Democratic Republic of the Congo

MAKING ACCESS POSSIBLE: FINANCIAL INCLUSION DIAGNOSTIC REPORT

2016

THIS REPORT WAS PRODUCED BY THE CENTRE FOR FINANCIAL REGULATION AND INCLUSION (CENFRI) IN COLLABORATION WITH CETHER

AUTHORS

Mia Thom, Barry Cooper, Jaco Weideman, Wicus Coetzee, Jeremy Gray, Christine Hougaard, and Henri Plessers

In-country support & stakeholder coordination: Monah Andriambalo

PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.

At country level, the core MAP partners, collaborate with government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP DRC was funded by FinMark Trust and produced by Cenfri.

This document sets out the comprehensive diagnostic findings which feeds into the Roadmap developed in collaboration with the MAP DRC steering committee.

ACKNOWLEDGEMENTS

The authors would like to extend their gratitude to all of those who assisted us in compiling this report.

The Ministry of Finance, ably represented by Mr Mule Mule, provided guidance and support throughout our research process. The other members of the MAP Steering Committee including the Ministry of Finance and Central Bank also provided valuable feedback and input on our findings. The UNCDF DRC country representative, Monah Andriambalo supplied indispensable insights and assistance throughout the MAP process. The Cether team lead by Henri Plessers, provided critical assistance: organising countless meetings, conducting research, arranging mystery shopping exercises and providing us with insight into DRC and its people.

Finally, we would like to thank the various people we met with from government, financial services providers, industry bodies, technology providers, telecommunications operators and donor agencies for their time, the critical insights that guided this research and their efforts to extend financial services to the excluded.

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List of Abbreviations and Acronyms

ACH	Automated Clearing House
AML	Anti-Money Laundering
ANAPI	National Agency for Investment Promotion
ARCA	L'Autorité de Régulation et Contrôle des Assurances (Regulatory Authority and Insurance Supervision body)
ARPTC	Autorite de Regulation de la Poste et des Telecommunications du Congo (Regulatory Post and Telecommunication Authority)
ATM	Automated Teller Machine
B2B	Business to Business
B2G	Business to Government
BCC	Banque Centrale du Congo (DRC Central Bank)
BCDC	Banque Commerciale du Congo
BIAC	Banque Internationale pour l'Afrique au Congo
BIC	Banque International de Credit
CCA	Conseil Consultatif des Assurances (Insurance Advisory Board)
CCBG	SADC Committee of Central Bank Governors
CDF	Congolese Franc
CENAREF	Cellule Nationale des Renseignements Financiers (National financial intelligence unit)
CFT	Combatting the Financing of Terrorism
CMA	Common Monetary Area
COOCEC	Centrale des Coopératives d'Epargne et de Crédit (Centralised Credit and Savings Co-operative)
COOPEC	Coopératives d'Epargne et de Crédit (Credit and Savings Co-operative)
CPL	Continuous Processing Line
D2B	Donor to Business
D2P	Donor to Person
DRC	Democratic Republic of the Congo
EFT	Electronic Funds Transfer
EMI	Electronic Money Institution
FBN	First Bank of Nigeria
FMT	FinMark Trust
FPI	Fonds de Promotion de l'Industrie (Industry Promotion Fund)
FPM	Fonds pour la Microfinance (Microfinance Fund)
FSP	Financial Service Provider
G2B	Government to Business
GNI	Gross National Income
IMF	International Monetary Fund
INSS	L'Institut National de Sécurité Sociale (National Social Security Institute)
KYC	Know Your Customer
MAP	Making Access Possible
MECRE	Mutuelle d'Epargne et de Credit (Savings and Credit Mutual)
MFI	Micro Finance Institution
MNO	Mobile Network Operator
MoF	Ministry of Finance

MSME	Micro, Small and Medium Enterprise
MTO	Money Transfer Operator
OECD	Organisation for Economic Co-Operation and Development
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires (Organization for the Harmonization of African Business Law)
P2B	Person to Business
P2G	Person to Government
P2P	Person to Person
PASMIF	Programme d'Appui au Secteur de la Microfinance (Microfinance sector programme)
POS	Point Of Sale
ROE	Return On Equity
RTGS	Real-time Gross Clearing and Settlement System
RTL	Real Time Line
SA	Société Anonyme (Public Limited Company)
SACCO	Credit and Savings Co-operative
SADC	Southern African Development Community
SARL	Société à Responsabilité Limitée (Limited Liability Company)
SIRESS	SADC Integrated Regional Settlement System
SONAS	Société Nationale d'Assurances (National Insurance Company)
SSA	Sub Saharan Africa
STC	Société Congolaise de Transfert (National Transportation Company)
TMB	Trust Merchant Bank
UNCDF	United Nations Capital Development Fund
USD	United States Dollar
VAT	Value Added Tax
ZAR	South African Rand

USD/CDF Exchange Rate

Foreign exchange. The local currency in the Democratic Republic of the Congo is Congolese Franc (CDF). The United Stated Dollar (USD) equivalent shown throughout this document was calculated using a 12 month average exchange rate (between 1 January 2015 and 31 December 2015) of CDF 909/USD.

MAP in numbers

Key facts[1]

GDP of USD 33 billion

Total population of 75 million

16.4% of people have access to electricity

16 million people own a mobile phone

75% of adults are literate

Financial Inclusion Priorities

Priority Areas 1: EXTEND PAYMENT SYSTEM FOOTPRINT AND USE

Over 90% of adults make all payments in cash

Priority Area 2: LEVERAGE REMITTANCES TO ATTRACT & SHARE RESOURCES

7 million people receive remittances - up to USD 9 billion from abroad

Priority Area 3: BUILD TRUST TO SAVE

Only 37% of adults trust banks, and only 20% SACCOs or MFIs

Priority Area 4: UNLOCK INTERMEDIATION FOR INVESTMENT

Credit extension to private sector only 6% of GDP

Priority Area 5: IMPROVE RISK MANAGEMENT OPTIONS

4 million adults reduce consumption or sell assets to deal with risks

Priority Area 6: BUILD INSTITUTIONS & FRAMEWORKS FOR ENABLING ENVIRONMENT

Contract enforcement costs 80% of credit claim

[1] Based on World Bank (2016b) and GSMA (2014)

Overview of Financial Access in the DRC

33% of adults have taken up at least one financial service from a formal financial service provider, but...

...only **3%** of adults use more than two formal financial services

...whilst **13%** of adults make use of informal services only.

The result is that **54%** of adults use no financial services.

Breakdown of Financial Access in the DRC by Product Market

24% of adults use formal remittance services

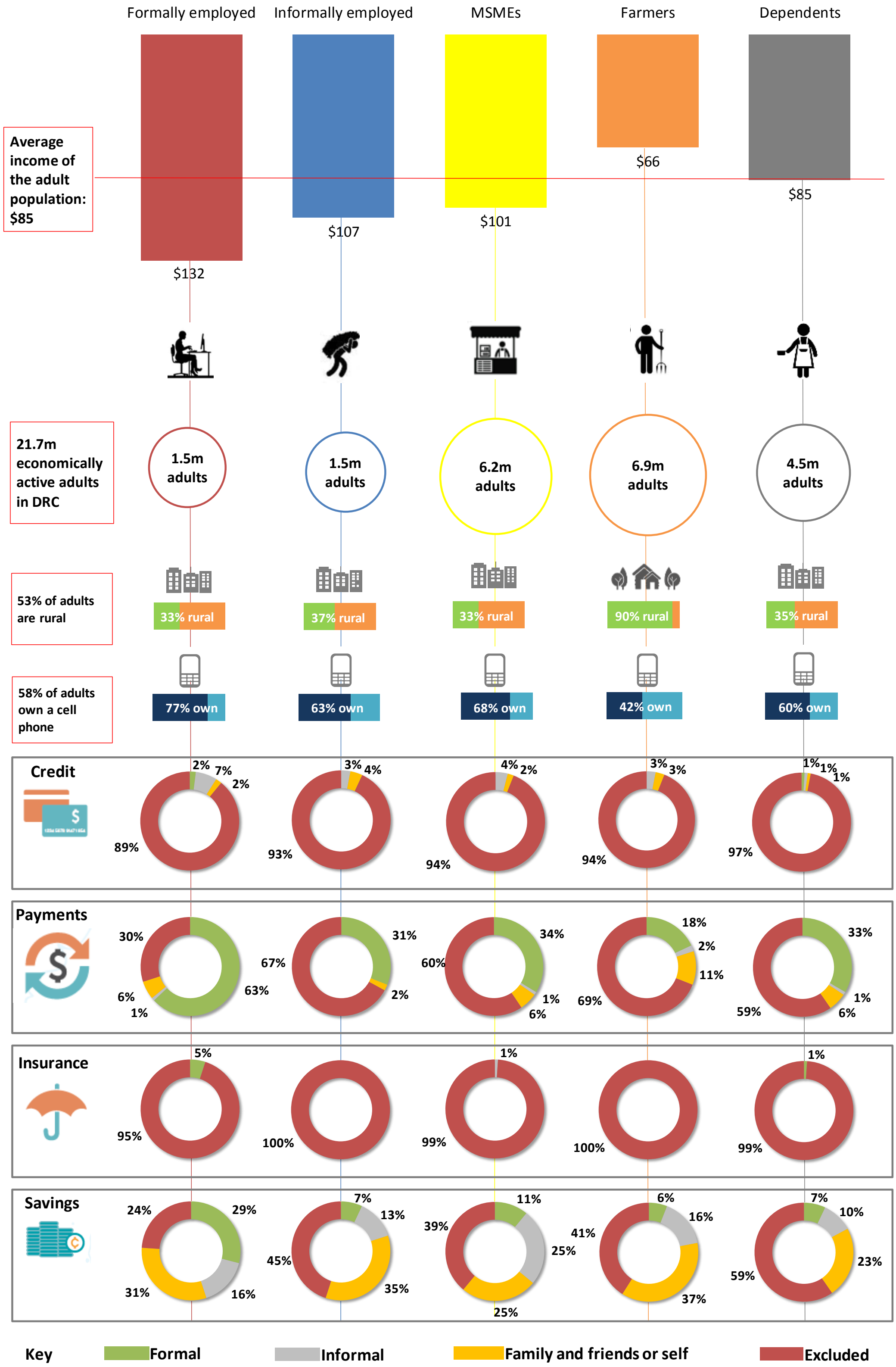
10% of adults save with a formal financial service provider

17% adults save in informal savings groups

1% of adults have insurance

1% of adults borrow from a formal institution

Target markets at a glance



Source: FinScope (2015)

MAP in brief

Financial inclusion matters for livelihoods and growth. Financial intermediation can fuel economic growth by mobilising savings for investment, reducing transaction costs and increasing efficiency[2]. At the household level, it can build welfare by reducing transaction costs, and enabling people to more efficiently manage risks, allocate capital for productive use and accumulate wealth over time. Financial services can also facilitate access to core services, such as health or education. But is this really possible in the DRC?

