Women's Financial Inclusion and the Roles of CGS in facilitating the WMSME Access to Finance

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Presentation Outline

- About AFI
- WMSMEs and the Barriers to Access to Finance
- Policy Framework for WMSMEs
- Credit Guarantee Schemes (CGSs): Accelerating WMSME Access to Finance
- Next Steps

What is the AFI Global Network?

> **Financial inclusion is not just a policy goal; it is a fundamental human right and a powerful driver of economic growth and social equity. It is the key to unlocking the potential of billions of people around the world who have long been excluded from the formal financial system.**

Ariff Ali, Governor of the Reserve Bank of Fiji and AFI Board Chair

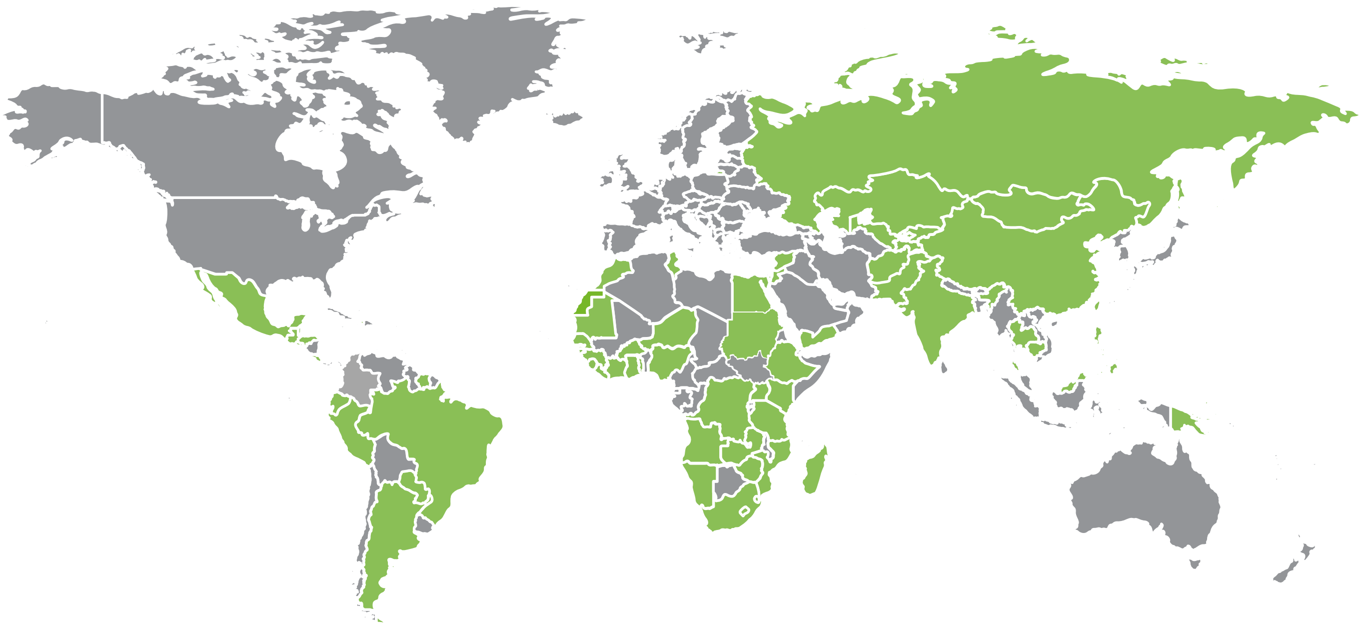
86 financial sector policymaker and regulators from **78** emerging and developing countries working together to advance financial inclusion

Representing about **85%** of global unbanked population

AFI's goal is to support members to develop and implement successful financial inclusion policies that address country specific challenges

AFI is a non-political, non-profit organization, owned, governed and sustained by members through annual membership fees

