Scale 2Save

Savings and Retail Banking in Africa 2022

WSBI survey of Financial Inclusion for micro, small and medium-sized enterprises (MSMEs)

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Acronyms

- AfCFTA African Continent Free Trade Agreement
- AFI Alliance for Financial Inclusion
- AML Anti-Money Laundering
- ATM Automated teller machines
- BIS Bank for International Settlements
- BTCA Better than Cash Alliance
- CFT Combating the Financing of Terrorism
- CDD Customer due diligence
- FATF Financial Action Task Force
- FCDO UK Foreign, Commonwealth & Development
- FSD Financial sector deepening
- FSP Financial service provider
- GPFI Global Partnership for Financial Inclusion
- IMF International Monetary Fund
- KYC Know Your Customer
- MSME Micro, Small and Medium Enterprise
- MSMEO Moroccan Micro, Small and Medium Enterprise Observatory
- NDPII Government National Development Plan II
- NFIS National Financial Inclusion Strategy
- NGOs Non-governmental Organisations
- PoS Point of Sale
- SACCOs Savings and Credit Co-Operative Societies
- SME Small and Medium Enterprise
- SMEDAN Small Enterprise Development Agency of Nigeria
- SSA Sub-Saharan Africa
- VLSAs Village Savings and Loan Associations

Foreword

Peter Simon
WSBI Managing Director

The purpose of the Scale2Save programme is to help African financial institutions better understand the low-value savings market so that they can develop products and services that will give poor people access to financial services.

Africa's people are energetic and entrepreneurial. Micro, small, and medium enterprises (MSMEs) provide over 40% of the continent's jobs. Yet these talented, determined and sometimes cash strapped people are often turned away by banks because their businesses are unregistered, lack records, or have no way to demonstrate their creditworthiness.

This is a lost opportunity, both for African financial institutions, and for African growth. Every year, more than 11 million young Africans enter the workforce, but only a quarter will find formal jobs.[1] Entrepreneurship will be the only way for them to feed themselves, and their families.

Many African financial institutions have been slow to awaken to this astonishing market opportunity or have found it too difficult to cater to this market. The World Bank estimated that "MSMEs cover 73% of their financial needs from internal funds (equity), while only 10 percent is from financial institutions and the rest is from suppliers and other informal sources."

Banks should be helping MSMEs grow by providing them with transaction services, working capital, and loans to fund investment and expansion. Instead, access to the formal financial sector for these MSMEs is often constrained by a host of factors. Firstly, many businesses are unregistered, and banks therefore turn them away when they ask to open accounts. Financial institutions often require collateral for secured MSME loans which MSMEs often lack. Lenders might turn instead to business history as a measure of credit-worthiness, but many MSMEs are poor at record-keeping. High charges deter MSME's from using banks, driving them to rely on mobile money operators and microfinance banks, which are often less rigid in their requirements to serve MSMEs. But few banks will accept records of mobile money transactions as a basis for lending.

1 https://www.feedthefuture.gov/article/making-agriculture-cool-again-for-youth-in-africa/

What needs to change?

Financial inclusion policies targeting MSMEs could greatly accelerate growth in Africa, and especially bolster the incomes of low earners. Regulators and policymakers understand the importance of MSME financial inclusion; however, inclusion works best where closely tracked and made into a policy goal. To help overcome the exclusion of unregistered businesses, it is advised for regulators to take a more proportionate approach to Know Your Customer (KYC) and Anti-Money laundering/Combating the Financing of Terrorism (AML/CFT) regulation, that reflects the real risk these firms pose, rather than applying a one size fits all approach. They should encourage interoperability between payment platforms, both domestically and cross-border.

Financial institutions can do more in helping MSMEs grow but to do so they need to reform their approach to MSME lending. They need to better understand the market and develop tailored products and competitive services. A great opportunity lies in broadening the range of tools financial institutions use to assess their customers creditworthiness. And they should increase interoperability with non-bank payment systems, especially those of mobile money operators.

Market facilitators, meantime, should gather better data about MSME financial inclusion and bring together market players to ensure they collaborate to improve financial access for this sector, whose growth and success is so vital to the future of Africa.

At stake is the future workforce of Africa, a substantial part of it being women and young people below the age of 35. Also at stake is the future of micro-finance and retail banking on the continent, many of these institutions being WSBI members. Of course, it is expected that some of the smaller businesses might fail, others will stagnate. But those who are agile enough to keep up with the needs of the market will go on to become unicorns and champions in economies that have the capacity to sustain high rates of growth with a potential to create millions of jobs for decades to come. Offering them the right mix of financial and non-financial services is part of the equation. Financial institutions that wish to assure their place in tomorrow's economy and participate in economic growth need to develop more flexible approaches to creditworthiness and start seriously financing Africa's energetic entrepreneurs. We hope this research will help to shed light on today's issues, and above all facilitate steps to improve financial inclusion for Africa's entrepreneurs.

Executive summary

The Savings and Retail Banking in Africa report aims to help improve access to financial services for financially disadvantaged people in Africa. The annual series was launched by the WSBI in 2018 but interrupted during 2020 and 2021 because of the Covid-19 pandemic. The 2022 edition is based upon research conducted with WSBI members in up to 34 countries on the African continent and produced in collaboration with FinMark Trust under the Scale2Save programme launched in 2016.

The 2018 and 2019 reports focused on four facets of financial inclusion: usability, affordability, accessibility, and economic sustainability.

The previous reports[2,3] focused on financial inclusion of individuals as opposed to businesses. The 2018 report found that apart from offering personal accounts most WSBI members in Africa target not only large enterprises but also micro, small and medium-sized enterprises (MSMEs). Almost three quarters (74%) also target self-help support groups (SHS), such as Village Savings and Loan Associations (VSLAs) or Village Community Banks.

The earlier reports highlighted the need, among those running MSMEs, for financial literacy and for training in bookkeeping, taxes, and business management, provided either by the private or public sectors. This is captured in WSBI Africa workplan 2022 which includes SME Banking: Products & Services as an area for capacity building among its African members.

This report focuses on ways financial institutions, regulators and donors can deploy financial inclusion initiatives to develop the MSME sector in Africa. Non-Government Organisations (NGOs) also play an important role in enhancing financial inclusion, especially in rural areas. For examples both CARE International[4] and World Vision International[5] help mobilise savings and improve the availability of loans, build digital capacity, and aid small business development, enabling both households and businesses to make better use of financial services.

2 https://www.wsbi-esbg.org/wp-content/uploads/2022/02/Scale2Save_2019_report_final.pdf
3 https://www.wsbi-esbg.org/wp-content/uploads/2022/02/0913_ESBG_BRO_2019SURVEY_FINAL-1.pdf
4 https://www.care.org/our-work/education-and-work/microsavings/promoting-opportunities-for-womens-economic-empowerment-in-rural-africa/
5 https://www.wvi.org/economic-development/savings-transformation

One of the findings of the report is that FSPs have different approaches to servicing the MSME market. For instance, microfinance institutions tend to target microenterprises while commercial banks serve small and medium enterprises. This is reflected in the operational strategy of the FSPs. Microfinance institutions tend to rely on roving agents that can visit MSME clients compared to commercial banks. Microfinance institutions also tend to have services based on group-based methodology (such as group loans) compared to commercial banks.

Another finding points to the need for balance between digital and face to face engagements with MSME clients. MSMEs in rural areas and those that cannot leave their place of business need to be served in an appropriate manner. Therefore, FSPs that can combine digital and face to face are likely to attract more MSME customers.

To expand MSME financial inclusion, we found that a more flexible approach to KYC for MSMEs will be required given that microenterprises tend to be unregistered. Virtual onboarding can also expand access and reduce cost of onboarding especially when there is a digital national ID System that can enable electronic verification of IDs of MSME customers.

We also found that MSMEs tend to use the more cost-effective service such as mobile money compared to banks especially in Tanzania, Uganda, and Kenya. However, the value of loans provided by banks tend to be higher than non-banks. This makes it important to have a policy environment which allows for transaction history data sharing between banks and non-banks. This can potentially improve affordability assessments conducted by banks which could result in an increase in the disbursement of MSME loans.

Furthermore, some of the FSPs surveyed offer interests on loans based on a reduced balance methodology which could be beneficial to MSMEs compared to repayments rates based on the initial amount of a loan. This ensures that frequent repayments will reduce the total interest paid.

The report also found that FSPs offer cross border payment services, but these services are not tailored for MSMEs but more appropriate for corporate customers. These telegraphic transfer services tend to be expensive for MSMEs especially the micro-enterprises. Appropriate cross border payment services for MSMEs have the potential to make the AcFTA initiative more inclusive and develop the MSME sector in Africa.

FSPs play a big role in providing additional sources of income to MSMEs by using them as agents. The additional sources of income are from the commissions earned on the financial transactions conducted on behalf of banks or non-banks. However, the appropriate application of KYC will be required to ensure that FSPs can leverage microenterprises in rural areas where strict CDD application might be exclusionary. All the FSPs surveyed have invested in agent networks.

Finally, the most-mentioned barrier to serving MSMEs better is lack of data about them. Gathering data about MSMEs is a challenge because what information exists is fragmented. Morocco, Kenya, Uganda, Tanzania, and Nigeria have carried out nationally representative surveys of MSMEs to try and address this.

The structure of this report is as follows: First, the introduction and methodology cover drivers of financial inclusion for MSMEs from a demand, supply, regulatory and policy perspectives. Second, the findings of the survey of selected WSBI members and countries are discussed including some desktop analyses on national strategies targeting MSMEs and the role of market facilitators in driving financial inclusion for MSMEs. This is followed by the survey findings assessing products available to MSMEs, the role of MSMEs in branchless banking as agents, and barriers to financial inclusion for MSMEs. The final section provides some conclusions and recommendations.

Introduction and methodology

This report aims to provide insights into the role that WSBI members can play in driving MSME growth in Africa. It draws upon a survey of WSBI members and other financial service providers in Africa, backed by publicly available data and research into policy, regulation, and the role of MSMEs in economic development. We also looked at MSME's need for finance and its potential impact on the financial inclusion of MSMEs. Our surveys of WSBI members sought to understand key supply side factors, and how factors such as the cost of transactions could shape demand.

