THE FLETCHER SCHOOL

Leadership Program for Financial Inclusion

Policy Memoranda

2020

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Foreword

The policy memos contained herein are the capstone achievements of the 9th 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 nearly 150 FLPFI alumni.

The 2020 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 and Mexico, improving financial health for low-income Indians, Bahamians, and Zimbabweans, increasing the use of digital financial services in Egypt and Ethiopia, and improving access to affordable financing for small and mid-size enterprises in Ethiopia and Fiji.

The policy memos in this publication are the culmination of the FLPFI fellowship, an intensive 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. The 2020 fellowship class overcame disruptions from the Covid-19 pandemic, and every fellow persevered to complete their policy work. They were also the first cohort to complete the entire fellowship online, which posed its own challenges that they met with patience and diligence.

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, Hugo Leon-Manco from the Ministry of Economy and Finance of Peru. Hugo focused on the large number of independent workers who are currently ineligible to receive a pension. He analyzed the barriers for these workers and found that confusing, time-consuming procedures at the pension office, as well as outdated and complicated rules for eligibility, prohibited workers from regularly contributing to the system. Hugo considered several possible solutions before deciding that updating current pension regulation would be the most manageable and meaningful way forward. Hugo'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 Indonesia, Afghanistan, Madagascar, and Nigeria are working to expand access to and usage of credit in rural areas, and similarly, the fellows from Pakistan, Ecuador, Uganda and Cote D'Ivoire are promoting the financial inclusion specifically of rural women. 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.

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Contents

Digital Financial Services

Allowing International Fintechs for the Growth of Digital Payment Services for Access to Finance for Unbanked Rural People in Ethiopia

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Executive Summary

Ethiopia had 37.7 million mobile subscribers in 2017. Only 0.3% of adults had mobile money accounts compared to Kenya (73%), (31%) to Rwanda, and on average (21%) to Sub-Saharan African countries. In Ethiopia, 13 million people with mobile phones are unbanked (GSMA, 2017).

Banks in Ethiopia have little effort for experimenting with and differentiating the digital financial services (DFS) strategy. Most banks (not MFIs) provide DFS (mobile money, and internet banking services) to existing clients through Web, USSD, and applications, and usage remains low, only 1% used mobile money or internet banking services. Banks still do not have a clear strategy to roll out their agents, and they have been reluctant to develop extensive agent networks to avoid costs.

This memo addresses the problem and provides a policy proposal to allow foreign financial technology (fintech) to operate in Ethiopia and extend DFS to the unbanked rural people, where 85% of the people lived with convenient, reliable, and affordable technology.

Problem Statement and Context

In Ethiopia, several people are obliged to travel a long distance, spend money and time to find financial services. 20% of adults reported distance as a reason for not using formal financial services.

As illustrated in the table below, Ethiopia hasn't taken advantage of DFS that have driven access to and usage of financial services in Sub-Saharan Africa.

	Ethiopia	Kenya	Rwanda	SSA Average
Mobile money accounts (in %, age 15+)	0.3	73	31	21
Debit card ownership (%, age 15+)	4	38	5	18
Made or received digital payments in the past year (%)	12	79	39	34
Paid utility bills using a mobile phone (out of adults who paid utility bills)	0	82	44	23
Paid utility bills using an account (out of adults who paid utility bills)	0.2	85	48	31
Received wages into an account (out of adults who received wages)	17	68	33	45
Received payments for agricultural products into an account (out of adults who received agricultural payments)	1	46	14	
Used a mobile phone or the internet to access a financial institution account in the past year (out of adults with a financial institution account, age 15+)	1	57	13	24

Source: World Bank (2017)

Thus, in Ethiopia, large numbers of people do not have access to financial services. Customers from remote areas are obliged to travel long distances and spend huge amounts of money and time on transport to find a bank branch. About 34.6% of bank branches were located in the center of the country's capital Addis Ababa. One bank branch serves about 15 thousand people (NBE, 2020/21).

Key Causes of the Problem

The financial system in Ethiopia is not addressing the demand of the majority of the population, particularly the rural poor people.

Some primary causes of the problem:

- Most commercial bank branches are usually found in the main cities of the region and all commercial bank headquarters are found in Addis Ababa as they focused on large profitable growth opportunities in cities;
- The inability of the banking industry to adopt advanced technology to deliver the financial service with the least cost and the most efficient ways to avoid the initial cost of the technology;
- Even if MFIs are found in a rural area, they have financial constraints, weak leadership and institutional capacity, inadequate education and training, limited range of financial products, and poor quality; and
- Due to insufficient experience, not one local nonbank fintech has received a license under the new Payment Instrument Issuer directive, which allows nonbank fintechs to provide mobile money services.

The new PII Directive is being developed within the context of broader national policies, in the Banking (Amended) Business Proclamation; foreign players are legally restricted from participating in the financial services business (i.e., foreign-owned companies cannot be licensed as payment instrument issuers).

Potential Solutions Proposed

Worldwide, innovation in financial services and digital payments is being driven not only by traditional players (banks, payment schemes) but also by the new technology/innovation players (fintechs). Furthermore, globalization (through international trade, foreign direct investment, international use of patents, and exchange of good practices) is boosting innovation. The increased international competition associated with globalization also contributes to digital innovation, as it strengthens incentives to adopt new technologies and to innovate.

The following potential solutions are proposed:

- Foreign fintechs are allowed to provide innovative DFS to the unbanked population of Ethiopia,
- Bank branches have to be widely available in the country to provide financial services to the customers,
- MFIs provide alternative financial services to rural people,
- Local DFS join to provide alternative financial services to the customers, and
- Local Telco fulfills the regulatory requirements and provides Mobile Money Services to the customers.

Priority Solutions Bundle

The Digital Ethiopia 2025 strategy and the other policies that the government has issued to create a framework for the growth of a modern economy unequivocally point in the direction of creating a more competitive financial sector. For a broad-based and innovative financial sector to grow in Ethiopia, foreign fintech participation is required to increase access to finance through digital payment services. With the approval of the National Digital Payments Strategy (NDPS), the 2020 PII Directive, the Agent Banking Directive and the Payments Operators Directive, further steps were made toward the creation of a regulatory environment that is conducive to the growth of DFS in general and fintech sector in particular.

Taking into account the financial inclusion challenges of Ethiopia, my priority solution will be to allow foreign fintechs to operate digital financial services in Ethiopia.

Key Stakeholders and Implementation

National Bank of Ethiopia: is a leading implementer of the policy memo. I will form a working group consisting of members from internal work units of the concerned directorate and key external stakeholders;

Ministry of Innovation and Technology: has the mandate to promote innovation, the creation of a digital economy and to coordinate different stakeholders toward this objective. It is also highly interesting to bring international technology-based companies to the front;

Ethiopian Fintech Association: In coordination with the Fintech Association, make an assessment on the impact of the new directives on enabling fintechs to expand in the payment ecosystem and refine roles and responsibilities of fintechs to adapt to the changing payment ecosystem;

Ministry of Finance: Its role is the formulation and monitoring of macroeconomic policies. In coordination with the Ministry of Finance and key stakeholders, monitor and evaluate the impact of the new directives on the use of fintechs to increase the adoption of digital payments.

The NBE will have a significant role in the implementation of the policy memo. The first step is to develop the Policy background note. I will undertake discussions with internal work units of the Bank and the Ministries (Ministry of Innovation and Technology and Ministry of Finance). The background note will be shared with the Vice Governor of Financial Institutions Supervision for the go-ahead. Then, the internal working group with members from the Bank, the Ministries, and Fintech Association will be formed to develop a guideline for the policy memo. The guideline is expected to define issues related to ownership of the fintechs, potential entrants, priorities, and evaluation principles and the guideline will be consulted with all key stakeholders. Interested Development partners such as United Nations Capital Development Fund (UNCDF) will be engaged in the process for technical assistance and trainings for the implementation of the policy. The entire implementation process is expected to take up to one year.

Conclusion

Ethiopia has made remarkable steps toward the creation of a policy and regulatory environment that is conducive to the modernization of its financial sector in a way that would enormously benefit its citizens and the growth of the national economy. Digital Ethiopia 2025 vision recognizes the fundamental role that fintech plays in creating a modern digital economy, as the digital payment infrastructure is an indispensable element to make the economy mature.

If the fintech sector grows, Ethiopia is ideally placed to attract the necessary investments to build the foundations of a new, modern financial sector, and to indigenize the innovation and deploy the results that the government is aiming to achieve.

However, this ambitious plan cannot be successfully implemented without acknowledging the role of international partners. The complete limitation of foreign equity participation in fintech firms is unseen in other countries. Evidence from other markets collected in this brief shows the many benefits of opening the fintech sector to foreign owners and investors, which will enable the country to pursue objectives, set in the 2019 policy document "A Homegrown Economic Reform Agenda." Among the suggested reforms, the government pointed at: supporting the development of mobile banking to promote financial inclusion.

Thus, I propose a policy that allows foreign fintech to operate and deliver digital financial services to overcome the constraint of long distance, which is the human-centered financial inclusion problem of the country that is not addressed by financial institutions in Ethiopia.

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Increase the Use of Mobile Financial Services in Rural Areas in Egypt

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Executive Summary

In Egypt, according to the 2017 Findex survey report (World Bank, 2017), 83% of the population does not have an account because they do not have sufficient funds, which leads to the conclusion that people are only linking formal financial tools to savings. Egyptians, and, in particular, those who live in the rural areas, waste time and money in transacting traditionally, ignoring the new digital means such as mobile money and e-payments. Residents of rural areas in Egypt do not understand that there are also payments, installments, credit, and more financial tools that could enhance their financial health. Mobile financial services could be an important tool to increase financial inclusion in Egypt. Two solutions are proposed to help in resolving the matter: increasing awareness for residents of rural areas, and allowing more access.

Problem Statement and Context

Egyptians, and, in particular, those who live in the rural areas, waste time and money in transacting traditionally, ignoring the new digital means such as mobile money and e-payments. In Egypt, the use of mobile money services is low, at only 5% of Egyptian adults compared to the sub-Saharan African countries' average that exceeds 20% (World Bank, 2017): 15 million mobile wallets out of 100 million mobile subscribers, out of which only 3% is active. This percentage is also low compared to the 37% average of the sub-Saharan African countries. Government services that allow mobile/electronic payments are rarely used, while the traditional payment methods (cash in particular) are heavily used.

Key Causes

There are two main causes that lead to this situation, and they are:

First: Lack of awareness about mobile financial services and their root causes are as follows:

- **Low digital and financial literacy.** People are not familiar with using digital applications and have little information about banking and financial services. This leads to low usage of the services such as mobile money.
- **Lack of awareness campaigns from the government.** The government should raise awareness about these services, especially since recently some government services started to accept mobile payments.
- **Lack of marketing campaigns from the operators' side**. Operators are focusing their awareness and advertising campaigns on their main telecom services. **This may be due to the low return on mobile financial services.**
- **Low level of education**. In general, a low level of education could lead to misconceptions of financial and banking services in general.
- **Lack of appealing use cases.** Most of the use cases provided through mobile financial services are basic services. These services are not appealing to the target community. A very good use case that would attract people living in these areas is microfinance use cases.

Second: Low access to mobile financial services and their root causes are as follows:

- **Low availability of suitable Telecom infrastructure that supports mobile financial services.** Quality and network coverage of the mobile networks is an example of this cause (e.g., areas around Kafr el Shaikh have only 2G coverage, areas near Aga have only 3G coverage, and some areas around Mahalla have no coverage).[1]
- **Low economic viability due to low revenues and profits:** The low usage of the services has in turn a negative impact on the financial viability of the service.
- **Low investments from the operators' side.** The low revenues of the services do not encourage the mobile network operators (MNOs) to invest in network enhancement and development. At the end, it seems that the low economic viability of the services has forced the service providers to shrink their investments in these services.

Potential Solutions

The potential solution bundles proposed are as follows:

1. Increase awareness of the user by increasing knowledge about digital financial services through public campaigns that reach out to the rural areas and also have operators market the mobile financial service they provide.
2. Increase access to mobile financial services through having operators expand their investment in networks and new technologies, also increase their roll out of network deployments to cover rural areas.

Priority Solutions Bundle

From the solutions bundles mentioned above, the focus will be on implementing the first and second solution bundles. The reasons why those two bundles were chosen is because they address the two main causes of the problem, and also it is easy to develop collaborative framework to engage the other stakeholders in the implementation.

Implementing the proposed solution bundles will involve the following instruments:

For increasing awareness:

- **Develop a government program for creating awareness about mobile financial services through universities, schools, etc.** This could be done through workshops, information sessions in collaboration with central banks, and operators.
- **Regulations to enforce transparency in charges and tariffs related to mobile financial services.** Issuance of guidelines from the National Telecom Regulatory Authority (NTRA) that direct the MNOs as to how can they place their mobile financial service charges and tariffs in a visible way in their advertisements, whether on their portal or in their publications, is one of the solutions.
- **Regulatory and tax incentives for operators who spend on awareness campaigns on mobile financial services.** Tax and regulatory fees exemptions in this case. An option for this is to exempt the MNO from a portion of their regulatory fees depending on their spending on awareness campaigns that target mobile financial services.

For the increase of access:

- **Forming government working groups to study introducing new access technologies.** Since there is an infrastructure issue that is related to coverage and quality, new access technologies could help support the resolve of these issues. Using technologies such as LTE, Wimax, etc. could help support the coverage and quality matters.

- **Regulatory incentives for operators who expand in rural areas.** This could be done through exempting from regulatory fees, universal service fees, R&D fees, etc. Here a deduction of the regulatory fees, for example, could be granted to operators who expand their coverage to rural areas with poor connectivity.

Stakeholders

Implementation of this policy based on the chosen solution bundles requires strong and sustainable commitment, collaboration, coordination, and cooperation with external stakeholders. The main stakeholders with high influence who will be interested in implementing the said solution bundles are as follows:

1. Central Bank of Egypt (CBE): CBE will be interested in participating in the solution, although there are no requested changes in the regulations from CBE side.
2. NTRA: NTRA is interested in participating since there is an interest in expanding the telecom market and diffusing mobile financial services to support financial inclusion.
3. Supreme Media Council (SMC): SMC will be interested as an entity to participate in these campaigns, especially if the campaigns are going to be widely spread publicly as it could be a way to promote the role of the organization.
4. Mobile network operators: MNOs might be interested to move on with the bundles since this could be a last resort for them to increase their revenues from these services and convert it to an economically viable business.

Other secondary stakeholders may include non-governmental organizations, and media agencies.

Next Steps

In order to start implementing a plan, the steps are as follows:

• Form a New Technologies Committee	Aug-21	NTRA and MNOs
• Study the alternatives	Aug-21	Technology Committee
• Meet with operators to assess needs	Sep-21	Technology Committee
• Develop a report with recommendations	Dec-21	Technology Committee
• Present to the NTRA Board for approval	Jan-22	Technology Committee
• Study regulatory incentives alternatives	Sep-21	NTRA
• Develop a report with alternatives	Dec-21	NTRA
• Study impact of each alternative	Feb-22	NTRA
• Present a report with recommendations to the board for approval	April-22	NTRA
• Share the recommendation with the CBE and NTRA Committee	April-22	NTRA and CBE
• Announcements and implementation	May-22	NTRA
• Instruct service providers to follow Supreme Payment Council directives	Sep-21	CBE
• Meet with top 10 banks	Sep-21	CBE banks
• Meet with external stakeholders (NTRA and Ministry of Education)	Sep-21	CBE banks
• Meet with media partners through Supreme Media Council	Sep-21	NTRA, CBE, media
• Select media partners	Nov-21	CBE
• Develop Awareness Plan with media	Feb-22	CBE and media
• Approve Awareness Plan	Mar-22	CBE
• Share the recommendation with the CBE and NTRA Committee	Mar-22	CBE and NTRA
• Implementation	Apr-22	CBE, NTRA, banks, and MNOs

Key indicators of change

In order to monitor the implementation and evaluate the impact of the new policies, a set of indicators will be observed jointly by NTRA and the Central Bank of Egypt.

1. Penetration rate increase in mobile financial service subscribers
2. Increase in mobile financial service transactions: Number of transactions done on a monthly basis. Mobile network operators will report it.
3. Percentage increase of mobile payments in government services: increase in mobile payment transactions in government services
4. Increase in mobile network coverage in rural areas.
5. Introducing new technologies to increase access: Number of new technologies adopted and their impact on the increase of new mobile wallets.

Most of these data are dependent on the regular reports of the MNOs. A survey can be conducted on a quarterly basis to monitor the developments from the users' perspective, and, in particular, for the awareness campaigns.

Note

1. Nperf.com, network coverage, Egypt map, June 2021.

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Digitization of Agricultural Value Chains for Rural Women in Côte D'Ivoire

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Executive Summary

Women play a growing role in the agricultural sector in Africa. In Sub-Saharan Africa, they are huge contributors to food production, processing, and distribution. In fact, they constitute one vital human resource in the sector as studies show that women's labor share amounts to 60–80% (International Fund for Agricultural Development, 2020).

Agriculture accounts for about a quarter of Côte d'Ivoire's gross domestic product (GDP) and almost half of its employment, including nearly 40% of women's employment in the food-crop sector (International Fund for Agricultural Development, 2020). Rural women rely mainly on agriculture as their primary source of income.

Rural women are less likely than men to access formal and informal banking services or get credit. Often times, social and gender norms, lack of training opportunities, and access to appropriate information make it difficult for women to access financial services. On the other hand, the limited availability of financial service providers in rural areas and lack of products and services tailored to meet women's needs represent constraints in enhancing and sustaining the access and usage of financial services for rural women.

Introducing technology in designing appropriate financial products for women to surmount these constraints appears to be essential in strengthening their role as producers and widen the economic opportunities available to them. The policy encourages digital financial services (DFS) in value chains with specifics products and services for rural women in the agricultural sector.

Problem Statement and Context

Agriculture is the main activity carried out by men and women in Cote d' Ivoire and accounts for about a quarter of the country's GDP and almost half of its employment including nearly 40% women in the food-crop sector.

According to the latest CGAP studies (Riquet and Zetterli, 2012), nearly 44% of Ivorian adults have never had access to formal or informal financial services, and these figures are all the higher at the level of socially disadvantaged and excluded groups, in particular women, poor people, and people living in rural areas. Only 37% of people in rural areas have an account at a financial institution and only 2% have borrowed money from a formal institution, compared to 36% from informal sources (World Bank, 2017).

Key Causes

Women engage in many different economic activities and perceive their work as an extension of their household responsibilities (World Bank, 2013).

The main issue that keeps financing out of the reach of women is that women tend to have greater time constraints due to households' responsibilities for the care of family members. Bank branches are often located far away from peoples' homes, and transportation issues and limited availability of banking agents make banking services inaccessible.

In addition, account maintenance fees, high interest rates, collateral requirements, and minimum account balances play a major role in excluding women from financial services. Furthermore, the complexity of the procedures involved and lack of trust constitute obstacles.

Agriculture finance in general is a problem for financial institutions. Market and price risks, low level of demand, and lack of expertise in managing their clients are main constraints in extending services to rural women seeking agricultural finance. This implies a limited availability of financial services in rural areas and, existing financial services intended for rural communities rarely benefit women.

Côte d'Ivoire illiteracy rate is still high, with 55.7% for women versus 44.3% for men. The majority of financially excluded women are uneducated, especially in rural areas. They struggle to access and leverage relevant information on access and use of any financial products and services, including more sophisticated ones such as credit and insurance to face emergency needs.

Potential Solutions

DFS have become a preferred mode of payment in West Africa in general and remain higher with 47% in 2017, than most of the other region. It is expected to reach 54% in 2025, with Côte d' Ivoire leading with 100 % of mobile phone penetration and 53% of all mobile money transactions in the entire region (GSMA, 2019).

Access, usage, and overall quality of financial services to be enhanced in rural areas could include technical innovations that improve access to existing financial services and changes in product design to better tailor them to women's preferences and constraints. According to the national working group on "Digital finance development" in place to implement the country's National Financial Inclusion Strategy (NFIS), banks are gradually getting more interested in digital finance. This is both because opening physical branches remains an expensive proposition and the Central Bank mandated since 2014 the elimination of a set of fees that financial institutions can charge on bank accounts. Microfinance institutions have also started establishing partnerships with mobile network operators.

Côte d' Ivoire presents an environment conducive for using DFS as these interesting developments contribute to increasing usage and product diversification to build a digital finance ecosystem (Martinez, Lonie, and Oulai, 2014).

