



FINANCIAL EDUCATION FOR THE MSMEs: IDENTIFYING MSME EDUCATIONAL NEEDS



CASE STUDY

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FOREWORD

AFI has been instrumental in facilitating the development of financial inclusion policies and initiatives through its member-owned network. The SME Finance Working Group (SMEFWG), like other working groups, provides a valuable and unique platform of global knowledge sharing, consultation and sharing of country experiences.

The working group also includes a designated gender focal point to support the integration of the Denarau Action Plan commitments into AFI's policy and regulatory work. For many countries, particularly the developing and emerging economies, the MSME sector is central to achieving sustainable and inclusive growth, hence the need to learn from the countries that have. This is particularly important when we look at population segments from vulnerable groups, such as women, and the roles they play in the MSME sector. Many countries are now increasingly developing national financial inclusion strategies, paying special attention to the MSME sector, in recognition of the key role that MSMEs play in any economy.

The SMEFWG has contributed to the shaping of the MSME landscape in its member countries through the upscaling of technical competencies for the development of national MSME strategies, many of which have the opportunity to include gender-specific considerations and targets.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are considered the lifeblood of an economy for many developing countries. They are frequently the drivers of innovation, employment, and sustainable economic development.

Hence, to ensure sustainable development in emerging economies, it is important to create opportunities for MSMEs. Access to finance is frequently identified as a critical barrier to growth for MSMEs in emerging economies. According to a study by International Finance Corporation (IFC), the potential demand for MSME finance is estimated at USD 8.9 trillion, compared to the current credit supply of USD 3.7 trillion.¹

Financial Service Providers (FSPs) are beginning to understand that MSMEs constitute a valuable market segment of their own and require financial products and services that meet their particular needs, and even within the MSME segment, different types of MSMEs (e.g. rural or urban, male or female-owned) have differing needs. These needs are distinctive from those of corporate clients, in the sense that their transaction sizes and numbers are smaller. They are also distinctive from retail clients as their transactions require more customization.

This report aims to share with readers the various awareness and education-related issues that could hinder the economic growth of MSMEs. Specifically, FSPs do not have much information on the informal sector where many MSMEs do business. Also, most MSMEs do not have the opportunity to be educated on business management tools or have awareness of FSP products and services. Case studies for successful educational programs for both supply and demand-side from Zambia, Jordan and Bangladesh are elaborated in this report.

¹ International Finance Corporation (2017): 'MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets.'

IDENTIFYING THE PROBLEM

The relationship between MSMEs and FSPs is symbiotic; meaning that the two are dependent upon one another for success. At the same time, their relationship can also be described as a difficult one, thus, creating information asymmetry both from demand and supply-side.

Because of this information asymmetry, from the supply-side, FSPs tend to regard the MSME sector as generally risky and for this reason, feel justified in being overly cautious and highly selective in offering credit to this sector. Consequently, they apply credit rationing and hedge themselves with high interest rates and stringent collateral requirements. On the other hand, from the demand-side, MSMEs are of the view that FSPs are unnecessarily risk-averse and generally

unsupportive of their businesses due to information asymmetry of both sides, thus, leading to little or no interest in understanding their needs and designing financial products suitable for them.

To better serve the MSMEs and their financing needs, MSMEs should not be seen to be homogenous. It is recommended that they should be segmented according to their size, registration status, sector of operation, business life cycle and geographic location. Efforts should be targeted towards the young and small MSMEs, primarily those in the early-to-growth stages of their business life cycle, as these are the most vulnerable in terms of access to financial services, in particular credit, while their knowledge of basic financial principles is also comparatively the lowest.

- 2 Financial Sector Deepening Zambia (2015): 'Zambian Banks Need to Up their Game with MSMEs.'
- 3 Research by FSDZ also showed that ambitious SMEs have banking relationships with three or four FSPs or keep moving from one FSP to another to find a particular one that will understand their circumstances and provide them with appropriate services. The views of SME clients are that while FSPs are producing award-winning products and services and coming up with programs for SMEs, they usually do not meet the needs of the entrepreneurs.
- 4 It has been said that officers of FSPs do not pay much attention to potential SME clients who do not understand English.

THE THREE MAIN CHALLENGES TO GROWTH IN MSME PRODUCT DELIVERY BY FSPs THAT HAVE BEEN IDENTIFIED ARE:²

1

LACK OF INFORMATION

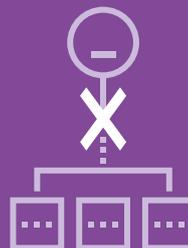
Largely, MSMEs are micro and small, and may not have strong growth plans and also may not have carefully organized systems of accounting, among many other challenges. Most of them operate informally, yet they know their clients and understand their markets better than the FSPs. Informality is a symptom of other problems that in turn affects growth and productivity. Therefore, their informality and lack of data makes engagement with FSPs difficult. FSPs on the other hand, do not have sufficient information, nor a good understanding of MSMEs. Therefore, they tend to over estimate risks and over-price/restrict the products and services to MSMEs.



