FLETCHER
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FOR FINANCIAL INCLUSION

Policy Memoranda

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THE FLETCHER SCHOOL

Leadership Program for Financial Inclusion

Policy Memoranda 2023

Foreword

The policy memos contained herein are the capstone achievements of the 11th 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 184 FLPFI alumni.

The 2023 fellows joined the fellowship from Latin America, sub-Saharan Africa, Asia, and the South Pacific This passionate group of inclusive finance champions work at central banks, insurance regulators, or other institutions that design and implement policies affecting financial inclusion. This year, the FLPFI fellows grappled with important and diverse financial inclusion challenges, including expanding rural smallholder farmers access to credit in Malawi, South Africa, and Zimbabwe, promoting financial inclusion of women in Nigeria, enhancing women-owned SMEs access to credit in Colombia and Fiji, improving financial health in Kenya, and balancing access and regulation in Uganda, and improving consumer protection issues in Brazil and Ethiopia.

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 policies 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. We were delighted to welcome the fellows to The Fletcher School at Tufts University's campus for this year's in-person residency after three years of Covid restrictions.

At the heart of the fellowship curriculum 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, stakeholder analysis, 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.

Each fellow is addressing a current pressing financial inclusion challenge in their country, a problem which has yet to be solved in their context. For example, the fellows from Lebanon and Mongolia are working on FinTech innovation, while fellows from Madagascar and Zambia are working on enhancing access to insurance. Similarly, fellows from Libera and Tanzania are working on national electronic payment switch and financial education respectively, and finally a fellow from Seychelles is working on access to finance for SMEs in the tourism sector. 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 to come.

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Contents

Consumer Protection

Improving Consumer Protection Issues of Digital Credit in Brazil

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Keywords: overindebtedness, consumer credit, digital credit, consumer protection, regulation

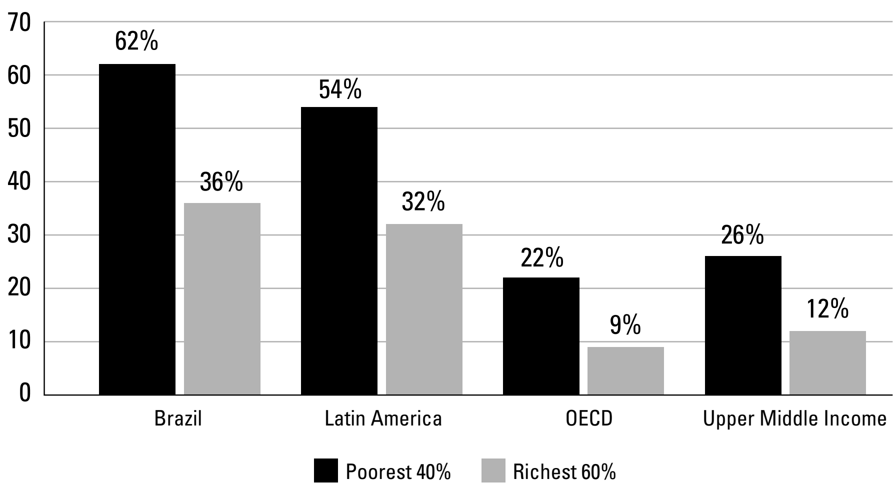
Executive Summary

Despite significant progress in increasing access to and usage of financial services over the last five years, Brazilian citizens' financial resilience is low.[1] One of the main causes is the overindebtedness of Brazil's population—people's financial debts are above their ability to pay. Oversupply of credit without adequate transparency and easy and fast access to credit lines is a key issue, especially through digital platforms. To address that, the recommended policy solution is to conduct in-depth research to understand the digital credit environment and, as a second step, to develop a new consumer protection regulation that accounts for the risks involved in digital credit.

Problem and Context

The United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA) reminds us that the purpose of financial inclusion is to improve lives.[2] Despite significant progress in increasing access to and usage of financial services over the last five years, Brazilian citizens' financial resilience is low.[3] Global Findex shows that 62% of low-income Brazilians are not financially resilient.[4] As a comparison, on average, only 26% of the low-income population in the upper-middle-income countries, of which Brazil is part, are not financially resilient.

Figure 1. Not Financially Resilient by Income (International Comparison), 2021.



Source: Global Findex Database, BCB.

Improving access to and usage of financial services in Brazil has not translated into greater financial well-being for the population. One of the main causes of Brazilians' low financial resilience is the overindebtedness of Brazil's population. The Central Bank of Brazil (BCB) created an indicator of risk indebtedness[5] and started to monitor citizens "whose amount of debt is above their ability to pay, and whose persistence and poor credit quality impair the management of their financial resources and, ultimately, their quality of life."[6] In 2019, 11.6%

of debtors were considered risk indebted. This share increased to 14.1% in 2022 (about 14.7 million debtors). The highest shares of risk-indebted citizens come from older people, women, lower-income citizens, and those in poorer regions of the country.[7]

The result of this increasing indebtedness trend is somewhat worrisome. A recent survey showed that around 50% of low-income borrowers stated that they had to reduce food purchases to pay their debts. Also, 50% said that the reason to take out a loan was to pay for food or monthly living expenses. The second reason: to pay for another loan (35%).[8]

In another study, one of the perceived changes in behavior is the way in which the population seeks credit: 72% of respondents prefer digital platforms, even in the most advanced age groups.[9]

Insights from my people-centered policy research[10] suggest that an oversupply of credit without adequate transparency and an easy and fast access to credit lines, especially those offered through digital platforms, may be a cause of overindebtedness. People reported receiving tireless offers of credit without proper disclosure of the credit terms and conditions. This is concerning, especially taking into consideration vulnerable populations. The Consultative Group to Assist the Poor (CGAP) has raised consumer protection concerns regarding the digital credit offer[11] in relation to the questions of whether borrowers really think through their choices or just borrow on impulse—because access is easy and instant—and of whether lenders are encouraging reckless borrowing.

Borrowing on digital platforms needs to be better understood. The BCB does not have enough information to analyze the current digital credit situation and inform policy. The institution's credit registry does not indicate whether a credit was obtained through digital or non-digital means.

Potential Solutions

Potential solutions are summarized in two bundles:

1. Consumer protection: The BCB must gather enough data to allow monitoring and assessing of digital credit, so as to inform consumer protection policies for transparency in the digital environment and for enforcing effective access to financial services—in other words, convenient and responsible delivery of services.
2. Financial education: The BCB must develop initiatives that help improve responsible borrowing and debt management for consumers.

The BCB has already in place financial education initiatives, from a financial education program for children to an online platform in partnership with the Banks Federation.

Because efforts in financial education already exist, the situation of consumer protection is urgent, and consumer protection is under the mandate of the BCB, my suggested policy action is to address the bundle of consumer protection.

Recommended Policy Solution

The goal of the recommended policy solution is to better understand the digital credit environment and to, eventually, improve the effectiveness of the relationship between customers and financial institutions when conducted through digital platforms.

In Brazil, regulations state principles that financial institutions should comply with, such as fair and equitable treatment of customers and users, considering their relationship profiles and associated vulnerabilities.[12] Regulation also requires institutions to disclose all the information about contracted operations—detailing, for example, effective monthly and annual rate, referring to remunerative interest.[13] The issue with digital credit is that, while complying with the regulations, during the digital journey, financial institutions may not be disclosing information in a way that is beneficial for the consumer's understanding and decision-making.

The CGAP[14] points out the fact that consumers do not always make decisions based solely on financial information. Financial institutions may comply with disclosure rules yet still present a biased picture of a product's features during the sales process by obscuring certain terms or overemphasizing others.[15]

Current Brazilian regulation should evolve to enforce disclosure of information that best facilitates informed decision-making by consumers, especially considering the customer's digital journey.[16] Institutions should go beyond leaving information visible and accessible. It should be made explicit that the credit terms must be delivered in such a way that verifies that the consumer really understood them, taking into account possible vulnerabilities. For example, institutions should avoid visual pollution that may confuse the customer during the signup process; provide clarity regarding any offers of credit, so that customers only sign up consciously and explicitly voluntarily for credit offers; provide warning messages during the sales process that prompt customers to think through their decisions.

Key Stakeholders and Implementation

The recommended policy solution suggests an implementation process based on two steps; different stakeholders should be monitored, depending on the implementation phase. As a first step, for the research to be done, it is critical to have the support of the Conduct Supervision Department, as well as of the deputy governor for citizenship and conduct supervision, who should lead the implementation process.

For the second step, which is to develop regulation that accounts for the risks involved in digital credit, it is critical to have the support of the Regulation Department and to communicate with the industry (banks and fintech associations). The insights from the research should guide the discussion of the departments involved with the goal of enforcing guidelines for mitigating potential consumer protection risks, including poor transparency, that might lead to multiple borrowing and overindebtedness.

Next Steps

The proposal starts with in-depth research to better understand the digital credit environment. A working group shall be created to gather information about the issue. Identifying who is using digital credit, the ways it is used, and the risks borrowers experience is critical for understanding the role that digital credit plays in borrowers' financial portfolios and how it affects the quality of financial inclusion.

With this analysis in hand, it is important to work together with the Regulation Department on a new regulation that accounts for the consumer protection risks involved in digital credit. The end goal should be to ensure convenient and responsible delivery of services that are responsive to the needs of underserved customers.

Notes

1. According to Global Findex data, 62% of low-income Brazilians were not financially resilient in 2021.
2. UNSGSA, "Financial Health: An Introduction for Financial Sector Policymakers," 2021.

3. Global Findex defines financial resilience as "the ability of adults to cope financially when faced with a sudden drop in income or an unavoidable expense" and measures it by asking how difficult it would be to come up with an amount equal to 5% of gross national income per capita in local currency within the next 30 days. World Bank. *The Global Findex Database 2021*.
4. Banco Central do Brasil, "Global Findex: o Brasil na Comparação Internacional," 2023.
5. A risk-indebted citizen must meet at least two of the four criteria. All four criteria listed: (1) income commitment above 50%, (2) credit default (90 days or more), (3) multimodality of credit (simultaneous exposure to personal credit, overdraft, and revolving credit), and (4) disposable income below the poverty line.
6. Banco Central do Brasil, "Endividamento de Risco no Brasil," 2020.
7. Banco Central do Brasil, "Endividamento de Risco no Brasil," 2023 (forthcoming).
8. Plano CDE, *Inclusão Financeira no Brasil*, 2022.
9. McKinsey, "O novo normal do crédito do Brasil," 2022.
10. To investigate issues regarding overindebtedness, people centered policy research was conducted to better understand the context of the problem
11. CGAP, "Consumer Protection in Digital Credit," August 2017.
12. Banco Central do Brasil, "Resolução CMN 4949."
13. Banco Central do Brasil, "Resolução CMN 5004."
14. CGAP, "Applying Behavioral Insights in Consumer Protection Policy," June 2014.
15. CGAP's "Applying Behavioral Insights in Consumer Protection Policy" report concludes that policymakers should better understand how to design and implement disclosure rules that more effectively inform and positively affect consumer choice, as well as product design, marketing, and sales practices by providers.
16. CGAP has done research in some African countries and concluded that "while digital credit can provide a great opportunity to borrow formally for business or consumption, and potentially increase resilience, survey shows the need for greater consumer protection." Eric Duflos, *Corinne Riquet*, and *Juan Carlos Izaguirre*, "Digital Credit in Côte d'Ivoire: A Double-Edged Service," CGAP, 2023.

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Mitigating Consumer Protection Risks Regarding Mobile Banking Services in Ethiopia

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Keywords: consumer protection risks, digital finance, financial inclusion

Executive Summary

Women and young Ethiopians who are users of mobile banking services are experiencing theft of funds from their accounts, theft of their personal data, and hidden fees and charges. Recent data from the National Bank of Ethiopia (NBE 2022) showed that more than 30% of complaints filed by consumers with financial institutions were related to fraud in connection with clients' accounts, unauthorized transactions, and theft of personal data. To address this problem, the recommended policy solution is to issue consumer protection directives and to support financial education efforts of digital financial services (DFS) providers in educating their existing and potential clients. Effective and efficient implementation of this policy proposal would result in improvement of the consumer's skills and knowledge about DFSs, transparency of fees and charges, protection of consumers' data, improved trust in DFSs, and increased uptake and usage of DFSs.

Problem Statement and Context

A recent report from the Federal Police Crime Investigation Bureau (FPCIB) indicated a surge in fraud cases related to mobile banking services, in which Addis Ababa alone saw thousands of registered fraud cases—22 per day (Gebre 2022). Analysis of complaints data by the NBE also showed that more than 30% of the complaints of mobile banking services were related to the theft of clients' funds from their accounts, unauthorized transactions, and breach of personal data (NBE, FIS 2022). While the FPCIB's report disclosed that the illiterate, with less exposure to DFSs, are the most affected by mobile fraud scams, the people-centered policy (PCP) research (Shifa 2022) highlighted women and young people as the most vulnerable groups for these kinds of consumer risks. Women and young Ethiopians who are users of mobile banking services are experiencing financial consumer protection (FCP) risks regarding theft of funds from their accounts, theft of personal data, and hidden fees and charges unknown to them, which potentially affect their financial health and erosion of trust in DFSs.

Key Causes

While there can be different causes that may explain the problem, insights gained from the secondary data analysis and PCP research help to identify two main causes.

(1) Lack of basic education, financial literacy, and digital experience: While the general literacy rate in the country is estimated to be 52%, women lag behind this national average, putting them at 44% (World Bank Group 2023). The National Financial Inclusion Strategy (NFIS) 2021–2025 indicated that only 14% of adults in Ethiopia reported knowledge of mobile money agents, while only 5.5% of rural adults and less than 3% of rural women were familiar with mobile money agents. While mobile ownership is considered one of the conditions to access and use mobile banking or mobile money services, women in Ethiopia are 27% less likely than men to own a mobile phone (Jeffrie 2023). A GSMA survey on mobile ownership gender gap in 2013 revealed that lack of literacy and digital skills is one of the top three reported barriers to mobile phone ownership. Another version of GSMA's Consumer Survey, Mobile Money in Ethiopia ,also revealed that only 35% of female respondents reported being aware of mobile money compared to 49% of male respondents indicating significant gender gap in terms of awareness of mobile money.The World Bank Group (WBG 2018) also showed that 90% of e-payment recipients in the Productive Safety Net Programme (PSNP) in Ethiopia reported that they relied on agents to type in their PIN code when receiving their money, showing the low level of mobile technology skills and making recipients vulnerable to financial abuse.

(2) Inadequate provisions for DFSs in the existing FCP regulations: The NFIS 2021–2025 identified consumer protection regulatory gaps in Ethiopia in the areas of disclosure of terms and conditions and protection of personal data. Moreover, discussions with interviewed providers and the regulator showed that there is weak governance of consumer protection, controls, and fraud detection systems by providers. It is understood that current financial consumer protection provisions are limited and do not adequately cover DFSs (Shifa 2023). This potentially creates incentives for financial institutions to be lenient on consumer protection practices and for third parties such as agents and fraudsters to financially harm consumers.

Potential Policy Solutions

Several sources, including the WBG and global practices and standards, are explored to identify potential solutions. In light of the problems identified above, the following policy solutions are being considered:

- To improve financial literacy by including financial literacy content in school settings. This includes integrating DFS topics in the curricula and extracurricula of primary, secondary, and tertiary levels of education;
- To issue consumer protection provisions for DFSs; and
- To develop digital financial literacy guidelines to facilitate the financial institutions' efforts to educate their customers.

Policy Solutions Bundle

From the three potential policy solutions above, the first potential solution is far from reachable, as it requires significant investment and is not feasible, at least within the short and medium term. Thus, key policy solutions that are considered to be practical are to:

Issue consumer protection provisions for DFSs. The existing regulations will be modified to adequately address areas of fraud exposure, transparency of fees, and protection of the client's data. This shall be enforced through a prescriptive directive, which will also include reporting requirements to financial institutions at regular intervals, ensured through market conduct supervision by the NBE.

Develop digital financial literacy guidelines to facilitate the financial institutions' efforts to educate their customers. The existing financial education efforts in Ethiopia focused in urban areas; they are fragmented, nonstandardized, and lack scale and reach. The NBE shall focus on the improvement and promotion of financial education efforts by issuing guidelines to financial institutions and by specifying whom to target and prioritize, where to deliver the literacy activities, and what delivery channels shall be used to ensure scale and reach.

Thus, a simultaneous implementation of these two policy solutions will have a complementary benefit; they will:

- Help women and young people to improve their understanding of and skills about DFSs;
- Through price disclosure, help consumers to understand DFSs' fees, both legitimate and illegitimate;
- By disclosing fraudulent situations, help customers and providers alike to enhance their awareness of fraudulent situations and of their responsibility in preventing them;
- Potentially ensure the confidentiality and security of the client's data; and
- Encourage financial institutions to implement strong fraud detection and data protection systems and governance and internal control systems, as well as effective recourse mechanisms.

Stakeholders and Implementation

To ensure effective and efficient implementation of these policy instruments, the following stakeholders will be considered and engaged.

Board of the NBE: The board will be leveraged to ensure policy guidance and subsequent approval of the policy solutions.

The NBE: The Central Bank will facilitate the formation of a taskforce through a consultation process; the development of terms of reference, action plans, and roles and responsibilities of stakeholders involved; and the design of policy solutions. It will also ensure that the project will have adequate resources and logistics, and it will oversee the development and implementation of these policy solutions.

The Ministry of Finance: The ministry has an interest in the financial literacy of low-income people and will be consulted, as it currently leads the National Council for Financial Inclusion and has an influential role in macroeconomic policies.

The Ministry of Innovation and Technology: This institution will be engaged, as it is a key player in the development of e-commerce and currently running initiatives on digital literacy.

Fintech associations: These will act as a delivery channel for DFS literacy projects and for use of social media of the proposed policies.

Financial sector associations: These will be engaged to facilitate policy dialogue and design and to ensure the required investment for implementation of the policy solutions by financial institutions.

As a next step and to initiate the project, I will develop a concept note on the need for the development of financial consumer protection and financial literacy interventions for DFSs. This will be discussed internally with various departments through workshops and discussions. Additionally, after leveraging and obtaining further input from existing working group members for financial inclusion, the concept note will be submitted to the governor for further discussions between the governor and the executive management of the NBE. Subsequent tasks in the input side of the Theory of Change include: the formation of a taskforce through a consultation process, conducting a detailed diagnostic study on DFS protection and literacy, and validating findings through workshops, followed by endorsement and socialization of the policies. The entire process will be completed within one year.

Key Indicators of Change

The following key indicators will be tracked over time, while granularity in terms of geography and demography will be ensured. Associated data collection templates will be designed and form part of issued financial consumer protection and financial literacy guidelines. Key indicators will be:

- Percentage of adults with understanding of and skills in digital finance;
- Percentage of mobile banking and money fraud instances reported to financial institutions in relation to theft of money, hidden fees, and breach of personal data; and
- Percentage of complaints resolved within the time set by the NBE.

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Digital Financial Services

Establishing a Fintech Innovation Hub in Mongolia: Unlocking a Smart and Inclusive Financial System

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Keywords: accessibility, financial services, financial fraud

Executive Summary

The incidence of financial fraud in Mongolia is increasing, eroding trust in the financial system. There are several factors contributing to this problem, including limited investment opportunities, insufficient financial education, and a lack of accessible and reliable financial services. To tackle this issue, the proposal is to establish a fintech innovation hub. This hub would utilize technology and foster collaboration among various stakeholders with the goal of bolstering security measures, advancing financial literacy, and expanding access to secure financial services.

Problem Statement and Context

The occurrence of financial fraud cases in Mongolia has seen a concerning increase since 2020. Shocking statistics reveal that in 2022, one out of every four crimes reported to the national police agency was related to financial fraud.[1] However, accurately determining the total number of victims and instances of fraud remains challenging, as many incidents go unreported—unless the victim steps forward to report them.

Estimating the overall financial losses due to fraud is difficult because of the lack of available statistics. Nevertheless, in one notable case in Khuvsgul province, the northernmost region of Mongolia, it is estimated that approximately 2,500 individuals, which accounts for 20 percent of the town's total population, suffered losses totaling around 250 billion MNT.[2] Heartbreakingly, some victims claim to have lost their entire savings, including funds intended for their children's education and homes and money set aside for urgent healthcare expenses.[3]

Furthermore, during interviews with six individuals, four of them disclosed that they had personally encountered some form of financial fraud, such as Ponzi schemes and suspicious cryptocurrency activities of unknown origin.[4] These findings clearly demonstrate that financial fraud has become a significant concern within the country, eroding the trust and confidence of individuals in the financial system. The rising incidence of financial fraud underscores the urgent need to address the existing vulnerabilities in Mongolia's financial system. It calls for proactive measures to enhance the security and integrity of financial transactions, protect the rights of consumers, and foster a trustworthy environment for financial activities.

