



ENHANCING FINANCIAL INCLUSION IN RURAL AREAS

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SECTION 1

1.1 INTRODUCTION

70% Seventy percent of the world's poor live in rural areas

60% Only 60% of the rural population in developing countries have an account with a financial institution (Global Findex Data)¹

Even when people living in rural areas do have an account, for example, with a bank or a mobile money service, usage generally remains very low as financial products and services continue to be primarily designed for the needs of urban customers.

As a result, large numbers of people in rural areas remain effectively excluded from the financial services they need to support their resilience and improve their livelihood opportunities.

While microfinance services have been successful in certain areas and mobile money services have expanded access to basic digital payments and transaction accounts, only 20% of rural residents in developing countries saved with a formal financial institution² while access to insurance and credit beyond small working capital loans remains very limited. Of the estimated USD240 billion demand of smallholder households for agricultural and non-agricultural finance, financial institutions are currently only providing around USD70 billion.³ This leaves around 70% of the global demand for smallholder finance unmet. The financial needs of women, young people, people with disabilities and other vulnerable communities are particularly poorly served by the current rural financial systems, with products and services often too generic and designed for the needs of urban, wealthier customers.

Given this context, the primary aim of this guideline note is to examine how policymakers have sought, and succeeded, to enhance financial inclusion in rural areas. It is based on the various experiences of AFI's members in designing and implementing financial inclusion initiatives focused on rural areas in their countries.

WHO IS THE GUIDELINE NOTE FOR?

This guideline note is primarily designed for policymakers and regulators in AFI's member countries looking to improve the policy environment for rural financial inclusion. Secondly, this guideline note should also be of use to development institutions, researchers, businesses and other stakeholders seeking to understand the various approaches that have been used and to support the development of new initiatives to push the frontiers of financial inclusion into rural areas.

1.2 THE IMPORTANCE OF FINANCIAL INCLUSION IN RURAL AREAS

Inclusive financial services have a critical role to play in supporting and improving rural livelihoods. This is especially relevant for those from vulnerable community groups who are more likely to be poor and less likely to be financially resilient.

Financial services are needed to help people and households in rural regions and their communities living in or close to poverty to manage their money, increase resilience and invest in livelihood opportunities. Improving rural financial inclusion is necessary to support increases in agricultural productivity and raise agriculture-related incomes; help the poor to diversify their source of livelihoods and develop non-agricultural incomes; improve nutrition and reduce hunger; build resilience to climate-related and other periodic shocks; and insulate against the risks of falling into poverty traps.

40% Forty percent of the world's population live in rural areas of developing countries⁴, and although agriculture plays a critical role in most rural livelihoods, non-agricultural activities and incomes also play an important role.

1 <https://globalfindex.worldbank.org/> data as of 2017.

2 Ibid.

3 ISF Advisors and the MasterCard Foundation Rural and Agricultural Finance Learning Lab 2019, "Pathways to Prosperity: Rural and Agricultural Finance State of the Sector Report," Washington, DC.

4 <https://www.ifad.org/thefieldreport/>

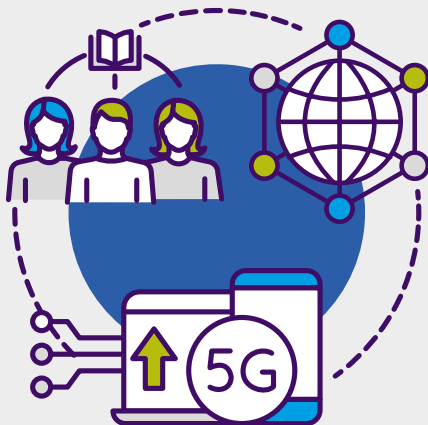
Smallholder households often complement seasonal agricultural income with labor on other farms or in non-agricultural businesses (e.g. non-farm microenterprises such as transportation or tailoring). They can also be the recipient of remittances and social protection payments. People residing in rural areas, particularly women, also devote much of their time to unpaid labor, on and off-farms and in the home.

For rural financial services to support improved rural outcomes, it is important that policymakers treat the enhancement of financial services in rural areas as a means to an end, not an end in itself.

Financial inclusion should be seen as an enabler of positive real-world outcomes. The various pathways⁵ through which financial inclusion can improve rural livelihoods can be summarized as: farming as a business; rural services entrepreneurship (non-farming); rural labor; and migration to an urban area. In reality, rural households often employ some combination of these pathways to earn their livelihoods, so it is vital that an appropriate range of financial services are available to support their movements in and between these pathways.