In addition, the agricultural sector strives to promote more and more how e-money could help improve the financial lives of rural populations and manage the risks of dealing with relatively large and irregular amounts of cash. However, providers and other stakeholders of the ecosystem have not fully seized the opportunity to offer services to those who do not have access to traditional financial institutions. Several hurdles to overcome before they can offer digital payments and financial services to producers and women in particular remain. The lack of trust in traditional banking from the producers leads to low demand. In addition to the limited convenience of the service, the lack of best practices and recommendations, the risks associated to the agricultural market, as well as inadequate approaches and process mechanisms impact providers' costs and revenues, thus making rural finance unattractive.

Implementation Plan

Our approach will be adapted accordingly and will focus on a gradual implementation of cashless solutions to build trust and awareness. We want to ensure that clients are familiar and comfortable with the new mechanism and that the solution developed truly responds to their needs.

A demand-side survey will help understand financial practices and analyze access to financial and non-financial services that are tailored to meet the market. The results of this study will serve as a benchmark for the design of suitable, accessible products and services at affordable cost.

Financial service providers, regulators, and other stakeholders should provide much needed services within women's reach to enable women to have access to a range of services that allow them to save money, access loans, make and receive payments at anytime from anywhere, or access insurance in order to improve their resilience.

Also, to improve usage of these new or enhanced existing products and services, financial literacy including digital literacy programs will be an important tool to help women make informed financial decisions.

Policy and Stakeholders

Supporting DFS in value chains with specific products and services for women would have the potential to unlock financial services' access and usage while offering a safe, private, and convenient way to save money, access loans, make and receive payments, or access insurance.

The policy led by the Ministry of Finance via its Agency for the Promotion of Financial Inclusion presents an opportunity to impact women's access and usage to DFS in the agricultural sector.

The project will be launched in a selected region identified by the Ministry of Agriculture to first, partially digitize producers' revenues, limiting related costs and allowing producers to deposit the money into their personal accounts whether it's their existing village savings group or microfinance institution (MFI) accounts.

Once this phase is complete, developments partners in collaboration with DFS providers who design and promote digital products for women will define the best ways to make further headway on the project, working closely with women farmers, women-led associations, and cooperatives to ensure that they will be able to fully benefit from the banking solutions provided.

Meanwhile, the Central Bank will proceed with KYC innovations to improve on-boarding processes and reinforce client-provider trust.

Key Indicators of Change

The main indicators to monitor and evaluate the success of the policy are related to access, usage, and quality of DFS in value chains for women.

Gender-disaggregated measurement indicators and collection tools will be critical for DFS supervision and regulation. The agency's research team will use this data to develop guidelines that encourage supply-side interventions that catalyze rural women's financial access.

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Financial Health

Policy Framework to Address the Issue of Over-Leverage among the Micro-Credit Customers in India

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Executive Summary

Due to the vulnerabilities of their cash flows and market imperfections, low-income micro-credit customers end up taking loans they cannot afford. There is limited understanding and thin evidence on the scale of the problem. Nonetheless, it can impact families, increase lenders' risks, and undermine the micro-credit industry's role in financial inclusion and inclusive growth. My policy solution aims to address the issue by influencing the lenders' practices through twofold solutions

- Shaping for uniform micro-credit regulations, including leverage norms applicable to all lenders, regardless of their status.
- Building the self-regulation ecosystem by developing credit assessment tools, market research, learning, monitoring and, collaboration/convening/consensus among lenders.

Context and Problem Statement

In India, over 90% (ILO, 2018) of households are employed in the informal economy and have low-income. These low-income households (LIHs) also characterised by a low level of education, skills, and lack of safety nets and access to formal financial services.[1] In the last few years, LIHs' access to formal financial services has improved significantly (World Bank, 2017), mainly saving accounts. However, due to low and volatile income, vulnerabilities, lack of access to safety nets and suitable financial products including limited usage of saving accounts (MicroSave Consulting, 2019), credit becomes the most vital product to deal with life cycle needs.

Given this vast demand for credit among LIHs, micro-credit has been a hugely successful story in India. Supported by regulations, commercialisation and a robust business model, over 170 diverse regulated lenders [banks, small finance banks, non-banking financial company (NBFC)-microfinance institution (MFIs) and NBFCs] provide micro-credit to over 60 million LIHs or 30% of the potential market.[2] Micro-credit—unsecured, small, short-term loans to women in group solidarity model—has supported millions of LIHs over the years[3] to support the livelihoods, manage the cash flows, and deal with shocks.

However, the same ingredients for micro-credit success also make it prone to challenges of over-indebtedness. Unfortunately, the scale and prognosis of the problem are complex and imprecise. Estimates[4] of over-indebtedness (depending on how one measures the over-leverage) vary from 2%[5] to 25%. Moreover, lack of evidence on income (due to assessment challenges) and true indebtedness (due to informal credit and fragmentation of formal credit information), vulnerabilities and 98% repayments make it hard to understand the problem. Research and anecdotal evidence shows LIHs taking loans and adjusting the expenses to repay the existing loans on time (Prathap and Khaitan, 2016). Group liability also masks the repayment stress at the customer level to some extent.

In any case, it is still an issue for over-leverage can ruin the families economically, socially and psychologically. Equally, it brings reputational, political, regulatory and credit risks to the industry, undermining trust in micro-credit.[6]

Key Causes

The problem has complex causes.

On the demand side, due to over-reliance on credit as a financial instrument, vulnerability, rising aspirations, and easy availability of credit, customers end up taking credit they can afford.

On supply, lenders have patchy evidence on households' cash flows, and raising loan sizes is an easy way to increase scale and profits. Further, the changes in the supply in the last five years means that regulatory leverage norms, however imperfect, are only applicable to NBFC-MFIs who account for less than a third of the current supply. This has compounded the problem as banks including small finance banks (SFBs) who account for 65% of supply are outside of regulatory norms for micro-credit including leverage thresholds. Industry data shows that eastern regions where banks dominate have much higher debt,[7] leading to repayment issues and adverse outcomes for the customers.

Potential Solutions

Indeed, a long-term solution to the issue calls for a policy solution tackling causes on both demand and supply through an ecosystem approach.

On the demand side, policy solutions require enhancing customers' income, improving their access to safety nets[8] (government or private), diverse financial products and bringing greater awareness about responsibly taking credit based on repayment capacity.

On the supply side, lenders need to invest resources for better household credit assessment and prioritise the customer well-being to ensure that they lend to the customer according to their repayment capacity and not beyond. Lending according to repayment capacity and tracking the household for impending vulnerabilities is critical to ensure that the customer does not come under financial stress through the loan tenure. Influencing lenders' practices will require threefold reinforcement.

- Regulations should clearly define the micro-credit, including leverage caps and ensure that all lenders, regardless of their regulatory status, follow the same.
- Investors and board, which define the agenda for lenders, take responsibility and accountability for addressing overindebtedness for the company's long-term sustainability.
- An ecosystem of self-regulation works with the industry to develop assessment tools and track indebtedness trends across lenders/geographies/time/segments and guide suitable changes in policy and business

Priority Solutions Bundle

I chose the second policy solution bundle between these two distinct bundles, given Microfinance Institutions Network's (MFIN's) strength to influence the supply side. MFIN has worked with the regulator and lenders for over a decade now and has a well-established success record. Evidence in India and other jurisdictions that have dealt with over-indebtedness (Pakistan, Bangladesh) show that responsible lending practices are critical.

There is no denying that tackling demand-side challenges is equally essential for a long-term sustainable solution. If customers remain vulnerable and do not improve access and capacities to deal with vulnerabilities, they will remain continuously exposed to vagaries of over-indebtedness. However, my organisation has limited ability to impact the demand side, which has much larger macro drivers connected with complex underlying issues. For example, MFIN can do precious little to influence the economic growth, employment creation, provision of safety nets, the impact of natural and other disasters, availability of non-credit financial products in the market and large scale customer awareness. Further, in a nervous economy due to pandemic, hitting LIHs the hardest, preconditions to improve the demand side challenges are even weaker. Therefore, a supply-side solution becomes all the more critical in a short to medium-term.

Policy(ies)

Engaging with the Reserve Bank of India (RBI) to clearly define the regulations for micro-credit and detail the leverage norms, and other customer protection measures. A decade after the micro-credit regulations were introduced in 2011, RBI has put out a consultative document[9] proposing far-reaching changes. This document looks at a market and principles-based approach with greater trust and accountability of lenders to address over-indebtedness and other customer protection issues, including interest rates. MFIN will use this window of opportunity to provide feedback and data to the RBI for pertinent regulations and standards—for example, on assessment of household income, leveraging norms, disclosure of loan terms, calculation of interest rates, and so on.

However, any regulations, well-meaning and detailed aside, cannot address the complexities of the market in a country as vast and diverse as India and prone to tick boxing and interpretational issues. Therefore, the second leg of my policy solution is to create an enabling ecosystem to address over-indebtedness. For this, Self-Regulatory Organizations (SROs) such as MFIN will take the lead through outputs such as income assessment/underwriting tools, data, reporting and convene lenders and investors and other stakeholders to address the overindebtedness[10] for long-term sustainability. This is important to ensure that lenders, irrespective of their hues, have the right understanding of over leveraging and sincerity, and incentive to address it.

I propose to use credit bureau data, customer and lender level surveys, and customer grievances to monitor the policy for adherence, gaps, and progress.

Next Steps

July 2021–March 2022 (estimated): The first window to provide feedback to the RBI on "Consultative Paper on Microfinance," which aims to define the micro-credit and leverage norms, is July 31, 2021. RBI may take 3–12 months to synthesise the feedback and bring our the new regulations.

July 2021–March 2022: Develop a tool for income and indebtedness assessment. This will include consultation with lenders on the existing tools, specialised agencies, and testing the tool for credibility.

July 2021–March 2022: Collaborate with research agencies and credit bureaus to understand the indebtedness better. A consumer survey and data will help understand the issue more deeply across dimensions and form the baseline for indebtedness level.

Once the regulations are in place, MFIN will work closely with regulators, lenders, and other market stakeholders to support their adaptation to the regulatory regime. This will include tracking their credit assessment tools, board policies, operational guidelines, and practices. MFIN will also work to understand and monitor the market trends in terms of product features, loan sizes, and over-indebtedness through annual surveys, data analysis, and consumer surveys and provide feedback to regulator and lenders

Key Indicators of Change

Customers bucketed across indebtedness levels (total indebtedness, number of lenders, monthly debt obligation, etc.) across lenders, location, gender, occupations, geographic areas, and peer groups.

Annual survey among the lenders to capture their approach to household income, credit assessment, tickets size, indebtedness, etc.

Annual customer surveys to get a demand side view of over-indebtedness.[11]

Notes

1. Retrieved from https://www.orfonline.org/expert-speak/future-of-unemployment-and-the-informal-sector-of-india-63190/.
2. Estimates by MFIN on the basis of current outreach and overall LIHs (pegged at 70% of total households) in India.
3. Since 2011, micro-credit has served over 150 mn customers, as per data from credit bureaus.
4. That is, percentage of customers who are over-leveraged.
5. If one goes by the regulatory threshold of total indebtedness, only 2% customers have loan outstanding in excess of the regulatory threshold; that is, Rs 1.25 Lakh or ≈USD 1600. However, if over-indebtedness is considered as monthly debt obligation being >30% of income, nearly 25% households will fall in this category, assuming LIHs have income as defined by the RBI.
6 Issues of overindebtedness in Andhra Pradesh in 2011 and Assam last year clearly manifested these risks and so do smaller localized episodes.
7 Since lenders other than NBFC-MFIs do not have to follow the regulatory norms on multiple lending, loan amount outstanding, ticket sizes, and tenure. These lenders follow their own norms based on business and risk appetite.
8 For example government support programs during natural disaster, loss of income as happened during COVID-19, or private like health and life insurance, insurance against loss of income due to hospitalization, building savings buffer for emergencies, etc.
9. Available at https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=20377.
10. Given the nebulous nature of indebtedness and lack of effective ways to measure it at household or industry level, SROs have important role to define standards and constantly monitor the trends through multiple sources (customer insights, credit bureau data) to inform the industry practices.
11. As mentioned, there is no standard definition of overindebtedness and debt to income ratio or other purely quantitative metrics are not sufficient enough measure the problem. Therefore, it is important to define and understand the overindebtedness and underlying dynamics using customer surveys capturing repayment behavior.

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Pursuing Dignity for the Elderly: Updating the Pension Regimen for Independent Workers in Peru

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Executive Summary

In Peru, the lack of a pension has been a permanent topic in public agenda the last years, particularly regarding independent urban workers[1] who cannot guarantee a livelihood for their old ages, despite having worked their entire lives, because they have not accumulated the number of contributions required to get a pension. Consequently, the financial inclusion challenge is about updating the current regulation to consider the current characteristics of these kind of workers, so they can contribute regularly and get a pension.

Problem Statement and Context

Peru is a middle-income country, with 30% of its population living below the poverty line; the average monthly income is about US $500 but the minimum wage is US $260, with an unemployment rate of 3% before the pandemic. Families have on average three children and life expectancy is about 77 years.

In this country, three out of four workers will not have a pension at old age. This is particularly crucial for the independent workers who represent 46% of the workforce, and who cannot guarantee a livelihood for their old age. Currently, the pension system is open to employees who receive a monthly payment above the minimum wage, and the contribution is a percentage taken out of the salary by the employer. Conversely, independent workers who often earn *below* the minimum wage (since they can be contracted for a single day activity or even nothing during several months in a year), are not eligible. Furthermore, moving from contributing as a dependent worker to an independent worker, and back, demands a tiresome procedure at the National Pension Office (NPO) every time. This is more complicated for independent workers who have no employer for the paperwork verification. As a result, most of the time, independent workers do not follow the procedures and they cannot fulfill the number of contributions needed to obtain a pension.

For example, we can imagine Ana, who is 90 years old; she used to work as housekeeper for the same family for 50 years; in Peru, housekeepers are legally dependent workers, but families used to treat them as independent workers to avoid paying health insurance, so most of the time (as in Ana's case), housekeepers are not affiliated to any pension system.

On the other side, Daniel is 70 years old and has been taxi driver the last 30 years; he used to work in different activities—as salesman, workman, clerk—sometimes as a dependent worker and other times as an independent worker. In his 40s, he was fired and decided to work as taxi driver while he found another job, but he was unskilled, and employers preferred young people, so that temporary job became permanent. Since he did not work every month and moved from dependent to independent worker steadily, he did not contribute regularly enough to get a pension, because he had to fill a form to pay the contribution and take it to the bank offices, which are usually crowded during work hours. Now he has to keep on working to survive, since he has nobody to take care of him.

Key Causes

The National Pension System (NPS) started back in 1973, when the country had 14.6 million people and the life expectancy was 56 years; there were large companies and people used to have the same employer their whole lives. But the world has changed considerably since that year; currently, Peru has about 33 million people and the life expectancy is 77 years; small enterprises are the rule, and millennials and centennials jump from one job to another job frequently, and most of the time they are self-employed.

The NPS main characteristic is getting fixed benefits, with a minimum pension of US $140, and a cap of US $250. The contributions are a percentage of the monthly income of workers, which are pooled to finance the current pensions; however, the system is not sustainable, since contributions are fewer than needed and the Government has to finance about 16% of the budget.

The structure of the NPS was built for dependent workers,[2] who earn at least the minimum wage. What is not taken into consideration are the particular traits of independent workers who can earn less than the minimum wage in a particular month but are obligated to contribute as if they would have earned the minimum wage, reducing the amount of money for their expenses; for that reason, some prefer not to register to contribute. Besides, when an independent worker switches to a dependent job, and in return, has to inform to the NPO, by filling in forms at its offices, he also has to pay the contributions personally at bank offices, losing his time.

The system does not consider the current characteristics of the workforce, which used to be mostly self-employed and can earn monthly less than the minimum wage. As it was mentioned, it obligates these workers to fill forms they may not understand to pay contributions every time, and take it to bank agencies, where he may spend many hours because they are usually crowded, losing time from work. Besides, the NPS does not allow to pay the contribution below the minimum wage, since it is based on dependent workers who cannot earn less than that; however, independent workers can have different payments in a month, less than the minimum wage, or have just one payment or even none.

Potential Solutions

As it was mentioned before, three out of four workers will not have a pension during old age; however, it is not a problem of unemployment, which is about 3%, but informality, because most of the time people are hired as independent (46% of the workforce). For these workers, affiliation to the NSP is voluntary and considering that sometimes they would have to contribute above their possibilities, and all the paperwork, scarcely 1.5% of the independent workers are affiliated.

One way of addressing this problem would be to transition all independent workers to dependent ones: According to the current legislation, it would be necessary to review the complete labor rights enforcement system to prevent dependent workers to be hired as independent, so they could contribute regularly to the NPS. However, this solution demands to coordinate with more different stakeholders, not only public, but private institutions and civil society, and eventually take the proposal to the Parliament, which would demand not only a great effort of coordination, but a lot of time. After all, the Government would be able to supervise firms to enforce labor rights as a solution.

That solution could represent a long journey, and it would be extremely difficult to supervise every firm. Considering the large informality of the country, I suggest a small change focused on the characteristics of the independent workers, which would not need the participation of the Parliament. For that reason, a more efficient proposal is that the Government updates pension regulation to accommodate the current labor market structure, to encourage independent workers' affiliation, and ease the transition.

Priority Solutions Bundle

The basic food portion per person per month is about US $100, and families usually have five members; that means, on average, families need US $500 a month to survive. However, the minimum wage is US $260 and sometimes only fathers work. For that reason, if somebody earns below the minimum wage, and is independent, he may prefer not to pay the contribution to the NPS since it is voluntary. Depending on the monthly income, the contribution could represent a huge part of it (nobody can contribute less than US $33.8, the contribution from a minimum wage). However, if people have no pension, they and their families do not have health assistance from social security either.

For that reason, the policy proposed is focused on changing the pension regulation to promote independent workers' affiliation to the NPS, considering that they are self-employed and usually earn less than the minimum wage. The idea is not a complete reform; however, it is an important change that does not need to be enacted in Parliament, but in the Ministry of Economy and Finance, so it is more achievable. The core areas of proposed reform are:

- facilitating registration,
- contributing as you can, and
- providing simpler channels and more mechanisms to pay.

Policy

Considering the current labor market structure, the Government must update the regulation, adopting a policy that comprises three ideas:

a. *Register once in your life*: it allows someone to register once, no matter their employment status, and allows them to move easily from being a dependent worker to an independent worker, and in return, avoiding the tedious paperwork.
b. *Contribute as you can without minimum thresholds*: no matter your employment situation (even unemployed) and no matter how much you earn (could be below the minimum wage).
c. *Multichannel service*: to pay the contribution not only in a bank office; any financial system channel should be used to pay—that is, offices, ATMs, apps, online or with agents. Besides, it is possible to agree with major retailers (supermarkets, restaurants, gas stations, drugstores, and the like) to add a fixed small percentage of every single consumption to the bill; using an ID card number is possible to relate the receipt to a particular NPS account (i.e., when someone goes to the supermarket to buy groceries or even a taxi driver using a gas pump can increase the pension funds).

Stakeholders

a. The National Pension Office is the key actor, since it is in charge of the NPS. It has expressed its concerns about people who have no pension, so it is prone to support any reform to expand the system coverage; during previous meetings, particularly, the head of the institution has committed to back any reform.
b. The Office of Budget at the Ministry of Economy and Finance is responsible for providing additional funds to promote the policy and to finance the future pensions. It is usually a tough activity to get funds, but this idea is sustainable because it seeks to get more people contributing nowadays, which means more money to pay current pensions, so it may be particularly attractive to the Ministry.
c. Companies specialized in providing multichannel services, particularly digital platforms that have flourished exponentially during the pandemic, because Peruvians are getting more and more used to using digital channels. Since this market is in full expansion, and the pension

contributions offer another way to grow their business, providers knock on the doors of potential customers, including public entities, so, it would be easy to get in touch of them.

d. The Superintendency of Banking, Insurance, and Private Pensions is an autonomous institution in charge of supervising the Private Pension Fund Managers (AFP for their acronym in Spanish), which are the main actors in the Private Pension System, in order to coordinate actions that prevent any harm to the other system. The Ministry and the Superintendency have developed fluent channels for exchanging information about new proposals.