Key Causes

A person's involvement in financial fraud activities may be motivated by various factors, including their financial circumstances, the availability of financial resources and services, their perception of financial systems and institutions, their desire for long-term financial security for their families, and their psychological traits.[5] During interviews, individuals mentioned that they were attracted to fraudulent investment opportunities in part due to easy access and lack of awareness. Additionally, they hoped to generate profits by investing their available cash or cash equivalents.[6]

Prior to the COVID-19 pandemic, people in Mongolia typically favored saving their surplus income rather than investing in financial markets.[7] But the conditions brought by the pandemic prompted the Mongolian government and the central bank to implement expansionary policies that resulted in an overall increase of money supply and reduced interest rates. As a result of these policies, individuals now had more cash or cash equivalents to invest.

Based on observations, it can be hypothesized that these market conditions, combined with limited financial and digital literacy, likely contribute to individuals engaging in fraudulent financial activities.[8] The absence of easily accessible and secure financial services may drive some individuals to take greater risks with their money, even if they do not fully comprehend the potential consequences. The combination of limited investment options, inadequate financial education, and a lack of accessible and secure financial services created an environment where individuals were vulnerable to falling victim to fraudulent schemes.

Potential Objectives

Several policy objectives can be implemented to address the key issues and root causes behind financial fraud in Mongolia. The following are a few solutions that could fall under the direct jurisdiction of the Financial Regulatory Commission of Mongolia:

1. Develop an efficient regulatory response and mechanism: proactively preventing emerging forms of financial fraud.
2. Promote digital and financial literacy: empowering individuals with the necessary knowledge and skills to discern between fraudulent activities and legitimate financial services.
3. Expand the range of secure and accessible financial services: ensuring that people in Mongolia have access to a diverse range of attractive, secure, and easily accessible financial service options. By expanding the availability of reliable financial services, individuals should have increased confidence in the system and be less susceptible to fraudulent activities.

Priority Objective and Proposed Solution

One possible solution to reduce people's involvement in financial fraud activities, restore public trust in the financial system, and improve financial well-being is to provide easily accessible, secure, and legitimate financial services inclusively. By expanding the range of secure and accessible financial services through innovative technologies, overall trust, reliability, and inclusivity within the financial ecosystem can be enhanced. This will enable individuals to make confident and informed financial decisions.

To achieve this, the proposed policy solution is to establish a fintech innovation hub. The prioritization of a fintech innovation hub stems from its potential to not only promote secure and inclusive financial practices but also enhance financial literacy, expand investment opportunities, and improve the overall financial well-being of the Mongolian population. Moreover, the development of a fintech innovation hub can be facilitated by expanding the current sandbox regulation and leveraging the existing capacity and work experience of the team involved, as well as the political support from the Sandbox Committee members.

Policies/Implementation Plan

In order to operationalize the policy solution, several preliminary and consultative meetings will be conducted within the Financial Regulatory Commission of Mongolia, as well as with external stakeholders such as the Sandbox Committee, the Financial Stability Committee, internal organizations, and potential donor organizations. The purpose of these meetings is to introduce the policy solution, foster collaborations for policy implementation, and explore financing options.

Once the team receives support from stakeholders, the following activities can be implemented:

No.	Activity	Description	Timeline	Responsibility
1	Stakeholder engagement and feasibility study	Conducting a feasibility study of the hub; engaging with relevant stakeholders.	Months 1–3	The project team and other relevant stakeholders
2	Design and development of innovation hub	Designing and developing the hub framework. The existing regulatory sandbox will be integrated into the hub.	Months 4–9	The project team and other relevant stakeholders
3	Recruitment of hub management team		Months 10–12	The project team and other relevant stakeholders
4	Launch of the fintech innovation hub		Month 13	The project team, hub management team, and other relevant stakeholders
6	Incubation and acceleration programs	Providing incubation and acceleration programs for fintech companies. The regulatory sandbox program will also run at the hub.	Months 14–36	Hub management team and external consultants
7	Ecosystem development and promotion	Organizing promotional activities, including capacity-building programs, competitions, and networking opportunities to attract investment and talent to the sector.	Months 14–36	Hub management team and industry partners
8	Monitoring and evaluation	Collecting key performance indicators; monitoring and evaluation.	Throughout the project	The project team and other relevant stakeholders

Stakeholders

The Financial Regulatory Commission will be the leading stakeholder of the policy, with the support of the Sandbox Committee and the Financial Stability Committee of Mongolia. Below, the main stakeholders' participation in the policy is briefly stated:

1. The Financial Regulatory Commission of Mongolia will lead the policy by appointing the project implementation team and drafting the feasibility studies, the operational framework and design of the hub, etc. Moreover, it will be responsible for the logistical and communication work related to operationalization of policy.
2. Steering committees in the financial system: The Sandbox Committee will support the policy by providing its guidance and consultation, as well as devoting its members' political support. The Financial Stability Committee will support the policy by allowing an official mandate to run the innovation hub, will oversee the financial system's whole picture, and will provide its guidance and consultation.
3. International organizations, academicians, researchers, and universities: Their expertise, guidance, and support can contribute to designing the hub and its acceleration programs and to generating knowledge that supports the objectives of the fintech innovation hub.

4. Financial service providers and innovators: Financial service providers, including traditional financial institutions and fintech startups, are key stakeholders in the establishment of the fintech innovation hub. They have a direct interest in the establishment of a fintech innovation hub, as it would impact their operations and the services they offer.

Key Indicators of Change

To effectively monitor and evaluate the progress and impact of establishing a fintech innovation hub in Mongolia, the following key indicators can be used:

1. Number of innovative solutions, successful start-ups, and investments made into financial innovations;
2. Adoption and utilization of a regulatory sandbox;
3. Digital and financial literacy rates;
4. Financial inclusion metrics;
5. Number and quality of regulatory policies;
6. Number and successful implementation of collaborative actions and partnerships; and
7. Economic impact, such as job creation, investments, and financial sectors growth.

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Balancing Access and Regulation: A Self-Regulatory Framework for Financial Services in Uganda

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Keywords: underground economy, consumer protection, anti-money laundering

Executive Summary

The population of Uganda, including a significant portion of adults without access to formal bank accounts, is at risk of being defrauded and engaging in money laundering. There is a need to strengthen preventive measures against financial crimes, while also reducing the associated regulatory barriers to customer acquisition and engagement by financial institutions. The proposed solution is the establishment of a mandatory framework of self-regulatory bodies (SRBs) with prudential obligations, through amendments to Uganda's 2013 Anti-Money Laundering Act (AMLA).

Problem and Context

Peter's business collapsed after he lost a big investment to a fraudulent company.[1] He was afraid to contact the authorities because he had invested in a company that wasn't licensed to sell cryptocurrencies and because he didn't want to disclose the source of the funds he invested. He took out a loan using his home and invested it together with cash and mobile money collections from friends, relatives, clients, and business associates that he is hesitant to name. Peter is now struggling to pay back some of his creditors and sometimes has to solicit handouts to be able to feed his family.

Lured with promises of very high and tax-free investment returns, some Ugandans[2] have fallen victim to fraud, pyramid schemes, and online scams operated by unregulated service providers. These providers purport to use cutting-edge digital technologies to provide innovative savings and investment products, such as cryptocurrencies and early-bird access to new models of improving personal financial health. There is no legislation to explicitly prohibit the activities associated with Ponzi and pyramid schemes. Third-party accounts indicate that the victims are from diverse backgrounds, even financially included persons, such as members of law enforcement and the legislature (e.g., at least 13.5 billion UGX was lost by 3,000 individuals to Global Finance in 2017, and at least 12.6 billion was lost by 2,500 individuals to Dunamiscoins in 2019).[3,4]

Key Causes

The following factors contribute towards the complexity of implementing effective, risk-based supervision to protect the integrity of Uganda's financial system against financial crime.

Financial Exclusion in Uganda

- About 34% of adults in Uganda do not have access to a formal bank account.[5] They are financially excluded and therefore considered to be more vulnerable because they lack safer alternatives.
- About 70% of unbanked adults are rural dwellers; this is higher than the average rate in sub-Saharan Africa, at 62%.
- Lack of required documentation to maintain a bank account is cited by 50% of unbanked adults (17% of Uganda's adult population),[6] while the global average for financial exclusion due to the same reason is 27%. Uganda compares only with Tanzania (50%) and Colombia (43%).

- Compliance with excessive anti-money laundering regulations has been cited as an obstacle to financial inclusion. This is mostly reported as the lack of documents required to open and maintain a bank account, or high know-your-customer (KYC) requirements. However, this reason alone does not explain why even financially included persons fall victim to scams.
- It was also reported in a survey that giving free bank accounts to previously unbanked adults in Uganda to expand access had no impact on savings or welfare,[7] and this led to the suggestion that policies, products, and incentives to increase the use of accounts be adopted for better development outcomes.

Informal Financial Services: Increasing access to bank accounts and other formal financial products and services improves the traceability of transactions, and this is the basis of transaction monitoring to detect financial crime. However, Uganda has an 80% informal or shadow economy, with its tax base dependent on the remaining 20%, the formal sector.[8] The ubiquity of cash-based and informal financial services provides opportunities for illegal financial transactions, even in the formal sector, under the cover of anonymity and/or false identity. This fosters an underground economy.

Regulatory Void: The new technologies and transaction options designed by unregulated vendors to avoid regulatory scrutiny create significant consumer protection concerns. "Fintech firms and their new business models are not respecting regulatory silos"[9] and take advantage of the lack of knowledge and supervisory capacity to conduct illegal operations.

Lack of Relevant Data: Industry competition maintains the status quo of very low interoperability amongst vendors, with the result being that the data available is inadequate to support proportionate risk-based supervision. For example, one assumption, that agent banking would lower the costs of banking services in rural areas,[10] is yet to be tested.

Potential Solutions

Tiered KYC: This policy option has been recommended as an amendment to the 2015 Anti-Money Laundering Regulations using the ML/TF[11] National Risk Assessment as guidance,[12] to allow the financial institutions to implement a risk-based approach to KYC/customer due diligence.

Fraud Reporting: Information about fraud incidents reported by financial intermediaries can be very valuable towards the design of proportionate preventive measures against financial crimes. It has been reported that the central bank is intends to make fraud reporting mandatory for all financial institutions.[13]

Consumer Protection Law: The 2022 Competition Bill was developed to protect consumers from unethical trade and market activities, such as the offering of unrealistic returns on financial investments to the public.

Industry Self-Regulation: As an amendment to the AMLA, to authorise industry self-regulation and tiered supervision of financial intermediaries for anti-money laundering/combating the financing of terrorism (AML/CFT) purposes.

Proposed Policy

The fourth potential solution, industry self-regulation, appears to be a more practical approach to supervision, whereas the other three options are already being addressed. The monitoring of financial activity at a granular level is more valuable than relying solely on tiered KYC. A framework of tiered risk-based AML/CFT supervision through SRBs is therefore the chosen strategy to implement proportionate regulation.

In this context, tiered supervision entails separating financial institutions "into those that can be directly supervised by the central bank and those that should be supervised indirectly through self-regulating umbrella associations."[14] SRBs act as a custom risk support/management mechanism for member institutions, as platforms for educating and informing each other, and as forums for interacting with regulators and other stakeholders. The SRBs will be of value in mobilising collective action against financial crime, using pooled resources from member institutions: e.g., RegTech centres, centralised KYC centres. This will reduce the inefficiencies in supervision arising from resource constraints encountered by the regulators.

Key Stakeholders and Implementation

The policy proposal will be presented to the Virtual Assets Working Group and the management at the Financial Intelligence Authority, the Technical Working Group on Blockchain Technologies at the Central Bank, the National AML/CFT Taskforce, and the National Inter-Institutional Committee on Financial Inclusion.

The proposal will include:

1. Defining and designating SRBs as reporting entities in the AMLA;
2. Allowing tiered AML/CFT supervision, through SRBs, of all reporting entities by regulators;
3. Requiring all reporting entities to register with the SRBs relevant to their particular industry;
4. Determining the tiers of AML/CFT supervision; and
5. Conducting a pilot study in a regulatory sandbox.

Risks and Mitigations

Some regulators may seek exemption from the model of tiered supervision. To resolve this, the model will be applied on a case-by-case basis, with pilot studies in a regulatory sandbox. In addition, international standards may prevent hesitant to permit self-regulation by cryptocurrency traders.

Indicators of Change

The policy shall be monitored through the online collection of data on fraud incidents and the costs of regulatory compliance by the Financial Intelligence Authority, other government agencies, and private stakeholder groups, especially financial intermediary associations. The quarterly surveys will consolidate information from both the demand and supply sides.

Demographic and contextual data will inform about the human experience and implications of fraud in Uganda. A more granular focus on the utilisation of different financial services and products will increase our knowledge of the impact on inclusion; a more accurate count of the losses made and recovered will indicate the regulatory impact on financial health in Uganda. The development of informal public-private information sharing and legal instruments authorising voluntary or required disclosures will act as evidence of progress in this endeavour.

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Lebanon's Innovation Office: Embracing the Marginalized through Advancing Digital Financial Inclusion by Nonbank Financial Institutions

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Keywords: alternative finance, banking crisis, digital financial services, fintech, innovation, non-bank financial institutions

Executive Summary

Since the October 2019 revolution, Lebanon has suffered from a severe banking crisis. Due to restrictions on withdrawals, transfers, and credit, customers' trust in the traditional banking system has crumbled. Financial exclusion increased by more than 50% between 2017 and 2021. In these exceptional times, the provision of innovative digital finance solutions through non-bank financial institutions (NBFIs) could play a catalyst role for financial inclusion. My policy solution is to create an innovation office. Powered by four interactive digital platforms—for enablers, innovators, investors, and customers—it will be the agency in charge of developing a national fintech strategy and foster customers' confidence, financial capabilities, and protection.

Problem Statement and Context

In 2019, Lebanon was hit by a severe economic and financial crisis.[1] An ongoing dual public deficit, in fiscal and trade balances, and a government liquidity crisis (sovereign debt default) have shaken the economy. Inflation has rocketed, and the Lebanese pound (LBP) depreciated by more than 60 times between 2019 and 2023.[2] These combined shocks have led to a significant decrease in living standards and to extensive deprivation.[3]

After lending extensively to the government, banks in Lebanon stumbled into the biggest banking collapse in the country's history. Consequently, depositors have been deprived of their hard currency savings or forced to withdraw them in LBP at a heavy loss.[4] Banks have also imposed strict restrictions on the usage of basic financial services, such as withdrawals and transfers, as well as stringent credit rationing. In addition, the COVID-19 pandemic, the explosion of the Port of Beirut in 2020, lack of economic reforms, and political tension have exacerbated the ongoing, severe, multifaceted crisis. According to the 2021 Global Findex, 48.15% of adults declare having experienced, or being very worried about experiencing, severe financial hardship.

Table 1. Economic data, Lebanon (World Bank)

	2017	2021	Change
GDP (USD bn)	53	23.1	–56%
GDP per capita (USD)	8,680	4,136	–52%
GDP (LBP tn)	79.9	271.9	240%
Economic growth (GDP, ann. var. %)	0.8	–7	–975%
Inflation (CPI, ann. var. %, aop)	4.4	154.8	3,418%
Fiscal balance (% of GDP)	–7.1	0.8	–111%
Public debt (% of GDP)	150	100.4	–33%
Current account balance (% of GDP)	–22.9	–14.7	–36%

Key Causes

The Lebanese population no longer has access to basic financial products and services.[5] As a result, trust in the traditional banking system has shattered, and there is a widespread wave of voluntary and involuntary financial exclusion (Table 2).

Table 2. Financial inclusion indicators (WB Global Findex and IMF Financial Access Survey)

	2017	2021	Change
Bank account ownership	44.5%	20.7%	–53%
Borrowing from a formal financial institution	22.62%	3.31%	–85%
Savings in a formal financial institution	21.2%	2.59%	-88%
Outstanding deposits with commercial banks (of GDP)	251.26%	72.82%	–71%
Outstanding loans from commercial banks (of GDP)	100.79%	17.38%	–83%

Individuals and MSMEs do not have accessible, reliable, compatible, or affordable alternatives to fulfill their financial needs.[6] Because of the unfavorable regulatory environment, NBFIs are rare and provide a limited range of products and services. Political instability and lack of data make it difficult for NBFIs to grow and reach sustainability, due to their inability to raise enough funding.

Potential Objectives

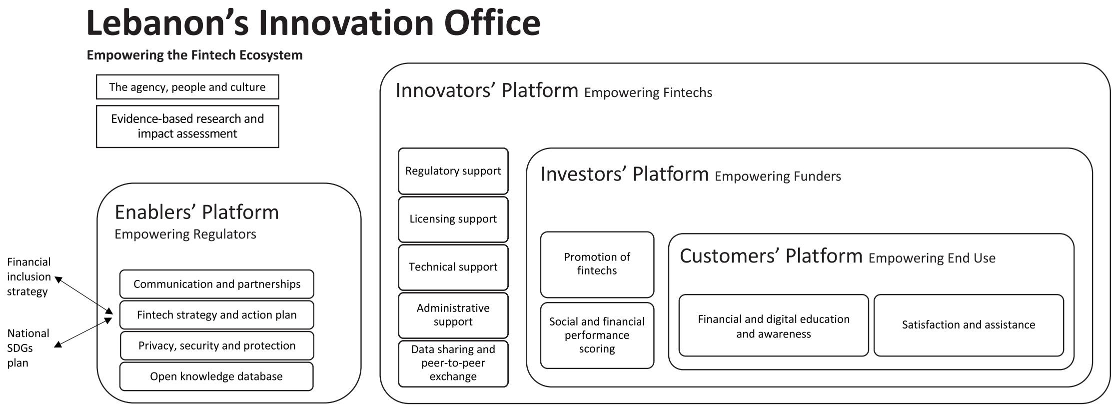
The introduction of responsible, innovative digital finance solutions by NBFIs could play a catalyst role for financial inclusion and turn around the trust crisis. There is a need for, firstly, allowing NBFIs to provide a broader range of products and services, including digital financial services (DFSs); secondly, for encouraging synergies among stakeholders to better reach marginalized populations; thirdly, for helping NBFIs promote their innovations and raise the necessary funding; and finally, for developing financial education and consumer protection mechanisms to help foster trust and confidence in the new financial sector.

In the present situation, the need for responsible alternative finance is gaining momentum, offering an opportunity for fintechs and MFIs to prove they can provide reliable, user-friendly, widely available, and inexpensive DFSs.

Policy

My policy solution is to establish Lebanon’s Innovation Office (LIO). LIO will be devoted to developing and empowering a dynamic fintech ecosystem, powered by solid executive championship. LIO will promote continuous cooperation and communication with all stakeholders, including policymakers and regulators, infrastructure ministries and providers, investors, beneficiaries, existing companies, and innovators/entrepreneurs from various industries, including banking, finance, insurance, ICT, and security.

Figure 1. Lebanon's Innovation Office (LIO)



Project Deliverables

1. **Establish LIO** within the Banque du Liban (BDL).
2. **Develop a fintech strategy and action plan** in accordance with BDL's Financial Inclusion Strategy.
3. In order to keep up to date with current international solutions and business models, including monitoring of cybersecurity, data privacy and protection, AML/CFT measures, international standards, and best practices, LIO will **develop an enablers' platform**. The enablers' platform will disseminate security reporting and organize communication and collaboration among the ecosystem's stakeholders. This platform will also maintain an open knowledge database, accessible to all concerned stakeholders, and will foster data sharing, peer-to-peer exchange of experience, exchange of best practices, API development and incorporation, etc.
4. **Develop an innovators' platform** (with chatbots) to guide innovators, respond to their inquiries, recruit collaborators, find partners (fintechs, MFIs, banks), etc. The innovators' platform will allow LIO to attract local and foreign innovators and promote synergies with incumbents, by acting as a policy support agency, proposing and testing proactive regulations and various incentives.
5. **Develop an investors' platform** to help innovators grow and raise funding by showcasing and promoting their profiles internationally and to provide a robust scoring mechanism and data dashboard that assesses their social and financial performance, which could be especially relevant to potential investors in the current trust crisis.
6. **Develop a customers' platform** that promotes customer-centricity. This platform will increase customers' financial and digital capacities through financial edutainment content and an interactive reporting system. The reporting system will have a dual benefit: on the one hand, it will provide LIO with data about consumers' needs and aspirations, experience, and feedback, and on the other hand, it will assist consumers in cases of breach of consumer protection principles and put them in contact with the appropriate consumer protection entities.
7. **Measure key performance indicators** through nationwide surveys and digital data-collection mechanisms, to facilitate monitoring and evaluation. Also, develop research papers in partnership with reputable research institutes.