1.3 THE CHALLENGES OF ENHANCING FINANCIAL INCLUSION IN RURAL AREAS

Characteristics of rural populations



Low population density

Low incomes, high incidence of poverty

Low financial/general literacy

Lack of traditional collateral (e.g. limited land ownership, particularly for women)

Low access to smartphones/internet

High informality

Poor infrastructure

Characteristics of agricultural activity



Seasonality of income streams

Exposure to exogenous risks

Covariance of risks

Vulnerability to price fluctuations

Underdeveloped commodity exchange systems (warehouse receiving systems)

5 ISF Advisors and the MasterCard Foundation Rural and Agricultural Finance Learning Lab 2019, "Pathways to Prosperity: Rural and Agricultural Finance State of the Sector Report," Washington, DC, please see: https://pathways.rafllearning.org/wp-content/uploads/2020/09/2019_RAFState-of-the-Sector.pdf

SECTION 2

There are numerous ways in which policymakers have sought to increase financial inclusion in rural areas. Rural financial inclusion initiatives are typically led by central banks and ministries of finance but tend to coordinate with line ministries, such as those responsible for agriculture and rural development, women and youth. Approaches often include collaboration within networks of other key stakeholders from the development sector, non-governmental organizations (NGOs), community-based organizations, agri-businesses, and the financial sector.

Broadly speaking, the approaches through which policymakers seek to address issues around rural financial inclusion can be broken down into three key areas of work, according to the market systems framework.⁶ The first is by developing policies and regulations that create a positive environment, as well as formal and informal norms, for the extension of appropriate, affordable and accessible financial services in rural areas. The second is by facilitating high quality support functions and enabling infrastructure, such as rural payment systems, information and data, skills and capacity, and financial market coordination. The third area for action is in the delivery of rural finance products and services to customers in the core market. In this section, a range of approaches and examples is presented using this framework as a guide.

2.1 POLICIES AND REGULATIONS

RURAL FINANCIAL INCLUSION POLICIES AND STRATEGIES

The primary instruments that policymakers have at their disposal to enhance rural finance inclusion are the policies and regulations that create the frameworks in which financial institutions provide services to different segments within rural populations. These policy and regulatory frameworks for rural finance need to be inclusive for marginalized and vulnerable groups while enabling innovation and incorporating the need for financial stability and consumer protection, especially for those customers most at risk or with the lowest levels of financial capabilities.

Most countries' approaches to financial inclusion in rural areas are guided by an overall financial inclusion strategy, of which rural financial inclusion is a component. These are generally multi-stakeholder documents coordinated by the central bank or ministry of finance which bring in other government agencies such as ministries of women and children, and agriculture and rural development or their equivalents. Financial inclusion strategies are typically designed to fit in with and complement adjacent government initiatives; for example, in Mali, the National Action Plan of Inclusive Finance has been designed to complement the country's Agricultural Development Policy and National Microfinance Policy.⁷ Other stakeholders, such as development agencies, are also often involved in the development of financial inclusion strategies.

Some countries have gone a step further and developed a strategy specifically for financial inclusion in rural areas. The Government of Zambia has had a specific Rural Finance Policy and Strategy⁸ (RFPS) since 2012, when the lack of rural financial services was identified as one of the critical constraints to economic growth and poverty reduction in the country.⁹ The RFPS is updated every five years, and the presence of a focused rural finance strategy and targets is seen within Zambia to have brought about both a commitment and cohesion between the government and private sector in driving rural financial inclusion forward more rapidly.

Furthermore, Zambia's Ministry of Finance in 2018 created a Rural Finance Unit tasked with formulating and implementing the RFPS, and to monitor and evaluate the sector, and stakeholder coordination. This was established with support from the IFAD under the Rural Finance Expansion Programme (RUFEP) which was established in 2014 to run for eight years. The establishment of an entity within the ministry of finance solely focused on rural financial inclusion has allowed for a greater focus and support for specific initiatives, such as agency banking regulations for rural areas, and grant-making to financial service providers to innovate new products specifically targeting rural populations.

6 https://www.cgap.org/sites/default/files/researches/documents/Consensus-Guidelines-A-Market-Systems-Approach-to-Financial-Inclusion-Sept-2015_0.pdf

7 <https://www.ifad.org/en/-/mali-2000001062-inclusif-supervision-report-april-2021>

8 <https://www.mof.gov.zm/ruralfinanceunit/>

9 <https://www.boz.zm/Rural-Finance-Policy-and-Strategy-2012.pdf>

Initiatives to expand rural financial inclusion increasingly overlap with the efforts of policymakers to support greener and more sustainable inclusive financial services (this is also complementary to AFI’s work on Inclusive Green Finance¹⁰). In some countries, particularly those most vulnerable to risks associated with global warming, governments have taken specific actions to increase the role of the financial sector in supporting greener outcomes for low-income people. For example, Bangladesh Bank, established a Sustainable Finance Department to support the integration of green banking and corporate social responsibility into the core banking operations of financial institutions.¹¹ This department’s responsibilities revolve around policy formulation and the monitoring of various aspects of green banking, as well as management of refinancing facilities for renewable energy and green finance products.

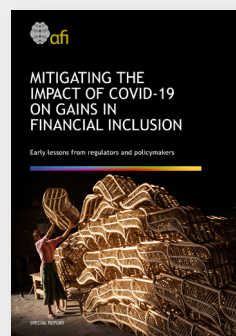
SOCIAL PROTECTION SYSTEMS

The receipt of social protection payments from a government is in many cases the first formal financial transaction that the rural population will make. Governments and policymakers around the world have thus made the development of a robust and widespread payments infrastructure through which social protection payments can be distributed a priority. These are often tied to tools for identification, such as biometrics and national ID systems.

