

The AFI Approach: A New Model for International Cooperation

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Financial Inclusion
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As a federally owned enterprise, we support the German Government in achieving its objectives in the field of international cooperation for sustainable development.

This publication summarizes the findings and lessons learnt of the grant "Alliance for Financial Inclusion", project number 2008.9111.9.

Published by

Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

Items from named contributors do not necessarily reflect the views of the company/the editors.

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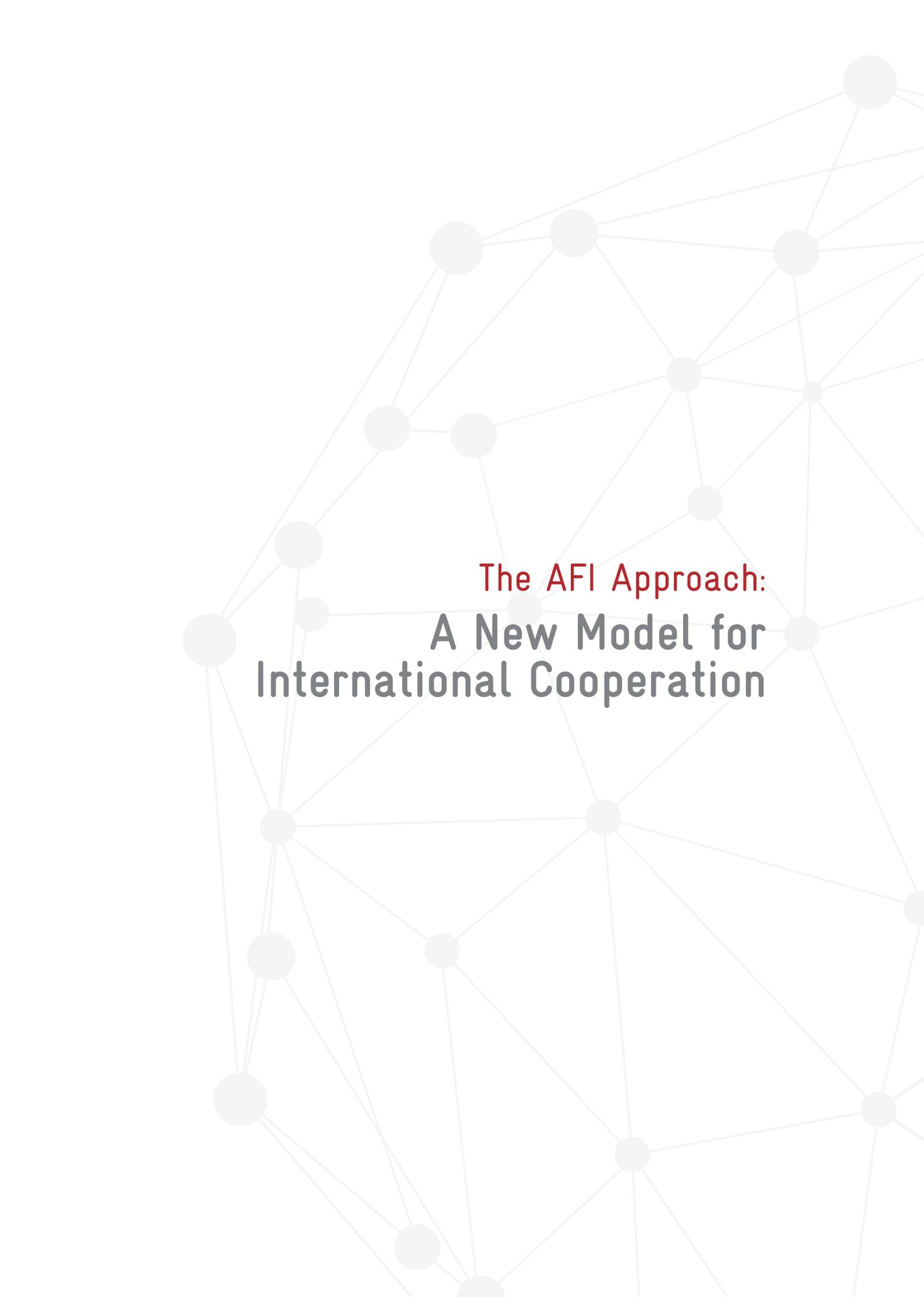
Delirio Estudio Creativo

Eschborn, January 2015



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**The AFI Approach:
A New Model for
International Cooperation**

Foreword

Since its official launch at the first Global Policy Forum in Nairobi, Kenya in 2009, AFI has reached impressive milestones, but never rested on its laurels. With its South-South peer learning approach and truly member-driven governance, AFI has attracted financial inclusion policymakers from around the globe since the very beginning, and grown quickly both in terms of members and services.

In our work at GIZ, we are often asked for the 'secret' behind AFI. As this publication explores, the interplay of several factors have contributed to the network's impressive success. Indeed, when looking back and reviewing the exciting years we have spent with AFI, the unique sense of community and members' willingness to share and listen have always been the most inspiring for us. This demonstrates the special spirit of AFI: a policymaker community based on trust and mutual respect and driven by a common objective to advance financial inclusion.

AFI's unique value proposition is to provide access to knowledge on policies that have proven to work in similar country contexts. Knowledge sharing and peer learning among equals has always been the centerpiece of AFI's work. Over time, AFI has evolved into a policy-driving network that facilitates the dissemination of knowledge, fosters policy improvements at country level and strengthens the voice of developing and emerging countries in the global financial architecture.

Our journey with AFI continues to be thrilling: this year, AFI will become a fully independent institution. The transition from a donor-funded project to an independent entity financed by its members is indeed an ambitious process and highlights the strong ownership of its members. The Management Unit began operating from Kuala Lumpur in January 2015, shortly after Malaysia was announced as AFI's new host country.

That is why we felt that in year six of AFI, the time was ripe for analyzing AFI's specific approach and identifying key success factors. Feeding in practical evidence will contribute to current debates on innovative and more horizontal modes for international development cooperation and stimulate a rethinking of established patterns of collaboration.

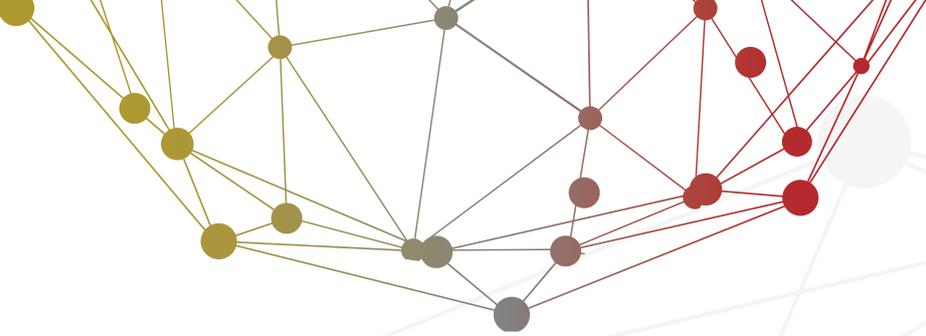
We wish you enjoyable reading.

Dr Christoph Beier
Eschborn, May 2015

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1 Introduction

The global development landscape is in a period of rapid and significant change. Over the last decade, developing and emerging economies have become major drivers of growth, and are playing an increasingly important role on the global stage as agenda-setters for key policy issues. As the recent global financial crisis has taught us, the developed world does not have all the answers, and the incredible innovations coming out of developing and emerging countries are revealing new and rich sources of knowledge, cutting-edge solutions, and lessons waiting to be shared. This growth has also given rise to more self-confident expressions of development needs and interests, including more 'horizontal' cooperation with developed countries.

At the same time, the traditional delivery model of development assistance – based on the assumption that the developing world does not have the knowledge to push the development agenda – is revealing serious shortcomings. While developed countries have made tangible contributions to development issues, they have also been criticized for undermining national ownership and perpetuating asymmetries between developed and developing countries. It is also increasingly being recognized that other sources of knowledge can make important contributions to development. Both traditional and new funders, such as private foundations, have begun to provide resources to promote knowledge sharing in developing and emerging countries.