Impact of AFI's Network



82

Developing countries

1023+

Maya Declaration financial inclusion targets

920+

Policy changes

Over

841Mil

Unbanked people brought into the formal financial system

BRINGING
SMART
POLICIES
TO LIFE

12 AMAZING SERVICES

01
WORKING GROUPS

02
KNOWLEDGE PRODUCTS

03
PEER REVIEWS

04
REGIONAL INITIATIVES

05
CAPACITY BUILDING FOR DEVELOPMENT

06
IN-COUNTRY IMPLEMENTATION (ICI)

07
AFI GLOBAL POLICY FORUM (GPF)

08
THE MAYA DECLARATION

09
PUBLIC-PRIVATE DIALOGUE (PPD) PLATFORM

10
GLOBAL ADVOCACY ON FINANCIAL INCLUSION

11
AFI DATA PORTAL (ADP)

12
3D - DEVELOPING DEVELOPED COUNTRIES DIALOGUE

AFI Working Groups

Consumer Empowerment and Market Conduct Working Group (CEMCWG)

Digital Financial Services Working Group (DFSWG)

SME Finance Working Group (SMEFWG)

Financial Inclusion Data Working Group (FIDWG)

Inclusive Green Finance Working Group (IGFWG)

Financial Inclusion Strategy Peer Learning Group (FISPLG)

Global Standards Proportionality Working Group (GSPWG)

Our Partners

AFI Workstreams

1. Gender Inclusive Finance

Support members making national Maya Declaration commitments on gender inclusive finance. Support UN SDG 5.

2. Inclusive Green Finance

IGF plays a key role in enabling the implementation of the UN SDGs particularly SDG 1, 7, 13, and 17.

3. Inclusive FinTech

Sochi Accord on FinTech for Financial Inclusion. Develop regulatory or policy interventions that balance innovation in technology-based financial Services (FinTech) with oversight and accelerate access and usage of financial services.

4. Youth Financial Inclusion

At the AFI Global Policy Forum in 2019, members unanimously approved the Kigali Statement, which commits to harnessing the capacity of youth and other disproportionately financially excluded groups to drive inclusive growth

5. Forcibly Displaced Persons (FDPs)

AFI supports peer-to-peer learning on financial inclusion initiatives that can offer the same opportunities for FDPs as citizens or other country residents, but only when adapted and applied appropriately.

WMSMEs and the Barriers to Access to Finance

Lack of access to finance impedes WMSMEs' growth

WMSMEs are crucial for growth and job creation but face gaps in access to finance.

- Approximately 40% of the world's 340 million informal MSMEs and one-third of the 40 million formal SMEs.
- Approximately 65% of women-led MSMEs in developing economies are either unserved or underserved financially, and according to the 2017 MSME Finance Gap, WMSMEs' financing gap is approximately USD1.7 trillion.
- Access to finance for WMSMEs increases their access to productive assets and increases productivity and leads to stronger economic growth.
- Financing gap exists because women-led MSMEs face different challenges compared to their male counterparts. As such, there is merit in having a policy framework focused specifically on access to finance for women-led MSMEs to address these constraints.