The importance of social protection payments, particularly those that leverage digital channels, has been highlighted by the COVID-19 pandemic¹² and the need to channel resources for health costs and sustenance during medical emergencies and lockdowns. For example, the fact that the Government of India had linked the Aadhaar¹³ identification system to bank accounts for rural people meant that it was able to mobilize social protection payments to 428 million recipients of various COVID-19 relief programs.¹⁴

215 The World Bank estimates that 215 countries implemented new social protection schemes in 2020 alone.¹⁵

Social protection payments are often used as one component of a broader program targeting ultra-poor populations, usually concentrated in rural areas. A number of governments and development organizations have implemented some version of graduation programming, which was first developed by BRAC in Bangladesh.¹⁶ Under such a program, rural populations are provided with access to a savings account and



For more on AFI’s Covid-19 Policy Response, please see our report: **Mitigating the impact of Covid-19 on gains in Financial Inclusion**

> [View here](#)

CASE STUDY: HOW TOGO’S NOVISSI PLATFORM HELPED IN REACHING THE POOREST AND MOST VULNERABLE FOR SOCIAL PROTECTION PAYMENTS

A major challenge for policymakers has been how to target social protection payments to those most in need. In Togo, policymakers have used an innovative approach to identifying and prioritizing the poorest members of society. Under the Novissi emergency cash transfer system,¹ anonymized phone metadata and machine learning algorithms were used to predict consumption for 70% of Togo’s population. This was combined with data from phone surveys of 10,000 people to identify the poorest 100 rural cantons in the country and allow for the creation of over 170,000 new mobile money accounts through which contactless social protection payments could be made to 57,000 new beneficiaries.

This initiative was led by the Government of Togo’s Ministry of Digital Economy, in partnership with the World Bank and GiveDirectly, and is an interesting example of how non-traditional ministries are taking the lead in new areas of rural financial inclusion.



Source: <https://www.worldbank.org/en/results/2021/04/13/prioritizing-the-poorest-and-most-vulnerable-in-west-africa-togo-s-novissi-platform-for-social-protection-uses-machine-l>

- 6 https://www.cgap.org/sites/default/files/researches/documents/Consensus-Guidelines-A-Market-Systems-Approach-to-Financial-Inclusion-Sept-2015_0.pdf
- 7 <https://www.ifad.org/en/-/mali-2000001062-inclusif-supervision-report-april-2021>
- 8 <https://www.mof.gov.zm/ruralfinanceunit/>
- 9 <https://www.boz.zm/Rural-Finance-Policy-and-Strategy-2012.pdf>
- 10 <https://www.afi-global.org/working-groups/inclusive-green-finance-igf-working-group/>
- 11 <https://www.bb.org.bd/en/index.php/about/deptdtl/61>
- 12 For more on AFI’s Covid-19 Policy Response, please see: <https://www.afi-global.org/covid-19/> as well as: https://www.afi-global.org/wp-content/uploads/2021/09/AFI_COVID19_SP_10.04.21.pdf
- 13 Aadhaar is a unique, verifiable 12-digit identification number issued to all citizens and residents of India by the Unique Identification Authority of India, please see: www.uidai.gov.in
- 14 <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1632863>
- 15 <https://blogs.worldbank.org/developmenttalk/game-changer-social-protection-six-reflections-covid-19-and-future-cash-transfers>

social protection payments or consumption support payments, as well as a productive asset, access to healthcare and training and coaching related to their chosen livelihoods. There is good quality multi-country evidence to suggest that such programming can boost livelihoods, incomes and health among the ultra-poor.¹⁷

RURAL MANDATES AND SPECIALIST RURAL FINANCIAL INSTITUTIONS

Policymakers have also sought to push financial service providers into rural regions by licensing specific types of financial institutions specifically focused on rural areas. For example, in Malawi, a new form of license for so-called ‘Community Banks’ was introduced in 2019 to expand financial services into rural and other underserved areas of the country.¹⁸ This effort aims to build on the existing network of informal ‘Village Banks’ that are common in rural Malawi. The regulations set out the licensing and application requirements for community banks, with much lower capital requirements than commercial banks with a view to incentivize local entrepreneurs to open up banking facilities in their own communities and help formalize existing informal structures, such as village savings and loan associations (VSLAs).¹⁹ In other countries, specialist banks focused on agribusinesses and rural MSMEs have been both licensed and established by governments looking to expand rural financial inclusion. Another common approach has been to require a certain percentage of bank credit and bank branches to reach rural populations.

2.2 SUPPORT FUNCTIONS AND ENABLING INFRASTRUCTURE

Policy approaches working on support functions and enabling infrastructure, often also called the meso-level of the market system, aim to build-up the services that are required by rural financial systems to work more effectively, particularly in targeting more marginalized populations. Typically, these aim to reduce barriers and obstacles relating to information asymmetries, capital, coordination, capacity, and various forms of infrastructure.

