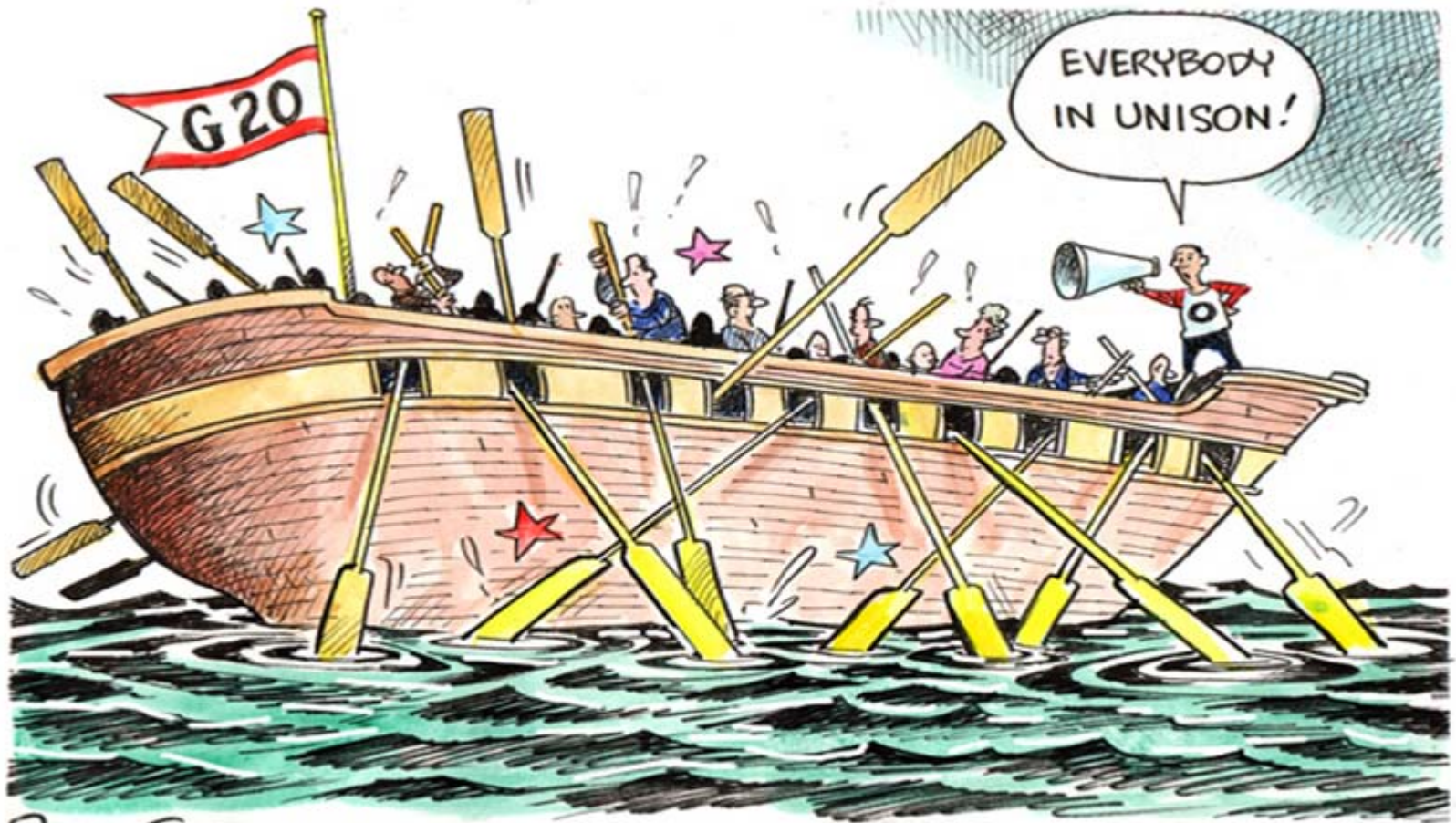


National Policy Frameworks which Promote Financial Inclusion



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“Full financial inclusion is a state in which all people who can use them have access to a full suite of quality financial services, [in a regulated, competitive market] provided at affordable prices

Financial services are delivered by a range of providers ... and reach everyone who can use them, including disabled, poor, rural, and other excluded populations.

[Further, consumers have access to a forum for the fair resolution of disputes].

-Accion+

*Financial literacy is the cornerstone of
Financial Inclusion.*

Source of Data/Observations?

