THE FLETCHER SCHOOL

Leadership Program for Financial Inclusion

Policy Memoranda

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Foreword

The policy memos contained herein are the capstone achievements of the seventh cohort of the Fletcher Leadership Program for Financial Inclusion (FLPFI). We are proud of the outstanding work this class has completed to join our FLPFI alumni community, which is now over 100-strong!

This year, we accepted seventeen fellows across fourteen countries from a large and talented pool of applicants. Our 2018 cohort hailed from sub-Saharan Africa, North Africa, Latin America, Europe and Asia, and represented regulatory and supervisory bodies that focused on credit, savings, payments and small enterprises. FLPFI also welcomed its second fellow from a Telecommunications Authority, demonstrating that financial inclusion is not only the responsibility of Central Banks and Ministries of Finance. This year, fellows grappled with important and diverse financial inclusion challenges, including customers' lack of trust in deposit-taking microfinance banks in Pakistan, improving customer protection in Kenya's SACCOs, promoting mobile money usage among illiterate women in Liberia, lowering the cost of remittances sent from the United States to Mexico, and expanding the use of medical aid funds in Namibia.

The policy memos in this publication are the culmination of the FLPFI fellowship, an intensive nine-month executive certificate program designed to help individual policymakers increase the likelihood that their financial inclusion policies will be well-designed and implemented. The fellowship creates a space where even the most expert policymaker is encouraged to ask questions and be curious, and, above all, to stay mindful of the potential client, think critically, and look for evidence to guide decision-making at every step of the policy process.

At the heart of the fellowship is the Eight Question Method for Policy Development (8QM)—an adaptive framework that guides fellows sequentially through critical steps related to problem identification, solutions development, policy formulation and selection, negotiation, persuasion, implementation, and monitoring and evaluation. Each problem and policy solution must be substantiated with evidence and focused on the needs of the target population. Policy options are weighed against key criteria such institutional priorities and capacities, existing evidence and gaps in the policy landscape.

Our fellows quickly become expert at using the 8QM to analyze and design policy. Take, for example, Phindu Lipenga from the Reserve Bank of Malawi. Phindu focused on the difficulty that microentrepreneurs in Malawi face to mobilize capital. She analyzed the causes of the problem and found evidence that most microentrepreneurs lack collateral and credit history, and are therefore considered risky borrowers by microfinance banks. Phindu weighed several possible solutions before working to develop a policy tool that helps microentrepreneurs to develop a credit history based on the repayment of small digital credit loans. Phindu's policy recommendation took into account evidence of the problem and potential solutions, the stakeholders involved, and the feasibility of implementing the policy tool.

Each fellow is proposing a policy that is novel in her or his context. This necessarily implies that iterative learning and adjustment will be needed to optimize the policy. For example, the fellows from Paraguay, Zambia, Malawi, and Uganda are all working to expand access to and usage of mobile money. The fellows from Albania, Morocco, Nigeria, Uganda, Pakistan, Egypt, and Bangladesh are each trying to expand the product offerings for underserved populations, including women, those affected by shocks or those living in remote or conflict-affected areas. While there are commonalities across these problems, based on careful analysis of their unique context, each fellow has designed a different policy tool. As their policies roll out, the fellows will continue to learn from each other and others working in these spaces to adjust course and offer complementary policies. There are few analogous contexts from which to draw lessons; they are at the vanguard and are prepared to learn and share lessons as they go.

The best evidence of a policy's efficacy comes from the results of trial, error, and commitment by policymakers to continuous improvement. Our fellows inspire us with their unrelenting passion to improve financial inclusion in their countries. We admire their ability to critically evaluate problems and creatively develop solutions. We hope that the skills, knowledge, and community gained through their fellowship may serve them well in these endeavors for years to come.

Jenny Aker

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Contents

Financial Inclusion and Gender

Gender Mainstreaming Policy for Women's Financial Inclusion 3
Faiqa Naseem, Deputy Director, State Bank of Pakistan

Empowering Egyptian Women Is Empowering the Majority of Society: Transformation of Informal Savings and Lending to the Formal Financial Sector 9
Khaled Bassiouny, General Manager of Financial Inclusion Department, Central Bank of Egypt

Deepening the Inclusion of Women in Liberia into the Formal Financial Sector Using Mobile Financial Services 13
Erica Reeves Williams, Assistant Director, Digital Financial Services and Consumer Protection Unit, Central Bank of Liberia

Mobile Financial Services

Building the Bridge between Mobile Accounts and Savings Accounts 21
Christian Tondo, Director for Financial Inclusion, Central Bank of Paraguay

Promoting the Use of Mobile Money Products to Increase Access to Formal Financial Services in Rural Zambia 27
Muuka Madubeko, Manager Payment Systems Operation, Bank of Zambia

Incentivizing Mobile Money Account Holders for Increased Adoption and Usage of Digital Financial Services in Malawi 33
Paxon Kaude, Manager, NPS Policy & Oversight, Reserve Bank of Malawi

Mobile Money Interoperability in Uganda—Challenges and Practical Solutions 39
Kenneth Tweheyo, Head-Competition and Consumer Affairs, Uganda Communications Commission

Consumer Protection

Deposit Protection Scheme for Microfinance Banks (MFBs) to Boost the Confidence of Low-Income People for Using Savings Products of MFBs 47
Farzand Ali, Joint Director, Financial Stability Department, State Bank of Pakistan

Policy Memo on Enhancing Financial Inclusion in the Sacco Sub Sector in Kenya through Development of a Market Conduct Regulatory Framework 51
Keneth O. Bichang'a, Research and Policy Analyst, Sacco Societies Regulatory Authority (SASRA), Kenya

Remittances

Efficient Mechanisms for Increasing Cross-Border Remittances Received by Mexican Households 57
Marco Del Rio Chivardi, Deputy General Director, General Direction of Access to Financial Services, National Commission of Banking and Securities

Financial Access

Increasing Financially Included Population in Albania—Two Solutions for Policymakers 65
Anjeza Beja, Director, Payment Systems, Accounting and Finance Department, Bank of Albania

Easing Access to Financial Services to the Poor in Morocco 71
Hakima El Alami, Deputy Director, Central Bank of Morocco (Bank Al-Maghrib)

Easing Access to Use Quality Health Care Services and Products by 85% of the Namibian Population 75
Simana Chimana, Policy Advisor, Namibia Financial Institutions Supervisory Authority

Enhancing Access to Sustainable Finance for Micro Enterprises in Nigeria—Focus on the Most Financially Excluded Regions 79
Sophia Ojoma Abu, Assistant Manager – Financial Inclusion Secretariat (Development Finance Department), Central Bank of Nigeria

Microfinance Borrowing: Enablement through Data Submission by Mobile Network Operators (MNOs) to Credit Reference Bureau 85
Phindu Lipenga, Principal Examiner, ICT, Reserve Bank of Malawi

Financial Resilience

Enhancing the Financial Resilience of Rural Households that Depend on Rain-Fed Agricultural Incomes in Uganda 91
Kezekia Lwanga Golooba, Senior Economist, Ministry of Finance, Planning and Economic Development - Uganda

Managing Aftershocks of a Disaster: How Can the Financial System of Bangladesh Support Poor Workers after a Workplace Accident? 95
Shoheli Afrin, Joint Director, Bangladesh Bank

Financial Inclusion and Gender

Gender Mainstreaming Policy for Women's Financial Inclusion

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Executive Summary

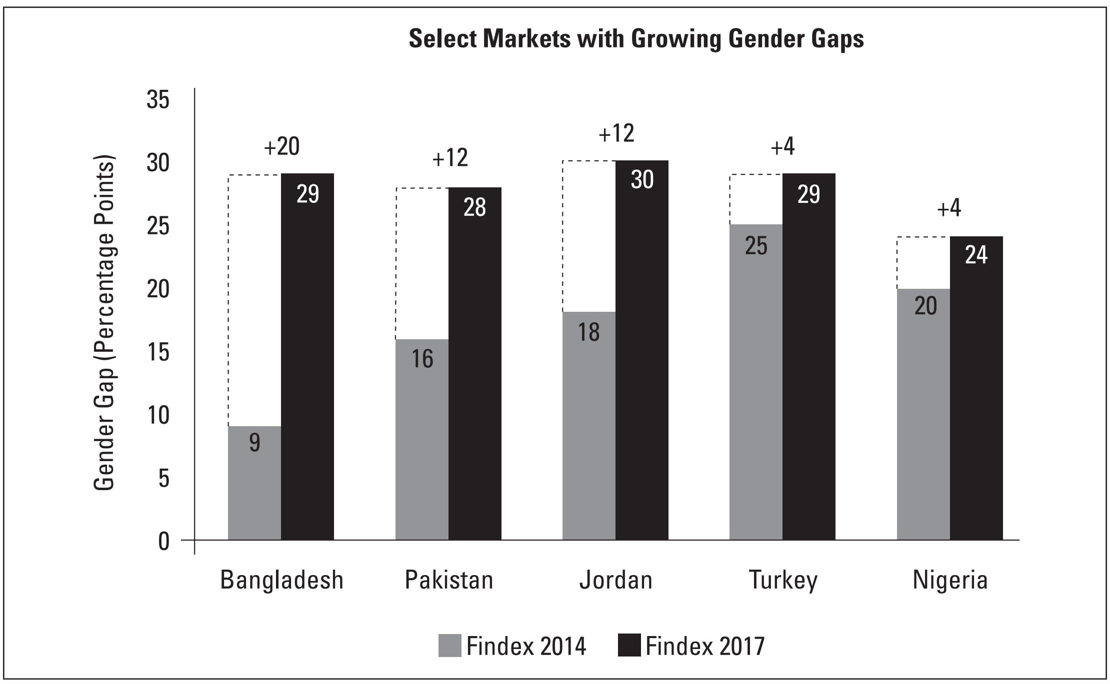
Pakistan's financial systems continue to underserve women clients who are in need of formal financial services. In this analysis, a comprehensive gender mainstreaming policy is proposed for the financial sector. It entails mandatory financial products development for women, introducing women desks at bank branches, maintaining gender balance in bank representatives and branchless banking (BB) agents, initiating awareness initiatives for women, and collecting gender-disaggregated data. The policy recommendations will be imbedded within the country's National Financial Inclusion Strategy.

Problem and Context

Equivalent opportunities for both men and women for accessing and pursuing all financial and professional endeavors are critical for sustainable and inclusive economic growth in any country. Improved gender parity in financial and economic opportunities can enhance socio-economic development outcomes for not just the present but future generations, while better opportunities for women to earn and control income could contribute to broader economic development in developing economies[1] (Elborgh-Woytek et al. 2013).

Women's equal access to financial services becomes a priority for a country like Pakistan whose population of 207.8 million includes 49% women who largely lag behind men in terms of financial inclusion and contribution to economic activity.[2] Despite the fact that women have made some progress in terms of financial inclusion, a gaping gender divide exists in the country, which is one of the widest among its South Asian peers.[3]

Figure 1. Country Comparison of Gender Gaps in Financial Inclusion



As per the Findex 2017, 21% of adults in Pakistan have a formal financial account in Pakistan increasing from 13% in 2015 (World Bank 2017). However, a gender-disaggregated analysis reveals that adult women's formal financial account ownership increased from 4.8% in 2014 to 7% in 2017 while, men's account ownership increased from 21% in 2014 to 34.6% in 2017. This implies that almost 93% of adult women in Pakistan do not have a formal financial account that can provide an avenue for ownership and safe storage of money as well as serve as a conduit for other formal financial services critical for improved socio-economic outcomes for them and their families (Arun and Kamath 2015; Klugman et al. 2014).

Demand and Supply Side Barriers for Women's Low Financial Inclusion

There are several reasons for women's low financial inclusion in Pakistan. According to the Access to Finance Survey in 2015,[4] women are less aware of financial terms and products than men, while employed women are more likely to use formal financial services. In various discussions with low-income women,[5] the most commonly understood value propositioning for opening bank accounts correlates to its effective function of safe-keeping of money. Hence, a formal financial account is a basic need that even urban/rural women can recognize.

However, powerful social norms and cultural traditions play a key role to deter low-income women from opening an account. The norms in rural areas grant men more mobility to travel than women (Tanaka and Muzones 2016), and hence the latter are not adequately aware of financial offerings and how to avail them. In some urban areas, women house helps don't get permission from husbands to open an account to deposit their income. In other cases, women are not encouraged to obtain Computerized National Identity Card's (CNIC), which are mandatory for account opening.[6] The Prudential Regulations for Microfinance Banks (MFB's) instruct MFBs to guide rural women customers to obtain a CNIC for opening a micro-saving account, while allowing MFB's to open micro-saving accounts, based on her father/husband's CNIC for a limited time. Nonetheless, women are neither aware of this facility, nor do banks effectively guide women.

Since many women avoid going to bank branches (Nenova, Thioro Niang, and Ahmad 2009), digital financial services are a promising solution, though success rests on women's mobile phone ownership. Unfortunately, a gender gap exists in phone ownership, where only 46% of women own a mobile phone, compared to 78% of men;[7] in rural areas, households may only have one mobile phone used by all family members.

Hence cultural norms, women's low mobility, financial literacy, and mobile phone access are reasons for women's limited access to formal financial accounts, which marginalizes their ability to safely store money, have ownership of income and finances, formally save, avail credit, or buy insurance.

On the **supply side**, the country's financial industry is progressing, albeit with a glaring gender gap, leaving women largely excluded from the formal financial system. In State Bank of Pakistan's (SBP's) observation, a gendered approach in product development, service offerings, and customer acquisition and facilitation are lacking amongst commercial banks, leaving women segments out of the radar. In cases when some banks have initiated focus on women with re-branded credit cards and checkbooks, it seems as mere feminization of existing products, leaving a vacuum of adequate and meaningful value propositioning which could be filled through tailored reward mechanisms, easier processing of loans, savings plan, targeting women entrepreneurs, etc.[8]

Possible Solutions: Ongoing Initiatives

SBP and the Government of Pakistan have launched a comprehensive National Financial Inclusion Strategy (NFIS), which prioritizes women's financial inclusion, and sets targets to ensure that at least 25% of adult women have a bank account by 2020. However, reaching that target requires an understanding of the ecosystem within which women reside to formulate policies based on their economic and social realities. This implies paying *deliberate* attention to incorporate a gender perspective in policies and business practices, and NFIS offers the optimum framework to achieve it (AFI 2016).

Proposed Solution and Recommendation: Gender Mainstreaming Policy

Gender-neutral policies, assumed to equally affect both sexes, may not be effective against pervasive gender inequalities, which continue to create obstacles in women's financial inclusion.[9] Hence, incorporating gender perspectives to assess the implications for women and men in existing industry practices is imperative to build inclusive financial systems, which serve men and women equally. Accordingly, it is recommended to launch a gender mainstreaming policy for the financial industry to prioritize gender-specific focus in the financial sectors. The policy aims to introduce a gender lens within the financial sector through the following pillars, to enable a shift in women friendly business practices:

1. Women Centric Products:
   All banks must develop suite of financial products and services that cater to women's financial needs (household, entrepreneurial and other) while remaining mindful of existing social norms.

2. Gender balance in Financial Institutions:
   Maintaining gender balance in the "access points" of banks, including bank branches and BB agents, is essential to encourage women towards formal financial services. From a pilot exercise to train women to become BB agents, SBP found that women were more likely to approach a female agent and learn about further financial offerings, compared to with a male agent. Therefore, *indicative gender ratios* must be maintained in bank representatives, and branchless banking agents to cater to urban and rural women, respectively.

3. Improved customer facilitation for women at banks:
   To make women comfortable to approach banks and access financial products suited to their needs, *women desks* should be made in bank branches. The desk should be managed by a bank representative who has completed a gender sensitivity training, is well versed in the bank's financial products for women, and can share details of current government schemes facilitating women. It will also serve as a main contact point for non-financial advisory services, and complaint redressal

4. Mass awareness campaign for women:
   To communicate the initiatives being taken by the industry to include women in the financial sector. Therefore, and industry-wide financial literacy and awareness campaign solely targeted for women should be launched.

5. Collect gender-disaggregated data:
   Recommendations from international policy makers suggest that absence of gender-disaggregated data can create a mismatch of perceived barriers to women's financial inclusion and policy interventions to address these constraints (AFI 2016). Greater focus on women's financial inclusion with quantitative targets can lead to improved women's financial inclusion. Hence bank's will be instructed to start collecting gender-disaggregated data to remain mindful of

women's share in bank account ownership, credit, SME credit, payments, insurance, agri-credit disbursements, Islamic financing, etc.

Policy Implementation

A policy memo will be published to define the commitment of SBP to promote women's financial inclusion in the country through incorporating concrete steps for adopting mindful gendered business practices. The policy recommendations will be finalized after cross-departmental discussions, and industry consultations. The policy will be implemented through a blend of legal and non-legal elements. After Governor's approval, relevant actions will be imbedded within NFIS action plan and its respective Technical committees;[10] while some mandatory instructions will be issued through Banking Policy and Regulations Department. The existing NFIS governance structure includes representation from private and public sector stakeholders will be instrumental for industry buy in and implementation of the policy. The policy will be applicable on Commercial Banks, Islamic Banks, DFI's and Microfinance Bank. Furthermore, it may also be shared with Securities Exchange Commission of Pakistan (SECP) to encourage development of a similar but customized gender mainstreaming policy for the non-banking financial sector.

Ultimately, the policy's success will depend on rallying support amidst multiple stakeholders' priorities. Hence, a consultative forum on gender will be created with representation from banks, BB providers, SECP, and chaired by Deputy Governor SBP.[11] The forum will help push momentum, get industry feedback, gauge implementation, and become a central forum for future policy formulation on gender.

Conclusion

Closing the gender gap is challenging due to strong demand side barriers and gender-blind banking practices. With the proposed policy, gender mainstreaming measures in the financial sector may improve women's financial inclusion.

Notes

1. Women's Economic Empowerment, OECD 2011: http://www.oecd.org/dac/gender-development/womenseconomicempowerment.htm.
2. Pakistan Bureau of Statistics Census, 2017.
3. As per Findex (World Bank 2017), the South Asian average of women with a formal financial account is 64%.
4. A2FS 2015 is a country-specific demand side survey conducted in 2015 and 2008.
5. The author conducted interviews with Mrs. Khalida Zardaad, Mrs. Nazeeran, and Ms. Sagheer between March 1 and 5, 2018. The interviewees were urban low-income, married house helps, working in Karachi. Across the board, the main motivator for working women to open a bank account/mobile wallet, is saving. However, the high expenses of healthcare, house rents, and traveling (to and from home villages) doesn't allow most women to maintain balances in account. Despite that fact, they still see value in opening an account to maintain savings in the future. In almost all cases, women started saving for their children's future.
6. Exchange Commission Pakistan's statistics reveal that only as of September 2017, 41% of women have a Computerized National Identity Card (CNIC), which is a mandatory ID for opening accounts or casting votes.
7. A2FS 2015.
8. In 2017, the government and State Bank of Pakistan introduced a Credit Guarantee and Refinance scheme to promote bank's funds for women entrepreneurs and refinance facilities for banks but its dismal off take reveals limited interest of banks.
9. European Institute for Gender Equality.

10. NFIS covers priority areas such as branchless banking (BB), digital payment systems, Agri. & MSME Finance, Housing Finance, Islamic Finance, Consumer Protection, Financial Literacy, Insurance Pensions, etc., where respective Technical Committees are diligently working in each theme.
11. When the NFIS was launched, there was a Technical Committee on Gender initially envisioned, which was later taken out to make gender a cross cutting theme within the Technical Committees. However, a forum can still be created based on representation of bankers and other stakeholders.

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Empowering Egyptian Women Is Empowering the Majority of Society: Transformation of Informal Savings and Lending to the Formal Financial Sector

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Executive Summary

Women in Egypt equally share society with men, where they represent 49%[1] of the population. According to the Global Financial Inclusion Database, 33% is the financial inclusion rate in Egypt (World Bank 2017), with a 12% gender gap between male and female in terms of access and usage of formal financial services.

Egypt's commitment to advancing women's financial inclusion has been strengthened with the commitment of the Central Bank of Egypt (CBE) to halve the gender gap by 2021.[2]

88% of households in Egypt slums are headed by women[3] who are left vulnerable and exposed to high interest rates on loans and 0 % on savings from the informal sector.

There are some recognized causes for women exclusion, some of which are related to demand side, such as social causes based on wrong perceptions and mistrust, mobility issues, and high illiteracy rates among women in particular, which reaches more than 37%.[4] Others to supply side like lack of adequate products and more strict requirements in dealing with women, especially the poor and unemployed. This policy memo recommends designing and approving a new set of regulations to act as enablers to women inclusion and women economic empowerment, that ultimately leads to inclusive growth and achieving Egypt Sustainable Development Strategy (SDS). Those set of Regulations are basic bank account, agent banking, simplified know your customer (KYC), consumer protection, and finally, allowing saving and lending through mobile wallets.

Problem and Context

Women's access to financial services in Egypt is hindered by many factors, some are social, educational, cultural barriers, and norms that limit women mobility and hence access to formal financial services. Banks are perceived by inhabitants of slums and villages to be only for the rich, hence it would be shame that a woman opens a bank account while her husband doesn't have one, having a bank account would mean the independence of women and that will be rejected by their husbands and fathers, and many other perceptions that limit women from opening a bank account Usually financially dependent women in Egypt are controlled by their parents, husbands, or in-laws.[5]

Other challenges are related to supply side barriers: for example, the cost of finance, where higher interest rates might be imposed on women lending based on the assumption of higher risk; more stricter requirements than those required from men, like request of more collateral requirements; and the guidance[6] of the husband or the parent). (New Faces New Voices 2015)

A true story of Ghada, who is a young ambitious girl living in a slum area, who is forced to marry at the age of 15, and due to traditions in this poor area, women don't usually continue education and are forbidden to work. She lived happily with her husband until he passed away leaving her with three young children with no source of income.[7]

The problem is that 88% of households in Egypt slums are headed by women[8] who are left vulnerable and exposed to high interest rates on loans and 0% on savings from the informal sector.