PHYSICAL INFRASTRUCTURE FOR RURAL FINANCIAL SERVICES

Over the past decade, the emergence of digital technologies, and particularly the expansion of mobile phones and internet to rural areas, has significantly expanded the potential for rural populations to access

financial services. The growth of mobile money systems, particularly in sub-Saharan Africa, has provided an entry point to the formal financial system for people living in villages away from banking infrastructure. For financial institutions looking to work in rural areas, new digital infrastructure has reduced the marginal costs associated with serving customers in rural areas; this has created possibilities for new low-cost, but large-scale models based on more widespread mobile money infrastructure.

However, the rural-urban divide in mobile internet usage remains very high:

37%

GSMA estimates that in 2019 across low and middle-income countries, people living in rural areas were 37% less likely to use mobile internet than those living in urban areas.

60%

In Sub-Saharan Africa GSMA estimates this to be the case for 60% of people living in rural areas.²⁰

For policymakers and regulators, the opportunity to rapidly expand rural financial inclusion comes with a responsibility to ensure that this is done responsibly and in a way that best supports the welfare and livelihoods of rural populations. Policymakers have largely embraced the digital trend and incorporated digital financial services into their rural finance strategies. At the same time, the proliferation of big data and capabilities to access and analyze the data are opening up new possibilities for financial institutions while other players can leverage information for informed decision-making and efficiency gains in rural finance.

The movement towards digitally enabled models has helped policymakers in the response to the COVID-19 pandemic. As well as utilizing existing digital channels linked to national ID systems to allow for quicker and easier disbursement of social protection payments (see chapter 4), policymakers were able to issue waivers of transaction fees and interchange fees as well as support loan extensions to ensure that people in rural areas were better able to manage their finances through the pandemic.

16 <http://www.brac.net/program/ultra-poor-graduation/>

17 <https://www.poverty-action.org/impact/ultra-poor-graduation-model>

18 UNCDF Malawi Financial Inclusion Refresh, please see: <https://www.uncdf.org/article/6356/malawi-financial-inclusion-refresh>

19 <https://www.mwnation.com/rbm-sees-community-banks-enhancing-inclusion/>

20 <https://www.gsma.com/r/wp-content/uploads/2021/09/The-State-of-Mobile-Internet-Connectivity-Report-2021.pdf>

AGENCY BANKING

Agent networks play a critical role in allowing large scale digital-based banking networks to support financial inclusion in rural areas. Agents act as a critical resource by providing cash-in-cash-out services and assisting in all aspects of making and receiving digital payments.²¹

For policymakers, banking agent networks provide an opportunity for rural financial inclusion but also a number of challenges. They can dramatically expand the footprint of the financial sector in rural areas, but they can be complex, expensive and due to their economies of scale, prone to monopolistic outcomes. There are also strong gender considerations to consider when looking at agency banking. Women, in general, prefer to engage with female agents and in some countries where social and cultural norms are particularly repressive to women's movements, women may not even be able to engage with male agents, so any expansion of agent provision needs to be undertaken in a gender sensitive way considering the needs of the whole population and not just the default male aspect.

In Malawi, the development of agency banking regulations in 2018 was a key component of the government's attempts to expand financial inclusion into rural areas. As it became clear that banks and MNOs wanted to use agent-based models to spread their rural footprints, particularly in the provision of cash-in-cash-out services, the Reserve Bank of Malawi published agency banking regulations under the existing Financial Services Act that allowed different types of financial institutions to offer basic banking services via agents.²² This was a critical step, that was followed by e-money regulations in 2019 which looked to further expand the regulatory framework for agent-based banking services.

When aiming to promote agent networks for rural financial inclusion, it is important that policies are careful to incentivize providers and agent networks to extend into rural areas.²³ Care should be taken to ensure that the business case for agents is attractive and that policies do not undercut or otherwise disincentivize agent expansion. Regulators may consider a tiered structure in which different types of agent conduct different kinds of activities for the various sorts of rural customer segments.²⁴

CASE STUDY: UGANDA

In Uganda, where 76% of the population lives in rural areas, policymakers and the banking sector have implemented a shared agent banking platform, 25 the first of its kind in Africa, to allow for banks to compete with mobile network operators in providing digital financial services in rural areas to promote efficiency and competition.

This required a complex, multi-stakeholder effort and was spearheaded by the Agent Banking Company (ABC), established by the Uganda Bankers Association (UBA).



CREDIT GUARANTEES AND CREDIT LINES

One of the major constraints to increased lending in rural areas is the level of risk associated with agricultural activities. Information asymmetries between lenders and borrowers mean that credit is rationed, and lending rates are high, limiting the number of rural businesses able to borrow.²⁶ This is further exacerbated when the gender angle is introduced as women are less likely to be able to access credit than men while the SME credit gap is significant in many regions.²⁷

In order to de-risk lending and open up capital flows to agricultural borrowers and rural areas, policymakers have developed guarantee schemes, some of which are particularly aimed at women, through which risks are shared between financial institutions and the government.

Such schemes operate on a large scale in Nigeria (NIRSAL,²⁸ the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending) and Ghana (GIRSAL,²⁹ the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending).

