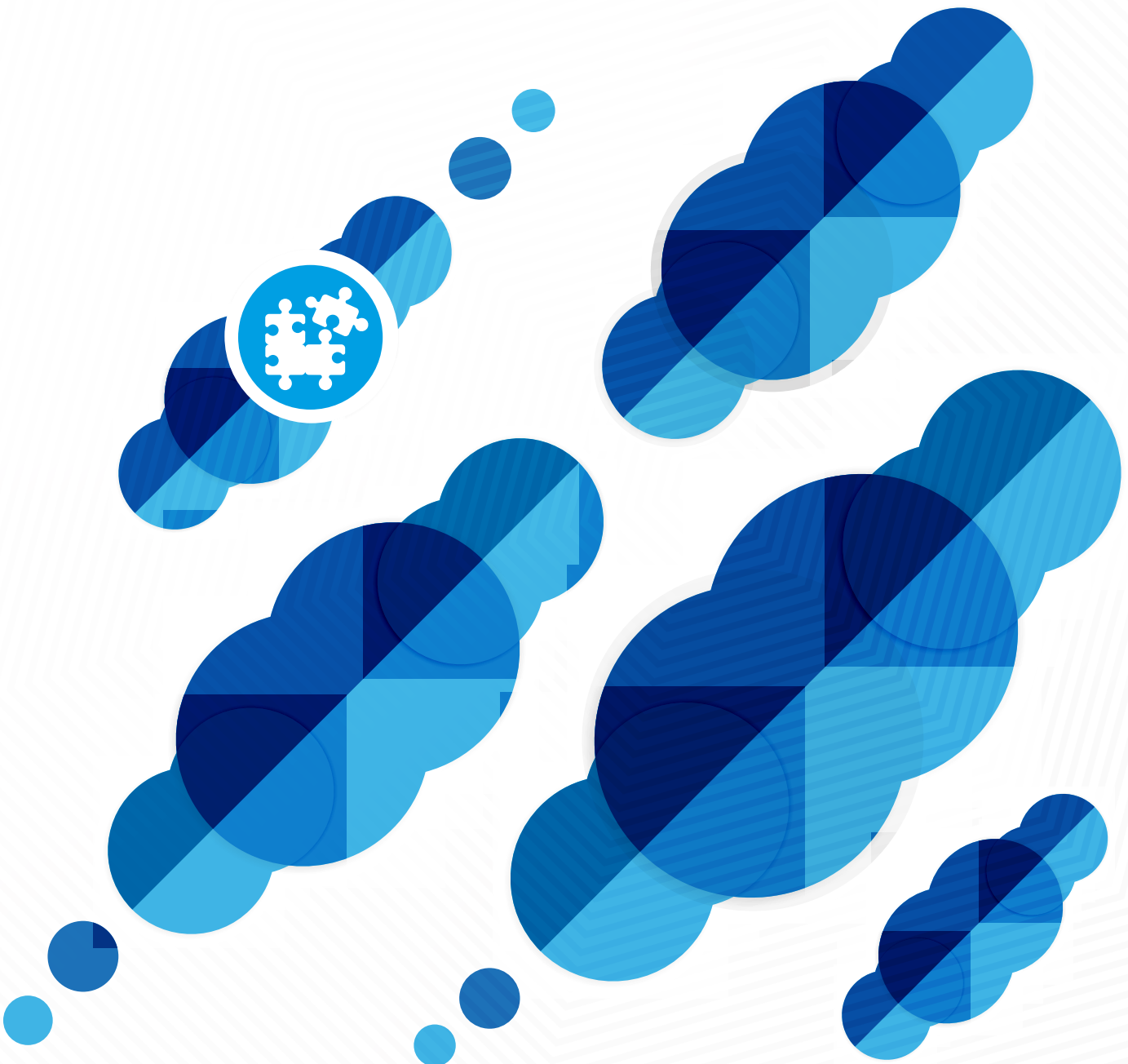


DEFINING FINANCIAL INCLUSION

THIS GUIDELINE NOTE WAS DEVELOPED BY THE AFI FINANCIAL INCLUSION STRATEGY PEER LEARNING GROUP TO PROVIDE GUIDANCE FOR POLICYMAKERS ON THE DEVELOPMENT AND IMPLEMENTATION OF NATIONAL FINANCIAL INCLUSION STRATEGIES.