There are several causes for that, the most important six causes are:

- Unavailability of collaterals—banks do not deal with startups.
- Banks aren't interested to provide financial products to this segment, being considered of higher risk.
- Banks aren't available in slum areas and small villages, where women mobility is a key issue.
- Regulatory framework is a limitation; full KYC and account opening and maintenance fees are burdens.
- Cultural barriers—women being dominated by their parents or husbands.
- High illiteracy rates (Egypt Financial Inclusion Report 2017) that results into misperceptions and mistrust of dealing with the formal financial system.

Potential Solutions

Providing financial literacy through integrating financial lessons within the curriculum of schools and universities, enabling regulations that incentivize women and banks to work together, banks offering diversity of formal financial products that meets women needs, the usage of fintech solutions and Digital Financial Services (DFS) as a catalyst to women financial inclusion, all are possible solutions. Taking into account women's mobility issue, we focus on offering DFS full-fledged banking services (saving and lending) and bank agents as top-priority solutions.

Recommended Policy Solution

This policy memo is to recommend the design and approval of a new set of regulations, since it is the cornerstone that paves the way to all other possible policies. Those set of Regulations will include provisions to enable: basic bank accounts, simplified KYC, agent banking, consumer protection, and finally, allowing saving & lending through mobile wallets.

These regulations are within the CBE authorities to do as well as they tackle:

1. Simplified steps and documents to bring women on board, solving collateral and guidance issues.
2. Designing new value proposition products dedicated for women, solving inadequacy of available financial products.
3. Wide geographical outreach through DFS and bank agents, solving the issue of non-availability of banks branches and women mobility limitation.
4. Offering a financially safe environment to women to guarantee smooth and fair practices while they are new to the formal financial sector, solving illiteracy and mistrust issues.

Key Stakeholders and Implementation

CBE is a key influential player yet not the sole stakeholder, to achieve the recommended policy goals there are several stakeholders who are involved in the policy; there are key stakeholders who are identified, and the implementation plan would include coordination with them. Like the National Council for Women (NCW), Banks, Civil Society organizations, National Telecommunication Regulatory Authority (NATRA) Anti Money Laundering Unit (AMLU), Mobile Network Operators (MNOs), and finally aggregators.

Over a year's time, using a phases approach, CBE will put in place regulations, starting with:

1. Basic Bank Account/Simplified KYC
2. DFS Saving and Lending
3. Agent Banking

The implementation plan is composed of several phases. First, by approving the set of regulations proposed, by CBE top management. Second, CBE Deputy Governor will be meeting with banks' chairmen to emphasize on the importance of banks designing products and reaching to slums women. Third, CBE shall provide all technical assistance to banks on designing those products through our international development agencies partners, and finally, bringing examples from other similar countries showing their experiences, how did they apply, why, and what impact did it bring to the bank and economy are all to be addressed. Parallel with that phase, CBE to initiate workshops that gather all stakeholders to discuss challenges and possible solutions or options.

Is that enough? No. CBE shall be monitoring the number of new products designed per bank, number of new women accounts opened, and will conduct qualitative researches with women to disclose their opinions to assure that our policy is sound and effective.

To sum up, CBE efforts explained aims at availing better and diversified financial services that encourage women to save, borrow, transfer money, and get insurance services, while receiving the adequate consumer protection and financial literacy to guarantee more enabled and informed financial practices, and increase women financial inclusion.

Notes

1. Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), 2017.
2. At the 2017 AFI Global Policy Forum (GPF) held in Sharm el Sheikh, Egypt, the Gender and Women's Financial Inclusion Committee (GWFIC) called on AFI members to halve the gender gap in each of their countries by 2021—setting specific targets on gender diversity and women's financial inclusion, in line with the Maya Declaration, which Egypt got committed to as an AFI member and as deputy chair of the (GWFIC) represented by our Deputy Governor Mrs. Lobna Hilal.
3. Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), 2017.
4. Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), 2016.
5. These facts have been collected while having direct one to one meetings with the target women segment, on February 2018, these findings go in line with the findings of Women's Access to Financial Services in Egypt Report, prepared by: New Faces New Voices, funded by: GIZ, November 2015.
6. Husband's or father's guidance means the necessity of being present only at the initiation of the account, their presence is not required while carrying out any transactions. This requirement is a mal-practice by banks on unemployed women to prove their source of income.
7. Ghada is a microfinance client who was featured in AFI-GPF 2017 in Sharm ElShiekh, Egypt, as a success story of access to finance for women; she was also featured in CBE financial literacy media campaign on national TV.
8. Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), 2017.

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Deepening the Inclusion of Women in Liberia into the Formal Financial Sector Using Mobile Financial Services

Erica Reeves Williams

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Executive Summary

In Liberia, only 32.8% percent of the female population is literate,[1] a situation that impedes access and usage of mobile financial services (MFS). The 13 years of civil war in Liberia affected human capacity development making over 50% of the female population live in abject poverty. They are unable to develop or start their own businesses (UNICEF 2012), or gain access to finance or credit through MFS or the traditional banking sector.

I propose a policy reform of the Mobile Money Regulation and the development of a Micro-Credit Regulation for MFS that would authorize mobile money providers to tailor products to suit the needs of illiterate women. This policy will achieve the Central Bank of Liberia's (CBL's) financial inclusion objectives and assist women with start-up capital to grow their businesses as well as provide them an opportunity to become financially viable.

Key Causes

Mobile Financial Services should be one of the easiest, affordable and fastest ways by which financial inclusion is achieved (GSMA 2014). In the case of Liberia, women's access to MFS is slow considering their level of income or livelihood with limited or no opportunities to do business. For these women, opening a mobile account is difficult since they assume that they have to pay fees or commissions for cashing out their own money or to send money to a relative or friend.

As mentioned above, the 13 years of civil war in Liberia (1990–2003) affected a significant percentage of women and girls (15 years and above), which has resulted into about 68% of illiterate women.

The knowledge gap has also precluded a majority of the population from navigating the product menu on the mobile money platform, which consists of multiple complex features; for example, send money to, paybill, buy airtime, buy bundles, cash-out, pin reset, next (which takes you to an additional menu), etc. This spurs from the issue of low literacy rate in Liberia, which has also affected effectiveness and efficiency of delivering financial services to the disadvantaged groups, with women being more greatly impacted (The Government of Liberia 2009).

The 2017 Global Findex report reflects intake and usage of MFS by women in Liberia to be low (World Bank 2017). Records also reveal that 60% of Liberia's population has access to own a mobile phone (Liberia Country Commercial Guide 2017) with only 18% of women having opened a mobile account (World Bank 2017).

The slow uptake and usage of MFS may have derived from other factors including limitation of product offering in the current Mobile Money Regulation. Access to services in the regulations include; bill payments, tax payments, transfers and savings. Due to this limitation, only a smaller segment of the population is utilizing MFS.

Since the inception of MFS in Liberia in 2009, mobile money providers have continued to design additional products and services with no incentive to motivate the illiterate population, consisting mostly of women. Though the Mobile Money Regulations allows a tiered know-your-customer (KYC) procedure for account opening (facilitating account opening for people without proper identification), women are yet to open accounts. Products designed by providers do not attract many poor users, leaving the illiterate and poor to only cash-out money or not utilize the service at all.

My qualitative research establishes that over 50% of respondents, consisting of lower-income and illiterate women (house helps, street peddlers, and market women), would prefer access to credit on MFS if they were to open a mobile account. Mobile micro-credit is not one of the products provided under the Mobile Money Regulations, though it has the potential of attracting more women.

Another key barrier identified is lack of trust in mobile financial services due to inadequate financial education and awareness concerning usage, benefits, and the importance of mobile financial services. From the qualitative results, it was established that about 25% of respondents had not heard about MFS and its usage and benefits (Lyon 2017). They considered MFS a motivational package used by Mobile Network Operators (MNOs) to attract short message service (SMS) customers.

Potential Solutions

CBL is committed to have more than 50% of women financially included by 2021, using rural community finance institutions (RCFIs), micro-finance institutions (MFIs), and mobile money providers (CBL's declaration at AFI GPF in Egypt 2017). An Agent Banking Regulation was also issued to allow banks to recruit agents (super markets, gas stations, etc.) that would extend banking services to rural Liberia.

These reforms have provided some level of achievements though they may be slow since most women are unable to open formal bank accounts using the requisite KYC requirements.

Therefore, my potential solutions may yield and may be seen from two perspectives:

1. Amendment of the Mobile Money Regulations to authorize providers to design products that are tailored to meet the needs of illiterate women, either using voice prompts or developing a new menu for that segment of the population with another Unstructured Supplementary Service Data (USSD) code.
2. The proposed Micro-Credit Regulation for MFS will expand the digital ecosystem and create a level playing field for commercial banks, MFIs, and Village Savings and Loans Associations to partner with mobile providers in giving loans. As micro-credit is gaining momentum in other jurisdictions as seen in the case of Kenya, the regulation will institute measures to safeguard the needs of women from over-indebtedness and from other risk factors associated with micro-credit.

Proposed Policy

My proposed policy involves the modification and issuance of legal and regulatory framework to motivate a more consumer-centric product design. First, it requires the modification of the Mobile Money Regulation, which will be aligned to the Micro-Credit Regulation. Unlike Ethiopia who has proposed the use of photograph of each bill and coin for the illiterate population on MFS (Woldmariam et al. 2014), the proposed amendment of the Mobile Money Regulation would request a more simplified menu that will implement picture icons and optional dialect-based voice prompts for the illiterate populace. The Mobile Money Regulation, if amended, will also include a provision on micro-credit.

In Kenya, Safaricom has successfully partnered with two banks to offer MFS using a micro-credit product (EIB-UNCDF 2014). The CBL in its efforts to roll out micro-credit would use moral suasion to encourage all players to adhere to the regulation. The Central Bank would also carry out regular awareness campaigns on behalf of players as an incentive to increase intake of women or subscribers of MFS.

Subsequently, the Micro-Credit Regulation will be developed to create an enabling environment for regulated financial institutions to offer credit using the credit reference system. This would serve as a benchmark to deepen the level of financial access for low-income and illiterate women and give them the opportunity to establish formal credit history. The ultimate goal of this regulation is to make transactions more accessible and affordable with lower interest rates that would address the potential client. Low costs will attract poor women to utilize MFS and incentivize them for increased use of formal financial services by making micro-credit affordable.

Key Stakeholders and Implementation

To implement this policy, it will require engagement with various internal and external stakeholders. An aggressive awareness and sensitization initiative will be carried out by a team of internal stakeholders of the CBL to ensure that our target audience and the public are consented. The following stakeholders will be included.

Director, Regulation and Supervision Department and Deputy Governor for Economic Policy: These two executives play a major role in the review, planning, and policy buy-in. The Deputy Governor is Chair of the Financial Stability Committee (FSC). All policies approved by the CBL must be channeled through this committee. Therefore, a presentation will be made at one of the scheduled meetings of the FSC for the committee's endorsement. The Governor of the Central Bank of Liberia will give his final approval based on recommendation from the FSC.

Digital Financial Services and Consumer Protection Unit Staff, Policy Unit, Payment Systems Department and Communication Department: With exception of the Policy Unit, these internal stakeholders will play a major role in carrying out the awareness and sensitization initiative. The Policy and Regulation Unit will assist in the development and reform of the Regulations.

Driving this policy also requires consultative meetings with key players in the MFS ecosystem and other potential players. These include mobile money providers, commercial banks, represented by the Liberia Bankers Association (LBA), micro-finance institutions (MFI), Village Savings and Loans Associations (VSLA), rural community finance institutions (RCFIs) and the Apex Body of the Credit Union. Since these players are highly influential and will play roles of innovators and implements, it is essential to convince them of the impact and benefits of the policy.

Other external stakeholders will include the World Bank, Liberia Telecommunication Authority (LTA) and Digital Financial Services Working Group, which comprises of more than forty stakeholders from thirty-five institutions. These stakeholders will actively partake in the review process of the proposed regulation as well as the LTA, who will also support the extension of network coverage to the rural areas.

Liberian women themselves are essential stakeholders. They will be reached during our nationwide awareness and sensitization program, which is also carried out by the DFS and Consumer Protection Unit. The initiative will include radio talk shows and town-hall meetings in rural Liberia. To kick-start this initiative, a one-day women's forum will be hosted by the CBL to ensure that a large group of women are conversant with the regulatory reform.

Monitoring and Evaluation

The goal of this policy is to enhance women's participation in the formal financial sector by encouraging their use of MFS. Monitoring and evaluation of this policy will be based on the expected impact including the issuance of the Micro-Credit Regulation and compliance by banks, mobile money providers, and other players to give out credit, and opportunities for women to understand new product offerings, open accounts, access credit, use credit responsibly and grow their businesses.

Therefore, data will be gathered from various sources including the CBL, secondary data from Mobile Money Providers, MFIs, RCFIs and commercial banks since they are the main players in the ecosystem. Data will also be taken from the Global Findex and analyzed and interpreted. Primary data will include another PCP survey conducted over a three-year period from the date of the implementation of this policy. The key indicators of change will include:

a. The Micro-Credit Regulation
b. Amended Mobile Money Regulations
c. Number of women using MFS
d. Number of women that have moved from basic MFS accounts and are utilizing micro-credit
e. Number of women using micro-credit on MFS
f. Level of indebtedness of women using micro-credit on MFS
g. Number of MFIs, banks, credit unions, and RCFIs partnering with mobile money providers to give micro-loans to women
h. Number of women that have established businesses using the micro-loan scheme and
i. A survey to understand the degree to which women understand the services and gather feedback from illiterate women test groups to continually improve the usability of MFS and reform of the regulation.

It is a strong conviction that the text based mobile money menu can implement ease-of-use improvements to accommodate illiterate women with picture icons and dialect-based voice prompts. Including micro-credit as one of the key products would attract more women to MFS. Therefore, it is my ardent hope to receive buy-in from the CBL, as key driver of this policy and other external stakeholders since the policy is anticipated to provide a gateway to facilitate women access to financial inclusion.

Note

1. Index Mundi, Liberia Literacy: https://www.indexmundi.com/liberia/literacy.html.

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Mobile Financial Services

Building the Bridge between Mobile Accounts and Savings Accounts

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Executive Summary

Low-income people in Paraguay hardly use the regulated financial institutions for savings. Results from the Global Findex 2017 indicate that only 2% of the poorest 40% of the adult population saves in accounts at regulated financial institutions (World Bank 2017). On the other hand, the interaction between the regulation for basic savings accounts and the one for electronic means of payments causes continuous account creation in banks. These basic savings accounts tend not to be used by clients and are not profitable for banks.

They create an illusion of financial inclusion.

The recommended policy solution is to modify the regulation to permit economically viable products and services offered by financial institutions, adapted to clients' needs.

Problem and Context

In 2011, access to the financial system was relatively low in Paraguay. Data from the Global Findex reported 22% of adults having an account, compared with 39% in Latin America and the Caribbean. As a reaction, the Central Bank started introducing changes in the regulations with the aim of increasing access. The compromise of the institution with this respect was expressed in the Maya Declaration.[1] Consequently, in 2011 the Central Bank issued the regulation for non-banking correspondents, and in 2013 followed with a regulation for basic savings accounts (Central Bank of Paraguay 2011 and 2013).

Despite the efforts realized, by 2014 the banking model was not reaching the expected results. The country has a large territory with a relative small population.[2] Only 25% of adults had accounts in financial institutions, but there were 29% with mobile money accounts. This led the Central Bank to introduce its regulation (Peña 2015).

These set of regulations that were thought to be supporting financial inclusion led to unexpected outcomes. On the one hand, the regulation for basic savings accounts has the objective of providing free accounts for people in the basis of the pyramid. But still, banks find themselves without incentives to promote them, because they are not allowed to charge fees on them (Central Bank of Paraguay 2013). On the other hand, the regulation for electronic means of payments obliges the mobile money providers to open a basic savings account every time limits for amount or time are reached (Central Bank of Paraguay 2014). This could be an opportunity for the bank to embrace the client, but these clients are not looking for a new account, and they transact with amounts that are not always interesting for the bank.[3]

Consider the case of Celia. She left her town to work in the capital city, Asunción.[4] She came to work as a cleaning lady and left her family at home. She finds herself 500 km or 7 hours by car away from home. She sends money to her parents using her mobile account. This saves not only time, but also reduces the costs and increases the security of the transaction. Years ago, this would have necessitated sending the money with a bus driver or a transport company. Mobile money providers identified that this method was slow and expensive, and that they could provide a better solution for users (McCarty and Tellez 2011).

Celia has a volatile source of income. Cleaning ladies work some days and not on others. There could be weeks without demand for her services. The income in those weeks plummets to zero.[5] Therefore, she cannot afford sending the money to her family periodically. This is the usual case observed at the base of the pyramid in Paraguay.

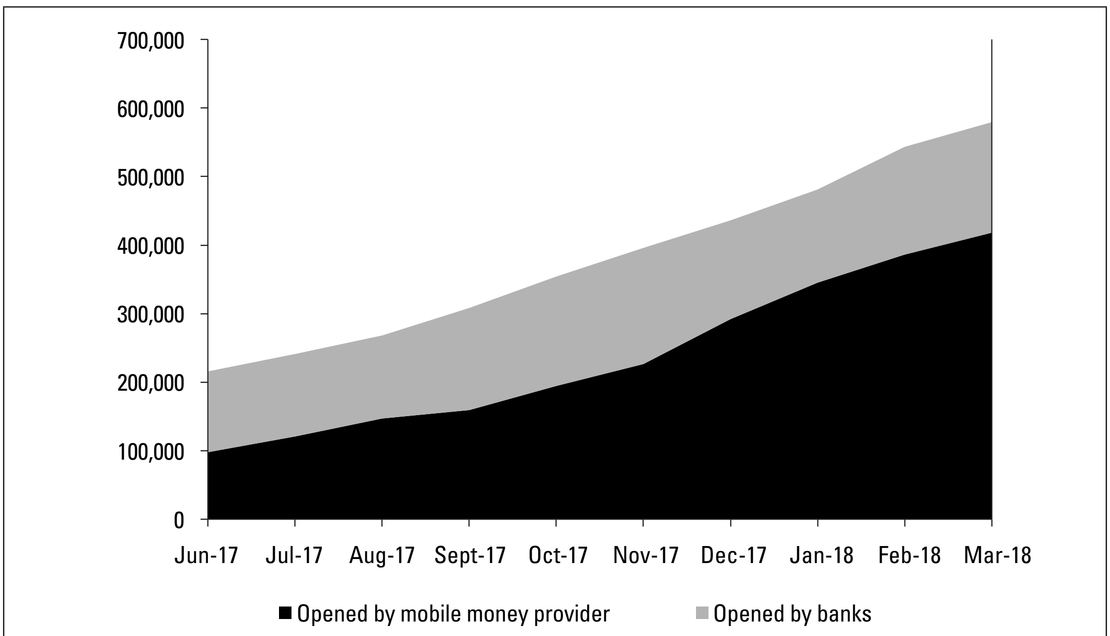
Suddenly, the mobile money provider informed her through a text message that they opened a savings account for her in an associated bank. She could access to financial services through this account. She is a reliable and responsible working woman. But, without the possibility of charging fees to a basic savings account, the bank faces limitations to instruct Celia about the features of this account.

Opening an account represents a cost for a bank. With no possibility of charging fees to basic savings accounts, banks have difficulties covering the marginal cost of opening and maintaining them. Because marginal costs should at least equal the price, in an economically viable case, having a price near zero hinder banks from actively offering these kinds of accounts. The costs for the bank per account oscillates between Guaraníes 38,000 and 57,900, without considering debit cards (USD 6.66 and 10.15).[6]

Celia was not looking for a bank account. She retrieved the money already through her mobile account and made the cash-out at an agent. A small oblivious amount triggered the account opening after 90 days. Small balances of inactive mobile accounts are the most frequent way of getting a basic saving account. Another way is reaching the upper limit of the mobile account. But, in this case, approximately 90 percent of the balances are retrieved within 48 hours through mobile money accounts.[7]

Basic savings accounts have small amounts of money entering and eventually leaving, giving them a low level of “float.” The majority of these accounts are not actually being used as such. Between January and April 2018, 424,000 basic savings accounts were empty or had a variation of less than Guaranies 10,000 (USD 1.75).[8]

Figure 1. Basic Savings Accounts by Origin: July 2017–March 2018



Source: Indicadores y Datos de Bancarización (Central Bank of Paraguay 2018).

The regulation in Paraguay created an illusion of financial inclusion. The interaction between the regulation for basic savings accounts and the one for electronic means of payments backfired. Accounts are being opened for people that did not ask for them, in banks that cannot charge fees and are therefore restrained to embrace the new clients. This lack of incentive demotivates banks from advertising the accounts to clients, and they go unused.

Recommended Policy Solution

This policy memo focuses on a supply-side solution that builds on the intervention of the regulator. This measure should correct the incentives generated by the regulation for basic savings accounts and the regulation for electronic means of payments.

Fees

For the banks to participate actively in the financial inclusion process, the accounts related to mobile accounts need to be economically viable. They should be able at least to cover their costs to open and maintain them. This is difficult with the basic savings accounts. A cash-out from a mobile account have a cost for the user of up to 5% of the withdrawal. A cash-out from a basic savings accounts would have no cost for the user. The aim of the regulation was that mobile accounts and basic savings accounts complement themselves. However, banks and mobile companies not always cooperate. Instead, they tend to compete for client ownership. The difference in the possibilities of charging fees on the cash-out became the critical difference between both types of account; that needs to be corrected.