21 AFI has a number of knowledge products related to agency banking and digital financial services, please see: <https://www.afi-global.org/working-groups/dfs/>

22 UNCDF Malawi Financial Inclusion Refresh, please see: <https://www.uncdf.org/article/6356/malawi-financial-inclusion-refresh>

23 https://www.cgap.org/sites/default/files/publications/2020_02_Technical_Note_Use_Agents_Dig_Fin_Serv_Providers.pdf

24 <https://www.cgap.org/research/publication/smallholder-households-distinct-segments-different-needs>

25 <https://fsduganda.or.ug/making-elephants-dance-a-case-study-on-shared-agent-banking-in-uganda/>

26 AFI's SME Finance Working Group (SMEFWG) has published a number of knowledge products that relate to risk sharing mechanisms for lending to SMEs, please see: <https://www.afi-global.org/working-groups/smf/>

27 <https://www.ifc.org/wps/wcm/connect/44b004b2-ed46-48fc-8ade-aa0f485069a1/WomenOwnedSMes+Report-Final.pdf?MOD=AJPERES&CVID=kiZZDZ>

28 <https://nirsal.com/>

29 <https://www.girsal.com/>

These are a government-backed non-bank financial institutions that de-risk agricultural finance by providing loan guarantees and technical support to financial institutions for lending to farmers, groups of smallholders and agribusinesses.

GIRSAL's principal shareholder is the Ministry of Finance, while it also has seed funding from the Bank of Ghana and the African Development Bank. NIRSAL, however, is fully owned by the Central Bank of Nigeria and was established in partnership with the Federal Ministry of Agriculture and Rural Development (FMARD) and Nigerian Bankers' Committee.

USD350m NIRSAL has successfully facilitated over USD350 million in lending to agricultural value chains in Nigeria.

1.4m 1.4 million smallholder farmers (30) have benefited from developing insurance products.³⁰

Credit lines have also traditionally been an instrument through which governments seek to extend finance to rural areas. A challenge is to ensure that the additional lending generated by the scheme reaches those who need it most, for example, smallholder farmers, and that it is not only taken up by larger agribusinesses which may already be banked. This was a problem faced by Uganda's Agricultural Credit Facility (ACF), which has been in operation since 2009 but was found to not be adequately including smallholder farmers. Policymakers responded by introducing block allocations, through which smallholder farmers could come together as a group and borrow using alternative collateral such as cash flow-based financing and chattel mortgages.³¹

ALTERNATIVE COLLATERAL FACILITIES

The lack of traditional collateral is a significant problem for potential borrowers in rural areas, and particularly for women who often lack the rights or the agency to own and inherit land and other fixed assets. It is common for people or enterprises in rural areas to own assets, such as farm machinery or livestock, that have value but fall outside of existing frameworks for collateralization. For example, in Zambia, the Movable Property Registration System³² (MPRS) was launched in 2017 which allowed businesses to borrow against equipment, machinery and inventory. Farm products, including crops, fish stocks, poultry, livestock, seeds, and other supplies used or produced during farming operations can be used, significantly increasing the options for rural and farming enterprises to access collateralized financing.

TRAINING AND CAPACITY BUILDING INFRASTRUCTURE

A number of programs promote the financial inclusion of young people in rural areas within a broader context of building the enabling ecosystem for farming and entrepreneurship. In such approaches, access to credit is often combined with training (in good agricultural and financial behaviors), mentorship and market linkages. For example, in Indonesia, the government in partnership with the IFAD's Youth Entrepreneurship and Employment Support Services Programme supports the financial education and training of young people, as well as the innovation capacity of partner financial service providers to develop new products such as small savings to loans, contract farming arrangements, warehouse receipts and providing bridge financing for youth enterprises.³³

Policymakers often combine rural financial inclusion initiatives aimed at rural women with financial capability and training in entrepreneurship and business development. There is solid evidence that more women can be encouraged to use financial services for their businesses by removing constraints relating to business registrations. A study of women-owned enterprises in Malawi found that the combination of a business registration with an offer of a business bank account and an information session at a bank led to increased usage of financial services and increases in sales and profits of 28% and 20% respectively.³⁴

NETWORKS AND COORDINATION

A common approach for policymakers and development organizations in rural financial inclusion is to support rural finance networks, associations and apex organizations of rural financial service providers. Supporting such structures within rural finance systems allows the sharing of information and knowledge across the network, increasing the capacity of many financial service providers rather than just a select few, and supporting the development of products focused on rural and agricultural customers at a market level.

30 <https://nirsal.com/wp-content/uploads/2021/05/NIRSAL-Company-Profile-.pdf>

31 <https://www.bou.or.ug/bou/bouwebsite/bouwebsitecontent/AgriculturalCreditFacility/ACF-Reports-2020/2021/Mar/ACF-Progress-report-as-at-31.03.2021.pdf>

32 <https://www.mprs.pacra.org.zm/mprs>

33 <https://www.ifad.org/en/web/latest/-/blog/pathways-for-rural-youth-to-financial-inclusion>

34 Campos, Francisco; Goldstein, Markus; McKenzie, David. 2019. Making It Easier for Women in Malawi to Formalize Their Firms and Access Financial Services. Gender Innovation Lab Policy Brief, no. 30; World Bank, please see: <https://openknowledge.worldbank.org/handle/10986/31191> License: CC BY 3.0 IGO.