Structural outreach challenges. The DRC is a challenging environment to do business in and the financial sector is no exception. Several decades of conflict saw the financial sector all but come to a standstill. As a result, a whole generation of people grew up without formal financial services. They find it very difficult to understand, let alone trust financial institutions. They also face severe affordability constraints. A mere 7% of Congolese are formally employed and the majority are engaged in subsistence agriculture. 71% of the population are deemed to be financially stressed and almost half of the adult population is so deeply rural that they are not even counted for financial inclusion survey purposes.

Financial institutions, in turn, face structural challenges in serving a broad client base. Since becoming re-established in the mid-2000s, the financial sector has grown fast off a very low base[3]. However, the extremely difficult to navigate topography, coupled with large transport and communications infrastructure gaps, stack the deck against retail market outreach. Furthermore, skills remain limited, there is insufficient data to inform which clients to serve, liquidity is constrained and investment options limited.

The result? Large parts of the population are all but cut off from the formal financial services infrastructure. The formal sector does not have the tools or means to reach out to them and, even should financial services be within reach, prospective clients do not have the knowledge or trust to take up financial services. It is therefore not surprising that formal financial services reach just one in every three of the sample population[4]. While payments and savings accounts have made some inroads, retail credit and insurance markets are virtually non-existent.

Real on the ground needs. However, that does not mean that people do not have real financial service needs. Indeed, the economic hardships they face reinforce ordinary people's need for financial services to help them manage their financial lives. This is attested by the fact that a host of informal mechanisms, from savings clubs to money lenders to innovative risk-pooling groups, have sprung up to "reinvent" financial inclusion from the bottom up in the DRC. Many

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[2] See, for example, Calderón & Liu (2002), King & Levine(1993), and Levine (1997).

[3] The number of registered financial institutions has grown five-fold, with the 18 banks and the 75 money transfer operators fulfilling the most important financial outreach role, followed by the 103 registered COOPECs and 21 MFIs. The number of accounts has grown from virtually zero in 1997 to 2.5 million bank accounts, 1.9 million COOPEC and MFI accounts and 6.8 million mobile money accounts (albeit only 10% of which active) in 2014. The government bancarisation drive, whereby more than 800,000 recipients of government income now receive their money into a bank account, has played a significant role in this growth.

[4] In total, just more than half of Congolese adults in the sample population have no form of financial inclusion, whatsoever. The sample population is defined as those 21 million adults living in "economically active" areas of the country. Beyond this is the hinterland, where an estimated further 19 million adults reside that who are not even considered for financial inclusion measurement purposes. Almost 8 million of those with financial services use only informal financial services. Only 7 million are formally included. Those with accounts use it mostly for savings, but account usage is infrequent. Low take-up persists across product markets and is skewed towards women and rural areas. Even the wealthy and formally employed are excluded. There are 900,000 people who earn more than $200 per month (placing them in the top income quintile of the population), yet have no formal financial services. The picture is even starker for credit. Only 5% of the formally employed have credit and fewer than one in 10 small business owners or farmers with an income above $200/month have credit.

also turn to family and friends to help them cope financially. In total, 60% of the sample population either use informal financial services or turn to family and friends for their financial needs.

The most front-of-mind financial service needs identified in the demand-side research are the need to pay for goods and services as part of daily life, the need for liquidity to smooth consumption, the need to manage risk, especially for health-related expenses, and the need to build human capital. Coping with loss of income or theft, and acquiring productive inputs are also significant expressed needs.

Unpacking the gap. It is clear from the market synopsis outlined above that there are significant gaps between needs, on the one hand, and the means to serve those needs through formal financial services, on the other. By filling these gaps, financial inclusion can and should play an important welfare-enhancing role in the DRC. But the environment and unique history also mean that this is very difficult to achieve. Finding a solution requires one to think differently about how to reach areas, target markets and products that would normally be regarded as too challenging. This, in turn, requires an understanding of the structural conditions for the development of a market that can start to branch into retail services. This includes a closer look at the enabling environment or framework conditions necessary to achieve financial sector development, as well as the customer perceptions and realities that will shape uptake.

MAP as diagnostic tool. Making Access Possible (MAP) is an evidence-based multi-country initiative to unpack these angles. It is implemented by the United Nations Capital Development Fund (UNCDF), FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri), in consultation with the Ministry of Finance-led MAP DRC Steering committee. MAP uses a comprehensive analysis of the country context, demand, supply and regulation of financial services[5] to identify priority areas to address barriers and leverage opportunities to improve financial inclusion. Given the different needs of different types of consumers in the DRC, adults are segmented into five target markets to better inform how financial services can meet needs[6]. Special attention is given to the plight of women and rural residents.

What can be done to bridge the gap? The MAP diagnostic is designed to inform the steering committee in developing a roadmap that provides detailed and actionable steps to achieve the financial inclusion priorities. Six key priorities are identified to better serve those that are already within reach of the market and, over time, overcome the structural barriers to the development of a more accessible retail market:

1. *Extend payment system footprint and use.* Payments are critical to allow people to support each other, to access resources and to access financial services. More than 90% of adults make all their payments in cash (FinScope, 2015). A number of policy and market actions can be considered to extend the footprint and use of the payment system, including finalising national payment system regulation to address interoperability, encourage

[5] MAP DRC relies on demand side data from the FinScope DRC survey, drawing on survey data gathered in 2014 and a range of qualitative immersive interviews in Kinshasa and Goma, as well as supply side data from stakeholder interviews with financial service providers, regulators and policymakers, published annual or interim financial statements and reports and data collected by supervisors.

[6] Five target markets were identified based on main income source: formal employees, informal employees, MSMEs, farmers and dependents.

alternative payment partnerships and allow fair access to payment system and telecommunications infrastructure. Agency can also be deepened through agency banking legislation. On the market side, technology and management solutions to improve reliability of ATMs and POS devices require attention, as does improving the user options for digital payments. Enabling system interoperability is key, as well as connecting existing distribution channels to a broader suite of financial services. Capacity to manage liquidity and reticulate cash throughout the country is another condition for success, and offline card functionality will be important in light of connectivity problems.

2. *Leverage remittances to attract and share resources.* Congolese adults are critically reliant on remittances to manage risks, obtain income for their livelihoods and build assets or businesses. Estimates vary, but FinScope indicates that seven million people receive remittances, domestic and foreign. Foreign remittances are significant. The Ministry of Congolese Abroad estimates that nine million people outside of the DRC remit around USD 9 billion annually into the DRC. However, various constraints limit the amount of remittances that flow through the formal sector. Potential actions to support the development of the formal remittances market include supporting an efficient and interoperable payment system as highlighted above, and the development of cross-border corridors for remittances and trade flows. At the diplomatic level, government could pursue bilateral negotiations to remove first mile access challenges in sending countries (including topics like documentation requirements and the conditions for establishing correspondent banking relationships) and a diaspora policy to attract funds.

3. *Build trust to save.* The decades of conflict combined with banking collapses and hyperinflation have eroded trust in the formal financial sector. Over 37% of people indicate that they do not trust banks and 20% do not trust SACCOs and MFIs. To overcome the trust barriers to formal savings, it is important for policymakers and regulators to continue to drive the stability of savings institutions, strengthen savings and credit cooperatives (SACCOs or COOPECs (in DRC)) and MFIs to collect and secure savings, build consumer protection and recourse mechanisms, and enable deposit insurance. Financial service providers, in turn, could address payment constraints to improve reliability and convenience, plus can improve the capacity of frontline staff to explain products to consumers.

4. *Unlock intermediation for investment.* Domestic credit to the private sector is very constrained, at only 6% of GDP or USD 2 billion according to the World Bank. Critical investment opportunities therefore remain unfunded, which hampers development outcomes. The low level of intermediation creates an imperative to develop the capital market through a three-pronged approach: unlocking savings, promoting pooling of capital and reducing the cost and risk of investment to drive opportunities. Potential actions to do so include addressing the payments system constraints to improve functionality of savings accounts, connecting informal savings and credit options with formal institutions, addressing credit-related regulatory constraints, and strengthening access to consumer data. Ultimately, the capital market should be developed to introduce a wider range of financial instruments and long-term pooling options to invest.

5. *Improve risk management options.* Four million people reduce consumption or sell critical assets to manage insurable risks (FinScope, 2015). Financial shocks therefore often push people into poverty or prevent the poor from improving their situation. Health *mutuelles*

and informal mechanisms are often the only mechanism communities have to manage risk. Effective insurance can contribute significantly to development in the DRC, even if it just serves wealthier customers and corporates better and starts to build long-term savings for investment. It can also allow businesses to take productive risks that are currently outside their reach. The insurance market has very recently opened up from state provision to broader market provision. Now it is important to now get a functional insurance supervisory system in place to manage the liberalisation process, to attract and manage the entry of insurers and generally to create a stable industry that will regain the trust of consumers. Given the poverty levels and infrastructure challenges in the DRC, formal insurance will remain unobtainable for many over the coming years. It will be important to apply a proportionate approach to regulation so as to allow the continued operation of community-based risk pooling mechanisms and other entities not traditionally included under the insurance regulatory framework, but now covered under the new Insurance Law.

6. *Build the institutions and framework for an enabling environment.* Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders. An important cross-cutting action to enable the various priority areas above is to strengthen financial inclusion at the institutional or infrastructure level. In the first instance, this entails introducing a financial inclusion policy and a coordination strategy for implementation. It also extends to topics such as addressing data constraints to enable providers to identify opportunities and to reduce costs and uncertainty, building financial sector skills and capacitating and empowering customary courts as point of low-value dispute handling. There are furthermore a number of cross-cutting regulatory actions to enable the various strategies outlined above, including a need for more principles-based legislation, as well as proportionate requirements for lower tier banks, agency, credit and e-money service providers, and the inclusive implementation of the latest international AML/CFT requirements. Effective implementation of such actions will be critical to build trust while allowing the Congolese financial sector to address the challenges posed by extreme poverty, constrained infrastructure and nascent skills.

Priority actions. The table below sets out key actions that emerge to implement these priority areas.

