Role of Central Banks in Financial Inclusion – Global Perspective -

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Role of Central Banks in the Past

Developmental role of central banks was focused on regulation and supervision of microfinance.
Transition from Microfinance towards Financial Inclusion

Why?

• New services
  - Focus on microcredit and microsavings in the past
  - Today: (SME) credit, savings, insurance, payments, leasing, factoring, pension, equity finance

• New players
  - MFIs in the past
  - Today: MNOs, Banks, Credit Card Companies, Payment Providers, Postal Network, Business Angel Networks, Crowdfunder, Peer-to-Peer lender, Leasing and Factoring Companies

• Drivers of financial inclusion today are increasingly private sector and financial sector policymakers and regulators.
Why does Financial Inclusion matter for Central Banks?

- Financial inclusion contributes to long-term economic growth and poverty reduction
- Financial inclusion has implications on monetary and financial stability
  - greater financial inclusion makes interest rates more effective as a policy tool;
  - broader base of depositors and more diversified lending contributes to financial stability
In general, its widely recognized that greater access to and usage of financial services...

- Promotes social stability,
- Resilience against catastrophes
- Stimulates employment and SME growth
- Increases financial sector integrity and economic stability
- Reduces transaction costs at the household level

Source: www.afi-global.org
Global Trends in Financial Inclusion Policymaking

- In more than 60 countries worldwide financial sector authorities (in most cases central banks) have issued or are at various stages of formulating national financial inclusion strategies (NFIS)
- In more than 50 countries policymakers have made specific commitments (“Maya Declaration), to advance financial inclusion through different policy initiatives
- In an increasing number of countries central banks have officially included financial inclusion into their financial stability mandate
Regional Trends in Financial Inclusion Policymaking

- The Arab Monetary Fund (AMF) has established a Financial Inclusion Task Force in which central banks from almost all 22 members countries join.
- Palestine, Jordan, Morocco, Tunisia and Qatar are currently developing NFIS.
- Some countries such as Egypt and Jordan have issued microfinance laws in the past two years.
- Egypt has issued a new law in 2016 that allows for the use of moveable assets.
- Jordan has established a cutting edge regulatory mobile money framework and infrastructure.
- ...and the list goes on!
Developmental Role of Central Banks has broadened

- Financial Sector Infrastructure
- FI Strategies
- Enabling Laws & Regulations
- Financial Education and Awareness Rising
- Consumer Protection
- Capacity Development
Most Recent Trend - Greening the Financial Sector

• An increasing number of central banks have, e.g. in China, Mongolia, Bangladesh, Indonesia, have issued green finance guidelines for banks and non-bank financial institutions

• Central banks apply different policies to promote green finance such as:
  ➢ Disclosure requirements
  ➢ Climate related stress tests
  ➢ Differentiation of interest rates
  ➢ Variation of reserve and capital requirements (Central Bank of Lebanon- lower reserve requirements for investing green investment projects)
Conclusion

Many central banks have begun to go beyond their traditional narrow mandate for ensuring macroeconomic stability and have become change agents for sustainable economic development!

In doing so, proportionate regulation has become a guiding principle for central banks, which considers the implications of financial regulation for both financial stability and financial inclusion!
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