Lack of access to finance impedes WMSMEs' growth

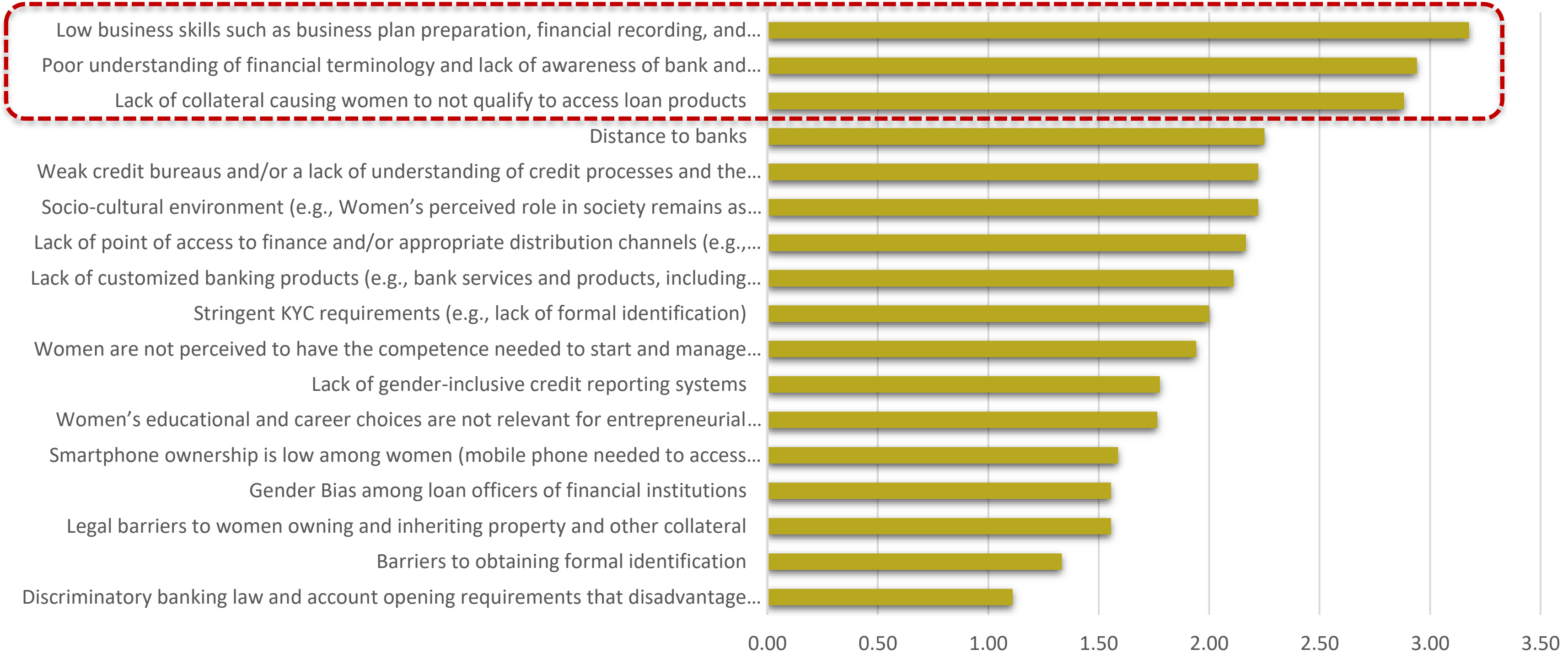
Insufficient focus of policymakers on women-led access to finance. The report highlights the fact that despite importance progress on gender inclusive finance (e.g., the implementation of measures under the Maya Declaration and the Denarau Action Plan), there is limited focus on women-led MSME access to finance by policymakers.

The key constraints discussed include:

- Legal barriers to women owning and inheriting property
- Inadequacies in the credit infrastructure to incorporate women-led MSME capacity and financing needs
- Mobility barriers hampering exploitation of business opportunities for women-led MSMEs
- Deficiencies in financial and business skills of women-led MSMEs
- Lack of formal identification required to access bank financing
- Lack of sex-disaggregated data
- Distance to financial institutions and bank branches
- Financial service delivery which may not be adapted to women businesses

