This Guidance Note outlines proposed steps in formulating a national financial inclusion strategy and also best practices in the region, for guidance of ASEAN countries. As outlined under the Strategic Action Plan of WC-FINC, the Guidance Note (GN) on National Financial Inclusion Strategy is one of the key documents of WC-FINC which aims to facilitate countries in implementing strategies and build the necessary infrastructure to reduce financial exclusion in the region to 30% by 2025

National Financial Inclusion Strategy

Guidance Note for ASEAN

Financial inclusion can be defined and summarised as a state in which all segments of the society have equal opportunity to have access to and usage of quality, convenient, wide-ranging and affordable financial services towards greater shared prosperity.

The access to meaningful financial services, such as savings, credit, insurance and remittance allows households to seize economic opportunities and manage shocks. When financially included, the low-income people are able to invest in income-generating activities, save for a rainy day, manage finances better and access transfers from relatives in a more secure manner, further helping them to accumulate wealth safely. This will in turn enable them to break free from the poverty trap and further improve their livelihoods and wellbeing.

Financial inclusion enables households to improve economic outcomes and build human capital by investing in healthcare and education, which ultimately supports equitable and sustainable growth and reduces income and social inequality. Financial exclusion on the other hand, leaves the disadvantaged with no choice other than informal options, making them vulnerable to financial distress, debt and poverty.

NFIS in ASEAN

A survey conducted by WC-FINC in 2016 shows that 7 countries in ASEAN already have a national strategy or a blueprint/ roadmap on financial inclusion. There are various financial inclusion strategy models adopted within ASEAN: some countries have a national council to oversee implementation of initiatives across various agencies and ministries, whilst some countries have champion institutions that drive financial inclusion initiatives in collaboration with relevant partners.

What is a National Financial Inclusion Strategy (NFIS)?

A national financial inclusion strategy (NFIS) is a comprehensive public document that presents a strategy developed at the national level to systematically accelerate the level of financial inclusion. An NFIS is developed through a broad consultative process involving, among others, public and private sector stakeholders engaged in financial sector development. Typically, a NFIS will include an analysis of the current status of, and constraints on, financial inclusion in a country, a measurable financial inclusion goal, how a country proposes to reach this goal and by when, and how it would measure the progress and achievements of the NFIS. It is also useful to note that reliable and recent data, (eg supply of financial products and services), is key in developing the NFIS.

Objectives of GN on NFIS

This Guidance Notes aims to facilitate ASEAN members to develop or enhance their NFIS, taking into account the needs and specific conditions, characteristics and culture of respective countries.

This document also showcases the various strategies and approaches undertaken by selective ASEAN countries in developing their NFIS. This is hoped to spark a mutual learning process amongst peer countries and accelerate adoption of best practices within ASEAN, ultimately reducing financial exclusion in the region.

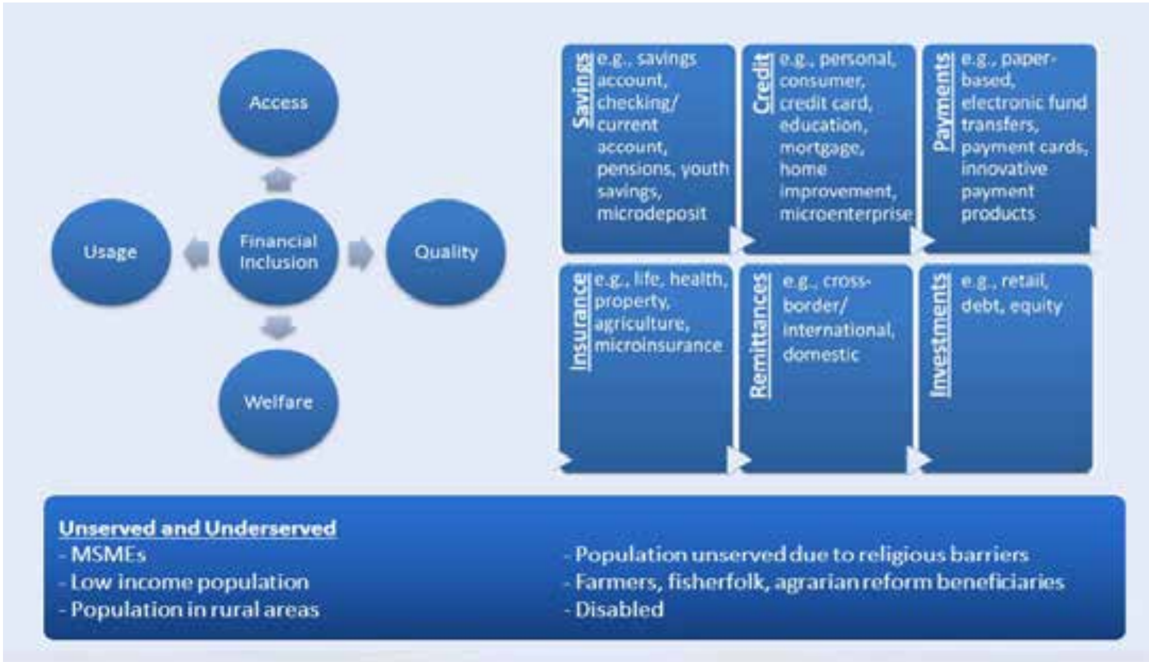


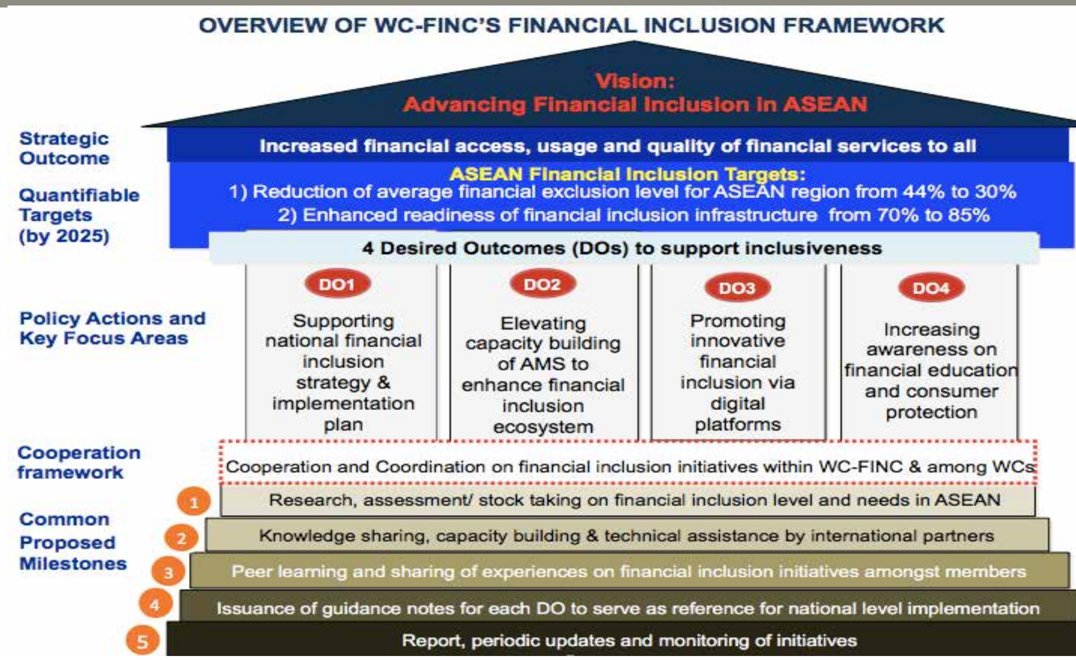
Figure 1: Scope and definition of financial inclusion *(Source: BSP)*

Financial Inclusion in ASEAN

ASEAN today is one of the fastest-growing and most dynamic regions in the world, home to 630 million people and a burgeoning middle class, with individual economies that are diverse in terms of demography, income level, resource endowment, financial sector development; and economic size, structure and systems. A vibrant SME sector contributes 50 to 80 percent of ASEAN's workforce and accounts for 96 percent of enterprises in the region, linked by more extensive cross-border production networks and the intensification of intra-regional trade and investment activities.

ASEAN's growth story has been supported by greater traction in recent years in regional financial integration which will expand sources of financing and investments for economic activities, deepen the region's financial markets, and enhance the competitiveness of ASEAN businesses through efficiency gains (eg through lower costs of payments and settlements). Growth and development across the region however does not guarantee equal opportunities for all to lift their social and economic circumstances. For ASEAN, a key priority has therefore been to ensure that greater economic and financial integration progresses in lockstep with greater financial inclusion. The challenges are pressing - 265 million or 44% of adults in ASEAN are still unbanked, which poses broader implications for health, economic and social outcomes.

The Working Committee on Financial Inclusion (WC-FINC) has been mandated to accelerate regional initiatives to elevate the level of financial inclusion in ASEAN. Particular emphasis is given to capacity building and peer learning. An especially interesting part of this journey has been ASEAN's incredible diversity which provides a rich and broad canvass for drawing lessons from every country on specific challenges faced and measures pursued to increase financial inclusion. For some, ASEAN countries, the geographic barriers to financial inclusion are the most urgent, for others, cost or knowledge and trust are more significant barriers. In different ways, ASEAN countries have something to learn from each other's experience on strategies that worked or did not work so well.



Financial inclusion – international perspective

Interest in building an inclusive financial system has become an important policy objective, and has been receiving increased international attention. In 2006, the United Nations (UN) established the Advisors Group on Inclusive Financial Sectors to advise the UN system and member states on global issues related to inclusive finance. In 2009, the G20 leaders recognized the reinforcing policy objectives of financial stability, financial inclusion and consumer protection.