Implementation Approach

LIO's holistic solution is likely to engage multiple key players in the fintech ecosystem, with different levels of interest and influence—well beyond the scope of a sandbox—and thereby give them a proportionate share of liability and profit (Figure 2). More than 35 stakeholders have been identified, including those internal to the Banque du Liban and external stakeholders ranging from potential clients (citizens, refugees, MSMEs) to public sector institutions (e.g., Financial Intelligence Unit, Ministry of Finance, Ministry of Telecommunication), the private sector, and the international community.

LIO will be powered by four integrated digital interactive platforms that will emerge from a unified portal in a proactive and gradual approach.

Project Roadmap

Phase 1 (months 1–6): Authorize, establish, and launch LIO
- Prepare chart, processes, procedures, initial budget
- Obtain authorization to establish LIO
- Recruit and train LIO head and staff

Phase 2 (months 7–12): Build and launch the enablers' platform
- Set up a high-level championship committee among enablers
- Coordinate collaboration with enablers for drafting the fintech strategy
- Map, establish, test, and assess the enablers' platform

Phase 3 (months 7–18): Build and launch the innovators' platform
- Survey and communicate with existing and prospective fintechs
- Build a knowledge-based platform to facilitate the journey of innovators
- Incorporate into the platform a matching system to encourage partnerships with incumbents

Phase 4 (months 13–24): Build and launch the investors' platform
- Survey and communicate with potential investors and sponsors
- Research, build, and test the scoring system
- Build promotional profiles to increase innovators' exposure

Phase 5 (months 19–30): Build and launch the customers' platform
- Survey and research customers' needs and aspirations
- Develop financial edutainment content
- Build an interactive reporting system

LIO's platforms will be adaptable, dynamic, modular, and data-driven. Key performance indicators will be collected and analyzed from each platform, allowing for continuous monitoring and evaluation of the social and financial impacts of LIO.

Key Indicators of Change

- Number of incentives offered to attract innovators (local, regional, and international)
- Number of accepted applicants of viable, innovative solutions that aim to promote financial inclusion
- Number of viable, innovative solutions that aim to achieve SDGs (by goal)
- Number of entrepreneurs and companies assisted
- Number of upgrades to fintech regulations enacted
- Number of new companies licensed
- Number of successfully concluded innovator-incumbent matching projects
- Number of companies that are financially sustainable after 12, 24, 48, and 96 months
- Number of clients using new DFSs

Theory of Change Assumptions

- Rich human capital (innovators): Knowledge-intensive, qualified, entrepreneurial, innovative, multilingual, and cost-competitive.
- Regulatory infrastructure in place (enablers): Relating to authorizing and controlling electronic financial and banking operations and regulating digital signatures, as well as licensing

and controlling institutions that perform electronic transfers of cash; BDL plans to launch a digital lira (CBDC).

- BDL is likely the catalyst body (enablers): Since 2013, BDL has been a pioneer in and an enabler of the knowledge economy and digital and technological innovation, through credit incentives (subsidized loans), equity financing schemes (Intermediate Circular 331), crowd-funding regulation, an annual international innovation event (BDL Accelerate).
- Demand for the solution (customers): Young adults, millennials, and the tech-savvy aspire for customer-centric DFSs. With successive lockdowns, most welcome the digital transformation stream.

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Financial Health

Beyond Access: Enhancing Financial Health of Households in Kenya through a Financial Inclusion Strategy

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Keywords: financial inclusion strategy, overindebtedness, financial education

Executive Summary

Survey findings reveal that, despite 9 out of 10 adults (83 percent) having access to formal financial services in Kenya, only 2 out of those 9 adults (17 percent[1]) are financially healthy, meaning that they are capable of meeting day-to-day needs, investing in their future, and have access to emergency funds to deal with life shocks. The status of financial health in Kenya sharply declined from 46 percent in 2016 to 17 percent in 2021, despite access to formal financial services expanding from 75 percent to 84 percent in the same period. These results raise the fundamental question of why an increasing level of financial access is not leading to expected improvement in the financial wellbeing of Kenya's adult population. The decline of financial health is attributed to various factors, including low levels of financial capability, evidenced by high levels of household indebtedness and low levels of household savings, and a high prevalence of irresponsible credit providers.

This policy memo proposes to address the challenge of the declining status of financial health in Kenya through developing a national financial inclusion strategy (NFIS). The NFIS will offer a starting point for addressing the financial health problem, largely by providing a coordinated approach among the various stakeholders that are engaged in promoting household savings and financial inclusion targets and strategies.

Problem Statement and Context

Kenya prides itself as a leader in mobile money, which has leapfrogged access to formal financial services. Over the years, access to formal financial services for the adult population has expanded threefold, from 26 percent in 2006[2] to 75 percent in 2016 and to 84 percent in 2021. This expanded access to formal financial services was expected to result in improved welfare for consumers. However, financial health, as measured using a multidimensional financial health index (MFHI)[3] to gauge the financial health of adults, shows a decline from 46 percent in 2016 to 17 percent in 2021. The remaining 83 percent of the adult population in 2021 was found to be financially unhealthy, meaning that they are facing major difficulties in meeting day-to-day needs, like buying food; investing in the future through savings; and accessing funds for dealing with emergencies such as major sickness. This has led to major policy questions attempting to evaluate why financial health has sharply declined amidst expanding access to financial services.

The declining status of financial health in Kenya has been attributed to various factors,[4] including:

- Low levels of financial capability among vulnerable populations, evidenced by high levels of household indebtedness and increased incidences of irresponsible household betting, all of which results from poor financial planning;
- Low levels of household savings, reducing resilience against financial disruption caused by unexpected shocks and emergencies;

- High prevalence of irresponsible credit providers that offer multiple credit products to vulnerable populations;
- Decline in household income from various types of livelihoods, such as the decline in agricultural productivity; losses of jobs, especially during the COVID-19 pandemic period; and business income decline from toughening business environments; and
- Rising costs of living due to the persistence of high inflation levels, resulting from both domestic and external factors.

Possible Solutions

Addressing the drivers that cause declining financial health requires various types of policy solutions. For example, the prevalence of irresponsible credit providers among unregulated digital credit providers (DCPs) led to the expansion of the Central Bank of Kenya's (CBK's) mandate to bring all DCPs under the purview of prudential regulation. This provision aimed at taming irresponsible digital credit, hence partially addressing the issue of high levels of household indebtedness. Additionally, the challenges of rising costs of living and declining household income require policies to help improve the quality of livelihoods through better jobs, tempered business environments, and improved agricultural productivity; these challenges are being addressed by other policy agencies within their respective mandates.

Priority Solution Bundle

This policy memo seeks to address the issues of low financial capabilities and low levels of household savings through the development of a national financial inclusion strategy (NFIS).

Low levels of financial capability among the youth and among women are attributed to factors such as culture, access to education, deceptive advertising, and low awareness of financial products and financial institutions. The low level of financial capability in Kenya is evidenced by the high level of household indebtedness (the 2021 FinAccess Survey[5] shows that in that year, only 42.6 percent of borrowers were able to settle their maturing obligations in time, while 10.7 percent of borrowers completely defaulted on their loans), largely driven by poor financial planning and multiple incidences of borrowing from various credit providers. Largely, these credit providers offer easily accessible, high-priced credit services. Many of these credit services are marketed as innovative solutions offering short-term liquidity, targeting vulnerable Kenyans with limited financial capabilities. At the same time, multiple betting and gambling firms have emerged and irresponsibly target the vulnerable youth through mobile money rails. The 2021 FinAccess Survey also found that 13.9 percent of Kenya's adult population is actively engaged in betting. The average amount used for betting declined to 939 KES (10 USD) in 2021, compared to 2,559 KES (16 USD) in 2019.[1] Gullible youth with high hopes of winning engaged in betting—the majority using borrowed funds—further worsening the high level of household debt. The high level of debt made it impossible for these households to accumulate enough savings for future emergencies and for capital accumulation.

Currently, many financial sector actors have initiatives promoting financial inclusion and health, but in the absence of an NFIS, these initiatives are disjointed and lack strategic focus. The development of an NFIS will help provide focus and reduce unplanned gaps and unnecessary duplication, which adversely affect the impact of these initiatives in driving financial inclusion and health.

Developing an NFIS is not the only policy solution for addressing the financial health challenge in Kenya, but it will offer a starting point for addressing it, largely in two ways. Firstly, the NFIS will provide a coordinated approach among the various stakeholders engaged in promoting financial capability in Kenya, to roll out consumer literacy programs targeting schoolchildren and adults that help them build the necessary skills to make better financial decisions. Secondly, the NFIS will develop national financial inclusion targets and strategies for policymakers; the framework provided by the NFIS will guide policymakers in implementing regulatory guidelines that promote responsible financial services to Kenyans. Additionally, the inclusion strategy will provide targets for increasing household savings and the status of financial health, as well as ways to achieve those targets. This will help achieve the Kenya Vision 2030[6] aspiration of having an inclusive, stable, and financially healthy society.

Empirical studies[7] show that more than 60 countries have committed themselves to increase access to various financial services in recent years. To achieve this commitment, since 2014, many countries have been developing national financial inclusion strategies. Development and implementation of such strategies[8] has been found to have a positive impact on economic development in all its dimensions, including promoting financial health for citizens. Therefore, the successful development and implementation of an NFIS in Kenya is expected to lead to a higher level of financial health by promoting financial capability, leading to households responsibly using credit and saving products. This will include higher household saving levels resulting from the usage of saving products that meet households' needs and enhance their ability to absorb emergency financial shocks by providing necessary buffers.

Next Steps and Implementation

Developing and implementing an NFIS will require close collaboration with both internal and external stakeholders.

The first step involves seeking internal stakeholder buy-in within the Central Bank of Kenya (CBK). As internal validation within the CBK is achieved, this memo will be shared with external stakeholders. Validation within the CBK will be achieved by undertaking capacity building, coaching, and mentorship for staff to help them fully understand the challenges of declining financial health and possible policy solutions, and it will be furthered by organizing seminars and presentations, as well as utilizing any available space for formal discussion. Once the memo has gained institutional ownership, it will become a priority for the CBK.

The second step will involve the CBK seeking external stakeholder buy-in, including consultation with key industry thought leaders in the financial sector, before submitting the draft to the Ministry of Finance (MoF), which is the parent ministry for the financial services sector. External stakeholder engagement will include:

- Other financial sector regulators in the insurance, SACCO, pensions, and capital markets
- MoF and other relevant ministries, like the Ministry of Education
- NGOs dealing with financial sector issues
- Development partners (e.g., World Bank, IMF)
- Banking and telco industry associations (e.g., KBA, GSMA, the Kenyan FinTech Association)
- Other government agencies, such as Competition Authority of Kenya, Kenya Institute of Curriculum Development, the attorney general's office, and the data protection commissioner
- Credit providers (banks, SACCOs, telcos)

The third step in the development and review of the draft NFIS includes the MoF submitting the draft NFIS to cabinet for undertaking all necessary approval and launch of the NFIS.

The fourth step is implementation and monitoring of the NFIS. The CBK will be proposed as the secretariat to the NFIS monitoring unit.

Notes

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Financial Education Guide for Enhanced Usage of Financial Services in Tanzania

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Keywords: financial literacy, financial risk, technological innovation

Executive Summary

Tanzania has experienced remarkable growth in the financial sector, mainly driven by technological advancements in the development and delivery of sophisticated financial products and services.[1] However, increased sophistication of products and services in the market, including digital credit, investment funds, and derivatives, outpaces the financial literacy of most Tanzanians, resulting in low levels of usage of financial products and services. Most people continue to use traditional, unsophisticated, basic products that provide limited options, hindering their chances of improving their lives. According to a World Bank study (World Bank 2018), 74% of Tanzanians have limited knowledge and skills for making well-informed financial decisions. Therefore, there is an opportunity for developing a Financial Education Guide, a content tool to be used by accredited academic institutions and certified financial educators when delivering financial training programmes.

Problem Statement and Context

Despite increased access to financial services brought by the massification of mobile money services, whereby 86% of adults in Tanzania live within a 5 km radius of a financial services access point, still, the majority of Tanzanians lack the necessary knowledge and skills to optimize their use of these services to effectively improve their livelihoods.[2] The results of the study conducted by the Financial Sector Deepening Tanzania (FSDT) trust in 2017 indicated that only 13% of adult Tanzanians were financially literate at varying degrees, with relatively higher levels of usage of financial services than those with low financial literacy. Furthermore, the study stated that 16% of men and 9% of women in Tanzania were financially literate. In addition, the study indicated that 8 out of 10 individuals with lower levels of education had lower levels of financial literacy. The results of this study show that low financial literacy leads to poor financial decision-making, manifested through poor budgeting skills, a pattern of low savings, and a lack of awareness of orchestrated scams and fraudulent acts by corrupt institutions and individuals. In addition, most individuals find it challenging to understand the fine print of terms and conditions of financial products and services, consequently becoming victims of fraudulent activities or facing overwhelming legal obligations. The resultant effects are deterioration of household income, loss of trust in the financial sector, and failure to achieve their financial goals.

The findings from my people-centered policy research indicate that 7 out of 10 individuals have low financial literacy.[3] The recent case of my neighbour attests to the results of my research: oblivious of the loan terms and conditions in fine print, my neighbour paid unreasonably high interest rates and consequently lost a house bought using savings amassed for more than ten years.

Key Causes

The key causes of the low level of use of financial products and services by most of the population of Tanzania are low financial literacy, low public confidence in financial services providers, and high incidences of fraud. The root causes are as indicated below:

- **Lack of a financial education coordination mechanism:** There is not a well-stipulated coordination mechanism used by financial sector regulators for the delivery of financial education programmes. As a result, each financial sub-sector regulator (banking, insurance, capital markets, pensions, and microfinance) conducts financial education programmes in their respective sub-sector. This process is highly costly, as opposed to running holistic financial education programmes encompassing the five sub-sectors.
- **Inadequate financial education programmes by financial services providers:** Most financial institutions mainly focus on profit maximization and thus prioritize promoting their products and services rather than providing financial education. As a result, most customers' financial understanding remains rudimentary as to making informed decisions in using financial products and services (7 out of 10 individuals have low financial literacy).
- **Lack of sufficient budget for financial education programmes:** The budget available for public awareness campaigns and sensitization sessions is limited. As a result, most individuals have little understanding of existing products and services so as to make informed financial decisions.
- **The rapid growth of financial services technologies and innovations:** The fast pace of adoption of advanced technologies by financial services providers in the design and delivery of financial products and services outpaces that of the market's literacy. The fast pace of incoming sophisticated products and services is unmatched by the consumer's understanding of them; hence, consumers end up subscribing to products about which they are not well informed and eventually suffer unexpected damages.

Potential Solutions

The proposed potential solution bundles are as follows:

1. Increase the use of financial products and services by increasing the knowledge and skills of people through the delivery of financial education programmes.[4]
2. Increase public confidence in the financial services providers by enhancing complaints handling and redress mechanisms.
3. Mitigate incidences of fraud from financial services providers by enforcing regulations and guidelines.

Priority Solutions Bundle and Implementation

From the solutions bundles mentioned above, the focus will be on implementing the first bundle. The first bundle stands out because financial literacy is a precursor to using financial products and services, and a significant proportion of the population of Tanzania has low financial literacy. Well-informed customers will then use the available products and services and be capable of raising complaints or reporting irregularities observed in the delivery of those financial products and services.[5]

Implementation of the abovementioned proposed solution shall involve the following instruments for increasing financial literacy:

- **Issue a Financial Education Guide:** This could be achieved by conducting stakeholder workshops with the Ministries of Finance and Education, academic institutions, and financial regulators (banking, microfinance, insurance, capital markets, and pensions sub-sectors) to develop a consolidated guide for financial education, leveraging the experience each regulator has in financial training. The proposed guide will encompass comprehensive issues to be included in the delivery of financial education programmes.

- **Train-the-trainers programmes:** These will be conducted by accredited academic institutions as per the proposed guide, and they will address the tendency of product promotion by financial services providers.
- **Financial education programmes:** To address the low financial literacy and persistent fraud in the market, financial educators, having been trained, will then conduct financial education programmes to empower individuals to make better-informed financial decisions and to make the most of financial products and services to improve their livelihoods.
- **Conduct monitoring, evaluation, and impact assessment:** To contribute to the increase in financial literacy, it is necessary to monitor, review, and evaluate financial education programmes and assess their impact on the livelihoods of individuals. This will help to continuously enhance their implementation.

Stakeholders

The Bank of Tanzania, as the secretariat to the National Council for Financial Inclusion, will spearhead the coordination role, liaising with other sub-sector regulators and discussing with them the need to develop a guide for financial education, the operationalization of which will include planned financial education programmes, including thematic areas and modes of delivery. Effective coordination by the Bank of Tanzania will help to address the current challenge of each regulator conducting sub-sector-specific training programmes in the same region. Harmonized financial education programmes will optimize the use of public funds.

Next Steps

The implementation of this policy shall follow these steps:

Activity	Time	Responsible Party
Conduct meetings with financial sector regulators	Aug. 2023	TIRA, CMSA, PMO-LYED
Conduct meetings with academic institutions	Sep. 2023	IFM, ACISP, TAA, Tumaini University
Draft Financial Education Guide	Oct. 2023	BOT
Review and approve draft guide (internal stakeholders)	Oct. 2023	BOT
Present guide to the National Technical Committee (NTC) for Financial Inclusion	Nov. 2023	NTC members (senior technical staff)
Present guide to the National Steering Committee (NSC) for Financial Inclusion	Nov. 2023	NSC members (directors and commissioners)
Present guide to the National Council for Financial Inclusion (NCFI)	Nov. 2023	NCFI members (heads of institutions)
Conduct meetings with financial sector regulators for the adoption of the guide	Jan. 2023	TIRA, CMSA, PMO-LYED
Conduct meetings with academic institutions for the adoption of the guide	Feb. 2023	IFM, ACISP, TAA, Tumaini University
Public launch of the Financial Education Guide	Mar. 2024	BOT (secretariat to the National Council)
Awareness programme via media outlets	Mar. 2024	BOT, media outlets
Begin monitoring the delivery of financial education programmes	Apr. 2024	BOT (secretariat to the National Council)

Key Indicators of Change

The National Council shall use the following indicators for financial inclusion to monitor and evaluate the implementation of this policy:

1. Number of certified financial educators reported by accredited financial institutions to the BOT;
2. Number of individuals trained by certified financial educators;
3. Number of trained individuals who increased their use of financial products and services;
4. Increased usage of financial products and services (before and after implementation);
5. Reduction of number of instances of fraud by financial services providers; and
6. Rate of increased adoption of financial services.

Notes

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Rural Access to Finance

Establishing a Movable Collateral Assets Registry in South Africa to Benefit Smallholder Farmers and Other Small Businesses in Obtaining Bank Credit

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Keywords: agriculture, borrowing, SME policy

Executive Summary

The majority of smallholder farmers in South Africa are unable to obtain credit from the formal banking system to grow their businesses. This is mainly due to a collateral requirement of immovable assets, such as land, which most of these farmers do not own. This has led to a credit gap that exceeds 13 billion USD (World Bank 2015). This policy memorandum proposes the establishment of a movable collateral assets registry to be used by smallholder farmers and other small businesses in obtaining credit from the banks.

Problem Statement and Context

Agriculture is an important sector of the South African economy, holding the potential to uplift the majority of poor South Africans out of poverty, unemployment, and inequality through food production and security, sustainable economic activity, and job creation. The agriculture sector employs around 860,000 people (Department of Agriculture, Land Reform, and Rural Development 2023), which is about 5.4 percent of the labor force; contributes around 3.1 percent of GDP (Statistics South Africa 2023); and is expected to create 1 million jobs by 2030 (National Planning Commission 2012). Central to actualizing the sector's potential is the development and growth of smallholder farmers, who produce around 20 percent of food consumed by South Africans (Materechera-Mitochi and Scholes 2022).

There are over 2 million smallholder farmers in South Africa (Mazenda and Masiya, 2022), of which just over 200,000 sell their produce. Whilst there is an inherent potential to expand smallholder farming into emerging or even commercial farming, the majority of smallholder farmers in South Africa are unable to obtain credit from banks to grow their farming businesses. Despite the smallholder farming sector being at the center of revitalizing South Africa's rural economy in the National Development Plan 2030 (National Planning Commission 2012), only 5.6 percent of smallholder farmers obtain credit from banks (Coetzee and Machethe 2011).

