



Democratic Republic of São Tomé & Príncipe



National Financial Inclusion Strategy

2021-2025



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Abbreviations and acronyms

AFI - Alliance for Financial Inclusion i2i - Insight2Impact

AMAGRU - Association of Women Farmers

AMEP - Association of Women Entrepreneurs and Professionals of São Tomé and Príncipe.

ANPDP - National Agency for the Protection of Personal Data

ATM - automated teller machine

STPCB - Central Bank of São Tomé and Príncipe

NCFI - National Council for Financial Inclusion

DITEI - Information Technology Department

NFIS - National Financial Inclusion Strategy

FIU - Financial Inclusion Unit

FI - Financial Inclusion

IIF- financial inclusion survey

INIC - Institute of Innovation and Knowledge

INPG- National Institute for the Promotion of Gender Equality and Equity

INSS-. National Institute of Social Security of São Tomé and Príncipe

MSME - Micro, Small and Medium Enterprises

POS - Point of Sale

RAP - Autonomous Region of Príncipe

RNSTP – National Radio of São Tomé and Príncipe

DFS - Digital Financial Services

SICOI - Interbank Clearing System ()

SPAUT - Automatic Payments System Management Company

TVS - São Tomé Television

UNICEF - United Nations Children's Fund

USD – United States Dollar

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I. Introduction

Access to financial services and products is an essential mechanism to combat poverty, allowing the most economically and socially vulnerable to participate actively in the country's economic and social development process.

By increasing savings, credit and insurance solutions, widening access to goods and income generating opportunities by individuals, facilitating payments, collections and other transactions, it is possible to reduce risks and costs, also reducing the vulnerability of individuals and companies and providing effective poverty reduction.

The opportunity to open and operate bank accounts, access to increasingly simplified and effective means of payment, access to credit and savings solutions, the reduction of informality in the economy, the dissemination of knowledge in the financial area, and a reduction in the gender gap in access to finance are some of the main consequences of financial inclusion with direct impact on economic development.

Financial inclusion is thus defined as the access of all economic agents to quality financial services and products, at affordable prices, in a competitive market where consumer protection is assured and the empowerment of the most vulnerable is stimulated.

It is from this perspective that the Government of the Democratic Republic of São Tomé and Príncipe, aware that it is fundamental for the country's economic development that the population be serviced with quality products, services and regulation in the financial system, has elected in its program, among the measures and policies to be adopted in the field of public finances, the promotion of Financial Inclusion (FI), especially through microfinance, as a means of combating poverty.

The pursuit of FI results implies a firm involvement and participation from all sectors of the national economy, from relevant public institutions, financial institutions, families, MSMEs and other private sector actors, as well as development partners, who should decisively take on this challenge. Likewise, the success of measures to promote Financial Inclusion depends, as can be seen all over the world and also in other areas, on the elaboration of a well conceived strategy, in an integrated and participative way based on a realistic diagnosis of the current situation.

From this perspective, the Central Bank of São Tomé and Príncipe (STPCB), with the support of the Alliance for Financial Inclusion (AFI) and Insight2Impact (i2i), conducted a demand-side and supply-side survey at the end of 2017 to determine the levels of financial inclusion and literacy in São Tomé and Príncipe, the results of which elucidate the extent and typology of the deficiencies and constraints that determine financial exclusion. The survey also sought to understand household budget habits, categorize the financial products and services used and the process of selecting them, and identify possible areas of intervention in terms of the population's financial education.

The survey concluded that 76% of the Sao Tomean population above 18 years old is excluded from the financial system. Therefore, the Financial Inclusion Rate calculated is around 0.24, which corresponds to the lowest level of financial inclusion¹. This indicator is even more worrying for women (0.18). According to the data, 39% of respondents (15% of women) have a bank account, which indicates that more than 60% of Sao Tomeans do not have access to banks..

The survey results also show that the main constraints to women's financial inclusion are (i) low or no income, (ii) low school education, (iii) low level of financial literacy, and (iv) high informality of the activities carried out. Also according to the demand side survey, 57% of the financially excluded are women, against 43% of men.

In the current context and when it comes to making payments, there is a greater preference for the use of cash, which is justified by the high level of informality of the economy and of financial exclusion.

With regard to sending and receiving remittances, the most commonly used means are traditional banking services, informal and formal transfer agents (Western Union and Moneygram). Remittances are mainly justified by family support and study reasons, with Portugal, USA, England, Cape Verde, Brazil and Spain as main sources/ destinations. Despite the lack of statistics concerning domestic remittances and the number of national citizens living abroad, formal sector data indicates that the annual amount of international remittances (receiving and sending) is around USD 8 million and USD 11 million, respectively.

¹ According to AFI's Guidelines Note no. 18 of 2016

The results of the Financial Inclusion Survey were presented and discussed in a workshop promoted by the STPCB, with technical and financial support from the AFI, which also served to define the main lines of the National Financial Inclusion Strategy (NFIS), based on the barriers identified and the experiences of other AFI member countries.

The main conclusion of this workshop, which was attended by relevant public and private sector entities, civil society organization and development partner representatives, was the need to create a more inclusive and strong financial system, which requires the formulation of an NFIS, to be developed with a clear roadmap in key policy areas, thus constituting a pillar of economic growth, job creation and consequently poverty reduction in São Tomé and Príncipe.

In this context, four main areas have been identified for the NFIS, namely (i) Digital Financial Services, (ii) Inclusive Green Finance, (iii) Women's Financial Inclusion and (iv) Consumer Empowerment and Financial Literacy.

These areas were primarily defined on the basis of the identified weaknesses in financial inclusion, specially the situation of women, the low level of financial literacy, the inadequacy of financial products and services for the vast majority of the population, and the high degree of informality of the economy. We also took into account factors that have enormous potential to increase financial inclusion in the country, as has happened in several sub-region states, namely telecommunications infrastructures and information technologies, as well as the national environmental context, together with the growing relevance attributed to climate change mitigation and adaptation actions at a global level.

NFIS stands as a public document, formulated at the national level through a broad process of consultation among the parties involved, with precise objectives and actions, aiming to accelerate the financial inclusion level.

