENABLER 4	Financial/Payments/ICT Infrastructure
ENABLER 3	Supervisory and Judicial Capacity
ENABLER 2	Enabling Legal and Regulatory Environment
ENABLER 1	Public and Private Sector Commitment and Coordination

SOURCE: National Financial Inclusion Strategy of Pakistan

TABLE 6: BURUNDI: A FRAMEWORK FOR DEVELOPING STRATEGIC MEASURES

OBJECTIVE	Ensure increased and permanent access to and usage of financial services and products by the population with conditions that encourage access and usage.	Make available quality financial services and products that match the needs of the target clientele of the NFIS.	Improve the environment for financial inclusion.
SUB-OBJECTIVES	> Improve geographic coverage of financial services and products > Improve conditions for access to financial services and products > Inform, educate and protect the public in general and the target clientele of the NFIS in particular > Develop financial services and products using mobile phone and other technologies > Ensure refinancing for financial institutions	> Increase the level of savings and ensure security of deposits > Develop financing mechanism, approaches and products adapted to rural needs, in particular for agricultural activities > Develop approaches and financial products and services for women and youth > Develop approaches and financial products and services for micro and small entrepreneurs > Develop micro insurance products and services.	> Provide a legal framework for the financial sector that is adapted to financial inclusion > Set up a regulatory framework for the protection of consumers of financial products and services > Adjustments to legislation, regulations, policies and mechanisms in areas related to the financial sector > Supervisory mechanism for financial institutions adapted to the NFIS, in particular for innovations related to the distribution of financial services and products > Coordination and coherence with the national financial inclusion strategy
ACTIVITIES	Set of key activities identified related to each sub-objective	Set of key activities identified related to each sub-objective	Set of key activities identified related to each sub-objective

SOURCE: National Financial Inclusion Strategy of Burundi

TABLE 7: PARAGUAY: AN ALTERNATIVE FRAMEWORK FOR DEVELOPING STRATEGIC MEASURES

FOCUS AREA/CROSS-CUTTING THEMES	OBJECTIVES/KEY INDICATOR TO ACHIEVE	STRATEGIC MEASURES (AND REMARKS)
SAVINGS	> Increase savings account ownership from 29% to 50% of the adult population. > Increase usage from 14% to 30%.	Issue clear guidance on what is and what is not needed to open a regular savings account.
CREDIT	> Increase responsible credit to MSMEs from 30% to 40%. > Increase the share of responsible borrowing at formal financial institutions from 23% to 28% of adults.	Improve credit risk information systems and information sharing
INSURANCE	Increase insurance coverage from 26% to 36% of adults.	Explore the possibilities of implementing agricultural insurance for SMEs (a weak measure).
PAYMENTS	Decrease the usage of cash/check for salary and wage payments from 76% to 20%.	Convert 80% of all central government payments to consumers to electronic and make 100% of all new central government vendor payments via electronic means.
CROSS-CUTTING THEMES		
FINANCIAL EDUCATION	Increase the percentage of adults (15+) who reported having received some training/advice or support on how to manage personal finances and administration money from 10% to 20%.	Develop financial education tools, guidelines and content for educational institutions. Social service agencies and financial institutions with an emphasis on vulnerable populations and their characteristics.
CONSUMER PROTECTION	All institutions that provide regulated and non-regulated financial services have and publicize arrangements for customer complaints and queries that take into account the realities of all income groups, including the financially vulnerable.	Improve the regulation on transparency of interest rates and fees, initially for credit and for all lenders.
VULNERABLE POPULATIONS	Extend, via cost-effective channels, financial services to all 69 financially excluded and more populated districts in the country with an emphasis on the 17 vulnerable priority districts that are part of the government's plan to end extreme poverty.	Leverage the widespread use of mobile phones and coverage of mobile network operators to further expand savings among vulnerable groups.

SOURCE: National Financial Inclusion Strategy of Paraguay

CHAPTER 4: IMPLEMENTATION AND MEASUREMENT PHASE

Implementation is an integral part of an NIFS and appropriate measures must be incorporated into the strategy. The following implementation measures are important for strategy teams to consider.

