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SADC Financial Inclusion Strategy

(2016 – 2021)

Approved by Summit in XXX on XX August 2016

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LIST OF ACRONYMS

AfDB	African Development Bank
AML/CFT	Anti-money laundering / Countering Financing for Terrorism
APEC	Asia Pacific Economic Cooperation
ATMs	Automated Teller Machines
AU	African Union
B2G	Business-to-government
BCEAO	Central Bank of West African States
BICICI	Banque internationale pour le commerce et l'industrie de la Côte d'Ivoire
BoP	Bottom of the Pyramid
CAADP	Comprehensive Africa Agriculture Development Programme
CBK	Central Bank of Kenya
CCBG	Committee of Central Bank Governors
CCU	Country Coordination Unit
CISNA	Committee of Insurance, Securities and non-banking Financial Authorities
DES	Deputy Executive Secretary
DfID	Department for International Development
DFIs	Development Finance Institutions
DFRC	Development Finance Resource Centre
DFS	Digital Finance Solutions
DRC	Democratic Republic of Congo
EAC	East African Community
EASSy	Eastern Africa Submarine Cable System
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FMI	Financial Market Infrastructure(s)
FSPs	Financial Service Providers
GDP	Gross Domestic Product
ICPs	International Cooperating Partners
ICT	Information and Communication Technology
ID	Identity Document
KYC	Know Your Customer
M&E	Monitoring and Evaluation
MAP	Making Access Possible
MNOs	Mobile network operators
MSME	Micro, Small and Medium Enterprises
NGOs	Non-governmental organisations
NICTBB	National Information and Communications Technology Broadband Backbone
ODA	Official Development Assistance
P2G	Person-to-government
P2P	Person-to-person
PMO	Project Management Office
PMU	Project Management Unit
POS	Point of Sale
RAP	Regional Agricultural Policy
RISDP	Regional Indicative Strategic Development Plan
SACCOS	Savings and Credit Cooperatives Society
SADC	Southern African Development Community
SGBCI	Société Générale de Banques en Côte d'Ivoire
SIRESS	SADC Integrated Regional Electronic Settlement System

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SME	Small and medium enterprise
SMMEs	Small, medium and micro-sized enterprises
SMS	Short message service
SSA	Sub-Saharan Africa
STEM	Science, Technology, Engineering and Math
TVET	Technical, Vocational, Education and Training
UMOA	West African Monetary Union
UNCDF	United Nations Capital Development Fund
USD	United States Dollar
VSLA	Village, Savings and Loans Associations

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CONTEXT AND POSITIONING

This document outlines the strategy on Financial Inclusion for SADC. Financial inclusion requires strategy development, policy alignment and stakeholder involvement in each of the SADC member states individually, responding to the specific challenges, needs and requirements in that country. Over and above that, alignment between SADC member states is required to address regional issues to support regional financial integration. Such topics include regulatory harmonisation and alignment, the lack of which hampers incentives for FSPs to expand internationally and complicates cross-border remittances.

As a regional body working in close collaboration with its independent member states, SADC is best placed to drive financial inclusion in the region through three key interventions::

- Providing support to individual member states in the development and execution of their own financial inclusion strategy
- Convening stakeholders in a regular platform to share learnings, collaborate on shared solutions and track progress
- Coordinating on regional topics and solutions

This strategy contains a rationale and proposal for the set of activities that SADC will undertake to further regional financial inclusion and thus focuses on support to member countries, regional convening and coordination on cross-border challenges. It cannot replace country strategies but aims to be complementary to and supportive of member country strategies. It does not prescribe what member country strategies need to cover and what they need to look like as that needs to be tailored to the country situation and challenges. That said, it can provide specific support to these countries which is outlined in this strategy. To that end, SADC and its implementing partners will draw on a 'toolbox' of support offering.[1] It also aims to define an ambition for member countries by articulating metrics and targets to be tracked.

The SADC Council of Ministers tasked SADC with the development of this financial inclusion strategy, recognising the crucial importance of financial inclusion and SME access to finance for the core area of Industrial Development and Market Integration in the Revised Regional Indicative Strategic Development Plan (RISDP) and the SADC Industrialisation strategy and roadmap. Two key elements in that are the Regional Agricultural Policy (RAP) and the Regional Infrastructure Master Plan with a key focus on ICT. Given this mandate, this draft strategy draws an explicit link to demonstrate the contribution of financial inclusion to industrialisation. This emphasis does not mean that industrialisation is the sole contribution financial inclusion can make. In fact, if designed and implemented appropriately, financial inclusion will contribute to sustainable economic growth and stability and improve livelihoods.

After creating a shared definition and understanding of financial inclusion, this document outlines the importance of financial inclusion in SADC with a particular emphasis on its contribution to industrialisation. Subsequently, it highlights the barriers to financial inclusion and sketches the current landscape of interventions. Driven by the positioning, mandate and the capacity of SADC in relation to the other stakeholders, this strategy then identifies priority areas for intervention by SADC in financial inclusion which form the cornerstone of the proposed strategy.

[1] The specific elements in the toolbox are not described in this draft strategy – they will be identified and developed as the strategy is implemented.

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EXECUTIVE SUMMARY

The primary orientation of this Strategy is to support SADC Member States in the development and implementation of their own National Financial Inclusion Strategies. As such, this Strategy is regional in nature and aligns with the aspirations of the Regional Indicative Strategic Development Plan (RISDP) and the SADC Industrialisation Strategy and Roadmap. The target audience for this Strategy is primarily national and regional stakeholders working to address regulatory and supply-side constraints to financial inclusion. It is envisioned that this Strategy will provide an overview of the context in SADC and assist in coordinating efforts around a common vision and goal under the leadership of the SADC Secretariat.

What is financial inclusion?

Across the African continent, governments have begun to realise the pivotal role financial inclusion can play in combatting poverty and contributing to inclusive economic growth. Growing bodies of evidence have shown that financial sector deepening is crucial to the process of economic development, and how finance can positively impact the poor by reducing income inequality and expanding employment.[2] Recent innovations in financial services for low-income groups, in particular, has shown governments how financial inclusion can strengthen the resilience of vulnerable and marginalised populations. As a result, a number of countries on the continent and in the region have begun to develop national financial inclusion strategies and spearhead key programs and initiatives to improve financial markets.

Financial inclusion refers to the delivery of financial services and products in a way that is available, accessible and affordable to all segments of society and plays a pivotal role in combatting poverty and contributing to inclusive economic growth. The three main dimensions of financial inclusion are:

- Access: the combination of both the availability and appropriateness of financial products and services;
- Usage: the frequency of interaction with the product or service; and
- Quality: the combination of product fit, value add, convenience and risk.

In addition to the aforementioned dimensions, exclusion can also be voluntary or involuntary and activities to drive inclusion should focus on involuntary exclusion, which results from low incomes and high risk profiles of the un- and underserved segments of society.

Financial products and services for those who are in some way included, can be provided in the formal or informal arena, which not only influences access and affordability, but also predictability or product performance, consumer protection and effectiveness. The adult population and businesses accessing financial services and products can be segmented into three main categories:

- **The "Banked"** population refers to individuals and businesses who have/use services provided by an institution operating under a banking license which is regulated by the regulatory authority of the country.
- **Other formal (non-bank)** refers to individuals and businesses who are served by other regulated financial institutions. These adults have/use financial products and/or services provided by regulated non-bank financial institutions such as micro-finance banks/ institutions insurance companies, retail, remittances service providers, and credit providers.

[2] Beck. "Finance and Growth: Too Much of a Good Thing?", 2014.

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- **The "Underbanked"** population refers to individuals and businesses who have needs for multiple products, but only have access or use a select subset of them.

The informally served refers to the adult population who do not make use of financial products provided by regulated financial institutions. This segment of the population do not have/use any financial products and/or services from regulated financial institutions. In many African countries the informal financial sector is largely driven by remittances, savings groups and credit associations.

Whether through formal, or informal channels, financial inclusion encompasses four main product categories:

- **Transaction [products]** enable people and businesses to buy goods and services, and send money to friends, family and business partners. They also enable government to collect taxes and disburse social payments;
- **Savings and investments**[3] offer a safe place to save and build assets for future expenditures such as education and agricultural inputs. Savings products also allow families, individuals, and businesses to smoothen their consumption;
- **Credit** provides access to capital and enables people and businesses to seize new business opportunities or expand existing operations, and increase consumption in times of need; and
- **Insurance** enables people and businesses to manage risk and protect themselves from sudden shocks.

Why is financial inclusion important for SADC?

Overall, financial inclusion in the SADC region is relatively low and varies widely across countries. Though over half of adults (66%) living in the SADC region, are financially included, 12% higher than the continent-wide average, 41,9 million people (34%) still do not have access to either formal or informal financial services or products. Furthermore, substantial variation exists between countries in the region in terms of levels of access and in terms of the quality of financial inclusion.

Financial inclusion can improve livelihoods and contribute to sustainable economic growth and stability. Specifically, as part of economic development, financial inclusion can play a catalytic and supportive role in industrialisation which is core to SADC. That said, inclusion and the uptake of products and services in the SADC region is relatively low and varies widely across countries, pointing to the need for a regional strategy for financial inclusion. The SADC Industrialisation Strategy highlights a number of barriers to industrialisation, all of which can be catalysed through greater financial inclusion. The ways in which financial inclusion can maximise the potential of these pathways to drive industrialisation and economic growth are summarised below and further elaborated on in Section 1.3:

- **Domestic resource mobilisation**: Enabling the transfer of cross-border funds, increasing the tax base, and augmenting the deposit base for the financing of low income groups and enterprises are three tangible and impactful regional actions SADC should undertake to mobilise domestic resources for industrialisation. Through these measures, financial inclusion empowers consumers with tools to live more prosperous lives while supporting SMEs and government with the capital and revenue needed to expand and industrialise the economy.

[3] In the remainder of this document, this category will be referred to as 'savings'. Whereas investment products serve a similar purpose to savings products in terms of building and growing assets, the products most likely to be taken up first by un- and underbanked customers to serve this purpose will be savings products (as they're typically simpler, have a lower risk profile and often can be drawn on at shorter timeframes without risking loss of value). To maximise financial inclusion with limited resources, public and social sector stakeholders are advised to ensure availability of saving products first given this typical uptake pattern. That said, the regulation, institutions and skills required to build a healthy offering of and market for savings products are also prerequisites for investment products (necessary but not sufficient) and thus strengthening these paves the way for investment products.

- **Agricultural production and agro-processing**: Agriculture stakeholders tend to be underserved by financial institutions which limits their ability to grow and prosper. The extension of financial products and services to the agricultural sector can improve production and enable value addition processes. By empowering farmers with the products and services they need to mitigate risk, save for the future, expand operations, and buy and sell over distance, financial inclusion can not only yield enormous benefits for rural residents in SADC but increase the yields of those farmers in turn. Financial inclusion for processing equipment – whether through smallholder farmers or small and medium-sized enterprises – can then spur industrialisation through greater value addition and integration into regional and global supply chains.

- **Strengthening of small and medium scale enterprises**: Despite the significant role SMEs play across SADCs economy, they struggle to obtain funding from traditional sources of finance. The financial inclusion of small and medium-sized enterprises, through credit, insurance, savings and transaction products, increases the resilience and growth of this vital sector. A strong SME sector, especially in manufacturing, in turn spurs employment, value addition, and overall industrialisation of the SADC region.

- **Information and Communications Technology (ICT)**: There is a symbiotic relationship between financial inclusion and the sophistication of a country's ICT sector. As such, ICT development and financial inclusion will go hand in hand, with ICT being a requirement for financial inclusion and subsequent further inclusion providing a market need/ pull for more sophisticated products which in turn will support the ICT sector.

- **Skills development**: By addressing the cost-prohibitive nature of education over distance and time, financial inclusion can increase access to education and thus develop the broader skills of the region. Through addressing the capital constraints of educational service providers – both public and private – financial access can expand the supply of education provided. Both these effects spur industrialisation through the broader development of skills within the workforce.

How can SADC drive financial inclusion in the region?

SADC can drive financial inclusion by providing support to mitigate supply, demand and policy/regulatory barriers. Demand side barriers undermine the consumer's ability to fully adopt and utilise financial products and services. Supply-side barriers on the other hand limit the ability of the financial service provider to extend products and services to un- and underserved segments of society. Challenges on either side of the spectrum are further complicated by the policy and regulatory environment. Section 2.1 serves to outline the barriers to financial inclusion from the aforementioned perspectives and looks at the key trends facing the four main product categories in relation to these barriers.

There are a number of factors affecting the availability and uptake of transactions and savings products. Firstly, insufficient distribution channels of formal institutions severely affect the provision of transaction and savings products, particularly in rural areas. Secondly, a lack of appropriate transaction and savings products also play a significant role in the exclusion of low-income consumer segments. Thirdly, the lack of a tiered KYC system for banks also poses as a significant barrier to the provision, uptake and usage of transaction and savings products. Lastly, from a regulatory point of view, a lack of incentives that promote interoperability also excludes certain populations from the use of transaction products and regulatory restrictions constrain mobile money operators from offering

interest on savings products. Furthermore, MNOs face challenges related to cash float management which limits their ability to cash out payments.

Credit and insurance products experience extremely high barriers on the supply and demand sides, when compared to transactions and savings product. In parallel, policy gaps within current policy/regulatory frameworks further constrain the scale of financial inclusion through these products across SADC. The nascent nature of insurance and credit markets across SADC, and their stage of development, is also reflected in the policy and regulatory frameworks that govern them. FSPs often lack the incentives to go "down-market" and in many cases, the financial and skills capacity, to provide products to low-income and riskier consumer segments. Lack of information regarding the profiles and demands of un- and underbanked segments also inhibits the willingness and ability of FSPs to provide credit and insurance. From the perspective of the consumers, a lack of appropriate products significantly impact uptake in addition to the ability of the consumer to understand product use and functionality.

Section 2.2 identifies the interventions that SADC should focus on and highlights a preferred general direction of travel: that of growing payments and digital financial services and orienting credit markets towards SMEs and smallholder finance as a means to further financial inclusion. Not surprisingly, innovations that reduce the need for either face-to-face interaction and/ or an extensive branch network have been successful at serving the un- and underbanked. With high mobile phone penetration in developing countries, becoming almost ubiquitous in some parts of continent and region, digital financial services has enabled some communities to leapfrog branch banking. Similarly, agent networks and other branchless banking models adopted throughout the continent provide innovative ways of reaching consumers in remote areas, eliminating the need for a direct interaction with someone in a brick and mortar institution. Where branchless banking is available, there tends to be industry and consumer benefits. The evolution of digital financial services in particular has drastically reduced marginal costs of inclusion, facilitated large-scale enrolment, and extended access to remote locations, while managing to side-step challenges around financial literacy to a large extent. Thus, countries in the SADC region, with currently low levels of inclusion have the opportunity to leapfrog the typical development trajectory and focus strongly on digital finance services. That will help accelerate the shift to a 'cash lite' society which has significant advantages in terms of growth and bettering livelihoods.

Credit is a particular area that is in need of growth towards further inclusion – broader availability of affordable credit for various purposes for both individuals and SMEs will have a strong developmental effect. Moving beyond payments to expand access to credit will play an important role in enhancing the quality of inclusion experienced by consumers in SADC. Credit markets in the region are relatively nascent and for the most part the availability of reasonably priced credit is very limited. For those not in formal employment, short-term credit (for consumption smoothing) is only available at high cost. Furthermore, certain segments of society such as SMEs face a particular challenges when trying to access productive credit. Developing credit markets that are sustainable and socially beneficial to all players in the region will help individuals secure their livelihoods and support the growth of SMEs and drive economic development in the region.

Interventions to address the barriers to financial inclusion broadly fall within four main categories – funding, advocacy, research and development and finally capacity building and technical assistance. Funding refers to interventions that facilitate the mobilisation and provision of resources towards the attainment of identified priorities. The broad range of stakeholders and the requirement to meet complex consumer demands in financial ecosystems will require a range of financing mechanisms that will need to be applied in strategic ways. Examples include, challenge funds, guarantee funds, grant funds and credit financing. Advocacy interventions seek to influence policy

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and the provision of financial services and products. For advocacy to be effective and efficient in addressing demand-side and policy and regulatory constraints it should be based on credible evidence and must be targeted to the correct audiences and stakeholders. Furthermore the availability of credible data, through research and development, is key to understanding market gaps and opportunities. Lastly, capacity building and technical assistance initiatives will serve to develop the capabilities of state and non-government actors to drive financial inclusion at the national and regional level.

There are a number of interventions currently underway to enhance financial inclusion in the region that SADC could leverage going forward. Section 2.3 takes a deeper look at the trends and opportunities that exist to drive financial inclusion in the region. The majority of stakeholders working in the financial inclusion space at both the national and regional level, primarily on the supply-side, are non-government entities. Non-government entities are often better placed to lead on specific interventions or programmes given their institutional flexibility and access to technical expertise and resources needed for implementation and scalability of interventions. Furthermore, given that a number of International Cooperating Partners (ICPs) are already aligned at the regional level, an opportunity exists for SADC to leverage its central position to convene ICPs to align funding activities with regional priorities in financial inclusion. Lastly, as Member States strengthen policy around financial inclusion at the national level, SADC has a greater role to play in coordinating activities and targets across the region.

Section 2.4 looks at how a multi-stakeholder approach can be used to drive financial inclusion in the region. Large-scale initiatives can be employed to address financial inclusion at both a regional and a national level – additionally, non-government actors undertake such initiatives within a local, national or regional context. At the regional level, entities are responsible for defining a set of shared rules to guide initiatives by national governments and non-government actors. It is at this level that stakeholders can also ensure or work towards policy harmonisation across their geographic area of focus. In addition, entities operating at the regional level are responsible for creating momentum around a shared vision or agenda to seek buy-in and commitment for this overarching vision from all stakeholders. National entities draw on the overarching agenda at the regional level and articulate specific national goals that take into consideration local context. In doing so, national entities take on all three roles – rule making, market development and provide incentives for consumers and service providers to enter the market and drive transaction volume. In addition to initiatives driven by national entities, various non-government entities initiate, drive and lead programmes across various topics and geographies. These need to be aligned with stakeholder and programmes at regional and national level. At times, they do also surface issues that need to be resolved by regional/ national entities. Addressing the multi-faceted barriers to financial inclusion will require a strong alliance between stakeholder's at all three levels.

SADC should select its role in driving financial inclusion based on an assessment of which interventions are most effective and efficient at the regional level. Section 2.5 unpacks this further to highlight the role SADC should play in terms of advocacy, research and development, resource mobilisation and capacity building and technical assistance to drive financial inclusion in the region. Firstly, SADC is currently best placed to drive advocacy efforts to reach common goals in financial inclusion by using its regional position and existing structures to convene stakeholders across borders. Secondly, SADC should also support the harmonisation of research and development for financial inclusion within the region to standardise research and data collection methodologies to facilitate cross-border comparison and measure regional progress. Substantial potential exists to expand SADCs ability to mobilise resources to fund financial inclusion initiatives. If SADC were able to more effectively mobilise resources, these resources could be pooled and distributed for greater efficiency, rather than

be distributed in a piecemeal fashion. Lastly, capacity building and technical assistance initiatives should be coordinated by SADC in partnership with other stakeholders. Subjects that are cross-border or regional in nature and subjects where the required intervention is the same and can most efficiently be delivered regionally, are most likely to benefit from increased effectiveness and/ or efficiency if approached regionally. By contrast, subjects that require a country-specific intervention may not be best suited to a regional intervention.

In terms of a way forward, Section 3 proposes the institution of a Regional stakeholder forum and an implementing structure (be it a Project Management Office, a Centre of Excellence or a different structure) be established to ensure the successful implementation of the Regional Financial Inclusion Strategy. Whatever structure is finally chosen, it will have to focus on driving a regional agenda in each of the four identified areas of focus – Advocacy, Research and Development, Capacity Building and Technical Assistance and Resource Mobilisation. In staffing, SADC could choose to either; 1) develop or source these capabilities from the market, 2) enhance or repurpose existing capabilities or 3) use a virtual structure drawing from existing capabilities. Section 3 also goes on to propose a preliminary monitoring framework for measuring progress of the regional financial strategy.

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1. WHAT IS THE GENERAL IMPORTANCE OF FINANCIAL INCLUSION AND POTENTIAL IMPACT FOR SADC?

Across the African continent, governments have begun to realise the pivotal role financial inclusion can play in combatting poverty and contributing to sustainable inclusive economic growth and stability. Growing bodies of evidence have shown that financial sector deepening is crucial to the process of economic development, and how finance can positively impact the poor by reducing income inequality and expanding employment.[4] Recent innovations in financial services for low-income groups, in particular, has shown governments how financial inclusion can strengthen the resilience of vulnerable and marginalised populations. As a result, a number of countries on the continent have begun to develop national financial inclusion strategies and spearhead key programs and initiatives to improve financial markets. With this in mind, this chapter provides a discussion on the concept of financial inclusion and its current state in the SADC region, followed by an examination of how financial inclusion can drive industrialisation and the various approaches that can be employed to address financial inclusion.

1.1. What is financial inclusion?

Financial inclusion refers to the delivery of financial services and products in a way that is available, accessible and affordable to all segments of the population. Financial inclusion was initially measured through a dichotomous framework, defining access according to individuals who are "banked" or "unbanked". This framework, erroneously assumes that inclusion will be achieved by simply offering enough access points. As such, a more multi-dimensional understanding of financial inclusion is required to fully understand the complexities of how underserved communities live and how they interact with products and services. Figure 1 provides a breakdown of the current concept of financial inclusion which looks at three main dimensions – access, usage, and quality. It is important to keep in mind that these three dimensions do not operate independently, but reinforce each other.

It should be noted that access to finance refers to the ability of businesses and individuals to gain access to financial products. In this regard, an individual or business can be financially included but not necessarily have access to finance to meet all their financial needs – which means their growth can still be inhibited. One example of this is a small business owner who may be financially included (i.e. have a bank account or insurance product), but cannot get access to a line of credit or loan. Thus greater financial inclusion can contribute to overcoming some but not all access to finance challenges.

[4] Beck. "Finance and Growth: Too Much of a Good Thing?", 2014.