The elaboration, monitoring and evaluation responsibility for NFIS was assigned, through Decree no. 26/2020, to a multidisciplinary structure overseen by a National Committee for Financial Inclusion (NCFI), as a guiding body for the governance and coordination of NFIS, made up of the Minister who oversees the area of Finance and presides the NCFI; Minister who oversees the area of New Technologies; Minister who oversees the area of Agriculture , Fisheries and Forestry; Minister who oversees the area Entrepreneurship; Minister who oversees the area of Education; Minister who oversees the area of Natural Resources and Environment; Minister who oversees the area of Gender and the STPCB Governor. The

secretariat of this structure is ensured by the technical unit responsible for Financial Inclusion in the STPCB (Financial Inclusion Unit-FIU), which is responsible for providing technical, administrative and scientific support to the NCFI and the Working Groups, as well as ensuring the proper execution of NFIS. The structure also includes Working Groups dedicated to each of NFIS's four core areas, composed by relevant public and private sector representatives, as well as individuals with technical expertise in the required areas, with the main attributions of developing and validating NFIS.

For all that has been said, NFIS aims to ensure access for all economic agents to quality financial services and products at affordable prices, promoting and stimulating the economic empowerment of all. This is an ambitious and long-term vision.

The major goal of this NFIS is to have 70% of the adult Sao Tomean population included in the formal financial sector by 2025. This goal was defined taking into account some of the advantages the country has, namely the coverage of the telecommunications network, the high penetration rate of cellular phones among the population, the small size of the country and the ease of access to the various areas of the territory.

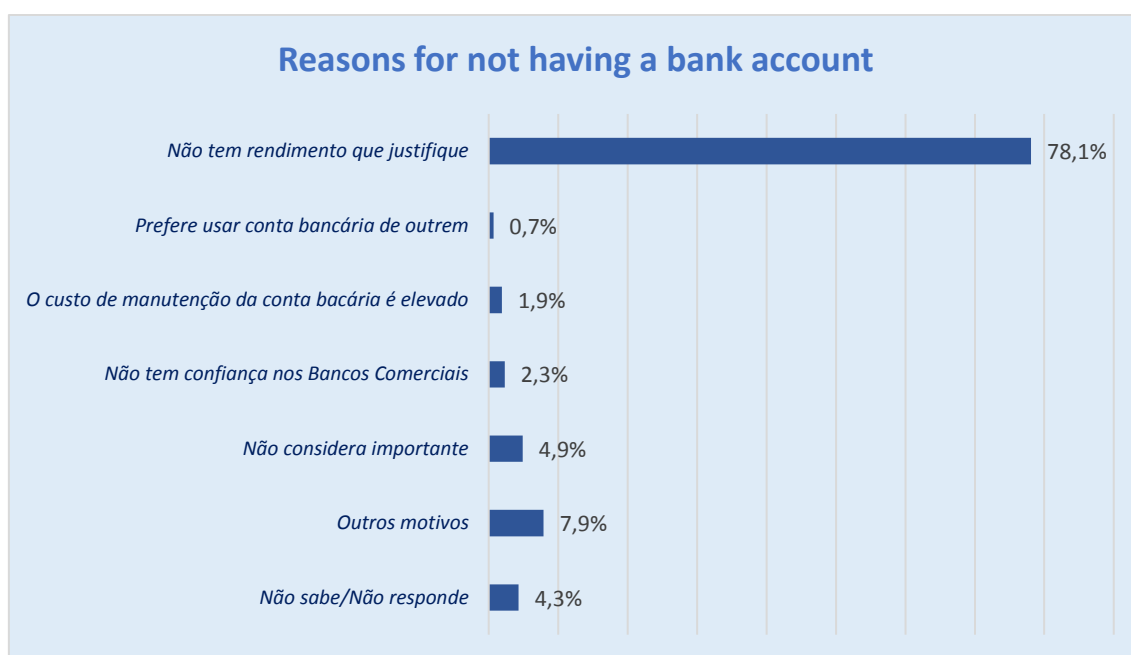
The expected result of NFIS is to gradually and significantly increase the level of financial inclusion and, through it, the economic empowerment of Sao Tomeans, particularly women and other vulnerable population groups, through the use of digital technologies and the promotion of sustainable initiatives.

II. The Financial Inclusion Assessment in Sao Tome and Principe

The Financial Inclusion Rate in São Tomé and Príncipe, which shows the access and use level of financial products and services is 0.24, which corresponds to the lowest level of financial inclusion, according to the AFI classification. Of those financially excluded, 57% are women and 43% are men, while 40% are in rural areas and 60% in urban areas. The Autonomous Region of Príncipe (ARP) is better qualified at the national level, with 79% of its population financially included, followed by Água-Grande, the most populated district on the island of São Tomé, with 52%. The most remote and poor districts - Lembá and Caué - have the lowest levels of Financial Inclusion (19% and 21% respectively).

In fact, the survey on Financial Inclusion found that 61% of the adult population does not have a bank account, mostly (78%) because they consider their income insufficient.

Figure 1 Why not have a bank account?



Source: STPCB-IIF, 2018

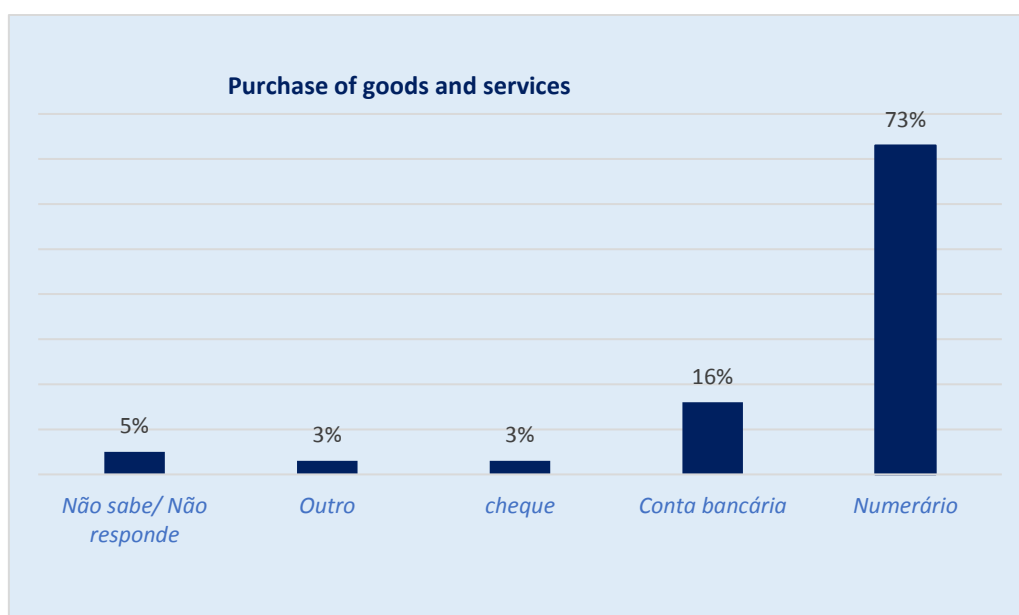
However, 98% of the population considers it important to have a bank account, especially to keep their financial resources safe (42%) and for the salary domicile (34%).