COORDINATION STRUCTURE

An effective coordination structure is critical to the successful implementation of an NFIS.[12] There are many reasons for this, but the major ones include:

- Financial inclusion policymaking and implementation involves many stakeholders from public and private sector institutions.
- Policies and regulations introduced by public sector institutions have a profound impact on the activities of financial services providers and the users of financial products and services.
- Public-private partnerships have a crucial role to play in advancing financial inclusion and achieving financial inclusion goals. Effective coordination is important to fostering these partnerships in the rapidly changing financial inclusion landscape.

A review of AFI member country experiences revealed many different approaches to setting up coordination structures for implementation, but what is important is spelling out the coordination structure in the strategy document itself, not waiting until the strategy is complete. In fact, a coordination structure for implementation must be a core element of the strategy.

Of all the approaches, a tiered structure appears to be the most widely used. A tiered structure may consist of a multi-agency National Financial Inclusion Task Force or Committee with primary responsibility for coordinating implementation; a Technical Advisory Committee to provide technical advice on implementation; or a Strategy Implementation Unit located at the lead institution responsible for management and coordination on a day-to-day basis.

Any coordination structure needs to have:

- Strong leadership that commands the respect and cooperation of all other members of the structure
- A clear mandate and terms of reference, regardless of the level of representation in the structure
- Transparent operating rules
- The right balance of representation from key stakeholders, including those in the private sector
- A sufficient degree of freedom to make important and necessary decisions based on empirical evidence
- Resources for smooth operation during the specified period. (In a tiered structure, lower-level tiers constitute part of the resources.)

WORKING GROUPS AND TECHNICAL COMMITTEES

Working groups and technical committees can be effective tools for implementing an NFIS, and a number of countries are already using them. The vast coverage of a typical NFIS and the technical nature of some of the issues, particularly those relating to digital financial services, insurance and payment systems, justify the use of working groups/technical committees for coordination and implementation. However, policymakers need to pay attention to a number of issues, including:

- Ensuring working group members come from relevant stakeholder institutions and representation from these institutions is at the appropriate level.
- Each working group must have its own leadership and a ToR that specifies the key tasks to be carried out.
- Having a system that formally recognizes members' contributions, which provides an incentive to sustain their level of effort and quality of work.
- Adequate private sector stakeholder representation is critically important.

12 In a poll taken at the 2012 AFI Global Policy Forum, 50% of participants polled identified "national coordination" as the most daunting challenge to developing and implementing a financial inclusion strategy (AFI, 2012, p.13).

TABLE 8: THE ROLE OF WORKING GROUPS/TECHNICAL COMMITTEES IN IMPLEMENTING AN NFIS: SELECTED EXAMPLES

COUNTRY	TECHNICAL COMMITTEE/WORKING GROUP	MAIN TASKS
PAKISTAN	Technical Committees: Digital Payments; Agricultural Finance; Housing Finance; Awareness and Literacy; MSME Finance; Pensions; Gender; Islamic Finance; Insurance	Propose detailed implementation plans; resolve technical issues in the defined area; Provide information on progress in implementation and related targets to the NFIS Secretariat on quarterly basis; and propose solutions to the theme-specific challenges to the NFIS Steering Committee
PARAGUAY	Working Groups: Savings; Credit; Insurance; Payments; Financial Education; Consumer Protection; and Vulnerable Populations	Tackle selected issues in the defined thematic area of focus and report progress to the Executive Secretary
BURUNDI	Technical Committees will be set up for topics that require large-scale efforts.	Assist the Coordination and Monitoring Committee of NFIS in coordinating actions that require large-scale efforts.

SOURCE: NFIS documents of Pakistan, Paraguay and Burundi

PREPARING AN NFIS ACTION PLAN

An action plan is considered an integral component of a national financial inclusion strategy.[13] As in other areas, there is tremendous diversity in terms of how countries structure their action plans. These structures vary from simple, straightforward ones to tiered structures in which actions are classified by priority level. In some countries, two action plans are drawn up: one with high-priority short-term actions and another with a general action plan. This approach was used in Haiti's national strategy. The draft action plan of the NFIS of Pakistan suggests high-level measures with a timeline for addressing the enablers and drivers identified in the strategy. The actions are categorized into two levels—highest priority and high priority—to provide guidance for relevant stakeholders.