Figure 1: Dimensions of financial inclusion

Dimension	Description	Indicator	Key observations
Access	Access refers to the availability of affordable and appropriate financial products and services.	**Access can be understood in two ways:** 1) **Availability:** access points to various services or products. These services and products can include: • Formal: number of ATMs and bank branches per user; • Semi-formal: number of microfinance institutions, credit unions; or • Informal: number of Village, Savings and Loans Associations (VSLAs), or moneylenders**.** 2) **Appropriateness:** products and services that meet the needs of the client. For example a VSLA as opposed to an ATM or bank branch, may be better placed in a community characterised by a high number of self-employed individuals.	Without access, uptake of financial products and services is limited.
Usage	Usage refers to the uptake or utilisation of financial products and services.	**Usage can be understood as follows:** 1) **Frequency:** the number of interactions the client has with products and services within a given time period. For example a client with a dormant bank account cannot be classified as financially included if they do not make use of the product and have no other financial products.	Usage is often used as a proxy to determine access and uptake of financial products and thus the depth of financial inclusion.
Quality	Quality refers to product design and functionality that enhance the value of services to clients.	**Quality can be understood in four ways:** 1) **Product fit:** products and services that are well-suited and tailored to the needs of the client. 2) **Value Add:** products and services that add value to the clients overall financial situation. 3) **Convenience:** products and services that are easily accessible and user friendly. 4) **Risk**: access to products and services should not increase the financial risk of consumers e.g. over-indebtedness due to reckless lending practices	Quality also has a direct influence over usage i.e. poor quality products will result in low usage. Furthermore, despite its importance quality remains a difficult dimension to measure financial inclusion.

SOURCE: Literature review; Dalberg analysis

Access is the combination of both the availability and appropriateness of financial products and services. Facilitating access to financial services is vital as it allows the poor to increase and diversify their income, save for education, manage risk and protect against unexpected future events. Access includes more than just the point where "cash-in" and "cash-out" transactions can be performed. It also speaks to the availability of appropriate infrastructure to facilitate access. In deepening access these points need to be located in close proximity to the user, affordable and user-friendly.

Usage refers to the frequency of interaction with the product. Merely having a bank account does not suffice as inclusion. The frequency with which the client engages with the product is much more

telling about whether the client is financially included or not. For example, various government grants, salary and pension payments in a number of countries are done into a mobile account by programme design. However, many users "cash out" immediately because they experience no value. These users, thus, have very low usage, and will not benefit from other product deployments and cannot be counted as effectively included.

Unless the products are of high quality, meeting people's needs, they will either choose not to access or not use it a lot. As such, product quality is a key condition for financial inclusion. Quality speaks to the experience of the user when accessing financial services and gauges whether the service provided is done so in a manner that enhances value of the product to the client, from product design to delivery. The products provided need to be tailored to the specific needs of the client, add value to their lives and be accessible in an easy and effective manner. Without quality, there will be no usage and it is therefore important for countries to focus on the quality of inclusion from the outset and not wait until saturation of any one products occurs in the market.

Apart from access, usage and quality (which tends to translate into usage) as a description for the *effectiveness* of inclusion, there are a few other important ways of looking at inclusion. Firstly, exclusion can be voluntary or involuntary and activities to drive inclusion should ideally focus on involuntary exclusion. Secondly, financial products and services can be provided in the formal or informal arena which can differ in access and affordability, but also differ in predictability or product performance, consumer protection and effectiveness. Thirdly, inclusion typically refers to four different products – access to and usage of some but not all, introduces the notion of the "underbanked".

Individuals may be involuntarily excluded from participating the financial sector due to challenges such as low incomes or high risk profiles.[5] Individuals may also voluntarily opt out of participating. Determinants in this regard could be lack of need for the products or services or psychological and cultural barriers which stem from mistrust of banks and other formal institutions, either due to negative experiences or negative perceptions.[6]

The adult population accessing financial services and products can then be further segmented based upon "where" they receive financial services formally or informally.[7] Formal inclusion refers to those individuals and businesses who have/use financial products and/or services provided by a regulated financial institution which can be a bank (operating on a banking license) or non-bank entity that is regulated. Thus, this segmentation is as follows:[8]

- **The "Banked"** population refers to individuals and businesses who have/use services provided by an institution operating under a banking license which is regulated by the regulatory authority of the country.
- **Other formal (non-bank)** refers to individuals and businesses who are served by other regulated financial institutions. These adults and enterprises have/use financial products and/or services provided by regulated non-bank financial institutions such as micro-finance banks[9]/ institutions insurance companies, retail, remittances service providers, and credit providers.
- **The "Underbanked"** population refers to individuals and businesses who have needs for multiple products, but only have access or use a select subset of them.

[5] Asian Development Bank. "Financial inclusion, poverty, and income inequality in developing Asia", 2015; Dalberg analysis.
[6] Shankar, S. "Financial Inclusion in India: Do Microfinance Institutions Address Access Barriers?", 2013.
[7] Finmark Trust. "Finscope South Africa", 2014; Dalberg analysis.
[8] Throughout this document, definitions of financial inclusion and financial access refer both to individuals and MSMEs.
[9] It should be noted that in some countries microfinance banks have a licensing regulation that is separate from 'regular' banking licenses

The informally served refers to the adult population who do not make use of financial products provided by regulated financial institutions. This segment of the population do not have/use any financial products and/or services from regulated financial institutions. In many African countries the informal financial sector is largely driven by remittances, savings groups and credit associations. The names of these rotating savings and credit issuing mechanisms may vary between countries but they operate on very similar principles. In Malawi, Village, Savings and Loan Associations (VSLAs), are typically made up of 15-30 members, who make individual financial contributions on a weekly basis. The average weekly contribution ranges from 200 to 1000 Kwacha, with a 50 Kwacha contribution to an emergency fund. This savings pool is then lent out to members who must repay with interest. Interest averages about 20%, and is fed back into the pool of funds. At the end of each 10 -12 month cycle the total fund is proportionally shared out between the members, based on the value of each member's contributions.[10] Another example would be the informal money transfer market which is highly effective in providing remittance service to international migrants in host countries. While the informal sector benefits un- and underserved segments of society by extending services in areas where the formal sector may not be able to, these institutions are characterised by high level of risk. The lack of appropriate regulations and monitoring of the sector makes it difficult to: (i) leverage the sectors potential to contribute to economic growth and development; and (ii) can also give rise to concerns regarding consumer protection.[11]

Whether through formal, or informal channels, financial inclusion encompasses four main products:

- **Transaction [products]** enable people and businesses to buy goods and services, and send money to friends, family and business partners. They also enable government to collect taxes and disburse social payments;
- **Savings and investment products[12]** offer a safe place to save and build assets for future expenditures such as education and agricultural inputs. Savings also allow families, individuals, and businesses to smooth their consumption;
- **Credit** provides access to capital and enables people and businesses to seize new business opportunities or expand existing operations, and increase consumption in times of need; and
- **Insurance** enables people and businesses to manage risk and protect themselves from sudden shocks.

1.2. What is the current state of financial inclusion in SADC?

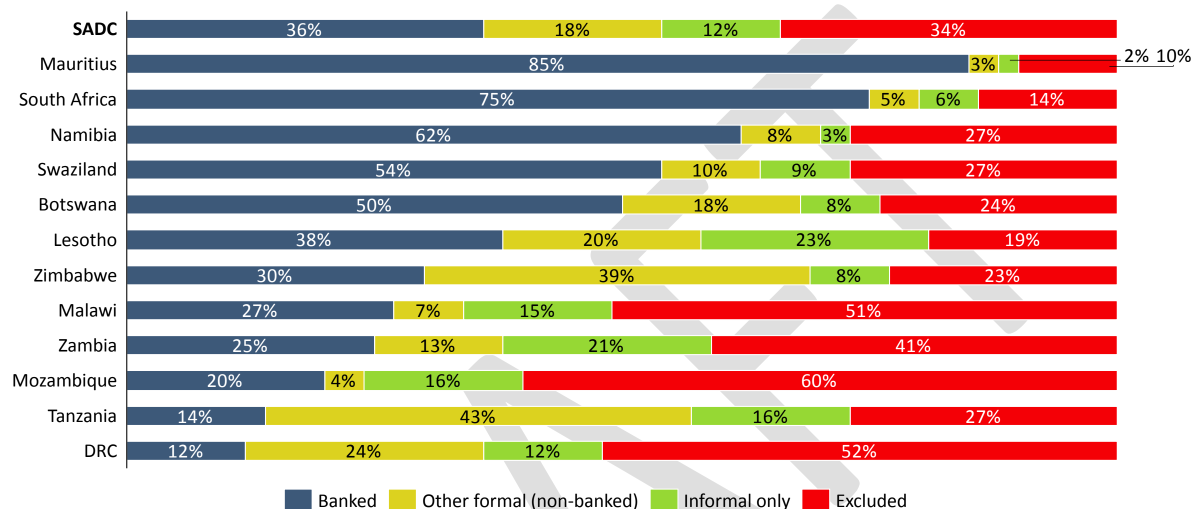
Overall, financial inclusion in the SADC region is relatively low and varies widely across countries. Though over half of adults (66%) living in the SADC region, are financially included, 12% higher than the continent-wide average, 41,9 million people (34%) still do not have access to either formal or informal financial services or products, as illustrated in Figure 2. [13] At the country level however, 90%, 86% and 81% of the adult population in Mauritius, South Africa, and Lesotho, respectively, are classified as financially included. Conversely, countries such as the Democratic Republic of Congo, Malawi and Mozambique are experiencing extremely low levels of financial inclusion, with over 50% of the population lacking access to financial services of any kind.[14]

Low regional performance and substantial variation between countries points to the need for a more coherent financial inclusion strategy. Low overall performance also has cross-border implications of stifling the growth of the financial sector across the region, while variation between countries make it

[10] Making Access Possible. "Malawi Country Diagnostic Report", 2015.
[11] SAIIA. "Promoting Financial Inclusion for Inclusive Growth in Africa", 2015.
[12] See footnote 3 for an explanation on the positioning of savings and investment products
[13] Finmark Trust, "Financial Inclusion in the SADC Region", 2015.
[14] Ibid.

difficult for countries to perform within the auspices of an economic community.[15] Lower performing countries thus need to "catch up" to higher performing countries, while countries with more developed financial service sectors need to formalise, expand and deepen access to underserved groups.

Figure 2: Financial Access by country (in percent with upper middle income countries highlighted)[16]



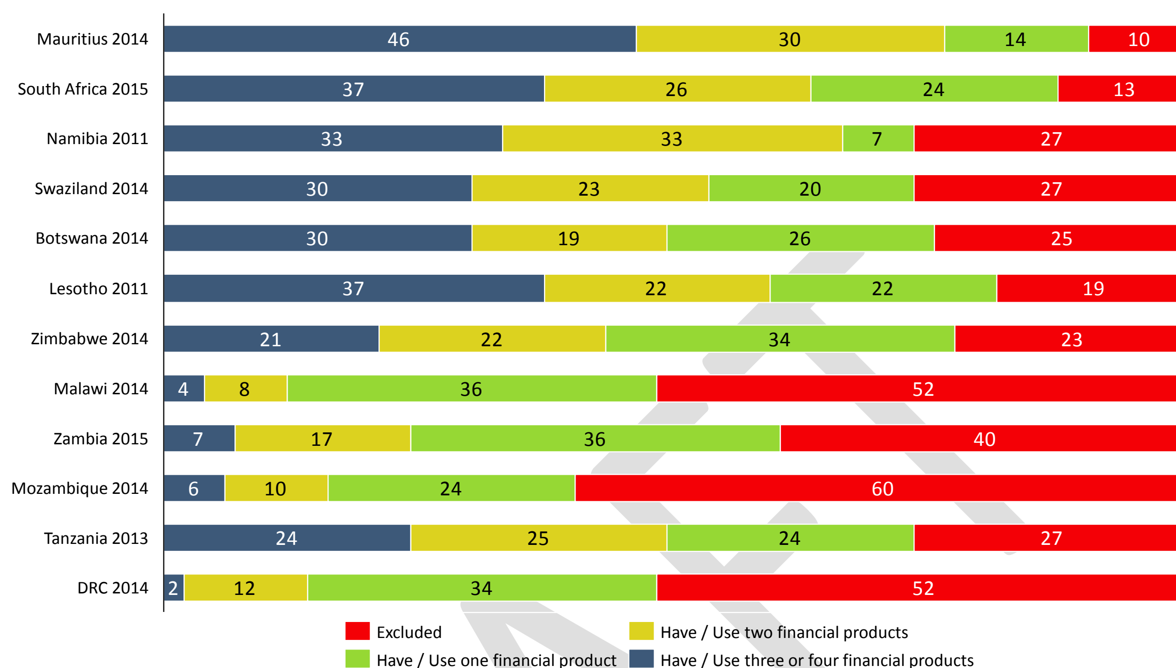
SOURCE: FinMark Trust. "Financial Inclusion in the SADC Region", 2015; World Bank country classification[17]

As illustrated in Figure 2, it appears that upper-middle-income countries tend to have higher levels of financial inclusion, driven particularly by the formal banking sector, while low and lower-middle-income countries with relatively high rates of financial inclusion – Lesotho and Zimbabwe in particular – have done so through other formal and informal financial mechanisms. In Lesotho, financial inclusion among the non-banked is predominantly driven by funeral cover, while in Zimbabwe it is driven by mobile money and remittance services.[18] Rural areas tend to face lower levels of inclusion with 45% of rural populations facing exclusion compared to only 23% in urban areas. In terms of education, individuals with a primary education are more likely to have access to financial products compared to those without a primary level of schooling.[19]

Furthermore, as shown in Figure 3, substantial variation exists between countries in terms of quality of financial inclusion. A larger percentage of the included population in upper-middle-income countries, like Mauritius, South Africa and Namibia, have/use up to three to four financial products compared to the DRC, Zambia, Mozambique and Malawi where the majority of those included only have/use one financial product.

[15] African Development Bank, "Southern Africa Regional Integration Strategy Paper 2011-2015", 2011.
[16] FinScope surveys have not been undertaken for Angola and Seychelles. The FinScope survey for Madagascar was underway at the time that this strategy was being drafted. World Bank Global Findex data for Madagascar and Angola are not included as they operate under different definitions of financial inclusion
[17] World Bank classifies "upper-middle-income" countries as those with GNI per capita of USD 4,126 to USD 12,735. Note: Research conducted by Finmark Trust attributes strong performance in financial access by Swaziland predominantly to an increase in ownership of basic banking cards over the last three years.
[18] African Development Bank, "Southern Africa Regional Integration Strategy Paper 2011-2015", 2011.
[19] Finmark Trust, "Financial Inclusion in the SADC Region", 2015.

Figure 3: Quality of financial inclusion in SADC (in percent)[20]



SOURCE: FinScope Data

Interestingly the gender gap is relatively small in SADC. At the household level women are the primary financial managers in most families, ensuring household resource allocation to meet ongoing basic needs and additionally saving to invest in and protect their families' future.[21] In SADC 36% women are financial excluded compared to 33% of men. While this is 15% higher than the continent-wide average, there are significant variances across countries. For example, in Swaziland, while there is only a one percentage point difference between men and women in terms of exclusion, 62% of the male population is banked compared to 48% of female counterparts with women largely accessing products through the informal market.[22] The financing gap, for women, is also more acute in rural areas, with women only benefiting from one tenth of the credit to small formers and less than 1% of total credit to agriculture.[23]

Levels of uptake across each product category are also low with large variances across countries. As shown in Figure 4, a large percentage of adults in SADC are not accessing products and services be it in the formal or informal arena. Those that are participating are typically accessing non-bank and informal products and services across all four product categories. For example, approximately 32% of adults in the SADC – below the continent-wide average of 44% - borrow, mainly through friends and family. Furthermore, of the 51% of adults that are saving, 34% do so through informal channels or at home. The uptake and usage of products and services varies between countries in the region. For example, the proportion of adults who save ranges from 88% in Tanzania to 32% in South Africa. Similarly, the proportion of adults who borrow ranges from 64% in Lesotho to only 9% in DRC.[24]

[20] Financial products are either Transactional (incl. Remittances), Savings, Credit or Insurance. An individual can access these products from formal institutions such as banks or non-bank formal institutions such as insurance companies and/or from informal service provides such as moneylenders or burial societies. For the calculation of the figures below we did not distinguish between formal and informal financial products

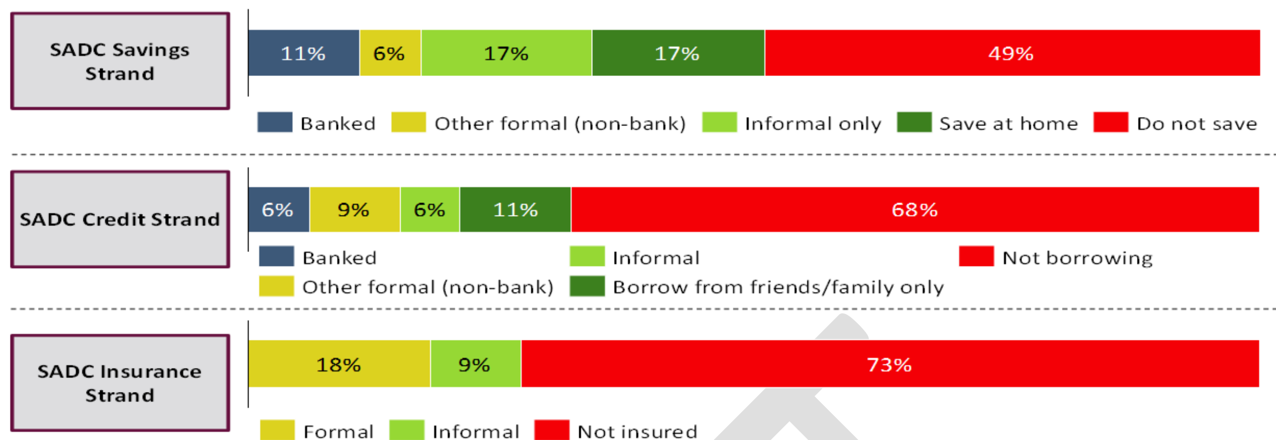
[21] GIZ et al. "Making finance work for Africa", n.d.; Dalberg analysis.

[22] Finmark Trust. "FinScope Consumer Survey Swaziland 2014", 2015.

[23] AFDB. Ibid; FinMark Trust. "Financial Inclusion in the SADC Region", 2015; Dalberg analysis.

[24] Finmark Trust. "Financial Inclusion in the SADC Region", 2015.

Figure 4: Uptake of financial products and services in SADC



SOURCE: Finmark Trust. "Financial Inclusion in the SADC Region", 2015

The use of insurance products remains low across the continent and the region, with only 27% of adults in SADC using insurance products. Looking at the continent, statistics show that only 3% of adults on the continent have personally paid for health insurance and only 6% of those working in farming, forestry or fishing industries have purchased crop, rainfall or livestock insurance.[25]

1.3. Why is Financial Inclusion important?

As outlined in the introduction, the SADC Council of Ministers anchored the development of this financial inclusion strategy, in the crucial importance of financial inclusion and SME access to finance for the RISDP and the SADC Industrialisation strategy and roadmap. Given this context, this section draws an explicit link to demonstrate the contribution of financial inclusion to industrialisation. This emphasis does not mean that industrialisation is the sole contribution financial inclusion can make. In fact, if designed and implemented appropriately, financial inclusion will contribute to sustainable economic growth and stability and improve livelihoods.

SADC has identified five pathways to drive industrialisation –greater access to finance can contribute to each of these pathways. The SADC Industrialisation Strategy and Roadmap highlights numerous barriers to industrialisation, many of which can be catalysed through greater financial inclusion.[26] The pathways of financial inclusion most relevant to industrialisation are described below:

I. **Domestic resource mobilisation:** maximising revenue streams through the improvement of tax collection, broadening the deposit base and improving the effectiveness of cross-border payments;
II. **Agro-processing:** improving overall agricultural production and value-addition;
III. **Strengthening small and medium enterprises (SMEs):** focus on enabling small business growth and sustainability;
IV. **Information and communication technology (ICT):** broadening the demand and increasing the sophistication of ICT-based [financial] services; and
V. **Skill development:** improving educational access and financing the provision of educational services.

[25] Ibid. Based on 2012 data.
[26] SADC. "SADC Industrialisation Strategy and Roadmap 2015-2063", 2015.

The following sub-sections outline how financial inclusion can maximise the potential of these pathways to drive industrialisation and subsequent economic growth.

*1.3.1. **Pathway I**: Domestic resource mobilisation*

Enabling the cross-border transfer of funds, increasing the tax base, and augmenting the deposit base for the financing of low income groups and enterprises are three tangible and impactful regional actions SADC can undertake to mobilise domestic resources for industrialisation. Through these measures, financial inclusion empowers consumers with tools to live more prosperous lives while supporting SMEs and governments with the capital and revenue needed to expand and industrialise the economy.

Domestic resources are less likely to fluctuate than external resources, making the use of domestic financing mechanisms to drive industrialisation more reliable. The volatility of international capital flows, coupled with inadequate macroeconomic policies and domestic governance often result in significant vulnerability of developing countries to banking crises and financial contagion.[27] For example, total FDI in SADC fell by almost 50% as a result of the financial crisis, dropping from around 20 bn USD to 11 bn USD between 2008 and 2010.[28] FDI across the region has since increased, but as of 2013 still remains around 6 bn USD short of what it was in 2008. Primary commodity exporting countries are especially susceptible to volatility. Net FDI in Zambia, for example, is largely dependent on copper exports, dropped from 13 bn USD in 2007 to less than 7 bn USD in 2009. The country is still struggling to diversify the economy and regain macroeconomic stability.[29]

These net fluctuations in FDI are also compounded by variations within the region.[30] South Africa, for example, has had historically higher levels of FDI, with average yearly FDI of around 5.2 bn USD between 2004 and 2013. In Angola, however, a substantial reduction in FDI since 2010 has caused the net flow of FDI to swing into negative territory; despite inflows of over 2 bn USD in 2009, Angola experienced an average outflow of FDI of 1.7 bn USD between 2004 and 2013.[31]

Moreover, aid to the SADC region has continued to fall. Since reaching a high of 11% in 2003, net ODA received as a percent of GDP in SADC fell to a low of 7% in 2013. Despite this figure being four percentage points higher than that of the average for the sub-Saharan Africa region as a whole, ODA to Africa continues to fall.[32] This drop over time makes aid an increasingly less viable option for financing of industrialisation, especially as countries develop and raise their income levels.

Steps to increase tax revenues, expand the deposit base, and facilitate cross-border transfers can effectively leverage domestic capital to finance industrialisation. The SADC Industrialisation Strategy recognises the potential of both domestic and international sources of financing for industrialisation yet explicitly underscores the capriciousness of foreign financing in the context of the current global economy. With that said, the strategy highlights the benefits of domestic financing over FDI and aid for the implementation of the industrialisation strategy.[33] The sub-sections below outlines how

[27] Overseas Development Institute. "Financial globalisation can have several potential positive impacts on developing countries", 2015.
[28] World Bank data on foreign direct investment, net inflows (BoP, current US$) from 2004 to 2013, most currently available data.
[29] African Economic Outlook. "Zambia", 2015.
[30] SADC website. "Foreign direct investment", n.d.
[31] World Bank data on Foreign direct investment, net inflows (BoP, current US$) from 2004 to 2013, most currently available data.
[32] World Bank data; Dalberg analysis.
[33] SADC. "SADC Industrialisation Strategy and Roadmap 2015-2063", 2015.

