MITIGATING THE IMPACT OF COVID-19 ON GAINS IN FINANCIAL INCLUSION

Early lessons from regulators and policymakers
ABOUT THIS REPORT AND WHAT’S INSIDE

This report takes a holistic look at what we have learnt so far, in responding to COVID-19 and its fallouts for financial inclusion, our economies and people. It captures first high-level lessons on policy responses that emerged within the network.

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The COVID-19 pandemic has disrupted lives and economies in unprecedented ways over the last 18 months.

The full impact of this global crisis on countries, businesses and households is still unfolding, as many countries continue their fight to control the spread of the virus.
What we can be certain of already is that despite the global nature of this crisis, **its effects have been more protracted for developing and emerging economies**, and are being felt disproportionately by the vulnerable and disadvantaged populations of the world. These are the very people and countries that the AFI network is committed to serving by making financial services more accessible.

Over the past decade, our members have achieved a great deal in advancing the financial inclusion agenda through a range of policy reforms and interventions.

In the past four years alone, AFI members have reported and attributed over 100 policies and regulations annually, an indication that the preparatory work going back many years is beginning to materialize.

Many of these policy reforms target disadvantaged segments, such as micro and small businesses and women. As the COVID-19 pandemic swept the globe, these gains came under threat as millions of people, especially young people and women, lost jobs and income, micro, small and medium enterprises (MSMEs) experienced a drop in customers and revenues, and financial institutions that serve the bottom of the pyramid faced new risks to their sustainability.

Central banks and financial sector regulators were quick to recognize these risks and swiftly responded with policy measures that would aid those most affected by the pandemic and consolidate the hard-earned gains made towards social progress and inclusion. Early in the pandemic, it became clear that the AFI network, as a global knowledge exchange platform, was uniquely positioned to assist its members in developing and implementing their policy response to COVID-19. In these unparalleled circumstances, AFI could offer members a trusted space to come together, exchange ideas and early lessons in dealing with the pandemic impact, and gain assistance to implement practical and relevant policy interventions.

To meet these member needs, the AFI Management Unit launched its COVID-19 Policy Response in March 2020, aimed at supporting members in developing and implementing new and tested policy interventions to manage the risks and leverage the opportunities created by the pandemic for financial inclusion. Since then, AFI has delivered a range of services to meet the needs of its members during this unprecedented and challenging time. It has facilitated a number of in-country support for policy response implementation, virtual dialogues and forums for peer-to-peer learning as well as engagement with private sector partners, developed country peers, international organizations and development agencies. These initiatives have aimed to address the immediate information and knowledge needs of members during the pandemic. AFI has also published policy guidance in emerging policy priority areas and rolled out interactive dynamic dashboards to assist them in obtaining up-to-date peer-to-peer practical policy responses for adoption in their jurisdictions.

This swift and collective response of the AFI network, grounded in the resolve to move forward towards its goal of expanding and improving financial services for the world’s unbanked, has not only contributed towards mitigating the immediate impact of the pandemic but also opened up new opportunities and avenues for us to implement impactful policy approaches for the post-crisis economic recovery phase, towards a more sustainable and inclusive financial sector that leaves no one behind.

This report takes a holistic look at what we have learnt so far, in responding to COVID-19 and its fallouts, for our economies and people. It captures first high-level lessons on policy responses that emerged within the network. Even though the pandemic is not over, pausing to take stock of emerging lessons and policy priorities will improve our preparedness for future crises as well as position the network to fully harness emerging opportunities. The path to an inclusive and sustainable recovery requires partnerships and collective action which AFI is well positioned to deliver as a policy leadership alliance owned and led by its members.

Dr. Alfred Hannig  
Executive Director, AFI
GLOBAL SNAPSHOPT

AFI COVID-19 POLICY RESPONSE DASHBOARD

AFI MEMBERS BY REGION AND COVID-19 POLICY RESPONSE TYPE

- East Asia & South-East Asia
- Eastern Europe & Central Asia
- Latin America & Caribbean
- Middle East & North Africa
- Pacific
- South Asia
- Sub-Saharan Africa

COVID-19 POLICY RESPONSE BY TYPE AND REGION

- CONSUMER PROTECTION
- CONSUMER LIQUIDITY
- DEVELOPMENT BANK SUPPORT
- DIGITAL FINANCING
- FISCAL POLICY
- INTEREST RATE
- SME FINANCE
- STIMULUS PACKAGE
- WOMEN & DFS
- WOMEN & MSMEs
- WOMEN & REGULATION
- WOMEN & SOCIAL PROTECTION
GENDER INCLUSIVE FINANCE (GIF) COVID-19 POLICY RESPONSES IN AFI MEMBER JURISDICTIONS

Women & Social Protection
Women & MSMEs
Women & Regulation
Women & DFS

68% of policies and regulations reported in 2020 were COVID-19 related
25% of policies and regulations reported were DFS-related
131 total GIF policy measures

To access the dashboard, please visit www.afi-global.org/covid-19
SECTION 1

CONTEXT AND BACKGROUND

The outbreak of COVID-19 in early 2020 and its rapid spread across the world created an unprecedented health and economic crisis, affecting countless individuals, families and communities.
MITIGATING THE IMPACT OF COVID-19 ON GAINS IN FINANCIAL INCLUSION

The imperative to control the spread of the virus has led to lockdowns and movement controls, restricted business and social activities and the allocation of precious fiscal resources towards public health responses in many countries.

These measures continue to have economic and social implications for millions of individuals and businesses around the globe.

As in most crisis situations, the effects are turning out to be more severe for the poor, and already-disadvantaged and vulnerable groups, such as women, youth, people living with disabilities and forcibly displaced persons (FDP). For example:

The International Labour Organization (ILO) finds that employment losses in 2020 were higher for women than for men, and for young workers than for older ones. 1

In terms of infections and deaths, the pandemic has also disproportionately hurt those in low-income brackets, within as well as across countries. 2

In fact, global poverty is expected to significantly increase for the first time in 20 years, with anywhere between 119 million and 124 million people pushed into poverty due to COVID-19. 3

Similarly, compared to large firms, the effects on small and medium-sized enterprises (SMEs), especially those in the informal sector and those led by women, have been particularly severe because of their higher levels of vulnerability and lower resilience. 4

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These unprecedented economic challenges created by the COVID-19 pandemic also pose risks to the gains made in financial inclusion over the past decade, including across the AFI network, which represents about 70 percent of the unbanked population in the world.

Since the launch of the network, AFI member institutions have reported over 700 policy and regulatory changes attributable to their engagement with AFI. This has been a consistently increasing trend, rising from only four policy changes reported in 2009 to 137 policies reported in 2020 - an indication that the preparatory work going back many years is now beginning to bear fruit.

These reforms encompass a broad range of policy areas related to financial inclusion, such as digital financial services (DFS), consumer empowerment and market conduct (CEMC), national financial inclusion strategies (NFIS), SME finance and financial inclusion data and measurement. The enhanced focus of AFI members on advancing the financial inclusion agenda has also been captured through the endorsement of various AFI accords.

The adoption of the Denarau Action Plan5 in 2016 accelerated the number of Maya Declaration6 commitments as well as policies aimed at addressing the gender gap in financial inclusion.

The recent increase in policies and regulations around FinTech and national payment systems aimed at nurturing an enabling environment for innovation are in line with the Sochi Accord7 of 2018.

These collective achievements of AFI members have been facilitated and enabled through the network’s collaborative model, which applies a bottom-up approach in designing and implementing financial inclusion policies.

**Policies to address COVID-19 impact** have been a key priority in the last year.

68 percent of the about 137 policies and regulations reported in 2020 were COVID-19-related, with provisions on debt restructurings, loan deferments, increased liquidity, among others.

The policy responses mainly targeted the micro, small and medium enterprise (MSME) sector. Provisions were also made for e-money transactions to reduce costs and increase access and usage of digital financial services.

Early in the pandemic, both risks and opportunities began to emerge for financial inclusion as economic policymakers and financial sector regulators rushed to devise and implement interventions to mitigate the socioeconomic impact of COVID-19. Of the 137 policies and regulations reported by AFI members in 2020, 68 percent were related to COVID-19.

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6 AFI. 2011. Maya Declaration. Available at: https://www.afi-global.org/global-voice/maya-declaration/

In the early months of the pandemic, policy interventions focused on ‘mitigation’ 8 that could enable continuity of business activity in a safe environment and provide relief to the low-income and other hardest-hit segments. The list below outlines some of the policy measures taken.