Next Steps

ACTIVITY	MONTH							
	1	2	3	4	5	6	7	8
The Director of Public Pensions and the Head of the National Pension Office (NPO) agree to adopt a flexible payment mechanism to independents workers.								
The Head of the NPO appoints a working group to design the mechanism, since they are responsible to pay public pensions.								
The Head of the NPO submits the proposal to the Ministry of Economy and Finance (MEF) to be enacted.								
The proposal is sent to the Directorate of Public Pensions (DPP) for a technical assessment and implementation.								
The DPP team has to coordinate internally with the Directorate of Public Budget, since the NPO will need more resources from the public budget to implement the new mechanism.								
The Director of Public Pensions has to make a presentation to the minister of the proposal, for his approval.								
The DPP team has to coordinate with the Superintendency of Banking, Insurance and Private Pensions, in order to avoid any harm to the Private Pension System.								
MEF enacts the regulation with the new payment mechanism for independents workers.								
NPO deploys a multichannel information service about the advantages of the new flexible payment mechanism.								
NPO provides technological assistance to its affiliates.								
NPO develops a platform and “app” to easily affiliate and pay contributions.								
NPO sets agreements with banks to allow payments in their different channels.								
NPO sets agreements with different kinds of payment providers to diversify the alternatives for contributors.								
NPO implements new alternatives to affiliate workers and diversifies payment methods for independent workers.								

Key Indicators of Change

We will measure success when we see new regulation enacted by the Ministry of Economy and Finance focused on flexible payment mechanisms for independent workers. The data source is the Official Gazette where the regulation must be published.

Further, we hope to measure and see demonstrated uptake:

a. 10% of new independent workers affiliated to the NPS annually. The data source is the independent workers' records of the NPO. The Office of Economic Research of the NPO is responsible for providing this data for the Annual Report of the institution, issued during the first trimester of every year.
b. 10% of new independent workers have a pension annually. The data source is the National Household Survey carried out by the National Institute of Statistics.

Notes

1. Independent workers are usually self-employed; they might be temps, but they are more often freelancers. The main difference with dependent workers is that the latter are employees subordinated to the person who hires them. In Peru, due to informality, many dependent workers are hired as independent ones to avoid respecting their labor rights.
2. Dependent workers are employees subordinated to the person who hires them. Some of their rights are: vacations, health insurance, an 8-hour workday, paid rest on weekends, and the like.

Youth Consumer Protection Policy for Sustainable Access to Financial Services by the Youths for Improved Livelihoods

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Executive Summary

The youth segment presents both an opportunity to make meaningful contribution to the society in advancing economic growth and also a policy dilemma. The youth in Zimbabwe face numerous constraints that have resulted in most of them remaining outside the formal banking system, making it difficult for them to utilize financial services to improve their livelihoods. Regulation on Youth-focused Consumer Protection will facilitate focused policies to increase young people's access to financial services in order to harness the productive capabilities of the youth.

Context

The youths in urban Zimbabwe, aged between 18 and 35 years, constitute 37% of the total population of 14.2 million people in Zimbabwe, and 43% are below the age of 18 years, (Zimbabwe National Youth Policy, 2013). According to the 2019 Labour Force and Child Labour Survey, 33.1% are unemployed, and the estimates that 20% of youths in the 18 to 24 age group are never able to secure employment (United Nations Capital Development Fund, 2017).

There are several reasons why youth are not accessing formal financial services in urban Zimbabwe.

- Financial institutions have not availed much credit to the youth as most youths do not meet the set minimum account opening criteria by financial institutions such as proof of income, proof of residency, and credit history. About 144,676 loans were issued to the youths in Zimbabwe, which constituted 3.38% of total banking sector loans of about USD4 billion as of March 30, 2020 (Making Access Possible Report: Zimbabwe Financial Inclusion Refresh 2020).
- These financial institutions are reluctant to offer credit to youth because of high delinquency rate on credit issued to them.
- Financial institutions lack appropriate financial products that meet the needs of youths in the different stages of their lives.
- Financial literacy is low among most youths as they have lower levels of knowledge and experience with formal financial services to access financial products to improve their livelihoods. This is exacerbated by school curriculum, which does not have relevant financial education.
- Youths lack the entrepreneurial skills to start their own enterprises since most school curricula do not cover such modules in the education system, which is largely focused on the formal sector.

Potential Solutions

There are a number of solutions that can facilitate the sustainable use of financial services by the youth to improve their financial resilience. Possible solutions can be described as summarized below:

1. The Central Bank needs to amend the Consumer Protection Policy Framework No. 1-2017/BSD, to include youth-specific regulation by financial institutions, which addresses specific barriers to youth financial inclusion.
2. Educators from primary, secondary, and right up to tertiary education need to incorporate financial literacy in school curriculum so that youths are equipped to use financial products to establish viable businesses.
3. Financial institutions need to utilize data on youths from reputable surveys to inform them on the disparities youth experience in terms of pricing and complaints handling and redress.

The Policy Solution

The Reserve Bank of Zimbabwe rolled out the Consumer Protection Policy Framework No. 1-2017/BSD, for protecting the rights of all consumers of financial services for all consumers in the market. However, the youth can be particularly vulnerable and exposed to risks since they do not have sufficient experience in using financial services.

In this regard, I am proposing the amendment of the Consumer Protection Policy to take into account the unique characteristics of this target group to facilitate the design of appropriate consumer protection mechanisms so that youths feel safe and confident to use formal financial services. The Reserve Bank has the authority and capacity to amend the policy and enforce its implementation as financial institutions are regulated by the Central Bank.

The amendment to the policy will include the following key components:

Responsible pricing for youth financial services: Research reveals that youth typically have small and irregular incomes (Alliance for Financial Inclusion, 2020). The existing financial products and related costs for adults—such as large opening or minimum balance requirements, account maintenance fees, and taxes—do not take into account the size and frequency of youth incomes. The amendment to the Consumer Protection Policy will require financial institutions to have tiered pricing for youth products and services that recognize the income levels for the youths, such as low-fee and low-balance savings accounts for youths and removing penalties on early settlement of loan accounts and other basic accounts.

Complementary financial and technological literacy training: Financial literacy plays a crucial role in empowering and protecting young people given the fast pace of financial innovation and the digitalization. Financial institutions will be expected to train youths on how to use available products and services sustainably and to manage their money responsibly, building on what the youths learned in school as well as addressing product specific requirements. The financial literacy material should be youth-centered, connecting to their needs and level of comprehension, and easily accessible and delivered through youth-appropriate channels. This will be complemented by the ability of staff within a financial institution to interact in a youth-friendly manner.

Complaints handling and redress: Youths should have access to adequate complaints handling and redress mechanisms that are simple to understand, fair, easily accessible, timely and efficient, with minimal litigation, and should not impose any additional costs to them.

Key Stakeholders and Implementation

The Financial Inclusion unit and other departments such as National Payments System, Legal and Compliance, and Public Relations of the Reserve Bank of Zimbabwe will take the lead in the development and implementation of the regulation on youth consumer protection.

Key external stakeholders will mainly be engaged through stakeholder consultative meetings and workshops and these include the Bankers Association of Zimbabwe and Zimbabwe Association of Microfinance Institutions, and government ministries such as the Ministry of Justice and Legal Affairs, Ministry of Industry and Commerce, and the Ministry of Youth. The Ministries of Primary, Secondary, and Tertiary Education, in addition to providing easy access to youths, will also be strategic partners in supporting the adoption of financial education curricula.

The Reserve Bank of Zimbabwe will also take advantage of youth-specific events, such as the Youth days and Global Money Week, to directly engage with youths on financial inclusion. Technical partners such as the World Bank and International Labour Organisation will offer skills training to the financial institutions on how to lend profitably to the youth, and also offer financial literacy training to the youths and educators.

Consultations will also be done with other regulatory institutions including Postal & Telecommunications Regulatory Authority, Securities Exchange Commission, Insurance and Pensions Commission for their input and comments. Such consultations will facilitate collaboration on how these regulators can incorporate Youth-focused Consumer Protection in their focus areas that complement banking services such as micro-insurance and digital financial services.

Input from regional and international institutions who deal with youth financial inclusion such as the Alliance for Financial Inclusion (AFI), Consultative Group to Assist the Poor (CGAP), World Bank, and the International Training Centre of the International Labour Organization (ITCLO) will be sought through peer reviews of the framework.

A communications strategy will be put in place by the Reserve Bank of Zimbabwe with input from stakeholders in communications such as media houses and technical colleges to include aggressive awareness campaigns through print, electronic, and social media to ensure that youths and the public are well versed with the regulations on consumer protection of the youth.

The development and implementation of this policy framework will commence in June 2021 up to March 2022 when it will be issued to the market.

Monitoring and Evaluation

The goal of this policy is to enhance the livelihoods of the youth through the use of financial products and services in the formal financial sector. A monitoring and evaluation framework will facilitate the design of appropriate indicators to measure the expected impact of this policy. Data templates will be used to collate data from banks, microfinance institutions, and insurance companies. Secondary data will be gathered from surveys conducted by world research bodies such as Global Findex and CGAP.

The key indicators of change will include:

a. Number of youths with active bank accounts;
b. Value of loans to the youths as a percentage of total bank loans;
c. Number of youths that have moved from basic accounts to loan accounts;
d. Number of youths that have established businesses using loans accessed from financial institutions; and
e. Number and value of youth non-performing loans.

Consumer feedback will be collated through surveys carried out on youth financial inclusion by reputable bodies such as FinMark Trust and Alliance for Financial Inclusion. The Reserve Bank of Zimbabwe will also collate youth financial inclusion data from financial institutions through submission of quarterly returns, which will form crucial input into the monitoring and evaluation framework.

Conclusion

The amendment of Consumer Protection Policy Framework No.1-2017/BSD, to focus on youths, if successfully implemented, will facilitate the embracing of formal financial services by youths to improve their financial health and livelihoods.

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The Savings Pillar in Financial Resilience

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Executive Summary

Approximately 28 percent of Bahamians indicate that they would be able to cover routine living expenses for only about a month if they were to lose their jobs, and some admit varying levels of mental distress as a result. This memorandum explores cited reasons for lack of savings in The Bahamas, explores potential solutions to increase savings incidence, and proposes a policy resolution to implement a savings bond program to provide support.

Problem Background

In a 2017 survey (Central Bank of the Bahamas, 2017) conducted by the Central Bank of The Bahamas (Central Bank), approximately 13 percent of Bahamian citizens estimated that they could not cover living expenses for even one month if they were to lose their jobs, and 15 percent said that they could cover expenses for just over a month. In fact, some respondents cited varying levels of mental distress when they considered that they would be unable to pay their bills in the very short term if they were to lose their jobs. These fears became a reality in 2020 when many people lost their jobs due to the COVID-19 pandemic.

Primary Causes

Although there are many potential reasons why people may be unable to "make ends meet," the 2017 survey revealed that people are not generally saving for financial shocks, and if they were to lose their jobs, they would have little savings on which to survive. Middle- and high-income earners indicate a preference to spend than save because interest rates on savings accounts are too low, while low-income earners say that they simply have nothing left to save. This is borne out by the fact that although approximately 80 percent of Bahamians own savings accounts, only 12 percent actively use those accounts to save. Respondents in the middle- and high-income categories indicated that while government bonds offer safe and favorable returns, redeeming or selling bonds before maturity imposes market-pricing risk.

Potential Solutions

The fundamental reasons cited for not saving were different across income categories. Low-income earners indicated that saving is impractical, as they simply have no funds left to save after paying routine expenses. The Central Bank is of the view, however, that low-income earners could be encouraged to save, if only at minimal levels, through financial education programs that promote cultural shifts toward budgeting and saving. Middle- and high-income earners, instead, cite low interest rates on savings accounts and volatile market prices on government bonds as primary deterrents to saving. Practically all primary research respondents indicate that they would buy a competitively priced and safe security as a savings alternative, if one existed.

The solutions below outline possible savings-enticing solutions for middle- and high-income earners. The Central Bank recognizes that effective financial education programs targeting low-income earners, while important, will take significant time to develop and implement and are beyond the scope of this proposal.

Consumer Protection Regulations as a Solution

Consistent with global trends, low interest rates persist in The Bahamas, as commercial banks focus on fee revenue rather than interest revenue. The lack of substantive regulations governing banking fees allows commercial banks to set fees commensurate with business models. Strengthening regulations on fees would encourage deposit building for intermediation and improve interest rates on deposits.

Demystifying Government Bonds as a Savings Vehicle

While government bonds offer safe and attractive returns, middle- and high-income earners perceive market pricing risk as untenable in the context of saving. Even with market pricing considerations, government securities offer yields superior to savings accounts, with lower risk. Implementing targeted consumer education programs to educate the public on the mechanics of financial instruments could combat the perception that market pricing erodes intrinsic value, on a relative basis.

Focused Solutions

Although the foregoing solutions are viable, the Central Bank does not consider them as "going far enough" to effect major change. As such, it will focus on developing and issuing a new security type that accounts for consumer-centered perspectives by embedding return-risk characteristics that capture best-outcome solutions. The new security type will index returns to government securities and eliminate market pricing risk by deeming them non-trading. The Central Bank will focus on this solution because the primary outcomes are under its control and it has ready access to the necessary stakeholders to achieve the intended outcome. This solution will allow Bahamians to begin building savings to absorb potential financial shocks and draw less on ad-hoc public assistance schemes.

Intended Policies

The Central Bank will work with the Ministry of Finance to develop regulations to design and issue securities with targeted yield and risk characteristics to encourage long-term savings. These securities would target yields on government securities through indexing, be non-trading to eliminate market-pricing risk, and be redeemable on demand after an initial blackout period. Primary research suggests that return, risk, and market price stability were substantive concerns for people using savings accounts and government bonds as savings vehicles. To promote strong alignment with public sentiments, the Central Bank would engage primary survey participants to opine on the security design and refine the associated communications strategy.

The Central Bank and the Ministry of Finance will create working groups comprised of securities brokers, market infrastructure experts, and consultants to design appropriate rules for the issue, redemption, and registration of the new security type. Enabling legislation already exists through the Public Debt Management Act.

The Central Bank, as structuring and issuing agent, will originate, issue, and register the new securities. The Ministry of Finance's Debt Management Office will build the new security type into its annual financing plan and debt management strategy.

The Central Bank will Central-Bank-digital-currency (CBDC) enable settlement for the new security type, allowing Bahamians to settle purchases in Sand Dollars in accordance with their respective know-your-customer (KYC) tiers. This will allow banked and unbanked citizens and residents, countrywide, the ability to purchase the new security without transactions costs.

Primary Stakeholders

To implement the proposed policies, the Central Bank will work closely with:

- its Markets Department to design the bond characteristics in line with international best practices.
- the Legal Affairs Office to draft the regulations in the context of the Public Debt Management Act.
- the Ministry of Finance to have the regulations enacted by Parliament.
- the Debt Management Office to have the new security type included in the government's annual debt management strategy and financing plan.
- its preferred marketing agency, Blue Orchid, to develop and deploy marketing collateral for the savings bond initiative.

Next Steps for Policy Implementation

To begin the policy implementation process, the Deputy Governor's Office will implement the following tentative timeline:

July 2021: The Deputy Governor will meet with the heads of Markets, Payments, Central Securities Depository, and Financial Inclusion to introduce the program, and discuss high-level plans for the Central Bank's role as structuring and issuing agent and clarify the Central Bank's stake in the program's success. The unit heads will also be asked to opine on the program and provide feedback on how their respective roles will contribute.

August 2021: The Deputy Governor will draft the final Executive (Policy) Paper for the Governor's approval to have the Central Bank act as structuring and issuing agent for these new government securities.

Sep.–Oct. 2021: Central Bank's Markets Department will design the bond indenture and run coupon indexing simulations to gauge the plan's expected efficacy.

Central Bank's Legal Unit team and the government's Legal Affairs Office will draft regulations under the Public Debt Management Act to govern rules for the issue, redemption, and administration of the savings bond.

Nov. 2021–Feb. 2022: Cabinet to approve the regulations and request parliamentary endorsement. During these events, the Minister of Finance and the Governor will defend major tenets of the regulations and the need for the new financial instrument.

Central Bank's Markets Department will draft public directions to articulate rules defined in the regulations around issue, redemption, and administration of the bond.

Mar.–Apr. 2022: Financial Inclusion and External Relations to work with the Central Bank's preferred marketing agency to finalize the bond marketing collateral and embed the new bond program into the larger financial literacy campaign.

The Markets Department will launch the bond program by issuing the inaugural offer and monitoring its uptake.

Program Efficacy

A program of such national importance is expected to have measurable impacts on the public's attitude towards saving. In addition to evaluating if the bond issues had successful take-up rates, we would also want to determine if the program had the intended effects of: 1) improving the public savings rate and 2) reducing the public's draw on income replacement facilities.[1] This would be accomplished by comparing positive changes in the average savings rate against corresponding reductions in public assistance drawdowns in search of statistically significant improvements across targeted demographic groups.

Conclusion

Given the foregoing, your agreement is requested to advance this policy proposal to the Board for its endorsement of the policy initiative.

Note

1. Sometimes offered by the government during systemic financial shocks.

Reference

Central Bank of The Bahamas. (2017). Financial Literacy Survey Report, November 2017; Public Domain Research & Strategy Agency.

Rural Access to Finance

Optimizing Bank Agents to Support the Government Food Assistance Program in Papua and Papua Barat

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Executive Summary

Unlike poor people in 32 provinces in Indonesia, poor people in Papua province and West Papua province cannot receive the Cashless Government Food Assistance Program (BPNT). The current distribution system cannot ensure the government assistance is received by qualifying women and used to buy food. We should encourage government-owned banks to recruit agents that have rice and/or other food shops (E-Warong) who can identify recipients, in order to increase access to the BPNT. Cooperation with other related institutions should be enhanced in order to provide a reliable telecommunications network, a steady supply of rice or other food materials, lists of potential agents, and to conduct financial literacy activities.

Problem Statement and Context

Indonesia's government changed methods of delivering assistance to alleviate the poor from distributing cash or goods to cashless through banking system. Government-owned banks (BUMN banks) are assigned to deliver government assistance through their Branchless Banking for Financial Inclusion (Laku Pandai) Program. Some shortfalls from the previous delivering mechanisms, such as funds received by unauthorized persons and not in full amounts, are corrected.

In addition to serving payment transactions, transfers, and deposits and withdrawals of cash, bank agents who serve the Cashless Food Assistance Program (BPNT) recipients sell raw food in their agency premise, called E-Warong. Poor women will be registered and will receive a basic saving account (BSA, a no frills account) with a Combo Card (as ATM card and e-wallet). Their e-wallet will receive funds monthly, which can be used to buy rice, eggs, or other raw food in any E-Warong.

Until 2019, the BPNT could not reach all provinces. Some problems (telecommunication network, food distribution, inadequate number of E-Warong) still occur in some areas. Until now, poor people in 42 counties in Papua province and West Papua province are left out from the BPNT, which has been implemented in 472 counties in 32 provinces in Indonesia. Poor people in these two provinces receive cash transferred through the Post Office quarterly. Without the Combo Card that is used in BPNT, the government is unable to ensure: 1) the receivers are the targeted beneficiary, 2) the money is received in the full amount, and 3) the money is used to buy food. If the money received was used to buy goods or services other than food, some children could experience malnutrition. This effect may be shown by the stunting rate. While Indonesia reduced the national toddler stunting prevalence successfully to 11.6% in the year 2020 (Kementerian Kesehatan, 2021), Papua and West Papua are still at 17.7% and 20.4%.

Key Causes

The ratio of bank agents to total poor people in Indonesia[1] as of September 2019 is 4.62%, while only 0.73% and 1.73% for Papua province and West Papua province. These percentages show that the opportunity for poor people and people who live in remote areas to have financial access is much less in those two provinces compared to the other 32 provinces in Indonesia.

The scarcity of bank agents in remote areas might come from the difficulties in recruiting bank agents in these two provinces, and seldom do people use their bank accounts, due to cash preference, interoperability cost, and transaction failures related to poor telecommunications.

In Papua and West Papua, shops that can sell rice or other raw food at an affordable price are rare. Productivity of the agricultural sector that is not optimized was mentioned in the Masterplan (abbreviated MP3EI)[2] as one of the challenges for development in Papua and West Papua.

The inadequacy of telecommunication network and road transportation undermine the potential of digital financial services (DFS) and threaten the delivery of food and agricultural products.

Potential Solutions

On top of the effort to increase security and the availability of infrastructure that are prerequisites to any solutions, there are three solutions that have the potential to be implemented.

A. by reducing the cost of transactions at bank agents and promoting financial literacy in remote areas, the demand for bank agents will increase. One of the keys is interoperability that should be available and affordable for any transaction in bank agent locations including transactions of BSA owners from different banks.
B. since the local governments in Papua and West Papua urge Bank Papua (a local/regional development bank) to establish branches or cash offices by supporting some kind of facilitations, it will be good if Bank Papua developed a Laku Pandai program. Then, since the regulation states that if BUMN banks cannot deliver BPNT program dutifully in one area, another bank can be assigned, Bank Papua will have the opportunity to get assigned by the committee of Government Cashless Assistance to be one of the BPNT providers.
3. to encourage BUMN banks themselves to recruit more bank agents who can sell rice, eggs, or other food in all villages where poor people live.