When preparing an action plan, the most challenging tasks are identifying the most important activities and determining realistic timelines for full implementation. Including minor activities will clutter the action plan, and setting unrealistic timelines may lead to frustration among stakeholders responsible for the activities.

A good action plan is simple and easy to understand, and has the following main characteristics:

> Actions are organized by the main focus areas and/or objectives.

> Only the most important actions are included.

> Timeline and priority levels are specified.

> Institutions responsible for the respective actions are clearly indicated in the plan.

> Actions are aligned with the resources at hand and the institutional capacity to carry out the actions.[14]

> Where institutional and policy reforms are critical for certain actions, such reforms are specifically incorporated into the plan. The reforms need to be realistic and feasible within the time frame of the strategy.

TABLE 9: SAMPLE ACTION PLAN FORMAT

FOCUS AREA: Formal Savings

KEY OBJECTIVE/TARGET: Increase use of formal savings from 15% to 30% of adults

ACTIVITIES*	PRIORITY	RESPONSIBLE INSTITUTION(S)	TIMELINE
Design a new basic savings account and issue guidelines to relevant financial institutions.	High	Central Bank	Before December 2015
Launch a national campaign to educate the target group population.	High	Central Bank and Financial Institutions	Before February 016
Conduct an assess-ment of the imple-mentation of the strategy by the finan-cial institutions.	High	Department of Economic Research within the Central Bank	In September 2016

* NOTE: Listed for illustrative purposes only

MONITORING AND EVALUATION FRAMEWORK

The need for a sound monitoring and evaluation (M&E) framework is universally recognized. A good M&E system tracks progress and provides real-time feedback to adjust policy and take other measures to ensure the NFIS is on track. Tools designed specifically to monitor the progress of financial inclusion allows implementation to be monitored , and these tools are flexible enough to be adapted to local contexts. The M&E system for an NFIS needs to meet the following requirements:

> Clearly articulate the institutional structure responsible for the overall M&E of the implementation of the strategy.

> Clearly describe how the agency with overall responsibility for M&E will conduct its activities

> State which agencies will support the lead agency and how they are expected to support them.

> Clearly state the key performance indicators (KPIs) that may be used.

> Provide details of the M&E responsibility of each relevant individual stakeholder institution and how often these institutions are required to submit M&E reports/data to the higher-level body in the system.

> Include a mid-term comprehensive review of implementation and a brief indicative ToR for the review, and explain the purpose of this review.

> Include a mechanism for systematically gathering user perspectives on relevant aspects of implementation.

> Succinctly describe how the M&E data will be used to improve implementation and who will be responsible for this task.

In general, the M&E framework for an NFIS is determined by the entities assigned a strategic role in implementing key activities. The entity with overall responsibility for coordination and implementation may be assigned the task of compiling the M&E report on a bi-annual or annual basis. The operational responsibility for monitoring and reporting progress on a quarterly, bi-annual and annual basis is generally assigned to the key implementing agencies. Additional tools may be used to track aspects that cannot be covered through these mechanisms. The M&E frameworks for Paraguay's and Nigeria's national strategies are good examples of this approach (see Table 10 and 11).

13 Some national strategies may not have an action plan. This is rare, but a case in point is the NSFI of the Philippines. The strategy encourages all implementing agencies to "craft a medium-term work plan detailing specific actions – whether policy reforms or programs – that they will undertake, the target outcomes and the timeline of implementation." NSFI of the Philippines, p. 13.

14 A review of national microfinance strategies has found that unrealistic action plans were a major drawback of most of the strategies. See Duflos and Glisovic-Mezieres (2008).