For example, the Bank of Zambia has a memorandum of understanding with SaveNet, a network of savings-led microfinance institutions. More broadly, over half of rural finance programs supported by the IFAD over the past decade have included some focus on apex institutions as well as other forms of financial infrastructure; these programs were on the whole found to be more impactful than those that did not support meso-level market infrastructure.³⁵

The inclusion of networks of consumers through consumer groups and associations is also an important component of rural financial inclusion initiatives.³⁶ These organizations can coordinate between users, elevating their voice and giving them more power in rural financial systems. This is valuable in encouraging financial service providers to improve the designs of financial products and services for rural customers, and for policymakers to also better understand their varied and complex financial needs. These groups can be particularly valuable in amplifying the voices of marginalized groups in rural areas such as women,³⁷ young people, people with disabilities, forcibly displaced people, and the ultra-poor.

2.3 DELIVERY OF RURAL FINANCE PRODUCTS AND SERVICES

At the core of inclusive rural finance are the transactions that take place between rural people and financial service providers. These transactions are often hampered by a number of obstacles, and policymakers have taken a wide range of approaches to build the capacity on both sides and facilitate more impactful interactions.

LEVERAGING COMMUNITY-BASED APPROACHES

In many cases, rural areas have developed their own informal financial systems that provide simple, local and community-driven basic financial services such as savings and small loans. These primarily exist among groups of women. Typically, money is saved in a community pot and lent within the group. Savings groups, Village Savings and Loan Associations (VSLAs), Rotating Savings and Credit Associations (ROSCAs), and Savings and Credit Cooperatives (SACCOs) are all examples of such informal, community-based rural finance mechanisms.

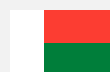
These self-selected community-based financial organizations provide an important starting point for many rural financial inclusion initiatives, particularly

CASE STUDY: THE ROLE OF THE NETWORK OF MALAGASY SAVINGS GROUPS PROMOTERS IN INTEGRATING THE VOICE OF RURAL CUSTOMERS INTO RURAL FINANCE POLICYMAKING IN MADAGASCAR

In Madagascar, savings groups have been a key tool to support the government's aims to bring more people in rural areas, particularly women, into the formal financial system. By building on top of existing social infrastructure at a village level, and leveraging mobile phone technology, savings groups have been able to increase the security of their savings and open up the possibility of accessing more advanced financial services.

Under this approach, policymakers have been keen to ensure that the perspectives of rural customers are systematically included in conversations around rural financial inclusion. Village agents are enrolled within a Network of Malagasy Savings Groups Promoters (RPGEM), and collectively, the network sits as a member of the National Financial Inclusion Strategy Steering Committee. This ensures that the voices of savings group members are not ignored when it comes to rural financial inclusion policies.

The existence of this network has also allowed for greater information sharing within and between savings groups, sharing of best practices and a consultative approach to support new innovations in the sector. RPGEM also has responsibility for identifying savings groups and some monitoring functions, as well as capacity building.



For more information, please see our guideline note: **Upscaling and Integrating Gender Savings Groups into the Formal Financial System.**

[> View here](#)

35 <https://www.ifad.org/en/web/knowledge/-/ifad-inclusive-financial-services-portfolio-stocktaking>

36 <https://www.cgap.org/research/publication/elevating-collective-consumer-voice-financial-regulation>

37 <https://www.afi-global.org/publications/gender-savings-groups-formalizing-village-savings-groups-with-a-gender-lens-egypt-case-study/> and <https://www.afi-global.org/publications/upscaling-and-integrating-gender-savings-groups-into-the-formal-financial-system/>

those seeking to improve rural financial inclusion for women. These often provide existing infrastructure and social networks which can be leveraged to support deeper integration with the financial system.

A common approach, followed in a large number of countries, is to build linkages between these informal organizations and the formal financial sector. Through these linkages, members of the savings group can access a wider range of formalized financial services, either individually or as a group.³⁸ This provides an opportunity for greater security, as money is held in a regulated bank account rather than a locked box, and also allows for a capital injection to the group to allow for larger loan sizes. Digitization of financial services can greatly improve the efficiency of such linkage programs.

FINANCIAL CAPABILITY

As financial, digital as well as general literacy levels tend to be lower in rural areas, in particular among marginalized groups, it is important that any rural financial inclusion initiatives take into account the need to improve the capacity of potential users to the point at which they can comfortably and safely access and use financial services. While levels of general literacy are a broader matter of public policy, a number of initiatives have been carried out to improve the capabilities of people in rural areas, particularly women, to use financial services.³⁹



For more information, please see our toolkit: **National Financial Education Strategies Toolkit**

[> View here](#)

These are often linked to existing informal networks and savings groups, as these community institutions can be useful conduits for learning. For example, in Malawi, policymakers support approaches to financial literacy that actively go out into villages and engage with communities, working alongside microfinance institutions to talk them through the processes associated with using financial services and getting them comfortable with the terminology. This has been found to be more effective when linked to real-life examples and products, rather than hypothetical ideas.