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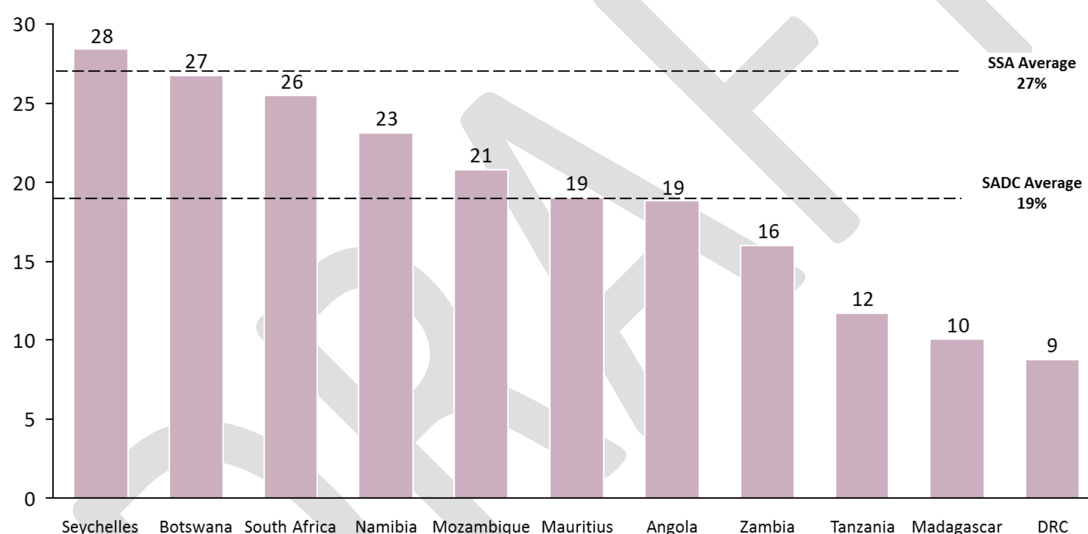
expanding financial products and services to a larger group of people, and formally including them into the economy, can result in the effective mobilisation of financial resources.

Tax revenues across the region remain low, highlighting a significant opportunity to more effectively mobilise domestic resources. As Figure 5 illustrates, tax revenue in SADC lags substantially behind the continental average. While tax collection has increased across the continent, now standing at 27% of GDP,[34,35] the average tax revenue collected in the SADC region still hovers around 19% of GDP.[36,37] Of the countries for which data is available, only the Seychelles and Botswana reach the continental average. Figure 5, also exemplifies the substantial variation within the region, with the resource-rich Democratic Republic of Congo collecting tax revenue of only 9% of GDP, and the small islands of Seychelles collecting tax revenue of nearly a third of GDP.

Figure 5: SADC tax revenue (percent of GDP)



SOURCE: World Bank data on tax revenue as a percent of GDP; African Development Bank; Dalberg analysis

Governments can increase tax revenue by moving from a cash-based taxation system to a system that relies on digital channels. Mobile transaction products, for example, can expand person-to-government (P2G) and business-to-government (B2G) payments. Mauritius, Tanzania, and other East African countries have begun collecting taxes through mobile payment systems and have experienced greater compliance due to the new ease of payment.[38]

This builds on strong global evidence for the benefits of digital payments. Although P2G and B2G payment systems are still nascent, they have the potential to substantially increase government revenue and reduce leakage. In Mexico, the digitisation of payments has helped the government save an estimated 1.27 bn USD per year, or 3.3% of its total expenditure, on wages, pensions and social transfers.[39] Moreover, as petty corruption declines due to the greater degree of transparency, a

[34] African Development Bank. "Domestic Resource Mobilisation across Africa: Trends, Challenges and Policy Options", 2010.
[35] Tax collection increased from 22% of GDP to 27% between 1990 and 2007.
[36] World Bank data on tax revenue as a percent of GDP; Dalberg analysis.
[37] Data collected from 1995 to 2009. Data not available for Malawi, Swaziland, Zimbabwe, and Lesotho
[38] GSMA. "Paying taxes through mobile money: Initial insights into P2G and B2G payments", 2014.
[39] Better than Cash Alliance, "Sustained Effort, Saving Billions: Lessons from the Mexican Government's Shift to Electronic Payments," 2015.

greater portion of tax revenue arrives in government accounts, providing more money for government-led investments.[40]

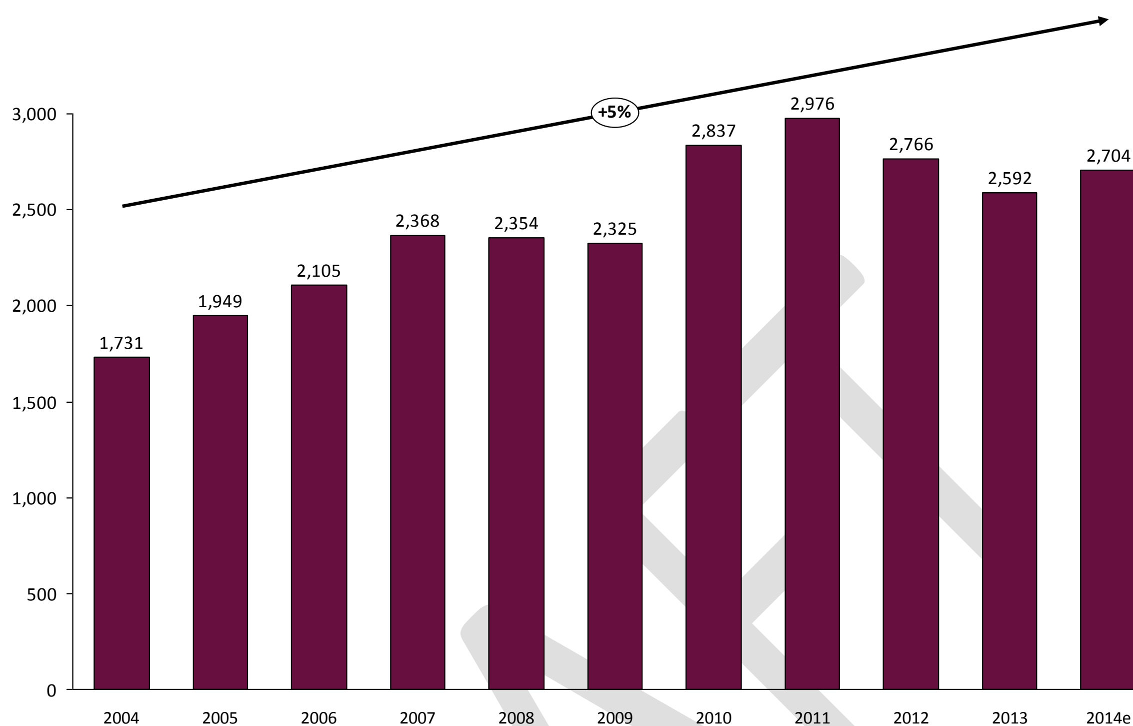
B2G payments, including the payment of income, sales and value-added taxes payments, social security and pension contributions, automotive costs (including tolls, and fines), and company registration fees, also represent a significant opportunity to increase revenue, especially considering that government payments usually represent between 15 to 45% of a country's GDP.[41] While many citizens and businesses may voluntarily avoid inclusion into the tax base – whether for fear of having to pay, or fear of being exposed as living in a country without proper documentation – digital payments have widespread benefits for people too.[42] Such systems increase transparency for citizens and reduce government corruption. Taxpayers who use digital finance platforms to pay their taxes know where the money is going, while governments, on the other hand, know how much money is being received.

Increasing the deposit base can also provide capital to finance individuals and enterprises lacking access to finance. Increasing the number of individuals and enterprises who are banked increases the total amount of deposits in circulation, in turn deepening the financial sector and providing banks with capital for financing. These relatively short-term banking deposits can be crucial to the financing of similarly-tenured loans, particularly for SMEs.[43] It is important to note, however, that although greater deposits increase the amount of capital available to banks, short-term deposits made through transaction banking would preferably be used for similarly tenured, short-term loans – especially if the source of the deposits is wholesale rather than retail. As such, capital generated through the wholesale short-term deposits cannot address larger gaps in long-term financing in infrastructure.[44]

Easing the movement of cash across distances presents a unique opportunity to increase household incomes and the potential for domestically-led financing. As Figure 6 shows, the total amount of personal remittances received within the SADC region has grown at approximately 5% a year, from 1.7 bn USD in 2004 to an estimated 2.7 bn USD in 2014. South Africa, the country from which the greatest portion of SADC remittances are sent, remains the most costly G20 country to send money from, at 16.79% of the total amount sent.[45] The SADC payments system known as the SADC Integrated Regional Electronic Settlement System (SIRESS) shows the value of reducing the time and costs associated with cross-border transactions[46] in their service provision to banks. The project already includes 73 banks in nine countries and has been expanding the number and volume of transactions substantially since its inception.[47] Concerted efforts to expand the breadth and depth of this (or a similar) system to support the services people use or would like to use for remittances, could substantially decrease the cost associated with sending remittances across borders.[48]

[40] Ibid.
[41] GSMA. "Paying taxes through mobile money: Initial insights into P2G and B2G payments", 2014.
[42] Expert interviews
[43] Dalberg analysis.
[44] The Citizen. "Africa needs bankable infrastructure projects – Nepad", 2015.
[45] World Bank. "The Cost of Sending Remittances: June 2015 Data", 2015.
[46] SIRESS is a recently launched initiative by the Committee of Central Bank Governors (CCBG) in SADC with close collaboration from the SADC Banking Association to facilitate the clearance of cross-border payments. The current system is a wholesale settlement system for high value transactions.
[47] Expert interviews; SADC. "SADC Payment System Integration Project: SIRESS Payment Statistics and Indicators", 2015.
[48] Finmark Trust. "Remittances from South Africa to SADC", 2015.

Figure 6: Net remittances received within SADC countries (million USD)



SOURCE: World Bank Indicators based on IMF Balance of Payments data; Dalberg analysis[49]

Channelling informal remittances through formal channels also has significant potential to increase financial inclusion and domestic financing for industrialisation. Research on South African-based migrants by Finmark Trust shows that only 12% of remittances sent from South Africa to SADC, are sent through official banking channels, with around 66% occurring through informal means such as buses, taxi drivers, friends and family. In South Africa alone, the value of cash-to-cash person-to-person money transfers uncaptured by the formal sector is almost 20 bn ZAR.[50] Strengthening cross-border payment systems could help integrate these funds into formal channels.

As this subsection has shown, domestic resources can be used as a more stable form of financing than aid and even foreign investment. Although the impact of such measures - improving tax collection, expanding the deposit base, and facilitating remittances – taken individually may be marginal, they can have substantial impact in helping government mobilise domestic resources for financing industrialisation, when implemented as a package.

*1.3.2.**Pathway II:** Agricultural production and agro-processing*

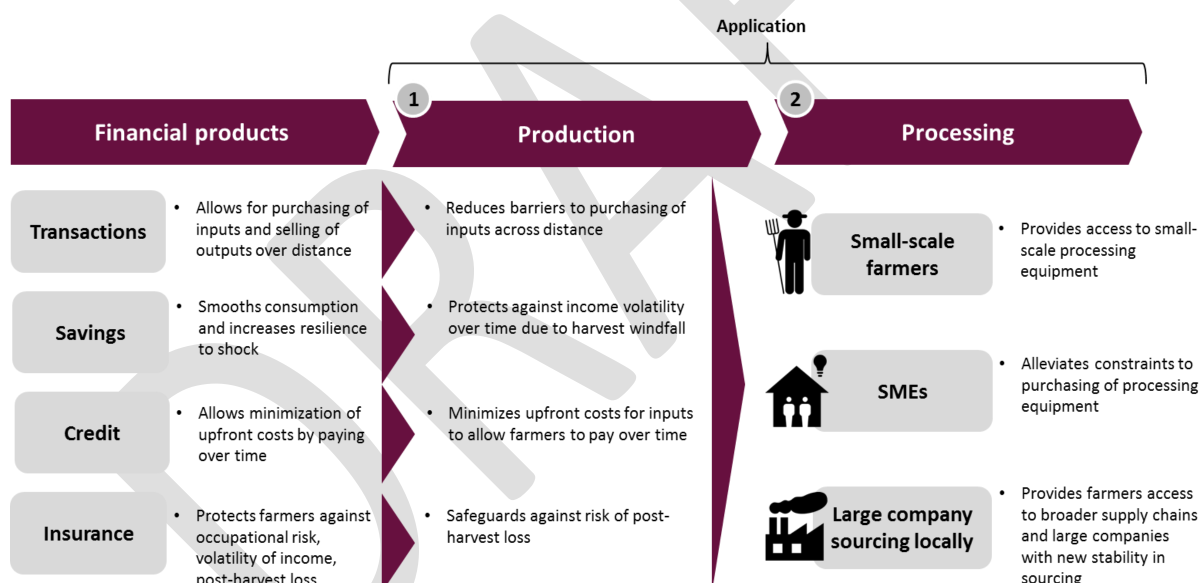
The agriculture sector across SADC is performing well below its potential while value addition activities present a significant opportunity, but is currently untapped. Agriculture accounts for approximately 13% of total regional export earnings and contributes 66% to the value of intra-SADC trade. The performance of the agricultural sector is thus important to the region's food security and overall economic growth.[51] Currently, only 20% of the region's arable land is under cultivation,

[49] Net remittances here refers to the World Bank definition of "personal remittances." Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Data are the sum of two items defined in the sixth edition of the IMF's Balance of Payments Manual: personal transfers and compensation of employees. Data is unavailable for only intra-SADC remittance amounts.
[50] Finmark Trust. "The SADC-South Africa Remittance Channel", 2012.
[51] SADC. "Strengthening the role of agriculture in poverty alleviation", 2008.

indicating a substantial gap in production capability.[52] Yields of the land currently under cultivation are often very low, reducing the income of farmers and the development of the sector as a whole.[53] Moreover, the region's agricultural sector relies substantially on primary production with limited value addition.[54]

However, agriculture stakeholders are underserved by financial institutions which limits their ability to grow and prosper. Agricultural finance is required to improve agricultural production and enable value addition processes. But, currently, the share of commercial lending to agriculture in Africa is only an estimated 1%,[55] despite the sector accounting for 32% of GDP and 65% of the labour force.[56] The extension of financial products and services to players in the agricultural sector can enhance agricultural development. More specifically, value chain financing is critical to driving growth of agricultural SMEs. The application of different forms of financing tailored to different agricultural players can help spur the processing and production cycles. Figure 7 identifies means by which the financial products of insurance, savings, credit and transactions can be applied to production and processing stages of agriculture.

Figure 7: Impact pathways of financial inclusion on agricultural production and processing



SOURCE: Dalberg analysis.

As illustrated above, financial inclusion can facilitate both agricultural production and processing through the use of financial products. The following sections outlines the application of each product to each phase of the agricultural production and processing phases:

- **By utilising mobile transaction products, smallholder farmers can more easily buy agricultural supplies and get paid for their harvests.**[57] Given the farmers' distance from traditional banking infrastructure and services, mobile transaction products have the potential to transform the lives of smallholder farmers. A study on the effect of mobile transactions on Kenyan smallholder farmers found that mobile money users had 35%

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[52] SADC website, crop production: http://www.sadc.int/themes/agriculture-food-security/crop-production/
[53] SADC. "SADC Multi-country Agricultural Productivity Programme (SADC MAPP)", 2008.
[54] SADC. "SADC Industrial Development Policy Framework", 2013.
[55] IFC and Global Partnership for Financial Inclusion. "Innovative Agricultural SME Finance Models", 2012.
[56] World Bank Data. Comparable data for the SADC region alone was not found.
[57] CGAP. "Serving Smallholder Farmers: Recent Developments in Digital Finance", 2014.

higher profits per acre of banana production than non-users.[58] Mobile network operators in both Uganda and Sierra Leone, for example, have recognised the potential of digital finance for farmers and are directly targeting them as customers.[59] Expanding such payment systems to reach farmers and rural inhabitants more broadly can help these marginalised groups overcome financial barriers faced by distance.

- **Savings products allow farmers to spend income over time and protect them from volatility and shock.** Savings smooth the consumption cycle for small-scale farmers whose incomes are strongly tied to the harvest. Farmers tend to collect a windfall when crops are harvested and rely on savings from harvest to maintain steady consumption patterns for the remainder of the year. Moreover, these products allow them the financial buffer required when faced with sudden shocks. These could be related to health shocks or fluctuations in weather, for example.[60] Saving and smoothing consumption also allows farmers to retain the necessary capital for investing in the following crop cycle.[61]

- **Credit allows farmers to increase production by allowing them to buy more and better agricultural inputs.** The Initiative for Smallholder Finance estimates the gap in debt financing for smallholder farmers in the developing world at 300 bn USD, only 3% of which is being met.[62] By accessing finance to buy inputs such as fertiliser, seeds, and insecticide, farmers can increase their yields while ensuring the cultivation of a quality product.[63]

- **Insurance products protect against numerous risks faced by farmers and their families.** Products such as weather-based crop insurance, for example, help farmers protect against risks such as low yields due to poor weather conditions. A study conducted in Ethiopia found that access to insurance makes the purchase of an additional bag of fertiliser 29% more likely. Calculations by the researchers also indicated general insurance provision would increase the average return realised by farmers by 21.8%.[64]

Financial inclusion has the ability to also facilitate agro-processing activities. Extending financial products to farmers and enterprises involved in agro-processing can increase the value of raw produce and link local farmers into regional and international value chains. At the individual farm and farmer level, finance for small-scale agro-processing equipment can increase production value for more local consumption, while firm-level financing for agricultural SMEs can alleviate capital constraints on the purchase of larger manufacturing equipment.

- **Credit products can allow farmers to lease or purchase small-scale processing equipment.** Asset loans or the micro-leasing of small-scale processing equipment for small-scale farmers can increase the value of raw agricultural produce for local and domestic consumption. Groundnut processing, for example, only requires a hand-operated processor at minimum, providing a quick means of adding value to raw produce.[65] In SADC, where down payments are often as high as 40% of the investment, micro-leases have the benefit of 100% of the equipment value being financed and upfront security payments seldom exceeding 10%. This enables lessees to retain more of their scarce resources as

[58] Kikulwe, Fischer, Quaim. "Mobile Money, Smallholder Farmers, and Household Welfare in Kenya", 2014.
[59] GSMA. "2014 State of the Industry: Mobile Financial Services for the Unbanked", 2014.
[60] Ibid.
[61] CGAP. "Serving Smallholder Farmers: Recent Developments in Digital Finance", 2014.
[62] Initiative for Smallholder Finance. "Local Bank Financing for Smallholder Farmers", 2013. Note: Excludes China.
[63] International Finance Corporation. "Access to Finance for Smallholder Farmers", 2014.
[64] Hill & Viceisza. "An experiment on the impact of weather shocks and insurance on risky investment", 2010.
[65] UNCDF. "UNCDF YouthStart Global Zambia Country Report", 2015; Dalberg analysis.

working capital.[66] Overall, such financing allows small-scale farmers to turn their raw produce into marginally more valuable outputs to suit the needs of the local market.

- **Financial inclusion at the firm level for small to medium-sized enterprises alleviates capital constraints on the purchasing of processing equipment.** Firms who are able to finance the purchase of more sophisticated processing equipment can add greater value to raw material and in turn collect higher returns on their products and potentially plug into broader value chains.

- **Existing foreign-owned and large companies can better source from local farmers if farmers have the financing required to provide inputs of adequate quantity and quality.** Increasing financial inclusion for smallholders, cooperatives, and SMEs has the potential to allow local farmers to plug into broader supply chains. Farmers may finance their crops to improve the quality of their produce and ensure a higher quality crop over time. Foreign owned firms can thus reliably source those products from farmers and compensate them accordingly on a regular basis. This has been the case for many beer producers in Africa. SABMiller, for example, is currently sourcing sorghum from Zambian smallholder cooperatives to make Eagle Beer. Firms get quality, locally sourced inputs at a standard rate, while farmers are provided a link to a commercial market, a secure income, and the financial stability to buy the necessary inputs.[67]

By empowering farmers with the products and services they need to mitigate risk, save for the future, expand operations, and buy and sell over distance, financial inclusion can not only yield enormous benefits for rural residents in SADC but increase the yields of those farmers in turn. Financial inclusion for processing equipment – whether through smallholder farmers or small and medium-sized enterprises – can then spur industrialisation through greater value addition and integration into regional and global supply chains.

*1.3.3. **Pathway III**: Strengthening small and medium scale enterprises*

Small and medium sized businesses (SMEs)[68] will be critical in broadening the region's industrial and economic base. In SADC, SMEs constitute between 75% and 95% of total firms and account for 48% of the region's employment.[69] As Figure 8 illustrates, the breakdown for each country by enterprise segment size exemplifies how different countries have varying compositions of small, medium, and large enterprises.

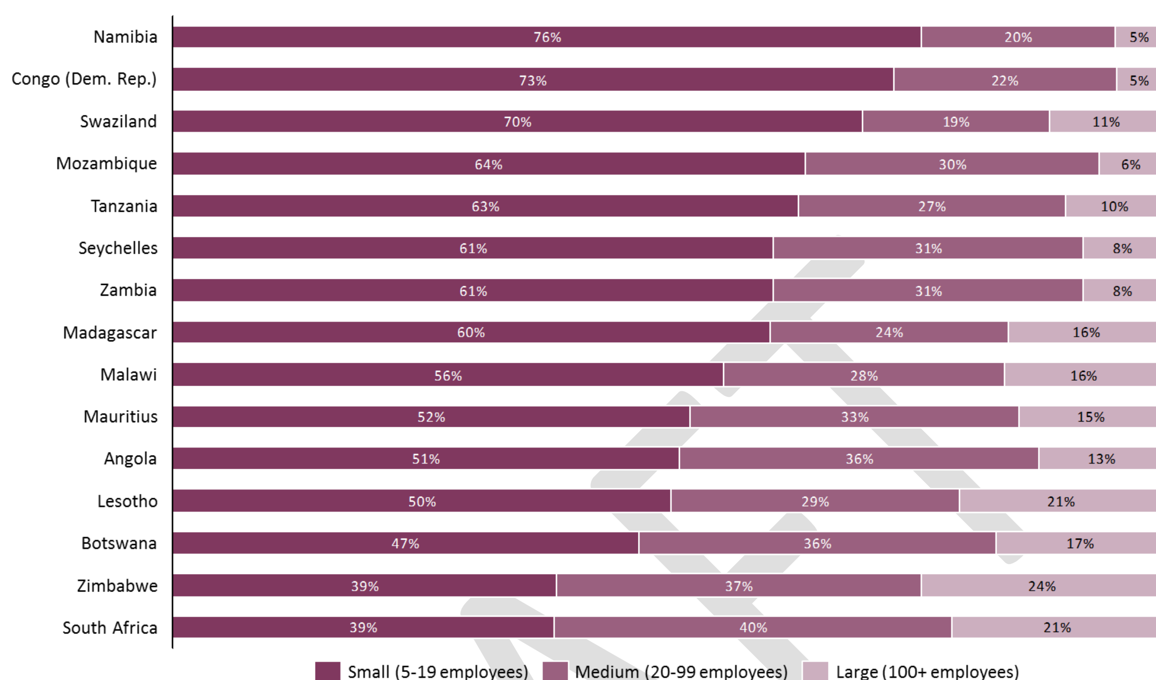
[66] Oxford Policy Management. "Study of African and international innovations and best practices in increasing access to rural and agricultural finance", 2012.