2

ABSENCE OF APPROPRIATE FINANCIAL PRODUCTS

Misalignment of products and services to the needs of MSMEs.³



3

LANGUAGE BARRIER

Language barrier has been identified as one of the major challenges.⁴



THE NEED FOR FINANCIAL EDUCATION

To reconcile and address this information asymmetry, it has been recognized that the education of both FSPs and MSMEs is important.

In the World Bank's 2014 Global Financial Development Report, in which financial inclusion was the main theme, it was reported that MSMEs and particularly those in the informal sector, face significant financing constraints that undermine their contribution to employment, productivity, growth and innovation. It was also reported that financial practitioners saw financial education as the most effective means of addressing financial exclusion for individuals and businesses.⁵

Financial education is generally defined as providing people with the knowledge, understanding, skills and confidence so that they make financial decisions and take actions that are appropriate to their circumstances. The Organisation for Economic Co-operation and Development (OECD) defines financial education as a *“process by which financial consumers/ investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial wellbeing.”*⁶

Financial education provides individuals and businesses with the capability, knowledge, skills, attitudes and behaviors required to act in their own best interests and to select and use financial services that best meet their needs. For FSPs, it has been recognized that there is more to relationship management than the extension of finance by FSPs. Good gender-sensitive relationship management coupled with the necessary financing can fetch far more fruitful results than financing in isolation. Financing in isolation of financial education and capabilities could be a trap

Education interventions are therefore important for both MSMEs and FSPs to address both the demand and supply-side constraints. The education programs should be undertaken as a concerted effort by individual FSPs or as a coordinated effort of public and private

partnerships through government agencies and industry associations, in the form of seminars, workshops, exhibitions, and online blogs, among others, and focus on different financial education topics aimed at enhancing the capacity of MSMEs.

FSPs should also collaborate with SME associations to create stronger knowledge sharing partnerships and platforms, and networking opportunities for MSMEs, where experts and successful entrepreneurs can share their success stories to inspire others and soar their confidence. This is particularly beneficial for women, as it can develop role models in the community who can act as enablers for other women to become entrepreneurs.

5 ACCA (January 2014) - Financial Education for Entrepreneurs: What Next?

6 Jose Trinidad Murillo: Trade Union Advisory Committee to the Organization for Economic Cooperation and Development: The OECD Work on Financial Education and Consumer Protection; 2 December 2012.

FINANCIAL EDUCATION FOR FSPs TO ADDRESS SUPPLY-SIDE CHALLENGES

This report identifies the need for FSPs to come up with targeted financial education programmes and strategies, specifically for enhancing their institutional capacities in dealing with the whole range of MSMEs. The key objectives of any training programmes are to improve the knowledge, skills, attitudes, and ultimately, the behavior that will help FSPs make better decisions in serving MSMEs.

The programmes may be in the form of seminars, workshop and/or on-the-job practical training, by training and mobilizing a team of skilled SME Relationship Managers, who will be able to understand the complexities associated with running and growing an SME and are capable of adding value and establishing a long-term relationship, based on business performance and future potential, rather than individual loans.

THE TRAINING OBJECTIVE FOR FSPs

The aim of the education strategy should be to enhance the skills capacity of FSPs in analyzing MSMEs and their financing needs. The acquired skills would also enable the FSPs to develop innovative and appropriate products for the MSME sector. This would also help improve the delivery of quality advisory services and address the information gaps that MSMEs face.

The strategy must also take into account the risks associated with the sector and how to better manage them. While being cognizant of the inherent risks of MSMEs, it is understandable that an FSP may not want to invest in a segment that is considered to be very risky and will not be profitable; there can be a payoff by better understanding their needs and interests and designing responsive products and services. Also, FSPs should consider other forms of evaluating risks, in addition to the conventional credit risk assessment. For instance, they may adopt the SME Competitiveness Rating for Enhancement (SCORE), a diagnostic tool used to rate and enhance the competitiveness of SMEs based on their performance and capabilities. This tool not

only assesses MSME's credit worthiness but also allows other parameters, such as financial strength, business performance, human resource, technology acquisition and adoption, certification and market presence; thus, providing a comprehensive development of MSMEs.

It is therefore recommended that FSPs take the lead in creating an environment that is conducive to improved credit offering to the MSME sector. To this effect, FSPs should:

- > **invest** in training programmes that focus on MSMEs so their officers acquire the necessary skills and expertise for dealing with MSMEs;
- > **adopt** MSME-centric approaches and have dedicated Relationship Managers to serve the MSME clientele. From a risk management perspective, FSPs are more likely to extend credit to customers they know well. A more personal relationship could make credit officers risk-averse to the MSME customer segment they know little about. A continuous improvement of the FSP-MSME business relationship will help them get a better understanding of the peculiar circumstances of MSMEs, their complexities and financing needs;
- > **design** products and prices specifically for the different sectors of MSMEs, which are reflective of the MSMEs peculiarities; and
- > **provide** occasional workshops and seminars, as value addition, for their MSME clientele. Such workshops would also provide platforms for financial institutions to interact with their clients and an opportunity for both parties to exchange views and information that might help to harmonize and foster their respective expectations.

FINANCIAL EDUCATION FOR MSMEs TO ADDRESS DEMAND-SIDE CHALLENGES

The need for strategies and targeted efforts to enhance the financial literacy and capabilities of MSMEs.