The G20 established the Global Partnership for Financial Inclusion (GPFI) as the main implementing mechanism of the G20 Financial Inclusion Action Plan. Through the GPFI, the G20 released the Principles for Innovative Financial Inclusion, a set of nine practical recommendations that foster greater financial inclusion with which this Strategy is consistent. While these Principles are those espoused by the G20, they were established with support from AFI.

Relationship between NFIS and economic development

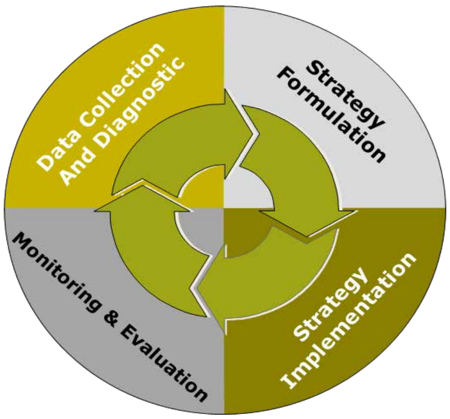
Evidence shows that the level of financial inclusion is strongly correlated with the stage of development of an economy: a higher degree of financial inclusion will contribute to overall economic development. The data also suggests that financial inclusion does not always follow economic growth but that conversely, inclusion can help trigger growth. There is positive correlation between access to financial services and GDP[2].

The World Bank has also recently reported that countries that have launched an NFIS such as Brazil, Malaysia, Namibia and Tanzania have achieved much higher levels of financial inclusion than other countries. Empirical evidence also suggests that a well-designed national strategy can have a major impact on the overall level of financial inclusion.

[1]The World Bank "Overview: National Financial Inclusion Strategies", Nov. 2015.
[2]Malaysia Economic Monitor, Inclusive Growth, World Bank 2011.

The Process in developing NFIS

AFI National Financial Inclusion Strategies: A Toolkit



The NFIS toolkit provides practical guidance on formulating and implementing national financial inclusion strategies, and detail out the systematic way to efficiently monitor and evaluate the NFIS progress.

As reflected in AFI NFIS toolkit, there are 4 main stages of financial inclusion strategy:

1. **Data collection and Diagnostic**
   - Activities include collection of supply-side data and demand-side data and data analysis.
2. **Strategy Formulation**
   - Activities include agreement of definition and vision for financial inclusion, consultation with public and private sector stakeholders and development of action plan and targets
3. **Strategy Implementation**
   - Policy Reforms
   - Private Sector Response
   - Establishment of architecture for implementation (e.g. National Council or Taskforce)
4. **Effective strategy formulation and implementation involves a continuous feedback cycle; and**
5. **Monitoring and Evaluation**
   - Tracking progress against core indicators to identify if strategy is on track and any response is needed.

Diagnostic studies

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.

Both supply- and demand-side data are required for diagnostic studies. Diagnostics are therefore vital in designing contextualised national financial inclusion strategies.

Crafting a Mission and Vision of 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.

Developing A Definition of NFIS

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 and 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.

Setting the Goals of NFIS

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:

- **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.

Setting Targets for an NFIS

Setting targets involves at least four major sequential steps:

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

Implementation and Measurement Phase

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

- Actions are organised 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.
- 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.

Monitoring and Evaluation Framework

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.

UNCDF (Making Access Possible) MAP Toolkits

MAP is a diagnostic and programmatic framework to support expanding access to financial services for individuals and micro and small businesses. The MAP framework was designed to create the space to convene a wide range of stakeholders around an evidence-based country diagnostic exercise and dialogue, leading to the development of national financial inclusion roadmaps. The roadmap identifies key drivers of financial inclusion and includes specific actions that will contribute to greater financial inclusion in the country. The roadmap formulation process will take up to 12 months, depending on success of getting stakeholder buy-in.

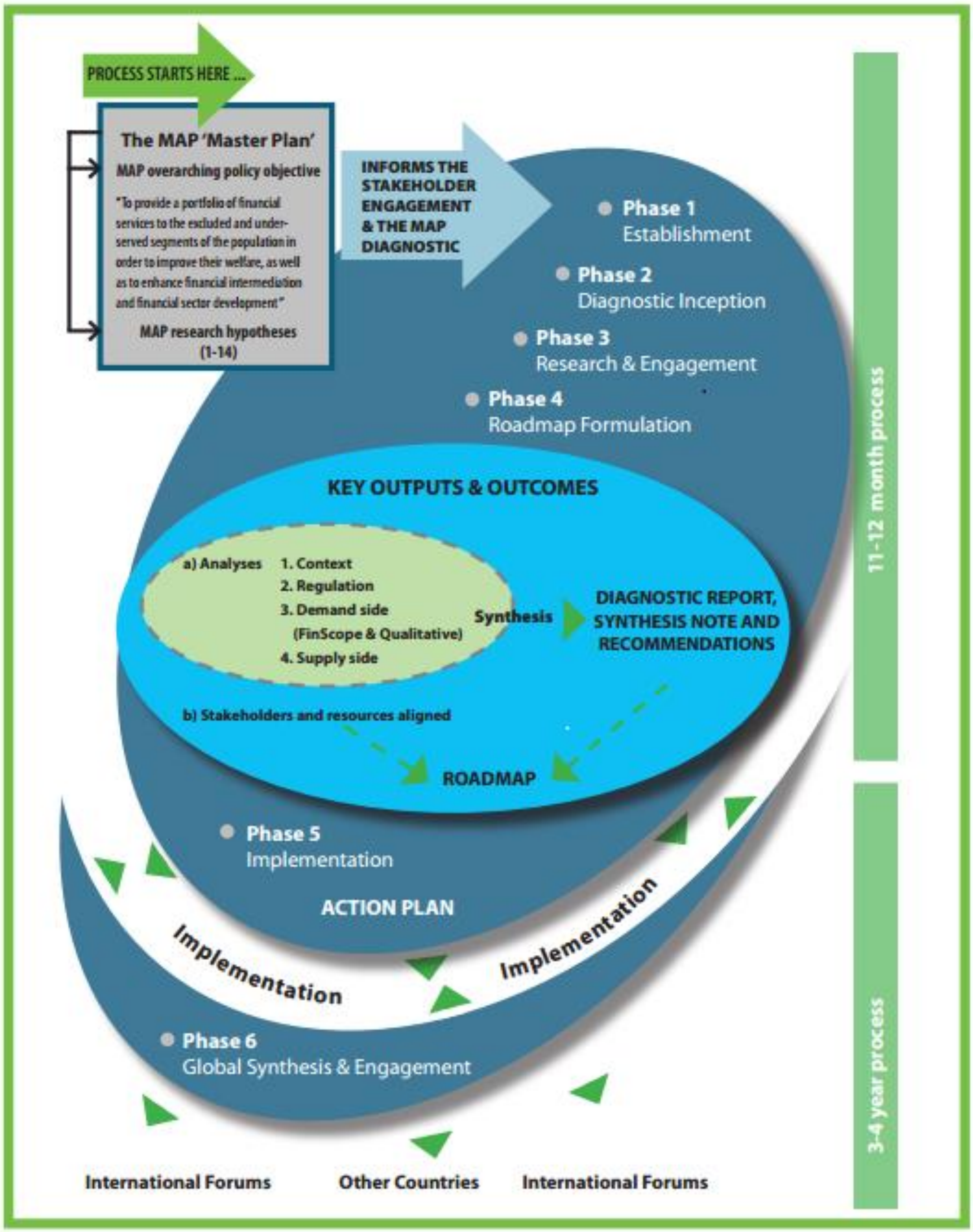


Figure 2: The MAP conceptual framework

TOOLKIT 1: MAP background

- Provides high-level overview of MAP process, orienting users to the MAP process and providing the 'big picture' into which the other toolkits fit

TOOLKIT 2: The MAP Process

- Provides detailed information about running the in-country stakeholder engagement process and the MAP diagnostic exercise, highlighting how the two processes overlap and interact, and explaining how the processes feed into facilitating with stakeholders the development of an in-country financial inclusion roadmap and an action plan.

TOOLKIT 3: Performing the MAP Diagnostic: Analysing the Country Context

- Provides guidance in researching and analysing the country context, which is one of the four areas of focus of data-gathering for the diagnostic exercise.

TOOLKIT 4: Performing the MAP Diagnostic: Analysing the regulations, policy and supervision

- Provides guidance in analysing the regulatory environment, and policy and supervision, which is one of the four areas of focus of data-gathering for the diagnostic exercise

TOOLKIT 5: Performing the MAP Diagnostic: Analysing the demand side

- This toolkit guides users in analysing the demand side, which is one of the four areas of focus of data-gathering for the diagnostic exercise. Note that the demand-side data comprises quantitative data (eg surveys)and qualitative data.

TOOLKIT 6: Performing the MAP Diagnostic: The supply side

- Provides guidance in analysing the supply side, which is one of the four areas of focus of data-gathering for the diagnostic exercise.

TOOLKIT 7: Completing the MAP Diagnostic: The diagnostic report and recommendations, and the roadmap

- Provide guidance in drawing together and synthesising the research and analysis that focused on the four focus areas (context, regulation, the demand side & supply side) into a diagnostic report, including recommendations. The diagnostic report feeds into the development of the MAP roadmap and detailed action plan.

TOOLKIT 8: Additional resources and support

- Provides further resources and links to helpful information, including: suggestions regarding organisations and institutions to interview for the diagnostic exercise, indicative interview and focus group questions, sample documents and templates.