Priority area	Actions
Extend payment system footprint and use	• Improve the use cases/user options for digital payments • Improve reliability of ATMs and POS devices • Expand *bancarisation* to go beyond account ownership to use • Finalize agency banking legislation • Finalise the national payment system regulation • Extend investment incentives to relevant financial services providers
Leverage remittances to attract and share resources	• Extend cross border remittance channels • Address last mile payment constraints to deliver cash • Reduce sending country documentation constraints • Create formal options for cross border trade flows

Priority area	Actions
	• Enable targeted sending options for human capital related remittances (e.g. education, health, business) • Consider a diaspora policy to attract skills and funds
Build trust to save	• Strengthen the stability of savings institutions • Strengthen SACCOs and MFIs to collect and secure savings • Improve capacity of frontline staff to explain products to consumers • Strengthen enforcement to terminate illegitimate savings institutions • Strengthen consumer protection and recourse • Complete framework to implement deposit insurance • Address payments constraints to improve receipt of and access to savings
Unlock intermediation for investment	• Address payment constraints to improve the receipt of saving and liquidity available for lending • Connect informal savings and credit options with formal institutions • Address credit-related regulatory constraints • Strengthen access to consumer data to lend (including Centrale du Risque) • Develop the capital market to introduce a wider range of financial instruments and long term pooling options to invest
Improve risk management options to mitigate shocks and encourage productive risk taking	• Build capacity with policy makers, regulators and providers to enable the market and support innovation • Build trust in insurance with consumers • Refine and implement regulation to serve lower income people • Address payment constraints for premiums and claims • Maintain effective informal options
Build institutions and framework for an enabling environment	• Adopt a financial inclusion policy to strengthen inclusion mandate • Strengthen coordination around financial inclusion initiatives to effectively develop market • Address data and information constraints to enable providers to identify opportunities • Build capacity in financial inclusion initiatives with regulators, policy makers and providers • Targeted consumer capacity building and financial literacy training

1. About MAP

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund[7] (UNCDF), FinMark Trust[8] and the Centre for Financial Regulation and Inclusion[9] (Cenfri). In each country, it aligns stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country. In the DRC, MAP is rolled out under the guidance of the MAP steering committee chaired by the Ministry of Finance. The steering committee includes representatives from the Ministry of Finance amongst others National Statistics Agency, Central Bank, selected Financial Service Providers (FSPs), industry associations, development agencies and donors.

Comprehensive scope. MAP compiles a comprehensive picture of financial inclusion drivers, barriers and opportunities across the **country context**, the **demand** for and **supply** of financial services, and the **regulatory environment** in four core product markets: **savings**, **credit**, **payments** and **insurance**. Figure 1 below summarises the methodology followed and main sources:

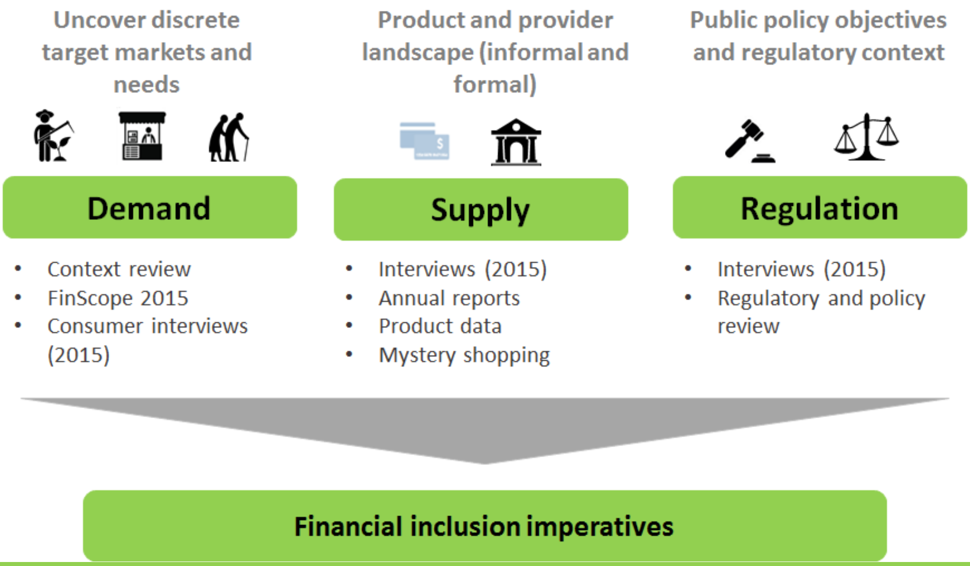

Figure 1. The MAP approach

Source: Authors' own

[7] **UNCDF** (www.uncdf.org) is the UN's capital investment agency for the world's least-developed countries. It creates new opportunities for poor people and their communities by increasing access to microfinance and investment capital. UNCDF focuses on Africa and the poorest countries of Asia, with a special commitment to countries emerging from conflict or crisis. It provides seed capital – grants and loans – and technical support to help microfinance institutions reach more poor households and small businesses, and local governments finance the capital investments – water systems, feeder roads, schools, irrigation schemes – that will improve poor peoples' lives.

[8] **FinMark Trust** (www.finmark.org.za) was established in March 2002 with funding from the UK's Department for International Development (DFID). FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. FinMark Trust has been engaging with the government of Zimbabwe on financial inclusion for a number of years, including the roll out of the FinScope Consumer Survey in 2011 and 2014, as well as the FinScope MSME Survey in 2012.

9 **Cenfri** (www.cenfri.org) is a non-profit think-tank based in Cape Town, South Africa. Cenfri's mission is to support financial sector development and financial inclusion through facilitating better regulation and market provision of financial services. They do this by conducting research, providing advice and developing capacity building programmes for regulators, market players and other parties operating in the low-income market.

Data-driven approach. An important part of the MAP approach is to directly gather evidence. On the supply-side this is done through a range of stakeholder consultations conducted in 2015 as well as a mystery shopping exercise at branches/outlets of various financial institutions conducted in 2016. On the demand-side, both qualitative and a quantitative data is generated and analysed: qualitative insights were gathered through a series of 48 in-depth qualitative consumer interviews conducted in Kinshasa and Goma in August 2015. These insights are used to add perspective and nuance to the quantitative consumer insights generated through the FinScope DRC consumer survey published by FinMark Trust and the UNCDF in 2015, drawing on 2014 survey data. FinScope is a nationally representative demand-side survey of consumer behaviour and interaction with financial services, as well as consumers' financial realities and perceptions of financial services. FinScope DRC is based on a sample of 5,000 adults (individuals aged 15 and older). This sample is representative of the population residing in "economically active" areas as identified by the Central Bank, totalling 21 million adults (see Section 3.1 for further explanation).

Customer needs at the core. What sets MAP apart from other scoping exercises is that the demand-side perspective is the point of departure. The rest of the analysis then evaluates the supply of financial services in the DRC against the core customer needs identified. Importantly, these needs differ across parts of the country and target market segments.

Keeping the bigger picture in mind. MAP is a financial inclusion diagnostic. As such, the role of financial inclusion in serving public policy objectives takes centre stage. However, financial inclusion can never be seen in isolation. It forms part of the broader financial sector and economic landscape of the country. In the DRC, given its unique and complex history, topography and economic situation, the need to regard financial inclusion as part of the "bigger picture" is particularly pronounced. The overview of the needs, gaps and drivers of financial inclusion in the rest of this document will speak to this bigger picture.

Overview of financial inclusion. This document summarises the findings of the diagnostic in an issue-based way:

- It starts by outlining why financial inclusion is important in the DRC context and how it can contribute to the government's overall economic development goals (**Section 2**).
- **Section 3** then unpacks the gaps to financial inclusion in the DRC by considering: (i) the key needs across different target market segments; (ii) the current uptake of financial services and consumer reasons for (not) using financial services; (iii) the supply of financial services across different product markets and the common distribution challenges faced; as well as (iv) the regulatory framework within which the market evolves; in order to conclude on (v) the nature and size of the gaps between needs and reality.
- **Section 4** takes a critical look at the underlying drivers causing the gaps, relating to the country context, business and regulatory environment.
- **Section 5** concludes with priority actions to bridge the gaps and develop a more inclusive financial sector in the DRC.

Deep dive into critical aspects of inclusion. The main text is supplemented by deep-dive analyses into specific thematic areas to provide the evidence and analytical building blocks for the priorities. These deep dives were selected based on key risks and opportunities for financial inclusion[10] and are presented in the following annexures:

- **Input Note 1: Target market analysis** provides an overview of the demand-side context, the current uptake of financial services in the DRC and the barriers to uptake. It proceeds to segment the sample population into five discrete groups, and to profile each group and outline their current financial services usage and likely future needs across product markets.
- **Input Note 2: Regulatory context** outlines the financial services regulatory framework in the DRC.
- **Input Note 3: Market for Payments** provides an in depth analysis of available data on the payments market. From the demand-side perspective, it covers typical needs for payment services and current uptake of various payments products. On the supply-side, it outlines the providers, distribution and product landscape. It also discusses key barriers to greater penetration, including a list of payments-specific regulatory issues, in order to conclude on gaps and opportunities specifically in the payment market.
- **Input Note 4: Risk mitigation** follows the same structure as Input Note 3, but applied to the insurance market. It outlines the near absence of insurance market penetration, considers various formal and informal options on the market and concludes on the scope for insurance market development as a means to support economic growth and protect household livelihoods, and the structural prerequisites to doing so.

2. Why Financial Inclusion?

Large constraints to social participation. The DRC is emerging from decades of conflict. To this, as will be discussed in Section 4.1, is added severe infrastructure constraints and a vast and difficult to navigate topography. Almost half of all adults live in deep rural areas where they are all but cut off from the outside world. Subsistence agriculture plays a particularly important role. The agricultural industry employs 62% of the DRC's men and 84% of its women (USAID, 2015). However, value chains are constrained and a significant proportion of food is imported. It is therefore not surprising that the bulk of the population does not yet share in the benefits of recent economic growth. Input Note 1 shows that only 7% of the population is formally employed. The rest make a living in the informal sector. Poverty is widespread. The average income is only USD 85 per month; 32% of adults earn less than USD 30, or approximately USD 1 per day; and 53% earn less than USD 3.30 per day[11].

> *"Here we do not have lunch, we [just] have supper. The people are accustomed to the system, because our daily income is maybe USD 1, which cannot be sufficient for both lunch and supper."*
>
> \- Refugee, subsistence farmer, female, Kibumba

Poor human development outcomes. The low incomes combine with poor social services to stunt human development. On the 2015 Human Development Index, which measures the

[10] The market for payments is critical to meet consumer needs and enable other services. The market for insurance is in the process of liberalising and presents significant opportunity if appropriately enabled. The market for savings and credit is covered in the main text.
[11] The World Bank poverty line.

annual rankings of national achievement in health, education and income, the DRC ranked 179 out of 189 countries (UNDP, 2015). Education and health outcomes alike are poor:

- Access to basic education is limited. The World Bank (2012) estimates that the adult literacy rate in the DRC was 75% and in 2013 and the primary school completion rate was 67%.
- The DRC continues to be plagued by high infant mortality rates, low life expectancy and a high disease burden. Life expectancy has not changed over the past five years, currently standing at 59 years. While infant mortality has decreased from 8.3% in 2011 to 7.5% in 2015, it is the highest among its neighbouring countries. The health system is limited as most hospitals are inadequately staffed and equipped. Total annual healthcare expenditure remains insufficient at USD 25 per capita (World Bank, 2014).