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CONTENTS

About This Guideline Note	2
About the FISPLG	2
The Need for a Clear Definition of Financial Inclusion	3
<i>Current Definitions of Financial Inclusion (as reported by FISPLG members)</i>	
Tanzania's Approach	3
<i>How Tanzania Arrived at a National Definition of Financial Inclusion</i>	
How do Other FISPLG Members Define Financial Inclusion	5
<i>Financial Inclusion Definitions Used by Countries with a published National Financial Inclusion Strategy Document</i>	
<i>Common Elements</i>	
<i>Differences Observed</i>	
List of References	7

ABOUT THIS GUIDELINE NOTE

This guideline note was prepared by the AFI Financial Inclusion Strategy (FIS) Peer Learning Group. The purpose of this guideline note is to elaborate the definition of financial inclusion as an important guide to help strategy formulation.

This guideline note attempts to provide guidance on the common definitions and approaches of AFI member institutions. The notes are not summary of best practices. Instead, they highlight common practices, elements and differences in defining financial inclusion amongst AFI member institutions.

A special thanks to **Ms. Nangi Massawe from Bank of Tanzania**, who is a member and current Co-Chair of FIS PLG. for her continued support and feedback in drafting this knowledge product. Her insights and expertise were instrumental in the process of developing this guideline note.

ABOUT THE FIS PLG

The objective of the Financial Inclusion Strategy (FIS) Peer Learning Group is to create a platform for AFI members to develop and implement national financial inclusion strategies. The group is dedicated to supporting AFI members in fulfilling commitments to the Maya Declaration and the G20 Financial Inclusion Peer Learning Program. Currently, FIS PLG members comprise 56 member institutions from 47 countries.

The aim of the FIS PLG is to create a shared understanding of the current state of financial inclusion strategy development and national coordinating mechanisms, and to identify key issues for a peer learning agenda. The FIS PLG agenda focuses on private sector engagement, national coordination mechanisms, sequencing the implementation of national financial inclusion strategies (NFIS) and identifying the main challenges and barriers to financial inclusion. The FIS PLG provides a platform for accumulating, monitoring and sharing information on innovative and diverse approaches to financial inclusion strategies.

Support provided by FIS PLG is grounded in empirical evidence on various aspects of the strategy development and implementation process, including both the successes and negative experiences of policymakers in national coordination, among others.

THE NEED FOR A CLEAR DEFINITION OF FINANCIAL INCLUSION

In order for AFI members to reap the most benefit from the FIS PLG framework for national financial inclusion strategies, it is important that they strive to develop a clear and concise definition of what financial inclusion means in their particular national context, and then compare it with definitions other countries use. In coming to a comprehensive definition of the term, it is important to identify the primary factors contributing to low levels of financial access and usage in their jurisdiction. Furthermore, from a strategic standpoint, an official national definition of financial inclusion provides a basis for a shared vision, and helps in setting goals and mapping out the framework for achieving them. In financial inclusion literature, a number of strong points on why there is a need for a good definition of financial inclusion can be found. For example, “How financial inclusion is defined shapes the expectations around what aspects of the market will be emphasized and in what way participants, [both] public and private, will benefit. To this end, a definition of inclusion is an important guide for strategy development.”¹ Financial Inclusion transcends the financial sector, and it involves others as well - thus requiring a high-level definition that includes a National Vision, confirms policy objectives that contribute to the wider definition of inclusion, and defines product characteristics.

CURRENT DEFINITIONS OF FINANCIAL INCLUSION (AS REPORTED BY FIS PLG MEMBERS)

Of the twenty-seven (27) respondents to the current state of practice survey conducted by AFI in 2014, fifteen (15) answered “yes” when asked whether their governments currently have a concrete definition of financial inclusion, which they either developed on their own or adopted from an international standard definition. Today, roughly 55% of respondent countries have a clear national definition of financial inclusion, while about 44% do not. Six (6) other respondents stated that although there is no official definition currently, their regulatory agencies are using either an informal standard definition of financial inclusion, or are in the process of formalizing one. A review of definitions across AFI member countries reveals a great deal of similarities, but the approaches used to arrive at the definitions, and the weighting assigned to differences, vary.