Priority Solutions Bundle

From the three potential solutions above, the first and second potential solutions are far from reachable.

Current interoperability among 31 different banks' accounts will cost at least 40 cents USD per transaction using a bank card or free if using QR code. OJK has to bring the issue of low-cost interoperability to Bank Indonesia who hold the authority on Payment System, which will take a long time and big cooperative effort.

To be able to get a Laku Pandai license, Bank Papua must show its ability in providing electronic banking products and services as well as in managing risks that are related to information technology risk. Currently, it is difficult for Bank Papua to comply with these preconditions.

If we choose the third potential solution, which is encouraging the National Government-Owned Banks (BUMN banks) to recruit and train more E-Warong, we need to analyze many factors.

First, referring to demography factors, from all four BUMN banks, Bank Negara Indonesia (BNI) has agents in 35 out of 42 counties/towns. Second, talking about telecommunication, Bank Rakyat Indonesia (BRI) has its own satellite, and many local governments utilize it. Perhaps other banks can also use the BRI satellite. Third, use the ATM LINK system to integrate the ATMs of the BUMN banks, and provide the system in agents' premises to lower the cost of interbank transactions. This effort will not only be beneficial for customers but also will attract more people or retailers to be new bank agents. Last, bank agents for BPNT should use existing food shops that are able to provide rice, eggs, and other raw food in their shops at a reasonable price.

Policy(ies)

Encouraging BUMN banks to recruit more bank agents that can be E-Warong to serve poor people in Papua and West Papua is the ultimate policy that has to be taken on by OJK. This policy is implemented through bank supervisors (DPB1—OJK head office), OJK Papua office, and local governments. The encouragement may get success if the recruited agents take part in other financial inclusion programs too such as agriculture (farmer inclusive & farmer card), smart city (transportation card), and fisheries (Kusuka & Jaring).

If we use the BPNT rules that at least one E-Warong should be available in each village, the number of available food shops that needed to be recruited as bank agents, E-Warong, in Papua and Wes Papua is about 2,500. To support banks in recruiting and maintaining good E-Warongs, policies needed to be taken by other stakeholders of BPNT, such as:

1. local government gives incentives and training to people who are willing to produce rice/ other food, and let E-Warong deal directly to these rice-mills or farms;
2. financial literacy done not only by banks and OJK but also through TPKAD[4] and cultural activities;
3. BULOG.[5] recruits more food distribution agents (RPK) and more eligible agents could be bank agents; and
4. BAKTI[6] and Telkomsel build last-mile telecommunication towers and WIFI centers.

Stakeholders and Next Steps

To make the implementation of policies taken stay in the corridor of the BPNT program regulation, the Coordination Ministry of Culture and Human Development (Kemenko PMK—as the coordinator of the Cashless Government Food Assistance Program) should make some high-level or technical-level coordination meetings with all ministries or institutions that are members of the committee since they all are the stakeholders of BPNT.

The first expected task from the committee is for local governments in Papua and West Papua to update and validate the data of potential BPNT recipients and send it to Pusdatin.

There are some tasks that have to be provided by the committee members in order to allow the efforts done at a local level to be implemented seamlessly:

1. Ministry of Finance should make a commitment for the next year's national budget to provide funding for building more last-mile telecommunication towers and WIFI facility centers.
2. OJK as the Financial Service Authority should coordinate with Bank Indonesia as a Central bank to help banks in doing BPNT and Financial Literacy activities.
3. The Ministry of Social Welfare (Kemensos) should update the recipients' data, by name and address, and train the social workers about the implementation plan.
4. The Ministry of internal affairs should modify its monitoring program system to suit the geography conditions in Papua and West Papua.

Key Indicators of Change

By utilizing the Laku Pandai reporting system in OJK (data submitted by the bank quarterly), the information about the number of bank agents in 42 counties/towns in Papua province and West Papua province will be obtained periodically, including E-Warong.

Data on poor people and stunting in every province can be obtained through the BPS website (national institution for statistical data). Data of the recipients of BPNT are maintained in the center of information and data—Kemensos (Pusdatin). This data is updated semesterly;

the process begins with people meeting at the village level, inputting data to the Poor Women Database at the county/town level, data verification, and finally the data is sent to and processed in Pusdatin. All data on funds received and used by BPNT recipients is sent by BUMN banks through the system to the data center in BNI, and can be seen by leaders in the committee through the system's dashboard.

From Kemenkominfo we can get the data on the percentage of telecommunication coverage of inhabited areas in every village in Indonesia, 2G, 3G, and 4G. All telecommunication operators and BAKTI submit their data to Kemenkominfo periodically.

Notes

1. Calculated from Laku Pandai agent data, retrieved from https://www.ojk.go.id/id/pages/Laku-Pandai.aspx, accessed on May 31, 2021.
2. Master Plan for the Acceleration and Expansion of Indonesia Economic Development 2011–2025, page 157–158, Retrieved from https://www.aseanbriefing.com › Indonesia › FDI.
3. ATM LINKs are all ATMs belonging to 4 (four) State Banks that are members of the State Bank Association (Himbara), namely Bank Mandiri, BNI, BRI, and BTN, which have the ATM Link logo. Currently, there are 53,000 ATM Links spread throughout Indonesia. Retrieved from https://www.bankmandiri.co.id/faq-atm-link. The owner of ATM Link logo is PT Jalin Pembayaran Nusantara (Jalin), a national switching company that was established on November 3, 2016 based on the initiatives of the Ministry of State-Owned Enterprises, Himbara (BTN, BNI, Mandiri Bank, BRI) and Telkom Indonesia. Retrieved from https://www.jalin.co.id/en/.
4. The Regional Financial Access Acceleration Team (TPAKD) is a coordination forum between relevant agencies and stakeholders (Ministry of Internal Affair, Coordinating Ministry for the Economy, Ministry of Finance, Bank Indonesia, OJK, banks, Local/County level governments and others. This forum is aimed to increase the acceleration of financial access in the regions in order to encourage regional economic growth and create more prosperous societies. Retrieved from https://sitpakd.ojk.go.id/.
5. The Indonesia Logistics Bureau (Indonesian: Badan Urusan Logistik/BULOG) is a Government-owned company in Indonesia that deals with food distribution and price control. One of its responsibilities is to control the food distribution outlets, which are called Rumah Pangan Kita (RPK, Our Food House) that is owned by an entrepreneur or retailer. Retrieved from http://www.bulog.co.id/.
6. Badan Aksesibilitas Telekomunikasi dan Informasi (BAKTI, the institution under the Minister of Communication and Information) is established to help government ensure communities in the frontier, outermost, underdeveloped areas have access to communication. Retrieved from https://www.baktikominfo.id/.

Enhancing Small Farmers' Access to Credit in Afghanistan

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Executive Summary

The agriculture sector plays a key role in Afghanistan's economy and accounts for 40% of employment.[1] There is great potential growth of the agriculture sector, however it is constrained by multiple factors. These include limited access of poor farmers to credit to buy fertilizer and improved seeds during the cultivation seasons. This financial inclusion challenge has led to sustained and even increased poverty in the country. Insights gained[2] reveal that lack of access to credit due to non-existence of MFI branches, collateral requirements, and preference for Islamic finance products are a key factor that has bound farmers' productivity and their income growth. Given causes of the problem, the proposed policy will focus on loan product design, expansion of branches of the MFIs in the rural areas, credit guarantee schemes, and improving financial literacy of the farmers.

Problem Statement and Context

In Afghanistan, around 80% of the population is financially excluded and almost 47% of the population lives in poverty. Banks' credit to the agriculture sector is less than 5% of their loan portfolio. Moreover, only 8% of Afghan farmers have received loans from banks, and just 5% of the farmers have received loans from the microfinance institutions (MFIs).[3] This study focuses on poor farmers in the rural areas of South of Kabul that have difficulty in accessing fertilizer and improved seeds during the cultivation seasons due to lack of access to credit and unlocking the opportunities that will lead to their productivity and income growth.

Key Causes

While there are multiple causes behind lack of access to credit that farmers face, key causes are as follows:

1. **Inappropriate Product Design:** Lack of products that can best address the needs of farmers such as seasonal sensitivities, inflexible repayment terms, and alternative collateral requirements is one of the key problems that affects farmers' access to credit. This is due to lack of qualified and experienced staff in the financial sector as well as lack of human-centered product design.
2. **Lack of Sharia-Compliant Products:** Due to religious beliefs, most people do not use loan and saving products offered by the financial institutions. While some MFIs offer Sharia-Compliant products, Islamic finance is still a nascent market in the country.
3. **Higher Interest Rates:** On average, the interest rate charged on micro and small loans offered by the MFIs and DMFIs is 18% per annum on a flat rate. This is while the real return of the agriculture sector for many crops is lower than the interest rates.[4]
4. **High Collateral Requirement:** Many farmers lack assets to provide as collateral against borrowing from the MFIs.
5. **Non-Presence of MFI Branches** in the rural areas is a major problem in accessing financial products and services. The MFIs in turn have reasons such as insecurity and lack of market in those areas.

Potential Solutions

There are many solution bundles to address the financial inclusion challenge faced by farmers. The summary of three main potential solutions bundles is as follow:

- **Offering appropriate financial products to rural farmers:** This solution focuses on building the capacity of MFIs in the areas of product design including designing Islamic finance products, providing credit guarantee to the MFIs who would like to expand loan to farmers, and holding financial literacy programs for farmers.
- **Advancing financial sector's infrastructure:** This solution will addresses the credit information, payment system, and legal framework shortcomings and deficiencies by the Central Bank and will support development of the financial sector by reducing transaction costs, information asymmetry, and enabling the legal framework for a diversified range of products and services as well as new financial service providers. The Central Bank can achieve these by ensuring a fully interoperable and integrated payment system, increasing coverage ratio of the Public Credit Registry to at least 10 percent of adult population, allowing entry of Credit Information Bureaus in the market, etc.
- **Government and MFIs ease farmers access to inputs:** Through this solutions bundle, the MFIs will increase their outreach and lending to farmers in rural areas, and the Ministry of Agriculture along with donors will work together to facilitate small farmers' access to inputs such as fertilizer and improved seeds.

Priority Solutions Bundle

From the solutions bundles mentioned above, the focus will be on implementing the first solution bundle that concentrates on delivery of appropriate financial products and services to rural farmers by the MFIs. The reasons for choosing this solutions bundle are that 1) it addresses some of the key causes of the problem such as high collateral requirements and problems in product design by providing credit guarantees, and building capacity of the MFIs; 2) existence of the technical capacity to implement the solution, and the political will to support programs for poverty reduction; 3) preconditions such as existence of a credit guarantee fund and donors' interest in providing funds; and 4) existence of evidence that this solution will be effective in improving financial inclusion of farmers.

Based on the selected solutions bundle and proposed policy of providing suitable financial products to poor farmers, the following three policy tools will be used to implement the policy:

- Building the capacity of MFIs in the areas of agri-finance product design[5] and leveraging financial technology in lending process. Here, the Microfinance Investment Support Facility for Afghanistan (MISFA) would be responsible to design and implement a comprehensive short term capacity building program by hiring qualified experts. The program would be funded by the donors, i.e., the World Bank. To hold effective capacity building programs, it is suggested that trainers consider on-site visits for the MFIs product developers with farmers to better understand the needs of farmers by interviewing them (human centered research and product development).
- Afghanistan Credit Guarantee Fund (ACGF) would provide credit guarantees to the MFIs that would like to lend to poor farmers by extending its existing fund. Since the ACGF needs donors' support to expand its coverage and portfolio, donors can be expected to provide funds to strengthen the capital of the ACGF.
- Improving financial literacy of farmers. The MFIs can improve financial literacy of farmers while selling their products to them. Moreover, concise and easy to understand financial literacy booklets can also be provided and distributed to farmers.

Stakeholders

Implementation of this policy requires strong and sustainable commitment, collaboration, and coordination among the stakeholders. There would be at least six key stakeholders that include MISFA, ACGF, MFIs (which receive fund from MISFA), World Bank, Ministry of Agriculture, and Ministry of Finance. The stakeholders need to be convinced about the benefits of this policy and reform, and it should be ensured by the leading institution that the interests of stakeholders are aligned.

There will be a coordination structure that will consist of a coordination committee, a taskforce that will include senior level officials of the key stakeholders, and a working group.

Next Steps

In order to operationalize this policy solution, a number of preliminary, introductory, and consultative meetings will be held with the key internal people within the leading agency (MISFA), and external stakeholders to introduce the policy, its objectives and benefits, and to discuss the policy, receive feedback, and secure their support. In the next step, the focus will be made on securing funds from the donors to explain the objectives, opportunities and challenges, possible collaboration avenues, knowing each other's stance and concerns, etc. Once the commitment for financial support is secured, the focus will be made on developing the:

- capacity building programs,
- awareness campaigns, and
- credit guarantee scheme.

After the funds are disbursed by the donor:

- conducting the capacity building programs to the MFIs;
- holding follow up meetings with the MFIs to oversee the process of product development and expanding their branches to rural areas
- launching the products for farmers by MFIs.

Key Indicators of Change

In order to observe the intended changes, MISFA will use the following indicators of change for monitoring purposes. A data collection template and manual will be provided for the relevant stakeholders. In addition, demand side surveys will be conducted biannually to complement supply side data.

- percentage of farmers who borrowed from the MFIs,
- percentage of farmers using at least one product offered by the MFIs,
- percentage of farmers citing that products do not suit their needs,
- number of products MFIs have in the market geared toward farmers,
- number of MFIs citing lack of qualified experts as a problem, and
- number of loans to farmers guaranteed by Afghanistan Credit Guarantee Fund.

Notes

1. Source: National Financial Inclusion Strategy for Afghanistan (2020–2024).
2. Source: Interviewing poor farmers in rural areas of South of Kabul.
3. Source: National Survey: Demand and Supply of Agriculture Financial Services in Afghanistan, USAID, June 2018.
4. Source: National Survey: Demand and Supply of Agriculture Financial Services in Afghanistan, USAID, June 2018.
5. Both conventional and Sharia-compliant products.

Supporting Promotion of Saving Groups and Enabling Linkage of Savings Groups to Financial Services Providers and Mobile Money Service Providers in Madagascar

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Executive Summary

The population from remote rural areas in Madagascar that is engaged in agriculture does not have access to suitable financial services for their particular needs. For instance, they need to buy agriculture inputs such as fertilizers, seeds, or tools such as spades to improve productivity.[1] Due to this situation, they are not able to face financial shocks and accumulate productive capital. This is because they are dependent on irregular income from subsistence agriculture. Indeed, 7 out of 10 of the Malagasy population lives in rural areas (FinMark Trust and INSTAT Madagascar, 2016).

To address that, the recommended policy solution is to support promotion of saving groups and enable linkage of saving groups (SGs)[2] to financial services providers (FSP) such as banks, microfinance institutions, or insurance companies, and mobile money service providers (MMSPs). The linkage will allow SG members to secure their funds, have access to and use a wide range of formal financial services (such as loans, savings, payment services, remittance transfers, health and agricultural microinsurance) and to accumulate productive funds to better their lives and enhance agricultural activities. (Graham Seel, 2018)

Problem Statement and Context

The agricultural population, unserved and underserved, struggle to accumulate productive funds in rural and remote areas in Madagascar due mainly to a lack of access to financial services.In fact, 46% of rural adults are still excluded from financial services, even informal ones (FinMark Trust and INSTAT Madagascar, 2016). The negative human impact of not having access to financial services would be the low yield and the loss of livelihoods because people in need, as it is impossible for them to save for emergencies, have to turn to loan sharks (local money lenders) at a highest interest and bad loan conditions. Indeed, according to World's Bank Global Findex survey in 2017, only 14% of rural adults have an account with a formal financial institution and 7 out of 10 of rural adults are not able to make savings for emergencies in Madagascar (World Bank, 2017).

Certainly, SGs have an emergency fund but this fund is not sufficient for rural needs.

Today, more than 20 development agencies and non governmental organizations (NGOs) are members of the network of SG promoters in Madagascar (RPGEM).[3] The reported SG data of Madagascar on SAVIX are as follows:

Item	2019	2021
Number of saving groups	7,435	8,222
Number of members	152,741	170,219
Amount of savings in USD	2,378,518	2,490,571
Amount of loans in USD	1,690,753	1,710,242

Source: Network of SG Promoters in Madagascar, retrieved from www.thesavix.com, June 2019 and March 2021.

However, the majority of the rural population are not in SGs and SGs offer only a narrow range of financial services, which limits their members to improve productivity and income.

Key Causes

There are several reasons why the majority of the agricultural population in rural and remote areas is not able to accumulate productive funds.

Firstly, the majority of the agricultural population is financially excluded. On the supply side, this situation is due to a huge concentration of FSP in urban areas because of cost constraints, poor infrastructure like roads, electricity, network and connectivity, and remoteness. On the demand side, inappropriate financial services and products and lack of collateral are the main causes.

Secondly, low and irregular income from subsistence agriculture and low productivity creates barriers to accumulation of productive capital.

Thirdly, cash savings are underdeveloped because the agricultural population is reluctant to use financial services. This results from lack of trust due to negative past experiences with microfinance institution (MFIs), and a lack of financial education.

Potential Solutions

Solution bundles to the above-identified problem are as follows:

1. Supporting the promotion of SGs and enabling their linkages to FSPs and MMSPs: This solution offers security because during the period that SGs accumulate members' savings (i.e., a generally annual cycle), there are significant risks associated with insecurity such as robberies and attacks. It also allows SG members to have access to and use a full range of financial services beyond loan and savings, such as banking products, microinsurance products, and payment and money transfers, which will help them to accumulate productive funds to improve agricultural activities and income. (Empowering rural communities through financial inclusion) Due to the linkage, not only can they improve their income, but they can also deal with collateral issues and benefit from an extra financial and digital education.
2. Supporting MFIs to ease access to funds at a lower cost and loan guarantees fund: The Ministry of Economy and Finance (MEF) will reinforce advocacy for financial inclusion in seeking opportunities for refinancing capital and guarantee funds, which will help the MFIs to expand their access point in rural communities, to design appropriate financial products to rural needs and to address collateral issue.
3. Building trust and empowering agricultural population: this solution will focus on developing financial education by drafting a national program for financial education including a component dedicated to the agricultural population in partnership with the ministry of agriculture and drafting consumer protection regulatory framework to enhance usage of financial products.

Priority Solutions Bundle

While all of the solutions bundles are relevant, my proposed solution is the support of promotion of SGs and their linkages to financial institutions and MMSPs. It is in the best interest of SG members and FSP/MMSP to create this alliance.

This is mainly because this solution meets the following criteria:

Feasibility: According to the new microfinance law in 2017, the MEF will be in charge of saving groups monitoring in Madagascar. This mandate is already envisaged in the National Financial Inclusion Strategy (NFIS) of Madagascar 2018–2022.

Preconditions: The network of SG promoters has the task of ensuring the application and harmonization of the deontology of sparse groups. The SGs have had their recognition. Indeed, the SGs are figured in the NFIS of Madagascar. The linkage of SG to FSP and MMSP is highlighted in the draft of the regulatory framework of SGs, which was already sent to the Commission for Supervision of Banking and Finance for perusal.

Evidence: SGs have proven that they are the only providers of financial services for most of the agriculture population in rural and remote areas.[4] In Uganda, the Financial Deepening Trust found two related areas of impact of linkage of SG to MMSP: women were able to borrow and expand their businesses, which resulted in increased household income. Access to mobile money platform also helped increase the financial inclusion of communities living far from banks (Lewin, 2019).

There is evidence that linkage of 25 SGs to banks in Madagascar works retrieved from the experience of CARE in 2020 (Ombona Project, 2020). Members' feedback has indicated that the linkage project has been well adapted to SG methodologies and their ethical principles such as transparency, security, democracy, and respect for consumers. It has allowed them to accumulate funds for their activities.