Most Congolese financially stressed. The situation of the woman quoted above is indicative of severe financial distress. In total, 71% of FinScope respondents are financially stressed (measured by the self-reported necessity to "often" or "sometimes" go without food or medical treatment, or having to take children out of school). In rural areas, the figure is 79%, compared to 62% in urban areas and the Kinshasa region. More than 45% of Congolese report not having enough income, while approximately 30% report irregular or unreliable income as problematic. It is also telling that nine out of every ten Congolese report that expenditure on necessities such as food, clothing and health is front of mind for them.

Financial inclusion can help manage deprivation. In this situation of economic hardship and social exclusion, there are structural challenges to connecting people to resources. As the analysis in Input Note 4 shows, people face many risks and financial shocks that reinforce the poverty cycle. Financial services can help to manage these shocks to smooth and grow income. It can also help people to build assets and to transact and live their financial lives more efficiently. The impact is tangible. Figure 2 below shows that 60% of adults who earn less than a dollar a day and who are financially excluded (that is, have no formal or informal financial services) indicated that they have missed a meal, could not send their children to school, or could not pay their health costs. This is shown by the red bar. When considering the corresponding proportion among the financially included (those with any type of formal or informal financial service), the percentage drops to 48% (the green bar). This indicates that, for people with similarly low income levels, whether they are financially included or not makes a significant difference to the likelihood of financial distress.

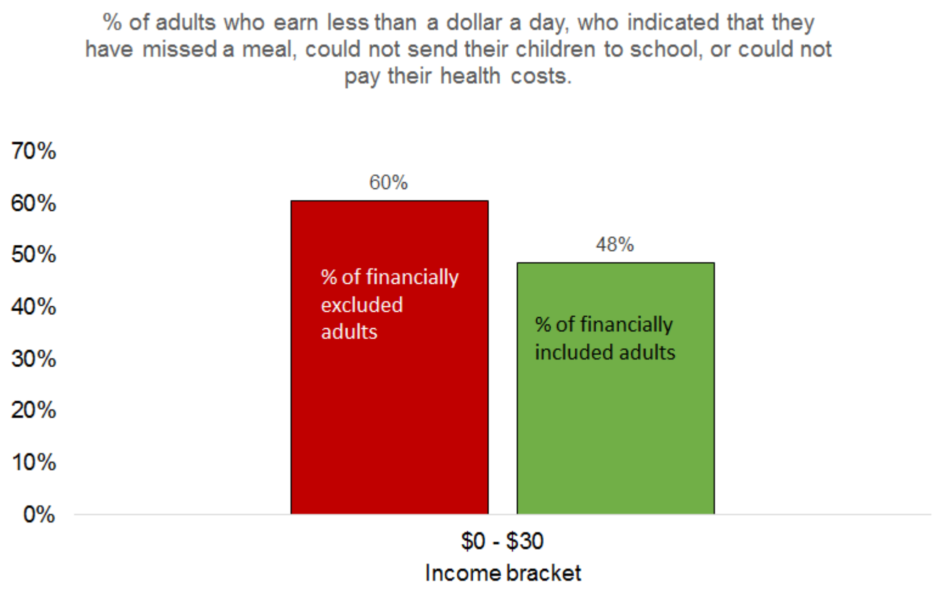

Figure 2. Financial distress among those with and without financial services

Source: FinScope (2015)

Financial inclusion matters as part of the bigger picture. The MAP approach sees financial inclusion as a means to an end – the end being improved welfare and an impact on those activities that contribute to production and economic growth. Effective financial systems[12] can fuel real economy impacts at the macroeconomic level by mobilising savings for investment purposes (including capital allocation for business development), reducing transaction costs and increasing efficiency, thereby contributing to employment generation and growth. At the microeconomic or household level, financial inclusion can impact people's welfare directly by reducing their transaction costs, enabling them to more efficiently manage risks, allocating capital for productive use and supporting the accumulation of wealth over time. Financial services can also facilitate access to core services, such as health or education. This can impact growth directly, by triggering service sectors, as well as indirectly, by enhancing productivity.

Box 1. The role of various financial services in poverty alleviation and growth

Why focus on payments? Effective payments mechanisms are a requirement for the efficient provision of all other financial services and form a vital backbone for the provision of goods and services in the broader economy. Payments allows for the transfer of value between individuals and businesses. Given the frequency with which every member of society makes payments, optimising the efficiency and affordability of payments mechanisms is directly welfare improving[13].

Why focus on credit? The effective allocation of capital for productive purposes is a fundamental goal of the financial system. Credit is a product of this intermediation process and can contribute to productivity through spurring economic growth, employment and improved welfare if used for purposes such as building businesses, funding education, funding larger assets and preventing people from falling into poverty after a shock[14]. However, it can also trap people in a cycle of debt that causes severe hardship. Getting the balance right between improved access to credit and

[12] See, for example, Calderón & Liu (2003), King & Levine (1993), and Levine (1997).
[13] See Jain & Hall (2012), Radcliffe & Voorhies (2012), and Jain, et al. (2014).
[14] See Bagehot (1873), Schumpeter (1934), Gurley and Shaw (1955), Goldsmith (1969), McKinnon (1973), and Levine (2005).

protection against over-indebtedness is difficult and requires a comprehensive view of the market from the consumer and provider's perspective[15].

Why focus on savings? Mobilisation of savings to provide capital for growth and development is one of the key roles the financial sector plays (Levine, 1997). At the household level, the research of amongst others Collins, et al. (2009) shows that low-income people want to save and can save. Formal savings, and to an extent informal savings, offers the benefit of security from crime, wealth accumulation and hedging against inflation, if returns are possible. Most significant might be the built-in self-control mechanism. Funds at home are easier to spend; removing that temptation is a significant first step to building up assets (Banerjee & Duflo, 2011).

Why focus on insurance? In the absence of formal insurance, low-income households cope with risks in various ways (formal and informal) that are often inefficient, perverse and expensive (Dercon & Christiaensen, 2007), whereas studies have shown that where insurance is available, it lessens welfare-reducing behaviour (Carter, 2008). Welfare-reducing risk-coping strategies could include, for example, disposing of productive assets or disposing of assets at a loss, taking children out of school, depleting savings, and taking expensive informal credit (Carter & Barrett, 2006). Such strategies hinder capital formation, limit productivity growth and may result in a "poverty trap" (Carter, 2008)[16]. The absence of insurance has also been shown to cause businesses and farmers tend to accept low returns by engaging in low-risk and low-return activities (Dercon & Christiaensen, 2007). Conversely, studies have shown[17] that insurance allows and incentivises businesses and farmers to make riskier investments and to focus their efforts on higher-yielding and/or more specialised activities. Insurance furthermore opens up business opportunities otherwise considered too risky. It facilitates trade and access to credit by securing transactions through products such as product liability insurance, and insurance products against political[18] or trade risks, which reduce the costs of doing business (Lester, 2014)[19].

Insurance also enables access to critical services, including healthcare, credit for MSMEs and businesses, and legal services, which would otherwise not have been available. Insurance, for example, contributes to the development of the health services sector by guaranteeing payment for services, thereby making timely and quality healthcare viable (A2ii (2014); Liedtke (2007); Lester (2014)).

Moreover, at the macro level insurers are often the largest institutional investors in a country and, particularly in developing markets, the only domestic source of longer-term capital (Kong & Singh, 2005). This role has been emphasised by various organisations such as the Organisation for Economic Co-Operation and Development (OECD), the World Bank, and the International Monetary Fund (IMF) (OECD, 2014).

From both a microeconomic and a macroeconomic perspective, it is therefore important to unpack the key drivers of the insurance market in order to identify the gaps and opportunities for extending the reach of the market.

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[15] See Braucher (2006) and Gloukoviezoff (2006).

[16] See Janzen & Carter (2013) for a discussion on the literature.

[17] See, for example, Dercon (1996), Hill (2009) and Morduch (1991).

[18] The political risks covered frequently include (i) losses caused by currency transfer restrictions, (ii) confiscation, expropriation and nationalization of property or funds, and (iii) losses caused by war, civil disturbance or terrorism. An example of the use of political risk insurance that has recently become more common is the securitisation of debt used in capital market financing for infrastructure projects.

[19] Liedtke (2007) argues that we can easily identify numerous instances of economic activity that would not occur in the absence of insurance: for example, many ships would not leave the harbour uninsured, trucks would not depart to deliver cargo, and contracts would not be signed to secure high-value deals, particularly with respect to real estate or infrastructure projects.

Supporting development policy goals. Against this backdrop, the point of departure for MAP is that financial inclusion can help people and businesses meet key needs so as to maintain their livelihoods, escape from poverty or build productive capacity. By doing so, financial inclusion serves the DRC government's broader development goals in the following way:

POLICY GOAL	FINANCIAL INCLUSION ROLE
Improve welfare	• Improve reliability and speed of **income** receipts • Improve efficiency of **payments** for goods and services • Improve tools to **manage risks and liquidity** • Enable **asset accumulati**on for education & health and improve resilience to shocks
Improve growth and employment	• Mobilise and intermediate **savings for investment** • Enable financial services for **Farmers and MSMEs** • Attract remittances and enable **diaspora financial services**
Cross cutting: Build institutions	• **Improve institutions** to address constraints in financial services

Table 1. Role of financial inclusion in serving core policy goals in the DRC

Source: Authors' own, based on Plan National Stratégique de Développement 2017-2021 (National Development Strategy) (National Development Strategy, 2015)

Government resolve for financial inclusion. There is currently no consolidated policy on financial inclusion, but elements of financial inclusion are present in other policy documents. The MAP consultations showed awareness among both government and private sector stakeholders of the benefits of broadening the reach of financial services, and a commitment by government and private sector alike to build an inclusive and stable financial service sector. Initiatives include:

- *Core initiatives:* The government and the central bank have been engaged in a number of initiatives that have direct implications for financial inclusion. Most notable is the so-called *bancarisation* initiative whereby government is implementing a programme to pay all civil servants via the financial system. Whilst the principle driver was to reduce fraud and administrative costs, the program has also greatly extended financial inclusion. Further initiatives include the microfinance umbrella program PASMIF (which leverages a broad set of donors to facilitate access to microfinance for low-income individuals), an initiative for the digitisation of the credit bureau and the development of frameworks for a national payments system and agency banking. The Central Bank is also creating a programme for consumer education.
- *Auxiliary initiatives:* There are a number of programmes not primarily aimed at financial inclusion that nonetheless augment inclusion. This includes an education drive for various groups in matters such as small business management. There are also a number of schemes that provide development credit, either government or donor financed, to promising micro or small enterprises (Fonds pour la Microfinance - FPM) or medium sized enterprises (Fonds de Promotion de l'Industrie - FPI).