How do we create models for international cooperation that empower developing and emerging countries, put them in the driver's seat and strengthen their collective voice? The example of the Alliance for Financial Inclusion (AFI) can help shed some light on these questions. Founded in 2009, AFI is a member-driven network of policymakers from developing and emerging countries (primarily central banks and other key national financial regulators) promoting policy formulation and implementation to expand financial services for the world's poorest. The AFI Network allows members to access a wide array of policy solutions for financial inclusion that have originated in developing countries and proven to be successful. Through peer-to-peer knowledge exchange and cooperation, members review and improve their own policy efforts in financial inclusion.

AFI made big strides early on, attracting 122 member institutions from 95 countries (as of November 2014), advancing evidence-based policy changes that improve financial inclusion, increasing uptake of AFI services, fostering member engagement, amplifying their collective voice and gaining

“How do we create models for international cooperation that empower countries and strengthen their collective voice?”

international prominence. By participating in AFI, member institutions have not only been able to adopt effective financial inclusion policy solutions, but have also begun to actively shape the global financial inclusion agenda by engaging and collaborating with the G20, G24, multilateral development banks, and global Standard-Setting Bodies, such as the Financial Action Task Force (FATF) and the Basel Committee on Banking Supervision (BCBS).

However, until now there has been little systematic analysis of the AFI model and how it actually works. What conditions were in place for AFI to have such a successful beginning? What key decisions were made in the design process? And what factors have been critical to the success of the AFI Network?

For Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and the Bill & Melinda Gates Foundation (BMGF), the funders' and initiators of AFI, it is important to investigate these questions and analyze AFI as a concrete example of a new cooperative approach in developing and emerging countries. First, a better understanding of the 'mechanics' of AFI would help in assessing whether AFI's knowledge sharing and peer learning model has the potential to be replicated. Second, this analysis might also create a foundation for more effective dialogue between global actors on important development issues.

The purpose of this paper is to unpack the essentials of the AFI approach and identify the keys to its success. It begins with a brief overview of the global debate on current trends in international cooperation, highlighting the concepts of South-South cooperation and knowledge sharing. The genesis and historical background of the AFI Network is then retraced, followed by an analysis of the conceptual approach, management and, finally, a review of the key success factors and lessons that can be learned from the AFI approach.

¹ From 2010 to 2013, the Australian Agency for International Development (AusAID) (which has since been incorporated into the Department of Foreign Affairs and Trade/DFAT) co-funded AFI's annual Global Policy Forum and the Pacific Islands Working Group (PIWG). Since 2012, the German Federal Ministry for Economic Cooperation and Development (BMZ) has funded AFI's policy grant program and SME finance as a new policy area. More recently, the BMZ has agreed to also fund the Peer Capacity Building Program and Gender Finance in Africa. Since 2014, AFI also receives financial support from the Omidyar Network.

2 The Global Debate on Current Trends in International Cooperation

Over the last two decades, international support for global development has had to adapt to new economic and political realities and confront a variety of challenges.

Rethinking aid. First, the effectiveness of aid is increasingly being called into question, with critics arguing the development agenda has been fragmented by the proliferation and limited coordination of actors, as well as high transaction costs. Several key actions have been taken to address the weaknesses of the aid system, including the adoption of the Paris Declaration on Aid Effectiveness in 2005, the reaffirmation of its principles at the Third High Level Forum on Aid Effectiveness in Accra (2008) and the redefinition of the aid effectiveness agenda at the Fourth High Level Forum in Busan (2011).

Taking the long view. Second, there is growing consensus that, in an increasingly multipolar and interdependent world, development challenges can no longer be addressed in isolation. Instead, they require holistic approaches and transnational cooperation. Climate change, pandemic diseases and food security, for instance, affect every country in the world and can only be resolved through joined-up efforts.

Leveling the playing field. Third, the rise of new economic powers has spurred major changes in the distribution of power in international politics and global trade. Fueled by economic growth and greater influence as regional and global players, these new development partners are reshaping established patterns of international relations and becoming more engaged as facilitators and organizers of South-South cooperation. These changes have forced traditional donors to rethink their role in international development cooperation and to seek new and innovative modes of delivery, which are expected to strengthen developing countries' ownership and level the playing field for development partners.

Building a new model for international cooperation. The concept of **South-South cooperation** goes back to the era of decolonization, but it has been gathering renewed momentum with the recent rise of emerging and developing economies. In South-South cooperation, there is no clear boundary between development and other types of international cooperation, such as trade, social welfare, culture, or research and technology. It can take place on a bilateral, regional or global basis, and is much broader than traditional North-South assistance: "South-South cooperation is a process whereby

two or more developing countries pursue their individual or collective development through cooperative exchanges of knowledge, skills, resources and technical know-how."²

In a broader sense, South-South cooperation is defined as developing countries collaborating to promote sustainable development and growth, and is therefore often considered as an alternative to the official development assistance (ODA) provided by high-income countries. Many funders are becoming increasingly interested in supporting South-South cooperation and facilitating knowledge sharing among partner countries.

Knowledge sharing

- Recognizes developing countries as important sources of knowledge and experience.
- Complements financial and technical cooperation in the changing global development landscape.
- Knowing *how* is as important as knowing *what*.

A rather new approach to global development, the concept of **knowledge sharing** recognizes that developing countries are important sources of knowledge and development experience, and that their practical and relevant insights into what works and what doesn't can promote growth and sustainable development. The global community has acknowledged the role of knowledge sharing in global development in the Busan Outcome Document, and the G20 considers knowledge sharing "a complementary third leg to financial and technical cooperation in the changing global development landscape," and has dedicated one of the nine pillars of the G20 Multi-Year Action Plan on Development to this topic. However, an internationally-agreed definition of knowledge sharing has yet to be established.

We understand knowledge sharing as a long-term process between two or more partners willing to disclose and pool their knowledge and experience. Together they advance and adapt their common knowledge, contributing to mutual learning and, ideally, to innovation. The underlying idea is that individual contributions are complementary and contribute to a better understanding of the overall context.

² Knowledge from the South: <http://www.saberdelsur.org/en/definition-south-south-cooperation>.

³ G20, 2011, "Scaling Up Knowledge Sharing for Development: A Working Paper for the G-20 Development Working Group, Pillar 9," p. 3. Available at: http://einstitute.worldbank.org/ei/sites/default/files/Upload_Files/G-20_DWG_report_on_pillar_9_10_June.pdf.

Knowledge sharing is built on transparency and openness, and goes far beyond knowledge transfer or knowledge management. It is not only highly specialized expertise that counts in development: the often tacit 'knowing how' that is gained in the field is as important as the 'knowing what'. Also, implementation experience is difficult to codify; this knowledge is best transmitted through direct interactions between individuals. Thus, knowledge sharing should be understood as an ongoing relation based on trusting interactions.

3 The Genesis of AFI: Demand-Driven Solutions at the Right Time

Evidence shows that access to payments, savings accounts, credit, insurance and other financial services can make a huge difference to the lives of the poor. Basic financial services are crucial for investing in homes and small businesses, weathering the impact of economic shocks, building up savings as financial cushions against unexpected events, and managing uneven cash flows and seasonal incomes. Even access to small payments can change lives as they enable people to buy goods, purchase water and electricity, and send money to friends, family and business partners.

In 2006, an estimated 2.5 billion people – over half the world's adult population – did not have access to formal financial services, representing huge untapped potential for economic and social development. Despite the rapid growth of microfinance institutions, credit unions and savings cooperatives in the developing world, the majority of the world's poor were not being served with basic financial services. With the exception of a few well-known microfinance success stories, neither financial service providers nor development cooperation efforts had achieved significant impact on a broad scale.