To expand outreach for financial education and awareness, the OECD recommends financial literacy within a wider national strategy for financial education.⁷ Financial literacy gaps on the part of SMEs are mainly due to limited knowledge on the various financial options, as well as their lack of understanding of the requirements by FSPs. This gap is also attributed to the mistrust in FSPs. Programs aimed at building trust in the financial sector may, therefore, contribute to addressing the demand-side constraints, particularly among the smaller SMEs and SMEs led by those from vulnerable groups.

The growing importance of financial education is being noted among AFI member institutions, which are increasingly opting to develop national financial education strategies (NFSE). Firstly, it provides governments and key stakeholder organizations to build consensus over the importance of the topic and gain high-level buy-in and leadership commitment and ownership needed to advance the financial education agenda. Further, it provides a basis for a coordinated effort among the public and private sector and to perform activities in a holistic manner.

THE TRAINING OBJECTIVE FOR MSMEs

The main objective of the education programs should be to empower owners and managers of MSMEs, by providing them with basic accounting and management knowledge and tools that enable them to develop and acquire the necessary business skills and techniques for prudent and effective business management - with a focus on financial risk management and potentially, the formalization of their business. The education programs would also assist in increasing the awareness and knowledge of MSMEs on the different types of finance schemes and options, capacity building initiatives, financial and advisory services and also to improve the understanding of their financing requirements. This would enable MSMEs to improve their capabilities and ultimately, business operations, particularly in the area of financial management and business strategy, thereby

making them more financially bankable to access financial services.

One-stop information centres or portals for MSMEs, which provide a range of resources, such as financing, advisory services, networking opportunities and programmes/initiatives offered by both government and private institutions, can also be a useful education platform to reach out to MSMEs. The IFC has partnered with banks in various countries to develop country-specific websites, e.g. India, Philippines and Sri Lanka. The SME Corporation Malaysia also has the Entrepreneurship One-Stop Centre, known as habPKS, a platform for MSMEs and entrepreneurs to acquire knowledge, learn business best practices and obtain essential information on business start-up, market access, human capital development, financial resources, industry know-how, and various other business aspects.

⁷ The OECD/INFE Principles for Strategies for Financial Education provides helpful guidance to policy makers with a view to developing evidence-based, coordinated and tailored approaches to financial education, both in emerging markets and more advanced economies. (<https://www.oecd.org/finance/financial-education/OECD-INFE-Principles-National-Strategies-Financial-Education.pdf>)

WOMEN-OWNED MSMEs

Women-owned MSMEs make significant contribution to economies in which they operate. However, female entrepreneurs face a range of financial and non-financial challenges in realizing their growth potential and are more likely than their male counterparts to cite access to finance as a major constraint on their business opportunity. The most significant barriers tend to be non-financial, which includes limited access to business education opportunities and networks. In addition, financial institutions have not yet realized the business opportunities of meeting the specific financing of women entrepreneurs as a distinct customer group.⁸

While FSPs are generally highly selective in offering credit to MSMEs, they are often more stringent for women-led/owned MSMEs, thus reducing even further their opportunities to engage in value-adding activities and frequently trapping them in a cycle of subsistence and poverty. According to the 2017 MSME Finance Gap, women-owned MSMEs make up 32 percent of the total MSME financing gap, equivalent to approximately USD1.7 trillion.⁹

CHARACTERISTICS OF WOMEN-OWNED MSMEs

In many countries, women display lower financial knowledge than men and are also less confident in their financial knowledge and skills. Even though women appear better than men in some areas of short-term management behavior, they have a number of vulnerabilities in other aspects of financial behavior. For instance, women are more likely to experience difficulties in making ends meet, in saving and in choosing financial products appropriately.¹⁰

It has also been noted that many women-owned and led businesses begin with lower levels of financial education than male-led businesses. In most cases, women have less opportunity to gain higher levels of financial education that would assist them in running and growing their business. Compared to their male counterparts, women often start businesses with less

previous experience and less opportunity to access capital. In this regard, they would require additional support so that they can operate from a level playing field.

Women are most disadvantaged as they may not have the opportunity to be educated on business management tools or have awareness on FSP products and services. Further, most women-owned businesses operate in the informal sector. On account of their informality and small size, FSPs perceive them to be riskier to lend to. In less developed countries, it has been observed that there is discrimination in loan allocation to female entrepreneurs. Female managed firms lack access to formal credit and are less likely to obtain a bank loan. Further, it was also observed that female entrepreneurs are charged higher interest rates.¹¹ To reconcile and address this information asymmetry, it has been recognized that gender-sensitive education of both FSPs and MSMEs is important. Gender-sensitive education takes into account the differing needs of different genders and how this can be undertaken to deliver an equal playing field.

THE NEED FOR SEX DISAGGREGATED DATA

One of the major barriers to increased access to finance for women-owned enterprises is the lack of reliable data disaggregated by gender.¹² It has also been noted that few FSPs collect sex-disaggregated data, which would enable them to better serve the women customers. This further hinders the opportunity to make the business case to FSPs on supporting women-owned entrepreneurs. FSPs need to have a better understanding of the existing market potential, as well as constraints facing women-owned MSMEs at a country and regional level, to design strategies and offerings that will allow them to better cater for the unmet financing needs of women entrepreneurs and thus, to profit from the commercial opportunities that this demographic presents. The lack of sex-disaggregated data is a constraint in itself.