Key Causes

There are various reasons why many smallholder farmers in South Africa are unable to obtain credit from banks to grow their farming businesses. The inability to generate adequate income or savings may hinder the growth of farming businesses; therefore, access to credit by smallholder farmers is key in growing their businesses.

Smallholder Farmers Are Unable to Obtain Credit from Banks

A majority of smallholder farmers do not prefer credit from banks. Their reasons include:

- The process of obtaining credit is too complex and requires many documents that the farmers do not have;
- Farmers fear losing collateral in the case of default; and

- High transaction costs (interest rates) are associated with bank credit (Chisasa 2014).

Of those farmers who attempt to obtain credit from banks, many face the following challenges:

- Banks consider these high-risk loans because of the inherent risks associated with the nature of agricultural production, due to uncertain climatic conditions (Chisasa 2014).
- Many farmers do not meet the following requirements:
  - Collateral: banks insist on only accepting immovable assets, such as owned land, for collateral, whilst most farmland is owned by traditional authorities (village chiefs) and leased to smallholder farmers through permission to occupy arrangements (PTOs);
  - Registration: many smallholder farmers have not registered their farming operations as business entities; and
  - Financial records: the majority of smallholder farmers do not keep proper financial records of their businesses.

Potential Policy Options

Whilst farming businesses can be grown through generation of adequate income or savings, for smallholder farming, owing to its small-scale nature, this is mostly not possible. This then leaves access to credit as the most viable option to grow smallholder farms. For smallholder farmers to access credit, the potential solutions are, therefore, bundled around movable collateral assets as a policy option.

Introducing the Usage of Movable Assets as Collateral

In order to enable smallholder farmers to meet one of the key credit requirements, collateral, a reasonable collateral, such as movable assets, is to be accepted by banks to guarantee credit in instances of default. Once smallholder farmers are able to obtain credit from banks through this intervention, they will then be in a position to grow their farming business.

Recommended Policy Solution

Previous attempts to resolve the collateral challenge included trying to have PTOs accepted as collateral in credit applications, but this was not accepted by banks because PTOs are not registerable in deeds registries and are not deemed to be an economically viable form of land ownership. The recommended policy option in this memorandum is the usage of movable assets by smallholder farmers as collateral to meet credit requirements and guarantee their bank credit in cases of default. This policy option will be implemented through the establishment of a movable collateral assets registry. The recommended policy is chosen because it falls under the mandate for financial inclusion of the National Treasury, a policymaking department, and will form part of the Financial Inclusion Strategy, to be developed once the draft Financial Inclusion Policy is adopted. The National Treasury has the capacity to avail resources to implement this policy. The movable collateral assets registry will be electronic and will allow smallholder farmers and other small businesses to register and offer their movable assets, such as machinery, equipment, livestock, etc., as collateral to banks when applying for credit.

Stakeholders and Implementation

Key Stakeholders

As a policymaking department for financial inclusion, the National Treasury will take the lead in implementing this policy, which is acknowledged in the draft Financial Inclusion Policy (National Treasury 2020) and will be part of the Financial Inclusion Strategy. The South African Reserve Bank, as the regulator of financial services, is instrumental in the successful implementation of this policy, and it should be treated as an important partner and consulted on each implementation phase. The Department of Agriculture, Land Reform, and Rural Development will be consulted on the type of agricultural and nonagricultural assets that can be included in the movable collateral assets registry. The Department of Small Business Development will be consulted on the other types of small businesses that should also benefit from the registry.

Other Stakeholders

- Land and Agricultural Development Bank of South Africa
- National Credit Regulator
- Commercial banks
- Banking associations
- Smallholder farmer associations
- The media

Policy Implementation

The implementation of this policy will include the following steps (also serving as key indicators of change), which are also recommended by the World Bank (2015) in its diagnostic report for South Africa and are generally accepted steps in establishing movable collateral assets registries (World Bank 2019):

- Constitute a steering committee between key stakeholders (hold introductory and consultative meetings);
- Reform the secured transactions laws or legal framework;
- Develop the guidelines or regulations to govern the registry;
- Design, test, and operationalize the registry;
- Run public awareness campaigns through the media;
- Conduct user trainings to beneficiaries and credit providers; and
- Ensure that the monitoring and evaluation of the performance of the movable collateral assets registry is embedded in the National Financial Inclusion Strategy.

Risks

A potential challenge posing a risk towards the implementation of this policy is if there were to be no consensus or buy-in from stakeholders. The National Treasury should minimize this risk by running a thorough and transparent consultative process with all key and extended stakeholders along every implementation phase.

South Africa should also learn from both the successes and the failures of establishing and implementing movable collateral assets registries in other countries. For instance, in Ghana, success can be attributed to a few elements: an enabling environment derived from an appropriate legislative framework for secured transaction laws; political will; strong cross-institutional support, with a collaborative and partnership system; public trust in the system; credibility of the implementing institution (Ouedraogo and others 2012). However, not all movable collateral assets registries in all countries are a resounding success. In the case of Malawi, it was found that the introduction of a collateral registry had a minimal effect on small business lending in general; lending to small businesses by banks has remained largely unchanged, as banks still prefer fixed assets as collateral (Pendame and Akotey, 2023). Most small businesses in Malawi were also found not to keep sufficient financial records for banks to assess their ability to repay loans; therefore, financial literacy training may be a good supplement to a successful and effective movable collateral assets registry (Pendame and Akotey 2023). These are some of the key lessons that South Africa should draw from in its quest to establish a highly beneficial movable collateral assets registry for smallholder farmers and other small enterprises.

Conclusion

A movable collateral assets registry has been recommended for South Africa since 2015, and nothing has materialized as of 2023, except drafting a Financial Inclusion Policy, which endorses an establishment of the registry. While setting up a policy framework for financial inclusion has been slow, this is an opportune time for South Africa to gear up towards an inclusive financial sector; with the right political will, an enabling legislative framework, and strong cross-institutional support, with collaborative and partnership system, it is feasible that the policy option proposed in this memorandum will be implemented in the medium term.

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Leveraging Alternative Data Credit Scoring Models to Advance Access to Credit by Rural Smallholder Farmers in Zimbabwe

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Keywords: alternative data, credit scoring, rural smallholder farmers

Executive Summary

Agriculture continues to be the backbone of the Zimbabwean economy, contributing around 20% of the country's gross domestic product (GDP) and providing livelihood to 70% of Zimbabweans living in rural areas. The agricultural sector is largely dominated by rural smallholder farmers. Further, Zimbabwe has a demographic dominance of women-led households, accounting for 52% of the adult population (FAO 2017). The smallholder farmers face significant challenges in accessing credit due to limited credit histories and lack of verifiable collateral, among other factors. While the land reform program resulted in democratizing access to land, the 99-year leases that the government gave for farms are not recognized as a transferable title by lenders. In this regard, the proposed policy solution encourages lenders to develop innovative credit scoring models for smallholder farmers leveraging alternative credit data sources. This is expected to enhance access to credit to invest in agricultural technologies and inputs, which can help increase the farmers' income and enable them to meet their daily needs and to be financially resilient.

Problem Statement and Background

Rural smallholder farmers face challenges in accessing credit, which restrict their ability to invest in productive resources, scale up their agricultural activities, and improve their livelihoods, as evidenced by the FinScope MSME Survey Zimbabwe 2022, which highlighted that formal credit is not common, with under 3% of farmers accessing these facilities as a source of working capital. The FinScope Consumer Survey 2022 showed that mobile money penetration among rural communities in Zimbabwe is at 53% and that mobile money systems are mainly used to receive money, buy airtime, pay bills, make payments, and send and receive domestic remittances, but rarely to access credit or savings. Mobile money providers in Zimbabwe do not offer a wide range of credit and savings products that are suitable for rural communities. The people-centred policy research revealed that lack of access to credit has a significant human impact, as it prevents farmers from expanding their businesses and earning sustainable income. Consequently, they may struggle to provide for their families, leading to worsening poverty and food insecurity. Therefore, addressing this problem is crucial for the well-being of smallholder farmers and their families (Sikwila 2023).

Key Causes

Rural smallholder farmers are regarded by creditors as high-risk borrowers, as evidenced by a study by the International Finance Corporation (IFC 2014), which highlighted challenges associated with agricultural production and lending, including seasonality and associated unpredictable cash flows, higher transaction costs, vulnerability to climate change risks, and information asymmetry. Both moral hazard and adverse selection make it difficult for lenders to offer credit to rural smallholder farmers, arising from the farmers' inability to demonstrate their creditworthiness.

Traditionally, financial institutions rely on historical financial data, such as loan repayments (credit history), savings deposit activity, and salary slips, to assess the creditworthiness of a potential borrower which farmers do not have. This was echoed by the Food and Agriculture Organization (FAO 2018), which noted that lack of access to finance is a major constraint for smallholder farmers, particularly in terms of collateral requirements and lack of credit history.

People-centred policy research also showed that smallholder farmers run meagre-return businesses resulting in low income, as well as confirmed key causes of limited access to credit, including lack of knowledge of existing financial products, prohibitive interest rates, and the main hurdle: absence of collateral.

In Zimbabwe, cultural norms and traditions dictate that land in rural areas is owned and controlled by men, while women have limited or no rights to own or control land. This can result in women-headed households lacking access to land, which, in turn, limits their access to food, income, and other resources (Sikwila 2023).

Lending in Zimbabwe is a controlled activity, with microfinance institutions licensed by the Central Bank. While the Central Bank has not imposed interest rate controls, it generally monitors the lending rates that lenders charge. Due to the perceived risk of the smallholder farmer segment and the high cost of serving it, potential lenders may charge higher and unsustainable interest rates.

Potential Solutions Bundle

In order to address these core causes, I consider a number of priority objectives, including the following:

1. To enhance capacity of financial services providers to leverage the existing credit infrastructure, such as the Credit Registry and the Collateral Registry, to help reduce adverse selection and moral hazard that make it difficult for borrowers to access credit at affordable interest rates.
2. To promote the development of weather-based insurance to provide smallholder farmers with insurance coverage to protect them against losses due to climate-related disasters, such as floods and droughts, and to mitigate the financial impact of these disasters.
3. To promote the implementation of innovative credit scoring methodologies that leverage alternative data to increase access to credit to invest in productive resources and improve financial health.

Priority Bundle

The aim is to lower the risk of lending to smallholder farmers by implementing innovative credit scoring methodologies that leverage alternative data from farmers and their operations, while utilising some existing initiatives that can help the target groups and demonstrate their creditworthiness, in order to increase their access to credit and capital, enabling them to improve crop yields, expand their businesses, and provide for their families.

In view of the foregoing, my priority bundle is to promote the adoption of alternative data credit scoring methodologies by lenders to assess creditworthiness, beginning with microfinance institutions (MFIs). Considering that most smallholder farmers transact using mobile money systems, which are not considered a source of data for credit scoring by financial institutions, MFIs may leverage alternative data, such as mobile phone usage data, social media activity, and digital payments not found in traditional consumer credit reports and develop credit scoring models that are more inclusive. This is an emerging solution that is being tested in Kenya and Colombia. Toronto Centre (2022) discusses how this approach has allowed Safaricom and M-PESA to provide digital credit to millions of underserved Kenyans, including smallholder farmers. This demonstrates the potential of alternative data credit scoring to improve access to finance for marginalized communities.

The Reserve Bank of Zimbabwe has direct authority over the proposed solution and therefore will be able to influence stakeholders to participate in the development and implementation of the policy proposal.

According to the FAO (2017), 86% of women in Zimbabwe depend on agriculture for their livelihoods—hence, leveraging alternative data to increase access to credit may promote gender balance and improve the financial health of women.

Risks and Mitigants Associated with Implementing Alternative Data Credit Scoring

According to the International Committee on Credit Reporting (ICCR 2022), the use of alternative data in credit reporting presents new risks and challenges related to data privacy, consumer protection, and cyber risk. To minimize these risks as well as to protect consumers while leveraging alternative data for credit reporting, the Reserve Bank of Zimbabwe should enforce rules for consumer data protection and usage rights, as contained in the Cyber and Data Protection Act, Chapter 12:07. In addition, the scoring models should comply with the Model Risk Governance Prudential Standard to ensure their relevance and effectiveness in assessing creditworthiness.

The success of the proposed policy for credit scoring in Zimbabwe also depends on the data providers' willingness to participate and on the technical infrastructure of lenders to access an algorithmic model. In that regard, clear communication plans will be developed to engage all stakeholders and mitigate potential risks. A feasibility study will be conducted, including pilot testing in the regulatory sandbox, to identify any challenges before scaling up the solution.

Proposed Implementation Plan and Stakeholders

The policy will be implemented through the establishment of the Digital Transformation Credit Thematic Working Group, mandated to spearhead the development and implementation of alternative data credit scoring by lenders commencing in October 2023.

The deputy director of financial inclusion will champion and convene the thematic committee given that the unit is secretariat and coordinating partner of the National Financial Inclusion Strategy. The proposed stakeholders forming part of the working group will include financial institutions, mobile network operators, Rural Thematic Working Group members, and internal stakeholders, such as the Bank Supervision Division, the National Payment System, the Legal Department and Economic Research.

The World Bank will be engaged to assist in reviewing and amending the legal framework related to alternative data credit scoring and develop credit scoring tools for MFIs.

Monitoring and Evaluation (Key Indicators of Change)

To ensure that the proposed solution achieves its intended goals and to identify any emerging risks or challenges, a monitoring and evaluation framework will be established. MFIs will be required to provide a quarterly return showing the number and volume of loans to rural smallholder farmers; this will also show the number of MFIs using alternative credit data for scoring.

Conclusion

The proposed policy measure for digital transformation of credit management, through leveraging alternative credit scoring models, is expected to increase access to credit for rural smallholder farmers in Zimbabwe. Consequently, the initiative is expected to result in increased investment in farming technologies and inputs, leading to higher production and income and, ultimately, improved financial health.

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Capacity Building to Promote Credit to Rural Smallholder Farmers in Malawi

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Keywords: agricultural credit, collateral, financial education

Executive Summary

Malawi's population is predominantly rural, living in poverty, and employed in the agriculture sector.[1] This policy memo proposes a capacity-building program for rural smallholder farmers, microfinance institutions (MFIs), and savings and credit cooperatives (SACCOs) to increase farmers' access to diverse and tailor-made credit facilities. A study on access to credit for maize farmers in Benin found that access to credit increased productivity by 30.7 percent.[2] The proposed policy intends to improve consumption, narrowing the gap between farmers' income and funds needed to invest in their farming business.

Problem Statement and Context

The World Bank reports that Malawi has a poverty headcount ratio of 70.1 percent.[3] Of the 17.6 million residents, 84 percent are in rural areas,[4] and "the rural areas had a higher percentage of persons employed in the agriculture, forestry and fishing industry (82.9 percent) than in urban areas (22.8 percent)."[5] Efforts to further financial inclusion in Malawi must necessarily focus on the agriculture sector, since "agriculture accounts for 30 percent of GDP and generates over 80 percent of national export earnings."[6]

The biggest financial inclusion challenge for rural smallholder farmers is that they are unable to invest in their farming businesses. The "proportion of adults without access to financial products and services is highest among those living in the rural areas (38%)…and lowest in the cities (18.5%)."[7] Furthermore, smallholder farmers do not have adequate savings; this is because their income is generally low and irregular and, on average, they cultivate only 0.5 hectares per capita; also, they lack capital to invest in farm inputs.[8] One family engaged in tobacco, soya, groundnut, and maize farming mentioned the struggle to pay farm workers. The family resorts to selling livestock and stored produce to pay wages. In some cases, they are forced to defer wages until harvest season.[9]

Credit would help buffer against irregular cash flow and boost farmers' ability to expand their agricultural lands and inputs. However, farmers "tend to have little or no access to formal credit, which limits their capacity to invest in the technologies and inputs they need to increase their yields and incomes and reduce hunger and poverty, both their own and that of others."[10] In most cases, "the main source of capital for funding agricultural businesses was through selling crops or livestock (24 per cent), borrowing from an agric-supplier or using personal savings (13 per cent)."[11]

Key Causes

Farmers and financial services providers cited two major causes for farmers' failure to access credit:[12]

1. Farmers do not have title to land, and they are not using existing alternative collaterals. A warehouse receipts system and a moveable assets registry are in place, but most farmers lack knowledge and capacity to make use of these tools. Furthermore, available credit is either too costly or not tailored to their needs.
2. Financial institutions do not lend to smallholder farmers because these institutions lack agri-lending expertise, loans to farmers are deemed too risky, farmers do not have credit histories, and farmers require bigger and longer-maturity loans that would tie up capital.

Potential Objectives

To improve smallholder farmers' access to appropriate credit facilities, MFIs and SACCOs should develop diverse, tailor-made loan products for farmers and utilize alternative collaterals so as to manage credit risks and recover using alternative collateral in a timely and cost-effective manner. On the other hand, farmers should use warehouse receipts and moveable assets as collateral, demonstrate their creditworthiness, and acquire the knowledge and capacity to manage risks.

Priority Objectives Bundle

Smallholder farmers' lack of access to appropriate credit has long been recognized by policymakers in Malawi as a major barrier to economic development. As a result, most of the structural barriers have been addressed in the last ten years by establishment of credit reference bureaus, introduction of a moveable asset registry, setting up of a warehouse receipt system, and introduction of crop insurance. There are existing initiatives to improve the efficiency of these structures, including efforts to include alternative data in credit referencing.

Therefore, this policy memo will focus on building capacity and awareness on the supply and demand side. Farmers should acquire the knowledge and capacity to manage weather-related and other risks, and MFIs and SACCOs need the expertise and capacity to manage agriculture credit risks and develop tailor-made products for farmers.

Policies

There are three proposed initiatives to achieve the stated priority objectives:

1. **Financial education program** to teach farmers how to use credit reference bureaus to build a credit history and weather and crop insurance to better manage shocks. In addition, farmers need the knowledge and capacity to use credit risk–mitigating tools, including credit guarantee schemes, warehouse receipts, and moveable assets collateral. It is important to "combine credit supply with financial education and technical support"[13] to ensure that farmers achieve the intended goals for accessing credit.
2. **Capacity building for MFIs and SACCOs** to manage agriculture credit risk and develop diverse and tailor-made products for farmers. This would include participating in existing credit guarantee schemes, the moveable assets registry, and the warehouse receipt system. In addition, MFIs and SACCOs can use alterative credit data to understand the credit history and creditworthiness of farmers. A study in Ethiopia found that "interest rate, lending procedure, group lending and Rapid Repayment Period" are some of the most significant factors affecting farmers' access to formal credit.[14]

3. **A line of credit (LOC) for MFIs and SACCOs** to on-lend to farmers. MFI loans are too small for the needs of farmers, and MFIs do not want to lock up their limited resources in agriculture loans that are bigger and have longer tenure than their usual products. According to the International Fund for Agriculture Development (IFAD), "There are still good reasons to provide professionally managed LOC programs that can complement savings mobilization and intermediation measures."[15]

The proposed capacity-building initiatives would require a technical working group that would coordinate the development of a financial education program for farmers and a guidelines and training program for financial institutions, as well as structure the line of credit.

Stakeholders will be engaged to allocate part of the World Bank–funded Financial Inclusion and Entrepreneurship Scaling (FInES) project LOC to agriculture credit. The LOC gives MFIs and SACCOs funding at a much lower cost and for a longer period than borrowing from banks. Under the FInES LOC, MFIs and SACCOs may also request capacity building to develop and administer appropriate credit facilities. Farmers would also need to be sensitized so that they can benefit from borrowing at a lower cost.

Stakeholders

This policy will be implemented by the National Strategy for Financial Inclusion taskforce that draws membership from the Reserve Bank of Malawi, Ministry of Finance, Ministry of Agriculture, Bankers Association of Malawi, Malawi Microfinance Network, and Malawi Union of Savings and Credit Cooperatives. The Reserve Bank of Malawi will be the lead agency through its Microfinance Supervision and Consumer Protection and Financial Literacy divisions.

Other stakeholders include the Financial Inclusion and Entrepreneurship Scaling (FInES) Project; the Financial Access for Rural Markets, Smallholders and Enterprise (FARMSE) Programme; the World Bank; the International Fund for Agriculture Development (IFAD); and Alliance for Financial Inclusion.

Theory of Change

Once all the initiatives are implemented, it is expected that MFIs and SACCOs will have loanable funds from the LOC, there will be an increased number of tailor-made products for farmers, more farmers will be using warehouse receipts, there will be increased usage of moveable asset collaterals, and farmers will start building credit histories. As a result, the risk profile of smallholder farmers will improve and farmers will optimize usage of appropriate credit facilities.

