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National Strategy for Financial Inclusion: Challenges and Opportunities

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Some Preliminary Questions

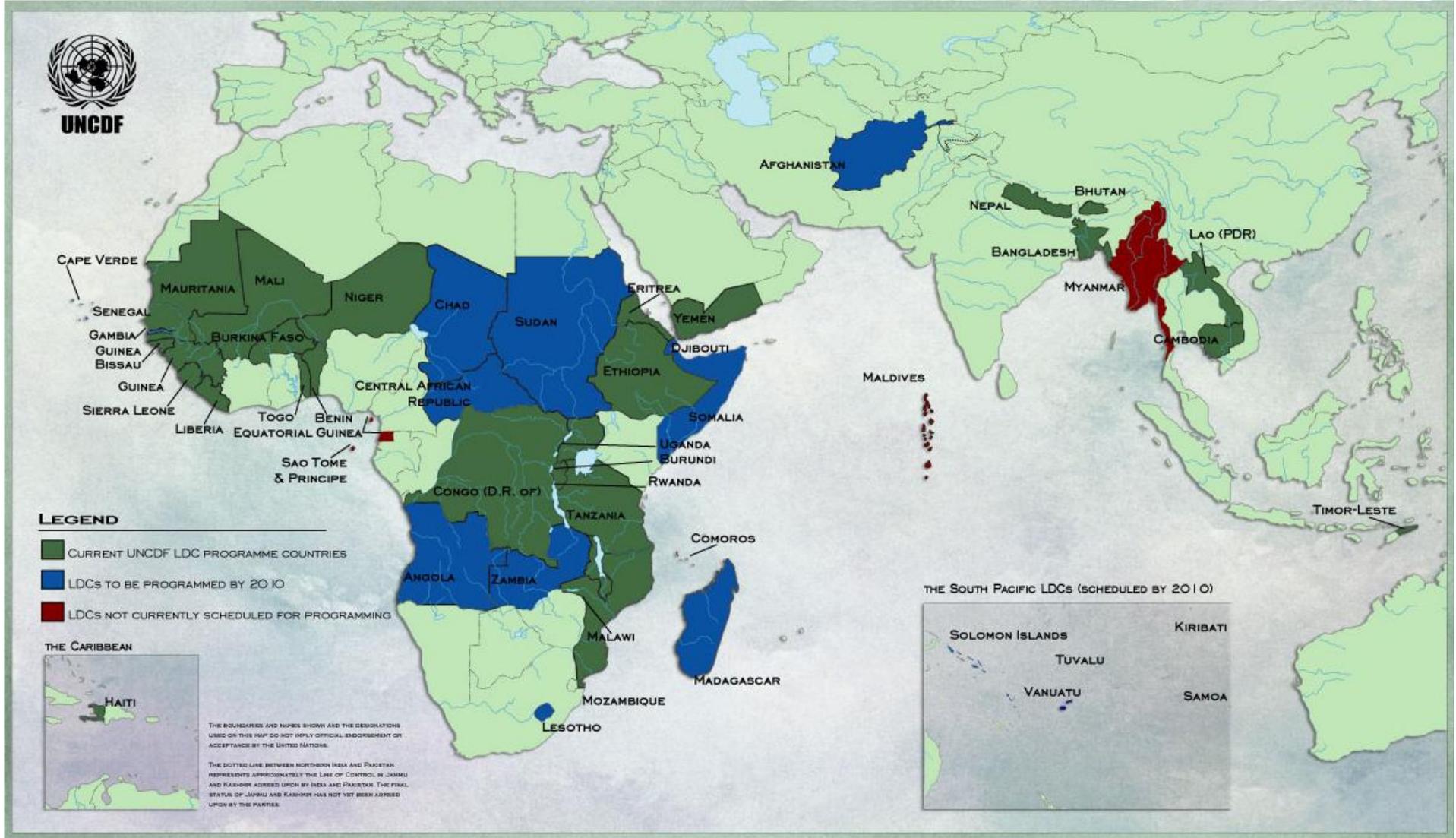
- Does a national strategy make sense in all contexts and / or in what contexts does it make sense?
- Who will be part of the process? Who will take the lead? What will be the role of the national authorities? Within them, who will be the custodian of the policy and the strategy to be developed?
- What is the added value of using a sector wide approach in the financial sector where the main activities are privately oriented?
- What are or what should be the relations between economic development national plans or visions, PRSPs, MDG based programme and other, the FSAPs developed by the World Bank and the National Strategy for Financial Inclusion supported by UNCDF and the UN system and other donors?
- What is the common understanding of the concept of inclusive financial sector / systems / deepening financial sector / making finance work? What are the questions raised around the various concepts and the processes to achieve the objective of inclusiveness?
- Can we draw conclusions on a process widely spread (NP/MF/RF/NS), so recent in many cases and so different and without an in-depth analysis: Benin, Burkina, Ethiopia, the Gambia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria,, Sierra Leone, Senegal, Rwanda, Tanzania, Togo, Uganda.
- CGAP Study, NS ongoing evaluations in Madagascar, Togo and planned sharing fora