8 IFC (2014): 'Women-Owned SMEs: A business Opportunity for Financial Institutions'. A Market and Credit Gap Analysis and IFC's Portfolio Gender Baseline.

9 International Finance Corporation (2017): 'MSME FINANCE GAP: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets.'

10 Women and Financial Literacy: OECD/INFE, Survey and Policy Responses, June 2013.

11 Women and Financial Literacy: OECD/INFE, Survey and Policy Responses, June 2013

12 IFC (2014): 'Women-Owned SMEs: A business Opportunity for Financial Institutions'. A Market and Credit Gap Analysis and IFC's Portfolio Gender Baseline.

To better serve MSMEs and their financing needs, it is vital to understand the gender demographics of MSME needs through the effective collection and use of sex-disaggregated data, as supported through the AFI member commitment in the Denarau Action Plan.¹³ Their informality and lack of data, therefore, makes engagement with FSPs difficult.

FINANCIAL EDUCATION AND SUPPORT FOR WOMEN-OWNED MSMEs

In light of the challenges faced by women, many countries at different income levels have recognized the need to improve the financial literacy of women by developing and implementing dedicated financial education policies and programmes. Such programmes include, fostering the use of formal saving accounts, supporting them in choosing financial products and preventing over-indebtedness. Impact assessments show that well-designed programmes have been successful in improving women's financial knowledge and confidence in their financial skills.¹⁴

With a good understanding of the gender demographics of MSME, FSPs would be in a better position to develop appropriate relationship management skills, thereby improve the delivery of specially-tailored products and services, including quality gender-sensitive advisory services. The expectation is that this would address the information gaps that not only women-led MSMEs face but all MSMEs in general. Good gender-sensitive relationship management, coupled with the necessary financing can fetch far more fruitful results than financing in isolation. Financing in isolation of financial education and capabilities can increase women's financial exclusion and trap them in the informal sector.

RECOMMENDATIONS TO SUPPORT WOMEN-OWNED MSMEs

To support the access of female-led entrepreneurs to formal finance, which is much needed to promote and foster their growth potential, it is therefore recommended that FSPs should:

- > Understand that women-owned MSMEs are a sub-segment of MSMEs, which have specific characteristics and face specific barriers different from their male counterparts. In this regard, they should view them as a distinct untapped and potentially profitable segment and develop a specific value proposition reflective of their peculiarities;
- > Collect sex-disaggregated data to better understand the differing women's segments and design and develop products and services to enable a level

playing field for women-owned/led MSMEs;

- > Adopt gender-sensitive MSME-centric approaches and have dedicated Relationship Managers to serve the MSME clientele;
- > Invest in gender-sensitive training programmes focusing on MSMEs so that their officers acquire the necessary skills and expertise for dealing with MSMEs. Gender-sensitive training is important as it uncovers and addresses unconscious bias (defined as prejudice or unsupported judgments in favor of or against one person, or group) and supports advocacy for gender-sensitive product/service design, where products and services are designed with the specific needs of customers in mind. My SME Lady in Malaysia is a good example of this;¹⁵ and
- > As part of the overall credit risk management, FSPs should consider other forms of evaluating financial risks from a gender perspective. They could also look at gender credit scoring, where the gender of the applicant is factored into the equation. Studies have shown that women have a lower NPL risk compared to men¹⁶ and therefore, present a lower credit risk.¹⁷ This demonstrates that although underserved by FSPs, women-owned MSMEs are a profitable potential client group.

13 https://www.afi-global.org/sites/default/files/publications/2019-07/Denarau_FS19_AW_digital.pdf

14 Women and Financial Literacy: OECD/INFE, Survey and Policy Responses, June 2013

15 <https://www.smebank.com.my/en/financing/programmes/mysmelady>

16 <https://www.finextra.com/newsarticle/34750/gendered-credit-scoring-increases-womens-chance-of-credit-acceptance>

17 https://www.ifc.org/wps/wcm/connect/1f1a40fa-5602-4e07-97ac-8697ae49ad6a/Banking+on+Women_NPL+One+Pager_final+110818.pdf?MOD=AJPERES&CVID=mu9qgDM

COUNTRY-SPECIFIC CASES ON FINANCIAL EDUCATION ON MSMEs

This section highlights initiatives that have been undertaken by some countries on financial education interventions on MSMEs.



1. THE CASE OF ZAMBIA

The universe of Zambian businesses is highly dualistic, reflecting extreme differences in the profile and performance of firms. One world is comprised of MSMEs, the majority of which are microenterprises.

Further, most are informal, home-based and owner-operated, with no employees. According to the Zambia Business Survey of 2010,¹⁸ about 80 percent are in rural areas. With regard to access to finance, about 60 percent, especially those that are micro-entrepreneurs, cited access to finance as the major constraint to their businesses. However, the survey also determined that while physical access to financial services was a challenge, a far greater constraint was that most MSMEs, about 67 to 83 percent, were not productive enough to afford the most basic financial services provided by FSPs.