**Fiscal policies** to mitigate the impact of the pandemic through emergency relief aid and direct interventions to support the health sector, firms and households;

**Monetary policy measures** through stimulus packages to mitigate the shocks caused by the pandemic, done through interest rate cuts, loans moratoriums, quantitative easing and direct credit interventions,

**Through collaboration** with the private sector to reduce transactions costs, the payments burden of households and MSMEs could be eased.

The progress made by AFI members over the past decade in advancing financial inclusion, particularly for women, played an important role in the implementation of these mitigation efforts. For example, initiatives in digital finance, consumer protection, mobile money, agent banking, electronic know your customer (e-KYC) processes and financing for SMEs played a critical part in enabling the implementation of these policy responses 9.

However, these interventions, which were meant to last for the short to medium term and facilitate continuity of economic activity, have been facing sustainability challenges due to a tightening up of available fiscal policy space since the COVID-19 pandemic is ongoing, and most of AFI members economies have been heavily impacted. A recognition has also emerged that the crisis has exacerbated already-entrenched inequalities and disproportionately affected groups that AFI members declared as priority for financial inclusion strategies in the Kigali Statement 10. This includes small and medium enterprises (SMEs), women and girls, youth and older persons, persons living with disabilities, and FDP. Hence, as members look ahead beyond the crisis, there is an increasing demand to better understand the effectiveness of the policy responses already implemented. There is also a need to identify practical and inclusive policy solutions for the ‘recovery’ phase, which should accelerate the achievement of financial inclusion goals within the specific country and regional contexts of AFI members.

Throughout the COVID-19 pandemic, AFI leaders have actively engaged in the AFI network to share their peers’ practical policy interventions, which have been applied in the network and beyond. There has also been engagement and exchange on how to sustain policy interventions and adapt innovative policy solutions to ensure the implementation of ‘mitigation’ and recovery measures to maintain the gains of financial inclusion. In response, the AFI Management Unit designed and deployed, through its member-based Working Groups and Regional Initiatives, interactive policy response dashboards and virtual platforms for systematic, practical knowledge exchanges that have been instrumental in assisting members in this quest. At the time of writing this report, the world remains in the grips of the pandemic; however, some early lessons from AFI members’ efforts to manage the ‘mitigation’ phase and trends in future priorities have begun to emerge. This report endeavors to capture such lessons to reinforce and scale the network policy support and leaders’ insights that build impetus for members to adopt impactful policy response measures for the recovery phase.

The report consists of two parts. Part I consolidates the lessons emerging from the ‘mitigation’ phase across the three core dimensions of financial inclusion - access, usage and quality - as well as resilience in the context of COVID-19. Part II adopts a forward-looking intersectional lens and focuses on the policy outlook in the ‘recovery’ phase. Even though the COVID-19 crisis is yet to be over, the report aims to provide a foundation for building institutional preparedness amongst AFI members to devise and implement policy responses that advance financial inclusion, accelerate recovery and build resilience. It also reinforces the AFI cooperation model that is founded in the belief that human progress in today’s interconnected world, including the achievement of the Sustainable Development Goals (SDGs), requires the international community to work collectively.

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8 Where the term ‘mitigation’ appears in inverted commas in this report, the term specifically refers to short-term measures taken during the Covid-19 pandemic to enable the continuity of business activity and relief for the hardest-hit segments of the population.


SECTION 2

EMERGING LESSONS FROM MANAGING THE IMPACT OF COVID-19 ON FINANCIAL INCLUSION

COVID-19 has posed a multitude of challenges to financial regulators and policymakers across the globe and its effects are still being felt by those in developing as well as developed nations.

The uncertainty generated by the pandemic has created global economic fallouts, for example, shrinking gross national incomes, increased unemployment and job losses, volatility in currencies, and even social unrest.
The repercussions, however, have been more difficult to adapt to in the Global South, where furthering the rate of financial inclusion has been a long-standing challenge and more sections of the population are vulnerable to poverty because of the pandemic.

With governments imposing strict lockdown measures to slow the spread of the virus, several challenges to income, economic opportunities, and financial access and usage started to emerge, many of these had a strong gender angle or intersected with challenges faced by other vulnerable groups. Vulnerable groups who are on the edges of economic and social stability include rural and remote populations, youth, women, people living with a disability, microenterprises and entrepreneurs in the informal sector, and FDP.

Economic policymakers and financial sector regulators, in developing and emerging economies, were swift to respond to the economic threats of the pandemic. A wide range of policy measures that cut across the key dimensions of financial inclusion (access, usage and quality) were put in place.

The AFI Policy Change Survey 2020 reveals that of the 137 policy and regulatory reforms reported, 68 percent were COVID-19 related\(^1\).

\(^{1}\) The reported policy and regulatory changes are categorized into AFI policy areas: Consumer Protection and Market Conduct, Digital Financial Services, Financial Inclusion Data, Financial Inclusion Strategy, Gender Inclusive Finance, Global Standards and Proportionality, Inclusive Green Finance and SME Finance. If it is not categorized in these policy areas, it is labelled as “others”. Full report can be viewed here - AFI. 2021. Policy and Regulatory Reforms in the AFI Network 2020. Available at: https://www.afi-global.org/publications/policy-regulatory-reforms-in-the-afi-network-2020/
Access to financial services and basic economic transactions became a major challenge as lockdowns and movement restrictions were rolled out to control the COVID-19 outbreak.

Economic policymakers swiftly responded through policy interventions that would enable access to financial services, so households and businesses could continue making payments and purchase goods and services. Key policy lessons that have emerged from interventions aimed at driving access are discussed below.

Early on in the crisis, AFI published the Policy Framework for Leveraging Digital Financial Services to Respond to Global Emergencies to provide guidance to regulators. View here

**LESSON 1**

DFS play a crucial role in preserving access to financial services in a safe manner during a crisis. Countries with relatively more developed technology and payments infrastructure were better positioned to mitigate the risks to financial inclusion posed by COVID-19 pandemic.

DFS can facilitate remote, contactless transactions which proved critical during COVID-19, when social distancing rules needed to be observed to keep people safe. Digital payments, particularly when accompanied by digital financial infrastructure (interoperable payments, unique digital IDs, etc.) and enabling regulations (e-KYC, fees, etc.), helped governments quickly and securely make cash transfers and other socioeconomic benefits in the form of financial support. In many cases, this support was granted to the most vulnerable members of society, including women and children. These measures enabled businesses’ funds to keep flowing and thus allowed individuals to send money cross border and to pay for purchases at a market or a store from the safety of their homes. These benefits promoted many AFI members to rapidly introduce short-term and medium-term policies to increase access to DFS during the pandemic. In 2020, half of the DFS policy reforms developed and implemented by AFI members were targeted towards mitigating the negative effects of the COVID-19 pandemic.

However, benefitting from DFS requires investments into inclusive and robust technology and payments infrastructure. Countries with relatively more developed DFS infrastructure were able to leverage these systems to mitigate the challenges of COVID-19 to the financial sector.

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For example, in Sub-Saharan Africa (SSA), Ghana had made significant progress in pre-COVID-19 times towards improving its payment and technology infrastructure and in enabling a conducive regulatory regime\(^\text{14}\). These interventions set the trail for a swift and effective response to the COVID-19 pandemic by the Bank of Ghana (BoG) through policy responses such as those below.

- Mobile money funds transfers of up to GHS100 (USD20 at the time of writing), excluding cash-out, was made fee-free.
- All mobile subscribers were permitted to use their pre-existing mobile registration details to be onboarded for a minimum KYC account.
- Daily mobile money transactions limits and maximum account balances were revised to enable users perform more remote transactions.
- Aggregate monthly transaction limits saw the foremost dramatic revision as transaction limits were abolished for medium KYC and enhanced KYC accounts.

In Southeast Asia, Malaysia also benefited immensely from its established digital payment systems and infrastructure covering systems like Shared ATM Network (SAN), InterBank GIRO, Financial Process Exchange (FPX) and DuitNow. These systems enabled an effective response to the global pandemic by supporting seamless digital payment options including contactless, QR and other efficient digital payments for individuals and MSMEs.

Bank Negara Malaysia (BNM) worked closely with state governments and DFIs to ensure the operational continuity of the agent banks so that access to finance carried on even during the movement restrictions. BNM partnered with the relevant financial institutions and set up ATMs and mobile counters in rural and remote communities to facilitate the distribution of government support. In addition, the existing digital payment channels and regulatory regime supported the establishment of new alternative channels, such as mobile ATMs, to further improve the nationwide provision of basic financial services. In the first nine months of 2020, there were 17.1 million transactions in basic financial services valued at MYR1.6 billion\(^\text{15}\) with agent banks totaling MYR1.9 billion\(^\text{16}\).