This research focuses on existing services provided by WSBI members[6] to MSMEs in Africa. Members in Botswana, Burkina Faso, Cape Verde, Comoros, Ivory Coast, Ethiopia, Ghana, Kenya, Lesotho, Nigeria, Sudan, Tanzania, Tunisia, Uganda, Zambia, and Zimbabwe all have products designed for MSMEs. This report looks at the types of products available, which include credit, savings, and payments services. The AFI estimates that 40-70% of MSMEs are informal and micro-enterprises[7]. This report provides insights into how WSBI members engage with informal MSMEs and assesses their role in serving MSMEs in sectors such as agriculture, in businesses owned by women and youth, and in businesses that use formal financial services to access clean energy through a survey of selected WSBI members.

Why focus on MSMEs in Africa?

Obtaining reliable information about MSMEs in Africa is difficult because many are not registered with municipal or tax authorities. This report draws upon information from financial service providers (FSPs) and secondary data to evaluate the role of FSPs in supporting MSME development in Africa.

6 And one non-WSBI, but Scale2Save member
7 https://www.afi-global.org/wp-content/uploads/2020/12/AFI_AfPI_SMEFWG_survey-report_AW2_digital.pdf

It will look at regulatory challenges and showcase the role market facilitators such as Financial Sector Deepening (FSDs)[8] Trusts have and can play in aiding the development of a market in finance for MSMEs.

The African Development Bank[9] draws upon International Finance Corporation (IFC) definitions to define three categories of MSME according to number of employees, annual sales, and total assets, as shown in Table 1.

Table 1: IFC Definition of MSME[10]

Indicator	Employees	Total Assets US$	Annual Sales US$
Micro-enterprise	Less than 5	Less than 100,000	Less than 100,000
Small enterprise	6 - 50	Between 100,000 and 2 million	Between 100,000 and 2 million
Medium enterprise	Over 50	Between 2 million and 10 million	Between 2 million and 10 million

The International Monetary Fund (IMF)[11] estimates that in Sub-Saharan Africa (SSA) over 40% of the employed work in small and medium enterprises, and that most micro-enterprises are single person businesses[12]. Because MSMEs provide so much employment, financial inclusion policies targeting MSMEs can have a great impact upon growth in Africa, and especially upon the incomes of low earners. This explains why Covid-19 recovery plans in many African countries include a focus on MSMEs.

According to the Alliance for Financial Inclusion (AFI)[13], agricultural MSMEs tend to get the most policy support in terms of financing. Manufacturers also benefit from supportive policies. The African Export and Import Bank[14] says that both sectors could also benefit from an improvement in cross-border trading opportunities arising from the African Continental Free Trade Area (AfCFTA)[15].

8 https://www.fsdafrica.org/about-us/fsd-network/
9 http://www.economistiassociati.com/files/IDEV%20SME%20Report_WEB.pdf
10 https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors
11 https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2019/02/11/Financial-Inclusion-of-Small-and-Medium-Sized-Enterprises-in-the-Middle-East-and-Central-Asia-46335
12 https://core.ac.uk/download/pdf/36990253.pdf
13 https://www.afi-global.org/wp-content/uploads/2021/03/AfPI_MSME_AW3_digital-isbn.pdf
14 https://mcusercontent.com/82a1c769b4c9e47f2566f4d40/files/1c26fbd7-50f2-4034-8cf3-402cca5f6c6d/AFX_AFRICA_TRADE_REPORT_2020_.pdf
15 The African Continental Free Trade Area is a free trade area founded in 2018, with trade commencing as of 1 January 2021

The agreement, adopted by more than 54 member states of the African Union, was set to remove tariffs from more than 90% of goods traded between them, with effect from 1 January 2021. It forecasts to increase intra-African trade substantially, thus increasing the demand for trade finance to ease trade transactions for African businesses.

Access to finance for MSMEs varies greatly from one country to another, and according to the nature and size of the business, among other factors. Traditional sources of financing include loans from commercial banks, as well as other forms of formal and informal funding. Some research suggests most financing comes from the entrepreneur's savings, borrowing from a community savings group, or borrowing from friends and family.[16] The World Bank estimated that "MSMEs (in Africa) cover 73% of their financial needs from internal funds (equity), while only 10 percent is from financial institutions and the rest is from suppliers and other informal sources."[17]

What shapes MSME access to finance?

The following are some of the key supply side and regulatory factors that influence financial inclusion for MSMEs in Africa[18,19,20] which were used in developing the analytical framework for this report.

- FSPs require collateral for unsecured MSME loans which MSMEs often lack, such as proof of land ownership
- The absence of a national property registry often limits collateral options, because FSPs cannot verify ownership of assets.

16 https://archives.kdischool.ac.kr/bitstream/11125/30362/1/Small%20and%20medium%20enterprise%20in%20Ethiopia.pdf
17 http://enterprisepartners.org/download/transforming-financial-service-markets-for-micro-small-and-medium-enterprises-msmes-in-ethiopia-through-direct-technical-assistance-to-financial-institutions-the-case-of-enterprise-partners/
18 https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and Operations/Financial_Inclusion_in_Africa.pdf
19 https://www.smefinanceforum.org/post/the-challenges-and-opportunities-of-sme-financing-in-africa
20 http://enterprisepartners.org/download/transforming-financial-service-markets-for-micro-small-and-medium-enterprises-msmes-in-ethiopia-through-direct-technical-assistance-to-financial-institutions-the-case-of-enterprise-partners/

- Fragmented or hard-to-access credit bureaux hinder FSPs' access to credit information and adds to credit risk assessment costs.
- The absence of a government led MSME strategy can hold back the development of a credit ecosystem.
- FSPs have to work with inadequate information about the scale of MSME activity, and their credit needs. Because most MSMEs are informal, demand side surveys are the only way to gather information about this market. Such surveys can also be used to obtain data necessary to develop national strategies to improve MSME financial inclusion and monitor their effectiveness.
- There is often no comprehensive monitoring of MSME finance. Some financial service providers do not offer services targeting cooperatives or savings groups with a business focus. Group based small business are common in Africa, so offering group based financial services could increase MSME financial inclusion.

MSMEs often have horizontal, vertical, and institutional links to other firms. These linkages can influence levels of financial inclusion.[21]
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1. Horizontal linkages: MSMEs can become part of a forum or collaborative association, either informally or with an industry body. Connections with cooperatives, associations, consortia, producers' groups, and consumers groups may assist MSMEs in overcoming disadvantages such as small size, and enable them to merge production, increase bargaining power, and enhance their access to credit, market information and infrastructure.
2. Vertical linkages: MSMEs can form vertical linkages with buyers and suppliers. This helps them grow and survive by expanding their access to viable business opportunities and enhancing their capabilities. Good relationships with customers can help reduce risks and secure a flow of orders, market information and possibly reduce the amount of capital investment they need. Links with larger firms can also help bridge the gap between rural markets and urban and international markets, providing opportunities to learn, innovate and improve.
3. Institutional linkages: MSMEs can link with local and international institutions, including public institutions, technology transfer centres, legal aid, and coaching. These can help MSMEs integrate into profitable value chains.

21 https://www.researchgate.net/publication/333490668_Contributions_of_Micro_Small_and_Medium_Enterprises_MSMEs_to_Income_Generation_Employment_and_GDP_Case_Study_Ethiopia/link/5cf07e44a6fdcc8475f8b086/download

Research suggests, however, that most MSMEs in Africa do not make these connections. The linkages that are made generally arise from being employed as a sub-contractor or working with private sector aggregators that take on risks such as financing, transport, and storage, whilst ensuring that MSME products or services meet required standards of off-takers or buyers.

Assessing MSME demand for finance

To assess how access to finance shapes MSME development, this report relies on research by the World Bank (enterprise surveys) and national surveys of MSMEs, including Making Access Possible (MAP) MSME diagnostic research,[22,23,24,25] to provide insights into demand factors in MSME financial inclusion.

Table 2: Demand side factors driving MSME financial inclusion

Access barriers	Usage barriers
• Eligibility – the 'missing middle' – too big to access micro financing, but too small to access bank loans	• Limits to transaction sizes depending on customer due diligence regulation
• Proximity (branch and branchless banking availability)	• Cost of using formal financial services
• Access to technology – i.e., a mobile phone	• Value chain issues such as input suppliers preferring cash
• Formality of business	
• Access to key infrastructure (electricity and telecommunications) and land	• Speed of digital payments - MSMEs prefer instant services which mimic the use of cash
• Lack of competition in small business sector	

22 https://finmark.org.za/system/documents/files/000/000/139/original/Malawi_Roadmap-2020-05-22.pdf?1594132516
23 https://finmark.org.za/system/documents/files/000/000/193/original/Eswatini_MAP_SMME_Roadmap_online.pdf?1601971114
24 https://finmark.org.za/system/documents/files/000/000/283/original/finscope-lesotho-pocket-guide_en.pdf?1609752854
25 https://finmark.org.za/system/documents/files/000/000/516/original/Pocket_guide_Botswana_MSME_Pulse.pdf?1633961622

The contribution of market facilitators

Market facilitators work to stimulate markets to evolve in a way that increasingly involves and benefits both the producers and the businesses without becoming a part of the market themselves. They seek to catalyse ongoing pro-poor market improvement, while keeping ownership firmly among market actors and avoiding dependency[26]. Market facilitators support national governments through investments in data and measurement designed to provide insights into policy areas that can benefit from intervention. To drive inclusive growth through a combination of grants and investments that build financial markets and institutions, the UK Foreign, Commonwealth & Development Office (FCDO), for example, set up financial sector deepening (FSD) programmes as independent Trusts in Kenya (FSDK), Nigeria (EFInA), Tanzania (FSDT), and Uganda (FSDU)[27,28]. The FSD programmes act as market facilitators to promote financial inclusion and drive market innovation and interventions that support each country's development goals. The FSDs programmes provide:

- Technical assistance to implement MSME policy and regulatory objectives
- Data and measurement frameworks to support the development, and monitoring and evaluation, of MSME-related policy and regulation
- Capacity building and knowledge sharing platforms
- Digital solutions through innovation or challenge funds to support product development to enable financial inclusion for MSMEs

Some examples of the support provided by FSDs include,

- In Uganda, FSDU and the MasterCard Foundation partnered to set up an MSME recovery fund – a US$20 million, five-year initiative under the Young Africa Works programme. The aim of this programme is to help support MSMEs regain pre-COVID-19 levels of activity and create employment. Of the 50,000 MSMEs targeted, 30% are youth-owned and 40% are women-owned. The fund also aims to protect 100,000 jobs that are at risk because of the pandemic[29].

