FLETCHER
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FOR FINANCIAL INCLUSION

Policy Memoranda

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THE FLETCHER SCHOOL

Leadership Program for Financial Inclusion

Policy Memoranda 2022

Foreword

The policy memos contained herein are the capstone achievements of the 10th fellowship class of the Fletcher School Leadership Program for Financial Inclusion (FLPFI). We are proud of the great work this fellowship class has completed to now join our community of over 166 FLPFI alumni.

The 2022 fellows hail from Latin America, sub-Saharan Africa, Asia, and Eastern Europe, and they are all champions for inclusive finance at central banks, insurance regulators, deposit insurance institutions, 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 financial access for residents of rural areas in Bangladesh, Armenia, and Rwanda, improving financial health for low-income Kenyans, Ugandans, and Zambians, increasing the use of digital financial services in Ghana and the Central African Republic, and improving the resilience of small and mid-size enterprises in Niger.

The policy memos in this publication are the culmination of the FLPFI fellowship, an intensive executive certificate program that supports policymakers to design and implement policy's that advance financial inclusion. The fellowship creates a space where expert policymakers are 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 2022 fellowship class overcame disruptions from the Covid-19 pandemic, and we are so proud of their perseverance to complete their policy work. They also completed 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. Many have already shared the method with their colleagues. For example, Isabelle Cuisenier-Kouzou has already implemented two trainings to share the 8QM methodology with policymakers in the Central African Republic and design additional policies related to youth employment and financial usage.

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 Nigeria, Mexico, and Malawi are working to expand women's access to and usage of financial services, and similarly, the fellows from Kenya and Ethiopia are working to increase the availability of useful insurance products. Yet based on careful analysis of the 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 design 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

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Digital Financial Services

Enhancing Women and Youth Digital Financial Inclusion in Central African Republic

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Keywords: rural development, women, youth, digital financial services

In Central African Republic, 80% of People Financially Excluded

75% of the 27 million women living in the CEMAC zone are excluded from the formal financial sector in 2017[1] and in Central African Republic (CAR), they represent half of a population of 4.97 million inhabitants, 70% of whom are young adults (15–35 years old).[2] The country is ranked among the poorest countries in Sub-Saharan Africa, and less than 13% have a bank account.[3]

Exposure to Shocks Conditions Their Financial Habits

People are young and exposed to various shocks. In that huge country[4] of CEMAC Zone, the low literacy level of 37% drop to 26% when it comes to women (We Are Social, p. 18).

The last military conflict (2013) caused huge internal migration of population to main urban zone of Bangui, however 56.8% remain rural.[5] Lack of identity paper is frequent, particularly for the people who had to flee the conflicts by abandoning their goods.

People earn low income (370$ GNI/c)[6] and 100% of women interviewed[7] live on low income-generating activities, mainly in the food trade, goods and services trading. They rely on saving groups to constitute a working capital to support their businesses and to face the unexpected. All over the country, mobile transaction is the main way for them to access or send cash.[8]

When asking to Mariam about her financial habits, this 39 years old woman told: "*I do not use financial services because the country has just gone through a military-political crisis, I want to have my money near me in order to move quickly in case of problem or to another country in safety. Before, I wanted to withdraw money from my bank account when I fled the crisis to go to the neighboring country. It was difficult to proceed and yet I had the supporting documents of my property that existed in this institution. Financial services do too many procedures. I decided to keep my money on me or with my mother.*"[9]

Enhancing women and youth financial inclusion and rural development requires to take those paradigms into account and remove barriers limiting access to mobile accounts. Women consider their income insufficient to cover their needs so they can't afford financial costs of institutional banking.[10]

Banking Procedures Are Considered Too Restrictive to Meet Their Needs

Regulations in the CEMAC zone govern the issuance of mobile money and two mobile and banking operators share the Central African Mobile Money market: Orange[11] and Telecel.[12]

However, constraints related to the identification of customers (KYC) remain high,[13] the absence of identity papers remaining frequent.

The constraints of opening and maintaining a bank account are highlighted: the distance constraint, the administrative documents required, the high fees (10 to 15% for a bank operation), the difficulty of withdrawing money quickly. In fact, the operators mobilized are mainly saving groups or caregivers, whose degree of exposure and vulnerability to shocks remains also high. They are said to be based on social confidence and cost less (~10% interest) even if the risk of payment failure exists.

The current legislative and regulatory framework authorizes, under specific conditions, banks, microfinance institutions and payment institutions to provide credit, up to XAF 100,000 (~$160) to mobile money holders, but "*this system would benefit from being clarified to allow a real secure development of this microcredit activity by public establishments and microfinance establishments*."[14]

Paving the Way to the First Digital Monetary System

However those conditions, mobile money is booming since 2019 with +549% transactions,[15] demonstrating an ability to meet the needs of urban and rural populations. However, access to a mobile bank account is still subject to KYC constraints and the terms of access to mobile microcredit have to be cleared.

The political context shows that CAR government is willing to "rise the first digital monetary system"[16] as a digital-first blockchain based economy (Sango Project). The first steps have already been taken with Bitcoin becoming legal tender in April 2022 (Law no. 22/April 21). Work is going with regulators and institutions to create the legal framework dedicated to digital currencies in line with the BEAC (Bank of Central African States) initiative laid out on July 21, 2022.[17]

Two of main points of the Sango Project caught attention :

- The Digital identity—putting citizens in control of their digital identity and assets[18]
- The "Young People Initiative," a National mobile smartphones Program, to increase digital literacy[19]

Education and Capacity Development as a Way to Enhance Digital Financial Inclusion

In June 2021, UNCDF reported 23 proposals to accelerate women financial inclusion in the CEMAC zone[20] that unveil the way forward to accelerate women's digital financial inclusion in Central Africa. This enlights the steps to bridge the gender digital divide in financial services in Central Africa, where nearly two-thirds of women are still excluded from the formal financial sector.[21] It calls to strengthen financial and digital education and to improve consumer protection.

Thus, its urgent to design a policy that integrates those paradigms, with a solid guarantee of efficiency and capacity development plan in this country with very low level of literate women and youth. This would lead to prepare and secure digital finance development as an alternative they can trust in, considered as accessible and which can be providing more security than informal systems to them.

How Policies Can Help Increase Financial Inclusion for Women and Youth

Ministry of Labour is committed to reforming the training system by submitting a road map to the government in October 2022. This road map was designed following several workshops organized in May and September 2022 and bringing together sectoral ministries, training professionals, unions and employers, civil society organizations. This should lead to a new vocational and capacity development policy, including digital literacy and financial education by the end of 2023.

The Ministerial Committee of the Monetary Union of Central Africa, led by Herve NDOBA, minister of finance of CAR, by a press release of July 21, 2022, invited the Central Bank of Africa to accelerate the process of designing a legal framework to regulate issuing of digital currencies in the CEMAC zone and to pursue actions in favor if financial inclusion and modernization or payment infrastructures.[22]

Therefore, Electronic Payment Terminals infrastructures may be developed in CAR.

The "Aquisition Commerçant Unique (ACU)" project lounched by BEAD in 2020 has to be continued. It aims to "*acquire a dense, reliable and secure interbank or interoperable electronic payment acceptance structure*" and to guarantee "*equitable access to all players, in order to reach the objective of 300,000 acceptance points by 2025.*"[23]

Banks could use a large KYC document for opening mobile account through a regulation draft as Uganda did.[24] Central Bank could also clarify the conditions to access mobile microcredit through a specific communication document.

Next Steps toward the Vocational and Capacity Developement Policy for Digital Financial Inclusion[25]

- May 23 to 27, 2022—"Pré-atelier des décieurs"—a series of worshops with five (5) members of the Ministry of Labour and sixteen (16) advisers of the National Agency for Vocational Training and Employment. Five (5) teams are established to work on the whole steps of the Design of the policy framework.
- September 28, 2022—"L'Atelier des Décideurs"—Under the patronage of the Ministry of Labor and sectorials, a major workshop including ministries sectorials, unions and employers, professionals of training. This helped to complete the design of the policy framework
- October–November 2022—Defense of the project in the Council of Ministers by the Ministry of Labour
- January–March 2023—Design of legal texts—Team 1
- February–March 2023—Constitution of a joint committee to decide on the priority pilot sectors for capacity building and launch the action—Team 2
- March–July 2023—Design of 1rst Pilot Models of capacity building programs, including Digital Literacy and Financial Education—Approvals—Team 3–4 & 5
- September–November—Implementation of Pilot Models & feedbacks—All
- November–December—Analysis of results and feebacks, adjustments and national deployment—All officials and stakeholders.

Key Indicators of Change—Test Year 2023

- A framework for vocational and capacity building policy exists
- At least one pilot program includes financial education and digital literacy
- At least 50 women and young people follow the financial and digital program test in 2023
- Saving groups are included to help designing a special program for women digital finance services (DFS) agents and elaborating and promoting consumer protection rules.
- Ministry of Finance allows issuing non bank e-money for special women and youth program and allows simplified CDD for lower-risk accounts and transactions
- If the results are conclusive, extend the program to 300 young people and women per year

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Digitizing Livelihood Empowerment against Poverty (LEAP) Social Transfers through Mobile Money

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Keywords: G2P payments, social protection, digital financial services

Executive Summary

Many (80%) of the beneficiaries of the social payment scheme in the Tano North Municipality accessing the Livelihood Empowerment Against Poverty (LEAP) are unable to access needed formal financial services. This lack of access to the financial compound restricts the economic opportunities available to beneficiaries of the scheme.[1] Having a transaction account opens the doors to other formal financial services, such as payments, insurance, credit, and savings.[2] Access and use of appropriate financial services therefore can help people to manage shocks and risks, and step out of poverty for a better livelihood.

There is, therefore, the need to formulate and implement workable social and inclusive policies as part of the mandate of the scheme to enable beneficiaries of the LEAP project to use digital payments by first having access and also benefit from economic opportunities arising from financial inclusion. To achieve these, the proposal is to digitize social payments through the provision of mobile money accounts to beneficiaries to increase the use of mobile money transactions and by providing a means to getting beneficiaries unto the formal financial system through the use of their registered mobile money accounts. Ghana currently has the fastest mobile money growth and mobile money is the largest payment system in the country.

Complementing the first policy, there will be the establishment of the LEAP Business Empowerment Project to enable beneficiaries to have access t financial capital to undertake productive or business activities including trade, food vending and others under the guidance of the management team to build wealth through business ownership to eventually wean them off the program.

Problem Statement

80% of District Assembly LEAP Beneficiaries in the Tano North Municipality have no transaction account to access and use needed financial services. According to summary data, these beneficiaries are unable to access financial services. The Beneficiaries travel a long distance to receive these social payments. Beneficiaries of the LEAP include males and females of 18 years and above with the population generally into farming, and selling of consumables.

As it is on record, all the LEAP beneficiaries once lived under 1 dollar and 90 cents per day at the time of being enrolled on this scheme.[3] Though the plan at the start of the LEAP implementation was to enable the graduation of beneficiaries from the project, this has been unsuccessful because data suggest that graduating them will create a situation where they might return to being extremely poor without the monthly allowance.

Root Cause of the Problem

There has been the identification of the causes of the problem of poverty among the beneficiaries. The problem is both access to digital financial services and poverty. Key among the root causes of poverty among them are:

- The lack of economic opportunities available to the beneficiaries,
- Beneficiaries not utilizing policies to address constraints in financial inclusion,
- Low levels of financial inclusion
- Low levels of financial literacy and capability among beneficiaries,
- Policies unable to address the root causes of poverty,
- Perception of beneficiaries being risky debtors hence limiting their access to formal financial services

Priority Objectives Bundle

To achieve the results being expected, two priority bundles are established, thus firstly to further Digitize transfer payments of beneficiaries to use the Mobile Money transfer option and secondly to initiate programs with FIs to extend capital to beneficiaries for income-generating business activities.

Regarding the root causes, policies need to be extended to the beneficiaries to change the status quo. Therefore, using mobile money payments will enhance beneficiaries to access digital financial services through their mobile money transaction account, hence will address the financial inclusion challenge. Again, they would have qualified in gaining some credit scoring since they will have a transaction account that receives and records income through transfers because one of the tools being used is the extension of credit from the LEAP Fund to LEAP beneficiaries who graduate and are qualified to undertake a business adventure. This will in turn reduce the perception of being risky.

On the other hand, extending capital to beneficiaries for income-generating business activities will offer them opportunities for to access capital to undertake productive and revenue-generating business endeavors. This complimentary policy is helpful to create space for beneficiaries to have funds for economic opportunities. Having access to capital for income-generating activities under a successful business model supervision program for beneficiaries is envisaged to create wealth through productivity.

Five key criteria were used as a baseline for the choice of these objectives. The two objectives scored highest on the five criteria capacity, evidence, pre-condition, need and cost.

Policies

The policy ideas includes six identified, which are related to achieving the two policy bundles.

Secure National IDs for SIM and MoMo Registration for beneficiaries:. Most have Voters ID, which is not the legitimate document for sim registration.

Developing financial and cybersecurity programs by the Business Advisory Centre for beneficiaries and CICO Agents to enable beneficiaries understand financial literacy and basic cybersecurity issues on payments.

Procurement of mobile phones for Beneficiaries: Procurement and distribution of mobile phones will be made for beneficiaries. Beneficiaries will use the mobile phones to receive digital payments and use the accounts for transactions.

Guidelines for all LEAP districts requiring them to make social transfer payments are through mobile money for up to 80% of beneficiaries. This could lead to transfer payments being disbursed digitally to 80% of beneficiaries. Ghana is a leader in mobile money growth as a result of high mobile phone penetration of over 128%.

Establishing a desk office for receiving and addressing complaints arising from use case problems beneficiaries encounter. This will be a collaboration between the Social Welfare department and a desk office for M&E.

Establishing fund for beneficiaries; to access low-interest loans from the Fund at low rates for business purposes after the digitization of payments.

Stakeholders

Key stakeholders for the program include the LEAP Secretariat, Department of Social Welfare and Community Development, Business Advisory Unit, and District Assembly

Next Steps

Implementation Timeline for Internal Stakeholders is below:

1. Informal discussion with the Secretary to Assembly, DCE, and Presiding Member (Chairman of FMC) on the policy and securing their full support led by Desk Officer from July 5–15
2. Adopting the new administrative guidelines and policy led by Fund Management Committee from July 12–30
3. Drafting letters and disseminating widely among internal stakeholders on the policy intent led by the DCD from August 1–6
4. Organizing a workshop on new guidelines for key internal stakeholders led by a desk officer from August 8–10

Implementation Timeline for External Stakeholders is below:

1. Establish a desk office for Social Welfare and Administrative Officers as an additional responsibility to serve as desk officers for complaints led by DCD from August 12–20
2. Disseminate policy intent to all stakeholders led by Desk Officer from August 21–26
3. Organizing workshops for stakeholders to provide an opportunity for stakeholders to offer meaningful inputs led by the Desk Officer from August 30–September 8. Training of Beneficiaries on mobile phone usage and digital payments acceptability led by Business Advisory Centre from September 10–25
4. Ensure all stakeholders are ready for implementation through official and informal correspondences and feedback led by the Desk Officer from August 2–August 15

Indicators of Change

The process will involve various stakeholders. The lead officer is the desk officer for the LEAP project. The Desk officer will lead the gathering of field data, surveys, and quarterly reports from the Department of Social Welfare.

INPUTS	OUTPUT	OUTCOME	GOALS
Develop financial literacy programs on MOMO for beneficiaries	Beneficiaries understand how to use MOMO	Beneficiaries transact financial transactions digitally	Beneficiaries make electronic transactions
Procurement of mobile phones for Beneficiaries	Distribution of mobile phones to beneficiaries	Beneficiaries receiving digital payments on their mobile phones	
Secure National ID cards for SIM and MoMo Registration for beneficiaries	NIA registers beneficiaries for National IDs	Beneficiaries using ID to register MoMo and Sim Cards for digital transactions	
Guidelines requiring that fund transfers are done through Mobile money for up to 80% of beneficiaries	Guidelines are developed and communicated	Transfers are being disbursed digitally to 80% of beneficiaries	
Establishing a desk office for receiving beneficiaries' complaints	Complaints Unit is established with desk officers to receive and address complaints	Beneficiaries are making complaints	
Initiating loans scheme for beneficiaries	Dedicating Funds to offer low-interest loans to beneficiaries	Beneficiaries are accessing capital from the Fund for business purposes	

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Rural Access to Finance

Accelerating and Maximizing Outreach of the Poor in Rural Areas by Microfinance Institutions (MFIs) with the Deployment of Mobile Agents Networks through the Developments of IT Shared Services

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Keywords: financial access, resilience, professional empowerment, Rwanda

Executive Summary

The mission of Microfinance in Rwanda is to bridge the financial access gap and strengthen the poor's resilience by effectively delivering customized financial products that will be used in the most convenient way by rural households. However, the reality on the ground can show that the lack of suitable products and long distances to MFIs premises remain big issues to be addressed by stakeholders with good intentions and commitments to constantly adapt MFIs products and services to rural market needs but also to maximize outreach by increasing the proximity to customers.

The following paragraphs will describe the *professional empowerment of the MFIs staff with organizations strategy, marketing and communication tools* along with *the IT Shares services to facilitate deployment of Mobile Agents networks* as key solutions to bridge the existing financial access gap for the poor and how they should be implemented once they are approved by key stakeholders as the way to go.

Problem Statement and Context

"Rural poor but economically active households can't access formal MFIs services."

Rwanda is an East African country with almost 13 million populations.

In total, about 93% (about 7 million adults) in Rwanda are financially included (formal and informal financial services/products). The Rwandan adult population is largely rural based, with 74% (5.2 million) residing in rural areas. Around 30% of Rwandans are between the age group of 16–30 years. This makes Rwanda a young nation with around 60% of the population younger than 31 years. About 46 of the adults in Rwanda mainly generate an income from the informal sector (including piece work, selling goods), as well as farming activities (29%), and only 10% are employed in the formal sector (FinScope, 2020, 11).

We have only 50% Microfinance digital and non-digital products awareness, and 74% respectively in rural and urban areas.

The provision of electronic services is 28% and 52% respectively by Government Savings and Credit Cooperatives (Commonly known as UMURENGE[1] SACCOs) and Microfinance Institutions (MFIs), a lower digital service provision compared to 94% from Commercial Banks (FinScope, 2020, 27, 31).

Only 50% of the rural population can access to mobile money, a lower rate compare to 90 % in urban areas (FinScope, 2020, 33).

If we consider that access to phone in 2020 was 99% in Kigali City and could go up to 92% in district out of Kigali city (FinScope, 2020, 26), the access to phone can be discarded as justification for the apparent low access to mobile money in rural areas.

The time spent to reach Digital Financial Services is up to 23 minutes in Kigali city, while in can go up to 60 minutes in areas out of Kigali City for MFIs and SACCOs (FinScope, 2020, 25).

From above findings, we notice poor awareness of DFS and non-DFS financial products and low use of mobile money in rural areas that cannot be justified by lack of access to phones.

Key Causes

This situation highlights MFIs' poor market outreach, as an important segment of the targeted market still ignore MFIs product and services; and same MFIs have not yet capitalized on the current phones penetration to transform the products and services offered and increase proximity to the potential customers, and in context where most of MFIs physical remain in urban areas or in districts town centers.

While ignorance of MFIs product and services can be solved through empowerment of MFIs staff with planning, marketing and communication tools through timely training and new organizational strategy, taking advantage of current phones penetration to reach out customers through deployment of mobile agents networks could be harder considering the cost involved in the acquirement of Information Technologies infrastructures (IT) to host mobile agents' platforms.

The following is the comparison between MFIs and Commercial banks:

NON GOVERNMENT SACCOs IT INVESTMENT CAPACITY							
MFIS	#CLIENTS				Capital (US$)	Annual operating costs (US$)	Annual IT costs (US$)
	MALE	FEMALE	TOTAL	YOUTH (18–35 AGE)			
A	4,481	3,760	8,241	1,264	101,000	556,000	5,400
B	4,702	2,316	7,018	4,211	108,000	128,000	14,222
C	1,499	660	2,159	2,399	38,000	45,000	5,000
D	3,557	3,418	6,975	2,492	117,000	96,000	2300
E	2,907	1,866	4,773	1,237	65,000	33,000	0
F	2,505	1,311	3,816	2,500	22,000	28,000	0
	33,818	***25,002***	***58,820***	***20,449***	***451,000***	***886,000***	***26,922***
		43%		35%			

IT RELATED INVESTMENTS FOR COMMERCIAL BANKS				
NO	**NAMES**	**CAPITAL (US$)**	**OPERATING COSTS (US$)**	**IT COSTS (US$)**
1	CBA	9,045,474.00	23,007,338.00	8,052,568.00
2	CBB	5,050,000.00	4,512,384.00	1,579,334.00
3	CBC	6,985,000.00	13,619,491.00	4,766,822.00
4	CBD	18,100,838.00	5,499,288.00	1,924,751.00
5	TOTAL	39,181,312.00	46,638,501.00	16,323,475.00

1. We can see that an accumulation of annual operations expenses for six MFIs remains below the least IT expenses in one Commercial bank (886,000<1,579,334), almost double!
2. Microfinance have never attempted anything so far, E& F with 0 expenses in IT so far.

I personally recall having been part of a project that was dedicated to the development of digital channels in one leading Microfinance, under the MasterCard grant of U$ 500,000; and have led a consulting assignment in another Microfinance that was granted U$ 20,000 for the development of Mobile agents' network only!

- ***Priority Objectives Bundle—***Empowered MFIs leaders with adapted communication tools that will allow them to effectively create awareness about MFIs products and services;
- MFIs empowered with IT infrastructure to support deployment of Mobile Agents.

