



Lessons Learned Series

Strengthening Financial Sectors

NOTE NUMBER 2
December 2015

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The FIRST Lessons Learned series is a synthesis of FIRST's experiences and lessons gained from technical assistance engagements funded by FIRST.

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Developing a National Financial Inclusion Strategy: The Paraguay Experience

Context

Paraguay's real gross domestic product has grown an average of about 4 percent per year since 2005. But that growth has not permeated to all segments of society, and poverty remains stubborn. Poverty, particularly extreme poverty, is entrenched in the rural areas. Approximately 40 percent of the population live in rural areas, including more than half the poor and more than two-thirds of the extreme poor.¹ Low access to formal financial services, especially among the rural poor, is one of the major development challenges in Paraguay. According to the 2013 Paraguay Financial Inclusion Survey (EIF),² 29 percent of adults report having an account at a formal financial institution, a commonly used global metric of financial inclusion. This places Paraguay well below the regional average for Latin America and the Caribbean of 51 percent.³ For the 71 percent of adults who lack a formal account, approximately 3.2 million people, this exclusion is even more acute among the poorest in Paraguay. Eighty percent of the poor do not have accounts at a formal financial institution. The variation in ownership of formal accounts tracks closely with demographic and socioeconomic characteristics. Data show that the largest gaps are across income and education lines, although there are also significant differences between rural and urban populations, across employment categories, and among regions. For example, 14 percent of Paraguayans reported that they saved at a formal financial institution within the last 12 months. A demographic segmentation of this same data shows savings rates of 19 percent in urban areas, 12 percent in rural areas, and only 7 percent of those in the lowest quintile of poverty. The government has adopted a specific focus on the underserved and unserved, particularly the extreme poor (10 percent of population) and the poor but not extreme poor (11 percent of population). The majority of the poor and extreme poor live in a geographic district that is not served by a bank, finance company, cooperative branch,



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agent, or ATM. This significantly affects their ability to save monetary assets that are readily accessible in times of acute need and emergencies.

Enhancing financial inclusion is critically important to economic growth, poverty reduction, and reducing income disparities and therefore is at the core of Paraguay's poverty reduction strategy. It is one of the pillars of the National Development Plan,⁴ which has a series of objectives and development goals targeted for achievement by 2030.

Financial inclusion has been at the center of Paraguay's programs on poverty reduction.

—Santiago Peña, Minister of Finance, Paraguay

The government has been increasingly engaged in expanding access to financial services to a greater percentage of the population. More than 50 initiatives led or promoted by ministries, multilateral organizations, donors, NGOs and other private sector entities have been aimed at improving financial inclusion. These efforts however were not well coordinated and in some instances there were overlaps.

About two years ago, we started to develop this idea of having a national strategy on financial inclusion and it was amazing how we found a lot of efforts of public

institutions, private sector institutions that were moving towards this objective but on an uncoordinated basis.

—Santiago Peña, Minister of Finance, Paraguay

The government recognized the need for a National Financial Inclusion Strategy (NFIS) that was comprehensive and widely supported among stakeholders. As such the Central Bank of Paraguay (BCP) approached the Financial Sector Reform and Strengthening (FIRST) Initiative to provide policy advice and technical assistance to support the development of an NFIS and to support the initial stages of implementation.

FIRST Initiative’s Response

The FIRST Initiative responded by supporting the development of a National Financial Inclusion Strategy, with the objectives of determining the national direction, articulating a vision, and expanding financial inclusion of the population in Paraguay. The aim of FIRST’s support was also to enhance synergies, coordinate and sequence the multiple initiatives, ensure that the initiatives addressed impact assessment and quality control to make financial inclusion sustainable, set national indicators, develop an action plan, and support the implementation of the NFIS. The FIRST Initiative provided technical assistance in the amount of \$325,000, which supported the development of the NFIS⁵ the governance structure, the drafting of three technical notes (demand side, supply side, and legal and regulatory constraints),⁶ dissemination activities, and stakeholder consultation.