26 https://www.marketlinks.org/sites/default/files/resource/files/Being_Market_Facilitator_Guide.pdf
27 https://devtracker.fcdo.gov.uk/projects/GB-1-205238/summary
28 The FSD network also includes FSDs in Mozambique (FSDMoc), Zambia (FSDZ) and Rwanda (AFR)
29 https://fsduganda.or.ug/mse-recovery-fund/

- In Tanzania, FSDT launched an MSME Financial Innovation Challenge Fund aimed at financial service providers (banks and non-banks) to develop and test new business models that will offer new products and better services to underserved MSME clients.[30]
- In Nigeria, EFInA partnered with German international development agency GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit) to implement a project designed to improve access to finance for MSMEs in Nigeria by improving understanding of factors inhibiting their access to finance.[31]
- In Kenya, FSDK and the AlphaMundi Foundation, an impact investor, developed a blended finance facility with support from the *Powering Agriculture: An Energy Grand Challenge for Development* programme. The programme, run jointly by USAID, the Swedish International Development Cooperation Agency and GIZ, was designed to accelerate the development and deployment of clean energy technologies to increase agricultural productivity and/or value in developing countries.[32]

30 https://www.smefinanceforum.org/post/sme-finance-innovation-challenge-fund-in-tanzania
31 https://efina.org.ng/publication/research-findings-from-msme-access-to-finance-challenges-in-nigeria/
32 https://www.fsdkenya.org/blogs-publications/blog/using-blended-finance-to-navigate-the-pandemic-how-an-innovative-funding-vehicle-is-helping-smes-survive-covid-19-and-advance-the-sdgs/

The 2022 financial service provider survey

Countries of focus for the report

We focused upon countries that are home to FSPs that completed our survey. WSBI members in seven countries responded: some are in the private sector, others state-owned.

Table 3: Institutions surveyed

Financial Service Provider	Ownership	Country	Analytical code[33]
Commercial Bank	Private	Ethiopia	CB_P_Ethi
Post Bank	Government	Kenya	PB_G_Ken
Commercial Bank	Government	Morocco	CB_G_Mor
Commercial Bank	Private	Nigeria	CB_P_Nig
Microfinance Bank	Private	Nigeria	MFB_P_Nig
Post Bank	Government	Senegal	PB_G_Sen
Commercial bank	Government	Tanzania	CB_G_Tan
Microfinance Bank	Private	Uganda	MFB1_P_Uga
Microfinance Bank	Private	Uganda	MFB2_P_Uga
Post Bank	Government	Uganda	PB_G_Uga

The survey findings are broken down according to whether the institutions are commercial banks, microfinance banks, or postal banks.

33 Based on abbreviations of the column entries in Table 1 which are used in the graphical illustrations of the FSP survey findings of this report

Based on desk research, table 4 shows the contribution of MSMEs to their countries GDP and employment and corroborates the importance of MSMEs as a source of jobs and output.

Table 4: MSME contribution to country GDP[34]

Country	Size (US$ million)[35]	% Contribution to GDP	% Contribution to Employment[36]
Ethiopia	3,875.2	3.6[37]	90[12]
Kenya	40,405.5	40[38]	60[15]
Nigeria	216,146.9	50[39]	86[14]
Tanzania	24,963.9	27[40]	18[18]
Uganda	26,320.3	75[41]	90[19]
Morocco	41,301.0	36[42]	73
Senegal	8,871.9	36[43]	42[44]

National Strategies favour the financial inclusion of MSMEs

Given the importance of the MSME sector to the economic growth of the focus countries, a common pillar of country level policy on MSME development is MSME financing/MSME financial inclusion which is embedded in the national policies of many developing countries, including the countries of focus for this report.

34 https://www.idpublications.org/wp-content/uploads/2017/01/Full-Paper-AFRICAN-SMALL-AND-MEDIUM-ENTERPRISES-SMES-CONTRIBUTIONS-CHALLENGES.pdf
35 World Bank Data, GDP (current $) 2020
36 World Bank Data, Labor Force, total, 2020
37 https://www.idpublications.org/wp-content/uploads/2017/01/Full-Paper-AFRICAN-SMALL-AND-MEDIUM-ENTERPRISES-SMES-CONTRIBUTIONS-CHALLENGES.pdf
38 https://www.kba.co.ke/downloads/MSMEs-Survey-Report.pdf
39 https://www.agustoresearch.com/report/2021-sme-industry-report/
40 https://www.fsdt.or.tz/sme-finance/
41 https://www.uncdf.org/Download/AdminFileWithFilename?id=10400&cultureId=127&filename=uganda-business-impact-survey-2020-1pdf
42 https://www.giz.de/expertise/downloads/The%20Resilience%20of%20MSMEs%20in%20Morocco%20in%20the%20Face%20of%20COVID-19.pdf
43 https://www.microsave.net/wp-content/uploads/2021/03/210319-COVID-19-Impact-on-MSME-Senegal_ENG-compresse%CC%81.pdf
44 https://www.africaportal.org/documents/22117/Research-Paper-479.pdf

Table 5: National Financial Inclusion strategies

Country	National Strategy
Ethiopia	The country introduced its Micro and Small Enterprises Development Strategy of Ethiopia (1997-2010) which was updated to Micro and Small Enterprise (MSEs) Development Strategy, Provision Framework and Methods of Implementation (2011-2015).[45]
Kenya	The Ministry of Industrialisation, Trade and Enterprise Development published a sessional paper on Kenya Micro and Small Enterprises Policy for Promoting Micro and Small Enterprises (MSEs) for Wealth and Employment Creation in 2020.[46]
Morocco	The Ministry of Economy and Finance and Bank Al-Maghrib introduced Morocco's National Financial Inclusion Strategy in 2018. The three primary objectives of the NFIS are (1) reach and then exceed the "relevant" level of penetration for Morocco; (2) reduce the most significant inclusion gaps; and (3) take advantage of financial inclusion as a lever for economic and social inclusion.[47] A key pillar of the strategy is to launch a Micro Small and Medium Enterprise Observatory (MSMEO) to provide the public and private sectors with statistics on MSMEs and to carry out studies related to these enterprises.[48]
Nigeria	The Nigeria National Policy on MSMEs was introduced in 2007 and revised in 2012 with the Small Enterprise Development Agency of Nigeria (SMEDAN) driving its implementation.
Senegal	In April 2022, Senegal's Ministry of Finance and Budget launched a national financial inclusion strategy (NFIS). The four-year strategy, for 2022-2026 has four pillars. One focuses upon developing appropriate financial products, especially for women, young people, people living in rural areas, and SMEs.
Tanzania	Government introduced the Small and Medium Enterprise (SME) Development Policy in 2003, following a series of zonal workshops shops held between 1998 and 2001, which laid out strategies for boosting development of the sector. This builds upon earlier initiatives to support enterprise development in Tanzania[49].

45 https://www.researchgate.net/publication/337471984_Micro_Small_and_Medium_EnterprisesMSMEsDevelopment_Strategies_in_Ethiopia_Retrospective_and_Prospective_Analysis
46 http://parliament.go.ke/sites/default/files/2020-10/Sessional%20Paper%20on%20the%20Kenya%20Micro%20and%20Small%20Enterprises%20policy%20from%20the%20Ministry%20of%20Industrialization%2C%20Trade%20and%20Enterprise%20Development.pdf
47 https://www.afi-global.org/wp-content/uploads/2020/12/SNIF-maroc-.pdf
48 http://www.publicnow.com/view/4F45707008A30154C10DA10321C07F61821A2ADC?1632923386
49 https://www.mit.go.tz/uploads/documents/sw/1455890063-SME-Development-Policy.pdf

Country	National Strategy
Uganda	The Micro, Small and Medium Enterprises (MSME) sector policy was published in 2015 to guide private sector development, as outlined in the Government National Development Plan II (NDPII) (2015/16-2019/20). The policy provides a framework that aligns previous efforts by different stakeholders to meet the objectives of NDPII[50].

What services were FSPs offering to MSMEs?

Our survey asked FSPs what financial services they offered MSME clients. It focused upon savings, credit, and payments services, including propositions that help MSME's access clean energy to reduce their carbon footprint. Access to clean energy is one of the UN Sustainable Development Goals (SDG 7) which aims to improve access to affordable, reliable, sustainable, and modern energy for all. An improvement in energy efficiency and increase in the use of renewables is expected to contribute to climate change mitigation and disaster risk reduction.[51]

Savings and deposit accounts

All respondents offer MSME deposit accounts including savings accounts, fixed deposit accounts, call accounts, microfinance accounts targeted at Savings and Credit Co-Operative Societies (SACCOs) and current accounts.

Given the prevalence of MSMEs that operate as cooperatives, some FSPs in Tanzania, Uganda and Kenya offer group-based deposit accounts. These FSPs are in countries where SACCOs are regulated institutions, and this highlights the importance of policies that regulate savings groups to improve their access to formal financial services.

50 https://www.ugandainvest.go.ug/wp-content/uploads/2016/02/Final-MSME-Policy-July-2015.pdf
51 https://www.unep.org/explore-topics/sustainable-development-goals/why-do-sustainable-development-goals-matter/goal-7

What are the constraints on MSME that seek to open accounts?

All surveyed FSPs except the microfinance bank in Nigeria and the microfinance banks in Uganda require MSMEs to be registered to open savings or deposit accounts. The microfinance bank in Nigeria, the post bank in Kenya and the commercial banks in Tanzania and Ethiopia said they offer gender and youth-based savings or deposit accounts.