Some examples of policy interventions from members to drive access to DFS are listed below\(^\text{17}\).

- Measures to simplify KYC and enable digital onboarding of customers were introduced. For example, Comisión Nacional Bancaria y de Valores

The results obtained by the BoG’s review of mobile money transaction data after implementing its COVID-19 financial sector guidelines showed significant DFS adoption.

85%

The BoG especially observed that the activation of dormant wallets (mobile money) increased from an average of 71,984 to 84,025 per week after the measures were introduced.

Additionally, a positive outcome noted was the impact of the simplified onboarding requirements that leveraged on GSM registration data contributed to new KYC accounts of 208,120.

The review also revealed average wallet balances increased by about 27 percent during the intervening period, while the number of active merchants recorded an increase of 14 percent, reflecting
Some examples of innovations from the network are included in the list below.

> In 2021, the Government of Togo and the World Bank launched the Novissi cash transfer scheme which targets citizens in the informal sector whose daily income has been disrupted by COVID-19. Using artificial intelligence (AI) to analyze geospatial and demographic data, the program identifies the lowest-income groups in Togo who are eligible beneficiaries. The program’s achievement of approximately 180,000 new mobile money accounts represent a seven percent growth in the penetration rate of money transfer services.

> In 2020, Bank of Papua New Guinea (PNG) engaged with private-sector digital trust framework YuTru with regard to digital identification to enable access to the formal financial system for people previously excluded.

> With more than 4.5 million FDP in the Democratic Republic of Congo (DRC), BCC created an ad-hoc authorization requirement in 2019 that permitted DFS providers to accept FDP identity cards as proof of identity for banking operations, instead of the national ID card. In 2020, it launched a biometric ID system that meets KYC requirements.

**LESSON 3**

Access to formal financial services can improve the resilience of MSMEs, especially by enabling them to access government support and stimulus packages during crises.

MSMEs emerged early in the crisis as one of worst affected segments when lockdowns went into place and supply chains got disrupted. With low capital and liquidity buffers, MSMEs struggled to survive as demand shrank and revenues fell. Also noted was a strong gender dimension as many women had to give up their businesses as their domestic care burden increased and undertaking both roles was no longer possible.

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16 de México (CNBV) published regulations for the digital onboarding of bank accounts for enterprises to mitigate the impact of COVID-19 on financial inclusion.

> More medium-term to long-term policy measures to advance digital payments were expedited. For example, Reserve Bank of Fiji (RBF) and Bank of Uganda (BoU) introduced their respective National Payment System Act in 2020, aimed at boosting payments through digital solutions.

Several members introduced partial fee waivers on digital transactions and increased transaction limits on e-wallets in terms of amounts and number of transactions. For example, Banque Centrale du Congo (BCC) increased the ceiling for electronic wallets to USD7,500 and increased the daily limit on transactions to USD2,500. It also temporarily waived fees for the first five transactions daily.

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**LESSON 2**

Crises can accelerate innovation that drives financial inclusion forward.

A study by the Centre for Global Development suggests that financial inclusion and exclusion involve correlation across three dimensions: a national ID, a financial account and a mobile phone. People lacking any of these are less likely to have access to the other two. The COVID-19 pandemic and the consequent urgency to reach those most affected catalyzed important innovations that helped overcome bottlenecks related to national IDs and KYC, thus driving financial inclusion.

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20 YuTru. Available at: https://yutru.org/
Economic policymakers, especially in developing economies where MSMEs are the backbone of the economy, quickly recognized the need to support these businesses.

In many AFI member jurisdictions, emergency measures - specifically ‘mitigation’ policy responses - were introduced to address immediate liquidity challenges, reduce layoffs and avoid firm closures and bankruptcies. These included restructuring of loan facilities, moratoriums and fee payment holidays, and stimulus packages for MSMEs. A policy note by AFI’s SME Finance Working Group21 highlights various measures taken by some countries to encourage business operations, safeguard jobs and increase domestic investment. Some examples from the network are described below.

> The South African Reserve Bank (SARB) has partnered with banks and the National Treasury to implement a loan guarantee scheme for SMEs. Under the scheme, guaranteed loans may be provided to businesses with an annual turnover of less than ZAR300 million (USD20.4 million at of September 2021) and the funds can be utilized for operational expenses such as salaries, rent and lease agreements, and contracts with suppliers22.

> The Central Bank of Egypt (CBE) increased its long-standing requirement that 20 percent of a bank’s credit portfolio be allocated to MSMEs - including those involved with renewable energy - to 25 percent in February 2021, channeling another USD7.5 billion to small businesses.

However, access to these packages can be limited for informal MSMEs. Many women are concentrated in this informal sector, as central banks and governments tend to use formal financial institutions to transmit such support.

At the AFI Annual General Meeting in September 2021, member institutions convened virtually to update the Maputo Accord on access to finance for small and medium enterprises, as a pathway to greater financial inclusion.

> View here

BNM launched a USD450 million stimulus package23 to alleviate cash flow problems for SMEs adversely affected by the ongoing outbreak. Notably, BNM also set up a USD70 million facility that incentivizes SMEs to automate processes and digitize operations in the interest of efficiency and productivity. The facility is accessible through a digital portal.24

Of all MSMEs in developing countries, 77 percent are unregistered25, with this factor creating obstacles for them to benefit from official economic support programs.

AFI Guideline Note 44, on bringing the informal sector on board,26 discusses how policymakers and practitioners can incentivize MSMEs in the informal sector - and their workers - to access the formal financial ecosystem.

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The uptake and usage rates of financial services have been improving since the start of the COVID-19 pandemic. This is driven by governments and private sector measures to catalyze digitization and by using financial sector channels to deliver social support to households and economic stimuli to businesses.

For mobile money, the global volume of digital transactions rose by 15 percent from 2019 to 2020, amounting to a total of USD767 billion, thus growing by 22 percent since COVID-19 struck.

The Latin America and the Caribbean region experienced the highest growth in terms of volume of transactions whereas the East Asia and the Pacific region posted highest growth in terms of transactions value27.

Key policy lessons that have emerged from interventions aimed at driving usage are discussed below.

**LESSON 1**

As access increases, policy interventions to advance digital ecosystems are needed to drive and sustain usage.

The incentives and innovations to drive access (such as lowering transaction costs, simplifying customer onboarding, digital literacy for vulnerable groups, digital e-KYC etc.) need to be complemented with other ecosystem interventions to drive and sustain usage of DFS. Countries that have invested in strengthening DFS ecosystems and infrastructure were better positioned to leverage these channels to deliver support to households and businesses affected by the pandemic.

For example, Reserve Bank of India (RBI), Superintendencia de Banca Seguros y AFP del Perú (SBS) and Bank of Thailand (BOT) have invested in national digital identity programs and other digital infrastructure, such as interoperable payment systems. They were thus able to utilize this infrastructure to deliver targeted large-scale fiscal support packages – including to informal sector workers and vulnerable population segments such as women – during the pandemic28.

The AFI Member Policy Response Dashboard 29 captures the range of supply-side initiatives taken by central banks and governments in developing countries that aimed at accelerating adoption of digital financial channels during the ‘mitigation’ stage of the pandemic.

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29 AFI. AFI’s COVID-19 Policy Response & Dashboard. Available at: https://www.afi-global.org/covid-19/
These initiatives aimed at increasing interoperability between FinTech and banks, opening up new options of digital remittances and payments, and strengthening agent networks. Some examples of policy interventions from the network are listed below.

> The Central Bank of Egypt (CBE) launched the “electronic acceptance initiative” to increase the number of electronic points of acceptance available in all governorates. The initiative aims to reach a number of 200,000 QR codes and 100,000 point of sale (POS) systems along with incentive schemes, and an increase in the number of ATMs by 6,500 and e-onboarding for mobile wallets.

> The Central Bank of the Bahamas (CBOB) launched its Central Bank Digital Currency, Project Sand Dollar, in October 2020 and made revisions to relevant legislations in order to provide the regulatory framework for its digital currency.

> Mexican financial authorities strengthened the use of the Cobro Digital (CoDi) platform to charge and receive payments using a QR code. Bank of Thailand (BoT) also launched its Interoperable QR Code for retail payment linkage between Vietnam and Thailand in March 2021.