FIRST has played an important role in Paraguay’s effort to first have approved a national strategy on Financial Inclusion. We were able to put together with the support of the World Bank and have the national strategy approved in less than 12 months. The staff of the World Bank was up to the challenge in having this momentum in implementing this national strategy with the speed and the intensity that we wanted.

—Santiago Peña, Minister of Finance Paraguay

First, the World Bank project team and consultants (the Team) supported the government of Paraguay, various ministries and agencies, and the BCP (together, the Authorities) in the establishment of the National Committee for Financial Inclusion by providing technical input for the drafting of a National Decree, followed by the formulation of the technical analyses. The analytical work provided the basis for the development of the strategy. The government of Paraguay officially launched the NFIS at a public event on December 2, 2014.

Five Key Lessons from Paraguay’s Experience in the Development of an NFIS

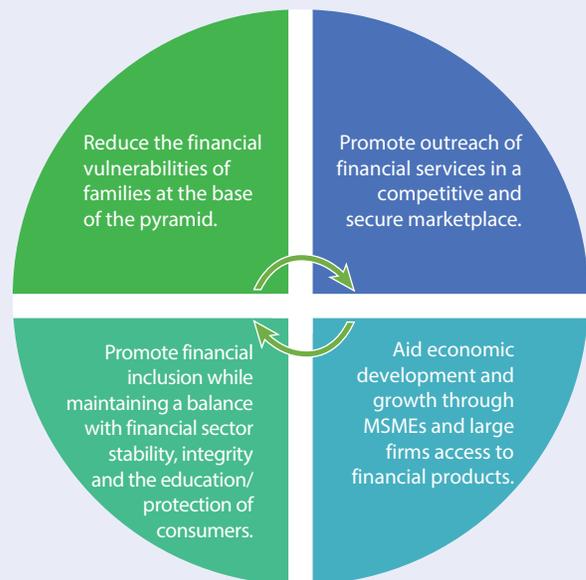
Paraguay’s experience in the development of an NFIS provides some key lessons for other countries. (See figure 1.) The Authorities developed a comprehensive and focused strategy that has four high-level objectives for an inclusive financial sector. (See figure 2.)

FIGURE 1. Five Key Lessons Learned

1. Robust and in-depth analytical work is needed to understand the contextual constraints
2. High-level government support and commitment
3. Appropriate implementation support framework
4. Broad-based stakeholder involvement including the private sector
5. Implementation focused strategy with robust monitoring and evaluation

In addition to a well-designed strategy, the process used in the development of the strategy in Paraguay resulted in immediate and tangible benefits and have significantly increased the chances of successful implementation. The inclusiveness of the process led to increased financial inclusion knowledge and capacity building of the Authorities and deepened the cooperation and collaboration of all stakeholders including the private and public sectors. The consultative process has already led to expressions of interest in financial and technical support by donors, which is critical to the implementation of the agreed-upon reforms. The strong ownership of the development of the NFIS by the government of Paraguay is a positive factor for prospective donors, as it is often correlated with the success of a program. Another significant achievement is that there is national consensus for financial inclusion reform towards economic growth and poverty reduction. The Authorities now have a more coordinated and prioritized approach to managing the reforms, and they continue to leverage the public-private

FIGURE 2. Objectives of NFIS



Note: MSME = Micro, small, and medium-size enterprises.



partnership through the working groups. In addition, the strategy leverages and builds on some of the financial inclusion initiatives that were already in place.

Lesson 1: Robust and in-depth analytical work is needed to understand contextual constraints

In-depth data analysis is necessary to achieve a thorough understanding of the constraints that prevent financial inclusion and to provide a focus for the development of the NFIS and to set its priorities. At the outset, there were weaknesses in the quality of the data available from existing sources, including (1) the risk of double counting persons who had accounts at different institutions; (2) the difficulty in obtaining accurate and updated data on small and medium-size enterprises; and (3) the unavailability of data on the large informal sector and the vulnerable populations. Therefore the Team and the Authorities undertook in-depth data collection and analytical work to provide a strong basis for the development of the strategy. The first step was the analysis of the demand-side constraints using the data collected through the EIF survey, which measured the financial behavior of adults in Paraguay. These data were used to identify priority populations, set national financial inclusion targets, and design reforms and interventions to advance financial inclusion. The demand-side analysis was complemented by supply-side analysis, that is, the availability and quality of financial products (savings, credit, payments, and insurance) and service providers, focusing mostly on formal providers, and to a lesser extent, semiformal and informal service providers. The Team then supported the analysis of the legal and regulatory constraints to financial inclusion. These three technical assessments served as the analytical basis for the development of the NFIS.