Households from rural villages can have access to their account via mobile phone, with the possibility to access small business and School Fee Loans without taking long distances to reach MFIs premises where they will spend hours in the queue. . . . ;

Policy(ies)

Promote IT Shared Services and provide incentive for the creation of IT Shared Services through Tax exemption to encourage IT vendors willing to supply necessary equipment.

Why? IT shared services offer a cooperation framework for MFIs to participate in a same scheme of IT infrastructure and sustain it through agreed maintenance fee. So IT infrastructure becomes affordable as more than one MFI will participate in the cost.

Stakeholders

I wish to count on the Central Bank, to validate and endorse the Tax exemption proposal to the Ministry of Finance.

We wish to count on SBFIC and CARE International, for the funding we need to support the design and delivery the initial acquisition of IT equipment MFIs need, and we are committed to setting a permanent Project Finance monitoring framework, to ensure entrusted funding is wisely and exclusively used for its intended purpose.

You will count on my office to have a consistent Monitoring and Evaluation framework to inform us about the number of people who will be accessing to suitable products in a most convenient way post this program

Next Steps: Explain HOW I will begin implementing my policy.

KEY STEPS	WHAT	WHO	WHEN
Foundations for Policy justifications and buy-in from internal stakeholders	• Do basic research and come up with key statistics from credible resources; • A clear problem statement, and proposed solutions; • Identification and Mapping of key stakeholders • Development of Implementation Plan • Development of M&E Plan • Presentation to the AMIR Executives Team, receive feedback; • Make adjustments if any according to the feedback • Get the final project and plan approved	Aime M	May/2022

Policy justifications and buy-in from internal stakeholders	• Identify key external stakeholders • Discuss and agree on their involvement strategy • Suggest seminar and get it approved by AMIR Executives • Plan for Seminar and invite external stakeholders • Run 2 days' seminar to expose the project and rationale • Get feedback from invited stakeholders • Work on recommendations • Make a final report	Aime M, AMIR Executives	June/2022
Mobilization for funding and collaboration for the IT equipment	• Write a call for funding to key and active donors in Financial Inclusion • Meet CARE International and the German-based Savings Banks for International Cooperation (SBFIC) • Write and share the report	Aime M, AMIR Executives	Aug/2022
Approval of the incentives proposal for the IT vendors who will supply equipment that will participate in the deployment of IT Shared Services.	• Submit the incentives for IT Shared Services business case to the Central Bank, Ministry of Economic Planning and Finance of the Rwandan Government. • Get the proposal approved • Prepare deployment	Aime M, AMIR Executives, RICEM	Nov/2023

Key Indicators of Change

The number of MFIs that will gain access to IT infrastructure and new deployment of Mobile money agents;

The number of customers who will be reached;

The regular recording will ensure the coordination and other stakeholders are regularly informed and updated on the following key outputs;

The number of people who will be accessing suitable products in the most convenient way post this Program,

The number of rural household members who will participate in Financial and digital literacy.

Note

1. UMURENGE is an administrative entity under the District as defined by the Ministry of Local Governance.

Financial Inclusion in Bangladesh: Marginalized Rural People Prefer Formal Financial Institutions as a Means of Access to Their Financial Services

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Keywords: unbanked, gender, financial fraud

Executive Summary

About 50% adult Bangladeshis haven't accounts at financial institutions. In gender aspect, women are over-represented among the unbanked in most economies, in Bangladesh, 65% of unbanked adults are women (Findex, 2017). One of the key financial inclusion problem of Bangladesh is marginalized rural people depend on informal financial institutions and are exposed to financial fraud. This policy document is an initiative for financial institutional convenience by reducing operational complexity, so that rural people have access to formal financial services.

Problem Statement and Context:

In Bangladesh perspective, rural marginal people do not prefer formal financial institution as their first choice due to the unavailability of branches/service points at their convenient peripheral[1] and complicated onboarding process and documentation. Eighteen percent of the people aged over 15 have a full service bank account; 22% are unbanked but having account with Mobile Financial Service (MFS) and 32% have access to the informal financial sector *(Survey of InterMedia in 2016)*.

Mr. Noor Nabi, who owns a small tea shop in a rural area, (Nabi, 2022) He sells tea as well as some consumer goods in limited quantities and the income from the tea shop is the only source of income for his family. There are six members in his family.

When Mr. Nabi was asked about his financial relationship with a bank or other financial institution, he shared that he does not have any bank account but has an MFS account which is not used much. He also maintains an account in the local co-operative society which is an informal financial institution where he maintains a weekly deposit scheme as collateral for a loan of BDT 25,000. He has to repay the loan on weekly basis at an interest rate of about 30% per month.

When Mr. Nabi was asked about the risks of informal financial sector, he acknowledged it with an experience of one of his family members who lost his entire savings by co-operatives. Ms. Saleha Begum is the cousin of Mr. Nabi who is a housewife and her only source of income was her husband's foreign remittances and all family expenses were borne by that income. Her husband has worked in Malaysia for a long time and remit most of his income back to the country. Ms. Saleha used to save as much money as possible. Inspired by a neighbor, she opened an account with a cooperative in her village where she could deposit any amount of money at any time at her convenience. She reinvested her monthly profit with the principal amount in the hope of future investment. She continued such savings for seven years and did not withdraw any amount. But unfortunately one day she finds out that the organizers are involved in financial corruption and they have gone into hiding as they cannot return the money saved to the customer. Many others in the village have confessed to the same fraud and have sought legal help in the hope of recovering the money.

Mr. Nabi was also asked why he maintains relationship with the co-operative despite being aware of the risks. The answer was convenient; convenient in a sense easy onboarding process, presence at doorstep and easy access to credit. Why not bank? Mr. Nur Nabi replied that banks are not for them because the bank and its complicated onboarding process and documentation does not welcome them. Mr. Nur Nabi is not an isolated incident, he represents 32% of the people who rely on informal financial institutions.

Key Causes

Lack of convenience for rural people: Rural people find traditional banking system complex. In the case of public or private organizations, cash transactions are still more common than transactions in any bank account. There are many small and big institutions in villages, towns and cities which pay their salaries, wages, allowances, etc. in cash and businesses do their daily transactions in cash.

Lack of risk perception: People ignore the high risk for huge return, which leads to scope for fraudulent business like MLM business, invest on unauthorized samity, etc. Rural communities often do not want to come to the bank as they are financially disadvantaged by various unauthorized NGOs or co-operatives. They don't have the right idea about banks, NGOs or Co-operatives.

Demand and supply imbalance: From the demand side, lack of financial awareness, low income/assets, social exclusion, and illiteracy act as barriers. From the supply side, distance from the branch, branch timings, cumbersome documentation and procedures are common reasons for exclusion. All these result in higher transaction cost for consumers and lower profitability for providers. On the other hand, the ease of availability of informal credit sources makes these popular even if costlier.

Suitable Alternatives meet consumer needs Rural households are mostly borrowers and they feel more comfortable taking loans from the informal sector because the process is much easier and faster though the interest rates are much higher.

Priority Objectives Bundle

KYC requirements need to be more flexible when onboarding customers. The Election Commission will strengthen their database for multiple access by the financial institution and FIs will use the data from the verification perspective. MNO, MFS and Bank will be developed their system capacity in order to system integration for exchange data. Banks will be able to verify customer's basic information and financial records through MNO and MFS database. Customers will be able take advantage from bank and MFS account where both the accounts are tagged together.

Due to the complexity of KYC, rural marginal customers are not interested in realizing the benefits and formal financial institutions are not interested in realizing the operating costs. If the process can be flexible, formal financial institutions will not be limited to urban customers. Then, small ticket customers will be a significant part of their portfolio, where limited resource investment will provide sustainable business opportunities. Such initiative would be a major step toward the goal of financial inclusion where country like Bangladesh are taking many initiatives for financial inclusion from the country level as part of the Sustainable Development Goals. The use of technology will play an important role in reducing human involvement in the process.

Policy(ies)

A policy that will enable formal financial institutions to access central national ID, MNO and MFS databases for KYC procedures and provide credit facility by evaluating customer transaction history/record. The idea is to eliminate document requirements from the process, verify customer's personal information through NID database, verify contact number and electronically evaluate transaction behavior by MNO and MFS transaction records as credit history to offer a pre-approved micro loan.

Election commission will strengthen their system capacity to allow multiple accesses at once. There are number of integrations will be established between financial institutions and National ID database. Banks, other financial institution, MNO and MFS will take necessary initiative to develop their system for data sharing.

Stakeholders

The relevant stakeholders are Banking Regulation & Policy Department, Bangladesh Bank; Election Commission; Banks; Non-bank financial institution; Mobile Network Operators and Mobile Financial Service providers.

The concept paper/memo will be submitted to the Banking Regulation and Policy Department (BRPD) and Financial Inclusion Department (FID) of Bangladesh Bank. The concept paper will be shared with MNOs and MFS and financial institutions for feedback and observations. All feedback will be complied with and a number of meetings/workshops will be arranged to get a comprehensive response and the necessary observations will be addressed in the policy document. A working group will be formed with all the stakeholders to examine the policy document as expert opinion and rollout pilot program.

Next Steps

Responsible	**Activities**	Timeline
Process Re-engineering Department and Agent Banking Department, BRAC Bank	1. Share the paper with relevant internal stakeholders like Operations, Product, AML and IT Divisions of the bank through email for their review and feedback. 2. Arrange meeting with the stakeholders to discuss the observations raised by them and in order to mitigation plan of the challenges. 3. Update the paper accordingly in reference of the discussion. 4. Present the concept paper to senior management and Managing Director of the bank and obtain consent to proceed with the paper as a proposed policy document.	1–2 weeks
Process Re-engineering Department, Agent Banking Department and Regulatory Affair Department, BRAC Bank	1. Submit the concept paper to Banking Regulation & Policy Department (BRPD) and Financial Inclusion Department (FID) of Bangladesh Bank. 2. Communicating/meeting informally with the General Managers and other officials of BRPD and FID, Bangladesh Bank to convince them about the proposal and to understand their perceptions on it and what kind of challenges they feel externally or internally. 3. Take early preparation that could be asked by the Central Bank on the paper.	3–4 weeks

Banking Regulation & Policy Department and Financial Inclusion Department, Bangladesh Bank	1. BRPD arranges meeting with/share the paper with concern other Departments including Bangladesh Financial Intelligence Unit (BFIU), NFIS Administrative Unit, Research Department of Bangladesh Bank. 2. BRPD of Bangladesh Bank invites banks, MNOs, MFS and Election Commission for a meeting to prepare policy documents, share ideas and collect their feedback and observations. 3. Compile all responses, challenges and risks raised by internal and external stakeholders. 4. Explore mitigation plans and steps that need to be included in the policy document. 5. BRPD arranges a number of dialogue sessions with key stakeholders to highlight the major challenges raised from system development, implementation and risk perspectives and to share possible solutions and necessary steps. 6. Update the draft policy document accordingly.	5–7 weeks
Banking Regulation & Policy Department, Bangladesh Bank	1. BRPD shares updated policy document with Governor office for approval. 2. After receiving approval from the Governor, the BB approved policy documents are sent to the Ministry of Finance and the Prime Minister's Office, as it relates to the development of the Election Commission. 3. Personal communication and persuasion from the Bangladesh Bank is required to obtain positive consent from the Ministry and PM Office. 4. Circulate approved policy.	10–15 weeks

Key Indicators of Change

Formal FIs will take the initiative to serve marginalized people as operating costs are lower and alternative channels will be set up to serve more customers. Alternative channels like transactions through mobile app, agent banking, QR code, ATM, CDM, MFS, etc. Expansion will be more focused on diversifying the channels across different segments of customers. Marginalized people will find formal FIs as a competitive alternative to informal channels. FIs will explore new business strategies affiliated with MNO and MFS. A process will be developed by the banks and other financial institution to monitor account transactions opened by simplified KYC. Progress and policy impact will be monitored by the Central Bank annual report, financial institution records and dedicated survey from Central Bank.

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Author's People-Centered Policy Assignment, FLPFI Fellowship 2022.

Author's interview with Mr. Noor Nabi, owner of small tea shop; interviewed during FLPFI Fellowship 2022.

Non-cash Transactions in Rural Areas of Armenia

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Keywords: payment infrastructure, rural development, shadow economy

Executive Summary

Based on a new amendment to the law on non-cash transactions, approved by the government of Armenia, transactions exceeding 300 thousand drams (around $600) must be made only by non-cash methods. The policy tries to address the following points:

1. Reduce the cash in the economy
2. Establish procedures for non-cash payments for citizens of RA
3. Strengthen tax administration and fight against shadow economy

Taking into account that around 52% of rural population in Armenia are financially excluded, this might bring some issues for half of the population for instance rural population will not be able to implement their high value transactions, and they will not be able to sell their products in bulks. My policy package consists of 3-policy point, which addresses both supply and demand side problems. These are (1) reduction of the cost of the non-cash transactions, (2) encouraging other stakeholders to enter the field, (3) organizing workshops for the rural population to teach them how to use the non-cash methods.

Key Causes

To understand the causes behind the exclusion of rural population from the financial system we implemented many deep interviews with the population in the villages of Tavush region (Economic Research Department of CBA 2021). The most common causes behind the exclusion was:

1. Lack of payment infrastructure in the villages;
2. Cost of transactions for both costumers and businesses;
3. Lack of knowledge and skills on the use of financial products.

In the six villages that we visited, none of the shops or service providers had POS terminal or any other means of transactions. Most of the villagers were using the post offices to implement their financial transactions and for other transactions that was not available in the post offices (such as cashing out their salary or paying their loans), they had to travel to the nearest city which is an additional cost for the consumer.

Every month I go to Dilijan to pay off my loan, I pay 3000 AMD (around $6) each month for transportation.

—Housewife from Gosh village

The cost of transaction for merchants is also an important issue, the businesses have to pay a lump-sum amount (around 50,000 AMD, $100) to activate their POS terminals to be able to accept non-cash transactions, and as there is no demand for them the cost is not justifiable for the small businesses of the village. Another cost associated with non-cash transactions is the commission fee for each transaction (this fee is different for various banks but it is around 2–3%). Both these costs affects the prices of the shops, which passes to the consumers.

I don't want to have a POS terminal in my shop because no one needs it and also there is an activation fee for the terminal itself, and then there is also an operation fee for each transaction. I should increase the prices to be able to take non-cash money.

—Shopkeeper from Hovk village

Financial literacy and lack of financial knowledge and skills is also one of the most evident issues in Armenia, 2015 based on the OECD/INFE (2021) financial literacy score for Armenia is lower than the average of CIS region.

Now that you tell me I can do all those things online it sounds very exciting and it would be very good for our family business but me and my husband we don't know how to use them [online banking] and it would be hard to try it out, maybe if someone would show us how to use it we could start doing our financial transactions without leaving the village.

—School teacher from Teghut village

Policy Package

To solve this issue we propose the following policy package for the Central Bank of Armenia to adopt:

1. Reduce costs of non-cash transactions to businesses and consumers:
   a. Negotiate the pricing for the activation of non-cash transactions of the POS terminals with the banks
   b. Subsidize the cost of POS terminal activation in the village
   c. Subsidize the cost of transactions in the village
2. Encouraging other stakeholders of the field to enter this market by organizing workshops to introduce different country cases of non-cash transaction methods to banks, COs, MMOts, post office, etc.
3. Organize workshops and trainings by CBA for the rural population and show them how to use the non-cash tools.

The first two components are in place to solve the supply side problem and unravel the financial infrastructure and non-cash transaction cost for the villagers. The subsidies and the new stakeholders in the market will make non-cash transactions affordable for the rural population and will encourage the rural businesses to adopt new financial transaction methods, which will expand the financial infrastructure. In addition, the last policy is dedicated for the demand side and ensures that the issue is resolved on both sides.

Next Steps

To implement this policy package, The CBA should start negotiating the pricing with the banks and try to encourage other stakeholders to join the market, which will decrease the price of transactions and encourage participation in the rural areas. At the same time, the Consumer's Right Protection Department and Economic Research Department will design a more comprehensive and easy-to-learn workshop dedicated for rural population and pilot them in different villages. Moreover, the cost of the subsidization will be calculated for both POS terminal activation and cost of transactions for CBA to be able to subsidize it. Before introducing the policies to mass public all the policies will be piloted in different villages and their effectiveness will be measured individually and as a policy package. Thus, different treatment groups will be introduced which consists of the groups with one policy point (villages who will only adopt one of the three policy proposals such as cost reduction or workshops) and treatment groups which will acquire the whole package, the results will be compared to the control group which will not receive any treatment.

Key Indicators of Change

To assess the effectiveness of this policy package the Economic Research Department of the CBA will monitor and evaluate the following three group indicators:

1. Input indicators:
   a. The price of non-cash transactions for villagers
   b. The price of activation of POS terminals in the villages
2. Output indicators:
   a. Number of non-cash transactions before and after the intervention.
   b. The perception of villagers on how much they visit the nearest city for their financial transactions before and after the intervention.
   c. The perception of villagers on effectiveness of their businesses.
3. Outcome indicators:
   a. The perception of villagers on their day-to-day transactions.

The indicators that measure the perception of the consumers will be attained by qualitative surveys before the policy implementation and after the treatment. Moreover, the quantitative indicators such as prices and the number of transactions will be given by the banking sector again before and after the treatment.

Note

1. The views expressed and the conclusions reached are those of the author and not of the Central Bank of Armenia.

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MSME Finance

Encouraging Eswatini MSMEs to Take Up Credit from Registered Financial Institutions

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Keywords: entrepreneurship, SME, credit, borrowing

Executive Summary

Despite progress in financial intermediation (defined as the channeling of funds from depositors to creditors) over the years Micro, Small and Medium Enterprises (MSMEs) in Eswatini's inclusion in formal financial intermediation is progressing at a slow pace. Only 23% of medium enterprises, 13% of small enterprises and 11% of micro enterprises have borrowed money from formal financial institutions (CFI, 2018). This presents risks to the sustainability of MSMEs and the stability of the financial system. This policy memo presents a solution that will leverage on existing MSME support institutions to encourage MSMEs to apply for credit in formal credit institutions through reconciling demand side needs with supply side capacities.

Problem Statement and Context

MSMEs employs approximately 44% of the labor force (CFI, 2018) making the sector a major contributor to employment. Eswatini has MSME support initiatives through agencies such as the Small Enterprise Development Company (SEDCO) and the Small and Medium Enterprise Guarantee Scheme. However, challenges remain to stimulate the MSME sector and particularly incentivize small businesses to take up loans with registered Financial Institutions (FIs). According to FinScope (2017), 90% MSMEs in Eswatini are excluded from credit facilities largely due to both supply side and demand side barriers. On the demand side, failure of meeting certain credit requirements in financial institutions (FIs), lack of performance records and disproportionately higher lending costs for small firms (Zwane, 2019). On the supply side, FIs do not have MSME tailored products. Additionally, MSMEs, despite their resilience, are highly vulnerable to adverse economic shocks elevating their risk profiles and making them less attractive to formal FIs. Moreover, MSME's risk of default is high at between 12% and 40% (CFI, 2018) when compared to large enterprises. The non-success of MSMEs discourages new entrants into entrepreneurship with negative consequence to the economy.

Key Causes

MSMEs are discouraged by a number of factors from applying for credit with formal FIs. According to data collected through short interviews with some MSMEs and secondary research, some of the main deterrents to them accessing credit from formal FIs include:

1. Lack of meeting collateral requirements as institutions are reluctant to provide credit to MSMEs due to their high-risk profiles without substantial collateral. Substantial was described as out of the MSME owner's affordability.
2. Lack of up to standard business performance track records from which providers can assess their viability and sustenance. This is a particular challenge for MSMEs in the agriculture and manufacturing sector who are to submit bankable business proposals but the result is low approval rates.[1]
3. Loan approval periods for MSMEs varies widely from less than one month to up to four years (Zwane, 2019) making FIs less reliable as a source of funds for business startups.

4. Lending administrative costs have an upward bias for smaller businesses. This is because MSMEs often lack financial track records due to poor record management or lack of knowledge about documentation upon loan application in FIs. Lack of business records leads to high costs of initiating and monitoring which becomes large relative to the size of the underlying loan for the applicant and more that the FI is willing to risk (Zwane, 2019). Interest rates for MSMEs were quoted up to prime plus 8.5% (CFI, 2018).
5. Transfer of risk: despite their resilience, MSMEs are highly vulnerable to adverse economic shocks and conditions resulting in high mortality rates. Lending to MSMEs may carry higher risks such as that of default. In Eswatini, it is estimated that the MSME default rate ranges between 12% to 40% (CFI, 2018).[2] Thus, providers focused on building healthy portfolios, are dis-incentivized from taking on these riskier clients.

Priority Objectives Bundle

A policy solution could initially focus on three areas namely; capacity building, simpler processes and alleviating the financial burden of start-ups through subsidies. This initial focus could meet the objectives of

1. Ensuring business sustainability which will improve the attractiveness of the sector for credit,
2. Reducing turnaround time for loan applications and make the process less intimidating for new applicants and
3. Allocating deserving risk scores and thus aligning risk profiles by individual business as opposed to adopting a blanket approach particularly in the agriculture and manufacturing sectors.