Key Indicators of Change

To determine whether the program is successful, the Reserve Bank will track progress through the newly implemented Financial Inclusion Portal to monitor the number of tailor-made loan products, proportion of credit to the agriculture sector, and use of alternative collateral, credit scores, and insurance. In addition, there are two surveys on financial inclusion and financial capability being conducted in 2023 by FINSCOPE and the Reserve Bank of Malawi, respectively, that can be used as a baseline.

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Addressing Difficulties Faced by Rural Dwellers in Making Payments in Liberia: The Need for Implementing a National Electronic Payment Switch and Revision of the Agent Banking Regulations to Support Interoperability, Instant Payments, and Increased Agent Networks across the Country

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Keywords: payments, interoperability, agent banking, financial inclusion strategy, national electronic payment switch, regulations, instant and inclusive payment, payment infrastructure, rural dwellers, agent network

Executive Summary

According to 2017 Global Findex data, 65 percent of the adult population of Liberia do not have accounts in a financial institution; a significant number of these people are living in rural areas. Many of these rural dwellers have difficulties in making payments for goods and services and participating in other important economic activities, due to factors such as limited access to financial services.

The proposed policy reform requires the establishment of a national electronic payment switch and its regulation by the Central Bank of Liberia, as well as the revision of guidelines for the regulation of agent banking to simplify the criteria for onboarding and recruiting bank agents. Through interoperability and increased agent networks across the country, this proposed policy will allow rural dwellers to easily make payments and have access to formal financial systems—all of which is also the objective of the Central Bank of Liberia (CBL) Financial Inclusion Strategy 2020–2024, which strives to increase access to formal financial services for the population aged 15 years and older by 40 percent, from 35.7 percent to at least 50 percent by 2024.

Problem and Context

Access to financial services remains a challenge in Liberia, particularly in rural areas, where many people lack access to basic banking services. This has created difficulties for rural dwellers in making payments for goods and services and participating in other important economic activities.

Key Causes

Financial and banking services in Liberia are concentrated mainly in Monrovia, which makes it difficult, time consuming, and expensive for many rural dwellers to meet basic financial needs such as accessing cash, receiving salary payments, and obtaining a loan. This is caused by poor physical and electronic infrastructure, lengthy travel times to reach financial service providers, a weak financial sector, and lack of adequate agent banking regulations, among other causes.

Most financial service providers' systems are not interconnected or interoperable, which makes it difficult for consumers to send money (P2P) to subscribers of different financial service providers. During my people-centered research work, three of the participants I spoke with complained that the inability to transfer money across different financial service providers' networks is seriously impacting the process of them making payments for goods and services across the country.

Many rural inhabitants are unable to send and receive money or carry out many formal financial transactions because of the distance to branches and agents of financial service providers.

Absence of bank branches and bank agents and the low number of mobile money agents in many parts of Liberia's rural areas are significantly contributing to rural dwellers' inability to make or receive payments for goods and services. All the bank representatives in my people-centered research work complained about the complexity of the agent banking regulation relative to onboarding smaller agents. The regulation requires a bank to recruit agents that have a registered business, a physical location, tax clearance, etc., making it almost impossible for rural agents to be recruited because most of them do not meet all those requirements.

Potential Solutions

According to the National Financial Inclusion Strategy 2020–2024, Liberia has made progress in terms of increased financial inclusion.

In addition to the significant progress being made, there are many rural inhabitants who are having challenges accessing these services, and this is negatively impacting them.

I am herewith proposing these possible solutions that will address these financial inclusion challenges:

1. Formulation of robust regulations by the Central Bank of Liberia that will encompass a clear approach to the objective of interoperability and key elements for supervision and oversight of interoperable payment systems (clearing and settlement, risk management, safety and security standards, fair and open access to interoperable solutions, and consumer protection). These regulations will apply to all financial service providers.
2. The establishment of a national electronic payment switch, which will be controlled by the Central Bank of Liberia and will promote an instant and inclusive payment scheme among many financial service providers. This infrastructure will include robust payment/clearing platforms, management and resilience of infrastructure, compliance with international standards, and access to transaction channels.
3. The revision of the agent banking regulation to simplify the criteria for the onboarding and recruitment of banks agents so that many rural businesses and individuals who want to serve as bank agents may have access to these opportunities.

Enabling Policy Recommendations

My proposed policy involves the amendment and issuance of new legal and regulatory frameworks that require the adoption of robust national electronic payment switch regulations. These regulations should outline the mechanisms for the implementation of an effective, instant and inclusive payment scheme—one that requires clear governance, balanced economic incentives, and safe and reliable operational models. In addition, my proposal to amend the agent banking regulation addresses the issue of the complex requirements that small businesses need to meet to serve as agents of banks. My proposal takes cues from the Bank of Tanzania's launch, in 2004, of the Tanzania Interbank Settlement System (TISS), an electronic payment system that enables transactions between different banks and payment service providers. TISS has been successful in promoting financial inclusion in rural areas by enabling customer access to a range of financial services, such as mobile money and agent banking (Financial Sector Deepening Trust Tanzania, 2019).

Key Stakeholders and Implementation

To implement the proposed policy, the concerted efforts of both internal and external stakeholders will be required.

The following stakeholders are to be included:

- The directors of the Regulation and Supervision Department (RSD) and the Payment Systems Department (PSD) and the deputy governor for economic policy: these three senior-level staff will play a major role in review, planning, and policy amendment.
- The governor of the Central Bank of Liberia will give his final approval based on recommendations from both directors (RSD and PSD).
- The Policy and Regulation Unit will assist in the development and reform of the regulations.

This policy also requires meetings with key players in the mobile financial services (MFS) ecosystem and other potential players, such as mobile money providers, commercial banks represented by the Liberia Bankers Association (LBA), microfinance institutions (MFIs), etc. These key stakeholders' discussions shall be centered on the funding, maintenance, and other incentives necessary to accommodate small players, so as to maintain a low cost for the consumer.

External stakeholders include the World Bank and the Digital Financial Services Working Group (with internal and external stakeholders). Partnerships with these institutions are in need of being revitalized, after years of dormancy. These stakeholders will actively partake in the review process of the proposed regulatory guidelines, especially regarding interoperability and the amendment of the agent banking regulations.

Monitoring and Evaluation

The goal of the proposed policy is to increase the usage and availability of financial services in the entire territory of Liberia, so that rural dwellers may easily make payments using various financial services and channels. For this purpose, the Central Bank of Liberia shall gather, analyze, and interpret data from various sources, including the CBL, secondary data from mobile money providers, MFIs, and commercial banks, the main players in the ecosystem. Data from the Global Findex will also be collected, analyzed, and interpreted. Primary data will include another PCP survey conducted over a three-year period from the date of the implementation of the proposed policy. The key indicators of change will include:

- Implementation of national electronic payment switch regulations
- Amendment of agent banking regulations
- Number of banks and mobile money agents in rural areas
- Number of financial institutions that are part of the Instant Payment Scheme
- Volume of financial transactions taking place in the rural areas
- Value of financial transactions occurring in the rural areas
- Volume and value of financial transactions taking place between and among different financial players

I strongly believe that by promoting interoperability, an electronic payment switch can help expand financial services for previously underserved areas and populations, including rural communities. This is because it can help overcome some of the barriers to financial inclusion, such as lack of access to banking infrastructure, limited financial literacy, and high transaction costs. For example, if rural residents can use their mobile phones to access a range of financial services, including making payments, receiving transfers, and accessing credit, this can help to promote financial inclusion by providing a convenient and accessible way of conducting transactions. Furthermore, if different payment systems are able to communicate with each other, this can help reduce transaction costs and increase efficiency, which can benefit both customers and service providers. Revising the current agent banking regulations in Liberia to include simplified criteria for banks onboarding agents can complement interoperability and contribute to financial inclusion challenges in rural areas by making it easier for banks to expand their agent network in these areas. This can help to address the difficulties faced by rural dwellers in making payments for goods and services, as they would have access to a wider range of financial services through these agents.

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MSME Finance

Building a Data-Driven Business Case to Finance Women-Owned Micro and Small Enterprises in Colombia

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Keywords: gender equality, MSE policy, innovation

Executive Summary

Limited but compelling data suggests that women-owned micro and small enterprises in Colombia face several challenges in accessing financing to expand their businesses. Some women entrepreneurs refrain from accessing formal financing mechanisms because they cannot find products meeting their needs and perceive the traditional financing process as cumbersome and confusing. To address this challenge, this policy memo proposes a two-part solution: (1) issuing an external regulatory circular requiring financial service providers (FSPs) to disclose gender-disaggregated data for legal entities and (2) designing a pilot marketplace to centralize financing solutions.

The Problem and Context

Women-owned and -led micro and small enterprises (WMSEs[1]) in Colombia face several challenges in accessing financing to expand their businesses. For instance, my mother has been an entrepreneur for 30 years now, and it has been difficult for her to find financial products and services that are both easy to access and tailored to the requirements of her company's expansion. There are multiple and complex causes for these challenges, which require further study.

However, WMSEs are not a rare phenomenon and require due attention by FSPs. Across Latin America and the Caribbean, there are approximately 1.2 to 1.4 million WMSEs, representing about 40% of MSEs.[2] In Colombia, in 2022, 62.5% of companies that were incorporated by natural persons were owned by women,[3] and 1 in 5 women started a new business.[4]

Despite this market segment's potential in terms of economic growth and gender equality,[5] the financing gap is 93 billion USD[6] for women's businesses in Latin America and the Caribbean—the region of the world where this gap is most significant. There is no data showing exactly how deep this financing gap is in Colombia, but it has been recognized by the Colombian government as a financial inclusion challenge,[7] and primary research validates this finding.

Nevertheless, the Financial Inclusion Report[8] concludes that, as of December 2022, the gender gap in Colombia for credit products in natural persons was 3.9%. Moreover, for women, it is a matter of not only access to financing but also the terms and conditions of credit: research shows that women's participation in credit products decreases as the requested amount increases,[9] and this has been explained by differences in women's level of income and position in the labor market.

In any case, the report also points out that loans granted to women have a lower nonperformance ratio, underlining the relevance of better servicing this market segment. In the case of microloans, the nonperforming loan ratio was 6.1% for men and 5.4% for women, so for every 100 COP lent to a woman, FSPs would have been able to reduce their provisioning expenses by 70 cents on average.

Proposed Policy Solutions

Quantifying the magnitude of the challenge that WMSEs face in accessing financial services is critical so that FSPs, investors, and policymakers can take action to address it. Thus, the proposed solution aims to help FSPs build a data-driven case to finance WMSEs. This solution was selected based on criteria including feasibility/capacity,[10] evidence,[11] and preconditions and other policy initiatives in Colombia[12] and will consist of two parts, as follows:

Part 1: Issue an external circular by the SFC requiring FSPs (including not only the banking sector but capital markets agents, too) to collect and disclose gender-disaggregated data for their portfolios in legal entities.

FSPs are more likely to finance clients whom they know well. Understanding the female market segment better by studying gender-disaggregated data on loan performance, portfolio composition of other FSPs, and interest rates might change their risk appetite toward this segment.[13]

Moreover, most FSPs do not see women as a specific market segment with different characteristics to consider when designing or marketing products or services.[14] As a result, they offer generic products and services, which are not necessarily suitable for the types of businesses women are running.

However, there is a business case to pursue this market segment. Portfolio analysis conducted by FSPs, for example, has shown that, on average, agricultural businesses with greater levels of participation by women are more stable and profitable, less likely to experience significant revenue dips, less likely to default, and more likely to secure new sources of financing.[15] Some FSPs have even tested this evidence in their portfolios and found that women-owned businesses show a lower rate of nonperforming loans[16] and yield a higher profit margin.[17]

Having gender-disaggregated data from multiple types of FSPs will demonstrate these findings directly in the Colombian market and encourage competition for this market segment. This may result in FSPs setting targets and implementing other strategies to further grow this line of business. Initiatives like the UK's Investing in Women Code[18] have shown that data sharing not only brings more transparency but also has the potential to engage multiple FSPs to address it through very different markets from debt to equity.

Furthermore, this segmentation of data can leverage FSPs' efforts to get funding for their portfolios and allow them to show concrete results to their investors.

Policymakers will also benefit from having a clearer view of the challenges that face women entrepreneurs in accessing financing in order to design and target sound policy solutions.

Part 2: Design a pilot for a marketplace to centralize financing solutions with a single standardized digital financing application[19] that entrepreneurs can fill out once, and authorize different FSPs and other sources of financing (such as private equity funds and fintechs) to pull that information and offer financing options tailored to the needs of these companies.

Women entrepreneurs have pointed out that the application process for a loan or other forms of financing can be cumbersome and confusing; hence, they prefer to finance their business endeavors through friends and family.

Initially, the proposed marketplace will be tested in the SFC sandbox, and the leader of the pilot, who will collect and aggregate the data from the entrepreneurs, will be the Bank of Foreign Trade, Bancóldex,[20] since this development bank already has established partnerships with other FSPs. If this pilot proves to be successful, Bancóldex can launch it outside the controlled environment and scale it up with other partners, and other FSPs may be interested in replicating the model in the future.

Similarly, Bancóldex has developed a centralized program for microcredit, incentivizing banks to participate through loans funded by Bancóldex, called "neo-credits." This program has already benefited 9,750 entrepreneurs, in 562 municipalities, with 2.9 billion COP disbursed.[21] The proposed policy will build on these results by offering higher-denomination financing and allowing different types of FSPs to participate: e.g., crowdfunding platforms, fintechs, private equity funds.

This solution will make it easier for WMSEs to find the financing they need and reduce the amount of time and effort they spend on the financing process. Furthermore, the pilot will create a competitive environment among FSPs, where the ultimate decision is in the hands of the customer, who will be able to compare multiple offers.

This pilot may also incentivize other FSPs to join the scheme and incorporate alternative data into credit risk assessments and references of creditworthiness in order to be able to offer more competitive products, taking advantage of the open finance and open data framework.

Risks and Mitigations

Part 1: External Regulatory Circular

There is a risk that FSPs may assess that the costs or technical requirements of reporting will not be offset by the results of the data. However, the regulatory circular can include a transitional period to allow them to adapt, and the SFC and trade associations may conduct training to help FSPs understand the value of the disaggregated data and the business opportunities that it can bring.

Part 2: Marketplace Pilot

For the proposed marketplace to work, it is crucial to have buy-in from the FSPs and the WMSEs. A first step to raise interest in the project will be to promote participation in the pilot in the sandbox. Moreover, Bancóldex and other participants may launch awareness-building campaigns and training to scale up the project. Bancóldex and the National Collateral Fund (Fondo Nacional de Garantías)[22] can even design specific lines of credit and collaterals to give it traction.

Measuring, Evaluation, and Future Steps

Monitoring and evaluation of these interventions will include the following strategies:

Indicator	Party Responsible for Data Collection	Method
Percentage of loans in FSPs' portfolios directed to WMSEs	The SFC and Banca de las Oportunidades, who will gather the information and disclose it in the annual Financial Inclusion Report	Information will be reported by FSPs to the SFC
Interest rates and amounts offered to WMSEs through the standardized financing application	Bancóldex (during and after the pilot)	Information will be collected by Bancóldex
Percentage of financial instruments with WMSEs as beneficiaries of their proceeds rates	Issuers Department at the SFC	Information will be reported by issuers to the SFC
WMSEs' feedback	SFC (during the pilot) and Bancóldex (thereafter)	Surveys of WMSEs will be conducted

Conclusion

By providing disaggregated data and a more streamlined process for accessing financing, we can help to level the playing field for women entrepreneurs and boost economic growth and gender equality in Colombia.

Notes

1. For this proposal, WMSEs are companies registered as micro and small enterprises in a chamber of commerce, with a sole owner or controlling shareholder who is a woman.
2. Paula Peláez, "Seeking a Just, Gender-Conscious Climate Transition," IDB Invest, March 27, 2023, https://idbinvest.org/en/blog/gender/seeking-just-gender-conscious-climate-transition.
3. Confecámaras, "Más de 310 mil en empresas se crearon en Colombia en 2022," January 24, 2023, https://confecamaras.org.co/noticias/865-mas-de-310-mil-en-empresas-se-crearon-en-colombia-en-2022.
4. GEM (Global Entrepreneurship Monitor), *Global Entrepreneurship Monitor 2022/2023 Global Report: Adapting to a "New Normal"* (London: GEM, 2023).
5. For example, Alison Rose Review of Female Entrepreneurs revealed that up to £250 billion of new value could be added to the UK economy if women started and scaled new businesses at the same rate as UK men.
6. UN Women, "Investing in Women: A Profitable Path to Empowerment and Equality," May 6, 2021, https://lac.unwomen.org/en/noticias-y-eventos/articulos/2021/05/invertir-en-las-mujeres-un-camino-rentable-al-empoderamiento-y-la-igualdad.
7. SFC and Unidad de Proyección Normativa y Estudios de Regulación Financiera (Colombia), Hoja de ruta: Inclusión financiera con equidad de género para las mujeres, August 2022, https://www.urf.gov.co/webcenter/ShowProperty?nodeId=%2FConexionContent%2FWCC_CLUSTER-200785%2F%2FidcPrimaryFile&revision=latestreleased.
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9. Santiago Rodríguez, "Las mujeres colombianas y su acceso al crédito (2019–2021)," *Indicadores de Crédito de las Mujeres en Colombia Newsletter* 28 (2022), Consejería Presidencial para la Equidad de la Mujer, https://observatoriomujeres.gov.co/archivos/Publicaciones/Publicacion_275.pdf.
10. The SFC is responsible for coordinating and implementing initiatives under the roadmap to promote financial inclusion with gender equality in Colombia (2022–2026). In particular, the SFC receives from FSPs and publishes sex-disaggregated data.
11. There is reliable evidence that gender-disaggregated data helps foster financial inclusion by making visible any gaps and providing financial and reputational incentives for FSPs to service this market segment.
12. SFC External Circulars nos. 002 and 034 of 2021, requiring certain FSPs sex-disaggregated information on customers and loans' financial conditions, set a precedent for the proposed solution. In addition, the solution fits with the overarching policy and strategy that is happening in Colombia around open data and financial inclusion, which was materialized in Article 89 of the National Development Plan 2022–2026.
13. Data 2X and Financial Alliance for Women, *The Gender Data Playbook for Women's Financial Inclusion*, 2023, https://financialallianceforwomen.org/download/the-gender-data-playbook-for-womens-financial-inclusion/.
14. Türk Ekonomi Bankası conducted local market research and developed a holistic customer value proposition for women, which it launched as TEB Women Banking in 2014. By 2016, TEB's total balance of loans to women MSME owners had increased by 7%. Data 2X and Financial Alliance for Women, *Gender Data Playbook*.
15. Root Capital, "New Research Shows That Investing in Women in Agriculture Generates Significant Value for Businesses and Investors," November 15, 2022, https://rootcapital.org/about-us/press-room/press/new-research-investing-in-women/.
16. Data gathered by BHD León shows a lower rate of nonperforming loans than ones owned by men across all segments. The Global Banking Alliance for Women, *How Banks Can Profit from the Multi-Trillion Dollar Female Economy*, 2014, https://financialallianceforwomen.org/download/how-banks-can-profit-from-the-multi-trillion-dollar-female-economy/.

17. Data gathered by BLC Bank shows that the average profit margin for MSE loans to women is 15% higher than that of loans to men. Global Banking Alliance for Women, *How Banks Can Profit*.
18. Investing in Women Code, *Annual Report 2022*, 2023, https://www.british-business-bank.co.uk/wp-content/uploads/2022/06/investing-in-women-code-annual-report-2022.pdf.
19. Indicators such as the growing number of cell phones per person and access to the internet, in conjunction with the open data provision in the National Development Plan 2022–2026, make Colombia a promising market for digital financial services as the proposed solution.
20. Bancóldex is a state-owned second-tier development bank in Colombia, supporting productivity and competitiveness with an emphasis on WSMEs. As a development bank, Bancóldex can generate incentives for other FSPs to participate in the marketplace, because in so doing, they can have access to Bancóldex lines of credit. In addition, Bancóldex, as the manager of the government program Banca de las Oportunidades, has the mandate to foster financial inclusion in Colombia.
21. Bancóldex, *Información sobre neocrédito*, 2023, https://neocredito.bancoldex.com/neocredito/home.
22. The National Guarantee Fund (Fondo Nacional de Garantías) is a public entity linked to the Ministry of Finance that facilitates access to credit through collateral lines.