How do Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) regulations constrain account openings?

AML/CFT regulations may act as a barrier to the use of formal financial services by MSMEs. According to the Bank for International Settlements (BIS), AML/CFT regulations aim to protect the integrity of the formal financial system by making it difficult for criminals to reap the proceeds of their crimes. The Financial Action Task Force (FATF) sets standards and recommendations on the application of AML/CFT. The application of FATF standards differs between countries because it allows a tiered approach to the rules, especially in countries where most people living in rural or informal settlements without standardised addresses or with limited access to national identification documents – which is often the case in Africa. This approach allows flexible opening requirements for accounts which have limits on the size of transactions that can be made.[52]

Three of the five state-backed FSPs that responded to our survey said that they did not apply a tiered approach when signing-up new MSME customers. All five privately funded FSPs use a tiered approach to onboarding customers.

To reduce access barriers for MSMEs, especially for micro-enterprises that are typically unregistered, regulators need to consider allowing FSPs a more flexible approach to providing accounts without compromising the integrity of the financial system. This can be achieved through the tiered approach to customer due diligence (CDD) or a risk-based approach in line with FATF guidance issued in 2014. The risk-based approach allows countries, authorities, and financial institutions to identify, assess and understand the AML/CTF risks to which they are exposed and take AML/CFT measures commensurate to those risks to mitigate them effectively.[53]

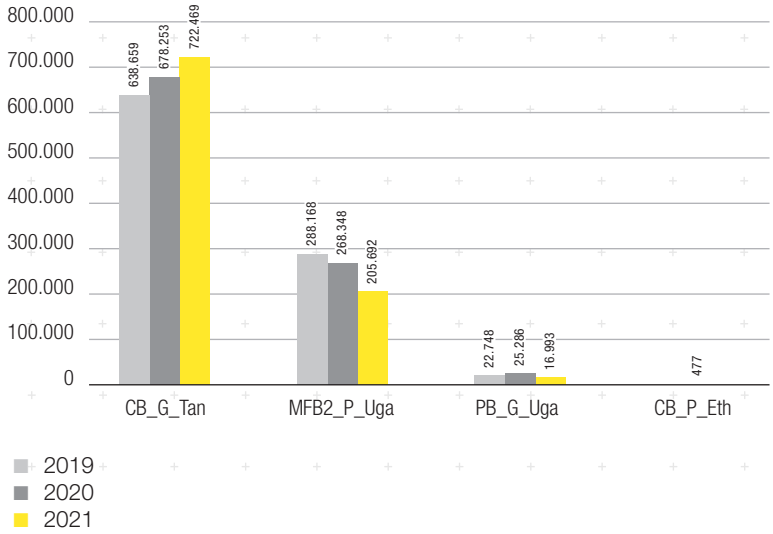
52 https://www.cbn.gov.ng/out/2013/ccd/3%20tiered%20kyc%20requirements.pdf
53 https://www.fatf-gafi.org/media/fatf/documents/reports/Risk-Based-Approach-Banking-Sector.pdf

In Tanzania, the surveyed FSP can conduct customer due diligence using a digitally enabled national ID system that allows for instant verification of ID making customer onboarding quicker.

In Kenya, the surveyed FSP does remote onboarding of customers using a mobile phone account which is linked to a mobile money platform. However, 40% of MSME accounts were reported to be dormant and inactive.

Uptake and usage

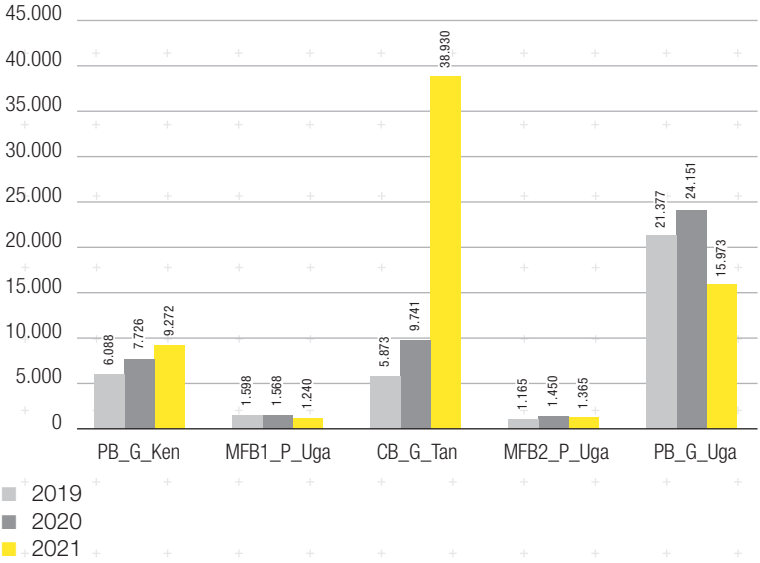
Figure 1: Number of MSMEs with accounts (2019 – 2021)



For the commercial bank in Tanzania, group-based accounts were 5% of total MSME accounts in 2021. For microfinance banks in Uganda, group-based accounts were just 1% of total MSME accounts. But for the Post Bank in Uganda, group-based accounts were 90% of total accounts. Group-based institutions set up for business purposes are common in rural areas, especially in Africa[54] and providing them with appropriate formal financial services can help them thrive.

54 https://news.yale.edu/2017/05/02/savings-groups-boost-financial-inclusion-and-women-s-empowerment-among-rural-poor-three-c

Figure 2: Number of group-based MSME accounts (2019 – 2021)



In summary, the survey found that FSPs that use agency banking and have less rigid Know Your Customer (KYC) requirements also have the most MSME customers with savings/deposit accounts. Furthermore, government backed FSPs tend to have a higher ratio of group to non-group deposit accounts.

Cost factor

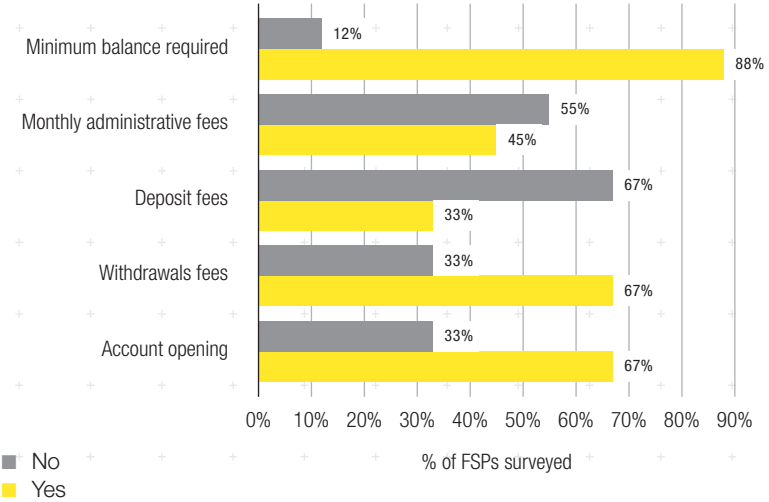
Many FSPs levy charges on those using deposit accounts. Using mobile money typically attracts fewer charges than accounts offered by banks[55]. To increase the value proposition for MSME, many FSPs surveyed, need to provide more price competitive services if they are to attract more MSMEs – especially in Uganda, Kenya, and Tanzania.

Mobile money is more frequently used than bank accounts in Kenya, Uganda, and Tanzania because it offers better value and is more accessible, especially in rural areas. But in Nigeria, banking services are accessed and used much more than mobile money services.

55 https://web.worldbank.org/archive/website01523/WEB/IMAGES/IC4D_2-4.PDF

The Nigerian mobile money market is mostly bank-led while Tanzania, Uganda and Kenya have telco led mobile money markets. In Nigeria, only 20% of the total adults were aware of mobile money according to the Access to Finance (A2F) survey 2021 findings.[56]

Figure 3: Cost of using deposit accounts



Payments services

Facilitating domestic and international payments

All the FSPs surveyed offer international transfer services except for the micro-finance bank in Nigeria and Post Bank in Senegal. All offer domestic payment services to account holders. MSMEs that wish to buy inputs or sell outputs outside of their home countries need international payment services unless they rely on informal cash transfers.

56 https://a2f.ng/wp-content/uploads/2021/06/A2F-2020-Final-Report.pdf

The African Development Bank and other stakeholders collaborated to launch a CDD/KYC information repository platform with a special emphasis on African financial institutions and corporates to enable global institutions, partners, and counterparties to access African entities' CDD profiles and information and to conduct customer due diligence on African entities, financial institutions, corporates and MSMEs in support of the AfCFTA[57]. This expected to facilitate cross-border trade within Africa.

Mobile money and bank accounts need to be interoperable

To facilitate payments, nine of the 10 FSPs surveyed offer mobile banking services while only 60% offer debit cards. Only 60% of surveyed FSPs have services that are interoperable with mobile money operators.

Interoperability between banks and mobile money operators is a key issue for policy makers because access to financial services is more likely to be provided by mobile money than banks in Tanzania (60% mobile money vs 13% banks (according to FinScope 2017[58]), Uganda (56% mobile money against 11% banks uptake according to FinScope 2017[59]) and Kenya (81.4% mobile money and 44.1% banks according to FinAccess 2021[60]). Regulations and policies that encourage interoperability between banks and mobile money operators would increase use of formal financial services by MSMEs that need to make and receive payments across different payment platforms. In Kenya, the surveyed FSP offers an interoperable service which allows bank to wallet and wallet to bank transactions.

Banks offer a choice of channels

All the FSPs surveyed offer payment services via branches, automated teller machines (ATMs) (except for the state-owned bank in Senegal which uses post office branches) and mobile phones. However, usage of channels differs across the surveyed FSPs.