This meant that increased access to finance cannot be attained without measures to improve productivity. This buttresses the point that financing in isolation of other interventions to make MSMEs more bankable could be a trap. The other world of businesses is comprised of a small number of businesses that employ only about seven percent of the labor force and yet account for most of Zambia's industrial output. The survey also found out that MSMEs led by better educated individuals were more productive than those with little or no education.

Although the majority of Zambians work in MSMEs, there is little information about MSMEs. This information gap makes it difficult for policymakers to design policies, services and programmes that can help these MSMEs improve their productivity and growth.

FINANCIAL EDUCATION INITIATIVES

The strengthening of financial capability, along with consumer protection has been identified as a key driver of financial inclusion in Zambia and is one of the pillars of the country's National Financial Inclusion Strategy (NFIS) of 2017 - 2022,¹⁹ which was launched in November 2017. With specific regard to enhancing the financial capabilities of MSMEs, the objective is to build the capacity of FSPs to lend to MSMEs, particularly farmers, and improve the knowledge of MSME governance and their cash flow management.

18 Zambia Business Survey (2010): The profile and productivity of Zambian Businesses.

19 <https://www.boz.zm/National-Financial-Inclusion-Strategy-2017-2022.pdf>



Cognizant of the importance of strengthening financial capabilities in Zambia, a National Strategy on Financial Education (NSFE) for Zambia was first developed in 2012²⁰ to set out the direction for improving financial education, and the mechanisms and tools to achieve this. The long-term and overarching goal of this strategy is to improve the financial capabilities of the Zambian population. One of the components of the NSFE is an adult programme for MSMEs.

In response to the increasing need for more robust forms of public-private collaboration to address financial education needs and sustain ongoing efforts and initiatives, the Ministry of Finance launched Zambia's Second National Strategy on Financial Education in December 2019.²¹

Initially, the financial education activities were coordinated through the Financial Education Coordinating Unit (FECU) at the Bank of Zambia. In 2012, the Bank of Zambia signed an MoU with the German Savings Banks Foundation for International Cooperation (SBFIC) for technical assistance in driving the financial education agenda and one of the pillars is in financial education for MSMEs.

Under the BoZ-SBFIC partnership, a micro-business simulation programme has been developed and implemented, known as the "Micro Business Simulation" (MBS) tool to enhance the financial education of entrepreneurs. It is a simulation board game for entrepreneurs to experience how to manage a micro-business effectively using an experience-based approach and uses a hypothetical example of a small fruit store. The participants learn the crucial principles of managing a store and how to deal with upcoming challenges.

The MBS is a highly interactive training that enables MSMEs to develop and grow their businesses and to better manage their finances, and how to interface with financial institutions. It also teaches the entrepreneurs basic accounting and financial control principles, market dynamics and competition and how to deal with upcoming challenges. The overall objective of the MBS is to enable participants to experience how to manage a micro-business effectively through a problem-based approach. It is implemented by more than 80 certified trainers in partnership with local organizations, such as business associations, financial institutions and NGOs and has been implemented in all the ten provinces of Zambia.

To support the success of the MBS, one of the other initiatives has been the production of the telenovela "Get to know your Numbers" which was broadcast on

the national broadcasting television, to increase the accessibility of the MBS to an increased number of entrepreneurs. Other complementary initiatives that have been developed and used are film shows and radio programs on entrepreneurship. So far, the programs have proved to be useful in the sensitization of MSMEs, particularly the usage of film shows in local languages, as this encourages higher participation by the audience.

The training approach of this program has been to train the trainers (ToT), who once qualified and experienced, become trainers for the MBS. The training for the local trainers ("the multipliers") is conducted by experienced trainers. The multipliers then lead the first course for start-up and small entrepreneurs. The multipliers thereafter attend a workshop for advanced trainers to exchange their experiences and a follow-up training session, at the end of which they are certified as trainers. The certification of trainers is meant to ensure higher quality and impact of the training.

An external evaluation of the impact of the MBS involving at least 200 training sessions showed that there was a significant improvement in the business and financial skills of at least 6,500 entrepreneurs, out of which more than 50 percent were female. So far, more than 13,000 MSMEs have undergone the MBS training since 2014. The evaluations conducted in 2014 and 2016 showed favorable results, both on the change of behavior of the participants in managing their business and on the performance.

There was evidence of an improvement in the management skills of the participants, in record-keeping, decision-making and investment practices. There was also an increase in the number of entrepreneurs who had opened bank accounts. Other improvements noted were changes in finance management and the separation of family/individual finances from that of the business. Overall, the evaluation showed that more than 70 percent of the trainees improved in their business operations after training.

Financial education programs specifically for women have also been developed, mostly for market traders, under the framework of "Access to Finance for Women." Initiatives have been developed in cooperation with women associations.

20 <https://www.boz.zm/National-Strategy-on-Financial-Education-for-Zambia-2012-2017.pdf>

21 https://www.boz.zm/Zambia_NSFE_II_2019_24.pdf

A pilot training project for about 200 female marketers was conducted in Lusaka late 2016/early 2017 and was developed in close cooperation with Zambia Federation of Associations of women in business (ZFAWIB), Zambia Chamber of Small and Medium Business Association (ZCSMBA) and three financial institutions.