Policy Proposal

To support MSMEs, a multi-stakeholder working group can be formed which could include various stakeholders. The working group can look into the different aspects of entrepreneurship from their respective agency experiences and propose how these may be addressed. The objective of the working group would be to explore ways to incentivize entrepreneurs to source credit from registered financial institutions. The proposal is that the working group includes private and public sector institutions to ensure a sustainable and balanced approach to addressing the root problems of MSME's aversion to credit from FIs. The proposed working group could include stakeholders from FIs, Central Bank of Eswatini, Ministry of Commerce, Trade and Industry, the Small Enterprise Development Company (SEDCO), the Ministry of Economic Planning and Development. The multi-stakeholder working group will identify challenges from their purview. Root causes of small business unsustainability shall be extracted by the working group while solutions are sought from the various stakeholder perspective. The working group could serve as a coordinating body between the different stakeholders on the various proposed and approved initiatives to support small businesses.

A multi-stakeholder working group would ensure that the resulting policy is balanced and achieves the desired goals by not only leveling the economic landscape for small businesses, but also ensuring that their interests are protected.

Key Stakeholders

1. Central Bank of Eswatini: is the initiator and coordinator of the policy memo. I will form an internal working group consisting of the Finance Development Unit, Bank Supervision Division, Policy and Enforcement Unit, Financial Surveillance Unit and the Financial Stability Unit.

2. Ministry of Commerce, Trade and Industry: has an affiliate agency called the Small Enterprise Development Company whose mandate is to promote MSMEs by providing various interventions aimed as creating entrepreneurial awareness and building the capacity of existing and potential Entrepreneurs.
3. Ministry of Economic Planning and Development; has the mandate to assist Government in the formulation, coordination and implementation of economic policies and intervention measures that will effectively and efficiently accomplish the country's major economic development initiatives.
4. Ministry of Finance; has the mission to formulate and implement fiscal and financial policies that optimize economic growth in response to changing regional and global environment thus, among other objectives, create an environment which will promote private sector development.
5. Financial institutions that serve MSMEs through credit provision.
6. Centre for Financial Inclusion; a semi-autonomous body under the auspices of the Ministry of Finance responsible for taking the lead in coordinating the implementation of the Financial Inclusion Agenda for the country.
7. . . . .

Next Steps

The CBE will have a significant role in initiating the policy and re-enforcing the foundation in creating an enabling environment in the financial sector which also serves as the supply side. I will undertake discussions with internal stakeholders with the objective of receiving support from Executive Management and the Governor. Discussions shall be based on a presented concept paper which shall also be shared with external stakeholders when bringing them onboard the project.

With support from the Governor, an internal stakeholder working group will be formed which will advance the concept to external stakeholders. Once support from external stakeholders is received, a multi-agency working group will be formed. The purpose of the multi-stakeholder working group is to ensure a balanced policy solution and stakeholder ownership in its implementation. The entire policy development and implementation is anticipated to take at least six months up to one year.

Key Indicators of Change

To evaluate the effectiveness of the policy after implementation, stakeholders will monitor, but not limited to the flowing indicators:

1. Number of small business loan applications to financial institutions,
2. Improved perception about FI's loan application processes through data collected in annual perception surveys,
3. New application forms and conditions,
4. Level of business-related training of new small business owners,
5. Number of new business applicants who have received support through the policy
6. Changes in collateral requirements.

Progress toward the objective will be monitored by each of the stakeholders in their various jurisdictions. It is anticipated that data from FIs will be monitored and evaluated by the Central Bank of Eswatini. Progress will also be picked up by national surveys such as the FinScope survey. Ultimately, the support of entrepreneurship in the Eswatini economy will encourage new entrants, position the sector as lucrative for investment and the ripple effect will drive the national financial inclusion agenda in other spheres of the ecosystem.

Notes

1. Eswatini Roadmap (2018–2022). Making Access Possible SME.
2. CFI. Making Access Possible SME. Eswatini Diagnostic 2018.

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Financial Literacy: Transforming the Usage of Appropriate Micro Saving Products for the Financial Resilience of Women MSMEs in Uganda

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Team Leader, Financial Literacy, Bank of Uganda

Keywords: financial vulnerability, commitment savings product, piggy bank

Executive Summary

Financial Resilience is understood as the opposite of financial vulnerability, as indicated by Arellano and Camara in 2020. J. A. Herce 2021 furthermore indicated that saving is actually the best way to prevent financial vulnerability. The women MSMEs in Uganda are a specific segment that could be facilitated with the transition from vulnerability to resilience. Furthermore, D. Karlan et al. 2014, in their paper on "Savings by the poor," indicate that Financial Literacy alone may not change the saving discipline of a woman however, commitment savings products that restrict easy access to accumulated funds improve women's ability to save. The usage of appropriate saving products can therefore be better understood through financial literacy for financial resilience of women MSMEs. The growth of businesses can be sustained through savings such that there is consistency of saving by over 80.7% identified by the UNHS 2019–2020 report at the start of the business and throughout its expansion.

Problem Statement and Context

Only 47.4% use own savings to expand their businesses. And yet, 51.5% attribute their key challenge of business growth to lack of finance. These findings from the UNHS 2019–2020 report indicate the need for a sustainable approach through which women MSMEs can grow through the uptake and usage of appropriate saving products. Businesses can be supported to harness organic growth through the usage of own savings. Women MSMEs can thus save consistently from the start, and sustainably, as their businesses grow. Take the case of Namagezi who was interviewed from Kitintale market, Kampala, to ascertain the day today reality of a consistent micro enterprise saver in Uganda;

> *Namagezi is a market vendor that saves consistently for all her personal financial needs. She grew her business from one market stall to three, and is now employing two youth. She saves daily using a Piggy Bank. This is similar to 42.3% of other Ugandans who save using a saving box or piggy bank (FCS, 2020). Namagezi tracks her daily savings with a mobile app. Using the Piggy bank is convenient and accessible for daily savings and it saves her transport costs to the bank. She deposits accumulated savings from her piggy bank to her bank account on a monthly basis, for more safety and to earn interest. She believes that through the financial literacy training she received over three years ago, she is knowledgeable and capable of making sound financial decisions on her own. She continues to expand her business to other markets.*

Therefore, through financial literacy training, more women MSMEs can value saving and use appropriate informal and formal saving options for sustainable financial resilience.

Key Causes of the Problem

Choosing an appropriate saving product requires financial literacy about the various products that one could consider to start saving and for the accumulated savings. The key causes of problems with usage of appropriate saving products by women MSMEs are;

1. Limited access to financial literacy programs and some women MSMEs may not afford them.
2. Limited knowledge about savings. The women MSMEs are not aware that both the informal and formal saving products can be utilized. Dormant savings accounts too, are on the rise.
3. Negative Mindset, cultural and social norms barriers that stagnate the women MSMEs.
4. Difficulty in accessing suitable and safer formal savings products and services. Major barriers being the unfavorable bank charges, and stringent KYC Requirements.
5. Women MSMEs face other personal emergencies that deplete savings that were purposed for business development.

Potential Solutions

The women MSMEs can therefore use appropriate savings products to transform the resilience of their businesses. The FCS 2020 indicated that the most preferred saving products in Uganda are VSLAs and Saving boxes/Piggy banks. Therefore, the solutions include;

1. Increase knowledge about savings through financial literacy for women MSMEs. They can be empowered through a coordinated approach to maximize the informal saving mechanisms (e.g., use of piggy banks for daily savings), with a linkage to the formal saving options (carry piggy banks to the bank on a monthly basis) for safer and sustainable financial resilience.
2. Positive Mindset, cultural and social norms change and empowerment of the women MSMEs. This session ought to start off the Financial Literacy Training sessions so that the negative barriers are addressed at the onset.
3. Through financial literacy, incorporate the learning on uptake and usage of various saving products to attain various goals. The women MSMEs can thus save for emergencies, school fees, personal wants, etc., alongside saving to grow their businesses. They can thus absorb the shocks that may affect their personal or business finances, affirming their resilience.
4. Collaborations with relevant organizations to enhance outreach of financial literacy through faster and affordable means.

Priority Solution

Women MSMEs therefore require mindset change and financial literacy training, provided in an affordable manner, so as to be able to save. Women MSMEs can become financially resilient by the usage of informal saving products that are convenient and accessible to them, while transferring accumulated volumes of savings to the formal financial institutions for safer keeping. The UNHS 2019/2020 indicated that savings are an important determinant for both Individual and National wellbeing. Therefore, both informal and formal implications of improved uptake and usage of saving products can be harnessed.

Implementation Plan

A pilot for the proposed approach would target 100 women MSMEs as per available resources prior to scale out to more women MSMEs across Uganda. The selected women MSMEs would be from the urban poor market communities in Kampala, Gulu, Mbale, Arua, and Mbarara districts. They can start small like Namagezi, saving with a Piggy bank. This preferred saving option is considered convenient and accessible to the saver and as indicated in the FCS 2020, over 42.3% of Ugandans prefer this tool. The safest way to save was noted too from the FCS

2020 to be with the formal/regulated financial institutions. Therefore, the women MSMEs will be encouraged through financial literacy, to use the piggy bank for daily short term savings (1–3 months) after which the accumulated savings are transferred to the bank for safer keeping with suitable saving accounts. Daily savings would be tracked using a suitable app and in collaboration with the developers for eased tracking of progress made by the women MSMEs. The Bank of Uganda would sponsor the Financial Literacy training, provide access to the piggy banks and the mobile savings tracking app. Women MSMEs can thus attain financial resilience like Namagezi.

Key Stakeholders

Collaboration with key stakeholders is of utmost importance for the aforementioned efforts to be adopted seamlessly through existing avenues.

1. Bank of Uganda: Through the policy framework of the Strategy for Financial Literacy in Uganda, more focus can be on women MSMEs.
2. The women MSME groups and Associations would help to convene their member women MSMEs for engagement. This is a cost effective and ideal way of mobilization alongside reaching out to the women MSMEs individually.
3. The formal financial institutions would be engaged to provide suitable savings accounts preferably incentivised with lower fees and attracting higher interest especially for the longer term savers. This intervention would offset the 11.2% of women saving in banks and regulated entities with the 51% saving at home as indicated in the UNHS 2019/20 report.
4. Development and Humanitarian partners: Could support with financial and technical elements of the roll out more so in rural areas and in refugee settlements.
5. The spouses: The women can be trained together with their spouses so that the element of mindset change alongside the financial literacy knowledge can enable the support and encouragement of the women MSMEs to save wisely.

Next Steps toward Policy Implementation

The women MSMEs, (in the informal workplaces) found in the rural and urban poor communities would be the priority. The key benefit of this proposed intervention would be to create a critical mass of financially resilient women MSMEs. Bank of Uganda, the coordinator of financial literacy in Uganda can budget for the initial pilot of 100 women MSMEs in the FY 2022/2023. The results of this pilot can then be evaluated as a randomized control trial from which scale out to over 1,000 women MSMEs can be planned for in the FY 2023/2024 budget, alongside support from key implementation partners.

Conclusion

To monitor the saving progress made by the women MSMEs, an app can be updated so as to track daily savings made into the Piggy bank(s) for various saving goals is utilized. The financial institutions would provide suitable savings accounts onto which accumulated savings can be banked on a 1–3 monthly basis. The key short term indicator would be the rate of daily savings consistency and rate at which the accumulated savings are transferred to the regulated financial institutions. General financial literacy knowledge will be evaluated with a pre- and post-training test. The suitability of the saving products selected for the pilot would be assessed through a post evaluation where the process impact would also be verified. If over 80% of the 100 women MSMEs are successful in using this model consistently, then it can be rolled out to over 1,000 women MSMEs. This will illustrate that the usage of appropriate (both informal and formal) saving products, if systematically rolled out with initially providing mind-set change and financial literacy training, can sustainably transform the financial resilience of women MSMEs in Uganda.

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Making Small Businesses More Financially Resilient and Enabling Them to Better Cope with Risk through an Integrated Implementation Approach of Financial, Training, Infrastructural, Institutional and Structural Policy Solutions

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Keywords: financial services, financial literacy, payments infrastructure, Niger

Executive Summary

In Niger, small business face difficulties and challenges to invest and grow their businesses for their sustainability. As the businesses are not generating enough saving and then, this category of population is excluded from the main categories of financial needs due to perceived inefficiency of banks with high documentation requirements and lack of proximity, lack of innovation and lack of customers' needs awareness from banks, lack of working capital, financial and numeric literacy from small businesses and inefficiency institutional, regulatory and infrastructural ecosystem.

This situation continue to create two kinds of problems for Niger

1. Very difficult daily living conditions for small business owners and their families this category of population;
2. Weak future prospects for them and their children;

In order to address this challenge, we recommend a set of policy solutions in an initiative named "Finance for Development" (F4D)that aims to contribute to a greater financial inclusion for small businesses and unlock life-changing opportunities for them and their families by undertaking certain integrated and harmonized actions by (i) strengthening the supply side by designing change space by establishing a working group of key stakeholders to discuss external best practices, positive deviance solutions, latent and exiting practices to have a common and share vision of the problem ;developing new services and products offering (e.g., Insurance products, savings) which will serve the needs of small businesses, improving the access to and usage of financial services through the expansion of the access points (branchless banking), the improvement of mobile financial service (savings and insurance); (ii) strengthening the demand side by improving the access to finance and creating financial business and numeric literacy program that aims to influence systemic change for small businesses by bringing together stakeholders to pool knowledge, experience, and expertise and co-create solutions and (iii) strengthening and modernizing the institutional, and infrastructural ecosystem by acting and digitalization of a National Payment System and progressive switching to cashless economy and smooth and flexible fintech and insurtech regulation.

Problem Statement and Context

Niger is one of the biggest country in Africa. The population density is less than six habitants per km2. For 25 million population Niger has 18 financial institutions all located in Niamey, the capital city.

As the country is vast, it is very costly for financial institutions to be everywhere. According to the Francophone West Africa Central Bank (BCEAO), in 2020, 9% of the total population has bank account and 15.6% has financial institution relationship. The geographic banking service penetration rate is around 0.37% and the demographic banking penetration rate is about 0.41%, making Niger among the lowest banking penetration rate in the world.

Indeed, such situation with low financial inclusion can be used to explain why the high level of people living in poverty is still persistent in Niger. Among this population, the small businesses represent the biggest part about 70%. This category of population is excluded from the main categories of financial needs (financial inclusion report DRC, 2016).[1]

This situation continues to create three kinds of problems for Niger.

1. Very difficult daily living conditions for this category of population;
2. Weak future perspective for them and their children;
3. Perceived as high risk segment for financial service providers.

Key Causes

For the Islamic Development Bank report 2019, this situation is explained by the cash paying habit, the persistence of informal financial transactions.

For us, the distance to serve customer with acceptable cost and profitability for the financial institutions, the lack of well design of financial products that fit the population's needs, the lack of financial literacy and inefficiency institutional, regulatory and infrastructural ecosystem are determinant to the high financial exclusion of Niger people.

Our research and analysis show that small businesses are unable to cope risks because of three key causes:

A. Supply Side:

1. Lack of incentives of financial institutions to expand their market base by being creative in developing alternative and suitable products and services and channels of delivery.
2. Financial Institutions' Corporate Governance and Risk Management practices that are focused on conventional financial services and high net worth individual customers;
3. Financial Institutions' failure to build their knowledge and practices of Corporate Governance and Risk Management toward small businesses' financing operations.

B. Demand Side:

1. Inability of small businesses to fulfill Financial Institutions' collateral and documentation requirements,
2. Lack of working capital and inability of small businesses to demonstrate their credit worthiness;
3. Lack financial literacy of small businesses.

C. Infrastructures and Public Institutional Side:

1. Inefficient primary financial payment infrastructures, enabling infrastructure like electricity, internet and ID system;
2. Lack of effective and efficient mechanism to support small businesses growth such as public credit facilities, small business guarantee scheme, small businesses development program, small business tax preferences compare to Malaysia, Singapore, Rwanda even Kenya and Senegal;[2]
3. Heavy regulation regarding alternative distribution strategy and channel development.

Priority Objectives Bundle

Mobile network operators and money remittance companies are creating new opportunities to increase financial inclusion, but there is still uncertainty on how impactful they should be. The government has also developed some initiatives but these are not effective. As a result, the ultimate proposed priority objectives should be based on acceptance, evidence, feasibility/capacity and preconditions that lead toward improved financial inclusion, poverty reduction and small businesses empowerment. In this regard, the following priority objectives are been settled;

- Small business owners and financial institutions develop financial savvy and capacity to design financial products and services that meet and understand small business owners' needs;
- Small business owners generate substantial revenues to grow their business and better deal with shocks;
- Financial institutions develop new business models to optimize financial infrastructures.
- A flexible regulation mechanism for distribution network and small business fund and guarantee schemes are in place to handle the structural financial issues.

Policy(ies)

To improve the financial inclusion state of our small businesses and help them build more resilience to various chocs and to help FIs develop new business, build expertise that is geared toward small businesses and optimize financial infrastructures' costs, this policy memo propose this following initiative (F4D) consisting of

1. Creating a working group with the main stakeholders[3] from the supply and demand sides to have a common understanding of the problem, develop a share vision and create a structured discussion to address the problem.
2. The Institution in charge of Financial Inclusion to work with financial literacy and media specialists to draft a financial literacy program and campaign for the FIs and the public in order to create awareness and quick adoption of the set of policies from small businesses for solve the numeric and financial illiteracy.
3. Working with the office of the Minister of Finance to draft a law that create a national financial infrastructure for infrastructure cost sharing.
4. Issue commitments to encourage the use of the national financial infrastructure during two years like in India with the creation of the National payments Corporation and Kenya or Tanzania with the Plan called "Digital 2.0" that includes aspects of digital identity and eKYC, retail payment infrastructure and personal data sharing.
5. Working with the Central Bank, the National Treasury, DFIs and donors and partner for a provision of a small businesses loanable and guarantee Funds to FIs.
6. Working with Financial Institutions to develop expertise and processes to increase access to affordable, high quality, and suitable financing for microenterprises, and inform them about the availability and use of credit options considering sound financial practices.
7. Working with the Regulator and the Government to allow flexible alternative distribution strategy like fintech and insurtech with technology-driven financial solutions, marketplace bank, banking-as-a-service, fully digital retail banking and channel in which traditional retail financial institutions use authorized agents to expand the reach of the branch network and to improve mobile financial services with savings and insurance products.

Stakeholders

The Minister of Finance, is the primary stakeholder on this initiative as he needs to approve the F4D. He will also play a critical role in terms of leading, coordinating and mobilizing engaging his specialized work units that will smoothly handle all the process.

The minister of Private Sector Development and Planning will be in charge of mobilizing funds from the international donors and the National Treasury to finance the initiative.

The Financial Institutions, the business association are also expected to play key roles in the implementation in the policy solution as the training programs and the infrastructures will benefit their operations.

The Central Bank and the international Donors are other key stakeholders for their role and their credibility in the implementation of the policy.

All the solution will be done through consultation, discussions and negotiation and consensus.

Next Steps

The first step of the implementation is to seek the approval from the Minister of Finance in a very short time. Then, establish the working groups and sensitization of the policy to key stakeholders lead by the Institution in charge of Financial Inclusion to hold formal and informal meetings with the relevant stakeholders in order to secure their engagement

The High Council of Investment (HCIN) and the Cabinet of the Minister of Finance will draft and present a law for National Financial infrastructure sharing with concrete planning for implementation.

HCIN works with relevant stakeholders to draft a commitment institutionalizing and mobilizing small business funds and guarantee mechanism.

Work with all the stakeholders create an implementation and monitoring team.[4]

Establishment of a road map and prioritization of the proposed and approved policies by the Implementation team.

Key Indicators of Change

The following metrics will be monitored by the implementation and monitoring team every quarter:

- Number of small businesses that are covered for day to day risk by financial instruments ;
- Number of small businesses that have access to capital and have change scale;
- Number of Finance institutions that have change their business model ;
- Number of innovative financial products and services geared to small businesses' operations
- Number of financial institutions using the national finance infrastructure.

Notes

1. These financial needs are detailed as follow
   - Investing in the future
     a. Personal needs: education, land acquisition
     b. Business needs: setting up business
   - Managing the day to day finances/expenses
     a. Personal needs: basics needs, household bills, transport, airtimes
     b. Business needs: restocking and paying suppliers, operational expenses.

- Coping with risk
    a. Personal needs : medical care
    b. Business needs : security.

2. Senegal has created "la Delegation de l'Entrepreunariat Rapide" to support the development of Small Businesses and Women's entrepreneurship and Rwanda with the Rwanda Development Board.
3. Main stakeholders = representatives from the Government, Central Bank, Formal Financial Institutions, and micro, small, and medium enterprises association, the Chamber of Commerce and academics
4. This team will be composed of the Permanent Secretary of the High Council of Investment, Executive Secretary of the Financial Inclusion, the general Secretary of the Minister of Finance, the Head of the National Treasury, the Head of the Department of Financial Stability at the Central Bank, the President of the Banking Association and the President of the Chamber of Commerce and Small Businesses.

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Insurance

Enabling Smallholder Farmers' Access to Simple and Affordable Insurance Services in Ethiopia

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Keywords: shocks, rural poor, micro insurance

Executive Summary

The smallholder farmers living in Ethiopia are vulnerable to a broad range of shocks that affect their livelihoods, including illness, accidents, death as well as losses of assets such as animals, crops and farming tools (Churchill, 2012). To mitigate these shocks, they respond the shocks by simply accepting and try to finance with what they have, if any or ask for borrowing from friends, relatives or else getting out of the village and look for a casual works so that they could able to finance their loss of income and get the resilient of the shocks. As the main conventional insurers do not address the needs of the rural poor, this policy proposal recommends MFIs to provide simple and affordable insurance services to the rural poor to withstand shocks such as death, sickness and loss of properties.