[67] AgriCultures Network. "Ensuring Finance with a Contract", 2010.

[68] Small enterprises are those with between <5-19 employees, medium enterprises are those with between 20 and 99 employees, as defined by the World Bank Enterprise Survey.

[69] World Bank SME Contribution to Employment data; Dalberg analysis. Note: no data for the Seychelles or Tanzania. Data from 2005-2008.

Figure 8: Enterprise segment by size within SADC region (percent of firms surveyed)



SOURCE: World Bank Enterprise Surveys, Dalberg analysis. Note: Data ranges from between 2006-present.[70]

The mix of small, medium, and large firms within an economy varies drastically across the region. In South Africa, for example, small, medium, and large enterprises constitute fairly equal compositions of the country's firms. SMEs currently account for more than half of the country's employment and production output and contribute 52% to 57% to the country's GDP.[71] According to recent estimates, 726,000 employers in South Africa are considered SMEs and are growing at a rate of 2.5% per year, adding more than 19,000 employers each year.[72] Moreover, 80% of all new jobs in South Africa are created by SMEs, particularly those with less than 50 employees, further underscoring the importance of the sector in South Africa's economic future.[73]

In Namibia, small enterprises constitute a much larger proportion of the overall economy. Here, SMEs provide employment and income to around 160,000 people, which represents approximately one-third of the nation's workforce compared to half in South Africa.[74] Irrespective of these regional variations, the critical role these firms play in stimulating growth and employment within a domestic economy cannot be underestimated.

But SMEs face growth challenges that are in part due to their difficulty with obtaining funding from traditional sources of finance such as commercial banks. The International Finance Corporation estimates that of the 40 million SMEs in Africa, more than half (55%) are unserved or underserved by current credit markets.[75] The value of the credit gap for *formal* SMEs in sub-Saharan Africa is estimated

[70] World Bank Enterprise survey does not collect data on microenterprises. As such, no information is available on the number of enterprises with less than five employees across countries.

[71] SME growth index, 2014.

[72] Ibid.

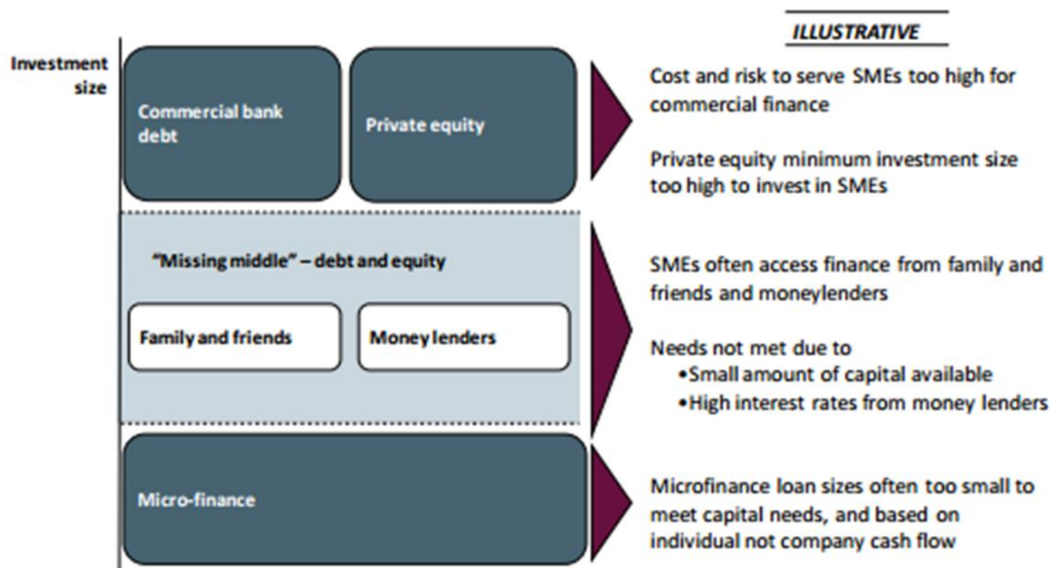
[73] Ibid.

[74] Ogbokor and Ngeendepi. "Investigating the challenges faced by SMEs in Namibia", 2015.

[75] IFC. "Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises", 2013.

at between 70 to 90 bn USD.[76] As Figure 9 illustrates, SMEs often suffer from acute financing constraints, caught in the “missing middle”. As illustrated, microfinance loans are often too small to meet the capital needs of a growing company and are more tailored to individuals, while commercial banks and private equity do not wish the take on the risk and cost of financing SMEs.[77]

Figure 9: Challenges to SME financing



SOURCE: Dalberg analysis. Note: analysis is an illustrative description of challenges faced by SMEs.

It is important to note, however, that for SME finance to effectively spur productivity and industrialisation it must be channelled towards SMEs contributing directly or indirectly to manufacturing/ the productive sector. The majority of SMEs in Namibia, for example, are mainly found in the retailing sector selling foodstuffs and household products.[78] Lending in sectors that contribute more directly to production, requires different financing mechanisms. Firms in the manufacturing sector, for example, often require higher capital expenditures and longer loan cycles than firms engaged in trade who mostly require short-term working capital facilities. That means asset finance solutions (which can come with collateral as these assets might provide that) are more likely to contribute to industrialisation than short-term working capital loans to SMEs.

The following subsections identify means by which financial products can be applied to meet the financial constraints faced by SMEs in the SADC region.

- **Transaction products can help SMEs enhance their business operations.** Mobile transaction products make transactions secure, reducing the risk of theft by progressing from cash-based transactions.[79] Such products also facilitate greater mobility, allowing entrepreneurs to buy and sell across space. Mobile transaction products have benefits for consumers and governments too. For consumers, the usage of mobile payment systems expands financial inclusion to customers who are required to use such payment systems to transact with certain merchants. B2G (business-to-government) payments through

[76] African Development Bank. “Financial Inclusion in Africa”, 2013.
[77] Harvard Kennedy School Entrepreneurial Finance Lab Research Initiative. “The Missing Middle”, n.d.; Dalberg analysis
[78] Ogbokor and Ngeendepi. “Investigating the challenges faced by SMEs in Namibia”, 2015.
[79] GSMA. “Mobile Money in the Democratic Republic of Congo”, 2013.

mobile transaction products help increase tax revenue for government by bringing SMEs into the formal economy and thus into the tax base. Small enterprises can declare income returns, pay their taxes, and business registration fees via mobile channels.[80] In this way, the extension of mobile financial services and products strengthens the entire payment ecosystem, improving the ease of doing business for all players, and SMEs in particular.

- **Savings accounts are a simple and widely accessible means of risk-reduction for SMEs.** Savings serves as a primary means to protect against shock for many small business owners in SADC. Almost three quarters (72%) of small business owners in Zimbabwe save, while only 20% who have insurance.[81] Despite the high rate of savings, many small business owners still do so through informal channels. Of the 78% of MSME business owners that save for business purposes in Malawi, three quarters of them keep their savings at home, leaving their cash vulnerable to capture and out of the formal banking system.[82] Formalising these funds through savings accounts can help small business owners protect from risk and shock.

- **Through tailoring credit and loans to the needs of SMEs, financial inclusion for enterprises can provide the capital needed to grow promising businesses.** SME banking has become a strategic target of banks worldwide.[83] Equity Bank in Kenya, for example, provides tailored SME loan products to smallholder agricultural farmers, women, youth, and SMEs in different sectors and growth phases.[84] In this way, banks are beginning to employ a range of measures, such as risk-adjusted pricing, credit scoring models, and products tailored to different stages of growth, to increase market share, profit, and overall benefits accruing from SME banking, while at the same time positively impact the growth and strength of the SME sector.[85]

- **SMEs often lack access to insurance to mitigate risk.** SMEs face numerous business risks, many of which could be reduced through the provision of insurance products. Life cycle events – such as death and illness – can have substantial negative effects on SMEs, especially those with few employees. Liability insurance, to protect SMEs from issues related to customers, and disaster insurance, particularly relevant to the agriculture sector, are also needed. Protection from theft and robbery is an acute need in many SADC countries, particularly where transactions are cash-based, and the theft of livestock and threat of crime is high.[86] Despite these risks, uptake of insurance is low within the region: in South Africa, Zimbabwe, Malawi, and Mozambique for example, uptake of insurance amongst SMEs is only 22%, 20%, 2%, and 1% respectively.[87,88] By mitigating numerous risks for SMEs, business and otherwise, insurance products can develop a more resilient SME sector.

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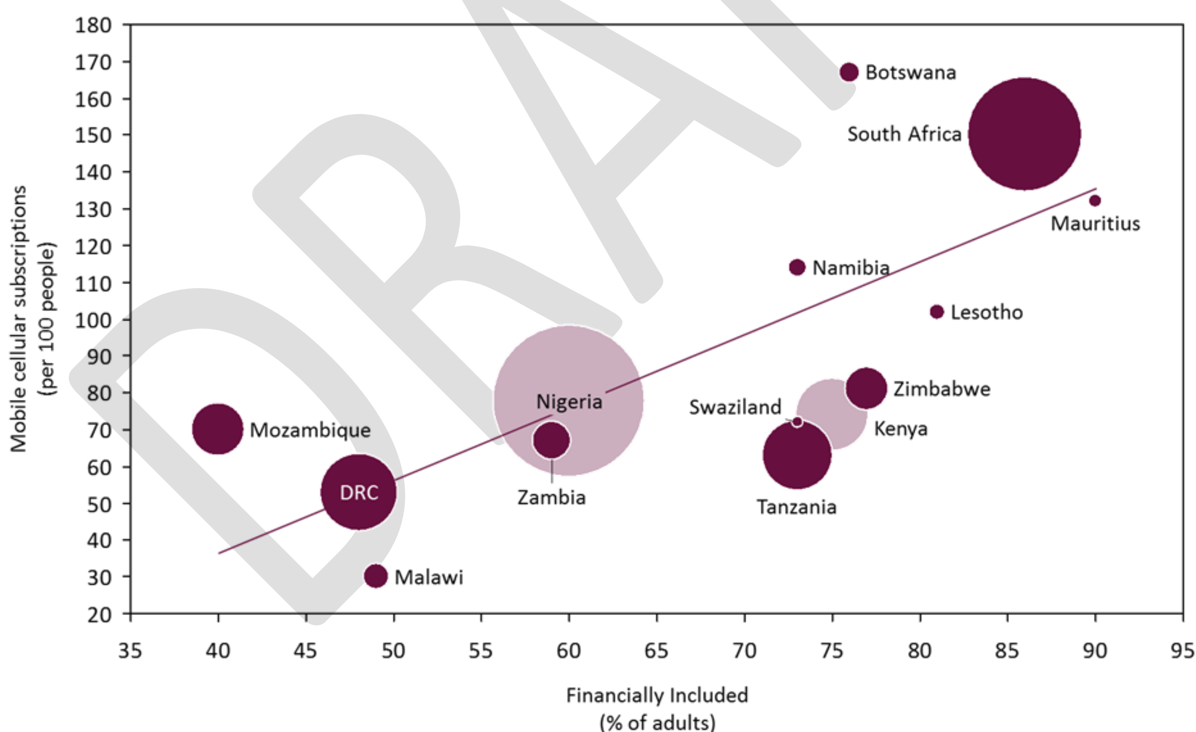
[80] GSMA. "Paying taxes through mobile money: Initial insights into P2G and B2G payments", 2014.
[81] Finmark Trust. "Finscope MSME Survey Zimbabwe 2012", 2012.
[82] Finmark Trust. "Finscope MSME Survey, Malawi", 2012. Note: Data unavailable for all SADC countries. Malawi example serves as a non-representative illustration.
[83] IFC. "The SME Banking Knowledge Guide", 2010.
[84] Equity Bank website: http://ke.equitybankgroup.com/business/products/business-loans/
[85] IFC. "The SME Banking Knowledge Guide", 2010.
[86] Aliber. "South African Microinsurance Case Study: Working Paper No. 33", 2003.
[87] Finmark Trust. "Finscope MSME Survey South Africa 2010 - 2012", n.d.
[88] Data on financial access for SMEs in SADC is limited. The countries cited here are represented purely due to the availability of data and are not meant as a representation of the broader region.

The financial inclusion of small and medium-sized enterprises, through credit, insurance, savings and transaction products, increases the resilience and growth of this vital sector. A strong SME sector in turn spurs employment, value addition, and overall industrialisation of the SADC region.

*1.3.4. **Pathway IV**: Information & Communication Technology (ICT)*

A strong ICT sector will be required to develop varied and complex financial services.[89] There is a symbiotic relationship between financial inclusion and the sophistication of a country's ICT sector. As Figure 10 illustrates, countries with high levels of financial inclusion tend to have high rates of mobile penetration, indicative of a more developed ICT sector, and also the size of the existing user base – suggesting potential demand for various kinds of ICT-related financial products and services.[90] It is plausible, then, that the need to reach a large and dispersed population, at low-cost, will require some level of ICT sophistication, thus creating an incentive for financial service providers to consider product innovations as a way to address a large market, but also for governments to ensure the necessary enabling environment that supports requisite underlying infrastructure that can ensure reliable connections.

Figure 10: Relationship between financial inclusion and mobile cellular penetration (in percent, subscriptions per 100 people)



SOURCE: Finscope, World Bank, ITU, Dalberg analysis.[91]

[89] ICT as defined in the Information & Communication Technology Sector Strategy Paper of the World Bank Group, consists of hardware, software, networks, and media for collection, storage, processing, transmission, and presentation of information (voice, data, text, images)

[90] This figure is not intended to imply causality between financial inclusion and ICT sector development, but rather show a descriptive relationship between financial inclusion and indicative indicator's for the sophistication of a country's ICT sector.

[91] Here, financial inclusion includes those banked, formally, and informally served. Size of bubble represents the total number of mobile subscriptions within each country. Kenya added to show points of comparison for country with relatively supportive financial inclusion ecosystem. Nigeria added to show point of comparison for large country with relatively low financial inclusion. No data on financial inclusion for Madagascar, Angola, and the Seychelles. Note: Mobile cellular subscriptions per 100 people can be greater than 100 due to people having multiple accounts/SIM cards.

In Mauritius, for example, the ICT sector and financial services sectors have been key economic drivers, having experienced growth of 6.8% and 5.4%, respectively between 2013 and 2014, each accounting for 6.4% and 10.3% of the country's GDP.[92] This growth has been largely due to government support and legislation such as the National ICT Strategic Plan, the National Broadband Policy, and various initiatives to streamline ICT into basic services.[93]

In Tanzania, the ICT sector is now expanding between 15% and 20% annually, the highest rate in the East African Community (EAC), largely due to key public sector investments and regulatory reforms, including the launch of the National ICT Broadband Backbone (NICTBB) between 2010 and 2012 and plugging into the SEACOM and Eastern Africa Submarine Cable System (EASSy) in 2009 and 2010.[94] These investments and reforms are have helped to spur innovation in the sector, as reflected by the increase of mobile transaction accounts by 37% between 2009 and 2013.[95]

The Democratic Republic of Congo (48%), Mozambique (40%) and Malawi (49%) all have low levels of financial inclusion and low mobile penetration. But, the relatively large absolute number of mobile subscriptions in both Mozambique and the Democratic Republic of Congo (the second and third largest mobile subscription markets in the SADC region) in conjunction with a substantial financially excluded population provide a significant opportunity to expand and deepen financial inclusion. Recognising this opportunity these governments have also taken initial steps in tapping this potential. In the Democratic Republic of Congo, for example, the government has recently eased regulation to allow Mobile network operators to operate directly in the digital financial services space.[96]

In these examples, regulation changes that promote product innovation and appropriate investments toward a strong and more sophisticated ICT infrastructure have allowed for digital finance as a vehicle to drive the expansion and deepening of financial products and services over time.

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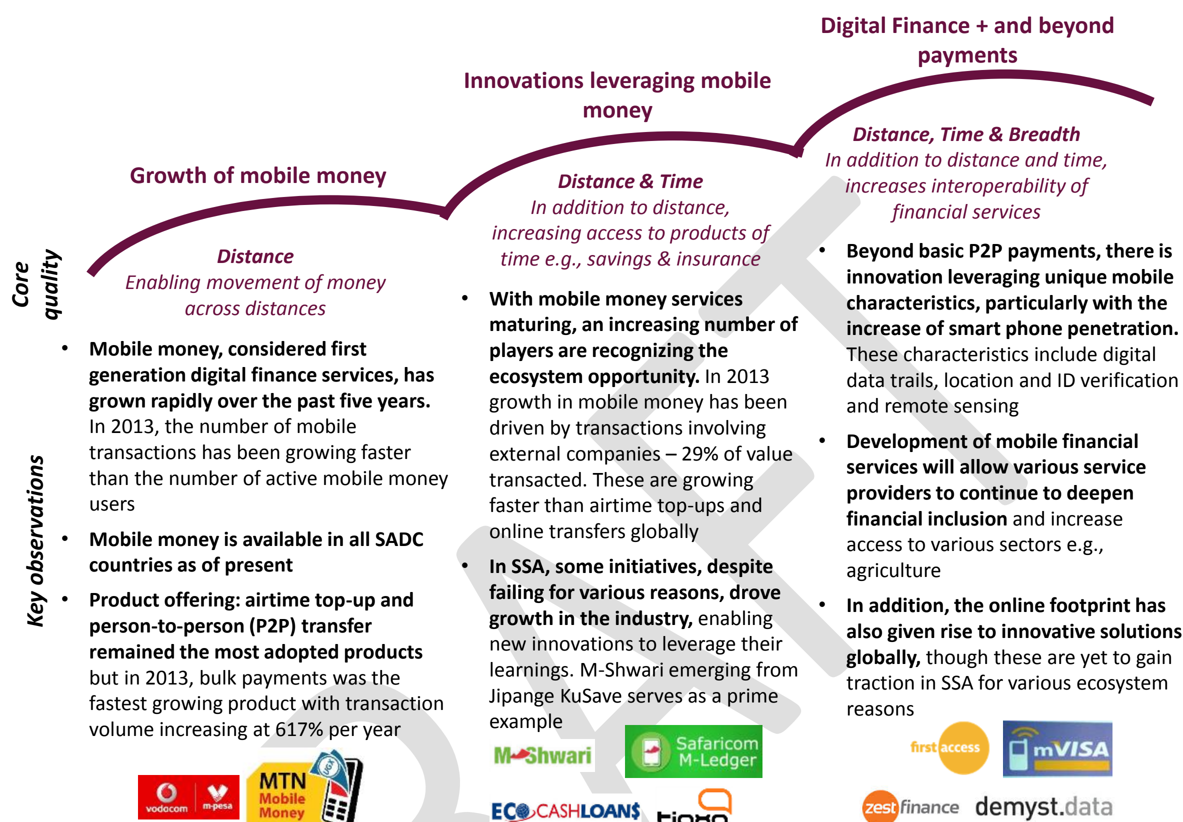
[92] Government of Mauritius Statistics Mauritius. "ICT Statistics Year 2014", 2014; Moneyweb. "Mauritius: Africa's next financial services hub?", 2014.
[93] Ministry of Information and Communication Technology Mauritius. "e-Government Initiatives in Mauritius", 2015; African Economic Outlook. Mauritius. 2014.
[94] Esselaar and Adam. "Understanding what is happening in the ICT sector in Tanzania", 2013.
[95] Brookings Institute. "The 2015 Brookings Financial and Digital Inclusion Project Report", 2015.
[96] GSMA. "Enabling Mobile Money Policies in the Democratic Republic of Congo", 2014.

Figure 11 outlines the evolution of digital finance in driving the expansion and deepening of financial products and services.

Figure 11: Overview of the evolution of digital finance in expanding and deepening financial inclusion



SOURCE: GSMA. "Annual survey", 2013; GSMA. "State of the Industry", 2013; CGAP. "PBP database", 2014; Dalberg analysis

As illustrated by Figure 11, as countries begin to develop and broaden financial access through services such as mobile money, opportunities arise to meet the need for more sophisticated products in a commercially attractive way. This demand is met through digital platforms, requiring additional innovation in the products and technology that supports them.[97] These innovations "deepen" financial inclusion, in turn (i) creating more robust customer data that helps ensure products meet the needs of the consumer; and (ii) predicting credit risk for borrowers in both formal and informal markets, for example.

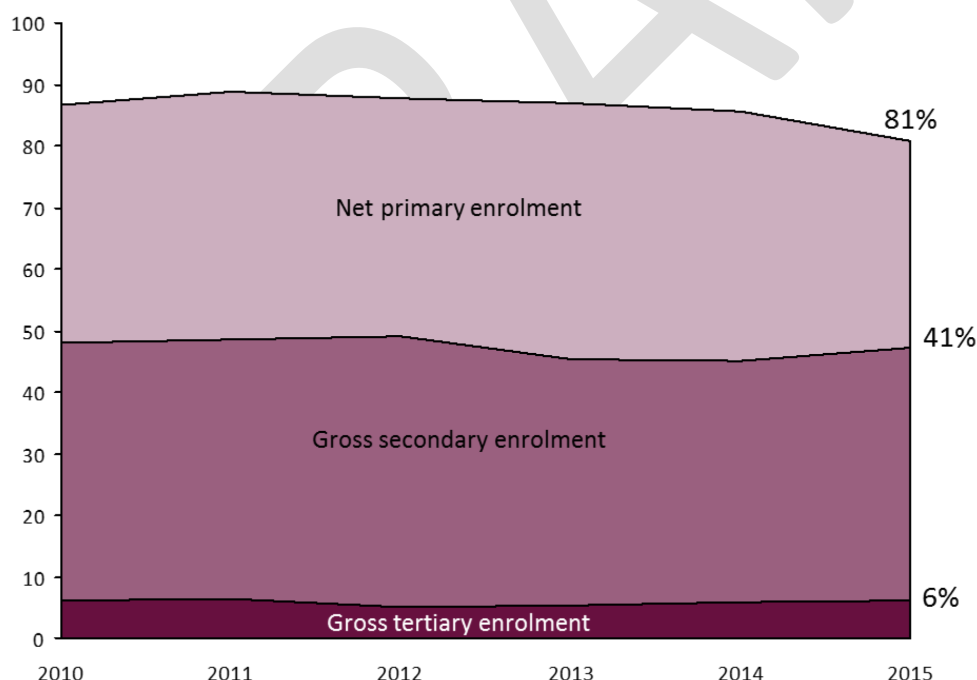
However, there is a skills mismatch within the ICT sector. Although mobile and internet penetration have increased by 85 and 18 percentage points respectively between 2000 and 2014, domestic labour forces in SADC lack the requisite skills in ICT to push the sector further.[98] In South Africa, the largest contributor to the continent-wide ICT sector, the government has issued a detailed list of open technical jobs in the nation, including nearly 3,000 software and application programmer positions, 3,000 project and other manager positions, and 1,600 information and communications technology support technician positions.[99] With this in mind, skills development as a whole will be a critical focus in improving ICT development. The following section will discuss in more detail how financial inclusion can provide a pathway to improving skills development for industrialisation across the SADC region.