Banks would need to adopt an abbreviated know your customer (KYC) process on these new savings accounts. This is similar to the one used with basic savings accounts. The objective is to open accounts remotely that are free of the limitations of the basic savings accounts. These are currently the only bank accounts with an abbreviated KYC process. This is regulated by the local Anti-Money Laundry Agency. It describes the registration process and the limits of the accounts for low risk clients.

The proposed modification of the regulation of electronic means of payments would permit the banks charge fees on the accounts opened by mobile money providers. They would open these accounts remotely. These would be accounts with an abbreviated KYC. Banks would be able to charge fees on new clients. This would unblock the expansion of financial services.

Demand Considerations

In addition to the limitations of the banks, lower income families are having difficulties with savings in Paraguay. The combination of complexity and lower literacy levels partly explains why the low-income population is not using financial products from banks. The financial capacities measurement survey reveals that 37% of the interviewed consider themselves with a "low level" of knowledge related to financial issues. This reaches 46% in rural areas and 48% for low-income individuals (Development Bank of Latin America 2017). The Global Findex 2017 indicates that, from the poorest 40%, only 2% declares to be saving at a financial institution (World Bank 2017).

However, the demand for savings is latent. This means that it is only observable if there is a product or service that induces demand to reveal itself (Karlan, Ratan, and Zinman 2014). Even if there are no formal products and services for savings, people do save with the aim of smoothing consumption and financing investment. People with no access to formal savings save under the mattress, in jars, with friends or family groups, by buying animals, and with other assets.

Recent studies are consistent with the argument of individuals saving in informal ways in Paraguay. The Global Findex 2017 indicates that 27% of the interviewed has saved in the last 12 months, and 6% does it in a financial institution (World Bank 2017). A study from *Universidad de los Andes* demonstrates that low income families tend not to use formal institutions for savings. They confirm the importance of "liquid savings," "savings in informal ways," and "savings in goods" (Gómez 2018). The financial capacities measurement survey shows that 48 percent of the interviewed does not use financial products (Development Bank of Latin America 2017).

Key Stakeholders and Implementation

The Central Bank should lead the proposed modification of the regulation. It is the responsible for the financial policy of the country and it is in charge of the supervision of financial institutions and mobile accounts providers. The modification should result from the consensus with the banking association, and the association of mobile account providers. Card operators and other payments facilitators should be engaged in the discussions. These stakeholders are the users of the proposed regulation, representing the supply side, and as such, they should be involved in the evaluation of the modifications.

The contribution of the Superintendence of Banks is critical. The Department of Studies and Norms should be involved in the process as part of the team proposing the project.

It is necessary to introduce the recommended solution to the agenda of Central Bank of Paraguay. The implementation of this proposal considers the following activities:

1. Prepare a proposal with a draft justifying the modification of the regulation.
2. Discuss the proposed modifications within the Superintendence of Banks.
3. Present and discuss the proposed modification to the Board of Directors of the Central Bank.
4. Present the modifications to other stakeholders involved, e.g., banks, mobile money providers, card operators, etc.
5. Introduce the modifications in the regulation.
6. Measure the effect in accounts creation and use.

Providing the opportunity for financial institutions to offer economically viable savings accounts is essential to expand the use of formal financial services in Paraguay.

Notes

1. One of Paraguay's Maya Declaration objectives is to "review all regulations to identify which ones may be inhibiting financial inclusion and make required adjustments" (AFI Data Portal, https://www.afi-dataportal.org).
2. Paraguay had 4.7 million adults in 2014 with 406,752 sq. km (Indicadores y Datos de Bancarización, 2014).
3. Interview carried out for this work to representatives of banks and mobile money suppliers in Paraguay.
4. This example is based on a real story. The interview was performed in March 2018 by the author.
5. For a description of the effect of irregular and uncertain income sources, see Collins et al. (2009).
6. Interviews carried out for this work were to representatives of banks. Monetary amounts are in USD calculated using the referential exchange rate of the Central Bank for June 2018.
7. Interview carried out for this work was to a representative of a large mobile money provider.
8. Data from the Information Central of the Central Bank of Paraguay.
9. Resolution Nr. 349/13 of the Secretaria de Prevención de Lavado de Dinero o Bienes.

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Promoting the Use of Mobile Money Products to Increase Access to Formal Financial Services in Rural Zambia

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Executive Summary

The Zambian Government has remained committed to the development and promotion of country specific financial systems that are inclusive. Zambia's financial sector has gone through a variety of reforms, most of which were under the Financial Sector Development Plan (FSDP) (Ministry of Finance, Republic of Zambia 2017). Despite being an early adopter of mobile money in the region and having in place an enabling regulatory environment, access and usage of mobile money in Zambia has remained very low. This therefore entails that there is need for more efforts to increase the access to and use of mobile money to increase formal financial inclusion, which currently stands at 38.2% according to the FinScope survey of 2015 on Zambia (FinScope 2015).

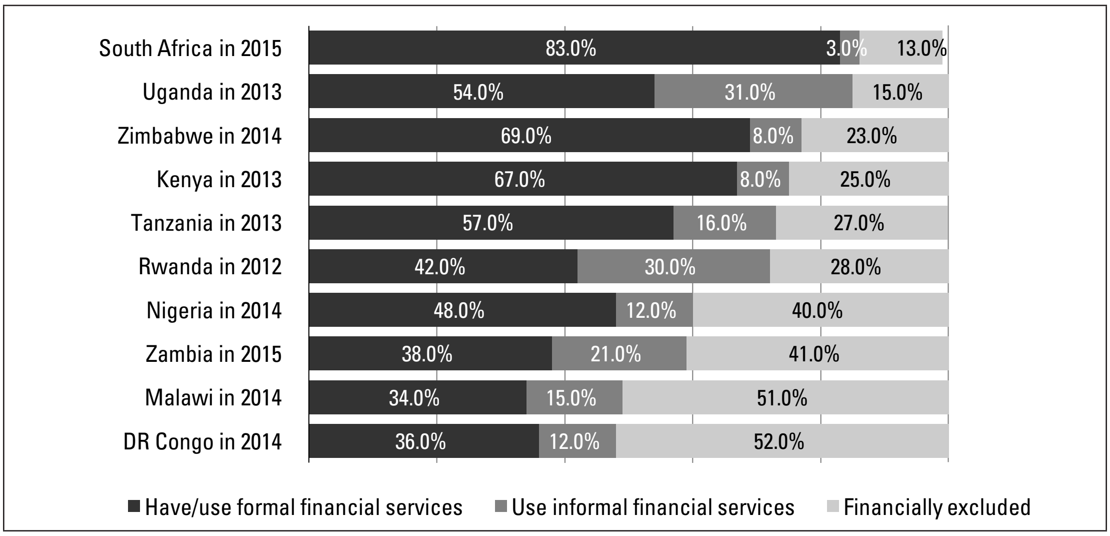
In order to address the low usage attributed to lack of awareness, this policy memo proposes to implement extensive awareness campaigns involving the Central Bank, other government agencies and service providers targeting adults and merchants in the rural areas. The solution will also involve the engagement of the Ministry of Finance in Zambia to facilitate the establishment of measures that would enable more government agencies use mobile money for transactions with the public.

Background and Problem Statement

Financial inclusion is a key component of the Bank of Zambia's 2016–2019 Strategic Plan to increase formal financial inclusion. It is envisaged to increase formal financial inclusion by 16% from 38.2% recorded during the FinScope Survey of 2015. According to the FinScope survey, 54.8% of adults live in rural areas and they represent the most excluded segment of the population, whose main income earner is agricultural activities.

Despite being an early adopter of mobile money in the region and having put in place an enabling regulatory environment, access and usage of financial services has remained very low in Zambia (see figure 1 below). The Findex survey report of 2018 shows that the number of adults with access to mobile money increased from 12% in 2014 to 28% in 2017 while access to savings accounts offered by regulated financial institutions contracted by 3% to 14% of the adult population in 2017 (World Bank 2017). Even with the increase in access to mobile money, the UNCDF report (2018) on State of Digital Financial Services (DFS) in Zambia revealed that there was only 24% of the adult Zambian population with active[1] registered DFS users. While among the mobile network operators with mobile money services, there were only 1.3 million active mobile money users accounting for 12% of the total registered mobile money accounts according to statistics obtained from the Bank of Zambia as at end of December 2017.

Figure 1. Cross Country Comparison of Access Strands



Source: FinScope (2015).

The increase in use of mobile money in rural areas is expected to help reduce the time it takes receive payments from buyers of agricultural products, family members offering support or Government and other stakeholders providing financial support to the vulnerable people in rural areas. The services will also help the people in rural areas to securely keep their savings as opposed to keeping cash in their homes, easily make payments and be able to remit funds to beneficiaries without the need to travel long distances to reach access points, which in some cases did not have cash readily available to facilitate cash pay outs. The services would also protect adults in rural areas from being swindled with counterfeit banknotes when they sell agricultural produce.

Causes and Challenges

Like many developing countries, Zambia is also affected by some of the key challenges that have impacted the digital transformation of financial services in emerging economies relative to advanced economies as espoused by the International Finance Corporation of the World Bank group (IFC 2017). Particularly, the following are the main causes associated with low uptake of digital financial services in Zambia:

1. Low digital acceptance—most of the transactions in the rural areas were in cash as most of the people had little access and knowledge about mobile money and other digital financial services. This was partly due to lack of knowledge on how digital financial services worked.
2. Limited use cases of mobile money in rural areas—the use cases for cash were more than the mobile money as cash was highly acceptable given its wide number of uses (Dzokoto and Imasiku 2013). As a result, most of the users do not have many options where they can spend mobile money digitally hence there is little incentive not to cash out.
3. High transaction costs—where digital financial services were available, my people centered research conducted on respondents in the rural part of Lusaka in Zambia between March 12 and 30, 2018, under the course reviewed that the transaction costs were viewed by most of the people as being very high thereby limiting the access and usage.
4. Low awareness of available services—According to the FinScope Survey (2015), the use of mobile money was limited by lack of information among adults as 54.2% of adults who did not use the services say they have never heard of mobile money services; 12.4% state they did not know what it is; 7.0% did not know how to get it; and 2.3% did not understand the services/what it can be used. This therefore entails that there is need for the Bank of Zambia

and in conjunction with other stakeholders to scale up the awareness of mobile money services. This observation was consistent with the 2015 ICT survey report that was issued by the Zambia Information and Communications Technology Authority (ZICTA) (2015). The report indicated that the low usage of mobile money was partly due to low level of awareness among the adult population in Zambia.

5. Relatively weak mobile financial services infrastructure accounting for:
   a) Low use cases—there was lack of interoperability among the different mobile money providers as a result customer would only transact with customers belonging to the same providers. This limits the utility of the service as it narrows the number and type of use cases. It is envisaged that this problem with be addressed with the implementation of the national financial switch,[2] a project that is currently underway.
   b) Long distances to access points in rural areas and exclusivity of agents—there were few access points in rural areas to facilitate cash in and cash out transactions in rural areas. This was compounded by high level of exclusivity of agents among service providers, estimated at 91% by the Helix Institute in the survey report of 2015.
   c) Lack of trust, partly due to the unavailability of documented complaints redress mechanism for mobile money transactions—the complaint handling process usually took a long time as there was no clearly documented complaints address mechanism for mobile money customers.

Potential Solutions and Recommendations

The possible solutions considered for promoting the increase of access and usage of mobile money financial services in Zambia include the following:

1. Promoting the use of mobile money products through extensive awareness campaigns involving the Central Bank and service providers;
2. Improvement of infrastructure through expediting the implementation of the national financial switch so as to achieve interoperability and digital acceptance among various service providers and eliminate exclusivity of agents; and
3. Introduction of clear and well documented complaint handling and redress system to build trust in existing systems.

Using the criteria around practicability, evidence and whether there was work being done, I had to settle for option number one, which is to promote the use of mobile money products through extensive financial literacy and awareness campaigns involving all the industry players. This is due to the fact that on the other three options above, there was work being done by various Government institutions, private sector and the Central Bank while on promotion of mobile money in rural areas through awareness campaigns was within my sphere of influence, which I would conclusively pursue to achieve effective implementation given my role at the Bank of Zambia.

According to the G20 High-Level Principles for Digital Financial Inclusion (GPFI 2016), there is an urgent need to build digital and financial literacy and awareness among both consumers and merchants, especially in the case of financially excluded and underserved groups. Therefore, regulators and service providers need to put in place programs that enhance digital and financial literacy in light of the proliferation of unique characteristics, advantages and risks. In absence of this, the G20 report noted that there may be a further widening of inequities in the access and use of digital financial services.

A number of countries that have used awareness campaigns to increase uptake of digital financial services and immediate examples were collaboration of the public and private sectors has worked to increase awareness of financial services include Malaysia (AFI 2017) and Canada (AFI 2016). The methods used can also be replicated in Zambia given the required resources.

To ensure effective implementation of the policy solution, a working group will be formed comprising officials from Bank of Zambia, mobile money operators, ZICTA, commercial banks, Financial Sector Deepening Zambia (FSDZ) and the United Nations Development Capital Fund (UNCDF). The terms of reference of the working group will include preparing the awareness campaign strategy for three years including the respective budget, designing of awareness campaign materials and activities for on-site campaigns, radio, television and billboards and compile consolidated report for campaigns. The working group will also be expected to provide important insights in the development of the financial education curriculum for grades one up to 12 so as to embed the culture of financial literacy in the future generation.

The mass awareness campaigns are expected increase consumer protection, confidence and competence on the usage of mobile money services among adults in rural areas. The campaigns are also expected to capture feedback from users and other potential users of mobile money on their main areas of concern so that appropriate policy interventions could be made to resolve the challenges. Each team will be required to submit a report highlighting areas of concern and feedback from the campaigns to facilitate policy interventions.

The key indicators of change arising from the implementation of the literacy and awareness campaigns will include the following:

1. Percentage of active users of mobile money to total number of registered users;
2. Reduction in the volume of dormant mobile wallets;
3. Reduction of the total value of unclaimed funds surrendered to the Bank of Zambia on account of dormancy of wallets; and
4. Increase in volumes and values of mobile money transactions per month.

At the end of the three to four years' pilot period, it is expected that the process of coordinating the literacy and awareness campaigns will be transferred to the Payment System Association of Zambia (PAYZ), which is in the process of being established. The anticipated goal of PAYZ is to act as an industry body representing all registered non-bank payment systems businesses.

Notes

1. Active customers or users of DFS refer to customers with at least one transaction in past 90 consecutive days. Such a transaction includes cash-in, person-to-person transfer, cash-out, bill payment or airtime top-up while balance inquiry, PIN reset or other transactions that do not involve the movement of value do not qualify for a customer account to be considered active.
2. The National Financial Switch will be a key technology platform to promote the development of digital finance services in Zambia and facilitate for interoperability for the various financial service providers, including mobile payments. It is expected that implementation of project will be achieved by end 2018.

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Incentivizing Mobile Money Account Holders for Increased Adoption and Usage of Digital Financial Services in Malawi

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Executive Summary

There is a problem of low uptake and usage of digital financial services (DFS) in Malawi. The problem suggests bottlenecks on the demand side and, as such, the policy of choice seeks to stimulate demand through incentivizing e-money account holders by distribution of interest earned in the trust accounts. The main text therefore lays out key aspects of this policy proposal.

Introduction/Background

The problem of slow adoption and usage of DFS among the adult population in Malawi is a symptom of the larger problem of limited access to financial services where, according to a Fin-Scope 2014 survey, about 51% of the adult population do not have access to any type of formal or informal financial services, with the rural adult population being the most excluded. According to the World Bank Global Findex (2017), only 23% of Malawian adults (15 years and older) have an account in a formal financial institution, up from 16% recorded in 2014.

This lack of access transcends into usage of DFS. The 2017 World Bank Global Findex database reports only 20% of adults have mobile accounts with related indicators on access to a range of other financial services such as savings, credit and insurances also recorded to be lagging if compared to other countries in the Sub-Saharan Africa region.

Key Causes

My investigation into the problem, conducted through interviews[1] with stakeholders and through my job in policy and oversight of payment systems at the Reserve Bank of Malawi, revealed the key demand side causes to be lack of ID documents for KYC requirements, high transaction charges, lack of trust due to lack of consumer protection frameworks and poor service delivery caused by frequent network/service outages. Macro socio-economic factors such as low income, literacy, financial education and awareness, also play a role in low use, Malawi being one of the least developed countries in the world. According to the National Statistical Office (2012) Malawi has a GDP per capita of US$255 and it is estimated that 65 percent of the population live below the poverty line. There is also high dependence of cash due to high prevalence of informal trade.

The problem of low income is very pertinent in this discussion as one of the insights obtained from the interviews cited above was that some individuals do not use DFS, or maintain a savings account, among other available financial services, even when they are aware of their benefits simply because they did not earn enough to save or make DFS transactions on. Indeed, consistent with this observation the Global Findex database reports that in 2017, of the 77% proportion of the adult population who have no account at a formal financial institution, 66% of this segment reported insufficient funds as the main reason that they do not hold any account, a statistic the author regard to be very high and also among the highest reported for SSA countries according to Findex. This underlines the significance of lack of income as a contributing factor to low demand and low transaction volumes in DFS.

Challenges on the supply side are high barriers to entry faced by potential providers due to significant start-up resources in form of capital and, for instance, setting up an agent network necessary for DFS operations at a national scale, poor infrastructure, limited interoperability and limited business case faced by suppliers especially in rural areas. These are compounded by the low incomes and associated low transaction volumes as observed above and the resultant high operational costs. This results in high transactional costs, as sparse coverage of service touch points can mean increased costs in travel and time and high fees and charges faced by consumers (reaching 3.8% of value of transaction for some mobile money transfers).

Potential Solutions

In view of the nature of the causes outlined above, potential solutions to stimulate the sluggish demand are, among others, financial literacy and consumer education/awareness, economic empowerment of the rural population that would also improve the business case for suppliers, and policy initiatives such as addressing the lack of identification, which is under implementation through the national ID scheme, and other policies aimed at stimulating demand for increased usage. In this last case, an example could be distributing interest earned in the trust or pool accounts to mobile money subscribers to directly incentivize the users, particularly the low-income bracket, and potentially offset the high transaction fees.

The hope here is that low-income mobile money users may see the bonus monies earned via distribution of the interest earned in the trust/pool accounts as worthwhile, similar to the positive way airtime bonuses are received as they are applied by the MNOs.

Supply side solutions would include promoting competition and investment in the industry, promoting digital G2P payments, building robust agent networks and regulatory measures such as promoting agent banking, mandating interoperability, discouraging agent non-exclusivity, permitting non-bank financial services providers to operate independently and enhanced consumer protection. Effective stakeholder coordination and cooperation is also key.

Priority Solution

The policy solutions we have prioritized in terms of our capacity to implement and the preconditions is to stimulate demand by incentivizing mobile money users through the distribution of interest earned in trust accounts maintained at the commercial banks to e-money account holders. As Cheng-Yun Tsang et al. argues in their paper titled Promoting Financial Inclusion by Encouraging the Payment of the Interest on E-Money (2017), economic incentive offered by the interest payment is likely to increase consumer uptake of e-money. A proportion of the interest may also be considered for allocation to the service providers to cover critical expenses, including promotion of the mobile money services.

Two African countries, Tanzania and Ghana, are so far known to have implemented a similar policy since 2014 and 2016, respectively. As such, this proposal intends to draw lessons and experiences from these countries for the necessary implementation.

The above proposal will be implemented through a regulatory instrument to be issued under Malawi's payments systems law enacted in 2016. Users will be made aware of the changes through receipt of the bonus amounts in their mobile money accounts, which will be affected in a quarterly basis, and also through coverage of the changes during a DFS public awareness campaigns.

This paper acknowledges that there are other important contributing problems such as lack of IDs, KYC and consumer protection but these are being addressed through other policy initiatives championed either by the Government or the RBM. This proposal should therefore be considered as a complementary policy to such other policy initiatives and has been chosen owing to the author's capacity to directly influence it in the course of performing day-to-day duties, roles and responsibilities at the RBM.

Statistics collected by the RBM reveals that at April 2018 there was a total value of 11.1 billion Malawian Kwacha (approximately US$15.3 million) in all the mobile money Trust Accounts maintained with commercial banks. As such, given average deposit rates of around 10% per annum, this policy would expect to distribute to the stakeholders an estimated total amount of US$1.5 million earned as interest per year, which the author regards to be a sizeable amount given the size of the industry and the economy as a whole and touches on its possible success.

Approaches in the Interest Distribution

Two approaches that may be employed in the calculation of the interest or benefits applicable to the account holders will be presented for discussion and possible adoption by stakeholders; payment of interest money based on the average daily balances maintained in the mobile money wallets or, alternatively, payment of the bonus/interest based on account activity or usage over a given period of time. The proposal is for the distribution to be effected quarterly.

According to Buddy Buruku and Stefan Staschen (2016) and Claudia McKay (2016) in their respective articles published by the Consultative Group to Assist the Poor (CGAP), the central banks of Tanzania and Ghana have taken different approaches to the issue of interest payments. The Bank of Tanzania has only mandated that the interest must benefit customers but remained flexible to allow the industry to come up with the specifics. The Bank of Ghana on the other hand stipulated in detail that interest must be paid out, the range of interest rate payable and which stakeholders must receive and to what share. As such the Bank of Ghana stipulated that 80% of the total interest amount should be distributed to customers, with the remaining 20% going to service providers—15% to the MNOs and 5% to the banks hosting the accounts, and the interest is calculated based on average daily balances. In Tanzania, owing to the flexibility in the regulatory stance, the MNOs have adopted different calculation formulas with two of them basing the calculation on daily average balances while one MNO calculates the interest based on transaction values or level of activity.