57 https://www.mansaafrica.com/wps/portal/AFRIXEM_Portal/AboutMANSA/!ut/p/z0/04_Sj9CPykssy0xPLMnMz0vMAfIjo8zifSx9DQyN_Q38DMIM3QwczQNCDYMCDI0MPI31g9OK9AuyHRUBBATYRQ!!/

58 https://www.fsdt.or.tz/wp-content/uploads/2017/09/FinScope-Tanzania-2017-Insights-that-Drive-Innovation.pdf

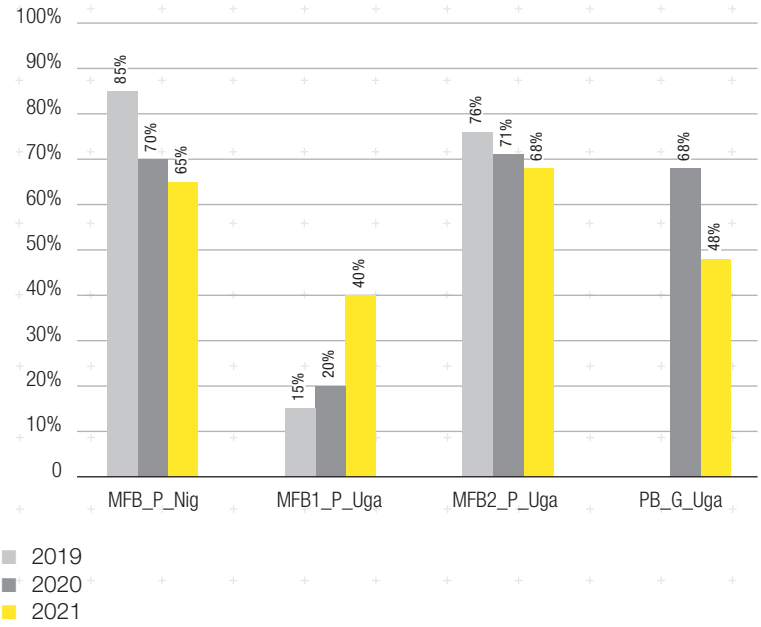
59 https://fsduganda.or.ug/wp-content/uploads/2018/10/FinScope-Uganda-Survey-Report-2018.pdf

60 https://drive.google.com/file/d/12c_SdZW7ic8uSTjDAeW4LFzdY2PPtZ2e/view

Branchless banking and mobile phones may facilitate MSME access

The use of bank branches to make payments declined between 2019 and 2021 (Figure 4), as customers increased their use of agents or phones. Three of the four FSPs that provided data saw branch use decline between 2019 and 2021, though Covid-19 lockdowns likely contributed to this fall. The lowest use of branches is recorded by a microfinance bank in Uganda – signalling an operating model driven by branchless banking. The expansion of branchless banking could improve access to financial inclusion for MSMEs, especially those in rural areas which lack ready access to a branch.

Figure 4: Use of branches as a percentage of total payments



The number of payments made via branches largely exceeds those made using payment cards.

Figure 5: Use of cards as a percentage of total payments (2019 – 2021)

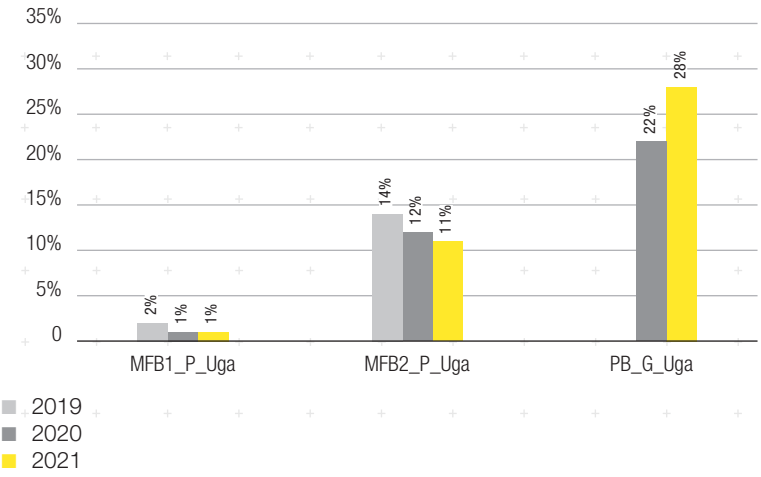
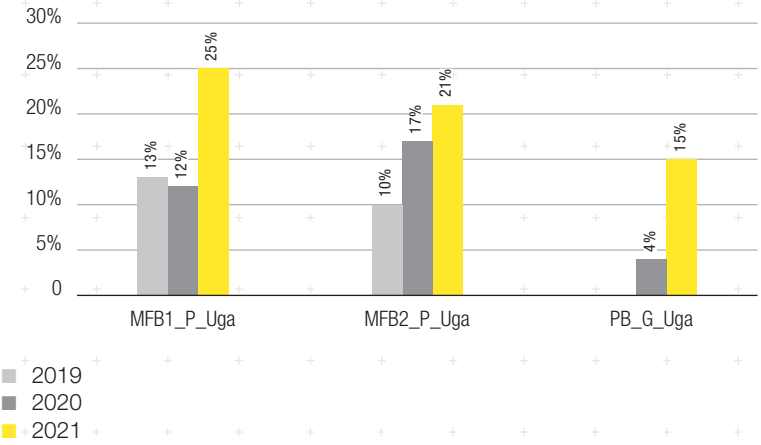


Figure 6 shows a surge in the use of phones to make payments between 2019 and 2021. During Covid-19 lockdowns digital financial services were advocated to limit transmission of the disease.

Figure 6: Use of phones as a percentage of total payments (2019 – 2021)

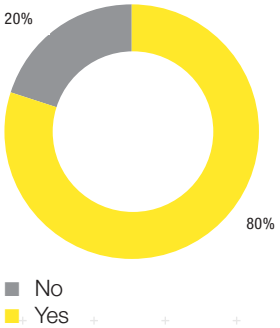


But customers continue to use branches more often than their phones. This suggests there is ample scope for phone-based transactions to be adopted more widely, thus reducing the cost of providing formal financial services to MSMEs.

Faster transactions make access more attractive

The rapid speed of digital payments increases the attractions of using formal payment services compared to cash. Figure 7 shows the speed of payment (a day or less) transactions achieved by the surveyed FSPs. Instant payments increase the value proposition of digital financial services especially for MSMEs that require liquidity for business operations which could include cash-out services and procurement of business stock/inputs.

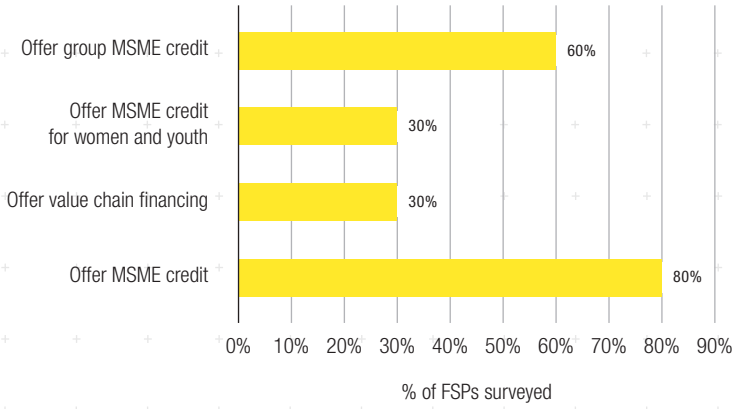
Figure 7: Four-fifths offer instant or same-day payments (% of FSPs surveyed)



Credit products

Of FSPs surveyed, 80% offer credit to MSMEs including asset loans, small enterprise loans, business loans, agriculture loans, warehouse receipt financing (value chain finance), micro-credit, invoice discounting finance (value chain finance), and purchase order finance (value chain finance). Only 30% of FSPs surveyed offer value chain financing options. In terms of demographics, 30% of FSPs said they have credit products specifically tailored for the needs of young people and women. Among FSPs surveyed, 60% provide group-based lending to MSMEs.

Figure 8: Types of credit offered to MSMEs



The availability of credit provides a strong incentive for MSMEs to use banks. One state-backed bank surveyed that only takes deposits (offers deposit account only) said that offering credit could attract more MSME customers. In Uganda, one of the surveyed FSPs provides credit guarantee schemes targeting the agricultural sector for which 50% of bad debts was guaranteed. In Tanzania, Uganda, and Nigeria, the surveyed FSPs provided loan terms of a maximum of 12 months.

Qualifying for credit can be tough

All the FSPs surveyed offer credit and loans only to MSMEs that are registered businesses except the microfinance bank in Nigeria. This implies that micro-enterprises, which are usually informal or unregistered, are unable to access bank loans. However, the survey also found that micro-enterprise operators tend to open personal accounts, and then use the account for personal and business activities.

Half of FSPs surveyed require movable or immovable collateral. According to the World Bank, the existence of registries for movable assets increases the prospect of access to finance for 'smaller' businesses[61]. Of FSPs surveyed that require collateral, 30% also offer credit which does not require collateral.

61 https://blogs.worldbank.org/allaboutfinance/does-introduction-movable-collateral-registries-increase-firms-access-finance

One bank said that collateral is only required for MSME credits exceeding US$5,000. In Nigeria, the FSP requires a guarantor and does not ask for a collateral. If the credit account holder is unable to repay, a guarantor is held responsible.[62]

Value chain finance supports MSMEs by "tailoring services and products to one or more points in a value chain in order to reduce the risk and cost of financing and increase the efficiency of the value chain as a whole."[63] In Tanzania, the surveyed FSP provides input financing for farmers - paying input providers directly. Roving/field agents are also used to ensure credit worthiness is adequately assessed.