Problem Statement and Context

According to the World Bank report (World Bank, 2020), the Ethiopian population is estimated over 115 million. 80% of the population lives in rural areas. The smallholder farmers living in most part of the country are vulnerable to a broad range of shocks that affect their livelihoods, including illness, accidents, death as well as losses of assets such as animals, crops and farming tools (Churchill, 2012). The World Bank's study made on the inclusive insurance demand in Ethiopia (World Bank, 2017), shows that there is a clear gap between the effects of the unforeseen shocks and the financial ability of the rural poor to mitigate the shocks. In the report, it is explicitly stated that about 53%–96% of the affected respondent experienced great financial hardship to finance the loss of their income. This situation is also evidenced from the primary survey conducted for people centered policy purpose.[1] The findings indicate that whenever they face shocks, like death of the breadwinner and subsequent financial burden on the family, any sickness among the family members that need medical attention, any unforeseen incidence to their assets, they respond the shocks by trying to finance with what they have, if any or ask for borrowing from friends, relatives or else getting out of the village and look for a casual works so that they could able to finance their loss of income. To the worst, the shocks may leave many households unable to pay school fee, input for agriculture, unable to pay back outstanding loan payments, and some are forced to consider whether or not to seek medical treatment when sick. Their risk and insurance awareness is limited as learned from the survey result.

The rural poor are excluded from any kind of insurance services. According to the recent socio-economic survey conducted by the Central Statistics Authority in collaboration with the World Bank and National bank of Ethiopia(CSA, 2020), it is only 7% of the rural population who have insurance cover. The cover is mainly attributed to those who have covered their life for securing the loan taken from micro finance institutions, which is credit life. The conventional insurers, which are few in numbers as compared to the size of the country's population focused on industrial owners and concentrated mostly in the cities. So far there is no insurance company in Ethiopia that involves to serve low-income rural poor.

Key Causes

There are various causes that the rural poor are excluded from any kind of insurance services specifically in the rural areas. According to Shifa (Shifa, 2009), the rural poor do not have access to micro insurance to mitigate losses. The conventional insurance are not accessible as the product they offer is not simple and affordable. The conventional insurers also lack interest to offer insurance services to this segment of the population as premiums and/or coverage limits are typically low and paid in sporadic installments because of the irregular income streams of the rural poor. The services delivery channel does not also address the needs of the rural poor. Agents and brokers of the conventional insurers prefer to deal business with corporate clients rather than soliciting business from rural poor. As almost all insurance companies operate at the major urban areas, proximity to insurance services is significantly worse for rural areas.

Priority Objectives Bundle

There are many objectives bundles to mitigate loss of income of the smallholder farmers from unforeseen shocks like death, sickness, loss of properties, etc. Among the possible objective bundles, the following can be mentioned as the main ones.

- MFIs, who are already operating in these areas and serving the rural poor can secure the financial loss of income/assets of the smallholder farmer from unforeseen shocks by providing simple and affordable insurance cover
- Improve financial capacity of smallholder farmers by saving from their disposable income to withstand future shocks
- Remove infrastructure barriers that hinder access to insurance usage of the rural poor

From the objective bundles mentioned above, the priority will be on implementing the first objective. The reasons for choosing this solutions bundle are that 1) It can address the key causes of the problem such as proximity to insurance services; 2) existence of the legal and technical capacity of the central bank to persuade and negotiate with MFIs for the implementation of objective; 3) The MFIs have been practicing of the provision of insurance services, at least the credit life insurance. This will make easier to them to provide additional insurance services to the rural poor.

Proposed Policy/Solution

Micro insurance, which is defined by the Insurance Act as "any form of protection against risks that is designed for and accessed by low income people, provided by different categories of carriers but operating on basic principles of insurance and funded by premiums,"[2] has the potential to enable the rural poor to mitigate effects of the shocks that threaten their lives, productivity and assets (IFPRI, 2010). Access to simple and affordable insurance service builds the resilience of smallholder farmers vulnerable to economic, social and environmental shocks and threats (Acre Africa, 2018).

To address these challenges my policy proposal: Allowing MFIS to provide simple and affordable insurance services to the rural poor.

The effects of unforeseen shocks are multifaceted and complex and the mitigating tools as well are also wider and needs huge investment and commitment to deal with. At least initially, MFIS can start providing insurance cover by few numbers of insurance products, Like, simple life insurance, medical insurance for limited coverage, cover for farming tools.

Why MFIS? They are closer to the rural poor than the conventional insurer which prefers to give their services in urban areas. MFIs can reach out to more farmers, as most of them are operating in rural areas where the target segment of the population dwell in and can access them through their branches.

To implement this policy, it requires the modification and issuance of legal and regulatory framework, provision of incentives and conducting extensive insurance trainings and awareness

1. In the revision of laws, two sets of laws are proposed to be revised.
   a. Revising the licensing of MFIS directive to provide micro insurance by relaxing the minimum initial capital requirement and the qualification and experience required of the personnel to run the insurance function of MFIs
   b. Revising Licensing of micro insurance agent directive. The specific requirements such as academic qualification and experiences of the agency directives should not be stringent. Special focus to be considered here is targeting persons who are ideal such as community leaders so that they can influence the community to use the insurance services to cover their potential risks.
2. Regarding provision of incentives, the central bank may waive licensing and subsequent renewal and other related fees that is required from both micro insurance providers and micro insurance agents, at least for the first few operating years.
3. The third tool is regarding training. Extensive training will be conducted to both the agents and insurance staff assigned to run micro insurance operation. This will be handled at the IFA in collaboration with the bank. The type of trainings should enable agents to provide insurance trainings and awareness insurance to the target segment of the population to motivate them to have insurance cover against the various insurable risks they are exposed for.

Stakeholders

To implement the proposed policy, the Bank needs to make strong persuasion and negotiation with stakeholders and get their commitment to work together. The key stakeholders who will have the influences and be interested in implementing this policy proposal includes, internally in the bank, ISD, MFISD, FIS and IFS and external stakeholders include Insurers, MFIs and Association of MFIs.

Next Steps

The implementation of this proposed solution is expected to be executed with in two years. To implement it, a number of meetings with key stakeholders both internally and externally will be held, mainly to introduce and persuade key stakeholders about the policy, its objectives and benefits, and to receive feedback, and secure their support. In the next step, the focus will be made on forming working group from ISD, FIS and MFID to develop the policy legal framework. Then policy background note will be developed and distributed to relevant stakeholders to give their comment. After that the licensing of micro insurance directive will be revised and distributed for comment and finalized by incorporating the feedbacks from stakeholders. By the same procedure the micro insurance agent directive will be developed and issued. The directives then get approved and signed and authorized for circulation.

Regarding the types of trainings awareness to be provided both to the MIFs agents and to the consumer, a consultative and discussion forum with the Institute of Financial Academy will be held.

Key Indicator of Change

To know whether the proposed policy addresses the problem, the following indicators of change for monitoring purposes will be considered.

- A return format used to collect qualitative and quantitative data will be designed and provided to the providers.
- Use the data that will be collected by the Central statistics Authority of Ethiopia that conducts demand based annual surveys.
  - Percentage of farmers who have got insurance cover from the MFIs,
  - Percentage of farmers who have got financial compensation as a result of the materialization of the insurable shocks.

Notes

1. People-centered research–Policy research with potential clients, February 2022, Interview with a two breadwinners of a rural families during the field visit in the Eastern part Shoa, Ethiopia.
2. Insurance Business (Amendments) proclamation No.1163/2019 of the Federal Democratic Republic of Ethiopia.

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Addressing the Missing Link in Insurance Uptake for Increased Insurance Inclusion and Cushioning of Livelihoods Against External Shocks

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Keywords: awareness, safety net, insurance penetration, Kenya

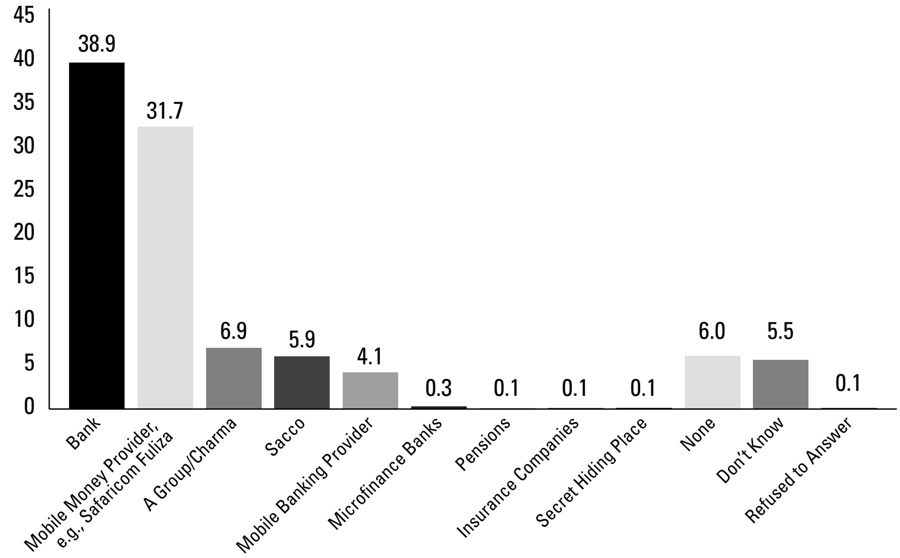
Executive Summary

Kenyan households are exposed to vulnerability and external shocks arising from, among others lack of insurance to manage risks, lack of safety net programs and inadequate savings. While insurance services and products can offer a social safety net, insurance uptake and penetration in the country is low and has been hampered by both sector and socio-economic challenges. The challenges from the insurance sector include and are not limited to trust, competition, inadequate expertise, delay in settlement of claims, high cost of insurance, mismanagement and enabling laws and regulations. (Anne, http://insurance-analyzer-info.com/6-biggest-challenges-for-insurance-companies/, 2016) These challenges manifest in various ways like the negative attitude toward insurance, price-undercutting at the insurance market place, collapse of insurance companies and inadequate customization and innovation of insurance products at the market place. Some of the socio-economic challenges include lack of disposable income, financial literacy, insurance illiteracy, cultural and religious beliefs toward insurance and inadequate savings to purchase insurance. All these challenges affect insurance penetration and uptake. This policy paper aims to address the penetration challenges arising from the sector by amending the law to provide a reduction in the timeline for settlement of claims from the current 90 days as provided for in the Insurance Act (GoK, 2020) to 60 days. It is envisaged that this amendment will help build trust and confidence in the industry and thereby encourage insurance uptake.

Problem Statement and Context

Overall, insurance usage in Kenya is low compared to other financial services like banks, mobile money SACCOs and informal financial services (groups). Insurance penetration, which is the ratio of gross direct insurance premiums to GDP, was placed at 2.2% in 2020. This is quite low when compared to the world's average of 7.4%. In Africa, Kenya is ranked 4th after South Africa, Morocco and Egypt (Insurance Regulatory Authority, 2020). According to the 2021 FinAccess report, only 1.9 million Kenyans use private insurance (CBK, KNBS, FSD, 2021). The report attributes the barriers to insurance usage as the high costs of purchasing insurance and the lack of trust in insurance. A paltry 0.1% Kenyans trust insurance service providers and products as compared to the banks who come in at 38.9%, mobile money providers at 31.7% and groups and SACCOs at 6.9% and 5.9% respectively (CBK, KNBS, FSD, 2021). This is shown in the table below:

Figure 1. Trust in Financial Service Providers



Source: 2021 FinAccess Household Survey

Key Causes

There are many reasons as to why insurance penetration has remained low in Kenya. Ten years ago, IRA commissioned a perception survey that pointed out some of the barriers to insurance usage as high cost of purchasing insurance, dishonesty of insurance providers, delays in claim settlement and lack of information and knowledge about insurance (Oino, Osiemo & Kuloba, 2012). Not much seems to have changed. The 2021 FinAccess Household Survey findings still point to same reasons as barriers to insurance usage. 65.4% respondents indicated that they are not able to meet the costs of insurance premiums, 14.3% indicated that they have no knowledge of insurance with only 0.1% trusting insurance companies to provide that which they promise (CBK, KNBS, FSD, 2021). The root causes for these reasons include bad customer experience, declined claims, delayed settlement of claims, winding and laborious claims settlement processes, fraud, lack of income, unavailability of insurance products, market discrimination, existing health and lifestyle conditions, unemployment and lack of insurance knowledge and information.

It is evident, from the surveys that despite the increase in knowledge and awareness about insurance, there still needs to be put in place additional regulatory strategies to narrow the relationship between awareness and uptake of insurance. As mentioned above, insurance is intangible and trust is its currency. This is the link that needs to be fixed to enhance insurance penetration and consequently help achieve insurance inclusion.

Priority Objectives Bundle

The potential solution bundles proposed to address the missing link in insurance and consequently increase insurance uptake, penetration and inclusion are increased awareness, knowledge and appreciation of insurance services and products and establish and maintain trust within the insurance industry.

The priority will be on implementing the second solution bundle which is about establishing and maintaining trust within the insurance industry. This is because the issue of trust, while core to the business of insurance is the missing link. It is practical and makes sense for all the players within the insurance industry to collaboratively come together and put in place strategies aimed at establishing and maintaining trust to ensure that the other strategies they put in place to promote insurance are adopted. Implementing this proposed solution bundle will involve reviewing the Insurance Act for purposes of amending the allowable timeline for settling a claim, issuance and enforcement of claims settling guidelines, prompt settlement of claims, reduced claims settlement procedures and timelines, automated claims processes, standardize claims management systems, standardize and simplify insurance contracts, joint consumer education campaigns and outreach activities, enhance disclosures and fair treatment of customers. The key assumption is that where trust abounds, the issue of cost may not be main factor in insurance uptake. If consumers can be assured that their insurance policies will come to their aid and cushion them against insured losses promptly and without any winded processes, households would consider insurance as a financial planning tool to incorporate in their lives.

Policy(ies) to Pursue

My proposed policy aims at amending the law to reduce the time allowable to settle claims. Specifically, the policy proposes to amend the

Insurance Act to the time taken to settle claims: My proposal is that this timeline is reviewed and the Act amended to 60 days for the settlement if claims in both instances of admission of liability or where the determination of liability is by a court of law

Stakeholders

1. Insurance Regulatory Authority (IRA). IRA is the government's agency charged with regulating, supervising and promoting the development of the insurance industry in Kenya. It oversees and implements the Insurance Act under which all insurance business in the country. One of the Authority's main functions is the protection of the interests of insurance consumers and beneficiaries and promote insurance uptake in the country. Its support in the amendment of this provision of the law is critical as it is the one that will be charged with its implementation.
2. Association of Kenya Insurers (AKI): This is a membership consultative and advisory body for insurance industry. Membership is drawn up of licensed insurers. They are a crucial stakeholder as they are the ones who actually settle the claims.
3. Association of Insurance Brokers of Kenya (AIBK): This Association brings together all licensed insurance brokers. They are crucial in this process as they offer intermediation services between consumers and insurers.
4. Association of Insurance Agents: Insurance agents are considered the foot soldiers of insurance. They are a crucial stakeholder as they are sellers of insurance and most of the time, the 1st customer call when lodging a claim or a complaint.
5. The National Treasury: The National Treasury oversees IRA's operations. One of its functions is to evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities. There is need for the Cabinet Secretary at the National Treasury to own the process as ultimately, the ministry is responsible for the country's financial matters.
6. National Assembly and Senate: The National Assembly and Senate are charged with the country's legislation matters. The proposed policy amendment will have to be forwarded to the National Assembly and Senate for debate and approval into law.

Next Steps

1. November 2022: Present the proposal to the management team during the 1st call for budget policy changes.
2. March 2023: Present the policy to the IRA Board of Directors during the annual Board and Management retreat. This is to get their approval before external stakeholder engagement process starts.
3. May–October 2023: Public engagement. Engagement with industry stakeholders through their associations, consumer groups, lobby groups and the media.
4. January 2024 Presenting the policy to the Treasury.
5. February–March 2024: Engage and sensitize select parliamentary committees.

Key Indicators of Change

Actual amendments to Section 203 of the Insurance Act, increased turn-around times in settlement of insurance claims, reduced complaints from policy holders and claimants, enhanced insurance consumer satisfaction and change in industry perception. To measure some of these parameters, periodic surveys will be carried out and where necessary corrective action undertaken.

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Women's Financial Inclusion

Enhancing/Increasing Formal Credit Accessibility to Women Business Owners and Entrepreneurs in the Northwest Region of Nigeria

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Keywords: credit, consumer protections, gender equality, women

Executive Summary

Like other developing economies, Nigeria has seen increasing participation of women entrepreneurs operating at the micro, small and medium scale levels[1] despite the existence of various barriers to the full optimization of their economic potential. A major challenge faced by women entrepreneurs is lack of access to Formal Financial Products and Services (FPSs) particularly credit.

This Policy Memo provides a micro level perspective of the financial challenges (as it relates to access to credit) faced by Nigerian women entrepreneurs particularly those in the northwest region[2] and recommends solutions to overcome the challenges. Often times, these challenges are caused by deep-rooted socio-cultural factors and traditional gender roles; low levels income, education and awareness of FPSs as well as lack of trust in the formal financial system. Other causes include inadequate financial access points and lack of gender based/responsive FPSs, among others.

The establishment of a gender policy forum by the Central Bank; gender desks and champions in financial institutions; as well as the use of agent networks to carry out financial literacy and awareness will no doubt improve the lives of women entrepreneurs by enabling their businesses to grow beyond subsistence levels and enhancing their income levels.

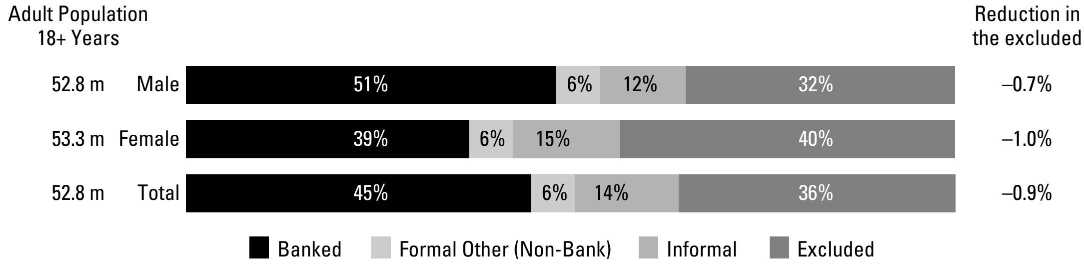
Problem Statement and Context

Nigerian women are disproportionately underserved by the financial system with an existing gender gap of 8% between men and women bankable adults (see Figure 1). This is inimical to the achievement of the country's National Financial Inclusion Strategy (NFIS) target of 95% inclusion rate by the year 2024. Although overall inclusion has increased from 2008 to 2020, gender gap still persists leading to social, moral, economic and financial inequality such as lower quality of healthcare, educational attainment and fewer viable economic opportunities.

Only 23% of financially included women have access to credit out of which just 2% borrow from Banks and other Financial Services mostly to start or expand their businesses, while 8% borrow from Informal Financial Services and the rest from the informal economy. As a result, Nigerian women remain financially marginalized, have limited incomes, lack the ability to save and/or invest, take risks on loan and their businesses remain at very subsistence levels. Women are also seen to be more vulnerably employed and take up unpaid labor devoting the little income they have to living costs, children's education and family/community events.[3]

According to a Central Bank of Nigeria (CBN) and Enhancing Financial Innovation and Access (EFInA) study,[4] the most important drivers of financial exclusion are lack of income, lack of education and low trust in Financial Services and Products (FSPs).

Figure 1. Financial Inclusion by Gender



Source: EFInA Access to Financial Services in Nigeria Survey (2020)

Generally, there is low adoption and usage of credit in Nigeria with only a total of 3% bankable adult Nigerians having access to credit.[5] Credit is not optimally adopted and utilized to achieve the country's NFIS target as set by the Central Bank of Nigeria in pursuit of its mandate to ensure price stability in Nigeria (see Table 2).

Table 2. Adoption of Products/Services viz-a-viz NFIS Targets

	Focus Areas	Target by 2020	2010	2012	2014	2016	2018	2020	Variance to 2020 Target
% of Total Adult Population	Payments	70%	22%	20%	24%	38%	40%	45%	**–45%**
	Savings	60%	24%	25%	32%	36%	24%	32%	**–28%**
	Credit	40%	2%	2%	3%	3%	2%	3%	**–37%**
	Insurance	40%	1%	3%	1%	2%	2%	2%	**–38%**
	Pension	40%	5%	2%	5%	7%	8%	7%	**–33%**
	Formally Served	70%	36.3%	43.0%	48.6%	48.6%	48.6%	50.5%	**–19.5%**
	Financial Exclusion	20%	46.3%	39.7%	39.5%	41.6%	36.8%	35.9%	**–15.9%**

Payments: % of adult population that has a transaction account with a regulated financial institution and/or has made an electronic payment through a regulated financial institution in the last 12 months

Savings: % of adult population that has a savings related product at a regulated financial institution and/or has saved through a regulated financial institution in the last 12 months

Credit: % of adult population that has had a credit product through a regulated financial institution in the last 12 months

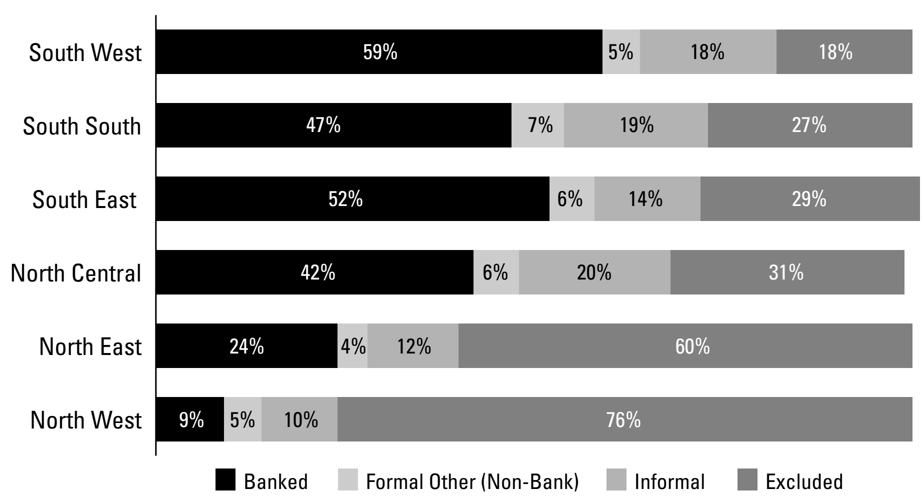
Insurance: % of adult population that is covered by a regulated insurance policy

Pension: % of adult population that is contributing to a regulated pension scheme or receiving a pension through a regulated pension scheme

Source: EFInA Access to Financial Services in Nigeria 2020 Survey

Of particular interest in this memo, is access to credit as it relates to adult women population in the northwest region of the country where there are high incidences of women exclusion (see Figure 3).