UNCDF Summary: *Investing in the LDCs*

- **UN agency created in 1966 dedicated to LDCs**
- **UNCDF makes investments in the Least Developed Countries (LDCs):**
 - ✓ Currently working in 28 LDCs.
 - ✓ Current investment portfolio about \$125 million.
- **Mission:** Reduce poverty in the LDCs and help them achieve the Millennium Development Goals.
- **Method:** Investing at the local and national levels in two Practice Areas: Local Development and Microfinance.
- **Approach:** Long-term outlook seeking local and national capital formation and human development.
- **Capital:** Flexible, high risk and innovative.

Where UNCDF Works

Currently working in 28 LDCs, mainly in Africa but also in Asia:



Defining Inclusive Financial Sectors

Blue Book defines “Inclusive Financial Sectors” as those characterized by:

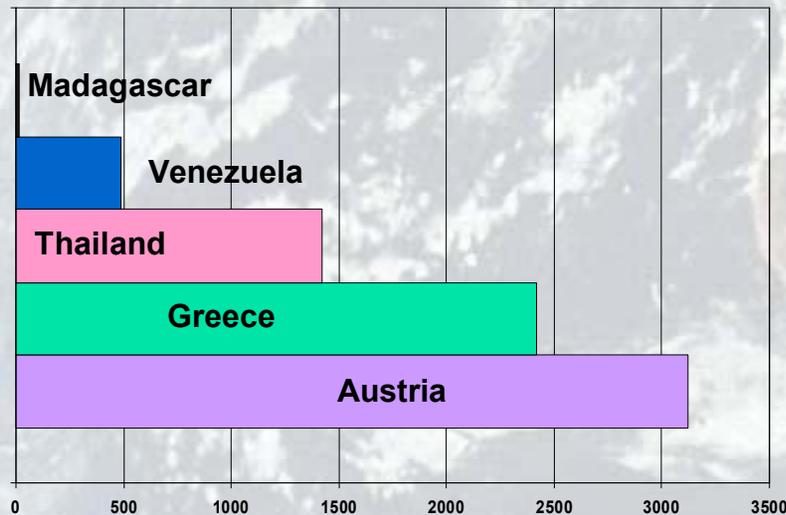
- “Access at a reasonable cost of all bankable households and enterprises to the range of financial services for which they are “bankable...”
- “Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulations where required.”
- “Financial and institutional sustainability as a means of providing access to financial services over time.”
- “Multiple providers of financial services, so as to bring cost-effective and a wide variety of alternatives to customers.”¹

Financial Exclusion in Africa

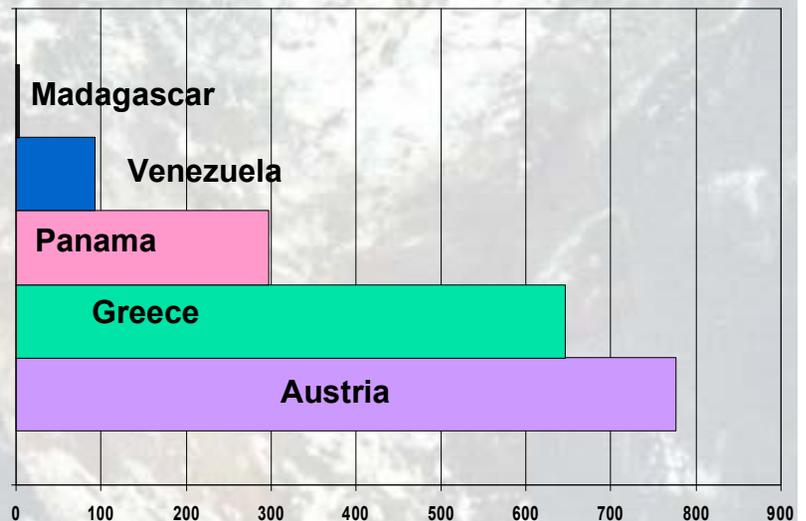
Almost 50% of Africans (approximately 367 million people) live in extreme poverty¹.

- Only 4% of the total population in Africa has a bank account.
- Only 1% of Africans have a loan or credit facility with a formal finance institution.

Number of Deposits per 1,000 population



Number of Loans per 1,000 population



Source: Demirguc-Kunt, Asli, World Bank, 2005.

¹ 2006 MDG Report.