TANZANIA’S APPROACH

The Bank of Tanzania, the country’s central bank, has defined “financial inclusion” as:

“The regular use of financial services, through payment infrastructures to manage cash flows and mitigate shocks, which are delivered by formal providers through a range of appropriate services with dignity and fairness.”²

The Bank of Tanzania (BoT) maintains that developing an official national definition will generate support for a unified vision and coordinated actions, which will in turn allow it to set long-term goals. The definition will also serve as a cornerstone for financial inclusion strategies and actions.³ It will be a useful benchmark for financial inclusion policy and help set the direction for policy priorities.⁴ The definition also provides a de facto test for public and private sector initiatives. That is, the term can be used to determine whether initiatives meet the required criteria when claiming to promote financial inclusion.⁵ A clear, standardized definition of financial inclusion also allows policy outcomes and other initiatives to be measured against each other consistently because it also allows appropriate indicators to be formulated.⁶ By collecting accurate data, progress can therefore be tracked and analyzed over the long term.⁷ BoT also uses its definition to track its commitment to the Maya Declaration,⁸ which was to increase access to financial services for up to 50% of the population by 2015.⁹

HOW TANZANIA ARRIVED AT A NATIONAL DEFINITION OF FINANCIAL INCLUSIONS

When drafting its definition of financial inclusion, BoT identified several key elements it had to include in order for it to be the most effective instrument possible. The BoT looked at definitions used by other countries within and outside the region to come up with these elements. They are as follows:

- > **Frequency of use:** Regular usage indicates these financial services meet a certain quality standard and improve the welfare of users.¹⁰
- > **Types of financial services:** A range of appropriate services that addresses the key challenges most Tanzanians face in terms of managing cash flows and mitigating adverse financial shocks. Examples of cash flow management include payments, credit and transfers, while examples of shock mitigation are insurance and savings.¹¹

1 Bankable Frontier Associates briefing note, “Lessons from Financial Inclusion Strategy Implementation”, presented at the FISPLG meeting prior to the 2014 AFI Global Policy Forum.

2 Bank of Tanzania, “National Financial Inclusion Framework” (2014-2016)

3 Ibid.

4 Ibid.

5 Ibid.

6 Ibid.

7 Ibid.

8 Maya Declaration: The AFI Network commitment to financial inclusion, 30 September 2011, Link: http://www.afi-global.org/sites/default/files/publications/Maya%20Declaration_2011.pdf

9 Bank of Tanzania, “National Financial Inclusion Framework” (2014-2016)

10 Ibid.

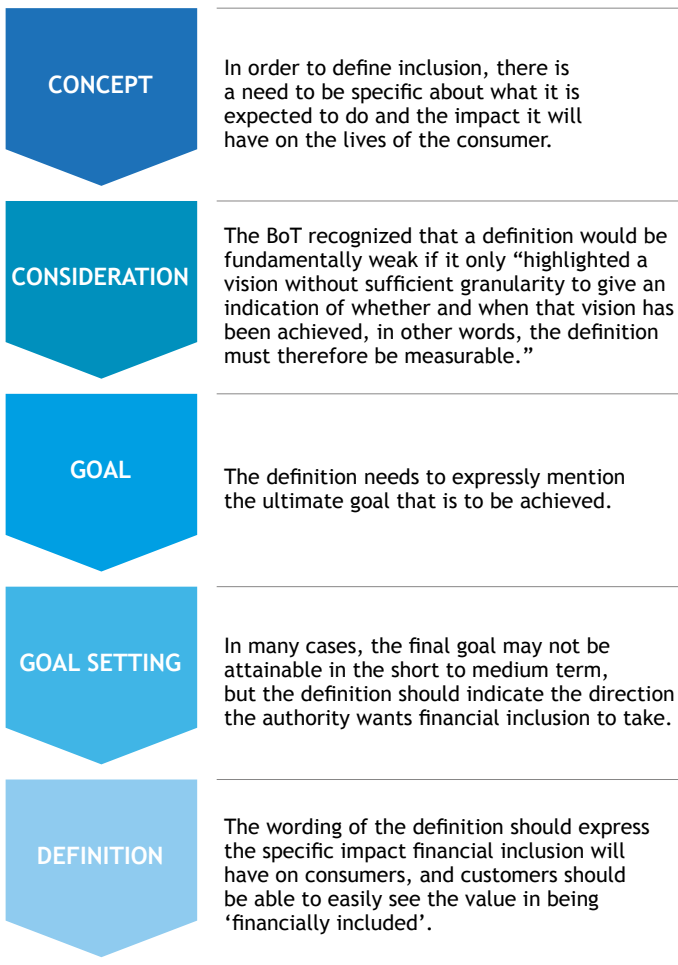
11 Ibid.