However, since the global financial crisis, financial inclusion has been attracting growing attention. The crisis triggered a fundamental rethinking of the role of governance in finance and created huge momentum for regulatory change. In this context, financial inclusion was seen as an opportunity not only to advance policies that promoted an inclusive and accessible financial system, but it was also an important way to foster the overall stability of national financial sectors.



AFI was a bet that has paid off.

During the same period, we witnessed the power of technology to lower the costs of retail banking. Technological innovations promised new business models and delivery channels that would overcome the main barriers to providing financial services for the poor: the high transaction costs of delivering small-scale financial services across large distances, infrastructure challenges such as lack of roads and ID systems, and information gaps between providers and consumers.

Smart and implementable policies for increasing access to formal financial services began to emerge in developing and emerging countries, where people live with the challenges of financial exclusion every day. From mobile money transfers and payment services in Kenya and the Philippines to the use of correspondents to deliver banking services in Brazil and Colombia, it became evident that developing countries hold the solutions to unleashing the power of greater financial access. Yet, knowledge of these solutions was scattered in pockets around the globe.

It was against this backdrop that AFI began to take shape. In 2006, the Bill & Melinda Gates Foundation (BMGF) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH entered into an open dialogue and 'blue sky thinking' about financial inclusion policy solutions, guided by the stimulating and open-ended question: *What would you do if you could?*

With a vision that aimed high, typical of innovative business startups, the organizations initiated a two-year 'incubation' phase. Drawing on several case studies from developing and emerging countries, they identified the most promising policy solutions that had been proven to advance financial inclusion.

However, even with these solutions in place, many policy-makers and regulators faced barriers in accessing information and advice from those who had innovated these policy solutions, and the policy champions themselves could hardly meet the demand of interested countries due to lack of time and resources. Based on the feedback of opinion leaders from various developing countries, the BMGF and GIZ dis-

cussed possibilities for scaling up existing policy solutions. Finally, the idea of a global peer learning network emerged – a network that would share, replicate and adapt proven policy approaches to achieve similar successes in other countries. Relationships began to grow between increasingly like-minded central bankers and financial authorities who felt the time was ripe to forge a full-fledged financial inclusion policy network.

With an initial grant from the BMGF, AFI was established at the end of 2008. **Formally launched in Kenya in September 2009, AFI became the first financial inclusion peer learning and knowledge-sharing network in the field of financial inclusion.** Starting with 30 member institutions, AFI's membership expanded quickly as it met strong demand for knowledge sharing and exchange. By the end of 2010, more than 70 institutions had joined AFI, and in March 2013, the network celebrated the addition of its 100th member institution. Today, AFI's membership consists of 122 policymaking and regulatory institutions from 95 countries (as of November 2014), representing 85% of the world's unbanked population.

As mentioned, AFI began as a joint initiative of the BMGF and GIZ. Despite clear differences in their institutional cultures and track records, the partners complemented each other: GIZ's worldwide presence and trusted relationships with decision makers and resource persons in partner countries helped to define the core problem and detect emerging solutions from the outset. The organization's experience in project management and fund administration was another important asset in setting up the network.

For its part, the BMGF not only provided the funds necessary to kick-start the AFI Network and keep it active, but its business thinking has helped to stimulate a sector dominated largely by public donors. As a private donor, the BMGF is less risk averse than many public donors and is willing to invest venture capital to explore untested areas in international cooperation – an approach public donors cannot take since they operate with public funds. For the BMGF, AFI was a promising bet. It did not have a history with policy-related grants and, if AFI had failed, the BMGF would have considered the project a loss, but an important learning opportunity. However, the bet worked out, and **AFI's quick success was proof of concept for the AFI approach.**

The process of invention, innovation and systematic implementation was challenging for both organizations. However, with high-level backing from the very beginning, GIZ provided start-up support for the incubation phase and created space and flexibility for an entrepreneurial approach to thrive. In the absence of narrowly defined conditions, individual leaders were able to be innovative. The BMGF provided the same level of flexibility and strategic autonomy that has been vital to AFI as a member-driven network.

Support from a single donor in the project planning phase not only allowed AFI to focus on building the network and serving members rather than raising funds, but also to gradually attract a group of like-minded donors to the AFI approach and stimulate interest in providing funding at a later stage. While this is an unusual circumstance, it was a critical factor behind AFI's rapid growth and member engagement. Together, GIZ and the BMGF created a conducive environment for a new approach to international cooperation to take shape.

A look back

2.5 billion people do not have access to formal financial services.

Technological innovations and new policies begin to deliver financial services to hard-to-reach customers.

2006 - 2008

The global financial crisis creates huge momentum for regulatory change.

The Bill & Melinda Gates Foundation and GIZ begin an open dialogue about financial inclusion policy solutions.

End of 2008: AFI established with an initial grant from the BMGF.

2009

Official launch: AFI becomes the first financial inclusion peer learning and knowledge sharing network in the field of financial inclusion.

2010

More than **70 institutions** join the AFI Network.

2013

AFI celebrates its **100th member.**

2014

AFI's membership represents **85%** of the world's unbanked.

2015

AFI becomes a fully **independent institution.**

Support from a single donor in the early phase allowed AFI to focus on building the network and attract like-minded donors to the AFI approach.

4 The AFI Approach: Tracing AFI's DNA

As is evident from its rapid growth, visibility and the enthusiasm of its members, AFI addressed an important need and filled an institutional vacuum in the global financial and institutional architecture. The success of AFI's approach can be attributed to complementary and strategic pillars.

4.1 The Fundamentals of the AFI Model: Who, What and How?

4.1.1 Who: Bringing the Right People Together

AFI brings the right people together: high-level officials with policymaking authority on financial inclusion issues, especially central banks, ministries of finance and other regulatory bodies. They all face similar challenges, make similar decisions and are usually engaged in a similar form of strategic dialogue. Most importantly, they have similar mandates to implement financial inclusion policies within their broader task to ensure financial stability.

Yet, AFI connects policymakers from developing and emerging countries only. Peer learning and exchange help to activate the capacities of developing countries and scale up solutions that have proven successful in similar contexts. Many multilateral platforms are characterized by strong donor influence and 'camp thinking,' but this can stifle effective knowledge sharing. As a developing country network, AFI creates a safe space for policymakers to express and discuss their needs and priorities, as well as their failures and limitations, which is critical. The discussion within the AFI Network also helps member institutions to find common positions and strengthen their collective voice in global forums.

AFI has gained global recognition as a voice of developing and emerging countries, and is an important knowledge hub for innovative financial inclusion policies. Countries from Southeast Europe have expressed interest in joining AFI, with Macedonia becoming the latest country from this region to join the network. Current discussion about the need to guarantee a basic bank account for all in the European Union (EU) has also encouraged dialogue with peers from developed nations. For the AFI Network, the question now is whether to engage with or open membership to policymaking authorities from developed countries in the near future.

AFI has attracted global recognition as a voice of developing and emerging countries, and is an important knowledge hub for innovative financial inclusion policies.

4.1.2 What: The Proven Policy Solutions of AFI's Members

AFI's work initially centered on six innovative policy solutions that held particular promise for enhancing access to financial inclusion on a global scale. These policy solutions have been proven to work because they either originated or were innovated in developing countries.

The policy areas AFI currently supports are:

1. **Balancing Inclusion, Integrity and Stability:** supporting a proportional approach to regulation
2. **Consumer Empowerment and Market Conduct:** strengthening effective consumer protection mechanisms and improving financial literacy and education
3. **Digital Financial Services:** supporting peer-to-peer learning to deliver financial services through new mobile technologies
4. **Financial Inclusion Strategy:** providing a platform for member countries to share in the development and implementation of national strategies
5. **Measuring Financial Inclusion:** creating and sharing measurement tools to enable evidence-based policymaking
6. **SME Finance:** identifying policy frameworks and interventions that enable and improve the sustainability of small enterprises
7. **Other financial inclusion policies:** strengthening policy formulation in areas such as microcredit, microsavings and microinsurance.