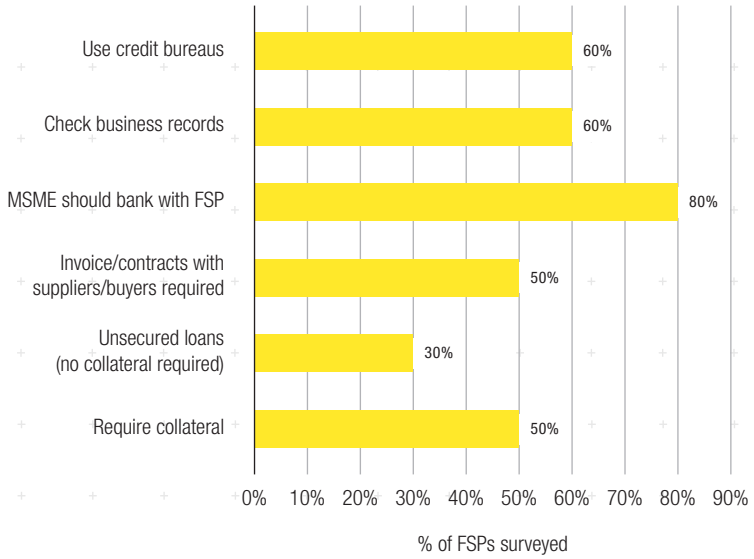
All the FSPs that provide credit to MSMEs require the MSME to have a deposit account with their institutions. The MSME has to build up a deposit record with the institution in order to qualify to apply for credit. In Tanzania, Kenya, and Uganda, where people and firms are more likely to use mobile money than commercial banks (especially for storing and transferring money), policymakers need to consider how the transaction histories of MSMEs which mainly use mobile money can be used or accepted by commercial banks to assess creditworthiness.

Of the FSPs surveyed that offer credit, four out of five require MSMEs to provide business records to access credit. This suggests that government-backed business development support agencies should make it a priory to strengthen the capacities of MSMEs to keep good records. Some the surveyed FSPs provide business development support to their customers. In Kenya, the surveyed FSPs engage in outreach programmes focused on financial literacy programmes covering financial planning, importance of savings, tips on borrowing, and budgeting. In Tanzania, the surveyed FSP has a programme that targets young woman entrepreneurs focused on record-keeping, savings, financial capabilities, and contracting with suppliers. In Nigeria, the microfinance bank organises meetings with their MSME customers to train them on attributes of different loan types, interest on loans, and payment cycles; 95% of the participants of these meetings were reported to be women.

62 https://www.thebalance.com/what-is-a-guarantor-5194432
63 https://www.ifad.org/documents/38714170/39144386/Agricultural+value+chain+finance+strategy+and+design.pdf/1ae68ed6-4c3c-44f4-8958-436e469553bb

Among FSPs surveyed, 60% use credit bureaux to perform background checks on would-be borrowers, although all the countries have some sort of credit information sharing platform. These platforms are key to improving the information available to lenders and hence enhancing the access of MSMEs to credit. According to the Global Partnership for Financial Inclusion (GPFI), regulators should consider reviewing regulations to require all financial service providers, including non-bank financial institutions, to report credit data and other relevant information to Credit Reporting Service Providers.[64]

Figure 9: Common Rules for offering MSME credit



Who are the MSME borrowers?

Four FSPs provided data on the number of unique MSME credit accounts they had between 2019 and 2021 (Figure 10). The commercial bank in Tanzania has the most credit accounts – just as it has the most savings/deposit accounts.

64 https://www.gpfi.org/sites/gpfi/files/documents/Use_of_Alternative_Data_to_Enhance_Credit_Reporting_to_Enable_Access_to_Digital_Financial_Services_ICCR.pdf

Figure 10: Unique MSME credit accounts (2019 – 2021)

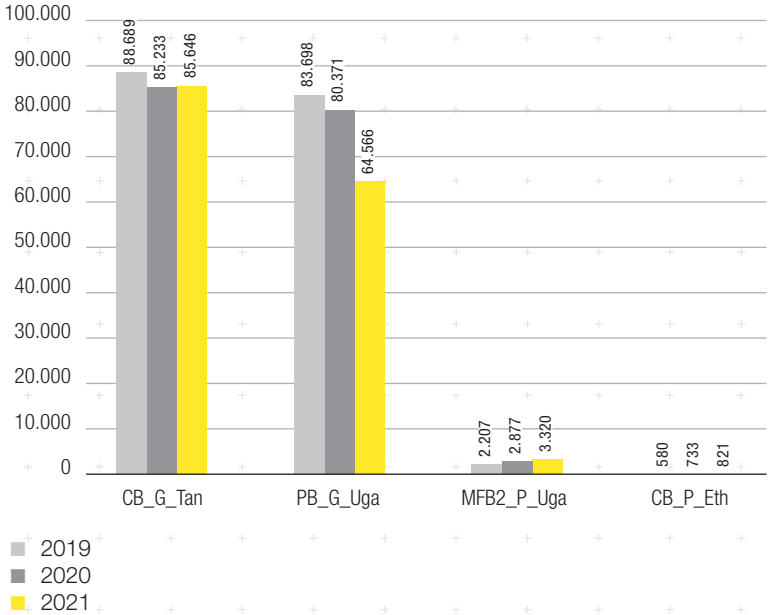


Figure 11 shows the number of group-based credit accounts with the microfinance bank in Uganda – and reveals a strategic focus on SACCOs. This suggests that microfinance banks are more likely to serve groups such as SACCOs than commercial banks, since they have a mandate to target rural areas where group-based business are more common. In Tanzania, the survey found that users of group lending methodology usually prefer retail loans which are unsecured to MSME loans which require collateral.

Only two of the FSPs provided data about their loan to deposit ratios (Figure 12). In Uganda, mobile money usage is much more pervasive than the usage of banks. The provision of banking products that can compete with mobile money services or integrated with mobile money services could potentially increase the level of deposits – which in turn could avail funds for MSME financing.

Figure 11: Numbers of MSME group-based credit accounts are generally declining (2019 – 2021)

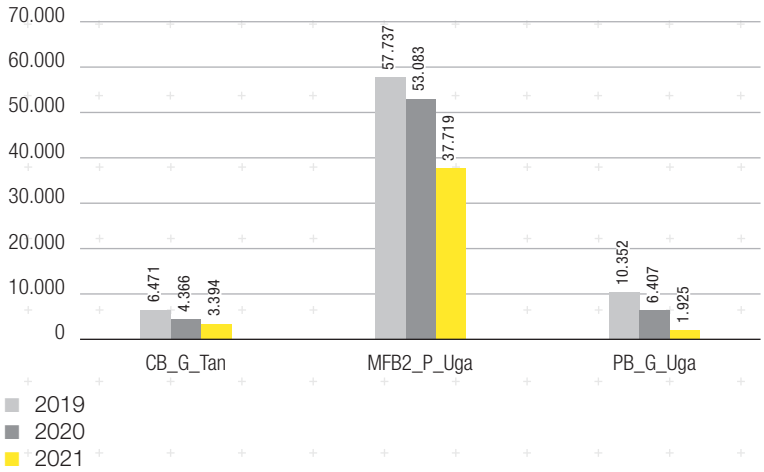
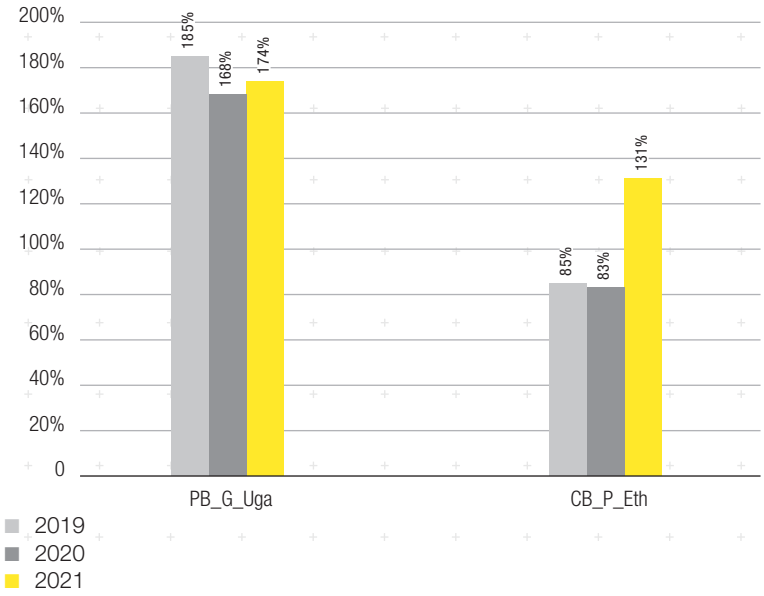


Figure 12: Loan to deposit ratios of two institutions



How much does credit cost?

Half of the FSPs surveyed, spread across four countries, provided information about the cost of their loans which is summed up in Table 6.

Table 6: The costs of credit

Country	Cost
Ethiopia	Merchandise loans - 14.5% - 16.5% pa Warehouse receipt financing/Pre-shipment advance - 8.5% - 9.5% pa
Uganda	Agriculture loans - 14% reducing balance monthly Clean Energy loans (Above USD8,490) - 1.75% per month flat rate
Nigeria	Small business loan - 5% reducing balance monthly
Tanzania	Group loans - 5% reducing balance monthly

Warehouse receipt financing and merchandise loans require movable collateral, such as inputs and products held by MSMEs, whose existence and ownership are less costly to verify than that of immovable collateral such as land. These types of loan, and clean energy loans, have lower annual interest rates than group loans, small business loans and agriculture loans.

Another key feature is the use of reduced balance interest rates which means more frequent repayments will reduce the total interest paid. Reduced balance interest rates-based credit agreements are more attractive compared to those with interest rates on the original amount of the credit agreement.

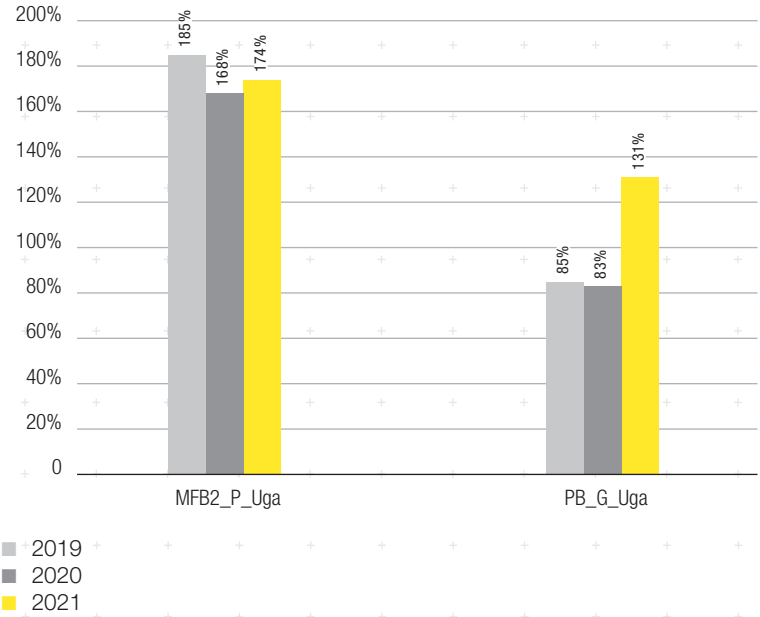
How can FSPs contribute to a successful MSME sector?