[97] CGAP. "Mobile Money: 10 Things You Need to Know", 2013.
[98] ITU Data; Dalberg analysis.
[99] ITNews Africa. "SA has a shortage of skilled workers in ICT", 2012.

*1.3.5. **Pathway V**: Skills development*

Despite overall gains in recent decades, educational enrolment in SADC is stagnant. Although enrolment in education has increased at every level for both genders at an average annual rate of 1.5% over the last half century, as Figure 12 shows, overall enrolment within SADC has not grown in the past five years.[100] Enrolment in primary education has been slowly dropping, having fallen 7% between 2010 and 2015. Enrolment in secondary education and tertiary education has also remained relatively stagnant over this time. In the short term, careful attention needs to be paid to individuals that can gain the vocational and technical skills required now through on-the-job training or a greater focus on Technical, Vocational, Education and Training (TVET) programs. Longer term, more systemic challenges, will need to be addressed through more patient strategies. In particular, providing access to finance to reduce the cost barriers of training programs can help upskill workers to better meet the demands of present labour markets. Furthermore, increasing enrolment and participation in STEM-based (science, technology, engineering, and math) subjects at primary, secondary, and tertiary levels of education will gear future labour forces towards productive sectors of the economy and substantially help SADC achieve its goals of industrialisation.[101]

Figure 12: Net primary, gross secondary and gross tertiary education enrolment in SADC (percent)[102]



SOURCE: World Economic Forum Global Competitiveness Index; UNESCO Institute of Statistics[103]

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[100] SADC, "Education & Skills Development," n.d.
[101] SADC. "SADC Industrialisation Strategy and Roadmap 2015-2063", 2015.
[102] No SADC sources available on enrolment levels over time within the region. In lieu of SADC sources, both World Economic Forum and UNESCO data used instead.
[103] As defined by UNICEF, net enrolment refers to the number of children enrolled in primary school who belong to the age group that officially corresponds to primary schooling, divided by the total population of the same age group. Gross enrolment refers to the number of children enrolled in a level (primary or secondary), regardless of age, divided by the population of the age group that officially corresponds to the same level. Net enrolment is often used to avoid enrolment figures over 100% for primary school and thus provide a more accurate representation of enrolment.

Despite this relative stagnation, it is key to note that in the coming decades, the number of school-aged children filtering into the education system is set to drastically increase across the African continent, including SADC. Projections by the United Nations Population Division indicate that by 2050, the primary and lower secondary school-age population in sub-Saharan Africa is estimated to be more than 2.5 times as large as it was in 2000, predominantly driven by population growth.[104] Moreover, the tertiary education participation rate in the SADC region is unlikely to keep up with the demand from the region's growing population, further exacerbating the workforce skills deficit across the region.

Improving access to financial services will be key to increasing education access. In Africa, the cost of school attendance is cited as the primary reason reported by families to explain why their children are not in primary school.[105] In Mozambique, for example, households contribute 32.5% of all education expenditure, both public and private, while per capita income remains less than USD 2 a day.[106] Household financing of education is also an acute problem for secondary education. Research by United Nations Educational, Scientific and Cultural Organisation estimates that household expenditure on education can be up to half (44-49%) of the total expenditure for secondary education in sub-Saharan Africa.[107]

Given the cost-prohibitive nature of education access across the region, financial products are well positioned to reduce financial barriers experienced by students and parents across both distance and time. The following sub-sections discuss how the application of various financial products can minimise educational cost barriers faced by students over time and distance.

- **Extending credit for education allows students to address cost barriers over time,** without having to pay the full cost of the education upfront**.** This is especially important for addressing the skills gap through tertiary education in the short term. Governments are increasingly less able to fill the gap between current and required public expenditure on higher education.[108] For training, traditionally only about 2-6% of educational budgets are devoted to TVET, and in many countries, it is mainly channelled toward formal TVET programmes.[109] Reducing cost barriers to TVET through credit products can thus help address the skills gap in the short to medium term.[110] This type of funding is not likely to lead to unsustainable indebtedness, which always needs to be taken into account when providing credit, provided that the education gives people access to a higher lifetime income through better employment, which allows them to pay the loan back. This cannot necessarily be guaranteed at the individual level and may require guarantees or social lending schemes to reduce this risk. However, at a macroeconomic level, a more highly educated population, particularly when combined with high entrepreneurial activity, is an important driver for economic growth and thus further job creation.

- **Saving schemes allow students and families to plan ahead for education costs.** Goal-based savings – in which savings products or groups are structured to save for a specific

[104] UNESCO Institute of Statistics & UNICEF. "Fixing the broken promise of education for all", 2015.
[105] Mail and Guardian. "SADC must grow student numbers", 2015.
[106] UNESCO. "Financing Education in sub-Saharan Africa", 2013.
[107] Ibid.
[108] UNESCO. "Financing Education in sub-Saharan Africa", 2013.
[109] TVET is defined as a comprehensive term referring to those aspects of the educational process involving, in addition to general education: the study of technologies and related sciences; as well as the acquisition of practical skills, attitudes, understanding, and knowledge relating to occupations in various sectors of economic and social life.
[110] African Economic Outlook, "Financing Technical and Vocational Skills Development," 2015.

event– is an example of such behaviour. In Uganda, recent research on savings groups found that 27% members used their savings for education, more than any other usage.[111]

- **Transaction products increase the ability of students and families to collect and pay for their education, over distance and time.** Mobile payment platforms reduce the time and effort required by students and parents who incur travel costs to pay school fees.[112] In Côte d'Ivoire, for example, 99% of secondary school registration fee payments are made digitally, as a result of a policy reform to mandate the use of digital payments through digital and mobile platforms. This approach has also minimised the number of armed robberies at payment locations and has significantly reduced theft of school fees through administrative processes.[113] Remittance services, especially those that automatically allocate a proportion of the remitted funds towards specific social expenditures such as school fees, also have potential to contribute substantially to the development of skills across the region.[114]

The following sub-sections discuss how financial inclusion, particularly through the application of transaction products and the extension of credit, can reduce supply-side barriers in providing education services:

- **Transaction products have the potential to maximise revenue generation,** particularly for public and private entities that struggle with the collection of fees and graft. As the case study of Côte d'Ivoire shows, transaction products for school fee payments can reduce the leakage of funds caused by theft, bribery and security issues within a cash-based system. Prior to the law requiring digital payments for secondary school fees, both schools and regional government departments in Côte d'Ivoire reported that a significant proportion of student registration fee payments were lost.[115] This greater intake of revenue allows schools to run more effectively and provide a better quality education for students and families who are more trusting of the school system. The use of transaction products in turn helps these institutions, particularly private entities, build their financial history and access longer-term finance.[116]

- **Access to credit for small and medium-sized educational institutions can increase the physical supply of schools.** Public educational institutions are often constrained by the extent to which federal, state or local governments can generate revenue to finance the provision of education services. [117] The financing gap of public expenditure on education has resulted in the advent of low-cost private schools; however, these education models also often lack the credit needed to scale and sustain their operations.[118] Providing small-scale loans for private entities can facilitate the building of new schools and improve the poor infrastructure of existing schools. Evidence shows that low-cost private schooling models can be run in a profitable and impactful manner, provided adequate financing is

[111] Karlan et al. "Impact assessment of savings groups: Findings from three randomized evaluations of CARE Village Savings and Loan Associations programmes in Ghana, Malawi and Uganda", 2012.
[112] The New Times Rwanda. "MTN launches mobile money school fees payment service", 2015. Note: MTN has begun providing this service in Rwanda, Ghana, and Cameroon, with Stanbic and DEEPEN starting a similar initiative in Nigeria.
[113] GSMA. "Paying school fees with mobile money in Cote D'Ivoire", 2015.
[114] International Growth Centre. "Increasing the Development Impact of Migrant Remittances", 2009.
[115] GSMA. "Paying school fees with mobile money in Cote D'Ivoire", 2015.
[116] DEEPEN. "Mobile Money Pilots for School Fee Payments", 2015.
[117] UNESCO. "Financing Education in sub-Saharan Africa", 2013.
[118] The Economist. "Learning Unleashed: Low-Cost Private Schools", 2015.

available (as one of a set of required enabling factors).[119] Moreover, the profit-making potential of low-cost, low fee private education presents enticing opportunities for impact investors and regional lenders alike: the required investment capital in the low-fee private education market within ten years is estimated at between 5 bn USD and 10 bn USD, providing a substantial profit opportunity for private investors.[120] For governments, the increase in low-cost private schooling models can help fill in where the state cannot, providing access to affordable schooling and strengthening local skills development in turn.

By addressing the cost-prohibitive nature of education over distance and time, financial inclusion can increase access to education and thus develop the broader skills of the region. Through addressing the capital constraints of educational service providers – both public and private – financial access can expand the supply of education provided. Both these effects spur industrialisation through the broader development of skills within the workforce.

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[119] IFC. "Socio-Economic Impact of IFC Financing in Ghana", 2012; Centre for Development Enterprise. "Investing in Potential: The Financial Viability of Low-Fee Private Schools in South Africa", 2015.
[120] Financial Times. "Private schools abound in Africa's slums but financing is scarce", 2014.

2. WHAT ARE THE BARRIERS TO FINANCIAL INCLUSION AND THE REQUIRED INTERVENTIONS IN SADC?

Barriers to financial inclusion can be assessed from both the demand and supply side. Demand side barriers undermine the consumer's ability to fully adopt and utilise financial products and services. Supply-side barriers on the other hand limit the ability of the financial service provider to extend products and services to un- and underserved segments of society. Challenges on either side of the spectrum are further complicated by the policy and regulatory environment. This section will serve to highlight the challenges from each of these perspectives before moving on to providing an overview the interventions that currently exist. Subsequently, we will highlight particular intervention opportunities that SADC could focus on in an effort to address barriers to financial inclusion from a regional perspective.

2.1. What are the barriers to financial inclusion?

FSPs often lack the business incentive to extend financial products and services to un- and underserved groups. Specifically, the economic viability for extending and the operations required to develop and provide financial products to low-income/poor populations are often unclear. Moreover they often face barriers that often do not allow them to scale in a way that will meet market needs. A summary of constraints facing FSPs are listed below:

- **High barriers to entry.** Whilst increased competition in the financial services sector could result in lower costs to operate, improved efficiencies and more product innovation, it is generally expensive to establish a financial services company and/or to develop innovative solutions in delivering financial services to low-income/poor populations (e.g., mobile technology). Thus, new entrants often experience high capital requirements, complex regulatory compliance and licensing laws and processes, in addition to significant security concerns to entering the sector. Moreover, providers who do not have a development mandate or strong support from the government have less of an incentive to move downmarket.[121]

- **High operating risks.** Given the nature and behaviour of the financially excluded populations, FSPs often consider the low-income consumer segment high risk, often deterring FSPs as they are categorically risk averse, further diminishing their incentive to developing and delivering tailored products and services that meet the needs of low-income consumers. Moreover, if FSPs already have high profit margins, they have little to no incentive to reach low income segments. In Swaziland, for example, banks had profit margins averaging 25.2% for the 2012 financial year which are very similar to those earned by their South African counterparts, which averaged 25% for the same period.[122]

- **Lack of clarity on profit potential.** High operating risks typically create perceptions on the part of FSPs that the profit potential of low-income/poor populations is low. As such, they tend to avoid these population segments in favour of focusing on more proven and profitable segments.[123]

[121] Making Access Possible. "Swaziland Diagnostic Report," 2014.
[122] Ibid.
[123] Plan International, Care, Barclays Bank. "Banking on Change: Breaking the Barriers to Financial Inclusion", 2014.

- **Small capital markets.** Many financial markets in SADC and across the continent suffer from a lack of liquidity due to small capital markets.[124] Botswana for example, has one stock exchange which has 4 stockbroker members.[125]

Limited capacity and asymmetries of information also constrain the provision of financial services and products. FSPs tend to lack the financial and skills capacity to adequately serve current and potential markets. This deficit can also be exacerbated by the lack of information surrounding these markets. In particular, these capacity constraints and information asymmetries are as follows:

- **Limited financial capacity.**[126] FSPs, particularly government-backed MFIs, which are often best placed to meet the financing needs of individuals and SMEs, often lack the capital to do so. Furthermore, innovation and growth in the financial services market require financial resources and in many markets FSPs lack access to investment capital or funding to seed new product ideas, train staff to take on a more client-centric business approach or simply fuel growth. [127]

- **Limited skills capacity.** FSPs often lack the skills required to develop and extend the proper financial products. For insurance markets, SADC faces a crippling lack of actuaries in countries outside of South Africa, inhibiting the region's ability to research, develop, and deploy appropriate insurance products.[128] It should also be noted that insurance and credit providers, particularly those in more rural and peri-urban areas often face high staff turnover as they are not able to compete with higher salaries of larger commercial banks, leaving them without the right kind and level of human capital required to reach low-income and more vulnerable populations.[129]

- **Lack of consumer data.** Insufficient data on current and potential customers is a substantial issue for the provision of financial services. FSPs suffer from an information asymmetry, which limits their understanding of the needs and profiles of their potential customers and results in their limited ability to develop products that can be extended to them. Though FSPs are finding new ways to connect data points and manage information between providers and end-users, there is opportunity to improve data capacity to drive innovation and decision making. In the retail financial services sector, for example, credit information sharing through credit bureaus could lead to increased access to finance by providing critical information necessary for assessment of credit applications from individuals and SMEs.[130] When providers do have data, they often lack the ability to leverage that data internally. One interviewee reported an instance in which the board of directors of a commercial bank were completely unaware that their marketing department had access to data that could be crucial to informing its strategy.[131]

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[124] SADC website, Capital markets: http://www.sadc.int/themes/economic-development/finance/capital-markets/
[125] Making Access Possible. "Botswana Diagnostic Report", 2015.
[126] Here financial capacity refers to the ability of FSPs to leverage assets and extend credit to current and potential customers.
[127] CGAP. "A Market Systems Approach to Financial Inclusion. Guidelines for Funders", 2015.
[128] Finmark Trust. "Regulating for Inclusive Insurance Markets in SADC: Review of Regulation", 2013.
[129] Genesis Analytics. "SADC Microfinance Study", 2011.
[130] Finmark Trust Website. http://www.finmark.org.za/credit-information-sharing
[131] Expert interviews

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Insufficient delivery channels also reduce the ability of providers to deliver effective products to un- and underserved groups. For service providers that eventually decide to expand their reach to un- and underbanked segments of the population, delivery channels are essential to ensuring products and services reach intended market segments and that they are reliable enough for consumers to use on a regular basis. Delivery channels are typically constrained by:

- **Poor physical infrastructure.** Inadequate infrastructure inhibits the ability of FSPs to reach low-income/poor groups that live far away from brick-and-mortar financial institutions. Poor physical infrastructure acts as a barrier for FSPs since they cannot get the required supplies to the necessary service points to adequately serve customers. While digital financial services, can overcome barriers of distance and poor infrastructure by leveraging mobile technology as a means of financial access, such products and services require greater reliance on mobile connectivity, which in itself is a substantial barrier to the provision of financial services. For products that require mobile connectivity, weak connection reduces the incentive of FSPs to provide such products and the ability of customers to access them. Connectivity is particularly crucial for non-cash transactions, for example, and can be applied to all financial products.

There are also a number of barriers which undermine the consumer's ability to fully access and utilise financial products and services. Specifically, the inability of the market to provide products and services that address the needs of low income consumers or take into consideration the specific constraints faced by this segment of the population affects the uptake and usage of financial products and services. This is influenced by the following factors:

- **Lack of documentation.** Consumers require various pieces of documentation to access financial products and services in the formal sector, such as proof of identity, proof of income or proof of residence, which low income consumers, especially those working it the informal sector do not necessarily have access to. This is further exacerbated by the fact that firstly, formal institutions face far more stringent Know Your Customer (KYC) requirements, compared to mobile money operators. Secondly, in some instances existing legislation does not include frameworks for population registers and formal identification documents as is the case with Malawi. As a result, given these regulatory constraints, new customers face difficulty meeting KYC requirements as FSPs are forced to ask for passports and drivers licenses as proof of identity, due to the lack of an alternative. Low income consumers have limited access to these secondary forms of identity.[132]

- **Lack of appropriate products.** Appropriateness relates to cost and product fit. Financial products and services offered by the formal sector do not meet the unique needs and characteristics of certain customer segments, for example low income consumers and SMEs. Furthermore, products and services offered through formal institutions are relatively inflexible and do not take into consideration that the majority of low income consumers earn irregular income from farming, piece work and remittances[133] which pose a challenge when having to maintain minimum balances on savings accounts or meet monthly premium or repayment requirements on credit and insurance products.

- **Lack of collateral or assets**. FSPs require collateral to access financial products and services, something low income consumers seldom have access to.[134] SMEs in particular face challenges

[132] Making Access Possible. "Malawi Diagnostic Report", 2015.
[133] Making Access Possible. "Lesotho Diagnostic Report", 2015.
[134] Hinz, M. "The Fundamentals of Financial Inclusion: an Overview", 2014.

regarding access to finance due to limited collateral and one of the reasons often cited by firms who do not apply for loans, despite requiring one, is the higher collateral requirements by formal service providers.[135]

- **Limited financial capability**[136]**.** Consumers have limited understanding and awareness of products and services offered by the formal sector.[137] A key barrier to the take-up of mobile money in particular is the lack of awareness of the channel and education around how it works and what is required from users.[138]

- **Negative perceptions.** Formal institutions and FSPs are regarded with suspicion and thought to not act in the best interest of the consumer particularly when bank charges are concerned.[139] Furthermore, given the fact that formal institutions are often located in urban areas away from where the large majority of low income consumers reside as well as the layout of formal institutions serves to intimidate consumers creating door-step barriers to access.[140]

These challenges are disproportionately also faced by more marginalised groups such as women and youth:

- **Limited access for women**. While overall the level of exclusion faced by men and women in SADC is similar, variances occur between countries and in terms of the types of products women have access to. On average, women have high rates of labour force participation, above 60% in many sub-Saharan African countries.[141] Furthermore, at the household level, women are more often the primary financial manager in the families, ensuring intra-household resource allocation to meet ongoing basic needs and additional saving to invest and protect against risk.

- **Limited access for youth**. Youth[142], and low-income youth in particular, are often excluded from access to formal financial institutions due to legal restrictions, high transaction costs, and negative stereotypes about youth.[143]

The challenges presented above are often further complicated by current policy and regulatory environments. Conducive policy and regulatory environments are also critical for the efficient and effective provision and uptake of financial products and services. However, in many countries across SADC, policy gaps exist that often "lag behind financial sector development and innovation."[144] To this end, our research has highlighted limiting supply-side factors that impact a FSP's ability to operate in financial markets that serve the low-income consumer segments in a commercially viable way:

- **Significant policy uncertainty.** Current legal and regulatory frameworks are evolving. The transitional nature of regulatory frameworks can lead to market uncertainty. As a result,

[135] World Bank. "Global Financial Development Report 2014: Financial Inclusion", 2014.
[136] Financial capability is defined as the combination of knowledge, skills, attitudes, and especially behaviours that people need to make sound personal decisions, suited to their social and financial circumstances
[137] Making Access Possible. "Swaziland Diagnostic Report", 2015.
[138] Making Access Possible. "Lesotho Financial Inclusion Roadmap 2014 – 2020", n.d.
[139] Making Access Possible. "Swaziland Diagnostic Report", 2015
[140] Making Access Possible. "Malawi Diagnostic Report", 2015
[141] Daniels, N. "Women's Financial Inclusion in Africa: Barriers, Costs and Opportunities", 2015.
[142] The definition of youth varies from country to country. Here youth refers to young people between the ages of 14 and 35.
[143] UNCDF. "Financial Inclusion of Youth", n.d.
[144] Making Access Possible. "Map diagnostics", 2015.

frameworks governing actors in the financial inclusion space are often incomplete, fragmented and inconsistent, negatively impacting investor confidence to develop new and improved products and services, particularly for un- and underbanked populations, limiting the scalability of various financial inclusion solutions[145]

- **Insufficient financial market infrastructures (FMIs)** which leads to challenges around clearance and settlement of transactions. FMIs include but are not limited to, the payment systems. In the absence of strongly performing FMIs, stability of the financial system is not guaranteed, growth of transaction volumes and numbers will be much harder to realise and interoperability is technically limited.

- **Lack of incentives that promote interoperability.** Interoperability across providers will be critical for the expansion of financial products and services to the underserved and financially excluded, as it enables both growth and innovation. However, in many cases certain finance solutions (e.g., mobile money) are often not interoperable – requiring users to commit to one network provider or mobile money operator, restricting the network of people they can transact with. This challenge not only constrains the ability for current players to expand into new markets, but also limits new entrants to secure distribution networks, ensuring access to a broad consumer base.

- **Inconsistent industry monitoring.** The nascent and evolving nature of policy and regulatory environments governing market players in the financial inclusion space often result in minimal prudential governance across the industry and negative outcomes for consumer that result from predatory lending practices such as high interest rates and prices to access financial products and services.

