POLICY MODEL FOR MSME FINANCE

POLICY MODEL

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BACKGROUND CONTEXT

AFI's membership council, at their Annual General Meeting of 2015 in Maputo Mozambique, endorsed the Maputo Accord on Small and Medium Enterprise Financing recognizing the importance of MSMEs in driving economic growth, employment creation and their contributions to broadening sustainable financial inclusion and poverty reduction at the household level, especially through micro-enterprises.

AFI members underscored the barriers that micro, small and medium enterprises (MSMEs) encounter in accessing and using formal financial services, which include among others, a lack of capacity to start businesses, lack of collateral to access funding, financial education, and inadequate use of technology. In addition, a lack of clear and supportive policies to harness women and youth MSMEs through access to finance has been a critical challenge to achieving the goal of inclusive finance for growth. To address these policy challenges, AFI established the SME Finance Working Group (SMEFWG) to share the insights and experiences of members and better support the development of MSMEs.

Through a bottom-up approach and peer learning, the SMEFWG has for almost a decade produced knowledge products on different aspects of the MSME finance ecosystem to provide members with practical tools to address barriers of MSME finance through policy interventions. To support its members on MSME finance, the AFI Management Unit has also conducted several capacity building programs and peer-exchanges for technical staff and high-level officials from the membership to examine MSME finance from peers in the network. This body of knowledge has been collated and codified into principles and best practices from the network to form this Policy Model on MSME Finance.

OBJECTIVE

The objective of this Policy Model is to guide members through a set of principles and the key elements to be considered in developing or reviewing their MSME finance policies. The principles are derived from the compilation of best practices from the AFI network, complemented by insights from other international stakeholders in MSME development.

SCOPE AND APPLICATION

This MSME Policy Model encompasses six pillars for members to consider when formulating or revising their MSME finance policy. In each of the pillars, there are generic principles which can be voluntarily adapted by AFI members according to the unique contexts of their countries and in following assessments of prevailing policy needs.

The six pillars are as follows: Legal and Regulatory Infrastructure, MSME Access to Finance Policy, Credit Infrastructure, Alternative Finance Infrastructure, Market Efficiency and Priority Sectors. Some of the pillars convey the links with demand-side issues to accelerate better access to finance. Therefore, they require interventions from other agencies with different mandates on MSME development.

MSME FINANCE POLICY MODEL

SUMMARY OF THE MSME FINANCE POLICY MODEL

These six pillars highlight the minimum policy guidance for developing an MSME Finance Policy. Each pillar is covered by specific guiding principles that are derived from the AFI network's best practices and their codification from several knowledge products issued over the years by AFI's SME Finance Working Group. Other international best practices are also embedded in these guiding principles.

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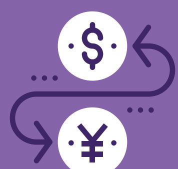

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PILLAR 1: LEGAL AND REGULATORY INFRASTRUCTURE

This section details the guiding principles for the establishment of a legal and regulatory infrastructure that is conducive to an efficient and effective MSME finance jurisdiction.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
LEGAL & REGULATORY FRAMEWORK	MSME finance regulations should be implemented to facilitate effective and proportionate MSME access to finance	> An enabling legal and regulatory environment for MSME finance that considers the nature of MSMEs in their jurisdiction and which helps to promote, support, and encourage their growth and development in all productive sectors of the economy. > A regulatory regime that provides a clear definition of MSMEs with the thresholds for lending by FSPs to facilitate effective finance to the sector.
DEFINITION OF MSMEs	Provide a clear definition of MSMEs	> A standardized national definition of MSMEs is important in reducing overlap and any inconsistencies in lending to the MSME sector, which will also help in streamlining effective delivery of credit. > The application of key parameters to define MSMEs such as the number of employees, sales turnover and asset size, will facilitate transparent implementation by FSPs. > A common definition of MSMEs also contributes to aligning the visions from public and private sector actors, including harmonizing data collection.

COUNTRY CASE: REDEFINING MSMES IN FIJI

Fiji's MSME redefinition applies across all sectors and incorporates two main parameters, annual sales turnover and total assets. The new definition excludes the number of employees. The new definition of the MSME structure is as follows:

- **Micro enterprise:** Turnover or total assets of less than USD50,000;
- **Small enterprise:** Turnover or total assets between USD50,000 and USD300,000;
- **Medium enterprise:** Turnover or total assets of above USD300,000 up to a maximum of USD1.25 million.