Financial services that enable access to clean energy

According to the Better Than Cash Alliance (BTCA)[65], economic growth, including through the activities of MSMEs is closely linked to rising greenhouse gas emissions. It is therefore essential that formal financial services firms (especially digital finance) lend money to MSMEs to help them obtain clean energy to 'power' their businesses.

Of the FSPs we surveyed, 70% offer financial services that facilitate access to clean energy. Figure 16 shows the number of MSMEs that have accessed clean energy through financial services provided by two of the participating FSPs.[66]

Figure 13: Number of MSMEs accessing clean energy using formal financial services (2019 – 2021)



One of the FSPs in Uganda said that although it has not partnered with any clean energy service provider it tracks the number of MSMEs borrowing to buy affordable, cost saving, environmentally friendly solar systems, briquette stoves, water purifiers and biogas plants.

The microfinance bank in Nigeria reported that deforestation is one of its strategic mandates which has led to offering products that enable access to clean energy. However, the FSP did not provide data on the number of MSMEs that have used this clean energy related products.

65 https://btca-production-site.s3.amazonaws.com/documents/291/english_attachments/Full-Energy-Case-Study.pdf?1499786348
66 The other FSPs did not complete the question on the number of MSME users

Supporting MSMEs as bank agents

Our survey investigated the use by FSPs of MSMEs as bank agents. Acting as bank agents brings in extra revenue for stores and mobile phone shops, which can earn – by providing an additional income source through commissions for onboarding new customers, providing cash-in and cash-out services, and offering digital payments through Point of Sale (PoS) devices to their customers. Figure 14 shows the number of agents employed by the surveyed FSPs between 2019 and 2021. Except in Senegal, all the FSPs surveyed operate in countries where regulatory guidelines seek to encourage agency banking to enhance financial inclusion.

Figure 14: Number of agents per FSP (2019 – 2021)

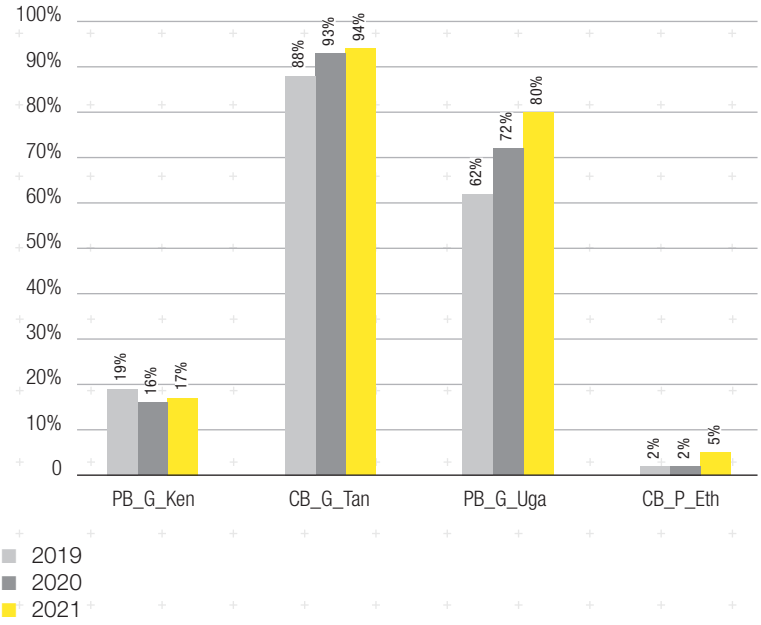
Figure 15: Total number of access points (agents, branches, and ATMs) (2019 – 2021)[67]

67 Three FSPs did not answer this question

Regulation can promote agent banking by limiting exclusive arrangements between FSPs and agents. This promotes competition and increases the ability of MSMEs to earn additional revenue by acting as bank agents[68]. But our qualitative research found that in Uganda, Mobile Network Operators (providing mobile money services), have less stringent requirements to utilise agents compared to banks, limiting the extent to which banks can use agents.

In sum, agent banking is critical to the expansion of financial inclusion while providing MSMEs with an additional source of income to foster the viability of MSMEs.

Figure 16: For some FSPs, agents provide more than nine out of 10 access points



68 https://www.itu.int/dms_pub/itu-d/opb/pref/D-PREF-BB.REG_OUT02-2016-PDF-E.pdf

What impedes the better financial inclusion of MSMEs?

This section provides insights into the perceived drivers of MSME financial inclusion by the participating FSPs. Table 7 shows the top 3 complaints received by FSPs by their MSME clients with regards to quality of service.

Table 7: What are the top three complaints of MSMEs?

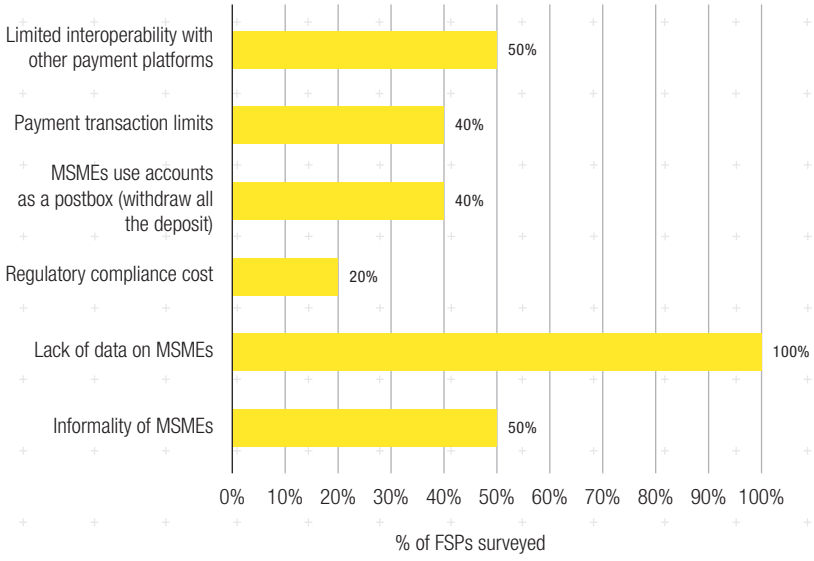
Kenya	Tanzania	Uganda (1)	Uganda (2)	Ethiopia
Network connectivity	Mobile Banking glitches	Network failures	Issues with agent banking	Digital disputes
Float unavailability	ATM transaction glitches	Customer service issues	Issues with mobile money transactions	Wrongly linked telephone numbers
Faulty equipment (PoS devices)	High interest rates on loans	Loan Charges	Issues with branch services	ATM cards delivery delays

These complaints are categorised under the broad areas

- Agent liquidity management
- Cost of credit
- Telecommunication network inefficiencies
- Customer service issues
- Usability/capability challenges

The survey also sought to reveal what barriers to greater MSME financial inclusion are perceived by FSPs (Figure 18).

Figure 18: Barriers to serving MSMEs better



The most-mentioned barrier to serving MSMEs better is lack of data about them. Gathering data about MSMEs is a challenge because what information exists is fragmented. In a bid to fill this gap, Morocco introduced the MSMEO to fill this gap by bringing together administrative data and surveys. In Kenya, Uganda, Tanzania, and Nigeria, the FSDs support data gathering carried out by nationally representative surveys of MSMEs. In Nigeria, SMEDAN publishes a survey of MSMEs which gives a national picture. These surveys are too infrequent to provide FSPs with market data on MSMEs, but they provide an outline of the MSME landscape, the barriers to lending, and how the scene is changing.

The fragmentation of payment systems and their poor interoperability is also a major barrier. The integration of payment platforms through national or private switches is critical to ensure that payment systems meet the needs of MSMEs which may have suppliers or buyers using different payment platforms.

Some of FSPs also note that some MSME clients withdraw all their funds after receiving payments – and do not keep a positive balance in their account. This makes the accounts of these MSME less profitable because they do not use their accounts to make payments. This behaviour may be because it is more expensive to maintain a bank account than to hold cash or deposit money in a mobile money wallet. FSPs can try to address this by offering better value to customers.

Conclusion and Recommendations

This research was conducted to assess how WSBI members are helping to improve financial inclusion for MSMEs, and what more needs to be done. Participating FSPs are not representative of the total African membership of WSBI, and this is a limitation of the study. Another limitation is a poor response rate: many FSPs failed to complete the questionnaires they received. However, we will draw upon lessons from this project when designing future studies, especially with respect to length of the questionnaire and framing of questions.

The report found that WSBI members that participated in the survey offer MSME focused services that cover savings, credit, payment, and services that enable access to clean energy. These findings highlight that there is no *one size fits all* solution to address the financing gap MSMEs face. Below, however, based upon our analysis, we set out some recommendations for regulators, FSPs and facilitators while considering that different strategies are required for each segment of MSME. For instance, micro-enterprises tend to be more informal and unregistered. They are also more likely to band together in groups to pool funds for business which means that FSPs need to have services based on a group-based methodology. With a majority of MSMEs being microenterprises, more flexible KYC application is required to reduce barriers faced by microenterprises in using formal financial services. Finally, an appropriate mix of face to face and digital modes of interaction are required when dealing with MSMEs. Microenterprises tend to require agents that visit their shops although this type of service can also be valuable to MSMEs than cannot leave their business to visit bank branches.