On the other hand, financial exclusion also occurs because about 85% of Micro-companies and 63% of Small companies are not legally established. The fact that they are not legally established and therefore excluded from the financial system drives 63% of these companies to build their savings at home.

Digital Financial Services

Digital Financial Services (DFS) are considered one of the most efficient means for the penetration of financial services within the population, thanks to its proficiency and accessibility. With 90% mobile network coverage, the country can benefit from DFS. Nevertheless, cash is predominant with 73% commercial transactions such as food, transport, water, electricity and communications taking place in cash..

Figure 2 .How do you pay for the purchase of goods and services?



Source: STPCB-IIF, 2018

The use of digital tools in operations is quite insignificant, taking into account that the operations made in ATM, debit card and Internet banking are only 17%, 5% and 1%, respectively. A similar picture can be seen in household remittances.

The reasons for low adherence to internet banking services lie essentially in the high cost (21%), the insecurity (16%), the complexity of the platform (15%) and the access to the internet (12%).

Only 3% of bank transfers are made through an DFS (ATM). In the business sector, the scenario is quite similar. Only 1% of payments are made from digital means (POS).

In turn, the internet banking service is made available by only three out of six banking institutions.

In short, our market is still in a very embryonic phase, being therefore an opportunity for the creation of innovative FinTechs through companies already installed or start-ups.

The survey revealed that only 15% of women in STP have bank accounts, corresponding to a Financial Inclusion Index of 0.18. This low level of financial inclusion among women is a consequence of (i) lack of or low income; (ii) low level of literacy; (iii) poor financial literacy; and (iv) high level of informality of the activities they carry out.

In fact, 56% of own business owners are women with low educational attainment (57% of these women have only a basic education due to social norms).

Low literacy levels usually lead to low capacity to conduct business efficiently and increase women's economic vulnerability, they also restrict women to more informal sectors of the economy where the barriers or entry are low.

About 82% of MSMEs are not formally incorporated, which is a barrier to accessing financial products and services. If we consider that women manage 61% of MSMEs, the underlying economic vulnerability is very evident.

The survey showed that only 9% of women consider that the Financial Products and Services offered by banks meet their needs.

It was evident in the survey that, combined with the lower level of education and greater prevalence of informality, low income is another critical factor behind the financial exclusion of women.

For cultural reasons, women generally have less time to spend in banks, and conventional banking services (face-to-face over the counter) are predominant and mostly concentrated in the country's capital, which is an additional barrier to women's financial inclusion.

There are also other cultural factors in society, such as religious beliefs, that contribute to explain the financial exclusion of women in STP.

Inclusive Green Finances

Climate change has affected countries and economies all over the world. According to the INDC report (2015)², São Tomé and Príncipe, despite being a large reservoir of greenhouse gases, contributing to the capture of CO₂, is one of the countries most affected by climate change. The greatest vulnerability to the effects of these changes is recorded

² In <http://extwprlegs1.fao.org/docs/pdf/sao185103.pdf>

at the level of coastal areas, forests and biodiversity, agriculture and livestock, fisheries, soils and energy. In fact, climate change could affect hotel infrastructures, restaurants and houses located on the coast. This situation could jeopardize tourism, a sector that in recent years has experienced major growth, contributing about 14%³ to the GDP growth.

Regarding Agriculture, a sector that covers a significant number of national population and contributes about 26%⁴ to the GDP growth of the GDP, it should be noted the severe impact of the reduction or variation in rainfall patterns on production, since this is a basic input for livestock production.

Regarding Fisheries, a sector that is the main source of protein in the country, rising temperatures and changing rainfall patterns have determined the habitat destruction, both for fish resources and for the fishermen themselves, leading to the migration of both and a marked reduction in fish productivity.

This picture reveals an environmental degradation that may threaten the sustainable development of STP.

Indeed, according to the results of the Financial Inclusion Survey, the main sources of income for the population of São Tomé and Príncipe are informal commerce, support from family/friends and other own businesses, and for 50% of the individuals with their own business this is the main source of income. The survey also found, in this area, that 73% of own businesses have very unstable sales flows and about 97% have never benefited from support from the Government or other institution.

When considering the MSMEs, the survey found a predominance of family relationships in micro-enterprises (76%), which are mostly of a subsistence nature.

When analyzing the sources of financing of MSMEs, it was found that the main ones are equity and self-financing, and, of the total number of MSMEs that use bank financing, about 89% are microenterprises - it should be noted that the use of bank financing is more common in the sectors of trade, accommodation and catering. The main obstacles identified in the access to credit are the sectorial risk and the insufficiency / inexistence of guarantees from potential clients. Another major obstacle is the fact that a large part of the population does not have a bank account due to the requirement of minimum deposits

³ In NSI

⁴ In NSI

as a condition for opening an account, which makes it costly for a population with low income.

In fact, the reported cases point to environmental costs that exceed the gains of the economic activities that generated them, which raises the need to place these issues on public policy agendas. In fact, sustainable development does not seem possible without the necessary changes in the way human beings think and act and, consequently, their transition to sustainable lifestyles and patterns of production and consumption. Against this backdrop, the adoption of climate change adaptation and mitigation measures must have a broad spectrum of action, with the financial sector also having an important role to play. Financial services play a key role in enabling the poorest and most vulnerable populations to cope with financial losses from the impact of climate change.

Therefore, Inclusive Green Finance (IGF) can be defined as policies to mitigate or build resilience to sweeping environmental, social and economic effects of climate change.

In this context, an excellent opportunity presents itself, through the financial sector, to support populations to develop sustainable economic activities, adapted to their social contexts and that allow them to increase their resilience to climate change, thus contributing to social well-being.

Consumer Empowerment and financial Literacy

The diagnosis based on data from the Demand Side Financial Inclusion Survey points to the existence of major weaknesses in this area, indicating that much remains to be done.

The Sao Tomean financial literacy index, which according to AFI's calculation methodology encompasses knowledge, skills, attitude and behavior, confirms that only 39% of the population can be considered as having a reasonable level of financial literacy.