Stakeholders and Implementation

The implementation of this proposed solution is expected to take two years in line with the NFIS and will involve internal and external key stakeholders. It will include the following steps:

1. Consultative meeting with key internal stakeholders within the MEF, at the National Coordination of Inclusive Finance and the Service of Financial Institution, to introduce the Policy and the different steps for Policy implementation by August 2021.
2. Meeting between banks, microfinance institutions, insurance companies, MMSP, the network of SG promoters (RPGEM), and promoters of SG will focus on presentation of SG and its operation, and especially the advantages of linkage of SGs to financial institutions by December 2021.
3. Support of promotion of SGs by sensitizing SG promoters to create and expand SGs in many regions and to empower village agents to ensure SG sustainability not later than December 2022.
4. Publication of the regulatory framework for SG by the MEF in which importance of linkage is highlighted by December 2021.
5. Developing partnership with FSP and MMSP in drafting and signing the memorandum of understanding (MOU) of the linkage not later than December 2021.
6. Organization of a symposium on SGs during the celebration of world savings day, which will address the existence of SGs and their operation, and highlight the result of the linkage of SG to Bank initiated by CARE Madagascar to financial inclusion stakeholders not later than Octobre 2021.
7. Monitoring and evaluation of the policy implementation by the MEF and the network of SG promoters by December 2022, which will include monitoring of SGs, setting up of a SG database, and SG mapping.

Key Indicators of Change

In order to observe the expected changes, SG promoters should collect data and conduct an impact assessment in partnership with the FSP or MMSP. The following key indicators will be useful for monitoring and evaluation of the policy:

- increase in income of SG members,
- percentage of SG members using mobile money services and microinsurance products,
- number of open mobile accounts,
- number of individual accounts,
- number of MOUs signed,
- number of SGs created, and
- number of SGs linked to FSP or MMSP.

Notes

1. People-centered research–Policy research with potential clients,January 2020. Interview with a SG member during the field visit in the Eastern part of Madagascar.
2. A saving group is a community-managed savings and credit mechanism at the service of its members. It plays a huge role in driving financial inclusion in rural areas because it provides basic financial services such as loans and savings and non-financial services such as capacity building and financial literacy.
3. The network of SG promoters in Madagascar (Réseau des Promoteurs des Groupes d'Epargne à Madagascar–RPGEM) was created with the support of the Ministry of Finance and the Commission for the Supervision of Banking and Finance within the Central Bank of Madagascar in 2016. It will be in charge of reporting data to Ministry of Economy and Finance.
4. People-centered research–Policy research with potential clients, January 2020. Interview with a SG member during the field visit in the Eastern part of Madagascar.

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Improving Administration of the Anchor Borrowers Programme for Food Security and Poverty Alleviation in Nigeria

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Introduction

Nigeria has a total land mass of 923,768 square kilometers and lies above the equator between 9.0820°N and 8.6753°E. It is the second largest economy in sub-Saharan Africa with a gross domestic product (GDP) of US$450 billion as at 2020. The country has vast arable land suitable for cultivating both cash and food crops. *The Oil sector contributed about 7.42% to total real GDP in Q2 2021, down from figures recorded in the corresponding period of 2020 and down compared to the preceding quarter, where it contributed 8.93% and 9.25% respectively. Agriculture contributed 22.13% to nominal GDP in the second quarter of 2021. This figure was lower than the rates recorded for the second quarter of 2020, which recorded 23.92% but higher than the rate recorded in the first quarter of 2021, which stood at 21.42%.* In the same period, the contribution of other sectors to the economy are industry 20.57% and the services 55.56% (National Bureau of Statistics, 2021). Nigeria's adult population of 106 million is made up of 50% female and 50% male, 55% of the total population are between 18 and 35 years of age, 19% have no formal education while 81% own a mobile phone (EFInA A2F, 2020).

According to a World Bank report, 40 percent of the total population, or almost 83 million people, live below the country's poverty line of US$381.75 per year (~US1.5 per day). The agriculture sector employs over 60% of the total labor force in Nigeria (NBS, 2018).

Context and Problem Statement

The average smallholder rural farmer in Nigeria lacks access to finance. Commercial banks are unwilling to lend to this group of farmers because the business case is weak. The National Agriculture Promotion Policy (2016–2020) set a target of increasing lending to the Agriculture sector from 1% in 2011 to 6% of total commercial lending in 2015 (APP, 2016: 25). As at December 2020, the proportion of lending to the Agriculture sector out of total Commercial lending stood at 6% (CBN Statistical Bulletin, 2020). Lending to the agricultural sector is generally considered highly risky and poor in return on investment. Yet the agricultural sector remains the most important sector for the base of any economy because food must be available and affordable for labor to support the super-structure. From the outcome of a survey conducted by this researcher in 2020, six out of eight smallholder farmers in Zuma, a rural agrarian settlement in the Federal Capital Territory, live below the poverty line. As a consequence of this, the households were unable to afford health care service, majority of their children are out of school, family members hardly have three square meals a day, there is increase in the rate at which youths engage in anti-social activities as well as increase in divorce rate among couples.

The root cause of the problem statement is dimensioned into four broad areas:

1. Farmers do not have access to finance to expand farm business:
   a. Inability to get loans from formal financial institutions
   b. Inability to prove credit worthiness
   c. Lack of credit history
   d. Absence of credit bureau

2. Lack of required knowledge to use modern agronomy practices to improve farm output:
   a. Absence of trained Agricultural Extension officers to support farmers
   b. Inefficient Extension service policy at the local government level
   c. Weak inspectorate system at the State Ministry of Agriculture
   d. Inefficient civil service
   e. Nepotism in recruitment process into the civil service

3. Poor implementation of the National Agriculture Plan by the Federal and State Government:
   a. Weak monitoring and evaluation mechanism
   b. Lack of capacity to develop and implement a robust monitoring and evaluation (M&E) system
   c. Weak government institutions such as the Ministry or Department of Agriculture
   d. Absence of incentives to attract competent hands to work for such agencies

4. Weak financial literacy on the part of the farmers
   a. Absence of overarching plan to educate farmers
   b. Government's insensitivity to the plight of farmers
   c. Pervasive systemic corruption
   d. Weak enforcement of extant anti-corruption laws.

In an attempt to proffer solution to the problem stated above, two solution bundles are proposed:

1. Solution Bundle A: The Central Bank of Nigeria (CBN) implements an inclusive finance programme for rural farmers. The ongoing implementation of the Anchor Borrowers Programme (ABP) is in the right direction. However, it should be enhanced in the following ways:
   i. Digitize the process of submitting application to access the CBN Intervention programmes. Simplify the process to enable rural farmers to submit an application for a loan directly from a mobile App installed on their phones (non-legal and enabling).
   ii. Federal Government to ease the process of registering for the National Identity Number by allowing non-state actors that have existing network of service points (locations) to register the people across the towns, cities and villages (non-legal and enabling).
   iii. CBN should offer single-digit interest rate loan facility to farmers to address the funding gap for business expansion. Any rate below 5% will be ideal (non-legal and enabling).
   iv. CBN to reduce licensing fee for Super Agents such that startups can obtain license to serve rural areas (non-legal and enabling).
   v. CBN to improve public sensitization and advocacy on the National Collateral Registry for movable assets to scale up its adoption by Participating Financial Institutions (PFIs), law enforcement agents, and the Judiciary (non-Legal and prescriptive).

2. Solution Bundle B: Government implements an effective National Plan for Agriculture.
   i. Legislate on how to make the agricultural policy stable and transcend political regimes (legal and enabling).
   ii. Revise the existing "Land Use Act" to enable farmers to have access to affordable land for farm business (legal and enabling).
   iii. Increase annual Federal budget for Agriculture from 2% to 10% of total budget (legal and prescriptive).
   iv. Federal Government should Finance massive road and rail construction to ease movement of farm products from source to markets (non-legal and enabling).

Priority Solution:
Since the major stakeholders under Solution Bundle B are outside of my organization, I will concentrate and focus on implementation of the first solution bundle. The stakeholder mapping for Solution Bundle A is as provided below:

Context

The Anchor Borrowers Programme (ABP) is a programme designed by the Federal Government and implemented by the Central Bank of Nigeria (CBN). The broad objective of the ABP is to create economic linkages between smallholder farmers and reputable processors with a view to increasing agricultural output. Other objectives include:

i. Increase banks' lending to the agricultural sector
ii. Reduce agricultural commodity importation and conserve external reserves
iii. Increase capacity utilization of agricultural firms
iv. Create new generation of farmers and entrepreneurs
v. Deepen the cashless policy and financial inclusion
vi. Reduce the level of poverty among smallholder farmers
vii. Assist rural smallholder farmers to grow from subsistence to commercial production (ABP Guidelines, 2019).

After 5 years of implementation, the CBN has commissioned an impact evaluation of the programme to determine what works and what needs to be remodeled. Though the report of that evaluation is not yet published, I carried out personal desk research on the programme with a view to understand the impact of the programme on the lives of the beneficiaries.

I collected data from both primary and secondary sources. Primary data was collected through a survey conducted in Zuma Village, a rural agrarian community in Bwari Area Council of the Federal Capital Territory. A questionnaire was designed to collect qualitative data from a sample of 10 respondents in the community.

Secondary data was also collected through journal articles, newspaper editorials and commentaries as well as financial magazines.

Problem Statement & Root Causes

The result of our research showed that the ABP has not fully achieved its stated objectives. The smallholder rural farmers are facing some hurdles in their attempt to apply for loan under the ABP. One of the major challenges is that under the private anchor model, the rural farmers are expected to either apply for loan under a commodity association or under a prime anchor who doubles as an off-taker of the produce. Under both models, the following are some of the hurdles confronting the farmer:

i. The loan comes with additional cost as a result of the antics of the middlemen such as the prime anchors or the apex commodity association executives.
ii. The loan gets to the farmer late, sometimes 4 to 8 weeks after the cropping season has commenced. The farmer still collects the loan anyway, even if he will eventually utilize it for other purposes other than the farming business. Yet he must pay the loan at due date.
iii. The manner in which the APB is currently administered, differences in cropping calendars of the 36 States of the federation is not factored into the scheme of plans. All the States are treated as if they operate a single cropping calendar.
iv. The farmer usually does not receive proper support from Agriculture Extension Workers. As a result, yield and output may be negatively affected.

v. Sometimes, input supplies come late to the farm gates, which gives room for diversion to the retail markets rather than utilizing them on the farm.
vi. Many farmers are unable to get the required know your customer (KYC) documents to enable them open a bank account. Yet without a bank account the farmer cannot apply for the loan.

The above listed challenges must be addressed for the ABP to impact positively on the lives of the smallholder rural farmers.

Proposed Solutions to the Challenges

The Management of the Central Bank of Nigeria is hereby invited to consider and approve as follows:

i. CBN should remove all forms of middlemen away from the administration of the ABP loan scheme. Farmers should have direct access to the loan sum as specified in the Economics of Production (EOP).
ii. Administration of the scheme should be overhauled to make it more efficient in meting timelines of cropping calendar. Monitoring and Evaluation should begin from the ABP administrative office.
iii. Cropping calendar for each State should be strictly followed to eliminate late arrival of inputs supply or the working capital to the farm gates.
iv. Extension workers domiciled in the local government areas in each state should be trained and retrained and empowered by the government to support the smallholder rural farmers.
v. Input supply should be administered in a way that it gets to the farm gates at the right time.
vi. The National Identity Management Commission must speedup the process of issuance of NIN to the citizen to attain 100% coverage. This will enable the farmers have access to open a bank account.

Key Stakeholders

Key Stakeholders involved in designing and implementing the proposed changes are the following:

1. Internal stakeholders to the Central Bank of Nigeria: The Governor, Deputy Governors, Directors, of relevant departments (Development Finance Department (DFD), Financial Policy and Regulation Department (FPRD), Banking Supervision Department (BSD), Other Financial Institutions Supervision Department (OFISD), Consumer Protection Department (CPD).
2. External stakeholders include:
   i. Public sector:
      a. Federal Ministry of Agriculture
      b. State Ministry of Agriculture and Rural Development
      c. Department of Agriculture at the Local Government level
      d. Nigeria Deposit Insurance Corporation

   ii. Private sector:
      a. Mobile network operators
      b. Commercial banks
      c. Microfinance institutions
      d. Other service providers (Payment Service Banks, microfinance banks, microfinance institutions)
      e. Credit Bureaus

iii. The Press
    a. Print and electronic media
    b. Reporters
iv. Clients/end users
v. School management boards
vi. The police service

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SME Finance

Addressing the Availability of Data as a Prerequisite to Assisting MSMEs in Fiji

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Executive Summary

Data suggests that micro, small, and medium enterprises (MSMEs) contribute to 18 percent of Fiji's Gross Domestic Product (MSME Fiji Policy Framework, 2020), and perhaps even more with recent research estimating around 50,000–75,000 enterprises (Pacific Financial Inclusion Program, 2019). One-off data gathering exercises and educated guesses are almost always common when it comes to gathering data and intelligence for MSMEs.

While the challenges[1] with MSMEs are common as in other developing countries, we are not able to extrapolate and understand the magnitude because of the lack of reliable data.

This policy memo proposes to harmonise quality MSME-related data on a regular basis as a prerequisite to developing more impactful policy interventions.

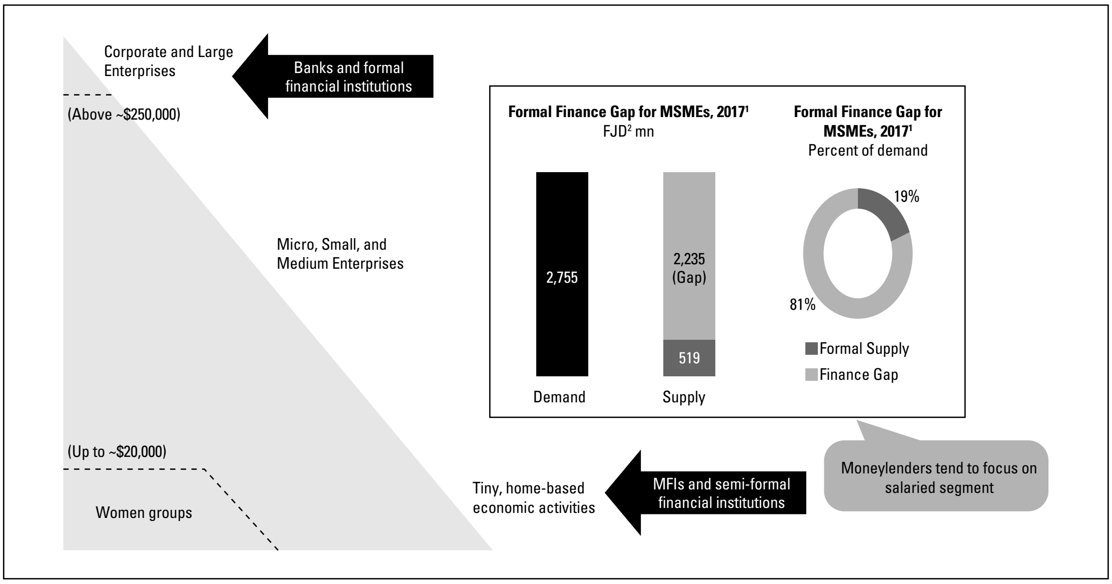
Problem Statement and Context

Without reliable data about MSMEs, it will be impossible to tailor policy solutions to meet their needs. Anecdotal evidence suggests that as a source of livelihoods, many families in Fiji struggle to operate and maintain consistent levels of income that are large enough to sustain their operations. Most often fail after 1–2 years or after subsidized programs from Government and/or NGOs cease.[2]

A fisherman has to leave for sea at 5 a.m. and some stay out the night; a women has to travel long distances to withdraw funds to buy sewing materials for her business; and a taxi driver has to drive long hours with the taxi meters starting at FJ$1.50 increasing by 10 cents for every 100 meters. From all this effort, the take-home pay is barely enough to meet their family's needs, but they continue to toil because it is their only source of income.

During the second wave of the pandemic in 2021, these cases are even more extreme. A taxi dropped me home some weeks ago, and the driver was sharing how he has to drive from 6 a.m. to 8 p.m. just to be able to take home FJ$20/day, a massive 75 percent reduction of his daily income pre-COVID-19.

Capital is limited and registering a business is hard. Fiji was ranked 163rd in Starting a Business and 165th in Getting Credit out of 190 economies[3]—one of the lowest in the world. This analysis includes large corporates so we can only imagine how much harder it is for MSMEs to register their business and access affordable finance. A way to bridge the gap is through Government/NGO programs or access to affordable finance to aid in working capital or expansion. A finance gap of around FJ$2.2 billion (International Finance Corporation, 2017) has also been estimated for Fiji, which was confirmed by the research illustrated below:



Source: Market Development Facility (2018)

We understand that herein lies a significant problem, however, we are unsure how many enterprises need to be assisted. Which sectors need finance the most? Are there other complementing services that must be made available? Are they operating in places with adequate infrastructure? These are some of the questions that remain unanswered without reliable data.

Key Causes

Recent research (Market Development Facility, 2018) has concluded that there are a range of issues that continue to impede MSME growth. While Fiji has a high literacy rate with UNESCO reporting 99.1 percent among population aged 15 years and older,[4] this has not translated well into financial literacy and entrepreneurship. Financial literacy was only made part of the primary (years 1–8) and secondary (years 9–12) school curriculum in 2013 and entrepreneurship a focus for tertiary level studies much later in 2017,[5] so maybe we will be able to see its impact in the coming years.

In Fiji, the limited understanding of risks and opportunities to help develop affordable financing alternatives is apparent. Commercial bank loans to the MSME sector hovers around 9 percent of total private sector lending[6] over the last three years with most of their product portfolio targeted toward large corporates. The legislative environment is somewhat restrictive with crowdfunding[7] by private companies not being permitted under the Companies Act 2015, and anecdotal evidence supporting that peer-to-peer lending only exists within conglomerates and family members of high-net-worth individuals.

Moreover, data collection programs by different agencies are irregular and are not specifically structured to inform MSME development initiatives.

Potential Solutions

Considering what we know with the current data, the following solutions might better support MSMEs:

Dedicated MSME Institution

The first is to enable access to affordable financing options to help MSMEs sustain the business cycle especially after structural shocks.

A possible option under this first bundle is to set up a dedicated MSME financial institution. A feasibility study (PFIP, 2019) was conducted to determine that there is room for a dedicated financial institution. This potential solution will need the development/enactment of legislation to set up a financial institution, determining the cost and personnel structure, securing funding, recruiting personnel, considering licensing/prudential concerns of the regulator, developing products, and underwriting customers.

MSME Crowdfunding Framework

Another option is developing a framework for crowdfunding. This will also require an enabling legislation to set the principles and rules around its operations, the procurement and licensing of a platform provider and determining the rules around governance, types of crowdfunding, payments, settlements, consumer protection, disputes, etc.

Data Collection

The second solution bundle is on harmonising data collection from the supply side. This will involve outlining a specific project to develop indicators identifying the type of data that needs to be collected and the agencies that will need to be approached to commence the data collection.

Priority Solution Bundle

Without adequate data, it is unlikely that other solutions will succeed in improving the conditions for MSMEs to thrive.

While there have been a number of attempts to reform MSMEs, a common denominator has been the lack of reliable data. There are a number of agencies that collect MSME information for different reasons—taxes, superannuation, registration, compliance, etc. There is a need for data harmonisation to better understand MSMEs. Unveiling the data on potential impact is a key prerequisite to help support and accelerate the implementation of these reforms through convincing policy interventions.

An alternative as mentioned above is an establishment of a dedicated financial institution or developing the framework for crowdfunding, which may have an immediate impact on providing affordable financing options. However, having a dedicated financial institution for MSMEs has been discussed since 2016 and enabling legislation for alternative sources of finance through crowdfunding has also been deliberated at various forums since 2015. In both cases, legislations were drafted but were not tabled in Parliament because of competing priorities or a lack of evidence and urgency to bring these initiatives to the forefront.

Policy Idea

The policy idea is for the MSME Technical Working Group (TWG[8]) to develop indicators and collect data from agencies involved in the collation of MSME-related statistics. Building on the recent research (Market Development Facility, 2018), key indicators to collect are the number of enterprises, ownership by gender, age and location, annual turnover, number of employees, whether enterprises are able to access and can afford finance, and indicators that allow to determine the financial health of MSMEs. This can be added to the Establishment Survey or be developed into a separate annual survey. This will be the first time these data points are harmonised specifically for the benefit of shedding light on MSMEs.

These indicators once aggregated and anonymised will also be made available in the public domain to encourage further research with academics, information sharing and program implementation with development partners and other interested stakeholders in the MSME space.