- 14 regional seminars & 15 policy dialogues (on specific regulatory issues & new products) for jurists, financial sector regulators & MF practitioners from 2005-2009
- Research: most recently 5 country comparison of *de jure* vs. *de facto* consumer protection in MF sector which illustrated confusion about applicable law/regulator & clients do not have recourse to dispute resolution.
- Observations are limited to snap shots in time vs. evolution over time : national laws and policies require years to implement and longer to interpret actual impact. RIA

Characteristics of National Policies which encourage financial inclusion

- Savings mobilization is prioritized (S=I)
- Emphasis on financial literacy (and literacy of the population in general)
- Consumer protection is prioritized at the national level, including establishment of access to recourse mechanisms & dispute resolution (complaint windows at CB, FS ombudsman, legal aid for civil disputes)
- Competition regulation is a priority.
- Incentives available to supply financial services to the poor, or mandated directed lending. (IMF for A2F?)
- Innovative use of existing infrastructure for expanding outreach.

Examples of Policies which Emphasize Individual Savings and Institutional Organic Growth:

- **Brazil** which utilizes *bolsa familia* to bring poor families into the formal financial sector & opening no cost savings accounts for the poor.
- **Philippines** which strengthened the rural savings banks which serve 85% of municipalities and introduced the locked savings boxes. Also regulates interest rates paid on savings accounts to discourage fraud.
- **China** encourages “organic growth” of businesses; a State entity SAFE determines whether debt levels are appropriate. (cav. Emptor; Chinese regulation can change overnight)
- **OECD Countries** interestingly have extremely low interest payable on savings less than .5-.8%; whereas some developing countries are paying 10% and higher.

National Policies which Emphasize Financial Literacy

- Namibia w/ the assistance of Gtz plans to conduct financial literacy survey nationally to develop programming & already offers courses to civil servants on budgeting etc.
- South Africa pursuant to its National Credit Act of 2006 implemented debt counseling courses for the over indebted.

Consumer Protection for Financial Services is Specifically

Prioritized:

Kenya has a draft Consumer Protection Act of 2009 which if passed will establish National Consumer Protection Commission and Consumer Tribunals (composed of 7 lawyers) where consumer complaints against credit providers can be addressed.

USA Consumer Financial Protection Agency which will emphasize “plain vanilla” language & increased transparency in contracts, increased financial education and will also have authority over non depository financial institutions– stay tuned til July 2011.

UK (<http://www.financial-ombudsman.org.uk/>) financial services ombudsman each year publishes 20 fin. Products about which it receives most complaints (this year’s loser? PPI=49,000 or 30% of complaints in ‘10) . **India** under auspices of RBI also has ombudsmen in major urban locations.

Competition Regulated?

National competition authorities which investigate allegations of anti competitive practices amongst financial institutions serving the poor?

Bundling of products is anti-competitive yet allowed in MF sector (ex. Obligatory savings to get a loan or forced purchase of insurance products);

Abuse of dominant market position?
Mpesa/Safaricom?

National Policies which Prioritize Financial Inclusion Also Prioritize a Monetary Supply

- Argentina and a few LAC countries have quotas, but some problems due to a vague definition of SME.
- India has priority sectors and commercial banks which cannot operate in those sectors pay funds to NABARD instead. India also used to regulate branch openings (1 urban = 4 rural branch openings)
- USA through Community Reinvestment Act mandated lending levels in poor neighborhoods

Innovative uses of existing infrastructure to serve the poor

- **Brazil** through agency banking has expanded its outreach adding approx. 120k points of sale by using supermarkets, lottery kiosks, pharmacies as agents. 62% of total points of financial services are correspondents. Policy from the 70's, clarified in '99 to specify allowable services (accepting docs. To open accts./loans & payments/deposits received and forwarded).
- **China** in 2008 initiated microloans with the Postbank network of 36,000 pts. Of sale 70% in rural areas, which are remittance backed from urban workers to rural family members. CBRC cautions 2,945 towns have zero access to banks, and cap. Req. will be 7.6 trillion Rembi by 2015.
- **India** is unique with its massive mobilization of self help groups to deliver microfinance and other health, education and community development activities. It is rare to find SHG's that only offer microcredit.
- Innovative national policy I would like to see is a govt. offering transnational financial services for immigrants. I think the Philippines will be the first to lead ...

Parting Thoughts & Armchair National Policy Making Recommendations

- More use of MFIs & national networks perhaps in PPPs to deliver literacy, health, water/sanitation and other services govt. Is not.
- National policies on access to legal services at realistic cost. Microenterprises need MicroJustice. (Ex. Of legal services required such as land/title registration).
- Increased dialogue with the public and civil society in general. New solutions can come from group think: Financial Access @ Birth Campaign from UCLA prof. Chowdhry. <http://www.FABcampaign.org/faqs.php>
- Until the poor have a right to refuse inferior quality goods/services and a forum in which to complain or someone qualified to complain on their behalf, the status quo will remain. Ex. S. Africa Con. Pro. act

Happy New Year & Enjoy the Conference

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