A strong focus on these policy areas has helped to avoid thematic dispersal and arbitrariness. This has also been an advantage, especially in the early days of the network, in creating a strong brand and consolidating membership. However, as a member-led network, AFI serves as an open forum for members to generate and pilot innovative solutions beyond the initial topics. Over time, some of the policy areas have been merged or broadened and two new popular topics were added.

4.1.3 How: A Member-Led Network

AFI's model of peer-to-peer exchange offers an efficient and effective channel for sharing knowledge and experience more



systematically. Based on the assumption that policymakers are likely to listen to and trust their peers as they explore new and innovative ways to advance financial inclusion in their countries, the peer-to-peer approach fosters trust, mutual respect, transparency and openness. This is particularly true for AFI's target group of central bankers. Because of the distinctive role and niche they occupy as their country's leading institution of monetary policy and financial regulation, central bankers and other financial decision makers tend to have few peers within their own countries. Building connections and relationships through the AFI Network, therefore, is extremely valuable.

By using a membership model, AFI is able to clearly define who is eligible to become a member and assure an exclusive network. The membership model also creates a sense of community for policymakers, who are able to build close relationships and social capital beyond their borders to exchange candid insights. Feeling included and equal helps AFI members to interact as an interdependent system and, even more, like a special club with its own rules and culture of cooperation.

AFI's peer-to-peer approach fosters trust, mutual respect, transparency and openness.

In many countries, financial inclusion issues are addressed by different public institutions. To reflect this reality and create transparent rules for membership, AFI has created three categories of members. Organizations in the lead on financial inclusion regulatory issues (the primary regulator) are **Principal Members**. Institutions that are not in the lead in financial inclusion policymaking and regulation, but are covering a substantial part of the policy agenda, qualify as **Associate Members**. Other more specialized regulatory institutions, such as insurance supervisors or consumer protection regulators, can become **Specialist Members**. All members may use AFI services and participate in network activities. The one exception is that only Principal Members can represent their country in the AFI governance structure.

The AFI Network serves as a sustainable platform for members to continually re-engage and locate the information, expertise or support they need. This knowledge sharing is an ongoing process and could not be achieved by members meeting at occasional events. Knowledge sharing requires partners to trust each other, and building trust takes time.

AFI's membership model creates a sense of community for policymakers.

4.2 Governance Structure

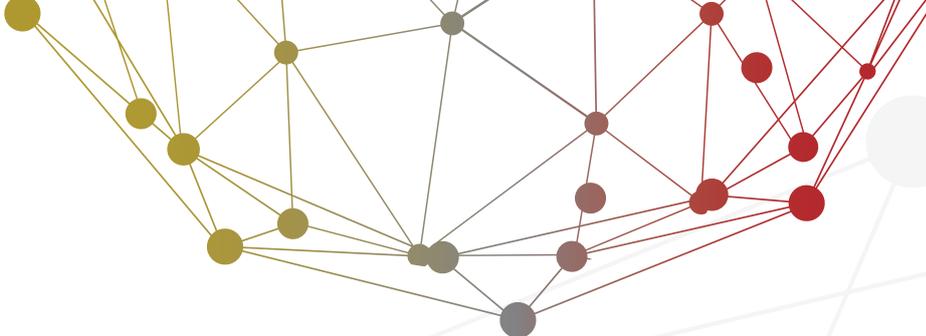
AFI's governance lies fully with its members, who set the agenda by choosing which policy solutions to focus on and which modes of cooperation and knowledge sharing suit them best.

Steering Committee. AFI is governed by a Steering Committee (SC) comprised of leading policymakers from AFI's membership, currently Peru, Tanzania, Nigeria, Bangladesh, Brazil and Indonesia (as of November 2014). The Executive Director of the Management Unit and a senior management representative from GIZ Head Office are permanent members of the SC.

In the early stages of AFI, bylaws were adopted that defined the network's objectives, membership, roles and responsibilities. The bylaws also described the composition of the SC, which must have geographical balance, and the election of committee members and terms of office. They also outlined the roles and responsibilities of the SC, which endorses AFI's strategic direction, provides advice and guides key strategic decisions, such as the Global Policy Forum and working groups, AFI's participation and role in the G20 Global Partnership for Financial Inclusion (GPII), and AFI grants in politically sensitive environments. All decisions in the Steering Committee are reached by consensus.

The strong sense of ownership and high-level representation on the Steering Committee give AFI credibility and legitimacy in the policymaker community.

The central banks of Kenya, the Philippines and Thailand, as well as Mexico's Comisión Nacional Bancaria y de Valores (CNBV), were the founding members of AFI and formed the first Steering Committee. They were later joined by the Superintendencia de Banca, Seguros y AFP (SBS) del Perú and the Central Bank of Nigeria. The first rotation of the SC took place after three years, when the member institutions from Kenya, Mexico and Thailand were replaced by the central banks of Tanzania and Indonesia and the Superintendencia de Bancos de Guatemala. The high-level representation on the Steering Committee demonstrates the strong ownership of influential members and gives AFI credibility and legitimacy in the policymaker community. It also helps to raise the profile of financial inclusion issues, renew the commitment of its members and create greater accountability for results.



Management Unit. AFI's Management Unit (MU), originally based in Bangkok and now in Kuala Lumpur, provides the professional management and smooth operations required to support and complement member governance and demands. The MU is responsible for overall network guidance, operations and deliverables, and is overseen by GIZ. It prepares and informs the decision making of the AFI Steering Committee and guides the long-term evolution of the network.

AFI's vision is operationalized using a step-by-step approach that allows both its membership and activities to expand. The MU monitors global trends and evaluates AFI's performance, which involves continuously revising and enhancing the network's services and liaising with strategic partners. In addition to monitoring and evaluation, the MU also facilitates the AFI working groups and ensures high-end expertise is made available in policy areas of interest. It helps to identify and analyze policy innovations and lessons learned, and disseminates them through various channels. The MU is also responsible for maintaining a strong member relations program, quality and transparent communication and knowledge management within the AFI Network. Finally, the MU facilitates AFI's subject-driven peer exchange, and therefore plays an important role as a 'caretaker' of effective and results-oriented implementation.

Both the Steering Committee and Management Unit are highly attentive to the demands of AFI members. Regular member surveys, as well as discussions at the annual Global Policy Forum and in working groups, help to inform the MU of members' preferences and priorities. AFI's credibility is directly linked to its status as a member-driven network.

4.3 AFI's Distinct Value for its Members

AFI members devote money, time and effort to participate in AFI, and their commitment absorbs scarce resources that could be used for other important efforts. Members are only willing to make a significant long-term investment if the value of belonging to AFI exceeds the costs.

Diversity, proven policy and peer support. AFI's unique selling proposition is access to proven policy solutions and peer support in the field of financial inclusion. Members can adopt or adapt a range of policy approaches that have been implemented in other developing countries. Members can also engage in a collaborative policy design process with their peers that draws on the collective expertise of AFI's broad-based membership. The diversity of policy approaches,

AFI's unique selling proposition is access to proven policy solutions and peer support.

perspectives and country settings is a key strength of the network, with AFI's collective knowledge base offering something for everyone.

Reduced costs and risk. Easy access to proven policy models substantially lowers 'research and development' costs for AFI members. The network provides a centralized source of deep and varied expertise, reducing the time and costs policymakers would otherwise have to spend investigating policy options. Because policies have often been applied elsewhere and baseline evidence on efficacy already exists, policy options sourced through the AFI Network are also less risky. With AFI's approach, learning and interaction is largely among policy practitioners from similar country settings, so implementation issues are more likely to be addressed than if the content was sourced by academics or a central secretariat.

Feedback and broader perspectives. Furthermore, members can benefit from rigorous peer reviews of their policies, as well as testimonials that help them to anticipate and mitigate potential risks prior to implementation. In addition to policy exchange, the network serves as an early detection system for emerging financial inclusion policy opportunities and challenges. With individual policymakers focused on the realities in their own countries, broader trends and patterns surface more quickly when members discuss 'industry' dynamics with their peers. Quicker detection also allows members to adapt policies or recognize new opportunities more quickly.