Stakeholders and Next Steps

To begin this initiative, a series of meetings will need to be scheduled with my immediate supervisors and the Deputy Governor to confirm that the Reserve Bank of Fiji (RBF) will take the project through the TWG. Once completed, an informal meeting/call can be scheduled with MSME Fiji to sound-out the idea before the TWG converges to discuss the specifics of the project. By then, the team should have ready a draft set of data points that it wishes to collect, identified the agencies (if any) that currently collect them, identify the frequency of collection, and have developed a concrete set of indicators.[9]

Once this project and its timelines are agreed to, the same proposal will be presented[10] to the Statistics Working Group[11] and the Inclusive Products & Services Working Group[12] under the National Financial Inclusion Taskforce, and also the Fiji Commerce and Employers Federation.[13]

If on schedule, data collection should commence in February 2022 with the first set of data points to be received by June 2022. The project team should envisage to present the first set of indicators by September 2022.

Key Indicators for Change

A process evaluation would be most feasible for this policy solution as it is more focused on aggregating, analysing and better presenting supply-side data from different agencies.

The indicators for change will include the number of data requests from the collected statistics for further research into developing MSMEs or the number of references to statistical releases for evidence-based policy interventions. The hope is for this to uncover specific information from the data collected to help tailor better programs and policy interventions for the sector.

The second wave of the pandemic has made 2021 a lot worse than 2020. The road to recovery is neither simple nor easy for MSMEs. This must bring urgency to our efforts by enabling the access to reliable data that will provide an opportunity to address a key prerequisite to understanding, and assisting the sector through impactful reforms.

Notes

1. Lack of access to finance, markets, lack of financial literacy and business skills, etc.
2. Findings from Stakeholder Analysis Assessment with the International Fund for Agriculture Development (IFAD).
3. The World Bank, Doing Business: Measuring Business Regulations: https://www.doingbusiness.org/en/data/exploreeconomies/fiji/.
4. UNESCO, general information on education and literacy: http://uis.unesco.org/en/country/fj?theme=education-and-literacy.
5. Reserve Bank of Fiji (RBF), 2017 Financial Inclusion Annual Report pg.32: https://www.rbf.gov.fj/financial-inclusion-report-2017/.
6. RBF Quarterly Review and MSME Lending Statistics.
7. Or capital raising.
8. Comprises RBF and MSME Fiji, the government division responsible for the development of MSMEs in Fiji.
9. To be completed by September 2021.
10. To be completed by November 2021.
11. Chaired by Chief Statistician, Fiji Bureau of Statistics.
12. Fiji Revenue and Customs Authority, Ministry of Rural and Maritime Development and the Fiji National Provident Fund are represented (these agencies collect MSME-related statistics for tax, registration, and superannuation purposes).
13. Representative of enterprises in the private sector.

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Resolving SMEs' Challenge of Limited Access to Financing through an Integrated/Harmonized Implementation Approach of Legal, Infrastructural, and Training Policy Solutions

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Executive Summary

Small and medium enterprises (SMEs) in Ethiopia are struggling to sustain their businesses due to a limited access to financing. A 2020 CSA survey report shows that 63% of SMEs face shortage of working capital as their main challenge/problem.[1]

A poorly functioning financial sector that is not willing to serve the SME sector due to high yields from few corporate customers is leaving large segment of the country's SMEs and adult population un(der) served. This is evident in World Bank's financing services accessibility indicators as compared with sub-Saharan and neighboring countries.

Despite implementations of many policies and initiatives by many stakeholders including the Federal Government to support SMEs, the limited access to financing still persists. The main reason for that is an isolated implementations at different times by each lacking the prerequisite/precondition of the other policy.

Based on that experience/observation, the way forward to sustainably resolve SME's financing challenge is an integrated and harmonized implementation approach of legal policies; infrastructural set ups; and all-around financial training programs.

Problem Statement and Context

SMEs play a crucial role in job creation and economic growth in every economy, both developed and developing. Contrary to that, SMEs in Ethiopia are themselves struggling to sustain their businesses due to limited access to financing.

Surveys[2] show that shortage of working capital is the main challenge/problem for 63% of SMEs. It breaks down the problem into: Permitted loan was insufficient (31.5%), Unable to provide collateral (27.10%), Loan process takes long time (23.3%), Loan repayment time was short (6.90%), and High interest rate (6.60%).

An under-developed financial sector with a conventional financial services and practices is not helping to resolve the problem.

This sector, which is legally protected from foreign competition and that lags in its technology adaption, has only 18 small local banks and 42 microfinance institutions (MFIs) with a combined number of branches of a little over 7,000[3] that serve a much smaller adult population than its Sub-Saharan and neighboring peers as is evident in the following World Bank[4] 2019 data:

	Sub-Saharan Africa	Ethiopia	Kenya
Commercial bank branches per 100,000 adults	4.65	**2.9**	4.7
Borrowers from commercial banks per 1,000 adults	37.62	**2.1***	232

*2012 Data for Ethiopia used.

Earning a high rate of return from few corporate customers (due to low competition), the financial institutions (FIs) are not willing and in some cases unable to serve SMEs. Recognizing this root cause, many policies/initiatives were tried/introduced to resolve the challenge by the government and other partners. These include:

1. Two 5-year Growth and Transformation **Plans** (GTP I & II) by the Federal Government that ended in 2020 gave national mandate to resolving SMEs' challenges including their financing limitations.
2. Creation of a ~USD 450 million Revolving Fund by the federal government (to be administered/financed by MFIs) for startup and existing SMEs by the youth.
3. Introduction of a Movable Asset Registry System, which lowered requirements for SME borrowers; and requiring banks to allocate a specified amount of fund for financing SME borrowers under this registry.
4. Introducing a shared and low-cost internal core-banking system for MFIs who could not afford that by themselves, which is under implementation.
5. Expansion of the Credit Reference Bureau (CRB) to include MFIs starting in 2019.
6. Promoting Digital Financial Services and mobile money/telcos (early stage).

Despite those efforts, however, the individual policies/endeavors could not resolve the challenges to a required level and as targeted by the players due to various reasons.

Key Causes

The key causes emanate from three sides: supply, demand, and infrastructure.

Supply Side:

This policy memo believes and emphasizes that, market players (FIs) behaviors that emanated from the stated underlying cause (legal prohibition of foreigners in the sector) are the key causes to the problem. These include:

1. Unwillingness of FIs to expand their market base by being creative in developing alternative and suitable products and services and channels/mediums of delivery.
2. FIs' Corporate Governance and Risk Management practices that are focused for conventional financial services; and
3. FIs' failure to build their knowledge and practices of Corporate Governance and Risk Management that is geared toward SMEs Financing Operation.

Demand Side: The root causes are:

1. inability of SMEs to fulfill FIs' collateral and other requirements,
2. inability of SMEs to demonstrate their credit worthiness; and
3. financial illiteracy of borrowers/SMEs.

Infrastructures Side: The root cause is inefficient financial market infrastructures.

Potential Solutions

The policies and initiatives implemented by the government and partners were actual solutions although they have resolved the challenge below target/required level. In contrast, this policy memo, considers the following additional options as potential solutions.

1. NBE to impose Legal requirements on FIs to engage in SME financing.
2. Introduction and expansion of more efficient institutional and market infrastructures.
3. Implementation of Financial Training Programs for . . .
4. Provision of loanable Funds to FIs by Federal/Regional Governments and donors/partners.

Priority Solutions Bundle

The main reasons that initiatives previously tried by market players didn't achieve as required/targeted were

- Disintegrated/isolated implementations at different times and/or by different players.
- They lack the basic institutional and market infrastructures needed to implement the policies.
- Low commitment of FIs in these policies/initiatives' implementations.

As a result, this policy memo proposes coordinated and harmonized implementation of those same policies with few modifications as the only policy implementation approach to effectively address the challenge. Accordingly, the first three potential solutions are selected as priority solutions.

Coordinated and harmonized means that the policy design, implementation detail (including plan timeline), and roles of each stakeholder shall interface. This will ensure that, during the process and upon completion, each policy solution shall benefit effectiveness of the other and vice versa. For instance, infrastructure implementation will be most effectively used if a prior and/or parallel training is implemented.

NBE–FIs Negotiation/Discussions: For such a coordinated and harmonized approach to work, it is crucial that FIs are committed to the policy implementation. To ensure that, the NBE will have a negotiation (and legal enforcement) discussion with FIs:

With Banks: The main goal of the legal protection given to FIs is to give them time to develop their institutional capacity and competitive strength. For that they:

1. will have to strengthen their internal infrastructures and on their knowledge and skill, and
2. widen their customer base by reaching out SMEs.

With MFIs: The MFIs Business Proclamation/Law clearly states that the sole purpose of MFIs licensing is for them to serve the SMEs sector. NBE shall assert its intent for a stricter enforcement of this law.

For both Banks and MFIs the following two points shall also be demonstrated:

1. Contrary to their prejudice, the economic benefits of establishing wider customer base (SMEs).
2. When and if the financial sector is liberalized for foreign investors, their existence will be threatened by the international giants unless they build a strong hold of wider customer base with a strengthened internal competitive strengths.

After securing FIs commitment through such negotiation/discussions, the following Policy Tools shall be used to implement the Priority Solution:

- revision of existing NBE laws;
- projects for introduction/expansion of basic financial sector infrastructures; and
- work groups for designing and implementation of financial training programs.

Revision and Stronger Enforcement of Existing NBE's Directives/Laws

A. NBE's Directives for relicensing MFIs as a bank: Two of the provisions in these directives read as:
   i. an existing MFI that fulfills all the banking business licensing requirements can apply for relicensing as a bank, and
   ii. a relicensed MFI as a bank shall continue its SMEs financing operation after the relicensing.

The first shall be revised to include a (new) requirement as: an MFI applying for a re-licensing as a bank should demonstrate that for the five years preceding the application:

- The MFI has been recording a specified rate of market expansion in financing NEW SMEs.
- Its outstanding liability/saving has been increasing at a specified annual/periodic rate to reach a set target balance.
- Its capital has been increasing at specified annual/periodic rate to reach the required balance.

With such revised requirements, MFIs will be mandated to build their institutional and financial positions by securing equity and debt financing sources that can/will be used in their SMEs financing operations.

The second revision shall be to apply the (existing) requirement for continuation of SME financing operation on banks (in addition to the relicensed MFIs). In this way, by engaging existing banks in a similar SME, financing will accelerate expansion/reachability to this market. This revised requirement will have to be aligned with the proposed revision in section B below.

B. NBE's Directives requiring banks to allocate 5% of their annual loan disbursement to finance SMEs: This is a general requirement that allows banks the option of providing the fund to other MFIs instead of SMEs. However, to benefit from banks' better institutional capacity compared to MFIs, it's important that the banks directly/actively engage in this market. Thus, my planned revision to these directives shall require banks to directly process SME loans (in the same way as a relicensed MFI).

Introduction of Institutional and Market Infrastructures

Within this solutions bundle introductions/expansion of two basic infrastructures are considered. The implementation mode shall be a project that will be initiated, coordinated and financing sources secured by NBE.

A. Expansion of the Credit Registry: A CRB operation expansion project is considered under this policy aimed at enabling the bureau/registry to:
   i. collect wider data and data supplier sources; and
   ii. acquire new or make change/modification to the existing system.

With these two in place, the CRB can be able to deliver value added credit bureau services such as credit score, portfolio management, alerts, and etc. That in turn will assist FIs' credit vetting process/practice and also enables SMEs to demonstrate their credit worthiness, a key demand side cause of SME lack of access to credit. This may need changes in the legal framework defining the ownership and structuring of the CRB.

B. Introduction of Digital Financial Services (DFS): To ensure that FIs will provide alternative and suitable financial services through easily accessible channels to SMEs, introduction of DFS shall be the most important element. A consortium of work group(s) from NBE and FIs shall be established to study on the feasibility of the DFS at sector level. And institution level work groups shall cascade from that study to their respective institutions.

To maximize the benefits from the above two infrastructures, however, FIs need to have internal technology infrastructures that enables them to properly store data and manage their risks arising from SME financing. Thus, the already started project to set up a shared core banking platform/system shall have to be expedited and continually upgraded.

Design and Implementation of Financial Training Programs

For an effective and efficient implementation of the priority solutions stated in sections above, it is important that work groups, staff, and management of the FIs (and NBE) have the required skills/knowledge set. To that end, designing and implementations of training programs in the following areas geared/customized for SME financing operations are needed:

- corporate governance and risk management, and
- processing/administration of SME loans.

Stakeholders

NBE (executive management) is the primary stakeholder as it needs to approve the policy. And for its role in leading, coordinating, devoting resources (financial and by engaging its work units).

The other key stakeholders are the FIs for their role in the implementation of the policy/projects.

It is expected that FIs will have a vested interest to engage in the policy solutions/projects since:

- (most of) the costs shall be covered from NBE and donor's funds; and
- the planned trainings and infrastructures will benefit their other operations.

Beyond that, any resistances will be contained by the negotiation/discussion section.

Next Steps

The key next steps are:

- Securing approval from NBE's Executive Management.
- Sensitization of the policy to key stakeholders.
- Establishment of work groups and initiating the projects.

Notes

1. [Ethiopia] Central Statistics Agency, Report on Small Scale Manufacturing Industries Survey, 2020 PP 35. Retrieved from https://www.statsethiopia.gov.et/wp-content/uploads/2020/04/SMMALL-SCALE-COVER-2010_total.pdf.
2. [Ethiopia] Central Statistics Agency, Report on Small Scale Manufacturing Industries Survey, 2020 PP 35. Retrieved from https://www.statsethiopia.gov.et/wp-content/uploads/2020/04/SMMALL-SCALE-COVER-2010_total.pdf.
3. National Bank of Ethiopia (NBE), Annual Report 2019–20. Retrieved from https://nbebank.com/wp-content/uploads/pdf/annualbulletin/Annual%20Report%202019-2020.pdf
4. World Bank website, seen on June 28, 2021. Retrieved from https://data.worldbank.org/indicator/FB.CBK.BRCH.P5?locations=ZG.

Social Transfer Delivery

Understanding the Preference for Cash of Social Transfers Beneficiaries in Argentina

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Executive Summary

In Argentina, 86% of low-income households' expenses are paid in cash even though social transfers beneficiaries (STBs) receive their monthly transfers through a bank account and all shops across the country have to accept debit card payments with no extra cost. Representative data about the drivers for STBs' payment behavior is needed in order to develop effective policies to reduce their preference for cash. The recommended policy is a survey among STBs and retailers that would provide valuable data to be used for the design and implementation of evidence-based policies by the regulators.

Problem Statement and Context

As of December 2020, 91% of Argentinians had at least one bank account (Banco Central de la República Argentina, 2021a). The high uptake of accounts is explained by the fact that salaries and social transfers are paid through bank accounts. While account ownership in Argentina compares to that of high-income countries,[1] increasing the use of financial services, especially among the more vulnerable groups, still remains a challenge for policymakers.

Considering the three most important types of social transfers (pensions, retirement benefits, and the Universal Child Allowance), 8.1 million Argentinians (2.4 out of 10 adults) receive their monthly government transfers through a bank account (Administración Nacional de la Seguridad Social, 2020). When social transfers beneficiaries (STBs) are accepted for their benefit, a bank account is opened under their name if they do not already have one, and they automatically receive a debit card that they can use to pay for goods and services as all stores across the country are forced by regulation to accept debit card payments (Ley de Impuesto al Valor Agregado, 2016). These bank accounts have no associated costs, neither maintenance fees nor cash withdrawals fees (Banco Central de la República Argentina, 2020).

However, according to data from the last Household Expenses Survey, 69.4% of household expenses are paid in cash, and that percentage rises to 86% among low-income households (Instituto Nacional de Estadísticas y Censos, June 2020). This means that when STBs receive their monthly transfer, they go to a withdrawal point and extract the money they received from their bank account (Banco Central de la República Argentina and Banco de Desarrollo de América Latina, 2018). They then keep the money at home, despite all the risks this involves, and use cash for their day-to-day expenses.

Withdrawing money from an automated teller machine (ATM) is not always an easy task as, in Argentina, there are 12.9 access points every 10,000 adults. For reference, Brazil has 22.2 access points every 10,000 adults and Colombia has 39.4 (International Monetary Fund, 2020). Access points in Argentina (bank branches, ATMs, and agents) are mostly located in more populated urban centers, with only 42% of total municipalities having at least one access point (Banco Central de la República Argentina, 2021b). These data show that STBs have to travel sometimes long distances to get to a withdrawal point, where they stand in line at pay days to get the cash for their daily expenses. These time and monetary costs associated with withdrawing cash mean that STBs cannot easily access the income they receive on their bank accounts.

In this context, even in spite of the fact that 1) STBs receive their monthly transfers through a bank account, 2) all shops across the country are forced by regulation to accept debit card payments with no extra cost, and 3) there are insufficient withdrawal points that force STBs to spend time and money to access their income. The question that arises is, why do STBs still prefer cash for their day-to-day expenses?

Key Causes

There is no representative data to rigorously explain STBs' preference for cash. Non-representative data and anecdotal evidence suggest that this behavior could be related to:

- the informal economy, as many stores do not comply with the regulation and refuse to accept electronic means of payments or offer discounts for cash payments as a way to avoid taxes;
- unreliable communications infrastructure, especially in remote and rural areas where the necessary telecom infrastructure for stores to accept debit card payments and for consumers to choose them is not available or is unreliable;
- low level of financial capabilities among the population, even more so amid low-income groups;[2] and
- insufficient and poorly distributed withdrawal points (ATMs, branches, and agents), which force people to spend money and time to withdraw their income so they do it all at once to avoid multiple trips.

Potential Solutions

Each of these possible drivers for STBs' payment behavior would require a specific policy solution. For example, the informal economy could be addressed by stronger supervision and enforcement from the Federal Administration of Public Revenue. Financial capabilities could be improved through financial education programs specifically targeted for STBs. Availability of withdrawal points could be enhanced by setting strong regulatory incentives for financial institutions to install ATMs or agents at underserved areas.[3]

However, while these potential solutions could have an effect on people's payment behavior, in order to effectively reduce the preference for cash, policymakers need to understand the reasons why people pay the way they do. Good quality data will save effort of designing the wrong policies, as it will reduce the risk of developing solutions for assumed causes that do not really exist. Once there is a clear understanding of the drivers for STBs' preference for cash, authorities can design and implement evidence-based policies to effectively reduce their dependence on cash.

Recommended Policy

With that objective, the policy recommendation is to conduct a survey among STBs to inquire about their payment behavior. Questions will be directed toward obtaining solid data about how STBs pay and why they pay the way they do. Data collection will consist of a closed ended questionnaire to a representative sample of STBs (considering gender, age, province, and rural/urban) that will provide key information on their payment attitudes. In addition, on the basis of human-centered design principles, interviews will be conducted with a smaller sample of STBs asking open ended questions that will allow to dig deeper into the drivers of said behavior.

Considering the hypothesis relating to the lack of acceptance of debit card payments by retailers, the survey will also include a module directed to shops and service providers in order to get information about their preferences for cash and the barriers they face for accepting electronic means of payment.[4]

These data will allow for a holistic understanding of STBs' payment behavior, both from the demand side (STBs' preferences) and from the supply side (retailers' barriers). A report will be published with the major findings of the survey, as well as the raw data so that other policymakers in the country (such as the National Social Security Administration and the Federal Administration of Public Revenue) as well as the general public can analyze and use it according to their needs.

Figure 1. Theory of Change

Policy Instrument	Outputs	Outcomes	Goal
Implement a survey to gather data on the reasons why STBs prefer cash.	Good quality demand side data about the reasons why STBs prefer cash.	Policy makers design and implement well-tailored policies to reduce STB's preference for cash and increase use of debit card payments.	STB's preference for cash is reduced. Use of debit card payments increases.

Stakeholders

The Central Bank of Argentina (BCRA) has defined Financial Inclusion and Financial Education among its key objectives, paying special attention to access and use of financial services by the more vulnerable groups (Banco Central de la República Argentina, 2021d). The Senior Management Office for Financial Inclusion within BCRA has the mandate to coordinate and direct research regarding Financial Inclusion and therefore it will be taking the leading role of the proposed survey.

Considering that the data resulting from the survey will also be of interest for other departments within BCRA, the Payment Systems Department will be invited to participate, for their knowledge and perspective regarding means of payments will be valuable for questionnaire design, along with the Financial Education Department, whose expertise in survey implementation would be helpful throughout the design and implementation process.[5]

Among external stakeholders, support from the National Social Security Administration and the Federal Administration of Public Revenue will be required in order to obtain data from STBs and retailers to participate in the survey. In addition, the Coordination Council for Financial Inclusion, of which BCRA is a member, will also be consulted.

Next Steps

The first step for the implementation of the survey refers to obtaining green light from the Financial Regulation Department, from which the Senior Management Office for Financial Inclusion depends. Once the head of Financial Regulation has agreed to the survey, the leading team will be holding meetings, both formal and informal, with the relevant stakeholders in order to secure their engagement.