Understanding gaps and how to bridge these gaps. In order to unlock the role of financial services in serving policy goals, it is important to understand the key needs that financial services can fulfil, the current gaps in serving these needs and the barriers to overcome to improve inclusion. This is the focus of the rest of this document.

3. Where are the gaps?

This section unpacks the needs for financial services in the DRC and compares the current state of financial services uptake and supply to these needs to conclude on the key gaps to overcome.

3.1. Different realities for different target markets

The DRC is a vast country. Thus different parts of the population will have different needs, depending on their location and economic realities.

Distinct regional realities. The diagram below shows the main urban centres and the large gaps in the middle and north-western parts of the country. It classifies the population into four distinct groups: the Kinshasa region has the highest income and education profile. Its population is the most connected and the easiest to reach from a financial services distribution point of view (though still dispersed in relative terms, compared to other countries). This is followed by the "other urban" and then rural areas. The deep rural part of the population, estimated at 19 million adults, is so unconnected and difficult to reach, that they are not covered by the FinScope survey and that it was not deemed feasible to include them in the analysis of the potential target market for financial services for MAP purposes.

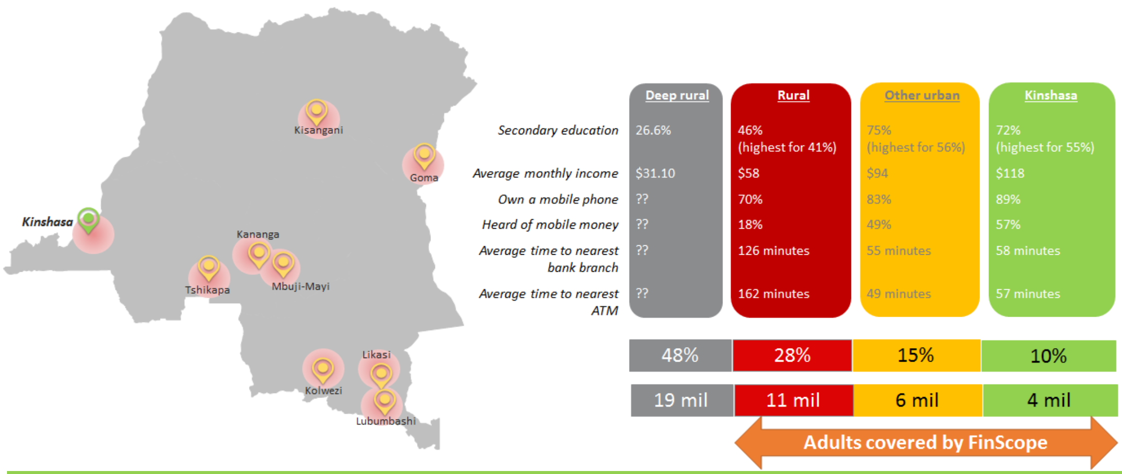

Figure 3. Segmenting the Congolese population by geographic area

Source: Authors' own calculations based on FinScope (2015) and Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages (Employment and Household Consumption Survey) (2015)

Significant urbanisation and migration. The groups outlined above are not static. While 65% of the Congolese live in rural areas, there is a high rate of urbanisation, at 4% annually (BTI, 2016). The principle drivers of this migration are employment opportunities, conflict and deterioration of living conditions in rural areas. These same conditions are also the reason why a large number of Congolese have chosen to emigrate from the country, creating a sizable diaspora of over nine million people who remit an estimated USD 9 billion per annum[20] (Consultations, Ministry of Congolese Abroad, 2015).

Distinct gender realities. In addition to the regional differences, there are also gender differences. In general, men are slightly better off than women. Men surveyed in FinScope are more educated (65% have secondary education or more, compared to 52% of women), and wealthier than women. They earn on average USD 93.5 per month, compared to the USD 76.5 average monthly income of females. This may, in part, be explained by the fact that 36% of men, compared to 29% of women, have a formal income source.

Discrete target markets. Another way to differentiate across population groups is by considering main source of income. A farmer, for example, will have different financial service needs than a salaried worker. The DRC population can be divided into five target market segments[21], (Input Note 1 sketches the demographic and financial services profile of each target market in detail):

- **Formally employed** (1,505,956) – are adults whose main source of income is a salary from a private or public institution. They are the wealthiest target market and live mostly in Kinshasa and other urban areas. The formally employed are also by far the best educated. This target market is the second smallest in size, being marginally larger than the informally employed.
- **Informally employed** (1,487,460) – derive their income from a salary or wage received from an individual or from piece work. They are the smallest of the target markets, the second highest earning and the second most educated.
- **Micro, Small and Medium Enterprises (MSMEs)** (6,188,414) – make a living from owning and running their own business. This target market makes up almost a third of the population. MSMEs have the highest number of income sources on average.
- **Farmers** (6,855,399) – are adults whose main source of income is derived from farming. Apart from a small number in the Kinshasa area, they are almost exclusively located in rural areas and are the poorest of the target markets by a significant margin.
- **Dependents** (4,481,531) – rely on family and friends for their main income. They mostly rely on their parents, spouses and other family to pay their expenses or provide them with money. The gender and age distribution in this group is strongly biased towards females and the youth.

3.2. Key needs

The diagram below uses FinScope (2015) data to plot different financial service needs encountered in the DRC across the product markets through which these needs can be met.

[20] The majority of these have emigrated to other African countries. However, sizable communities exist in Europe and North America as well. These expatriates frequently have larger incomes than their domestic counterparts and may be important actors in the local economy through remittance channels and other economic connections. Therefore, they must be considered when devising strategic imperatives for financial inclusion. However, FinScope does not allow analysis of these individuals.

[21] Note that a small percentage (1.75%) of the population do not easily fit into the target market categories and cannot be combined into a cohesive segment. They do not warrant analysis as a separate target market and were therefore excluded. This group includes, but is not entirely confined to, individuals whose main income sources are money from informal currency exchange, money from rent, interest received from loans, work pensions, and money from *likelemba* or informal savings groups.

The various bars on the chart each represent a discrete client need that can be met by one or more financial service. So, for example, a person who receives a salary into a bank account will want to encash the money. Or, a person may have the need to receive remittances or use financial services to acquire productive inputs or pay for education.

Instances of use as proxy for needs. It is important to note that the diagram identifies revealed needs based on an analysis of actual use of financial services as reported by FinScope survey respondents, as well as a number of other survey questions that give an indication of likely needs. These instances are then regarded as a proxy for need[22]. Therefore, the number of individuals who need a financial service will, in reality, be more than is reported in the figure below, but it cannot be less[23]. After this first line of analysis, we also consider what the qualitative demand-side research and other elements of the FinScope survey tell us about unmet needs.

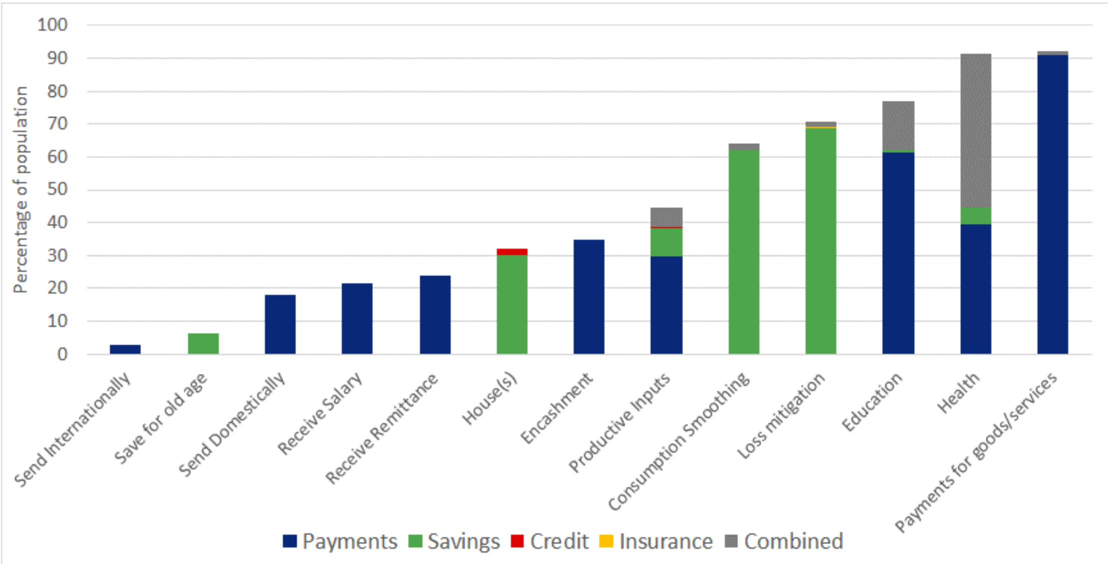

Figure 4. Key expressed financial service needs

Source: Authors' own based on FinScope (2015)

Figure 4 shows the prominence of the various needs in the DRC. The X-axis represents the discrete needs identified and the Y-axis represents the percentage of Congolese who reveal (through their use of the product or service) that they need a particular type of financial service. As indicated in the diagram, there are four ways in which people might use financial services to satisfy any of the particular needs: through payments, savings, credit or insurance. Some needs can only be satisfied by one product, such as the need to pay for goods and

[22] This means that the analysis largely looks at the universe of "already served" needs, taking these to be indicative of needs more broadly. It is important to note that this analysis will not correspond one on one to the Access Strand figures quoted elsewhere in this document. For example: in Figure 4 more than 60% of adults are shown to use savings for consumption smoothing. Yet the savings Access Strand as outlined in Input Note 1 shows that 45% of adults are excluded from any type of savings. The reason for the discrepancy is that survey questions that record individuals who indicate that they would use a financial service to meet a need, or who make use of an unspecified type of financial service to meet a need, are also included – but would not be captured in the Access Strand or total uptake figures.

[23] For this reason, comparisons between the overall need for various financial services should be made with caution. For example, the need for consumption smoothing can be interpreted as important because more than 90% of respondents report using financial services to meet this need, but it cannot necessarily be said to be more important than the need for encashment, which is only demonstrated by 46% of adults.

services, for which only payment products can be used. In other cases, such as for loss mitigation, more than one product may be used to meet the same need. In some instances, a particular adult makes use of more than one type of product and is then counted in the "combined" category, regardless of which products he or she uses.

Important needs highlighted include:

Paying for goods and services. Everybody needs to pay for goods and services to live their daily financial lives. Thus it is no surprise that this is the prime expressed need among the sample population. This need is virtually exclusively met through the payments market.

Managing the impact of risks. The poor state of health infrastructure and the conflict-ridden past combine to create a strong need for risk management for health expenses, for the expenses and for loss mitigation for risks leading to loss of income related to death, as well as for loss of assets. To the extent that these needs are met by financial services, they are met largely through savings (for loss mitigation), and a combination of payments and savings (for health expenses).

"The last loan I took was when my child was in the hospital: I accepted to pay the bill with interest. It was USD 100. Paying it back was horrible! I sold my field to pay the bill at the hospital!"