In Malawi the approach to be adopted will therefore take into consideration the trade-offs involved such as encouraging savings (the account balances approach) and encouraging usage (the activity/usage approach, which discourages mobile account use as a store of value). Perhaps a middle ground can also be explored where the interest/benefit can be split in two parts with one part called interest (to be based on average balances) while other part would be bonus (based on account activity).

A further consideration will be whether to distribute all benefit of the total value of interest to subscribers versus splitting the amount between the account holders and service providers. On the latter point, at the external stakeholder consultative workshop on this policy that was held in June 1, 2018, participants agreed to adopt a split of 95% of the total interest to go to customer accounts with the remaining 5% to be received by the service providers, after all costs related to operations of the accounts are deducted, such as bank charges and fees. It was also agreed that agents will initially be excluded from receiving a share of this interest money, with a provision to review this particular position in the future.

Key Stakeholders

The following are the key stakeholders holding significant interest and/or influence to the successful implementation of the policy; The RBM National Payments System Department being the policy champion and conducting the DFS regulatory function at the central bank, other internal Departments in the Bank, the RBM Executive Management and Board to which the policy needs their respective approvals. These will be engaged through a policy position paper and also the draft regulatory instrument referred to above which will be submitted for their endorsement before it can be issued to the market.

Key external stakeholders, who will mainly be engaged through stakeholder consultative meetings/workshops, are the Ministries of Finance and Justice, service providers like banks, MNOs and other non-bank e-money issuers, commercial banks as custodians of the e-money Trust Accounts and who will declare the amount earned in interest at any given period, e-money account holders, agents and the general public at large (engaged through consumer associations and public sensitization campaigns). Others are the communications regulator, regional and international institutions such SADC, the World Bank, and other development partners.

The majority of the stakeholders, including both MNOs currently providing mobile money services have in principle been supportive of the policy proposal, although one needed more convincing. The main issue however has been to address the question of feasibility of the policy and the Reserve Bank intends to draw lessons from countries such as Tanzania and Ghana. To quote one of the CGAP blogs, "whichever approach, there is cause for optimism on the role that interest payments can play on driving the rapid uptake of mobile money" (Burruku and Stasched 2016). As such we are confident that we can replicate the experiences in these two countries for feasible implementation.

Meanwhile a taskforce (working group) comprising representatives from the central bank, commercial banks and the MNOs has since been set-up to come up with a Guideline document that will address issues such as criteria, procedures and other specifics pertaining to the interest distribution. This Guideline will be issued alongside the E-money Regulations where the main policy statement resides.

Key Indicators of Change

Evaluation of the impact of the policy will involve monitoring of indicators such as increase in transaction volume, value, average account balances, number of subscribers, active subscribers in mobile money accounts and, in the longer term, of other DFS streams such as bank-led mobile banking, Internet banking and POS. Consumer feedback through surveys on the effect of the policy would also be of crucial input into the evaluation.

Note

1. Various interviews that the author conducted with a total of nine people in March and April 2018 as part of the FLPFI People Centered Research (PCP) assignment on the usage and adoption of DFS in Malawi, insights of which were submitted to the FLPFI.

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Mobile Money Interoperability in Uganda—Challenges and Practical Solutions

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Executive Summary

Despite the urge to use interoperability services in the mobile money industry, consumers are faced with the challenge of high transactional charges when sending money across other networks.[1] These charges are deemed high, prohibitive, and hardly make it feasible for one to use the service off-net. This factor forces consumers to procure multiple SIM cards so as to access mobile financial services on-net. This challenge can be addressed through strict regulation of the transactional charges to ensure that consumers are charged equitably for the services accessed.

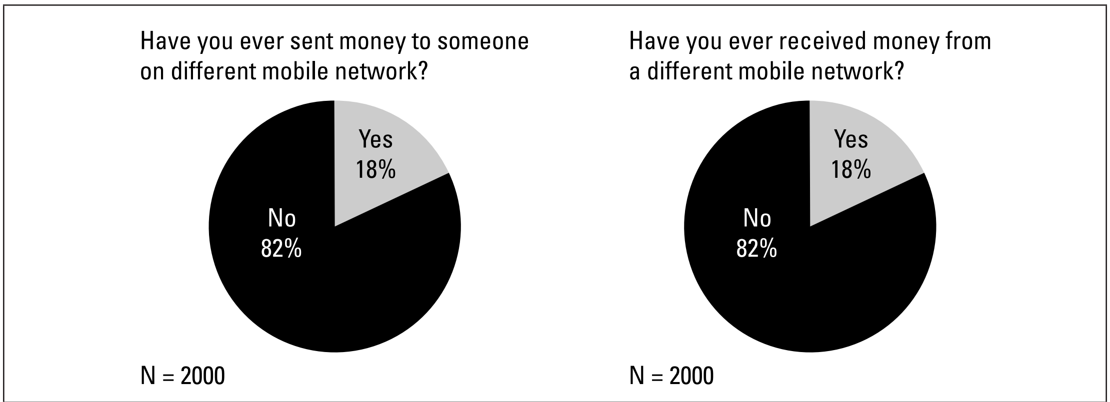
Problem and Context

According to FinScope Demand Size Survey 2018 Report titled *FinScope 2018: Topline Findings*, 78% of Uganda's adult population (18.6 million) are financially included and the financially excluded adults decreased from 43% in 2006 to 22% in 2018 (FSD Uganda 2017). This decrease has largely been attributed to the introduction of mobile money services and its rapid penetration that has spread countrywide. Mobile Money greatly plays a significant role in financial inclusion as it has the ability to service the financial needs of the poor cheaply, timely, conveniently, and has the capacity to spur the development of mobile commerce (Ndiwalana, Morawczynski, and Popov 2018). Furthermore, it provides a safe, efficient and convenient payment option than cash, while saving on the travel time, costs, and reducing the risk of theft (GSMA 2017). Mobile money makes good business sense in a variety of cases as for instance a shift to salary digital payments saves time and costs for both employers and employees(GSMA 2017). To sum it up, mobile money is a leading driver for financial inclusion (GSMA 2018) and to fully realize these benefits, there is an urge to have all these services available across all mobile money providers.

At the beginning of 2017, mobile money interoperability was introduced in Uganda.[2] Interoperability may be defined as an interconnection across array of use cases, including transfers between mobile money accounts or mobile money and bank accounts, both domestically and internationally (GSMA 2016). With the development of the mobile money industry, interoperability on the local level may mean allowing mobile money services to be used across all networks without any hindrance (GSMA 2016).

The need for interoperability was precipitated by the fact that a large number of mobile money users were attached on one mobile network operator as compared to other mobile network operators where 54% of the adult population that use mobile money in Uganda were attached to MTN compared to 25% attached on Airtel (Twaweza East Africa 2018).

Despite the investment in implementing interoperable payment services, consumers are still not interested in utilizing these services irrespective of the potential benefits they offer. A case in point, less than 1% of Airtel mobile money subscribers are using interoperable payment services.[3] This unfortunate state of affairs is reflected in the study by Financial Sector Deepening Uganda (FSDU), where 57% of the interviewed respondents that were aware of the ability to transfer/receive money across networks, only 18% had ever transacted across networks as shown in the table below (FSD Uganda 2017).



Source: FSD Uganda (2017).

To encourage usage of mobile money, there must be useful ways in which people can transact digitally. It was assumed that with interoperability, mobile money services would greatly increase and its usage would grow. It is against this backdrop that interoperability has been discussed as one of the future drivers of mobile money usage due its far-reaching merits to the consumers. Mobile money interoperability is touted as a future tool to achieve wider strategic and financial inclusion goals (GSMA 2016).

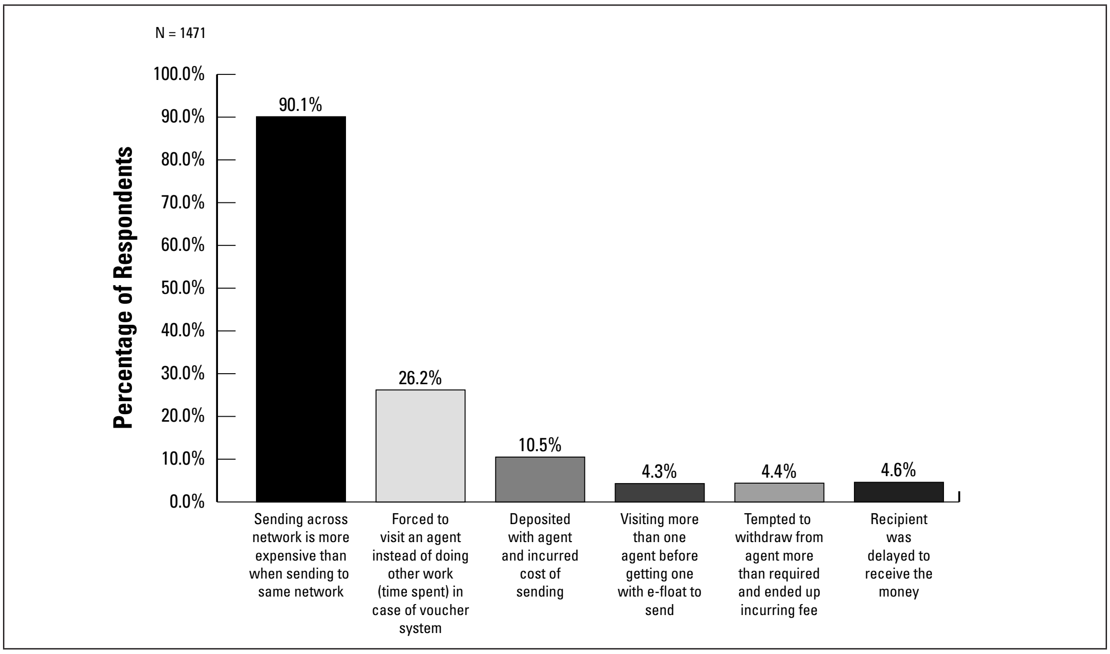
The first step toward the implementation of mobile money interoperability, Bank of Uganda in 2017 directed Mobile Network Operators (MNOs) to ensure that their systems are interoperable, allowing customers from one MNO to send and receive money from another MNO. To date, MTN and Airtel who together occupy 93% of the mobile money market share have so far made their platforms interoperable.

In as much as the government touts for interoperability, several hiccups exist toward making it a reality. The first challenge is the cost of interoperability on the consumers. A typical example is the cost involved in sending mobile money off-net that is quite prohibitive and acts as a barrier in this service, as evidenced by the table below.

Transaction Tiers		Sending On-Net Charges	Networks	
Minimum	Maximum	All Charges in UGX	(Off-net)	Difference
500	2,500	250	1,000	300%
2,501	5,000	500	1,000	100%
5,001	15,000	1,000	2,000	100%
15,001	30,000	1,000	2,200	120%
30,001	45,000	1,000	2,800	180%
45,001	60,000	1,000	2,800	180%
60,001	125,000	1,500	4,400	193%
125,001	250,000	1,500	8,400	460%
250,001	500,000	1,500	11,000	633%
500,001	1,000,000	2,000	21,000	950%
1,000,001	2,000,000	2,000	40,000	1900%
2,000,00	4,000,000	2,000	70,500	3425%
4,000,001	5,000,000	2,000	70,500	3425%

Source: Airtel Money Transaction Fees, https://www.airtel.co.ug/airtelmoney/transaction_fees.

It should be noted that in a study conducted by FSD Uganda in 2017, the cost of sending money to other networks was equally the main highlight as per the below table.



Source: FSD (2017).

One of the reasons advanced by the MNOs to justify high transaction charges is that interoperability reduces revenues due to the sharing model amongst the players and hence each MNO tries to protect its own revenues. However, as noted in the executive summary of this memo, high transaction costs on interoperability has not only forced the users of mobile money to carry multiple SIM cards for different service providers but also others take time to walk and look for agents who can effect direct deposits making MNOs to lose on the sending fees. In the short-term view, interoperability may seem to cause reduced revenues to MNOs but considering a long-term view, it can prove to be very beneficial to all the service providers.

Whereas Bank of Uganda issued directives to MNOs to have interoperable systems, there was little or no guidance on the associated tariff plans. It should be noted that Uganda opted for a liberal economy where prices are determined by forces of market demand and supply unlike other countries that have a controlled economy. However, in duopolistic market structures, government intervention on pricing is key especially that the companies tend to reap full benefits of controlling the price and output of the market.

Currently, Uganda has no legislation that governs Payments Systems. This has in away granted a leeway to MNOs to exploit mobile money users by levying charges as they deem fit. Because of the increase in electronic payments that include mobile money, Internet banking and credit/debit card transactions, a law on payments systems is a requisite in tackling any challenges that may occur.

To address this *lacuna*, a draft Payment Systems Bill was submitted to the Minister of Finance Planning and Economic Development for a review. When this Bill is passed and assented into law, Bank of Uganda will be fully empowered to regulate mobile financial services including price reviews and approvals.

Potential Policy Solutions

There are a number of policy solutions that can be implemented to reduce the cost of money transfers across networks and these may include the following :

1. Opening up of mobile money substitutes like agency banking so as to give consumers alternatives and wide range of choices in making money transfers.

2. Removal of unnecessary barriers to foster easy and quick access to mobile financial service platforms. These barriers include access to Application Programming Interface (API) and unnecessary company documentation that may cause unwarranted delay.
3. Enactment of Payments Systems law that gives full supervisory powers and mandate to Central Bank over mobile financial service providers.
4. Shared supervisory role between Central Bank and Communications Commission in areas of information sharing, consumer protection and capacity building.

Recommended Policy Solution

This policy memo highly recommends the enactment of the Payment System law that will provide powers and mandate to regulate prices and fees in the mobile money market segment. All the economic concerns including unauthorized fees, price hikes, skimming of payments (illegally retaining a portion), and ad valorem pricing (where the price is a percentage of the amount being transferred not a reflection of the cost incurred to carry out the transfer) will be addressed through the price regulation provided under the law.

The law will further establish an efficient and effective legal and institutional framework that will regulate new payment systems through rules, procedures, inspection and enforcement actions.

Key Stakeholders and Implementation

The key stakeholders will include Bank of Uganda(BoU), Uganda Communications Commission (UCC), representatives of MNOs, Uganda Bankers Association, Politicians and the general public.

The first step in implementation of this policy memo is formulating a National Steering Committee that will fast track the Bill at the Ministerial and Parliamentary levels. This Steering Committee shall be composed of representatives from Banking sector, Ministry of Finance and Economic Development, MNOs, UCC, BoU, Uganda Law Society, politicians and the Civil Society Organization. The Committee will ensure that consultation on the Bill is conducted and that the Bill tabled before the Parliament for passing into the law.

UCC Top Management will therefore liaise with Bank of Uganda specifically the National Payment Systems Directorate, and the Ministry of Finance and Economic Planning to ensure that the Bill is on the agenda for passing in Parliament. Bank of Uganda together with UCC will conduct consultation meetings with all the stakeholders aimed at getting comments on the Bill before finalizing the draft to be tabled before the Parliament.

Politicians particularly Members of Parliament will help in debating and passing the Bill expeditiously. MNOs will be engaged and educated about the value of passing this legislation as currently they hold a view that they should not be regulated like the ordinary banks and hence may pause resistance to the bill.

Notes

1. Interviews conducted with Mr. Richard Yego, Airtel Money Operations manager, Airtel Uganda; February 2018. Further interviews were conducted with mobile money agents and subscribers who clearly stated that the amount paid as transaction fees to send money across the networks does not make financial sense—for example, to send money from Airtel to MTN is more than 50% higher compared with the on-net transaction.
2. Interviews conducted with Mr. Richard Yego, Airtel Money Operations manager, February 2018.
3. This was confirmed in an interview conducted with Mr. Richard Yego, Airtel Money Operations Manager, Airtel Uganda, conducted in January 2018.

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Consumer Protection

Deposit Protection Scheme for Microfinance Banks (MFBs) to Boost the Confidence of Low-Income People for Using Savings Products of MFBs

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Executive Summary

In Pakistan, the microfinance industry plays a pivotal role in financial inclusion. However, only 7% of the population have full confidence in using the services of microfinance banks (MFBs) while around 40% do not trust MFBs for keeping their deposits (Finclusion Trekker Survey 2014). This lack of trust in MFBs is further aggravated by the absence of a deposit protection scheme. MFBs in Pakistan are frequently pointing out that a Deposit Protection Scheme can beef up their deposit base. This policy memo intends to propose a policy solution of introducing a deposit protection scheme (DPS) for MFBs that will help elevate the trust of the people and build a sustainable and low-cost deposit base. A joint working group of Deposit Protection Corporation of Pakistan (DPC) and State Bank of Pakistan (SBP) will finalize the modalities of the scheme and will propose the introduction of the scheme after consultations.

Problem and Context

Pakistan has 21% of the total adult population financially included with around 4.8 million active borrowers categorized into two segments: i) deposit taking institution (microfinance banks, MFBs and ii) non-deposit taking institutions (microfinance institutions, MFIs). For the purpose of this analysis, we will focus on the case of MFBs.

A Finclusion tracker survey, conducted in 2014, measured the trust level of the people in different financial institutions (FIs) (Finclusion Trekker Survey 2014). The survey found that only 7% of the population had full confidence in the services MFBs while around 40% had chosen not to use the services.

For instance, Assad, a fruit seller in Karachi,[1] saves around $50 a month in an informal saving scheme, the ballot committee (BC). His preference for BC rests on two factors: he sees it as a safer mode of savings and enjoys the comfort of keeping his money with a person he knows personally. He believes that microfinance banks are small, anonymous, and risky, where he may lose his money if anything happens to the bank. In Pakistan, Assad is not alone, there are millions of people like him who do not have confidence in a microfinance bank.

Major Constraints Contributing to Lack of Trust and Participation in MFBs Are:

Absence of Deposit Protection for MFBs: Through interactions with MFBs, general public and financial inclusion specialists the absence of deposit protection has come to be a contributory factor to the lack of trust in MFBs. This creates a sense of insecurity in the general public with regards to the smaller microfinance banks.

Limited Geographic Access: A supply-side constraint, the absence of low-cost deposit base does not allow the microfinance banking sector to grow rapidly and make inroads into the far-flung areas of the country. Geographical expansion provides MFBs with the opportunity to interact with people and practice relationship-based banking in far flung areas leading to un uptake in trust level in MFBs. Though the microfinance industry has expanded, however, majority of the microfinance banks operate in major urban centers.

Low financial literacy: A lower literacy rate of 58% only leads to limited financial literacy as well.[2] Majority of the microfinance depositors are small ticket and have low levels of financial literacy. In this context, with limited or zero know how about the financial products the low-income segment of population is not fully aware of offering of MFBs and might have a limited understanding of the products and services they offer.

Lack of Innovative savings product development: Digital Financial Services has gathered a momentum in Pakistan with a 71.7% growth[3] in retail outreach by MFBs specifically the m-wallet accounts. However, majority of such basic banking accounts are used for local remittances. The MFBs have not been able to leverage their digital services platform to expand their deposit base significantly or to reach rural geographies.

Policy Solution Bundles

To address the lack of participation and trust in MFBs, the following policy solution bundles can be investigated:

Deposit Protection Mechanism for MFBs depositors: Without a Deposit Protection System (DPS), depositors, like Assad, are tempted to place their deposits in commercial banks or in informal savings that seem more familiar and trusted. Therefore, a specific DPS for MFBs can provide a much-needed perception (and reality) of safety of funds to the poor consumers that may lead to an uptake in the trust and participation levels.

Financial awareness campaign: Financially aware individuals can compare the benefits offered by different FIs. A financial awareness campaign can bring a change in the perception of the public towards the MFBs. Such a campaign would provide an opportunity to the MFBs to reach to far flung areas and educate people about the benefits of the different products being offered. By educating about the benefits of the DPS, they could engender more trust in the institutions.

Expansion in MFBs resources and Geographical access: In microfinance, relationship banking is an important factor and as such expansion in geographical access can improve confidence level of the people. With increase in outreach the MFBs can get in touch with the people of far flung areas.

Priority Policy Solution

In order to elevate the participation and trust level of the general public in the microfinance banks, this policy memo proposes establishing a Deposit Protection Scheme (DPS) for MFBs as a priority policy intervention. DPS may ensure to secure, eliminate or minimize the risk, that the funds placed by depositors in the microfinance banks will not suffer losses as a result of bank's liquidation; thereby enhancing depositor's confidence in the institutions. The Deposit Protection Corporation has been recently established and it has commenced its operations in June 2018. DPC will be the main vehicle for my proposed policy solution.

The DPS is envisaged at improving the deposit base of the MFBs as source of low cost affordable funding. Availability of the long term reliable funding will enhance the sustainability of the MFBs and boost their potential of growth. A targeted awareness program, jointly run by DPC and MFBs, through print and electronic media, announcing and explaining the DPS will be helpful in garnering the trust of the people in the MFBs.

Major Stakeholders

For my proposed policy solution following are the main stakeholders.

Deposit Protection Corporation of Pakistan (DPC): DPC is a subsidiary of State bank of Pakistan, mandated to protect small depositor to ensure stability and maintain public trust in financial system of Pakistan. MFBs are not required by the act to become a member of the Deposit Protection Corporation; therefore, the proposed DPS will be placed at DPC.

State Bank of Pakistan: State Bank of Pakistan is the regulator of microfinance banks and is the main architect of National Financial Inclusion Strategy. The Development Finance Group/Financial Inclusion Group is an important stakeholder as it will provide the technical knowledge and a communication interface between microfinance banks and DPC.