Promoting inclusive finance, where all segments of society have access to suitable and affordable formal financial services, is a key focus and specific mandate of Bank Negara Malaysia (BNM) in contributing towards equitable and sustainable growth. Essential financial services provide opportunities for Malaysians, including the lower income segments of society, to safely save and invest, borrow for productive activities and buffer themselves against unforeseen shocks.

Malaysia's Experience in Financial Inclusion: Unlocking Shared Benefits for All through Inclusive Finance

Malaysia's financial sector development policies have facilitated the nation's balanced growth through the realisation of the social and economic benefits of financial inclusion. This includes deliberate measures taken to complement market-oriented development in enhancing and expanding financial services for the broader community and economic sector as well as strengthening the financial infrastructure and institutions to enhance and create an inclusive financial system.

The Central Bank of Malaysia Act 2009 (CBA 2009) explicitly states that a primary function of BNM is to develop and promote an inclusive financial system. Supported by a clear mandate, BNM has been the leading agency responsible for the policies and initiatives aimed at promoting financial inclusion in Malaysia.

In advancing the financial inclusion mandate, BNM introduced the Financial Inclusion Framework (Figure 2) in 2011, a comprehensive plan outlining the strategies for an inclusive financial system over the coming decade.

The development of Malaysia's Financial Inclusion Framework

Prior to the establishment of the Financial Inclusion Framework which was part of the Financial Sector Blueprint (2011-2020), BNM has already embarked on various initiatives to increase outreach of financial services to all Malaysians. Key regulations issued include the provision of Basic Banking Services that promotes ownership of affordable no-frills accounts and also the Guidelines on Shared Banking Services which enabled financial institutions to partner with entities such as post offices, to channel financial services to rural areas. Agencies on financial advisory and resolution were also established to protect consumers. BNM also had a system and mechanism to monitor supply-side and demand-side data on account ownership, access points, financing to SMEs

In 2010, a cross-departmental taskforce was established within BNM to drive the formulation of a national strategy to improve financial inclusion. The taskforce conducted a holistic assessment to ascertain prevailing gaps and also referred to global best practices for ideas. The initial >100 recommendations were further filtered and prioritized based on potential impact and practicality of recommendations.

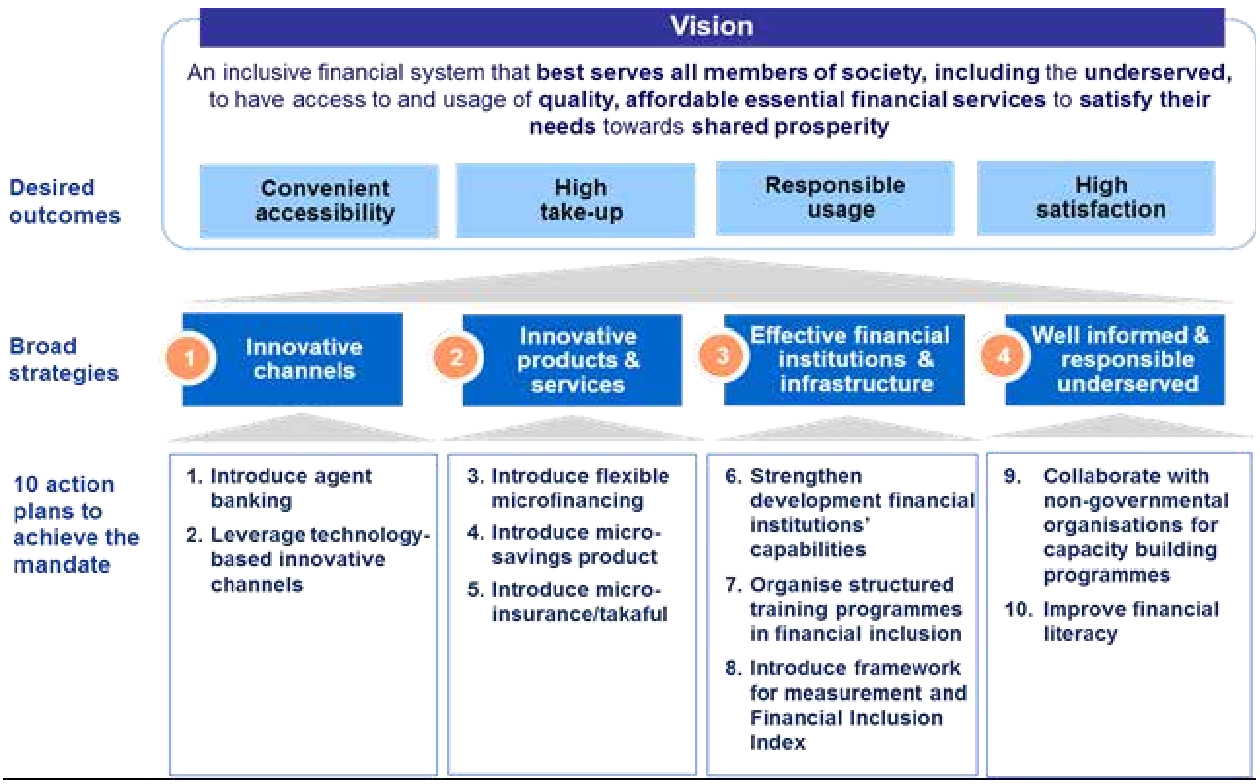


Figure 3: Key Takeaways from Malaysia's experience: 6 steps to robust strategy design

The framework envisions to create an inclusive financial system that best serves all members of society, including the underserved, to access and use quality, affordable and essential financial services to satisfy their needs, towards shared prosperity. The framework aims to achieve 4 Desired Outcomes (convenient accessibility, high take-up, responsible usage and high satisfaction) through 4 Broad Strategies and 10 high impact financial inclusion strategies.

The strategies are informed and measured by the Financial Inclusion Index (FII), developed to track the progress and impact of BNM's financial inclusion policies and effectiveness in achieving the 4 Desired Outcomes. The FII is constructed from both supply and demand-side data, which is collected on a periodic basis by BNM. Malaysia was one of the first countries in the World to construct and FII.

Key Takeaways from Malaysia's Experience – 6 steps to robust strategy design

i. Clearly specify the institutional vision and desired outcome for FINC

ii. Develop robust infrastructure and systems to collect FINC data.

iii. Stock-take financial inclusion landscape and perform gap analysis to identify intervention areas.

iv.Develop draft strategy and establish strategic partnership with stakeholders to gauge feedback.

v.Implement strategies and communicate expectations to stakeholders

Conduct surveillance and evaluate impact vis-à-vis measurable targets

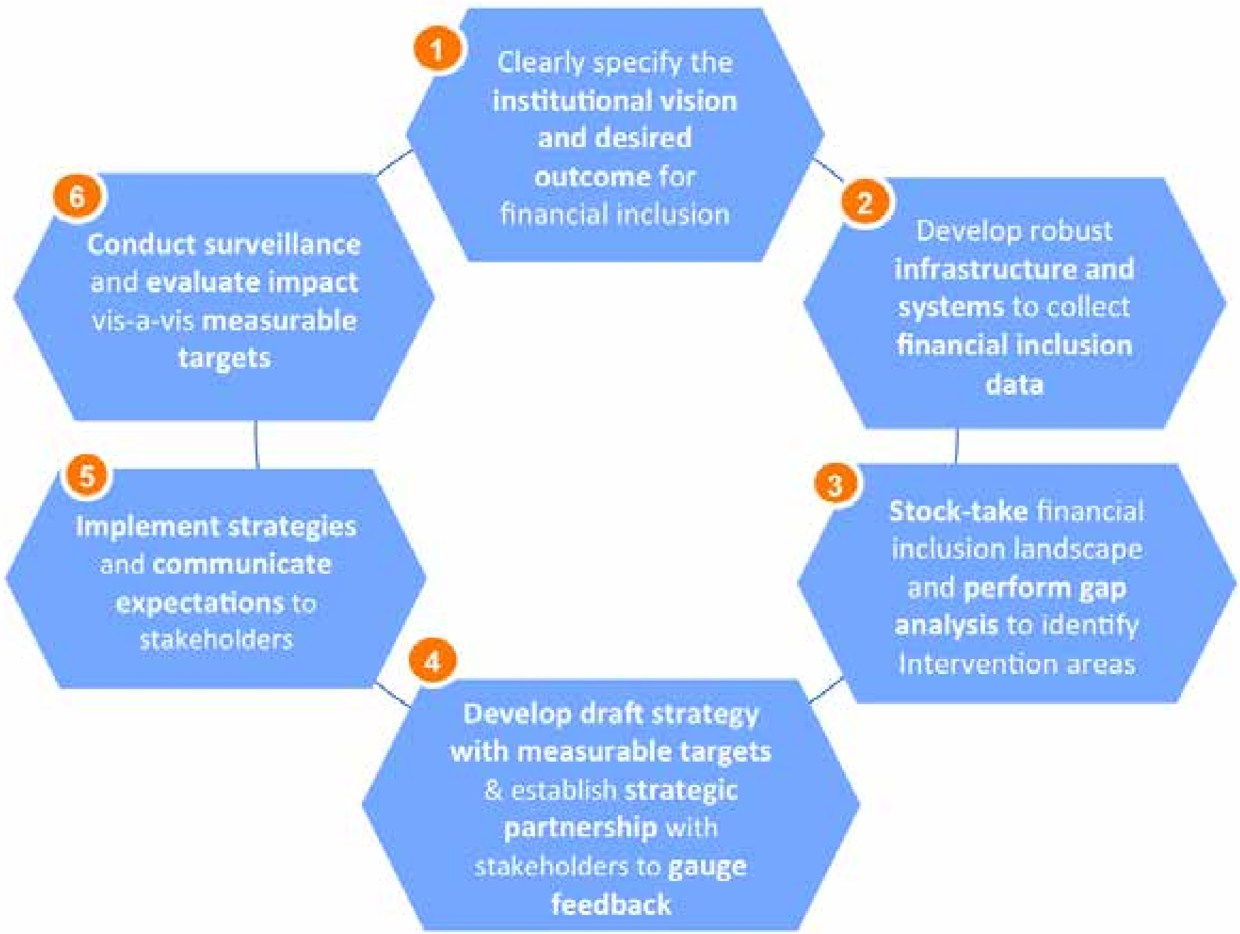


Figure 4: Key Takeaways from Malaysia's experience: 6 steps to robust strategy design

Significant Achievements in Financial Inclusion…

The Financial Inclusion Index score for the general population in Malaysia improved significantly to 0.90 in 2015 from 0.77 in 2011 (where 1.00 reflects full inclusion). These improvements were largely driven by increased accessibility to financial access points across the country, more responsible usage of products and higher levels of satisfaction among financial consumers. Meanwhile, gaps continue to be observed in the utilisation of financial products and services, particularly among low-income households.