Ranking of Barries to Women-Led MSME Access to Finance

(1: Least Severe to 4: Most severe) 24 Responses

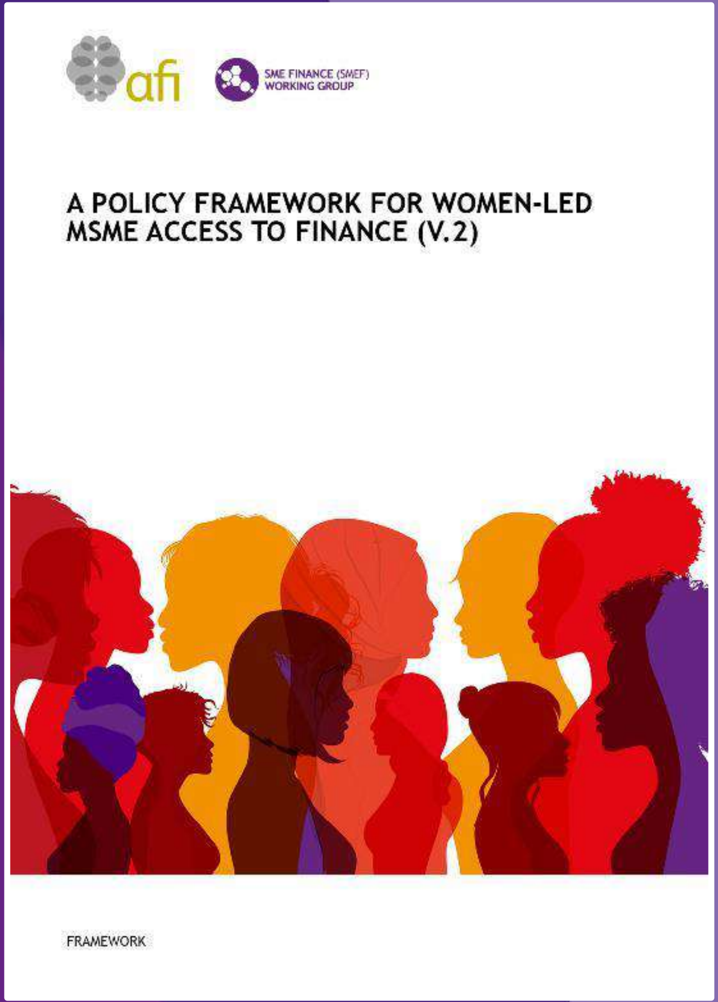


Barriers to WMSMEs' access to DFS

While DFS have potential to address several of the above constraints and increase women-led MSMEs' access to finance, these entrepreneurs face several barriers to use DFS:

- Low levels of financial and digital literacy among women can lead to a perceived lack of need, distrust, or poor understanding of DFS solutions;
- Women are less likely to own mobile phone and access mobile Internet;
- poor mobile network coverage limits distribution (agent) channels;
- Policies, regulations, and institutional infrastructure, as well as supervisory capacity, required for technology enabled financial services to flourish are still catching up with innovation;
- challenges to promote proportionate treatment under anti-money laundering/countering the financing of terrorism (AML/CFT) regulations.

Policy Framework for Women-led/owned MSMEs



Policy Framework for WMSMEs

Overarching Pillar:

Include Women-led MSME Access to Finance in the National Financial Inclusion Strategies or other strategies such the MSME development policy. This should spell out the details and approaches summarized in the six pillars of the Framework

PILLAR 1

Develop an enabling environment

PILLAR 2

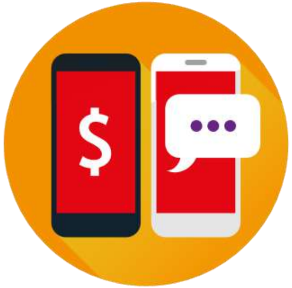
Collect sex-disaggregated data

PILLAR 3

Build skills for women-led MSMEs and financial services providers

PILLAR 4

Allow alternative sources of collateral and alternative ways of building credit for women-led MSMEs