The consumer who is informed and knows the fundamental financial concepts is likely to manage his financial resources better and in a more sensible and rational manner, promoting his quality of life and that of society in general. However, a large part of the population is not familiar with relatively simple concepts such as time deposits (63%), bank overdrafts (70%), or internet banking (66%). Equally worrying is the fact that about 67% of customers who invest their resources in savings products at banks do not know the interest rates and consequently the amount to be received at the end of the application.

Even higher (74%) is the percentage of those who do not make any comparative analysis of interest rates before investing in savings products. On the other hand, 59% of the respondents do not know the value of the interest rates for loans they pay to their bank. When it comes to customers with no academic education, the picture is even more dramatic - 100% of these customers do not know the interest rates of loans they pay to their bank. Therefore, it can be concluded that the consumer is a fragile party in the banking contractual relationship, opening the door to abusive action by banks.

Information is a tool for defense and protection that is needed to clarify and educate consumers in their financial relations. However, contrary to customer opinion measured in the Financial Inclusion Survey on the demand side, all banks state that information on the conditions, costs of products and services they offer is transparent and accessible to all customers. This contradiction calls for a realignment on the concepts "transparency" and "accessibility" of information in the NFIS.

A large proportion of customers (67%) do not know interest rates before making a term deposit or other savings product.

Many bank customers (43%) have no opinion about the level of their satisfaction with the products and services offered by banks. This indicator also varies according to the level of education. Thus, the percentage is higher (65%) when customers have no schooling. Another important aspect is that 54% of the population does not know who to turn to if they have a dispute with the bank. However, about 58% of those who have an opinion classify the services provided by their main bank as reasonable, and 32% consider them to be good. This is another sign of poor financial literacy.

As we have seen above, the management and control of financial products ensures better budget management for families, and consequently a lower probability of insolvency. However, about 34% of bank customers do not know with acceptable accuracy the balance of their bank accounts. This insufficient literacy may jeopardize their ability to secure their rights as consumers.

A review of the educational programs in schools indicates that financial education available in schools for children and youth, except for some sporadic attempts, is almost non-existent. Even in the media, there is no systematized information for the adult population. And the few that appear occasionally are insufficient and do not stimulate a change in financial culture, helping to make better financial decisions and to understand

the advantages, rights and also the obligations when using a financial service. In fact, bank customers' answers to the aforementioned survey on demand-side financial inclusion indicate that only 15% of customers learn about the existence of banking services through the *Media*. However, 42% of the interviewees have the media (Radio and Television) as their preferred source for obtaining information on financial products and only 14% of the interviewees prefer the brochures and leaflets available at bank counters. In contrast, in the FIS on the supply side we found that banks are satisfied with their policy in this area. About 80% of the banks consider advertising and marketing to be among their priorities. This presents an opportunity to align the various needs to the stakeholders and develop a holistic solution.

On the other hand, the FIS on the supply side showed a huge difficulty for banks in providing precise and reliable information on their clients. The weaknesses of the national banking institutions also include not knowing the total number of their clients, the distribution by gender, age group and districts. These weaknesses jeopardize the effective protection of consumers in STP and also reduce the opportunity for developing new and innovative products and services that meet their needs. An eventual equation in the NFIS of the biometric bank identification system could perhaps be a solution to the issue in question.

In short, the diagnosis states that Sao Tomean consumers are unprotected in their relationship with banking institutions, which is a challenge to the increased use of financial services. In fact, following the dynamism that is intended in the financial sector, this diagnosis tends to become more acute, since, with the emergence of new financial products and services, clients tend to be more vulnerable to abuses and aggressive commercial practices.

In the table below, we present the different components that characterize the level of financial literacy in Sao Tome.

Table 1: Financial Capability Barometer

	knowledge	skills	attitude	behavior	Total
Economic impact	41%	n.a.	7%	23%	24%
Budget management	39%	67%	47%	39%	48%

Savings and long-term planning	49%	n.a.	n.a.	25%	37%
Debt Management	34%	55%	0%	56%	36%
Comparing Several Financial Services	71%	0%	38%	n.a.	36%
Protection of personal rights	n.a.	38%	n.a.	80%	59%
Total	47%	40%	23%	44%	39%

Source: STPCB-IIF, 2018

III. Financial Inclusion Strategy: Priority areas and strategic measures

The diagnosis detailed in the previous chapter shows that financial inclusion in São Tomé and Príncipe still faces several challenges:

- a. Ensure that all adult Sao Tomeans have access to a range of affordable and appropriate financial products and services;
- b. Promote the use of financial services using new digital technologies;
- c. Ensure that all Sao Tomeans are financially literate to take better advantage of available financial products and services;
- d. Ensure that increased financial inclusion is environmentally friendly and is helpful in achieving sustainable development by promoting "inclusive green finance"; and
- e. Ensure adequate and affordable financial products and services that promote the empowerment of Sao Tomeans and in particular women.

This justifies the need to build a more inclusive financial system by adopting an NFIS whose mission is to provide a clear coordinated framework that stimulates the advancement of *financial inclusion in the country, overcoming prevailing barriers and exploring key opportunities*.

In fact, fulfilling São Tomé and Príncipe vision for financial inclusion requires good and clear strategic programming following a roadmap that addresses four fundamental pillars (priority areas). Thus, the NFIS is addressed in four priority areas, namely, (i) Digital Financial Services, (ii) Inclusive Green Finance; (iii) Women's Financial Inclusion; and (iv) Consumer Empowerment and Financial Literacy. These priority areas address the barriers diagnosed as the main causes of financial exclusion. The working groups that include the various socio-economic strata of the country have outlined guidelines for each of the above areas considering that they also hold opportunities for promoting financial inclusion by encouraging innovation, growth and job creation, while offering responsible consumer protection.

Digital Financial Services

Financial inclusion is one of the most readily available solutions for promoting economic growth. One of the pillars of accelerating financial inclusion are DFSs which we define as the services developed, deployed, delivered and accessed through digital channels.

In effect, technology can open the door to financial inclusion in some of the communities or social groups. The digital relationship with banks allows people in distant communities to open bank accounts and maintain them remotely through technology platforms.

On the other hand, the introduction of DFSs in emerging markets like ours usually follows a different path than in developed countries. Thus, we want non-bank financial service providers to be encouraged to offer electronic services in areas or to social strata of the population that traditional banking has more difficulty reaching.