- **Lack of policy harmonisation.** Policies should be both reinforcing and complimentary. However, in many instances, policy and regulatory frameworks do not keep pace with the innovations within financial markets, often resulting in policy gaps and/or conflicts. Moreover, there is a need to ensure policies across the same topic are coherence across multiple countries while also being coherent across multiple topics within one country.
- **Suboptimal customer protection.** Clear and consistent customer protection – in both regulation as well as effective enforcement thereof – is a necessary requirement to drive customer trust in FSPs. Especially when customers transition from cash to digital money (which can be a strong driver of financial inclusion thanks to much lower distribution and transaction costs and far greater reach), customers need to have faith in the financial institutions, the transactions and the effectiveness of their protection and dispute resolution. Yet not in all SADC countries, customer protection is coherently included in the regulatory framework and even in those where it is, it may not be enforced and/ or customers may not be aware of their rights and the avenues that are at their disposal. As will all other regulatory and policy topics, regional harmonisation will be key to ensure cross-border financial transactions and to provide a compelling environment for FSPs to expand internationally and offer their services more widely.

[145] Making Access Possible. "Map diagnostics", 2015.

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- **Impact of Anti-money laundering / Countering Financing for Terrorism (AML/CFT) on financial services offering and uptake.** AML/CFT refers to the international standards set by the Financial Action Task Force (FATF) to mitigate the adverse effects of criminal economic activity and promote integrity and stability in financial markets.[146] A review of AML/CFT regulatory requirements in SADC Member States reveals that while all have incorporated elements of a risk based approach to AML/CFT, the individual country approaches vary significantly. Harmonisation of key aspects of AML/CFT regulations will serve to create an enabling environment for increased access to financial services in the region, minimise compliance costs for regulators operating across borders in the region and lesson the danger that criminal acts will be displaced from one State to another.[147] These differences between countries make it harder for customers to transact across borders (e.g., using remittances). Related to this are 'know you customer' requirements which often makes the provision and usage of financial services harder for underserved customers. In some countries, the lack of a national ID makes it very difficult and expensive to meet KYC requirements for new customers. In Malawi, some institutions have even expressed interest in assisting in the issuance and verification of forms of identification, while others have initiated their own forms of biometric analysis of new customers. In other countries the level of KYC requirements for low and high value accounts does not differ, disproportionately inhibiting uptake amongst low income customers. Furthermore, banks and other formal institutions face more stringent KYC requirements compared to mobile money operators.

The subsequent sub-sections provide analyses and highlights key trends that are faced by transactions and savings and credit and insurance products.

TRANSACTION AND SAVINGS PRODUCTS

Insufficient distribution channels of formal institutions severely affect the provision of transaction and savings products, particularly in rural areas. In many respects payments are the most widely used financial service, in that most people make or receive payments, be it to pay or receive remuneration for goods and services, or to receive transfers from relatives, friends or the state. As a result even low income consumers are involved in payments even if they may not be users of savings, credit or insurance. Commercial banks continue to play a key role in the payments market, in terms of developing and running payment infrastructure and in the modernisations of the payments system.[148] As such, weak physical infrastructure acutely impacts the provision of transaction and savings products since customers often use such products more frequently and thus require greater interaction between providers and clients. Furthermore given that in terms of savings products, the highest demand is for low value and frequent deposits, consumers are sensitive to the cost trade-off of travelling to cash in and out of their savings.[149] In Malawi, for example, transportation costs, coupled with the inconvenience of traveling to urban financial centres to transact, reduce the incentive and ability of non-urban residents to use products and services provided by the formal sector. For providers, traditional provision through branches and agents with well-trained staff is too expensive to justify viably serving low income clients.[150] It is important to note, however, that this is predominantly the case for non-mobile products, since mobile solutions reduce the distance travelled

[146] Centre for Financial Inclusion. "Financial Inclusion Glossary", n.d.
[147] Finmark Trust. "Focus Note 5: Harmonisation of regulatory frameworks in the SADC region", 2015.
[148] Making Access Possible. "Botswana Diagnostic Report", 2015
[149] Making Access Possible. "Malawi Diagnostic Report", 2015
[150] Making Access Possible. "Swaziland Diagnostic Report", 2015.

to be served, as well as the costs to providers, and thus the severity of the infrastructure barrier at large.[151]

Weak mobile connectivity is likely to serve as a substantial barrier to the provision and uptake of adequate and accessible transaction and savings products, since payment systems require a certain degree of mobile connectivity. In Malawi, annual ICT maintenance costs for ATMs serve as the greatest cost to the deployment of ATMs.[152] Poor connectivity is a particular barrier for digital-based transaction products and remittances, which tend to rely heavily on mobile network connectivity to function.[153] Customers who attempt using mobile transaction products without success often lose faith in the product and revert back to cash.[154]

A lack of appropriate transaction and savings products also play a significant role in the exclusion of low-income consumer segments. The frequent use of transactions, and to a lesser extent, savings products drives the exclusion of potential consumers from the use of such "everyday" products. Potential customers often do not find that transaction and savings products adequately meet their needs or are adequately tailored to their particular circumstances. The heavy concentration of bank branches in urban centres often render non-mobile transaction accounts inaccessible or costly for rural inhabitants. The real and perceived costs of banking - minimum balance requirements and bank fees - inhibit consumers from using products and services offered by the formal market.[155] In Swaziland, high bank charges effectively excludes large portions of the population, while the high cost of remittances forces senders to use informal channels.[156] Furthermore, relatively low and irregular incomes often results in low income users not having excess or disposable income to put towards savings.[157] As such, the formal market fails to provide sufficient low cost goal orientated savings products. An example of this are the low cost savings accounts introduced by Capitec Bank in South Africa which allowed consumers to save for specific events or goals, for example, education, lobola[158] or death (to cover the cost of a funeral).[159]

Limited financial capability and perceptions about the cost of banking in the formal sector also have influence uptake and usage. For example in Lesotho, there is a belief amongst consumers that bank charges eat into one's capital, thereby depleting cash reserves. Informal savings groups are not perceived in the same light given that monthly contributions, directly contribute to the member's pay-outs at the end of the period.[160]

The lack of a tiered KYC system for banks also poses as a significant barrier to the provision, uptake and usage of transaction and savings products. Consumers wanting to open a bank account are required to provide a proof of identification, residence and income and this poses a significant challenge for low income consumers especially those working in the informal sector. A tiered KYC system that made exemptions for low value accounts for low income consumers would help overcome this challenge.[161] Related to this is the fact that banks tend to be faced with stricter requirements

[151] Ibid.
[152] Making Access Possible. "Malawi Diagnostic Report", 2015.
[153] EFInA. "Assessing the Impact of Financial Inclusion Policies on Deepening Financial Inclusion in Nigeria", 2014.
[154] Making Access Possible. "Malawi Diagnostic Report", 2015.
[155] Making Access Possible. "Lesotho Diagnostic Report", 2015.
[156] Making Access Possible. "Swaziland Diagnostic Report", 2015.
[157] Ibid.
[158] Lobola is the practice amongst Southern Africans of paying a bride price, traditionally in cattle.
[159] Expert interviews.
[160] Ibid.
[161] Making Access Possible. "Botswana Diagnostic Report", 2015.

compared to that of mobile money operators who only require a proof of identification for opening accounts.

Lack of incentives that promote interoperability also excludes certain populations from the use of transaction products. In Lesotho, although the use of Maestro or VISA-branded ATM cards amongst the three major South African banks allows for interoperability amongst these banks, the Lesotho PostBank card is "closed," meaning customers receive a lower value service on their transaction accounts since they cannot use their cards in non-LPB ATMs. Bank interoperability immediately expands the network of ATMs and POS devices available to all bank consumers, thus increasing the value add of transaction accounts for potential customers who would like to transact across providers. For providers, interoperability can substantially reduce the risk of deploying ATMs: if accounts are interoperable, banks only need to consider if the ATM will serve sufficient banked customers from any bank, rather than just from their own bank.[162] By promoting interoperability through policy, governments can expand the market for transaction products and reduce the barriers to entry for providers

Regulatory restrictions constrain mobile money operators from offering interest on savings products. The regulatory restriction on earning interest on mobile money float limits, means that mobile money operators have neither the incentive nor the ability to offer interest on mobile money savings products. Recognising the role digital finance and mobile money in particular can play in extending services to low income consumers and in providing low cost options for savings products that will help fill the gaps left by banks and other formal institutions, a number of countries such as Botswana and Swaziland are looking into what regulatory changes would be required to allow this.[163,164]

Furthermore, MNOs face challenges related to cash float management which limits their ability to cash out payments. This makes it harder for mobile money users to deploy mobile money as a general payments solution and it will prolong the current situation in which the majority of users (the number of which is on the rise) only use mobile money to purchase airtime. Even in countries where mobile money has become ubiquitous, there's still a strong need for cash-in-cash-out (CICO) facilities which allow users to act in segments of the economy that do and those that don't deploy mobile money. Often, the first phase of adoption is one where people receive either salary, government grant or remittances through mobile money which they then cash out to transact further. Challenges with float management may lead to situations in which people cannot cash out when they want to, which will erode their trust in mobile money and is likely to limit growth and uptake.

CREDIT AND INSURANCE PRODUCTS

Credit and insurance products experience extremely high barriers on the supply and demand sides, when compared to transactions and savings product. In parallel, policy gaps within current policy/regulatory frameworks further constrain the scale of financial inclusion through these products across SADC. Overall, formal credit and insurance markets across SADC are small and in early stages of development. As discussed in Section I, uptake of credit products in SADC remain low as about 15% (18.3 million) of adults have credit from a bank or other financial institution while 68% (83.9 million) of the adult population do not borrow money nor do they have access to credit and loan products and services.[165] These numbers tend to vary across the region, particularly across formal and

[162] Making Access Possible. "Malawi Diagnostic Report", 2015
[163] Ibid.
[164] Making Access Possible. "Swaziland Financial Inclusion Roadmap 2014 -2020", n.d
[165] FinMark Trust. "Annual Report", 2015.

informal markets. For example, 58% of the adult population in Lesotho are using credit, though the formal penetration hovers at 17%.[166] Similarly, across SADC, only 27% of adults are insured, less than any other financial product. [167] Similarly, only 27% (33.2 million) of adults have/use insurance products. The level of uptake of insurance products also varies considerably between countries.[168]

The nascent nature of insurance and credit markets across SADC, and their stage of development, is also reflected in the policy and regulatory frameworks that govern them. Credit and insurance products are significantly constrained by policy/regulatory barriers, when compared to transaction and savings products, as they either do not exist (as with the case for frameworks governing micro-insurance products in most SADC countries) or policies have yet to catch up with changes within the market, particularly related to technology. In Malawi, for example, the increasing usage of mobile phones and other digital channels to distribute insurance is requiring improved clarity from the government on rules regarding electronic contracts and signatures.[169] In Botswana, legislation is yet to allow customers to complete insurance contracts online – through a website, mobile phone or call centre. Weak or non-existent frameworks also result in inconsistent industry monitoring amongst credit and insurance providers putting consumer at risk for predatory lending practices that are difficult to assuage in the absence of consumer protection mechanisms.

FSPs often lack the incentives to go "down-market" and in many cases, the financial and skills capacity, to provide products to low-income and riskier consumer segments. For credit, there are difficulties serving the low value (margin) market segment, as high volumes (in terms of sheer customer numbers) are not available. Hence there is a tendency of formal FSPs, in particular, to serve one consumer segment – those with regular, and high incomes. [170] Moreover, since FSPs have to tailor insurance products directly to the risk profiles of customers, insurance products often require more effort per customer to develop than other less individualised financial service products. In both cases, the potential profit reaped from providing appropriate insurance products to low income customers does not justify the cost of development and deployment, leaving unmet demand amongst low income consumers.[171] For FSPs that do serve individuals and/or SMEs in lower-income consumer segments, they are further constrained by limited financial and skills capacity. For credit products, for example, many of these institutions suffer from undercapitalisation, particularly affecting their ability to provide credit lines to SMMEs as evidenced by the fact that SMMEs in Malawi, Zimbabwe and Mozambique rely on savings as a source for financing than credit.[172] Limited skills capacity, on the other hand, disproportionately affects the provision of insurance products, for which the assessment of risk by actuaries and appraisers is often required. For example, of the approximately 870 actuaries residing in SADC in 2013, a substantial majority, 96%, resided in South Africa with no actuaries in Lesotho, Malawi, Swaziland, Tanzania, Zambia, or the Democratic Republic of Congo.[173] Without the necessary skills, and capital, to develop and provide more complex financial products and services tailored appropriately to the right market segments, providers cannot meet the demands of this potential customer base.

Lack of information regarding the profiles and demands of un- and underbanked segments also inhibits the willingness and ability of FSPs to provide credit and insurance. When providers lack data on potential customers, they have an insufficient understanding of market demand and customer risk,

[166] Ibid.
[167] Finmark Trust. "Financial Inclusion in the SADC Region", 2015
[168] Ibid.
[169] Making Access Possible. "Malawi Diagnostic Report", 2015
[170] Making Access Possible. "Map diagnostic", 2015.
[171] Finmark Trust. "Regulating for Inclusive Insurance Markets in SADC: Review of Regulation", 2013.
[172] Making Access Possible. "Map diagnostic", 2015.
[173] Finmark Trust. "Regulating for Inclusive Insurance Markets in SADC: Review of Regulation", 2013.

and thus cannot tailor products accordingly to successfully enter and serve different un- and underbanked market segments.[174] This information asymmetry results in market failure, in which suppliers are unwilling or unable to provide products and services.

Lack of appropriate products significantly impact uptake in addition to the ability of the consumer to understand product use and functionality. Credit and insurance products are often lacking in their design in that they do not appropriately meet customer needs and profiles, and do not take into account, that un- and underserved populations are often reliant on irregular incomes, for example, and therefore face challenges meeting monthly premium payments. For example, short-term credit, which is frequently used to smooth consumption amongst low-income consumers, is only available to high costs. Other issues such as stringent eligibility thresholds, and fast turnaround times and flexibility in payback agreements are also limiting the uptake of credit products. These constraints often result in the use of informal credit products, which are still rampant with abusive practices, predatory lending and high interest rates. High costs and lack of tailored product offerings similarly constrain insurance products. In Botswana, for example, 62% of people without insurance cite affordability as the main barrier, and short-term insurance policies result in high premiums often "costing out" low income consumers.

Further, the ability of the consumer to understand product use and functionality are limited, particularly for insurance products. Understanding of insurance products by low income groups is limited. Although low income consumers often find innovative and organic ways of mitigating risk and increasing economic resilience, given the complexity of insurance products, financial capability pertaining to insurance inhibits uptake.[175] In Botswana, although only 9% of those who were uninsured cited lack of understanding of insurance as a barrier, another 8% believed that they did not need it, which may itself be indicative of a lack of understanding.[176] Furthermore, low income individuals cannot justify paying premiums for a risk event that is not guaranteed.[177]

2.2. What are the interventions that SADC should focus on?

Interventions to address the barriers vary and different stakeholders are best suited to own different interventions. This section will explore the range of interventions required and will assess which of those SADC is best suited to deploy. Before moving into that assessment though, this section will highlight two integrated preferred areas for SADC to concentrate its interventions around: that of growing payment and digital financial services and strengthening credit markets, particularly for SME's, as a means to further financial inclusion.

It should be noted that these two preferred areas are meant to *coherently focus and sequence* the activities of SADC. To achieve this, SADC will need to deploy activities across a range of categories of intervention (funding, advocacy, research and development and capacity building and technical assistance) across each of the four product categories in order to address the barriers that have been identified. As such, these two preferred areas provide an anchor and a direction to organise around rather than the exclusion of a specific set of activities. Figure 13 below illustrates the positioning of these areas and the product categories.

Figure 13: Positioning of the areas of focus and activities across product areas

[174] Finmark Trust. "Advancing data for the development of microinsurance markets in SADC", 2015.
[175] UNCDF. "Financial Inclusion of Youth," n.d.
[176] Making Access Possible. "Botswana Diagnostic Report", 2015.
[177] Making Access Possible. "Swaziland Financial Inclusion Roadmap 2014 -2020", n.d

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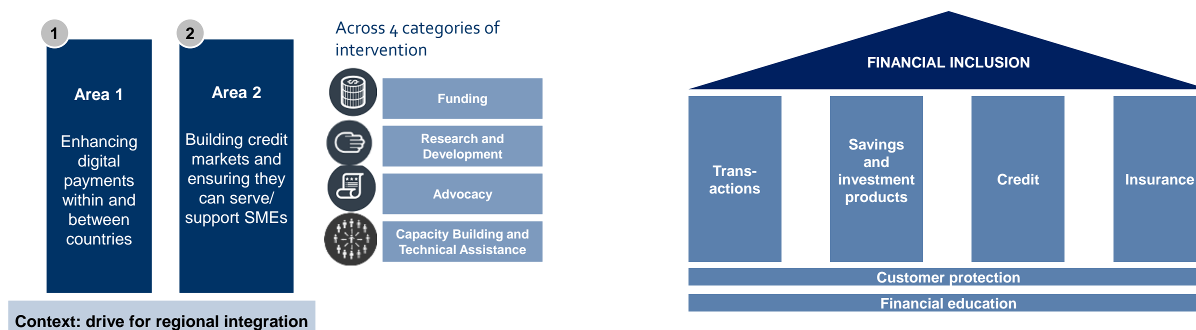

AREAS OF INTERVENTION THAT HOLD SIGNIFICANT POTENTIAL FOR IMPACT – ENHANCING PAYMENTS AND DIGITAL FINANCIAL SERVICES.

Digital Financial Services (DFS) lend themselves well to furthering financial inclusion, particularly because they are able to address challenges with reach and costs to serve. An approach that centres on strengthening DFS will allow SADC to leapfrog slower paths – as the experience in other countries has shown. As a first step in driving DFS, enabling digital payments within and between countries forms the basis ("the rails") for further product and service development and uptake.

Not surprisingly, innovations that reduce the need for either face-to-face interaction and/ or an extensive branch network have been successful at serving the un- and underbanked. With high mobile phone penetration in developing countries, becoming almost ubiquitous in some parts of continent and region, digital financial services has enabled some communities to leapfrog branch banking. Similarly, agent networks and other branchless banking models adopted throughout the continent provide innovative ways of reaching consumers in remote areas, eliminating the need for a direct interaction with someone in a brick and mortar institution.

Where branchless banking is available, there tends to be industry and consumer benefits. On the macroeconomic level there is (i) industry belief in its future profitability, (ii) enabling regulatory change, (iii) a dramatic fall in connectivity costs, and (iv) the creation of cash-handling agents using existing networks.[178]From the consumer perspective uptake has been very positive, spurring from trust, digital savviness where DFS is involved, and simplicity of the process (to understand and enrol).

The evolution of digital financial services in particular has drastically reduced marginal costs of inclusion, facilitated large-scale enrolment, and extended access to remote locations, while managing to side-step challenges around financial literacy to a large extent. By enabling customers to transact locally in tiny amounts and better manage their uneven income and expenses without high costs of inclusion, mobile money services have reached unparalleled growth over the past decade, with penetration reaching over 60% of the population in some markets. In SADC it will be particularly important for innovations in DFS to facilitate cross-border payments given the high level of mobility experienced in the region. In this regard, SADC can look at building on the success of SIRESS to look at low value transaction as well.

Thus, countries in the SADC region, with currently low levels of inclusion have the opportunity to leapfrog the typical development trajectory and focus strongly on DFS. That will help accelerate the shift to a 'cash lite' society which has significant advantages in terms of growth and bettering livelihoods. Kenya provides an example of a country in transition to a 'cash lite' society and shows that the transition to electronic payments through products like M-Pesa can increase the range of services available and may decrease the costs of transacting over time. Furthermore, FSPs could use the digital information generated by e-payments and receipts to create customer profiles, enabling the provision of more appropriate and affordable products and services to both individuals and

[178] CGAP, "China, a new paradigm in branchless banking", 2014.

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businesses. New payment methods also create opportunities for new businesses to start up. Kenya for example, now has more than thirty thousand agents of mobile money services. In developed economies, the growth of online marketplaces such as eBay supported by the rise of electronic payments, has led to the creation of thousands of jobs. Lastly, countries with greater financial depth[179] experience lower levels of inequality.[180,181]Furthermore, cross-country analysis shows that a 10% increase in the share of electronic payments was correlated with an increase in consumer spending of 0.5%, which is a common driver of economic growth.[182]

It is not easy to get it right and requires focus and innovation – as is showcased by the success stories. Kenya's Equity Bank has managed to achieve a top position in size and profitability coupled with consistent very high growth numbers by focusing completely on the un- and underbanked and consistently designing and innovating for their needs. Similarly, M-PESA reaching over 80% of a population with its mobile money offering led to a wave of second-generation businesses building on the ubiquity of the low-cost electronic payment platform and its ability to collect large numbers of small denominations. For example, M-Shwari, offers a combination of savings and loans and businesses like M-Kopa in Kenya or Mobisol in Tanzania have created micro-leasing for off-grid, community-based solar power.[183] This also serves to reinforce the fact that digital payment systems like M-PESA are often a gateway to other more complex products and services, like M-Kopa and M-Shwari.

AREAS OF INTERVENTION THAT HOLD SIGNIFICANT POTENTIAL FOR IMPACT – IMPROVING ACCESS TO FINANCE FOR SMEs WITH A PARTICULAR FOCUS ON CREDIT

As highlighted earlier, SMEs (and smallholder famers as a particular subset) are often un- or underbanked. Whilst this is valid across the various product areas and groups, the challenge is smaller for access to (simple) transaction and savings products and more significant for credit and insurance products. Unlike DFS described above, where there is an emerging understanding of a specific required set of solutions, the exact intervention in credit markets is not as clear yet. This section thus outlines the importance more than the specific solutions.

Moving beyond payments to expand access to credit will play an important role in enhancing the *quality* of inclusion experienced by customers in SADC. Credit markets in the region are relatively nascent and for the most part the availability of reasonably priced credit is very limited. For those not in formal employment, short-term credit (for consumption smoothing) is only available at high cost. In countries like Lesotho that are characterised by underdeveloped financial sectors, access to formal credit beyond the urban centre is non-existent.[184]

Certain segments of society such as SMEs face a particular challenges when trying to access productive credit. SMEs typically face a finance gap referred to as the 'missing middle,' – they are often perceived to be too risky by commercial lenders, whilst microfinance loans are too small for their capital needs.[185] From the supply-side, whilst banks may realise the potential of the SME sector, they have little incentive to tailor products to meet the needs of this particular sector, and rather opt to provide

[179] Financial deepening is defined as the process of increasing financial intermediaries or engagement within the financial system. For example, an increase in the amount and number of deposits in the financial system would indicate financial deepening. (Source: Centre for Financial Inclusion. "Financial Inclusion Glossary", 2011.)
[180] Bankable Frontier Associates. "The Journey toward 'cash lite'", n.d.
[181] World Bank. "Finance for All", 2008.
[182] Bankable Frontier Associates. "The Journey toward 'cash lite'", n.d.
[183] CGAP, "Financial Inclusion and Development", 2014
[184] Making Access Possible. "Lesotho Diagnostic Report", 2015.
[185] The role that SMEs play in terms of economic development and the challenges they face in accessing credit is also discussed in Section 1.3.3.

credit to larger firms.[186] Furthermore, limited credit information on business owners poses a major barrier for financial institutions wishing to extend financial services and products to SMEs. Interventions such as the SADC Credit Reporting Alliance Project,[187] that seek to develop harmonised principles for credit and risk information sharing will serve to support cross border data sharing thus facilitating effective risk management of both businesses and individuals across the region. Lastly, from a regulatory perspective, there are high barriers to entry for micro-lenders and non—bank lending institutions. Developing credit markets that are sustainable and socially beneficial to all players in the region will help individuals secure their livelihoods and support the growth of SMEs and drive economic development in the region. [188]

CATEGORIES OF INTERVENTIONS

Across these areas of focus, there are a range of interventions that can address the aforementioned barriers and enhance financial inclusion by growing digital financial services and building credit markets. This section first introduces categories of interventions, explains how they can best be applied and then describes how these are currently being provided within SADC and by whom. That will help determine the gap that exists which SADC can contribute to resolving.