**LESSON 2**

**COVID-19 accelerated the need to promote financial literacy as a tool for consumer protection.**

Low awareness, trust and operational understanding of DFS being offered in the market can hinder effectiveness of supply-side policy measures aimed at access and usage. COVID-19 compelled regulators to promote adoption and usage of DFS, including usage by vulnerable segments such as informal workers, women, the elderly and MSMEs. However, very quick adoption also has the potential to exacerbate vulnerabilities from existing inequalities such as general and digital literacy, access to digital devices or the Internet, financial capability and existing social norms and customs, etc. Hence it is important to ensure that segments that are already disproportionally excluded, such as women and youth, are not left behind during the crisis.

Given this reality, enhancing financial education and digital financial literacy are becoming crucial tasks for regulators and FSPs. Solutions offered must minimize possible consumer protection risks, sustain gains made in financial inclusion and ensure financial stability.

Though tackling restrictive social norms and customary practices are not within the remit of the regulator, these areas also need to be addressed in tandem for regulatory progress to be effectively implemented.

Several AFI members implemented policy changes to accelerate financial literacy in their jurisdictions in 2020 through developing and implementing financial literacy frameworks and national strategies. Some members also launched targeted financial literacy interventions in the context of COVID-19. The list below includes some examples.

**Reserve Bank of Fiji (RBF) launched extensive financial literacy campaigns targeting workers affected by the COVID-19 pandemic.**

An Economic Response partnership was also established between the RBF and the Pacific Financial Inclusion Programme (PFIP) to ensure financial literacy seminars were accessible to impacted communities, including farmers and tourism workers.

In parallel with financial literacy training and awareness efforts, the RBF launched and managed a FinTalk Facebook page to disseminate awareness materials in a multimedia format and publish details of events relevant to financial literacy training.

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30 Project Sand Dollar. Available at: https://www.sanddollar.bs/

31 AFI guideline note on key considerations to understand, develop, facilitate policies and design interventions at advancing digital financial literacy provides further information. (AFI. 2021. Guideline Note 45. Digital Financial Literacy. Available at: https://www.afi-global.org/publications/digital-financial-literacy/) Practical examples of financial education policies and programs are also captured in the AFI Case Study on Financial Education in Latin America and the Caribbean. (AFI. 2020. Financial Education in Latin America and the Caribbean. Available at: https://www.afi-global.org/publications/financial-education-in-latin-america-and-the-caribbean/)
In Angola, Banco Nacional de Angola signed a Cooperation Protocol with their Ministry of Social Action, Family and Women’s Promotion (MASFAMU) to promote joint financial education efforts aimed at promoting women’s financial literacy. The objective is to contribute to the progressive reduction of gender inequalities. One of the main channels is the creation of an environment conducive to credit, which is done through the promotion of microfinance activity, operating in areas identified as having potential to empower women, families and consequently, society.

> **In June 2020, Malaysia issued its fourth economic stimulus package, named the Pelan Jana Semula Ekonomi Negara (PENJANA) or National Economic Recovery Plan. One of the initiatives under PENJANA is the ‘ePENJANA initiative’, through which the Malaysian government aimed to encourage consumer spending in a safe manner through contactless payments. According to the Malaysian Ministry of Finance, approximately 15 million people could benefit from ePENJANA. Through this initiative, the government provides MYR50 (USD12 as of September 2021) worth of credits to be used for purchases through the selected e-wallet service providers. At the same time, the selected e-wallet service providers offer additional incentives worth the same amount through vouchers, cashback and reward points.**

The Moroccan government released an emergency fund – aimed at supporting low-income groups – with grants of between USD90 and USD130 per month. Barid Cash, a digital payment systems provider, became one of the disbursement centers of these payments. As G2P recipients visited Barid Cash outlets to collect their grants, the FSP encouraged customers to open mobile payment accounts, and thus, shift from cash to account-based government transfers.

The incentives included the waiving of account opening fees, bundling add-on services such as utilities bill payment and an awareness campaign. At the same time, to catalyze e-wallet opening, Bank Al-Maghrib (BAM) temporarily simplified account opening procedures by allowing customers to open a basic payment account with just their phone number and digitized national ID card.

**LESSON 3**

Collaboration between public and private sector can improve policy effectiveness.

Private-public partnerships and combined efforts between regulators and service providers played an important role in policy effectiveness and dealing with the financial access challenges posed by COVID-19. For example, during the pandemic, policymakers eased capital requirements, reduced refinancing rates, injected liquidity, allowed remote account opening, suspended supervision, deferred some payment obligations (taxes, levies, and others), conducted financial education and took other measures. At the same time, the private sector developed digital marketplaces to substitute physical ones, swiftly rolled out digital means of transactions, facilitated government-to-people (G2P) payments (pensions, live-support payments, and others), increased transaction limits, waived fees, safeguarded agents and implemented other measures. Collectively, such measures helped to substitute cash-based transactions with digital ones rapidly, thus providing support to households and businesses during lockdowns. In some jurisdictions, it boosted account opening by as much as fourfold. Some examples of collaboration between public and private sectors during the ‘mitigation’ phase of the pandemic are enumerated below.

> **In June 2020, Malaysia issued its fourth economic stimulus package, named the Pelan Jana Semula Ekonomi Negara (PENJANA) or National Economic Recovery Plan. One of the initiatives under PENJANA is the ‘ePENJANA initiative’, through which the Malaysian government aimed to encourage consumer spending in a safe manner through contactless payments. According to the Malaysian Ministry of Finance, approximately 15 million people could benefit from ePENJANA. Through this initiative, the government provides MYR50 (USD12 as of September 2021) worth of credits to be used for purchases through the selected e-wallet service providers. At the same time, the selected e-wallet service providers offer additional incentives worth the same amount through vouchers, cashback and reward points.**

The Moroccan government released an emergency fund – aimed at supporting low-income groups – with grants of between USD90 and USD130 per month. Barid Cash, a digital payment systems provider, became one of the disbursement centers of these payments. As G2P recipients visited Barid Cash outlets to collect their grants, the FSP encouraged customers to open mobile payment accounts, and thus, shift from cash to account-based government transfers.

The incentives included the waiving of account opening fees, bundling add-on services such as utilities bill payment and an awareness campaign. At the same time, to catalyze e-wallet opening, Bank Al-Maghrib (BAM) temporarily simplified account opening procedures by allowing customers to open a basic payment account with just their phone number and digitized national ID card.

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The state of the financial markets has been affected by the COVID-19 pandemic. The drive to increase uptake and usage of DFS, respond to the urgent needs to MSMEs and mitigate the effects on vulnerable groups have implications for the dimensions of financial inclusion falling under ‘quality’.

These include issues related to protecting the rights of customers and advancing their understanding of financial products and services, monitoring market conduct, and expanding competition to deliver more affordable and convenient financial services.

AFI members have tackled policy challenges in these areas posed by COVID-19 and the key emerging lessons related to quality are discussed below.

**LESSON 1**

Enhanced security and resilience of the digital payments and technology infrastructure is needed to manage risks from rapid digitalization seen during COVID-19.

The awareness that financial services aimed to address financial inclusion challenges are becoming vulnerable to cyber threats was reinforced during COVID-19. The rapid growth in DFS and sudden transition to remote working arrangements created new vulnerabilities for financial institutions as well as their customers. The risks were even greater for smaller microfinance institutions (MFIs) and FinTechs who may not have robust cybersecurity and data protection systems in place. Low-income populations have low tolerance for error regarding their money and can revert to cash when faced with disappointing user experiences or breaches of trust. Any serious fraud or systemic attack that affects customer confidence could damage the hard-won gains in financial inclusion. A BIS study\(^\text{35}\) found that the financial sector was hit by hackers relatively more often than other sectors during the COVID-19 pandemic, and although this has not yet led to significant disruptions or a systemic impact, substantial risks remain.

AFI members responded to these heightened risks by providing enhanced guidelines and directives to financial institutions on cybersecurity and fraud management. Examples are as below.

> The Reserve Bank of Zimbabwe (RBZ) instructed banks to review their preparedness for cyber threats and update their cyber risk policies in light of accelerated digitization and remote working arrangements due to COVID-19. Banking institutions were also alerted to remain vigilant about cyber threats and activate appropriate risk management responses as well as conduct ongoing consumer education campaigns\(^\text{36}\).
State Bank of Pakistan (SBP) introduced their Measures to Enhance Cyber Resilience Amid COVID-1937, advising financial institutions to enhance due diligence and implement stronger and robust cybersecurity measures to counter cyber risks associated with remote access functionality. These included, for example, immediate establishment of Cyber Threat Intelligence Units (CTI-U) and Emergency Response Teams (ERTs), review of security policies, and enhancement of existing monitoring capabilities with special focus on VPN connections, remote user authentications and externally exposed systems logs.