Considering the large infiltration of cellular phones in the country (about 90% of the adult population has a cellular phone) and considering that the country already has a regulatory base in this area, we have considered in the NFIS the encouragement of mobile money services - defined as the provision of financial services via cellular phones.

FinTechs and RegTechs can bring changemaking solutions that particularly target low-income populations and increase the opportunity for high-quality financial services provision. NFIS proposes to drive the harnessing of the potential that inclusive FinTechs hold by providing financial services to a considerable number of people, such as payments, savings, insurance and credits, thus promoting economic growth and poverty alleviation.

Increasing financial inclusion is also done with legislation that imposes mandatory payments for public services by digital means. Thus, we intend the NFIS to give a significant boost to the mandatory use of information technology in the State's financial services.

Digital financial inclusion should be supported by reliable identification and authentication systems and the ability to collect and analyse disaggregated data, allowing greater and better knowledge of users and, similarly, with adequate security and protection systems.

In short, this pillar has the strategic objective *To achieve a significant level of innovative use of technology in access to financial services, promoting digital financing services to all sections of the population in a secure manner and with the least possible risk.*

III.2. WOMEN FINANCIAL INCLUSION

The latest general population and housing census data assure us that the majority of the population of São Tomé and Príncipe is made up of women⁵. However, despite the great progress made since the country's independence in 1975 with regard to the emancipation of women, the picture is still quite bleak. Indeed, unemployment, poor schooling, exposure to income shocks as heads of households, and the consequent high level of poverty is more prevalent among women, as the FIS report confirms.

Thus, the diagnosis described in the previous chapter attests that the critical point of financial inclusion in São Tomé and Príncipe is the financial exclusion of women. The index of financial inclusion of women is 0.18.

⁵ In NSI

However, women represent a great potential to revitalising the economy. They are the great majority in micro and small enterprises (making up 62% of all MSMEs) and informal sector operators.

The increase in financial inclusion will allow for a sustained improvement in the economic and social conditions of Sao Tomean women, it does however require gender specific policies that are, in fact, adequate to women's needs. In this line of thinking, the NFIS promotes the economic empowerment of women by establishing a framework with several facilities to access and use the financial system, including loans, the development of new gender-sensitive products such as transactional mobile bank accounts, as well as targeted support for the empowerment of micro-entrepreneurs and other opportunities for women entrepreneurs.

Another objective that the strategy aims to address is the establishment of a regulatory framework for the creation of gender disaggregated data at the financial system level. Such data will provide a more accurate picture of existing gender gaps, women's creditworthiness and help identify women's specific needs for financial services. An active identification and removal of obstacles to women's financial inclusion will better pave the way to closing the gender gap in this area.

The NFIS also places enormous importance on (public-private partnership) financial education programs specific to women, as it can empower them to make informed decisions about financial products and services.

Thus we intend as a strategic goal of this pillar to set explicit objectives and transparent quantitative targets to increase women's financial inclusion index to 0.50, allowing significant advances in promoting gender equality and women's economic empowerment.

Inclusive Green Finances

In underdeveloped countries like ours, climate change imposes a high cost on the poorest populations. Likewise, sustainable development does not seem possible without the necessary changes in the way people think and act, and consequently their transition to sustainable lifestyles and patterns of production and consumption. For this reason,

environmental concerns have become a central theme on the Sao Tomean policymakers' agendas.

The experience of other countries shows that financial inclusion is one of the most effective ways to build resilience to the effects of climate change, because it helps to mitigate its social and economic effects, in addition to allowing affected populations to adapt. In view of this, Inclusive Green Finance - defined as policies aimed at mitigating and building resilience to the environmental, social and economic impacts of climate change - is an important part of our NFIS. In it we list policy and regulatory measures to mitigate and build resilience to the impacts of climate change.

Indeed, in this pillar, the strategic objective is to facilitate the building of a green and financially inclusive economy in STP.

Consumer Empowerment and Financial Literacy

A financially capable person is a person who has the knowledge, skills, and culture that give them the opportunity to inform themselves, make responsible decisions about their personal finances⁶.

Therefore, making the financial consumer literate should be one of the major concerns of financial inclusion today. Therefore, in this pillar the NFIS equates some adequate consumer protection mechanisms to inspire more confidence in the financial system. That is, to consider initiatives that have short and long term impact on the financial capabilities and financial consumer behavior.

Poor financial literacy is one of the drivers of financial exclusion determining, therefore, that Consumer Empowerment and Financial Literacy is one of the main pillars of NFIS.

Financial literacy is understood here as *the ability to understand how money works, i.e., how to multiply, manage, and invest it*. Thus, a good level of financial literacy means familiarity with concepts such as financial goal, budgeting, investments, retirement, contracts, among others.

⁶ In AFI, Alliance for Financial Inclusion, Financial Capability Barometer, 2017

The diagnosis of financial literacy in São Tomé and Príncipe indicates that the financial education available in schools for children and youth, or even in the media for the adult population, are not enough and do not stimulate a change in financial culture helping to make better financial decisions and understand the advantages, the rights and also the obligations arising from the use of financial services.

Financial empowerment teaches how to better manage money and how to minimize risk, in addition to other skills in marketing, facilitating business acumen and better opportunities to succeed.

On the other hand, as we saw above in the diagnosis, São Tomean consumers feel unprotected in their relationship with the institutions, which is a challenge to increase the use of financial services. Indeed, as new financial products and services emerge, customers tend to be more vulnerable to abuses and aggressive commercial practices. Therefore, we are trying to devise some appropriate consumer protection mechanisms to inspire more confidence in the financial system.

With this pillar, we intend to achieve the strategic objective of *improving the assurance of protection for the financially literate consumer from 39 to 60%*.

IV. Action Plan

In connection with the pillars described above and in close collaboration with the Working Groups, we have listed actions considered essential in the scope of the NFIS for the next five years. In fact, each pillar has a general objective and some specific objectives, to which there are actions, with the identification of those responsible and co-responsible (both in the public and private sectors), as well as the respective monitoring indicators, as shown in the table below.

In the Digital Financial Services Pillar, the goal is to promote the use of FinTech and Regtech to achieve levels of conducting at least 50 percent of financial transactions through a technology solution.