An "enterprise" means any going concern that trades in goods or services for profit.

"Total assets" means any assets that belong to an enterprise.

"Turnover" means annual sales of goods and services.

Source: Reserve Bank of Fiji, 2020.

PILLAR 2: MSME FINANCE POLICY

This section focuses on the key regulatory and policy principles that need to be considered when developing an inclusive MSME Finance Policy that includes access, financing, payments and monitoring and evaluation.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
MSME FINANCE POLICY	Develop and implement appropriate policy measures for effective MSME finance	> Identifying clear measures that address the regulatory and non-regulatory barriers for MSME access to finance is imperative when designing appropriate MSME finance policies. > Robust policy statements that encompass among others, alternative finance options, will enrich the scope of MSME access to finance. > Articulating policies for impact assessments will enable the MSME finance policy to be dynamic in responding to changes in the market. > Designing and implementing policies that consider proportionality will enhance the provision of finance to MSMEs by FSPs, which are impeded by stringent prudential requirements, thus de-risking the MSME sector. > Policy statements that include fiscal policy issues, such as taxation of MSMEs and other incentives, will expand the growth and sustainability of MSMEs. > Clarity on the roles and responsibilities of key stakeholders in the MSME sector will enhance the efficiency of access to finance for MSMEs.
	Develop an effective enforcement strategy for MSME finance	> Clearly articulated strategies to enforce the SME finance policy will ensure effective implementation of regulatory and supervisory measures.
	Ensure MSMEs have better access to finance or credit by addressing regulatory barriers that impede FSPs lending to MSMEs	> Addressing the challenges of Basel III requirements with transparent regulatory provisions will enable FSPs to increase and expand access to finance for MSMEs. > Considering the range of regulatory incentives commensurate to market conditions, such as lowering the provisioning ratio of unclassified loans to MSMEs and liquidity requirements, will enable access to cost-effective loans for MSMEs.
	Confirm that effective credit processes are in place	> Regulations to simplify loan processes and documentation will make it more efficient and easier for MSMEs to access credit from FSPs.
	Consider, where appropriate, the provisioning of quotas for FSPs to finance MSMEs	> Regulations that encourage the allocation of lending quotas for the MSME sector from the total FSP lending portfolio will promote the MSME sector or specific priorities of MSMEs.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
MSME FINANCE POLICY *continued*	Ensure that appropriate policies are developed for target-based lending	> Disproportionately excluded groups require specific policy interventions as they face diverse challenges in accessing finance. This includes women and youth-owned MSMEs, small and medium agri-firms, and other MSMEs vulnerable to climate change risks.
	Establish guidelines on appropriate finance and lending thresholds for MSMEs	> Assigning appropriate lending thresholds to MSMEs will enhance their finance requirements and facilitate growth of the sector.
MSME ACCESS TO FINANCE POLICY	Confirm that policies include the payment needs of MSMEs in the design of and provision of payment system services	> Appropriately designed payment services for MSMEs will make them more efficient and effective in meeting their credit obligations to FSPs as well as servicing their customers, thus enabling a sustainable MSME business venture. > Properly designed and used payment systems not only increase the operational efficiency of MSMEs but also build-up their digital footprint, which can be connected to alternative credit assessment/scoring, which in turn, addresses some of the barriers faced by MSMEs when accessing finance.
	Develop policies to MSMEs adopt digital payments	> Digital payments to address payment speed, efficiency, risk protection, and the user experience which can deliver significant opportunities allowing MSMEs to optimize their business operations. > Regulators can work with providers to reduce the cost of digital payment transactions, the development of a digital payment infrastructure for micropayments and facilitating innovations such as remote payments, near-field communication (NFC), and QR code payments, among others. > Regulators should work more with industry stakeholders to create an efficient digital payment infrastructure that is safe and inclusive. > Industry consultations and engagement through platforms such as a regulatory sandbox, innovation hubs, etc. to facilitate the creation of innovative payments solutions that are suitable to the needs of MSMEs.
	Provide policy incentives to encourage the adoption of digital payments by MSMEs	> Tailoring digital payments and providing incentives for the use of such digital services by MSMEs will increase access to finance to the sector. > Regulators should ensure that the pricing for various DFS transactions is fair, transparent and provides positive incentives for customer adoption, industry consultations and engagement, thereby facilitating innovative payment solutions. > Encouraging cost-effective payment systems through an enabling environment that encompasses competition, the interoperability of tax incentives and wide network coverage, will enhance the use of digital services by MSMEs.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
MSME ACCESS TO FINANCE POLICY *continued*	Ensure that interventions maintain a level playing field	> Providing policies and regulations that minimize market distortions by ensuring that some FSPs or MSMEs do not have an unfair advantage over others will facilitate fair competition and a level playing field. > Risk mitigations need to be considered on the drawbacks of subsidized interest rates that require rationed credit and political considerations.
MONITORING AND EVALUATION OF MSME POLICY IMPLEMENTATION	Confirm that policies use harmonized and standardized performance indicators and measurements	> An industry harmonized approach to data collection will enable effective monitoring and evaluation of the performance of the MSME sector and the development of informed policies. (Refer to AFI's Guideline Note No. 16: SME Financial Inclusion Base Set, Sept. 2015)