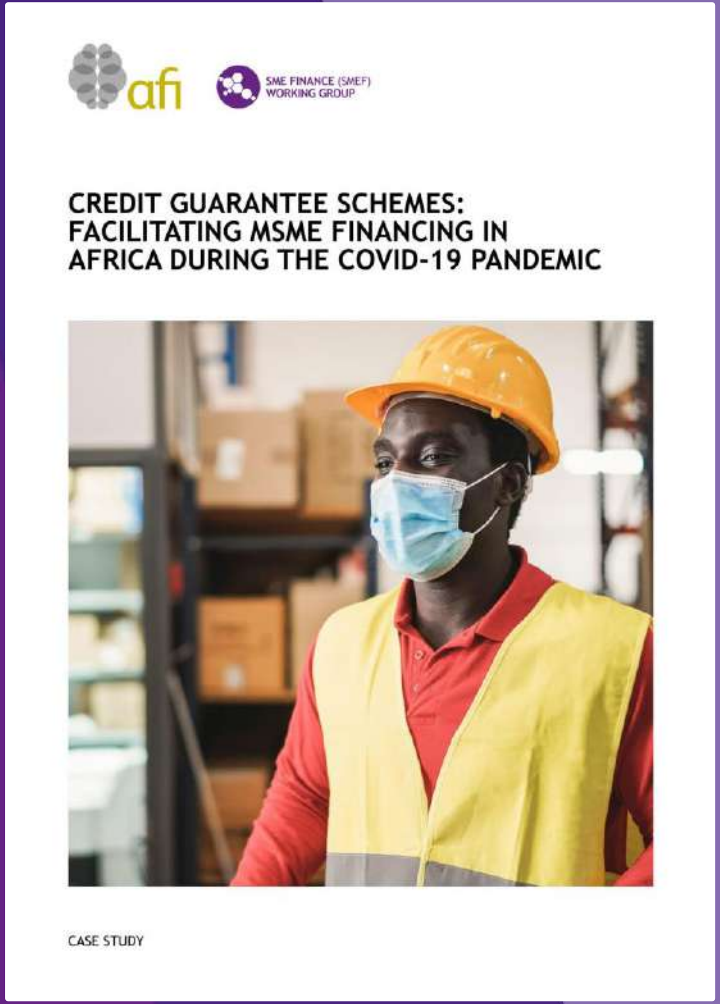
PILLAR 5

Develop Digital Financial Services (DFS) focused on women-led MSMEs

PILLAR 6

Encourage diversity and women leadership in the financial and business sectors

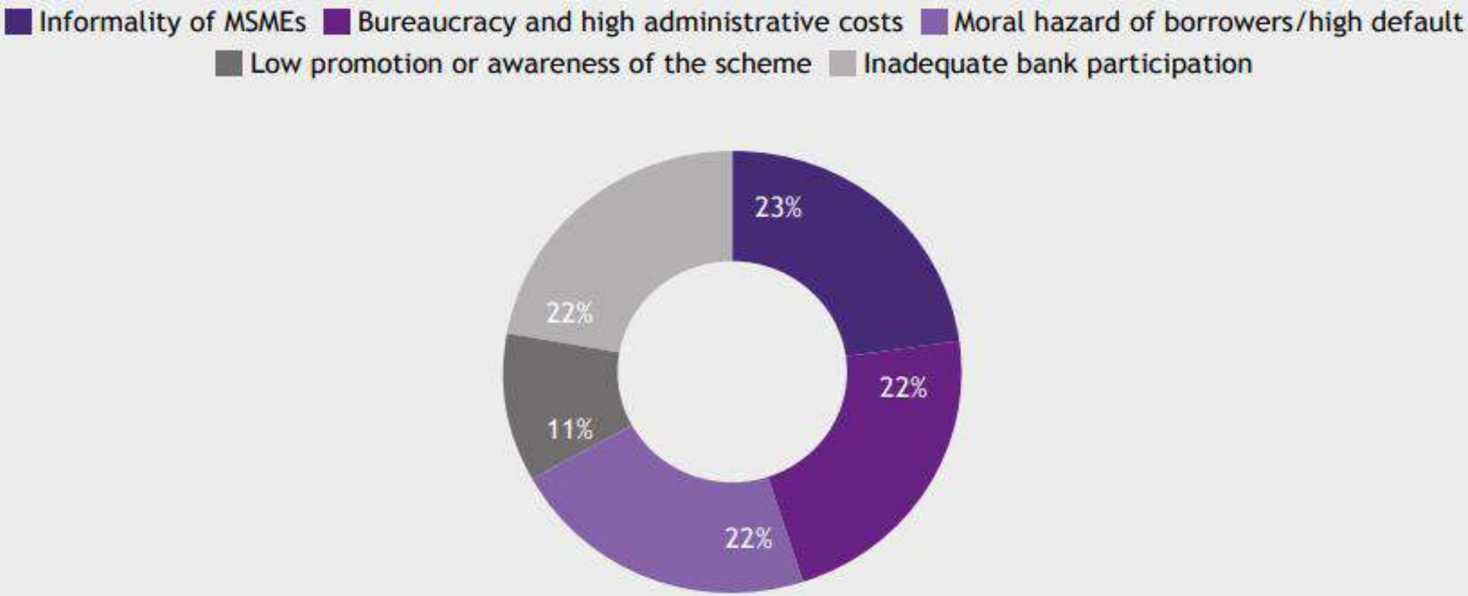
Credit Guarantee Schemes (GCSs): Accelerating WMSME Access to Finance