> **Target Group:** All Tanzanians, with priority groups being poor rural households and their enterprises, and low-income women and youth. There is also a special focus on children as a foundation for building a financially capable society.¹²

> **Providers of these services:** Formal providers that are registered, licensed and regulated, in order to ensure safety, soundness and consumer protection. Formal providers must offer services that are fair and treat customers with dignity, to build consumer trust and deliver value to customers.¹³

BoT recognizes these criteria are also part of its future vision of financial inclusion, and that informal financial services are still relevant for some segments of the population and will remain so for the immediate future. Indeed, BoT has stated that a concrete definition of financial inclusion is not sufficient, and must be backed up by targeted and effective policies to promote financial inclusion.¹⁴

The following diagram outlines the methodology the Bank of Tanzania used to arrive at their current definition:



When drafting its definition of financial inclusion, the Bank of Tanzania apart from looking at definitions used by other countries within and outside the region it also identified several key elements and answered the following questions: (The key words are bolded, and those were threaded into the developed definition):

a Which are the most relevant dimensions to measure: Access, Usage, and Quality of services or Customer welfare on Impact? Provision of physical access points only may not be relevant for customers if other essential issues are not addressed; therefore it was important to validate the effectiveness of access by assessing that for regular usage. Usage is thus a proxy for ‘meaningful access.’ On the other hand, regular usage demonstrates that these financial services are of acceptable quality standard and improve the welfare of users.

b Which types of financial services should be under the inclusion banner? The range of financial activities covered by the definition from the demand rather than the supply side, that is, in terms of customer problems that could be addressed through financial mechanisms rather than from the specific products they might consume to that effect. Many Tanzanians are informally employed, with irregular income and expenditure; this describes the key challenges people face in terms of managing cash flows and mitigating adverse shocks. The solutions to these challenges is to give Tanzanians financial tools and connecting them to payment platforms.

Therefore, the definition highlights that a range of appropriate services will be necessary without entering into exactly what those are.

c What target group/income levels? The ambition was to extend the benefits of financial inclusion to all Tanzanians, and not to frame as a special need of a marginalized segment of the population. although not all Tanzanians require the same tools: for instance, children need some level of financial education that sets them out to be effective users of financial services when they become adults; or some Tanzanians who are already financially included and they must remain included.

d Which providers should deliver services? Agreed that all Tanzanians should have access to services from formal providers, those who are registered, licensed and regulated, to ensure safety, soundness, and certain levels of consumer protection. In addition, formal providers offer services that are fair and treat customers with dignity, to create trust and deliver value.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

HOW DO OTHER FIS PLG MEMBERS DEFINE FINANCIAL INCLUSION?

The table below includes the definition of FIS PLG members if their financial authority or governments had adopted an official definition of financial inclusion. These responses are also compared, where appropriate, with the Bank of Tanzania's definition, as well as with each other.

TABLE 1: FINANCIAL INCLUSION DEFINITIONS USED BY COUNTRIES WITH A PUBLISHED NATIONAL FINANCIAL INCLUSION STRATEGY DOCUMENT

COUNTRY	INSTITUTION	FINANCIAL INCLUSION DEFINED?	DEFINITION
BRASIL	Banco Central do Brasil	Yes	Adapted from the Centre for Financial Inclusion at Accion (CFI): The Banco Central do Brasil (Central Bank of Brazil - BCB) has been working to increase and improve access to financial services in Brazil since the 1990s in three main ways: (i) by expanding and strengthening distribution channels for financial services, (ii) by developing instruments to better adapt financial services to the needs of lower-income segments of the population, and (iii) by guaranteeing the quality of financial services provision.
BURUNDI	Ministry of Finance and Economic Development Planning	Yes	Permanent access by the adult population to a set of financial products and services (i) offered by formal and sustainable financial institutions, governed by adequate regulations, (ii) that are diversified, affordable and adapted to the needs of the population, and (iii) used by the latter for the purpose of contributing to the improvement of the conditions of their socioeconomic life.
MOZAMBIQUE	Bank of Mozambique	Yes	Process of awareness, access and effective use of financial products and services offered by regulated institutions to the Mozambican population as a whole, contributing to enhance their quality of life and social welfare.
PAKISTAN	State Bank of Pakistan	Yes	"individuals and firms can access and use a range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairness".
PARAGUAY	Banco Central del Paraguay	Yes	The access to and usage of a range of quality, timely, convenient and informed financial services at affordable prices. These services are under appropriate regulation that guarantee consumer protection and promote financial education to improve financial capabilities and rational decision-making by all segments of the population.
PHILIPPINES	Bangko Sentral ng Pilipinas	Yes	A state wherein there is effective access to a wide range of financial products and services by all.
NIGERIA	Central Bank of Nigeria	Yes	Financial Inclusion is achieved when adult Nigerians have easy access to a broad range of formal financial services that meet their needs at affordable cost.
GPFI			"Financial inclusion", as the term is used in this white paper, refers to a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers. "Effective access" involves convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use formal financial services rather than existing informal options.
MYANMAR	Making Access Possible - Crosscutting initiative	Yes	The G-20 definition of financial inclusion is adopted and refers to a state in which all working adults have effective access to credit, savings (defined broadly to include current accounts), payments, and insurance products from formal institutions.
TURKEY	Undersecretariat of the Treasury of Turkey	Yes	There are three main aspects of the relationship of individuals with the financial system. These are access to financial products and services, financial education, and financial consumer protection.