Figure 3. Financial Inclusion by Geopolitical Zones/Regions



Source: EFInA Access to Financial Services in Nigeria Survey (2020)

Recently, I conducted a *People Centered Policy Interviews*[6] of a small group of women traders and domestic helps as well as Digital and Financial Service Providers with a view to assessing the Financial Health of women entrepreneurs. The Survey revealed that the reasons for low adoption and usage of Digital and Financial Services border on low trust in FSPs (as a result of money loss to fraud, complex structures, negative perceptions), lack of access points, low income and low Financial Literacy/awareness (see Table 4). Similarly, a study conducted by CBN and EFInA[7] showed lack of income, lack of education and low trust in FSPs as major drivers for financial exclusion. Specifically, a food seller I interviewed stated that she had a Bank account but had not operated it since the day it was opened because she was not very conversant with the workings/benefits of the account and she lacked the income to operate the account.

Table 4. Insights into the 8QM People Centered Policy Interviews Conducted in Abuja and Kano

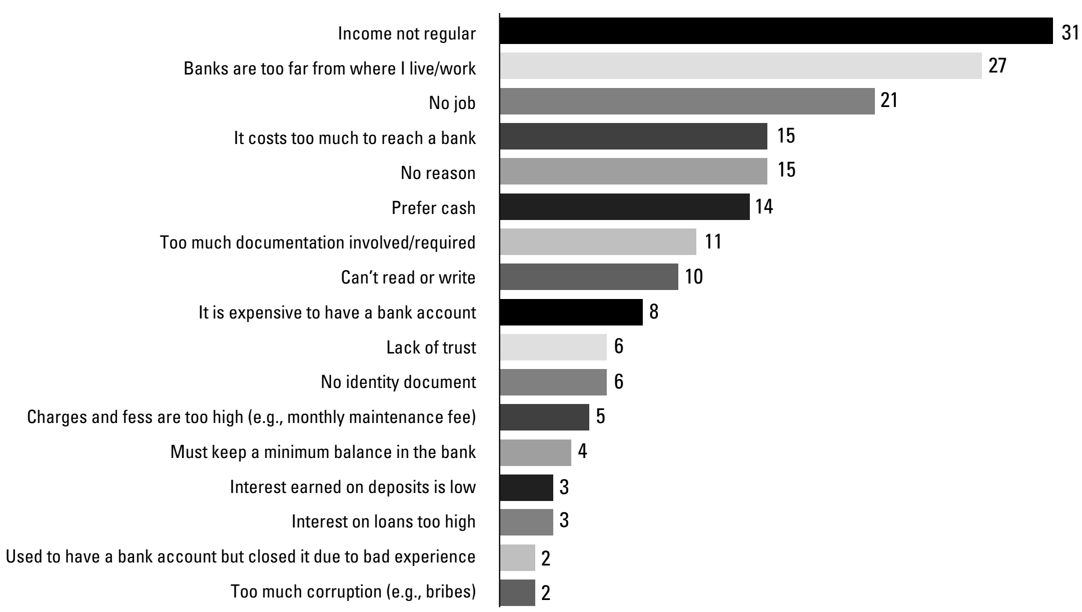
Food Seller Location: Kano	Domestic Worker and Trades in Household Commodities Location: Kano	Domestic Worker and Sells Clothes Location: Abuja	Domestic Worker Location: Abuja
Unmarried. Does not operate bank account because she has no trust in the financial system. She fears loss of money due to fraud and negative perceptions (language barriers, complex structures and processes)	Divorced. Mother of 6. Has a digital account with a PSB. Does not operate the account because she does not have sufficient income to operate the account.	Unmarried. Has a bank account that is well operated but is not aware of other FPS and is not sure she is qualified to have them.	Married. Mother of 4. Does not operate a bank account because she is not conversant with the processes. She also said bank branches are too far from her house and it costs a lot to get to them.

Key Causes

The causes are multi-dimensional as follows: lower income compared to men, household duties, significantly lower education, lack of orientation to use formal financial services, lower financial literacy awareness and trust, smaller geographic networks and lack of ID and other documentation. A key root cause is the socio-cultural norms which fosters gender inequality and limits women participation in national economy/development.

According to a study by EFInA,[8] some key causes to bank account ownership are as listed in the table below.

Table 5. Reasons for Not Having Bank Account (%)



This memo focuses on the primary and root causes that are directly relevant to the policy proposal. On the demand side, it was observed that lack of financial literacy and awareness; lack of trust in the Financial System attributable to incidents of e-fraud, insufficient awareness of FPS and complex nature of account documentation stemming from the lack of a robust consumer protection framework that is gender responsive as well as negative perception of the formal Financial Institutions are considered key primary/root causes for the low adoption and usage of FPSs.

On the supply side, the unavailability of access points; lack of gender based/responsive FPSs and the failure of service providers to build trust with their customers are the key causes relevant to this policy proposal.

Priority Objectives Bundle

This policy will be addressing two priority objectives which greatly complement each other. They are:

Women business owners and entrepreneurs in the northwest region have trust in the financial system due to the presence of a robust Consumer Protection Framework that is gender responsive.

Women business owners and entrepreneurs in the northwest region have sufficient levels of financial literacy and awareness of FPSs to enable them make informed credit decisions as well as other FPSs

There is no gainsaying that tackling the demand side causes will result in a sustainable and lasting solution thereby enhancing women entrepreneurs adoption of formal credit.

Policy(ies):

We shall capitalize on the Central Bank of Nigeria's function and role as the regulator of the Nigerian Financial System and the implementer/owner of the NFIS to use industry collaboration as a means of getting all relevant stakeholder buy-in. Currently, the Financial Inclusion Delivery Unit domiciled in the Central Bank of Nigeria already has established collaborations with stakeholders in Nigeria's financial sector—there are Committees, Technical Committees, COPs and the NFIS Secretariat that will serve as veritable tools to convey strategies, Policies and monitor implementation.

The Policy ideas are:

1. Establishment of a gender policy forum[9] by the Central Bank of Nigeria, drawn across industry players (we can capitalize on memberships of the above named Committees and draw representatives from the Committees). The Forum shall be charged with the responsibility of reviewing extant Consumer Protection Framework and guidelines with a view to identifying bottlenecks to women Consumer Protection. In addition, the Policy Forum shall develop all other policy documents for items 2, 3 and 4 below.
2. Issuance of Circulars to Financial Institutions for the establishment of Gender Desks to handle financial complaints by women and give guidance on rights and roles of customers as well for the establishment of women champions at all customer touch points to proactively guide women access to credits—they must undergo gender sensitivity training. The State Bank of Pakistan adopted this model to reduce gender gap in Financial Inclusion.[10]
3. Develop a strategy document/blueprint for stakeholder collaboration to carry out Financial Literacy and awareness programs on FPSs for women business owners and entrepreneurs. Specifically, the blueprint shall include the issuance of circulars to FSPs to hold financial and digital awareness sessions quarterly for women entrepreneurs in their localities.
4. As SANEF (Shared Agents Network Expansion Facility) and the CBN already have a goal on recruiting more female agents, we shall use the fora to encourage FIs to adopt the use of

agents and agent locations to carry out awareness of FPSs for women entrepreneurs. Female Agents that train women entrepreneurs on FSPs (and alternatives) being offered by the Agents shall be incentivized.

Stakeholders

To ensure seamless implementation of the policies, stakeholder buy-in, collaboration, commitment and consistency will be required and advocated. The table below lists the stakeholders and their interests/concerns. However, in addition to them, there are other stakeholders such as international partners, NGOs, civil societies, women associations/groups, among others.

Deputy Governor Financial System Stability (CBN)	**FSPs**	**Mobile Network Agents**

Interests/Concerns:
• Financial burden on the Central Bank of Nigeria
• New policies, regulations and guidelines
• Collaborations
• Monitoring progress and of course timelines.
Other interests
• Impact on Financial System Stability
	Interests/Concerns:
	• Financial expenditure for the implementation of any new policies, regulations or guidelines
	  • Concerns will be offset/ minimized through: opportunities for growth; CBN's position that the policies do not require them to re-invent the wheel collaboration the CBN to help minimize their costs (if any)
		Interest/Concerns:
		• Cost of carrying out financial literacy and awareness
		  • Benefits, i.e., incentives program will be discussed

Next Steps

- Presentation of the Problem Statement & Objectives Statement as well as Policy/Theory of Change to Head, Financial Inclusion Delivery Unit for support/cooperation (**July 1**).
- Presentation to the DG, Financial System Stability CBN for buy-in, sponsorship and approval to commence activities (**July 5**).
- Inauguration of the Project Team/Office (**July 18, 2022**).
- Collaborative session with key stakeholders (**July 28, 2022**).
- Establishment of the gender Policy Forum (membership drawn from members of the various existing Committees) (**First week in August**).

Drafting of all Policy and Strategy documents by the Policy Forum who would in turn review the Consumer Protection Framework and guidelines (**August 14–September 14, 2022**).

Other milestones will follow as the change progresses.

Key Indicators of Change

- Recommendations on areas of improvement in extant CPF by the gender Policy Forum.
- Establishment of the Gender Desks, Women Champions and the carrying out of the Financial Literacy and awareness sessions.
- Evaluate understanding of FPSs by women entrepreneurs through a **survey** to understand if perceptions of interviewees had changed after undergoing awareness sessions. If it is possible to do so, a comparison of the gender disaggregated data prior to and after the implementation of the policy change will provide a very useful evaluation.
- Increase in credit adoption by women business owners and entrepreneurs.

Notes

1. The Small and Medium Enterprises Development Agency & National Bureau of Statistics, National Survey of Micro, Small and Medium Enterprises (MSMEs), 2018, accessed May 27, 2022, https://smedan.gov.ng.
2. The Northwest region of Nigeria represents both a geographic and political region. It comprises seven states namely; Jigawa, Kano, Kaduna, Katsina, Kebbi, Sokoto and Zamfara.
3. Assessment of Women's Financial Inclusion in Nigeria, December 2019, accessed April 12, 2022, https://www.cbn.gov.ng/Out/2020/DFD.
4. Ibid.
5. Enhancing Financial Innovation and Access, Access to Finance Survey, 2020, accessed May 12, 2022, https://efina.org.ng.
6. The People Centered Policy Interviews was carried out in February 2022 in fulfillment of the FLPFI. I carried it out in two locations (Abuja and Kano). Participants were drawn from both the supply and demand sides to better understand barriers to the adoption and usage of FSPs.
7. Assessment of Women's Financial Inclusion in Nigeria, December 2019, accessed April 12, 2022, https://www.cbn.gov.ng/Out/2020/DFD.
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Financial Inclusion of Women in Mexico City

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Keywords: women, gender, financial education, financial inclusion strategy

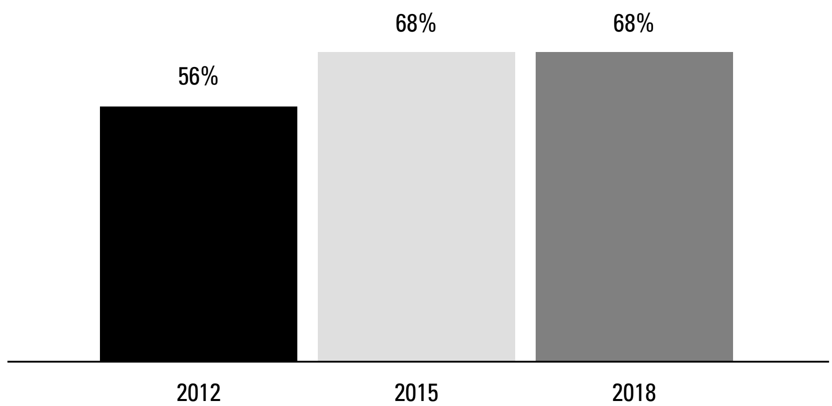
Executive Summary

The key problem of financial inclusion in Mexico is linked to the financial inclusion of women, particularly in Mexico City, since just over three out of 10 women are not taking advantage of financial opportunities to meet their basic needs, which affects their participation in the economy and the possibility of improving their lives and that of their families. Therefore, my policy proposal aims to achieve that women of Mexico City know how to better use financial products. Two of the tools used to achieve this objective will be consulting with stakeholders and creating a staff training program.

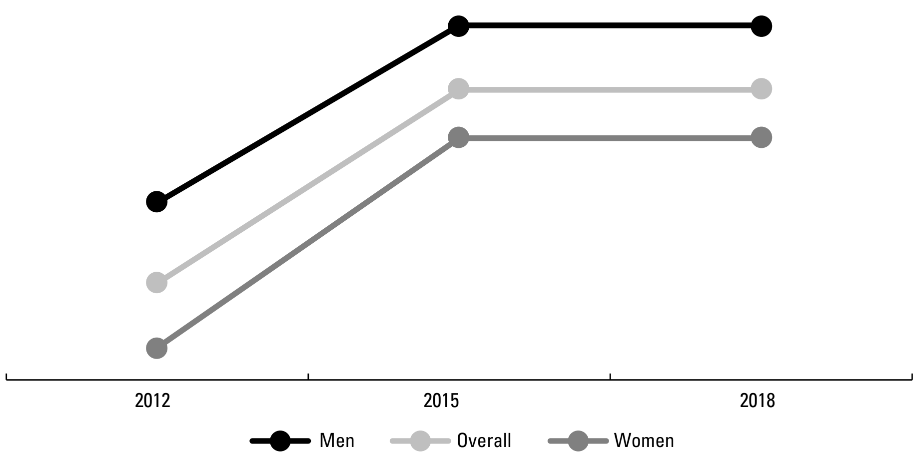
Problem Statement and Context

According to the 2018 National Survey of Financial Inclusion (ENIF in Spanish), 68% of the population has at least one financial product. That is, the population has either an account, a credit, an insurance, or a retirement savings account. While in 2012, it was registered that only 56% of the population had this characteristic. Therefore, there was a growth by 12 percentage points during this period.

Figure 1. Possession of at Least One Financial Project (Percentage of Population Ages 18 to 70)



Financial Inclusion Evolution (Percentage of Population Ages 18 to 70)



Source: ENIF 2012, 2015 and 2018

However, in the case of these figures disaggregated by sex in 2018, 72% of men had at least one financial product, while for women the figure was 65%. On the other hand, in 2012, the results were 61% of men and 52% of women had at least one financial product. This demonstrates that the inclusion of men and women has been increasing and the gender gap has been reducing over time. In accordance with the 2020 National Population and Housing Census, the distribution of the adult population in Mexico is 52% women and 48% men, which indicates that women are an important sector to provide care within the financial system to increase the financial inclusion in the country. On the other hand, leaving this sector out would represent an affectation both for women and their families, as well as for the entire financial system, since figures of the Bank for International Settlements (BIS) show that women are more reliable regarding their financial products: the default rate among women aged 35 to 44 is 15.7 percent,[1] while among men it is 20.5 percent, which suggests better financial behavior to be able to include women financially.

Therefore, the key problem is just over 3 out of 10 women are not taking advantage of financial opportunities to meet their basic needs, which means that women reduce their participation in the economy and, with it, the possibility of improving their lives and that of their families.

Key Causes

After analyzing the stated problem, some of its causes are:

- Low use of financial products by women. The financial institutions and public policies seldom focus on analyzing the correspondence between the dimensions and needs according to sex, which leads generally to homogeneous solutions or products (or better known as "one-size-fit-all") that are poorly adapted, which make women exclude themselves from using such financial services and maintain their financial practices (particularly savings and credit) in the field of informality or without being able to use them to their benefit (PNUD, 2020).
- Unawareness of financial matters by women. Lack of financial education or lack of information about the benefits of the services may lead to self-exclusion.
- Unawareness of digital options by women. According to ENIF 2018, only 19% of women who have an account have a digital account.
- Many requirements for financial access. Women in the informal sector cannot comply with all the paperwork and requirements of a formal credit for business. Regularly, a key collateral used to access credit is property, which, by social norms, is more likely to be in the name of the men in the household, leading to indirect discrimination against women.
- Social and economic environment against women. According to Women's World Banking (2018), it has been observed that financial products, when designed based on gender neutrality, may tend to consider the needs of men. There are structural barriers (informal employment, lack of ownership of assets, role in society, violence, discrimination) and behavioral barriers (mistrust and risk aversion) that women face and that contribute to their financial exclusion.

Policy

Therefore, my policy proposal aims to strengthen the tools and instruments focused on women to be able to reach the goal that the 30% of women in Mexico City who are financially excluded also take advantage of financial opportunities, through one objective bundle: women of Mexico City know how to better use financial products.

The tools proposed for this policy are:

- Consolidate a catalog of all existing products focused on women.
- Conduct a women's needs analysis.

- Create working group to discuss the needs of women and their relevance in financial products.
- Develop a strategy with all stakeholders to consider the needs of women in financial products.
- Train staff of financial institutions about financial products focused on women.
- Develop dissemination and carry out training aimed at women about these financial products.

Likewise, a joint policy is suggested to encourage financial institutions to adopt training through certifications that encourage the growth of their clients, while women will be given an exam at the end of the training to guarantee learning.

With these tools, both the design of financial products and financial literacy aimed at women would be strengthened, both items are of great importance for the CNVB.

According to ONU Mujeres (2021), the innovation of financial products and services aimed at responding to the diversity of needs of the different segments of women (entrepreneurs, employees, housewives, heads of families, retirees, etc.) is key to increase their financial inclusion.

Besides, financial literacy contributes to greater confidence in the financial system and financial stability (CONAIF, 2020). It has been found that as the financial capacities of the adult population increase, the percentage of people with accounts increases, as well as those who report having made or received digital payments and who mention having the ability to face an economic emergency (G20/OCDE INFE, 2017).

Stakeholders

The stakeholders involved for this policy mainly are the members working group of National Council for Financial Inclusion, which is formed by the Ministry of Finance and Public Credit, the Bank of Mexico, the CNBV, the National Insurance and Bonding Commission, the National Commission for the Protection and Defense of Financial Services Users, the National Commission for Retirement Savings, the Institute for the Protection of Bank Savings and the Federal Treasury.

In a second stage, the financial institutions will also participate regarding training on financial products focused on women and interested women will take the training. It is expected to encourage the training of financial entities with the certifications and women with the dissemination directed at them.

Next Steps

The implementation of this policy is expected starting in the middle of this year and ends in December 2023. Its implementation involves different actions, which are mainly based on formal meetings with the stakeholders, as well as informal conversations with the corresponding technical contacts before carrying out each of the specific steps of the process.

The CNBV must work with the members of working group of the National Council for Financial Inclusion, particularly with the Ministry of Finance and Public Credit to carry out the consolidation of a catalog of all existing products focused on women, as well as in a women's needs analysis.

Later, the needs of the women in a working group will be discussed in order to develop a joint strategy with the stakeholders.

It is also necessary to work with the National Commission for the Protection and Defense of Financial Services Users (Condusef) to carry out training for financial institutions, certifications or recognition of financial institutions trained in the financial inclusion of women, as well as dissemination aimed at women about financial products.

Key Indicators of Change

The monitoring and evaluating of the policy will be carried out using indicators whose results are obtained from National Survey for Financial Inclusion, Annual Overview of Financial Inclusion, and regulatory reports of the CNBV.

Particularly, some of the indicators used to monitor the inputs and outcomes will be:

- *Number of women who have credit*,
- *Number of women who have account*,
- *Number of women who have insurance*, and
- *Number of women who have a retirement savings account*.

On the other hand, the indicator *Number of women have at least one financial product* will allow to follow up on the goal that we want to achieve.

Finally, on an annual basis, a qualitative survey will be carried out on a group of women from Mexico City to know if they have taken training in financial products or if they have had changes in their decision-making regarding their financial situation.

Note

1. "Mujeres son buenas 'pagadoras' pero están poco bancarizadas," accessed May 13, 2022, *https://www.elfinanciero.com.mx/economia/mujeres-son-buenas-pagadoras-pero-estan-poco-bancarizadas.*

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Formalizing Women's Savings Groups to Enhance Women's Access to Financial Services

Hawwau Gambo

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Keywords: accessibility, microfinance, credit history, Nigeria

Executive Summary

The Enhancing Financial Innovation and Access (EFInA) Access to Financial Services in Nigeria 2020 Survey Report, indicates that 38.1 million people in Nigeria are financially excluded and out of that 21.3 million are women.[1]

In light of the numerous barriers experienced by these excluded women, this policy memo outlines a strategy to formalize the women's savings group system to enhance their accessibility to microfinance. The process would involve engaging Financial Service Providers (FSP) (specifically Banks and Microfinance Banks) to create savings products targeted at women's savings groups where the leader of the group would be trained and registered as the FSP agent.