5 Managing for Success

To maximize the vast potential of the AFI Network and create a conducive environment for its members, AFI has established a sound and flexible management system. This includes a portfolio of services and offerings that help members to adapt and implement shared policies; a member engagement strategy to provide insights into members' diverse and changing interests, build trust and guide the management of the network; and, finally, strategic engagement with external partners to complement AFI's services. These diverse methods are all applied to make AFI more relevant to its members.



5.1 Providing Value-Added Services

AFI's offerings are provided by the MU in the form of services, not advice. With the AFI approach, members demand something they need, whether knowledge or resources, and are willing to 'pay' for it by contributing knowledge to the network. All service channels are horizontal, making it easy for members to access what they need from the network at any time.

Service Offerings. AFI has developed the following services to facilitate knowledge sharing and peer learning:

- **Working Groups:** Thematic platforms to deliberate, exchange, shape and provide peer reviews of policy ideas.
- **Knowledge Exchange Grants:** Support for study trips and other activities that allow members to learn from their peers.
- **Policy Support Grants:** Support for the design and implementation of new policy approaches.
- **Global Policy Forum (GPF):** Annual meeting for members and external partners, and a venue for high-level discussions and working group activities.
- **Knowledge Products:** Digital and print publications that capture and disseminate lessons learned.
- **Member Zone:** An online tool for members and working groups to share knowledge and information and promote AFI's face-to-face events and activities.
- **Global Contributions:** Opportunities for members to shape and influence the global agenda through participation in global forums.

Maya Declaration Commitments. AFI members use the knowledge they gain to define their own financial inclusion policy targets and to publicly commit to concrete targets under AFI's 2011 Maya Declaration, the first global and measurable set of commitments to financial inclusion. Making a Maya Commitment helps members determine their own objectives for financial inclusion, draft a plan for achieving them and coordinate with others as they work toward a common goal. Maya Commitments also help to apply gentle 'peer pressure' as fellow AFI members watch their progress.

Regional initiatives. More recently, AFI has deepened its regional approach by facilitating regional groups that discuss specific issues. In Africa, for example, this has led to the formation of the African Mobile Phone Financial Services Policy Initiative (AMPI). AMPI's Help Desk on mobile financial services is run by member representatives and serves 18 countries in Africa. Regional collaboration is also taking place in Latin America and the Caribbean (LAC). AFI has recruited a regional coordinator and the first event, "Smart

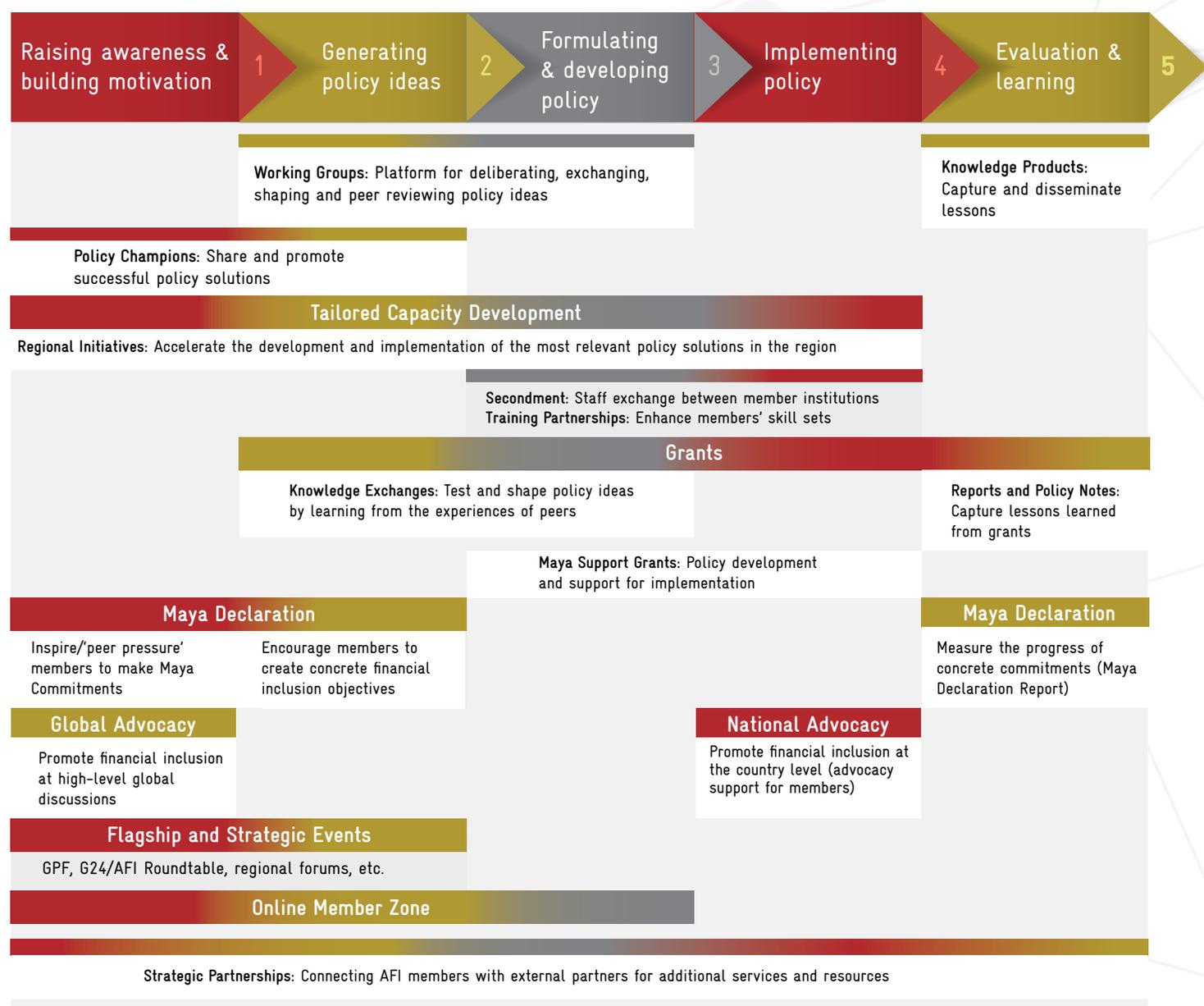
policies for mobile finance in the Americas," was held in February 2013 in Cartagena, Colombia.

Capacity building. In 2014, AFI expanded its service offerings and strengthened capacity building. The objective was to support members in building their individual and institutional capacities for policy adoption and implementation, tailored to their needs. For example, AFI supports members that have organized exchange programs for their peers and offered bilateral technical advisory services. AFI facilitates secondments of staff between member institutions and brokers training partnerships where there is a critical need. AFI also supports member institutions that want to provide training. AFI and Bank Negara Malaysia have signed a letter of cooperation to jointly design and organize structured training programs, while the Banco Central do Brasil now organizes the International Week of Financial Inclusion as an innovative joint learning program.

Creating synergies. Intentional synergies within AFI's portfolio help ensure that each service offering complements and enhances the impact of the others. For example, working group deliberations often reveal the successes of policy champions, and the Global Policy Forum provides a venue for these champions to share their stories more broadly. AFI ultimately synthesizes the key lessons of a champion's reform efforts into a policy toolkit that is shared via the online Member Zone. AFI's working groups and grants are also mutually reinforcing. New regulations developed through AFI grant support can be peer reviewed by working groups and adapted accordingly. Lessons on the ultimate effectiveness of these regulations can then be fed back into the working groups and the broader network.

Figure 1 illustrates how the AFI Network, as well as various offerings and collaborations with external partners (see 5.3), add value to every stage of the policy reform process: awareness raising, generation of policy ideas, policy formulation, policy implementation, and evaluation and learning.

