THE FLETCHER SCHOOL

Leadership Program for Financial Inclusion

Policy Memoranda

2019

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Foreword

The policy memos contained herein are the capstone achievements of the 8th fellowship class of the Fletcher Leadership Program for Financial Inclusion (FLFPI). We are proud of the great work this fellowship class has completed in order to now join our community of over one hundred FLPFI alumni.

The 2019 fellows hail from Latin America, sub-Saharan Africa, Asia and the Middle East, and are all public servants working for Central Banks, Ministries of Finance, Communications Authorities, or other institutions that design and implement policies affecting financial inclusion. This year, our fellows grappled with important and diverse financial inclusion challenges, including expanding the access infrastructure for social transfer recipients in Argentina, improving financial health for low-income Tanzanians and Kenyans, improving the financial inclusion of rural women in Egypt, simplifying Know Your Customer (KYC) requirements in Zambia, improving access to affordable financing for microenterprises in Costa Rica, and addressing cybercrime's toll on financial inclusion in South Africa.

The policy memos in this publication are the culmination of the FLPFI fellowship, an intensive 9-month executive certificate program designed to help individual policymakers increase the likelihood that their financial inclusion policy initiatives 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 experts at using the 8QM to analyze and design policy. Take, for example, Ibrahim Umar Hassan from the Central Bank of Nigeria. Ibrahim focused on addressing the increasing number of complaints filed by retail loan customers about excess charges and unauthorized fees. He analyzed the causes of the problem and found evidence that retail loan products are being marketed without full disclosure. Ibrahim weighed several possible solutions before working to develop a policy tool that helps to increase customers' understanding of the terms and conditions of retail loan products. Ibrahim's policy recommendation considers 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 their context. This necessarily implies that iterative learning and adjustment will be needed to optimize the policy. For example, the fellows from Zimbabwe, Pakistan and Cameroon are working to expand access to and usage of agricultural credit, and similarly, the fellows from Haiti, Kosovo, Bangladesh, Malawi, Nigeria, Ethiopia, and Indonesia are each trying to increase the usage of digital financial services for a particular underserved population. Yet based on careful analysis of their unique context, each fellow has designed a different policy tool. As their policies roll out, the fellows continue to learn from each other and others working in these spaces to adjust course and offer complementary policies. In many cases, there are few analogous contexts from which fellows can draw relevant 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

Women's Financial Inclusion

Addressing Unmet Financial Needs of Low-Income Women in Rural Egypt through Understanding the Demand-Side Issues in Accessing Financial Products and Services

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Executive Summary

In Egypt, low-income women in rural areas, representing 57.5%[1] of females in the country,[2] have limited access to formal financial services, which hinders them from being economically active. Although women's economic and financial empowerment is a governmental priority (SDS, 2016) and even though female financial inclusion is on the rise, women especially in rural areas remain disproportionately excluded from the formal financial system.

Only 27% of adult women in Egypt have an account at a financial institution (versus 39% for men)-a gender gap of 12% in 2017 (FINDEX, 2017) that has widened from 10% in 2014, keeping about 23 million adult women nationwide unbanked or underbanked.

Lack of information about and understanding of rural women's needs and choices is a critical issue for policymakers and financial service providers seeking to better serve these women. In that regard, the recommended policy solution to address this challenge would be implemented through two key interventions:

1. Conducting client centric market research to assess the needs and choices of low-income women in rural Egypt.
2. The results of the market research will be used to:
   - Build consensus among national stakeholders to agree on roles and responsibilities for moving forward with halving the gender gap by 2021.
   - Rollout a series of value proposition workshops for financial service providers to sensitize them and raise awareness on the women segment market opportunities.

The above interventions aim to assist the policymakers to introduce the necessary reforms needed to accelerate national efforts to support women's financial inclusion. It will also provide financial service providers with more accurate information and better understanding of rural women's needs and choices, which will enable them to design diversified products and services tailored to their needs.

Problem and Context

Women exclusion is most problematic in rural areas (Girgis, 2019). A study on women's work and empowerment in rural Egypt (FAO, 2017) revealed that out of Egypt's almost 95 million, about 57% of the population live in rural areas. In spite of this significant proportion, rural women encounter multiple obstacles to access productive resources and services, particularly in Upper Egypt, where only 13% of rural women are currently working (Girgis, 2019). This group do not only suffer in terms of restricted mobility but also face difficulties in starting and running their own business because of lack of ownership of agricultural land, access to credit, business information, and lack of marketing outlets.

Despite these challenges, the current environment holds huge potential for women as demonstrated in the country's Sustainable Development Strategy: Egypt Vision 2030 and the National

Women's Strategy 2030 (NWS),[3] which puts women's financial inclusion and economic empowerment at the heart of the national development reform agenda (SDS, 2016). This is also evident in a wide range of measures and policy reforms led by the CBE (AFI, 2019) and other national stakeholders over the last few years, which resulted in a higher level of inclusion rate from 14% in 2014 to 33% in 2017 (FINDEX, 2017); however, the gender gap has widened by 2% during the same period. The gap is also pronounced in account ownership between urban and rural, where 27% of rural adults have financial account while 37% of urban adults have financial account (FINDEX, 2017).

A study conducted by GIZ in 2015 (New Faces New Voices, 2015). revealed that the lack of products and services that appropriately match the financial needs of women, and the legal and socio-cultural barriers which specifically face women, are among obstacles and challenges that hinder the progress of women's financial inclusion. "The sense that banks are only for rich people seems to suggest that financial institutions do not see women as an important market segment. As a result, they do not make the services accessible, appropriate and affordable."

These observations highlight the need for financial inclusion stakeholders in Egypt to understand challenges that low-income women in rural areas face in order to implement policies within and beyond the financial sector that address barriers to women's economic inclusion. CBE's Financial Inclusion Datahub, collecting and availing supply-side data disaggregated by gender, using the unique National ID will enable stakeholders to better understand the characteristics of financial service access, use and quality. Data from both the demand-side and the supply side, is crucial for enabling the financial inclusion stakeholders to make optimal decisions, particularly, the incorporation of gender dimension in the data is important in helping policymakers understand women's needs and behavior, as well as for tracking progress in narrowing the financial inclusion gender gap (AFI, 2019).

Initial pilot research conducted by speaking directly to a small group of women in rural areas as well as some providers of financial services to women in Upper Egypt rural communities revealed some indicative findings that point toward the need for further study as follows:

- Women in rural areas use a variety of informal financial services to cover their needs such as family/small savings and ROSCAs,
- women lack knowledge about the microloans offered through public banks,
- women didn't believe they had an "opportunity" with banks,
- combining microloans with micro insurance or micro health could be an incentive for women to use formal financial services, and
- technology has the potential to allow women in rural and remote areas to access a range of financial products.

Potential Solutions

Possible solutions can be described in three main bundles: (a) Providing financial service providers with accurate information and better understanding of rural women's needs and choices, (b) conducting a series of value proposition workshops for financial service providers to sensitize them and raise awareness on the women segment market opportunities, and (c) rolling out financial education and awareness campaigns for women in rural areas to enable them to make informed decisions.

Recommended Policy Solution

This policy memo focuses on the first two solution areas mentioned in previous section, and proposes two key policy interventions, namely: (i) conducting client centric market research to assess the needs and choices of low-income women in rural Egypt, and (ii) using the results of the market research in building consensus among national stakeholders through a consultative process, which will help inform of the key objectives and momentum created around the process.

The recommended policy solution will be through conducting key informant interviews with a variety of stakeholders[4] in the financial sector and focus group discussions[5] with rural women to better understand their needs and choices in rural Egypt. It will enable drawing a clear national vision and action plan for women's financial inclusion which can serve to deepen and accelerate efforts to include higher level of excluded women by 2021.

The policy solution lies within the mandate of the Financial Inclusion Department of CBE, which is currently leading a national financial inclusion mapping exercise on the supply and demand for households and micro, small, and medium enterprises (MSMEs). The mapping exercise is currently in the design phase and expected to be rolled out in Q3 2019. The data collection in the field and analysis is expected to take 9 months to be then incorporated into a national financial inclusion framework in consultation with the national stakeholders.[6] The outcome of the market research complemented with the results from the mapping exercise will be key in identifying the barriers and drawing a national action plan for addressing low-income women's financial exclusion especially in rural areas. The outcome and recommendations will be presented in a consultative workshop with the relevant national stakeholders in three months from the exercise completion to build consensus, agree on role and responsibilities for tracking progress in implementation.

Key Stakeholders and Implementation

The Financial Inclusion Department of CBE will take the lead in the national coordination over the implementation of the action plan. The support of the internal departments within CBE is crucial in the entire process as core members of the project to assure ownership and alignment across teams as well as to the objectives of the process and interventions.

The engagement of the external stakeholders is key from the onset, namely The Financial Regulatory Authority (FRA), MSME Development Agency (MSMEDA), Ministry of Social Solidarity (MoSS), and National Council for Women (NCW), Agriculture Bank of Egypt, MFI and non-governmental organizations (NGOs), private sector (i.e., financial institutions and NBFIs, etc.), and development partners.

Conclusion

The recommended policy solution is crucial for addressing unmet financial needs of low-income women in rural Egypt. Availability of gender-disaggregated data using the unique National ID on the supply side complemented with the results from the demand side mapping exercise is crucial for enabling the financial inclusion national stakeholders to make optimal decisions needed to accelerate national efforts to support women's financial inclusion.

Notes

These "indicative" insights have been collected while speaking directly to a group of women in rural areas as well as some providers of financial services to women in Upper Egypt rural communities between February and April 2019. Although the results should not be generalized given the limitations of the sample size of women interviewed, yet the methodology revealed some "indicative" findings that point toward the need for further study and they are in line with the findings of a GIZ funded study on "Women's Access to Financial Services in Egypt," prepared by New Faces New Voices, November 2015.

1. 2017 Census by the Central Agency for Public Mobilization and Statistics (CAPMAS).
2. Egyptian women constitute 48.4% of the population.
3. Launched in March 2017 by the National Council for Women (NCW).
4. Regulators, policy makers, financial services providers, civil society groups, donor organizations and women's support organizations.
5. Will be conducted using discussion guides and survey questionnaires aimed at providing qualitative insight into demand and supply side issues.
6. Government, regulatory authorities, financial service providers and other private sector such as MNOs, Fintechs, NGOs, development partners.

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Enhancing Financial Health for Women as a Financial Inclusion Strategy in Tanzania

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Executive Summary

Despite the remarkable success Tanzania has made in financial inclusion, women's access to formal financial services is less compared to men. According to a FinSights report,[1] accessibility to financial services is at 54.8% for women compared to 65.2% for men leaving a gap of 11%.

Women are facing challenges in access and usage of formal financial services (FinSights Lab, 2018). These include inadequate initiatives by industry and policy makers to address specific women's financial needs, less transactional account registration for women, and fewer women have financial literacy.[2]

The proposed policy solutions aim to address the structural and behavior barriers that have undermined the efforts to enhance women's financial health[3] by creating an enabling environment for women's financial inclusion and beyond into saving products and access to credit. such as incorporating gender issues in regulatory framework, strengthening collaborative efforts on issuance of National Identification for account registration, and conducting financial education programs designed specifically for women.

Introduction

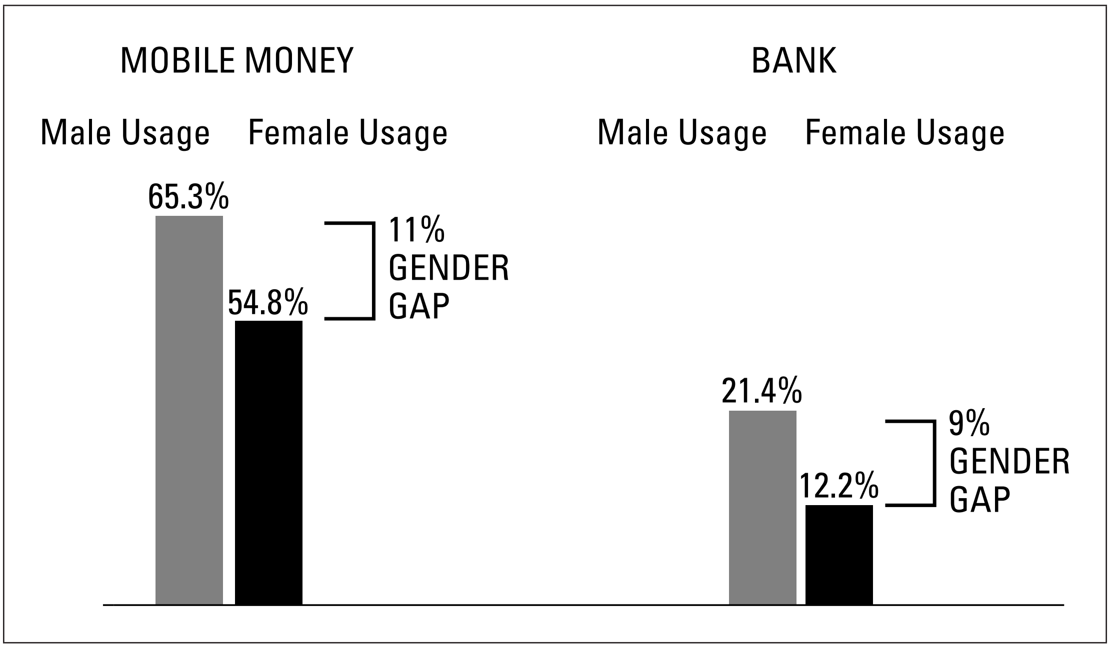
Tanzania developed National Financial Inclusion Framework (Tanzania National Council for Financial Inclusion, 2013) in order to meet the National Financial Inclusion Goal.[4] The FinScope Tanzania survey (2017) validates the achievements by indicating the access reached is 65% and usage reported to reach 60% in 2017. In striving to move financial inclusion achievements further, Tanzania developed the second National Financial Inclusion Framework (NFIF2, 2018–2022) (Tanzania National Council for Financial Inclusion, 2018).

However, the FinScope (2017) report has also identified a significant gender gap— in particular, accessibility to financial services. The report indicated that 30% of women are still excluded compared to 26% of men. In analyzing gender gap based on schemes, it is estimated at 11% for mobile accounts and 9% for bank accounts. Despite that the population data showing there are more women in Tanzania (FinScope, 2017), we still see fewer women accessing formal financial services.

The potential areas of demographic difference include education, income and access to various forms of financial services (FinSights Lab, 2018). In all these areas, women's access is less compared to men except in informal savings groups where women's access is 20% compared to 12% by men (FinSights Lab, 2018).

While government and private sectors are implementing various financial inclusion initiatives, much progress in women's financial health will be achieved by creating an enabling environment to enhance access and move beyond to savings.

Figure 1. Tanzania Gender Gap Statistics



Source: FinSights Lab, 2018

Problem Statement

With reference to the FinScope (2017) Tanzania survey and FinSighst-lab (2018) report, the two studies have established that Tanzania has a financial inclusion gender gap of about 11% although women constitute about 51% of the population. The structural and behaviorial factors have been identified to be the barriers as outlined below.

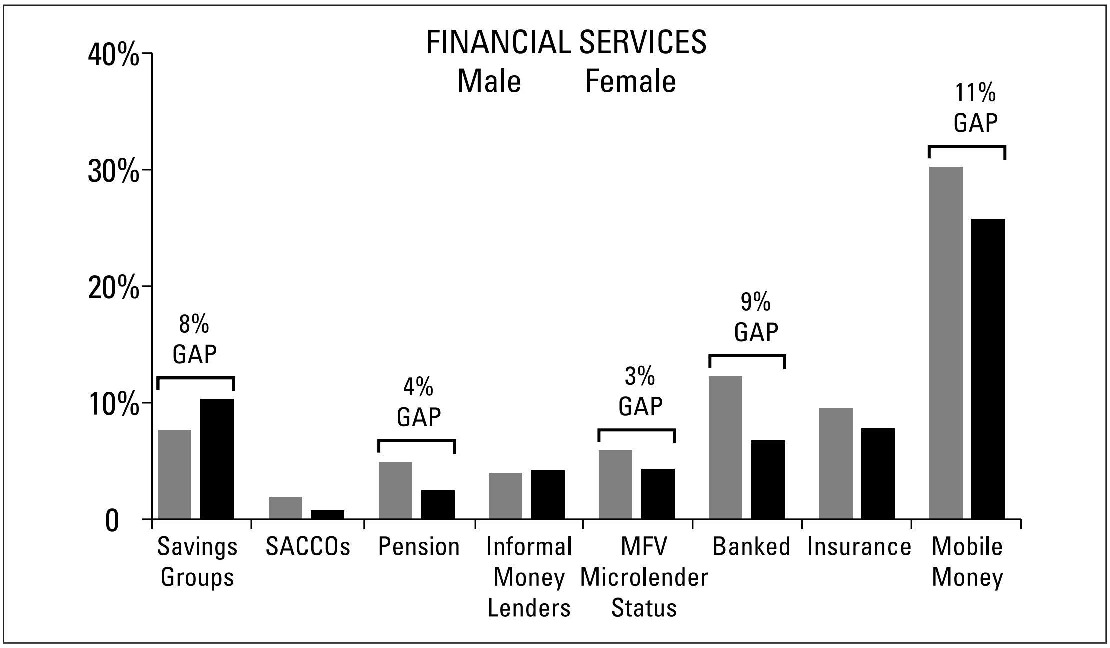
Key Factors Causing the Problem

1. Structural Factors

- There is a need to strengthen legal and regulatory framework by incorporating gender requirements. Currently, there is no explicit policy that require financial service providers to keep consumer data based on gender. Gender segregated data is important to address accurately the accessibility measures on different products and services. The current data for women may be underestimated as many women share a mobile account with others (FinSights Lab, 2018). The same argument was obtained from the survey conducted by the author with the service providers,[5] the reason cited being lack of eligible identification for registration, lack of phone, and lack of awareness (trust, risk taking). Thus, since the available data are estimates based on sampling, the accurate national-wide gender segregated data shall enrich reporting and oversight, enabling better design of women-inclusive policies, and for the private sector to design adjusted products that better target women's financial needs such as 'group saving' products and special purpose saving accounts. Such products are available in the informal sector and are used more by women than men (FinSights Lab, 2018).
- In Tanzania, the ownership of a mobile wallet account is based on SIM registrations. Only registered SIM cards can be used for financial transactions. Registration is only possible with basic identification. As reported, 84% of Tanzanian have at least one form of identification (FinScope, 2017), yet fewer women have registered SIM cards when compared to men; according to a Finclusion report (Finclusion, 2017). In 2016, the SIM ownership was at 77%

and 59% for men and women respectively (Finclusion, 2017). Therefore, fewer transactional accounts registration for women is associated with lack of required identification.

Figure 2.



Source: FinSights Lab, 2018

2. Behavioral Factors

In Tanzania, the level of education between men and women is not uniform. Women have lower levels of financial literacy compared to men—(23% and 98%, respectively)[6] and numeracy (26% and 99%, respectively)[7] (Finclusion, 2017). Also more women have no formal education (Finsights Lab, 2018). The number of people with no education is 10% male compared to 12% female, and those with higher education is 4% male compared to 2% female, (Finsights Lab, 2018). Arguably, this has an effect in the financial account registration. The Finclusion (2017) report shows that men's financial literacy and registration is at 23% and 65% respectively, whereas women's is at 16% and 44% in financial literacy and registration, respectively (Finclusion, 2017). Although financial literacy is not a requirement for registration to access financial services, it enables awareness that helps the users to understand importance of financial products and services, and builds confidence to try to use them in order to improve their livelihood.

Recommendations on Proposed Solutions

The proposed policy solutions are enablers so as to incorporate gender-based initiatives in nationwide financial inclusion initiatives.

1. The Bank of Tanzania being custodian of NPS Act 2005, and secretariat of NFIC needs to work in collaboration with Ministry of Finance, Tanzania Regulatory Authority (TCRA) Tanzania Insurance Regulatory Authority, and the Attorney General's office to review and amend NPS Act, 2015. The Act should incorporate requirements to mandate all multi-sectoral financial service providers to keep their customers identification data by gender, among other parameters for reporting and oversight. The accuracy in data reporting shall enable regulators to design appropriate women-inclusive policies and also enable payment service providers to profile women's behavior in order to design specific financial products that better target

women's financial needs. Since the Bank of Tanzania is currently in a process of reviewing the NPS Act 2015, the proposed amendment can be incorporated during the ongoing review process by being incorporated for the amendment to the Law.

2. The NFIF2 has identified issuance of National Identification number (NIN) as among the nationwide priority initiatives. The NIN shall enable women to register account and access financial services and credit facilities as well. The Bank of Tanzania , as secretariat to NFIC shall prioritise the execution of this initiative by engaging the responsible authority (NIDA) in collaboration with TAMNOA8 and TBA9 to engage and coordinate the roll-out of national identification in partnership with payment service providers, whereby the issuance of national identification and opening of a transactional account can be done simultaneously to speedup accessibility.
3. The NFIF2 has identified national initiatives of implementing the National Financial Education Framework (Tanzania National Council for Financial Inclusion, 2016). The Women Affairs Committee as the coordination body under the National Council should spearhead financial literacy programs that are tailored for women. The main responsibility will be to administer the execution of 'National Financial Literacy Programs' being specific for women, by working with the NFIF secretariat, Ministry of Finance, Association of Microfinance Institutions, Village savings and loan associations, Ministry of Health, Gender, Elders and Children (MHCDGEC) and the Gender Equality and Women's Empowerment (GEWE).

Policy Implementation Plan

Transforming the policy proposal into reality requires collaborative efforts and inventiveness of key stakeholders. The stakeholders are financial service providers, users, and the regulators. In financial inclusion, regulators must play a vital role. The Bank of Tanzania, as a regulator, shall spearhead the change of regulatory framework in collaboration with other regulators and the financial service providers.

As an initiative to advance financial inclusion, the NFIF secretariat shall incorporate the policy proposal of issuance of national identification and registration of an account instantly. This can be accomplished through collaborative efforts with NIDA and financial service providers.

Lastly, the Women Affairs Committee of NFIC shall be tasked to coordinate all the national financial literacy programs. For the effectiveness of the program, they must ensure participation of women by engaging with associations, ministries and donors.

Conclusion

This policy paper has identified key enablers that shall be incorporated in national financial inclusion strategies. This will ensure that gender issues, in particular women, are being incorporated in order to close the gender gap clearly identified as a drawback in financial inclusion achievements in Tanzania.

The National Financial Inclusion Framework (Tanzania National Council for Financial Inclusion, 2018) has put a focus on women by identifying challenges, different strategies, and initiatives that can be implemented in collaboration with both public and private sectors. In order to narrow the gender gap and move beyond access to ensure financial health for women in Tanzania, it is important for the national financial inclusion strategy to address both structural and behavioral impediments and create an enabling environment for women.

Notes

1. FinSights Lab (2018).
2. Financial Literacy measures basic knowledge in financial decision making (Finclusion, 2017).
3. Financial health is a state of financial situation beyond access including savings, retirement, contingency funds etc.
4. Tanzania commitment to Maya Declaration was to increase Financial Accessibility to 50% of population (Alliance for Financial Inclusion, 2014).
5. Survey conducted by oral interview to Mobile financial service providers, Halotel, Tigo and Airtel.
6. Financial literacy measures basic knowledge in financial decision making.
7. Numeracy basic knowledge in arithmetic.
8. Tanzania Mobile Network Operators Association.
9. Tanzania Bankers Association.