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Building Tourism Sector MSMEs' Financial Resilience to Climate Shocks

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Keywords: sustainable finance, climate change, MSMEs, mitigation, adaptation

Executive Summary

Micro, small, and medium-sized enterprises' (MSMEs') access to finance remains a key challenge in Seychelles (United Nations Conference on Trade and Development 2023) and has become of increasing importance within the context of sustainable finance[1]—particularly for the tourism sector, due to climate change impacts.[2] Accordingly, this policy memo proposes solutions in assisting tourism-sector MSMEs in accessing finance in order to remain sustainable and resilient to climate shocks.[3] This will be done through the issuance of a National Roadmap on MSMEs' Access to Sustainable Finance in Seychelles.

Problem Statement and Context

As it is for other Small Island Developing States (SIDS), climate change is a persisting threat to Seychelles, especially due to residual vulnerabilities from externalities, like the 1998 El Niño effect. Such externalities have caused coral bleaching and coastlines being prone to erosion, thereby causing further impacts (Amla 2014). The majority of these are felt by tourism-sector MSMEs based on the coastline, which lack capital to tackle climate change impacts. The World Bank (2021) asserts that continued sea-level rise in the Seychelles may lead to coastal erosion impacting on infrastructures, particularly for the tourism sector. Being a tourism-dependent economy,[4] Seychelles is highly economically vulnerable to climate shocks. As of 2021, MSMEs accounted for approximately 1.32 billion USD of Seychelles' GDP, representing 80 percent of the total share of formally registered enterprises (Enterprise Seychelles Agency; Ministry of Investment, Entrepreneurship, and Industry).[5] Therefore, building tourism-sector MSMEs' financial resilience to climate-related disasters is paramount to avoid catastrophic effects on the economic performance and growth of Seychelles.

Despite this, funding for loss and damage as well as for mitigation and adaptation measures remains insignificant, especially for those MSMEs engaged in tourism. According to Seychelles' updated Nationally Determined Contribution (UNFCCC 2021), an additional 600 million USD in funding is required over the next decade to develop and implement mitigation as well as adaptation measures. Whilst efforts are being made in this regard, gaps still exist in the financing of required projects.[6]

In sum, tourism-sector MSMEs based on the Seychelles coastline are particularly vulnerable to financial risk–related climate disasters. Notwithstanding the risks, these MSMEs continue to lack access to sustainable finance products and services[7] in order to build resilience to climate shocks.

Demand and Supply Side Causes and Challenges

Whilst there may be several causes of and challenges to financial inclusion, the following are noted from the people-centred policy research:[8]

1. *Low level of savings by MSMEs and high cost of disasters*. Tourism-sector MSMEs argue that they have insufficient savings, or lack thereof, to implement mitigation and adaption measures as well as rebuild from climate disasters—with some having to rely on their owners' personal savings. Some enterprises noted that they require between 5,000 to 25,000 USD on top of their savings to combat climate impacts (Benoiton 2023). As affirmed by Seychelles' National Financial Education Strategy (Central Bank of Seychelles 2017), MSMEs significantly lack financing in order to remain operational and grow.

   Moreover, Amla (2014) asserts that 2013's Intense Tropical Cyclone Felleng caused an estimated 8.3 million USD in losses and damages. Likewise, the IMF (2017) notes that the 2004 tsunami resulted in 4,630 households and MSMEs being affected, causing damages worth 3.6 percent of Seychelles' GDP. These are significant costs, which most MSMEs are unable to accommodate (Benoiton 2023).

2. *High indebtedness and no tailored products*. The COVID-19 pandemic's impact compelled some MSMEs to cease operations, evidenced by a reduction in the number of deposit accounts.[9] Likewise, despite their decreasing numbers between 2021 and 2022, credit facilities have remained prevalent for MSMEs due to their reliance on borrowing to remain operational. As of the end of 2022, the tourism sector had an outstanding debt of about 201 million SCR, out of 687 million SCR of debt by the MSME sector as a whole.[10] The majority of the credit acquired by the tourism sector is primarily for operational expenses, followed by capital expenditures, with little to no financing for climate-related measures (Benoiton 2023).

   Table 1. Banking Sector MSMEs Data

Year	2021	2022	% Change
No. of MSMEs with a deposit account	9,314	8,886	(4.60%)
No. of outstanding credit facilities by the MSME sector	35,431	31,322	(11.60%)

   Source: Central Bank of Seychelles

   In Seychelles, MSMEs face difficulties in accessing credit from the banking sector and limited credit options are available, with most banks unwilling to finance risky and innovative ideas (United Nations Conference on Trade and Development 2023). This is due to the high cost of borrowing and/or lack of tailored financing mechanisms for sustainable finance products and services.[11] Additionally, MSMEs generally acquire business loans to finance climate-related projects, and these facilities carry high costs with strict conditions (Benoiton 2023). Singh et al. (2019) further assert that this is due to several conditions, particularly MSMEs having unstable equity patterns and lacking a credit history.[12]

3. *High vulnerability*. As per Seychelles' National Climate Change Strategy 2009 (Seychelles National Climate Change Committee 2009), Seychelles is economically, culturally, and environmentally vulnerable and greatly affected by the negative consequences of climate change. With characteristics like low-lying and narrow coastlines, highly concentrated developments on narrow coastlines, and non-resilient ecosystems, Seychelles is prone to climate threats. Most tourism-sector MSMEs are based on the coastline due to its attractiveness and wildlife—strong marketing/selling points for MSMEs. Nonetheless, the coastline is vulnerable to continued climate threats thereby impacting on infrastructure and attractiveness. This undermines the economic activity of the tourism-sector MSMEs (Ijjasz-Vasquez and Jongman 2020).

Recommended Priority Solutions for Building Resilience

The recommended policy bundle will focus on building the regulator's capacity on sustainable finance so as to introduce sustainable finance regulatory and supervisory guidance for the banking sector.[13] The policy will be implemented through a National Roadmap on MSMEs' Access to Sustainable Finance in Seychelles.

Whilst other solutions exist, this policy bundle was chosen due to the strong political will, both at the level of the Central Bank of Seychelles (CBS) and of the presidency,[14] to tackle the climate change issue. Likewise, MSMEs' access to finance remains paramount in addressing the growth and sustainability of the MSME sector in Seychelles. Accordingly, the roadmap shall highlight three key priority areas, namely:

1. Conduct peer exchanges with other regulators on best practices and standards in the regulation and supervision of sustainable finance;
2. Require banks to conduct and/or invest in capacity building on sustainable finance; and
3. Issue sustainable finance regulations.

Policy Implementation

Implementing the policy proposal will require the involvement of key stakeholders.

<table>
<tr><th>Stakeholder</th><th>Purpose</th></tr>
<tr><td>Financial Surveillance Division management</td><td>To present the policy proposal to the CBS' senior management and board of directors for their buy-in. Also, to provide feedback on the policy proposal, to ensure fitness for purpose and alignment with the division's strategic objectives.</td></tr>
<tr><td>CBS senior management</td><td>To provide feedback on the policy proposal and ensure its alignment with the CBS' strategic objectives as well as acquire first line of approval. Moreover, given capacity-building requirements, the CBS staff's understanding is a critical first step in issuing suitable regulations. The roadmap calls for a proactive commitment to funding capacity-building and data-collection exercises—thus, the senior management team's buy-in and approval will be necessary.</td></tr>
<tr><td>Board of directors of the CBS</td><td>To provide approval of the policy proposal.</td></tr>
<tr><td>Minister of finance</td><td rowspan="4">To provide feedback on the policy proposal and seek buy-in in order to ensure successful implementation of the roadmap. This shall entail discussing and agreeing on key performance indicators to measure the outcome of the roadmap.
Furthermore, feedback on the legislative framework shall be necessary to ensure fitness for purpose.
Moreover, whilst the budget for staff training may not be a significant line item for stakeholders, the roadmap shall call for a proactive commitment in building capacity to effectively and efficiently implement the roadmap.</td></tr>
<tr><td>Minister of agriculture, climate change, and environment</td></tr>
<tr><td>National Climate Change Committee</td></tr>
<tr><td>Seychelles Bankers Association (SBA)</td></tr>
<tr><td>Financial Education Steering Committee</td><td>To create awareness of climate change/sustainable finance to ensure that tourism-sector MSMEs (and the general public) are educated on the same.</td></tr>
</table>

Consequent to receiving approval of the policy, the actions to be taken shall be embedded into the CBS' existing action plan on climate change/sustainable finance; the existing internal technical working group[15] will be expanded to include members from other divisions within the CBS.

Key Indicators of Change

To monitor and evaluate the impact of the proposed policy bundle, data shall be collected by the CBS, before and after the implementation of the roadmap, as follows:

Data Type	Data Collector
Number of staff trainings conducted and/or number of staff trained on sustainable finance, both at the banks and the CBS	CBS and SBA
Percentage measure of the CBS and banks staff's understanding before and after sustainable finance trainings	CBS and SBA
Number of targets achieved in the roadmap	Stakeholders involved with implementing the action points within the roadmap, such as CBS, SBA, and ministries responsible for finance and climate change
Number of banks offering sustainable finance products and services, inclusive of the number of products and services available in the market	CBS
Number of peer exchanges conducted by the CBS	CBS
Percentage of the national budget allocated for mitigation and adaptation measures[16]	Ministry of Finance conjunctly with CBS

In addition to these indicators, a survey may be conducted within two to three years of the roadmap's implementation to assess the policy's impact on access to sustainable finance by MSMEs.

Conclusion

The proposed policy solution is envisaged to provide tourism-sector MSMEs with the required sustainable finance products and services to supplement their savings and/or lack thereof in order to implement mitigation and adaptation measures so as to remain sustainable. Ultimately, Seychelles having a tourism-dependent economy, this policy will further safeguard against a possible collapse of Seychelles' economy from unprecedented and severe climate shocks, which pose significant threats to SIDS.

Notes

1. Defined as per Bakken (2021) as any financial activity that considers environmental, social, and governance factors for any economic activity or project.
2. The climate change impact on the tourism sector has increased significantly over the years, especially regarding MSMEs' ability acquire appropriate financing opportunities that fit their needs (Benoiton 2023).
3. Defined as per de la Fuente (2007) as unexpected events that surpass the capacity of a nation to cope with their effects.
4. As of 2021, the tourism sector accounts for an estimated 20.9 percent of Seychelles' GDP and contributes to 26.7 percent of employment (IMF 2022).
5. As of December 31, 2022, the Seychelles Revenue Commission recorded a total of 10,696 registered MSMEs, out of which the majority are directly or indirectly related to the tourism sector, given Seychelles' dependence on tourism (Seychelles Revenue Commission).
6. The government of Seychelles aims to develop and implement a climate change strategy for tourism, therein to incorporate long-term sustainable planning and management of tourism infrastructure and coastal management, in partnership with the private sector. However, I believe this to be impossible without the availability of financing opportunities. This is likewise linked to the Tourism Master Plan, wherein emphasis is placed on

the growing need for a commitment to ecological and sustainable tourism in order to conserve and protect the environment.

7. Sustainable finance products and services refer to low-interest credit facilities with reduced and capped processing fees and financing of 100% of the investment. The aim is to assist with achieving net-zero emissions.
8. From the demand side, the interviewees included MSMEs on the three main islands of Mahé, Praslin, and La Digue based on the coastline and inland. From the supply side, the interviewees included policymakers and financial services providers.
9. As per credit data collected by the Central Bank of Seychelles.
10. Ibid.
11. Only one bank is offering a green loan for both households and businesses. The green loan was only launched in mid-2022 and is only accessible by clients of the bank. Moreover, a lack of regulatory and supervisory guidance makes it difficult to implement such products and services (Benoiton 2023).
12. Policymakers are cognisant of the ongoing challenge of MSMEs' access to finance coupled with the need for tailored products and services to tackle the climate issue. This challenge is believed to result from a lack of coordination and collaboration locally. Besides, being a novel concept, there is a need to better understand climate change and the required financing mechanism to implement (Benoiton 2023).
13. Being cognisant that data on MSMEs' access to finance is quite limited in Seychelles, the CBS shall undertake a more comprehensive demand and supply side study to validate its understanding of the underlying issue.
14. The president of the Republic of Seychelles is a strong advocate on the climate change issue and stands ready to support policies aiming to curb it.
15. Consists of staff from the Financial Surveillance Division and Financial Inclusion and Market Conduct Division only.
16. There is an ongoing exercise being conducted by the Ministry of Finance whereby past national budgets are being scrutinised to assess how much has been spent on mitigation and adaption measures. Therefore, it is anticipated that the roadmap will provide an alternative for accessing financing to assist in reducing the burden on taxpayers.

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Enhancing Resilience of Women-Led MSMEs in the Rural and Maritime Areas in Fiji against Extreme Weather Events

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Keywords: WMSMEs; resilience; extreme weather events

Executive Summary

Women-led or -owned MSMEs (WMSMEs), which play a critical role in economic development and gender equality, face unique challenges in adapting to and recovering from ever more frequent and severe extreme weather events.[1] This has never been truer for the small, open, and developing economy of Fiji than over the last decade.

WMSMEs account for half of the formal MSMEs in Fiji[2] and more than half of the informal sector.[3] Data from the Post-Disaster Needs Assessment released in May 2016 showed that WMSMEs in Fiji suffered extensive damage and losses and some faced significant challenges to recover.

This policy memo proposes well-coordinated financial and digital literacy awareness campaigns, in collaboration with key stakeholders across the rural and maritime areas in particular, to enable WMSMEs to identify the benefits of using financial services for the purpose of increasing their resilience against these extreme weather events.

Problem Statement

In Fiji, MSMEs account for around 18 percent of GDP, employ around 60 percent of the working population, and account for close to 90 percent of registered businesses. While MSMEs form the backbone of the economy, they continue to operate largely out of the purview of the formal financial sector.[4] This policy memo focuses on WMSMEs in the rural and maritime areas, which are more vulnerable and have far less resources to recuperate after extreme weather events—compared to those in the peri-urban and urban centres.

Particularly vulnerable to damage caused by natural hazards, Fiji's agriculture and fisheries industries and MSMEs are also critical sources of livelihood for a large portion of the population; 36% of all employment is in agriculture, and half of all rural households have some involvement in subsistence fishing.[5]

Severe Tropical Cyclone Winston (category 5) inflicted damages of slightly more than 1 billion USD or 20% of GDP in 2016, largely affecting the MSME sector, including WMSMEs. The impact on the productive sector is illustrated in the table below:

Sector	Women's Share by Sector (%)	Personal Income Losses (In Millions FJD)		
		Total	Men	Women
Agriculture	0.33	298.2	198.9	99.3
Commerce	0.43	17.2	9.8	7.4
Manufacturing	0.31	18.5	12.8	5.7
Tourism	0.42	17.0	9.9	7.1

Source: *Fiji Post-Disaster Needs Assessment*, May 2016

The agriculture and tourism sectors, where the majority of women entrepreneurs operate, show income losses incurred by women totalling 106.4 million FJD. Of the 43 percent of MSMEs that suffered extensive damage and losses, 38 percent were WMSMEs. As savings are diverted towards meeting basic household needs and home reconstruction, there may not be enough capital available to restore businesses.

Key Causes

WMSMEs lack access to formal and informal credit products, especially in the rural and maritime areas. The 2020 Financial Services Demand Side Survey (DSS)[6] noted that only 7 percent of women borrowed formally. The agriculture sector, dominated by WMSMEs, receives less than 4 percent of the total loan funding from formal lending institutions and constitutes only 5 percent of total MSME loans. The DSS also noted that 85% of respondents do not have insurance; the most common reasons include: not needing insurance (50%), product costs concerns (49%), not knowing what insurance is/how it works (44%), and not knowing where/how to access it (33%).

People-centred policy research found that women operating small businesses are comfortable meeting their immediate needs—i.e., their family's livelihood—and are not seeking relevant financial services that would allow them to grow their businesses, to generate adequate profits, and to recover quickly after natural disasters.

FSPs are not expanding their services to island communities. This is because, coupled with an ineffective credit bureau that heightens potential risks, FSPs see MSMEs as high risk and doubt their ability to comply with requirements. For insurers, low scale makes this segment unprofitable.

Potential Solutions

The following solutions have been tested and proven to work in urban areas in Fiji:

Enabling WMSMEs to access customised credit products from formal financial institutions: The 2016 Post-Disaster Needs Assessment noted the need for "soft loans and medium to long term skills development and external markets…for women entrepreneurs to restart their business, reduce their reliance on local markets and enhance their resilience against future disasters." The 2018 MSME Landscape Study highlighted the need for capacity development in business skills, reviewing the policy environment to facilitate business setup, and establishing a differentiated MSME development bank.

Enabling WMSMEs to access customised insurance products from licensed insurers: The 2020 DSS noted that "the overall level of understanding on insurance is low amongst Fijians and there is also a need to build trust." The proposal is to promote financial literacy and awareness of insurance benefits to WMSMEs, in order to increase uptake and to prompt insurers to design products tailored to WMSMEs.

Coordinated financial and digital literacy awareness campaigns in the rural and maritime areas in collaboration with financial institutions and relevant development partners: Relate the benefits of using financial services and technology, which can enable greater resilience against natural disasters.

Collaboration between relevant stakeholders will enable joint initiatives, knowledge sharing, and, more importantly, coordinated efforts.

Priority Objective

A key finding from people-centred policy research is that WMSMEs are unlikely to have collaterals or adequate records that would make them eligible for financial services from commercial banks or the Fiji Development Bank. Financial and digital literacy awareness campaigns would enable WMSMEs to identify the benefits of financial services to grow their business (credit, savings) and provide protection (insurance, savings), including when facing extreme weather events.

Awareness programs should be designed for practical outcomes; financial literacy seminars and workshops should leave participants with practical actions to implement post-workshop. To ensure this, effective follow-up and monitoring should be factored in.

Digital financial services have the potential to expand financial services to remote areas and to vulnerable groups at a low cost and with convenience. The lack of digital literacy and awareness of availability of such platforms results in low usage of internet banking and mobile money systems.

Policy

The policy idea is for the MSME Working Group (MSMEWG) and the Consumer Protection and Financial Capability Working Group (CPFCWG) under the National Financial Inclusion Taskforce to collaborate with commercial banks and insurers to design targeted financial and digital literacy awareness programs for WMSMEs in the rural and maritime areas focusing on financial services products (credits, savings, and insurance) that will enable them to be resilient after extreme weather events. The programs are also to explore the suitability of using digital financial services in these areas.

Awareness programs will also educate WMSMEs about the risks associated with extreme weather events and the resources available to enhance their own resilience. This will include the importance of risk assessment, adaptation strategies, and sustainable business practices.

Through surveys and questionnaires, FSPs will gather data on the specific challenges faced by WMSMEs during and after extreme weather events; these data should help inform FSPs in designing tailored products aimed at this potential market segment.

Related initiatives:

- Forums for WMSMEs in the rural and maritime areas;
- Roundtables with WMSMEs and FSPs;
- Awareness-raising interviews on podcasts and local radio and TVs; and
- Media campaigns to invite WMSMEs to capacity-building workshops.

Stakeholders and Next Steps

The key internal stakeholder is the Governor of the Reserve Bank of Fiji, who will need to approve the policy idea.

With the Governor’s green light, discussions will be held between the chairpersons of the MSMEWG and the CPCFWG; these stakeholders will also assist in driving the policy idea through their respective WGs. Representatives of FSPs who are members of the WGs will bring the discussion to their respective institutions in order to promote the policy idea.

Collaborations between other stakeholders and FSPs will also be channelled through the respective industry associations, where the governor can promote the policy idea with the head of the financial institutions.

Another key stakeholder in this initiative is the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), which, at the end of 2022, signed a memorandum of understanding with the Reserve Bank of Fiji (RBF) aimed at addressing the financial inclusion gender gap. Possible funding provided by UNESCAP can be used for reaching the rural and maritime islands in person to deliver awareness programs and campaigns.

Collaboration will also include MSME Fiji, under the Ministry of Trade, Cooperatives, SMEs and Communication (MTCSMEC),[7] and the Ministry of Women, which are also recipients of UNESCAP's grants assisting women and women entrepreneurs.

In devising the programs and locations for targeted awareness campaigns, data will be essential, and collaboration with the Fiji Bureau of Statistics, FSPs, and the Fiji Revenue Customs Authority will be key in this regard.

Key Indicators of Change

- Number of WMSMEs in rural and maritime areas that attend the awareness sessions;
- Level of growth in financial literacy and awareness of available products—an average financial literacy score will be designed and measured;
- Percentage score on awareness of benefits and on identification of appropriate products by WMSMEs—a survey will be carried out by the RBF during the awareness campaigns and 12 months after;
- Number of WMSMEs with bank accounts, credit accounts, and insurance or mobile money accounts compared to at the beginning of the awareness campaigns;
- Number of new tailored products developed for WMSMEs in the rural and maritime areas; and
- Expansion of the parametric insurance products by onboarding 5,000 new households by the end of 2025, comprising 3,000 poor and vulnerable households (living on less than 15 USD PPP per capita/day).