(i) Convenient Accessibility

Convenient accessibility, which measures the availability of financial access points at the district (daerah) and sub-district (mukim) levels, recorded a marked improvement.

All 144 districts and 97% (2011: 46%) of the 886 sub-districts with a population of at least 2,000 now have access to essential financial services. This expansion in the number of access points nationwide provides 99% (2011: 82%) of Malaysians with convenient access to safe, reliable and affordable financial services.

This achievement was in large part due to the establishment of agent banks, which had an important impact in increasing access to financial services particularly in the rural areas. Following
the operation of agent banks, the volume of financial transactions conducted through agent banks has increased from three million transactions as at end-2012 to 100 million as at end-2016 (amounting to USD1.9 billion in value). Banks were able to expand their outreach to rural areas at lower costs (by up to 80%) compared to setting up brick-and-mortar branches, while substantially reducing the distance travelled by rural consumers (up to 140km in some locations) to access banking services. The agent banks also benefitted from higher customer traffic and increased sales.

Financial Access Points in Malaysia

Access points per 10,000 adults:

- 4.7 branches and agent banks
- 4.7 ATMs
- 2.2 Cash Deposit Machines (CDMs)

Another important development that has intensified since 2011 has been the expansion of internet banking and mobile banking. As at end-2016, the number of internet banking subscribers increased to 22.8 million (2011: 11.9 million) representing 71.9% of the total population, while the number of mobile banking subscribers increased to 8.9 million (2011: 1.6 million) representing 28.3% of the total population. These digital channels have had an important impact in increasing access to banking services, with greater convenience and flexibility for consumers to keep track of their personal finances.

(ii) Take-up of Financial Products and Services

The take-up rate, which represents the population's usage of specific financial services namely deposit accounts, financing accounts and insurance policies, recorded a slight decline. While the percentage of adults with deposit accounts remained high at 91%, the percentage of adults with financing accounts (including credit cards) declined from 36% to 25%. This was due in part to heightened focus on better debt management and affordability of debt servicing following the introduction of measures such as the credit card services tax, the Credit Card Guidelines and the Guidelines on Responsible Financing. The percentage of adults surveyed who indicated that they purchased a life insurance or takaful policy moderated from 18% to 16%. These findings show that while financial inclusion has increased significantly since 2011, certain gaps remain, particularly among the low-income segment, where affordability remains a challenge.

In recognition of these gaps and opportunities, BNM has undertaken various initiatives to encourage the development of products and services that are targeted towards this segment. This has included encouraging financial institutions to offer microsavings products with low committed periodical savings to encourage and facilitate regular savings among the low-income population; offering affordable microinsurance/ microtakaful products by insurance companies to provide financial protection against unexpected adverse events; and supporting the provision of tailored microfinancing solutions for micro, small and medium enterprises. A holistic ecosystem for SMEs, comprising financial infrastructure, financing & guarantee schemes, avenues to seek information & redress, and debt resolution and mechanism was also established.

Development financial institutions (DFIs) also have an important role in contributing to a higher utilisation of financial services given the specific socio-economic objectives that they serve. This includes supporting the development of SMEs, the agricultural sector and co-operatives through the provision of inclusive financial services. BNM provides oversight over six DFIs that are registered under the Development Financial Institutions Act 2002 with the aim of promoting their ability to perform their roles effectively and sustainably.

(iii) Responsible Usage

Responsible usage, which measures whether financial products are utilised appropriately, remained high. The percentage of banking customers with active deposit accounts, an indication that they are saving regularly, has increased to 92% from 87% in 2011 while the percentage of banking customers with performing financing accounts increased to 98% from 97% over the same period.

Financial education initiatives have had a key role in encouraging responsible usage by helping consumers make better financial decisions, thus promoting a positive experience from their participation in the financial system. BNM continues to collaborate with the public and private sectors to organise and implement these financial capability programmes, while agencies such as the Ombudsman for Financial Services, the Credit Counselling and Debt Management Agency and the Small Debt Resolution Scheme serve to ensure that financial consumers are able to get the help that they need to effectively manage their financial affairs.

(iv) Satisfaction Level

The index revealed a significant improvement in the level of satisfaction with financial services in Malaysia. The percentage of customers of financial institutions who are satisfied with overall financial services increased to 73% (2011: 61%), with higher satisfaction levels observed across all segments of the population, including low-income households who also recorded an increase in satisfaction to 67% (2011: 60%). This in part reflects improvements in the conduct and services of financial institutions arising from various initiatives to promote a positive experience for all financial customers. Of note were substantially strengthened standards issued by BNM to regulate product transparency and disclosures, and the imposition of fees and charges by banks. Key private sector initiatives such as the PARTNER programme by the banking industry which simplifies documentation and improves the turnaround time for processing SME financing and housing loans also contributed to improved satisfaction levels. A similar initiative to introduce plain language in insurance contracts has also been pursued by the insurance industry.

Bridging the Last Mile – Leveraging on Innovation & Technology for FINC

The global advent of technology has underpinned a shift towards a digital sharing economy, fundamentally changing business models and the way consumers consume. This provides new opportunities for policymakers to leverage on innovation to respond to the needs of consumers and businesses.

Moving forward, BNM will explore the feasibility of unlocking big data (e.g. savings behaviours, lifestyles, demographics and income patterns) to better understand consumer needs, develop tailored financial services and better assess potential borrowers' creditworthiness. Recognising SMEs' pain points in financing application, efforts are underway to develop an online SME financing aggregator to facilitate multiple financing applications seamlessly and reduce the information asymmetry between banks and SMEs.

These efforts will be supported by a sustained focus on effective education, support and protection for financial consumers. With this focus, BNM expects that the remaining 8% that constitutes the unbanked population in Malaysia will be further reduced to 5% by 2020.