Microfinance Banks: MFBs will be main beneficiaries of the proposed deposit protection scheme. Consultations with MFBs on the deposit protection scheme and its modalities will be required before the introduction of the scheme for MFBs.

Pakistan Microfinance Network (PMN): PMN represents the microfinance industry in general including the MFIs that are not allowed to deposit taking. Their support and feedback would be required during the consultation process of the DPS for MFBs.

Consumers: On the demand side; the end beneficiary or target audience/market for the proposed policy solution are the general public who could be able to keep their deposits with the MFBs with a sense of safety.

Implementation of the Policy Solution

As we have established, the main stakeholders the following steps may be needed to implement the proposed policy solution.

- A working group of SBP and DPC will be established to look into the feasibility of a DPS. The working group will determine the underlying legal and regulatory basis for introduction of a DPS. SBP can conveniently interact and influence the DPC to seriously pursue the idea of DPS for MFBs.
- The MFBs and PMN will be engaged by the working group to determine the market's appetite and industry's willingness about the proposed DPS.
- Once the MFBs interest is established, the working group will develop a DPS based on local market dynamics and international best practices.
- The first draft of the scheme will be shared with the PMN and MFBs for their feedback and comments.
- After consultation with relevant stakeholders the DPC will issue the deposit protection scheme for the Microfinance Banks.
- After the rollout of DPS, a coordinated print and electronic media campaign to be run by DPC and MFBs to educate the general public about the benefits of DPS.

Monitoring and Evaluation

Monitoring and evaluation of the DPS for the MFBs will of critical importance as it will provide us the insight on how successful the policy solution is in the long run. The indicators that can be used for monitoring and evaluation are:

- Change in the number of depositors and change in the absolute amount of deposits generated from general public. This indicator will provide useful information after the introduction of the DPS for MFBs.

- Loan to deposit ratio will be another helpful indicator in evaluating the impact of this policy solution.
- A comparison of costs of loans before and after the introduction of the DPS for MFBs.
- A Specialized survey for the MFBs asking about how effective the DPS is in helping them to generate more deposits from the general public.

The introduction of Deposit Protection Scheme may prove a vital policy tool to help MFBs build their deposit base by raising low cost funds from the general public and provide low cost microfinancing to the consumer.

Notes

1. Interview with Mr. Assad, a fruit seller on his saving preferences, on March 06, 2018 at Karachi.
2. Economic Survey of Pakistan (education): 2017–18: http://www.finance.gov.pk/survey/chapters_18/10-Education.pdf.
3. State Bank of Pakistan: Financial Stability Review (Risks to Microfinance Banks): http://www.sbp.org.pk/FSR/2016/pdf/3.3.pdf.

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State Bank of Pakistan: Financial Inclusion http://www.sbp.org.pk/Finc/finc.asp.

Policy Memo on Enhancing Financial Inclusion in the Sacco Sub Sector in Kenya through Development of a Market Conduct Regulatory Framework

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Executive Summary

According to the Kenya 2016 FinAccess household survey, 42% of Kenya's poor population do not have an account at a formal financial institution (CBK-KNBS-FSD Kenya 2016).

Savings and Credit Co-operatives Societies (SACCOs) are financial co-operatives that are registered with the objectives of financial intermediation on behalf of their members (SACCO 2016). The total assets of the SACCO sector in Kenya was Kshs. 442 Billion as of December 31, 2017. The sector's financial services are currently patronized by an estimated population of 3.6 million (SACCO 2017). However, the sector's full potential has not been fully leveraged because of the SACCOs' inability to mobilize adequate deposits to fund their credit activities[1] due to inadequacies in the current regulatory framework. Consequently, the recommended bundle of solutions is to drive trust and utility with market conduct regulations and a consumer facing campaign to enhance member confidence and protect from predatory lending and reckless behavior by SACCOs, lending without regard to borrower's ability to repay leading to high levels of indebtedness, deceptive pricing, and abusive collection techniques (National Treasury and Planning 2018).

Problem and Context

According to the Kenya 2016 FinAccess household survey, 4.7% of SACCO members experienced a case of loss of money while 9.9% experienced unexpected charges (CBK-KNBS-FSD Kenya 2016). Such experiences lead to underutilization of SACCO's financial services.

Samuel is a member of a SACCO; he was interviewed while lodging a complaint with the Authority[2] about being charged excessive early loan repayment costs. Upon inquiry from the SACCO, we were informed that Samuel had cleared his loan balance but was charged a fee of 5% of the outstanding balance plus a host of other charges. The prevalence of such hidden and inappropriate fees is because the Authority does not have powers to protect members from such exploitation. These high fees and costs leads to lack of member trust and hence barrier to usage of SACCO's financial services.

SACCO's financial products and services are sold to members in the form of claims that involve delivery over lengthy periods of times. With each sale, there is some risk that the promise made in the contract will not be kept, either by non-delivery, or by delivery of outcomes different to those that members expect.[3] This asymmetry puts the SACCOs in a strong position relative to their less-skilled members,[4] which means that product suitability cannot be guaranteed by market forces alone.[5]

The Challenge

Underutilization of SACCO's financial services due to the inability to mobilize adequate savings to fund their credit activities as evidenced by the total loan to total deposits ratio of 108.49% in 2017 compared to the internationally recommended ratio of 75%.

The primary causes of underutilization of SACCOs services include:

1. Lack of trust. Many rural residents do not trust any financial institution and women are less trusting of any formal financial institution. (CBK-KNBS-FSD Kenya 2016).
2. Lack of transparency in pricing. 20% of complaints received by the Authority in 2017 were related to disputes on computations of interests and other fees paid in respect of loans and other credit facilities. (SACCO 2017)
3. Loss of money. 4.7% of SACCO members experienced a case of loss of money. (CBK-KNBS-FSD Kenya 2016).
4. Unexpected charges. 9.9% of SACCO members experienced cases of unexpected charges (CBK-KNBS-FSD Kenya 2016).

Potential Solutions

The potential possible solutions that can be implemented to address the problem in the SACCO sub sector include:

1. Formulation of a market conduct regulatory framework to protect members from hidden fees and lack of transparent disclosure of information.
2. Implement an effective consumer education and financial literacy strategy for the SACCO sub sector.
3. Incentivize SACCOs to offer basic accounts with tiered Know Your Customer (KYC), low balances that can be accessed using mobile technology.
4. Establish a complaints handling system at every SACCO to promptly deal with customer complaints as and when they arise.
5. Incentivize SACCOs to invest in research to enable them develop transparent financial services and products that appropriately respond to customer needs.
6. Develop stringent eligibility criteria to screen new license applications to ensure that only SACCOs that guarantee safety of member funds are licensed.

However, due to limited capacity, and absence of suitable preconditions within the Authority's ambit to implement all the above potential solutions, only a few feasible solutions will be selected for implementation on a priority basis.

Priority Solution Bundle and What Has Been Done So Far

This policy memo seeks to recommend priority policy solutions that will address the supply and demand side limitations. The recommended bundle of solutions will encompass:

1. Development of a market conduct regulatory framework; and
2. Development of a consumer education and financial literacy strategy for the SACCO sub sector.

From the supply side, market conduct regulations will ensure supervision of SACCOs to prevent deceptive pricing and loss of member funds from arising and ensure that the sector is delivering transparent financial services across the product life cycle (National Treasury, Republic of South Africa 2014). On the other hand, from the demand side, development of an effective consumer education and financial literacy strategy will enhance the capacity of SACCO members to make informed decisions.

The Authority has internally approved development of market conduct guidelines to be issued to SACCOs as a stop gap measure before promulgation of the regulations. Additionally, plans are at an advanced stage to secure a consultant to advice on the appropriate market conduct regulatory framework for SACCOs in Kenya.

Key Stakeholders

Several key stakeholders will have to be engaged to participate in the regulatory process in order to secure their buy-in because of their interest and influence in the sector. These stakeholders include:

i. Board and Chief Executive Officer (CEO) of SASRA: Their buy-in is critical for them to drive the process from the top and provide adequate resources for its successful implementation.
ii. Cabinet Secretary Industry, Trade and Cooperatives: High level meetings will be organized to secure his buy-in by virtue of holding the Authority to make the legal rules.
iii. Commissioner of Cooperatives Development: The Commissioner's blessings must be sought as the arm of Government in charge of policy and principal advisor to the Cabinet Secretary on matters co-operatives.
iv. Parliament and Senate: These are the arms of Government that are tasked with the role of legislation. The senate will specifically be engaged because Co-operatives is a devolved function of the County Governments. The stakeholder engagement will be through workshops with both houses to pitch the case for the policy change and what this specific law seeks to achieve from a public interest stance.
v. National Co-operative Organisations (NACOs): Co-operative Alliance of Kenya (CAK), Kenya Union of Savings and Credit Societies (KUSCCO), Kenya Rural Saving and Credit Societies (KERRUSU): These unions will be engaged through working groups because of their advocacy role, interest and the immense influence that they wield over their members.
vi. Board members and Senior Staff of SACCOs: These stakeholders will be engaged through sensitization workshops, round table discussions, training on justification of the proposed policy changes and the accruing benefits.
vii. SACCO members will be educated through mainstream media and roadshows organized by the Authority to enhance awareness about the new regulatory framework, which is member centric.

Key Indicators of Change

The key indicators that will be used to measure the success of the policy implementation include a reduction in the number of member complaints, increased usage of the SACCO services and products, increased levels of consumer education, and financial literacy among the SACCO members.

Notes

1. The total loan to total deposit ratio was 108.49% in 2017 compared to the internationally recommended ratio of 75%.
2. Sacco Societies Regulatory Authority (SASRA), the prudential regulator for Deposits Taking SACCOs in Kenya.
3. The National Treasury, Republic of Kenya, Draft Financial Sector Market Conduct Framework, p. 4, April 2016.
4. Ibid.
5. Sacco Societies (Deposit-taking Sacco Business) Regulations 2010, Regulation 22(3) requires SACCOs to make refunds of the members' deposits within 60 days of the notice of intention to withdraw from the membership of the SACCO. However, SACCOs have not been complying with these provisions because 48% of member complaints received by the Authority were related to claims for member deposits.

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Remittances

Efficient Mechanisms for Increasing Cross-Border Remittances Received by Mexican Households

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Executive Summary

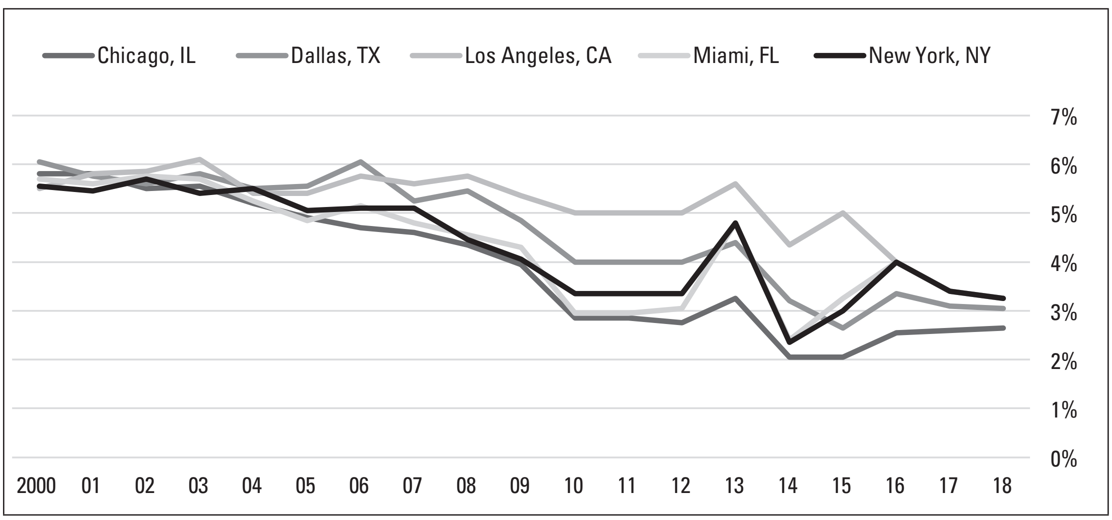
Cross-border remittances are a main source of income of Mexican households, especially for those living below the poverty threshold. Mexican migrants working in the United States rely on expensive financial mechanisms for sending money back home like money transfer operators (MTOs). However, since 2005, Directo a Mexico has provided a less expensive mechanism for sending money, although it has been scarcely used. High customer satisfaction with MTOs, lack of bank accounts, and little awareness about the program remain as barriers that prevent the usage of the scheme. To address that, the recommended policy solution is to develop an App agreed upon between the US Federal Reserve and Mexico's central bank (Banco de México).

Problem and Context

During 2017, roughly 30 billion dollars were sent from the United States to Mexico—almost the equivalent of Paraguay's GDP (IMF 2018). Remittances help people live better lives because more than 80% goes to cover basic expenses (BBVA 2018). In a typical household living below the poverty line, cross-border remittances represents 15% of the total income (INEGI 2016).

The majority of cross-border remittances sent to Mexico from abroad come from the United States (98%) according to the Migration and Remittances Data from the World Bank. The cost of sending remittances have been diminishing for many years. In 2000, a migrant worker would pay a fee (excluding a foreign exchange rate margin) of $11.4 dollars on average, while in 2016 this figure stands at around $6.6 dollars, a more than 40% reduction, according to Mexico consumer protection ombudsman, Procuraduría Federal del Consumidor (Profeco 2018) (Figure 1).

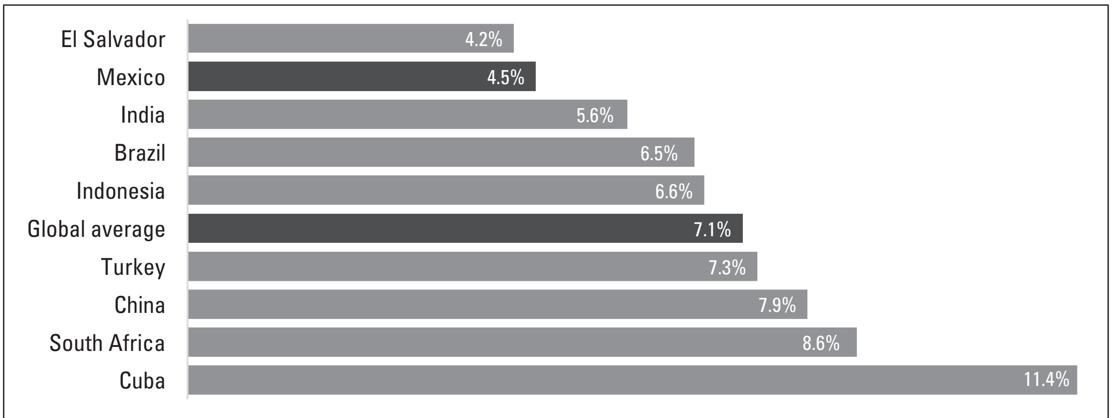
Figure 1. Cost of Sending Remittances from the United States to Mexico
Average fee (not including the margin of foreign exchange rate) of sending 200 USD (as percentage)



Source: Estimations of the author based on data from Profeco (2018). Remittances Prices Monitor: "Quien es quien en el envio de dinero." Each data point from 2000 to 2017 as of the last week of December. Data of 2018 as of to the first week of July. Data does not include exchange rate margin, which tend to represent 25% of the total cost on average worldwide. Data from each city is the simple average of the fees charged 22 remittances services providers.

The remittance corridor of United States-Mexico is one of the cheapest around the world due to its strong competition, a1chieving the G20 commitment to reduce the global average total cost to 5% and on track to meet the United Nations' Sustainable Development Goal of less than 3% by 2030 (Figure 2). However, Mexican migrants still rely on relatively expensive financial mechanisms to send money back home. During 2017, 97% of the remittances send from the US to Mexico used a Money Transfer Operator, such as Western Union or Money Gram (Banco de México 2018).

Figure 2. Cost of Sending Remittances from the United States to the Rest of the World
Average cost (fee and exchange rate margin) of sending $200 USD (as percentage)



Source: World Bank (2018). Remittance Prices Worldwide. Data as of fourth quarter of 2017. Data include exchange rate margin and fees. Average is calculated on the basis of equal weighting for all Remittance Service Providers (banks, MTOs, postal offices, among others) despite market shares.

Directo a Mexico is a program launched in 2005 and operated by the US Federal Reserve Bank and Banco de Mexico. The program allows US commercial banks to transfer money through the United States' clearinghouse, which is linked to Mexico's clearinghouse. The money has to be sent from a bank account in the United States to any bank account in Mexico, or cashed at any of the postal office in Mexico and cooperatives affiliated to La Red de la Gente (Directo a México 2018).

According to Profeco, a US bank in Chicago working in agreement with Directo a Mexico charged less than $3.5 USD for sending $300 USD, while Western Union charges $8 USD, and MoneyGram $10 USD (Table 1). Moreover, the exchange rate offer under this program is the best available option in the market. However, in 2017, only 1% of the total number of remittances were sent through this program.

Table 1. Main Features for Sending 300 USD from US (Chicago) to Mexico

Scheme	Financial Service Provider	Fee (USD)	Exchange Rate (USD-MXN)	Amount Receive (MXN pesos)	Agents in US (Cash-in)	Payout Points in Mexico
Affiliate to Directo a Mexico (Sender requires a US bank account)	Merchants and Manufacturers Bank	3.5	20.1	5,960	4	Banking branches and ATMs of the bank of accountholder (The five biggest Mexican retail banks have on average +7k points, mostly in urban areas)
	MB Financial Bank	3.0	20.1	5,970	1	
	Heritage Bank of Schaumburg	1.0	20.1	6,010	1	
Bank, cash-in, and debit/credit methods	MoneyGram	10.0	19.8	5,742	+30 k	+16k (agents, urban and rural areas)
	Western Union	8.0	19.7	5,752	+58 k	+30k (banks, postal offices, and agents, urban and rural areas)
	United States Postal Service	10.0	20.0	5,800	61	+1k (BBVA-Bancomer branches)
The sender requires a US bank account	Xoom	5.0	19.2	5,664	Only digital	+15k (banks, cooperatives , and agents, urban and rural areas)

Source: Profeco (2018). Data as of July 2, 2018.

Causes of Low Uptake and Use of "Directo a Mexico"

There are four main causes of the low uptake and usage of this program.

High Levels of Customer Satisfaction and Stickiness of Cash

According to a survey from the Inter-American Dialogue (2017), almost 90% of Mexican migrants send their remittances using cash-agents like Western Union and MoneyGram (the rest rely on Internet/mobile access), despite the higher cost of sending. One reason is the high levels of reported satisfaction using cash agents. According to the same survey, almost 80% of respondents agree or very much agree with the statement: "Pricing is transparent"; "Exchange rate is transparent"; "It is easy to use"; "Has a customer-oriented service." Two out of three respondents agree or very much agree that their services are "inexpensive."

Moreover, convenience instead of costs is the most important element when choosing a company to send remittances. According to a survey from Banco de Mexico (Bonilla Leal 2016), factors associated with convenience (speediness, easiness of use, distance from the agents/provider and flexible working-hours of agents) carry 90% of the responses. Only 10% of migrants cited fees or exchange rate as the main drivers when selecting a provider.

Low Bank Account Ownership

There is a lack of bank account ownership among the Mexican migrant community in the United States. According to a 2015 Banco de Mexico survey among *legal* migrants, 66% of them have an account (Bonilla Leal 2016). It is worth noting that this figure overestimates the true proportion of Mexican migrants with accounts because illegal workers tend to show higher levels of financial exclusion given they tend to be employed in the informal economy or receiving their salaries in cash, instead of a payroll account. The lack of bank accounts is particularly relevant for the problem of driving adoption of the Directo a Mexico scheme because this channel requires senders to have bank accounts.

Lack of Awareness about Valid IDs

A factor influencing this low account ownership is a lack of awareness among Mexican migrants about alternative ID documents accepted by US banks for account opening (e.g., Consular ID). In the US, banking regulations differ by state, which means that specific requirements may vary depending on the location. However, financial institutions in the United States typically require two kinds of documents. First, an official ID with photo, such as US driver's license, state ID, passport, and consular ID (Matrícula Consular, in the case of Mexican citizens). The Mexican Embassy has reported that, "[a]s of August 2013, more than 371 counties, 356 financial institutions, and 1,036 police departments accepted Matrícula consular as a valid proof of ID (National Immigration Law Center 2018). Second, a2 p3roof of residency such as a phone, rent or power bill (Secretaría de Relaciones Exteriores 2018).

Awareness of the Service

Finally, there is a lack of awareness about the existence of the Directo a Mexico program among the migrant community. According the Minister of Foreign Affairs in Mexico, lack of awareness is among the main important factors behind the slow uptake of Directo Mexico. The Ministry of Foreign Affairs in Mexico in conjunction with financial authorities carried out an annual financial education fair for more than five years; however, the attendance is relatively low. In the last edition, only 70,000 people attended in Mexican consulates.

Potential Solution

My proposal is centered on increasing the convenience of Directo a Mexico and reducing the fears that reaching banking infrastructure in order to foster its uptake. These aims will be achieved by creating a Directo a Mexico app. This app must be agreed upon by all banks working in alliance with this program. It should be noted that this proposal is aimed at those people who already own a bank account in the United States and own a Smartphone. The challenge of account ownership is noted but should be taken up by another solution.

The process will require three steps from the users. First, a user will have to download the app. Second, a sender will have to link their account to the app. Third, the sender will have choose the payout method: cash-out in Mexico's postal offices, cooperatives, banking branches or ATMs or deposited into a bank account. In the latter, the sender will have select the bank and insert the account number. Finally, the amount must be indicated.