The program modules included saving and borrowing. During the training, the women had the opportunity to visit a bank branch and to interact with the bank staff. In February 2017, the first evaluation was conducted with all participating organizations and marketers. The overall feedback showed that the approach was successful and that about 50 percent of the trained women had opened new bank accounts. However, it was agreed that close follow-up of the teams of ZCSMBA/ ZFAWIB together with the bank officers were needed to ensure active usage of the bank accounts and to encourage more women to open new accounts.

FINANCIAL EDUCATION FOR FSPs

In an effort to address some of the challenges of the MSMEs, FSDZ in conjunction with the Zambia Institute of Banking and Financial Services, have come up with a training programme, known as “The Executive Diploma in SME Relationship Management” (this is the first accredited programme of its kind to be offered in Africa). The program is aimed at generating and increasing the talent pool of skilled and competent SME bankers and financial services professionals, to contribute to the enhancement of MSME access to finance. At institutional and industry level, financial institutions are being encouraged to study and understand the MSME, walk their walk and speak their language to develop mutually beneficial, long-standing solutions, products and services.

The NFIS recognized that one of the underlying factors constraining the access to finance by SMEs is the limited capacity of financial institutions to serve the SME market segment and the limited information for them to assess financing options. This case study highlights the importance of the success of developing gender-sensitive training and integrating gender design principals into product and service delivery.



2. THE CASE OF JORDAN

Micro and small businesses represent 80 percent or more of the total businesses across the sectors.²² In recognition of the importance of enhancing financial awareness and capabilities of MSMEs, the Central Bank of Jordan (CBJ), in collaboration with other financial stakeholders and societal NGOs, have organized and conducted several activities aimed at helping MSMEs to enhance their capabilities in managing and developing their businesses.

To signify the importance of these initiatives and to ensure the sustainability of the efforts, financial education of MSMEs has been included as a component in the country’s NFIS, which was launched in December 2017.²³ The strategy builds on a set of priority policy areas, three of which form the core industry pillars: Microfinance, Digital Financial Services (DFS), and MSMEs Finance. Four areas are considered as cross-cutting enablers that facilitate the development of industries and make them more robust: Financial Technology, Financial Consumer Protection and Financial Capabilities, Data and Research, and Laws, Regulations, and Instructions.



Source: Central Bank of Jordan

22 https://issuu.com/oecd.publishing/docs/sme-policy-effectiveness-in-jordan-_bec6b9565d4930

23 <http://www.cbj.gov.jo/EchoBusv3.0/SystemAssets/PDFs/2018/The%20National%20Financial%20Inclusion%20Strategy%20A9.pdf>

The pillar on MSME Finance focuses on financial education for the MSMEs. The target of this pillar is to provide a suitable environment to develop the MSMEs. The pillar is underpinned by the 2018-2020 plan, with several strategic activities, as shown in the table below:

TARGET: PROVIDE A SUITABLE ENVIRONMENT TO DEVELOP MICRO, SMALL AND MEDIUM ENTERPRISES	
Strategic Measures/ Activities	Time Frame
Building the capacity of project owners by educating them financially, training and rehabilitating them. Keeping in mind the necessity of focusing on improving sustainability prospects and growth of start-up projects within the first two years of their establishment (weak stage).	Q3/2018-Q4/2020
Build awareness and increase literacy on Entrepreneurship.	Q3/2018-Q4/2020
Provide technical assistance to banks and financial institutions to build their capacity in dealing with small and medium enterprises and managing their financing risk.	Q2/2018-Q4/2020
Establishing an orientation office to guide citizens/ or projects to the suitable financing fund/ window.	Q2/2018-Q4/2018

The pillar on microfinance also focuses on the financial education of MSMEs in its plan (2018-2020), by supporting and motivating staff of microfinance institutions (MFIs) to develop the capacity of their staff to be more efficient and effective in dealing with their MSME clients. The Pillar focuses on expanding financial services to include the agricultural and the renewable energy sectors, where both of these sectors are dominated by MSMEs. The goal of the Microfinance Pillar is not only to expand financial services but also to provide non-financial services needed for MSMEs to sustain their businesses. Such services include providing capacity building programmes to microfinance staff, which includes having dedicated training programs.

The Financial Capabilities Enabler Action Plan embeds several activities that are targeted at MSMEs, particularly the youth and women. With regard

to women, CBJ is planning to launch a project in collaboration with the Jordan River Foundation that organizes and implements a series of training workshops and programs aimed at enhancing financial literacy and building financial capabilities of women in the MSME sector. The project will start with two governorates in the first year and will be extended to cover other governorates in subsequent years. Implementation of the project will be through local community-based organizations.

In addition to the fact that the new financial education curriculum for secondary schools contains basic information related to entrepreneurship and company startups, the CBJ is planning to include tasks that aim at enhancing the financial capabilities of youth in higher education institutes and technical and vocational centers. Financial education and capabilities in this context will include topics, such as developing business ideas, basic feasibility studies, basic market studies, financial statements, companies' regulations and registration, etc. The material will also include information on how to reach the various services provided by financial institutions and how to benefit wisely and safely from such services.