The analyses undertaken by the Team, which were based on data collected in 2013, updated and expanded the data available from Global Findex 2011. The analyses provided more current data on which to develop the NFIS and led to a deeper understanding of the financial inclusion landscape in Paraguay. Further, the data collection was refined to more accurately capture the Paraguayan context—including the unique role of cooperatives and mobile money—and additional categories were included, such as payments, insurance, and financial capabilities. A good example of how in depth and tailored analysis can inform policy design was seen in Paraguay where the adult population was segmented into five groups according to income level. This provided a focus for the strategy, its policy actions, and an understanding of the financial services needs of specific segments of the population.

The data and diagnostics were also used as a baseline to set the financial inclusion targets and to monitor progress made toward their achievement.

Equally impressive has been the rigorous and thoughtful process leading up to the strategy's creation. Recognizing the vital role of data on development of effective plans and policies, [Paraguay] generated solid new demand- and supply-side data to augment the Global Findex report.

This new research has allowed for deeper insight into crucial topics such as remittances, insurance and the fast growing mobile financial services industry.

—H.M. Queen Maxima of the Netherlands and U.N. Secretary General's Special Advocate for Inclusive Finance for Development in her congratulatory remarks (sent by [video](#)) at the launch of the NFIS in Paraguay

Lesson 2: High-level government support and commitment is paramount

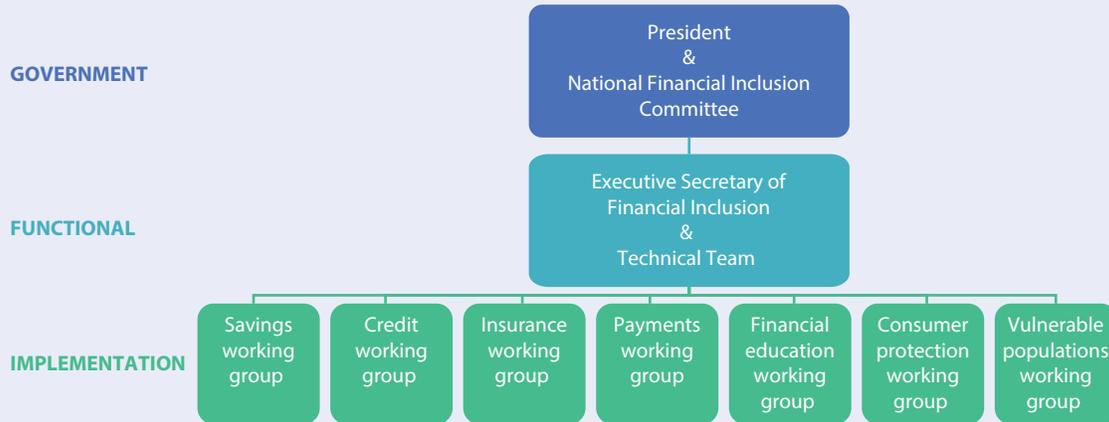
High-level government support and project champions were key factors in the success of Paraguay's program. The project received the full support of the highest political leadership and of key influencers throughout the process. The President of Paraguay set the tone by taking on the leadership of the financial inclusion agenda and providing the official national endorsement of the government. The government of Paraguay demonstrated its support by passing the Decree 1971 on July 22, 2014, issued by the Office of the President, which established a National Financial Inclusion Committee. The committee consists of senior representatives from the BCP, the Ministry of Finance, the National Institute of Cooperativism (INCOOP), which regulates cooperatives (including savings and loan cooperatives), and the Secretary of Technical Planning (STP) and is chaired by the Minister of Finance. Several other key senior government officials championed the project and supported and influenced the process in a positive way. Moreover, the development of the NFIS is strategically relevant to the achievement of the Paraguay's universal access goal, which is included in its National Development Plan 2030 and reinforced in its commitment under the Maya Declaration.²

The use of a presidential decree, the link to the national development plan, and the staffing of the National Financial Inclusion Committee with very senior officials, demonstrates the importance of financial inclusion to Paraguay and its prominence as a national priority. At the launch of the NFIS, H.M. Queen Maxima of the Netherlands recognized, in her congratulatory remarks, the importance of strong political will and support to the success of development of an NFIS and commented that "Paraguay's example offers an inspiring lesson to the World on how quickly progress can happen when the political will is strong and partners share a common vision."