Problem Statement and Context

To get a personal sense of the problem, let us consider the experience of a divorced petty trader single mother of five that formed part of the People-Centered Survey I conducted in February 2022.[2] She said, "I don't like the bank because of their demeaning and disrespectful ways. I prefer to keep my money at home." She is the breadwinner of her family and her day to day earnings is spent on meeting the immediate needs of her family. Her refusal to open a bank account is based on her negative experiences in her interaction with banking officials.

The Human Account Nigeria Country Report released in 2019 showed that women like her fall under the category of "Dependent Individualists" making up 22% of the adult population which translates to 23.5 million women. Although they may be able to make independent financial decisions and earn money through small business activities, many may not have enough money to save in formal or informal financial services. They are poorly educated and do not trust people and FSPs. They are reluctant to even participate in a savings group because they are averse to borrowing due to their fear of over indebtedness. They would rather keep their money at home and depend on family and friends.[3]

Key Causes

The Central Bank of Nigeria's (CBN) Assessment of Women's Financial Inclusion in Nigeria 2019 identifies significant gender gaps in accessibility, earnings and education that puts women at a disadvantage in accessing financial services.

Key findings showed that:

- 60% of women have monthly earnings of $40 (USD) or less while 70% of men earn above that with 40% earning up to $96 (USD) a month.
- 19% of women were recorded as having no education as opposed to 10% of men.
- Correlation between low level of education with women's level of trust in FSPs as 31% of women indicated that they did not trust FSPs as opposed to 20% of men.

Significantly, the Assessment showed that Banks lack a strong business case to provide financial products for excluded women due to high cost of extending services to rural areas and low profit margins of serving low income populations where the economic activities are not viable.

Priority Objectives Bundle

This policy is anchored on the following priority objective:

Low income women in Nigeria use formal financial products and services because they feel confident and included:

This policy seeks to provide the opportunity for financially excluded women to fulfill their life goals and aspirations by providing financial services that meet their needs. It also leverages on the positive indicators of high patronage of informal financial services in Nigeria. The EFInA 2020 report shows that one third of Nigerians use informal financial services while in 2018, 22% of women in Nigeria participated in savings groups for their savings.

Therefore, formalizing women's savings groups would provide women with recognizable financial products that are easily accessible within their local communities. It would also provide the following advantages;

1. Minimized risk of mismanagement of financial contributions as transactions within the banking system are easily monitored
2. The bank is licensed by the CBN and depositors benefit from deposit insurance coverage by the Nigeria Deposit Insurance Corporation (NDIC)
3. The women's credit history would be documented within the formal financial system, thus providing greater opportunities for access to credit.
4. Access to other financial services within the formal system as well as G2P payments.
5. Registration of the savings group leader as a Bank agent would empower her to have other opportunities for earnings and provide financial services to people within her local community.

Policy

The formalization of women's savings group builds on the existing contributory system with added features that would enable conventional financial services such as savings, loans and payments while also empowering women to be trained and registered as bank agents.

Developing a Business Case for FSPs

The policy involves engaging banks in collaboration with the Central Bank of Nigeria to develop a viable business case for creating savings products targeted at women's savings groups. This would involve the implementation of incentives that would make it easier for banks to access the MSME Fund, 60%[4] of which is to be disbursed to women as loans. The policy will also mandate banks to ensure that 20% of their customer base are made up of women. This would be done via engagements with the Bankers' Committee and National Association of Microfinance Banks (NAMB) develop implementable MOUs that would address these issues.

Enrollment of Female Agents

The policy aims to increase the training and enrollment of female agents as part of enhancing their expansion to achieve a target for women to make up 30% of all Agents. This would be done in collaboration with the Shared Agents Network Expansion Facilities (SANEF).

Next Steps

The implementation of this policy would be carried out through the collaboration of the network of stakeholders of the National Financial Inclusion Committee. Specifically, the Special Interventions Working Group, Channels Working Group, Products Working Group, the Consumer Protection Department of the Central Bank of Nigeria among others.

The key next steps for the implementation of the policy will involve the following:

1. Working out the modalities for the development of the of gender sensitive financial products targeting women's savings groups.
   - This would entail engagement with FSPs and Financial Inclusion Delivery Unit, EFINA, and consultations with Nigerian Interbank Settlement System (NIBSS), women's civil society groups. A final proposal would be developed and submitted to the National Financial Inclusion Steering Committee for approval.
2. Develop a strategy to increase the number of female agents by 30% which would entail a feasibility study and the development of modalities for financial education, business training and enrollment of female agents.
   - This would be driven by SANEF, Financial Inclusion Delivery Unit, Nigerian Interbank Settlement System (NIBSS) with support the of the Chair Financial Inclusion Technical Committee and Financial Inclusion Steering Committee.

Key Indicators of Change

The overall key indicator of change is the number of women having active savings accounts and access to formal financial services. Specific key indicators of change will be tied to individual outcomes and objectives to facilitate monitoring and evaluation.

S/N	OBJECTIVE	KEY INDICATOR OF CHANGE	ASSUMPTION
1.	Deployment of savings products targeted at women's savings groups	Number of MOUs signed Percentage increase of female customer base	Buy-in of FSPs based on viable business case
2.	Enhanced enrollment of Female Agents to make up 30% of all Agents in Nigeria	Percentage increase of female agents in Nigeria	Social acceptability and favorable business case for women agents
3.	Enhanced confidence in women to access financial product	Percentage increase in uptake of the financial products	Change of behaviors and perceptions based on impact of financial education, public awareness and community engagement campaigns

Notes

1. This statistic is from the EFInA "Review of the Excluded Population in Nigeria: Profile, Trends, Behavior & Needs," February 2022, 8. Forty percent of 5.3 million women are excluded, which amounts to 21.3 million women.
2. Hawwau Gambo, "Insights from People-Centered Policy Assignment: Do Financial Services/Products Meet the Needs of the People?" February 2022.
3. The Human Account Nigeria Country Report 2019 created and developed by Dalberg with Rockefeller Philanthropy Advisors and funded by the Bill & Melinda Gates Foundation, 126.
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Policy Proposal on Improving Financial Education for Women in Malawi Submitted to the Director-Financial Sector Regulation Department of the Reserve Bank of Malawi

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Keywords: women, technological innovation, Fintech

Executive Summary

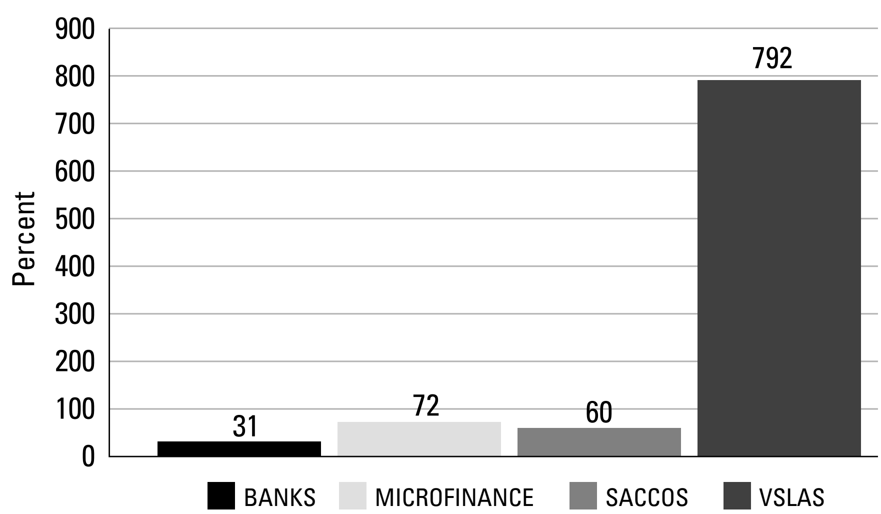
Recent evidence shows that low self-esteem is the major cause that has pushed women in Malawi to the informal financial services.[1] Reliance on informal sector exposes women to predatory practices like high interest rates. It is on this basis that financial education for women is being proposed, as a policy intervention, in order to help the women become more conversant with the formal financial sector and feel confident to access so that exposure to predatory practices is minimized.

Problem Statement and Context

The available data on financial inclusion challenges for women in Malawi shows that a majority of women are relying more on informal financial services than men. Of the 614,419 members of Village Savings and Loans Associations (VSLA) documented in 2014, 71.6% were women.[2] A FinScope Survey of 2019 also showed that in terms of access, 36% of women use informal financial services compared to men at 6%.[3] In 2018, the UN Women did a survey to understand these gender disparities. The results revealed that financial literacy, lack of ownership of immovable property to use as collateral, inflexible terms on products, are among factors that cause women to shy the formal sector in preference of the ease, flexibility and convenience of the informal sector.[4]

However, VSLA loans are more expensive compared to other loans from. As seen in the graph below, on average annualized interest rates for VSLAS are 20 times higher than rates provided by Banks and over 10 times higher than rates provided by microfinance institutions or SACCOs.[5]

Figure 1. Annualized Interest Rates



Key Causes

Analyzing the data further, two interesting facts emerge in terms of negative human impact that exacerbates the challenges. Low self-esteem on the part of women leads to self-perception of not qualifying for access and utilization of formal financial services. The UN Women study[6] in fact revealed that the study did not identify specific barriers to access to credit for women within the country's legal and regulatory framework as the laws are either gender neutral or aim to promote gender equality.[7]

The FinMark Report also flags out gender-biased inheritance systems that tend to limit the incentives for women to invest in land or to use it as collateral, as another human impact on financial inclusion for women.[8] Tenure insecurity deepens financial exclusion when land-related investments is discouraged on the basis that the land user can be dispossessed of the land without compensation by the spouse's relatives who ultimately possess the land.

Priority Objectives Bundle

Considering that policy intervention is resource intensive, I looked at what the Registrar of Financial Institutions (Registrar) in the Reserve Bank of Malawi, as regulator of the Financial Services Industry, was already doing in this space so that the policy proposal is leveraged on it. The Bank championed the development of a National Strategy on Financial Literacy and the Governor of the Reserve Bank of Malawi, who is also the Registrar, is the Champion of the initiative. Accordingly, a platform is already there to get political will for budgetary support. There is expertise within the Bank in terms of a dedicated Financial Literacy and Consumer Protection Unit (CPFL).

To this extent, priority is on the objective bundle covering improvement of financial education for women in Malawi on the basis that efforts on financial literacy generally may not be speaking to the specific knowledge gaps for women as the messages are standardized across the board. This on the basis of the surveys and reports that have already been cited which shows that formal sector access and usage is still a challenge for women.[9] The proposition is that a different approach to the delivery of financial education to women may speak more to their personal empowerment.

Proposed Policy

The policy idea is to improve financial education for women, but delivered differently from the traditional methods by leveraging on financial technologies (fintechs) to deliver financial education for women. The digital solutions could be in the form of games, apps, daily messages, songs and so on and so forth. This will allow women to educate themselves on a continuous basis and within the privacy of their homes. Current efforts on financial literacy use traditional methods of delivery where face to face meetings are held or once off events are convened.[10] As mentioned above, some cultural norms may not permit women to leave their family homes and mingle with other women, which could potentially limit their learning opportunities. Further, self-esteem being already highlighted as a challenge, may likely make some women not to show up for such events for fear of being labeled as illiterate.

To achieve the policy objective, there is need to develop a regulatory framework that will create an enabling environment for fintechs to operate in the financial services industry. The framework will go further to allow live testing of innovations in terms of services and products that can help meet the needs of financial consumers generally, but more specifically those that can meet the financial education and needs of women. It will also cover consumer protection issues and risk management. Currently, there is no such regulatory framework in place.

It is one thing to have an enabling framework, but if no the fintech firms are not interested in innovating, the policy will flop. In this regard, there is need to have buy in from the fintechs and interest them with the idea and the need to step up with digital solutions on a backborne of some incentives that can be specifically discussed during consultations.

Stakeholders

The ICT Association of Malawi, being a grouping of fintech firms in Malawi, will be a critical stakeholder to the successful implementation of this policy. This will call for engagement meetings to discuss the challenge, proposed solution and their role. The goal is that they need to innovate digital solutions to financial education for women in Malawi. Be it games, apps, daily messages, and so on and so forth.

The Registrar of Financial institution is another critical stakeholder on the basis that, as the regulator, he will have to issue a directive on regulatory framework for fintechs. A meeting will be arranged with his office where the policy proposal will be presented. The goal will be for him to authorize the drafting and issuing of the directive. Further, in order to motivate innovations around this challenge, there may be need for some incentives which can always be discussed with the fintech firms.

The CPFL unit will be key in the implementation of the policy and so we need to have a round table discussion to focus on this challenge and how we can leverage on other delivery channels for effectiveness.

Another critical stakeholder is the women in Malawi. If they do not see the need to educate and empower themselves, the policy would fail. Engagement at local community level before increasing outreach would present a good pilot phase so that lessons learned are fed into the scaled-up policy outreach. Using the financial inclusion data collected by the CPFL unit, a local community will be identified for the pilot phase.

Next Steps

Below are initial practical steps in the implementation process:

	To Draft Policy Memo for Executive Management Approval
TARGETS	Desk research/review/ comparative analysis by May 30, 2022 Concept paper ready by June 9, 2022
INITIATIVES (what) Who:CE-CAM	1. Informal chat with colleagues in my division, CAM Regulation Division to share and sell the idea. May 3, 2022 2. Coffee chat with Manager—Consumer Protection and Financial Literacy Unit to interest her with the proposed idea and get her buy in as one of the key implementers. May 9, 2022 3. Appointment with Head of Department to share the idea of this policy and seek authorization to proceed with submission to Head of Function by 15 May 2022 4. Draft concept Paper May 21, 2022 5. Submit concept paper for approval to Executive Director–Regulation. May 30, 2022 6. Presentation to Executive Management—June 4, 2022 7. Concept paper approved by June 9, 2022.
EVALUATION	Monthly in Project Monitoring Report

Key Indicators of Change

Imparting knowledge is one thing, influencing behavior is another. Nevertheless, it is hoped that through successful implementation of this policy, a reduction in numbers of women relying on informal sector would be one indicator, increase in the uptake of products and services offered by formal sector monitored through monthly and quarterly data collected by the CPFL Unit will be another indicator. Furthermore, upcoming FinScope surveys indicators like financial literacy levels for women, access and usage of formal sector by women, will be used.

Notes

1. UN WOMEN, A Gender Analysis of Macro and Micro Finance Institutions Policies and Procedures Report 2018.
2. FINMARKTRUST, Malawi Financial Inclusion Refresh 2020, 26.
3. FinScope Malawi Small Micro Medium Enterprise Survey 2019.
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Green Financing for Building Climate Resilience for African Smallholder Women Farmers

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Keywords: agriculture, climate change, access to credit

Executive Summary

In Africa, nearly 80 percent of employed women identify agriculture as their primary source of livelihood.[1] Rural women suffer the impacts of climate change disproportionately, even though they contribute less to climate change. While rural women are involved in all segments of agricultural value chains and are an important portion of the smallholders that feed one-third of the world population, they are too often excluded from decisions that affect their daily lives. They are also limited by unequal access to resources, assets and financing. Access to credit, including green credit, has a significant role to play in increasing farm productivity and food security in the predicted changing climate, but remains a key constraint for rural poor women farmers. Mobilizing and deploying necessary international resources for green financing through MFIs and banks will contribute to building the climate resilience of smallholder women farmers and establishing adequate policy frameworks for green financing for climate resilient, low-emission agriculture at scale in the region.

Problem Statement and Context

Agriculture in Africa is mainly rainfed. Rural African women are mainly employed in agriculture and as such, they are extremely vulnerable to climate change. They face food and nutrition insecurity and unemployment. They have limited access to financing, including green finance, to invest in productive activities, lack access to assets and knowledge, and their participation in decision-making processes is limited. The various causes of this situation are:

1. **From the supply side**: Institutional and regulatory frameworks for financing for smallholder agriculture and on green finance in general are weak and even non-existent in some places for women. There are limited or no regulations and policies in place to support rural women's access to financing. This, combined with the limited presence of financial institutions in rural areas, these institutions' lack of awareness of the opportunities of offering financing for smallholder women and the absence of products tailored to women's needs contribute to the exclusion of women by the supply side.
2. **On the demand side:** Women have limited awareness of financial services and financial literacy. As a result, many women do not have bank accounts or the savings culture is limited.
3. **Green financing is difficult to mobilize:** The lack of technical expertise in the areas of green finance and on the CC-gender nexus prevent women from having access to highly concessional green financing. Currently, there are few trained and skilled people in the area of climate finance, particularly in assessing and addressing women's financial needs.

Policy(ies)

The proposed solutions bundles are as follows:

- Enhance institutional and regulatory frameworks for financing for rural women, including with green finance
- Improve awareness and financial literacy on accessing financing, including green finance
- Improve financial infrastructure and products designed for rural women

Priority Objectives Bundle

To foster this work, governments and private and public financial institutions should focus on:

1. Enhancing institutional and regulatory frameworks for financing for rural women, including with green finance
2. Improving rural women's awareness and financial literacy for accessing credit, including green credit
3. Improving MFIs and banks' financial infrastructures and products to increase rural women's access to credit, including green credit

Proposed Policy Tools

At the policy level, key measures and decisions to be taken are:

1. Adapt agricultural banks' frameworks to include targets to set aside at least 50% of their investment for rural women, of which 25% is climate focused. In relation to this, there is a need to: i) improve the land tenure system to allow for the leasing of land to rural women (cooperatives), and ii) develop investment criteria (cooperatives, FOs, MSMEs, etc.), that allows agricultural banks to invest more in rural women.
2. With regards to financial literacy and awareness: Develop training modules for women for their professionalization and structuring into cooperatives or farmers organizations to access credit. Additionally, work with governments to pass decrees or laws to incorporate training modules for women in all capacity-building curricula. Such laws and decrees should also aim to ensure that women hold key positions in high-level decision-making processes. To improve women's awareness and capacity, provide more training on financial literacy and on green credit to build women's awareness and empower them to participate in decision-making processes related to finance.
3. Regarding the third policy change, it is important to improve MFIs and banks' financial infrastructures and products to ensure rural women have access to credit, including green credit, by offering incentives for this via central banks. New regulations on financial products and green products for women must also be approved to support MFIs and banks in starting their greening processes.

Stakeholders

The implementation of this policy requires strong commitment and engagement of key stakeholders at the local, national and international level. The specific functions of each stakeholder group are summarized in the table below:

Interest and Influence on Project	Mandate Function	Stakeholder
High interest and High influence	• All Project Coordination Units in the PMU or RCU on all project subprojects. • Quarterly consultation meetings • Steering committee • Monitoring and reporting activities • Collaborative supervision missions • Sharing of progress reports • Maintain contact list of all key institutions and individuals • Project execution, including training activities	• Ministry of Economy and Finance, Programme country's agricultural banks, MFIs, larger cooperatives, farmer organizations, international organizations working in the intervention areas and on rural finance, local leaders (churches, mosques…), central banks, financial institutions at the local and national level with a focus on rural areas (insurance companies, commercial banks, MFIs, SACCOs, Apex Banks, digital banks such as Orange, Wave, etc.) • Lead farmers, aggregators, global movements at COP and other similar events, UN Goodwill ambassadors, etc.
High Influence and Low interest	• Engaged through regular information-sharing meetings. • Engaged through sharing of programme information regularly. • Consultative meetings at least once a year • Regular contact with individuals in the group and in an updated contact list • Monitor their activities and collaborate as necessary	• Other government ministries, media, • Civil society, private sector (insurance companies, commercial banks, MFIs, SACCOs, Apex Banks, digital banks such as Orange, Wave, etc.), Ministry of Gender, • Parliament (commissions on finance, environment and climate, etc., depending on who rules the parliaments, ruling parties versus opposition parties), lobbyists, lead farmers, aggregators
Low Influence and High Interest	• Regular consultative meetings at least once a year • Sharing of project information through progress reports, including report of planned work.	• Civil society organizations in the region, local government focal points, commercial banks, MFIs, fintech, community-based organizations in the intervention areas, private sector institutions including insurers, rural farmers, lead farmers, aggregators
Low interest and Low influence	• Sharing project information on demand	• Civil society organizations in the region

Next Steps

To implement this policy, we propose the following steps:

1. Initiate the design and elaboration of a concept note (CN) to be submitted to institutional partners, particularly to the Green Climate Fund, by September 2022
2. Hold consultations at the country level to inform the design of the CN by August 2022
3. Identify of the main target groups and the number of countries to work with by August (five countries targeted; expected number of women farmers is 40,000; budget needed is US$20 million)
4. Submit the CN for approval
5. Once approved, elaborate the full proposal for the Green Climate Fund April 2023 board meeting
6. During the design of the full proposal, elaborate the Gender Action and Financial Inclusion Plan
7. Hold final consultations with all five countries concerned on the main theory of change, components, activities proposed and budget
8. Submission of the full proposal for GCF board approval
9. After the approval, organize a start up meeting with all stakeholders identified during the design stage, including targeted women, to raise awareness
10. Recruit a Gender Specialist for the project to ensure proper implementation
11. Set up the M&E systems for monitoring and evaluating change.