CASE STUDY: HOW THE CENTRAL BANK OF EGYPT HAS USED THE FORMALIZATION OF SAVINGS GROUPS TO SUPPORT WOMEN'S FINANCIAL INCLUSION IN RURAL AREAS

The Central Bank of Egypt (CBE) has taken an approach that builds on the country's existing community-based infrastructure of *gamey'a*, a form of rotating savings and credit association through which members - mostly rural women - contribute a fixed amount of money to a pot, and then take turns taking home the contents of the pot.

The CBE's approach has been to digitize the operations of *gamey'a* linking them to the formal banking system. This approach consciously looked to leverage the existing financial behaviors and structures of rural women, rather than imposing something new from the outside. This organic approach, building on what is already in use, can be important in helping people in rural areas, particularly women, take their first steps into more formalized financial services.

The CBE found that there were a number of challenges and opportunities associated with the digitization of savings groups. The primary opportunity that they discovered by carrying out field visits and in-depth interviews with savings group members was the potential to borrow more money to fund more ambitious enterprise opportunities. There was also demand to save money more securely.

The challenges that CBE identified existed at multiple levels. At the policy level, there was previously no framework for joining accounts in digital wallets, and so savings groups could not hold a joint digital account. Changing this structure, to allow for a new type of account, took significant time and stakeholder coordination but was a necessary building block.

Other challenges existed at the market infrastructure level, such as a lack of infrastructure and technology for banking in rural areas. The CBE managed this by allowing savings group facilitators to act as agents, performing cash-in-cash-out services, as well as ensuring that mobile wallet solutions were designed for lower-cost feature phones as well as 4G smartphones.

At the customer level, complementary financial literacy initiatives were critical, particularly to encourage women to use the schemes. These were carried out in villages, and explanations of digital solutions were tied to specific use cases.



Source: <https://www.afi-global.org/publications/gender-savings-groups-formalizing-village-savings-groups-with-a-gender-lens-egypt-case-study/>

38 UNCDF Savings Group Linkage Toolkit, please see: <https://www.uncdf.org/article/5779/uncdf-savings-groups-linkages-toolkit>

39 AFI's National Financial Education Strategies Toolkit for more information, please see: <https://www.afi-global.org/publications/national-financial-education-strategies-toolkit/>

Therefore, the opening of an account and completing a first transaction can be a useful teachable moment.

In Uganda, policymakers carry out similar approaches in rural areas but also in combination with radio and television campaigns. Stations and channels are selected for their rural coverage and the Bank of Uganda provides materials that can deliver basic ideas around financial education at scale. At the same time, the Uganda Communications Commission (UCC) through its Rural Communications Development Fund (RCDF) is aiming to tackle issues around rural digital literacy by organizing digital skills camps, helping people understand how to use mobile phones to connect to the internet and carry out relevant transactions.⁴⁰

PRIVATE SECTOR COLLABORATION

There have also been positive examples of policy approaches to incentivize innovation in rural banking products offered by the private sector. In Malawi, under the FARMSE programme, a competitive matching grant mechanism was established that awarded grant funding for innovative approaches to expand rural financial inclusion. The program found that grants to five different financial service providers through this innovation and outreach facility had led to increased outreach to over 44,000 rural households.⁴¹ Similarly, the MasterCard Foundation's Fund for Rural Prosperity⁴² provided matching grants through a competitive mechanism to "encourage the private sector to deliver social outcomes (to shift commercial goals closer to social objectives)".⁴³

Such competitive matching grant facilities or challenge funds can be useful instruments to engage the innovativeness of the private sector to expand the frontier of financial services to rural areas. This is particularly the case given the often competitive and fast-changing landscape of financial service providers, with non-traditional players such as mobile network operators (MNOs), emerging fintech sectors and agricultural value chain companies providing important financial services (often bundled with non-financial services) alongside more traditional banks, MFIs and community-based financial organizations.

In using such facilities, policymakers need to be careful to avoid artificial distortions and biases in the market and encourage competition between the different types of providers to incentivize innovation in models for inclusive rural financial services.

CASE STUDY: HOW GREEN CREDITS WERE USED TO PROMOTE FINANCIAL INCLUSION IN RURAL AREAS OF THE DOMINICAN REPUBLIC

In the Dominican Republic, 36% of people are estimated to reside in rural areas. More than half of this group are poor while 17% are extremely poor. However, agricultural productivity is low, and the rural economy has suffered significant losses in terms of physical, natural and human capital. People in rural areas face significant challenges in accessing finance for investment and working capital: less than 5% of lending in the Dominican Republic goes to the agricultural sector. ADA Luxembourg worked with the Central American and Caribbean Network of Microfinance (REDCAMIF) and ADOPEM, a financial institution oriented towards the micro, small and medium enterprises market to address some of these issues.

To expand the range of financial products and services available to rural customers, ADOPEM developed two new products: the first was aimed at farming populations that sought to acquire agricultural equipment that could support good agricultural practices and contribute to improved environmental outcomes. This helped to overcome the barriers that farmers faced in investing in improved technologies. Second, ADOPEM developed a complementary product to help with the working capital needs of farmers to support their ongoing use of good agricultural practices which could improve environmental sustainability over agricultural cycles.

