

## **"Regional African Workshop on Financial Inclusion: Best Policy Practice and Guidelines on Accounting and Insurance Regulation for Micro, Small and Medium-sized Enterprises (MSMEs)"**

### **Summary Report**

The Regional African Workshop on “Financial Inclusion: Best Policy Practice and Guidelines on Accounting and Insurance Regulation for Micro, Small and Medium-sized Enterprises (MSMEs)” was held in Nairobi, Kenya on 19-20 July 2017. The event gathered senior government officials, heads of regulatory authorities for accounting and insurance, professional bodies, the private sector, and multilateral organizations with geographical representation from eleven countries: Benin, Botswana, Cameroon, Ethiopia, The Gambia, Kenya, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe. The United Nations Conference on Trade and Development (UNCTAD) delivered this event through a project funded by the United Nations Development Account and in close collaboration with the Institute of Chartered Accountants of Kenya (ICPAK) and the Association of Chartered Certified Accountants (ACCA).

During the course of the programme, participants highlighted the progress, challenges and good practices throughout the African continent with regards to the access to financial services by MSMEs, in particular in the area of accounting and insurance. The dialogue highlighted initiatives aimed at supporting MSMEs, including those involving vulnerable groups, such as rural communities, women entrepreneurs, farmers and business owners at risk due to political instability and natural disasters.

The workshop was started with a joint opening session, followed by two parallel working sessions on accounting and insurance for MSMEs – two key topics for financial inclusion of MSMEs. It concluded with a joint plenary session, during which, participants reported on the parallel sessions and discussed the way forward. The highlights of each session are presented in turn.

#### **I. Inaugural session**

The event was opened by Mr. Daniel Owoko, Chief of Staff on behalf of the Secretary General of UNCTAD. Mr. Owoko welcomed participants by emphasizing the key role that MSMEs play in promoting economic development and tackling youth unemployment. He stressed the importance of access to financial services at affordable conditions for MSMEs as a determining factor in accelerating their contribution to attaining the Sustainable Development Goals (SDGs) and the African Union's Agenda 2063. Mr. Owoko concluded his intervention by celebrating the launch of the Empretec Entrepreneurship Training Programme in Kenya, highlighting the importance of strengthening regional collaboration and UNCTAD's commitment to facilitate such partnering approach.

Mr. David Gichana, Deputy Auditor General of Kenya, further emphasized the fundamental role of policy-makers to creating a more enabling environment for MSMEs to thrive. He invited participants to join hands with all stakeholders to create concrete and actionable outcomes to ensure access to financial services for all.

Mr. Edwin Makori, Chief Executive Officer of Institute of Certified Public Accountants of Kenya (ICPAK), welcomed participants and highlighted the work of ICPAK in supporting small and medium-sized enterprises (SMEs) in accessing financial services. Mr. Geoffrey Ochieng, Regional Manager of the ACCA, followed by sharing the association's efforts in opening the accounting profession to people of all backgrounds and highlighted the recently launched ACCA-X, an online portal to deliver financial literacy for all.

## II. Plenary Session

Mr. Arjuna Herath, Chair of the PAODC of the International Federation of Accountants, moderated the plenary session. His opening was followed by Mr. Lubega Alhaj Kaddunabbi, Chief Executive Officer of the Regulator Insurance Authority of Uganda who in turn presented an overview of the insurance market in Uganda. He pointed to efforts to increase a 3% household penetration rate through financial literacy training, awareness raising and product development. His closure highlighted recent developments in credit insurance.

Mr. Momodou Lamin Bah, Accountant General, Ministry of Finance and Economic Affairs of The Gambia, spoke of the challenges regarding access to finance, and handling audited accounts, given that most SMEs cannot afford the services of qualified accountants. He highlighted The Gambia's single window business registration, via the Ministry of Justice, as a milestone in MSME development in the country.

Mr. Makhuvha Thakani, Chief Executive Officer, Small Business Finance Agency, Republic of South Africa, shared the role of his agency as a financial services provider specifically aimed at promoting SME development. He pointed to his agency's high risk appetite and low collateral requirements; it provides direct lending through 80 access points, and currently supports 240,000 MSMEs. He noted that the principal challenges remain in the area of due diligence and increasing collection rates.