- Subsistence farmer, female, mother of ten, Riburanga

"I can't talk to you for too long – I need to assist my friends. Their cows were attacked last night by thieves and they injured many of them. I have to help them cure some cows."

- Cattle farmer, male, father of 15, Kibumba

"When I have a problem I borrow money from the company where I work to have a little money and I'll pay back little by little… Last month, my wife was involved in an accident, she had fractured bones. I borrowed USD 200 from work and that will be paid back little by little."

- Private enterprise employee, male, Kinshasa

"It is very important for the State to insure our health to help us and also in case of a death in family for example, I lost my little brother and I faced a lot of difficulties. I paid for my brother's funeral with the money which was reserved for the shop and that left my family in a desperate situation. I had to sell a pig for USD 240 so that we could manage."

- Shop owner, male, Kinshasa

"It sometimes happens that we spend all we have for that purpose. If the situation gets worse we use other methods."

- Bwakisa Carte keeper, male, Kinshasa

Education an aspiration, but often not affordable. Education is another prominent expressed need. It was clear from consumer interviews that people value the role of education in improving the economic fate of their children. Despite a recent policy move to make at least the first five years of schooling free, more than half the cost of school fees still falls on families (A World At School, 2015). This financial burden excludes ancillary costs such as textbooks and uniforms. This meet is largely met through payments instruments, sometimes in combination with savings.

> *"Last year my children studied but I don't know about this year, if they will go to school, because of my weak income."*
>
> - Small trader, female, mother of six, Goma
>
> *"School fees cost USD 1,200 per year for the three children. For each of the three children I spend USD 50 per term or a quarter for children's clothes. For communication it is USD 2 per day, transport USD 67 per month … I had to borrow money from the company I work for. I borrowed USD 100. I wanted to pay the children's school fees. It was for three months and the company deducted it from my salary. We have special cash in the company meant for the employees. It is necessary to produce an application for the loan and you wait for one week for it to be approved."*
>
> - Engineer and owner of a poultry farm, male, Kinshasa
>
> *"Yes, I will sell it for the school children's accounts. If my husband has nothing to pay for school fees of the children, I can sell them (her jewellery) to meet the academic needs because I do not want my children to miss class just because their father has no money."*
>
> - Small trader, female, Kinshasa

Consumption smoothing a critical need. More than 60% of surveyed adults indicate that they use financial services (mainly savings) to smooth their consumption. As discussed above, 71% of Congolese take children out of school, skip health care or skip meals due to funding constraints. 25% of those that borrow do so to buy food (FinScope, 2015). They therefore need financial services to help smooth their income and expenses. This trend holds even at higher income levels.

> *"Yes… I like saving… it insures our future because we don't know what will happen tomorrow so that is the reason why we have to save."*
>
> - Low-level government employee, male, Kinshasa
>
> *"It is always necessary to save because we do not know the future."*
>
> - Civil servant and owner of multiple businesses, male, Kinshasa

Swift, secure sending and receiving of money over a distance. The small, irregular incomes highlighted in Section 2 and the reliance on community support discussed in Section 3.3 below, coupled with the poor road infrastructure, mean that money transfers play an important role in the DRC. There is a distinct need to send and receive remittances domestically. A large diaspora community also creates a need to send and receive international transfers.

Housing a growing need, increasing with urbanisation. The need to acquire a house or make improvements to living conditions may not feature as prominently as some of the other needs at an overall level, but is important when considering the need for credit. As is apparent from Figure 4, the use of credit to fulfil this need is negligibly small in overall population terms, with most people drawing on savings for their housing needs. Yet within the small credit market, it plays an important role. Housing is the second largest reason to obtain credit after health risks: 40% of people with credit obtained it to improve or acquire their homes (FinScope, 2015). 15% of the surveyed population indicated that they were building a house at the time of the survey. It is likely that this need will increase with the urbanisation trend highlighted above.

Business and agriculture inputs critical to maintain incomes and escape poverty. Another need highlighted by the diagram is the need to acquire productive inputs. These needs are specifically relevant for small business owners/traders and farmers. More than 50% of economically active adults are farmers or small business owners. Inputs are largely acquired with savings: very few credit products are available.

> *"In terms of our business we had cows before but other cows became wild. We had a lot of things and for that we had to take credit; we had requested but the credit had not been granted and we had to manage it alone … We do not have access to tractors and we have not yet benefited from credits: if we can have, we will have a work force."*
>
> - Subsistence farmer and carer for elderly husband, female, Kinshasa

Longer-term goals such as pensions desired, but out of reach for most. Saving for old age, though identified as a discrete need, does not feature prominently compared to the other main needs identified on the diagram. In this instance, considering revealed use of savings products is likely to underestimate the true need for saving for old age. In fact, 90% of adults think they should save for old age, but very few have the means to do so (FinScope, 2015).

The analysis so far considered needs across the sample population. However, different people will have different needs. Needs will also vary across product markets. Below, we take a closer look at needs through target market and product market lens, respectively. It is interesting to note that the analysis did not pick up any significant gender differences.

How do needs compare across target markets?

	Formally employed	Informally employed	MSMEs	Farmers	Dependents
Receive salary	100%	69%	14%	10%	9%
Consumption smoohting	98%	94%	92%	97%	88%
Payments for goods and services	98%	92%	95%	93%	87%
Health	97%	90%	95%	97%	85%
Encashment	96%	69%	30%	24%	31%
Education	95%	80%	82%	75%	72%
Loss mitigation	90%	77%	76%	69%	62%
Productive inputs	42%	26%	37%	67%	33%
House	42%	27%	28%	44%	18%
Send domestically	41%	13%	19%	16%	15%
Receive remittances	32%	26%	26%	17%	29%
Save for old age	12%	5%	10%	5%	4%
Send internationally	9%	3%	3%	0%	4%

Table 2. Identified needs across target markets

Source: FinScope (2015)

As noted, the population comprises different target markets with different profiles and, hence, different likely financial service needs. Table 2 compares needs across the five target market segments. A traffic light system has been used to indicate prominence of needs within and across target market segments. Cells are highlighted green when more than 60% of the target market expressed a particular need. Orange cells have values between 20% and 45%, while red cells have values that are lower than 20%:

Needs tend to hold across segments. Many needs appear to be similar across the target markets. Consumption smoothing, payments for goods and services, health, education and loss mitigation are all prominent needs amongst all the target markets. Saving for old age and the need to send money internationally, on the other hand, are reported by only a small percentage of each target market. For the remainder, the differences in expressed needs largely correspond to profile differences:

- The formally employed, by definition, have a need for financial services to receive their salary. The informally employed also receive salaries. For the remainder of the target markets, there is no evidence that salary receipt is a strong need, which is consistent with the finding that very few households in the DRC benefit from a formal, regular source of income, or even just a regular informal salary. The need for encashment exhibits the same pattern as that for receiving a salary, possibly because the two needs are related: individuals who receive a salary likely require encashment services.

- As would be expected, only farmers report a high need for productive inputs. MSMEs report a relatively low use of productive inputs. This may, however, be due to the data available and does not necessarily reflect MSMEs' actual needs.

- Only the formally employed make moderate use of services to send money domestically. Their relatively higher earnings and regularity of income places them in the position to send money.

- On the receiving side, farmers report the lowest use of remittance services. It is difficult to interpret this result: farmers are one of the poorer target markets and would therefore potentially require more monetary assistance than some of the other target markets, such as MSMEs or the informally employed. They are also the most rural. Their low uptake of remittances may therefore underestimate true need. On the other hand, it may be indicative of the "disconnected" topography and the challenges of sending money over a distance.

What do these needs mean at a product market level?

Well-established payments/remittances and savings need; underdeveloped need for credit and insurance. As is apparent from Figure 4 above, payments and savings are the main instruments used to meet the identified needs. The target market analysis in Input Note 1 confirms the need for these instruments, based on the various target market segment profiles. However, it also indicates an in-principle need for credit and insurance that is not captured here. In particular, salaried employees are a prime target market for credit due to their secure, regular income. MSMEs have an especial need for credit to expand their business operations, and farmers for farming inputs. There is also an in principle need across target markets for insurance to cope with the impact of risk events (though, as the analysis below will show, there is a general lack of awareness of insurance and the potential of the insurance mechanism for risk mitigation).

Below, we take a closer look at the current state of financial inclusion – in terms of uptake of financial services as well as the provider, product and distribution landscape – in order to better understand the gaps between the needs as highlighted here and the reality on the ground.

3.3. State of financial inclusion and financial market development

How does the state of the market – from a demand and supply perspective – speak to the needs identified above?

Looking back

History shapes reality. Given the turbulent history, it is important to place the current market picture in historical perspective. The diagram below depicts the evolution of the financial sector in the DRC, overlaid by conflict and macroeconomic trends. It shows that the macro conditions combined to cause a collapse of the whole banking sector since the start of the 1980s. It was only again in the mid-2000s that the retail banking market was re-established. In the following decade to date, the number of bank accounts grew exponentially, yet still represents a small number in absolute terms when compared to the size of the population. The rebuilding of the financial sector has been hampered by the destruction of infrastructure in the conflict period.

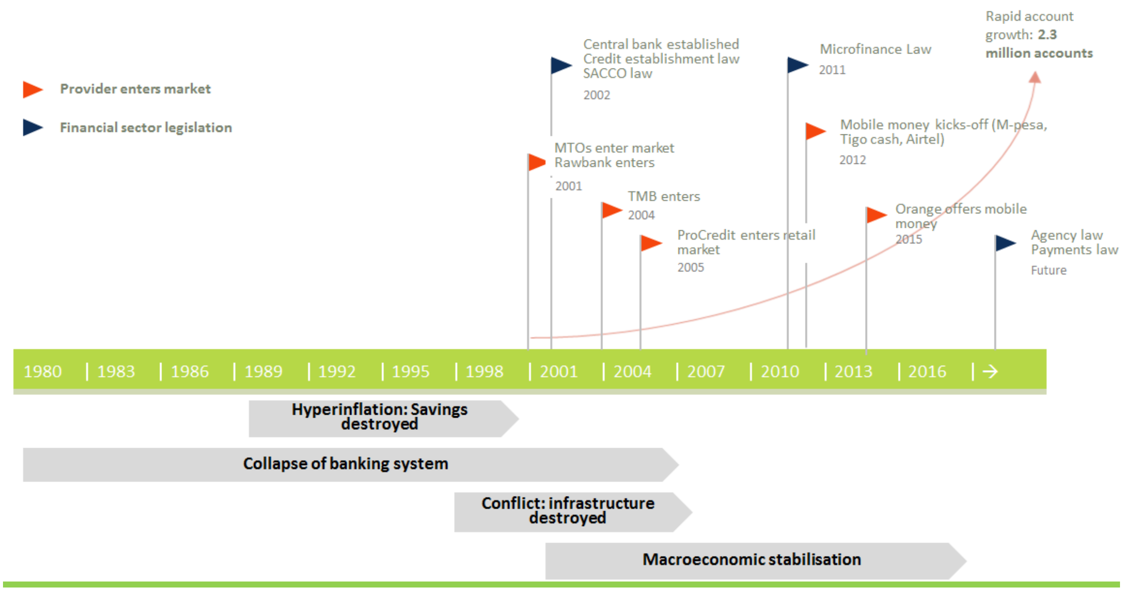

Figure 5. DRC macroeconomic and financial sector development timeline

Source: Authors' own, based on various sources

Rapid growth in providers, accounts and balance sheets. Figure 6 below confirms the rapid growth since the advent of macroeconomic stabilisation: the number of registered financial institutions has grown five-fold and the number of accounts has shown equally strong growth. The loan to deposit ratio, a measure of liquidity, increased sharply from just less than 50% in 1997 to 67% in 2009 and has since stayed at around 60%.