TABLE 10: M&E FRAMEWORK FOR PARAGUAY'S NFIS

National Financial Inclusion Committee (NFIC), chaired by the Minister of Finance, consists of senior-level representatives of the central bank, Ministry of Finance, National Institute of Cooperatives and the Ministry of Planning	Prepare an annual report of its activities, KPIs and action plan. Progress should be tracked in relation to the objectives and KPIs of the strategy.
Executive Secretary and the Financial Inclusion Technical Committee (Appointed by NFIC)	Overall responsibility for the oversight, coordination and implementation of the strategy.
Working Groups	Seven WGs in total, one for each thematic area: savings, credit, insurance, payments, financial education, consumer protection and vulnerable groups Each WG is required to carry out a series of activities (outlined in the strategy) related to the thematic area. Each WG is required to report its progress on a quarterly basis to the Executive Secretary.
Special Tool for Gathering User Perspectives	A full demand-side survey to be carried out every two years to measure progress against the 2013 baseline survey.

SOURCE: National financial inclusion strategy of Paraguay

TABLE 11: M&E FRAMEWORK FOR NIGERIA'S NFIS

Institution with Primary Responsibility for M&E	Financial Inclusion Secretariat (FIS) > FIS is not expected to gather primary data > Relies on data provided by various stakeholders
Stakeholders' responsibility for M&E	> Provide specific information and data twice a year > Stakeholders include eight institutions and the central bank > Five central bank departments are specifically mentioned > What each institution/entity has to submit is stated
Tracking Methodology for M&E	> Provides guidelines to enable the central bank to create a mechanism for monitoring progress
Tracking Report (TR) Coverage	TR includes the following components: > Management summary: - an overview of progress in financial inclusion - successfully completed actions and initiatives - initiatives progressing as planned - KPIs or other indicators at risk of not being completed > Status update that shows the status of key indicators, including use, infrastructure, affordability, financial literacy, and consumer protection > Trend analysis shows the progress of KPIs and other indicators across review periods > Priority checklist outlines all financial inclusion stakeholder programs and initiatives for the next two years on a timeline. The progress of each program and initiative are highlighted. > Next steps section lists all programs and initiatives to be implemented in the next review period and the actions that will be required to launch them successfully.

SOURCE: Nigeria. 2012. National Financial Inclusion Strategy. pp. 38-44.
NOTE: This is an abridged version of the details provided on M&E in Nigeria's national strategy.

PREPARING AN INDICATIVE BUDGET

The budgetary aspects of NFIS implementation are often not discussed. Some strategies overlook this entirely while many others make only a passing reference. This is understandable; preparing even an indicative budget is a difficult task for a variety of reasons. One is that the implementation of most national strategy activities is spread across many institutions and implementation funds do not necessarily come from a central source (unlike government development programs, for example, which have a dedicated budget). However, it is important to note that this disconnect between strategy and budget, regardless of the reasons for it, has a major effect on whether the strategy is implemented successfully. A budget discussion will also enable policymakers and other stakeholders to assess the feasibility of some activities and make adjustments. The inclusion of even a less comprehensive budget will make the strategy more transparent.

Despite the difficulties, it may be possible to estimate the costs of an NFIS and how those costs are expected to be financed, at least for some of the major activities. For example, if a demand-side survey is part of the activities, the cost and the institution responsible for this cost can be indicated.

Responsibility for preparing the budget generally lies with the strategy-formulating team, and it needs to be carried out in consultation with the major stakeholders. The team needs to invite cost estimates on relevant activities from relevant stakeholder agencies, which will need to include both the cost of scaling up an ongoing initiative and the cost of new initiatives. Each stakeholder should be asked to indicate the expected funding sources for these costs.

IDENTIFYING AND MITIGATING RISKS

Any national strategy is likely to have risks. This is unavoidable. It is therefore important to identify the potential risks and design mitigation measures to address them, but very few national strategies do this.

The risks may be very broadly grouped into two main interrelated categories: 1) strategic risks and 2) operational risks. Strategic risks are risks that affect the key objectives of the strategy. If the objectives are unrealistic and not properly aligned with the local context, it may not be possible to fully realize them. Operational risks, on the other hand, are those that affect the ability of stakeholders to implement the strategy. Sudden changes in the leadership that supported the strategy, for example, may create major implementation problems. If a strategy is formulated with the assumption that national economic growth will be extremely favorable for the period covered by the financial inclusion strategy, unexpected disruptions to this scenario will have serious adverse consequences on implementation. Similarly, delay in implementing an activity critical to the successful implementation of subsequent activities can derail the entire strategy.