Table 2 Digital Financial Services Pillar

Specific Objective especifico	Action	Preliminary action	Responsible entity	Co- responsible entity	Priority level	Time frame	Compliance indicator
Strengthen the institutional capacity of the financial services regulator (STPCB)	1. Strengthening the structural units responsible for the supervision and oversight of financial service providers;	Raising awareness and engagement of the National Assembly, in particular the Parliamentary Committee on Economic Affairs	STPCB	ANPDP	(A1) ⁷ Highest	2021-2022	(I1) Suptech framework (legal, technological and human resources) created and implemented
	2. Strengthening legislation to ensure the security of electronic transactions;	Review of the existing legal and regulatory framework (including data protection legislation)			(A2) Highest	2021-2023	
	3. Introduction of new technologies (infrastructure, software, hardware and services) to increase the efficiency and effectiveness of supervision and oversight (suptech);	Review of the entire			(A3)High	2022-2025	
Ensure the interoperability of payment systems	4. Develop and promote the interoperability of payment systems and services;	Review of the entire	STPCB/SPAUT	Financial service providers	(A4) Highest	2021-2023	(I2) Number of transactions performed with interoperability of payment systems
	5. Digitalization of the Interbank Clearing System (SICOI);				(A5) High	2022-2023	

⁷ A(n) corresponds to the priority level of each action

Articulating actions among regulators	12. Harmonization of regulations and procedures;		STPCB/AGER/AN PDP		(A12) High	2022-2023	(I8) Harmonized procedures
Policies to foster Digital Financial Services (DFS) start ups	13. Adjust existing regulations and create new ones to stimulate start ups;		STPCB/Ministry of Youth and Entrepreneurship		(A13) High	2022-2023	(I9) Regulation adopted (I10) Number of FinTech start-ups created

The Women's Financial Inclusion pillar aims to raise in four years the financial inclusion index for women from 0.18 to 0.50

Table 3. Women's Financial Inclusion pillar

Specific Objective	Action	Preliminary action	Responsible entity	Co-responsible entity	Priority level	Time frame	Compliance indicator
Ensure the existence of adequate and accessible financial products and services for women	1. Creating specific financing lines for women: <ul style="list-style-type: none"> • Credit guarantee funds for women • Low and affordable interest rates • Other affordable costs 		STPCB/ Financial Institutions	Ministry of Finanes/INPG	(A1) Highest	2022-2025	(I11) Percentage of women who use specific financing lines
	2. Defining and implementing a quota of the credit portfolio of financial institutions for women;		STPCB	Financial Institutions	(A2) Highest	2021-2023	(I12) Percentage of women who have credit in the formal financial system(Value of financing as a % of

							overall financing lines)
Strengthen mechanisms for formal savings	3. Saving solutions: Creating products inspired by <i>chiquilá</i> and other traditional ways of saving		STPCB/ Financial Institutions	Ministry of Finances	(A3) High	2022-2025	(I13) Percentage of women with savings in the formal system
Fostering the women's empowerment by promoting inclusive growth	4. Creating business incubators for women, with emphasis on the use of digital financial services and in business related to inclusive green finance;	Identify key business need for women and tailor incubator offering around these	INPG /AMEP (Association of Women Entrepreneurs)/ Palaiês(Women sellers) Association	STPCB, Financial Institutions	(A4) High	2022-2025	(I14) Number of businesses created by women
	5. Streamlining procedures to facilitate the legalization of women's small businesses;	Process map the current process and engage with women's groups and other stakeholders to develop streamlining recommendations	Ministry of Justice/Ministry of Finances	INPG, Association of Women Entrepreneurs, AMAGRU, Palaiês Association	(A5) High	2022	(I15) Number of women's small businesses formally registered
Improve the knowledge level about the customers to meet better their needs in financial services and products;	6. Adopting a regulatory framework that establishes the mandatory collection, analysis and use of gender-disaggregated data;		STPCB	Finance Service Providers	(A6) Highest	2021-2022	(I16) Gender-disaggregated data

Fostering financial inclusion through the promotion of "green finance" is the general objective of this pillar Inclusive Green Finance

Table 4 Inclusive Green Finance pillar

Specific Objective	Action	Preliminary action	Responsible entity	Co-responsible entity	Priority level	Time frame	Compliance indicator
Ensure the availability of financial services and products to mitigate and build climate change impact resilience	1. Defining and implementing a quota of the credit portfolio of financial institutions for investments that contribute to climate change compliance and mitigation ;	Financial Service Provider Awareness	STPCB	Min. of Environment/Min. Agriculture	(A1) Highest	2021-2023	(I17) Percentage of green investments financed by the formal financial sector
	2. Interest rate subvention for financing green products (product and waste processing, construction, handicrafts, reforestation, energy, etc.) to individuals and micro and small enterprises (cleantech) ;	Awareness raising/ capacity building of target groups	Min. of Finances (Planning Department - National Adaptation Plan / NDC Implementation Plan)	STPCB/TRI Project	(A2) Highest	2022-2025	
	3. Creating specific financial products and services for environmentally sustainable activities and adaptation to climate change (solid waste management, recycling, agriculture, fisheries, forestry, livestock, etc.): credit lines, credit guarantee funds, savings solutions and insurance;	Financial Service Provider Awareness	Financial Service Providers	STPCB, TRI Project	(A3) High	2022-2025	

Defining standardized measurement indicators	4. Adopting the regulatory framework establishing the mandatory collection, analysis and use of green finance data;		STPCB		(A4) Highest	2021-2022	(I18) Standardized data on green finance
Adopting climate risk prevention policies in the financial sector	5. Adopting the regulatory framework on climate risk management in the financial sector;		STPCB/Ministry of Environment		(A5) High	2022-2024	(I19) Framework on climate risk management in the financial sector created and implemented

The general objective of the Consumer Empowerment and Financial Literacy Pillar is to ensure that all San Tomeans have financial literacy levels high enough to make better use of financial services available

Table 5. Consumer Empowerment and Financial Literacy Pillar

Specific Objective	Action	Preliminary action	Responsible entity	Co-responsible entity	Priority level	Time frame	Compliance indicator
Improve understanding of key financial and economic concepts	1. Mainstreaming financial education into the educational curriculum or into existing curricular units from pre-school onwards;	Training for trainers	Min. of Education/STPCB	UNICEF	(A1) Highest	2022-2025	(I20) Financial education mainstreamed into the curricula