Credit Guarantee Schemes (GCSs)

- GCS encourages financial inclusion of MSMEs and provide market opportunities for service providers.
- Approximately 18 of 45 SSA countries represented in the AFI member network (40 percent) applied a CGS as a COVID-19 mitigation strategy for small business support. (Based on AFI survey)
- Identified CGSs were primarily driven by governments' mission to provide emergency support to distressed businesses and help stabilize the economy from the shock caused by the pandemic.
- Adoption rate was particularly more common in high-income and upper middle-income countries. More than two-thirds of the G20 countries had CGSs as a COVID-19 policy response initiative for small businesses.
- Kenya has a substantial proportion of the CGS funds targeting women, youth and people with disabilities. This PCGS is one of the few in SSA that has a specific proportion earmarked for marginalized groups (**at least 30 percent for women**, youth and persons with disabilities).
- There are seven participating banks in Kenya, but not all have a presence in all the regions/provinces of the country. This can impair the level of awareness and reach.

Factors Impeding the Success of CGS in SSA



Source: Survey responses from AFI network members

Summary of Kenya Credit Guarantee Scheme

TITLE	Credit Guarantee Scheme
LEGAL STATUS	Guarantee fund administered by the National Treasury of Kenya, not a separate legal entity.
PURPOSE	To improve and stimulate the national economy by encouraging additional lending to MSMEs by leveraging private sector resources.
TARGET BENEFICIARIES	MSMEs, women, youth and persons with disabilities.
OWNERSHIP	Administered by the National Treasury and Planning Cabinet Secretary in conjunction with a Steering Committee.
FUNDING	Appropriation from the Parliament of Kenya. An initial allocation of KSH3 billion to be increased to KSH10 billion.[1]
ELIGIBILITY CRITERIA	a) MSME registered with a local county government and hold a valid business permit or trade license b) Can verify compliance with relevant tax laws c) Be creditworthy and intend to use the credit advanced for business purposes, including working capital, acquisition of assets or rebuilding the businesses d) Satisfy any other condition that may be imposed by the Steering Committee.
DOCUMENTATION REQUIRED	To be advised by participating banks.

OPERATIONAL MODALITIES	a) Portfolio guarantee - participating financial intermediaries are responsible for evaluating individual applications for credit facilities under the scheme based on normal banking prudential guidelines, monitoring the borrower accounts and initiating recoveries in case of default b) At least 30 percent of the CGS is earmarked for marginalized groups (women, youth and persons with disabilities) c) Any money paid by the scheme on a guarantee shall be a debt due to the national government from the borrower whose loan was guaranteed.
COVERAGE	25 percent
INTEREST RATES	Preferential (participating financial institutions expected to offer low-interest rates).
FEES	Not specified, but there is an indication of a fee.
MAXIMUM LOAN AMOUNT	KSH5 million and a loan tenure of 36 months or less.
PARTICIPATING INSTITUTIONS	Seven: ABSA, Cooperative Bank, Credit Bank, Diamond Trust Bank, Kenya Commercial Bank, NCBA and Stanbic Bank.
RULES GUIDING CLAIMS	The guarantee can be invoked for the principal outstanding amount if the facility has been classified as non-performing during the specified period and recovery proceedings legally initiated. This is subject to the maximum level guaranteed, whichever is earlier.
RISK MANAGEMENT	a) No individual MSME loan disbursement can be more than one percent of the guarantee funds b) Periodic performance reports are to be submitted to the administrator.
SUPPORT SERVICES	Provided by participating financial institutions during regular business.
UPTAKE	Extremely low. According to the Parliamentary Budget Office of Kenya, as of June 2021, a total of 334 credit facilities amounting to KSH634.5 million have been disbursed under the scheme.