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Rural Access to Finance

Granting Haitians Access to Branchless and Mobile Banking through Remittances in Order to Achieve Financial Freedom

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Executive Summary

According to the household survey, FinScope Consumer 2018 (BRH, FMT, USAID, 2019), 46% of Haiti's population is financially excluded and does not utilize formal financial facilities. In Haiti, commercial banks, microfinance institutions, and credit unions are unevenly spread across the country while money transfer operators (MTOs) and mobile money operators (MMOs) are present almost everywhere, even in remote areas, since Haiti heavily relies on remittances (MIX Finclusion Lab, 2018). Therefore, MTOs could be leveraged in order to improve the Haitian population's access to a large variety of financial products and services.

The policy solution proposed is to create partnerships between MTOs, commercial banks, and MMOs in order to enable remittances receivers to access branchless banking and mobile money more easily, thereby providing access to financial products and services to the financially excluded.

Problem Statement

A large share of Haitian remittances receivers face constraints in accessing broader financial services and products and are therefore unable to achieve financial freedom.

Background

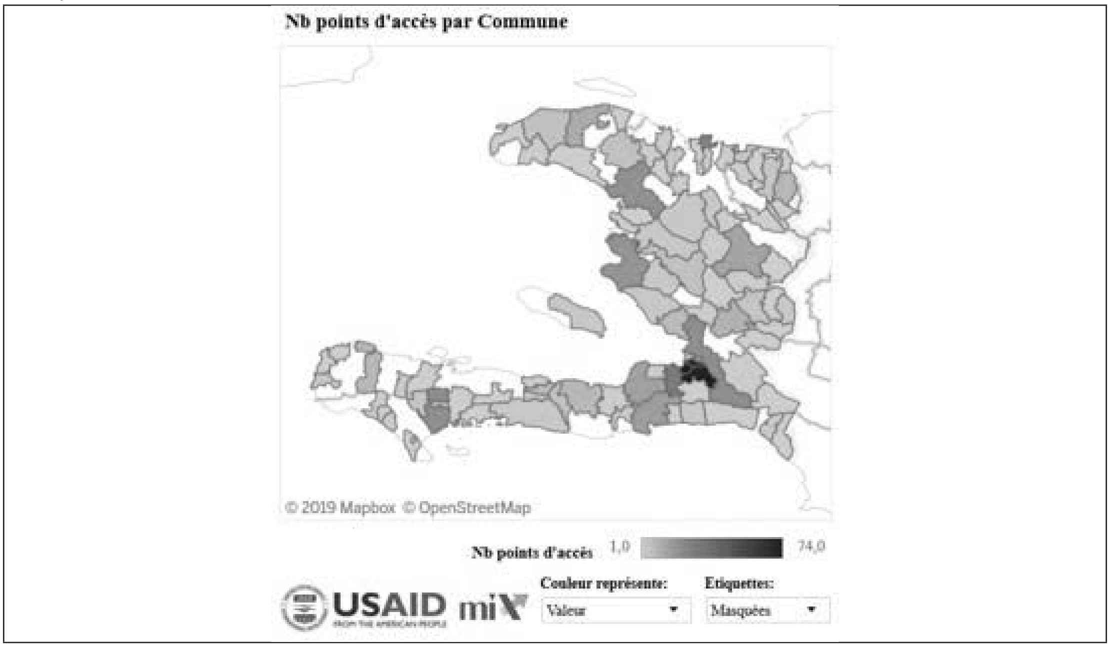
Access to Financial Products and Services

According to the Finscope 2018 report (BRH, FMT, USAID, 2019), 46% of adults do not use financial products and services, 73% of adults do not save, and 87% of adults do not have a loan or lend money.

Financial Service Providers

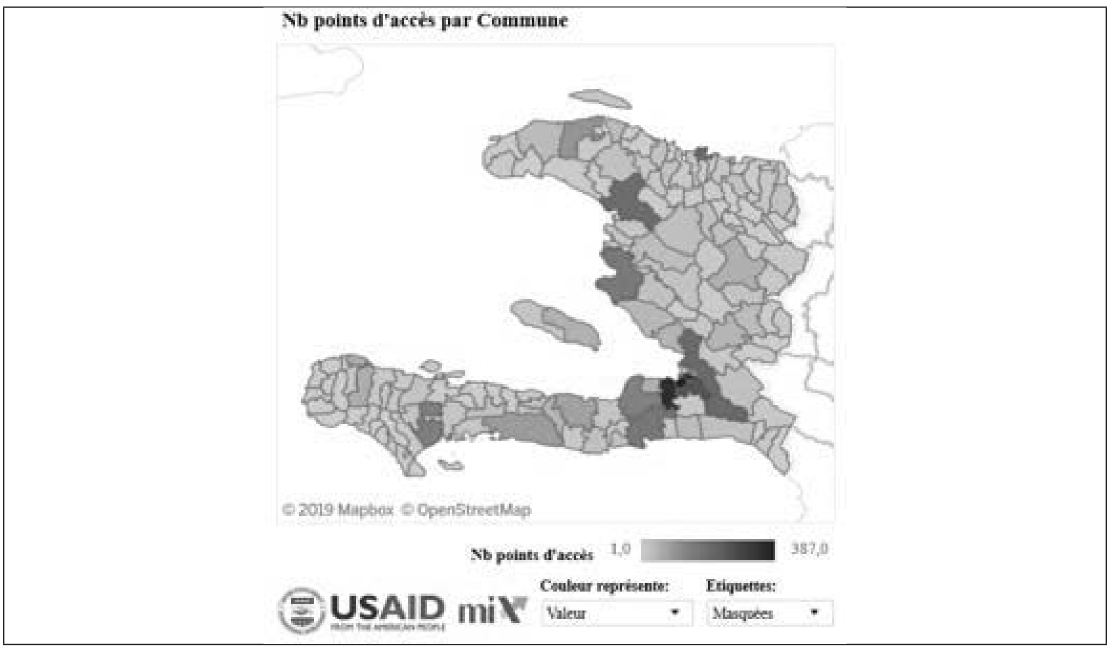
The Central Bank's financial inclusion mapping, developed by MIX in 2018 (MIX Finclusion Lab, 2018), is an interactive map that links geo-spatial supply-side data on financial service providers with demand-side indicators. On the snapshots below, it can be seen that branches of commercial banks, credit unions and microfinance institutions are not present in all communes while MTOs and MMOs are accessible almost everywhere, even in remote areas.

Figure 1. Snapshot of Commercial Banks, Microfinance Institutions and Credit Unions in Haiti per Commune



Source: MIX Finclusion Lab, 2018

Figure 2. Snapshot of Money Transfer Operators and MMO agents in Haiti per Commune



Source: MIX Finclusion Lab, 2018

Remittances

According to a study of 16 countries in the Latin American and Caribbean Region by the Inter-American Dialogue Center, Haiti has received transfers estimated at nearly US $2.2 billion, or 33.6% of its Gross Domestic Product (GDP) in 2018, ranking Haiti first in countries where transfers exceed 10% of GDP, followed by Honduras, El Salvador, Jamaica, and Guatemala (Orozco, Porras, and Yansura, 2019). According to the FinScope Consumer Report (BRH, FMT, USAID, 2019), 71% of Haitian adults have received or sent remittances.

Mobile phones

According to the Finscope Consumer Report (BRH, FMT, USAID, 2019), the mobile phone is the most used communication channel—58% of adults to have access to one. However, only 23% of the population aged 15 and older uses mobile money Report (BRH, FMT, USAID, 2019).

Key Causes

There are several reasons why a large share of the population is financially excluded or has access only to a very limited set of financial products, most importantly, remittances.

Due to the uneven distribution of banks, credit unions, and MFIs across Haiti, remittances are currently one of the financial services a large part of the population can easily access in proximity. Access to financial products could be strongly improved if MTOs offered a larger variety of financial products and services.

Lack of competition of financial service providers discourages the development of new financial products accessible to a wider share of the population. There is no competition law or competition watch dog authority in Haiti.

Further, according to the FinScope Consumer Report (BRH, FMT, USAID, 2019), one common reason why people do not have a formal account is poverty—lack of financial resources. Fees attached to banks' services further do not promote those who lack the necessary financial resources from using formal financial services. People further indicate having insufficient information on mobile money and other financial products. Lack of financial education is an obstacle to wider use of financial products: 53% of the adult population desires receiving financial education (BRH, FMT, USAID, 2019).

Potential Solutions

The following solutions are proposed in order to facilitate access to financial products and services in Haiti:

- The Central Bank of Haiti should reinforce laws to facilitate financial service activities: a regulation should be drafted asking MTOs to extend the financial products they offer through partnerships with other financial institutions.
- A National Financial Education Plan should be created. This would be an incorporation of financial education in schools' and universities' curricula as well as the development of new financial education programs.
- The Haitian government should increase the infrastructure budget in urban and rural areas with few financial institutions; better infrastructure in terms of roads, access to electricity, and mobile phone network coverage could encourage financial institutions to set up branches in underserved areas.

Policy Recommendations

My focus is on the first solution proposed, a regulation by the Central Bank of Haiti asking MTOs to set up partnerships with commercial banks in order to expand their offer of financial products and services.

The only financial service a large share of the population has access to is remittances. A way to leverage the presence of MTOs all over the country would be a regulation requiring them to enter partnerships with commercial banks and MMOs in order for their clients to be able to open bank and mobile money accounts via their local MTO office and to deposit the remittances received directly to their accounts. Currently, MTOs offers are limited to remittances; therefore, MTOs might serve as commercial banks' and MMOs' agents and be regulated by the existing Haitian banking regulation. Branchless banking already exists in Haiti in the context of "Unibank Tout Kote" and "SogeIzi," set up by the top two major Haitian commercial banks with over 50% of the market portfolio. Those services allow anyone at any geographic location to open a "distance bank account" and to use a bank card to conduct transactions from this account. Similarly, MMOs already have a network of agents across the country. MTOs could become MMOs' agents as well as banks' agents for branchless banking activities thereby facilitating access to branchless and mobile banking to a much larger share of the population. The option of opening branchless and mobile bank accounts at all MTOs would not only increase access to these accounts but also spread awareness about their existence.

In order to access information, this policy would be accompanied by a financial education and marketing campaign. Flyers and educational videos will be displayed in MTOs and a financial education session for everyone to open an account will be available. This program will be developed by the Central Bank and the Ministry of Education in collaboration with international partners.

Stakeholders

Central Bank: The Bank will issue a regulation asking MTOs to set up partnerships with Commercial Banks in order for remittance receivers to be able to open accounts directly at MTOs' branches or agents.

Financial Institutions: MTOs, MMOs and Commercial Banks will need to adapt their offer of financial products to the new regulation issued by the Central Bank and set up partnerships.

Implementation

First of all, the board members of the Central bank will discuss the adoption of the new regulation that will be drafted by the legal department.

The monitoring of the regulation will be done at the Central Bank trough the creation of a dedicated unit.

Financial Institutions will need to be aware of the rewards of the regulation. For this purpose, the Central Bank will organize presentations to all concerned stakeholders. The regulation will not only improve access to financial products but will also increase banks' client base and deposits.

Conclusion

A large share of the Haitian population does not have access to financial products and services. At the same time, many adults benefit from remittances but do not have access to other financial products. Financial access to remittances receivers can be easily extended by adding more financial products and services offered by MTOs. I strongly believe that with the collaboration of all stakeholders, the financially excluded can gain access to financial institutions and will be able to reach out to financial freedom.

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Minimizing Anti-Money Laundering and Countering the Financing of Terrorism Barriers to Financial Inclusion

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Executive Summary

Low-income rural households in Zambia are unable to access financing to invest in income generating activities. While a majority of the households are engaged in agriculture or are self-employed, they lack financing to increase business profitability, which would lead to them meeting consumer wellness or well-being, in this case their basic needs. Know your customer (KYC) requirements are the likely barriers rural households face in accessing financing, as suggested in a report by Finmark Trust Pty[1] . . . "the market continues to point to Anti Money Laundering (AML) regulations as one of the most important burdens for financial inclusion."

The proposed short-term policy solutions therefore include improving the KYC requirements by ensuring that they are risk sensitive. Rural households would thus provide basic information to access financing as they pose low AML risk.

These solutions require complementary solutions that would address non-AML related barriers, which are not a focus of this memo.

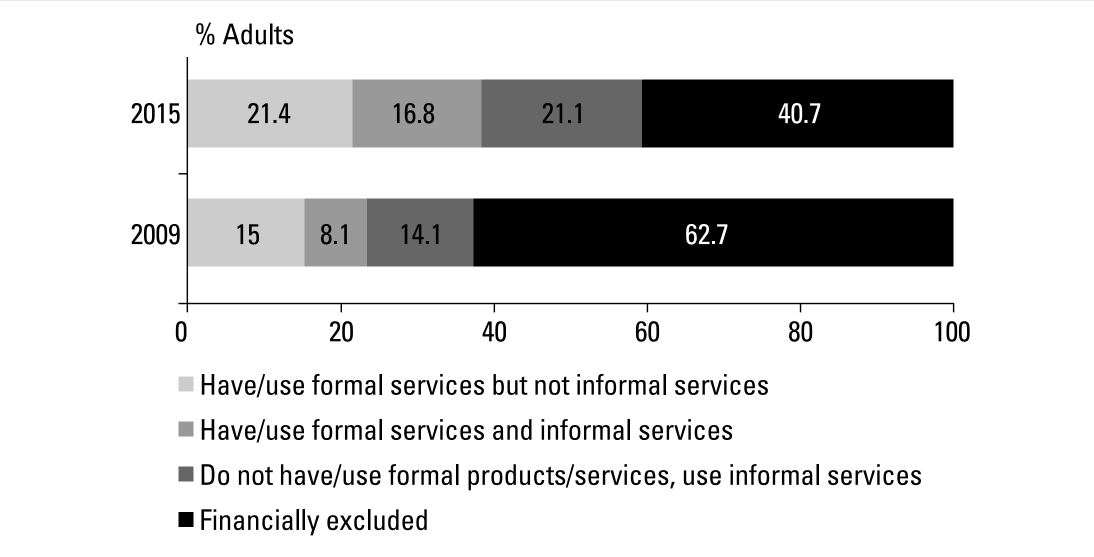
Problem and Context

The 2015 Living Conditions Monitoring Survey (LCMS)[2] covered 12,251 households in 664 randomly selected Enumeration Areas across ten (10) provinces of Zambia. An estimated total population of 15.5 million, with 58.2% residing in rural areas was estimated at the time; of which 76.6% were living below the national poverty line.

It was found that 89.4%of the rural households were relying on agriculture as the main economic activity.

In relation to financial inclusion, "the National Financial Inclusion Strategy, 2017 notes that 'despite recent progress on financial inclusion whereby 4.8 million adults (59.3 percent of the adult population) were financially included as of 2015, more than 3.5 million Zambian adults (approximately 41 percent of the adult population) are financially excluded and more than 5 million Zambian adults (approximately 60 percent of the adult population) do not use financial products and services from regulated providers."[3]

Figure 1. Finscope Financial Access Strand

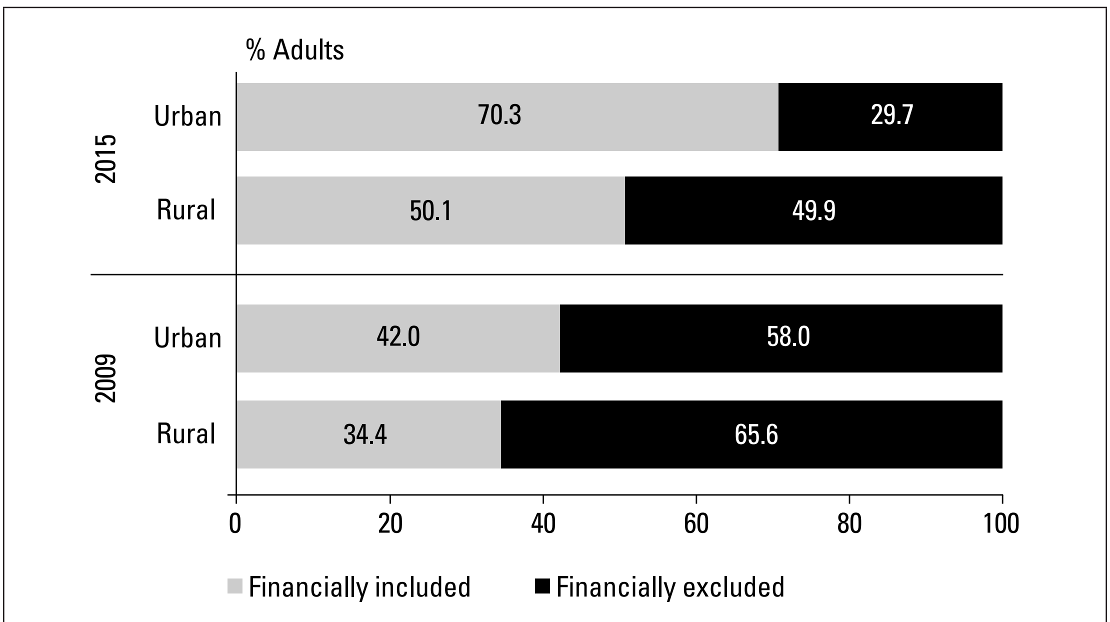


Source: FinScope 2009, 2015

In addition, the 2017 World Bank Financial Inclusion Capability Report[4] found that only 29.4% of the lowest income quartile are financially included compared to 52.5% of the highest income quartile. Moreover, 35.5% of rural people are financially included as opposed to 46.1% for urban residents. The factual picture is that the approximately 3.8 million financially excluded adults—those who use no formal financial products or services—in Zambia are disproportionately female, poor, and living in rural areas.

The rural households tend to be disadvantaged because they are, in most instances, unable to meet requirements such as providing proof of residence; reference letter and at times even national identification.

Figure 2. Rural/Urban Gap in Financial Inclusion



Source: FinScope 2009, 2015

Poor households do not have easy access to financial services, including credit solutions to invest in income generating activity.

Among the barriers they face are those related to Zambia's AML and countering terrorist financing requirements. These include the need to provide proof of residence such as utility bill or copy of payment for Council rates; a reference from employer or senior member of the community; a valid national identification document, among others.

As indicated in a report by Financial Sector Deepening Zambia[5] although the KYC requirements for opening bank accounts have been eased and community leaders can now act as references for opening bank accounts it is yet to be assessed whether this change is being used . . . to open bank accounts, or whether further mechanisms need to be introduced to address barriers these groups currently face.

None of the rural residents interviewed during the people centered research[6] seemed to be aware about this innovation. It would therefore appear that customers could benefit from widespread awareness on the issue.

The above position was verified during the people centered research that was conducted which revealed that although national regulations allow discretionary use of alternative documents to verify customers, some financial institutions tend to limit discretion and the types of documents accepted. This practice seems to be due to the fact that the Financial Intelligence Centre (FIC) Act is yet to provide a clear position on which products or customers are eligible for simplified KYC requirements. This issue was highlighted in feedback provided to the Financial Intelligence Centre by financial service providers during the review of its 2017–2019 Strategic Plan wherein a proposal was made for clear guidance on proportionate KYC.

In addition, a related challenge was raised by representatives from financial institutions with regard to the current state of the national identification system in Zambia. Specifically, they highlighted the ease with which the national ID can be manipulated for identity theft or to falsify identify thereby making it susceptible to fraud. This vulnerability points to the need to complement the introduction of simplified KYC procedures with measures aimed at strengthening national ID security.

Potential Solutions

The most effective solutions can be described in three main bundles: (a) **provide for proportionate KYC requirements** based on assessed risk of customer and product through the introduction of a tiered KYC regime that would apply to a wide range of products—building on the current regime where a limited range is targeted. In the long term this solution will require complementing it with the introduction of measures aimed at strengthening national ID security. (b) **provide guidance to financial institutions** on the relevance of proportionate application of KYC requirements vis-à-vis financial inclusion, and (c) **provide awareness to rural households on simplified KYC**.

It is widely acknowledged that legal and regulatory reforms that are fundamental to expanding financial inclusion include tiered KYC requirements. Guidance to financial institutions and awareness to rural households must be provided on the reforms.

Recommended Policy Solution

This policy memo will focus on the bundle that builds on existing regulation of the Financial Intelligence Centre (FIC) relating to simplified KYC requirements. The FIC Act does provide for simplified customer due diligence; however, there is need to introduce tiered KYC. In this regard, a simple product with limited risk should qualify for ID-only KYC without the need for other requirements.

The Financial Action Task Force (FATF) also notes that applying an overly cautious, non-risk-based approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate consumers and businesses from the regulated financial system.[7] The FATF guidance on AML/CFT Measures and Financial Inclusion, gives examples of circumstances where ML TF risks might be determined to be potentially lower for application of simplified KYC.

A robust and trusted national ID system is a necessary precondition for a tiered KYC regime. The national ID in use is low-tech and is in the process of being digitized. It is however unfortunate that the process of digitization is moving slowly as indicated in the 2019 GSMA Digital Zambia Report, which quotes a policymaker noting that there has been delay.

Simplified KYC is likely to thrive with the introduction of digital ID which would in turn enable eKYC. The FIC should participate in the efforts to introduce digital ID and eKYC systems.

As mandated by the FIC Act, the FIC, in consultation with AML supervisory authorities, should issue guidelines on the relevance of simplified KYC on financial inclusion.

The FIC is also mandated to educate the public on AML measures as such it would need to inform rural based households on the simplified KYC requirements.

Key Stakeholders and Implementation

Introduction of tiered KYC will require a review of the FIC Regulations without recourse to Parliament, albeit, consultation with the stakeholders indicated below is necessary. The Anti-Money Laundering Authority (the AML policy setter whose membership comprises the Attorney General (Chairperson), heads of Law Enforcement Agencies, the Governor of the Central Bank, the Director General of the Financial Intelligence Centre) and the Management and Board of the Financial Intelligence Centre have taken note that the Financial Inclusion Strategy has referenced KYC requirements as an activity that needs to be reviewed through the introduction of tiered KYC. The Central Bank and other financial sector AML supervisory authorities are part of the Steering Committee on the implementation of the Financial Inclusion Strategy and will be monitoring progress on this activity. The Ministry of Home Affairs is in charge of the migration from the current national ID system to the electronic system. In addition to the above the following will also be consulted:

1. The Central Bank and other financial sector regulators (financial sector AML supervisory authorities);
2. Financial Institutions through the Bankers' Association of Zambia.

Conclusion

The recommendations made herein will enable the rural based excluded population have access to financing for their businesses by ensuring that KYC requirements are proportionate thereby addressing the AML barriers faced by this segment of society. In addition, implementation of recommended long term solutions will result in formal financial institutions being confident that implementation of simplified KYC will not pose risks related to ID fraud. Further, rural based households will be made aware of the simplified KYC through widespread campaigns.