	<p>2. Awareness and training stratified by gender and age group</p> <ul style="list-style-type: none"> • Radio and television programs • Role playing • Cartoons • Lectures <p>3. Creating interactive spaces on the Central Bank and financial service providers' websites with informative and educational content ;</p>	Training the disseminators	STPCB/Financial Service Providers	TVS/RNSTP	<p>(A2) <i>Highest</i></p> <p>(A3) <i>High</i></p>	<p>2021-2025</p> <p>2022-2023</p>	(I21) Percentage of adult population with a good understanding level of the main financial and economic concepts
Improve the capacity to offer financial services and products	4. Capacity building of financial service providers to ensure accessibility of information (stratified by education levels, gender and other socio-cultural factors) to customers;		STPCB	Financial Service Providers	(A4) <i>High</i>	2022-2023	(I22) Percentage of population with a good knowledge level on financial services and products
	5. Creating a regulatory framework to guide the suitability of financial services and products to the needs of different target audiences: women, young people, and others;		STPCB	INPG/AMEP	(A5) <i>High</i>	2021-2022	(I23) Regulatory framework for the suitability of financial services and products for different target audiences

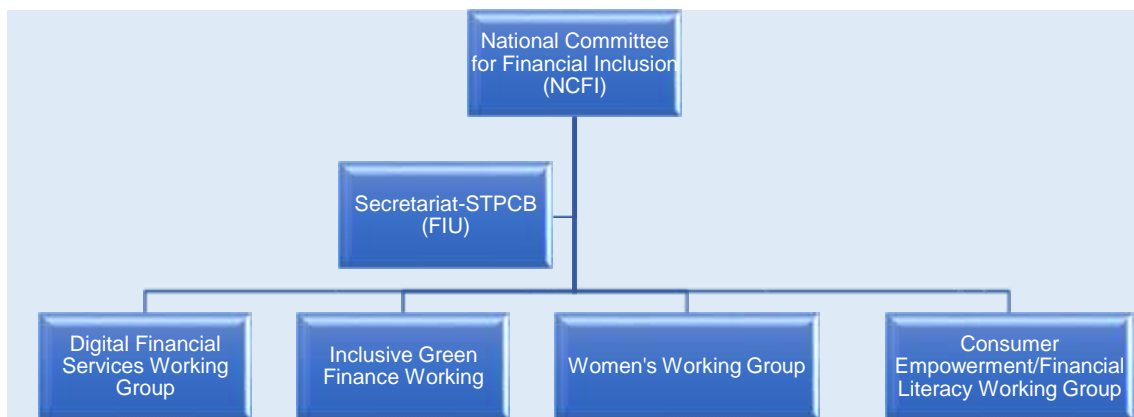
	6.	Strengthening the deontological ethics of financial service providers through the adoption of a conduct code;		STPCB/Financial Service Providers	Ministry of Agriculture (TRI)	(A6) Highest	2021-2023	(I24) Adopted code of conduct
	7.	Capacity Building of Financial Service Providers on Inclusive Green Finance and gender inclusive finance;		STPCB/Financial Service Providers	Ministry of Agriculture (TRI)	(A7) High	2022-2024	(I25) Percentage of adult population that is happy with "green" financial services and gender inclusive finance
Raise the economic agents' budget management capacity	8.	Creating applications with tutorials on the main financial operations in mobile phones;		STPCB/Financial Service Providers	AGER/ Telecommunication Operators	(A8) High	2022-2024	(I26) Percentage of adult population with good budget management skills
Promote money saving habits and debt management skills	9.	Raising economic agents' awareness about the main benefits of formal saving <ul style="list-style-type: none"> • Role playng • Radio and television programs • Cartoons • Lectures 		STPCB		(A9) Highest	2021-2025	(I27) Percentage of adult population with formal money saving habits and good debt management skills
	10.	Design and implementing programs for various socioeconomic strata aimed at improving				(A10) Highest	2021-2025	

	knowledge about debt capacity;						
Improve the ability to choose financial services and products	11. Diversifying the channels for advertising financial products and services , with a particular focus on harder to reach groups;		Financial Service Providers	STPCB	<i>(A11) Highest</i>	2021-2024	<i>(I28)</i> Percentage of adult population with good ability to choose financial services and products
	12. Suitability of advertising content to the different socioeconomic strata of the population;		Financial Service Providers	STPCB	<i>(A12) Highest</i>	2021-2024	
	13. Creating a credit benchmark on the Central Bank website;		STPCB	Financial Service Providers	<i>(A13) Highest</i>	2021-2022	
	14. Introducing the Standardized Information Sheet (SIF) for all financial services and products;		STPCB	Financial Service Providers	<i>(A14) Highest</i>	2022	
Strengthening the protection of consumer rights	15. Enhancement of the regulatory framework for minimum financial services;		STPCB	Financial Service Providers	<i>(A15) Highest</i>	2021-2022	<i>(I29)</i> Regulatory framework for the protection of consumer rights created and implemented
	16. Creating a regulatory framework that facilitates the resolution of disputes between financial service providers and customers;				<i>(A16) High</i>	2022-2025	

	17. Creating <i>Mystery shopping</i> (Mystery Customer);		STPCB		(A17) High	2022-2023	(I30) Percentage of adult population happy with the customer service of financial service providers
	18. Creating an interactive consumer window on the Central Bank's website (Regtech);				(A18) High	2022-2023	
	19. Interactive enlightenment programs (CONSUMER'S ADVISORY) through radio and television;			STPNR/STV	(A19) High	2022-2025	(I31) Percentage of adult population with consumer rights protection level
	20. Strengthening the price validation mechanisms of financial service providers;		STPCB		(A20) High	2022-2023	

V. Monitoring and evaluation framework

The monitoring and evaluation of the NFIS implementation will be ensured by a multidisciplinary structure, established by Government Decree (Decree No. 26/2020, October 2020). This structure is overseen by a National Committee for Financial Inclusion (CNIF), as a guiding body for governance and coordination of the NFIS, composed by members of the Government responsible for the areas that are the pillars of the Strategy; supported by the technical unit responsible for Financial Inclusion at the STPCB - Financial Inclusion Unit (FIU); and also integrated by specific Working Groups.



In the pursuit of its attributions, the monitoring and evaluation structure should, among other actions:

- a) Collaborate and coordinate with other structures, existing or future, with a view to the full implementation of the NFIS;
- b) Establish and disseminate mechanisms and guidelines for entities and structures with responsibilities in the implementation of the NFIS;
- c) Promote the dissemination of knowledge about the NFIS and its state of implementation;
- d) Review practices, policies and systems and identify opportunities and or critical obstacles to increase the level of FI and implement appropriate corrective actions.

Specifically, the NCFI will be responsible for monitoring and evaluating the implementation of the NFIS, including tracking progress on reforms and monitoring indicators and results achieved, through an appropriate cascading, implementation and reporting system.