Source: Public Finance Management (Credit Guarantee Scheme) Regulation

Implications and Lessons Learned

Enhance flexibility and adaptation to crisis

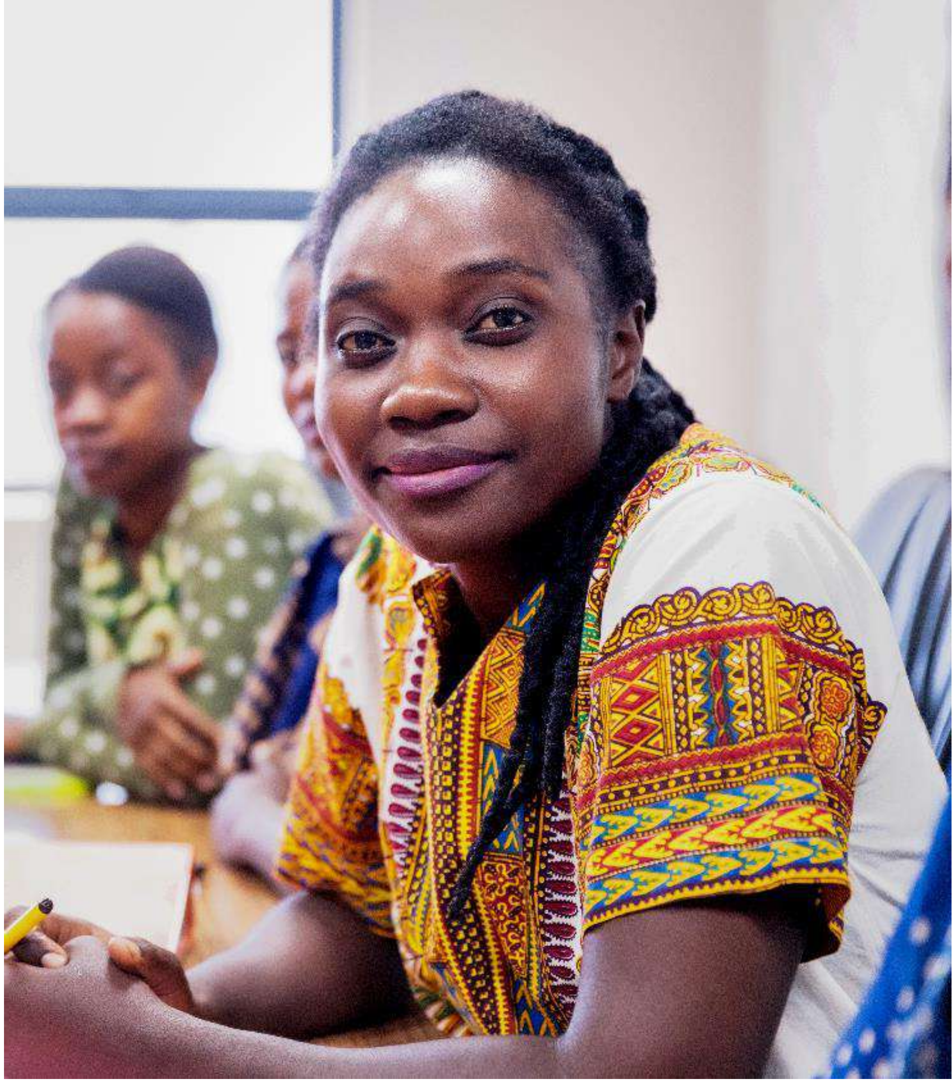
Rapid response to crises and quick accommodation to the needs of targeted beneficiaries. (eg: expansion of guarantee coverage, partial refund of guarantee fees

Tool for reaching the excluded groups

PCGS funds for targeted support to disadvantaged and marginalized groups.

Improves effectiveness, M&E, transparency via private and public collaboration

Having a range of stakeholders involved in contributing to the success of any CGS is a plus. Input from the private sector also helps gather relevant information on implementation to know what is working.



Next steps

Strategies to Increase Reach Out and Impact

1. Increased public awareness and enlightenment

2. Complementary support services for MSMEs to increase capability

3. Partnerships with local associations and digital finance service providers

4. Pursue a mature enabling credit infrastructure as a prerequisite for CGS success

Strategies to Reduce Bureaucracy, Administrative Efficiency and Sustainability

1. Set up a specialized entity to administer the scheme

2. Shared risks

3. Independent supervision and constant monitoring and evaluation

4. Aim for self-sufficiency

THANK YOU

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