Key Indicators of Change

To implement the plan, the following indicators will be used to evaluate the intended changes

1. Number of women who have access to assets, financial education and land
2. Number of women-led MSMEs and cooperatives that have access to finance, including green finance
3. Number of financial institutions with investment criteria that allows them to invest more in rural women
4. Number of training modules delivered to women for their professionalization and structuring into cooperatives or farmers organizations to increase their access to credit
5. Number of decree or laws passed to include training modules in all curricula and support women in key positions and high-level decision-making processes
6. Percentage of women trained
7. Number of women trained to improve their financial literacy and on green credit
8. Number of women participating in awareness activities to empower them to participate in decision-making processes related to finance
9. Number of financial products designed to increase rural women's access to credit, including green credit
10. Number of incentives provided by central banks to MFIs/banks to improve their financial infrastructures and products, especially for rural women
11. New regulations approved on financial products, including green credit, for women
12. Number of MFIs and banks with a green approach

Note

1. https://www.unccd.int/resources/publications/land-degradation-neutrality-interventions-foster-gender-equality.

Access to Financial Services

Proposal for an Introduction of the National Financial Inclusion Strategy for Kenya

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Keywords: consumer protection, informal financial services, financial literacy strategy

Executive Summary

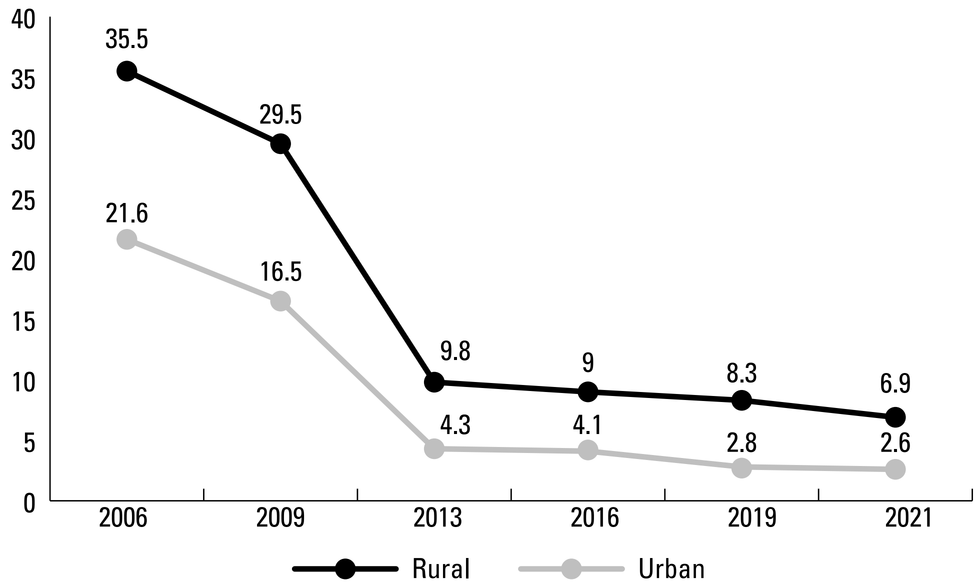
The informal financial services enhance the financial inclusion, especially in the rural areas. In Kenya, 4.7%[1] of the financially included population in Kenya still use informal financial providers. The consumers of the informal financial providers face a few challenges including lack of transparency, high fees, lack of complaints mechanism and people have no redress. To protect the consumers there will be need for the formal financial providers spread their wings in the rural areas; and a coordinated national framework for the financial inclusion in Kenya. The coordinated national framework inform of a National Financial Strategy is where all the financial inclusion initiatives will be coordinated. The framework will seek to achieve three-fold objectives; first, ensure that the rural population access safe financial products; enhance, the consumer protection guidelines, which will protect our customers from high interest rates, enhance information flow on financial products available; and, equip the population with financial literacy through campaigns and programs to have them make wise financial decisions.

Background

Kenya is ranked highly in financial inclusion, second only to Seychelles and South Africa[2]; at 83.7% of the adult population been financially included. However, 4.7%[3] of the financially included population in Kenya still use informal financial providers in addition to formal products. These informal products, are unsafe; these providers have left the customer with trail of tears, misery, and shame.[4] According to Rugiri Irene, et al.,[5] the informal financial products consumer is faced with a number of challenges including; very high interest rates of 520% per annum compared to 13% on the formal products offered by the conventional banks; lack of transparency in their pricing models and vital information to assist the consumer in making a wise decision; lack of consumer protection. The quality of these products is questionable, as they don't match the customers' needs, the range of options available to the customers are limited and the consumer is not fully aware and understand the financial product/its features; as a result, the customer is impacted negatively by the use of this product and it ends up making the household worse off. These informal financial consumers, have complained heavily to the Central Bank, to the main stream media; and in the social media on the how these providers have impacted their lives, in terms of high interest rates, sale of properties, shaming on social media, etc.

Zipporah is a housewife and a mother of four in the interior part of Kenya, she needed some money to pay school fees for her younger children. Her relatives and friends were of no help. He turned to Zack a money lender, with a promise to pay within a few months; but her financial woes deepened, and she defaulted on the loan. Zack came demanded the pound of flesh, but eventually he decided to pick the household items. If formal financial providers were in reach to Zipporah would have taken a loan from a formal financial institution, and defaulted, she would have requested the institution for a restructuring of the loan easing her repayment burden.

Figure 1. Informal Financial Access Usage (Percent) (Percent)



Source: Central Bank of Kenya

The main causes of the Kenyan population using the informal financial providers include; lack of Formal Financial Providers especially in the rural areas hence the rural population, are using the informal financial providers which are available in the rural areas; there is poor transport infrastructure in the rural areas; low level of savings; hence are not able to smooth their consumption; deal with emergencies hence rush to the informal financial providers. The low level of savings is because majority of the population in those areas don't have jobs or source of income as a result, they end up borrowing from these informal financial providers. Consequently, the borrowing push these customers to over indebtedness; hence unable to service their loans and end up selling the household items to repay the debt or worse still the property is auctioned by the lender, finally; there is lack of financial literacy; the consumers don't have sufficient financial literacy skills to make wise financial decisions.

To solve these problems in the financial landscape in Kenya, the rural households will need to access formal financial products/service; this will assist the population from accessing safe formal financial products, the consumer are well protected. In addition, the households will have some form of savings to deal with shocks like medical bills, etc. and will be able to repay loans to avoid over-indebtedness, hence, the households will be financially healthy.

The above objectives can be catered for by formulating some financial inclusion related policies. This memo is proposing two policy ideas; One, the formal/regulated financial providers spread their wings in the rural areas; and secondly, to have a coordinated national framework for the financial inclusion in the country where all the financial inclusion initiatives are coordinated. The framework will seek to achieve three-fold objectives; first, ensure that the rural population access safe financial products; enhance, the consumer protection guidelines, which will protect our customers from high interest rates, enhance information flow on financial products available; and, equip the population with financial literacy through campaigns and programs to have them make wise financial decisions.

To implement these policy tools, the stakeholders will be drawn from the financial sector services. Table 1 highlights the summary of the stakeholders. Central Bank of Kenya is crucial as it has a mandate to promote financial stability through regulation, supervision and licensing of financial institutions like the commercial Banks, Microfinance banks, etc. The National

Treasury has the overall mandate to promote financial inclusion in Kenya. The Financial sector regulators forum will also ensure that the formal financial services include pensions, SACCOs, insurance and capital markets products.

Table 1. Summary of Key Stakeholders

Central Bank of Kenya	The National Treasury	Financial Sector Regulators Forum
• Governor • Deputy Governor • Financial Sector Analysis Division • Legal Division • Bank Supervision Department	• The Cabinet Minister • The Principal Secretary • Financial and Sectoral Affairs Department	• Retirement Benefits Authority • SASRA • Insurance Regulatory Authority • Capital Markets Authority

To implement this coordinated national framework for the financial inclusion, it will take approximately 10 months as highlighted in the Gantt Chart (Table 2) below;

Table 2. Policy Implementation Timeline

Tasks/Activities/ Deliverable	May-22	June-22	July-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Activity By
1. Informal chat with my supervisor and colleagues in the division briefing them of the problem and the policy tools.											Myself/ Supervisor/ HOD
2. Informal chat with the head of department briefing them of the problem and the policy tools.											
3. Development of a concept paper/note											Myself/ HOD/ Governor/ Deputy Governor
4. Meeting the Bank Management (Governor and Deputy Governor) to present the concept paper											
5. Seek the approval from the bank management to start off the process											Myself/ Supervisor/ HOD
6. Send letters to stakeholders to nominate individuals to form the project team (Internally, send a memo to the legal division to nominate a Legal Counsel)											Myself assisted by Financial Sector Analysis Division
7. Invite the stakeholders for the first meeting/workshop.											Myself assisted by Financial Sector Analysis Division

8. In the workshop have a deliverable on draft policy and strategy document, budget, timelines											Project Team[6]
9. Finalize on the draft policy and strategy document											
10. Present the draft policy and strategy document to the Principals of the stakeholders											Project Team
11. Incorporate their comments and feedback											
12. Have a detailed policy											Project Team
13. Present to the Principals stakeholders seeking appropriate approvals											
14. The policy is approved and ready for roll over											
15. Hold a stakeholder's workshop to present the approved policy and briefing them on their roles/responsibilities											Project Team
16. Launch the approved policy											Project Team
17. Issue a press release on the new policy											
18. Financial Service providers roll out the services in the rural areas (pilot)											Project Team
19. Stakeholders to initiate campaigns creating awareness of the introduction of the products in the rural areas.											Project Team
20. The project team to monitor the progress of the implementation and the feedback from customers											Project Team

Color Coding: Not Started Work in Progress Finished

The change will be monitored using a number of indicators among them includes; the number of formal financial providers opened in the rural areas; number of financial literacy campaigns/programs carried out to sensitize the population; number of bank accounts, insurance products, Sacco accounts, pension accounts and MNOs accounts opened in the rural areas and; the percentage of the rural population accessing the formal products.

These indicators will be monitored by the institutions; financial regulators and; development partners using the consumer interviews, demand and supply side surveys.

Notes

1. Central Bank of Kenya, 2021 FinAccess Household Survey, 2021.
2. Central Bank of Kenya, 2019 FinAccess Household Survey, 2019.
3. Central Bank of Kenya, 2021 FinAccess Household Survey, 2021.
4. Central Bank of Kenya, 2019 & 2021 FinAccess Household Survey, 2019 & 2021.
5. Irene Rugiri, Peter Wamalwa, and Julienne Lauler, Digital Credit, Financial Literacy and Household Indebtedness (Kenya Bankers Association, 2019), 13.
6. The project Team consists of representatives from Central Bank of Kenya, National Treasury, Sacco Regulatory Authority, Insurance Authority, Pension Authority and Retirement Benefits Authority, MNOs (Safaricom & Airtel).

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Increasing Access and Quality of Affordable Financial Services for Refugees Living and Working in Uganda

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Keywords: financial literacy, digital financial services, know your customer

Executive Summary

Uganda has approximately 1.5 million refugees living and working in the country. This makes her one of the top three refugee-hosting countries in the world. Despite these notable numbers, many refugees are unable to invest and grow their businesses due to a lack of access to and knowledge of suitable financial products. It is necessary to improve the existing financial literacy curriculum to cater to the needs of refugees and to promote digital financial services to increase access and usage of financial services within the refugee communities.

Problem Statement and Context

According to 2018 figures from UNHCR and the Office of the Prime Minister (OPM), refugees are economically active. A total of 45% are engaged in entrepreneurship, or formal employment, 24% in farming, 15% receive remittances, and 6% receive assistance from UNHCR/WFP.

Uganda continues to receive refugees from various countries. These hail from the Democratic Republic of Congo, Burundi, Rwanda, South Sudan, Somalia, Eritrea & Ethiopia. Many of these people are displaced from their home countries due to civil wars that make their homes inhabitable. These refugee groups have their own indigenous languages, which makes it more challenging for financial service providers who need to interact with these groups.

Refugees in Uganda are concentrated in the camps, which include Nakivaale (one of the oldest camps located in Isingiro in Southwestern. This hosts approximately 145,206 refugees and asylum seekers from the Democratic Republic of Congo, Burundi, Somalia, Rwanda, Ethiopia & Eritrea), Bidi Bidi (the world's second-largest refugee settlement and biggest in Africa located in Yumbe district in the West Nile area of Uganda with an estimated population of 280,000 mostly from South Sudan), Palorinya (located in Moyo district west Nile with approximately 166,000 South Sudanese).

The refugee population in Uganda mainly consists of people running away from harsh economic and political conditions at home and hence come to settle in the camps as the situation at home returns to normal. The duration of their stay is not known as this varies from time to time. Some of the refugees eventually transition into migrant workers. However, for this policy proposal, the focus is on refugees.

Even though the refugees have skills and engage in economic activities, the majority of refugees are unable to invest and grow their businesses. This is because financial service providers have not set up access points in the refugee settlements to meet the needs of this potential market segment. These institutions are majorly centered around the urban areas as they are focused on more traditional banking clients. This impedes the ability of the refugees to tap into credit facilities to expand their businesses.

Key Causes

The refugee community is economically active, as stated by various studies done by the UNHCR and Financial Sector Deepening Uganda, and yet access and usage of financial products are still limited. Some of the key causes of these include:

Lack of physical branches in the refugee settlement areas. This could be attributed to the high costs of setting up the required infrastructure, and yet financial service providers are currently focused on operating the traditional bank branches. These refugee catchment areas are located far out from the city centers where these services are delivered, this makes it very difficult for these people to move and access services. Despite having access to cell phones and being economically active, refugees living in camps have limited access to financial services, given that FSPs operate through a branch model or have not extended agent networks to these camps.

Lack of required Identification for Know your customer. Refugees in Uganda have some form of Identification. The most common type of ID is the Family Attestation document, followed by the refugee ID issued by UNHCR (Alison Ryan, 2018). "Due to the circumstances under which people must forcefully migrate to neighboring countries seeking refuge, many move without identification documents. This makes it difficult for them to access financial services as and when needed" (Alison Ryan, 2018). In Uganda, the financial institutions are mandated by the Bank of Uganda to accept National IDs and Passports, yet refugees may not have any of these. This constraint automatically makes it difficult for these people to access financial services.

Lack of sufficient financial knowledge to access suitable financial products and services. As seen in the diversity of languages and cultures existing within the camps, there is a challenge in communication and the suitability of products. This hinders access and usage as the refugees may not fully understand the products on the market and the ones that would be best suited for them in their current situation. The financial service providers may not be able to disseminate financial information that would help the refugees make sound financial decisions in key areas such as credit sourcing, investments, and others.

Priority Objectives Bundle

Having identified some of the key aspects that hinder refugees in Uganda from fully participating in the financial system, the key policy initiatives in the priority bundle would go a long way to address these bottlenecks. This would increase the number of refugees accessing and using quality and affordable financial services. The priority bundle below encompasses most of the challenges faced in an effect to boost the promising economic lives of refugees.

"*Refugees have the knowledge, demand, and use financial services to enable them to invest and grow their businesses.*" The Bank of Uganda, in its new strategic plan 2022–2027, recognizes that enhancing financial system development is very critical to achieve socio-economic transformation for all Ugandans. The activities involved in achieving this objective are vast, and extending services to underserved markets such as the refugee camps is top of the agenda. This will be cascaded down to the individual departments to ensure this is achieved. Budget allocations toward these initiatives will support the implementation of financial inclusion that include the promotion of electronic payments, financial literacy programs, and the collection and analysis of financial inclusion indicators.

Once financially empowered, refugees will have the ability to take on more products and services and hence be able to improve their livelihoods. This would also benefit the financial service providers as they will broaden their revenue streams. Having equipped them with all the information they need will bring about general economic development for the country.

Policy

The Bank of Uganda to enhance the financial literacy curriculum for Uganda. This is a National Program implemented by the Bank and disseminated to the public through training of trainer's model. It includes topical issues like personal financial management, investment, savings, planning for retirement, and consumer protection, among others. An improved curriculum with a refugee financing module to address the current knowledge gaps in extending services to this market segment will result in increased adoption and usage of financial products. As earlier stated, communication is a key barrier. The enhanced curriculum would include translation of the messages into the local languages that the refugees can easily comprehend. This can be disseminated through various platforms like radios, text message alerts, and televisions so that the messages can have a wide coverage to eliminate the issue of distance to the camps. With an improved curriculum, these customers will be able to make better and informed financial decisions.

The government of Uganda to provide a conducive environment to promote the adaptability of digital financial services. This will be done by establishing infrastructure such as the internet in the rural areas where the refugee settlements are located. In the case of Uganda, mobile money as the digital platform has made tremendous progress in the financial inclusion drive. The government can do more by reducing the costs of transacting on these platforms by providing a national switch that lowers the heavy capital investments that financial service providers would have to make to achieve full interoperability. Once this is achieved, the government would then direct that all government to person transactions are done electronically. These include funds given to refugees by the government. In long run, this would spread through all government agencies as means to get more refugees and Ugandans into the financial sector.

Stakeholders

The key stakeholders that I will focus on to achieve the proposed policy objectives include;

- The refugees. This is an underserved market segment that, if given attention, would be able to realize increased revenue for the financial service providers and economic development for Uganda. These are the beneficiaries of the policy proposals.
- Mobile network Operators. (MTN Uganda, Airtel Uganda) These are the implementors of digital financial services in hard-to-reach areas. This is because they have a wide coverage, and many refugees have mobile phones and so are able to transact on their phones without having to move long distances.
- Commercial Banks (Equity Bank, Centenary Bank) These are the traditional service providers. They are deposit-taking institutions that are able to give credit facilities, among other services, to the refugees. With more innovations, they would bring banking services closer to the people.
- Microfinance Deposit Taking institutions. (UGAFODE) Microfinance companies offer
- Humanitarian Agencies (WFP, UNDP, UNHCR, Finnish Refugee Council, Hunger Fighters)

These provide aid to the refugees in form of money and other basic needs. They work closely with the refugees in the settlement areas and would offer valuable insights on any key policy proposals.

Next Steps

The Bank of Uganda to enhance the financial literacy curriculum for Uganda. This will be done through engagements with the relevant stakeholders, as already stated above. There will be a need to form working groups that would meet regularly to review progress made in improving the financial literacy core messages. The National Payment Systems Department (NPSD) to call for nominations from various institutions for participation in these working group meetings. These will be quarterly meetings that will help us identify the specific needs of the refugees. A draft refugee financing module is to be presented to the Bank of Uganda senior management for approval.

The Financial Literacy team at the Bank of Uganda would then embark on a series of training for new trainers in the refugee camps to disseminate the new financial literacy core messages. These would be done on a quarterly basis. After a period of two years, there should be an increased number of refugees who are using and accessing the right financial products and services that meet their specific needs.

The government of Uganda to provide a conducive environment to promote the adaptability of digital financial services. The government, through the Bank of Uganda, would carry out a needs assessment scoping study to further understand the challenges faced by refugees in accessing and using digital financial services. The results of this study would inform The government on what interventions need to be done to increase the adoptability of digital financial services.

The NPSD to write a circular to SFIs to have their systems interoperable to create seamless payments across the system. This will increase the number of use cases for financial services. This will be supported by the setting up of a National Switch for Uganda that will help reduce the transaction costs. The individual systems should be able to plug into the switch and provide services to everyone more cheaply and efficiently.

The NSPD to meet representatives of the product development teams of SFIs on developing products that address the needs of refugees. It is critical that the service providers are brought on board in this effort to bring financial services closer to the refugee settlement areas. These meetings will yield tailor-made products for the refugees that will then increase the usability of the products and services hence increasing financial inclusion for the refugees.

Bank of Uganda working with the SFIs to craft an awareness campaign that is specific to the refugees. This message will address the frequently asked questions of financial services consumers. It will explain all issues regarding the know your customer requirements, the type of accounts available together, with the charges for the various products and services. The campaign will deal with consumer protection issues as this is critical to this market segment as they adopt the products and services. NSPD, Communications department, and procurement department to call for bids by interested adverting agencies for an awareness campaign. The best bidder will then be selected. This would involve meetings with refugee leaders and local area leaders to help with the language barriers.

Key Indicators of Change

This policy memo focuses on people who have fled from their home countries for refugees in Uganda but with the intention of returning to their homes when the political situation stabilizes. This market segment comes with a lot of moving back and forth across borders. This policy proposal attempts to address the short-term financial needs of these people as they still live and work in the refugee camps. The success of the policy interventions will be measured as follows; The Bank of Uganda to enhance the financial literacy curriculum for Uganda.

- The number of new programs in the adequate language to reach refugees.
- The number of refugees who received the training.
- The camps where these trainings took place

The government of Uganda to provide a conducive environment to promote the adaptability of digital financial services.

- The number of active users on the various digital financial platforms.
- The number of active accounts
- The values and volumes that are moving on the digital platforms

The percentage of refugees who have increased financial capabilities. Financial Capability in this context refers to the ability to make sound financial decisions in areas such as personal financial management, investments, and loan management, among others. This will be measured through financial capability surveys that will be carried out yearly by the Bank of Uganda Financial Inclusion team.

The percentage of people, especially the refugees using digital channels to make transactions. This can also be monitored through weekly and monthly reports of the transaction values and volumes across the available digital platforms. Supervised financial institutions and regulated payment service providers would provide timely reports as requested by the Bank of Uganda.

The number of financial literacy trainers of trainers who are certified trainers for the Bank of Uganda. These are expected to train more members of the community to increase financial literacy among the refugees. The Bank of Uganda Financial Literacy team would be able to track the number of trainers per quarter. Every trainer would be required to submit progress reports of the work done, complete with pictorial evidence.