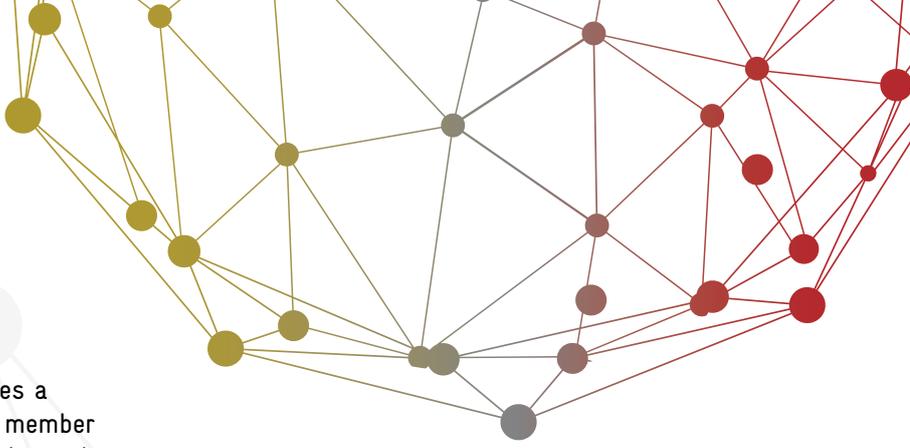
The contribution of AFI member services to policy reforms



5.2 Managing Diversity in a Growing Network

Members are at the core of AFI's peer learning approach. Members share their knowledge of successful policy solutions, as well as the challenges and limitations they have faced. This pool of knowledge and experience can be adapted and adopted by a wider group of AFI members to substantially accelerate the uptake of effective policies and, ideally, to create collaborative new solutions. Effective knowledge sharing and member ownership will only be achieved if members continue to be willing and able to share policy information through AFI events, activities and platforms.

The opportunities and challenges of growth. Since AFI's official launch, membership has quadrupled, from 30 to 122 institutions from 95 countries. This growth confirms AFI's status as a leading institution on financial inclusion policies, but its member countries differ widely in terms of their engagement, network participation and experience with financial inclusion policies. On one hand, this diversity creates opportunities to cross-fertilize experiences and lessons and expand the network's knowledge base. On the other hand, this diversity creates a challenge: how to tailor programs and offerings that help members from across the spectrum advance their



policy performance in financial inclusion? It also poses a potentially serious risk for the network if, over time, member demands become increasingly sophisticated and members at a less advanced stage of policy development no longer feel represented and become less committed to, or even abandon, the network.

In 5 years
AFI's membership
has more than quadrupled



AFI's Member Engagement Strategy. The AFI Management Unit plays a major role, developing mechanisms and incentives to ensure continued member ownership and engagement. Member commitment is twofold: members not only bring expertise in specific policy areas, but also contribute to the strategic development of the network. AFI depends on both the knowledge and participation of its members to deepen knowledge exchange and set the network's direction. Heavily engaged member institutions must be motivated to continue contributing to the network, while the diversity of the network must be maintained to ensure interesting policy examples are included from less 'obvious' members as well.

Therefore, a strategic approach to relationship management and member engagement is critical to the success of AFI, and the MU has formulated a member engagement strategy from the very beginning. It constitutes the framework for managing AFI's growing network of diverse policymaking institutions and, at the same time, ensures consistent communication and quality of services.

As a starting point, the member engagement strategy measures member activities and network participation, the use of services and network activities, the receipt of AFI grants and active leadership in the network. This serves to identify groups with different needs and levels of engagement, and

AFI's member engagement strategy identifies the diverse needs of its members, ensures all members benefit equally, and encourages participation and leadership in the network.

helps to detect changes in the intensity of members' engagement. Only if the diversity of member needs are understood can differentiated approaches and targeted services be developed.

Highly engaged and advanced members are encouraged to take more leadership in the governance of the network and at AFI events, in working groups and by hosting knowledge-sharing events. At the same time, the network provides support for their unique needs, such as targeted policy grants for implementing policy solutions and knowledge products that showcase and promote their successful policies more widely. By representing AFI at the global level, advanced members are able to speak with an authoritative voice and influence the global agenda. These members have also been encouraged to increase ownership during AFI's independence process and make commitments to the Maya Declaration. Less engaged members are encouraged to participate more actively by joining working groups (as an entry point for engagement) or by applying for knowledge exchange grants and engaging in peer learning. New members receive special attention since it is critical to understand their areas of interest and point them to the right services from the outset.

Regular member surveys are an additional instrument for ensuring the main focus of the network remains member driven and that dialogue is grounded in the realities member countries face. The surveys monitor members' overall satisfaction with different service areas and provide feedback to the MU on how effectively it is responding to member needs. AFI's face-to-face activities, such as the Global Policy Forum and the online Member Zone, provide opportunities to collect this information.

AFI's member engagement strategy has proven to be successful in identifying groups with different needs, ensuring that all members benefit from the network equally and in line with their respective needs, and are willing to participate actively and take on more ownership.

AFI has a high level of member engagement (as of August 2014)



Rapid membership growth will make accommodating different needs and experience an ongoing challenge. The tasks will range from improving the basic policy knowledge of some members while facilitating more advanced members to implement more sophisticated solutions and systematically drawing out lessons to be shared with others.

5.3 AFI Partners: Synergies and Complementarities

In the field of financial inclusion, there are numerous stakeholders. While governmental bodies create the conditions and legal framework for safe and sound financial services, private sector corporations are often in a position to offer new services to unbanked populations. Civil society groups play important educational and watchdog roles, and various multilateral organizations are influencing the global finance regime.

Inclusivity is the main principle driving relationships with stakeholders. AFI is well positioned to facilitate collaborations between stakeholders, individual members and the network as a whole. Strategic partnerships may provide additional and often highly specialized knowledge that can inform decision making within the AFI Network and ensure that members have the right support at the right time. The value added for the strategic partners is a better understanding of implementation challenges at country level. Partnering with international forums may help to advance the global financial inclusion agenda and strengthen the voice of developing and emerging countries.

AFI forges strategic partnerships when they add value for members. The interface between members in the network and strategic partners outside the network was clearly defined in the design process. External engagement is a dynamic process, and the relevant set of stakeholders and their inputs change as the field evolves. Based on its experience in the early years, AFI has a much clearer understanding of the interests of different stakeholders, which partners can provide

the most constructive assistance to members, and when it must primarily be a peer learning network that provides a safe space for members.

AFI's broader partner network includes private sector, academia, training and technical assistance institutions and international organizations. Leading actors in the field are increasingly acknowledging the value of AFI's contributions to financial inclusion. Established institutions such as the World Bank, United Nations Capital Development Fund (UNCDF), Groupe Speciale Mobile Association (GSMA), Consultative Group to Assist the Poor (CGAP), Asian Development Bank (ADB) and the Organisation for Economic Co-operation and Development (OECD) are all interested in opportunities to collaborate with AFI.

For example, in 2010, together with CGAP and the International Finance Corporation (IFC), AFI became an implementing partner of the G20 Global Partnership for Financial Inclusion (GPFI). At the Leaders' Summit in Mexico in June 2012, the G20 requested that AFI also become an implementing partner of the G20 Financial Inclusion Peer Learning Program.

AFI's newly established Public-Private Dialogue (PPD) Platform provides opportunities for focused dialogue among key stakeholders in the financial inclusion ecosystem, including private sector, multilateral organizations and bilateral donors. By taking developing country perspectives into account, the PPD Platform is a 'one-stop shop' for stakeholders to exchange critical knowledge and shape the direction of the financial inclusion policy dialogue through practical solutions at regional and global levels.

6 The Evolution of AFI: Toward a Policy-Driving Network

AFI's early years have been focused on building its organizational infrastructure, member base, services and offerings, and partnerships. With each year, AFI's services and strategic focus have evolved to better reflect the network's progress and future opportunities.