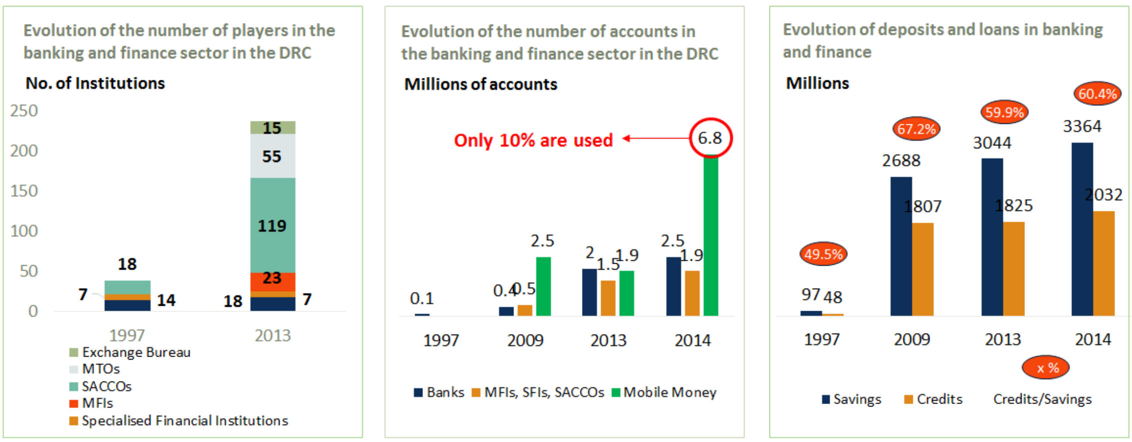

Figure 6. Evolution of number of players, accounts, deposits and loans since 1997

Source: Banque Centrale du Congo (BCC)

Despite this rapid growth, the state of financial inclusion remains poor and the supply response speaks of an underdeveloped market.

Still limited financial inclusion

Very low take-up of financial services. Input Note 1 provides a full overview of financial services uptake in the DRC. It paints a stark picture. If the total population is considered (including the 19 million deep rural adults as outlined Figure 3, page 11), there are about 40 million adults in the DRC. As indicated in Figure 7 below, the majority of them do not use any type financial services – more than 25 million adults are totally excluded. The contrast is even starker when considering those reached by formal financial services, at only seven million. A mere one million people have more than one type of formal financial service:

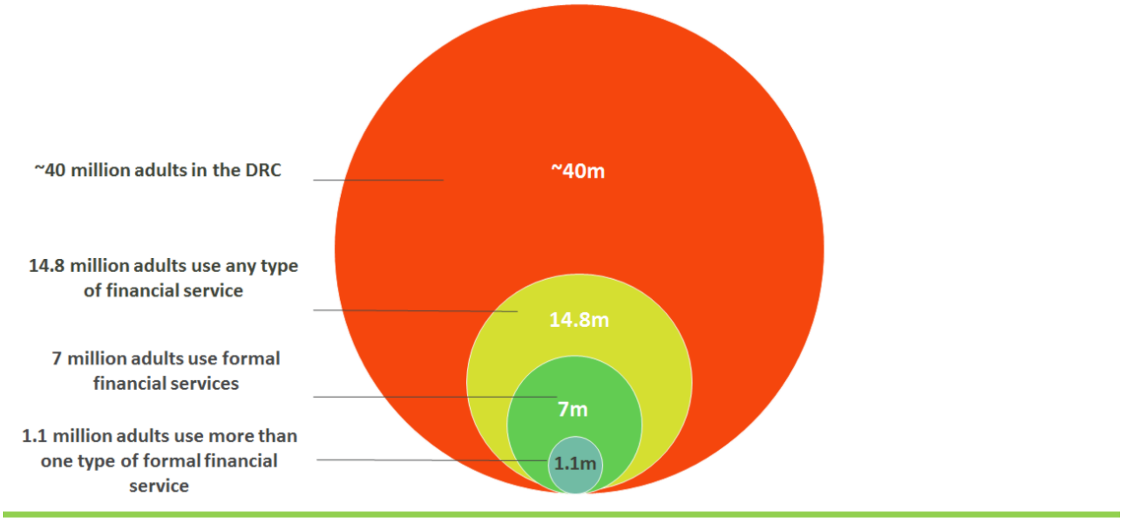

Figure 7. Financial services uptake in the DRC in perspective

Source: Authors' own calculations based on FinScope (2015) and Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages (Employment and Household Consumption Survey) (2015)

High exclusion in regional comparison. The diagram below places financial service usage in the DRC in regional perspective by using the Access Strand tool as explained in Input Note 1. It shows that, after excluding the deep rural population, only 2.3 million (12%) of the adult population are banked. A further five million are not banked, but use other formal financial services, largely remittances. The remaining adults rely only on informal services, family and friends or are excluded from any services. More than half of the sample population (10.5 million adults) are classified as financially excluded. This places the DRC at the bottom of the financial inclusion spectrum compared to regional peers:

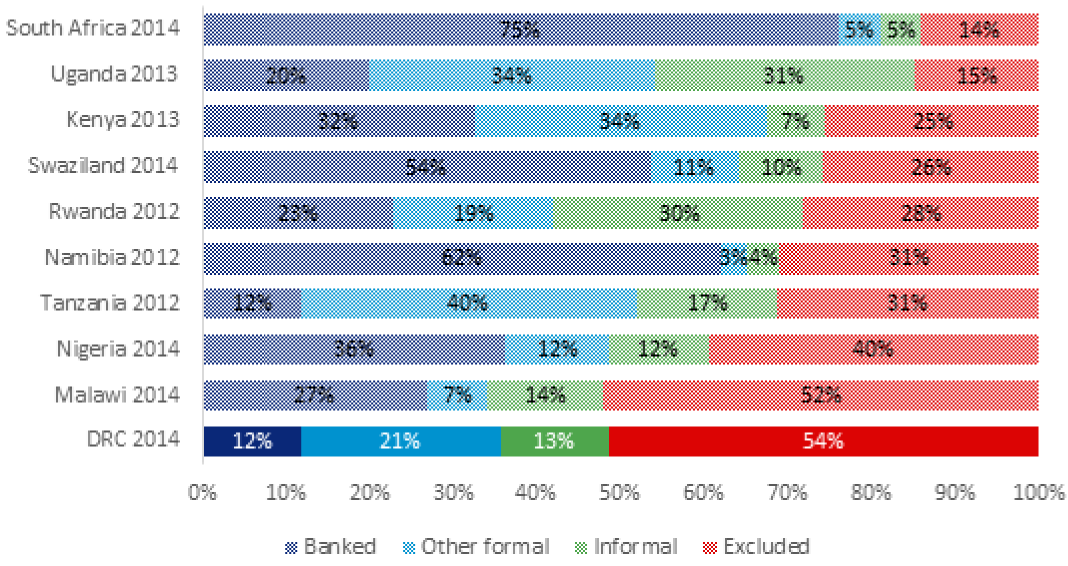

Figure 8. Financial inclusion in the DRC in regional comparison

Source: FinScope DRC (2015), based on population in "economically active" areas; various other country FinScope surveys[24]

Women slightly more excluded than men. On average, men have marginally higher uptake of financial services than do women, as shown in Figure 9 below:

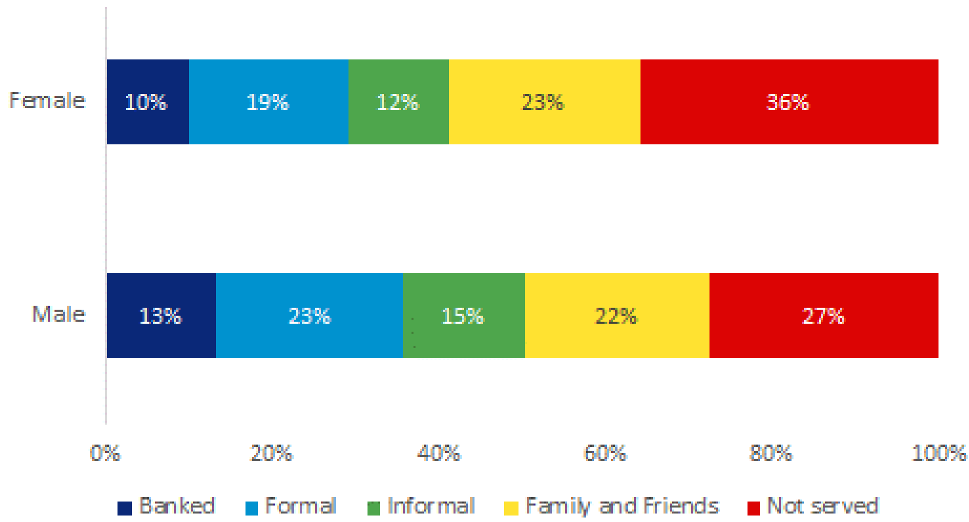

Figure 9. Access Strand by gender

Source: FinScope (2015)

Even the wealthy excluded. The level of exclusion is high even for individuals at the top of the income spectrum. FinScope (2015) shows that there are approximate 900,000 adults who earn more than USD 200 per month, yet have no formal financial services. A further 1.5 million earn between USD 100 and USD 200 per month, but are totally excluded.

[24] See Input Note 1 for an overview of the Access Strand tool as applied in this diagram.

Government bancarisation drive extends accounts, but use still limited. Government has been a significant driver of greater uptake of retail financial services. Over 800,000 of the one million people paid by government are now paid via banks, with some paid into mobile accounts. Ironically, however, many of these payments are then again converted to cash that is delivered to the recipient, with no funds ever stored in the account.

Those with accounts use it mostly for saving or security. Figure 10 below shows that adults who have a formal financial account at a bank, savings and credit cooperative (SACCO) or MFI mostly use it to save or keep their money safe. Some adults do withdraw all of their money at once, using their account like a "mailbox" to receive salaries[25], but this group is much smaller. Only a small number report that they use their accounts to obtain credit or to make payments or receive funds.