LESSON 2

Non-bank financial institutions serving the disadvantaged are more vulnerable to systemic risk during a crisis.

On the supply-side, the major risk of systemic financial sector crisis or collapse of major institutions, which could drastically set back financial inclusion, has so far been prevented. However, financial institutions that serve low-income and other disadvantaged groups have emerged as more vulnerable during this crisis. In countries with many traditional non-bank financial institutions such as microfinance, their limited organizational capacities and ability to fund investments in digital channels led to interruptions of services. Village savings and loans associations (VSLAs), savings and credit cooperative organizations (SACCOs) and similar providers were particularly hard hit, disrupting financial lifelines of vulnerable groups, particularly women, when they needed support most.38 Additionally, many of the daily wage workers, microenterprises and entrepreneurs may not be able to repay their loans as their incomes have dropped. Governments and regulators have launched several interventions to support MFIs in not only managing the short-term liquidity crunch (due to delays in loan recoveries) but also to accelerate their digitization. Examples are specified below.

Central Bank of Egypt’s (CBE) program aimed at digitization and formalization of gameya39 rural savings groups in the country is intended to bring women savers into the formal space in ways that feels organic40. The program uses a bank-led model of DFS, capitalizing on existing mobile payments regulations and applying simplified KYC regulations.

Bangladesh Bank (BB) launched a refinancing scheme of USD357 million, aimed at MSMEs and farmers. The funds are made available at subsidized rates to commercial banks for lending to the MFIs. MFIs are expected to provide these funds at a concessionary rate to clients and are not permitted to impose any additional charges except fees for admission, passbooks, loan forms, and non-judicial purposes41.

The Central Bank of Nigeria (CBN) launched its Targeted Credit Facility (TCF), which is a NGN50 billion (USD138 million as of September 2021) stimulus program for MSMEs as well as households affected by the pandemic. The funding is being disbursed through NIRSAL Microfinance Bank, which is minority-owned by CBN’s Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL). The annual interest rate on the loans issued under the Facility will be nine percent, with a one-year term. The maximum loan size is NGN25 million (USD61,000 as of September 2021) for MSMEs and NGN3 million (USD7,300 as of September 2021) for households42.

39 A group of people monthly pitches in a fixed amount of money to a pot, and everyone takes turns taking home all of the money at the end of each month. The practice is also called rotating scoring and credit associations (ROSCA).
42 TrueTellsNigeria. 2021, “CBN 50bn For NIRSAL Loan: See Requirements And How To Apply.” 21 April 2021. Available at: https://truetellsnigeria.com/2021/04/21/cbn-50bn-for-nirsal-loan-see-requirements-and-how-to-apply/
Inclusion of disadvantaged groups needs to be explicitly addressed during policy development.

With more population segments facing hardships, policy impacts to vulnerable groups such as MSMEs, unbanked or underbanked women and youth, and FDP should be considered during development stages to ensure outcomes include better financial inclusion for all.

Although research into the differentiated impact of COVID-19 on different population groups is still emerging, the evidence base suggesting that existing inequalities have been exacerbated by the crisis is mounting.

A study across eight countries, for example, found that COVID-19 has left women feeling more vulnerable and exposed to financial risk, with the ratio of women confirming this standing at 67 percent for emerging economies.

Explicit policy measures may thus be needed to mitigate the particular impacts of the crisis faced by these segments. Some examples of countries that introduced measures targeting disadvantaged groups during the crisis include:

- **Egypt’s National Council for Women** launched a COVID-19 response program to increase women’s financial inclusion in rural areas through the scale up and digitalization of VSLAs which have an outreach of over 120,000 Egyptian women.

- Several countries such as Kazakhstan and Kenya have included youth employment schemes in their budgets and COVID-19 economic stimulus packages for 2021.

- **Chad** established a Youth Entrepreneurship Fund in May 2020, committing 0.6 percent of non-oil GDP for youth support measures.

The Government of Eswatini introduced a E650 (SZL650 or USD45.11 as of September 2021) subsidy on COVID-19 tests for informal crossborder traders, most of whom are women who often solely rely on income from this trade. The costs of a COVID-19 test certificate were proving prohibitive for them.

With this subsidy, the cross-border traders would pay a minimal fee of E200 (SZL200 or USD13.88 as of September 2021) for the test, on the condition that they are included in the weekly travel list to be submitted to Ministry of Commerce, Industry and Trade by cross-border trade associations.

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In addition to the three dimensions of financial inclusion discussed above, it is also important to recognize the potential of financial inclusion to build resilience to sudden shocks and changes, such as the global COVID-19 pandemic and the ongoing climate crisis.

Lesson 1

Financial services can be harnessed to alleviate adversity caused by catastrophic events and natural disasters.

The COVID-19 crisis has highlighted how vulnerable the global economy is to catastrophic events. At the same time, it shows that people can harness financial services, especially in digital form, to better deal with adversity and economic hardship.

Mobile money payments have surged across SSA as friends and families support each other during the lockdowns caused by the pandemic.

Governments around the world take advantage of previous financial inclusion efforts as they channel emergency support transfer to vulnerable populations using branchless agent banking networks and digital channels.

These financial networks between individuals and between people and the government can be expected to be as useful in enhancing resilience and supporting recovery after future natural disasters as they are during the current public health crisis.

To find out more about AFIs IGF initiatives read:
Promoting Inclusive Green Finance Initiatives and Policies report.
＞ View here

Greening the Financial Sector Through Provision Policies: The Role of Central Banks report.
＞ View here

Savings, credit, insurance, money transfers and new digital delivery channels all provide a financial buffer against climate-driven events like changing weather patterns, cyclones and storm surges, as well as aid in recovery and reconstruction.

Meanwhile, supportive financing for green technologies, like solar-powered home energy systems and cleaner cookstoves, help to mitigate the effects of climate change, and include those at the base of the economic pyramid in the transition to low-carbon economies.48

Retail payments between individuals entail previously unexpected benefits in increasing resilience, especially for low-income households and MSMEs. When faced with impacts of climate change, such as droughts, flooding, or other extreme weather events, households in need of financial support can reach out to friends and family near and far for emergency transfers.

Such informal risk sharing mechanisms do not neatly fit financial market categories: it is insurance but without a premium, it is credit but at zero interest and with contingent repayment terms, and it is a financial network of diffuse reciprocity rather than a transaction between a firm and customers.49

To find out more about AFIs IGF policy read the full Inclusive Green Finance: Survey of the Policy Landscape report here. View here

(To Photo by Maneesh Agnihotri/Shutterstock)

LESSON 2

Financial inclusion policies to enhance resilience need to be gender inclusive and reduce inequities in access.

As discussed above, during the COVID-19 pandemic, financial policymakers turned to digital finance to enhance resilience of the population and the subsequent economic impacts.

In April 2020, regulators in Kenya and several other countries ordered firms to waive transaction fees for low-value mobile money transactions and increased transaction caps and storage limits on e-wallets50.

While the use of DFS is a valuable tool to build resilience against sudden shocks, such as the impacts from the COVID-19 pandemic as well as reducing vulnerability to climate risk, policymakers must remain aware of underlying inequities in access.

50 Njogore, P. 2020, Presentation of the status and outlook of Kenya’s banking sector. CBK Presentation. Available at: https://www.centralbank.go.ke/uploads/presentations/1483113962_PRESENTATION%20OF%20KENYA%5%20BANKING%20SECTOR%20SITUATION%20OF%20OUTLOOK.pdf
The Bangladeshi government used DFS for its COVID-19 relief efforts by channeling unconditional cash transfers in April 2020 through mobile financial services, reaching millions of workers in the informal sector who would otherwise be hard to reach with traditional policy tools. This particularly supported women as they are highly concentrated in this sector.

Similarly, the Indian government uses digital payments to provide a minimal universal basic income of 500 rupees per month to all eligible holders of a no-frills Jan Dhan account.

Women are eight percent less likely than men to own a mobile phone and 20 percent less likely to access the Internet in low- and middle-income countries.

Progress on closing the 9 percent global gender gap in access to finance is uneven across member countries, with a number making significant strides to close their gaps and others seeing their gaps to continue to widen, for example due to lower usage of new digital financial services products relative to men, however we can see that financial inclusion policies, to enhance resilience, need to be gender inclusive and reduce inequities in access.


LESSON 3

There is a strong business case for greening the post COVID-19 response.

There is a clear business case for greening the post COVID-19 response, not only by reducing the risks linked to climate change, but also in terms of returns on investments (ROI).

Additionally, there is the potential for substantial job creation related to green investments and this can be particularly focused on those in the most vulnerable groups, as they will be most impacted by climate change.