The Financial Inclusion Department will draft and present a formal report to the Board of Directors to obtain their authorization for the project, upon which concrete planning for implementation can be commenced. Questionnaire and sample design will be led by the Financial Inclusion Department, which will also be responsible for data analysis and publication of the report with the major findings and the raw data, as mentioned in the recommended policy section.

In the shorter term, monitoring will be carried out through different indicators referring to the survey implementation. In the medium term, the impact of the proposed survey could be measured through indicators such as the number of views, downloads, and citations that the published report and raw data get. In the long term, the impact of the policy would ultimately be measured by the amount of policies designed and implemented using the data from the survey and by the change in the percentage of household expenses paid in cash.

Conclusion

The results of the survey will be a key input for future human-centered and evidence-based policies. Regulators, such as the Central Bank, the Federal Administration of Public Revenue, and the National Social Security Administration, will be able to use the data in order to design and implement public policies to better meet the needs of STBs and small businesses and lessen the burdens of transacting with cash.

Notes

1. 94% of adults in high-income countries have an account at a financial institution, according to the latest data from the Global Findex Survey (World Bank, 2017).
2. Argentina ranked 37 out of 39 countries where a Financial Capabilities Survey by OECD was conducted (Banco Central de la República Argentina and Banco de Desarrollo de América Latina, 2018).
3. In March 2021, BCRA passed regulation that decreased cash reserve requirements for financial institutions that install ATMs at underserved areas, with the objective of improving coverage of access points (Banco Central de la República Argentina, 2021c).
4. Data collection instruments will be designed considering the possibility of response bias, as participants may not be willing to honestly answer about their cash preference (even more so in the case of retailers).
5. The Financial Education Department conducted the Financial Capabilities Survey together with CAF in 2017.

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Make the Financial System Friendlier for Elderly People

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Executive Summary

The digital payment of pensions for some seniors has been inefficient and confusing. Every two months, at least four million seniors in Mexico receive a government pension on their debit card, and we see a large line of seniors outside the banks. This is because seniors have required personalized help in order to collect their pensions. Therefore, we must make the financial system friendlier for seniors: improving the usability of ATMs, alternating the collection days for seniors, sending SMS alerts so that seniors know exactly that their pension is already available, and assigning hours at bank agents so that seniors can collect their pensions with preferential treatment.

The Problem and Context

It is very common in Mexico to see every other month, on the first day of the month, a huge line of people outside the banks—they are the elderly who want to collect the pension that the government grants them. This has caused agglomerations of the elderly in bank branches, which is not a minor problem in atypical conditions, such as social isolation during the COVID-19 pandemic (Hernández, Esquivel, and Espinosa, 2020).

In addition, the use of automatic teller machines (ATMs) has been complicated for the elderly. Very few ATMs have elderly-friendly software, for example, only six percent of ATMs have options to increase the font size or modify the color contrast or to activate auditory instructions (Banco de México, in press).

Since 2007, the government has formally granted a pension to the elderly every two months. In 2011, the operating rules of the program were modified in order to be able to grant support through bank transfers in areas where the financial infrastructure exists for this purpose (Secretaría del Bienestar, 2020a). Currently, the program serves more than 8 million seniors, of which more than half receive their pension by bank transfer to a debit card (Secretaría del Bienestar, 2020b).

The president of Mexico has announced that he will expand the pension program, so it is expected that in the next few years, the list of beneficiaries will increase by at least two million more people (Presidencia de la República, March 2021). Moreover, as mentioned in the Consultative Group to Assist the Poor (CGAP) publication (Baur-Yazbeck, Chen, and Roest, 2019). "Digital G2P payments can offer a wide variety of benefits for governments and customers. Nevertheless, digitization alone is rarely enough for a successful G2P delivery system." Therefore, it has never been more important or a better moment to make the financial system a little friendlier for the elderly.

Root Causes

The agglomerations in the bank branches are due to several factors—mainly, the elderly do not have previous experience in the financial system, since four out of five did not have an account other than the one for the pension.[1]

The use of ATMs has been complex for them, since more than one in four seniors have declared that they do not know how to use them[2] or prefer to use other means, such as service at the branch window. In addition, six out of ten seniors have some physical or mental limitation,[3] which complicates their accessibility to the financial system.

That is, one in three seniors has mobility problems, which makes it more tortuous for them to have to stand in line outside bank branches. Three out of ten seniors have visual problems, which makes it difficult for them to read the ATM menu correctly or easily. One in ten seniors has concentration problems, which makes it difficult for them to understand ATM menus, when it has many options or steps.

Proposed Policy Solutions

To make the financial system a little more friendly for the elderly, it has to strengthen the accessibility of the financial system for the elderly with legal solutions, such as the guidelines or operating rules, and provide simpler and non-legal solutions, such as agreements between the government and banks. These solutions can include:

- Establish minimal rules that banks should achieve so that their ATMs are easier to use for elderly, like fewer steps, larger font size, more contrasting colors, and assistive listening devices.
- In the same way that a successful vaccination campaign was implemented in Mexico City,[4],[5] establish set days for the elderly to start collecting their pensions, alternating by surname. Ensure that these days are not exclusive or restrictive for the collection of pensions, so that pensioners have flexibility, but branches do not have agglomerations by all pensioners in one day.
- To prevent seniors from standing in line for hours, and when they arrive at the branch window, their money is not yet available (Monclova. October 2020), send SMS alerts so that they know that their pension has already been deposited, since, at least, half of seniors have a cell phone.[6]
- Currently, seniors can collect their pensions at banking agents at any time; however, most banking agents in Mexico are commercial chains with a large influx of people, which would not prevent seniors from standing in line for some hours. Therefore, assign specific hours, with low commercial demand, in banking agents, such as commercial chains or supermarkets, and train their staff to attend to the elderly in a friendly and patient way.

These actions are not exclusive, nor do they intend to stop efforts to digitize the payments of the beneficiaries of social programs. Rather, these actions will help improve inclusion in the digital payments ecosystem for the elderly while the point of sale (POS) network, the use of e-wallets, and other actions aimed at digitizing payments continue to grow.

Key Stakeholders and Implementation

To implement these solutions, it is necessary to work together with the Banco de México (central bank of Mexico) to develop the minimum guidelines that ATMs must comply with in order to be easier by seniors to use. Likewise, it must also work with the Secretaría del Bienestar (social ministry) to modify the program operating rules and be able to alternate the deposit of the pension by surname, as well as include the cell phone number of the elderly in the registry of beneficiaries.

On the supply side of financial services, these modifications should be discussed with the Asociación de Bancos de México (ABM, banking union), the main banks that provide pensions and the main commercial chains that act as banking agents. Likewise, through the banks, the opinion of the hardware providers and the software developers of the ATMs should be taken into account.

The Comisión Nacional Bancaria y de Valores (bank regulatory commission), must form working groups to:

- Define all the aspects that the guidelines for ATMs must contain, with Banco de México and ABM.
- Distribute the pension collection days by surname, based on the current registration of seniors of the program, with Secretaría del Bienestar.
- Establish the means of sharing information on cell phone numbers between the Secretaría de Bienestar and the banks.
- Establish the hours in which the elderly will receive preferential attention, with banks and main banking agents.
- Define who will train the staff of banking agents, with Secretaría del Bienestar and ABM.

The current president of Mexico has stated on different occasions that the elderly are a very important sector of the population for him and for the country;[7] therefore, any action that will be to their benefit should be well received and supported.

Measuring, Evaluation, and Future

The following results are expected by making the financial system friendlier for the elderly:

- Increase the number of transactions of elderly at ATMs and bank agents, compared to the current number of transactions of elderly at these points.
- Reduce the agglomeration of seniors in the bank branches.
- Increase satisfaction in collecting pensions.
- Decrease the wait time in lines pensioners take in collect their benefits.

To measure this result, a series of surveys should be carried out in conjunction with the banks that:

- Contrast the usability between the ATMs before and after the modifications.
- Contrast the waiting time in the collection of pensions.

These actions are not the only or the last with which we will make the financial system friendlier for the elderly, but they are the most practical.

Notes

1. Own calculations based on CNBV & INEGI, Encuesta Nacional de Inclusión Financiera, 2018.
2. Ibid.
3. Own calculations based on INEGI (2020).
4. As an example of logistics, you can consult Gobierno de la Ciudad de México.
5. Mexico City is the state with the highest number of vaccines applied per capita (0.23 to June 3, 2021). More information at http://vacunacovid.gob.mx/.
6. Own calculations based on INEGI (2019).
7. An example is the President's speech in Guelatao (Presidencia de la República, March 2021).

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Women's Financial Inclusion

Risk-Sharing Facility as a Tool to Increase Financial Credit Mobilization for Women Living in Rural Areas of Pakistan

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Executive Summary

Women living in rural areas of Pakistan experience a low socio-economic status marred by deprivation from basic necessities of life due to illiteracy, lack of awareness, unemployment, non-availability of easy credit/loan facilities, and limited access to financial institutions, coupled up with socio-cultural barriers and male dependency. An increased amount of financial mobilization/provision of credit facilities to generate economic activity and establish small/medium scale businesses could lead to increased income, a higher rate of savings, and eradication of poverty enhancing their socio-economic status. It has been observed that financial institutions are reluctant to provide credit/financing facilities to businesses solely owned and operated by women from rural areas due to several high-risk factors including their lack of entrepreneurial skills, experience and education, limited economic maneuverability, lack of collateral, and male dependency owing to a variety of socio-cultural factors. This paper proposes a risk sharing facility for the banks and other financial institutions to enhance credit/financing facilities to the women living in rural areas of Pakistan enabling them to establish, maintain, and smoothly operate businesses to increase income, improve savings, and enhance their economic wellbeing and social status.

Problem Statement and Context

The main challenge in increasing financial inclusion for women dwelling in rural areas of Pakistan is insufficient/limited provision/access of financing facilities to generate small/medium size economic activities and establish businesses to bolster employment opportunities, increase income and consequently savings to improve their socio-economic wellbeing through exercise of entrepreneurial skills. According to "Access to Finance Survey" conducted by the State Bank of Pakistan, 22% of women from rural areas were found to be availing some kind of financial borrowing from the formal banking sector (A2FS, SBP, 2015), indicative of a large untapped percentage of women without access to any kind of financial services/credit.

Key Causes

The low percentage rate of borrowing among women dwelling in rural areas of Pakistan is determined by a number of social, economic, cultural, and institutional factors limiting the economic activities of women. These include a strongly prevalent culture of dependency of women on male members of households to conduct economic activities and in taking major decisions of household related to income generation, expenses, education etc. Males' involvement or dependency has also been identified as a factor in businesses run by women in other parts of the world (Cesaroni, 2010). Lack of education, business skills, managerial competency, financial illiteracy, and family responsibilities have been identified as prominent challenges for women entrepreneurs in developing countries as much women are not equipped with enough entrepreneurial and technical skills to handle microbusinesses or to start a micro entrepreneurship (Bhuiyan and Abdullah, 2007; Coleman, 2002; Green and Cohen, 1995; Haines et al., 1999;

Sara and Peter, 1998). Lack of access to credit and unfavorable business environment were also found as discouraging factors for women to pursue meaningful financial ventures as financial institutions engaged in provision of small scale credit and loans are often reluctant to extend credit facilities in absence of strong credit guarantees and lack of collateral (Chowdhury et al, 2018; Amzad et al.2009; Bellucci, Borisov, and Zazzaro, 2010; Sara and Peter, 1998; Shah and Mustafa, 2014), to unskilled rural women without the right set of entrepreneurial skills, requisite experience and technical expertise to handle credit. It has also been found that female businesses may face greater difficulties in obtaining access to credit facilities (Buttner and Rosen, 1992; Cesaroni et al., 2013; Stefani and Vacca, 2013), have to pay higher interest rates than male counterparts or/and may be required to provide higher collateral (Alesina, Lotti, and Mistrulli, 2013; Calcagnini, Giombini, and Lenti, 2014; Muravyev, Talavera, and Schafer, 2009; Orhan, 2001). Shortage of working capital and repayment of loans were identified as major hurdles for women entrepreneurs in Pakistan (Ullha et al., 2012).

Physical infrastructure of formal financial services is also not much developed in the rural areas of Pakistan. Lack of branches and focal points, biased attitude of staff, lack of documentation, biased customary inheritance, lack of awareness about new technology, lack of financial education, lack of access to markets, and unjust price of products are the major challenges to access to finance for women living in these areas.

Potential Solutions

The question of how to improve access to financial services to rural women continues to remain a big challenge for the policy makers. The ultimate solution can be to offer a risk-sharing facility (RSF) to the financial institutions to extend credit to rural women. This ultimately will lead towards improved financial inclusion, poverty eradication and women's economic empowerment. In this regard following solutions are proposed.

- The government may initiate access to finance schemes to women living in rural areas on easy terms and conditions in collaboration with financial institutions and technical institutes.
- Technical institutes in the region may train and equip the women with the necessary training skills to start the entrepreneurial activities. Moreover, it will be coupled up with the provision of initial credit by financial institutions to to start the business activity through proposed RSF.
- In order to provide direct access to markets, local government may be involved and encouraged to provide the technical or infrastructure support to the women. The support may incentivize the women to equip them and update their businesses according to market requirements.
- Financial institutions may be incentivized to provide female tailored products to increase financial inclusion amongst women living in rural areas.
- Government needs to create job opportunities for rural women in order to increase their incomes.
- Awareness campaigns about financial literacy for women may be launched in rural areas

Priority Solutions Bundle

From all the solution bundles, I have found the following one to be the most appropriate:

- My proposed solution is to develop the RSF for the financial institutions in order to increase provision of credit/finance facilities leading to income generation, business activity, financial inclusion, and economic empowerment of women in rural areas. The RSF will support the promotion of greater access to finance for women in rural areas of Pakistan. RSFs will be established on terms and conditions acceptable to the Banks and the operating principles of the risk sharing facility will be set out in the project's operations manual before disbursement of the project's funds. This policy option was chosen because it reduces the risk of losses and lack of collateral factor due to which financial institutions have been found to be reluctant to extend access to credit to women and will hence incentivize financial institutions to do so once major part of their losses are covered by state/government guarantees.

Policy

The policy idea is to develop the RSF for financial institutions in Pakistan in order to share the risk of exposure of banks with the backing of the government encouraging them to improve access of credit to women on easy terms and conditions with low interest rates. In this scheme:

- It may be proposed to fix the interest rate at 5 percent for the first year for borrowers and rest of the amount of interest rate may be paid by the government or the donor.
- The proposed risk coverage ratio for the eligible borrowers will be linked with the level of collateralization and will operate in the following manner.

Guarantee Cover	Value of Collateral
60%	Clean Lending
40%	Up to 100% of loan value
20%	Value of collateral more than the loan amount

Stakeholders

The major stakeholders involved would be:

i. International donors and Ministry of Finance (MoF), Government of Pakistan, to arrange funding for the proposed RSF to cover the risk of bank's exposure.
ii. The State Bank of Pakistan with internal departmental stakeholders such as Banking Policy and Regulation Department (BPRD), Banking Inspections Department (BID), Legal Department (LD), and Development Finance Support Department (DFSD).

External stakeholders include

i. Participating Financial Institutions (PFIs) including commercial banks and Microfinance Banks (MFBs)
ii. Small Medium and Enterprising Developing Authority (SMEDA),
iii. Securities and Exchange Commission of Pakistan (SECP),
iv. technical and vocational institutes such as Punjab Vocational Training Council (PVTC) etc.,
v. Non Governmental Organizations (NGOs, and Microfinance Institutions (MFIs), etc.

The concept paper of RSF may be developed and shared with stakeholders for their feedback.

Steps in Development and Implementation of Policy

- The first step is to develop the concept note and process it for internal approval from higher management by October 2021.
- If approved, then to be shared internally within the SBP and outside with the stakeholders for feedback by November 2021.
- To be shared with the Government of Pakistan and international donors to arrange funds for the proposed scheme by the mid of December 2021.
- Consultative group will be developed to discuss and finalize the modalities of the proposed RSF by Jan 2022.
- After finalization the procedure and operational manual of the scheme will be developed and shared with the Legal Department of SBP by Jan 2022.

- After going through the approval process, its secretariat will be developed at the State Bank of Pakistan to provide administrative support for organizing its meetings and ensuring implementation of its decisions.
- Technical Committee of RSF (TCRSF) will be developed to finalize the decisions and amendments of the scheme.
- The secretariat will liaise among all stakeholders including the Pakistan Financial Institutions (PFIs), Development Finance Support Department (DFSD) of the SBP, donor agencies, and Ministry of Finance, Government of Pakistan. The DFSD will serve as an operational arm of the RSF.
- Once finalized, the RSF will be launched for Pakistan Financial Institutions and expression of interest from banks will be called. Qualifying banks will be evaluated as per laid down criteria by April 2022.
- Recommendations for selection of banks to serve as Participating Financial Institutions (PFIs) to be finalized
- Allocation of Credit Guarantee Limits (CGLs) for formal approval of the TCRSF.
- Upon approval of the guaranteed limits of each PFI, the credit limits will be conveyed to PFIs and DFSD by June 2022.
- Moreover, awareness seminars/ roadshows will be held under the supervision and direction of TCRSF from June 2022 to December 2022.

Monitoring and Evaluation

- SBP will serve as an operational arm of the scheme and will monitor the RSF. Quarterly data will be collected from PFIs by the DFSD.
- SBP Banking Services Corporation (SBP-BSC) will monitor the performance of PFIs viz-a-viz their allocated limits on quarterly basis and more frequently if deemed necessary.
- Further, to ensure compliance with the objectives of the Guarantee Scheme and avoid adverse selection problems on part of PFIs, Banking Inspection Department of the State Bank will review the guaranteed loan portfolios of PFIs during their regular inspection of PFIs.
- To ensure appropriate usage and compliance of all the terms and conditions of RSF, the SBP may conduct the internal audit as well as external audit through audit firms on approved list of SBP.

Key Indicators of Change

The socio-economic impact of the proposed RSF may be measured by following indicators:

i. No. of guaranteed women's loan accounts
ii. No. of women employers serving in the business covered under RSF
iii. No. of women trained/graduated through Vocational and Training institutes

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Financial Inclusion for Women in Ecuador: Changing Lives!

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Including Maria and 2 million of women in Ecuador to save money and increase their opportunity to grow through financial inclusion initiatives and the promotion of cooperative principles

Executive Summary

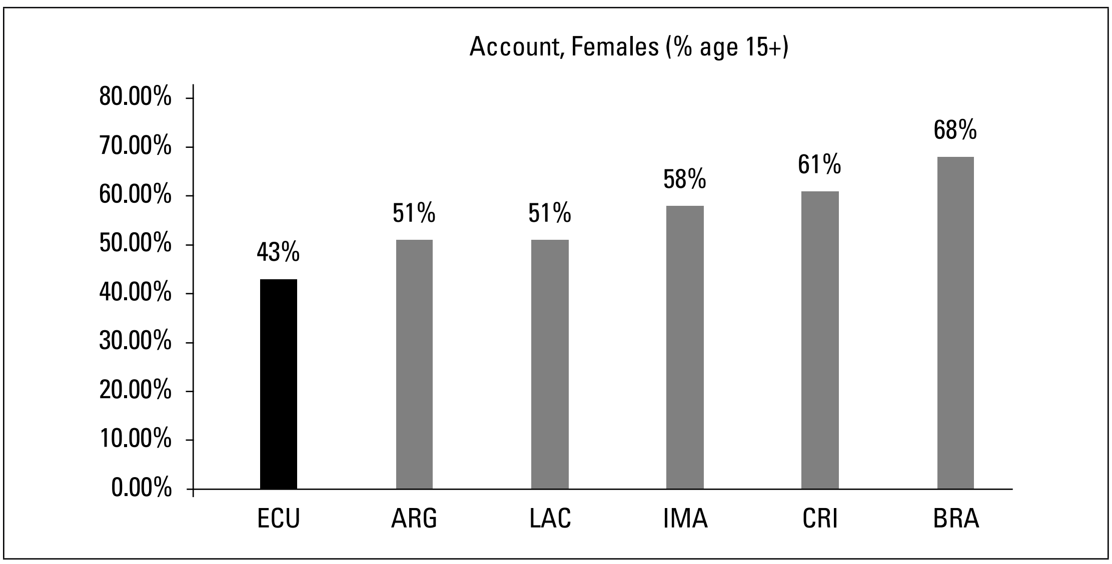
Six of 10 women in Ecuador, especially those who live in the rural sector are limited in their capacity to save money and build assets in a safe place, reducing their opportunity to control earnings, undertake personal and productive expenditures and unlock their potential to grow their small enterprises. There are many reasons for this reality, for example: lack of financial products for women´s needs, documents requirements, etc. This memo proposes to set simplified know your customer (KYC) requirements and to promote cooperative principles to boost political participation of women in decision-making positions in credit unions.