As shown in Figure 14 these current intervention categories include:

- **Funding:** Interventions that facilitate the mobilisation and provision of resources towards the attainment of identified priorities in financial inclusion. Types of funding approaches could include challenge funds, grant funds, guarantee funds and credit financing and are dependent on the barrier that will need to be addressed. Each of these is discussed in detail below.
- **Advocacy:** Interventions that seek to influence policy development, enhance the provision of services or align the views and understanding of various stakeholders around a common agenda or intervention.
- **Research and Development**: Interventions that seek to generate and disseminate data and knowledge. This category could also include harmonisation of data collection standards, harmonisation of research methods and indicators, comparative performance analysis, regional best practice, or the creation of a central regional data repository.
- **Capacity Building and Technical Assistance:** Interventions that seek to enhance the critical capacities to drive financial inclusion at all levels. This could include research capacity, monitoring and evaluation capacity, policy dialogue between state and non-government actors, and institutional strengthening to drive priorities.

[186] Consultancy Africa Intelligence. “Doing business in SADC: Still a long way to go,” 2014.
[187] The SADC-Credit Reporting Alliance Project (SADC-CRA) is a SACCRA and FinMark Trust Initiativ. For more information, see: http://www.sacrra.org.za/sacrra-projects/sadc.html
[188] Making Access Possible. “Botswana Diagnostic Report”, 2015.

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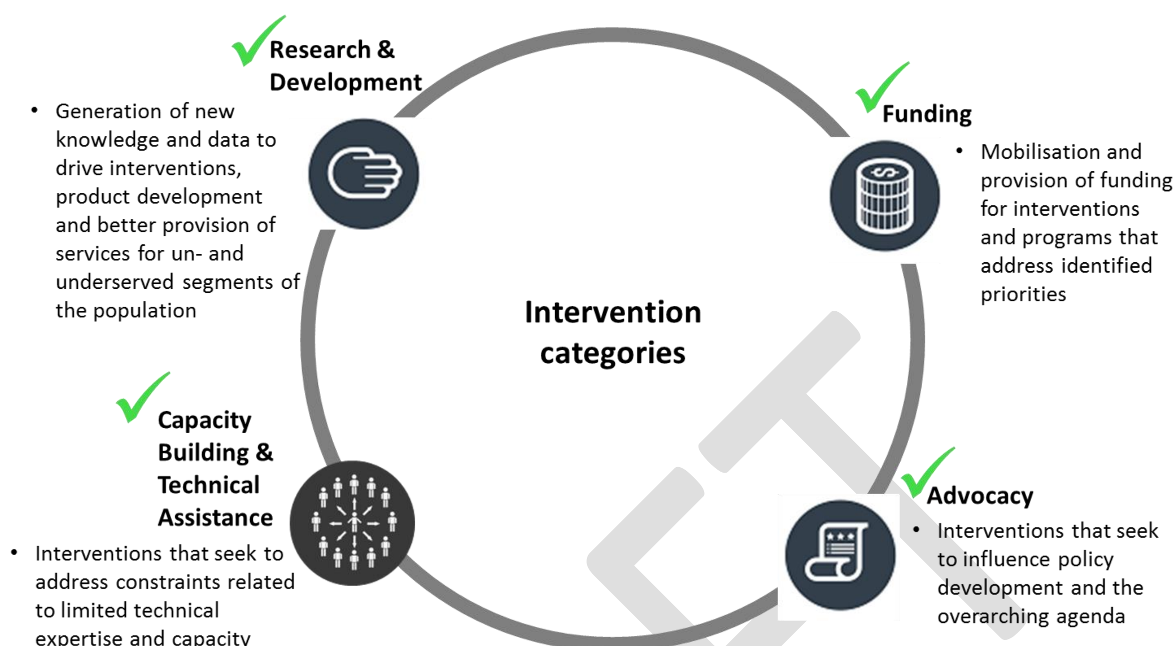
Figure 14: Intervention categories that can drive financial inclusion in SADC



SOURCE: Literature review; Expert interviews; Dalberg analysis.

DESCRIPTION OF APPROACHES THAT CAN MAXIMISE THE INTERVENTIONS' IMPACT

The following paragraphs outline how these interventions can be applied in a way that maximises their impact.

Flexibility with regards to the funding vehicles and mechanisms will be required in any effort to mitigate any set of (supply-side) barriers. The application of funding mechanisms as a way to provide incentive for product innovation and/or allow for risk mitigation will be critical to ensuring low-income populations are effectively engaging in financial markets. The broad range of stakeholders and the requirement to meet complex consumer demands in financial ecosystems will then require a range of financing mechanisms that will need to be applied in very strategic ways. The examples that follow will elucidate how various kinds of funding mechanisms can be used to spur innovation in financial inclusion. Examples include:[189]

- **Challenge fund.** The core feature of a challenge fund is its open a competitive application process, providing successful applicants a once-off limited duration grant to help them overcome risks and uncertainties that inhibit innovation, research and development, investment and pioneering of new approaches. An example is the MasterCard Foundation's Fund for Rural Prosperity[190] which aims to mitigate barriers to entry and encourages the development of appropriate financial services and products for low income consumers.

- **Guarantee fund.** A mechanism that encourages commercial banks to lend to certain economic sectors, such as SMEs, by ensuring that some of the banks' losses will be paid by another entity in the case of default. A guarantee entity agrees to pay the lending bank an agreed percentage of losses incurred on guaranteed loans, which reduces their risk, thereby allowing the bank to lend borrowers who, on their own, would have insufficient collateral or guarantees to qualify

[189] Literature review; Dalberg analysis.

[190] The MasterCard Foundation Fund for Rural Prosperity is a US$50 million challenge fund to extend financial services to people living in poverty. For more information see: http://www.frp.org/competitions/innovation-competition

for a bank loan.[191] An example is the African Guarantee Fund,[192] which facilitates the extension of credit to SMEs through the provision of partial financial guarantees.

- **Grant fund.** A grant is a commitment from a donor or foundation to make payments to an organisation or an individual over a set period of time for a specific programme or project. The Alliance for Financial Inclusion, for example, has a number of grant programs which support learning, research, development, knowledge exchanges or implementation of financial inclusion related policy solutions.[193]

- **Credit financing**. Funding through Development Finance Institutions (DFIs) like the African Development Bank that can address large scale constraints such as poor infrastructure. An example of this is the loan support the African Development Bank (AfDB) provided to finance the Helios Shared Telecom Infrastructure project in Nigeria.[194]

For advocacy to be effective and efficient, it must be targeted to the correct audiences and stakeholders. In the financial inclusion space we could look at the following groups:

- **Member States.** Advocacy initiatives which engage government stakeholders and regulators who have a mandate to drive inclusion within Member States. These initiatives would serve to address challenges related to policy uncertainty and harmonisation.

- **International Cooperating Partners (ICPs).** Advocacy initiatives which engage development partners, foundations and investors. These initiatives would drive funding and investment by bringing together the right partners to mobilise resources and ensure alignment with the overarching agenda.

- **Financial Service Providers (FSPs).** Advocacy initiatives which engage supply-side stakeholders responsible for the provision of financial products and services. These initiatives would drive product development and encourage expansion in the provision of services to un- and underserved populations.

The availability of credible data, through research and development, is key to understanding market gaps and opportunities. The data generated through FinScope Surveys undertaken by FinMark Trust and Financial Sector Deepening Tanzania and Zambia, for example, can help to reduce the information asymmetries between providers and low-income customers. Furthermore, the availability of credible data plays an important role in strengthening advocacy efforts that seek to drive product development and ensuring that FSPs meet the needs of the un- and underserved segments of society.

Capacity building and technical assistance initiatives will serve to develop the capabilities of state and non-government actors to drive financial inclusion at the national and regional level. Specific initiatives could include research capacity building to support policy formulation and implementation or training around multi-stakeholder management to facilitate to development of partnerships and policy dialogue between state and non-government actors.

[191] ACCION International. "Leverage or Loss? Guarantee Funds and Microenterprise", 1993.
[192] The African Guarantee Fund was launched in 2012 and is owned by the Government of Denmark, the Government of Spain and the African Development Bank. For more information see: http://www.africanguaranteefund.com/
[193] AFI website. Grants Program: http://www.afi-global.org/about-us/grants-program/overview
[194] AfDB website. AfDB supports Mobile Telecom in Nigeria: US$30 million to finance Helios Shared Telecom Infrastructure Project

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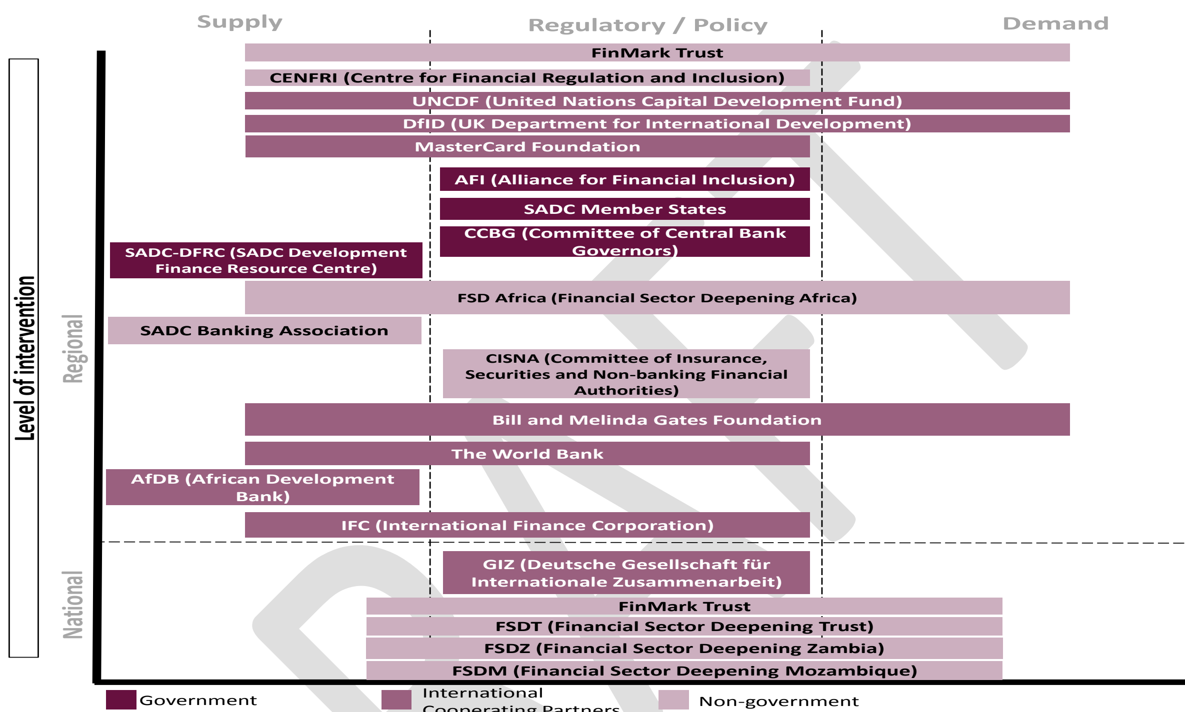
2.3. What interventions currently exist?

As highlighted in Section 2.1 here are a myriad of challenges inhibiting the growth of financial inclusion in the region. Figure 15 below provides a sample of stakeholders working at both the national and regional level, to address supply-side, regulatory/policy and demand-side challenges and the analysis that follows discusses the trends and opportunities that exist to drive financial inclusion in the region.

Figure 15: Stakeholders currently active in the financial inclusion space in SADC (illustrative)[195]



SOURCE: Literature review; Expert interviews; Dalberg analysis

The majority of stakeholders working in the financial inclusion space at both the national and regional level, primarily on the supply-side, are non-government entities. Non-government entities are often better placed to lead on specific interventions or programmes given their institutional flexibility and access to technical expertise and resources needed for implementation and scalability of interventions. Recognising the limits typically faced by government institutions, leveraging non-governmental interventions and stakeholders currently working in financial inclusion will help SADC achieve its financial inclusion goals in a more efficient manner. Finmark Trust, for example, currently conducts and collects extensive research and data on access to financial services for consumers and MSMEs in the region.[196] SADC should build on its existing partnership with organisations like Finmark Trust in pursuit of the aforementioned interventions – advocacy, capacity building and technical assistance and research and development – to enhance financial inclusion in the region. The SADC Secretariat, through the Committee of Central Bank Governors (CCBG), has also worked closely and successfully with the SADC Banking Association to help develop the SADC Integrated Regional

[195] The stakeholders presented here are illustrative and not meant to be exhaustive. In particular, the list is not reflective of the entire breadth of stakeholders working at the national level within and across the SADC region. Furthermore organisations like FMT and Cenfri operate at both the national and regional level – their placement at the regional level in this graph reflects their regional focus which they apply – which means their work at national level seeks to harmonise regionally.

[196] Finscope Consumer and MSME surveys

Electronic Settlement System (SIRESS).[197] Such examples highlight the potential of effective partnerships to attain goals in a more effective and less resource-intensive manner.

Given that a number of International Cooperating Partners (ICPs) are already aligned at the regional level, an opportunity exists for SADC to leverage its central position to convene ICPs to align funding activities with regional priorities in financial inclusion. Currently, there are a number of ICPs working in the financial inclusion space in SADC thus creating an opportunity for SADC to create strategic partnerships to drive the financial inclusion agenda. ICPs are working across the region, with interventions and operations in multiple countries. The Making Access Possible (MAP) programme, a multi-country initiative funded by the UN Capital Development Fund (UNCDF) and Finmark Trust, for example, has currently completed in-depth financial inclusion diagnostics and roadmaps for four[198] SADC countries, with new roadmaps and diagnostics to come.[199]

As Member States strengthen policy around financial inclusion at the national level, SADC has a greater role to play in coordinating activities and targets across the region. A number of National governments are developing their own financial inclusion strategies through initiatives such as the MAP or under the Alliance for Financial Inclusions Maya Declaration. Madagascar, Malawi, and Tanzania currently each have their own national financial inclusion strategies. Namibia has outlined its own strategy as part of its broader financial sector strategy, and various other countries are developing national-level policy and strategy to support inclusion whether as part of the MAP process, like Swaziland, or independently.[200] SADC will therefore have to work closely with Member States to ensure alignment between regional and national-level financial inclusion policies. This will help ensure limited overlap in efforts and greater efficiency of resources for initiatives that are better placed to be undertaken at a regional level (See section 2.4 for more detail).

2.4. Driving large scale initiatives through a multi-stakeholder approach

Large-scale initiatives are required to address financial inclusion – a geographical approach to these is most suitable for SADC. Large scale initiatives have emerged out of a need to catalyse ecosystem-wide transformations across a myriad of complex challenges such as agricultural development, health-systems strengthening, education and in this case financial inclusion. Large scale initiatives refer to efforts that seek to create positive and sustainable change at the regional and national level through coordination with a variety of actors.[201] While there are multiple ways of designing large scale initiatives, the design will depend largely on the outcome the initiative wishes to achieve.[202] For example, initiatives can be designed around a geographic focus, a level of intervention (e.g. demand, supply or policy), or an intervention itself (e.g. capacity building support, research and development). It can also be a combination of the three aforementioned elements. Given the context of financial inclusion in SADC, a geographic approach, appears to be aligned with the work that is already underway in the region – be at regional or national.

The roles and the areas of influence vary at each level and vary across stakeholders. At the regional level, entities are responsible for defining a set of shared rules to guide national initiatives. It is at this level that stakeholders can also ensure or work towards policy harmonisation across their geographic

[197] Expert interviews
[198] At the time that this Strategy was drafted Botswana, Lesotho, Swaziland and Malawi had drafted roadmaps and FMT and UNCDF were hoping to have roadmaps in place for eight SADC countries, including Zimbabwe, DRC and Madagascar, by the first quarter of 2016.
[199] Expert interviews
[200] Literature review; Expert interviews.
[201] Perla, R.J. et al. "Large Scale Improvement Initiatives in Healthcare: A Scan of Literature", 2011; Literature review; Dalberg analysis.
[202] National Academy of Sciences. "A balanced portfolio: Multi-scale projects in the Global Metagenomics Initiative", 2007.

area of focus. In addition, entities operating at the regional level are responsible for creating momentum around a shared vision or agenda to seek buy-in and commitment for this overarching vision from stakeholders operating at the national level. For example, to improve food security and nutrition and boost agriculture productivity across the continent, the African Union (AU) developed the Comprehensive Africa Agriculture Development Programme (CAADP). In driving this multi-country large scale initiative, the AU first developed a set of shared rules, articulated the overarching vision and set specific targets (which included committing to allocating 10% of total government expenditure to the agricultural sector) for Member States to work towards. Key activities under this initiative included the development of country compacts and investment plans. To date, 41 countries on the continent have a signed a county compact and the majority have developed a national investment plan.[203,204] As with all activities to define shared rules, they need to be followed by effective implementation to secure impact.

National entities draw on the overarching agenda at the regional level and articulate specific national goals that take into consideration local context. In doing so, national entities take on all three roles – rule making, market development and providing incentives for consumers and service providers to enter the market and drive transaction volume.[205] For example, to increase access to financial services by ensuring Rwandans had access to service points in close proximity to where they lived and worked, the Government of Rwanda established county-wide community savings and credit cooperatives, known as Umurenge[206] Savings and Credit Cooperative Society (SACCOS) in every administrative sub-division of the country. In driving this initiative, the National Bank of Rwanda spurred the growth of infrastructure to develop the market and catalysed volume by creating incentives for previously underserved populations to enter the formal market. As a result, between 2012 and 2014 these cooperatives attracted over 1, 5 million customers. Furthermore, through this intervention more than 90% of Rwandans now live within a 5km radius of an Umurenge SACCO.[207]

In addition to initiatives driven by national entities, various non-government entities initiate, drive and lead programmes across various topics and geographies. These need to be aligned with stakeholder and programmes at regional and national level. At times, they do also surface issues that need to be resolved by regional/ national entities.

Addressing the multi-faceted barriers to financial inclusion will require a strong alliance between all stakeholders. There are a number of state and non-government actors currently active in the financial inclusion space in SADC as illustrated in Figure 15. State actors, at both the regional and national level, are important actors given their ability to influence both the agenda and to convene and coordinate stakeholders from both the public and private sphere at all levels of the financial inclusion ecosystem. Governments are also best placed to create an enabling policy and regulatory environment to facilitate the entry of new players as well as products and services to drive financial inclusion. Non-government actors,[208] on the other hand often have more institutional flexibility compared to government counterparts, as well as access to resources and technical capacity to take initiatives to scale. Partnerships between state and non-government actors will serve to increase efficiency in service provision, expand coverage and reduce delivery costs and distribute risks across both public and private sectors.[209]

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[203] NEPAD. "Comprehensive Africa Agriculture Development Programme (CAADP)", n.d.
[204] Great insights Vol 1, Issue 7. "Interview with Martin Bwalya, head of the Comprehensive Africa Agriculture Development Programme (CAADP), in the NEPAD Agency", 2012.
[205] CGAP. "Financially Inclusive Ecosystems: The Roles of Government Today", 2012.
[206] Umurenge means administrative sector.
[207] Alliance for Financial Inclusion. "Rwanda's Financial Inclusion Success Story: Umurenge SACCOS", 2014.
[208] Non-government actors include a variety of players such as the private sector, foundations, donor agencies, civil society and faith based organisations.
[209] Rondinelli, D.A. "Partnering for Development: Government-Private Sector cooperation in service provision", n.d.

One mechanism that can aid coordination and collaboration between public and private actors would be through the establishment of a “platform” that includes a wide range of stakeholders, including representatives from the public and private sectors, financial regulators and policy makers, multilateral institutions, financial institutions and related market layers, microfinance institutions, financial inclusion experts, industry organisations and private foundations. An example of this is the Asia Pacific Economic Cooperation (APEC) Financial Inclusion Working Group that was launched in 2010. The initiative aims to identify concrete interventions to enhance inclusion in the region and provides the opportunity for various stakeholders to come together to review trends and challenges related to financial inclusion and to put forward recommendations to address policy constraints.[210,211]

2.5. Which interventions are best suited for a regional approach?

In driving this large scale financial inclusion initiative, SADC should target interventions that can be carried out more efficiently and effectively at the regional, rather than at the country or local level. Interventions that are most effective and efficient at the regional level should drive decision making regarding “how” SADC should play a leading role. More specifically, *effectiveness* refers to the extent to which an intervention, should it be carried out by/ led by a regional entity, would attain its objective better than if done so by a national or non-government entity. Such interventions would likely include those related to remittances, which, considering their cross-border nature, are more effectively done regionally. *Efficiency* refers more specifically to the extent to which a regional entity is better placed from a resource perspective to undertake an intervention than a national or non-government entity. The efficiency criteria is met if the cost and time expended to attain a certain outcome are likely to be less at a regional level.[212]

Given this understanding, Figure 16 assesses the alignment of the four key intervention categories identified in the Section 2.2 by determining their potential effectiveness and efficiency at a regional level. It should be noted that this is mapping of the suitability of interventions. The specific selection SADC will target, needs to match its implementing capability (or conversely, implementing partners need to be engaged to realise a selection of interventions that surpasses the resources and capabilities of SADC).

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[210] The Foundation for Development Cooperation: "APEC Financial Inclusion Working Group",n.d.
[211] Expert interviews.
[212] These criteria are adapted from the OECD DAC Criteria for Evaluating Development Assistance. Note: assessments of efficiency did not exhaustively assess the time and resource expenditures across intervention categories.