Lesson 3: An appropriate implementation support framework is essential

An appropriate implementation support framework (ISF) to manage and lead the reform effort is essential to the objectives of the financial inclusion agenda. The ISF in Paraguay used a multitiered approach for the development and implementation of the NFIS recommendations. The ISF provides clearly defined roles and responsibilities and recognizes the importance of including stakeholders at various levels. (See figure 3.) During the NFIS development phase, the ISF included tiers 1 and 2—the government and functional levels. Following the development of the NFIS, the ISF was expanded to

FIGURE 3. Implementation Support Framework



include seven working groups, based on the seven key areas of the NFIS, to support the implementation of the recommendations. Each working group comprises both private and public sector representatives. The expanded ISF will remain in place throughout the implementation phase of the NFIS.

At the highest level, the overall responsibility for financial inclusion reform rests with the President of Paraguay and is supported by the National Financial Inclusion Committee, which has overall responsibility for the oversight, coordination, and implementation of the NFIS. The National Financial Inclusion Committee comprises the heads of the Ministry of Finance, the BCP, the INCOOP, and the STP. At the functional level, an Executive Secretary of National Financial Inclusion was appointed to act as a coordinator of the NFIS process. The Executive Secretary is the national and international advocate of financial inclusion, ensures the progress and successful implementation of the strategy, and oversees the technical working groups that are established by the National Financial Inclusion Committee. The Executive Secretary is supported by an inter institutional technical team comprising representatives from the four aforementioned organizations, which actively lead and participate in the different working groups. The Executive Secretary is appointed by and reports to the National Financial Inclusion Committee.

The commitment of human and financial resources is critical to successful implementation. A dedicated full-time team to manage the process is critical to the program's success. Although the commitment of the members of the working groups is evident, the reality is that many of the working group members have primary responsibilities in addition to their financial inclusion work. The risk therefore is that of a loss of momentum and focus. Thus, going forward full-time staff should be dedicated to executing the strategy. The government would need to secure funding and to provide the necessary annual allocation to support the ongoing implementation efforts and funding of the technical team and the Executive Secretary.

Lesson 4: Broad-based stakeholder involvement, including the private sector, is critical

It is important to engage key stakeholders, especially in the private sector, as early in the process as possible and to keep them engaged throughout. The Team and the Authorities recognized the importance of broad-based stakeholder consultation both for obtaining valuable perspectives and for gaining buy-in and support for the process. The general public, and the private and public sectors were involved as early as the data gathering and diagnostic stage. Cross-sections of the population were surveyed to assess the type and level of financial services demanded. Interviews were conducted with financial services providers, to analyze the supply of financial services, and with regulators. Once the technical notes and draft strategy were prepared, a large representative group of stakeholders was invited to a forum to provide feedback on the draft strategy, which had been circulated in advance. The stakeholders included private sector organizations, such as banks, cooperatives, NGOs, multilateral agencies, and public sector representatives, such as the Ministry of Finance, the BCP, the INCOOP, the STP, and other ministries and public financial institutions. A substantial number of comments was received, which the Team and the Authorities reviewed, responded to, and incorporated into the final strategy. The NFIS was then endorsed by the President of Paraguay at a public event that was attended by senior government officials, private sector representatives, international donor agencies, and NGOs. Much of the work was done and continues to be done with active participation of both the private and public sectors as they participate in the working groups established for the implementation of the NFIS.