COUNTRY CASE: OPERATIONALIZATION OF THE PAYMENT INFRASTRUCTURE DEVELOPMENT FUND (PIDF)

The Reserve Bank of India created a Payments Infrastructure Development Fund (PIDF) to provide all Indian merchants with digital payment acceptance touchpoints by deploying point of sales (POS) infrastructure in tier 3 to tier 6 centers and northeastern states. The subsidy incentive is on a reimbursement basis with a maximum physical subsidy of INR10,000 and a INR500 one-off operating cost. The maximum subsidy cost for digital acceptance devices is INR300 (including a one-off operating cost of up to INR200).

Source: Reserve Bank of India, 2020.

COUNTRY CASE: SPECIAL FUNDS FOR SMES IN MALAYSIA

Bank Negara Malaysia (BNM) has been facilitating financing to eligible SMEs since 1993 through various direct and special funds at reasonable costs. BNM channels the funds to participating financial institutions (PFIs) comprised of banking institutions and development financial institutions at a lower cost which allows the PFIs to lend to eligible SMEs at below market rates at 4-6% per annum.

Source: AFI, Guideline Note 23, 2016.

PILLAR 3: CREDIT INFRASTRUCTURE

This section highlights the key guiding principles that facilitate MSME access to finance and avenues for MSMEs to seek assistance in the event of financial difficulties.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
CREDIT INFORMATION	Establish clear indicators for credit information	> Credit information systems in jurisdictions that include MSMEs helps to expand the scope of MSME credit ratings, thereby creating an efficient lending market. > Including other types of indicators, such as socio-economic factors and digital footprint data expands the credit assessment for MSMEs.
	Ensure regulators and FSPs have the appropriate capabilities to assess credit information	> Adopting policies to build institutional capacity and skills will ensure that the MSME sector accesses finance through a wide range of innovative lending options that utilize technological advancements such as big data and artificial intelligence. Likewise, the use of technologies with increased regulatory capacity can result in a more cost-effective regulatory regime for the sector.
	Provide policy guidance on alternative credit scoring	> The adoption and use of alternative data sources for credit assessments and scoring for MSMEs, especially in their use of digital payments and platforms (the data points may include, utility payments, e-commerce purchases, social media, and psychometric information).
	Establish market conduct and consumer protection policies	> Implementing policies and regulations for market conduct oversight of FSPs in the provision of finance to MSMEs is the key to ensuring the sector is protected against inappropriate credit market practices and any misuse of data belonging to MSMEs and their customers.
CREDIT GUARANTEE SCHEMES	Create a legal and regulatory framework for Credit Guarantee Schemes (CGS)	> Establishing CGS encourages FSPs to expand the provision of credit to MSMEs. > The legal setup of CGS varies according to jurisdictions, ranging from independent legal entities to dependent units in a government or regulatory authority. A key consideration should be ensuring that CGS have adequate funding, risk mitigation systems and effective governance in place.
	Develop a clear mandate on CGS and a comprehensive enterprise risk framework	> Risk mitigation provisions for CGS ensure they function effectively, this includes policies for exposure limits to guarantees (MSMEs).
	Ensure a fair and transparent process for FSPs to access CGS	> Clear eligibility criteria, transparent processes, a consistent risk-based pricing policy as well as a consistent claim management process will enhance the effectiveness of CGS, thereby facilitating access to finance for MSMEs.