Any stimulus packages or investments should undergo adequate gender-sensitive environmental impact assessments (EIAs), to ensure that these are not harmful to the environment and do not further accelerate climate change.

There are also several inclusive green finance (IGF) policies, which can be used when designing the green interventions in relation to COVID-19 recovery. Policies and initiatives aimed at supporting green MSMEs or the resilience building of MSMEs could be integrated into medium- and long-term responses to COVID-19. In these policies, there should also be specific considerations for women-owned or -led MSMEs.

Additionally, de-prioritization of the green elements of COVID-19 recovery, including IGF interventions, might further advance climate change and so also exacerbate the existing risks for the most disadvantaged populations.

IGF efforts should thus be seen as a part of the broader policy responses to COVID-19 and the economic recovery needed during and after this ongoing crisis. Medium- and long-term responses towards economic recovery provide an unprecedented opportunity for financial policymakers and regulators to adopt inclusive green approaches for a green and climate change resilient future.

The responses can and should integrate clear green elements, such as direct green investment and projects, greening requirements for companies that receive support, or a certain percentage of state aid packages being directed to green purposes. They should also be fully intersectional and understand the need to have a gender transformative nature.

AFI’s platform is built on a foundation of peer-to-peer knowledge exchange on practical, gender-sensitive, financial inclusion policy interventions which are effective in supporting members in mitigating the unprecedented impact of the COVID-19 pandemic on the gains of financial inclusion, as well as forging measures to advance financial inclusion in the most vulnerable segments of the population.

The AFI management unit applied this bottom-up approach in collating, devising and imparting capacity to members on effective evidence-based policy responses.

Members have consistently given a high attribution to AFI for their policy and regulatory reforms: the rate stands at over 60 percent as shown by the annual Member Needs Surveys.

This affirms the relevance of AFI’s interventions, and the high commitment of AFI members to advance financial inclusion. More importantly, it validates the effectiveness of AFI’s peer-learning model as an efficient channel for policymakers and regulators to adopt tried-and-tested solutions.

The development of effective financial inclusion policies are known to contribute to the higher level objectives of sustainable access and usage of appropriate financial services by the unbanked or underbanked. The true results of these financial inclusion policies can only be known through continued, consistent, and effective data collection, including the use of the AFI Core Set of Financial Inclusion Indicators.

The results of these policies may not be felt in the short term. As such, it is vital to continuously monitor the progress of policy reforms implementation, assess the effectiveness of these policies and regulations, and examine whether they are achieving their intended objectives.

To find out more about AFI’s regulatory reforms read the Policy and Regulatory Reforms in The AFI Network 2020 report here.

To find out more about AFI’s regulatory reforms read the Policy and Regulatory Reforms In The AFI Network 2020 report here.

> View here

The KEY AFI INITIATIVES, which responded to members’ demand, include:

1. **THE POLICY RESPONSE DASHBOARD** that systematically collated policy responses from the network and availed this information for peer-to-peer knowledge exchange and use in building capacity for members.

2. **POLICY GUIDANCE AND KNOWLEDGE PRODUCTS** in the form of guides and toolkits that focused on key thematic areas that are effective in addressing the impact of the pandemic such as DFS and MSMEs.

3. **IN-COUNTRY POLICY IMPLEMENTATION SUPPORT** through the provision of policy grants and technical assistance on designing and implementing policy responses.

4. **VIRTUAL DIALOGUES** for leaders’ strategic discussions and technical teams’ engagement.

5. **VIRTUAL CAPACITY BUILDING EVENTS** tailored to emerging policy priorities and member needs.
Although the COVID-19 pandemic is still ongoing, regulators and policymakers have begun to look ahead towards recovery. The purpose of this is to ensure that as the world emerges from this global crisis, we are positioned on a path of sustainable and inclusive economic recovery.
AS DISCUSSED IN SECTION 2, COVID-19 has reinforced the necessity of well-integrated and inclusive financial ecosystems if we are to have resilient economies that have the capacity to withstand shocks. The opportunities and lessons generated by the pandemic are producing important policy trends and priorities across the AFI network.

The future outlook is premised on the dimensions listed below.

- Certain segments of the economy and population, such as micro and small businesses, women and other vulnerable groups, have been more severely affected. Recovery and reconstruction measures will need to address the specific needs of these segments.
- Some key policy areas were de-prioritized, or had progress slowed due to nature of the pandemic. These include interoperability, digital infrastructure and IGF. These need to be revived.
- New policy priorities have emerged from the COVID-19 experience. These have great potential to strengthen resilience and accelerate financial inclusion, and as such, need to be developed and supported.

**RECOVERY POLICY PRIORITIES**

Six key policy priorities that encompass the above dimensions have emerged across the AFI network.

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Investments in regulatory technology (RegTech) and supervisory technology (SupTech) and investing in building capacities of financial regulators and supervisors with regard to these solutions.

With the surge in the digitization of financial services and products, and the entry of new players, like FinTechs into the market, central banks and financial regulators are expected to enhance their focus on RegTech and SupTech solutions. COVID-19 has reinforced the need of regulators to have access to good quality disaggregated data to make informed decisions, especially when faced with a crisis or threat to the financial system and economy. There are several aspects to ensuring quality in data gathered. The data must be:

- Accurate
- Precise
- Legitimate
- Reliable
- Consistent
- Relevant
- Comprehensive
- Accessible
- Granular

Investments in technologies that enable robust disaggregated data collection and a timely flow of information, improve predictive supervision, and enhance efficiency of financial sector supervision are thus expected to pick up. These technologies can enable regulators to increase regulatory and supervisory efficiency by rapidly and correctly identifying supply-side and demand-side changes and industry trends, improving consumer protection, complaint handling, and broader redress mechanisms, lower costs of compliance for service providers, and advance the evaluation of policy interventions to assess effectiveness.

These investments can also enhance the ability of central banks and regulators to operate without disruptions during crisis situations, such as those created by COVID-19. AFI members, such as those from Ghana, the Philippines, Rwanda and Mexico, are examples of policymakers starting to invest in robust financial inclusion-related data collection systems (see Box 1 for more details). AFI’s forthcoming Special Report on RegTech and SupTech for Financial Inclusion identifies six areas where RegTech and SupTech innovations can contribute to create inclusive, sustainable and innovation-ready financial ecosystems.
Box 1: AFI Member Examples on REGTECH INITIATIVES:

**Bangko Sentral ng Pilipinas (BSP)** developed an AML/CFT application programming interface (API) data reporting system through their RegTech for Regulators Accelerators (R2A) project. Filipinos can now file complaints through their mobile phones via an app or SMS. Using Natural Language Processing (NLP) and AI/ML technology, the chatbot can accept complaints in English or Tagalog and process them by assigning a case number or classifying them.

**Bank of Ghana (BoG)** implemented a fully integrated financial surveillance system. The system, called ORASS (Online Regulatory and Analytical Surveillance Software), provides a centralized portal to collect prudential data from banks and deposit-taking institutions and manage the licensing and authorization of supervised entities.

**In Rwanda, the Utilities Regulatory Authority (RURA) and National Bank of Rwanda (BNR)** are tracking DFS transactions to track the impact of these dispositions. Separately, the BNR developed an electronic data warehouse (EDW) system. The system automates and streamlines the reporting processes by letting BNR pull data daily from the financial service providers’ systems and opens the possibility for real-time monitoring.

**The Comisión Nacional Bancaria y de Valores (CNBV)** partnered with R2A and tech vendor, Gestell, to develop a new data infrastructure and data storage platform, which can house transactional data submitted by supervised entities through APIs. The new infrastructure strengthens CNBV’s AML supervisory capabilities by increasing the volume, frequency and granularity of AML-related data available for CNBV to retrieve and analyze.
Ensuring digital interoperability between traditional and new FSPs can open avenues for innovation and market development.

Interoperability is one of the major tools to drive account activity, thereby spurring the underbanked population’s access to and usage of a wider range of financial services. In the recovery phase, the trend towards digital interoperability and integration between FSPs, including FinTechs, is expected to accelerate as regulators seek to enhance efficiencies, increase customer convenience and boost scale.

Policymakers and regulators will be seeking ways to proactively foster their digital finance and FinTech ecosystems to better support financial inclusion and sustainable development. These encouraging developments, however, also come with challenges that extend to financial stability, market fragmentation, consumer protection and the risk of financial exclusion. Regulators and supervisors would need to enhance their understanding and capacities on identifying and mitigating the ever-changing risks that arise from integration of FinTech into the financial system.