The recognition and inclusion of prospective donors as a key stakeholder group proved hugely beneficial. Various donor agencies were included throughout the process including the German Society for International Cooperation, Ltd., the Spanish Aid Agency, and the Inter-American Development Bank, which provided useful insights and feedback based on their international

experience with similar work. This was invaluable. Now that the strategy is complete, some donors have been in discussions with the Authorities on funding the implementation of specific priority areas.

Close collaboration and consultation with the financial sector regulators is critical to understanding the interdependence of financial inclusion and financial stability. In Paraguay, the regulators were actively involved in the design of the NFIS and are involved and represented at all levels of the implementation support structure. Both the BCP and INCOOP are represented on the National Financial Inclusion Committee, as well as at the technical level in the working groups. The involvement of the regulators in the development of the financial inclusion agenda is essential because the innovations necessary for progress in financial inclusion change the nature and levels of risk that regulators must manage. The financial services regulators also identified regulatory barriers to implementing the proposed reforms.

Lesson 5: Focused strategy with a robust monitoring and evaluation framework

The strategy must be focused on implementation, include a clear action plan, and provide a robust monitoring and evaluation (M&E) framework. The Authorities in Paraguay developed a time-bound, prioritized set of actions to be implemented. The action plan contains key performance indicators (See annex I.) that incorporate approximately sixty policy actions distributed across seven working groups. Each policy action includes a clear description of the task, the level of priority of the task, and an estimated date by which it should be completed. The policy actions were agreed upon through a consensus building, consultative process that included both private and public sector representatives and other key stakeholders.

A robust M&E framework is critical for evaluating (1) whether the project is on track; (2) the need for adjustments along the way; and (3) whether the project's objectives are being achieved and having the desired impact. The Authorities have developed a comprehensive M&E framework that includes key performance indicators for each thematic area, specific targets, the agency responsible for implementation, data collection and reporting, and the frequency of reporting. National targets were developed with the input of stakeholders. Indicators for financial inclusion were used to set the targets and will be used to monitor progress toward their achievement. The core indicators used were consistent with the G20 basic set of financial inclusion indicators prepared by the Global Partnership for Financial Inclusion subgroup on data and measurement.

To support the M&E, each working group is required to report its progress quarterly to the Executive Secretary. The Executive Secretary, with the support of the technical team and the working groups, will report annually on its activities and progress toward the achievement of the key performance indicators and the action plan. The annual report will be submitted to the National Committee for Financial Inclusion. In addition to the reporting on activities completed, the Authorities have committed to periodically conduct a full,



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demand-side financial inclusion survey to measure progress against the 2013 baseline survey. The initial survey is expected to start in 2017 with results available in 2018.

Conclusion

The development of an NFIS is a critical step toward increased financial inclusion, shared prosperity, and lower levels of poverty. The availability of affordable credit and savings can lead to greater income security, smoother consumption and investments, and poverty reduction. Paraguay has rightly recognized the importance of greater financial inclusion for the achievement of its national development objectives. It is important to note, however, that the strategy is a means to an end and not an end in itself. Therefore, the Authorities should continue to leverage the momentum gained thus far and push through to implementation. A strong framework is essential not only to support the development of a well-designed strategy, but also can be leveraged to support the implementation of the financial inclusion reforms.

At the time of writing (October 2015), the implementation of the NFIS had just begun. The Authorities can point to several successes to date. There is now a national consensus for reforms to achieve a more inclusive financial sector, economic growth, and poverty reduction. The inclusiveness of the planning process has increased national knowledge on financial inclusion, improved the ability of the Authorities to build capacity, and contributed to a strong spirit of cooperation among private and public sectors and other stakeholders. The Authorities should continue to leverage the public-private partnership in the implementation phase. In addition, the early inclusion of donors has already led to commitments of financial and technical support, which are critical to the implementation of the agreed-upon reforms.

Given the strong framework used for the development of the strategy and the commitment of the stakeholders, Paraguay is poised for successful implementation. The authors encourage readers to monitor Paraguay's progress toward greater financial inclusion, poverty reduction, and shared prosperity.