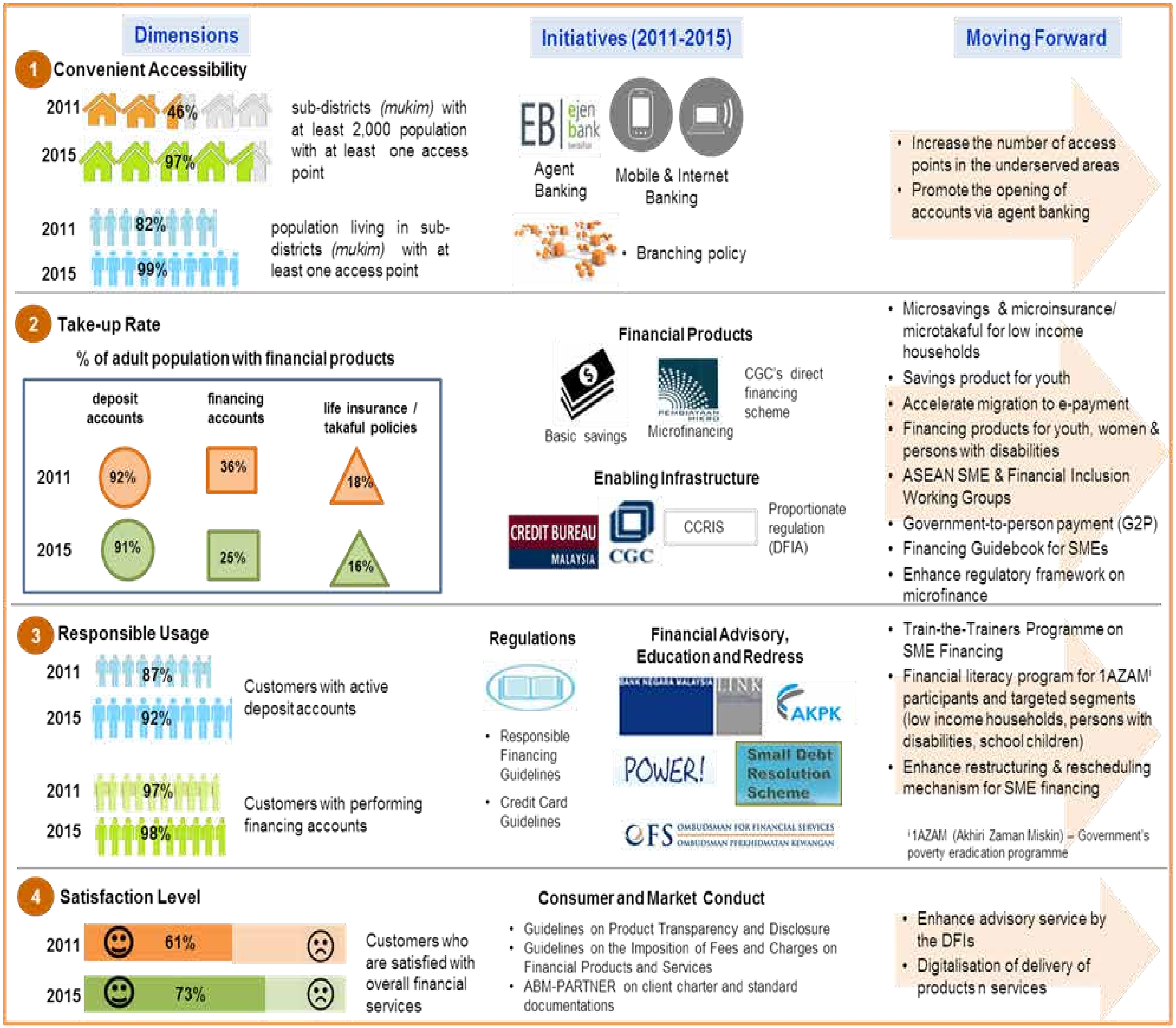


Figure 5: Financial inclusion initiatives in Malaysia

The National Strategy for Financial Inclusion (NSFI) is a comprehensive public document developed through a broad-based consultative process with private and public sector stakeholders involved in financial sector development. It aims to enable coordination among various stakeholders, optimise collective efforts toward financial inclusion and raise awareness, appreciation and understanding of financial inclusion.

National Strategy for Financial Inclusion: The Philippines' Experience

The Philippines' NSFI defines financial inclusion as a state wherein there is effective access to a wide range of financial products and services by all. Financial inclusion is important for every household and business as access to basic financial services such as savings, payments, credit and investments makes a substantial difference in people's lives. It is likewise considered as an important element that can contribute to broad-based development and inclusive growth.

The NSFI Vision

The NSFI has an overall vision of a financial system that is accessible and responsive to the financial needs of the entire population, towards broad-based and inclusive growth. In particular, it ensures that the financial system also serves the traditionally unserved or marginalised sectors. This means that everyone, especially those who are typically excluded can have access to and use much needed financial products and services. This overall vision is aligned with the PDP, which commits to *"establish a national strategy that defines financial inclusion, the strategies undertaken to achieve it, and the accountabilities of all stakeholders."*

The NSFI Vision

In February 2014, the Bangko Sentral ng Pilipinas (BSP) Governor convened an interagency meeting among 13 government institutions instrumental in promoting financial inclusion. Following this multi-sectoral consultative process, the Philippines' NSFI was completed and launched in July 2015. This principle-based strategy is accompanied the ***NSFI Tactical Plan*** - a compendium of ***specific, measureable, attainable, realistic and time-bound*** policies and programs enrolled by 15 agencies under the NSFI. These agencies comprise the Financial Inclusion Steering Committee (FISC).

The FISC, chaired by the BSP Governor, is the governing body that provides strategic direction, guidance and oversight in the implementation of the NSFI. Under Executive Order No. 208 dated 02 June 2016, the FISC is tasked to align various FI related policies and programs; ensure effective monitoring of the progress of these initiatives; and collaborate with public and private sector stakeholders. The BSP is designated as FISC secretariat. The BSP was assigned as chair and secretariat in view of its long history of leadership and comprehensive initiatives to promote financial inclusion