Finally, Ms. Tatiana Krylova, Head of the Enterprise Branch, Division on Investment and Enterprise at UNCTAD provided an overview of the capacity building initiatives of the organization related to SME promotion, accounting, insurance and access to financial services. Ms. Krylova highlighted the effectiveness of UNCTAD's Accounting Development Tool in helping countries assess their accounting infrastructure, including the technical capacity, regulatory frameworks and institutional setup regarding accounting for public interest companies, public institutions and SMEs. Ms. Krylova concluded her intervention by inviting participants to use the opportunity of this project to help pave the way forward for financial inclusion for MSMEs.

## III. The private sector perspective to financial inclusion

This session provided the views of financial services providers from the private sector whose business models are specifically aimed at catering to the MSME sector.

Ms. Naomi Ndele, Head of SME and Agribusiness, KCB Bank, introduced her intervention by providing figures and an overview of the SME market in Kenya. She outlined both her company's financial and non-financial strategies. She pointed to the need to upskill startups at the incubation stage, and provide them with access to payment and other financial services. She noted that the challenges were unavailability of audited accounts, unfamiliarity with complex accounting procedures, and lack of financial management skills. These could, in her mind, be overcome by a simpler regime, with reduced charges, forums for capacity building, technical assistance and digitizing account solutions. As an example of the latter, she indicated that the digitalization of transaction could bring it cost down in 95%.

Mr. Franklie Okata, Senior Manager of SMEs at Safaricom Limited, outlined his company's heavy focus on SMEs, with a strong reliance on mobile payment platforms such as Mpesa. Safaricom's SME clients are largely focused in retail, agribusiness, investment clubs, education, and transport/logistics. Mr. Okata said that the key to helping SMEs was providing relevant products

and services, financing, and capacity building. Affordable solutions were key, including amortized or pay-as-you-go schemes.

#### IV. Parallel working sessions

##### A. Working group on the role of accounting in financial inclusion for MSMEs

The working group on the role of accounting and reporting in promoting financial inclusion addressed a number of issues on regulatory, institutional, and human capacity-building requirements and challenges. The panellists provided perspectives of regulators, standard-setters, as well as professional accountancy organizations and educators.

Speakers with regulatory responsibility highlighted that most SMEs remain in the informal sector to avoid paying taxes. This distorts the calculation of GDP of many countries due to the informal nature of SMEs. In sharing the experience of his country in encouraging informal businesses to register and become part of the formal economy, a speaker noted that despite a three-year tax exemption the tax authority provided as an incentive, most informal businesses did not take up the offer. The mere fact that the entity that was established to encourage SMEs to formalize was affiliated to the tax department discouraged many informal business owners from coming forward and taking up the offer.

There was consensus among panellists and participants that the IFRS for SMEs issued by the IASB was not appropriate for owner-managed micro-enterprises. A comment was made that the title - IFRS for SMEs - is misleading and would make more sense if referred to as IFRS for *Private Companies*. There was agreement that a more simplified guidance - such as the SMEGA Level 3, developed by UNCTAD-ISAR - would be a good basis. Similar discussions were also conducted with respect to audit needs of SMEs. It was noted that unlike in the area of financial reporting, International Standards on Auditing (ISAs) don't have a specific standard intended for auditing SMEs. However, ISAs are designed to be scalable and can be applied to SMEs.

Views were expressed on the need for conducting an in-depth analysis of the costs and benefits of preparing audit financial statements. It was also noted that professional accountants need to adhere to professional code of conduct and need to avoid playing the lowest bidder to attract business. The value added that accountants and auditors could bring to SMEs would be to act as trusted business advisors when entrepreneurs take early steps in establishing their business. The relationship would then grow into providing accounting, audit or tax services as the businesses grows. Discussions that followed highlighted the need, first for understanding entrepreneurs and their challenges - taking a bottom-up approach, and then developing policy on accounting and audit requirements. Policies need to be transformational and development oriented.

The discussions on human capacity-building requirements and challenges in relation to entrepreneurs and promoting financial inclusion highlighted a number of considerations supported by extensive research. One of the initial challenges identified in this regard is enabling entrepreneurs to understand that SMEs are separate entities from their owners and business and personal activities need to be tracked separately. Research findings indicated that self-employed persons performed worse than the general population on standardised assessments of their ability to monitor expenses, to budget, and to live within their means. Raising financial literacy of entrepreneurs would significantly contribute to facilitating access to finance and reducing defaults on loans. In order to raise financial literacy among the general population, accounting should be taught in schools – just like reading, writing and arithmetic.