Problem Statement and Context

Six of 10 of women in Ecuador (World Bank, 2017), especially those who live in the rural sector, have limited access to opportunities and services provided by the financial sector. This increases their dependence on personal wealth or internal resources and the use of expensive sources of finance to invest in their education, create their business, or benefit from growth opportunities.

In Ecuador, 51.9% of people[1] use some points of financial assistance such as agencies, tellers, automated teller machines (ATMs), or non-banking correspondents. If we add to this survey the data submitted by the Global Findex, it shows that 43% of women over 15 years of age have a bank account. This indicator is at the same level as other countries in the Latin American region, but it is lower than countries with similar incomes as it is shown in the following graph.

Graph 1. Access to Bank Accounts



Source: World Bank (2017). Note: The acronym corresponds to the following countries, ECU: Ecuador; ARG: Argentina; LAC: Latin America, IMA: countries with medium-high incomes; CRI: Costa Rica, BRI: Brazil.

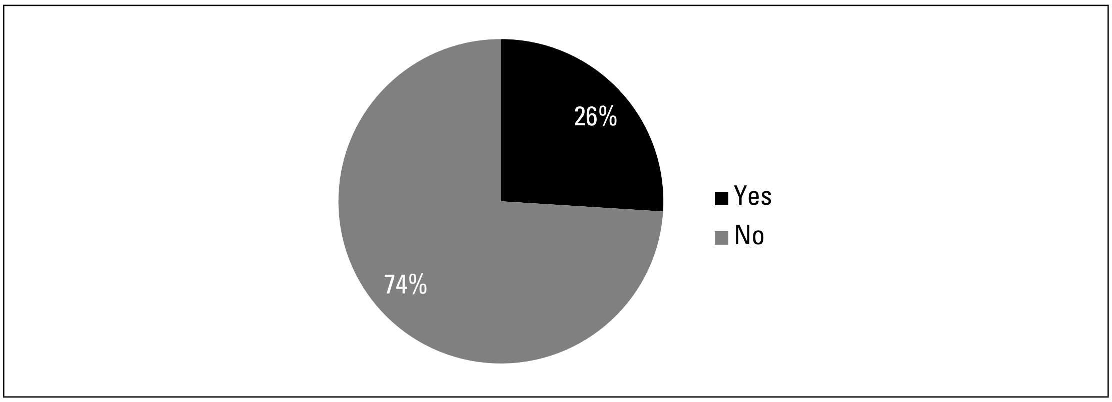
Women represent 55% of the economically active Ecuadorian population. Every day they face different battles such as taking care of children and meeting their job obligations, but at the end of the month, they receive their salaries and deposit their money under the bed, not in a financial institution. Here we must reflect: why is this occurring?

Key Causes

Households surveyed demonstrate that financial exclusion is attributed to the fact that 40% of women consider that they do not need a financial product, 30% consider it difficult to open an account, 24% do not trust financial institutions, while 12% think that the financial institutions are located too far away (Central Bank of Ecuador, 2019).

According to the survey of 250 general managers from 518 Credit unions (Seps, 2021), they show the lack of product development according to the needs of women as shown in the following graphs:

Graph 2. Financial Products Designed Based on Women´s Needs

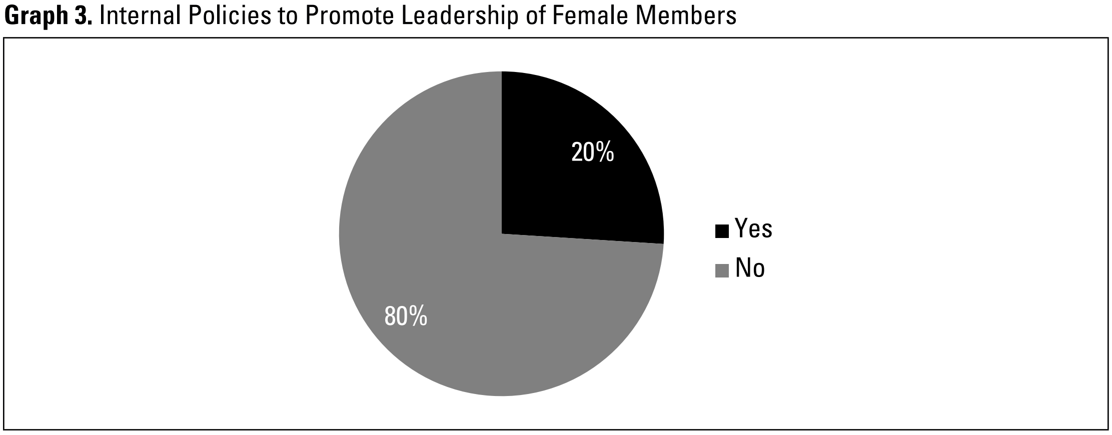


Source: Author analysis, based on gender survey from 250 credit unions.

There is not particular interest to consider women as a key segment in its growth strategy, which coincides with the limited offer of financial products for women according to their needs in the credit unions. 74% of entities consider that women are an important segment; but it is not assumed as a particular target market, nor do they have specific products for this segment.

Furthermore, the presence of women in the administrative bodies[2] of the credit unions are not proportional to their representation as members of the entities.[3] This condition limits the diversity of ideas and the understanding of the needs and businesses of female members, resulting in financial products that do not reflect the reality of the people to whom they go. In the survey they showed that 80% of credit unions do not have internal policies that promote the leadership of women members into political participation in decision-making positions.

Graph 3. Internal Policies to Promote Leadership of Female Members



Source: Author analysis, based on gender survey from 250 credit unions

In addition to product and management gender gaps, traditional gender roles in Ecuadorian society limit empowerment economic situation of women and their opportunities. In fact, the same credit unions indicate that the dependence on a husband, father, or brother for making decisions is the main reason that limits the access of women to the financial system.

The review of the regulatory framework, the interviews carried out with relevant actors and users, allowed us to identify the presence of the barriers that women face, which are described below.

Table 1. Barriers for Women to Access Financial Services

Demand	Supply	Regulatory Framework
• Low level of education • Lack of capacities to identify financial needs • Lack of knowledge of the credit offer[4] • Lack of assets for guarantees • Informal economic activities[5]	• Lack of financial products for women's needs • Lack of internal policies to promote women activities	• Required signature of the spouse for the validation to access a guarantee[6] • Lack of regulatory framework for the provision of digital financial services that respond to the needs of women • Excessive document requirements to open an account[7]

Potential Solutions

Possible solutions can be divided between systemic, which allow women to transform existing inequities, and strategic solutions that will allow women to achieve their objectives and goals, and in this case, to have access to opportunities and services provided by the financial sector.

In this sense, the systemic solutions are:

- public policies to develop formal economies,
- access to higher levels of education,
- public policies to promote women entrepreneurship,
- greater bargaining power of women in the family, and
- prevention of domestic violence against women.

On the other hand, shorter-term strategic solutions are:

- Congress could promote financial inclusion by laws that promote the development of a sustainable financial system focused on the needs of users and protecting their rights.
- The Board of Financial Policy and Regulation and the Superintendence of Popular and Solidarity-based Economy should have financial inclusion goals to foster regulation and monitoring mechanisms to promote innovation, competition and consumer protection. In this case, the first step could be to reduce the documentation for access an account and promote financial education.
- Credit unions have to promote and encourage cooperative principles such as democratic member control, member economic participation, education, training and information to fulfill their social objective and mission.

Policies

The Superintendence of Popular and Solidarity-based Economy (SEPS) is a technical body for monitoring, auditing, intervention, and control of economic, social, and environmental activities, and of the services provided by financial institutions and according to its mandate and attributions granted by law, the policies that can be implemented are:

- Reduce documents and requirements for accessing an account. The proposal is to establish simplified KYC requirements and regulations. By adopting a risk-based approach, competent authorities and financial institutions are able to ensure that measures to prevent or mitigate money laundering and financing threats are commensurate to the risks identified. This will allow resources to be allocated in the most efficient ways. The principle is that resources should be directed in accordance with priorities so that the greatest risks receive the highest attention. These advances include regulatory adjustments such as exempting certain marginalized groups up to a certain transaction or value limit (tiered KYC)[8] and the use of electronic documents and signatures to effect transactions (eKYC).[9] Other changes include using sophisticated technology, such as data analytics to monitor customer behavior and place of residence.[10]
- Implement social balance regulations to define minimum aspects that entities must incorporate in their management reports, which certify the level of compliance with social and cooperative principles and objectives, in terms of the gender equity and equality.
- Cooperative principles are the key reason that credit unions operate differently from other financial providers, putting the needs of their members first. With the aim of promoting equality and gender equity in the business action, foster gender equity and equality in services provided and boost political participation in decision-making positions.

Stakeholders and Next Steps:

The implementation of these policies will require three main stakeholders:

- Board of Financial Policy and Regulation: its main role is to approve the regulations that will be implemented by credit unions;
- Savings and credit cooperatives: their objective will be to promote their financial services and cooperative principles as indicated by the norm (savings and credit cooperative associations will promote the commitment and integration of regulations in the day to day); and
- Superintendent of Popular and Solidarity-based Economy: will supervise the regulatory compliance of the entities.

The first stage is to jointly prepare the proposals with the technical team[11] of the superintendency for the approval of the highest authority and refer these proposals to the Board of Financial Policy and Regulation voting and final publication as regulation. But nowadays in Ecuador there is a transition period since the Law for the Defense of Dollarization was published and among the main points of that is the autonomy of the Central Bank of Ecuador and a reorganization of the Board of Financial Policy and Regulation; in this sense, we must wait for the new changes and know the new procedures to advance with the next stages.

Key Indicators of Change

The main goals of these policies are to promote women in the rural sector to access a formal account in their community cooperatives and begin to use financial services, specialized products to meet the needs of women in the rural sector, and increase the knowledge of the products, services, rights, and obligations of women in their cooperative. For these reasons, the following key indicators have been selected:

1. percentage of women who have an account,
2. number of women who borrow money from a credit unions, and
3. percentage of women who saved in a financial institution.

These indicators can be reported by SEPS through the information structures that are sent by the entities.

Notes

1. Survey of Supply and Demand for Financial Services carried out in December 2018 by the Central Bank of Ecuador and the National Institute of Statistics and Census.
2. 33% of CEOs are women (Seps, 2021).
3. 48% of members are women (Seps, 2021).
4. Only 6% of the population in Ecuador knows the credit offer (CAF, 2014).
5. 35% of women do not have formal incomes (Cepal, 2019).
6. According to the Civil Code.
7. Board of Financial and Monetary Policy and Regulation's resolutions.
8. The Central Bank of Brazil has granted KYC exemptions on special demand deposit and savings accounts, otherwise known as "simplified accounts" (AFI, 2019).
9. In Peru, simplified e-money only requires a valid identity card, whereas simplified deposit accounts require a valid identity card and address information.
10. In Jordan, biometric identification cards (MoI) enable refugees to access basic financial services through the Jordan Mobile Payments platform, JoMoPay.
11. The technical teams are Risk, Supervision, Legal, and Studies Department.

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Enabling Women in Rural Uganda to Absorb Financial Shocks

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Executive Summary

More than one-third of Ugandans experience unexpected expense in their lives and some are unable to cope.[1] For those who are able to cope, they borrow mainly from informal savings groups where they belong, use savings, and sell livestock. However, more women than men do not know what to do in case they face an unexpected expense.[2] Also, nearly 60 percent of women are not able to mobilize emergency funds in case of emergency compared to 50 percent for men.[3] The perception that financial services are expensive and lack of trust among others were identified as some of the barriers. The recommended policy solution is to scale up financial literacy and awareness among women in rural areas in order to enhance their ability to make informed financial decisions.

Problem Statement and Context

Akello[4] is a member of a village savings and loan association (VSLA) and has a mobile money account that she uses for receiving remittances only. She suffered twin unfortunate events, and in both cases, she could only turn to family members and friends for support. Akello does not use banks or any other formal financial institutions because she believes they require a lot of money, they are far away, and she does not trust them with her money.

According to Uganda Finscope Survey report, 37 percent of adults experienced an unexpected expense in the past twelve months of the survey.[5] For both men and women, the most used coping mechanisms are to borrow mainly from informal savings groups where they belong, use savings, and sell livestock. However, more women than men are uncertain of what to do in case they are faced with an unexpected expense.[6] Relatedly, nearly 60 percent of women are unable to mobilize emergency funds in case of emergency compared to 50 percent for men given that women largely rely on informal networks.[7]

About 79 percent of women reside in rural areas[8] where they are mostly engaged in subsistence agriculture. Access to and usage of the different financial services, except for insurance services, are skewed toward men. For example, 48 percent of women do not save compared to 46 percent for men; 57 percent of women do not borrow compared to 51 percent for men; and 57 percent do not have or use digital payment services compared to 38 percent for men.

For insurance services on the other hand, 57 percent of women do not have access compared to 61 percent for men.[9] The higher uptake of insurance services by women compared to men is largely driven by informal insurance[10] at 42 percent vis a vis 37 percent.

Although mobile money is prevalent in most parts of the country, other financial services' access points are still concentrated in urban areas. For example, at end 2020, 11 percent of districts in Uganda still lacked access to a formal institution supervised by the Central Bank and in spite of the roll out of agent banking in 2018 to expand financial services in rural areas, the total number of agents have expanded tremendously to over 14,000; however, over 40 percent are located in the capital city.[11]

Key Causes

According to the Finscope study,[12] the main root causes impacting rural women's ability to utilize financial services to absorb financial shocks are:

- perception that financial services are expensive and charge too much,
- general lack of trust in "others" handling their money,
- distance from financial services providers,
- inappropriate products that do not suit their needs, and
- lack of awareness of how the products work.

The potential providers of financial services revealed that the following were key challenges hindering the provision of financial services in rural areas:[13]

- know your customer (KYC) requirements and the difficulty in verifying IDs,
- Restrictive agent banking regulations on businesses that could become agents especially for rural based businesses that do not meet the requirements,
- unviability of agent business due to low business volumes especially in rural areas, and
- limited digital and financial literacy of rural population making them risk averse to accessing and utilizing financial services.

Potential Solutions

The potential solutions to the problems faced by rural women could be addressed through both the supply and demand side interventions as follows:

1. Provision of appropriate financial services and products by financial services providers that meet the needs of rural women in Uganda such as digital savings products, micro and funeral related insurance, etc.
2. Financial literacy[14] and product awareness among women in rural areas in order to enhance their ability to make informed financial decisions.
3. Expand the reach of financial services providers in rural areas to provide convenience to customers.

Priority Solutions Bundle

The prioritized solutions bundle focuses on financial literacy and awareness among women in rural areas in order to enhance their ability to make informed financial decisions.

The solutions bundle was selected based on the following criteria:

- Feasibility/capacity: The Central Bank is responsible for coordinating and implementing initiatives under the Strategy for Financial Literacy in Uganda (2019–2024)
- Evidence: There is reliable evidence that financial literacy and awareness improves access to financial services.[15]
- Preconditions: There is already ongoing work in the implementation of financial literacy and awareness activities by the Central Bank and the different stakeholders in Uganda.
- Costs: The Central Bank yearly allocates a minimal budget for financial literacy interventions. There is a possibility of justifying the need to increase the budget to cater for these costs.

Policy(ies)

The Bank of Uganda will spearhead the implementation of the following policy ideas:

a. Develop and implement a financial literacy/ awareness training of trainer's approach that take advantage of women leaders in villages (markets, savings and credit cooperative organizations (SACCOs), VSLAs, political, etc.) in the creation of awareness and trust.
b. Build technical capacity of financial services providers through training and encourage them through moral suasion to integrate financial literacy and awareness in their product offerings especially in rural areas.

Stakeholders

The National Financial Inclusion Strategy (2017–2022) for Uganda has a vision for all Ugandans to have access to and use a broad range of quality and affordable financial services, which helps ensure their financial security, while both women and rural areas are priority areas. The implementation of the policies will therefore necessitate working closely with several stakeholders.

The support of the Central Bank (National Payment Systems Department, Financial Inclusion Division) is critical since it coordinates the implementation of the National Financial Inclusion Strategy for Uganda and the Strategy for Financial Literacy in Uganda. Other relevant departments of the Central Bank to be involved are Commercial Banking, Non-Bank Financial Institutions, and Communications Departments.

Second, other financial services regulators such as Uganda Microfinance Regulatory Authority (UMRA) and Insurance Regulatory Authority (IRA) will support implementation through engagement of players under their respective jurisdiction, while financial services providers—such as commercial banks, microfinance institutions, insurance companies, etc.—are expected to integrate financial literacy in their product offerings.

Next Steps

The policy is expected to be implemented within a period of 30 months in the following sequence:

- Presentation of proposed policies to Bank of Uganda Executive Management Committee for approval
- Share policies with key stakeholders(UMRA, UIA, Association of Microfinance Institutions in Uganda, Uganda Banker's Association, etc.) through email
- Prepare and defend budget for financial literacy interventions in rural areas
- Develop a financial literacy/ awareness training of trainer's approach for rural women
- Conduct financial literacy to staff of financial institutions

Key Indicators of Change

The policy shall be monitored through both regular supply side data from financial institutions and pre- and post-intervention demand side survey. The baseline data will come from a recent survey of financial literacy of Ugandans.

A key indicator of change to monitor is the percentage of rural women that can cope financially in case of unforeseen events.

Two indicators from supply side shall be used to assess progress in between the periods of demand side surveys. These are:

- the percentage of rural women saving, and
- the percentage of rural women that take on insurance.

Notes

1. FSD Uganda. (June 2018). FinScope Uganda Topline Findings Report. Financial Sector Deepening Uganda. Retrieved from http://fsduganda.or.ug/wp-content/uploads/2018/10/FinScope-Uganda-Survey-Report-2018.pdf.
2. FSD Uganda. (February 2019). Analysis of Status of Financial Inclusion for Women and Youth in Uganda. Retrieved from https://fsduganda.or.ug/women-youth-financial-inclusion-in-uganda/.
3. FSD Uganda. (May 2020). Assessing the Economic Resilience of Ugandan Households before COVID: Part I of Series. Financial Sector Deepening Uganda. Retrieved from https://fsduganda.or.ug/wp-content/uploads/2020/04/Assessing-the-financial-resilience-of-Ugandans-before-Covid-19.pdf.
4. Akello lives in a rural village in Northern Uganda and was interviewed as part of People Centered Policy Research.
5. FSD Uganda. (June 2018). FinScope Uganda Topline Findings Report. Financial Sector Deepening Uganda. Retrieved from http://fsduganda.or.ug/wp-content/uploads/2018/10/FinScope-Uganda-Survey-Report-2018.pdf.
6. FSD Uganda. (February 2019). Analysis of Status of Financial Inclusion for Women and Youth in Uganda. Retrieved from https://fsduganda.or.ug/women-youth-financial-inclusion-in-uganda/.
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8. UBOS. (2014). National Population and Housing Census.
9. FSD Uganda. (February 2019). Analysis of Status of Financial Inclusion for Women and Youth in Uganda. Retrieved from https://fsduganda.or.ug/women-youth-financial-inclusion-in-uganda/.
10. Informal insurance referred to here is not any specific product that is designed to protect people against specific risks, which individuals choose to take up or not take up, but rather to actions taken by individuals with the intention of protecting themselves against financial risks—e.g., social contribution as part of membership of VSLAs, savings and credit cooperative organizations (SACCOs), burial societies, community health schemes, etc.
11. Based on Bank of Uganda regulatory return. Access points (branches, ATMs, agents) for deposit taking institutions supervised by Bank of Uganda.
12. FSD Uganda. (June 2018). FinScope Uganda Topline Findings Report. Financial Sector Deepening Uganda. Retrieved from http://fsduganda.or.ug/wp-content/uploads/2018/10/FinScope-Uganda-Survey-Report-2018.pdf.
13. Based on interviews with some commercial banks, credit institutions, and microfinance deposit taking institution as part of People Centered Policy Research.
14. Financial literacy in this case refers to knowledge and skills that aid financial decision making.
15. Atkinson and Messy. (2013). *Promoting Financial Inclusion through Financial Education*: OECD/INFE Evidence, Policies and Practice, OECD Working Papers on Finance, Insurance and Private Pensions, No. 34.

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