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Digital Financial Services

Promoting Innovative Financial Services to Curb Youth Unemployment through Fintech Companies and Adoption of a Regulatory Sandbox

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Executive Summary

Ethiopia has high youth unemployment and the level of financial inclusion is also at a lower level as compared with Sub-Saharan Africa average. This is explained by minimum account ownership, lack of income, longer distance from financial institutions, etc. Apart from the licensed financial institutions (FIs) and their services, there are no alternative means to address the mentioned causes. This policy memo attempts to propose a balanced solution that increases the introduction of innovative financial services while preserving oversight objectives, through the adoption of a regulatory sandbox approach. The sandbox enables new actors with technology-driven financial services to avail convenient financial products like savings, credit, payment and insurance, which are especially well-suited to tech-savvy and financially excluded young adults.

Problem Statement

Ethiopia has a population of about one hundred million. It is the second most populous country in the African continent. The national poverty headcount index is 24% (UNDP, 2018). As per the International Labor Organization, the country's population with age group of 0~30 is more than 73%. The total unemployment rate for all ages was 16.9% whereas the rate for the youth is 22%. This becomes challenging to create productive employment opportunities for all youth. Currently, it poses high risk on economic and social instability that can be explained through high inequality, persistent poverty and youth migration to developed nations (UNDP, 2018).

In a related phenomenon, the level of financial inclusion in Ethiopia is lower than the Sub-Saharan Africa average (NBE, 2017). According to the Global Findex survey (World Bank, 2017), only 1% of the population use mobile phone to access accounts and 9% of them have made or received digital payments. This is very small as compared with the Sub-Saharan Africa average, which stood at 49% and 30% respectively. In a similar report, among the total, 26% of them do savings at financial institutions and on the contrary 38% of the population use informal saving means. Here, I would like to propose a policy that promotes increased use of technology in bringing innovative financial services to the unemployed youth.

Key Causes of the Problem

As of 2018, the financial sector is composed of mainly banks, microfinance institutions, and insurance companies. On average, one bank branch is expected to serve more than 20,000 people. What makes the situation worse is that 34.3% of bank branches and 54% of insurers branches are concentrated within and around the capital city (NBE, 2019). For more than 20% of young adults between the ages of 15 and 29, distance is a factor for not having an account with regulated financial institutions (World Bank, 2017).

According to the Global Findex 2017 report, the level of youth account ownership is directly related with the level of income in respective countries. Only 17% of young adults have accounts with FIs. This is way below the low- or middle-income countries average (i.e., 63%). In addition, 56% of Ethiopian youth have mentioned lack of funds to save in FIs as a cause for not owning an account (World Bank, 2017). The shortage of funds is resulted either from unemployment or underemployment.

Financial institutions only provide conventional financial services. The share of digital financial services—for example: paying bills online and buying things online—is none (World Bank, 2017). Due to policy and regulatory constraints, neither mobile network operators (MNOs) nor other Digital Financial Services (DFS) providers operate in the financial system. Only one MNO is operating in the market. Young adults do their own savings to start new business, for retirement and housing. About 30% of the youth (World Bank, 2017) use informal financing schemes.

The small number of business establishments, limited private investment, and inadequate financial services have contributed to the growing unemployment (UNDP, 2018). For instance, the FIs put, on young applicants, arduous credit conditions that include initial capital, credit history, proof of repayment, and guarantee. A contributing factor for this is absence of credit history and rating. The credit reference bureau only accommodates credit information of about 200,000 borrowers among banks. The microfinance institutions are not part of the credit bureau. There are no rating agencies. It is also difficult for lending institutions to deal with a large number of clients without pertinent credit data and systematic approach to credit as well as related risks.

There are growing number technology-based entities interested to work in the area of financial services that have ultimate positive impacts in availing finance and reducing unemployment. However, this needs a regulatory framework to license these firms to operate in the eco-system. In addition to these data sharing, privacy, and transfer as well as acceptability of electronic transactions shall be recognized by the laws.

Potential Solutions Proposed

In order to come up with a feasible solution, individual problems need to be analyzed further. Based on the preliminary investigation, the following potential solutions are proposed.

1. Minimizing onerous requirements and enable the youth to have access to alternative financial services including credit from regulated FIs and other DFS providers.
2. Putting a regulatory framework in place that expand the credit information sharing platform, which only recognizes banks, to include other entities interested in lending.
3. Promoting the introduction and provisioning of innovative, convenient, affordable and accessible financial services, including credit, that target the needy youth.
4. Increasing the hard and soft skills on how to start own business of unemployed youth through training. This enables the youth to come up with saleable project ideas and provides elementary knowledge about the fundamentals of business.
5. Promoting new private investment in the economy, through providing various incentives, which creates more job. This brings income by narrowing the large gap between available jobs and the number of job seekers.

Priority Solutions Bundle

Taking into account the mandates and strong interest of the National Bank of Ethiopia (NBE) and the impact, I propose the following solution bundles be taken up by NBE:

1. Establishing a framework to introduce a regulatory sandbox; and
2. Promoting the introduction of diverse, convenient, affordable financial services and products successfully emerge from the sandbox that targets the youth.

The regulatory sandbox, which will be within NBE, would help to frame the ever-increasing need of fintech companies' interest to participate in the financial system. These entities normally assume a unique and new solution to an existing problem—that is, without considering regulatory limitations. The sandbox shall test the applicability of existing regulatory requirements as well as new ideas. Sandbox entities would have access to the market without a formal business license and test their services in the real environment with a dedicated support from regulatory agencies. More importantly, by the end of the test, sandbox entities and their tested solutions shall be fast-tracked by the NBE for licensing and operation. Sandbox entities are selected based on the focus given to address the issues of youth unemployment and financial inclusion. For instance, one can consider credit services that demand minimum collateral and financial services with simpler know your customer (KYC) and a wider access base for piloting.

Key Stakeholders and Implementation

National Bank of Ethiopia: has a mandate to modernize the national payment system and ensuring inclusive finance. First it will form a working group consisting members from internal work units of the bank and key external stakeholders.

Ministry of Innovation and Technology: is mandated to take the lead in promoting innovation, the creation of digital economy and coordinating different stakeholders toward this objective. It is also highly interested to bring technology-based companies to the front.

Financial Technology Companies Association: there are a growing number of fintech companies engaged in different activities. They have a good understanding of the financial ecosystem and actively participate in different forums.

Development partners: they have the expertise and resources. They will provide us technical assistant and will guide us through the journey.

Unemployed youth: the youth are the ultimate users and will take part in the testing process and expected to provide feedback as well as benefit after operationalization.

The NBE will have a significant role for execution of the sandbox. First, to develop a concept note and implementation approach, I will undertake focused discussions with internal work units of the Bank and the Ministry. The concept note will be shared with the Vice Governor of Financial Institutions Supervision for go-ahead. Then, a working group with members drawn from the Bank, the Ministry and Fintech Association will be formed to develop a guideline for the sandbox. The guideline is expected to define issues related to ownership of the sandbox, potential entrants, priorities and evaluation principles and the guideline will be consulted with all key stakeholders. Interested Development partners like the World Bank, International Monetary Fund (IMF), and others will be engaged in the process for technical assistance and funding support. Once the guideline is endorsed by the executive management, NBE shall start to accept applications from potential sandbox entities. After successful completion of testing, sandbox entities may get permission to start providing services to clients. The NBE shall also support and monitor the entities in due course. The entire implementation process is expected to take up to 3 years.

Conclusion

The effective introduction of the sandbox and other oversight functions undertaken by the Bank helps to promote innovation and create access to diverse financial services and products ranging from savings, credit, payments, and micro insurance to unemployed youth and improves the level of financial inclusion.

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Moving beyond Access—Creating Synergy through Agent Banking

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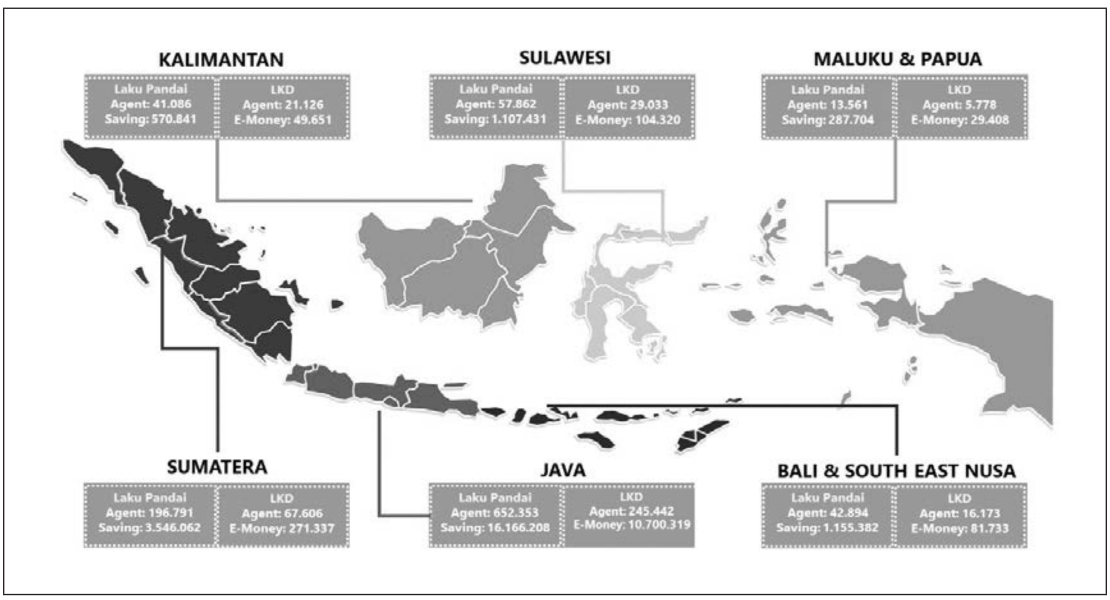
Summary

33.2 million customers from agent banking in Indonesia are exposed to higher transactions cost to obtain the full range of financial services. In practice we see there are many agents with different capabilities in providing services. For customers, the conflicting two regulations[1] of agent banking creates a limitation of the services that can be provided by a given agent. Thus customers are exposed to higher transaction costs to complete a range of transactions, and not having the right agent locally available to facilitate the financial service. Having common policy through the alignment of two agent banking practices will create sinergy especially on product development to better serve clients and on agent operating costs. The alignment will be crucial to ensure a commercially sustainable proposal to providers and their agents by ensuring there is a business case for them.

Context

Bank Indonesia (BI) and Financial Service Authority (FSA/OJK) play a key role to achieve **the National Strategy of Financial Inclusion (NSFI) target of 75% financially included by 2019. By 2018, out of the total 514 district in Indonesia 385.197 LKD[2] agents has been serving in 497 districts[3] while 1.004.547 LP[4] agents serving in 509 district[5] mostly concentrated in Java Island.** More than 22 million saving accounts were contributed through the LP program and 11.2 million electronic money accounts through the LKD program. A significant contribution (10 million accounts) came from the digitization of social assistance distribution that had positive impact to brings 49%[6] Indonesian adults to have account in formal financial institution. LKD and LP regulation on provider and agents requirements has created various agents banking with limited service and nonbank provider potential agents unable to serve as agent.

Figure 1.



The Problem

Provider, agents and customer are three parties that have direct impact with the LKD and LP regulations for agent banking. For the provider, the direct impacts would be limitations on product development and also inefficient cost especially in agent operating cost. This impact to area coverage, agent utilization rate, and profitabilty. Hence, the full service agent banking is not available in some area. For agents, the impacts will be on its capability to facilitate LKD and LP especially with the limitations of type of service, cash management, and exclusivity that may lead to agent dormancy. In practice we see there are many agents with different capabilities in providing services. For customers, the conflicting two regulations of agent banking creates a limitation of the services that can be provided by a given agent. Thus customer are exposed to higher transaction costs to complete a range of transactions, and not having the right agent locally available to facilitate the financial service. The aims of LKD and to provide various type of financial services for financial access from one single agent are not happening in the market.

Possible Solution

Alignment between LKD and LP will enable synergy between banks and nonbanks and leveraging their respective advantages will be a game changer. The synergy will eliminate the gaps and creating same level playing field for bank and nonbank that support an ecosystem where people can cash in, cash out and make retail transactions easily to ensure active usage of the accounts.

The synergy means, a partnership between bank and nonbank provider on the agent operational and the range of service as both LKD and LP agent to promote the following condition:

1. **Providers provide broader revenue stream for agent to incentivise the agent to provide one stop full service.** The synergy will enable agent banking to provide full service—electronic money, saving, other services. Agent incentives for financial services from LP will remain as it is while for LKD the incentives will be focusing on promoting agents' other businesses, usually retailing groceries and other goods, such as a promotional special price on a particular item using payment of electronic money of LKD provider. Thus agent will have broader revenue stream in addition to just the fee or commision to increase in sales of agent other business. Thus, transaction from agent banking can shift from access to usage and accelerate the noncash ecosystem in the area.
2. **Providers have agent banking available in many different area to provide full service for the customer.** The synergy will fill in the gap of agent banking outreach for nonbank because limitation on the regulation to acquire individual agent and for Bank provider to provide broader merchant acceptance and usage of financial service. Bank will benefit from the wide range of access to merchants and more potential individual agents referred by the nonbank while nonbank will be benefit to more easy access to cash in and cash out.
3. **Bank and Non bank providers of agent banking enlarge agent banking outreach and financial service for the customer.** QR[7] payment will made payments using electronic money to be easily adopted in the retail shop owns by agents. Working Group (WG) on interoperability[8] for electronic money server based will also increase the the usage of electronic money. The increase usage for payment using electronic money will be supported by the user friendly mechanism for customer to top up electronic money from their saving account at affordable cost. Thus both LKD and LP provider will experience increase of transactions
4. **Bank provider develop business model for more affordable microloans product.** While the nonbank focused on development of the ease of doing non cash payment, Bank provider can focus on identifying potential customer and agent from their daily noncash activity. The agent will have saving from the bank and then track record will be monitored by the bank making the agent potential customer for micro loan from the bank.

Recommendation

Common policy will look into synergy between LKD and LP related with provider, agent and business operations. Three guiding principle of promoting healthy financial inclusion, creating sustainable business model, promoting broader outreach of agent banking will be integrated in the following action plan:

1. **Create business model of synergy between Bank and Non Bank Provider.**

Creating partnership between the bank as a provider of LP and a nonbank as provider of LKD means creating equal level of playing field, standard of interoperability, joint programs, and supervision between BI and OJK for agent banking. To address the bank provider resistance on the concept of sharing agent with nonbank provider, the business model will include the interlink nonbank product to bank provider products, pricing scheme, outreach of financial access, strategy for customer activity rates, digital ecosystems, agent network, interoprability and exclusivity.nonbank BI and OJK will coordinate with bank and nonbank provider in formulating the business model. The high level meeting coordination between BI and FSA will formalized the business model as guidance in formulazing the common policy for LKD and LP regulations

2. **One agent can provide full financial service from bank and nonbank provider product.**

From regulations prespective it involves the exclusivity practice, simplified agent categories, bundle products between electronic money and saving, interoperability in agent level and creating broader revenue stream for agent. To ensure this, BI and FSA will conduct a pilot project for nonbanks and bank providers to identify standardization of agent banking partnership and IT infrastructure requirement.

3. **Nonbank providers can recommend potential individual agents to bank providers to be recruited by bank providers to support better outreach of agent banking.**

As nonbank provider continues to actively grow its merchant network, it also has to ensure that potential individual agent will meet the criteria set by Bank provider. In addition, the partnership should also support the agent banking in remote area. To ensure this, coordination among BI, OJK, bank providers, and nonbank provider to create standard for mechanism for individual agent banking requirement.

4. **Implementation and monitoring**

Based on the pilot project, BI and OJK will be able to address alignment of policy and regulation to give adequate legal basis for the common policy implementation. The involvement of banks and nonbanks in the pilot project will also smooth the transition for implementation and lesson learnt for other provider to implement similiar partnership The common policy also will be monitored as part of tracking financial inclusion progress and program results.

33.2 million customer and many more unbanked people in Indonesia can move from merely having access to usage and quality of financial inclusion by having common policy from two agent banking regulations that enable synergy between bank and nonbank providers.

Notes

1. There are two agent banking regulation in Indonesia. In 2014, an agent-based model was introduced by Bank Indonesia (BI) through Digital Financial Services by issuing Bank Indonesia Circular Letter No.18/22/DKSP regarding Penyelenggaraan Layanan Keuangan Digital (LKD). The following year Financial Service Authority (FSA known as OJK) initiated its own agent-based model: (LP) and issued FSA Regulation No. 19/POJK.03/2014 Layanan Keuangan Tanpa Kantor dalam Rangka Keuangan Inklusif (). Both programmes aim to facilitate access to financial services especially for people who are underserved or unserved by existing formal financial intermediaries.

2. LKD mainly focus on providing payment service through electronic money. LKD provider consists of Bank that can have individual and legal entity agents and nonbank that can only have legal entity agent.
3. Source: Bank Indonesia.
4. focus on providing banking service ranging from saving, credit, insurance and other financial products. providers mainly banks with multiple agent criteria.
5. Source: Financial Service Authority.
6. "Global Financial Inclusion Index Survey 2017," World bank, 2017.
7. Bank Indonesia has launched the Quick Response Indonesia Standard (QRIS) that will create more effective and efficient digital payment ecosystems. QRIS will allows fast payments using QR code in Indonesia to be interconnected and interopearable through a single standardized code. For customer, transaction time will be easier and faster while for the payment industry this will enable QR payment to be widely accepted. (Bank Indonesia press release 27 May 2019 https://www.bi.go.id/en/ruang-media/siaran-pers/Pages/SP_214019.aspx).
8. Working group of QR that consists of financial institutions, banks, interbank network provider and electronic money provider will also create standard that enable interoperable and interconnection among provider.

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Instant Payments Infrastructure for Greater Financial Inclusion

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Executive Summary

Although the national payment system has been evolving satisfactorily in Kosova, cash transactions are still the dominant form of payments, while electronic payments are limited[1] with an insignificant share of mobile payments. There has been a steady improvement of cards infrastructure; however, there is no consolidation of ATM/point of sale (POS) terminals, with high interchange fees and servicing costs for merchants, and high off-us[2] transaction fees for consumers, which have negatively affected the usage of cards as payment instruments.

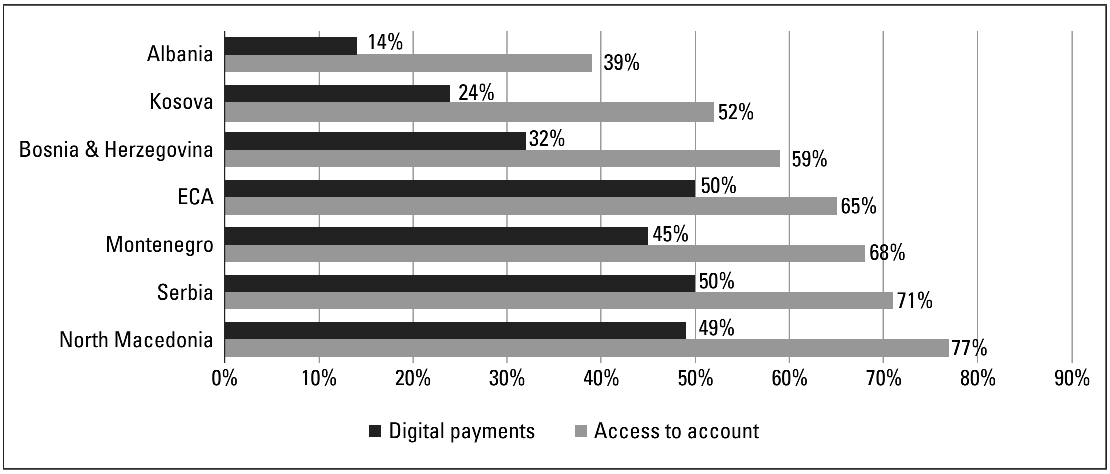
There is a trend of implementation of instant payment[3] (IP) solutions worldwide,[4] which provide fast and less costly electronic transfers infrastructure that enable usage of smart phones and quick response (QR) code payments. As such, the focus of this policy is about the adoption of IPs and the creation of an enabling environment as a solution to increasing the efficiency of electronic retail payments as the main gateway to greater financial inclusion in Kosova.

Problem and Context

Kosova is the smallest country in the Western Balkan region (10,887 km^2), with a population of about 1.8 million, and the youngest population in Europe, with an average age of 25 years. Kosova's financial sector, which is dominated by banks, has expanded rapidly since 2000. There are currently 10 banks and 8 non-bank payment service providers.[5] Banks have taken major steps in digitizing their services, but without coordinating efforts. All banks are issuers and 6 of them provide acquiring services for international credit and debit cards such as Visa and MasterCard. The non-bank financial institutions (NBFIs) that provide payment services and international money transferring offer only cash in cash out payments. Based on the current legal framework among payment service providers, only banks are allowed to offer payment accounts.

As of 2017, only 52% of adults had access to a bank account in Kosova. Moreover, the usage of those accounts has been very low, even when compared to peer countries. Only 24% of adults use digital payments and less than 2% use mobile phones to pay bills. Of the unbanked, 42% mentioned expensive financial services as the main reason for not having a bank account (World Bank, 2017).

Figure 1. Western Balkan countries comparative data on access to accounts and use of digital payments



Source: The Global Findex Database 2017. World Bank Group

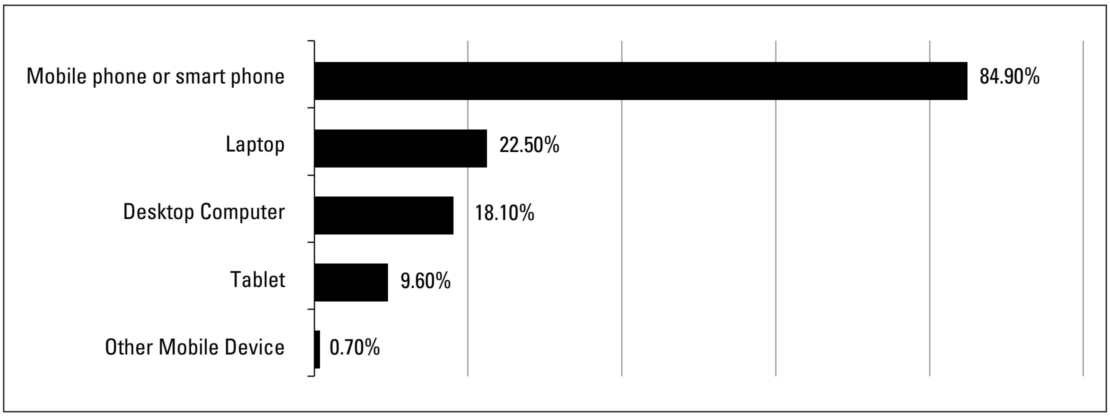
Notwithstanding infrastructure developments and a relatively sizeable cards market, cash is widely used for retail transactions. Most retail transactions such as person to person (P2P), person to business (P2B), person to government (P2G), utility payments, and remittances continue to be predominantly cash-based. The CBK reports that about 40% of POS/ATM terminals are concentrated in the capital city of Pristina, to about 12% of the population.[6] Outside major cities, the limited card payments infrastructure precludes the adoption of electronic payment methods.