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Insurance

Enabling Access to Health Insurance for Farmers and Informal Workers in Madagascar

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Keywords: accessibility, healthcare, financial education

Executive Summary

Farmers and informal workers in Madagascar are unable to meet their financial needs when faced with health shocks. The third general census of the population in 2018 classified 84.4% of the rural population as multidimensionally poor[1] and found that 93% of employed individuals worked in the informal sector as their main occupation.[2] However, the lack of access to health insurance leaves them vulnerable to financial hardships caused by unexpected health-related risks. To address this challenge, the proposed policy idea is to provide awareness and financial education on health insurance to farmers and informal workers, empowering them to make informed decisions and access affordable insurance options.

Problem Statement and Context

Madagascar is predominantly an agrarian society, with 83.2% of households depending on agriculture as their primary source of income.[3] Additionally, 80.7% of the population resides in rural areas.[4] An estimated 5.3 million people, accounting for 47% of all adults, earn less than 1 USD per day, and 87% of all adults generate the majority of their income in the informal economy. According to the 2017 Financial Inclusion Diagnostic Report, many Malagasy are susceptible to shocks that can significantly impact their livelihoods.[5] The FinScope Consumer Survey 2016 highlighted that over 2 million people faced health risks. Unfortunately, only 8% of Malagasy adults have access to formal insurance, mainly limited to mandatory insurance. Among those with formal insurance, only 10% have health insurance.[6]

Key Causes

The key causes of the inability of farmers and informal workers to cope with health shocks can be attributed to the high costs associated with healthcare services, the low level of savings, and the nonuse of health insurance.

The high costs associated with healthcare services present a significant barrier to access for farmers and informal workers. In 2021, healthcare expenses represented 20.4% of total household expenditures (excluding food).[7] This proportion exceeds the threshold of catastrophic health spending, which is 10% of income. Catastrophic health spending is defined by the Sustainable Development Goal's monitoring framework as "out-of-pocket health spending exceeding 10% or 25% of the household's total consumption or income."[8]

The 2017 Financial Inclusion Diagnostic Report revealed that over 2 million adults across Madagascar suffered the death or loss of income of a breadwinner, and 2.6 million Malagasy adults faced health-related risks.[9] However, only 1 million adults, representing 4% of the population, possessed formal or informal savings to mitigate these shocks.[10]

Despite the evident risks faced by most adults, the primary reason for low insurance uptake is the lack of awareness and understanding of the benefits. The 2017 Financial Inclusion Diagnostic Report stated that 42% of individuals cited a lack of understanding of the insurance product, while 25% did not perceive a need or desire for insurance coverage.[11]

Potential Solutions

The following solutions are proposed in order to enable access to health insurance for farmers and informal workers:

- Increasing awareness and understanding of insurance,
- Enhancing affordability of health insurance, and
- Strengthening the support provided by the supervisory ministry to the insurance sector.

Policy

The proposed policy idea revolves around two key strategies: increasing awareness and understanding of health insurance among farmers and informal workers, and improving the affordability and accessibility of insurance options for this vulnerable population.

Firstly, a comprehensive financial education program on insurance, specifically targeting farmers and informal workers, will be integrated as an implementation activity of Madagascar's recently developed strategic framework document for financial education in Madagascar and national financial education program, which are currently undergoing validation within the government. The strategic axis no. 2 of the strategic framework document for financial education focuses on "strengthening and supporting the financial skills of adults," and the national financial education program specifically addresses the theme of insurance for adults, with a particular emphasis on rural entrepreneurs. Consequently, this proposed financial education program will encompass the development of tools, awareness campaigns, and a train-the-trainer program tailored for farmers and workers in the informal sector. The document will be discussed and submitted to the Financial Education Working Group, an implementation body responsible for facilitating technical discussions and analyzing the implementation of actions outlined in the national financial education program.

Secondly, collaboration with insurance providers will be essential to develop and promote affordable health insurance options tailored to the needs of low-income individuals. The alternative will involve replicating a successful model of health mutual funds provided by microfinance institutions as an affordable option for health insurance. To achieve this, it is worth considering collaborating with the Professional Association of Microfinance Institutions to build on the experience gained in implementing health mutual funds and to facilitate the exchange of knowledge and experiences among peers. The model has shown promising results and can be adapted to meet the specific needs of farmers and informal workers. According to an interview with the CEO of the microfinance institution ACEP Madagascar, 82% of their clients are satisfied thanks to the health mutual fund, and introduction of the health mutual fund has enhanced clients' repayment capacity.[12]

Stakeholders

The National Coordination of Inclusive Finance (CNFI) is designated by the strategic framework document for financial education as the lead for implementing the financial education initiatives. Nevertheless, the success of the policy proposal relies on internal buy-in and the active involvement and cooperation of key stakeholders. These include:

- Supervisory ministry: The minister of economy and finance, the general director of treasury, the director of financial operations, and the national coordinator of inclusive finance: these government officials will play a crucial role in providing oversight, support, and guidance to ensure the effective implementation of the policy.
- Professional associations and providers: The Professional Association of Insurance Companies, the Professional Association of Microfinance Institutions and the Banking Association represent financial institutions that can contribute to the promotion and distribution of insurance products to the target population. Incentivizing providers, revising insurance taxation, and leveraging digital channels may be necessary to encourage their participation in servicing the target market, considering their prior reluctance related to challenges in taxation and high cost of mass distribution.
- Development partners: International organizations and development agencies operating in Madagascar can provide technical assistance, funding, and expertise to support the implementation of the policy proposal. Their involvement will enhance the effectiveness and sustainability of the initiatives.

Assumptions and Risk Mitigation

The success of the proposed policy relies on key assumptions, including political will, availability of budget, and willingness of providers. As mentioned earlier in the Potential Solutions section, supervisory ministry's support to the insurance sector is crucial towards improving access to health insurance. Persuasive advocacy by CNFI to its hierarchical authorities, urging them to approve the policy and allocate a budget, would serve as a key mitigation measure.

Key Indicators of Change

To monitor the progress and effectiveness of the policy proposal, the following key indicators of change will be monitored:

- Increase in insurance uptake: The number of farmers and informal workers who have had access to or have used health insurance will be tracked by incorporating data on the number of health insurance subscriptions or the number of enrollments in the health mutual fund into the quarterly data collection form submitted to CNFI.
- Improved financial literacy: In collaboration with the National Institute of Statistics, questions related to financial literacy will be added to the annual survey to capture the percentage of individuals who can define what insurance is, the percentage of people who are aware of the benefits of health insurance, and the percentage of individuals who can identify the different criteria for accessing a health mutual fund.
- Increase in providers offering health insurance: Following the implementation of the policy, the number of service providers offering insurance products tailored to low-income populations will be recorded.

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Improving the Financial Resilience of Low-Income Rural Households in Zambia through Data-Driven and Innovative Inclusive Insurance

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Keywords: data privacy and protection, insurtech, mobile phone usage

Executive Summary

The vast majority of low-income rural households in Zambia are vulnerable to income shocks. The FinScope Zambia 2020 Survey Report results show that of the 6.3 percent insurance uptake among the country's adult population, only 1.36 percent insurance uptake was attributed to rural-based adults. This low uptake of insurance, coupled with low and unstable income, leaves these households extremely vulnerable to income shocks. To address this lack of financial resilience or inability to cope with unexpected adverse situations, the proposed policy solution is to develop a framework or model that enables insurers to leverage consumer data generated by mobile phone usage. Insurers can use this data to develop and provide products that are customer centric. Through research, including expert and consumer insights, the model can guarantee consumer data privacy and protection whilst delivering appropriate insurance to low-income rural households.

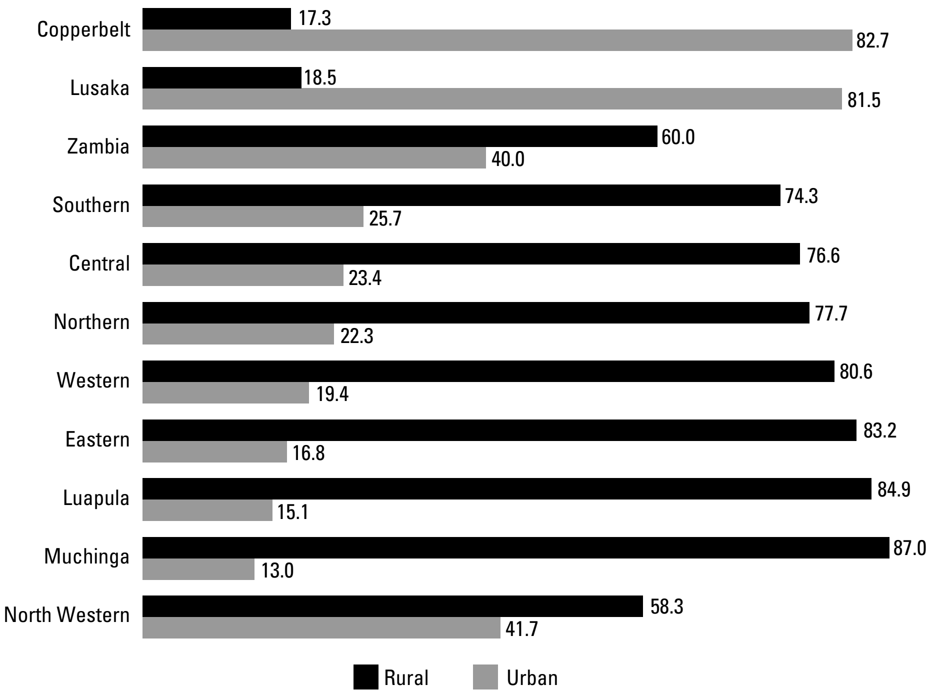
Problem Statement and Context

Godfridah, a rural farmer in Zambia's Central Province, relies on small-scale farming to support her household and keep four children in school. She fell sick during the crucial planting period, which adversely affected her crop yield and consequently put her household under financial strain. With no savings and no insurance to fall back on, Godfridah now faces the difficult decision of choosing which child should remain in school due to financial constraints. Godfridah's story is not unique. It is, in fact, reflective of the high incidence of exposure to income shocks and of the adverse impact that such unexpected events have on the financial health of low-income rural households.[1]

The 2022 census of Zambia reveals that 60% of the country's population resides in rural areas (Figure 1).[2] The final detailed report on population statistics, including gender perspectives, has not yet been published. Preliminary data suggest that the lack of financial resilience mechanisms, like insurance, could disproportionately affect rural households (Figure 2).

Between 2015 and 2020, there was a significant increase of 10.1 percentage points in financial inclusion, which reached 69.4% in 2020.[3] Formal financial inclusion rose from 38.2% to 61.3%, indicating greater access to formal financial services.[4] Conversely, informal financial service usage declined, dropping to 32.2% in 2020 from 37.9% in 2015. This shift was attributed to the growing acceptance and usage of mobile money products.[5]

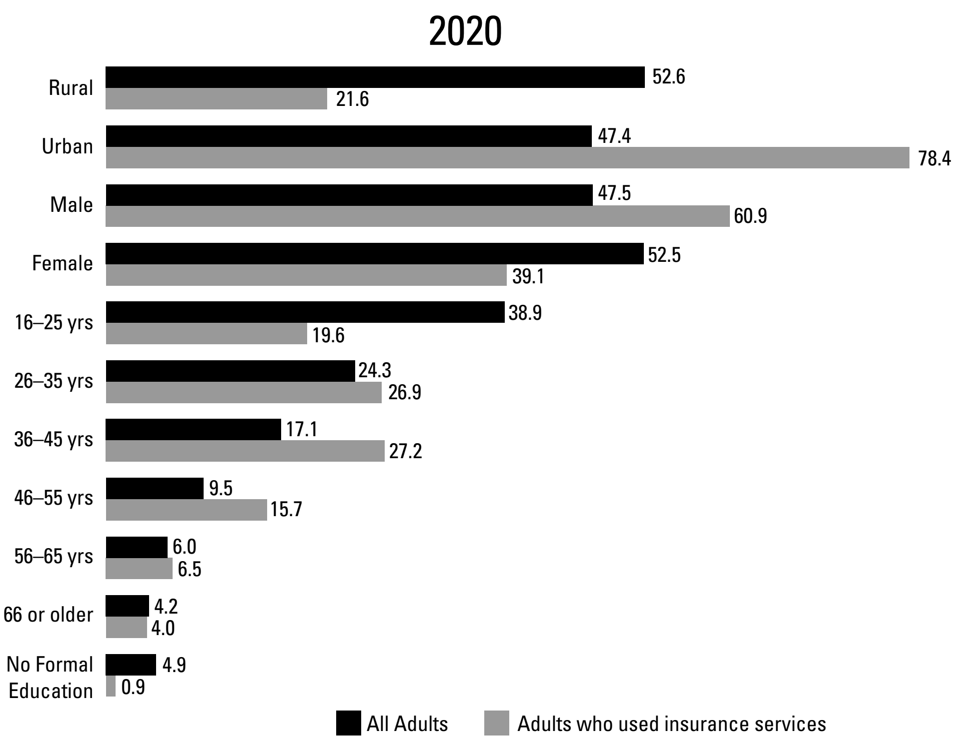
Figure 1. Percentage Distribution by Rural and Urban, Zambia 2022



Source: Zambia Statistics Agency, *2022 Census of Population and Housing, Preliminary Report*

Despite overall financial inclusion growth, insurance adoption lags behind. Usage rose from 2.8% (2015) to 6.3% (2020), far below the general financial inclusion increase.[6]

Figure 2. Profile of Adults Using Insurance Services Compared with the Total Adult Population (Percent)



Source: Adapted from FinScope Zambia, *2020 Survey Report*

Key Causes

The top five reasons cited for the low usage of insurance in Zambia all relate to lack of or low awareness and knowledge (Figure 3).

Figure 3. Barriers for Unserved Adults to Using Insurance Products

Barriers	2020	2015
Never heard of insurance	40.9	88.3
Cannot afford insurance	24.9	3.0
Does not know how insurance works	12.5	2.3
Does not know the benefits of insurance	10.8	1.1
Does not know where to obtain insurance	4.0	—
Doesn't need it; protects self in other ways	2.9	—
Does not trust insurance companies	1.5	—
Believes that insurance companies do not reimburse claims	1.2	—
Does not want to think about bad things happening	1.0	—

Source: FinScope Zambia, *2020 Survey Report*

Other reasons exist, such as the reliance on informal social structures. As stated by Mushfiq Mobarak,[7] part of the reason for the reluctance of individuals to use formal insurance products is that, in developing countries, the farmers' informal networks offer the perception that they are not wholly uninsured. The people-centered policy research reiterated this reliance on social-cultural structures (extended family, religious groups, community).[8] Low insurance uptake also results from lack of appropriately designed products and inadequate consumer protection systems.

Insurance service providers attribute low insurance uptake to a lack of stakeholder collaboration and to insufficient regulatory recognition of the value of technological innovation as solvency capital.[9] Insurtechs emphasized the need for a flexible regulatory framework to control their technology-based products' value chains.[10]

Potential Objectives

To enhance financial resilience among rural households, various potential objectives related to insurance can be pursued. These potential objective bundles include:

- **Consumer data accessibility and sharing:** Create a platform to develop a framework or model that allows insurers to access a wider range of the consumer's mobile-phone-generated data. The purpose for accessing this data is to design and offer data-driven and tailored products whilst guaranteeing consumer data protection and privacy.
- **Skills development in designing data-driven insurance products:** Enhance capacity of insurance service providers in developing and designing data-driven products. Insurance providers can improve the design of data-driven products with skills that make use of consumer-generated data from mobile telephony usage.
- **Foreign-based insurtechs' participation:** Because the scale of technological infrastructure investment and the cost of compliance in the jurisdiction may be prohibitive, develop a framework allowing foreign-based insurtechs to offer their services without having to set up full-scale operations, which may not be financially viable. This should address the problem of the size and scale of the potential customer base in Zambia, which may not be attractive to insurtechs.

Priority Objectives Bundle

This policy memo focuses on a bundle of the two objectives relating to access and usage of consumer data for innovative, inclusive insurance for low-income rural households. The chosen priority objectives include:

- Consumer data accessibility and sharing, and
- Skills development in designing data-driven insurance products.

Shifting from using mobile phone technology solely as a distribution channel for traditional insurance products holds transformative potential.[11] These objectives are aligned with the Pensions and Insurance Authority's mandate of growing the insurance sector.[12] They offer significant potential to revolutionize insurance provision for low-income households.

Policies

The two recommended complementary policy solutions are as follows:

- To establish an innovation hub or working group to develop a workable model for insurance providers' access to and usage of consumer data from mobile phones; and
- To enhance capacity of insurance providers through training in the development of data-driven insurance products for low-income rural households.

Zambia had a total number of 19.8 million active mobile cellular subscriptions at the end of 2022.[13] This represents a mobile penetration rate of 101.2%. The country had 11.2 million active mobile money subscriptions in the same year.[14]

In terms of payments, mobile money transactions amounted to 295.8 billion ZMW in 2022, comprising 50% of 590.5 billion ZMW in total annual retail payments.[15] By volume, mobile money transactions accounted for 1.58 billion out of 1.68 billion retail payments, indicating a significant annual growth of 90% and 75% in volume and value, respectively.[16]

These statistics underscore the need for collaboration among stakeholders in the insurance sector in developing a viable model for open but secure access to and usage of data generated from mobile telephony. Insurers in advanced insurance markets use opt-in telematics, wearables, or other IoT devices to collect their data.[17] However, this model is not suitable for delivering inclusive insurance to consumers who are not as digitally and financially literate.

To address data protection and privacy concerns, as well as consent issues, a more suitable model or framework should be developed at policy level with involvement of all relevant stakeholders. Additionally, it is essential to train insurers to effectively and safely utilize access to this data.

Stakeholders

- Pensions and Insurance Authority: The institution's support and approval for the purpose of resource allocation and engagement of external stakeholders is critical in implementation. Buy-in from the head of Insurance Supervision will ensure leadership is provided at the departmental level.
- Zambia Information and Communications Technology Authority: The regulator of the ICT sector is to provide expert insights and facilitate the participation of the mobile telecommunications companies.
- Bank of Zambia: The regulator for payment system providers and mobile money business units of telecommunication companies is to provide insights from its experience regulating microlenders that use mobile phone data in the provision of digital credit.

- Office of Data Commissioner: The law on cybersecurity, data protection, and privacy falls under the purview of this office.
- Financial Sector Deepening Zambia: This organization works closely with both public- and private-sector institutions and already has experience in multi-stakeholder engagement for the advancement of financial inclusion.

Important Assumptions Made in the Theory of Change

- Increasing insurance uptake is a priority for the Pensions and Insurance Authority and other key stakeholders.
- ICT infrastructure exists for telecoms to allow access to their consumers' data on commercially viable terms.
- Insurers or insurtechs have the capacity to use this data in a commercially viable and safe manner.
- There is consensus among the stakeholders that third-party (insurers') access to wider data is more beneficial than limited data collected by individual entities.
- Existing consumer awareness will continue and begin to gravitate towards digital financial literacy.

Key Indicators of Change

The following milestones or indicators will form part of the Pensions and Insurance Authority's mechanism to monitor progress and evaluate the impact of the recommended policy solution:

- Adoption or approval of the recommended policy solution at the institutional and external stakeholder level.
- Launch of policy position paper, regulation, standard, or guideline relating to access and usage of consumer data from mobile phone usage.
- Number of mobile phone data-driven insurance products targeted at the low-income bracket from the product review submissions that insurers file in as a regulatory requirement.
- Number of low premium, high frequency, and low claims value insurance policies issued by insurers from their periodic regulatory submissions.
- Acceptability of test products among the test participants or customer satisfaction surveys for low-income rural households that will use these insurance policies.