	Establish effective performance management frameworks for CGS	> Ensuring effective performance management of CGS through monitoring and evaluation will help to measure their impacts in expanding access to finance for MSMEs.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
PRE-SHIPMENT EXPORT FINANCE GUARANTEE (PEFG) SCHEME	Where necessary, establish a Pre-shipment Export Finance Guarantee (PEFG) scheme	> The provision of a PEFG depends on the country's priorities in expanding exports from its MSME sector, thus a well-established PEFT will help achieve this objective, ensuring that MSMEs in the export industry can access short-term working capital to finance their export transactions.
	Ensure PEFG schemes are well-designed to mitigate the risk of excessive costs to MSMEs	> A well-designed PEFG will provide cost-effective guarantees to FSPs that help to mitigate excessive transaction costs or burdens to export-based MSMEs through guaranteed fees.
	Ensure PEFG schemes have equitable and transparent access to MSMEs	> Providing transparent and equitable criteria to access PEFGs enables wider outreach for export-based MSMEs in a jurisdiction.
	Ensure PEFG schemes have the capacity to mitigate relevant financial risks through appropriate capital	> A PEFG that is effectively capitalized and has established risk mitigation management systems to cover the defaults of guaranteed exporters (MSMEs) will establish trust with FSPs and sustain the goal of promoting the export business of MSMEs.
SECURED TRANSACTION INFRASTRUCTURE	Develop policies to pass secured transaction legislation and establish movable collateral registries	> An integrated legal framework for secured transactions needs to be accompanied by a modern collateral registry for movable and intangible assets to facilitate MSMEs access to finance since collateral is a key barrier.
	Establish clear procedures to create and enforce security interests in movable property	> Enforcement of secured transactions on movable collateral, clearly defined legal processes, adjudication and foreclosure will encourage FSPs to lend to MSMEs.

COUNTRY CASE: TUNISIA'S EXPERIENCE WITH PEFGs

In 2000, a USD5 million PEFG facility in Tunisia was established under the World Bank-supported Export Development Project. This project provided technical assistance and advice in the early stages of the development of the facility, mainly to make Tunisian counterparts aware of best practice pre-shipment export finance guarantees worldwide, and to advise on the operational, managerial and skills requirements to implement the facility. The scheme was administered by the Export Insurance Agency (COTUNACE). The facility design was simple: it guaranteed up to 90 percent — with an average of 50 percent — of non-performance risks associated with pre-shipment export loans made by participating banks to emerging and small exporters (ESEs) with maturities of up to 180 days. A premium of 0.15 percent per month was paid by the borrowers; the premium was set at this level to ensure it did not constitute a major financial burden on exporters.

Source: AFI, Guideline Note 36, 2019.

COUNTRY CASE: COSTA RICA'S MOVABLE GUARANTEES ACT

In 2014, Costa Rica passed the Movable Guarantees Act with implementation beginning the following year. Through this new Act, a "National Registry" was formed, administered by a government agency for moveable guarantees, to increase access to finance, expand the categories of assets for collateral, create a standard and simplified system for transaction security and form a secured transaction system. Movable guarantees were bound by contracts or a provision of this law that cover inventory, equipment and any other current assets, including rights, accounts receivables and all the movable property of the secured debtor.

Source: AFI, Guideline Note 23, 2016.