In this regard, POLICYMAKERS MAY CONSIDER the following steps.

1. **Establish a regulatory framework or guidelines on FinTech:** develop a comprehensive and coherent framework to regulate innovation in the financial technology space. Ensure that the framework adequately balances market growth and innovation, with the need to protect integrity, safety and stability of the financial system.

2. **Set up ‘innovation facilities’, such as regulatory sandboxes:** allow FSPs to test new solutions and services under the regulator’s supervision within a controlled environment. Sandboxes or innovation hubs also provide a channel for regulators to gain insights and track market innovation and assess the appropriateness of existing regulations.

3. **Build institutional capacity:** to increase knowledge and understanding of the latest technological innovations and solutions in order to develop enabling regulatory frameworks.

This would allow regulators to understand and anticipate developments in the markets and emerging risks, and to make proactive adjustments of regulatory approaches and supervisory capacity.
As new business models for digital lending and alternative financing emerge, policies that balance innovation and risks in MSME finance need to be created to meet the liquidity needs of MSMEs during recovery.

Over the past few years, the MSME lending landscape has seen a major shift. Historically dominated by banks and traditional lending processes, the market is now witnessing the entry of new innovative alternative lending platforms, FinTechs, and non-bank financial institutions (NBFI).

The role and market of these new players vis-à-vis meeting the financial needs of small businesses is expected to grow in the post-pandemic world. By leveraging new technologies and information and risk management systems, innovative lending models present an opportunity to meet the credit needs of unbanked and underbanked MSMEs while managing financial sector stability and security.

Thus, regulators would need to prepare the financial ecosystem to integrate these new business models that could aid the revival and recovery of MSMEs. However, regulators would need to balance innovation and risk to protect customers, ensure market conduct etc.

### 3.3 Innovations in Alternative Financing and FinTech for MSMEs

| AFI members that seek to STRENGTHEN THEIR ALTERNATIVE FINANCE ECOSYSTEMS could consider the measures listed below. |
|---|---|
| **1.** | **2.** |
| **Assessment of the impact of COVID-19 on the local MSME sector to identify financing needs, available financing mechanisms (conventional and alternative) and the potential gap that would need to be filled.** | **Analysis to identify mechanisms and providers that could be enabled in order to have the biggest impact in meeting the urgent needs of MSMEs during recovery.** |
| **3.** | **4.** |
| **Doing a risk assessment of the desired landscape and determining the most efficient and least disruptive way to strengthen the regulatory framework to accommodate the additional alternative finance mechanisms while mitigating the identified risks.** | **Ensure that the supporting ecosystem is in place to assist MSMEs in growth and job creation through increased and beneficial access to alternative financing. This is particularly important for women as they face significantly less access to credit compared to men.** |
| **5.** | **6.** |
| **Establishing a feedback loop to determine the impact of extending alternative financing (measurement and evaluation [M&E]).** | ****
It is crucial to collect data and analytics that enable policymakers to gain a deeper understanding of the social and economic outcomes of policy interventions implemented to mitigate impact of COVID-19.

Whilst pandemic-focused policy responses and measures remain ongoing, information on their effectiveness toward mitigating and/or advancing financial inclusion remain unknown, due to a lack of disaggregated data.

A systematic, disaggregated data-driven evidence gathering exercise that helps establish the effectiveness of the different policy interventions and programs would be an important contribution to the policy debates on crisis response and financial inclusion. To achieve this, a mix of supply-side and demand-side disaggregated indicators would be required.

### DATA TO ASSESS POLICY EFFECTIVENESS

**3.4**

#### 1. SUPPLY-SIDE DATA

May include a mix of sex and age disaggregated demographic, social and financial indicators. Example of financial indicators include account ownership and frequency of usage of formal and informal FSPs available in the local market. Social data may include access to health services, food security, cost of living, and changes in household income. Having sex-disaggregated data would be essential to assess how the crisis affected women’s financial inclusion during the crisis.

#### 2. DEMAND-SIDE DATA

Includes quantitative and qualitative financial inclusion data collected through demand-side surveys, focus groups, and structured and semi-structured interviews with users of financial services, including individuals, households, and businesses. The financial inclusion sex and age disaggregated data indicators may include factors such as mobile phone ownership, smartphone ownership, Internet availability and affordability, consumer behavior regarding savings, payments, credit sourcing, remittances, and overall financial resilience.
Renewed vigour in inclusive green finance policies will drive a resilient and sustainable economic recovery.

Every crisis, whether economic or otherwise, can create unexpected opportunities. The current economic crisis allows governments to break with past climate-polluting and gender-blind policies and channel funds to inclusive and sustainable green recovery projects. For example, low oil prices mean that a phasing out of subsidies for fossil fuels is less painful than in other periods, and such measures free funds that cash-strapped governments need more than ever to support vulnerable populations and finance economic recovery. More importantly, central banks and regulators can incorporate climate and sustainability factors into crisis response measures.

While many green finance policies are aimed at large corporations and other actors that are well embedded in the formal financial system, financial inclusion also has a role to play here. For example, MSMEs can be incentivized to invest in more environmentally sustainable technologies and activities, if they can access credit for green projects at favorable rates.

By exploring the synergies between green finance and financial inclusion, policymakers have the opportunity to direct financial flows in ways that address equity concerns and facilitate a transition to a low-carbon economy, all while safeguarding financial stability. Only when financial policy reflects and incorporates all three of the above goals can economic recovery become a catalyst in a larger process of a just transition to an environmentally sustainable economy.

For instance, as part of COVID-19 response, Bangladesh Bank (BB) increased its forex denominated refinancing facility called Green Transformation Fund by infusing an additional capital of EUR200 million (USD237 at of September 2021) to the existing USD200 million to support export-oriented manufacturing businesses to replace assets or upgrade processes to greener technologies.

The facility was originally intended to support transformation of the MSMEs-dominated leather and textile industry of the country but was later extended to all export-oriented manufacturers.

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61 BB. 2020, Refinancing/on lending scheme of USD 200 Million and Euro 200 Million Under Green Transformation Fund, Bangladesh Bank. SFD Circular No. 03. Available at: https://www.bb.org.bd/mediaroom/circulars/gbcrd/jul082020refd03e.pdf
INTEGRATION OF INTERSECTIONALITY AND GENDER INCLUSIVE FINANCE

Reaffirmation towards leaving no one behind and integrating disadvantaged groups into financial sector strategies will be key during recovery.

While the global pandemic has helped spur financial inclusion in some sectors, it also provides an urgent reminder that much more work remains to be done. Financial networks can only be leveraged meaningfully for recovery if all vulnerable populations have access as well as the right products, services and skills to use on an ongoing basis.

There is a risk that policymakers, in the wake of the pandemic, become reticent to reach the most financially excluded because directing emergency funds through digital financial networks can be so much more cost-effective than alternative channels.

Such behavior would exacerbate existing inequalities in income, education, gender and location because financially excluded parts of the population are also likely to be most in need of state support.

However, the COVID-19 pandemic presented the opportunity to TAKE A FRESH LOOK AT FINANCIAL INCLUSION FOR WOMEN AND GIRLS and identify existing and new prospects that regulators and financial policymakers can act upon. Some of these prospects are listed below.

1. Simplifying and enhancing women’s access to identity documents and working with communities to overcome restrictive social and cultural norms can enable women to have the necessary documents to open an account and also the permission of their family and community to do so. Allowing alternative forms of identity documents can also offer the same opportunity to women who cannot access formal identity documents.

2. Enhancing the availability and opportunity to engage with gender transformative financial and digital literacy will help risk-aware women understand the risk versus opportunities of engaging with new products and services that they are presented with.
MITIGATING THE IMPACT OF COVID-19 ON GAINS IN FINANCIAL INCLUSION

3
Allowing for alternative forms of collateral to access credit or alternative credit scoring mechanisms will help close the gender gap in access to finance and enable women to continue to run or even grow their businesses in the months and years to come. These alternative forms of collateral could address structural barriers that are outside of the control of the regulator, such as land and property rights and inheritance legislation.

4
Supporting women to have access to use, and be able to have the permission to use, digital and mobile financial services will allow them to save and access funds nearer to their homes or places of work. Women already face severe time constraints compared to men, and this will improve their ability to access a wider range of products and services.

5
Supporting FSPs with an enabling regulatory environment and incentives and mandating to support vulnerable segments of the population will help facilitate the development of products and services targeted at meeting the needs of these groups more effectively than mainstream services do currently.