There is no card processing platform or local switch in Kosova. ATM and POS transactions are cleared and settled outside the country. Local POS and ATM networks are connected via the Visa and MasterCard global processing networks, thus making it possible to withdraw cash/pay with a Visa or MasterCard branded card issued by a local bank—however, at a high interchange fee[7] and servicing costs for merchants. Off-us transaction costs are high for both providers and users of cards and there is no interbank consolidated network of POS/ATM infrastructure. This causes an inefficient use of POS/ATM terminals with many POS of different banks at a single location that limits POS usage.

The lack of affordable and accessible payment services excludes low-income people and smaller merchants from formal financial services. This adds up to the high usage of cash incentivized by the estimated informal economy at about 30% of GDP.[8] The low financial literacy level of about 20% of adults (below the world's average of 28%)[9] also affects negatively the usage of cards and other electronic payment services.

The CBK provides a modern and reliable central clearing and settlement infrastructure [Automated Transfer System (ATS)],[10] which has the potential to increase the usage of electronic payments through more efficient electronic channels. ATS is based on International Standards Organization ISO 20022,[11] as the newest payment-messaging standard that sets the grounds for IP solutions. Though to ensure more access to and usage of payment accounts for the sustained growth of electronic transactions, it is important that the necessary infrastructure be expanded, taking advantage of high rates of available access to internet and usage of mobile phones.

Figure 2. Use of devices for internet in the last 3 months in 2018 in percentage



Source: Kosova Agency of Statistics: Series 5: Social Statistics Results of the Survey on Use of ICT 2018

Potential Solutions

1. Implement an IP Solution that enables instant and irrevocable debit and credit transfers to customer accounts 24/7/365, which provides immediate confirmation to the payee and payer. IPs provide possibilities to use new acquiring infrastructure with lower costs, through usage of smart phones and QR code payments for merchants and consumers. They work on ISO 20022, which supports additional information that enables payments overlay services (HSBC Bank, 2018). This would create potential incentives through other value added services for electronic P2P, P2B, and P2G retail transactions.
2. Adopt interoperable card payments acquiring infrastructure to enable consolidation of POS/ATM terminals, reduction of servicing costs, and cooperate on reduction of interchange and off-us transaction fees. This solution requires agreements among banks to establish or contract a common operator for the switching of card transactions, and for supplying and maintaining POS/ATM terminals, which would enable cost optimization.
3. Design an affordable account for the low-income population segment, with basic payment features enabling electronic identification and tiered know-your-customer (KYC) system. The basis of this solution would be the EU Directive on Payment Accounts,[12] which sets the mandatory requirements for opening basic payment accounts. The basic payment account features shall be regulated by the CBK in dialogue with the banking industry.
4. Enable e-money services and the provision of payment/transaction accounts by NBFIs. This would increase competition through enabling new institutions to offer electronic retail payments by ensuring them access to bank accounts through imposing open banking. It requires legal and regulatory changes by the CBK based on EU Directives on E-money Institutions (EMD) and on Payment Services (PSD2).[13]

The implementation of the above potential solutions requires cooperation between all the relevant stakeholders of Kosova payments ecosystem. Therefore, the National Payments Council (NPC), led by the CBK, should play a crucial role in initiating the discussions among the private sector and the relevant public institutions to address and implement these solutions. The main stakeholders would be the CBK, banks, NBFIs, Treasury – Ministry of Finance, other relevant public institutions, like Civil Registration Agency, Kosovo Agency for Information Society, telecom and utility companies as well as representatives of end-users associations such as consumers and merchants.

Priority Solution and Implementation

Establishing an IP system will be the priority solution for driving inclusion. IP provide faster receipt of funds and low acquiring costs for merchants (QR code payments), which incentivizes even micro and small businesses to adopt electronic payments. IP create benefits for individuals as well for fast, convenient and low cost P2P transfers such as the sharing of low amount expenses or paying or being paid for small works, like home repair services, cleaning, gardening, selling agriculture products by farmers, babysitting, etc. By adopting IP, consumers would not need to carry cash, which apart from not being safe, usually carries a cost of time and additional fees. Electronic payments would save them time and money from the need to travel for cash withdrawal and cash payments for public and utility services. Low cost, easily accessible electronic payments would also enable them to create verifiable data that they could use for accessing credit and financial products. Government agencies would also benefit from low acquiring costs to receive large volume electronic payments. IP would have a significant impact on reduction of costs for providers and users of electronic payments, while enabling usage of funds within seconds from payment execution (similar to cash).

Building an IP system requires a high level of multilateral cooperation on technical, regulation, oversight and cyber security matters and, accordingly, the extensive involvement of central bank, banks and other industry representatives. Therefore, in Kosova the implementation of an IP system shall be initiated by the CBK, which shall create a technical working group comprising members of stakeholders that can contribute to the technical preparations of a feasibility study.

Establishing and participating in an IP system requires capital investment from CBK, banks, NBFIs and other participants;[14] however, in deciding so, they shall work together strategically in analyzing the benefits of IP in a longer time horizon, and its potential to expand their services and future innovations. CBK should facilitate the meetings and discussions through the NPC, and supported by the Treasury – Ministry of Finance, should promote a common IP system with the objectives to reduce usage of cash and informal economy, and to increase economic activity and financial inclusion.

Notes

1 CBK data: average non-cash payments per capita in 2018 was 9.4.

2 Off-us transactions (referred to also as “not-on-us”): transactions in ATM/POS terminals with cards issued by banks other than the terminal owner (3 to 5 Euro per ATM withdrawal and 2–2.5% on the amount, 1% per POS transaction).

3 Instant payments (real-time payment or fast payments): the interbank account-to-account payments, initiated and confirmed to the originating bank within one minute or less.

4 InstaPay: the definitive source of global instant payments intelligence; webpage at https://www.instapay.today/tracker/.

5 Source: CBK, https://bqk-kos.org/?id=233.

6 CBK Analysis on the Use of Payment Instruments, March 2018: https://bqk-kos.org/?m=t&id=125.

7 There are no cap limits or disclosure requirements for interchange fees. Based on discussions with market participants, interchange fees along with the merchant servicing fees range between 1.5% to above 3%.

8 EU Commission Kosova 2019 Report: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-kosovo-report.pdf.

9 Financial Literacy around the World, Kosovo 20% of adults: https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x22667.

10 Automated Transfer System implemented by CBK since July 2016 11. CBK Annual Report 2016: https://bqk-kos.org/repository/docs/2017/CBK-17-08-2017_eng_AR_2016.pdf.

11 CBK Annual Report 2016: https://bqk-kos.org/repository/docs/2017/CBK-17-08-2017_eng_AR_2016.pdf.

12 Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

13 Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on electronic money institutions and Directive 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

14 Treasury or other institutions that collect large volume of payments, which are/might be participants of Real Time Gross Settlement (RTGS)/ Automated Clearing House (ACH).

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Data-Driven Digital Financial Services Policy Approach for Nigeria

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Executive Summary

The use of unregulated digital financial services (DFS) is gaining prominence among the urban poor. This practice is exposing them to the risks of fraud, exploitation, and other consumer protection concerns. In recognition of the potential of digital financial services to provide financial services to the Financially excluded as it has happened in Kenya, Nigeria issued a regulation for Mobile Money in 2012 and has licensed over 24 Mobile Money Operators as at date. However, seven years down the line, 2018 Data from Access to Finance in Nigeria survey by Enhancing Financial Innovation and Access (EFInA) shows that 96.7% Nigerians still do not have access to mobile money—82% of the population are not even aware of DFS.

To address this concern, this policy recommends the creation of a new unit or job role that will use a data-driven approach to DFS policy development, which would seek to ensure, specific drivers that facilitate adoption of DFS amongst the urban poor are considered. The new unit would be responsible for gathering and analysing data on financial behaviours of the urban poor and the unbanked generally and looking at various use cases for DFS adoption and a policy to mandate regulatory department of the Central Bank of Nigeria to develop policies based on insights from the data.

Introduction: Driving Financial Inclusion through Digital Financial Services

About 1.7 billion people globally are unbanked (Asli et al., 2018), and over half of the unbanked population live in seven countries. Nigeria is one of the seven countries. More so, 36.6 million Nigerian adults are unbanked (EFInA, 2018). Over 71.3% of the unbanked adults in Nigeria own a mobile phone (EFInA, 2018). This pervasiveness of the mobile phone amongst the unbanked population has provided the opportunity to reach them with financial services.

To leverage DFS to drive financial inclusion in Nigeria, the Central Bank of Nigeria (CBN) issued the Mobile Money licensing and regulatory framework in 2012 (CBN, 2015). The license enables license holders to provide financial services via mobile money. There are currently about 24 licenced mobile money operators (MMO) in Nigeria. Also, Nigeria has issued a regulation for Agency Banking, to promote the use of Agents that can act on behalf of their principals, banks or mobile money operators, to provide financial services to the unbanked. Expansion of the agent network would provide financial access point for the unbanked, especially in remote areas that do not have any. In a bid to further expand the Agent Network, Nigeria issued a Super-Agent Licensing and Regulatory framework to enable entities that are into agency business , for instance, Telecommunication companies to provide agents that can be used to provide financial services.

Policy Objective

In spite of all these efforts, 96.7% of Nigerians do not have a mobile money account (EFInA, 2018). According to a recently conducted survey, 82% of Nigerians are not aware of mobile money (EFInA, 2018). This has led the unbanked to continue to depend on unregulated alternatives, exposing them to fraud and lack of a predefined customer redress mechanism.

Though the possibility of reaching the financially excluded via DFS is quite an exciting prospect, it does not guarantee adoption. This policy note examines the financial lives of the urban poor with a view to understanding if DFS can be deployed to serve them better, with an ultimate objective of unlocking the variables that will help drive the adoption of DFS amongst the unbanked in Nigeria.

Contextualizing the Problem Space

A supply and demand-side semi-structured interviews were conducted to have a better understanding of the nature of the problem (Ambore, 2019). The objective of the demand-side interviews was to gain a better understanding of the financial lives of the urban poor and the suitability of existing DFS in meeting their needs. The supply-side interviews focused on understanding current regulatory practices and how financial service providers provide DFS services to address the need of the identified segment.

Findings from the demand-side interviews reveal that the urban poor are more aware of the existence of unregulated DFS services than they do of regulated ones. The urban poor pay over 300% the regulatory cap to access unregulated DFS services mainly for urban-rural remittances. All five participants in the demand-side interview had a smartphone, including the unemployed participants.

The supply-side interview revealed that financial service providers tend to focus more on creating a product for the already banked segment for business reasons. Both regulators and Financial service providers are aware of the use of unregulated DFS by the urban poor and the gap between the policy intention of tiered know your customer (KYC) and the practical happenings. Unregulated DFS refers to the use of licensed DFS, mostly POS devices in a way other than intended by the regulator, used for unintended types of transactions, mostly for remittances and payments. The POS is not configured to report these types of transactions and can only capture them as procurement of goods or services. The unregulated option presents a better option in terms of convenience and speed than making urban-rural remittance through commercial bus drivers, or travelling acquittances. In addition to the high cost of using this option, no formal mechanism exists to address consumer concerns and no official record of such transactions exist, which might lead to AML/CFT issues.

While regulators acknowledge the importance of evidence-based policies, they do not have a systematic approach of using consumer data to develop DFS policies. The key driving factor for implementing most DFS policy seem to be the fact that it has worked in other countries. Without understanding country specific drivers for adoption of digital financial services through gathering and understanding data on user financial behaviors and concerns, these policies might not yield the desired result. The financial service providers interviewed are of the opinion that government is more suited to identify and address these elements that either hinder or slow down the urban poor from adopting DFS, they also believe government can incentivize the private sector to focus on providing DFS that will meet the need of the urban poor.

Problem Policy Statement

The core policy problem is that the urban poor in Nigeria is exposed to fraud, exploitation, and consumer protection concerns in the use of DFS because they are using DFS tools built for one purpose to fill unmet needs. In order to send money home, the urban poor use POS terminal which by policy and configuration was meant for purchases or mobile phone airtime, which is not a legal tender currency. Due to the unregulated nature of this transactions, no regulatory protection or redress mechanism is available for the customer in case of any concerns. While these alternatives are unregulated, they tend to be more reliable and faster than sending money via bus drivers.

Using the 8QM method to analyze the root cause of the problem revealed thirty-two root causes (FLPFI, 2018). Over 30% of the 774 local government areas in Nigeria do not have financial services access points to reach the underserved. The unbanked used unregulated DFS because it addressed their specific need and a better alternative to the existing practice of for instance sending money through bus drivers. One other cause was that existing regulated DFS are more suited for the already banked, which was obvious from the fact that 90% of Mobile Money users in Nigeria already have bank accounts (EFInA, 2018). The low penetration of regulated DFS is also a major concern leading to the identified policy problem. The Bank has recently issued the Payment Service Bank (PSB) license to improve DFS penetration.. However, without an understanding of factors that would facilitate adoption, the PSB approach might suffer the lack of adoption experienced by its predecessor, hence the need to adopt a data-driven approach to DFS policy implementation.

Policy Recommendation

To ensure that regulated DFS are well suited to address the needs of the urban poor and the unbanked generally, this policy proposes a data-driven approach to DFS policy development. This approach advocates the collection, and analysis of data from the financial lives of the urban poor and looking at various use cases for adoption amongst this group as a basis of developing DFS policies that will meet their need. This proposed recommendation would be achieved creating a Consumer Insight Division or a Head of Consumer insight role that will be responsible for collecting and analysing this data and a policy that will mandate all regulatory departments within the Central Bank of Nigeria to use this data as a basis for DFS policies going forward.

Implementation Approach

The implementation of this policy recommendation would commence by providing information on the objective and benefit of the policy recommendation to identified stakeholders. The policy would be driven under the auspices of the Channels Working Group of the Nigerian Financial Inclusion Governing Committee. Implementation of the recommendation would be conducted within an estimated two years' time frame. The major barriers for implementing this policy recommendation are management buy-in and budgetary provision, as such, it is imperative to gain the support of the current Head of the Consumer Protection Department in the bank were this change is been proposed.

Summary and Conclusion

Digital financial services have the potential to provide financial Services to 36.6 Million Nigerians, 71.3% of whom already have a mobile phone. This has not yet happened in Nigeria (EFInA, 2018). A user-centred, data-driven approach to developing DFS policy would eliminate adoption barriers and facilitate the development and adoption of regulated DFS that will meet the specific need of the unbanked and consequently improve uptake.

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Social Transfer Delivery

Improving the Access Infrastructure in Argentina

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Executive Summary

In Argentina, social beneficiaries pay a high cost for cash management. All of them have a bank account [social program bank account (SPBA[1])] and a debit card, which are offered free of charge, and which the government uses to pay the social transfers. However, social beneficiaries usually withdraw the entire transfer amount in cash at one time. One of the reasons of that behavior is that the areas where they live are uncovered or under-covered in access points to financial services. The lack of a flexible regulatory framework to open new access points[2] and the lack of open-data information about those areas disincentive financial institutions (FIs) to improve the access infrastructure. In order to address that situation, the recommended policy solution is to disclose data about the access infrastructure to encourage FIs to improve the coverage through agents or cashback points (CPs).

Problem and Context

In Argentina, about 2.7 million[3] people receive social transfers from the national government, which represent 8% of the total adult population. Social programs focus on vulnerable populations[4] and consist in subsidies and transfers.

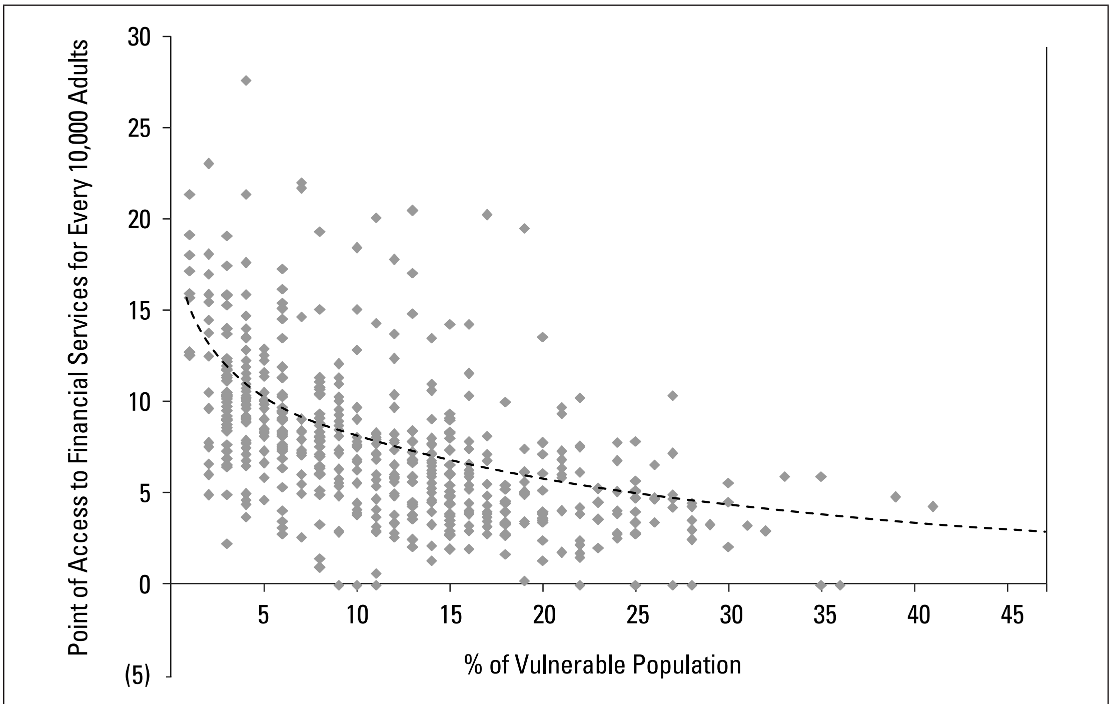
In order to improve access to financial services, in October 2011, the Argentinean government decided to pay social transfers into SPBAs, which are provided by FIs. Person-to-person transfers, cash withdrawals, utility payments, and debit card purchases, among other transactions, are allowed. Also, social beneficiaries have access to their bank account through internet. Due to central bank regulations, FIs offer all these services free of charge.

Although supply side data shows that 80% of Argentinean adults have at least one bank account (and therefore a debit card), only 48% of those surveyed in the Global Findex 2017 demand side survey report having a bank account and 41% a debit card. These differences suggest that a large portion of the account holders are not aware that they have a bank account. As the education and income levels decrease the awareness of having a bank account decreases to 38% (World Bank, 2017).

The behavior of social beneficiaries confirms the lack of awareness about bank accounts: they withdraw the entire transfer amount in cash at one time or few times. The fact that the SPBAs have been opened by the national government, not by the beneficiaries, wouldn't contribute to be aware about the bank account services.

Also, they live in uncovered or under-covered areas, which implies having incentives to withdraw all the money at one or few times. At the department level,[5] the higher the percentage of vulnerable population over the total population, the lower the number of access points per 10,000 adults. If those areas were covered in access points, they would be able to withdraw the transfer amount as they need it. So, it is an important issue –*not the only one*- that the framework (regulation and data) gives financial institutions the right incentives to open access points to financial services in those areas.

Figure 1. Department data: percentage of vulnerable population[6] in each department vs. point of access to financial services per 10,000 adults in each department, April 2019



Source. BCRA and INDEC

According to the current regulation, branches, ATMs, self-service terminals (TAS) and banking agents are the allowed access points (access infrastructure). As of April 2019, access points were close to 29,300, which represents 8.7 access points per 10,000 adults.

Aside from the access infrastructure, account holders have the possibility to withdraw or deposit cash from or into their bank accounts in retail stores that offer this service, which is free of charge. As these CPs are not regulated by the central bank and do not offer any other financial transaction, they are not considered access points for the purpose of financial inclusion indicators. However, considering that as of December 2018 there were at least 7,000 of these CPs, their contribution to financial inclusion cannot be ignored. This service does not only benefit account holders, but also retailers as it reduces the cost of cash management[7]—*e.g. transportation*.

However, FIs need accurate information to open an agent or offer the cashback service to retail stores. Information such as access point's location and department adult population is really important in the decision-making process of FIs to increase the access coverage. At present, there isn't a tool that discloses data about the access infrastructure and the uncovered and under-covered areas to provide FIs the required data to open new access points.

Potential Solutions

Possible solutions can be described in two bundles, one for the supply side and the other for the demand side:

1. **The opening of agents and cashback points in low-income areas to** give social beneficiaries more opportunities to use financial services, reduce cash management and improve their financial capabilities.
2. **Financial education initiatives** targeted to social beneficiaries focusing on improving financial capabilities such as how to make a budget, how to use a SPBA sand the benefits of electronic means of payment instead of cash.

Recommended Policy Solution

Currently, there is a wide consensus in the literature that access points should grow through more flexible schemes. Banking agents and cashback points have the potential to extend financial services to marginalized communities because both of them reach out to vulnerable people in their own geographies. For poor people, financial services offered by retail stores may be far more convenient and efficient than going to a branch.

From the FI's perspective, agent banking is the first alternative because: 1) the usage of existing retail stores infrastructure reduces the costs of building new outposts; 2) the FIs and retail stores can agree on which financial transactions each store will offer; and 3) people who use retails stores to purchase goods can also carry out financial transactions. As a second option, those retail stores that don't intend to become agents due to their informality situation may be transformed into CPs.

FIs require data about the whole financial system to take the decision to open an agent or offer the cashback services to retail stores. More accurate information about access points, such as location, type of points and financial providers, and the cities, such as adult population and number of points of access, will give FIs key information to make the decision to include new access points in uncovered or under-covered areas. In recent years, the uncovered or under-covered areas may not have been profitable as the regulation did not consider flexible schemes to open access points that are cheaper and easier to put into operation (agents) than the traditional ones (branch).

In that sense, the recommended policy solution is to build an interactive map to disclose key information about access points to financial services, CPs, and localities of the country.

Access points	Localities	Cashback points
1. Location 2. Type (ATMs; branch, agent; among others) 3. Transactions allowed 4. Providers 5. Opening hours	1. Number of access points, including the localities that don't have any point of access 2. Adult population; 3. Number of persons who receive social transfers.	1. Location 2. Type of store 3. Transactions allowed 4. Providers 5. Opening hours

This information allows FIs to contact retail stores that are already are offering cashback transactions to offer the possibility to become agents of FIs. Also, it is a way to encourage stores to add up cashback transactions to their principal activities in order to reduce the cost of cash management. Also, local authorities could be interested in solving the lack of financial services in a specific area within the localities in order to improve the quality of life of their citizens.

Key Stakeholders and Implementation

According to one of the central bank missions of enhancing financial system growth, the interactive map would be implemented and supported by the BCRA. Then, it is really important that the National Council of Financial Inclusion (NCFI)[8] supports this interactive tool as well. NFCI is the organization, which coordinates the national strategy of financial inclusion.

The implementation consists in three steps: 1) standardize the data about access points, CPs and localities; 2) develop the interactive map in an easy and didactic platform; and 3) disclose the interactive map in the BCRA website as an open data platform.