PILLAR 4: ALTERNATIVE FINANCE INFRASTRUCTURE

This pillar covers guiding principles to develop policies that promote alternative finance for MSMEs using innovative technologies and business innovations. The dynamics of the digitization of payments, business delivery and commerce have opened avenues to expanding the infrastructure for alternative access to finance which can be harnessed to finance MSMEs.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
ASSET AND ACCOUNTS RECEIVABLE-BASED FINANCE	Develop a leasing policy to support MSMEs	> The proper policies and regulations will allow MSMEs to access financing by leasing or hiring an asset (equipment enables MSMEs to increase their productivity since most are under-capitalized and may not be able to afford assets or equipment in their early stages or for a considerable time). > An enforceable legal regime for leasing/hire-purchase contracts and financing by FSPs is necessary to encourage them to offer this service to MSMEs.
WAREHOUSE RECEIPT	Develop a warehouse receipt policy to support MSMEs access to finance	> Legal regimes (regulations) that facilitate warehouse receipts by securing the loans of MSMEs using their commodities, especially for agri-firms, will expand access to finance for the MSME sector. > The provision of clear policies and guidance on constructing and managing warehouses to secure the storage of commodities, which includes a receipting system for the owner of such commodities, offers MSMEs an alternative asset to obtain financing. > Enforceable regulations and supervisory regimes should be implemented by the financial regulator on the capital and securities market to ensure that the warehouse receipt mechanism is efficient and without undue risk to the MSME market and the financial sector in general.
CROWDFUNDING	Develop a regulatory framework for a crowdfunding and peer-to peer (P2P) lending	> Policies and the regulatory regime should allow external fundraising from sources other than FSPs for MSMEs and other businesses. Digital technology and the internet can be used for crowdfunding and P2P lending. > Ensure clear and enforceable supervisory and regulatory regimes to prevent crowdfunding platforms or any borrowings from being misused by the providers or MSMEs. > Policies supporting stakeholder collaborations must enhance the effectiveness and efficiency of crowdfunding and P2P lending in the jurisdiction and encourage potential sourcing of external funding outside the jurisdiction.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
CROWDFUNDING *continued*	Ensure that policies are developed to mitigate any potential and emerging risks of crowdfunding	> Effective risk mitigation measures that deal with potential or emerging risks from crowdfunding and P2P lending will build trust in the market and the sustainability of this alternative credit mechanism. > Policies to monitor risk and regulatory gap analysis will enable the market to remain up-to-date with any changes in the risk profiles of new technologies, products, and services.
	Create policies to promote digital financial literacy	> Awareness and digital literacy enhance trust, confidence and the use of digital platforms, including technology-based alternative credit mechanisms such as crowdfunding and P2P lending.
	Ensure appropriate regulation for market stability and consumer protection	> A robust and proportionate regulatory regime for technology-based alternative credit mechanisms (crowdfunding and P2P lending) is important as there is the potential for domestic MSMEs to access international sources of funding. Without appropriate risk measures, this may cause market shocks impairing financial stability and effective market conduct. > Policies that encourage domestic and international collaboration among regulators will enhance risk mitigation in this technology-based alternative credit mechanism.
	Implement policies to establish an innovation office/hub to facilitate regulator-innovator engagement and learning	> The development of innovation hubs and regulatory sandboxes that test a wide range of technologies and innovations will enhance domestic adoption, implementation and regulation of technology-based alternative credit mechanisms such as crowdfunding and P2P lending.

COUNTRY CASE: MEXICO'S FINTECH LAW

In 2018, Mexico became the first country in Latin America to introduce a Fintech Law, a legislative framework covering a wide scope of fintech activities, including crowdfunding. The law was prompted by the rapid growth of these activities in recent years. For example, the alternative finance industry in Mexico (including balance-sheet lending and crowdfunding models) increased more than sevenfold from 2015 to 2016, while P2P consumer lending market volumes expanded by 90 percent in 2017.

Source: AFI, Survey Report on Fintech for MSME Access to Financing, 2021.