ANNEX I. Key Performance Indicators (KPIs)

Vision	Quality and affordable financial services for all people in Paraguay who want them through a diverse and competitive marketplace	
Objectives	<ol style="list-style-type: none"> 1. Reduce the financial vulnerabilities of families at the base of the pyramid; 2. Promote outreach of financial services in a competitive and secure marketplace; 3. Aid economic development and growth through access to financial products for micro, small, and medium-size enterprises and large firms; and 4. Promote financial inclusion while maintaining a balance with financial sector stability, integrity, and the education and protection of consumers. 	
Thematic Area	KPIs to be Achieved by 2018	Quick Wins
Savings	Increase savings account ownership from 29% to 50% and usage from 14% to 30% of the adult population	Issue guidelines on requirements for opening savings accounts
Credit	Increase responsible credit to MSMEs from 30% to 40% and increase the share of responsible borrowing at formal financial institutions from 23% to 28% of persons over age 15	Ensure that BCP's and INCOOP's credit risk information systems communicate with each other
Insurance	Increase insurance coverage from 26% to 36% of adults	Feasibility of implementing agricultural insurance for small and medium-size producers
Payments	Decrease the use of cash or checks for salary and wage payments from 76% to 20%	Convert the central government's outgoing and incoming payments to electronic means
Financial Education	Increase the percentage of adults age 15 and older who receive training and support in managing personal finances from 10% to 20%	Develop financial education tools and guidelines for use by educational institutions, social service agencies, and financial institutions that emphasize the needs and characteristics of vulnerable populations including credit cards, interest payments, loans, savings, and insurance
Consumer Protection	Require that all financial services providers publicize appropriate arrangements to manage customer complaints	Improve the transparency of interest rates and fees through total cost of credit disclosure for all lenders
Vulnerable Populations	Offer appropriate financial services to all 69 financially underserved districts in the country with a priority on the 17 vulnerable districts that are part of the government's plan to end extreme poverty	Leverage the widespread use of mobile phones and coverage of mobile network operators to further the expansion of saving among vulnerable populations

Notes

Acknowledgments: The authors thank the FIRST Initiative's Senior Program Manager, Consolate K. Rusagara, for overall guidance and supervision; and Rekha Reddy, Caroline Cerruti, Michael Edwards, and Leyla Castillo for providing peer-review comments.

1. The categories of poor and extreme poor are calculated using the cost of a basic food basket and the cost of a total basic basket. These costs are compared with the per capita family income obtained from the household permanent survey. If per capita income is below the value of the basic food basket, households are categorized as living in extreme poverty. If per capita income is higher than the value of the basic food basket, but lower than the value of the total basic basket, the household is considered poor.
2. For its initials in Spanish (Encuesta sobre Inclusión Financiera). The EIF was carried out in November 2013 through face-to-face interviews and updates and expands the 2011 Global Findex data for Paraguay. The 2013 EIF results are largely consistent with the results from 2011 Global Findex data collected in Paraguay, though there are signs that progress was made in the two years between the surveys, particularly with respect to mobile money.

3. Global Findex 2014 was used for the LAC data while the 2013 Financial Inclusion Survey (EIF) was used for Paraguay. The data may not be perfectly comparable because the methodology used by Global Findex is slightly different from that used in the EIF. However the essence of the comparison is valid. Paraguay was not included in Global Findex 2014.
4. <http://www.stp.gov.py/pnd/wp-content/uploads/2014/12/pnd2030.pdf>.
5. <http://documents.worldbank.org/curated/en/2014/12/24299747/paraguay-national-financial-inclusion-strategy-2014-2018>.
6. The demand side, supply side, and legal and regulatory technical notes are available in Spanish and English at <https://www.bcp.gov.py/estrategia-de-inclusion-financiera-i459>.
7. The BCP committed to actively engage in the corporate governance and implementation of the NFIS and to reach a deposit to GDP ratio of 50% in 2015. Currently the ratio of deposits to GDP is 41.7%.

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Grace, Dave; Hwang, Jane; Mora, Alfonso Garcia. 2014. *Paraguay - National financial inclusion strategy 2014-2018*. Washington, DC: World Bank Group. <http://documents.worldbank.org/curated/en/2014/12/24299747/paraguay-national-financial-inclusion-strategy-2014-2018>.