ADOPEM also partnered with the La Vega Fruit and Vegetable Cluster and the Dominican Institute for Agricultural and Forestry Research (IDIAF) to provide complementary training on good agricultural and environmental practices for farmers to support the quality of investments and sustainability of production technologies. Financial education training was also provided to help with issues such as budgeting, money-management and avoiding over-indebtedness.

The new green credits were particularly successful in expanding investment in certified organic small banana plantations and drip and spray irrigation systems which improved water resource management.



Source: <https://www.redcamif.org/wp-content/uploads/2021/01/case-study-sfi-english-ADOPEM-1.pdf>

40 <https://uccinfo.blog/2020/08/04/rcdf-digital-literacy-campaign-heads-east-in-a-bid-to-address-the-digital-literacy-gap-targeting-informal-business-actors-in-their-workspaces/>

41 IFAD Malawi 2000001501: FARMSE Supervision Report April 2020, please see: <https://www.ifad.org/documents/38711624/40089498/Malawi+2000001501+FARMSE+Supervision+Report+April+2020.pdf/33488ab4-87c4-f29b-fd43-456ce74ead60?t=1589988618000>

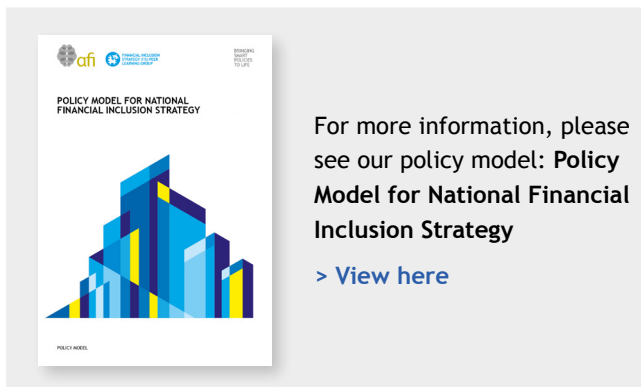
42 <https://frp.org/>

43 <https://frp.org/about-the-fund/background>

3 CONCLUSION

Financial inclusion in rural areas remains one critical aspect of rural development policy for governments across low and middle-income countries. Widespread financial inclusion is a critical enabling factor if rural economies are to reach their potential in terms of rural development and poverty reduction.

The key element for policymakers looking to expand financial inclusion into rural areas is having a robust strategy⁴⁴ that treats rural financial inclusion as an explicit objective, and which can provide a framework dedicated to the specific challenges and opportunities around rural financial inclusion. Ideally, these should consider the particular obstacles faced by rural women, young people and other vulnerable groups as well as the links between rural financial inclusion and other policy objectives such as agricultural development, nutrition and environmental sustainability.



For more information, please see our policy model: **Policy Model for National Financial Inclusion Strategy**

[> View here](#)

Beyond the strategy alone, policymakers have a variety of tools to promote rural financial inclusion. These range from direct channels, such as the link between rural social protection payments to broader rural financial inclusion objectives, to indirect channels that aim to alter incentives and reduce frictions to do with information, risk, capital, capacity, coordination and distribution. As there is no one-size-fits-all approach, the choice of policy instruments should be context-dependent and based on a solid understanding of how each can promote rural financial inclusion to support increased agricultural and off-farm incomes, access to essential services and resilience for rural populations.

⁴⁴ AFI's Policy Model for National Financial Inclusion Strategy provides more guidance on this, please see: <https://www.afi-global.org/publications/policy-model-for-national-financial-inclusion-strategy/>

LIST OF ACRONYMS AND ABBREVIATIONS

ACF	Agricultural Credit Facility (Uganda)
AFI	Alliance for Financial Inclusion
BRAC	Bangladesh Rural Advancement Committee
CBE	Central Bank of Egypt
FARMSE	Financial Access for Rural Markets (Malawi)
FMARD	Federal Ministry of Agriculture and Rural Development (Nigeria)
GIRSAL	Ghana Incentive-Based Risk Sharing System for Agricultural Lending
GSMA	Groupe Speciale Mobile (GSM) Association
IDIAF	Institute for Agricultural and Forestry Research (Dominican Republic)
IFAD	International Fund for Agricultural Development
ISF	Initiative for Smallholder Finance
MFI	Microfinance Institution
MNO	Mobile Network Operator
MPRS	Movable Property Registration System
MSME	Micro, Small and Medium sized Enterprise
NGO	Non-Governmental Organisation
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
RCDF	Rural Communications Development Fund (Uganda)
REDCAMIF	Central American and Caribbean Network of Microfinance
RFPS	Rural Finance Policy and Strategy (Zambia)
ROSCA	Rotating Savings and Credit Association
RPGEM	Network of Malagasy Savings Groups Promoters (Madagascar)
RUFEP	Rural Finance Expansion Programme (Zambia)
SACCO	Savings and Credit Cooperative
UBA	Uganda Bankers' Association
UCC	Uganda Communications Commission
VSLA	Village Savings and Loan Association

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