BCRA's Communication Department has a key role in looking for the best way to visualize the map in the website and communicate in the media the key features of the map. Then, the

NCFI should encourage the use of the interactive map among other NCFI members. Also, the National Administration of Social Security should disclose information about the location of the social beneficiaries.

Finally, banking company associations should enforce FIs to report the information about their access points to the BCRA.

Conclusion

The improvement of uncovered and under-covered areas is essential to facilitate access and usage of financial services for social beneficiaries. Considering that the current regulatory framework allows flexible access points schemes such as agents and cashback points, an open-data map platform will give FIs and retail stores key information to consider in the decision-making process of increasing the access coverage.

Notes

1. The government opens an account in a commercial bank for each beneficiary (Article3 Law No. 26.704). In Argentina, every bank account has a debit card related to it.
2. Last November, the Central Bank of Argentina launched the agent banking regulation.
3. The number takes in account people who receive the universal transfer per child, social transfer per pregnancy and transfer when the family has more than six children.
4. "Vulnerable population" means people who live with unsatisfied basic needs, which imply low-income and low-education levels
5. In Argentina, provinces, departments, and localities are the administrative units.
6. The information was generated by national survey in 2010.
7. In Argentina, retail stores manage high amounts of cash due to a large proportion of the economy is not formalized.
8. The National Council for Financial Inclusion's mission is to promote the responsible and sustainable access and usage of financial services. It is an umbrella organization coordinated by the Ministry of Finance. Other national agencies such as the Central Bank, the National Social Security Administration and the Federal Administration of Public Revenues, participate in the council.

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Leapfrogging Financial Inclusion through the Digitization of the Social Safety Net Payment in Bangladesh

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Executive Summary

Social safety net (SSN) programs now account for 14% of government's total spending and reflects the high priority accorded by the government to this aspect of the social development policy (Bangladesh Social Safety Net Budget, 2019). There are at present 145 SSN programs being administered in Bangladesh by 23 Ministries and Divisions. The magnitude of the number of G2P beneficiaries (approx. 3o million), largely due to the significantly increased coverage of Social Safety Net Program (SSNP), means digitization of this government to person (G2P) payment architecture could foster financial inclusion.

The present options available to pay G2P payment are scattered and isolated. The manual and cash-based payment at bank counter for G2P payments are fraught with inefficiencies leads to substantial costs (travel and waiting time in the bank counter) for both beneficiaries and government. On the other hand, beneficiaries don't have multiple options regarding receiving their cash payment and they are beholden to select from a few state-owned banks. As a result, beneficiary needs to travel long distance from their home and wait in a long queue to get the cash. This also leads them not to use the bank account regularly due to the inconvenience to operate the account. This policy memo proposes a new guideline for the social safety net payment in Bangladesh to introduce electronic payment system for millions of social safety net beneficiaries. This digital payment system with ensure complete citizens' choice of financial access point including mobile financial service, an agent bank or postal bank, including any emerging options.

Problem Statement

Sarbati is a 75+ widow living in Nagorpur. She receives BDT 1,500 (USD 18.95) quarterly widow's allowance and it takes Sarbati 3 hours of travel time for her round trip to the bank branch that is 5.5 km away and costs her BDT 120 (USD 1.52). She needs someone to accompany her as she is unable to travel such distances alone. There are millions of beneficiaries like Sarbati who are facing this problem all over the country. The current method for transferring the payments is fraught with inefficiencies leads to substantial costs for both beneficiaries and government. The administrators do not take into account the inherent costs associated with direct cash payments such as the administrative cost of payment and the risk of leakage. A study revealed that 15% ghost beneficiaries are enrolled in the SSN programs and reduction of 80% leakage will save 70 million USD for government per year (CGAP-a2i, 2015). The government also doesn't take into account the time and cost incurred by the recipient to travel to the payment location. In Bangladesh, 60% social safety net beneficiaries needs to travel 6–8 kilometers to collect their allowance. Travel time can involve a clear trade-off between costs to the funding agency and costs to the recipient. The amount of cash transfers are usually very small (less than USD 7 in most cases). A study conducted by CGAP & a2i revealed that 14% (USD 1) of the total cash transfer is lost in travel costs for the recipients. This is excluding the opportunity cost of the travel time, which is usually the wages forgone for the hours of work missed. As the beneficiaries are extremely poor and in most cases are hourly wage earners or unemployed, the travel time and lost wages adds to the vulnerability of the beneficiaries (PPRC-UNDP, 2012).

Key Causes

In the present cash transfer modality, the administrators pay the recipient at a defined location (such as a government office, bank branch, or temporary pay point) at a defined time in the payment cycle, which is usually every quarter. In that place and at that time, a payment official would verify identity against a manually drawn list of eligible recipients. There are different causes in the present manual and cash-based payment system which are creating the customer inconvenience to receive their payment. During the People's Centered Policy research revealed the key causes to be:

1. **Lack of choice options for beneficiary to choose financial service provider:** Beneficiaries are allowed to open their account only in the banks which are entitled for government payment disbursement. Normally this bank branch are far away from their home.
2. **Cash disbursement through limited banks channel from government:** Government disburses the payments only through state-owned banks and the branches of these banks are not available in the rural area.
3. **Lack of technology readiness for managing the SSN cash disbursement:** The SSN program management at different government departments are manual and this create a problem to disburse the money efficiently.
4. **Lack of skill development initiatives for government officials on new technology:** As there are no technological interventions in the SSN program management, so most of the government officials are not skilled on digital payment process.
5. **Lack of collaboration between government and the private sector:** As most of the private banks are not allowed in the G2P payments process, so there is a gap between then to innovate new process for G2P payments.

Potential Solutions

The Direct Benefit Transfer Programme of India (Firstpost.com, 2018) and Benazir Income Support Programme of Pakistan (CGAP, 2013) shows that that rapid expansion of digital payments can generate immense dividends. Moving from cash based to digital payments has the potential benefits of making payments more efficient by lowering the cost of disbursing and receiving payments, increasing control over the funds received, increasing the security of payments increasing the transparency of payments, and providing a first entry point into the formal financial system. A study conducted by a2i in collaboration with CGAP(CGAP-a2i, 2015) revealed that there are significant opportunities for cost saving both from government and consumer sides through digitization of social safety net programs.

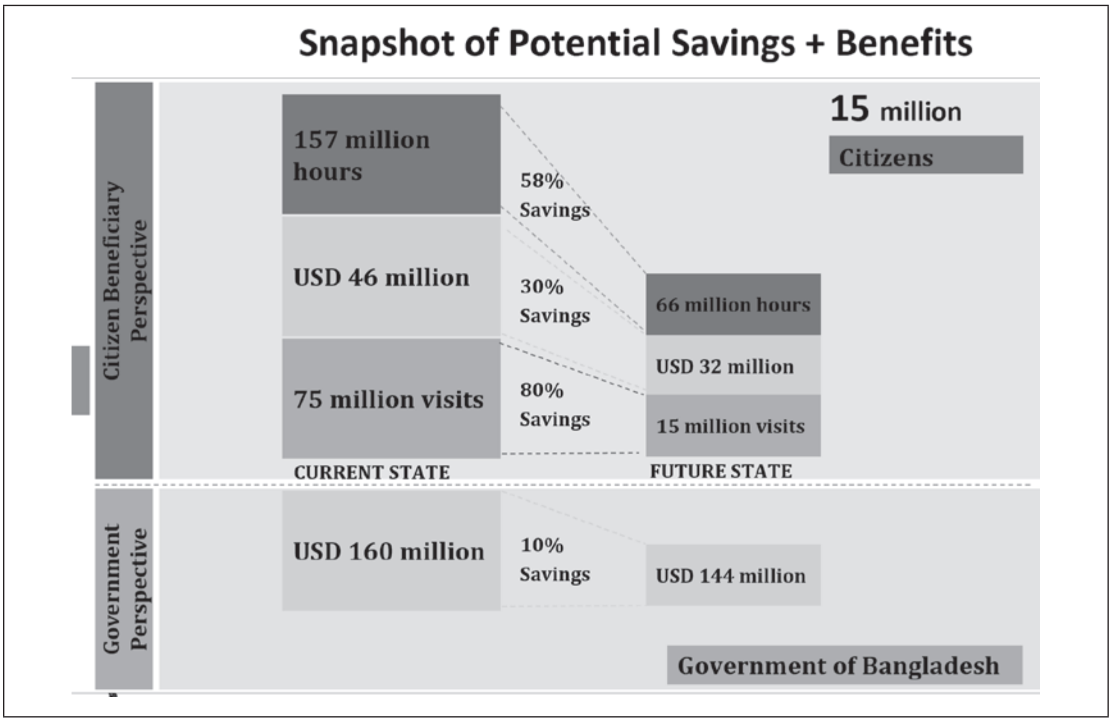
There are several solution options that can be considered to address the problem. This policy will aim to introduce new guideline for social safety net payments with the following major solutions:

- Digital beneficiary management and cash disbursement process.
- Allow beneficiary to choose any financial institution to receive payments.
- Allow multiple banks/financial service providers in the SSN payment process.
- Capacity development initiative to develop the technical skills of service provider.

Stakeholders and Implementation

It is a mandate of a2i to support government department through policy advocacy and implementation of digital initiatives to ensure services at citizens doorsteps. a2i will play key role to implement this policy. Cabinet Division is the coordination ministry of SSN programs in Bangladesh and they approved all the SSN policy related issues. a2i will work with Cabinet Division for approving the guideline. Beside that there are several stakeholders engaged with his policy implementation with different roles. The key stakeholders are:

Figure 1.



- Finance Division
- Bangladesh Bank (Central bank)
- Implementation ministries/departments of SSN programs
- Information & Communication Technology Division
- Financial service providers (including banks, mobile financial service and the post office)

Different initiatives will be taken to engage the stakeholders at different stage. First, an a2i will organize a workshop with all the stakeholders to share the whole idea with them and get their feedback on the implementation process. Besides that, similar initiatives and experience from other countries will be shared with the stakeholders. Second, a piloting plan will be developed for 2/3 SSN programs to test the solution and idea. Third, necessary partnership will be made with financial service providers to use their existing agent network in the payment process. Third, necessary technical system will be developed for government departments to manage the beneficiary information. Fourth, a working group will be formed from the participation of different stakeholders to conduct the pilot. Fifth, a roadmap will be developed for countrywide implementation.

As government declared the Digital Bangladesh Vision 2021, all government entities are working to digitize their services and this implementation will not face any challenges from the organization. But there may be some obstacles from the local public representatives and vested interested group at the field level who are getting benefit from the old system. To address this challenge, awareness campaign will be organized with the beneficiary so that they can aware about their rights and enroll them in the new system. Upazilla and Union level field officials will conduct the campaign as well as we will engage local public representatives Also, a2i will ensure the involvement the field administration to motivate the local public representatives and other groups.

The following indicators will be used to measures the success of the pilot. After the successful completion of the pilot, relevant data will be collected from the system as well as field level. Besides that, a2i will conduct focus group discussion and key Informant Interview with the help from the field officials of the government ministries. Indicators are:

- Number of beneficiaries using mobile financial service/agent point to withdraw their cash
- Number of electronic accounts opened
- Number of banks are participating in the digital SSN disbursement process
- Number of agents engaged in the SSN cash disbursement process
- Average distance of cash out point from beneficiary residence

The analysis of the above indicator will help to design the upscaling stage. New product design and integration with this beneficiary account will be tried out to test different idea like minimize the cash demand and increase the use of digital cash, uptake of the uses of accounts for different digital financial service.

Conclusion

Electronic payment programs will not be effective and could even have adverse effects if it does not work well like complexity for withdrawing cash, complexity in using technology by the beneficiary, etc. The systems should be designed in a way so that they are not intimidating to poor and vulnerable recipients. It is expected that the proposed solution will create convenience of the beneficiaries and bring them in the formal financial inclusion umbrella which will improve their financial health in the long run.

Notes:

1. a2i is Governments of Bangladesh flagship innovation programme –under Ministry of Post, Telecom and Information and Communication Technology. a2i catalyzes citizen-friendly public service innovations, simplying government and bringing it closer to people through digitization, one-stop service centres and creative public-private partnerships at the last mile. Since its inception in 2007, a2i interventions impacted different sector like land, judiciary, agriculture, health, education and citizen service. a2i is working in the Digital Financial Service and Financial Inclusion space for the last 4 years and already established a good relationship with different policy & regulatory bodies like Cabinet Division, Bangladesh Bank, Finance Division, Election Commission (NID Wing), different government ministries and financial service providers.
2. Existing payment guidelines of different social safety net programs.
3. As a part of this course, a People-centered Policy Research was conducted on February 27, 2019. The author conducted interviews with Rumila Begum, Nidan Ali Sheikh, Khadija, Shulekha Khatun, Tbbat and Popy Akhter. The interviewees are G2P beneficiaries from different programs.

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Promoting Digitization of Transfer Payments for Social Protection Beneficiaries in Malawi

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Executive Summary

Ultra-poor households, who are beneficiaries of social protection programs, are facing irregular and unpredictable cash transfer payments for consumption support. Lack of information on the schedule of cash disbursements, compulsory cash-outs, and pre-determined pay-points pose a security risk and minimize potential for engagement in financial activities by the communities. It is proposed that digitization of transfer payments would improve timeliness, regularity, and dependability of transfers, laying foundations for potential financial inclusion through planned saving and expenditures at household level, which is crucial to the programs' impact on the lives of the poor.

Problem and Context

I grew up at an agricultural research station in the Capital City of Lilongwe in Malawi. When I was a little girl, I would go to the village during holidays to stay with my grandmother and learn about tradition and culture. She had a neighbor, an old woman named Chikondi, who lived with her four children and seven grandchildren. Despite her age, she had to find food, clothes, and medicine, among other items, to support her family. Her grandchildren would often eat with us, and at times, my grandmother would give me food to take to Chikondi's house. At that time, I never understood why.

Now, over two decades later, there are so many "Chikondis" in Malawi. Malawi's population still faces significant levels of poverty and vulnerability with widening gaps in equality and increasing marginalization with few sustainable livelihood options. Poverty and inequality remain high with the national poverty rate of 51.5% in an economy that is heavily dependent on agriculture and highly vulnerable to shocks (IHS4, 2016). A majority of the poor reside in rural areas with rural poverty at 59.5% compared to an urban poverty rate of 17.7% (IHS4, 2016). As such, many people need social protection programs to ensure food security at household level and meet their basic needs. Since 2012, with the approval of the first National Social Support Policy, Malawi has experienced growth in its social protection programmes particularly targeting rural areas to ensure provision of consumption support to people like Chikondi to meet their basic needs. The government has been implementing several social protection programs, key of which are the Social Cash Transfer Programme (SCTP), targeting ultra-poor labor-constrained households; and the Public Works Programme (PWP) targeting ultra-poor households with labor constraints. Other programs include a school meals program, savings and loans groups, and pro-poor microfinance institutions.

Malawi has a total population of 17.6 million people (almost 3.9 million households) (MPHC,2018). As of March 2019, the Social Cash Transfer Programme was benefiting 280,061 households (195,653 female-headed) and 1,180,171 beneficiary members (803,809 female) in the 28 districts (Malawi Government, 2019). Characteristics of heads of households currently benefiting from the program include those that are female-headed, child-headed, have disabilities and/or chronic illness, and/or the elderly. In the same period, Public Works Programme reached 451,000 households covering 1,871,578 beneficiaries, a majority (1,032,166) of which are females. By March 2019, the two major programmes (SCTP and PWP) were cumulatively reaching about 20% of the poorest households in Malawi. In line with the Guidelines, transfer payments are expected to be delivered monthly, manually, to beneficiary households at pre-determined pay-points at village level for the Social Cash Transfer Programme, and quarterly (four cycles per year) for the PWP. Furthermore, the government, through the National Strategy for Financial Inclusion (2015–2020) and the Microfinance Policy (2016–2020), recognizes that a more inclusive financial system is critical to the development of the country (Malawi Government: 2015, 2016). As such, village savings and loan groups (VSLGs), as well as pro-poor microfinance institutions, provide an opportunity for increased access to savings and credit for poor households to cope with shocks and improve food security at household level. It also promotes women's participation and investment in economic activities such as agriculture and small businesses through share outs, reducing the likelihood of selling assets as coping mechanisms to shock and generating income to enable them to become financially independent and break out of the poverty cycle (IPA, 2012; PCI 2016) (IPA, 2012).

Let us take a moment to reflect on the life of Chikondi. The current manual payment system requires that money is physically taken to beneficiaries by district officials and security personnel on an appointed day at each payment cycle. Following completion of disbursements at district level, officials manually reconcile the payments for submission to central level to trigger the next cycle of payments. The delays mean that Chikondi rarely knows when disbursements will take place. With no set schedule, it sometimes takes up to 3 months for her to receive transfers depending on completion of reconciliation procedures, which compromises the programs' core objective of consumption smoothing. Further, the pay points are far from the beneficiary households, at a village cluster (comprising a number of villages to enable the district officials to minimize cost of travelling and delivery across the districts) hence compromising regular collection of transfers when people are sick or unaware the disbursements are ready. Due to the high numbers of beneficiaries at the village cluster, beneficiaries and district officials spend more time collecting and disbursing the transfers, respectively. Additionally, there is a lack of involvement in complementary financial services for greater financial inclusion due to unavailability of optional cash out modalities. All the money is collected at once and may not be properly saved or invested due to uncertainties around the subsequent receipt of transfers.

Potential Solutions

Interviews were conducted in Gilime Village Cluster, Mchinji District in April 2019 to investigate the impact of current methods of cash transfers on the social protection beneficiaries in. Individual interviews were conducted using open ended questions for heads of eight beneficiary households, five of whom were women; four are from Social Cash Transfer and four from Public Works Programs. The respondents were aged between 38 and 82 years, supporting an average of six dependents per household. Half of the respondents were widowed. Mchinji was selected as the first district where e-payment was piloted in 2015 (Malawi Government, 2016).

The investigation revealed three keys insights which have informed the design of proposed solutions:

1. **Management of beneficiaries' perceptions on digitized financial services.** Although people are aware and willing to use digital financial services, there is need to manage misconceptions around digitization of transfers including trust, unreliability, and uncertainty of the payments. This can be addressed through training and awareness campaigns of the communities on what digitization is, and the benefits of digitizing their transfers, among others. Additional aspects should also be considered including safety and assurance, security, and human interactions.

2. **The power of social networks in communities.** Poverty does not necessarily imply lack of interest or knowledge of the importance of financial participation. All the respondents expressed willingness to participate in financial activities to support their families through participation in saving groups. However, only respondents from PWP were able to participate in VSLGs, citing lumpsum payouts as enabling them to save part of their transfers. The value of social networks in the communities should therefore be considered in the solutions package.
3. **Literacy and social learning are key**. Focus should not only be on education and financial literacy, but also on taking advantage of social networks in the communities as informal mechanisms of information sharing to ensure dissemination of correct information and address beneficiaries' perceptions regarding financial participation and innovations. Social networks can therefore also enhance learning through interactions including sharing of information and experiences, among others.

From the service providers' point of view, according to my investigations (PCP for Service Providers, 2019), there is need to take advantage of system interoperability across the various service providers, including banks and mobile service providers to maximize on complementarities and minimize the cost of delivering digital transfers to people in rural areas largely attributed to inadequate infrastructure. This should be accompanied by engagement of the service providers and intensive community sensitization. In this regard, proposed features in the solutions design are:

1. Beneficiaries receiving regular, reliable, convenient on-demand transfer payments on an agreed schedule that is known by the beneficiaries;
2. Pay points in close proximity to beneficiary households with flexible pay-outs modalities. This will ensure that households can access their money on demand;
3. Cost-effective and efficient delivery mechanism of transfer payouts used for social protection beneficiaries. This will, among others, reduce reconciliation procedures for district officials;
4. Complementary financial services and programmes available and used to support social support beneficiaries including savings and investment initiatives. Beneficiary households should be sensitized and linked to the complementary services to build their income base; and
5. A communication strategy developed to support the overall system implementation as well as stakeholder's sensitization and engagement.

Recommended Policy Solutions

Taking into account the key insights and proposed features of the solution, the first three proposed features discussed above can be grouped under a single solution bundle of digitization of transfer payments to beneficiaries of social support programs. This is in line with ongoing efforts by the government, including the Government of Malawi Payments Roadmap, which is a five-year plan to digitize government payments [government to persons (G2P)] in Malawi between 2017 and 2021; the National Strategy for Financial Inclusion (2015), which calls for increased participation of poor and vulnerable people in financial activities; and consolidation of the government's initiatives in piloting different modalities of e-payment in Malawi.

Opportunities exist for the digitization of cash transfers. Since Malawi has fewer financial service providers away from the main cities as reported by Finclusion (2018), the Natswitch provides an opportunity for interoperability across banks and with MNOs to reach out to the underserved and unserved populations. The National Registration and Identification System already successfully rolled out nationwide, according to UN (2018), would help ease know your customer (KYC) requirements for people in the rural areas. Additionally, the Unified Beneficiary Registry, a national database containing household information used in targeting for all social protection programs has the potential for linking beneficiaries to service providers in the district including agents and VSLAs.

With digitization, therefore, money will be transferred electronically directly into beneficiaries' accounts, enabling them to cash out when needed. This will ensure that beneficiaries receive regular, reliable and convenient on-demand payments. Taking advantage of the ongoing government initiatives around digitization, therefore, as well as the critical role of the Ministry of Finance, Economic Planning and Development in coordinating implementation of the National Social Support Programmes, this policy memo will focus on two main policy solutions:

1. **Guidelines for digitization of transfer payments to beneficiaries of social protection programs.** This will inform the government and its stakeholders on the best approach and ensure linkage of beneficiaries to complementary financial services building on the pilots, which have compelled scaling up rolling out of the initiative:

   The guidelines will therefore outline the best modalities for program implementers to ensure beneficiaries receive regular and convenient transfers in a timely manner and for service providers to ensure that adequate liquidity, agent network, and security are available for the beneficiaries at all times. Digitization will thus provide a gateway to greater financial inclusion where recipients can start to save, borrow, and transfer money more cheaply.

2. **A tailor-made communication strategy for digitizing transfer payments to beneficiaries of social protection programs.** Considering that digitization of transfer payments is a new initiative, communication is key, for service providers to ensure buy-in, and for beneficiaries to enhance knowledge and manage perceptions around risks and overcome psychological as well as physical barriers to financial participation. As such, adequate sensitization, training. and support should be provided to the beneficiaries including orientation, basic financial literacy, and training on the use of available products, development of operational manuals, and technical backstopping support to program structures throughout the implementation process. Further, with digitization, district officials through training will have more time with beneficiaries, to explain complementary activities in their areas, hence bringing additional benefits for greater financial inclusion of beneficiaries through savings and borrowing, hence creating a history for accessing credit. The target audience will be all stakeholders including beneficiaries, district officials as well as the community support structures.

Key Stakeholders and Implementation

Considering the critical role of the Ministry of Finance, Economic Planning and Development in coordinating implementation of social support programs, the Ministry will take a leading role in digitization of transfer payments for ownership and buy-in on the proposed policy.