For its part, the Secretariat shall:

- i. ensure the availability of data and information necessary to establish baselines and monitor progress under the defined Monitoring and Evaluation framework;
- ii. Conduct or undertake necessary studies to guide all aspects related to the implementation of the NFIS;
- iii. Undertake the collection of information, data and updates in terms of implementation;
- iv. Prepare quarterly progress reports on the implementation of the NFIS;
- v. Carry out impact assessments of the initiatives adopted;
- vi. To resolve technical issues and propose solutions in order to pursue the specific objectives of the NFIS.

Finally, within this framework, the Working Groups will have the responsibility to:

- a. Provide information on implementation progress and related objectives to the Secretariat on a quarterly basis or as needed;
- b. Propose solutions to specific challenges; and
- c. Propose changes and corrections to the Action Plans or objectives, if necessary.

VI. Indicators for monitoring and evaluating the NFIS

The NFIS should be under constant monitoring and evaluation as a way to ensure its success. The monitoring indicators in the table below should serve as support to all stakeholders, and especially to the entities responsible for the implementation of the actions, in the process of monitoring NFIS progress. To each specific objective and respective actions correspond one or more compliance indicators, baseline indicators (state of play at the time of drafting the NFIS), the target to be reached with the NFIS, the institution responsible for the collection, dissemination of information and the

frequency of dissemination. The mid-term review of the NFIS may support a possible change or adaptation of the defined goals.

Table 6 Financial Inclusion Measurement Indicators

Pillar	#	Compliance indicator	Baseline (2019)	Goal (2025)	Source	Reporting frequency
Digital Financial Services	1	SupTech framework (legal, technological and human resources) created and implemented	n.a.	Monitoring	STPCB	As soon as available
	2	Number of transactions performed with payment systems interoperability	n.a.	Monitoring	STPCB/SPAUT	Half-yearly
	3	% of service payments (water, electricity, and telecommunications) and % of G2P and P2G digital payments	n.a.	80% e 50%, respectivamente	STPCB (survey)	Yearly
	4	e-KYC/digital ID adopted	n.a.	Monitoring	STPCB	As soon as available
	5	Electronic warranty registration system	n.a.	Monitoring	STPCB	As soon as available
	6	Number of digital financial transactions performed	n.a.	A definir	STPCB (survey)	Yearly
	7	Number of banking agents (disaggregated by gender and geographical area) per 10,000 adults	Zero	A definir	STPCB (survey)	Yearly
	8	Harmonized procedures	n.a.	Monitoring	STPCB	As soon as available
	9	Adopted Regulation	n.a.	Monitoring	STPCB	As soon as available
	10	Number of <i>FinTech start-ups</i> created	n.a.	Monitoring	STPCB (survey)	Yearly
Women Financial Inclusion	11	Percentage of women who use specific financing lines	0%	Monitoring	STPCB	Quarterly
	12	Percentage of women who have credit in the formal financial system (Value of financing as a % of overall financing lines)	2%	15%	STPCB	Quarterly
	13	Percentage of women with savings in the formal system	5%	15%	STPCB	Quarterly
	14	Number of businesses started by women	n.a.	Monitoring	STPCB (survey)	Yearly
	15	Number of women's small businesses formally registered	n.a.	Monitoring	STPCB (survey)	Yearly
	16	Gender disaggregated data	n.a.	Monitoring	STPCB	As soon as available
Inclusive Green Finances	17	Percentage of green investments financed by the formal financial sector	0%	Monitoring	STPCB	Quarterly
	18	Standardized data on green finance	n.a.	Monitoring	STPCB	As soon as available

	19	Framework on climate risk management in the financial sector created and implemented	n.a.	Monitoring	STPCB	As soon as available
Consumer Empowerment and Financial Literacy	20	Financial education mainstreamed into the <i>curricula</i>	n.a.	Monitoring	STPCB	As soon as available
	21	Percentage of the adult population with a good level ⁸ of understanding of key financial and economic concepts	24%	50%	STPCB (survey)	Yearly
	22	Percentage of population with a good level ⁹ of knowledge on financial services and products	23%	60%	STPCB (survey)	Yearly
	23	Regulatory framework for the suitability of financial services and products for different target audiences	n.a.	Monitoring	BCSTP	As soon as available
	24	Adopted code of conduct	n.a.	Monitoring	BCSTP	As soon as available
	25	Percentage of adult population happy with green financial services and gender inclusive finance	n.a.	Monitoring	STPCB (survey)	Annual
	26	Percentage of adult population with good ¹⁰ budget management skills	48%	55%	STPCB (survey)	Yearly
	27	Percentage of adult population with formal savings habits and good ¹¹ debt management skills	37%	70%	STPCB (survey)	Yearly
	28	Percentage of adult population with good ¹² ability to choose financial services and products	36%	60%	STPCB (survey)	Yearly
	29	Regulatory framework for the protection of consumer rights created and implemented	n.a.	Monitoring	STPCB	As soon as available
	30	Percentage of adult population satisfied with service from financial service providers	59%	65%	STPCB (survey)	Yearly
	31	Percentage of adult population happy with the level of consumer rights protection				

VII. Approach and risk mitigation

⁸ According to Table 1:Financial Capability Barometer

⁹ According to Table 1:Financial Capability Barometer

¹⁰ According to Table 1:Financial Capability Barometer

¹¹ According to Table 1:Financial Capability Barometer

¹² According to Table 1:Financial Capability Barometer

In this chapter we intend to anticipate the existence of some barriers that may eventually occur during the implementation of the NFIS and we design some measures that may mitigate them, even in case of uncertainties.

Table 7 VII. Approach and risk mitigation

<i>Risks</i>	<i>Risk level</i>	<i>Mitigation</i>
<i>Not enough political engagement at several levels needed to move the financial inclusion agenda forward</i>	High	<ul style="list-style-type: none"> - Promote annual fora with all stakeholders to evaluate the implementation of the NFIS and possible constraints to it - Promote actions to sensitize and raise awareness among the different social strata so that they can provide a compelling force to help place the <u>NFIS</u> on the political agenda at the highest level of public institutions.
<i>Institutional weaknesses of the judicial system</i>	High	
<i>Economic shocks</i>	Medium	Sensitize international partners (international financial institutions) to help the country mitigate the shocks' effects.
<i>Fiscal constraints limiting the availability of government resources to support the implementation of the NFIS</i>	High	Identify and engage potential partners to mobilize additional resources.