When potential risks are identified, it is possible to introduce measures to mitigate them. Peer reviews and reviews by external parties can help to ensure major assumptions and key objectives are realistic. Key aspects of the strategy may be adjusted to align with realistic economic growth scenarios and the capacity of institutions to implement the strategy. Risks arising from sudden technological changes may be mitigated by designing strategic measures to address this potential and by shortening the period the strategy covers.

STAKEHOLDER CONSULTATION ON A DRAFT NFIS

Whether the draft strategy has been developed with or without extensive stakeholder consultation, it is critically important to consult stakeholders once the draft strategy is ready. The rationale for this is simple: for the first time, stakeholders will have the opportunity to see the strategy as a complete document and provide insights based on a holistic view. They will be able to answer questions such as, does the strategy goal appear realistic? Are the objectives consistent with the goal and attainable through the activities detailed in the strategy? Are the strategic measures sound and realistic in the country context? Is the coordination mechanism adequate given the nature and scope of the strategy? Is the M&E system proposed in the strategy adequate or does it need major refinements? If so, what should those refinements be? These are only some of the questions about the draft strategy stakeholders will discuss. Stakeholder consultation on the draft strategy can also be used to gather independent views from those who were not intimately involved in formulating the strategy. For example, academics from selected think tanks and universities may be invited to the consultation at this stage to provide their perspectives.

TURKEY'S NFIS BUDGET

"The budget needed for the coordination of the Financial Education Action Plan will be prepared by the Capital Markets Board, and the budget needed for the coordination of the Financial Consumer Protection Action Plan will be prepared by the Banking Regulation and Supervision Agency. Other institutions will prepare the budgets needed to implement the actions which they are responsible for or are related to. The stakeholder agencies and institutions in the action plans can cooperate and develop joint projects regarding the budget."

SOURCE: "Turkey: Financial Access, Financial Education, Financial Consumer Protection Strategy and Action Plans", Central Bank of the Republic of Turkey, 2014.

BURUNDI'S NFIS BUDGET

According to the NFIS of Burundi, an estimated 36.7 billion BIF (approximately US$23.5 million) is required to implement the strategy, excluding the estimated 175.6 billion BIF (about US$113 million) required to refinance financial institutions. Approximately 81% of the total budget is for the second objective (make quality financial services and products available that match the needs of the target audience of the NFIS). Of the total estimated budget, 62.2% is expected to come from development aid. Again, this excludes the funds required for refinancing financial institutions. The heavy reliance of the budget on development aid suggests the NFIS is vulnerable to aid financing and an overly optimistic expectation of this aid on the part of those who designed the strategy.

SOURCE: Budgetary data from the NFIS of Burundi

TABLE 12: POTENTIAL RISKS AND MITIGATION STRATEGIES IN NIGERIA'S NFIS (Presented for illustrative purposes only)

RISK	MITIGATION
Lack of buy-in and compliance from key stakeholders	Conduct workshops with stakeholder groups, including the FSRCC, Bankers' Committee and the National Economic Council (NEC), and provide regular updates during the implementation phase.
Failure of the National Identity Management Commission (NMIC) to fully implement a national ID system	Leverage tiered KYC requirements to reduce reliance on the national ID
Delays in passing required regulation and legislation	Obtain support from the Governor's office to push important regulations and lobby for legislative changes
Inability of the federal government to meet the country's power needs	Use back-up power and batteries for ATMs, POS and other electronic devices
Client apathy in adopting financial inclusion initiatives	Make a concerted effort to drive financial literacy and consumer protection
Poor security for agents	Use mobile wallets to reduce cash handling
Unanticipated regulatory gaps that threaten implementation	Address through circulars and reviews

NOTE: Extracted from the National Financial Inclusion Strategy of Nigeria, p. 36

Stakeholder consultation can be organized in a variety of ways:

- A national workshop for invited stakeholders, including the development partners
- Regional workshops (as Bangko Sentral ng Pilipinas did with its draft national strategy)
- The lead agency may post the draft strategy on a website for interested parties/individuals to review and provide comments.
- The lead agency may also conduct an inter-agency consultation workshop to gather different perspectives from within the agency
- The lead agency can encourage all other major stakeholder institutions to hold consultation workshops/meetings in their own institutions.