Weak Financial Sectors in Africa

- Financial sectors in most African countries are “under-capitalized, underdeveloped, and in need of restructuring.”¹
- Informal sector remains dominant in much of sub-Saharan Africa, although MFIs are growing.²
- Financial services infrastructure in Africa lags progress in other parts of the developing world.
- Policy, Regulatory and Supervisory Frameworks need considerable strengthening in many African countries.
- Access to domestic and international capital markets for governments and financial service providers is very limited.
 - ✓ 17 of the bottom 20 countries on the Capital Access Index are in Africa.³

¹Office of Finance, US Department of Commerce, International Trade Administration.

²CGAP, UNCDF studies.

³Milken Institute, 2005.

Challenge in Africa for Microcredit Summit Campaign

- By the end of 2005, of the 81,949,036 poorest clients that MFIs reported giving loans to, *91% were in Asia.*
- Regional Breakdown of MFIs Reporting to Microcredit Summit Campaign:

Region	Number of programs reporting	Number of total clients in 2004	Number of total clients in 2005	Percentage Difference	Number of poorest clients in 2004	Number of poorest clients in 2005	Percentage Difference
Sub-Saharan Africa	959	7,004,840	7,429,730	6%	5,062,166	5,380,680	6%
Asia and the Pacific	1652	81,009,798	96,689,252	19%	59,939,638	74,330,516	24%

Source: State of the Microcredit Summit Campaign Report 2006.

Policy, Strategy and Action Plan

- The policy : agreed upon principles and roles and responsibilities of the actors and guidelines
- The strategy : "A set of Operational Objectives following a Defined Policy"
- The NSFI Document:
 - Recall of the key findings of the sector assessment
 - Summary of the Policy
 - Vision of the sector development
 - Objectives
 - The action plan and budget:
 - measures to address the identified constraints, take advantage of the opportunities for the sector at three levels: macro, meso and micro;
 - Financing mechanisms,
 - implementation arrangements;
 - Indicators, impact and performance assessment.

National Strategy for FI: A Three Step Process

1. Conduct Financial Sector Assessment.

- Gather data on access to financial services to establish a baseline and measure results.
- Evaluate legal, regulatory, and policy frameworks, and financial services infrastructure requirements.
- Evaluate human and institutional capacity and constraints.

2. Develop Nationally Owned Policy, Strategy and Action Plan.

- Legal, regulatory, and policy environments.
- Financial Service Providers (FSPs) required to provide products and services and to strengthen financial sector.
- Financial services infrastructure requirements.
- FSP investment requirements.
- Coordinating, implementing, and monitoring requirements.

National Strategy for FI: A Three Step Process

end...

3. Execute National Action Plan.

- Establish Investment Committees.
 - ✓ Composed of government representatives, development partners and other financial industry participants.
 - ✓ Solicits investment proposals for broad range of MFIs, FSPs and other industry participants.
 - ✓ Review process is competitive and transparent.
- Make investments in microfinance institutions (MFIs), FSPs, financial services infrastructure providers, and other industry participants.
 - ✓ Investments may be grants, loans, or equity.
 - ✓ Human and institutional strengthening and capacity building emphasized.

NSFI: Challenges

- Challenges related to the political, economic, legal and regulatory framework
 - Difficulty of sharing key good principles and vision
 - Environment not sufficiently conducive
- Challenges related to the national strategy process
 - Insufficient involvement of the Key stakeholders
 - Unrealistic set of measures and unfunded action plan
 - Action plan set aside and donors doing business as usual
 - Donors and stakeholders fatigue overtime
 - Difficulty to keep each stakeholder's role
 - Coordinating mechanisms difficult to implement
 - Not well functioning Investment Committee and inappropriate funding mechanisms
- Challenges related to the supply side
 - Leadership, governance, portfolio quality, types of products, capability
- Challenges related to the demand side
 - HIV / AIDS, co – variant risks, local economic dynamism, insolvent demand

NSFI: Some Opportunities: Dakar Conference and BIFSA

“Dakar Conference,” Dakar, Senegal on 5-6 June 2006 and its Steering Committee:

- A forum for multiple stakeholders to discuss the challenges, constraints, and opportunities for building inclusive financial sectors in Africa.
 - ✓ More than 300 participants from governments, central banks, development agencies, MFIs and FSPs, private sector financial institutions, academia, civil society, donors and investors, UN Agencies and Bretton Woods Institutions.
 - ✓ About 80% of participants were from Africa.
 - ✓ The Dakar Declaration on Building Inclusive Financial Sectors in Africa was issued and a Steering Committee was formed to ensure follow-up
 - ✓ Two meetings of the DDSC (Antananarivo and Nairobi)

NSFI: Opportunities

Building Inclusive Financial Sectors Programme in Africa (BIFSA): 2004 - 2010 *Cont....*

- Geographically-focused joint programme between UNCDF and UNDP with a budget of USD \$42.6 million.
- Uses financial sector development approach to assist African countries to enhance access to financial services by 2010.
- Investment Committees formed to finance and coordinate implementation of National Action Plans.
 - ✓ Opportunities for development partners to join Investment Committees and provide investment funding at country level.
 - ✓ Opportunities for MFIs, FSPs and other industry participants to obtain funding at the country level.