Implementation

One the main hurdles of this proposal is the collection of stakeholders both national and internationally (e.g., US Federal Reserve Bank System, US banks, Banco de Mexico). Moreover, the current political attitudes in Washington towards migrants may be a deterrent. The US Treasury may not be willing to cooperate with this proposal based on AML/CFT controls. The current political landscape may be the toughest hurdle, taking into account that last year some political actors were discussing a tax on cross-border remittances in order to fund a wall in the United States–Mexico border.

The road map of this proposal should address at the very beginning internal stakeholders, especially Banco de Mexico, the Ministry of Foreign Affairs, the Ministry of Finance and Bansefi (a Mexican development bank focused on financial inclusion), among others. Discussions could leverage the existing National Council of Financial Inclusion (CONAIF, for its acronym in Spanish) and its working groups. Once an internal agreement is reached negotiation with US financial authorities' must take place. One crucial step is established a common app for the more 300 banks working under the umbrella of Directo a Mexico.

Conclusion

The United States and Mexican financial authorities based on the belief of mutual gain established Directo a Mexico many years ago. This program provides economic benefits for migrants and their families. However, cross-border remittances through this program remains limited by many factors. It is expected that an app of this program will increase its convenience and thus its usage.

Notes

1. A decade ago, Western Union and Money Gram dominated the market. Now they contend with dozens of international competitors like Xoom and Ria. Western Union's share of the global remittance market has dropped to about 15% from around 75% in the late 1990s, while Money Gram's market share has declined to 5 percent from 22% in that time, according to the companies and government figures.
2. A Consular Identification Card (Matrícula Consular) is an identification card issued by the Government of Mexico through its consulate offices to Mexican nationals residing outside of Mexico. The issue of the card has no bearing on immigration status in the foreign country they are residing in. The purpose of the card is to demonstrate that the bearer is a Mexican national living outside of Mexico. To obtain a Matrícula Consular, a Mexican national must complete an application form in person at any of the 47 consulate offices of the Government of Mexico within the United States. Applicants must submit a certified copy of a birth certificate, present an official picture ID issued by any Mexican or US authority, and show proof of residence in the consular district.
3. On September 14, 2004, the United States Congress voted down a motion to prevent financial institutions from accepting consular IDs. The Bush Administration and the Treasury Department opposed the motion arguing that denying access to the mainstream financial system serves only to drive consumers into the underground financial economy, making it virtually impossible to track their financial activity and frustrating the government's efforts to enforce anti–money laundering and antiterrorist financing laws.

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Financial Access

Increasing Financially Included Population in Albania—Two Solutions for Policymakers

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Executive Summary

Despite efforts so far by the Albanian authorities and the private sector to increase financial inclusion in Albania, the figures still show that 61%[1] of the Albanian population is financially excluded, which is the highest proportion in the region. Based on the 2017 Global Findex Database, this is mainly because people have the perception that their money is too little to use a bank account that banks are expensive, and that banks are too far away. To address this problem, this policy memo presents two policy solutions: introducing the basic account concept and the agent banking model in rural areas of Albania.

Background and Problem

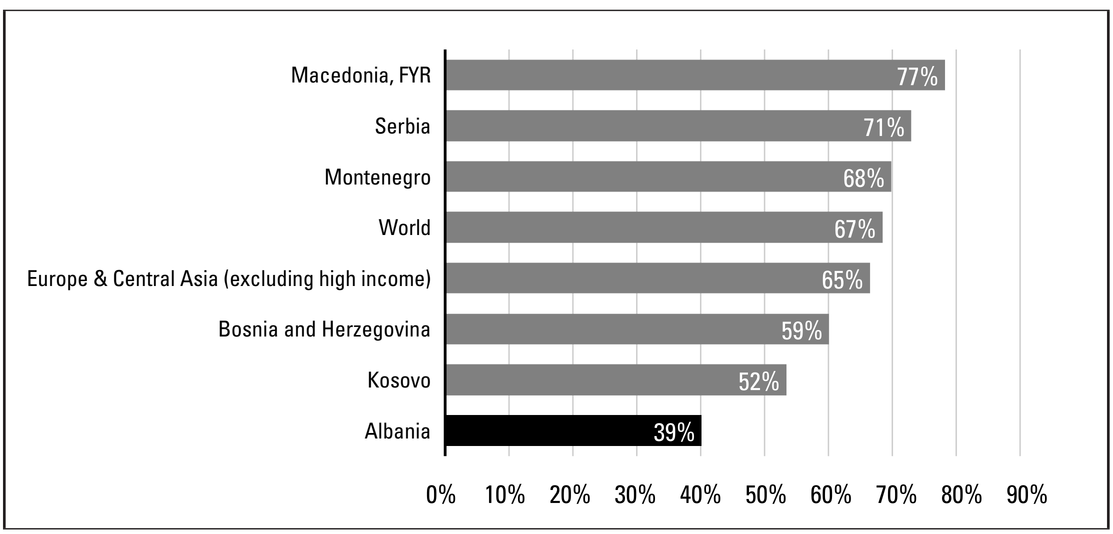
Albania is a small country with a population of around 3 million people located in the Western Balkan Peninsula. Following the end of communism in 1990, Albania went through a process of transition from a centralized economy to a market-based economy.

There are 16 commercial banks, 31 non-banking financial institutions, and 13 credit and savings associations in Albania.[2] Bank of Albania is the supervisory authority of these institutions, being responsible as well for the price and financial stability of the country.

In 2015, a National Payment System Committee was established, led by the Bank of Albania. It brings together government/public and private sector stakeholders to coordinate policies and actions to reduce the cash usage in the economy. Increasing the financial inclusion of the population is listed among the objectives of its 2015–2020 Midterm Strategy.[3]

Despite the achievements and efforts so far, according to the 2017 Findex survey, only 39% of the Albanian adult population has a bank account (World Bank 2017). As it is clearly shown in the graph below, this is the lowest level in the region.

Figure 1. Financial Institution Account (% age 15+)

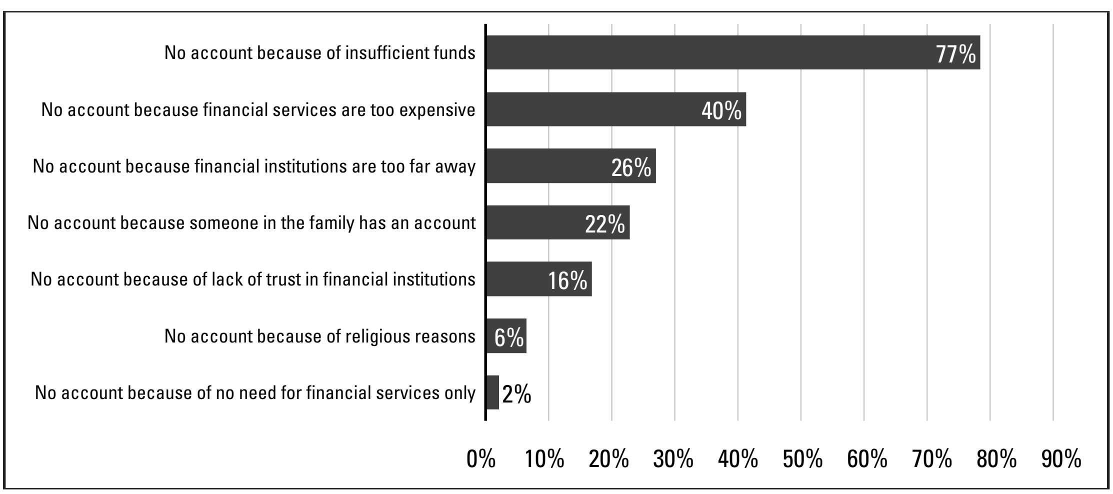


Source: The Global Findex Database 2017. World Bank Group

There are several reasons why this happens, according to the Findex data (World Bank 2017):

1. Seventy-seven percent of the adult population without an account at a financial institution account responded that they didn't have a bank account because they lacked sufficient funds (this reason rates as the highest among countries in the region). People believe they have too little money to qualify for an account. These people need awareness on the fact that banks do not apply minimums to open bank accounts, as well as appropriate or innovative products and services designed to address their basic needs.
2. Forty percent of adults without a financial institution account mentioned that the reason they do not have an account is because financial services are too expensive (this reason rates as the second highest in the region). All of the banks in Albania apply maintenance fees for current accounts, which is on average 150 ALL (41,2€) or 0.6% of the minimum wage in Albania.
3. Only 19% of pensioners received their public sector pension in a bank account (this is the lowest numbers recorded in the region) and 46% of government payment receivers answered they received their payments in cash (this is the highest in the region). Beside social reasons (it is a custom for older generations or pensioners to get their pension in cash at the social insurance desk office), or distance from the bank outlets for those living in rural areas, another reason for this might be to avoid the banking fees.
4. Twenty-six percent of adults without a financial institution account mentioned the fact that banks are too far away (this response rates as the highest in the region). According to the International Monetary Fund's (IMF) Financial Access Survey, in Albania there are 21.5 bank branches per 100.000 inhabitants, which ranks fifth among six countries in the region (IMF 2017). In Albania, banking branches are located mostly in city areas; 39% of banks are only in Tirana. From a financial inclusion perspective, this "penalizes" rural areas living people, who have difficulties in accessing financial services.
5. A large informal economy perpetuates the use of and preference for cash (BTD 2016; Sinaj 2017). One third of the Albanian employed population is informally employed, according to International Labour Organization statistics (ILO 2016). In an informal employment scenario, the employer does not transfer the salary through a bank account, and instead pays in cash to avoid social and health insurance payments. Employees accept not receiving their salary through a bank account because they can therefore avoid declaring the source of money, paying income tax and losing their job because of declaration.
6. According to the Organisation for Economic Co-operation and Development (OECD) International Network on Financial Education (INFE) International Survey of Adult Financial Literacy Competencies, Albania's average score on "financial knowledge, attitudes and behaviour" is 12.7, which ranks below the world average of 13.2 (OECD/INFE 2016).

Figure 2. Reasons for Not Opening a Bank Account in Albania*



Source: The Global Findex Database 2017. World Bank Group

* % without a financial institution account, age 15+

Potential Policy Solutions

The potential policy solutions seek to increase the use of financial services by different layers of the population, such as the poor, those with low literacy, pensioners, informally employed people, students, etc. The objective of the policies is to give them a chance to benefit from financial opportunities and transact efficiently to improve their financial health.

These possible policy solutions include:

- Financial institutions should revise their pricing policies and product design methodologies with the aim to attract the unbanked population or poor people to encourage using bank services, despite of the fact this portion of the populace possesses less money. One option is the designation of basic accounts, offered to specific groups of the population, without maintenance fees and with simpler features such as the ability to add funds and withdraw cash remotely.
- Bank of Albania should allow by legislation agent banking to enable people living in remote areas the use of banking services. Specifically, the law/regulation should enable banks to cooperate with nonbanking financial institutions, which have outlets in rural areas (there are 910 non-banking financial institution agents operating in Albania, which is around 30.3 agents per 100,000 inhabitants), to6 offer basic financial services to people living there. This model would be more effective for banks, since they would avoid the high costs of opening new branches in these areas. Besides, presently only non-banking financial institutions are allowed to have agents only for payment and transfer services as well as for distribution and repayment of funds in case of e-money institutions, while for banks this is not allowed. But7 as long as non-banking financial institutions are not allowed to collect funds from the public, hence open current accounts, it is impossible for people to use banking services through them.
- With the aim to further increase the financial literacy level of the Albanian population, Bank of Albania, in cooperation with the Albanian Banking Association, should organize on-site exhibitions of banking products and services in different cities and rural areas. This would consist of concrete demonstrations to people using easy-to-understand terms. The aim is to improve the population's skills and capabilities with regard to financial products/services usage and benefits.
- The Ministry of Finance and Economy should draw up policies how to address the informal employment in Albania, which discourages people to use financial services. For example, the government should seek alternatives to incentivise the usage of electronic payment instruments, employers to declare employees' payments, and businesses that accept payments via point of sale (POS). There are several successful country experiences to be considered as reference (i.e., tax reduction incentives), but it is important to emphasize that to succeed with this kind of measures, strong political commitment and support is necessary (Sung, Awasthi, and Lee 2017).

Proposed Policy Solutions

When financial institutions in Albania introduce basic accounts designed for poor or unbanked people, this creates the opportunity to use financial services and be socially included in terms of access to employment, health care, and housing and8 financially included. This product should be offered free of maintenance fees, at least for a certain period of time, based on the frequency of using the account. Through this product, consumers should be able to undertake essential payment transactions such as receiving income or benefits, paying bills or taxes, and purchasing goods and services, including via direct debit, credit transfer, and the use of a payment card.

Ba9nk of Albania allows agent banking model and revises respective legislation to enable this opportunity in the market. Banking agents would create the opportunity for people who live in rural areas to easily reach basic or current accounts.

Key Stakeholders and Modalities for Policy Implementation

The implementation of the abovementioned policy solutions requires close cooperation among the main stakeholders.

Basic Accounts:

It is necessary that Bank of Albania requires to the commercial banks the designation of appropriate product and services that meet poor clients' needs. Basic accounts introduction is the most feasible option. This policy solution should be addressed through the National Payment Systems Committee and should constitute a collegial commitment of all the stakeholders. A working group at the Albanian Banking Association should be established, under the supervision of Bank of Albania, to design, approve internally, and present the basic product to the stakeholders before being introduced in the market. In any case, each of the banks can go beyond of the basic product and provide more incentives for customers to use the basic accounts. Once it will be finally accepted, advertising campaigns should be organized by banks to inform people about this new opportunity. Legislative steps should be undertaken to reflect the requirement for opening basic bank accounts in the legislation, according to the EU Directive on Payment Accounts.

Agent Banking:

An agent banking model should be allowed by legislation. The most opportune and fast solution is the new Directive on Payment Services 2015/2366 presently being transposed by Bank of Albania in a new law for payment services in Albania. This new law should enable banks to have agents, as other payment institutions will be allowed to do so. Agents can be either non-banking financial institutions that are already offering payment services directly or through their agents' network, or other physical or legal persons who would fulfill the conditions required by legislation to be a bank agent. Through this model, banks would avoid opening branches in remote/rural areas—an expensive option to them due to lower activity—and at the same time offer basic financial services (such as open a basic bank account) to people who live in these areas through the agents' infrastructure. To enable this, as a first step, close cooperation among the internal stakeholders at the Bank of Albania such as Supervision, Legal and Payments Department is crucial to agree on the implementation of this model in the Albanian market. Besides, the draft law should be subject of public discussion with all the external stakeholders such as commercial banks, non-banking financial institutions, etc. and then endorsed by the National Payment Systems Committee in Albania, where government institutions such as Ministry of Finance and Economy are members. After that it will follow the standard procedure of approving a law, before being submitted to the Parliament for approval.

The two proposed solutions in this policy memo are expected to significantly improve the financially included population in Albania. Nevertheless, it is not the purpose of this document to be limited to these two suggestions. They should be followed by further efforts in other areas, such as combating informal economy, to provide people more opportunities to use financial products and services and to increase their financial health.

Notes

1. The Global Findex 2017: https://globalfindex.worldbank.org/.
2. Source: Bank of Albania, https://www.bankofalbania.org/Supervision/Licensed_intitutions/.
3. Midterm strategy of the National Payment System Committee in Albania, 2015–2020: https://www.bankofalbania.org/Pagesat/Komiteti_Kombetar_i_Sistemit_te_Pagesave/.
4. For current interest rates and maintenance fees, visit the Bank of Albania site: https://www.bankofalbania.org/Supervision/Interest_rates_and_bank_commissions/Commissions_to_individuals/.
5. Decision of Council of Ministers No. 399, dated May 3, 2017, "On determining the minimum wage," *Official Gazette* No. 98, published on May 5, 2017.

6. Source: Bank of Albania, 2018 data.
7. Regulation 1/2013, "On the granting of licence to the non-banking financial institutions," Bank of Albania: https://www.bankofalbania.org/Supervision/Regulatory_Framework/Licensing_Regulations/.
8. European Parliament resolution of July 4, 2012, with recommendations to the Commission on Access to Basic Banking Services (2012/2055(INI)).
9. EU Directive 2014/92/EU of the European Parliament and of the Council of July 23, 2014, on Payment Accounts: "On the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features."
10. EU Directive 2014/92/EU of the European Parliament and of the Council of July 23, 2014, on Payment Accounts: "On the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features."

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Easing Access to Financial Services to the Poor in Morocco

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Executive Summary

In Morocco, only 25% of adults with low income have access to formal financial services, and only 25% of remote areas have at least one access point to formal financial service.

This means that 75% of this population is excluded from formal financial services and have to rely only on informal financial services that are often less reliable and more expensive.

According to the last World Bank report (World Bank 2017), the main reasons for such situation are 1) a lack of appropriate product and offers for low income users, 2) cost of financial services remain high (especially when the cost is reported to the level of income), 3) a high level of know your customer (KYC) requirement, and 4) a lack of financial literacy that prevents users from properly understanding the financial product and conditions of use.

This memo recommends implementing new principles for an inclusive payment system that will include the very poor based on an e-wallet that could be used for saving and payments.

Problem Context

Bank Al-Maghrib has placed financial inclusion at the heart of its last three strategic plans, reflecting its strong commitment to overcoming barriers to banking and strengthening the role of the financial sector in the socio-economic development of the population.

In this context, numerous initiatives have been undertaken with the involvement of banks and have made important progress, notably highlighted by the last mission of the World Bank and the International Monetary Fund (IMF) under the Financial Sector Assessment Program (FSAP).

In spite of all the achievements, there are still challenges in accessing and using financial services by the poor.

Indeed, the available data on both the supply side and the demand side show that only 25% of adults with low income have access to formal financial services, and only 25% of remote areas have at least one access point to formal financial service.

According to the Findex 2017 (World Bank 2017) and to the last financial capacity survey conducted in 2014 (World Bank, Morocco Financial Inclusion and Capability Survey 2014), the poorest are excluded for the main following reasons:

- Lack of appropriate product and offers for low income users. In most cases, banks, because of their strong prudential requirement, avoid specific offers for this segment because they consider that this population is so risky and not profitable.
- Lack of appropriate regulation that would allow alternative offers from non-banks institutions or that would allow agent network to provide formal financial services in remote or undeserved areas.
- Cost of account ownership that are perceived very high by potential clients, compared to their income or to the amount of their forecast transactions.
- High level of KYC requirement; indeed, many of the poorest prospective clients do not possess formal identification or proof of residence that are necessary for account ownership.

1. Lack of financial literacy (World Bank 2017; World Bank, Morocco Financial Inclusion and Capability Survey 2014) that prevents potential clients from understanding the financial product. Indeed, according to the G20 principles for Innovative Financial Inclusion (Global Partnership for Financial Inclusion, April 2011; Alliance for Financial Inclusion), for consumers to make the most of new financial services, it's important that they have a financial literacy, which is the ability to understand basic information about financial products and services and financial capability, which is the ability to apply that understanding to make informed choices about their finances.

These reasons were also highlighted by the World Bank (Allen et al. 2012).

Proposed Solutions

In order to overcome these problems and enhance access to formal financial services for the poor, the primary solutions should be focused on:

- Encouraging alternative solutions by allowing non-banking institutions to open transactional account and supply mobile digital payment service suitable to low-income people; The Global Findex data identifies big opportunities to increase account ownership in Morocco by leveraging mobile technology. Indeed, in Morocco, 77% of unbanked adults have a mobile phone (World Bank 2017) Simply having a mobile phone can potentially allow access to mobile money accounts and other text- or app-based financial accounts.

  The potential of mobile was highlighted by the last GSMA report (GSMA 2017). In fact, developing mobile money has enabled financial inclusion, access to transparent digital transactions and tools to better manage financial lives. The impact of mobile money has been felt well beyond transactions and accounts: people's lives have been enriched by greater personal security, a sense of empowerment, and more.
- Overcoming lack of access to formal financial services in remote or underserved areas by allowing the implementation of agent network as it was proven that agents hold the greatest potential to bring formal financial services to the most excluded both in urban and rural areas. Indeed, taking advantage of mobile technology, agent networks allow financial service providers to leverage existing retail infrastructure to expand rapidly into areas where traditional bank branches would be too expensive to build. For many low-income customers, agents bring access to a whole portfolio of financial services and are sometimes their primary—or only—interaction with the formal financial system. The example of Peru (CGAP 2015) or Brazil is eloquent in this regard
- Enhancing a comprehensive financial education strategy or action plan for low-income people. Indeed, a lack of awareness in relation to the different types of financial products create barriers to access. Poor knowledge of how products work and their likely cost also reduce the likelihood of inclusion (Global Partnership for Financial Inclusion, April 2011 ; Alliance for Financial Inclusion).

Policy and Implementation Plan

As mentioned above, the policy will focus on implementing new principles for an inclusive payment system that will include the very poor based on an e-wallet that it could be used for savings and payments. The policy will be based on two pillars:

- Review the regulation in order to allow a non-bank payment institution to open transactional account and offers mobile digital financial services based on proportional KYC requirement. This will introduce a new dynamic in the market and bring competition that will reduce cost of DFS. Indeed, allowing for robust competition among financial service providers enables the potential of innovative technologies to expand the range of available products and lower their cost. Recent research indicates that high costs of opening and maintaining accounts are associated with a lack of competition (Demirguc-Kunt and Klapper 2012).