Ministries of Gender, Children, Disability and Social Welfare; Local Government and Rural Development; and National Local Government Finance Committee and other key stakeholders including development partners, as key financiers, will also be engaged for buy-in and support. Since a government taskforce on e-payment has already been set up with representation from various stakeholders including Ministries and Development Partners to discuss modalities around e-payment system for social protection, this will be used as an entry point into the development of the proposed Guidelines as well as the communication strategy to be used in the roll-out of digitization of transfer payments. Service providers including the banking and mobile sector will also need to be engaged and incorporated in the Taskforce, as a starting point, to ensure that both supply and demand side constraints are addressed. This also provides an opportunity for market expansion by the service providers. District officials and beneficiaries will also be engaged beginning with t initial consultation phases and throughout the development process to ensure representation and increased ownership from the onset.

Conclusion

In a nutshell, digitization of transfer payments would improve timeliness, regularity, and dependability of transfers, laying foundations for potential financial inclusion through planned saving and expenditures at household level which is crucial to the programs' impact on the lives of the poor. It is worth noting that to successfully implement the proposed policy solutions, supply-side constraints also need to be addressed to ensure increased financial participation and sustainability of the process including availability of agents in remotest areas with adequate liquidity, proper regulation, and infrastructure provision.

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Financial Health

From Financial Inclusion to Financial Health: The Solution for Rural and Peri-Urban Poverty in Kenya

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Executive Summary

Kenya's financial systems are renowned globally for innovative financial services that have contributed to deepened financial access to formal financial services. However, while research show that access to financial services has had some positive impact in the lives of poor Kenyans, the anticipated impacts on reduction of poverty are yet to be fully realized. Low financial literacy, which is the ability of users to make independent decision about money, has been identified as one of the causes of low uptake and low usage of financial services by the rural and peri-urban (R&PU) population (Ajayi and Ross, 2014).

This memo proposes a consultative stakeholder coordination model to develop a National Consumer Financial Education Policy and Strategy (NCFEPS) through a taskforce comprising financial services regulators and providers of payments systems, investment, savings, credit, and insurance. To augment the NCFEPS a moral suasion by Capital Markets Authority (CMA) is proposed to direct savings and investment by the retail investors into pooled vehicles.

It is envisaged that once implemented, this will bring about the requisite financial education and then lead to an increase, and well informed, usage of the full range of financial services by households, which will then lead to enhanced financial health, and significantly have a positive impact in alleviating poverty. It will also reduce loses by retail investors while undertaking saving and investments.

Problem Statement and Context

Kenya has made significant progress in fostering financial inclusion; formal financial inclusion has risen to 82.9%, up from 26.7% in 2006, while complete exclusion (people without access to any formal financial services) has narrowed to 11.0% from 41.3% in 2006 (CBK, 2019). However, while research show that access to financial services has had some positive impact, as demonstrated by rural poverty reducing from 49.7 to 40.1% (Kenya National Bureau of Statistics, 2018), in the lives of poor Kenyans, the anticipated impacts on reduction of poverty are yet to be fully realized. In the R&PU areas, over 30% of the population, with access to at least one financial service, live below the poverty line (World Bank, 2019). Despite this modest level of inclusion, the R&PU communities struggle: this section of the population has to contend with issues of low income and lack of productive resources to ensure sustainable livelihoods, hunger and malnutrition, ill health, limited or lack of access to education and other basic services, increased morbidity and mortality from illness, homelessness and inadequate housing, unsafe environments, and social discrimination and exclusion.

Key Causes

The above issue of persistent poverty amid high rates of financial inclusion stem from a number of connected root causes. Low financial literacy among users and limited awareness creation via financial education programs by regulators and providers of financial services leads to limited use of available financial services (BFA, 2015). In turn, sub-optimal use leads to less incentive for companies to offer more innovative services to certain segments like rural populations and those living below the poverty line (Cheronoh and van de Walle, 2018). This segment of R&PU households lack "appropriate financial instruments that could help them manage their resources better as a way to accelerate their lives out of poverty" (Collins et al., 2009) Moreover the national savings are low relative to Sub-Sahara Africa, estimated to be below 15 percent of gross domestic product (GDP) which when combined with inability of the people to save, insure them against shocks, and undertake investment entrenches poverty (Kahangi and Muturi, 2013; Fengler, 2013; IMF, 2018). This becomes all the more critical when its considered that R&PU use financial services, as retail savers and investors, do so directly and individually, with little or no information to inform their portfolios, hence often encountering losses.

Priority Solutions Bundle

A multiplicity of solutions are proposed with potential benefits to various stakeholders. This policy memo however prioritizes two interventions namely:

1. Increased financial literacy for the R&PU population to enhance usage of financial products and translate the good numbers of financial inclusion into better financial health
2. Empowerment of residents of R&PU population for enhancement of saving and investment culture, for increased income and general wellbeing, through pooled vehicles like collective investment schemes (unit trusts), chamas (self-help groups), SACCOs, and pension plans, among others

From Solutions to Policy

Development and implementation of a National Financial Consumer Education Policy and Strategy

Currently each of the financial sector actors have some initiatives on financial education, but in the absence of a NCFEPS, these initiatives are patchy, fragmented, disjointed, uncoordinated and lack strategic focus. The development of a NCFEPS will help to provide focus, momentum and help to avoid unplanned gaps and unnecessary duplication which adversely affect the impact of these initiatives. There is therefore a clear merit for the development of a NCFEPS.

It is proposed that the Cabinet Secretary for National Treasury establishes a taskforce to develop a NCFEPS. The taskforce will be mandated to undertake diagnostic studies, data collection, stakeholder engagement, and develop the NCFEPS. The NCFEPS will have an inbuilt implementation plan specifying the role of each stakeholder as well as a monitoring and evaluation (M&E) framework. The membership of the task force is proposed to a clearly defined structure involving regulators and financial service providers and other stakeholders like researchers and the academia.

Moral suasion by capital markets Authority (CMA) to direct all savings and investment by the retail investors to pooled vehicles

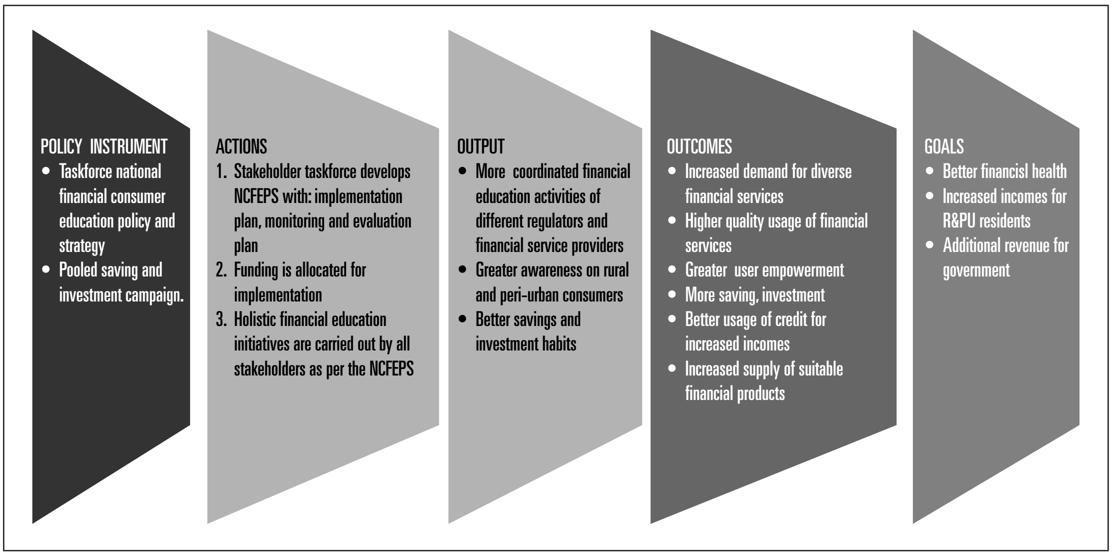
To augment NCFEPS, therefore, it is proposed that CMA uses its influence as the regulator of the capital markets industry in Kenya, and as a key player within the Kenyan Joint Financial Sector Regulators Forum to establishes a committee of industry players, on the supply side, to conduct a campaign to re-tool investment by retail investors to pooled vehicles like collective investment schemes (unit trusts), chamas (self-help groups), SACCOs, and pension plans among others.

This approach will ensure that retail savings and investments are done in a manner that will minimize losses due to poor investment habits. This will especially cushion retail individuals who often save and invest directly, with little or no information to inform their portfolios, and often end up losing money when the market goes against them and bounce off the market by guarantee them professional advice and diversification that will come with this approach.

Theory of Change

The below theory of change is based on the assumption that, the national taskforce will involve multiple stakeholders, be guided by an implementation plan, funding plan, monitoring and implementation plan. Further it is assumed that there will be deliberate focus on R&PU population on sensitization and product development.

Figure 1.



Stakeholders

Stakeholder engagement drives effectiveness, credibility, synergy, ownership, accountability and buy-in of key actors toward smooth policy implementation and monitoring. Thus it will be imperative to engage the following stakeholders:

1. *Financial sector regulators* (Capital Markets Authority [CMA], Central Bank of Kenya [CBK], SACCO Societies Regulatory Authority [SASRA], Retirement Benefits Authority [RBA], and the Insurance Regulatory Authority [IRA]), engaged through the financial sector regulators forum.
2. *The National Treasury and Planning Ministry,* engaged through the Capital Markets Master Plan (CMMP) Steering Committee
3. *Internal stakeholders at CMA* (The staff and the Board), engaged through senior management especially the Chief executive. Internal stakeholders at other regulators will be accessed in a similar way by their corresponding senior leadership.
4. *The financial market practitioners* (Banks, MFIs, deposit-taking cooperatives, capital markets service providers (investment banks stockbrokers, fund managers), pensions schemes, and insurance providers) all engaged through a forum of capital markets providers.
5. *Mass media and social media entities* will be selected on the basis of reach and effectiveness for different target groups.
6. *Consumers will be engaged for initial views by the NCFEPS taskforce through surveys and focus groups and later during the actual implementation of the two proposals in impacting knowledge*

Policy Implementation

CMA being the initiator of this memo will seek internal validation within the institution and with key industry thought leaders in financial sector before sharing the memo with the Cabinet Secretary (CS) National Treasury and effecting the establishment of the committee. The CS, being the head of the parent ministry for the financial sector, will then appoint the multi-sectoral stakeholder taskforce to develop and implement the National Consumer Financial Education Policy and Strategy. On the other hand CMA as the regulator of the capital markets industry in Kenya, to establish a committee of industry players, to conduct a campaign to re-tool all investment by retail investors to pooled vehicles. This policy and strategy will develop a holistic approach by merging the existing institutional fragmented strategies. Detailed steps will include:

1. Share with colleagues and meet with the Chief Executive, CMA	(1 month)
2. Discussion with the technical committee of CMA	(2–3 months)
3. Share memo with the CMMP Working Group 1	(2–3 months)
4. Share memo with CEO Joint Financial Sector Regulators (JFSR)	(3–4 months)
5. Engage market players and stakeholders	(6 months)
6. Form the industry committee on committee of industry players to conduct a campaign to re-tool all investment by retail investors to pooled vehicles	(6 months)
7. Share memo with Cabinet Secretary, National Treasury and Planning	(6–15 months)
8. Development of (NCFEPS)	(2 years)
9. Funding Obtained for Piloting of NCFEPS and supporting industry campaigns	(2 years)
10. Implementation Begins	(2 years)
11. Sensitization of Stakeholders	(2 years)
12. Monitoring and Evaluation	(Continuous)

Policy Evaluation: Key Indicators of Change

Evaluation of the impact of the two interventions will include indicators such as knowledge index on awareness of financial services, rates and form of personal and household savings and investment, average account balances and extent of planning for retirement. Consumer feedback through surveys on the effect of the policy will also comprise part of the evaluation.

Conclusion

This policy solution is based on the principle that a coordinated financial education of different regulators and financial service providers and greater awareness under NCFEPS will help to provide focus, momentum and help to avoid unplanned gaps, unnecessary duplication, fragmented, disjointed and uncoordinated initiatives which will bring about the requisite financial education and then lead to an increase in the usage of the full range of financial services by households coupled with protection of users, since as the saying goes "an informed user is a protected user." This will then lead to enhanced financial health and significantly have a positive impact in alleviating poverty especially for R&PU population in Kenya. The gains of NCFEPS are further proposed to be augmented with the pooled saving and investment campaign.

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Agricultural Credit

Improving the Livelihood of Rural and Peri-Urban Farmers in Cameroon through Access to Credit

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Executive Summary

Considering the difficulties encountered by Cameroonian peri-urban and rural farmers in getting loans from banking institutions, the government has put in place many support programs through the Ministries of Agriculture, Economy and Finance to enable peri-urban and rural farmers to access financial resources (credit) geared toward enhancing their activities and sustaining their livelihood. Taking into consideration the role played by microfinance institutions (MFIs) in driving financial inclusion (i.e., the number of their branches found in rural areas), most of these programs are retailed through MFIs. Unfortunately, these farmers cannot access the funds allocated within these programs, namely due to poor selection process by Program Support Coordinators/MFI. This policy memo seeks to proffer a regulatory enabler to buttress the selection process, enhance the effectiveness of these programs and increase the number of beneficiaries.

Context

Agriculture is a pivotal sector in Cameroon's economy, accounting for more than 70% of the gross domestic product (GDP). Actually, 66% of households are involved in agriculture or farming and, with 55% of those found in rural areas. Most of these farmers rely on agriculture to generate income so as to meet with their basic needs; 75% both consume and sell their produce. But the development of their activities is hampered by lack of credit, leading them to continue to engage in low-return or subsistence-oriented production practices that do not have high value creation.

Causes

The FinScope survey of June 2018 (FSD Uganda, 2018) revealed that 78% of farmers, especially those living in rural and peri-urban areas, are financially excluded, and 44% of these farmers consider lack of funding as a major challenge.

This inability to access financial services, especially credit, is predicated upon these five causes:

1. Lack of collateral: Due to risk aversion, many banks and even microfinance institutions have the tendency to lend only to farmers who have collateral, whereas only 12% 1of these farmers are in possession of title deeds and very few own high net-worth assets, making formal collateral limited, and leading to denial of credit or very high interest rates.
2. High costs: Considering the risky nature of agriculture, namely climatic hazards, many financial institutions apply very high interest rates, except in the cases of loans granted to agriculture cooperatives or farmers selling directly to government agencies.
3. Absence of diversified or tailored financial services: Banking and microfinance institutions do not always adapt their services to the needs of farmers, except in very few cases where the government is implementing a project or where commitments were taken to support the financing institutions. Thus agricultural input loans are often given by agro-input retailers through deferred payments or by friends and family. Only 2% of these farmers use formal

credit—12% from informal, 10% from friends and family, and 92% are excluded from insurance services. Only 6% make use of more than one formal financial product, which may attest to the fact that the financial depth is low or that the value proposition is not commensurate with the demands of farmers. There are rare cases of integrated financial services bridging microinsurance, loans, and training.

Futhermore, some farmers have misallocated or misappropriated funds granted for agriculture (to buy agricultural inputs), using them for something else than what it was meant for (consumption). Thus, it is important that the financing approach be asset-centered as can be the case of Islamic Finance. This type of finance renders misallocation or misappropriation of funds by farmers impossible while facilitating the purchase of agricultural inputs (close to leasing). Also, some farmers (a small number) do not go in for conventional loans because of religious considerations ("riba" is the Arabic term for the prohibition of interest on money).

Low access and use of credit lines from support programs retailed through MFIs: Firstly, the selection process carried out by support program coordinators (SPCs for MFIs) and MFI (for farmers) is not always done based on well-tested schemes and on risk mitigation approach. Though the SPCs enacted their management rules, they were not 'banked or prudent' based. This has led to adverse selection up front of MFIs and eligible farmers (same MFI and farmers even when they did not meet the requirements, selection based on ethnic considerations, etc). In many cases, these credit lines were allocated by SPC to MFIs with no risk management and monitoring policy or in compliance with prudential standards. Thus, 14% of selected MFI did not meet basic prudential requirements, leading to very few loans granted to farmers and a lot of "insider" lending.

- Secondly, there is lack of coordination between the Technical Ministry (which created the Support Program Ministry in charge of agriculture, for example) and the Ministry of Finance, causing MFIs which were undergoing liquidation to be allocated credit lines (asymmetry of information).
- Thirdly, Farmers are not always informed on the existence or the modus operandi of these support programs. Some consider them as 'political rewards' or the fulfilment of campaigns promises.
- Fourthly, the ex post evaluations were not carried out by SPC on bank-based requirements. This led to low repayment rates, which stood averagely at 40% coupled with the poor follow up. Consequently, the revolving clause could not be used to enable additional funding opportunities for the farmers.

4. Low financial literacy: farmers are not aware of banking procedures and the understanding of variables like interest rate, repayment plans, etc. or insurance-related issues, only 8% of farmer households are aware of agricultural risk and very few possess agriculture insurance.

Possible Solutions

The proposed solutions concern the supply and demand sides.

1. **The creation of a digital software for the development of interoperable financial services (onboarding of farmers, financial services providers, and e-insurance facilities).** This will help in fostering the provision of diversified financial services that meet the needs of farmers. This will be done within the working group put in place by the Minister of Finance to evaluate the impact of digital finance including the Central bank, the Ministries of Telecommunication and Agriculture.
2. **The drafting of a regulatory framework on Islamic finance**. On the January 2, 2019, the Prime Minister created a support program dedicated to the development of Islamic finance,

responsible for the drafting of the regulation. If drafted, this the regulation will encourage the development partners such as the Islamic Development Bank to increase its financing schemes in Cameroon and the banking and Microfinance institutions to have 'Islamic windows,' thereby multiplying delivery channels. As an asset-based finance (it is not speculative and does not allow the setting of "riba." It is based on tangible asset), it will help to mitigate the risk of misallocation of loans by farmers. As "profit-sharing and loss-bearing" finance, it will help in mitigating against weather shocks.

3. **The drafting of a regulation to enhance the selection process as well as the evaluation and supervision of MFIs receiving these credit lines from SPC.** If implemented, this regulation will reduce discriminatory selection of farmers and microfinance institutions, bring more discipline in the management of these credit lines, lay down additional prudential standards, mitigate free riding risk, and establish sanctions.
4. **The drafting of a national program for financial education including with a component dedicated to farmers within the national strategy for inclusive finance in partnership with Ministry of Agriculture and Technical Project Coordinators.**

The Proposed Policy

Policy A depends so much on the Ministry of Posts and Telecommunication and will take a longer time to mature. It may need amendments on the law on the provision of digital financial services.

Policy B is ongoing and the main agenda is to advance Islamic finance, agricultural finance being just one of the components.

Policy C is most feasible for the Ministry of Finance; it addresses key issues relating to its competences: MFI oversight and fiscal policy (optimal allocation and management of public funds, external public debt management, and public budget deficit reduction). Thus it will have an impact both on the microfinance sector (additional resources) and budget, instilling more discipline in public resource management, allocated to the agriculture sector.

Policy D will also take a longer time given that it must be validated at the steering Committee of the National Strategy for inclusive finance before anything begins (studies, funding schemes, strategic tools, etc.).

The Policy solution I am proposing is C, drafting a regulation to enhance the selection process of farmers as well as the evaluation and supervision of MFIs receiving these credit lines.

The selection phase by the SPC both for the farmers and the MFI shall be done prior to the consultation of a blacklist scheme put in place in the ministry of Finance (defaults limits, guarantees) or the guidelines for politically exposed persons. Regulatory provisions on prohibitions and insider lending shall be strictly observed, and provisions thereto provided. For the MFIs, the prior opinion of the Ministry of Finance shall be mandatory, and datelines given thereto. Regulatory provisions on institutions in difficulty shall be taken into consideration when selecting a MFI as well as the prudential standards (solvency, liquidity, corporate governance, risk management, and monitoring).

For evaluation, emphasis shall be on corporate governance and portfolio evaluation, and reporting requirements stepped up (prudential reporting whereby the MFI forwards a report on the assessment carried out, and which can lead to the putting in place of prudential standards above the required regulatory ones). Allocation of funds to MFI by the Support Programs Coordinators pegged to performance (upon results obtained regarding the portfolio, new farmers and training given) shall become mandatory. Resources will be allocated for that in the agreement (in the form of a subsidy partially paid ex post). SPC will have less discretionary powers in allocating these credit lines, and funds will be allocated to MFI for farmers'empowerment. Actually, only 8% of farmer households have received formal training or technical assistance in agriculture techniques (FSD Uganda, 2018).

As concerns supervision, an additional buffer shall be required a posteriori for MFIs receiving credit lines beyond a threshold (risk coverage ratio) or following the evaluation carried out. Thus, there shall be specific prudential requirements for MFIs receiving credit lines, adjusting them to the complexity of the products, the zone of intervention, the existence of well-tested supply chains, etc.) or governance-related caution. Specific sanctions (pecuniary and administrative) shall be provided for against MFIs and unit coordinators which shall fail to comply.

Key Stakeholders and Implementation

Implementation of this policy will require close collaboration with the main stakeholders which are the Ministry of Finance, the Ministry of the Economy, the Ministry of Agriculture, project unit coordinators, the national association of microfinance institutions, and the Autonomous Sinking Fund (a parastatal under the Ministry of Finance) and farmers associations. A working group will be put in place by the Ministry of Finance and an explanatory note will be written by the Department of Microfinance to beef up the understanding of the various stakeholders.

Considering the various sources of funding (conventional or from islamic finance), there shall be a prior identification of these resources (characteristics, peculiarities) an in-depth analysis of various partnership agreements and a benchmark with other jurisdictions.

Conclusion

In conclusion, this policy will serve as a tool for unit coordinators whenever they are implementing a project geared toward financing agriculture. If implemented, it will enable government stakeholders to efficiently allocate these resources, trigger revolving clauses within partnership agreements, and enhance loan repayment of farmers living in peri-urban and rural areas.

Empowering the Farmers of Punjab with Digitized Agriculture Credit to Increase Profitability

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Executive Summary

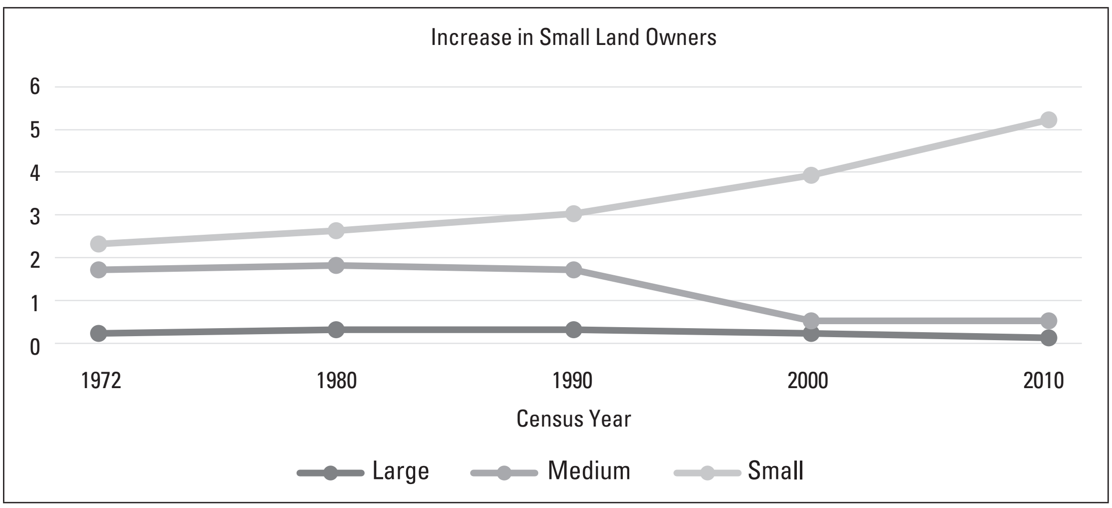
More than 37% of the rural population in Pakistan availed credit last year but only 2.6% availed credit from the formal sector (GOP, 2016). High cost of credit from the informal sector and cumbersome farmer onboarding processes to access cheaper credit from the formal sector results in farmers' reliance on off-farm income generation while losing interest in crop cultivation, leading to a decline of agriculture share in the national GDP (Agriculture Department, 2019). Digitization of the farmers' onboarding processes by the formal financial sector will drive low cost, efficient, and frequent use of agriculture credit to increase farmers' profitability (USAID, 2015).