Conclusion

Insurance is vital for low-income rural households, helping them when faced with unexpected challenges like illness, crop failure, or natural disasters. Open access to consumer data fosters opportunities to offer suitable insurance for people like Godfridah. This can build financial resilience and stability in their spending, savings, and borrowing.[18]

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Women's Financial Inclusion

Promoting Financial Inclusion of Low-Income Women in Nigeria Using Gender-Centric Products

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Keywords: banks, financial services, tailored products

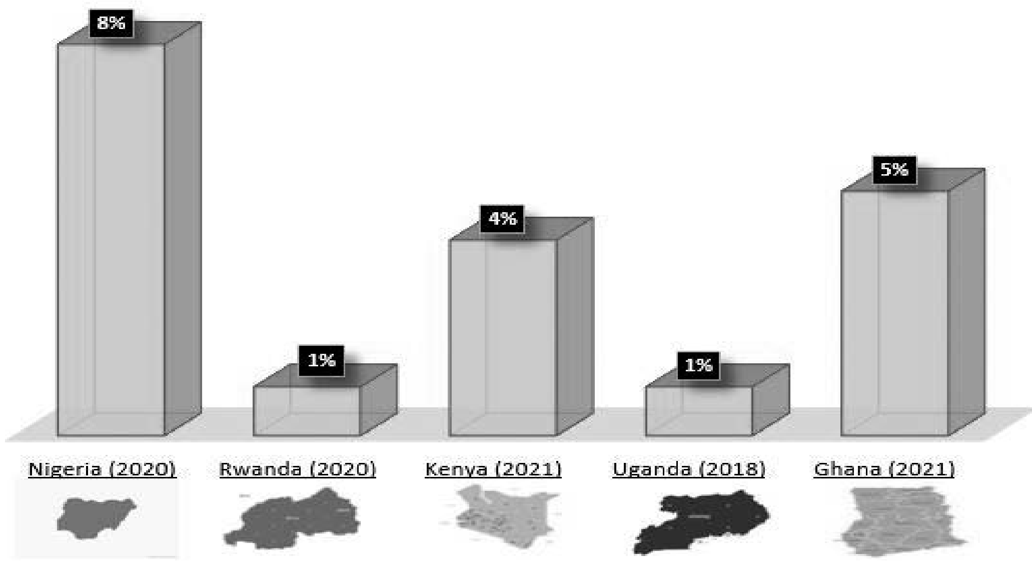
Executive Summary

Half of the adult population in Nigeria are women,[1] yet they remain underserved and unserved compared to men in all financial segments. The majority of Nigerian women earn below the minimum wage and are unable to access and use formal financial services to meet their personal and business needs. Research has shown that lack of tailored products is among the key causes of the financial exclusion of women. This policy memo presents recommendations that will promote the deployment of tailored products by financial service providers (FSPs) that meet the financial needs of low-income women in Nigeria.

Problem and Context

There are 53 million adult Nigerian women. Of these, 82% work in the informal sector, 44% are business owners, and 40% are financially excluded. Nigeria has a higher gender gap than its peers in Africa (see figure 1).[2] Currently at 8%, the gap has persisted over the years despite concerted efforts by the Central Bank of Nigeria (CBN) and other financial inclusion stakeholders to address identified barriers.

Figure 1. Financial Inclusion Gender Gaps across Comparator Countries in Africa



Source: Gender Centre of Excellence (2023)

While the 8% gap represents combined formal and informal exclusion of women, the gender gap in access to financial services provided by regulated financial services providers increased from 10% to 12% between 2012 and 2022, with only 24 million women having a bank account.[3] This gap is attributed to population growth and the fact that many women rely on agency banking and other informal service providers to meet their financial needs. This is unlike access to cooperative financing and Village Savings and Loans Associations (VSLA) products in the informal segment, which recorded a 0% gender gap as of 2020.

Key Causes of Financial Exclusion of Women

Supply Side

The main supply side barrier to the financial inclusion of women in Nigeria is lack of tailored products that meet the needs of low-income women.[4] A study conducted by the Financial Alliance for Women estimates the market opportunity to service women in Nigeria at over 760 million USD annually. The study reveals that FSPs have not exploited this opportunity, as only 28% of commercial banks and 14% of microfinance banks who participated in the study have developed products and services dedicated to women.[5] Although FSPs recognise the importance of the financial inclusion of women and of servicing the women's market, most FSPs have either not developed necessary products or have developed products that remain at the piloting stage. FSPs require evidence that gender-centric products will yield the desired profits before they launch them. This is the result of a combination of factors, which includes:

- Lack of understanding of how to build scalable models and commercially viable products;
- Lack of buy-in from the institutions' management, which has stalled the advancement of products;
- Challenges in servicing women customers, as the majority live in rural areas; and
- FSPs' assessment that the cost of servicing and lending to low-income women is high.

Demand Side

In addition to the supply-side barriers, there are numerous demand-side causes of financial exclusion of women in Nigeria. These include:

- Low literacy levels,
- Insufficient income,
- Social norms,
- Lack of access points,
- Lack of means of identification,
- The digital gender divide,
- Lack of collateral, and
- Lack of trust in financial institutions.

It is noteworthy that, in order to meet household needs, most Nigerian women become entrepreneurs. Their entrepreneurial activity outpaces that of men by 4%.[6] However, the women of Nigeria earn 42% less than the men; over 80% of women earn below minimum wage. Most low-income women earn below 2 USD a day, and for most financial institutions, the minimum operating balance ranges between 0 and 5 USD, while the initial opening deposit required is between 0 and 23 USD.[7] These costs in addition to others, such as account maintenance fees, are considered expensive and discourage low-income women from using formal financial services.

Ongoing Policy Initiatives

The Central Bank of Nigeria (CBN) and other stakeholders have launched a number of policies and initiatives to drive financial inclusion of women and close the gender gap. Among these are the recently revised National Financial Inclusion Strategy (NFIS) 3.0, which recognises women as a priority group and seeks to increase the adoption and usage of financial services among the group. The Framework for Advancing Women's Financial Inclusion in Nigeria was developed in 2020 with eight strategic imperatives to address the barriers to financial inclusion of women; the Nigerian Sustainable Banking Principles (NSBP) issued in 2012 to all banks in Nigeria seek to promote women's economic empowerment through the provision of products and services specifically for women and to promote financial inclusion.[8] Despite the launch of these initiatives, women remain a disenfranchised segment; hence, more needs to be done to improve their access to financial products and services.

Potential Solutions

There are potential solutions that could promote Nigerian FSPs' development of tailored products for low-income women. They are presented as follows:

1. An awareness campaign conducted by the Financial Inclusion Delivery Unit in collaboration with the National Collateral Registry (NCR) for FSPs to promote the use of movable assets registered with the NCR to meet loan collateral requirements. Engagement with FSPs will aim to ensure that loan products that are developed for women allow the use of registered movable assets.
2. An advocacy and technical support program for FSPs, to build capacity and share insights on how to develop profitable products and demonstrate the business case. Examples of tailored products include (a) savings, loans, and insurance products that are offered free or are low priced but commercially viable and (b) loan products with repayments based on type of business or cashflow.
3. Incentives for FSPs to service women in rural areas with tailored products, such as shared cost of infrastructure setup, liberalised transaction costs, subsidised agent setup fees, interest waivers, reduced cash reserve ratio (CRR) and access to intervention (women credit guarantee scheme) funds to de-risk women's loans.
4. Financial and digital literacy programs to empower women, ensuring that they have the capacity to maximise the benefits from using financial products.
5. Development of a framework to promote gender-centric products by FSPs.

Priority Solution

This policy memo recommends the development of a framework for promoting gender-centric products by FSPs in Nigeria. The framework will set out guidance and procedures for FSPs to follow when developing products for women to ensure that only suitable products are deployed. This priority solution was chosen as it aligns with the goals of the revised NFIS 3.0 and the commitment of the CBN to improve women's access to financial products and services as well as to close the gender gap.

Key Stakeholders and Implementation

The key stakeholders are members of the Financial Inclusion Technical Committee (FITC), which is part of the Financial Inclusion Governance structure in Nigeria. The FITC is chaired by the deputy governor, financial system stability of the CBN. Approval to develop the framework will be obtained from the FITC. The framework will be developed and implemented collaboratively by members of the Financial Inclusion Special Interventions Working Group (FISIWG) and the Financial Inclusion Products Working Group (FIPWG) of the FITC and Community of Practice (COP) for the Framework for Advancing Women's Financial Inclusion in Nigeria.[9] Members of these working groups and COP are drawn from relevant departments in the CBN, industry associations, development partners, technical advisors, federal ministries and agencies, other industry regulators, and financial service providers. Consequently, engagements and consultations will be held with the respective stakeholder institutions.

Key Performance Indicators

The goal of the proposed policy solution is to ensure that suitable products are available and accessible to women, to enable them to meet their personal and business needs. The Financial Inclusion Delivery Unit (FIDU) will coordinate development and implementation of the framework. To monitor success, data on the following key indicators will be collected by FIDU on a quarterly basis:

1. The number of new financial products developed for women by FSPs,
2. The increase in the percentage of FSPs that offer financial products for women, and
3. The number of women who sign up for those products.

Conclusion

The inclusion of women plays a critical role in Nigeria's financial inclusion journey. The argument for improving women's access to financial products and services is compelling if Nigeria is to achieve its 95% financial inclusion target by 2024.[10]

Notes

1. Enhancing Financial Innovation and Access, *Key Findings: Access to Financial Services in Nigeria Survey 2020*, June 3, 2021.
2. Gender Centre of Excellence, *Situational Analysis of Women's Financial Inclusion in Nigeria*, April 2023.
3. Financial Alliance for Women, *Towards Women's Financial Inclusion: A Gender Data Diagnostic of Nigeria*, January 2022.
4. Central Bank of Nigeria, *Framework for Advancing Women's Financial Inclusion in Nigeria*, September 2020.
5. Financial Alliance for Women, *Towards Women's Financial Inclusion*.
6. Gender Centre of Excellence, *Situational Analysis*.
7. Financial Alliance for Women, *Towards Women's Financial Inclusion*.
8. Central Bank of Nigeria, *Nigerian Sustainable Banking Principles* (principles 4 and 5), July 2012.
9. Framework for Advancing Women's Financial Inclusion in Nigeria (FAWFIN) was launched by the CBN in 2020. Community of Practice 6 of the framework seeks to develop financially sustainable products and delivery systems that respond to low-income women's needs.
10. Financial inclusion target set in the Revised National Financial Inclusion Strategy 3.0.

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Empowering Women through Transparent Fees and Reduced Charges in Digital Financial Services

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Keywords: digital financial services, women, fee transparency, Nigeria

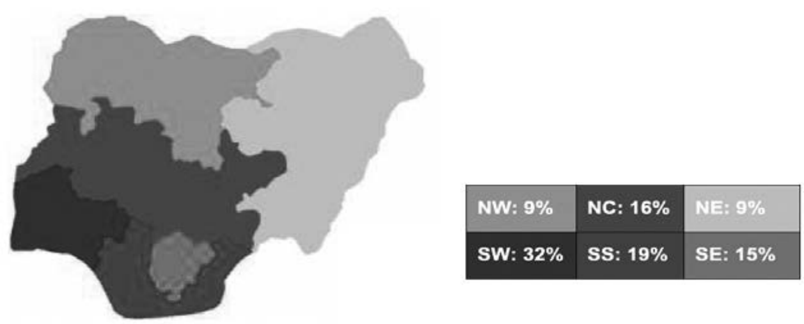
Executive Summary

Nigeria has witnessed some growth in financial inclusion over the years. As of 2020, the rate of financial exclusion had dropped from 40% to about 36%.[1] However, there is still a gender gap in the level of access for women, especially in the use of digital financial services (DFSs). DFSs have played a role in advancing the financial inclusion of women; however, the high cost of using some DFSs, especially those associated with banks, makes it difficult to achieve sustainable inclusion.[2] With the creation of affordable services that consider both the income disparities that women face and existing inequalities, women will be in a better position to retain their income, grow their savings, and withstand unexpected financial shocks.

Problem Statement and Context

A gender-aware analysis of access to financial services in Nigeria indicated that the national financial inclusion rate in 2018 was 58.9% for women as compared to 67.4% for men.[3] This disparity is prominent in northern Nigeria and also applies to transactions performed using DFSs.[4] Enhancing Financial Innovation and Access (EFInA), based on 2021 research, stated that 29.8 million Nigerians used digital payment systems, with only 9% of people in the North East and North West and 16% of people in the North Central receiving digital payments.[5] This percentage becomes lower once the data is further disaggregated by gender.

Figure 1. Usage of digital financial services by region



Source: Opportunities for promoting financial uptake through digital financial services, EFInA 2021

In an interview, four petty businesswomen and men residing in rural and peri-urban areas in North Central Nigeria[6] revealed difficulties they experienced when using DFSs, relating to affordability of services and awareness of the products and services being offered.[7] Considering the small scale of their businesses, they highlighted how the DFSs' charges affected the viability of their businesses and discouraged usage of DFSs.

Key Causes

High Transaction Cost and Multiplicity of Charges in Using DFSs

An audit of three bank accounts[8] from different commercial banks revealed multiplicity, inconsistency, and high costs associated with charges for certain services. Some of the charges identified included SMS charges, stamp duties, electronic transfer charges, account maintenance charges, and ATM maintenance charges, some of which were above the regulatory prescription. For charges such as stamp duties, it was observed that customers were charged 50 NGN for every credit above 1,000 NGN that they received. Three interview participants noted that the frequency of the charge has discouraged them from receiving payments using mobile money transfers.

Figure 2. Excerpt from one customer's account between March 31 and April 30, 2023[9]

Date of Transaction	Amount Deposited (NGN)	Stamp Duty Charged (NGN)
31-3-23	60,000	50
5-4-23	2,310	50
6-4-23	40,000	50
7-4-23	50,000	50
14-4-23	62,000	50
16-4-23	207,110	50
16-4-23	60,000	50
21-4-23	263,735	50
21-4-23	2,358	50

Women's Low Level of Knowledge of the Business Environment

There is limited knowledge and usage of DFSs in Nigeria, especially in northern Nigeria. The low literacy rate of women, caused by low investment in educational infrastructure and negative sociocultural norms, has contributed to this challenge. In some cases, women are not aware of the diverse service providers in the DFS space, possibly because of the limited reach of some services, poor marketing by service providers, or the lack of capacity to cater to a wide customer base. This leads to a reliance on mobile apps operated by commercial banks, often more expensive.

Inconvenience of Performing and Resolving Transactions

The success of DFSs depends on the financial regulators creating an enabling regulatory environment and on efficiency in telecommunication and internet infrastructure, among other factors. A frequent challenge experienced by customers is the prevalence of failed transactions through mobile apps or USSD and the long resolution time for such transactions. However, research conducted by Innovations for Poverty Action found that "transactions conducted via mobile applications succeeded 82% of the time while USSD-based transaction only had a 42% chance of success. . . . An aggregate two-fifths of all transactions failed."[10] Regardless of these figures, there is still the challenge of reliable and affordable internet and access to electricity in using smartphones for transactions, especially in rural areas.[11]

Potential Solutions

To strengthen the effectiveness of DFSs and to promote their usage by women, the following solutions may be explored:

- Reducing the cost of some DFSs and/or eliminating certain charges;
- Mandating fee transparency by financial service providers; and
- Exploring the offline use of a central bank digital currency (eNaira) to facilitate transactions where the internet is unavailable.

Priority Solutions

From the abovementioned potential solutions, this policy memo will focus on the first and second options, which are reducing the cost of some DFSs and/or eliminating certain charges and mandating pricing transparency by financial institutions (FIs). These solutions were prioritized because they are closely linked and because the responsibility of providing a guide on charges for financial institutions falls within the mandate of the Central Bank of Nigeria (CBN).

Access to digital financial services is one of the strategic priorities of the National Financial Inclusion Strategy 2021–2024, concretizing the importance of DFSs and the intention of the CBN to ensure that Nigerians have access to diverse financial services. Reduced charges mean consumers can use DFSs without worrying about the impact of these charges on their savings or income. It also means that customers will not use their accounts merely as "mailbox accounts"[12] due to the fear of charges.

Regarding transparency of charges, FIs need to make clear and visible the kind of charges being attached to customers' accounts. Consequently, customers can make an informed choice about the services they subscribe to or their choice of a service provider. Furthermore, transparency means that the CBN can keep track of institutions complying with its regulations. This may also lead to competition between service providers to provide the most affordable price that will attract more customers.

Policy Idea

To achieve the policy objectives, a two-pronged policy approach is suggested:

1. Revision of the "Guide to Charges for Banks, Other Financial and Non-Bank Financial Institutions" to reflect a general reduction in charges for digital transactions. An expansion of the scope of the types of DFSs that can be charged by banks, fintechs, and other financial institutions, and what the charges should be pegged at, should be explored. The following should be considered specifically:
   a. SMS notification charges for digital and other transactions should be pegged at a specific amount per month.
   b. A tiered approach to stamp duties should be adopted. An imbalance is created when the same stamp duty is charged, for instance, to a transaction of 1,000 NGN and 100,000 NGN. Also, the application of stamp duties to every deposit on customers' accounts should be eliminated.
2. The CBN should mandate transparency and reporting of charges for DFSs. The audit conducted of three bank accounts revealed that there were discrepancies in the amounts charged for intrabank transfers, card maintenance, and ATM card maintenance, as compared to the regulatory benchmark in the "Guide to Charges."

To ensure transparency of charges and compliance with the CBN's guidelines, a database, housed by the CBN, should be created that clearly states all the FIs and what they charge for specific DFSs. Although FIs will be required to make public all the types of charges that exist for DFSs and what those charges are, they should also be required to submit a quarterly report on what they are charging customers. The CBN will further conduct a quarterly audit of these charges to ensure that FIs are compliant, and where there is noncompliance, defaulting FIs should be fined.

Risks and Mitigation

As mentioned previously, some of the barriers to financial inclusion are awareness of products and low financial literacy. In creating a policy on transparency, one of the potential risks is the level of understanding by customers in rural areas with limited to no education. They may not be able to access/navigate the CBN website or their banks' website to find relevant information.

Thus, customers may find it easier to access this information if FIs are mandated to make this information visibly available in banking halls, as pop-ups in banking apps, and as an option in USSD menus. Making this information available in the three major Nigerian languages (Yoruba, Igbo, and Hausa—and, progressively, minority languages) may further encourage customers to utilize the information.

Key Indicators of Change

The main indicators to monitor[13] and evaluate the success of these policies will be:

- Number of women transacting with DFSs
- Number of monthly DFS transactions by women
- Number of banks complying with the pricing policy
- Number of FIs making their charges public to their customers and the CBN
- Percentage decrease of the inclusion gap

Policy Implementation

The implementation of this policy requires, in the first instance, the participation of various departments of the CBN, such as Financial Policy and Regulation, Payment System Management, Consumer Protection, Other Financial Institutions, Banking Supervisions, among others.

The immediate next step should be the constitution of an interdepartmental committee with stakeholder departments, to perform the following functions:

- Conduct in-depth research on the current charging landscape for DFSs, specifically the consistency in charges applied to different services by different FIs;
- Assess levels of compliance by FIs with extant guides on charges;
- Review the current position on stamp duties in conjunction with the relevant government agencies; and
- Develop guidelines or a framework on fee transparency.

Notes

1. Central Bank of Nigeria, *National Financial Inclusion Strategy*, 13.
2. Innovations for Poverty Action, *Nigeria Consumer Protection in Digital Finance Survey*.
3. Central Bank of Nigeria, *Framework for Advancing Women's Financial Inclusion in Nigeria*.
4. See Figure 1.
5. Central Bank of Nigeria, *National Financial Inclusion Strategy*, 13, 26.
6. Okino, Nabila, *People-Centered Policy Research for FLPFI Fellowship* (unpublished, 2023).
7. Note: Similar research was conducted by Innovations for Poverty Action, during which it surveyed 752 customers in Kaduna (North West), Enugu (South East), and Lagos (South West) to better understand the challenges consumers faced in using DFSs. Challenges such as agents charging extra to complete a transaction (33%) and unexpected or unclear charges (29%) were mentioned by consumers. Innovations for Poverty Action, *Nigeria Consumer Protection in Digital Finance Survey*.
8. Okino, *People-Centered Policy Research*.
9. Figure 2 depicts deposits received in a customer's account and the accompanying stamp duty charged. It is important to note that the account statements of the petty traders interviewed could not be obtained and that the inflow in the account depicted is not for business transactions. However, it is assumed that an account used by a trader to receive payments will have more deposits and, consequently, more stamp duties.

10. Blackmon Williams and Brian Mwesigwa, "Measuring Fees and Transparency in Nigeria's Digital Financial Services," Innovations for Poverty Action.
11. Ibid.
12. "A mailbox account is an account where an account holder makes only one or two deposits or withdrawals in a typical month. This indicator is taken to mean that the account holder uses the account only to receive income and, once that is received, the person tends to withdraw the full amount in cash." Saunders et al., *Lost in the Mail*.
13. Supply and demand side surveys can be conducted quarterly, evaluating both the uptake in the use of DFSs by women and the level of consistency in pricing by FI. The surveys will be done by consultants, who will report to the interdepartmental committee set up to address this issue.

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