COMMON ELEMENTS

The definition used by Indonesia is the closest to Tanzania's. The common elements are highlighted below:

COUNTRY	DEFINITION
TANZANIA	The regular use of financial services, through payment infrastructures to manage cash flows and mitigate shocks, which are delivered by formal providers through a range of appropriate services with dignity and fairness.
INDONESIA	The right of every individual to have access to a full range of quality financial services in a timely, convenient, informed manner and at an affordable cost in full respect of his/her personal dignity. Financial services are provided to all segments of the society, with a particular attention to low income poor, productive poor, migrant workers and people living in remote areas.

Other countries, notably El Salvador, Pakistan, Peru and Turkey, have reported similar, albeit different versions of what they think financial inclusion means. Access to financial services is the grounding principle of all the definitions. Several other countries, such as Bangladesh, Uganda, Solomon Islands and Madagascar have chosen to adhere to definitions drafted by international bodies, such as AFI or the G20.

DIFFERENCES OBSERVED

Although all definitions have more or less a similar starting point, there are notable differences between what countries consider important to include. There are three main differences: (1) the scope of the definition, (2) the concepts the definition includes, and (3) the explicit mention of a goal, such as what the government hopes to achieve with its financial inclusion policy. The table below includes the answers of all survey respondents that provided an official national definition of financial inclusion (except Tanzania), considered in terms of these three differences.

TABLE 2: DIFFERENCES OBSERVED

COUNTRY/ RESPONDENT	DEFINITION	TARGET GROUP	CONCEPTS OR DIMENSIONS INCLUDED	MENTION OF A GOAL
BANGLADESH	No formal definition has been established but a standard definition is used which is as follows: "...a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers..." (the G20 definition of financial inclusion)	All working adults	<ul style="list-style-type: none"> > Effective access to financial services > Formal service providers for financial services 	No
BURUNDI	It is an approach which seeks to include more and more poor people into the formal financial sector	General broader inclusion of the poor	<ul style="list-style-type: none"> > Inclusion of the underprivileged > A formal financial sector 	No
EL SALVADOR	The draft bill to facilitate the financial inclusion in its clauses, item number II says: "of the state's interest to provide with access to formal services and the use of retail payment instruments to citizens in order to ensure their participation in productive activities, helping to improve their quality of life."	Citizens (all working adults)	<ul style="list-style-type: none"> > Access to financial services > Use of retail payment instruments > Ensuring productive participation 	Improving quality of life
INDONESIA	The right of every individual to have access to a full range of quality financial services in a timely, convenient, informed manner and at an affordable cost in full respect of his/her personal dignity. Financial services are provided to all segments of the society, with a particular attention to low income poor, productive poor, migrant workers and people living in remote areas.	Every individual (all working adults) Particularly applicable to the poor and those living in remote areas	<ul style="list-style-type: none"> > Access to financial services > Service must be timely, convenient and informed > Service must be affordable > Respect and dignity for the customer 	No
PAKISTAN	Access to need-based financial services for low-income and underserved segments such as MSME, rural and agricultural finance, low-income housing finance, microfinance, payments, remittance, insurance, etc.	Low-income segments of the population	<ul style="list-style-type: none"> > Access to need-based financial services > Detailed areas of service requiring attention 	No
PERU	Financial inclusion is the access and use of quality financial services for all segments of population	All segments of the population (all working adults)	<ul style="list-style-type: none"> > Access to financial services 	No
TURKEY	Financial inclusion is a broad concept which includes financial access, financial education and financial consumer protection.	No scope	<ul style="list-style-type: none"> > Access to financial services > Financial education > Consumer protection 	No

LIST OF REFERENCES

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