Introduction

In Pakistan, access to formal financial sector has dismal numbers as compared to the average in Asia with Pakistan having 14% of the population in the formal financial sector while Bangladesh stands at 32%, India at 48%, and Sri Lanka at 59% (Brohi, 2010). Reasons for these figures are multifold; formal financial sector is not motivated to serve the small-scale subsistence farmer due to low profitability concerns whereas the processes of agriculture credit borrowing for the farmers are cumbersome and bureaucratic, thus de-incentivizing them from taking agriculture credit.

As depicted in Figure 1, Pakistan has experienced an increase in small subsistence land owners post the year 1990. The main reason for the increasing small lands could be attributed to traditional distribution of lands among family successors (Salam, 2004).

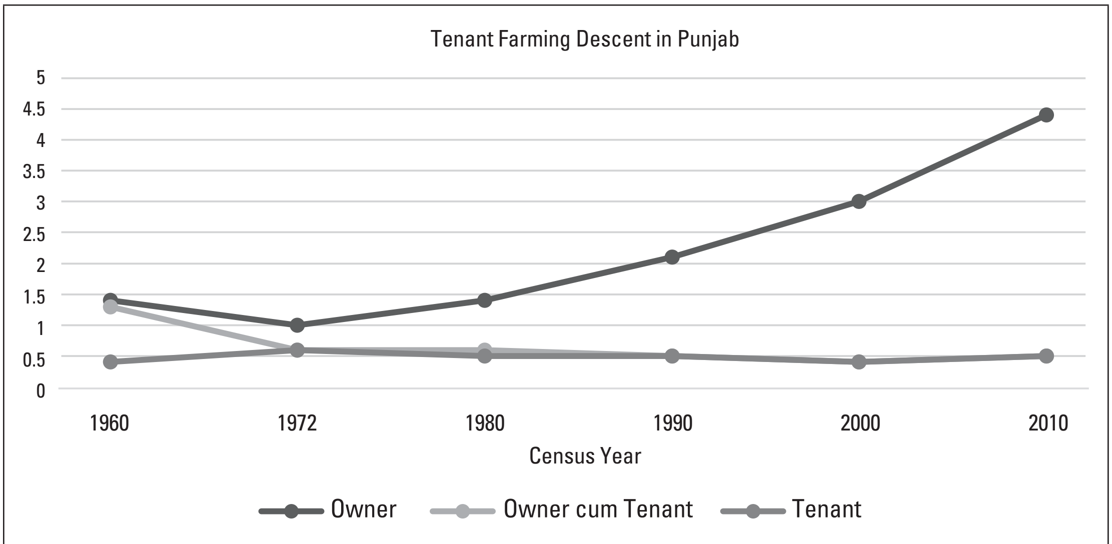
Figure 1. Trend in Number of Farms by Tenure (in millions) from 1972 to 2010 (Hassan, 2016).[1]



This increase in small scale subsistence land owners has a direct impact on the need of agriculture credit financing of these farmers. However, due to the reasons mentioned above, formal financial sector has not been able to serve these farmers. Due to this reason, The Government of Punjab introduced E-Credits Scheme. The scheme aims to revolutionize agricultural practices in the province through digital and financial inclusion of the farmers, the Government of Punjab has taken initiative to increase the productivity of farmers by increasing their access to financial services to meet their monetary needs. This scheme is also an attempt to incentivize the private financial sector to actively participate in agriculture lending to small scale farmers by ensuing mark-up subsidy.

More than 70% of the agriculture credit disbursed in the scheme is offered to the landless and tenant farmers for timely purchase of agriculture inputs during the Rabi and Kharif crops (Shafique, 2019). As reflected in Figure 3, most of the agriculture credit under the E-credit Scheme is disbursed to the small and marginalized landless farmers and landowner farmers below the landholding of 2.5 acres (Guiling, 2009).

Figure 2. Trend in Number of Farms by Tenure (in millions) from 1960 to 2010 (GOP, 2016).



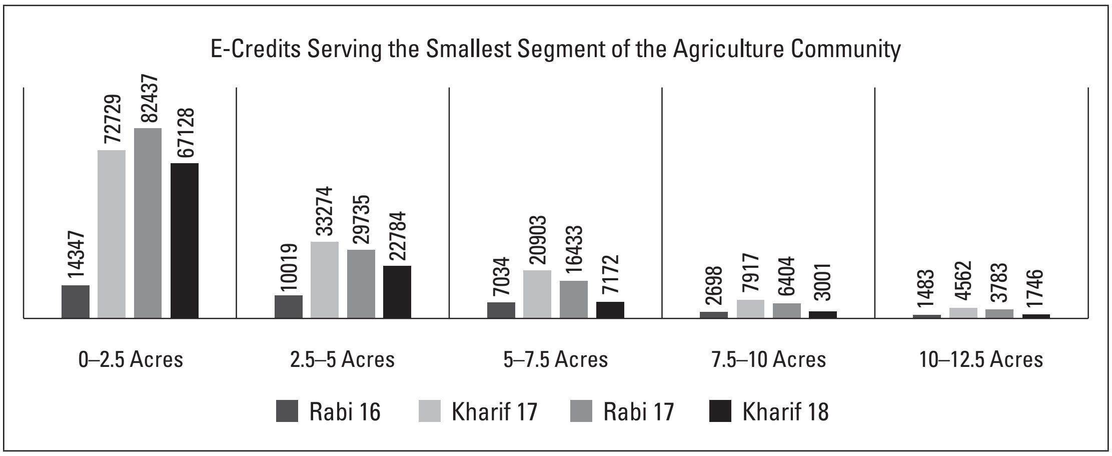
ICT-Based Farmers Registration

Currently, the tenant and landowner farmers are registered through a manual process initiating at the arazi record Centers[2] and gradually growing private sector footprint (Nenova, 2009). As high as sixteen trips is what it takes for an average small landholding farmer to avail agriculture credit for the formal financial sector (Khan, 2013). Instead the farmers seem more comfortable accessing the arthi[3] for agriculture credit as the loan is obtained by just visiting once (Roodman, 2011).

An increased number of small-scale farmers are still accessing credit from the informal segment because of the following reasons:

- Arazi Centers are often located at a distance almost 50 km away from villages. Farmers have to travel great distances for registration.
- Arazi Centers don't have the capacity to entertain the influx of farmers registering for E-Credit.
- PLRA staff is not careful with data entry. They often enter the wrong CNIC or mobile number which results in a long reconciliation and error correction process.
- At the start of the program, farmers who had come for E-Credit were prioritized at the Arazi Centers. This is no longer the case and farmers have to wait in regular queues. The overall registration load of e-Credit has significantly reduced now.

Figure 3. Number of Farmers per Acre in E-Credit Scheme



The solution to the problem of reduced number of registrations can come in the form of developing a new farmer registration module with the help of technology partner, Punjab Information Technology Board (PITB) whereby, in addition to increasing the number of registrations, this module will also provide convenience to the farmer by reducing his/her cumbersome visits to Arazi Record Centers for registration into the scheme.

Stakeholders

There are multiple stakeholders in the scheme. On the supply side, there is the Department of Agriculture, Planning and Evaluation Cell, State Bank of Pakistan, PITB, Punjab Land Record Authority (PLRA), and partnering financial institutions (PFIs). PLRA is a critical partner in the E-Credits Scheme as it not only maintains the database of land records of Punjab which are digitally mutated by partnering financial institutions for the disbursement of loans but also looks after the operational aspect of farmer registrations at Arazi Record Centers. PITB, on the other hand, is involved in the development of Agri Web Loan Portal which serves as a hub for farmer database under E-Credits Scheme. However, on the demand side, major stakeholder includes farmers who are the recipient of the scheme and are searching for hassle free low-cost options to finance in the market.

Development and Implementation Mechanism

To develop this module, detailed requirements will be shared with PITB by Department of Agriculture. In addition to that, PLRA will also share the screenshots of the data fields that it currently collects from the farmers to register a farmer at Arazi Record Center. Following fields will become part of the module:

- Khewat Details (total area, approved area)
- Know your customer (KYC) details as prescribed by State Bank of Pakistan (name, father's name, CNIC, date of birth, address, caste)
- Land details (district, tehsil, mauza, UC)
- Documents upload (CNIC copy, picture, Kashtkaar certificate)

A Kashtkaar certificate denotes to a contractual document on the stamp paper that the owner signs with the tenant. This document contains land area details and owner details. This is the most important document to validate that the farmer is indeed a tenant farmer and is eligible for the scheme. PITB can than incorporate all the requirements given by the Department of Agriculture and provided the login credentials to all partners peruse the farmer registration.

Overall, effort will be made to reduce the problems of data entry as much as possible by restricting the fields to numerical entry, alphabetical entry or both. After development, a training module for partnering financial institution will be developed to ease their process of using the form. The training module will contain the following guidelines:

- Pictorial description of entering the information,
- importance of entering the correct information, and
- things to take care of when uploading farmer documents.

Conclusion

Digital farmer registration module will enable PFIs to register the farmers at the convenience of their branch offices which has a five times more deeper penetration in the rural areas (Zineldin, 1996) than the Arazi Centers using the Agri-Web Loan Portal. It is worthy to note that branch offices of PFIs are located in close proximity to each other and have increased coverage in terms of area. This module will overcome the problems of farmer registration in the scheme by reducing the step of registration. It is important to note that PFIs will be registering the farmers in their branch offices as opposed to farmers registering themselves through digital means. Hassle-free registration coupled with mark-up subsidy will incentivize the farmer to move toward borrowing of agriculture credit from formal financial sector due to low cost of credit. PFIs on one hand are being incentivized to lend to the farmer due to mark-up subsidy being offered by the government, whereas on the other hand, a registration module will take the load off the Arazi Record Centers. In summation, this solution is addressing both supply and demand side gaps to scale up the scheme, supply side being the PFIs and government and demand side being the farmers.

Notes

1. IFAD (International Fund for Agricultural Development), (2011). Rural poverty report 2010.
2. Arazi Record Centers are service centers of Punjab Land Record Authority that, among other things, register farmers under the E-Credits Scheme.
3. Arthi is the loan shark providing hassle free and timely credit in rural areas at high cost.

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Improving Livelihoods of Smallholder Farmers through Access to Finance

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Executive Summary

In Zimbabwe, 76% of smallholder farmers live below the poverty line. The key hindrance to sustainable farming is access to finance to fully utilize land and generate income. The establishment of a collateral registry in Zimbabwe and deepening of the credit registry database to include credit records of smallholder farmers is expected to facilitate access to credit by smallholder farmers and improve their income generation capacity.

Problem Statement

Zimbabwe is endowed with 33 million hectares of arable land. The Zimbabwe Central Statistics Office census (2012), estimated that 68% of the population resides in rural Zimbabwe deriving their livelihood from agriculture. Agriculture is considered the backbone of Zimbabwe's economy, contributing 12.5% GDP in 2017. The Food and Agricultural Organisation (FAO, 2003) estimated that agriculture provided employment to 60% of Zimbabwe's population, 60% of inputs for manufacturing and contributed 40% to export earnings.

The government's 2002 land redistribution program saw 21 million hectares of land redistributed among 7.1 million smallholder farmers, including 48-year-old Peter Mutasa,[1] who were previously settled in communal areas with low soil fertility and yields. The program sought to correct the imbalance in land distribution through equitable distribution of fertile land. Given its role in food security and employment to the majority of Zimbabweans, agriculture is a key determinant of rural livelihood and poverty resilience.

FAO (2019), however, reported that 10 years after the land reform program, 76% of rural households lived below the poverty line. Despite having access to land, smallholder farmers like Peter Mutasa continue to struggle with poverty, in contrast to the objective of the land redistribution programme to promote sustainable livelihoods. Peter is disillusioned about his future as a farmer. His children did not proceed to high school as there was just not enough money. His ailing mother died as he failed to pay for treatment. His hope lies in accessing finance to fully utilize the land to sustain his family.

Key Causes

The following causes of income insecurity among smallholder farmers were identified:

Expensive Inputs:

Smallholder farmers have limited financial capacity to purchase quality inputs such as seed, fertilizers, and equipment to fully utilize the land. According to Opportunity International (2014), in Africa smallholder farmers operate at just 40% of their potential capacity. Similarly, Scoones et al. (2011), noted that in 2009, smallholder farmers in Masvingo province of Zimbabwe utilized below 40% of total land capacity.

Lack of Access to Loans:

Farmers interviewed[2] also highlighted financial exclusion challenges. IFC and GPFI (2000) reported that while agriculture in Africa employs 55% of the population, only 1% of bank lending goes to the sector. A 2014 Finscope Survey (Finscope, 2014) noted that only 23% of the rural Zimbabwean population is formally banked, with exclusion being attributed to inaccessible service points and failure to meet requirements, particularly collateral.

Collateral Requirements:

Formal lenders require immovable collateral such as land and buildings with title deeds, while smallholder farmers hold 99-year lease agreements, which are not transferable and can therefore not be used as collateral. Lenders are also reluctant to accept movable collateral in the absence of a robust legal framework and a transparent mechanism to register and publish security interests. These findings are in line with a 2013 World Bank study (World Bank, 2013), which noted that while most small and medium-sized enterprises (SMEs) hold up to 80% of their assets as movable assets, most lending institutions prefer immovable collateral.

Thin Credit Files:

Smallholder farmers have limited credit history as the Central Bank Credit Registry does not include data from microfinance institutions (MFIs) providing finance to smallholder farmers.

Trust and Awareness:

Smallholder farmers are reluctant to use formal financial services due to limited understanding of the products and, negative past experiences with formal financial products, including excessive charges and asset repossessions.

Potential Solutions

The following are proposed solutions for the challenges faced by smallholder farmers:

1. Central Bank to establish a Collateral Registry to facilitate the use of movable assets as collateral. The Central Bank would also deepen the credit registry database by including data from MFIs and credit co-operatives serving smallholder farmers, thereby demonstrating creditworthiness to lenders.
2. Central Bank to implement a financial literacy programme targeting smallholder farmers to improve understanding of financial products and encourage uptake and performance.
3. Government provides capacity building to rural smallholder farmers to improve yields and provide access to markets.

Priority Solutions Bundle

While numerous solutions are available, the chosen priority solution is the establishment of a Collateral Registry and deepening of the Credit Registry database by the Central Bank to facilitate access to formal financial products. The Central Bank has direct authority over the chosen solution and is therefore able to effectively implement and influence stakeholders. Capacity building initiatives to build capacity of smallholder farmers are currently being developed by line ministries.

From Solutions to Policy

A paper by De la Campa (2011) highlights the role of collateral registries in supporting long-term investments in agricultural production particularly where land tenure rights are not secure. IFC (World Bank, 2013) also noted the role of collateral registries in bridging the gap between collateral requirements of banks and the type that most SMEs have to offer. Based on the results of a study of seven developing countries, Love et al. (2016) noted that collateral registries increased access to bank finance in general by 8%.

Further, a USAID (2013) study emphasized the need for a strong legal and institutional environment to reduce credit risk exposure for lenders and reduce financing costs for agricultural enterprises. The paper notes that while credit reporting is used to mitigate risk in lending, rural borrowers are widely overlooked by reporting systems. These observations support the chosen policy solution to establish a collateral registry and deepen the Credit Registry database to incorporate data on smallholder farmers.

Stakeholders

The following key stakeholders were identified:

1. Bankers Association of Zimbabwe and Zimbabwe Association of Microfinance Association
2. Other financial sector regulators (Insurance and Pensions Commission and Securities Exchange Commission)
3. Government ministries including Finance, SMEs, lands and agriculture, etc.
4. Farmer organizations and agricultural colleges to raise awareness among intended beneficiaries through workshops

Engagement with key stakeholders will be multilateral or bilateral. For multilateral engagement, the Central Bank will form a Technical working group incorporating senior representatives of stakeholder organizations. The Group will meet periodically to draft and review regulations for the Collateral Registry. The Group will also be instrumental in coming up with system specifications.

Government Ministers and other financial sector regulators will be engaged bilaterally to consider specific issues e.g. capital charges on movable assets and transitional arrangements for existing security interests.

Publicity programs involving technical working group members (print, electronic, social media and workshops) will be implemented to raise awareness among smallholder farmers and stakeholders.

Key Indicators of Change

The Reserve Bank will use the following indicators to track the success of the reforms in enhancing smallholder access to finance and sustainable income generation:

1. Number of loans to smallholder farmers secured by movable assets
2. Proportion of non-performing loans to smallholder farmers secured by movable assets
3. Proportion of smallholder farmers who are able to sustain themselves from agricultural production

Statistics will be gathered periodically from the Credit and Collateral registries and reported to the Working Group and other stakeholders. The Central Bank will engage the IFC, as technical partners in the project to carry out an impact study on the livelihoods of smallholder farmers.

Conclusion

The enhancement of the credit environment in Zimbabwe through the measures detailed in this policy memo are expected to have a positive impact on overall access to finance by smallholder farmers. Ultimately the initiative is expected to result in improved income-generating capacity and therefore sustainable livelihoods and poverty resilience in the long-run.

Notes

1. Interview with Peter Mutasa, March 3, 2019, Goromonzi District Mashonaland East Province, Zimbabwe.
2. People-centred research policy by Nonhlanhla Chiromo, interviews conducted February and March 2019.

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Microenterprise Finance

Increasing Access to Affordable, High Quality, and Suitable Financing for Microenterprises in Costa Rica

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Executive Summary

Microenterprises (MEs) in Costa Rica have difficulties to invest in their business for their sustainability, because they cannot obtain the loans they need to buy products or services to grow or at least to continue with the business.

This problem is the result of negative perceptions on the supply and demand sides, such as microenterprises are a non-profitable sector,[1] or formal financial institutions[2] don't want to work with this sector.[3]

In order to address this challenge, the recommended policy solution is to create a working group with the main stakeholders from the supply and demand sides [representatives from the Government, Central Bank, Formal Financial Institutions, and micro, small, and medium enterprises (MSMEs) association] to research about the needs, the business, suitable credit options for microenterprises, and methods to inform this sector how to access, obtain, and use credit products for their sustainability.

The above with the purpose of establishing solutions and commitments among participants to increase access to affordable, high quality, and suitable financing for microenterprises, and inform them about the availability and use of credit options considering sound financial practices.

The Problem: Microenterprises and Their Difficulties to Invest in Their Business for Their Sustainability

Microenterprises are small businesses that develop activities from street sales of food, handicrafts, to professional services, agriculture, and more, and usually they aren't registered as companies with a legal identity, or don't have formal accounting, and in some cases, the owner doesn't have a fixed wage for working in the enterprise, or shares the incomes and expenses of the household with the enterprise [National Institute of Statistics and Censuses of Costa Rica (INEC), 2019)].

Financing, training, products diversity, and hiring staff are the main challenges that hold back the growth of the microenterprises in the country. In fact, more than 56,000 microenterprises in 2018 closed their business due to one of the causes above mentioned (INEC, 2019).

In accordance with the 2018 figures, there are 361,404 microenterprises in the country, showing a decrease of 13.5% with respect to 2017, mainly due to difficulties in obtaining financing to invest in their business to improve sales (buy raw material, machinery, hiring staff, training, advertising, distribution channels) (INEC, 2019).

Access to formal financing is considered by 40.6% of microenterprises as the main need to subsist in the business or grow, followed by the access to training (25.4%), products diversity (19.7%) and personnel hiring (11.9%), activities that require monetary investment for which financing is needed (INEC, 2019).

The decrease in the number of microenterprises also represented a drop in employment, because these enterprises generated 600,444 jobs in 2018 (28%[4] of total employment in 2018), 21% less than in 2017 (INEC, 2019).

Their characteristics of informality like the non-use of sale receipts (63.7% of microenterprises in 2018), lack of accounting records (79.3% of MEs in 2018), no legal identity (94.2% of MEs in 2018), and no fixed wage for workers (95.6% of MEs in 2018), prevent most MEs from accessing formal financing and other government benefits according to INEC.

In addition, considering the results of international indexes[5] related to the existing conditions in Costa Rica for entrepreneurship, we have that despite some positive aspects, there are weakness or improvement opportunities in different sectors such as: difficulties in obtaining and accessing financing.

According to these indexes, Costa Rica hasn't generated a financing system that meets the needs of entrepreneurs, especially in the early stages of development, a challenge that holds back the country's competitiveness.

Evidence from INEC also shows that 82.7% of microenterprises in 2018, haven't applied for a loan in the last 5 years, and that 39.5% of those who have applied for credits (total of 62,641), obtained it as a personal loan that were channeled for the company's activities, since as a microenterprise they were rejected for financing.

The financing is used mainly to buy local, vehicle, machinery, equipment or tools (40.5%), raw material (30%), expansion, repair or maintenance (18.1%), pay business debts (11.2%), and other.

According to INEC, in 2018 microenterprises are all over the country concentrating 71.6% in urban areas, 62.3% are men and 37.7% women, besides 66% of men are 45 years old or older and 53.5% of women are 45 years old or younger.

The 74.8% of men and 46.1% of women who are microentrepreneurs are heads of the household.

Regarding schooling, 46.9% of microentrepreneurs reached a maximum level of complete or incomplete primary education, and 37% a complete or incomplete level of high school education. Low levels of schooling, may contribute to low levels of understanding of basic financial concepts, to the detriment of achieving full benefits or greater financial access.

Key Causes: Perceptions and Facts on the Supply and Demand Sides

On the supply side, access to financing for microenterprises is limited by perceptions of the Formal Financial Institutions, which consider them a non-profitable sector[6] because they don't know the microenterprises business characteristics, and don't have enough experience with the sector.

They also perceive that microenterprises are disorganized without business plans.

In addition, it's a fact that there is also a lack of suitable products for microenterprises, because formal financial institutions offer the same products to enterprises, and request microenterprises to submit documents and comply with requirements as if they were medium companies consolidated in the market. Entrepreneurship is another type of business and moves at a different pace, so formal financial institutions may need different financing instruments.