2. Enhance Financial Education that will increase the awareness about financial services. As mentioned in previous report from the World Bank (2014), it is necessary to put in place a comprehensive financial education strategy or action plan in order to address the challenges listed here. The development of a financial education action plan could help to identify key priorities based on a number of criteria, including i) the need, ii) desired and expected impacts, iii) costs, iv) opportunities to scale up, and v) leverage on existing programs. The importance of financial education was highlighted by the GPFI who mention in G20 principles for financial inclusion. The Ghana government launched a financial literacy program in 2008 to create awareness and build trust between consumers and service providers. In 2009, a national strategy for financial literacy and consumer protection in the microfinance sector was adopted that addressed the three pillars of financial capability: knowing, understanding, and behavior change . . . In Indonesia, according to Financial Services Authority of Indonesia (BCG analysis, April 2018, Study for Central Bank of Morocco), with financial education, the financial inclusion index has increased from –60% in 2013 to 68% in 2016.[1]

The last conclusions of the working group in charge of elaborating the Moroccan National Strategy on Financial Inclusion, drafted current May 2018 (Boston Consulting Group 2018), have shown that this policy is aligned with the most recommendations of the NFIS. These recommendations and conclusions were also approved by the Governor of the Central Bank and the Finance Minister.

It's necessary to mention that the process of elaboration of our NFIS is based on a wide consultation process, which includes various stakeholders from public, private, and non-profit entities (Ministry of Finance, Banks, Insurance regulator, Moroccan Financial Education Foundation, and others). This has helped to facilitate a wider consensus building about the importance of this topic and to ensure better coordination of all stakeholders as well as overall support and funding of the implementation of the strategy and subsequent financial capability enhancing programs.

To implement this policy, we will start by finalizing the final draft of the Central Bank Circulars related to 1) the conditions to be fulfilled in order to be authorized as a non-bank payment services and 2) the conditions of offering payment services. Those final drafts, which take in account comments from the banks and money transfers association, were discussed with the support of our internal Legal Department and our Supervision Directorate, and approved by the internal payment Council chaired by the vice-Governor.

In parallel, we will schedule a Licensing Committee in July 2018 in order to deliver licenses for the new applicants who would operate as future payment institutions.

We will also schedule a meeting with our Moroccan Foundation in charge of financial Literacy in order to discuss about the pillars of our next National strategy on financial literacy, which will be part of our National Strategy of financial inclusion.

With this policy and solutions described above, and with the commitment of all stakeholders, who are already part of the working groups dedicated to discussing and implement the NFIS, we are very optimistic about the results of all those reforms. Indeed, many Fintech personnel have already shown their interest to this new activity and have set up a market study to understand the market needs specially for low- and irregular income people.

Note

1. The target for 2019 is 75%.

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Easing Access to Use Quality Health Care Services and Products by 85% of the Namibian Population

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Executive Summary

Access to medical health care in Namibia has now become too costly for 85% of the population, double consumer inflation. Hence, private health care delivery has become inefficient as it only caters for 15% of the population.

The high medical costs continue to be driven by factors influencing demand, supply and regulatory sides of the market on health care services. In this connection, the solution to the problem is an amendment of the Medical Aid Funds Act 23 of 1995 in order to introduce strict information disclosure requirements, and a transparent costing structure and processes, among other measures.

Even though there is support from key stakeholder already, public policy makers should still acknowledge the role key stakeholders in the private sector play toward the success of the policy on medical aid fund industry. This reform, therefore would still require their collaboration to bring about the change going forward.

Problem and Context

Namibia has been facing a worsening health care problem since 2014, which continues to constrain 85% of the population's access to private health care; irrespective of whether they live in the urban or rural areas. The cause of the exclusion is the already high and increasing cost of private health care services and products,[1] which has been averaging at 12% increase per annum,[2] double consumer inflation rate. Inevitably, to remain afloat, premiums had to increase,[3] consequently threatening sustainability of medical aid funds operations, as arrears in premiums have, since the first quarter of 2017, astronomically risen from zero, a year before, to U$3 million[4] per quarter, which averages 3.2% of the total payable premium contributions per quarter. The amount might appear relatively small, but it is the speed at which this has moved; 1.6% in the third quarter of 2016 to a high of 4.4% in the third quarter of 2017. The high and increasing values of arrears in premiums is driven by demand and supply factors augmented by limited scope of the Regulator's mandate, which does not provide powers over the market conduct of medical services providers.[5] Rather, the mandate is only limited to prudential regulation and supervision, and as a result, market conduct abuse remains outside the ambit of the law.

In this regard, cost-driving factors[6] should be contained such as fraudulent claims partly caused by lack of information disclosures (costs charged, and medical tests conducted) by doctors on the supply side, which are repeated when different doctors are consulted. On the demand side, the challenge is limited consumer education. For example, patients would consult an expensive specialist even on an illness that only require a cheap general practitioner. In addition, a narrow membership base limits effectiveness of cross-subsidization, the principle under which medical aid funds operate to keep afloat. Without an effective cross-subsidization, the only measure to keep the funds afloat is to increase the monthly premium every year to match high claims.

Further, NAMFISA, the regulator, does not consider benefits and costs of medical services and products, but only makes assessment of prudential sustainability profile of funds when claims are paid out. Therefore, it is unclear whether the list of benefits would equal the value of the contributions.

In addition, civil servants' medical aid benefits are not regulated, and therefore are not subjected to any provision on prudential and market conduct, making it susceptible to any shocks[7] that could be avoided through legal restrictions. For example, patients abuse the system by treating relatives not covered under the medical aid benefit scheme.

Also, the Medical Aid Funds Act 23 of 1995 is quite restrictive against new cost-effective innovative products and services entering the market. For example, a gym rebate was not allowed on the market as it could not meet licensing requirements.

One good case to illustrate the gravity of the problem on the demand side of the market is that of an employee, who claimed from the medical aid fund for cancer treatment of his nephew not covered by a medical aid fund.[8] His job was terminated as a sanction against him for the fraud. Unfortunately, the child died, and the uncle was requested to pay back US$127,272, which he could only afford by auctioning his farm.

As a result, due to the high costs[9] incurred by Government in supporting civil servants medical aid fund benefit, the government is now calling for a reform to ensure that affordability is restored by tightening requirements on how the process and structure for making claims for treatment and payment from the respective fund should be prudently managed.

Theory of Change and Stakeholder Analysis

Over all, it is important to acknowledge the required collaboration with key stakeholders to ensure an effective coalition, and they are

a. medical aid fund administrators and their association;
b. medical doctors and their association;
c. ministers of finance, health, and labor, and
d. regulator's board of directors and executive committee.

An effective coalition that seeks to solicit deep understanding of each stakeholder's vested interest has taken shape led by the government. Vested interest is real because when funds collapse, doctors and fund administrators run out of business, and the government's fiscus could further be constrained, while the mandate of the board and executive committee of the regulator could be undermined.

Potential Solutions

The potential solutions easing the upward spiral in health services costs are

Supply Side Solutions

a. clear costing process and structure,
b. strict medical information disclosure, and
c. civil servants medical aid benefit reform toward a regulated space.

Demand Side Solutions

a. consumer education and awareness informing choices made by members,
b. significant cross-subsidization increasing pool of funds, and
c. membership legal requirement widening membership base.

Regulatory Side Solutions

a. legislation promoting cost effective innovations,
b. doctor's conduct regulated, and
c. Medical Aid Funds Act 23 of 1995 amendments.

Recommended Policy Solutions

The potential solutions easing access to health care services for the majority of the Namibian population can be realized through affordable low-cost private health services and products. This would require implementation of an over-arching priority solution broadening the mandate of the Regulators with provisions addressing challenges on the supply and demand side of the market, too. In this respect, the priority solutions encompass legislative amendments to the Medical Aid Funds Act 23 of 1995 premised on ensuring the following changes:

a. legal compulsory membership requirements for employees;
b. civil servants medical aid benefit reformed;
c. clear and effective medical services costing process and structure;
d. prescriptive legal amendments on market conduct limiting abusive behavior on claims, e.g., information disclosure and identification principles requirements; and
e. enabling amendments on innovative platform for testing new products and services; according flexibility toward innovative cost-effective products and services.

Such amendments would lead to desired results, leading to changes in a number of indicators, as follows:

a. *medical information disclosed:* leading to well informed choices on medical services made by consumers when consulting doctors, reflecting good level of consumer education and awareness, as well as an understanding of rights and services/products consumed.
b. *Consumer complaints registration published:* knowledgeable consumer could also be reflected in more beneficiaries registering complaints with the regulators;
c. *pool of funds increasing:* due to increasing membership base, leading to a significant cross-subsidization, as well as lower and affordable premiums; and a
d. *clear costing structure published:* contributing to low values and volumes of claims crowding in more membership.

Implementation

Due to the gravity of the problem, with premium arrears as high as 4% of payable contributions per quarter, implementation of the proposed solutions by senior policy makers had to start during the first half of 2018, ahead of the finalization of this policy in September 2018. This outcome was partly spearheaded by all the key stakeholders lead by the government.

Conclusions

The reform being proposed aimed at reversing the predatory market conduct of certain medical practitioners can have far-reaching consequences on the cost of private medical services and products. This is because the upward spiral in the cost of private medical services and products sourced through medical aid funds can be reversed. Consequently, consumers of medical services and products would benefit when the sharp upward trajectory witnessed in recent times subsides.

Notes

1. Refers to Medical Aid Funds made up of employees' and employers' contributions toward funding of medical expenses for employees. The collection of the contributions into a pool of funds, and payment of claims from the fund to medical services providers such as doctors and pharmacists is administered by medical aid fund administrator, supervised by a Regulator.

2. L'oreal Tjiueza-Manager Medical Aid Fund: Interview conducted on March 26, 2018.
3. Jeese Joodt-Policy Analyst Medical Aid Fund: Interview conducted on March 26, 2018.
4. NAMFISA Administrative Record 2017.
5. L'oreal Tjiueza-Manager Medical Aid Fund: Interview conducted on March 26, 2018.
6. Jeese Joodt-Policy Analyst Medical Aid Fund: Interview conducted on March 26, 2018, and L'oreal Tjiueza- Manager Medical Aid Fund: Interview conducted on March 26, 2018.
7. In this case, shocks can refer to prudential regulatory limits set up in the legislation that should be respected to ensure that there is enough capital to manage systemic shocks. In this case, had the law's scope been broad enough to cover market conduct abuse the budget allocation would have not increased from say N$1.7 billion in 2014/15 FY to N$3 billion in 2016/17 as the claims rising due to the abuse would have not risen that much.
8. Medical Aid Fund Administrator in the Windhoek.
9. The government's public medical aid budget allocation of U$250 million only benefits 12.5% of the population, which is significantly lower than 85% of those without access to advanced health care technology provided by private medical care.

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Enhancing Access to Sustainable Finance for Micro Enterprises in Nigeria—Focus on the Most Financially Excluded Regions

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Executive Summary

Approximately 37 million Micro Small and Medium Enterprises (MSMEs) exist in Nigeria contributing about 48% of the country's GDP (Small and Medium Enterprises Development Agency/National Bureau of Statistics 2013). This sector (99% of which consists of micro enterprises; Small and Medium Enterprises Development Agency/National Bureau of Statistics 2013)[1] with its huge contribution to the country's growth and potential to support economic and social development, has struggled to gain access to finance over the years—currently, only about 5% of MSMEs are able to access credit from a formal financial institution (Ketley 2012). The situation is grimmer as you move up towards Northern Nigeria where 5.7 out of every 10 individuals lack access to formal financial services (Enhancing Financial Innovation and Access 2016).

This policy memo recommends the development of a framework for the facilitation of lending to Micro enterprises to incentivize financial institutions in Nigeria to lend to micro businesses particularly in the most financially excluded regions (MERs) of the country. This will support the growth of MSMEs, improving their productivity and ability to positively contribute to the Nigerian economy.

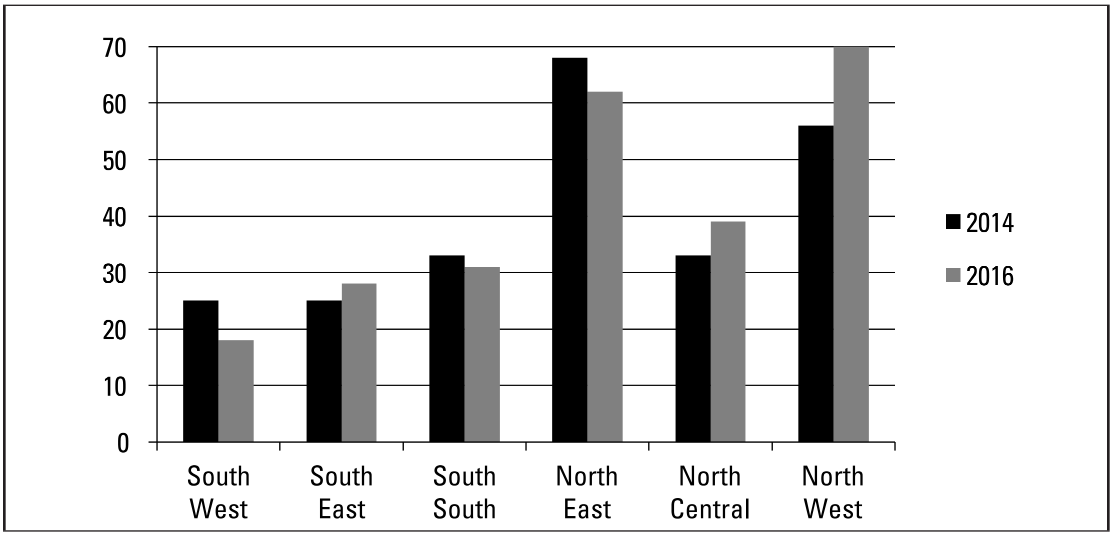
Problem and Context

Micro businesses in Nigeria (particularly in MERs) are unable to sustainably finance and grow their businesses, in large part because they lack access to capital.

Background

According to the 2016 Access to Financial Services survey in Nigeria, 41.6% of the adult population (estimated at 98 million) in the country lacks access basic financial products including savings, credit, payments, insurance and pensions—the largest proportion of which reside in the Northern regions with financial exclusion figures ranging from 39%–70% (Enhancing Financial Innovation and Access 2016).

Figure 1. Nigerian Financial Exclusion Rates by Region (2014–2016)



Source: Enhancing Financial Innovation and Access (2016).

The region currently has an average of 40% of its population engaged in Micro and Small businesses, a majority of which are unable to access formal credit facilities to sustainably grow (Enhancing Financial Innovation and Access 2016).

Micro Enterprises in Nigeria

MSMEs have been identified as key drivers of economic development and growth. Nigeria has 37 million MSMEs employing over 59 million persons, which represent 84.02% of the labor force**.** However while the sector contributes 48.47% to GDP, these businesses are constrained by lack of access to finance and poor physical infrastructure (inadequate power supply has been touted as one of the reasons MSMEs are unable to effectively maximize capacity and improve productivity) (Evbuomwan 2016), inconsistency in government policies, multiple taxation and obsolete technology as well as poor support (business development services), and access to market (Small and Medium Enterprises Development Agency/National Bureau of Statistics 2013).

Key Causes of Lack of Access to Funding

Micro enterprises (MEs) account for over 99% of the 37 million MSMEs employing the largest number of people and are faced with even more hurdles in accessing finance to sustainably grow their businesses (Small and Medium Enterprises Development Agency/National Bureau of Statistics 2013). On the ***supply side***, financial institutions generally perceive micro businesses as risky enterprises leading to a high premium on credit facilities made available to the segment (Bernhardt, Björn et al. 2015).[2] The fact that MEs are unable to demonstrate their credit worthiness vis-à-vis financial management skills is of major concern to financial institutions (Okafor and Onebunne 2012).

On the ***demand side***, the perception is that microbusinesses are largely disorganized (Ugoani and Onwubiko 2013); have irregular incomes, lack the education/financial capability to meet the requirements, lack appropriate collateral and in the case of the North, have a general apathy for conventional financial products. Even more concerning is the lack of information on the availability of suitable products and services as evidenced by consumers like Halima, a bread seller in the international grains market in Kano State, (Northern Nigeria) who revealed that she didn't approach the microfinance bank in her area to access loans because she didn't feel she would meet their criteria and she wasn't sure about their stance on 'riba'[3] which is islamically prohibited.

Ongoing Policy Solution Efforts

The Nigerian Government, the Central Bank of Nigeria (CBN),the Nigerian Bankers' Committee and several key stakeholder institutions have developed numerous policies, schemes and interventions targeted as improving access to finance for MSMEs. Some of the recent efforts directly meant to create opportunities for MSMEs in the North include the release of guidelines for the regulation and supervision of non-interest (islamic) microfinance Banks in Nigeria and the launch of the Shared Agent Network Expansion Facility (SANEF), which aims to deploy 500,000 agents across the country with higher percentage deployed in the North amongst others.

However, while these interventions are expected to record some progress in improving access to finance for MSMEs in the region, especially as it is assumed that more non-interest financial institutions will be licensed following the released guidelines, micro enterprises particularly in MERs remain disenfranchised and there remains a critical need to focus on the segment in order to improve financial inclusion.

Proposed Policy Solution and Recommendations

The development of a framework for the facilitation of lending to Micro enterprises in MERs

A framework to facilitate improved lending to Micro enterprises should be developed in order to create the enabling environment for Financial Institutions to lend to micro businesses particularly in MERs. The framework will hinge on the following critical elements:

1. Prescription of incentives for financial institutions borrowing from the CBN under any of its policies, schemes or interventions to on-lend to micro enterprises.
   i. Inclusion of a non-interest finance window across all development funds of the Central Bank of Nigeria to increase opportunities for non-interest financial institutions to access funds and on lend micro enterprises in the rural North to access finance.
   ii. An increase in the interest spread earned on intervention funds channeled to the economy through Participating Financial Institutions (PFIs) who focus on lending to micro-enterprises, particularly in MERs
   iii. Micro lending sandbox: PFIs with innovative ideas to cater specifically to micro enterprises in MERs will be allowed to test such products within a regulatory sandbox.
2. Improved data collection on microenterprises (including cash flow analysis). In order to provide the business case on the viability of micro businesses for financial institutions, the current bi-annual survey on access to financial services in Nigeria will be enhanced to include a section on cash flow analysis of micro enterprises (with a pilot in MERs). The data gathered will provide financial institutions with a comprehensive list of Micro enterprises with efficient money management skills showing bankable businesses from the onset.

Implementation and Stakeholder Analysis

Following the approval of the management of the Central Bank of Nigeria, implementation will commence with internal consultations (with relevant CBN departments) on the critical elements to be included in the framework. This will be followed by external engagements with financial institutions, development partners, agencies of government working on policies for the segment (e.g., Small and Medium Enterprises Development Agency of Nigeria), and other key stakeholders to get sufficient buy in and commitment.

The Financial Inclusion Special Interventions Working Group (part of the financial inclusion governance structure in Nigeria) will then be given the mandate to drive the implementation of the framework working first through the Development Finance Department to include a non-interest window in all interventions of the Central Bank of Nigeria. All other incentives as prescribed in the framework would be communicated to financial institutions and lastly, consultations will commence on the consideration to include detailed cash flow analysis of microenterprises in the next round of the Access to financial services survey in Nigeria.

Conclusion

The need to enhance access to finance particularly for microenterprises in MERs cannot be overemphasized. A study recently released by the Brookings Institute reveals that Nigeria has the largest population of people living below the poverty line and this is largely due to the high incidence of poverty in Northern Nigeria. The expectation is that this framework will provide the impetus for financial institutions to empower microenterprises in MERs to sustainably grow their businesses by improving access to finance with attendant benefits of job creation and poverty reduction.

Notes

1. In the Nigerian context, a Micro Enterprise is defined as any business employing between 1 and 10 individuals with an asset base of less than N5,000,000 ($16,339) excluding land and buildings. These enterprises typically require very small amounts to start businesses with initial startup capital for 68.35% of micro enterprises found to be predominantly less than N50,000 ($163).
2. A study on loan pricing reveals that on average, the Annual Percentage Rate of Nigerian Microfinance Banks is 127%.
3. Riba as described in Islam and also known as fiqh riba al-duyun is the unjustified increment in borrowing or lending money, paid in kind or in money above the amount of loan, as a condition imposed by the lender or voluntarily by the borrower.

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Microfinance Borrowing: Enablement through Data Submission by Mobile Network Operators (MNOs) to Credit Reference Bureau

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Executive Summary

Microbusiness owners in Malawi have limited access to credit for both start-up capital and working capital to grow the businesses because there are no suitable products for these needs. Further, most micro businesses have no collateral and interest rates are very high. Microbusiness owners can access small, short term consumer loans from Mobile Network Operators (MNOs) if they have mobile money accounts. Although these loans are small in size, mandating MNOs to submit this data to credit reference bureaus would ensure that data is also available to financial institutions. This could open doors to microfinance business owners to access larger and affordable credit. This would be facilitated by better product design and risk assessment based on more robust, documented credit history.

Problem and Context

Malawi is the sixth poorest country in the world with a population of 18 million. According to the latest Global Findex Database, only 23% of the population has an account with financial institutions and only 8% of the population borrows from financial institutions (World Bank 2017).[1] The question of access to credit is an important one to improving overall financial inclusion.

For example, Yamikani is a woman who runs a microbusiness of selling second hand clothes at Limbe Market.[2] She needs credit to grow her business but struggles to get financing because there is no suitable product on the market (most microfinance products are based on group lending, she has no desire to be part of a group); she has no collateral demanded by lenders and interest rates are very high at approximately 40%[3] for banks and an average of 90%[4] for microfinance institutions. She borrows from informal village banks, whose products suit her better: having talked to people in villages banks interest rates range from 10% to 20% and the loan tenure is 3–6 months.[5]

Global Findex Database indicates that 31% of Malawians save with a club or friends and family, while 21% borrow from savings clubs/village banks (World Bank 2017). This is almost three times as much as those that borrow from financial institutions. Although terms are better, informal loans are not a perfect solution: on average the police handle three to four village bank disputes a week that have to do with poor administration, loss of funds, loss of property and in extreme cases suicide of a member as a result of group pressure.[6] The question therefore is how to get Yamikani safe, secure, accessible credit.