## B. Working group on the role of insurance in financial inclusion for MSMEs

The working group on insurance benefited from the interventions of speakers representing different stakeholders (regulators, insurance industry associations, SMEs and consultancy firms). Mr. Pa Sillah (Commissioner of Insurance within the Central Bank of The Gambia) highlighted the law currently under review to enable the microinsurance market in the country and encouraged the regional integration to enable a single registration for insurance companies throughout different countries.

Mr. Akwir Birian, Senior Manager General Insurance Business, the Association of Kenya Insurers provided an overview of the different stakeholders in the market and their limitations in providing innovative insurance solutions for SMEs within the current regulations. Mr. Bahati Ogolla representing the Tanzania Insurance Regulatory Authority, highlighted the agency's current efforts to draft specific regulatory provisions for microinsurance.

Ms. Pauline Gathuri-Mbugu, Senior Manager at the Association of Kenya Insurers, emphasized the need to supporting the segment of small to medium entrepreneurs (those generating between 5 to 100 jobs) whose role in local economies is paramount. Mr. Vinod Shah, Finance Director, Acropolis Insurance Brokers Ltd highlighted the challenges of offering multipurpose insurance products to SMEs, in a wider context of mistrust from fraudulent claims. Finally, Mr. Robert Nyamu, Risk Africa Advisory Leader, Ernst & Young, noted the need for greater responsiveness of the industry to cater the SMEs needs

In general, participants outlined a number of challenges to overcome in order to support the sustained growth of SMEs from an insurance perspective. They noted the low coverage within African countries, with the industry and regulation at varying stages of development throughout the continent, very low (1-3%) levels of coverage, and no country with specific regulatory provisions to facilitate access to SMEs. In fact, the need to a more clearly-define profile for SMEs (size and needs) was accentuated. Participants shared the view of microinsurance partially filling the gap for microenterprises (1-2 employees). However, there are still openings in the markets for firms generating more than self-employment. In short, there is a critical need for a wider definition and further servicing of insurance products for SMEs.

The microinsurance industry was highlighted as an example of progress towards financial inclusion, in particular for microentrepreneurs. In some countries, regulatory frameworks are being developed for microinsurance while in others, there is a regulatory framework already in place. In those countries where microinsurance is already in place, the focus has thus far been on health, funerary, life insurance and agricultural insurance for individual farmers. The latter has been done through a public provision scheme to co-subsidize insurance premiums while generating a wider insurance culture.

In general, participants noted the potential dynamism that a strong SME insurance market could bring to a country's economy. However, many challenges exist. One of them is generating trust on both sides of the industry. Mistrust has so far been generated by both fraudulent claims as well as by long and draining settlements process.

Moreover, participants highlighted affordability as a key underlying issue. Some SMES feel that the industry is designed for corporations and insurance is regarded as a luxury, pointing to the need for greater responsiveness of the industry and regulatory frameworks to the needs of SMEs.

Finally, the lack of culture of prevention was referred as a common challenge in the country. On this line, risk awareness and financial literacy is needed among individuals, starting from an early school age.

## V. Way Forward

Participants from the two working sessions charted a way forward on the role of accounting and insurance in financial inclusion of MSMEs. The recommendations included:

### A. Working Group on the role of accounting in financial inclusion for MSMEs

- Reducing the number of licenses required to operate a simple business
- Simplifying the registration process for SMEs;
- Governments to consider exempting SMEs that collect value added tax from paying income taxes, and then establishing graduated tax rates as SMEs grow;
- SMEs would be more inclined to pay taxes if it can be demonstrated that they will be the primary beneficiaries of the taxes they pay;
- One stop-shop for registration, licencing, and paying taxes to authorities at different levels;
- Governments to consider awarding a predetermined percentage of their procurement budget to SMEs and Auditor-General offices to ensure that such procurement arrangements are properly carried out;
- Governments to commit to making payments on invoices from SMEs with the shortest possible delay to help SMEs meet their cash-management needs;
- Establishing a dedicated department with government to address SMEs needs,
- Greater engagement among entrepreneurs and policy-makers in developing appropriate policies and regulation;
- Promoting greater collaboration between large businesses and SMEs. This could prompt access to finance when lenders realize that the SME is already linked to a larger company, providing a level of comfort that the loans are likely to be paid;
- Larger businesses could designate part of their corporate social expenditures to provide financing to SMEs,
- Accounting and financing training to be included in school curricula at an earlier stage;
- Professional accountancy organizations to consider awarding Continuing Professional Education (CPD) credits to their members when they engage in training entrepreneurs on accounting and financial reporting on a voluntary basis;
- Governments to consider allowing micro-entities to present their financial statements on cash-basis and in this respect to accept statements furnished by electronic service providers such as Safaricom in place of formal financial statements and as micro entities grow, more formal accounting and financial reporting would be required; and
- Establishing centres where entrepreneurs would be able to receive mentoring to help them pursue their business ideas.