AFI's Strategic Evolution

		Strategic Priorities	Key Milestones
2006 - 08	Incubation Phase 1 This concept design phase was dedicated to understanding the financial inclusion context and the viewpoints of different stakeholders in order to engage them in meaningful conversations. The initial vision of AFI was developed by GIZ and the BMGF, successful policy solutions were identified, and opinion leaders from central banks and regulatory bodies were sensitized as potential members. This phase was an informal exchange of knowledgeable and engaged people who were eager to make change happen, united by a commitment to shared guiding principles, and in a position to identify the gaps and scale up financial inclusion.	<ul style="list-style-type: none"> Initial visioning (and multi-year business planning) Sensitize potential members Build stakeholder relationships Formalize financial and administrative support 	<ul style="list-style-type: none"> BMGF approves first grant to kick-start the AFI Network
2009	Building the Network 2 The next two years (2009-2010) centered on building and activating the network. Activities included establishing a formal structure (management unit, branding), defining and refining goals, and developing implementation plans. In 2009, AFI formally became a full-fledged network of select high-level policymakers. This core group met at specific opportunities, exchanged ideas and called for inputs from other interested and like-minded policymaking authorities.	<ul style="list-style-type: none"> Recruit members Build AFI's brand Build the Management Unit and the various services 	<ul style="list-style-type: none"> Steering Committee established Official launch of AFI First service offerings, grant approvals and Global Policy Forum First policy champions identified More than 40 members
2010	Activating the Network 3 By the end of 2010, more than 65 institutions had joined AFI, creating a 'critical mass' of voluntary practitioners. The G20 recognized AFI as a channel for the voices and perspectives of developing countries (especially non-G20 countries), and invited the network to be an implementing partner of the GPFI. The first member needs assessment was conducted to fully implement the idea of a member-driven network, and two more services were launched: the first AFI working group and the online Member Zone.	<ul style="list-style-type: none"> Harness leadership by identifying leading members Carry out member needs assessments Deepen relationships Develop AFI's demand-driven approach Develop appropriate internal structures 	<ul style="list-style-type: none"> First working groups launched G20 recognizes AFI as implementing partner of GPFI Online Member Zone launched Additional funding from AusAid secured More than 65 members
2011	Enhancing Network Value 4 AFI begins to focus more heavily on implementation and evaluation, which made it vital to showcase change, evaluate progress and outcomes, and foster transparency and communication, all of which support AFI's learning mechanisms. Because the delivery of member services emphasizes outcomes, enabling support for evidence-based, measurable and effective policies became a critical benchmark for AFI. The endorsement of the Maya Declaration on Financial Inclusion by all AFI members in September 2011 was a major milestone that demonstrated the willingness of member institutions to convert their engagement into measurable policy reforms in their respective countries. To date, 54 countries have committed to the Maya Declaration, three-quarters of which have reported on their progress. Engagement with global institutions, such as the G20 GPFI and the Financial Action Task Force (FATF), has intensified, and the outputs of AFI's Financial Inclusion Data Working Group (FIDWG) were incorporated into the G20 Basic Set of Financial Inclusion Indicators.	<ul style="list-style-type: none"> Build internal capacity to respond to member needs with quality services Strengthen existing services in high demand Focus on working groups Strengthen monitoring and evaluation to capture and showcase tangible results 	<ul style="list-style-type: none"> Steering Committee approves AFI independence Adoption of Maya Declaration More than 80 members
2012 -	Creating a Policy-Driving Network 5 AFI's strategic focus has evolved over time to accommodate a range of member needs and take advantage of new opportunities. AFI's strategic vision for the next five years (2013-2018) is to continue evolving to a policy-driving network that leverages the knowledge and expertise of its members to catalyze country-level policy changes and drive the global agenda on financial inclusion. This includes mobilizing evidence-based knowledge on the 'what' and 'how' of policy reform, strengthening quality assurance, capacity building and peer-to-peer support offerings, and tailoring service offerings based on member needs and their particular stage of development in the policymaking process. This shift will require more peer reviews of policies and an emphasis on good practices that focus attention on the policies and issues that evidence suggests will have the greatest impact and scale.	<ul style="list-style-type: none"> Identify tested and proven financial inclusion policy solutions More proactive knowledge exchange and peer support Mobilize members to advance country reforms Enhance network sustainability 	<ul style="list-style-type: none"> Members vote on independence Mandate for G20 Peer Learning Program Additional donor funding secured BMGF approves second grant to further support the Network More than 90 members Additional funding from BMZ secured



As member countries continue to achieve greater financial inclusion, AFI is transitioning from being a solely donor-supported project to an independent, member-owned and sustainable institution. This progression to independence is much more than an organizational and legal aspiration. Although donors will continue to play an important role, AFI member institutions have agreed that a fully independent policy-driving network is vital to helping them achieve their national objectives and realizing their collective vision. This transformation is an integral part of AFI's growth trajectory and has been strongly endorsed by both the Steering Committee and members since AFI's launch in 2009 (as documented in its first bylaws) and reconfirmed by vote in 2011.

Independence will bring additional gains for AFI members. As a sustainable long-term platform for enhancing financial inclusion, AFI will become an authoritative voice of developing countries, influencing the international debate and the SSBs on a level playing field. Financial inclusion is not just a problem to be solved; it is an integral component of inclusive economic growth and financial stability, and is at the core of AFI's learning agenda.

7 What Lessons can be Learned from the AFI Case?

The purpose of this paper has been to unpack the essentials of the AFI approach and to identify the major factors that have made the network so tremendously successful in a relatively short period.

With 122 member institutions from 95 countries representing 85% of the world's unbanked, AFI has in just five years established itself as the world's only peer learning platform for financial inclusion policymakers from developing and emerging countries. With a strong brand and international credibility, AFI has been able to advance financial inclusion on a global scale.

Through a truly new cooperation model based on knowledge sharing among peers, AFI provides its members with the tools and resources they need to develop, share and implement smart financial inclusion policies and regulatory reforms. To date, more than 70 policy reforms to advance financial inclusion have been developed by member institutions as a result

In just five years, AFI has become the world's only peer learning platform for financial inclusion policymakers from developing and emerging countries.

of their participation in AFI. The regulatory improvements include groundbreaking changes at the national level, the lessons of which have had major global impact.

Before AFI was founded, there was a clear but unmet demand for systematic knowledge sharing on successful financial inclusion policymaking. A thorough and intense project design phase – and high-level backing of opinion leaders – laid the foundation for a strong member-led and demand-driven network. At the root of AFI's success is a high degree of engagement and a true sense of cooperation among its members. Members determine the priorities and policy solutions that align with their national objectives, both of which strengthen their sense of ownership and drive them to implement reforms.

Other markers of success include AFI's peer learning approach; a rather homogeneous membership base that shares a common mandate, identity and goal; a clear value proposition; and a wide range of services from which members can choose according to their specific needs and interests. Drawing on the rich and diverse experience and knowledge of its members, AFI has become an important partner in many multilateral initiatives on financial inclusion and financial stability. AFI's impressive evolution cannot be attributed to a single factor – the interplay of various favorable conditions has made the difference.

Apart from the success factors highlighted in this paper, general lessons about the AFI approach can also be distilled for future international cooperation. It has been pointed out that traditional development cooperation is looking to new modes of delivery that better meet the expectations of partner countries. The challenge is enhancing performance while simultaneously pushing cooperation practices toward a horizontal model where all actors engage on a level playing field.

AFI provides several important lessons in this regard, and has demonstrated how support for peer learning as a unique form of knowledge sharing can help to empower partner countries and reinforce ownership of policy reforms. The strength of AFI lies in the exchange of solutions. Traditional development cooperation still often applies a transfer logic that assumes the development path of industrialized countries can simply be transposed in developing countries. However, today, innovation hubs can be found all over the world. International cooperation that is sustainable and future-oriented must be aware of this pluralism and should proactively monitor trends within partner countries to detect promising approaches that might interest other countries as well.