Opportunities: Other Regional Initiatives

- Dakar Declaration and its Steering Committee Activities and links with UN Advisors Group
- African Microfinance Action Forum (AMAF) and Women's World Banking
- World Bank: 'Making Finance Work for Africa'
- DfID Deepening Financial Sectors
- ADB Microfinance Strategy
- Care International Strategy for Africa
- KfW and G-8 Initiative on Regional Microfinance Fund for Africa (REGMIFA)
- However needs of:
 - Synergy of many current regional initiatives for efficiency, transparency and accountability
 - Increase competition
 - Economy of scale
 - Complementary with national funding mechanisms
 - Links to Domestic Financial Markets

NSFI: Get The Process Right

- A good understanding of the sector: full analysis of the constraints, challenges and opportunities at three levels: Macro, meso and micro level
- Compliance with the sector needs
- Endorsement by the stakeholders
- Participatory process including all the key stakeholders
- Ministry in charge of finance, development and planning and Central Bank fully taking leadership
- National ownership and Aid Effectiveness (Paris Declaration)
- Strong technical working group
- Clear common shared vision on the development and the future of the sector
- Taking stock of the steps so far accomplished: National policy and other orientation policy for the sector
- Articulation with the economic, sector policy and poverty reduction
- A realistic strategy focusing on key issues (rural and MSME finance in many African countries)
- A monitorable action plan, with a manageable number of measures, clear roles and responsibilities, time frame and indicators
- An endorsement of the key stakeholders of the NSFI and a roadmap and framework of action

Get The Measures Right

Designing appropriate public policy frameworks.

- Access to financial services as a policy goal.
- Enable policies for inclusive finance.
- Assure reliable data collection.
- Assure all stakeholders participate and implement National Action Plans.

Assuring growth and sustainability of FSPs.

- Build the capacity of FSPs.
- Broaden access to capital for FSPs.
- Improve role of donors and aid effectiveness.

Developing appropriate regulation/ supervisory models.

- Flexible regulation.
- Adequate supervision.
- Consumer protection.

Providing adequate financial services infrastructure.

- Facilitate well functioning payment, clearing, and settlement systems.
- Establish communications platforms & networks to facilitate finance activity.
- Develop risk mitigation agencies.

Get The Measures Right

end...

Providing broad range of financial products and services for poor and low income individuals, MSMEs and rural producers.

- Expand retail and rural outreach.
- Tailor products and services to meet client needs.
- Establish specialized institutions that can provide new products and services (e.g. insurance, pension, health).
- Use of technology for inclusion.

Engaging the private sector in inclusive finance.

- Create regulatory and policy environments.
- Facilitate infrastructure expansion.
- Product and service design.
- Expand retail outreach.
- Investment.
- Facilitate access to capital.
- Technology.
- Training & management support.
- Public-private partnerships.

NSFI: Get The Implementing Mechanisms Right

- Clear implementing mechanisms
 - Clear coordinating and governing body: Inclusive national FI council and Board
 - Technical unit to support the implementation
 - Donor roundtable and commitment of the donors and investors to provide their funds following the agreed upon Action Plan
 - Donors and investors' commitment overtime
 - A Fund and an Investment Committee with technical support, clear criteria and performance – based agreements
 - Role of Investment committee
 - Complementary and supportive to the local financial markets
 - Flexibility but focus on FSPs, sector and allocate resources for other specific activities
 - Appropriate types of resources dealing with:
 - Capacity building and capital to expand
 - Amount, costs and duration
 - Harmonized Performance – based agreements including reporting and monitoring systems
 - Transparency and accountability
 - Legal status of the Fund
 - Sound and appropriate supervision
 - Role of the Government and the Central Bank

Some Concluding Remarks

- Finding the best ways to ensure in a win – win situation the sustainability of the FIs and their clienteles.
- Measuring access to financial services
- Deepening sustainable ways to fund agricultural activities
- Better using national economic and financial framework to build an inclusive economy
- Coordinating and focusing initiatives for FI in Africa on African agenda
- Improving African expertise and networking in the field of FI
- Putting FI as a top item in the African political agenda.

Selected Websites

- <http://www.uncdf.org>
- <http://bifsa.uncdf.org>
- <http://www.cgap.org>