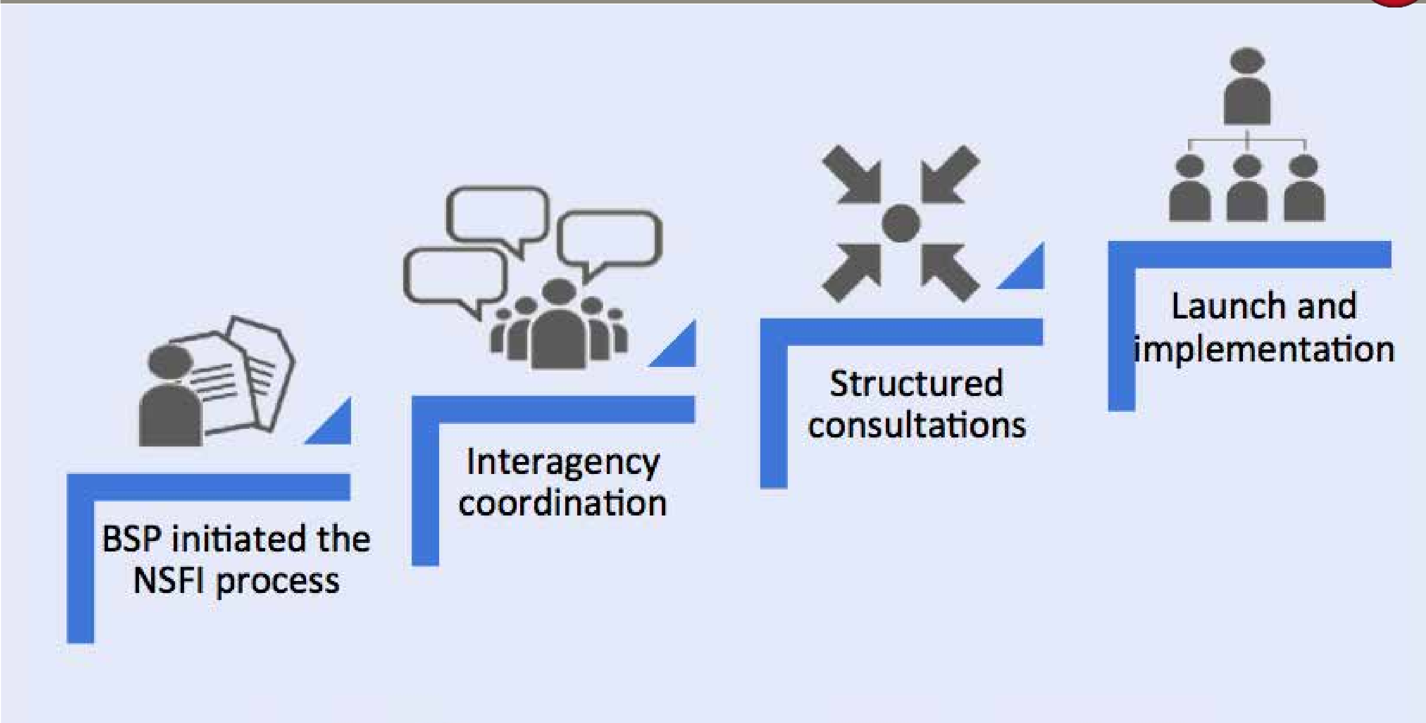


Figure 6: The processes in developing the Philippines NSFI ***(Source: BSP)***

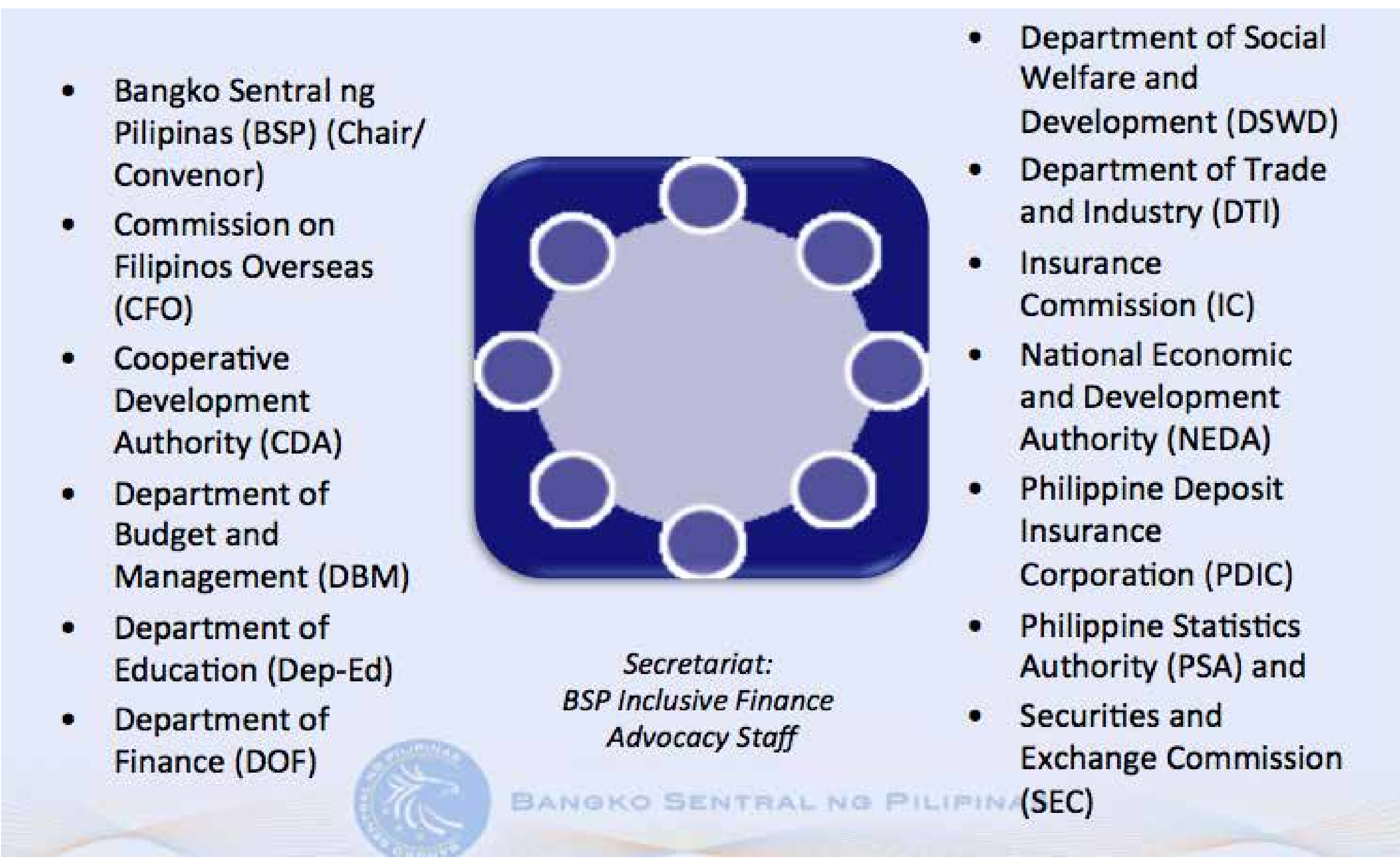


Figure 7: The interagency consultative body for financial inclusion in the Philippines. An MoU was signed between 13 agencies to solidify commitment to implement NSFI. ***(Source: BSP)***

Figure 8: Summary of process in developing the NSFI in the Philippines

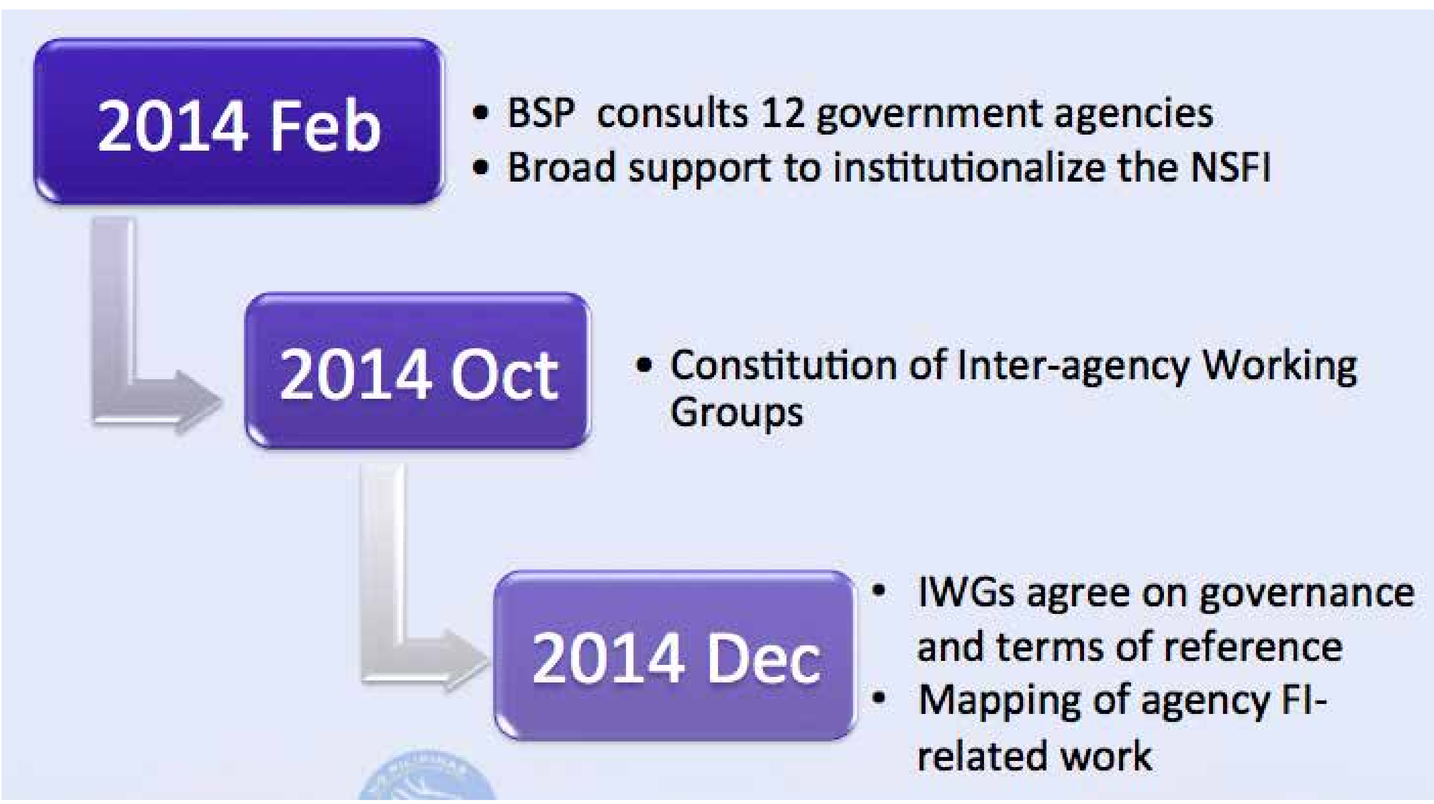


Figure 9: Summary of process in developing the NSFI in the Philippines (cont')

The 4 key pillars of financial inclusion

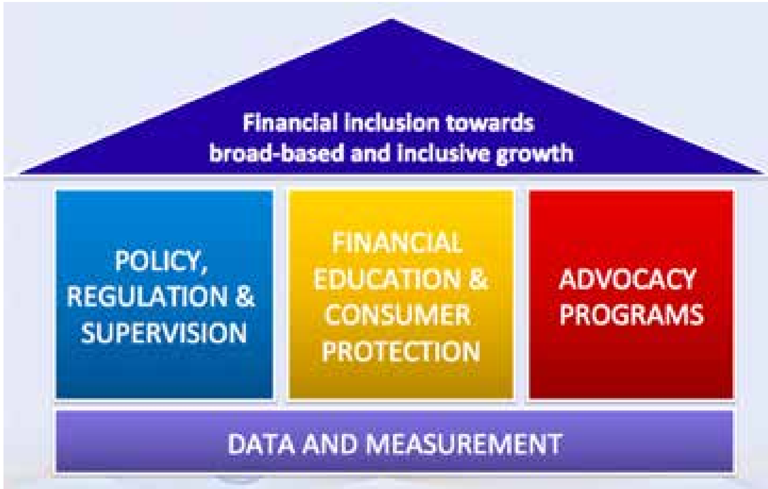


Figure 10: The Strategy Map of NSFI comprise 4 key pillars

Figure 11: The 'Strategic Statements' supporting the 4 key pillars

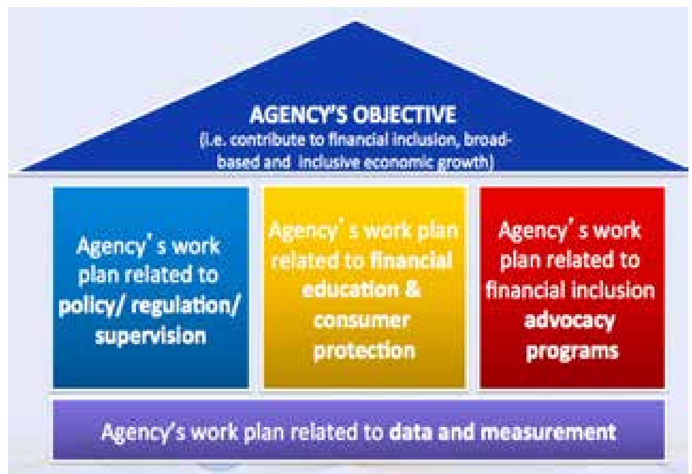


Figure 12: The Agency Tactical Plan for NSFI

The NSFI of the Philippines considers four (4) key pillars of financial inclusion – (1) policy and regulation, (2) financial education and consumer protection, (3) advocacy programs and (4) data and measurement. These pillars govern the strategies that serve as framework in crafting evidence-based regulations, designing and implementing programs, and monitoring progress relevant to financial inclusion.

4 interagency Working Groups were formed in 2014 (prior to launch of NSFI) to map out specific action plans that need to be implemented to achieve the financial inclusion vision in the Philippines.

Areas covered include policy & regulation, products & services, infrastructure, financial education, consumer protection, advocacy programmes and data. each pillar.

Lessons learnt from the Philippines' NSFI experience

1. **C** – consultation & coordination is important for stakeholder buy-in, ownership and support
2. **L** – leadership and secretariat support is essential to ensure cohesive and sustained process
3. **I** – implementation of the NSFI needs involvement, commitment and resources of key stakeholders
4. **M** – measurement & monitoring is essential to ensure accountability, as well as in monitoring progress and determining if the objectives of the NSFI and its Tactical Plans are being achieved in a timely manner.
5. **B** – beginning the NSFI formulation is easy (in the case of the Philippines), sustaining the NSFI implementation is more challenging.

1. C – Coordination and collaboration

The NSFI is a result of 13 agencies, with varied mandates, working together because of the shared recognition that financial inclusion is essential to achieve the government's overarching goal of inclusive growth. These agencies are involved, either directly or indirectly, in promoting an inclusive financial system and serving unserved and underserved markets.