PILLAR 5: MARKET EFFICIENCY

This pillar highlights key guiding principles for the development of other cross-cutting issues that can enhance the market's efficiency in providing lending to MSMEs in addition to equitable access and use of such FSP services by the MSME sector. These cross-cutting issues include cross-agency coordination and collaboration, information asymmetry, institutional capacity, consumer protection and the market supply-chain.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
COORDINATION AND COLLABORATION	Create policies to establish a coordination structure for the effective development of a MSME ecosystem	> The development of the MSME sector involves multiple stakeholders, from the public and private sectors. Therefore, clear guidance to establish coordination and collaboration structures to steer national goals and interventions for the MSME sector is very important. > A governance structure with clear leadership/ champions covering specific MSME sectoral issues, such as financial matters, will enhance MSME access to finance. > Establishing a cross-agency oversight or monitoring structure will ensure that national financial inclusion actions relevant to MSMEs are effectively implemented.
INSTITUTIONAL CAPACITY AND UPSKILLING	Develop policies to encourage the development of institutional capacities and skills in the MSME sector	> Most MSMEs lack the effective institutional capacity to start or run businesses. This is further exacerbated by inadequate financial literacy, digital literacy and technological capacity. Implementing policies that build the capacity and skills of MSMEs will enhance MSME finance. > Regulatory and supervisory capacity should also be strengthened so that the MSME sector is adequately and proportionately regulated ensuring inclusive access to MSME finance.
	Develop policies to adapt regulatory and supervisory technology	> As FSPs continue to adopt dynamic innovations and technologies when lending to the MSME sector, financial regulators must invariably enhance their regulatory and supervisory technology capacities to effectively regulate the MSME market.
CONSUMER PROTECTION	Create policies to balance the intervention of protecting MSME rights and maintaining productive capacity	> Assistance must be provided to support viable MSMEs in all economic sectors with impaired financing or those facing difficulties with financing from multiple banks.
	Develop policies and guidelines to assist distressed MSMEs in turning around their businesses	> MSMEs are more vulnerable to systemic social economic shocks that impair their revenue flows, such as the impact of the COVID-19 pandemic, other crises or climate risks. A mechanism to turn around an MSME business through government stimulus measures, reduced regulatory provisioning or private sector relief will therefore facilitate the sustainability of MSMEs.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
CONSUMER PROTECTION *continued*	Develop policies for debt resolution mechanisms and the rehabilitation of problematic financing accounts	> A mechanism to enable FSPs to provide debt restructuring and appropriate provisioning will provide relief to MSMEs with overdue loans while allowing FSPs to more effectively tackle problem loans in the MSME sector.
	Confirm that an independent redress mechanism is in place	> This mechanism can reduce red tape involving disputes or arrangements between MSMEs and FSPs while maintaining its independence and transparency. It is meant as an alternative to existing measures and does not replace legal action.
PROTECTING CREDITORS' RIGHTS	Develop policies to balance the intervention of protecting creditors' rights and maintaining productive capacity	> Providing certainty on the protection of creditors' rights builds confidence in FSPs when lending to the MSME sector. Consequently, policies should enable FSPs to recover their debts through a process that ensures, where appropriate, that productive MSME loans are restructured.
	Develop clear insolvency laws and regulations that do not undermine MSMEs	> Ensuring proportionate and appropriate insolvencies and winding up of MSME businesses without jeopardizing creditors rights will enhance the MSME finance market. > Efficiency of the court systems arbitration and other alternative dispute resolution mechanisms should be improved to ensure equity and speed up the recovery of debts. > Specialized insolvency proceedings for MSMEs will help to address the peculiarities of the MSME industry.
CRISIS MANAGEMENT AND PREPAREDNESS	Develop policies to guide crisis management and preparedness to support access for MSMEs	> MSMEs are most hard hit in times of crisis which impair their business operations. A crisis may arise from multiple sources, natural calamities, the financial sector or health pandemics such as the COVID-19 pandemic. Therefore, adequate preparedness measures and crisis management for MSMEs will enhance their sustainability. > Such measures may include: (i) macro and fiscal relief through stimulus packages, tax exemptions, etc. (ii) prudential assistance through short-term liquidity, loan moratoriums, adjustments on loan provisioning and minimum capital adjustments, etc. All of this helps to reduce layoffs, and avoid MSME closures and bankruptcies.

COUNTRY CASE: ZAMBIA'S FINANCIAL EDUCATION INITIATIVES

Strengthening financial capabilities and consumer protections were identified as key drivers of financial inclusion in Zambia and formed one of the pillars of the country's National Financial Inclusion Strategy (NFIS) (2017–2022), which launched in November 2017. One of the policy objectives of the NFIS, which specifically focuses on enhancing the financial capabilities of MSMEs, is to build the capacity of FSPs to lend to MSMEs, particularly farmers, and improving the knowledge and awareness of the governance of MSMEs and their cash flow management.

Source: AFI, Financial Education for MSMEs, 2020.