The major comments and views expressed at these consultations must be compiled in a document and used to refine the draft strategy, as appropriate.

PREPARING A COMMUNICATION STRATEGY FOR AN NFIS

Communicating a national strategy effectively to all stakeholders is crucial to successful implementation. Poor communication has been identified as a major factor for under-achieving national strategies. To avoid this pitfall, a communication strategy is needed that is based on a shared understanding of the barriers to implementing the strategy and helps smooth implementation.

The communication strategy may include the following:

- A statement of purpose and what the communication strategy is expected to achieve
- A brief introduction of the NFIS: vision, goals and key objectives
- A list of the major stakeholders
- Specific communication objectives, such as ensuring a shared understanding among key stakeholders and creating an adequate awareness of the NFIS among the public
- Main methods of communication: what channels will be used (newspapers, radio, TV, web, social media, etc.)
- Who will be responsible for implementing the communication strategy

OFFICIAL LAUNCH OF THE NFIS

The official launch of the national strategy is tremendously important to the strategy process. First, it is a public declaration that the strategy is ready to be implemented and should demonstrate the highest level of political support for the strategy. At the launch, stakeholders can formalize their support and commitment to the strategy through tools such as a memorandum of understanding (MOU), as was done at the launch of the Philippines' national strategy. It also provides an opportunity to reaffirm the alignment the strategy with the overall development goals and strategies of the country. At the launch, development partners will have an opportunity to announce their intention to support the implementation of the strategy, which in turn can initiate a formal process of obtaining their concrete support. More importantly, the official launch of an NFIS raises public expectations of financial inclusion and opens the strategy to public scrutiny through media exposure and other channels. Finally, the launch lays the foundation for global peer monitoring and peer pressure to implement the strategy in a timely manner.

ANNEX 1: FORMULAS FOR CALCULATING THE CORE SET OF FINANCIAL INCLUSION INDICATORS

HOW DO I CALCULATE CORE INDICATOR 1? (Number of access points per 10,000 adults and per administrative unit)	**Formula for national level indicators:** $\left(\frac{\text{Total number of access points}}{\text{Total adult population}}\right) \times 10{,}000$ Data requirements: > Number of various types of access points > Number of adults in the population	**Formula per administrative unit:** $\left(\frac{\text{Total number of access points in each administrative unit}}{\text{Total adult population in each administrative unit}}\right) \times 10{,}000$ Data requirements: > Number of access points by type and by administrative unit > Number of adults by administrative unit
HOW DO I CALCULATE CORE INDICATOR 2.1? (Percentage of administrative units with at least one access point)	**Formula:** $\left(\frac{\text{Number of administrative units with at least 1 access point}}{\text{Total number of administrative units}}\right)$ Data requirements: > Number of access points by type and by administrative unit	
HOW DO I CALCULATE CORE INDICATOR 2.2? (Percentage of total population living in administrative units with at least one access point)	**Formula:** $\left(\frac{\text{Total number of adults in all administrative units with at least 1 access point}}{\text{Total adult population}}\right)$ Data requirements: > Number of adults by administrative unit > Total number of adults in the population	
HOW DO I CALCULATE CORE INDICATOR 3.1? (Percentage of adults with at least one type of regulated deposit account)	**Formula:** $\left(\frac{\text{Total number of adults with at least 1 regulated deposit account}}{\text{Total adult population}}\right)$ Data requirements: > Number of adults that have at least 1 regulated deposit account (usually generated from demand-side surveys) > Total number of adults in the population	
HOW DO I CALCULATE CORE INDICATOR 3.A (Number of regulated deposit accounts per 10,000 adults), which is a proxy for Core Indicator 3.1? (Percentage of adults with at least one type of regulated deposit account)	**Formula:** $\left(\frac{\text{Total number of regulated deposit accounts}}{\text{Total adult population}}\right) \times 10{,}000$ Data requirements: > Number of regulated deposit accounts (supply-side data) > Total number of adults in the population	
HOW DO I CALCULATE CORE INDICATOR 3.2? (Percentage of adults with at least one type of regulated credit account)	**Formula:** $\left(\frac{\text{Total number of adults with at least 1 regulated credit account}}{\text{Total adult population}}\right)$ Data requirements: > Number of adults that have at least 1 regulated credit account (usually generated from demand-side surveys) > Total number of adults in the population	
HOW DO I CALCULATE CORE INDICATOR 3.B (Number of regulated credit accounts per 10,000 adults), which is a proxy for Core Indicator 3.2? (Percentage of adults with at least one type of regulated credit account)	**Formula:** $\left(\frac{\text{Total number of regulated credit accounts}}{\text{Total adult population}}\right) \times 10{,}000$ Data requirements: > Number of regulated credit accounts (supply-side data) > Total number of adults in the population	