The NSFI was shared with key stakeholders and implementing partners through a series of regional consultations. The inputs gathered from these consultations helped strengthen the document. The evolution of the NSFI from being an interagency initiative to one which is open to involving more players has helped in establishing a well-coordinated and systematic approach in financial inclusion.

2. L – Leadership

Leadership is imperative in crafting a National Strategy. The commitment and experience of the BSP in financial inclusion already spans fifteen (15) years. It started as early as year 2000 when microfinance was mainstreamed as a banking activity. Given this track record, BSP's Governor initiated the NSFI process and the BSP provided the necessary Secretariat assistance.

3. I – Implementation

The NSFI is envisioned to be a living, relevant and useful document for all stakeholders. The NSFI will work through implementation of Financial Inclusion Tactical Plans. These Tactical Plans are *institution-specific, medium-term programs and initiatives that are based on the key pillars of financial inclusion*. It contains programmatic targets and measurable indicators which will facilitate the identification of complementarities and synergies among and across all programs and initiatives geared toward financial inclusion. The interagency principals signed a joint MOU which signified their commitment to the NSFI.

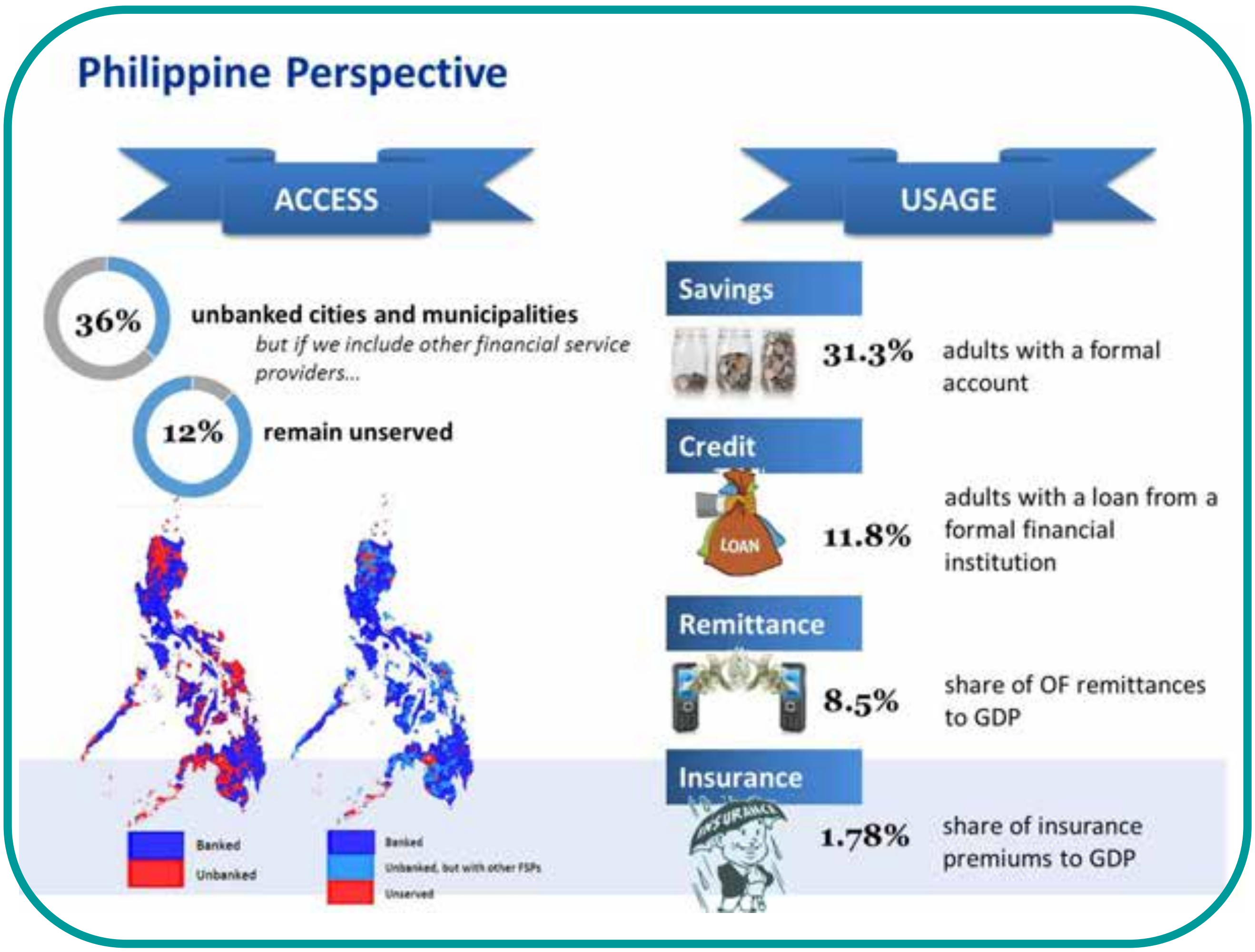
4. M – Measurement and monitoring

The interagency body also instituted a financial inclusion measurement framework consisting of core or headline set of indicators to aptly evaluate progress and results. The measurement framework, which is anchored on the Philippines Development Plan and internationally accepted indicators, measures the four (4) dimensions of financial inclusion, namely access, usage, quality and welfare.

It is important to set this measurement framework at the onset considering the importance of data in evidence-based policymaking and program development, monitoring, and evaluation.

5. M – Measurement and monitoring

Even though a lot has been achieved in the course of the NSFI process, this does not signify the culmination of the financial inclusion journey. Rather, the NFIS should be treated be as a component of initial groundwork. More needs to be done in the implementation stage. The NFIS is just the beginning.



The development of Indonesia National Strategy for Financial Inclusion (NSFI) began through a commitment made during the 2011 ASEAN Summit and was reiterated during the 2012 G20 Summit in Los Cabos.. The NSFI was initiated by Bank Indonesia (BI) and the National Team for The Acceleration of Poverty Reduction (TNP2K). The initial NSFI document was announced by Indonesia Vice President during the 1st ASEAN Conference on Financial Inclusion in 2012. The NSFI has since been refined, in particular the definition, vision, mission, target, pillars and enablers, indicators, action plan, National Council and structure of committee. The NSFI was legislated in 2016 via a Presidential Decree (No. 82) in conjunction with Year 2016 on National Strategy for Financial Inclusion

Indonesia National Strategy for Financial Inclusion

Financial Inclusion in Indonesia is defined as a condition when every individual has access to a wide range of quality formal financial services in a timely, clear, and secure manner, at affordable pricing according to the needs and capabilities in order to improve their welfare. Financial inclusion is important to boost economic activities, promote growth, create financial stability, support poverty reduction and reduce gaps among people and regions. Indonesia's NSFI consists of the enactment of NSFI document (vision and mission; approaches and principles; targets, pillars, indicators); and establishment of a National Council of Financial Inclusion consisting of a Steering Committee and Working Groups.

(I) Vision and Mission of Indonesia's NSFI

Vision: Improving public access to formal financial services through improving the understanding of financial system, products and services availability of quality formal financial services that are timely, smooth and safe at afforadable cost in accordance with the needs & abilities in order to improve public prosperity.

Mission:

a) Improving public opportunity and ability to access and benefit;
b) Providing financial products and services that can meet public needs;
c) Improving public knowledge and safety in using financial services;
d) Strengthening the synergy among stakeholders; and
e) Encouraging the development of financial inclusion to support the achievement of Sustainable Development Goals (SDGs) in Indonesia

(II) Approaches and Principles of Financial Inclusion

Approaches of Financial Inclusion

a) Combination of 4 main concepts: boosting economic growth, creating financial system stability, supporting poverty alleviation, and reducing the gaps among people and regions.

b) Identification of solutions to close the gaps by taking into account best practices and lesson learnt from domestic and international sources.

c) Align and coordinate efforts involving all stakeholders in the public sector, private sector, and the communities.

Principles of Financial Inclusion

a) **Leadership:** Government and financial authorities' commitment to improve financial inclusion.

b) **Diversity:** Encourage the availability of a wide range of financial services by various financial service providers.

c) **Innovation:** Encourage institutional and technical innovations as a means to expand access to and use of the financial system.

d) **Protection:** Encourage comprehensive approach for consumer protection involving all stakeholders in public sector, private sectors, and communities.

e) **Empowerment:** Develop public financial literacy and ability.

f) **Cooperation:** Strengthen coordination and encourage partnership among all stakeholders in public sectors, private sectors, and communities.