A major task, which CBJ is in the process of embarking on, in collaboration with the Al Hussein Fund for Excellence, SANAD-TAF and Edraak, is to develop a comprehensive e-learning course on enhancing the capabilities of MSME customers in Jordan. The e-course will be developed and managed by Edraak, (<https://www.edraak.org/en/>), an initiative of the Queen Rania Foundation for Education and Development (QRF). The QRF is a free Arabic Massive Open Online Courses (MOOC) platform. It has around 1.4 million learners, 2.1 million followers and offers around 75 online courses. Although visitors of Edraak spread over almost 75 countries, the most concentration of users are from Jordan, Egypt and North Africa. It is expected that this project will extend the outreach of such knowledge for MSMEs.

PARTNERSHIP WITH SANAD FUND: MSMEs CAPACITY BUILDING PROJECT

To support improved financial inclusion of MSMEs in Jordan, the CBJ partnered with SANAD-TAF in a project for the production, distribution and promotion of an educational booklet targeting MSMEs, a capacity building workshop for entrepreneurs and trainers of trainers (TOT) to ensure the delivery of future workshops with financial institutional partners. The project aims to improve access to financing for MSMEs by enhancing financial literacy, business skills, financial management and financing capacity.

The Project has successfully delivered four outputs:

- 1 **SME Guide in Arabic and English** - to serve as a reference and educational guide for start-up and young MSMEs;
- 2 **SME Toolkit** - comprising 10 Online Tools, which include: The SME Guide, Business Plan Template, Record Keeping, Understanding Financial Statements, Managing Actively, Profitability Analysis, Cash Flow Planning, Borrowing Guide, Marketing Plan and Sales Planning. The toolkit was published and is accessible on the CBJ website;
- 3 **SME Workshop** - a one-day face to face workshop with the objective to build a business, financial management and financing skills for MSMEs; and
- 4 **SME Learning Guide TOT** - an activity-based learning TOT to prepare facilitators for impactful delivery of SME Workshops.

To expand knowledge, a number of supervised financial institutions were requested to publish SME guides on their websites. Further, financial institutions have also been requested to deliver SME workshops to their new SMEs clientele at least twice in a year and so far, more than 600 SMEs benefitted from such workshops in 2017.



3. THE CASE OF MEXICO

In Mexico, the definition of financial inclusion has four pillars: access to financial services, use of financial services, financial education and the protection of the financial consumer.

The National Policy for Financial Inclusion, published in June of 2016, has a line of action on financial education for the development of the knowledge and understanding of the use of financial products and services by the population. This policy also calls for the development of programs to increase credit to MSMEs. Further, financial literacy and education continues to be a key priority of Mexico's newly launched NFIS (2020 - 2024).

With regard to financial education, the government of Mexico published the NSFE in September of 2017. The strategy establishes, among other points, the development of financial education programs for different groups of the population, including MSMEs. The strategy includes two action points on financial education programs for MSMEs. One of the action points is on financial education programs to guide the efforts to strengthen the financial competencies of entrepreneurs, businesspersons and MSMEs, to foster their operations, better administration of enterprises,

the use of appropriate financial products and services, to increase their productivity and competitiveness.

The second action point deals with the introduction of new and more efficient supply channels for the use of financial products. In this sense, guidance programs should be designed to alert MSMEs on the risks and opportunities on the use of alternative financial products to those offered by banks, such as financing through stock exchanges or green investments.

Other financial education programs for entrepreneurs, businesspersons and MSMEs have also been put in place by the Mexican governmental entities. The National Financiera provides both onsite and online courses, as well as tools. The on-site courses are provided at National Financiera's headquarters in Mexico City, while the online courses are given in an itinerant mechanism in different cities. The topics covered are, among others, how to obtain credit or microcredit, risk evaluation, credit reporting systems, how to prepare a business plan and basic accounting for MSMEs. The tools include a calculator of returns, credit simulators, auto-evaluation of a business and business fundamentals, such as business administration, accounting, finance and marketing.

The Trust on Agriculture (FIRA for its acronym in Spanish) also provides financial education for the agricultural, agribusiness and fisheries sectors. This includes topics on savings, credit, insurance, human capital, project evaluations and financial statements, among other topics.



4. THE CASE OF BANGLADESH

THE ROLE OF CENTRAL BANK IN PROMOTING MSMEs IN BANGLADESH

MSMEs are playing a vital role in the country's accelerated industrialization, economic growth, employment generation and poverty reduction in Bangladesh. They account for about 45 percent of manufacturing value addition, about 80 percent of industrial employment, about 90 percent of total industrial units and almost 25 percent of the labour force but only 7.2 percent of businesses are owned by women and social, and cultural norms play a large part in this low figure.²⁴ As such, the MSME sector is considered a priority sector as announced by the Government of Bangladesh and bringing more women into this sector presents significant economic opportunities, not only for the women themselves but also for their families and wider communities.

In line with the government's thrust, Bangladesh Bank has been instrumental in designing and implementing SME sector development initiatives, as part of its development financing agenda and the government's 7th five-year plan.

Bangladesh Bank has been working on the SME sector development for a long time, however, initiatives have been streamlined since 2009 after the resumption of the present government.