For regulators and policymakers

- Embed MSME financing/MSME financial inclusion in the country's national financial inclusion strategy.
- Collaborate with FSPs and market facilitators in developing data and a measurement framework to track progress toward MSME financial inclusion objectives. This is particularly important to track activities of micro-enterprises that are typically informal without much administrative data trail.

- Support agency banking as a form of branchless banking that can drive financial inclusion of MSMEs, especially in rural areas, through appropriate regulation.
- Regulation can play a role in incentivising agent banking by limiting exclusive arrangements between FSPs and agents. This will promote competition while increasing the opportunities for MSMEs bank agents.
- Develop policies and regulations that incentivise the provision of group-based financial services adapted to the prevalence in Africa of savings groups (that have a business function. These could support rotating savings and credit associations (ROSCAs), accumulating savings and credit associations (ASCAs) and other community-based savings solutions.
- Adopt regulation that strikes a balance between financial inclusion and maintaining financial integrity, to ensure that micro-enterprises that are unregistered can access formal financial services designed more for SMEs. This can be achieved through either a tiered or a risk-based approach in line with FATF guidance
- To underpin the African Continental Free Trade Area (AfCFTA), regulators should facilitate the development of competitive cross border payment services for MSMEs engaged in low-value cross border trade. This will promote trade and assist MSMEs to buy inputs or sell products outside their home countries
- Increase collaboration with Non-governmental Organisations (NGOs) and market facilitators to reinforce national business development support programmes to strengthen the record-keeping skills of MSME managers especially those in the micro-enterprise segment.

For Financial Services Providers

- Linked to AfCFTA and given the expected rise in demand for trade finance, innovations in commodity financing should be structured with a focus on regional processors as off-takers rather than for exporters of raw materials. Enhanced digitisation in trade transaction processing will increase the ability to harness and mutualise trade information and reduce risk and KYC costs.
- Invest in data collection and analytical tools that can provide more insight into the MSME market, permitting the design of appropriate products
- Increase the use of branchless banking methods to reach MSMEs in rural areas
- Find the balance between digital and in-person services as most of Africa is rural with digitally illiterate populations who will need to interface with humans.
- Reduce the cost of accessing and using savings/deposit accounts to increase their use by MSMEs

- Increase open-loop interoperability with non-bank payment service providers, especially mobile money operators. This could increase use of formal financial services by MSMEs that make and receive payments across different payment platforms
- Provide instant payments to increase the appeal of digital financial services, especially for MSMEs that require liquidity to underpin their operations. These could include cash-out services and procurement of stock and inputs
- Improve the quality of service provided by ensuring agents have sufficient liquidity and financial literacy, and know your products well
- Facilitate MSME access to markets by providing value chain finance and ensure that MSMEs are either able to source inputs or sell their outputs though financial services that can support their cash-flow
- Consider using mobile money transaction histories to assess the credit-worthiness of MSMEs, and thus enhance their access to finance
- Develop lending products that assist MSMEs to access clean energy

For Market Facilitators

- Provide the data and monitoring information that policymakers and financial service providers need to identify market gaps and opportunities
- Provide funding and technical assistance for business development programmes in collaboration with the public and private sector
- Bring together those involved in MSME financial inclusion at regional and country levels to share knowledge and educate policymakers and financial service providers about the issues
- Work with regulators and FSPs to design a regulatory sandbox to facilitate the development of new financial services that better meet the needs of MSMEs
- Use innovation and challenge funds to encourage new product design and development to help expand MSME financial inclusion

Annexes

Annex 1 Background

WSBI created in 2016 a new programme in partnership with the Mastercard Foundation "to establish the viability of low balance savings accounts and use of customer-centric approaches to address barriers faced in access, usage and affordability of savings services".

Called Scale2Save, the programme is set against a backdrop of problems such as high poverty rates and financial exclusion in sub-Saharan Africa, as well as low formal savings rates. FSPs have a poor understanding of the market savings potential of people in various low-income segments. A notable, but not the only, example is that of young adults living in someone else's home. The needs of customers and potential customers – and how much customers can afford to pay to meet those needs – are not well reflected in FSPs' business models, customer interfaces and interactions. The resulting poor customer experience gives rise to extremely high rates of bank account dormancy and inactivity. This is a significant cost for FSPs and undermines potentially sustainable business cases to deliver accessible financial services to people in these segments.

The Scale2Save programme's core activities are to:

- Provide banks with technical assistance to develop savings services valued by low-income customers. WSBI works with nine banks to develop and deliver savings products that not only increase access to financial services but also drive ongoing use of those services. The banks are in Cote d'Ivoire, Kenya, Morocco, Nigeria, Senegal, and Uganda. A bank in Tanzania acts as a knowledge partner.
- Conduct research and share lessons between partner banks. WSBI publishes the annual report Savings and Retail Banking in Africa to facilitate peer learning and the spread of knowledge. The institute also researches new pricing models to help establish a business case for low-balance savings and conducts household research to contribute to the knowledge base on cash flows in households.

- Communicate learnings to the wider sector. WSBI has developed and carried out a targeted communications strategy to spread the knowledge created by the project to key stakeholders.
- Monitor and evaluate the programme. WSBI monitors project progress at partner banks and oversees mid-term and final project evaluations.

The programme started in September 2016 and will continue until February 2022.

Learn more about Scale2Save at
www.wsbi-esbg.org/KnowledgeSharing/scale2save
or on Twitter at @scale2save.

About WSBI

About the World Savings and Retail Banking Institute

Founded in 1924, WSBI is an international banking association committed to help savings and retail banks thrive. To do this, it represents the interests of 6,760 banks on all continents. As a worldwide organization, WSBI focuses on international regulatory issues that affect the savings and retail banking industry. It supports the aims of the G20 in achieving sustainable, inclusive, and balanced growth, and job creation, whether in industrialized or less developed countries. Supporting a diversified range of financial services to meet customer need, WSBI favours an inclusive form of globalisation that is just and fair. It supports international efforts to advance financial access and financial usage for everyone.

The association has members in some 80 countries in the Americas, Africa, Asia, and Europe. These members are either individual financial institutions or associations of retail banks. All members share three features: they are active in the retail banking segment, have a strong regional presence and show a responsible attitude towards business and society. The total assets of all member banks amount to more than $16,000 billion, non-bank deposits to nearly US$9,000 billion. Serving some 1.7 billion customers, WSBI members are committed to further unleash the promise of sustainable, responsible 21stcentury banking. Learn more at www.wsbi-esbg.org on Twitter at @wsbi_esbg.

WSBI and financial inclusion: A brief history

WSBI's financial inclusion journey dates back to 1924 with the inauguration of the first World Savings Day and has continued over the decades. In 2003 WSBI published research that revealed an estimated 1.4 billion low-cost/low-balance savings accounts worldwide, of which 1.1 billion accounts were managed by WSBI's member banks. Following further research, the institute launched its programme "WSBI Doubling Savings Accounts" in 2008 and concluded it successfully in 2016. Building on extensive learning, WSBI has now set out on its next stage in the journey through the Scale2Save programme.

About Mastercard Foundation

The Mastercard Foundation seeks a world where everyone can learn and prosper. The Foundation's work is guided by its mission to advance learning and promote financial inclusion for people living in poverty. One of the largest foundations in the world, it works almost exclusively in Africa. It was created in 2006 by Mastercard International and operates independently under the governance of its own Board of Directors. The Foundation has offices in Toronto, Canada and in Kigali, Rwanda. Visit www.mastercardfdn.org for more information and to sign up for the Foundation's newsletter. Follow the Foundation at @MastercardFdn on Twitter.

Annex 2 Glossary

- **Account**
  All transaction and current accounts, term deposits, saving and mobile accounts held with a financial institution. They allow for deposits, withdrawals, and fund transfers by the account holder to third parties as well as sending and receiving payments into this account.

- **Active account**
  An account that has been used to perform at least one transaction, such as cash into the account, cash out of the account, P2P payment, bill payment, or bulk payment from the account, within the previous six months. This excludes balance enquiries, PIN resets, and other transactions that do not involve the movement of value.

- **Agents**
  Individuals or businesses entitled to act on behalf of a financial service provider (FSP) to perform certain financial or administrative transactions. They may have a direct contractual relationship with the FSP or may be contracted by a third party (super-agent, aggregator) who maintains a service agreement with the FSP.

- **Alternative delivery channels**
  Any channel that is not a full-service bricks-and-mortar branch and which offers a full range of financial services. They include agents, ATMs, merchants, mobile banking and roving staff.

- **Automated teller machines or ATMs**
  Machines with a fixed location that customers use to access services. They may be accessed through different identification means – such as a card, personal identification number (PIN), or biometrics – and used for different kinds of cash or non-cash-based operations that include deposits and withdrawals, transfers, and consulting account balances. ATMs may be proprietary or managed by third parties.

- **Branches**
  Staffed points of service and administrative sites used to deliver, or support the delivery of, financial services and a wide array of face-to-face and automated services to customers.

- **Large enterprises**
  All enterprises, non-subsidiary, independent firms that are not included in the MSMEs term below.

- **Merchants**
  Those using a physical payment processing device located at their place of business, such as point of sale (POS), to accept payment for sales of goods or services from customers using their financial institution's (FI's) means of identification, such as a card. The merchant could be acquired by the FI or simply part of a network enabling the merchant to process payments.

- **Mobile account**
  All accounts that allow transactions to or from other accounts through a mobile phone.

- **Mobile banking**
  Mobile services based on USSD or SMS communications that customers can access through their own device.

- **MSMEs**
  Non-subsidiary, independent firms that include at least two of these three features:

  i) Employees < 300
  ii) Assets < $15 million
  iii) Annual turnover < $15 million.

- **Savings product**
  Term deposits and demand savings accounts. They exclude transaction or current accounts.

- **Self-help support group**
  Group of low-income people who come together to save and guarantee one another's loans. The concept has several forms, including village banks, self-help groups, village savings and loan associations (VSLAs), and village community banks.

- **Transaction account**
  All individual transaction accounts and current accounts.

- **Savings account**
  All term deposits and savings accounts.

Annex 3 Table of Figures

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Scale 2Save

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