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Guideline to Incentivise Youth Uptake and Accessibility of Simplified Products

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Keywords: financial education, financial literacy, financial decisions

Executive Summary

As you may be aware, Financial Inclusion was given the highest priority in the Bank of Zambia Strategic Plan 2020 to 2023, which is the second pillar of the strategy. However, the FinScope study 2020, noted that only two in every 10 youths are financially included.[1] The youths especially those leaving school be it secondary or tertiary education are not adequately empowered to make financial decisions as they transition into working lives or establish business as young adults, Despite all the interventions that have been put in place by government, the Bank of Zambia and other stakeholders, i.e., through incorporating financial inclusion in the national school curriculum, it is evident that more work needs to be done to bridge the gap between the theory offered in school and the reality of adult life for the youths between the ages of 16 to 26. More clear and concerted efforts will have to be put in place that capture youth participation through stimulation of interest and address the gaps that still exist on the demand side.

Context and Problem

Youth considered the future leaders who make up a third of the Zambian population, yet they are inadequately empowered with entrepreneurship skills and do not know to handle finances as young adults in workforce. Although, today's youth is well informed and exposed to financial literacy programs, which are intended to educate youth be financially healthy adults. The young people coming out of school are still not taking up a lot of financial products on offer, despite their vast exposure to financial education, the young people only open basic savings accounts for the sole purpose of receiving a salary. Financial institutions are also not taking advantage of this demographic group, which is a potential green field with potential to contribute to future revenues if well harnessed. Clearly Financial Institutions are missing an opportunity to increase their market base with this population group. The youths do not either have adequate financial information or interest to take up simplified products as young adults due to the following:

- There is a gap between financial literacy embedded in school curriculum and practical life skills;
- Financial services providers have not adequately invested in safe, simple products tailored to for youth transitioning into young adulthood;.
- There are very few FSPs providing youth friendly products because FSPs do not see young people transitioning to adulthood as a target population worth their attention;
- Youth are not incentivized to use safe, simple products to meet their financial needs;
- There are not structured financial mentorship programs available for young adults;
- The costs of accessing the products may be prohibitive for young people;

Proposed Policy Solution

In view of the above, it is essential that children and youth transitioning into adulthood are empowered with the necessary skills and their minds opened to opportunities needed to reach their potential. A structured mentorship program targeted at parents, guardians, teachers, church leaders, etc. will be necessary to make an impact on youth who lack mentorship to guide them during this period. Youths will need to be incentivized to take up simplified products developed by FSPs and other available options through mentorship programs which enable them manage money as young adults.

In this regard, I propose the Guideline to Incentivize Youth Uptake and Accessibility of Simplified Products is aimed at encouraging FSPs to develop various options and innovative products which will capture the young adults into the financial system on one hand and to introduce incentives or programs that will encourage and appeal to the youths to take up various products.

Guideline to Incentivize Youth Uptake and Accessibility of Simplified Products

- FSP training on Youth Needs
- Re-working curriculum for youth
- Targets for FSP education roll-out and Mentorship
- Targeted awareness campaign

The guideline will assist FIs with ideas in what to take into account when developing simple products and services specific to youth. FIs will be empowered with the necessary tools to engage the youth at their level in non-discriminatory manner that embraces their needs and encourages them to take up financial products. The Bank of Zambia will increase its sponsorship of some financial prizes for competitions it participates in targeted at encouraging youth participation in the financial sector. FSPs will be trained systematically on how to conduct tailored sensitization programs targeted at parents, guardians, teachers, religious leaders, traditional leaders, etc. to raise awareness for the youth on financial literacy. Popular young musicians and other arts will be engaged to raise awareness on use of simplified products for their benefit.

The Bank will collaborate with NGOs to develop innovate targeted messages in order to build encouragement among young people. The Bank intends to work with other financial sector regulators, i.e., Pensions and Insurance Authority (PIA) and Securities and Exchange Commission (SEC) so as to capture all key financial sectors in the school curriculum plus the other key stakeholders such as FSD Zambia, RuFEP who will provide invaluable information regarding information received in their surveys, etc. A working group will be formulated that will work with the Ministry of education to enhance/update the current curriculum to be more practical

The Bank will build on the existing programs to enhance financial education initiatives such as the use of edutainment, road shows and competitions with popular figures to capture the youth. The Bank will continue to work with other stakeholders like Zambia Revenue Authority and Ministry of Commerce to provide tax incentives plus other incentives to FSPs and other players that implement simplified products. The Bank will work with FSPs to develop a key facts statement targeted at the youth to incentivize uptake of simple products and have it translated in the seven main local languages.

Stakeholders and Next Steps

The Bank of Zambia will implement the strategies outlined in the guideline with key stakeholders indicated above i.e., the financial sector regulators, the ministry of Finance, Ministry of Education, Ministry of Commerce and other partners in order to attain traction especially in high density areas and in rural areas. Workshops and other training workshops will be held with selected school managers and teachers to train them on practical ways of engaging teaching financial education to children especially in secondary school. The Bank intends to engage the ministry of education to have policy which will allow schools to host various partners in offering mentorship to young people. FSD Zambia is a key partner that conducts various studies and surveys on financial inclusion parameters in Zambia. The bank will utilize the reports from this institution to review the financial inclusion landscape for monitoring purposes.

The Bank of Zambia shall continually engage with FSP's through the various sector Associations, e.g., Bankers Association of Zambia (BAZ), Association of Microfinance Institutions in Zambia (AMIZ), etc. in the financial as a key stakeholder in the implementation of the guidelines. The Bank will use quarterly returns from FSPs and other reports from stakeholders such as FSD Zambia to monitor implementation and track statistics.

The Gantt Chart below illustrates the next steps in how the Guideline will be implemented.

ACTIVITY/MONTH	1	2	3	4	5	6	7	8	9	10	11
Draft a concept Paper	■										
Circulate draft concept paper		■									
Approve Concept paper		■									
Memo to Heads of key departments to nominate officers to working group			■								
Memo Circulated to HODs			■								
Circulate draft guidelines to internal and external stakeholders				■							
Finalize document and circulate to Technical Supervisory Policy Committee					■						
Draft Document Submitted to Legal Services Department for legal drafting						■					
Document finalized by Legal Services Department						■					
Guidelines Approved and Signed Off							■				
Guidelines Gazetted and Issued								■			
Circulate Gazette to all FSPs and other stakeholders								■			
Hold Stakeholder workshop									■	■	■

The Bank will develop mechanisms to continually monitor the financial inclusion landscape especially for the targeted age group. The Bank will collect statistics of the number of NGO's, Youth groups and churches using everyday norms to disseminate financial education through survey while working with FSPs and FSD Zambia. Through quarterly returns the number of FSPs offering simplified products and expanding their outreach on financial inclusion matters will be recorded. The number of FSPs sponsoring prizes for competitions vis a vie the number of youths participating in awareness programs by key stakeholders will help to assess uptake. The Bank shall reinforce consumer protection mechanisms and enforce stricter penalties for any anti-competitive or fraudulent activities in the sector. The Bank shall accelerate its activities that seek to break down barriers to youth access to financial services such as Agent Banking Directives and the movable collateral registry.

The implementation of the guideline is anticipated to achieve the target of 80% financial inclusion envisioned in the Financial Inclusion Strategy by 2022. Hereby submitted for your consideration.

Note

1. FinScope 2020 Survey: Topline Findings.

Enlightening KYC Requirement to Help Roadside Vendors Grow

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Manager Product Development, Product Development, Botswana Savings Bank

Keywords: informal sector, access to finance, poor families, Botswana

Executive Summary

The Informal Sector Recovery Plan, Botswana 2020 estimates 5.3% of annual GDP to be from the informal sector, small compared to neighboring countries but nonetheless sizable. The Plan suggest that the informal sector should be one that is broad, inclusive, and accommodative of current and future dynamic changes occurring within the macroenvironment and the sector itself.

The informal sector`s main challenge in Botswana is access to finance for growth, and this paper therefore seeks to explore a section of the informal sector that needs policy intervention for growth, this policy intervention if implemented successfully, will be cascaded to other informal sector segments, and eventually improve the whole informal sector's contribution to annual GDP. The Policy will address the challenges by amending KYC requirement to make it easier for the Roadside Vendors to access financial services, especially credit facilities.

Problem Statement and Context

In every 10 meters on the street in Botswana, there is a roadside vendor. These are the informally employed Botswana who make ends meet through everyday sales of small items from cooked food, sweets, airtime, etc. These are without proper shade or dignified structures for better service delivery to their clients. I personally leave next to one, and when I had a chat with her the other day as to why she hasn't been operating, she said she could not open the shop during heavy winds and rain. She said she wishes she could have a proper structure such that she could even serve her clients on a sit-down basis. "Why don't you ask for funding from where you bank"? I asked, "I bank at Orange Money, the transactional charges are very high, and its not easy to save there. And I tried to ask for funding from banks but cannot meet the requirements," she said.

The FinScope Consumer Survey Report Botswana 2020 shows the top three requirement by Banks, that at least 71% of banks need the client to produce a certified ID copy and 61% of banks require a client to produce a payslip to open a bank account. Only 1% of the informal sector business`s main source of income is loans from commercial banks. The report further says that Government agencies such a Citizen Entrepreneurial Development Agency CEDA (1%) seem not to be serving the financial needs of the informal sector as they rely more on their own means (70%).

Key Causes

The problem emanates from the following key issues;

1. **Most of the roadside vendors come from poor families**
   When in need of funds to startup a business, vendors might wish to turn to family for support. However, although a family member could potentially help with donation or credit for substantive inventory acquisition and investment into their businesses, for most of these roadside vendors there is no family member to assist because of low levels of income generation within the family.

2. **Lack of formal bank accounts**
   Usually, the banks would be comfortable with offering credit facilities to clients who have kept up with transactional/savings accounts with them, this is a risk mitigation for defaults. Since these roadside vendors cannot meaningfully maintain bank accounts due to high transactional and account maintenance fees, they do not find it easy to access credit facilities. From the FinScope report, of the 31,852 adults who were refused a loan, 45% was due to low income, 16% no pay slip and 15% to being unemployed.

3. **High unemployment rate of dependents**
   Most of the employable youth are not employed, this creates a lot of dependents in households. A roadside vendor who is a breadwinner in the family will hardly manage to grow the business since most of the proceeds will go toward the upkeep of the family.

4. **Unavailability of target specific products to roadside vendors by banks**
   A roadside vendor is one bracket of the market that needs nil to low account maintenance and transactional fees in order to afford these accounts. On the other hand, the banks are not willing to offer the products in view of business strategic objectives that bring profitability.

Priority Objectives Bundle

The following objectives will address the needs of the roadside vendors;

1. **Regulators to lighten KYC requirements to allow vendors to open bank accounts and access credit facilities**
   This objective bundle speaks to the issue of necessary requirements for one to open a bank account as well as apply for a loan The objective bundle seeks to investigate ways of reducing requirements in such a way that the roadside vendors will be included, through exemption of some of the requirements like payslip, bank statements, many years of running business, etc.

2. **The Government to provide sufficient resources for research and development toward financial literacy to enrich vendors on financial knowledge**
   This will ensure that the roadside vendors are well informed on how to manage their finances better, proper book-keeping and ways of saving money/investing. The result of this objective will be knowledgeable roadside vendors who are able to manage their business better, have a better understanding of financial management and ways of saving/investing their earnings. This will help them improve their credit worthiness so that they can access credit and grow their businesses.

3. **Government to provide employment opportunities to reduce poverty for families of roadside vendors**
   This objective is about reducing unemployment and get to reduce too much dependency of the youth on their parents. It will also assist in creating opportunities for family members to provide financial assistance to those in need for roadside vendor startups and business growth.

Policy Proposal

The above objectives will be addressed by the following Policy, the policy will focus mainly on the KYC regulation to accommodate roadside vendors in accessing banking products.

Government lessen KYC requirements by allowing for exemption of the following;

1. Employment/salary documents
2. Bank account that has been running/maintained for many years with the bank
3. Many years of business records.

KYC is a policy intervention tool enacted by the following countries;

- Pakistan—Tiered KYC (2008)
- Philippines—Relaxed KYC requirement for e-money issuers (2009)
- South Africa—Changed KYC regulations to allow the exemption of address verification on low-risk Mzansi accounts with balance and transaction limits (2004)

The changes in policy regulation improved the uptake of the products In all the above instances. While the landscape in Pakistan and Philippines could be different from Botswana, South Africa is one closets example and with similar context to Botswana, since the Mzansi accounts` main target is the financially excluded groups, with similar characteristics as for Botswana.

Risk Mitigation

- An eKYC system that will give all searchers a 360-degree view of the client`s most important particulars (ID, permanent address, employment status, level of education, next of kin, contact detail, marital status, etc.).
- The Ministry of Finance to incentivize banks on a charge free savings account within which the vendors could save continuously for a minimum of six (6) months after which the savings could be used as 50% security of the loan, the more they save the more they can get credit.
- The Ministry of Trade and Industry to offer free financial and bookkeeping group classes for the roadside vendors.

Stakeholders

For this policy to be successful, there is need for support from the following key stakeholders;

- Minister of Finance—Facilitation of the Policy as the Ministry responsible for financial inclusion
- Director of Financial Intelligence Agency—Assessment and response to the Policy proposal as the office responsible for KYC implementation in Botswana.
- Director of National Registry—Lead the implementation of the eKYC system as the office responsible for citizen registration and records
- Director of Banking Supervision at Central Bank—Assess and offer response to suggested/proposed Policy as the banking regulator with customer and FIs in mind

I plan to engage them through build up of stakeholder workshops where the Policy will be articulated, focus groups formed, timelines set, etc.

Table 1. Roadmap

DATE	ACTION	MEASURE	OWNER
April 22, 2022	Presentation of the Policy Proposal to key stakeholders	Explanation of the background, the problem statement and the proposed solution	Financial Inclusion Officer
April 28, 2022	Brief on the problem statement, way forward plan, the meeting should adjourn with agreed assigned groups and timelines.	Assigned focus groups	Financial Inclusion Officer
May 5, 2022	The meeting will look at the progress made by focus groups on their deliverables	Presentations of Action Plans, Progress Made, Feedback gathering, and Way forward	Financial Inclusion Officer—Facilitating Focus Group Representatives—Presentations

May 15, 2022	At this meeting, the focus groups representatives will attend to brief the Minister on the progress and mainly on the key challenge/areas at which the Minister`s intervention is highly sought.	Minister Intervention Report	Financial Inclusion Officer —Facilitating Focus Group Representatives—Presentations
May 25, 2022	Presentation of the decision on the Policy and implementation plan	Policy Decision Report	Financial Inclusion Officer
May 30, 2022	Presentation of the Policy Implementation Report	Implementation Report	Financial Inclusion Officer

Key Indicators of Change

This policy implementation will be tested with a pilot project at Botswana Savings Bank, through a sizable number of roadside vendors and proper monitoring and evaluation of the project will be done through mini survey after six months to measure the impact, challenges and draw lessons.

I will use the following indicators and tools;

1. The number of roadside vendors who managed to access financial services at banks for the past six months and the proportion of those who are servicing their accounts well—through request of the data from FIs
2. The success stories of the roadside vendors after acquiring financial services from the FIs—through questionnaire interviews of the roadside vendors on the list provided by FIs

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Legal Loan Product Creation to Fight Over-Indebtedness Due to Illegal Online Loans

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Keywords: over-indebtedness, online loans, fintech

Executive Summary

Illegal online loans lure potential victims with easy loan terms and fast processes. But it turns out that consumers are burdened with high interest rates so that they are in over-indebtedness and cannot escape from the bondage of illegal online loans. Illegal online loans are not licensed by Indonesia Financial Services Authority (OJK) and operates clandestinely. On the other hand, legal peer to peer lending (P2PL) fintechs that offer similar loans are tied to a health ratio and strict consumer protection aspects so they cannot move as agile as illegal fintechs.

This policy aims to provide an option for legal P2PL fintech and related financial service institutions (e.g., banks, sharia banks, rural banks and finance companies) to create alternative products that can compete with the advantages of illegal online loans.

Problems with Illegal Online Loans

Digital transformation has also changed the behavior of consumers in financial transactions. Consumers are more interested in using products in the digital form available on their cell phones as mobile applications. The COVID-19 pandemic has also encouraged the adoption of this digital transformation. OJK noted that digital transactions increased rapidly by 37%[1] during the pandemic.

On the other hand, the COVID-19 pandemic has had a negative impact, especially for people with low incomes. Their financial security is vulnerable due to disrupted income when the business world is sluggish during the COVID-19 pandemic. Based on OECD survey,[2] when asked how long they could cover their living expenses without borrowing if they lost their main income, 22% of respondents from Indonesia answered they did not know.

The potential of financing for low-income people is large. In Indonesia, it is estimated that more than 80 million[3] people are categorized as unbanked population or excluded population. It is difficult for people like these to get loans from formal financial services institutions because they have to submit various required documents which they usually cannot fulfill.

Illegal online loans offer convenience for consumers by not providing any conditions for applying for a loan. The loan process is also very fast in a matter of days the funds have been disbursed into the borrower's account. There are even some illegal online loans that disburse the funds in a matter of hours.

However, behind the convenience, lies a trap. Consumers who borrow on illegal online loans are burdened with very high 1% to 4% daily interest[4] and other fees. The loan repayment period is also very short. If they cannot return within the time limit, they will be subject to high fines.

Heartbreaking stories related to illegal online loans have been revealed by the media in Indonesia since 2016, including the tragic story of a rural bank employee who committed suicide because of his debt on illegal online loans,[5] a teacher almost committed suicide because she were terrorized by 24 illegal online loans debt collectors,[6] an employee was fired from his job because he owed an illegal online loan,[7] terror of edited pornographic images by illegal online loan debt collectors,[8] and many other stories.

OJK recorded 19,711 complaints[9] related to online loans during the 2019–2021 period with 47% percent being serious complaints. The Indonesian Illegal Investment Alert Task Force has closed 3,516 illegal online loan fintechs,[10] while only 102 legal P2PL fintechs.

Goals to Be Achieved

The most powerful means to eradicate illegal online loans is to issue a national law on online loans so that illegal online loan providers can be sentenced to criminal penalties. However, the issuance of laws in Indonesia is a long process and must be in accordance with the priorities of the House of Representatives, which is outside the authority of OJK.

Therefore, I propose a more realistic policy so that formal financial services institutions can create products that match (or even exceed) the advantages offered by illegal online loans, which consumers enjoy, but still take care of consumer protection.

With the availability of these products, we hope that people will have access to formal financial institutions and love to use formal financial products. If this happens, illegal online loans are no longer attractive and will die by themselves.

Policy to Take

This policy aims to support and incentive the creation of loan products from both P2PL fintechs, banks, rural banks, sharia banks and finance companies that are safe, fast and cheap. With this policy, we hoped that:

1. Each Financial Institution makes at least one basic loan product. This basic product will use a simpler Know Your Customer (KYC), no collateral needed and lower fees. OJK will provide incentives for Financial Institutions who make this product.
2. To simplify the submission requirements, the Financial Institutions can use simple customer due diligence. Financial Institutions are allowed to cooperate with third parties who own eKYC applications to do this.
3. To speed up the loan disbursement process, Financial Institutions can use a mobile application that can be accessed by consumers anytime, anywhere. Banks and finance companies are allowed to work with P2PL fintech companies to accelerate the development of this application.
4. To reduce costs, PUJK is allowed to use corporate social responsibility (CSR) funds to replace operational costs that must be incurred. Financial Institutions can also cooperate with local governments to be able to use a portion of local government budgets to provide subsidies on loan interests as a short-term target to attract consumers.

Main Stakeholders

The following are main stakeholders as determinants of the success of this program:

1. People with low incomes and the unbankable. They are the main users of illegal online loans. We need to discuss with them to find out the reasons for using the product and what kind of product suits their needs.
2. Local government. They know the number of people living in the region who have low incomes and/or receive social aid who will be the main target of this program. Local governments can also provide incentives in the form of loan interest subsidies.

3. Financial institutions such banks, rural banks, sharia banks, financing companies and P2PL fintechs. Their role is very important because they will create and market the product/service later.
4. Supervisors of banks, finance companies, and P2PL fintechs. Discussions are needed to determine health ratios e.g., nonperforming loan (NPL) ratio that can be relaxed. This relaxation is needed so that financial institutions have room to innovate in the creation of products/services.

Steps to Do

The following are the steps that need to be taken to realize this policy:

1. The first stage is to validate why people like to use illegal online loan products. A survey needs to be done to find out why they borrow, what kind of loans they usually use, and what interest and fees they expect. It is also necessary to collect data from local governments on low-income residents and social aid recipients. This will be done within the first month after the program runs.
2. The second stage is to discuss with financial institutions. A workshop needs to be held to discuss what products are suitable, the readiness of each financial institution and what policies need to be issued to support the products/services. Supervisors also need to be involved in these discussions. Supervisors can provide input on what regulations can be relaxed, what incentives can be provided to support this policy, and supervisory concerns that need special attentions. The process will be carried out within six months.
3. The third (last) stage is to discuss with the Law Department to carry out legal drafting of the policies to be issued and follow rule making rules processes. This process will take approximately six months.

Key Indicators to Be Used

To determine the effectiveness of the implementation of this program, the following indicators can be used:

1. The increasing number of types of loan products offered by formal Financial Institutions as a result of this policy. The more types of products that are created, the more choices that can suit the needs of the people.
2. The increasing number of debtors and the value of loans that have been disbursed through these products. The more people who use the product will eventually increase the number of loans disbursed.
3. The decrease in the number of complaints related to illegal online loans that come to the OJK contact center, Kontak 157 as important primary data.
4. To measure the success of the program from the consumer's point of view, financial institutions are required to collect customer satisfaction survey with one of the aspects measured is over-indebtedness.

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