COUNTRY CASE: GHANA

The Ghana Covid-19 Alleviation and Revitalization Enterprise Support (CARES) program is part of the Government of Ghana's initiative to revitalize the country's economy and help MSMEs recover over three-year period in two phases: (i) The Stabilization Phase (July-end 2020) focuses on mitigating the impacts of the pandemic in parallel with the Coronavirus Alleviation Program; and (ii) The Revitalization Phase (2021-2023) which concentrates on the agricultural sector targeting educated youth, the light manufacturing sector, engineering/machine tools and the digitalized economy, among others.

Source: Ministry of Finance (Ghana), 2020.

COUNTRY CASE: NIGERIA

The Central Bank of Nigeria (CBN) injected an additional NGN50 billion (USD120 million) to the Targeted Credit Facility. The main objectives of the Facility include cushioning the adverse effects of COVID-19 to households and MSMEs, support the affected economic activities of both groups and increase MSME productivity by facilitating credit. Details of the Facility are available at Guidelines for the Implementation of the N50 Billion Targeted Credit Facility issued in March 2020 by the CBN.

Source: Central Bank of Nigeria, 2020.

PILLAR 6: PRIORITY SECTORS

This pillar provides key policy guidance to develop MSME finance policies that are effectively implemented when priority sectors, such as women, youth, and climate change risks, are incorporated in mainstream MSME policies.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
WOMEN-OWNED/LED MSMEs	Develop policies to foster and encourage the provision of appropriate services for women-owned MSMEs	> Women-owned/led MSMEs are often disproportionately excluded from access to finance due to structural or other barriers impeding women's access to formal financial services, as well as inadequate knowledge of women's financial services. In response, deliberate policy interventions to address these barriers will harness the economic potential of women to start and run MSMEs and expand access to finance for existing MSMEs operated by women.
	Develop policies to ensure that MSME data from FSPs and the sector is sex-disaggregated	> Effective evidence-based policy interventions that consider gender gaps to financial inclusion can be facilitated by sex-disaggregated data. The MSME sector should therefore design their financial systems to collect such data for the use of policy reviews and product designs.
	Create policies to build capacity for women-based financial needs	> In some markets, women-only financial skills programs are more effective at reaching women because of perception and cultural considerations. Therefore, building women's leadership skills in the financial sector will create an enabling environment that promotes access to finance for women-owned MSMEs which are marginalized.
YOUTH-OWNED MSMEs	Create policies to foster and encourage the provision of appropriate services for youth-owned MSMEs	> Youth-owned MSMEs are often unduly excluded from access to finance due to structural or other barriers impeding youth access to formal financial services, as well as inadequate knowledge of appropriate financial products for youth. In response, deliberate policy interventions to address these barriers will harness the economic potential of youth to start and run MSMEs and expand access to finance for existing MSMEs operated by youth.
	Develop policies to ensure that MSME data from FSPs and the sector is age disaggregated	> Effective evidence-based policy interventions that consider age gaps to financial inclusion can be facilitated by sex-disaggregated data. The MSME sector should therefore design their financial systems to collect such data for the use of policy reviews and product designs.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
YOUTH-OWNED MSMEs *continued*	Develop policies to facilitate the legal recognition of youth's capacity to contract enhancing formal access to finance	> Youth is defined differently based on a country's context and most often, this may not correspond with the legal definition of the age of majority. This excludes certain youth age brackets from accessing formal access to finance reinforcing the informal MSME sector in most emerging economies. > Clear policies that facilitate the legal recognition of MSMEs owned and operated by youth will encourage the employment of millions of youth in emerging economies and build confidence for FSPs to lend to youth run MSMEs.
	Develop youth MSME creditworthiness guidance	> Policies that support Youth Development Funds in raising capital (through dedicated public or private funds) and building business and entrepreneurship skills will promote youth-owned MSMEs. > Formal youth-owned MSMEs should be provided with equitable and fair access to secured transactions and collateral registries (movable collateral), and guarantee schemes similar to other MSMEs.
INCLUSIVE GREEN FINANCE FOR MSMEs	Create and promote incentives that support green MSME finance	> Climate change poses significant risks to the performance, competitiveness, and sustainability of MSMEs. Regulators, to some extent, can use policies and regulations to promote MSME adaption to climate change and encourage the provision of financial products and services that reduce MSME GHG emissions. > The right incentives will increase MSME understanding of market dynamics and the implications of climate change on agriculture, agricultural value chains and other sectors affected by climate change, as both a threat and opportunity. > Incentives for MSMEs may be non-financial, or related to specific events, and often include capacity-building, knowledge-sharing and data collection. > Digital technologies can assist with efforts to identify and adjust to the effects of climate change.
	Create a green credit guarantee scheme	> Protection policies primarily relate to adaptive measures for individuals and for MSMEs, in response to either an unforeseen extreme climatic event or in preparation for adverse changes in weather conditions. > Effective risk-sharing is essential with credit providers responding to MSMEs access to finance needs in dealing with climate change.
	Establish a restructuring fund and risk reduction measures	> Governments must adopt measures to manage this risk. This requires coordinated mitigation and adaptation strategies in the management of the ecosystem's goods and services. Access to finance to effectively enable MSMEs to deal with mitigation and adaptation is a key component of the overall strategy.