It has become evident that the role of traditional development cooperation is shifting away from providing high-end expertise and technical advice, and toward international cooperation that goes beyond aid to brokering and facilitating knowledge sharing. Partner countries no longer expect the delivery of predefined solutions from industrialized countries; rather, they want to compare different options from around the world and pick those features that suit them best.

Engaging in global peer learning and knowledge-sharing activities certainly challenge the conventional wisdom of development cooperation. Partner countries now expect traditional donors to change their attitudes and recognize that partners have equal experience and knowledge. The AFI example is evidence that learning flows must become multidirectional. For example, in many developing countries, new technologies in e-banking and mobile payment systems are replacing paper money for many daily transactions, and industrialized countries cannot ignore these trends. AFI members are also "leapfrogging their peers in high-income countries"⁴ by driving enabling regulatory frameworks.

The discourse on horizontality in international relations already implies that true knowledge sharing can only take place on a level playing field. However, traditional development cooperation has yet to fully embrace this new role, and industrialized countries still do not recognize the extent to which they can learn from the developing world. Being a broker and facilitator of global peer learning differs substantially from its long-time role as an expert advising a counterpart, and it implies a high level of service orientation and culturally sensitive communication.

⁴ Alfred Hannig, Executive Director of AFI, 2013

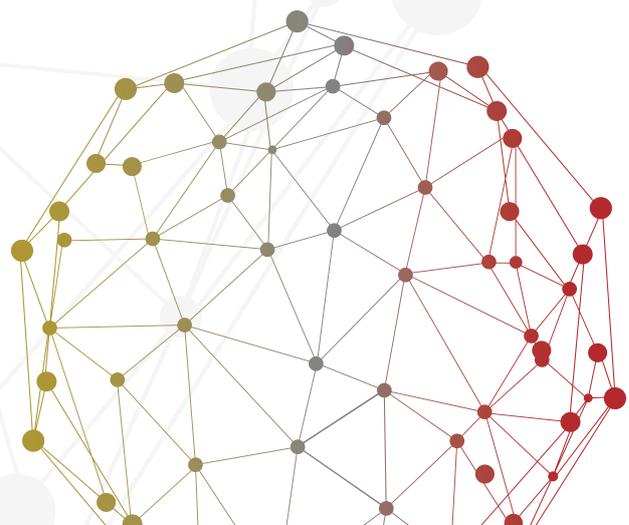
AFI emerged from a unique constellation of factors. The pressing problem of financial inclusion in developing countries drove a group of core actors to join forces. Replicable innovations emerged in several developing countries and competent national institutions not only had very similar political mandates, but also shared a common goal of expanding access to formal financial services. Thus, there was strong demand for knowledge sharing. Following thorough analysis and reflection, a peer learning network emerged that promised to bridge this gap and fill the institutional vacuum.

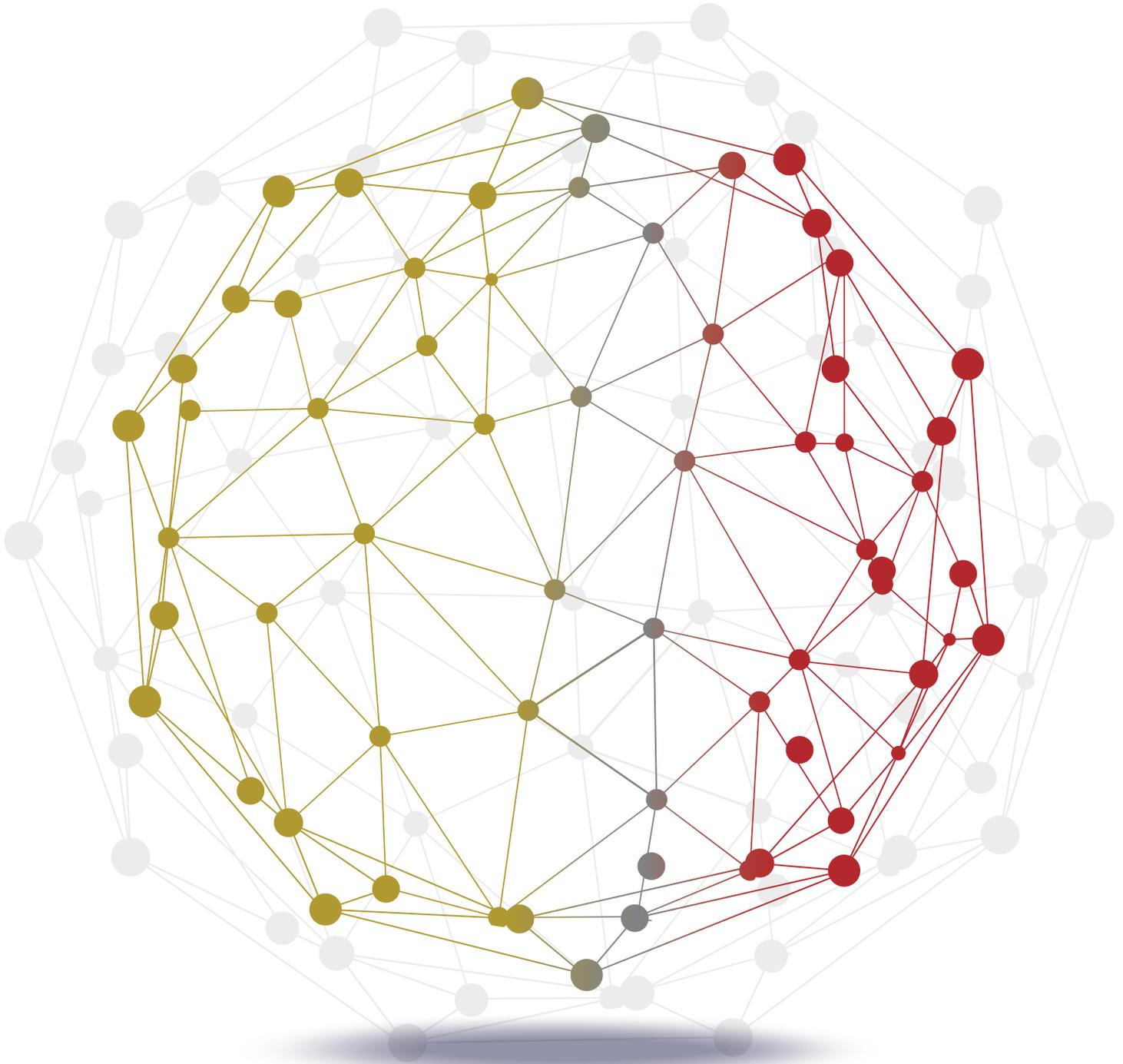
Can a peer learning network like AFI be replicated? This must be determined on a case-by-case basis, with three basic questions asked at the outset: Who needs to be involved in the network? What is its area of focus? How does the network achieve its goal?

There is another lesson to be learned from AFI as well. Looking back at the origin of AFI, it is clear that the idea to set up a network evolved gradually. This explorative approach was only possible because the BMGF and GIZ provided space for unconditional 'blue sky thinking'. There was resistance to be overcome in both organizations, but it was because of the vision and dedication of the people involved that AFI became a reality.

Thus, a network's methodological design needs to clearly reflect the core problem it is attempting to address. Given the complexity of development challenges, this means there is never a 'one size fits all' solution. The peer learning approach is suitable in very specific circumstances; in AFI's case, a historic constellation of an urgent problem, available solutions, homogeneous mandates and a common objective.

Perhaps AFI can only be replicated under very similar conditions. However, we can create an enabling environment for innovation if we provide time and room for creative thinking, the initiative and dedication of individual leaders and strong high-level support.





The AFI Approach: A New Model for International Cooperation

giz Deutsche Gesellschaft
für Internationale
Zusammenarbeit (GIZ) GmbH

 **afi** Alliance for
Financial Inclusion
Bringing smart policies to life

BILL & MELINDA
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