6
By tacking all these aspects along with developing effective targets for women’s financial inclusion in National Financial Inclusion Strategies (NFIS) will all work towards a raft of COVID-19 interventions that can help keep women and their businesses financially included.
The global economy contracted 3.5 percent in 2020 due to the economic shock created by COVID-19. Although nearly all countries have been negatively affected, the impact has been higher in emerging and developing economies.\textsuperscript{63} It will take several years for the world’s economy to fully recover from the damage caused by the crisis on household incomes, economic equality, poverty and factors linking to the other SDGs.

\textsuperscript{63} According to the April 2021 World Economic Outlook (IMF), cumulative per capita income losses over 2020-22, compared to pre-pandemic projections, are equivalent to 20 percent of 2019 per capita GDP in emerging markets and developing economies (excluding China), while in advanced economies the losses are expected to be relatively smaller, at 11 percent. IMF. 2021. The IMF’s Response to COVID-19. Available at: https://www.imf.org/en/About/FAQ/imf-response-to-covid-19#Q4
That said, **CLEAR AND IMPORTANT OPPORTUNITIES** for the global community to build towards a more inclusive and sustainable world economy, one that leaves no one behind, have also emerged in this otherwise difficult time. Delivering on the opportunities discussed in this report will require strong collaboration.

This collaboration would need to build upon experiences from the pandemic when national-level stakeholders and the global community collectively responded to the health crisis created by COVID-19. Additionally, the peer-to-peer learning model that delivered practical policy guidance to AFI members during the ‘mitigation’ phase must be further leveraged to accelerate recovery.

Equally, it is vital and necessary that financial regulators are supported to maintain the policy advances that have been realized during the ‘mitigation’ phase, such as macro prudential and micro policy measures that eased proportionate access to DFS, expanded liquidity to banks and financial institutions to facilitate expansion of credit to the productive segments of the economy including the SME sector, and reduced transaction fees, among others.

Gradual and calculated phasing out of these ‘mitigation’ measures will contribute to a sustainable recovery.
COLLABORATION AT NATIONAL AND INTERNATIONAL LEVELS

Due to the cross-cutting nature of the COVID-19 pandemic, with its wide-ranging impact as a health crisis to social-economic ramifications for millions as well as the intersects with financial inclusion, the success of the global response to this crisis requires a holistic approach, enabled through national and international coordination and collaboration.

From the perspective of advancing the financial inclusion policy agenda, these collaborative efforts are needed at both the domestic and international front.

> National coordination and collaboration: an increase in inter-agency collaboration at a national level was observed during the pandemic, arising to deliver coordinated stimulus packages and policy interventions to manage the impact on the economy. These mechanisms were more successful in cushioning the impact of the pandemic not only on the welfare and livelihood of the population, especially the most vulnerable segments, but also on the effectiveness of managing price and financial sector stability.

> International collaboration: the COVID-19 global pandemic has not spared any country in the AFI network. The socioeconomic impact on the regional and global trade and movement of people has been ravaging nations since March 2020. Thus, it necessitated international collaboration to address the impact of the pandemic. From a financial inclusion perspective, the AFI network reinforced its collaborative approach by ensuring that members remain highly engaged, via virtual platforms, and are able to access timely and practical policy guidance from their peers at both the leaders and technical level. The virtual engagement has been useful in ensuring that members are able to connect with other peer regulators and policymakers, not only from the network but also counterparts from advanced economies, and with international stakeholders and standard setting bodies that AFI collaborates with to advance financial inclusion in the network.

International collaboration has also been vital in ensuring that the impetus of AFI members’ towards achieving the SDGs through financial inclusion is maintained and supported with technical resources for appropriate and proportionate implementation of international standards without any unintended consequences that may jeopardise financial inclusion.

These lessons should continue to be reinforced, since neither the network nor the world is over the pandemic. As members traverse into recovery, even more domestic and international collaboration will be required. Members with national financial inclusion coordination mechanisms will be able to effectively accelerate national financial goals in the recovery period. It is therefore important that AFI continue to support its members to reinforce or implement effective national financial inclusion coordination and also engage with global stakeholders to advance cooperation at the international level.
Peer-to-peer exchange will remain critically relevant and important post-COVID-19, as regulators and policymakers strategize to help individuals and businesses recover in their jurisdictions and improve institutional preparedness for future crises.

The AFI network can play a CENTRAL ROLE IN THIS EXCHANGE THROUGH ITS WELL-ESTABLISHED AND MEMBER-LED APPROACH by supporting members in the following areas:

1. **ENABLING EXCHANGE**
   AFI’s member engagement channels such as the Working Groups and Regional Initiatives and Gender Inclusive Finance Committee would be leveraged to enable the exchange of experiences, lessons and challenges among members. Using a hybrid approach, AFI would also complement these channels with targeted technical and high-level technical policy dialogs and forums. Where there are topics of mutual convergence and value, partners from developed countries and the private sector would also be invited.

2. **CONSOLIDATING LEARNINGS**
   It will also be important to systematically capture, collate and disseminate lessons and learnings that have emerged from measures already implemented by members during the ‘mitigation’ phase as well as potential solutions for recovery in order to build institutional knowledge and capacity across the network. These insights would be distilled into practical gender-sensitive policy guidance and knowledge products. Furthermore, capacity building activities - virtual as well as physical - would be designed around priority technical areas and member needs.

3. **SUPPORTING POLICY IMPLEMENTATION**
   The AFI network would seek to boost resources and support for members to implement country-level financial inclusion policies. This support would be much needed post-COVID, as many members are expected to experience pressure on fiscal resources in the short term. By providing in-country implementation support in the form of grants and technical assistance to members, AFI would seek to encourage its members to continue devising and delivering gender-sensitive policies for an inclusive and sustainable recovery.

4. **STRENGTHENING THE GLOBAL VOICE**
   Given that COVID-19 has reaffirmed the importance of financial inclusion for building resilient economies, AFI would enhance members’ voices on global forums to maintain momentum on the financial inclusion agenda. This would also include engagement with relevant Standard Setting Bodies (SSBs) to ensure that the post-COVID global regulatory environment supports promotion of innovative financial inclusion in developing and emerging economies.
GLOSSARY OF TERMS AND ABBREVIATIONS

AI  
Artificial Intelligence

AI/ML  
Artificial Intelligence (AI) and Machine Learning.

AML  
Anti-Money Laundering

API  
Application Programming Interface

BIS  
Bank for International Settlements

BNM  
Bank Negara Malaysia

BNR  
National Bank of Rwanda or Banque Nationale du Rwanda

BoG  
Bank of Ghana

CBN  
Central Bank of Nigeria

CEMC  
Consumer Empowerment and Market Conduct

CFT  
Countering the Financing of Terrorism

CNBV  
Comisión Nacional Bancaria y de Valores de México

CTI-U  
Cyber Threat Intelligence Units

DFS  
Digital Financial Services

DRC  
Democratic Republic of Congo

EDW  
Electronic Data Warehouse

EIA  
Environmental Impact Assessment

e-KYC  
Electronic Know Your Customer

ERT  
Emergency Response Teams

FDP  
Forcibly Displaced Persons

FinTech  
This can refer to an organization that innovates financial technology or the financial technology itself

FIS  
Financial Inclusion Strategy

FPX  
Financial Process Exchange

G2P  
Government to People

GSM  
Global System for Mobile Communications

IGF  
Inclusive Green Finance

ILO  
International Labour Organization

KYC  
Know Your Customer

MASFAMU  
The government of Angola’s Ministry of Social Action, Family and Women’s Promotion

MSME  
Micro, Small and Medium Enterprise

NBFIs  
Non-bank Financial Institution or Institutions

NFIS  
National Financial Inclusion Strategy or Strategies

NIRSA  
Nigerian Incentive-based Risk Sharing System for Agricultural Lending

PFIP  
Pacific Financial Inclusion Programme

POS  
Point-of-Sale systems

QR  
“Quick Response” as in Quick Response or QR Code, a barcode of pixels set in a square grid

R2A  
RegTech for Regulators Accelerators

RBF  
Reserve Bank of Fiji

RegTech  
Regulatory Technology

ROSCA  
Rotating Scoring and Credit Associations

RURA  
Rwanda Utilities Regulatory Authority

SACCO  
Savings And Credit Cooperative Organization

SAN  
Shared ATM Network

SBP  
State Bank of Pakistan

SDG  
Sustainable Development Goals

SME  
Small and Medium Enterprise

SSA  
Sub-Saharan Africa

SSB  
Standard Setting Bodies

SupTech  
Supervisory Technology

TCF  
Targeted Credit Facility

VPN  
Virtual Private Networks

VSLA  
Village Savings and Loans Associations
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