POLICY AREA	GUIDING PRINCIPLE	RATIONALE
INFORMAL SECTOR	Ensure appropriate coordination with relevant stakeholders	> Coordination structures should include the voices of informal workers and informal MSMEs, through unions and informal economy associations.
	Develop policies for digital onboarding	> Digital tools and mobile money have the potential to create far reaching positive change for the informal sector, supporting the financial inclusion of informal workers and informal MSMEs.
	Facilitate access through tailored solutions	> Countries are increasingly implementing tiered know-your-customer (KYC) regulations, allowing low-risk, low-balance accounts for people who cannot fulfill the full range of stringent requirements.
	Facilitate FSPs with microfinance insurance	> Identify risks at the sectoral level and facilitate FSPs on risk mitigation via microfinance insurance. > Promote the onboarding of informal credit providers.
	Create policies to formalize informal credit providers	> Develop market monitoring processes, techniques, and tools to bring informal credit providers onboard.
	Create policies and programs that are inclusive targeting vulnerable groups	> Women and socially excluded sub-groups of the population and other vulnerable social groups are often socio-economically disadvantaged, face numerous barriers to financial access and need to be engaged at different policy development and delivery levels.
	Recognize and collaborate with financial cooperatives	> Cooperatives are an alternative to for-profit FSPs and often cater explicitly to the informal sector and the financially deprived; women are generally the majority of members.
	Establish clear definitions, information and data management	> Data is drawn from diverse sources but includes information from FSPs, diagnostic studies, and attempts to parse data from financial inclusion studies, which may not disaggregate informality but can provide informed indications.

COUNTRY CASE: JORDAN

Jordan Loan Guarantee Corporation (JLGC) has a special guarantee program for women-owned/managed enterprises. The Central Bank Jordan (CBJ) promotes account opening instructions for priority segments which include youth (15–18 year-olds), women, refugees, and those in low-income brackets. The CBJ has partnered with women and rural community empowerment organizations, including INJAZ, and the Queen Zein Al Sharaf Institute for Development (ZENID), to design and implement financial literacy tools, methods, and programs in coordination with the National Financial Education project. MFIs are also developing non-financial services targeted at women, youth, and low-income clients. Instructions on dealing with customers fairly and transparently were recently amended through a circular to all banks to prevent them from engaging in any kind of discrimination between women and men when providing their financial products and services. The financial consumer protection for the microfinance sector likewise explicitly prevents any kind of discrimination based on gender.

Source: AFI, A Policy Framework for Women-led MSME Access to Finance, 2021.

ACRONYMS AND ABBREVIATIONS

AFI	Alliance for Financial Inclusion
CBJ	Central Bank of Jordan
CGS	Credit Guarantee Scheme
COTUNACE	Tunisia Export Insurance Agency
DFS	Digital Financial Services
FSP	Financial Service Providers
INJAZ	Youth-centered Non-Profit Organization in Jordan
JLGC	Jordan Loan Guarantee Corporation
MSME	Micro, Small, and Medium-Sized Enterprise
NFIS	National Financial Inclusion Strategy
P2P	Peer-to-Peer
PEFG	Pre-shipment Export Finance Guarantees
SME	Small and Medium-Sized Enterprise
SMEFWG	SME Finance Working Group
ZENID	Queen Zein Al Sharaf Institute for Development in Jordan

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