According to the Central Bank simulated customer survey 2017[7] in Formal Financial Institutions, they identified obstacles for microenterprises to obtain loans such as: experience require in the business (more than 2 years), target market studies, mortgage guarantees (movable guarantees not accepted), deficiencies in the supply of information to customers, and 1–3 months to give a resolution.

On the demand side, 82.7% of microenterprises haven't applied for loans in the past 5 years, despite the fact that 40.6% of microentrepreneurs consider access to financing as the main need to subsist in the business or to grow (INEC, 2019), mainly because they perceive they don't meet the requirements such as collaterals and creditworthiness.[8]

They perceive formal financial institutions don't want to work with the sector, and as a result, the credit products have high interest rates and fees, and microenterprises have to deal with excessive procedures or excessive time to receive a resolution, that most of the time is negative, because they don't have enough collaterals usually accepted, or don't have enough experience (more than 2 years of operation).[9]

It's a fact that the high cost of the products, the procedures and requirements, discourage entrepreneurs to applied for loans.

Proposed Policy Solution: Establishment of a Cross-Sector Working Group

The policy solution is for the Central Bank to issue a circular to create a cross-sector working group,[10] with representatives from the Government, Central Bank, formal financial institutions and MSMEs association, to research about the needs, the business, suitable credit options for microenterprises, and methods to inform this sector how to access, obtain and use credit products for their sustainability.

The above with the purpose of understanding the needs of microenterprises according to their businesses, and establish solutions and commitments among participants to increase access to affordable, high quality and suitable financing for microenterprises, and inform them about the availability and use of credit options considering sound financial practices. For example, the commitment that each Formal Financial Institution will develop suitable products or establish differentiated requirements for microenterprises, or the commitment to define incentives to grant loans such as different methodologies for credit risk analysis or expected losses for the microenterprises loans.

Key Stakeholders and Implementation

For the implementation of my proposed policy solution, key stakeholders are, Superintendence of Financial Entities, Central Bank of Costa Rica, National Supervision Counsel of the Financial System, the Ministry of Economy Industry and Commerce (Government), formal financial institutions representatives (from each public bank and from key private banks and cooperatives) and MSMEs association representatives.

Before issuing the circular to create the working group, it's necessary to hold several meetings between the stakeholders mentioned above, to expose the problem, the effects on the economy, and the need for a solution that can be reached if they work together considering the different interests.

Once the working group is created, it is necessary that they make a work schedule with specific activities, dates, responsible, and a detail of the final products they will generate, considering the Central Bank's general guidelines for the work and final products they expect to receive and deadlines.

The policy solution has to be implemented in three stages: (a) research, (b) solutions and commitments, and (c) evaluation of implementation and outcomes.

The Central Bank has to monitor the activities of the working group and request for periodic progress reports.

Key Indicators of Change

The third stage of the proposed policy solution is evaluation of the implementation and outcomes, in charge of the Central Bank, using surveys to collect the data of interest (considering the commitments established among the group participants), with a periodicity defined by them. The results and lessons learned should be shared with the cross-sector working group to define actions if necessary.

Conclusion

The policy proposal seeks that microenterprises have access to affordable, high quality and suitable financing from Formal Financial Institutions, and use it considering their business characteristics and sound financial practices for their sustainability, contributing to the growth of the country's economy and the welfare of the population.

Notes

1. The "Informe sobre el acceso de las micro, pequeñas y medianas unidades productivas, a los servicios financieros" from the Central Bank of Costa Rica, 2018, included the results of inquiry sessions with representatives of the banking system, and they pointed out that they consider microenterprises a non-profitable sector.
2. For the purpose of this policy memo, formal financial institutions are considered as the financial institutions regulated by the General Superintendence of Financial Institutions.
3. Information from interviews conducted by the author to five microentrepreneurs on February 23, 2019 in San José Costa Rica and information from the National Institute of Statistics and Censuses (2019). "Encuesta Nacional de Microempresas de los Hogares 2018 RESULTADOS GENERALES" (accessed June 4, 2019); retrieved from http://sistemas.inec.cr/pad4/index.php/catalog/207/related_materials.
4. Calculation made by the author with information from the Central Bank of Costa Rica. "Fuerza de trabajo por sector institucional" 2019 (accessed June 4, 2019); retrieved from https://gee.bccr.fi.cr/indicadoreseconomicos/Cuadros/frmVerCatCuadro.aspx?idioma=1&CodCuadro=%201911 and information from the National Institute of Statistics and Censuses (2019). "Encuesta Nacional de Microempresas de los Hogares 2018 RESULTADOS GENERALES" (accessed June 4, 2019); retrieved from: http://sistemas.inec.cr/pad4/index.php/catalog/207/related_materials
5. The Global Competitiveness Index 2018, Ease of Doing Business Rank 2019, Global Entrepreneurship Index 2018, Global Innovation Index 2018, the Global Entrepreneurship Monitor 2014 Global Report (last where Costa Rica participated) and the Global Entrepreneurship Monitor National Report of Costa Rica 2014.
6. The "Informe sobre el acceso de las micro, pequeñas y medianas unidades productivas, a los servicios financieros" from the Central Bank of Costa Rica, 2018, included the results of inquiry sessions with representatives of the banking system, and they pointed out that they consider microenterprises a non-profitable sector.
7. The Central Bank simulated customer survey 2017 in formal financial institutions is included in the "Informe sobre el acceso de las micro, pequeñas y medianas unidades productivas, a los servicios financieros" from the Central Bank of Costa Rica, 2018.
8. Information from interviews conducted by the author to five microentrepreneurs on February 23, 2019, in San José Costa Rica and information from the National Institute of Statistics and Censuses (2019). "Encuesta Nacional de Microempresas de los Hogares 2018 RESULTADOS GENERALES" (accessed June 4, 2019); retrieved from: http://sistemas.inec.cr/pad4/index.php/catalog/207/related_materials.
9. Information from interviews conducted by the author to five microentrepreneurs on February 23, 2019 in San José Costa Rica and information from the National Institute of Statistics and Censuses (2019). "Encuesta Nacional de Microempresas de los Hogares 2018 RESULTADOS GENERALES" (accessed June 4, 2019); retrieved from: http://sistemas.inec.cr/pad4/index.php/catalog/207/related_materials.
10. The cross-sector working group doesn't include representatives of microfinance institutions, because MFIs are not regulated by SUGEF, so the Central Bank doesn't have legal authority over them to request commitments and

agreements or to supervise them. Additionally, if MFIs participate, there is a possibility that regulated financial institutions elude their responsibility to society and leave the challenge of establishing commitments and solutions to MFIs, because they are oriented to work with SMEs. According to INEC of 62.641 microenterprises that applied for a loan in 2018, 9,8% requested it from a Microfinance Institution. There are no other official figures or studies on the number and amount of loans that microenterprises sector requests or receives from MFIs.

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Consumer Protection

Implementing an Effective Transparency and Disclosure Regime for Retail Loan Customers in Nigeria

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Executive Summary

Formal (retail) bank loans constitute only 21.6% of the total credit to the micro, small, and medium enterprises (MSMEs) sector in Nigeria.[1] Considering the important roles MSMEs play as engines of socio-economic growth and transformation in the Nigerian economy, provision of retail credit to MSMEs is critical as highlighted in the National Financial Inclusion Strategy target of increasing MSME credit penetration by 40% by 2020.[2] However, complaints on excess charges and unauthorized fees from retail loan consumers constitute the largest category of complaints against formal financial institutions in Nigeria. Between 80% and 90% of all complaints escalated to the Central Bank of Nigeria by retail loan consumers between 2013 and 2018[3] were in this category. The preponderance of this category of complaints is capable of eroding consumer confidence and trust in the MSME segment and could be responsible for the low levels of formal borrowing by MSMEs.[4] This policy memo recommends that higher MSME borrowing and increased confidence in the formal financial system would be enhanced through the implementation of an effective transparency and disclosure regime for retail loan products. The successful implementation of these recommendations would significantly contribute to the attainment of the Nigerian financial inclusion target of increasing credit penetration by 40% by 2020.

Problem and Context

Retail loan customers in Nigeria are increasingly exposed to excess charges and unauthorized fees by formal financial institutions manifested in increased numbers of complaints received by the Central Bank of Nigeria from this segment in the last three years (2,782 in 2016; 3,965 in 2017; and 5,250 in 2018).[5]

Consider Mr. Mamman's experience narrated through an interview[6] conducted as part of this study:

Mr. Mamman, a small trader, buys fresh farm produce from farmers in the surrounding villages for resale in the City of Abuja.

His business was thriving, but he was finding it increasingly difficult to meet the high customer demand.

A marketing officer from Bank ABC,[7] a major commercial bank in Abuja, visited Mr. Mamman and proposed to him to open a bank account to enable him obtain a loan to buy refrigeration equipment to stock up large stocks of fresh vegetables to meet his high customer demand.

Mr. Mamman was receptive to the idea and took a loan of N2 million payable in 3 years at an interest rate of 21% as stated in the bank's offer letter. He continued to make monthly repayments of both principal and interests.

At the expiration of the tenure of the loan, however, Mr. Mamman received a letter from the bank informing him that he was still owing N3 million.

Mr. Mamman was shocked, because he assumed he had already repaid the loan off as well as the interest component. When he sought an explanation from the bank, to his amazement he was informed that the 21% stated in the offer letter meant 21% per month and not 21% per annum as he presumed. He closed his bank account and vowed never to have anything to do with any bank ever again.

The trend of consumer complaints to the Central Bank of Nigeria in the last three years (2016 to 2018) showed consistent increases in retail loans consumer complaints on excess and unauthorized charges.[8] For example, of the 6,563 retail loan consumer complaints received in 2018, 5,250 or 80% of the total were on excess fees and charges.[9] With a current financial inclusion rate of 37% and a target of 80% by the year 2020,[10] this is a problem that is capable of undermining financial inclusion efforts by eroding consumer trust and confidence.

A people-centered policy research carried out on retail loan consumers that have reported cases of excess fees and charges by formal financial institutions revealed a high level of lack of understanding and clarity in the format and language conveying terms and conditions contained in retail contracts. The forms required for retail loan contracts were also considered complex and confusing as well as the use of financial technical terms that were unfamiliar to most retail loan consumers.

Furthermore, there has been an observed decline in bank account ownership in Nigeria with a corresponding increase in the patronage of informal financial institutions recorded from 2016 to 2018.[11] Findings from a people-centered survey[12] of retail loan consumers has attributed this increased migration to 1) erosion of confidence in formal financial institutions, 2) higher rates of interests offered by informal financial institutions, and 3) the perceived complexity of formal loan products. This increased migration to unregulated financial institutions has led consumers losing over N500 billion (USD 1.6 billion) to dubious schemes (including ponzi schemes) in 2018 alone.[13]

The challenge of excess bank fees and charges in retail bank loans could be viewed from the perspectives of 1) the absence of effective transparency and disclosure regimes, 2) lack of clear information available to retail loan consumers, and (3) the absence of a standardized fees and charges regime to guide the contractual relationship.

Potential Solutions

Recommended solutions to address excess bank fees and charges against retail loan consumers may be classified under three solution bundles as identified from the people-centered research conducted on retail loan consumers in Nigeria, namely:

1. incorporating financial literacy and consumer education as part of the retail loan approval process,
2. establishment of internal consumer complaints and redress mechanisms in financial institutions, and
3. improved transparency and disclosure regime in retail loan products.

While there are current initiatives to promote financial literacy among the banking population, and regulations issued by the CBN requiring financial institutions to establish complaints and redress desks, these programs are generic and not targeted at retail loan consumers.

Recommended Policy Solution

The proposed policy solution will focus on the implementation of an enhanced transparency and disclosure guidelines targeted at retail loan products to improve current efforts mentioned in (a) and (b) above as part of the implementation of a consumer protection framework by the Consumer Protection Department.

Accordingly, this policy memo would advocate the development and implementation of the following tools and templates in the administration of retail loans to improve the required level of transparency and disclosure:

1. development of a Guide on Bank Fees and Charges,
2. the simplification and standardization of forms/templates for account opening and account statements, and
3. development of a Disclosure Summary Sheet or Key Fact Statement Sheets containing all key information about the retail loan in a simplified and non-technical manner including the use of actual amounts rather than percentages, as well as a month-by-month loan repayment schedule showing the exact dates and actual amounts to be deducted until the loan is fully repaid.

Additionally, in the implementation and development of the above tools and templates, the Consumer Protection Department will leverage on its collaborative efforts with the Busara Centre for Behavioral Research to conduct associated people-centered behavioral research. This is to reinforce the suggested policy solutions using deeper consumer behavioral insights through the identification of behavioral nudge points and consumer attitudes, weaknesses and preconceptions that would be applied to enhance effectiveness and to obtain desirable policy outcomes.

It is expected that the proposed solutions would be implemented by the consumer protection department with the collaborative support of financial institutions under the aegis of the Bankers' Committee.

Key Stakeholders and Implementation

The primary implementation department would be the Consumer Protection Department with the overall mandate of implementing an effective consumer protection framework. However, the support of other department responsible for the financial system stability mandate of the Central Bank of Nigeria (Banking Supervision and Financial Policy and Regulation Departments) would be crucial.

Similarly, the cooperation and support of the Bankers' Committee made up of the Central Bank of Nigeria and the Chief Executive Officers of Financial Institutions would be obtained through a well-articulated stakeholder engagement plan leveraging the monthly meetings of the committee highlighting the progress of the initiative.

The implementation of the proposed policy intervention is highly feasible considering the recognition and commitment of the key stakeholders especially the Bankers' Committee to promote consumer protection and contribute to the attainment of the National Financial Inclusion targets which also aligns with the objectives of the Bankers Committee Sub Committees on Ethics and Professionalism and Financial Literacy.

Conclusion

The development and implementation of the recommendations provided in this policy memo would enhance transparency and disclosure in the administration of retail loans in formal financial institutions in Nigeria and would address the high incidences of consumer complaints eroding consumer confidence and undermining the attainment of the financial inclusion target of 80% by 2020.

Notes

1. SMEDAN/NBS *National Survey of Micro Small & Medium Enterprises (MSMEs), 2017*
2. National Financial Inclusion Strategy (Revised) *Financial Inclusion in Nigeria*
3. Consumer Protection Department, Central Bank of Nigeria *Annual Reports* (2013 to 2018)
4. Of the 33% of total bank consumers that accessed credit in 2016, only 2.7% and 2.8% borrowed from banks and other formal sources respectively. EFinA Access to Finance Survey, 2016. https://leadership.ng/2017/07/11/67-nigerians-dont-borrow-efina-survey/.
5. Consumer Protection Department, Central Bank of Nigeria *Annual Reports* (2015 to 2018)
6. People-Centered Research Interviews conducted by Author as part of this study.
7. Not the real name of a bank. Changed for anonymity.
8. Consumer Protection Department, Central Bank of Nigeria Annual Reports (2013 to 2018)
9. 2017 Annual Report Consumer Protection Department, Central Bank of Nigeria
10. National Financial Inclusion Strategy (Revised) *Financial Inclusion in Nigeria*
11. EFinA Access to Finance Survey, 2018
12. People-Centered Research Interviews of 20 retail loan customers conducted by the author as part of this study.
13. Central Bank of Nigeria *Annual Report* 2018

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Toward a Coordinated Approach for Combating Cybercrime in South Africa

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Executive Summary

South Africa's National Development Plan notes that by 2030, at least 90% of South Africans must be financially included (Commission, 2012). The increasing scourge of cybercrime in South Africa poses a serious risk to financial inclusion. A 2018 report by the South African Banking Risk Information Centre (SABRIC) noted that in 2018, South Africa had the third highest number of cybercrime victims in the world (Kgosana, 2018). The country loses approximately R2.2 billion (or $139 million) annually due to cybercrime. If not urgently contained, cybercrime will lead to increased financial losses for households and businesses in South Africa, thus leading to continuous mistrust of the financial and banking system.

Introduction

Cybercrime can be defined as illegal acts which are committed through the use of information and communication technologies (SSA, 2015). These illegal acts include the use of phishing, vishing, SMshing[11] and malware (among other things) to illegally obtain confidential information of individuals, such as digital login details, and thereafter use it to defraud them financially. To address cybercrime, this policy memo proposes a coordinated approach involving all stakeholders directly and indirectly affected by cybercrime. The key objective of the policy is to improve public trust in the banking system by ensuring that South Africa builds the necessary capacity in terms of tools, infrastructure and technical expertise, in order to effectively secure banked households' confidential data against cyber-attacks, thereby reducing financial losses resulting from cybercrime.

Cybercrime Statistics in South Africa

According to the 2018 FinScope Fact Sheet (Trust, 2018), 80% of South Africans had a bank account as at the end of 2018. Of these accounts, at least 60% were active. Given the large banking population in South Africa, cybercrime has largely manifested itself within the banking sector, mainly through digital banking. Digital banking entails the use of online and mobile methods to do banking. Between 2011 and 2015, the population of banked South African households making use of digital banking services increased from 2.4 million to 5.6 million (Pretorius, 2017). As the use of digital banking has increased, so has cybercrime incidents related to the use of the digital platform.

According to the banking crime statistics released by SABRIC in June 2019, the number of crime incidents recorded for digital banking clients across banking apps, online banking and mobile banking increased from 13,389 in 2017 to 23,466 in 2018 (SABRIC, 2019). This was an increase of 75.3% between 2017 and 2018, resulting in total gross losses of R513.4 million ($36.6 million) for the two years. In 2018, the average financial loss per incident through banking apps was R14,088, while the average for online and mobile banking was R33,078 and R2,388, respectively. These crimes were specifically targeted at banked South African households who make use of digital banking (estimated at 25% of the total banking population), affecting individuals across different demographics and income levels.

According to the findings of a research survey by the Boston Research Group in 2017 on the status of financial inclusion in South Africa, 33% (also the majority) of individuals in the low-income bracket who were respondents to the survey cited the fear of fraud involving ATMs, mobile and internet banking to be the number one reason for their preference to transact in cash (Ikdal, 2017). Accordingly, increased financial losses due to cybercrime threaten to undermine financial inclusion efforts in South Africa by creating further mistrust of the banking system by low-income households. It is therefore imperative that cybercrime is appropriately managed to minimise financial losses for banked households making use of digital banking, thereby encouraging the unbanked and those who are digitally excluded to consider getting banked and making use of the digital platform.

Causes of Cybercrime

While there are many root causes of cybercrime, the Council for Scientific Industrial Research (CSIR) (Phahlamohlaka, 2019) has identified the following to be among the root causes of increased cybercrime in South Africa:

- Shortage of skills in key sectors, including banks and the police, to understand and combat cybercrime;
- Ease of access to cyber offensive tools by hackers;
- Poor business practices by financial service providers;
- Lack of a legislative framework and policies governing cybercrime;
- Convergence of digital and physical security; and
- Lack of cyber security awareness and training by households.

In addition, interviews with staff from the South African Police Service (SAPS) suggested that the lack of reporting of cybercrime to the police is another root cause of increased cybercrime as it disempowers the police and other law enforcement agencies from effectively detecting and investigating cybercrime.

Role Players in Cybercrime

Role players in cybercrime include any person and/or institution which is directly affected by cybercrime, that is, suffers a direct loss due to cybercrime; or indirectly affected by cybercrime, that is, does not suffer a direct financial loss but cybercrime threatens the business or economic environment within which they operate.

Within the public sector, key role players in cybercrime include:

ROLE PLAYER	MANDATE
SAPS	Mandated to prevent, combat and investigate organized crime (which includes cybercrime)
CSIR	Conducts research and innovation related to cybercrime in South Africa and its broader impacts on society
Government Communication and Information System	Manages the Cyber Security Hub
State Security Agency	Responsible for the country’s cybersecurity strategy
Department of Home Affairs	Custodian of the national identity system
National Treasury	Custodian of public funds and financial sector policy

Outside the public sector, other key role players include:

- SABRIC
- Banks
- Defrauded households (banked South Africans)
- Payments Association of South Africa
- Association for Savings and Investment South Africa

A Coordinated Approach toward Combating Cybercrime

In order to effectively manage and combat cybercrime, it is important that all role players work together to leverage existing resources, infrastructure and expertise within each institution. In this regard, it is proposed that a Cybercrime Centre be established. Establishment of a Cybercrime Centre will ensure that cybercrime is coordinated through a single entity and that collaboration by all role players affected by cybercrime is strengthened.

Taking a coordinated approach toward combating cybercrime will present the following benefits to South Africa:

1. Joint responsibility by all role players toward combating cybercrime through the co-location and sharing of resources;
2. Different role players can leverage off each other's expertise and mandates to prevent and combat cybercrime;
3. Cross-sharing of information to enable proper analysis of cybercrime threats and related modus operandi;
4. Increased reporting of cybercrime by victims as the Centre will serve as the primary institution for handling all cybercrime related matters; and
5. Increased public awareness, training and education on cybercrime such that citizens can protect themselves from cybercrime and that victims of cybercrime report it to the police.

Key Considerations for the Implementation of the Policy

- A long-term vision
  Although the establishment of a Centre is proposed, it is more of a long-term solution to addressing the cybercrime problem. This is because a) the policy framework for managing cybercrime, namely the Cybercrime Bill, would firstly need to be approved by Parliament and thereafter a Cabinet resolution taken to establish the Centre; b) its initial establishment costs would need to be funded by Government, subject to the availability of funding; and c) setting up such a big multi-agency organisation would require time and proper planning.

- A short-term solution
  As an interim solution, it is proposed that a joint task team comprising representatives from each of the listed key stakeholders be established. The overall objective of the task team would be to foster collaboration and co-location of resources and expertise before the Centre is established. However, its work should be narrowed down to focus on specific types and risks of cybercrime, such as crimes related to digital banking. This is because the task team will not have sufficient capacity to focus on everything thus a narrow focus would therefore ensure that the task team is effective in doing its work.

Key Indicators to the Successful Implementation of the Policy

Some key indicators would include:

1. Establishment of the Joint Task Team by the end of 2020;
2. An established and fully funded Cybercrime Centre by the year 2022;
3. Increased public awareness of cybercrime with citizens who know how to safeguard their information;
4. Reduction in financial losses suffered by households due to cybercrime; and
5. Those who commit cybercrime are brought to justice, culminated by an initial increase in the number of arrests and convictions, and thereafter a decrease as a result of improved customer data protection and effective combating.

Conclusion

Achieving the above success will be a mammoth task but it can be done. At the Cybercrime Conference that took place from June 4 to 6, 2019, there was general consensus by stakeholders that a collaborative approach involving all role players is necessary to effectively combat cybercrime. This demonstrates that there is willingness by all key role players to work together which sets good ground for the implementation of the policy.

Note

1. **Vishing** is where a fraudster phones their victim posing as a bank official or service provider and uses social engineering skills to manipulate them into disclosing confidential information. **Phishing** emails request that a user click on a link in an email which then directs them to a "spoofed" website designed to mislead them into thinking that it is their legitimate bank website, to obtain, verify or update contact details or other sensitive financial information. **SMishing**, short for "SMS phishing" is the preferred method used by fraudsters to obtain confidential information in the mobile banking fraud space. It is much the same as Phishing, except that instead of emails, text messages are sent requesting that the recipient call a number or click on a link which then misleads them into revealing their confidential information.

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