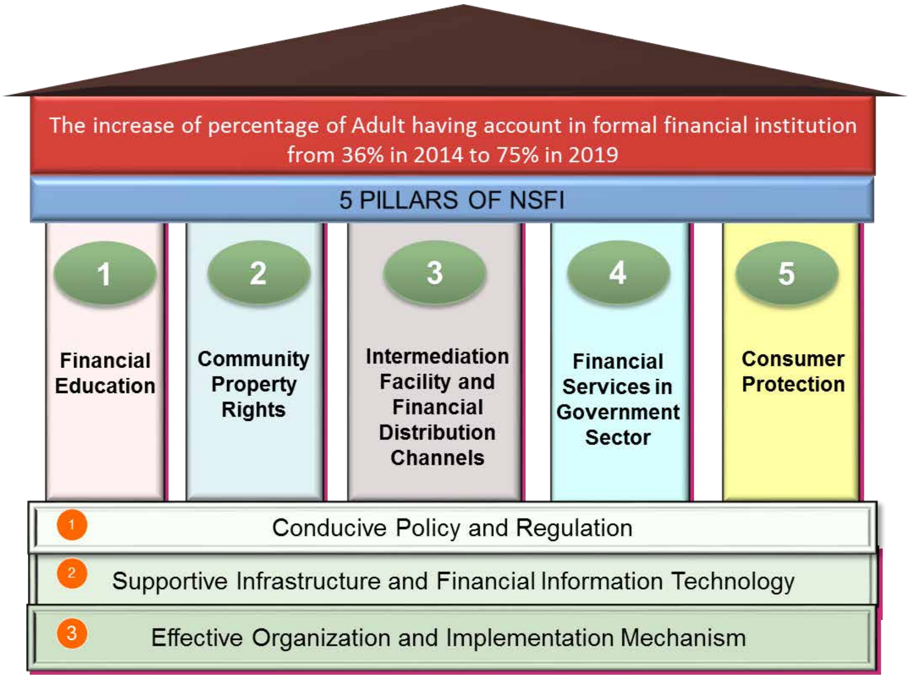
g) **Knowledge:** Using information and data in the formulation and development of policies and success measurement if implementation carried out by the regulators and financial services providers.

h) **Proportionality:** Establish a policy framework and regulation that are proportionality taking into account the risks and benefits of financial service and product innovations.

i) **Framework***:* Consider regulatory framework reflecting international standards, national conditions, and supports for competitive financial system.

III. Targets

The main target of Indonesia NSFI is to provide access to financial services at the formal financial institutions for the 75% of the adult population by end-2019. Financial inclusion in Indonesia emphasises on the provision of financial services based on different requirements of each community group, particularly low-income[3], small and micro businesses[4], and cross-community groups[5].



Picture 1. Pillars and Enablers of Indonesia National Strategy of Financial Inclusion

(IV) Pillars and Enablers

- **Pillar 1: Financial Education**, aims to improve (i) public knowledge & awareness on formal FIs, financial products & services; including features, benefits & risks, costs, rights & obligations, (ii) improve public's skills in financial planning & management.
- **Pillar 2: Public Property Rights** aims to expand credit guarantee to enable better access to formal credit.
- **Pillar 3: Financial Intermediation Facility & Distribution Channels** aims to expand the range of financial services to meet the needs of different segments of the society:
  (a) **Innovative products, services and distribution channels** (eg digital financial services, agent banking, mobile banking, car banking, mobile ATM, & supporting infrastructure);
  (b) **Easy & safe financial products** that meets needs and ability.
- **Pillar 4: Financial Services in Government Sector** aims to improve governance & transparency in the distribution of government funds, such as distribution of aid through non cash.
- **Pillar 5: Consumer Protection** aims to provide a sense of security to the community to interact with FIs, and take advantage of the financial products, services and payment systems offered.
  (a) **Principles**: transparency, equal treatment, reliability, confidentiality & security of data/ info, complaint handling & dispute resolution in a simple, fast, and affordable manner;
  (b) **Initiatives:** regulation on consumer protection for financial services, development of consumer complaints system.

Enablers

1. **Conducive Policies and Regulations** by the Government and authorities / regulators. Initiatives include studying, formulating, and harmonizing Law & Regulation supporting FINC programmes
2. **Supportive Infrastructure & IT** to minimize information asymmetry that hinders access to financial services.
3. **Effective Organization and Implementation Mechanism** across multiple actors of FINC, to remove duplicative efforts and encourage cohesive & integrated solutions. Institutions are divided into 3 types:
   - the party providing strategic direction and supervision ;
   - the party which coordinates and controls the quality of strategy implementation; and
   - the parties which implement and update progress of the strategy.

(V) National Council and Working Groups

To support NSFI, Indonesia established *National Council for Financial Inclusion (Council).* The Council consists of *Steering and Executive Committee.* The Steering Committee is led by President and Vice President, Coordinating Ministry of Economic Affairs as Daily Chairman, Governor of Bank Indonesia and Head of Financial Services Authority as Daily Vice-Chairman, and related ministries as members.

The Council monitors and evaluates the implementation of the National Strategy goals. The Council develops 7 Working Groups (Picture 2) to drive implementation of specific initiatives. This decree contains the role & composition of Working Group members, involvement of other parties (eg industry partners, individual experts, institutions, business entity that form a Consultative Panel), reporting procedures and financing. The main targets of financial inclusion are shared among all ministries/institutions, which are conducted in accordance with their respective authorities.

Picture 2. Indonesia National Council of Financial Inclusion and Structure of Committee

(VI) Indicators

To measure the milestone and achievement of the main targets of financial inclusion, indicators are set to:

i. Establish benchmarks for inclusive financial programs development;
ii. Identify obstacles in the implementation of FINC programmes;
iii. Monitor achievement of inclusive finance programs, at national and local levels.

The indicators of financial inclusion in Indonesia are divided into three dimensions as follows (as per AFI Core Set Indicators):

- **Access**: the ability to use formal financial services in terms of physical and cost affordability, as measured by several indicators such as *number of formal financial services office, ATM/EDC/Mobile POS, financial services agents per 100,000 of the adult population*.
- **Usage:** actual use of financial products and services, as measured by several indicators such as *number of savings and credit accounts per 1000 of the adult population*.
- **Quality:** level of fulfillment of public needs for financial products and services, as measured by several indicators such as *Index of financial literacy and percentage of service complaints resolutions.*

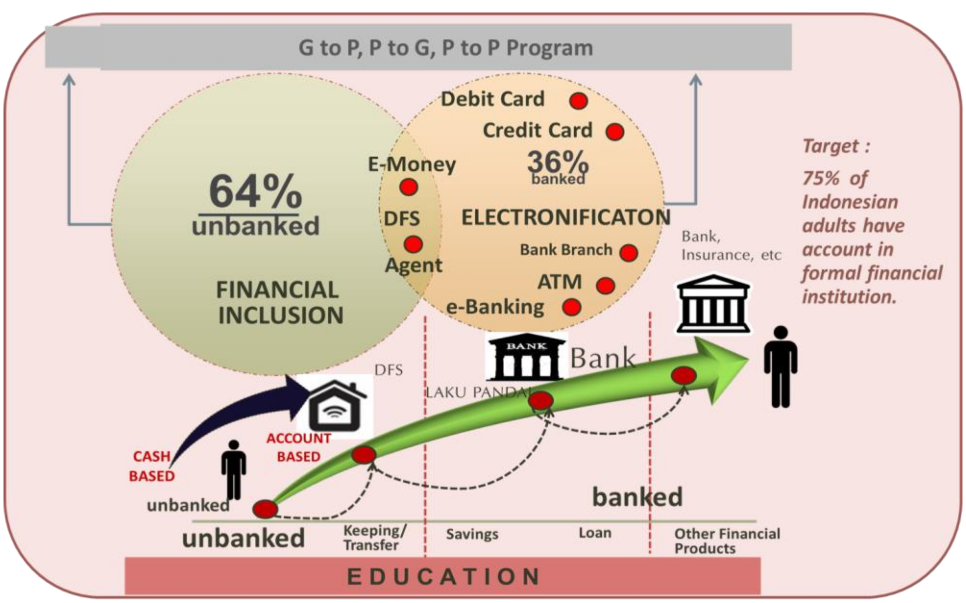
New Initiatives to Accelerate Financial Inclusion

Indonesia has a huge population of > 250 mil. About 28 mil people who live under the poverty line remains unbanked (March 2017), possess moderate financial literacy and lack historical financial data, making these groups difficult to access financial services.

- On the supply side, factors inhibiting services to the community are high cost and complexity for branch establishment, bank's perception of unprofitable grassroots customers, and unsupportive IT (limited and inefficient communication network).
- On the demand side, obstacles include the distance from houses to bank offices, insufficient money for savings, expensive fees, lack of financial education and knowledge of financial product and services, and no ID documents as required by bank.

Given the above, Indonesia carried out various initiatives to increase financial inclusion level:

1. The establishment of Electronification & Financial Inclusion Program/ Department in related Ministries/ Institutions/ Bodies;
2. Issuance of regulation on Digital Financial Services & Branchless Banking;
3. Development of financial product & services (Student Saving Account, Branchless Banking, Jaring, Laku Mikro, Micro Insurance, Micro Mutual Fund, Digital Financial Services);
4. Support interoperability and interconnectivity of payment infrastructure gradually, in view of Indonesia's current infra condition:
   a. Established ecosystem that enables interconnectivity of electronic money services between banks and telco networks.
   b. In terms of platform, interconnectivity enables e-money issuers to operate cross-network.
   c. In terms of Digital Financial Services (DFS) agents, cash-in and cash-out can be performed at all LKD agents from all Banks
5. Utilisation of DFS in the disbursement of Government to Person (G2P) Programme;
6. Simplify Know Your Customer (KYC) to enhance access to finance;
7. Undertake aggressive national financial education campaigns to build awareness in the society and to influence change in behaviour;
8. Involved in international cooperation especially in international fora for financial inclusion to gain technical support.



Picture 3. The Roadmap: Financial Inclusion and Electronification Policy to Enhance Access to Finance

Picture 4. Migrating Government Transaction From Cash Into Non Cash Payment

Non Cash G2P Program
(Oct –Nov 2014)

E-Ticketing
(August 2014)

E-Ticketing Kualanamu Airport train
(June 2015)

Electronification payment for migrant worker
(Feb 2015)

E-Parking
(Jan – Jun 2015)

E-Ticketing & E-Parking
(Jan – Jun 2015)

Digital Financial Services on religious community
(2016)

Non Cash G2P Programme
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Electronic payment for fisherman
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Non Cash Food Aid
(Feb 2017)

Electronification Toll Road Payment
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