Causes

Problems of access to credit affect most microbusiness owners, such as Yamikani because

i. microfinance institutions charge high interest rates, which act as a barrier because of cost;
ii. most microfinance products offered are group-centric products, as such there are few products that cater for all individual needs;

iii. income levels are too low for microbusiness owners to interact with the formal financial system;
iv. account opening requirements are seen as stringent and intimidate microbusiness owners;
v. microbusiness owners lack the necessary collateral demanded by formal lenders to mitigate risk;
vi. literacy level is generally lower for micro business lenders;
vii. related to the above, their record keeping is not good such that they fail to satisfy basic requirements of formal lenders such as profile, business history, turnover, performance even after years of activity. At best they are taken as green fields when they are not wiping years of experience and good track record simply it is not kept; and
viii. they have no permanent no permanent business address or registered office.

Potential Solutions

Lowering Interest Rates

One potential solution to this problem is to induce lower interest rates through monetary policy. The Reserve Bank of Malawi took this initiative and lowered the base lending rate from 27% to 23% (Malawi, Statement of Monetary Policy Committee Meeting 2016, p. 1) and further to 18% (Malawi, Statement of the 2nd Monetary Policy Committee Meeting For 2017, p. 1) and finally to 16 percent (Malawi, Statement of the 4th Monetary Committee Meeting For 2017, p. 1) in December 2017. However, there was little or no response from the market as the market would stand to lose a lot of income by lowering their rates. As such, interest rates remain high.

Institutionalizing Microfinance Low-Cost of Funds

Other jurisdictions such as Nigeria (Nigeria, Micro, Small and Medium Enterprise Development Fund (MSMEDF) Guidelines 2014, pp. 15, 20) have set up a microfinance fund where Microfinance institutions borrow from the Central Bank of Nigeria at a low rate of 3 percent and in turn the Central Bank has put a cap on the maximum rate the institutions can lend out. Currently, the cap is at 6 percent, therefore, microfinance institutions are allowed to lend up to 9 percent. This makes microcredit more affordable for microbusiness owners. This option would be a good option to explore, however it would require a large amount of funding from Reserve Bank of Malawi, which would need to be budgeted for.

Regulating Village Banks

Another potential solution is to regulate village banks that are creating parallel financial structures across Malawi. During the people-centered research, it came to light that some village banks have evolved from the traditional savings group of 15–25 people and now have membership of 200–300 people.[7] (Mukwala 2018) Even those who have accounts in banks are opting to become members in village banks because they offer better returns on savings than commercial banks. Regulating village banks would ensure consumers are protected and their funds are secure. However, as these groups are not registered; each one is governed by different set of rules; the members sometimes meet just once a month or in some cases not at all.

Village bank operations are based on trust and social relationships. Regulations will most likely require aspect like disclosure, governance, limits and consumerism. As an example, getting village banks to disclose their operations would be a challenge as they are not easily traceable. Therefore, even coming up with a regulation would prove difficult.

Recommended Policy Solution

The solution below was prioritised on account that it is easy to implement; Credit Reference Bureau oversight falls within the mandate of Bank Supervision and there is an existing legislation to support MNO data reporting to Credit Reference Bureau.

Building Credit Worthiness via MNO Loan Credit Reporting

Most microbusiness owners have mobile money accounts and can access small loans ranging from \$10–\$100 at 10% interest over a period of 7 days. The amount you can access depends on your usage and repayment history. MNOs have arrangements with banks where they borrow from the banks and then lend out in small amounts to their customers. The banks' books reflect a loan with the MNO while the MNO lends out this money to its mobile money customers. These loans are normally for consumption but have rich credit repayment information that sits with the MNOs and is not reported to the Credit Reference Bureau. This data speaks to the credit worthiness of microbusiness owners.

This policy suggestion aims to mandate MNOs to submit credit data to Credit Reference Bureaus just as other financial institutions are required to. The CRB Act allows credit reference bureau to collect information from any institution prescribed by the Minister of Finance[8] (Government of Malawi 2010). The aim is to get quality data on all MNO borrowers accessible by other financial institutions. This would improve the data available for different financial institutions, and ensure better credit scoring for people who would otherwise not be able to access loans. Because of richer information provided by credit reference bureaus, banks and MFIs would be able to design better products. Microbusiness owners can expand and move to open accounts because of more disposable income.

An important aspect of the solution is to set up a financial awareness program. The purpose of the consumer awareness is to enable the consumers to know that their data is being submitted to enable them to build credit history, which in turn should inform financial institutions to design better products for their people. The current drive to register sim cards in Malawi means that with each borrower his personal details are available at the MNO and therefore submission of data would not be a challenge. With the newly issued National ID (National Registration Bureau 2018), sim card registration is coupled with a unique identification that can be used by credit reference bureau to generate reports and uniquely identify a customer. During credit application, MNOs will put a consent screen that would allow a user to consent to their information being submitted to Credit Reference Bureau.

Key Stakeholders and Implementation

In order for this policy to be implemented, there would be a need to work with the National Payment Systems Department, MNOs and Credit Reference Bureau. The National Payments Systems Department regulates aspects of MNOs and would therefore need to be taken on board, while Credit Reference Bureau are regulated by Bank Supervision. Both regulators are within the Reserve Bank of Malawi, as such setting up a committee to oversee implementation would not be a challenge. The proposal would need to be presented and approved by the Governor. Designing of data submission templates for MNOs would be done in conjunction with National Payments System Department. In addition, a new template for Credit Reference Bureau submission to Reserve Bank of Malawi would be developed and the data submitted would be used to monitor impact of the data submission. The volumes of MNO submissions to the bureaus, increase in report requests from financial institutions, volumes of loans and whether the customer defaulted or not would be tracked through these templates.

Finally, market response would be gauged by introduction of new products by financial institutions and uptake of new customers.

In the final analysis, the above policy memo has recommended various steps that the author in close liaison with various actors seeks to undertake to help address causes to the problem that Malawi faces in terms of limited access to formal credit by microbusiness owners in Malawi.

Notes

1. Global Findex Database indicates that 23% of Malawians above the age of 15 have a Financial Institutions account in 2017; 8% borrowed from a financial institution; 31% Saved using a savings club or a person outside the family; 21% borrowed from a savings club.
2. Limbe Market is the largest second-hand clothes market in Blantyre. Interview with Yamikani Singano, April 2018.
3. Reserve Bank of Malawi, Selected Bank Tariffs and Charges for 2017.
4. Reserve Bank of Malawi, Report on analysis of Microfinance Sector Interest Rates 2014.
5. Interviews with Nyatinkhi Mukwala and Christina Nsinji, April 2018.
6. Interview with Superintendent Patricia Khoza, May 2018.
7. Interviews with Nyatinkhi Mukwala and Christina Nsinji, April 2018.
8. Credit Reference Bureau Act 2010 Section 13 (3)(a) "A credit reference bureau may collect information from financial institutions and other institutions as may be prescribed by the Minister, upon recommendation by the registrar."

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Financial Resilience

Enhancing the Financial Resilience of Rural Households that Depend on Rain-Fed Agricultural Incomes in Uganda

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Executive Summary

The 2014 Poverty Status Report found that 42% of Uganda's population derives part of their income from agriculture-related activities and 26% depend on agriculture as their only source of income (Ministry of Finance, Planning and Economic Development 2014). As a consequence, when faced with major income disruptions due to factors such as climate change, the financial resilience (the ability to cope and recover from financial distress) of Uganda's rural households is low. 72% of Uganda's population lives in the rural area[1] but only 49% of rural adults use formal finance against 76% in the urban areas (Economic Policy Research Centre 2013) and this is largely due to the absence of appropriate formal products and services that suit rural household needs and fit their circumstances. The majority of the rural population use informal money lenders and Village Savings and Loans Associations (VSLAs) (Economic Policy Research Centre 2013). To address this challenge, the recommended policy solution is to develop an enabling policy, legal and regulatory framework for Digital Financial Services and other innovations with a focus on enhancing the financial resilience of rural households.

Problem and Context

Consider the case of John Kyeyune, a farmer living in rural Uganda, interviewed to collect behavioral insights and experiences with financial services. When Uganda experienced prolonged drought, John's income stream was severely disrupted and he resorted to taking an expensive loan from a money lender to be able to take his son back to school for the second term. John signed a sale agreement against his farm land as security to access the loan. Unfortunately, the money lender evaded John when repayment dates were due and subsequently compounded the interest making the loan even more expensive. In the end, John lost his land to the money lender and now rents farm land to continue with his farming activities in order to fend for his family.

This is a single example of the effects of drought on a family's financial resilience. Still, *71.5% of Uganda's 34.6 million people live in the rural areas so the ripple effects of a financial shock on one individual, particularly household heads, poses grave implications for the financial resilience of complete households most of which depend on rain fed-agricultural incomes*. This is particularly true when they are left to inappropriate informal financial mechanizations to smooth their incomes because informal finance rarely relies on written records contributing to inefficiencies and greater risk to providers and users arising out of information asymmetries. Informal financial products are also limited by community borders because as they heavily rely on social capital (Abdel 2005).

There is empirical evidence that climate change effects such as drought have a large impact on household incomes and household financial position deterioration. Experiencing severe drought is estimated to reduce farmers' household income by USD 4,267 per annum, compared to being in an area that was not in drought but had been experiencing below average rainfall (Edwards, Gray, and Hunter 2011). In Uganda, household financial positions are highly vulnerable given their dependence on primary production and natural resource use; limited capacity and equipment for disaster management; heavy reliance on rain fed agriculture (LTS International 2008) and the absence of appropriate financial tools to smooth erratic incomes.

Underlying Causes of Financial Vulnerability in Rural Households

Inadequate Product Design: This manifests majorly through the unavailability of a broad range of appropriate formal financial services designed to provide for seasonality and the associated irregular income flow patterns of farmers and low income households. In Uganda, appropriate financial services and products are those which satisfy a customer's needs (including during emergency situations) and meet the consumer protection guidelines issued by the relevant authorities (Bank of Uganda 2017). Traditional formal financial service providers perceive the rural and farmer populations as high risk majorly due to information gaps. Moreover, their business models do not allow them to profitably serve this client base.

Inadequate Distribution/Access Channels: The brick-and-mortar model constrained sustainable and effective provision of and access to formal finance as a result of high transaction costs. However, with the introduction of Mobile Financial Services and the entry of new players such as Financial Technology (Fintech) firms, Uganda is experiencing tremendous increases in the usage of formal financial services particularly for payments. The FinScope 2013 survey found that formal financial inclusion increased from 28% in 2009 to 54% in 2013 in large part due to the introduction of mobile money in 2009 (Economic Policy Research Centre 2013). Mobile money transaction values rose from USD 127,621 in 2009 to USD 1.294 billion by March 2017 while registered mobile money users jumped from 19.6 million in June 2016 to 22.8 million in June 2017 (Ministry of Finance, Planning and Economic Development 2017). However, more work remains to be done to leverage the mobile phone and other digital platforms to increase access to and usage of appropriate, formal savings; credit; investments; and insurance. FinTech firms are demonstrating a relatively bigger appetite for innovations in this area and reaching hereto financially excluded populations by unlocking the value in the informal sector particularly through leveraging big data. While the young industry has the potential to employ a significant portion of Uganda's youthful labor force, it may not be able to attract adequate investments to support more innovations because of the uncertainty surrounding the unclear legal and regulatory framework for digital financial services. Studies have shown that delays due to regulatory uncertainty can increase time-to-market by nearly 33% and reduce start-ups' valuations by 15% as a result of investor fears associated with this uncertainty (Stern 2014).

Potential Solutions

One of the potential solutions is to build an extensive body of research and studies at a central online depository on the business case around financial lives of rural farmers. This body of knowledge would be regularly updated and widely disseminated to inform both business (private) and policy (public) decisions on innovations and adjustments in the existing legal and regulatory frameworks and facilitate the design of responsive and appropriate formal financial products and services.

Another solution would be to design an enabling policy, legal, and regulation framework for digital financial services and other innovations with a focus on enhancing the financial resilience of rural households to provide certainty to investors; protection for customers; and a testing environment—sandboxes to give Fintech firms the opportunity to design and test innovative formal financial products and services toward enhancing the financial resilience of rural households while allowing regulators the time to learn about the associated risks of these new innovative business models and products to inform the development of corresponding risk-based regulations.

Recommended Policy Solution

This policy memo shall focus on the second solution bundle that proposes the development of an enabling policy, legal and regulation framework for digital financial services with a focus on enhancing the financial resilience of rural households. Uganda has an independent regulator for the banking industry and one each for the non-banking financial services of insurance, capital markets, retirement benefits, and microfinance as well as an authority for anti-money laundering and combating the financing of terrorism. However, Fintech firms and their new business models are not respecting regulatory silos so it is advised that the Ministry of Finance leads and coordinates Uganda's efforts to develop the proposed policy and legal framework.

The proposed legal framework should generally provide legal recognition for Fintech firms and guarantee low entry barriers for Fintech startups, to increase competition and drive down the cost of access for consumers. The proposed policy environment should also prioritize Government support for Fintech incubators/common work spaces; public investment in digital infrastructure for interoperability; licensing crowdfunding platforms; promoting the study of use cases for block chain technology; implementation of a Digital Financial Services Awareness program under the auspices of the revised Financial Literacy Strategy and establishing "Fintech Support Desks" at each of the financial sector regulators.

The proposed hypothesis is that with greater levels of regulatory certainty, increased investment will enable Fintech innovators to better serve not only urban Ugandans, but those in rural, agricultural contexts as well.

Key Stakeholders and Implementation

The first step is to secure institutional support for the proposed policy solution. The policy memo shall be presented to the Ministry of Finance's top management for a no-objection to proceed. Subject to the Ministry of Finance's approval, the policy solution shall be introduced to three important ongoing inter-institutional policy development and review processes/platforms, namely:

i. The development of Uganda's first Financial Sector Development Strategy
ii. The development of Uganda's first Agricultural Finance Policy
iii. The revision of the Financial Literacy Strategy (2013) under the implementation of Uganda's Financial Inclusion Strategy (2017–2022) (Bank of Uganda 2017)

The Ministry of Finance is currently coordinating all three processes that involve financial sector regulators including the Bank of Uganda and other regulators such as the Uganda Communications Commission; private sector including Mobile Network Operators; and Development Partners such the World Bank and the UK's Department for International Development (DFID).

Second, government through the Ministry shall subsequently engage industry and consumer rights Associations to validate the underlying constraints to enhancing the financial resilience of rural households and the proposed policy solution to enhance this resilience through cost effective Fintech innovations that also address information asymmetries. A comprehensive policy, legal and regulation framework for digital financial services shall then be articulated in a white paper that shall be submitted to Cabinet for approval before implementation, which may include the amendment of existent financial laws or development of new ones.

Successful implementation of the proposed policy intervention shall result in increased investment in Uganda's nascent Fintech industry; more jobs for the predominantly youthful population; more innovations and data-driven financial products and services to reach populations excluded from formal finance including rural farmer households; and ultimately enhanced financial resilience for all Ugandans.

Note

1. Uganda Bureau of Statistics, National Population and Housing Census 2014.

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Managing Aftershocks of a Disaster: How Can the Financial System of Bangladesh Support Poor Workers after a Workplace Accident?

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Executive Summary

In the life of a worker in any industrial sector or household in Bangladesh, the biggest concern is to live a safe life because the life of a worker in any sector of Bangladesh is extremely exposed to risk. There are strong possibilities of facing debilitating accidents anytime. Most of Bangladeshi labors are informally employed and not registered with any authority. So, after being victim of an accident, they cannot approach to a particular entity for rehabilitation activities. As a result, the workers face financial distress where they do not have job and money to bear the livelihood expenses and expenses for their treatment. This memo proposes a solution: a financial support that includes a combination of savings, low interest-bearing credit, and a life insurance scheme, administered through one single low-deposit bank account to ensure a worker's financial safety.

Background and Policy Need

Many of us can hardly forget Rana Plaza tragedy, the deadliest workplace disaster in modern industrial history that took place in 2013 in Bangladesh. That human-made disaster killed more than 1100 in just 90 seconds and injured more than 2500 (Safi and Rushe 2018). There are many other examples of workplace risks like road accidents, chemical reaction, fire, etc. In addition to the human tragedy, a serious concern is that the families of dead or wounded workers do not find a way to manage their financial liabilities in the wake of large-scale workplace disasters.

According to the current law of Bangladesh, a worker's family will get taka 0.10 million (US Dollar 1,190 approximately) from the government as compensation if s/he dies in workplace accident (*Daily Star* 2017). This amount is equivalent to only 6 to 8 months' wage of a newly recruited worker. It is too low for a family who lost their bread-earner. Bangladesh Institute of Labour Studies (BILS) took an initiative to introduce insurance for workers, however, the insurance companies were not interested because of lack of documents, low safety measures of the sites and absence of an effective monitoring authority (Ahmed 2017). These instances show that workers in Bangladesh do not have an assured and consistent flow of money to help them meet their basic needs in case of drastic fall in income.

Key Causes

The key reasons behind not having financial security are:

1. lack of documents, which obstructs the workers from having a formal employee relationship with an employer,
2. absence of any authority to be supported by in case of any dispute (Ahmed 2017),
3. being excluded from the financial services as only 63% of adult labor force of Bangladesh have accounts in financial institutions, and
4. not using the financial services effectively as more than 20% of the above-mention 63% accounts are dormant. 56% accounts of them are dormant because of insufficient funds (Rhyneand Kelly 2018).

Possible Solutions

I can find these following potential solutions that could help a victim of a workplace accident.

1. Forming a working committee led by the Ministry of Labor to ensure identification and registration of the labors working in different sectors.
2. Enforcing the employers to pay their wages through a basic bank account specially designed for the labors. They will need to fulfill this condition if they apply for loans and other services from the banks.
3. Enforcing the banks to give priority to grant low-interest-bearing loans and funds from its CSR fund for an accident victim who is a customer of that bank. It is mentionable that each commercial bank of Bangladesh maintains a Corporate Social Responsibility (CSR) fund that is exempted from tax.
4. When the identification problem will be solved, the primary obstacle of introducing life insurance policy for the labors will be solved. Then Ministry of Labor, Insurance Development and Regulating Authority and Bangladesh Bank can impose the requirement for insurance schemes on the employers and the insurance companies.
5. Introducing a fund kept with the employer's bank to be invested for improving the safety issues of the workplace. The fund will be formed by the combination of the factory owner's participation, donation from the donor agencies and credit with low interest rate, which will be refinanced to the bank by Bangladesh Bank.

Achievable Solution

I expect that we can achieve all the possible solutions one by one after we are done with the first job, i.e., identification and registration of the labors. But, it will be a bit difficult to introduce the fund for improving the safety issues of the workplace as this step involves consent of the factory owners. As their primary objective is profit maximization, convincing them spend money will need some regulatory obligation and Bangladesh Bank is not the sole authority to furnish this job. But we can hope that if we are able to complete the other steps, the workers will be in a better position in comparison with the employers, and they will be able to bargain to invest in workplace safety. So, we can work initially to achieve possible solution no. 1 and then Bangladesh Bank can implement policy regarding the next two solutions. When all the workers are financially included, there will be a better chance of introducing insurance for them.

Incentivizing Participation

There may be doubts whether the banks will be happily willing to get involved in this activity. To encourage them, Bangladesh Bank can request the National Board of Revenue (NBR) to allow a tax exemption on these special accounts. Besides, Bangladesh Bank can announce reward and recognition for the best compliant bank and it can be reflected in the bank's CAMELS rating.

The Expected Outcomes

The outcomes I am expecting from introducing bank accounts and life insurance schemes are as follows:

1. The workers will have a secure place to store their wages, and save and earn interest from their own earnings.
2. They will enter into the financially included group where they will get all the facilities of a good financial system like loans when they, along with many of their colleagues, are in need of cash, insurance facilities, etc.
3. They will get priority access to the bank's CSR fund.

Stakeholders

I need to collaborate with some internal and external stakeholders. My prime objective will be to convince my internal stakeholders. If the policy is successfully designed, as Joint Director of Department of Off-site Supervision, I need to monitor the banks' implementation progress through collecting relevant data from them.

1. The internal stakeholders will be the Governor, Deputy Governors, and Executive Directors.

If my proposal is internally accepted, Bangladesh Bank will need to coordinate with the external stakeholders, such as the banks, Ministry of Labor, Insurance Development and Regulating Authority, the employers of the workers, etc. I am expecting that all the authorities will support this proposal, though it might be difficult to convince the employers. But if they work on it, their reputation will be improved.

Evidence of Effectiveness of the Policy

To proceed with this policy solution, we will need to check whether it is working well or not. In order to do that, we need regular monitoring of some data, such as:

1. the number of applications received, accepted and rejected by the banks for opening an account designed for the labors, and
2. the number of fund receivers after meeting an accident and the amount of fund disbursed from the CSR fund.

The data can be reported by the concerned bank periodically to our Statistics Department.

Concluding Remarks

It is observed from many incidents that most of the labor forces do not hesitate to engage themselves in a risky job. They are not even aware of the safety rules too, and those who are aware, are reluctant to follow them. It will be really a tough job to engaging all the parties effectively and making this policy fruitful. But I hope, all of us, including the regulators, the employers, and most of all the workers themselves can see the value of life. I dream the price of progress will not be human lives anymore. But reality is, nothing can be changed in just one day. So, we should be patient and should keep up the good work.

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