Figure 16: Alignment of key intervention categories to a regional approach

Intervention	Effectiveness	Efficiency	Rationale
Funding	◑	◔	SADC's regional perspective of funding constraints and ability to pool resources make it a relatively effective convener of funds, but substantial human and organisational resources are required to efficiently mobilise and manage funds for large-scale interventions
Advocacy	●	◕	SADC can and has effectively convened diverse stakeholders and advocated for greater financial inclusion for cross-border issues, but efficiency of regional-level advocacy can be slower and more difficult than direct country-level advocacy
Research and development	◕	◑	SADC can leverage its central position to effectively set data standards and measure regional progress of financial inclusion, but research and data gathering is more efficiently executed through national partners
Capacity development and Technical Assistance	◑	◑	SADC has the structures and positioning to effectively share and manage knowledge and technical resources amongst regional governments. Initiatives however should focus on topics that are applicable to the region as a whole.

● Fully aligned with a regional approach ◕ ◑ Partially aligned with a regional approach ◔ ○ Not aligned with a regional approach

SOURCE: Expert interviews; Dalberg analysis

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Based on this analysis, SADC is currently best placed to focus on a) advocacy and b) research and development with potential for targeted specific interventions in funding and capacity development. In addition, a number of activities around capacity development and technical assistance lend themselves to interventions at a regional level (such as training on new developments and/ or on cross-country topics). Country-specific interventions in this category can be supported by SADC. That said, interventions on capacity development and technical assistance are best undertaken in partnership with other stakeholders as they are better positioned to effectively and efficiently deliver.

It is most effective and largely more efficient to drive advocacy for financial inclusion at a regional level. This is especially the case if advocacy surrounds similar issues and similar players who may operate across the region. Mobile network operators Vodacom and MTN, for example, operate in five and four different SADC countries respectively, and Standard Bank, one of numerous large commercial banks with substantial cross-border operations, operates in 13 of the 15 SADC member states.[213] Structures such as the SADC Banking Association can leverage its network of stakeholders across the region to expand financial inclusion. These networks have already been leveraged to successfully push financial sector deepening with the SADC Payments Project, a CCBG initiative which works with regulators, MNOs, and banks to expand the extent and speed of cross-border regional payments

[213] Vodacom website, MTN website, Standard Bank website.

between banks.[214] Despite these efforts, regional advocacy remains a slow and often tedious process. It should therefore be stressed that SADC is not clearly suited to advocacy in a broader sense, but to advocating for specific issues involving numerous stakeholders across countries and industries through the creation of a Regional Financial Inclusion Forum.

This forum could leverage existing regional structures – including the SADC Banking Association, the Committee of Insurance, Securities and Non-banking Financial Authorities (CISNA), and the Committee of Central Bank Governors (CCBG) among others – to provide a robust platform upon which to effectively drive greater financial inclusion in the region. Much of what these committees and subcommittees already do is heavily focused around advocacy. As one member of the Banking Association mentioned, while the fundamental role of the Banking Association surrounds collaboration with central bank governors, "we see our role as really around advocacy."[215] The close ties and interaction that committee members often have with government policymakers also positions the SADC Secretariat well to solicit and obtain buy-in to drive financial inclusion at the national level. Moreover, the nature of the Secretariat as a central regional body makes it well placed to ensure that priorities related to financial inclusion also align with other regional priorities such as those laid out in the Regional Indicative Strategic Development Plan (RISDP) and the SADC Industrialisation Strategy and Roadmap.

SADC's regional perspective and central positioning to set standards, measure progress, and collect key data around financial inclusion is also particularly attractive. SADC should effectively leverage its central position to standardise research and data collection methodologies to facilitate cross-border comparison and measure regional progress. Structures that already exist, such as the SADC Regional Poverty Observatory, which serves as a forum for regional and national level stakeholders to evaluate and monitor the implementation of the Regional Poverty Reduction Framework, can be further capacitated and broadened to more effectively monitor progress towards common regional goals in financial inclusion.[216] Furthermore, leveraging emerging initiatives such as the financial inclusion data centre funded by the MasterCard Foundation and the Bill and Melinda Gates Foundation, operated by Finmark Trust and Cenfri, can also be used to provide and further analyse data regarding specific elements for financial inclusion.[217] It should be noted, however, that while the standardisation and monitoring of research initiatives for financial inclusion can be effectively undertaken at the regional level, the research itself and the gathering of primary data is often more efficiently done by partners working at the national and regional level. Statistics bureaus, NGOs, and research firms are often better positioned to tailor research instruments to the specific country context and manage local enumerators before filtering information to the regional body for cross-country comparison.

Potential exists to expand SADC's ability to mobilise resources to fund financial inclusion initiatives. The centralised nature of the SADC Secretariat, coupled with the strength of its committees and subcommittees, affords it a holistic perspective of funding constraints across the region, and a platform upon which to mobilise resources. If SADC were able to more effectively mobilise resources, these resources could be pooled and distributed for greater efficiency, rather than be distributed in a more piecemeal fashion. The efficiency of such efforts is hampered by the high degree of organisational capacity required to drive and manage funding for large-scale interventions. To manage funds in an effective, efficient, and equitable manner, organisation structures must be supported, systems must be developed, and processes put in place to drive and disburse funding. SADC is already working on strengthening this capacity as outlined in the SADC Resource Mobilisation Strategy which

[214] SADC Banking Association. "SADC Payments Project", 2015.
[215] Expert interviews.
[216] SADC. "SADC International Conference on Poverty and Development: Regional Economic Integration: A Strategy for Poverty Eradication towards Sustainable Development", 2008.
[217] Expert interviews; Cenfri. "Careers", 2015.

clearly identifies a path forward for effectively mobilising funds from international cooperating partners (ICPs). The ICP Partnership Dialogue, through its Core Group and Thematic Group, provide the organisational entities capable of liaising with stakeholders in the donor community and coordinating activities between the regional and national level.[218] SADC should build on these structures to develop the requisite capacity to support fund management for financial inclusion within the region.

Capacity building and technical assistance interventions are best undertaken in partnership with other stakeholders working in the sector and should focus on specific topics or areas that are regional in nature. SADC structures should focus on undertaking initiatives in areas where the subject matter is cross-border in nature and applicable to the region as a whole. This will most likely be related to supply-side or policy/regulatory issues and would serve to provide Member States with the primary knowledge needed to drive financial inclusion in the region. Undertaking such initiatives at a regional level allows for a more efficient use of resources and also provides an opportunity for Members States to come together to share information and best practice regarding common challenges. An example of such an approach was the regional technical capacity building workshop that was hosted by the Alliance for Financial Inclusion and the MasterCard Foundation with support from the Bill and Melinda Gates Foundation in July 2015.[219] Subjects covered included oversight and supervision of digital finance services as well as regulatory policy options. Member States are then better placed to lead on capacity building initiatives that address country-specific knowledge gaps. Other initiatives include the creation of regional technical hubs and Communities of Practice which would allow the region to take advantage of economies of scale. Technical hubs could maintain a pool of talent that could be deployed to provide support to Member States. Communities of Practice could be used to bring together national level stakeholders to aid information sharing and identify best practice and opportunities for cross-border collaboration. Furthermore, banks and national banking associations already undertake multiple initiatives to address demand-side challenges related to the financial capability of low-income and marginalised groups, and considering the differences across market segments in different countries and localities, these initiatives are more effectively undertaken by national governments and/ or non-government entities.[220]

[218] SADC. "SADC Resource Mobilisation Strategy", 2012.

[219] AFI. "AFI and MasterCard launch regional capacity building workshop for Africa's financial inclusion policymakers and regulators", 2015.

[220] Banking Association of South Africa website. "Financial Literacy", 2014 Old Mutual website. "Financial Education", 2015. Citi Group website. "Community Services: Operation Hope", 2015.

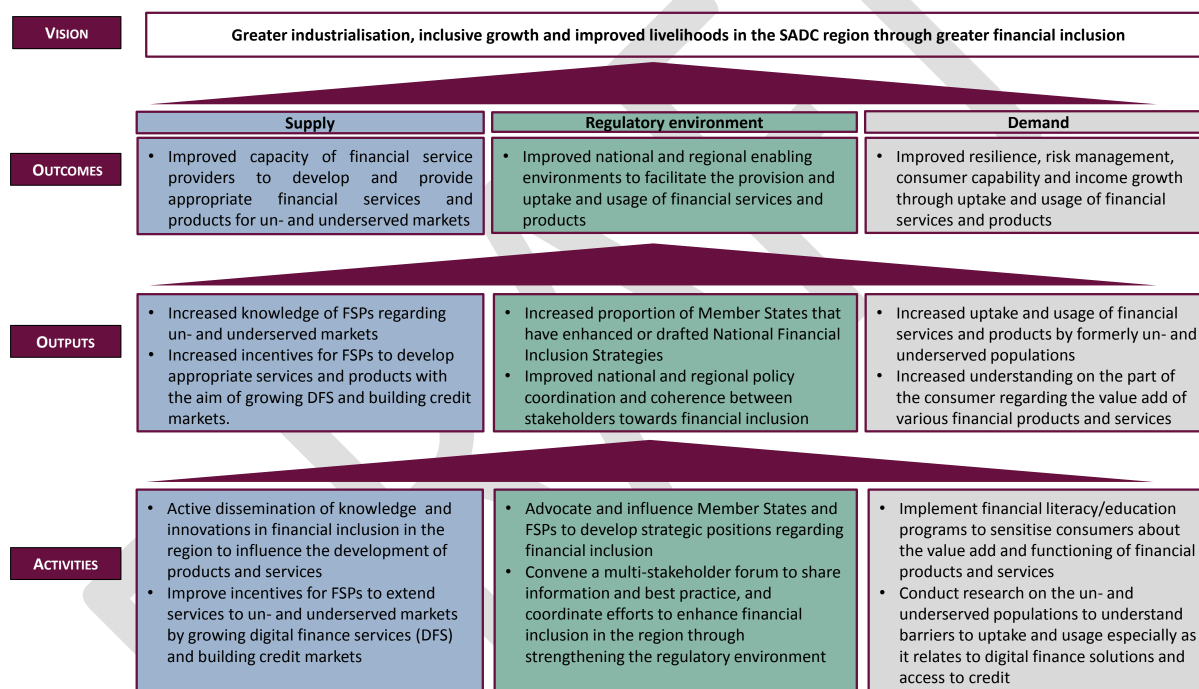
3. WHAT IS THE WAY FORWARD?

This section will provide recommendations on how SADC could move forward in operationalising this strategy to drive financial inclusion in the region. We start by presenting an illustrative theory of change that will help provide direction to interventions. Thereafter we describe the necessary steps to take the draft strategy forward. As part of that, we assess models that can be used to support the implementation of SADC's Financial Inclusion Strategy. We end of the Section by providing a monitoring framework against which progress can be tracked.

3.1. What is the theory of change for financial inclusion?

Given the objective of identifying and recommending a uniform set of indicators that will assist SADC in measuring the results of its financial inclusion interventions, an illustrative theory of change is presented in the diagram below. This framework will provide a clear direction for the interventions and activities SADC will undertake in support of financial inclusion in the region.

Figure 17: An illustrative Theory of Change for financial inclusion



SOURCE: Dalberg Analysis

3.2. Next steps to operationalise the strategy

Once the strategy framework has been adopted, it needs to be detailed further. Amongst others, this includes identifying the exact 'toolbox' of activities and the typical partners to collaborate with to provide these. Given that resourcing is likely to be constraint, defining the nature and the volume of the available support, will be an iterative process and priorities will need to be identified.

Key next steps to further operationalise the strategy include:

1. Develop an operational plan within this strategy framework including specific immediate focus areas and activities
2. Refine the metrics to track progress based on activities, baseline availability and further stakeholder consultation
3. Assess required resources and capabilities
4. Present the FI Strategy to key stakeholders and other key SADC structures and allocate responsibility and ownership for aspects of the strategy
5. Based on allocation of responsibility/ ownership and required resources/ capabilities, assess which resources are missing where
6. Secure funding for the programme
7. Refine and allocate the co-ordination role (which may vary from short, medium to long term) and put the required organisation in place
8. In parallel: plan for the next regional stakeholder platform

In each of the four categories of activities outlined for SADC, specific next steps are to be expected. The common thread amongst these next steps, is the *analysis of country needs* as a first next step, so SADC can complement and strengthen country activities.

In *funding and resource mobilisation*, a key next step is mapping the funding sources and streams to date. Crucially this should include information on conversations individual countries and stakeholders have had with various donors who may be willing to provide more resources for either regional activities or a coordinated set of activities across countries.

In *advocacy,* a key next step is defining the (cross-border) topics where most alignment and harmonization is required. Based on stakeholder consultations so far, this is likely to include (but not limited to) AML/ CFT, FMIs, cross-border remittances, consumer protection and interoperability.

In *research and development,* the very first next step is to understand country needs and gaps in knowledge. This may include a specific segmentation question on inclusion, a particular need for comparison/ best practices or a comprehensive regulatory and policy overview and assessment. Based on the various needs and resources available, the FI regional platform can determine criteria for priority-setting allowing the sequence the activities in research and development.

Lastly, in *capacity development and technical assistance,* the first next step is to determine both the needs of individual countries as well as cross-country/ regional topics that can efficiently be tackled at a regional level. Individual country needs are likely to be related to the process of defining a national financial inclusion strategy. For a number of countries, Finmark Trust has facilitated this process using the methodology of Making Access Possible (MAP) which starts with an analysis of demand and supply and then moves to the identification of barriers and interventions. Whether or not this assistance is delivered/ resources by SADC, depends on exact needs, resources and priorities but invariably, individual country strategies are likely to include the following elements:

- Description of current state – both supply and demand and the resulting levels of inclusion

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- Analysis of barriers
- Identification of target levels (to be revisited later in the process)
- Landscape analysis of stakeholders and interventions, including (if needed) an inventory of past and current interventions and their success factors and challenges
- Identification of key gaps in interventions and their interdependencies, driving a suggested timeline for interventions (e.g., certain regulatory development may be needed before something else can happen)
- Identification of specific actions, timelines, resource requirements, owners
- Sanity check on target levels – is the above enough to reach targets?

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3.3. Proposed organisational structure

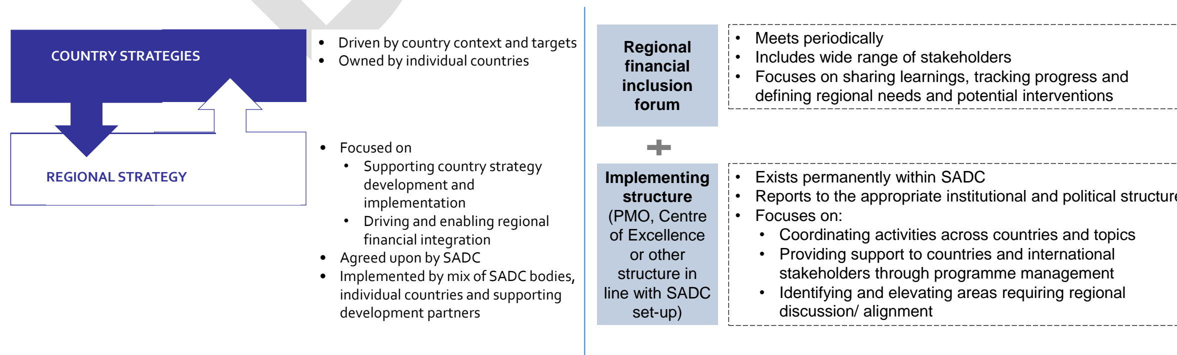
Two core elements are recommended for the regional structure: a regional stakeholder forum and an implementing/co-ordination structure structure. This regional structure supports and complements the national structures.

Firstly, there's a need for a recurring regional stakeholder platform/ forum, which serves to share learnings, address regional topics and share progress and hold each other to account on the progress. This forum needs to include all relevant stakeholders and provides important input to direction and implementation of the strategy.

Secondly, the appropriate implementing/co-ordination structure needs to be set up or identified which has the right focus and responsibilities in its mandate (in the context of the SADC structures), has access to the required capacity and expertise and has access to sufficient dedicated resources to drive implementation. This section will first cover the key criteria and rationale for a certain set-up and assess the needs of the SADC FI strategy implementation structure against those. Organisational options include a PMO (Programme Management Office), a Centre of Excellence or yet another structure – regardless of the exact organisational choice, sufficient dedicated capacity and expertise is required.

The figure below illustrates these two structural elements and the relationship between the regional roles and national organisations and strategies.

Figure 18: Link between regional and national strategies and illustration of two proposed regional structures



An implementing structure will be established to ensure the successful implementation and coordination of activities under the auspices of the Regional Financial Inclusion Strategy. The

implementing structure will be an organisational body or entity that is responsible for the direct management of a programme or project and is commonly used to manage the planning and implementation of large scale initiatives. Certain roles and capabilities will be required to ensure oversight of the Strategy. In creating this structure, SADC could choose to either; 1) establish a new structure and source the required capabilities from the market or 2) enhance or repurpose an existing structure and set of capabilities or 3) use a virtual structure drawing from existing capabilities. It is envisioned that the responsibility for the implementing structure would fall under the responsibility of the Deputy Executive Secretary for Regional Integration within the SADC Secretariat. The structure will be responsible for driving the implementation of the Regional Financial Inclusion Strategy in coordination with national level stakeholders and for measuring progress of the region in terms of attainment of this Strategy. Furthermore, it will be responsible for coordinating the aforementioned Regional Financial Inclusion Platform.

3.4. Monitoring framework

The following subsection outlines a preliminary monitoring framework for measuring progress towards the objectives of the regional financial inclusion strategy. In particular, it outlines key indicators required to measure progress and suggests a way forward for setting regional financial inclusion targets.

Based on existing data on financial inclusion in the region, SADC should monitor progress against a predefined set of indicators – a first proposal is presented here but this needs further refinement during the operationalisation of the strategy. As shown in Figure 19, the first proposal for the indicators includes a broader regional access strand, indicators regarding the access and usage of different products, indicators regarding access and usage across different demographic groups, and an indicator to track policy progress towards financial inclusion.[221] Progress on each of these indicators would be assessed over time (to assess whether the interventions make a difference compared to past approaches) and against previously set targets. We have selected indicators that are currently already being tracked for 2 primary reasons:

1. The requirement to monitor over time implies that indicators that are already being tracked are preferable to new indicators – for such indicators, both a baseline and data on past performance as reference will be available.
2. Using indicators that are already being tracked will allow SADC to start activities quicker and gather data more efficiently.

The indicators that Finmark Trust already collects data for through both the Finscope consumer and MSME surveys covers the required information and there was no further need to identify additional metrics requiring new primary data collection. The Finscope methodology should continue to be deployed in future data collection exercises, for both consumer-level data and MSMEs, so as to track future changes against past performance in a uniform manner.[222] While the Finscope methodology collects data on access to both formal and informal financial mechanisms, the focus of the regional indicators below will be on formal forms of inclusion. This is based on the belief that although informal mechanisms of financial inclusion are critical to serving the needs of un- and underbanked groups, the ultimate goal of financial inclusion is to bring these groups into the formal financial system.

The figure below also contains the regional baseline and regional targets which will be refined and adjusted over time. Regional targets provide an anchor for the Ministers of Finance for the SADC

[221] These indicators are not exhaustive but rather serve as a high-level set of indicators that should be used to guide a more nuanced and detailed monitoring and evaluation framework.
[222] Finmark Trust. "Financial Inclusion in the SADC Region: An Excluded Society? Financial Inclusion in SADC through a Finscope Lens", 2015.

member states to track regional performance against. They don't translate one-on-one to country targets: some countries already outperform the regional targets and others have a much longer way to go. Country targets will need to be set as part of the development of the national financial inclusion strategy, taking into account the current performance, past progress and whether or not options for 'step change' are available (for example, a country that doesn't have broad availability of mobile money yet can, if it manages introduction well, expect a step change in inclusion). As the country targets are defined, the aggregation of them can refine the regional targets.

Figure 19: Key indicators to measure regional progress in financial inclusion

Category	Indicator	Definition/ research question	Regional baseline	Regional target – first suggestion
Overall	Regional access strand	What is the overall level of financial inclusion across the region?	66% of adults in the region are financially included	75% of adults in the region are financially included
Product indicators	Remittances	What proportion of the total remittance value is done through formal channels?	*(using SA data as proxy)* 68% of the value of remittances is done through *informal* channels	48% of the value of remittances is done through *formal* channels
	Mobile money	What proportion of adults use mobile money?	23% of adults use mobile money	50% of adults use mobile money
	Savings	What proportion of adults use savings and what proportion of adults use *formal* savings?	• 51% of adults save – formally or informally • 17% of adults use formal saving mechanisms/ products	• 60% of adults save – formally or informally • 25% of adults use formal saving mechanisms/ products
	Credit	What proportion of adults use credit and what proportion of adults use *formal* credit?	• 32% of adults use credit/ borrow – formally or informally • 15% of adults use formal credit products	• 40% of adults use credit/ borrow – formally or informally • 25% of adults use formal credit products
	Insurance	What proportion of adults have insurance and what proportion of adults use *formal* insurance?	• 27% of adults have insurance – formally or informally • 18% of adults have formal insurance products	• 40% of adults have insurance • 30% of adults have formal insurance products
Geographic indicators	Gender	How does access to financial services vary by gender?	• 68% of male adults are financially included • 65% of female adults are financially included	75% of both female and male adults are financially included
	Location	What is access to financial services through banks for rural populations?	22% of rural adults are banked (out of 55% financially included – compared to 52% of urban adults banked) – *banked relevant as it shows the extension of physical infrastructure*	35% of rural adults are banked
	Youth/ age	How does access to financial services vary by age?	• 65% of adults < 30 are financially included • 75% of adults > 30 are financially included	A minimum of 75% of both age groups are financially included (driving a bigger emphasis on youth)
Policy indicators	Financial inclusion strategy	• What proportion of countries have a FI strategy in place? • Of those without a strategy, how many are currently developing a strategy?	• Four countries have a strategy in place • Three countries are in the process of defining a strategy	• 100% of SADC countries have a strategy in place •

SOURCE: Finmark Trust; Dalberg analysis

The overarching indicator is proposed to be the regional access strand, which will provide a holistic indication of the level of financial inclusion in SADC and the progress made towards greater financial inclusion as this data is collected over time. In line with Finscope typology, the regional access strand will assess the percentage of adults who are banked, formally included (non-bank), informally

included, and excluded in a hierarchical and mutually exclusive way.[223] Product indicators will help understand how access and usage of different financial products vary across the region, so as to understand where access is lacking in terms of the types of financial services being utilised. Demographic indicators will be used to assess how equitable the uptake of financial services is across different demographic groups. These indicators are crucial to understanding whether activities undertaken are positively affecting marginalised groups. Lastly, a policy indicator on the development and implementation of national financial inclusion strategies within SADC will be used to assess how regional efforts are spurring legislative change at the national level.

DRAFT

[223] Ibid. See Section I for more information on measuring and defining financial inclusion.