Amongst the policy measures taken for Entrepreneurship development:

- > Target-based credit initiatives, whereby banks and NBFIs are implementing their SME lending activities by setting up an annual target by themselves;
- > In 2018, BDT 1595.10 billion has been disbursed to 687,522 MSME entrepreneurs under the target-based lending;
- > The opening of a women entrepreneurs dedicated desk/SME help desk in each bank and NBFIs;
- > The opening of SME /Agriculture branches to ensure financial inclusion;
- > Allocating a 15 percent refinance fund for women entrepreneurs;
- > Allowing a loan up to BDT 2.5 million to women entrepreneurs against personal guarantee and without collateral;
- > Opening credit disbursements to SME entrepreneurs to promote SME financing;

- > Operating refinancing scheme to ensure low-cost funding to MSMEs;
- > Advising all banks to take at least one MSME cluster for developing and financing;
- > Appointing a focal person for each bank and NBFIs for handling complaints and providing other business development services to the entrepreneurs.

Besides policy support to ensure financial access to MSMEs, Bangladesh Bank has been providing financial education to MSMEs through various initiatives.

CAPACITY BUILDING OF ENTREPRENEURS

It is believed that the financial literacy of MSME entrepreneurs might play a vital role for greater inclusion of MSMEs in the formal financial sector. Making this an utmost priority, Bangladesh Bank has been conducting numerous training programs throughout the country. More than 1000 MSME entrepreneurs have been trained up last year under various projects. Bangladesh Bank has also been providing training for trainers (TOT) to bankers and entrepreneurs. In 2019, 500 women entrepreneurs were targeted to be trained under SMEDP2 project.

The Bangladesh Bank has been providing training to the MSME entrepreneur on various topics under the "Skills for Employment Investment Program" project. The duration of the project is approximately 10 years and it will be implemented in three tranches. During the first tranche (2015-2017) PCU, the Bangladesh Bank supported training facilities for almost 4,500 people in the MSME sector. Part of the proceeds from the loan was also utilized to train the unskilled and semi-skilled people in the MSME sector for employment generation, as well as enhance remittance inflows of the country through exporting skilled manpower.

The project also was to encourage and support entrepreneurs by providing information on markets and standards, advising on strategies, and access to technology and innovation, coupled with appropriate financing packages. Each and every day a great number of entrepreneurs come to different offices of Bangladesh Bank to get information about SME financing. In addition to that, the Bangladesh Bank has instructed all the banks to open a Women Entrepreneur Dedicated Desk and SME Help Desk at each branch through which women entrepreneurs and MSME entrepreneurs can obtain information related to SME financing and other services.

²⁴ <https://www.microentrepreneursasia.com/women-micro-merchants-in-mangladesh>

The Bangladesh Bank with its all offices is mitigating SME-related complaints regularly through telephonic instructions, mails and if necessary, through onsite inspection. If entrepreneurs have any complaints against any banks or NBFIs they may communicate to the focal point of Bangladesh Bank. A SME monitoring cell is also working in each bank and NBFi.



Picture1: Signing ceremony for Catalyzing access to finance for women entrepreneurs



Picture2: Banker-SME entrepreneur meet

CONCLUSION

From the examples shared, it is evident that challenges arise both on the supply-side (by FSPs) and demand-side (by MSMEs) and these can be amplified when gender is factored into the equation. Financial regulator institutions play a significant role in setting the tone for the financial inclusion of MSMEs and it has been made clear that the effort needs to be done collectively, cooperatively and utilizing gender sensitive design. A multi-pronged approach to financial education is required to address the diverse needs, attitudes, and contexts of the MSME sector.

The Bank of Zambia has collaborated with corporations and financial certification institutions to develop training programs for FSPs and MSMEs. The Central Bank of Jordan has collaborated with non-profit organizations and developed guides and tools for the adoption by MSMEs. In Mexico, the National Financial Inclusion Policy has driven the development of education programs and a focus on their agriculture sector is highlighted. For Bangladesh, agriculture remains a focus sector, but the regulator has taken a step further by requesting commercial banks to offer MSME loans. At the centre of these efforts is the inclusion of women; from creating gender-sensitive education programs for women-owned MSMEs on topics of business and financial management and setting up women-only counters at commercial banks, to offering special credit borrowing rates to women-owned MSMEs.

Above all, financial education is an important tool for financial inclusion and should be taken into consideration as policymakers develop their national financial inclusions strategies or broader financial sector strategies. There is great merit to having a stand-alone financial education strategy, where a substantial investment of tools, resources and time can be dedicated towards implementing financial education policies and initiatives. Most importantly, these strategies must be carefully tailored to the gender-specific realities with targeted and inclusive interventions to help MSMEs overcome barriers to participation in the financial mainstream.

It is clear that much has been done to better the financial inclusion on the demand-side. However, there isn't much effort directed to supply-side to better assist the financial ecosystem for MSMEs. It is perhaps because there is not enough data or knowledge that FSPs have on MSMEs as business is done informally. In conclusion, to enable MSMEs to flourish, financial education for FSPs need to be a focus, particularly on the financial challenges that MSMEs face and managing the banks' relationship with their MSME customers.

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