### B. Working Group on the role of insurance in financial inclusion for MSMEs

- A working definition of an SME, tailored to individual jurisdiction and sector needs. This should be done on the basis of in-depth study of SME needs, including at the regional and rural levels. To secure buy-in, a multi-stakeholder approach should be adopted, bringing together regulators, underwriters, insurance companies, brokers, agents, reinsurers, representatives of SMEs associations, SMEs facilitation agencies, multilateral organizations.
- Better understanding to allow product design by the industry and further regulatory adaptation – or, as one participant put it, “a healthy industry is fast ahead of its regulators”, with simplified products tailored to the needs of SMEs.

- The possibility that regulators and stakeholders could jointly evaluate transitional or pilot products/regulations for testing innovative product for SMEs.
- Harnessing recent advancements in the digital and mobile economy, which offer a unique opportunity to improve distribution channels and innovate in the whole insurance cycle (from acquiring coverage, payment of primes to filing claims and further claim settlement and payment). The insurance industry could learn from the recent advancements in the banking sector, i.e. using/sharing recently established platforms, instead of reinventing the wheel.
- Creating more robust policies on marketing and distribution, contract formalities, and the settlement and expediting of claims, as part of a strategy to meet customer needs efficiently and at the lowest cost.
- Capacity-building for all stakeholders – including the industry, the regulators, and SMEs associations – on insurance schemes for SMEs, best practices from around the world, creating a culture of risk prevention, and financial literacy; overall, how to instil accounting with the purpose of making available reliable financial information or chartered accounts to insurance providers.
- Tailored technical assistance by UNCTAD and other agencies/initiatives (e.g. ILO's access to insurance initiative, CIMA's initiative for Sub-Saharan Africa) to develop institutional capacity at the country level to make real changes in the insurance sector, and thus broaden affordable access for MSMEs. These changes include improved supervision for shorter mandatory response by insurers to claims settlements and final payment to clients, tax incentives for SMEs and facilitating competition for a healthy industry.
- Linking work done at the national level with regional regulatory frameworks within the African regional economic commissions (e.g. SADC, COMESA, ECOWAS, CEMAC and EAC).

## VI. Concluding remarks

In general, it was concluded that, despite a significant progress in promoting MSMEs, specifically in terms of their access to financial services, there remain several challenges to overcome. The participants agreed that this situation is partly explained by the lack of in-depth knowledge of the needs of the MSMEs followed by thorough product development led by the industry along with appropriate regulatory frameworks.

Participants generally agreed to establish and continue dialogue at both the national and regional levels with SME development agencies and the Empretec Programmes for further policy making on financial inclusion of MSMEs.

Ms. Krylova informed that the proposed avenues of action shared in the intergovernmental arena of the United Nations during the 34<sup>th</sup> session of ISAR to take place in Geneva, from 1-3 November 2017. Mr. David Gichana, Deputy Auditor General of Kenya, who has been nominated as a chairman for the session, expressed his willingness to transmit these key messages at the 34<sup>th</sup> ISAR.

Participants requested UNCTAD to continue its efforts in facilitating the follow-up on the meeting's recommendations and, to that end, UNCTAD's specific tools were highlighted, such as

the ADT, SMEGA, and the discussion paper titled "Facilitating Access to Affordable Insurance Products for SMEs". Participants emphasized the need for these critical materials that can enable countries to assess their capacity gaps, set priorities and define specific action plans.

Finally, participants welcomed the collaboration with the professional bodies ACCA and ICPAK and encouraged the hosts to replicate such partnerships throughout the African continent.