ANNEX 2: AFI SME CORE INDICATORS

ACCESS INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE	SOURCE
1 **Access points**	Number of access points per 10,000 adults		Physical access	AFI Core Set Indicator	Supply side
2 **Coverage of access points**	Percentage of administrative units with at least one access point		Distribution of access points	AFI Core Set Indicator	Supply side
3 **Coverage of access points**	Percentage of total population living in administrative units with at least one access point		Distribution of access points	AFI Core Set Indicator	As per Base Set
4 **Digital financial access** (Digital access to financial services)	Percentage of enterprises with access to digital financial services[15]	Percentage of population with access to digital financial services	Extent of access to digital financial services		Demand-side survey
5 **Credit access**	Percentage of SMEs required to provide collateral on any existing loan		Tightness of credit conditions	OECD Indicator	Demand-side survey[16]

USAGE INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE	SOURCE
6 **Formally banked enterprises**	Percentage of SMEs with a deposit account at a regulated financial institution	Number of SMEs with deposit accounts/Number of deposit accounts OR number of SME depositors/Number of depositors[17]	Usage of deposit accounts	G20 Indicator	Demand-side survey[18]
7 **Enterprises with outstanding loan or line of credit facilities**	Percentage of SMEs with an outstanding loan or line of credit at a regulated financial institution	Number of SMEs with outstanding loans/ Number of outstanding loans OR number of outstanding loans to SMEs/Number of outstanding loans	Usage of loan facilities	G20 Indicator	Demand-side survey

QUALITY INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE	SOURCE
8 **SME loan guarantees**	SME loan guarantees as a percentage of SME loan (in terms of value)	Number of SME loans with guarantees/ Number of SME loans	Extent of public support for SME finance	OECD Indicator	Supply-side[19]
9 **Relative cost of credit**	Difference between average SME loan rate and average corporate loan rate[20]		Risk premium charged on SME loans	Based on an OECD Indicator	Demand-side survey
10 **Women-owned (WO) SMEs**	Percentage of WO SMEs with a deposit account at a regulated financial institution	Number of WO SMEs with deposit accounts/ Number of deposit accounts	Gender equality in SME access to financial services		Demand-side survey
11 **Women-owned (WO) SMEs**	Percentage of WO SMEs with an outstanding loan or line of credit at a regulated financial institution	Number of WO SMEs with outstanding loans /Number of outstanding loans	Gender equality in SME access to financial services		Demand-side survey
12 **Non-performing loans**	Percentage of non-performing SME loans: > To total loans > To SME loans		Responsible lending/ Credit-worthiness of SMEs	Based on an OECD Indicator	Supply-side survey

15 "Access to digital financial services" is defined as an enterprise having reasonable and secure access to at least electronic payment services using the internet or mobile financial services or similar. The nature of the services, whether is access to a bank account or using pure mobile money, is not relevant — just the means of access to the services.

16 Data could also be obtained from the supply side, for instance credit providers, but this should be considered a proxy, as it is not necessarily true that credit providers will keep all information on failed credit applications.

17 This proxy indicator could be obtained from a supply-side survey or existing supply side information.

18 Where countries do not have a demand-side survey in place, when feasible existing surveys could be used, such as the World Bank Enterprise Survey.

19 The value of loan guarantees extended should be available from the providers of the loan guarantee scheme(s).

20 The indicator here is the realized difference in the risk of SME lending and corporate lending.

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