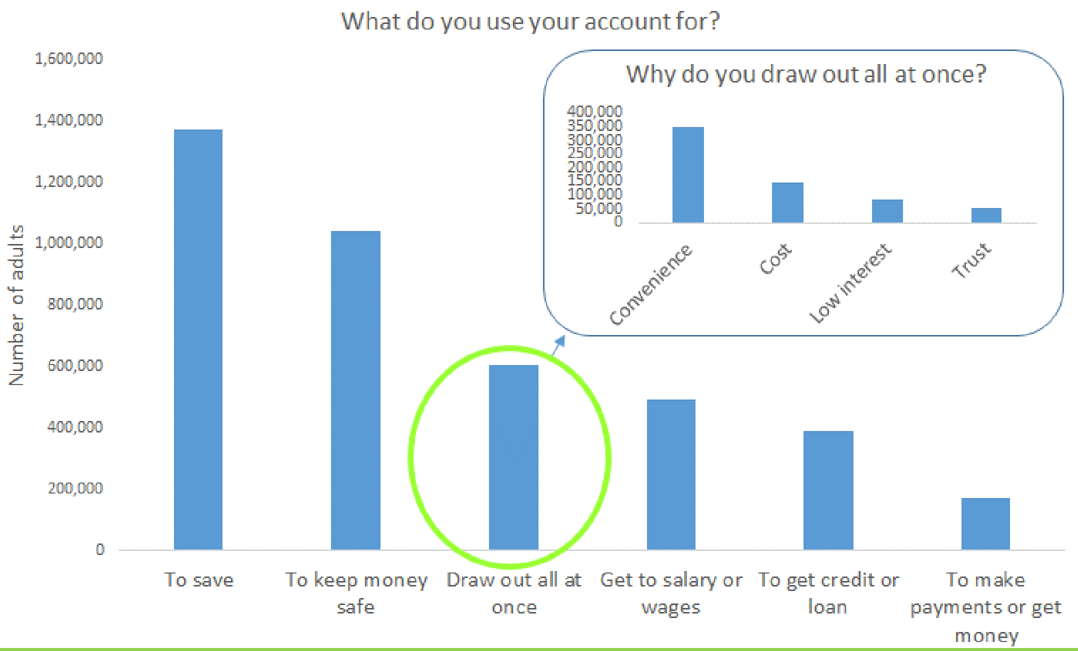

Figure 10. Account usage patterns

Source: FinScope (2015)

Limited frequency of usage. Figure 11 below indicates that, while mailbox accounts are limited, the majority of adults do not use their accounts very frequently. In fact, less than 3% of adults use their accounts "at least once a week". Most use their accounts far less often across a range of account uses, including bill payments, internet banking, mobile phone banking, electronic transfers, getting cash from an ATM and visits to a bank branch. Only 50% of those with accounts use it once a month or more. Figure 10 above reveals that this is usually due to inconvenience of accessing the account more frequently.

[25] An account is said to be a mailbox when it is used only to receive funds and all funds are withdrawn upon receipt

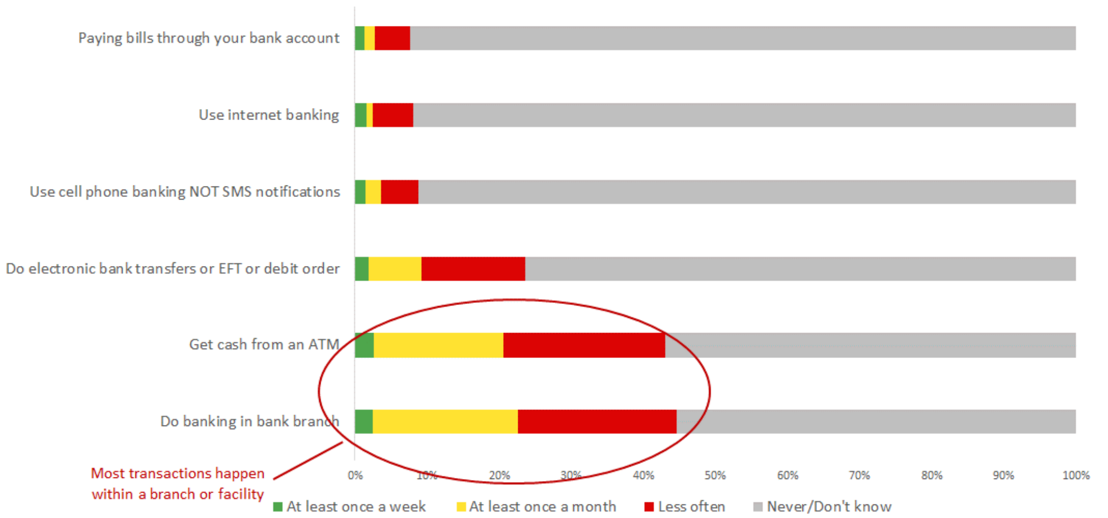

Figure 11. Frequency of bank account usage

Source: FinScope (2015)

Low take-up persists across product markets and is skewed towards women and rural communities. Figure 12 below considers financial services take-up across different product types, and by gender and location. It is clear that most Congolese who are financially included have either remittances or savings products. Total exclusion is reduced because many people turn to family and friends to meet financial service needs (the yellow bar). Formal credit and insurance uptake is virtually non-existent. Females are underrepresented in all product markets, as are rural areas:

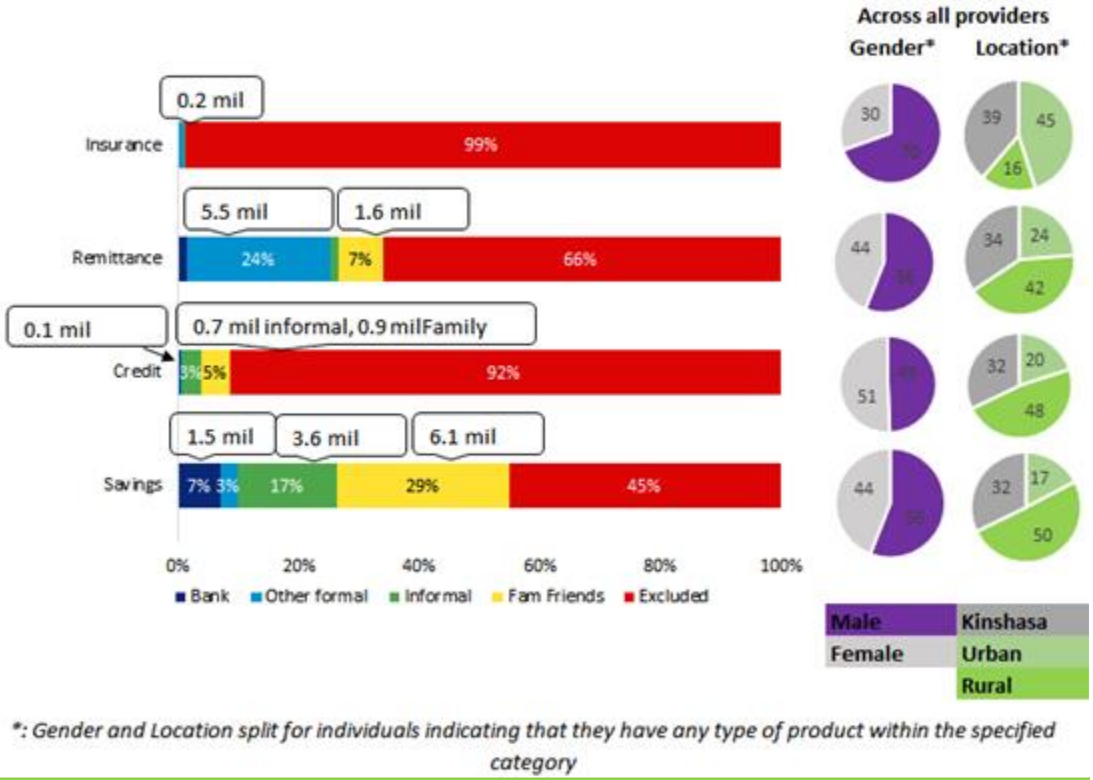

Figure 12. Uptake across target markets and split by gender and location

Source: FinScope (2015). Adjusted to total adults

Savings pervasive, but largely outside formal sector. Figure 12 shows that savings are the single most used product type, with 55% of the sample population saving in some way. However, only 10% of adults save in formal financial services.

Large credit gaps. It is notable that even the formally employed are not well-served by credit: as discussed in Input Note 1, formal credit take-up among formal employees is less than 5% and a total of 89% of formal employees have no credit whatsoever, not even from family and friends or informal moneylenders. The starkest credit gap, however, lies in productive credit. As indicated in Figure 13, 2.3 million adults earn more than USD 200 per month, almost 2 million of them farmers and traders/MSMEs. Yet only 9% have credit:

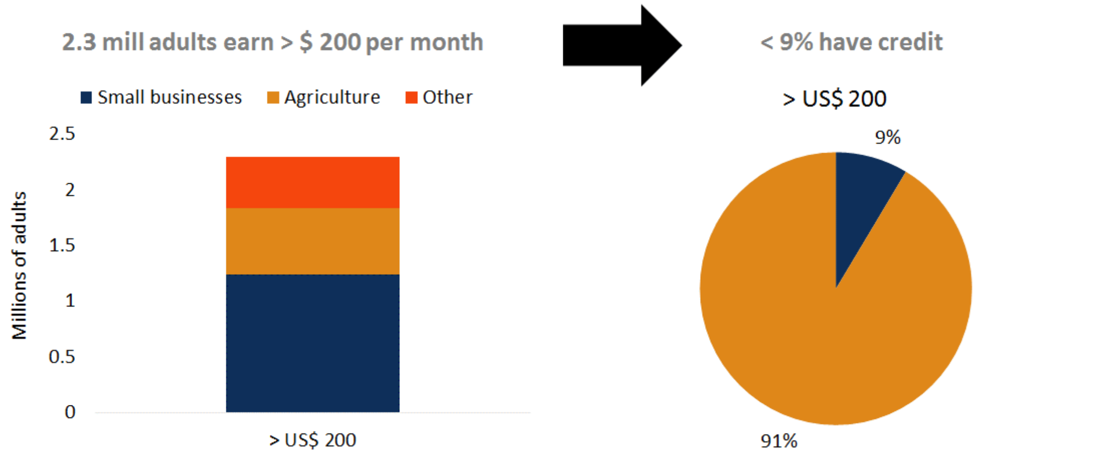

Figure 13. Uptake of credit among higher income MSMEs and farmers

Source: FinScope (2015)

Health spending and food largest drivers of credit uptake. Among those who have credit, health expenses is the single biggest reason for borrowing, followed by the need for housing, food, investing in a business, and education:

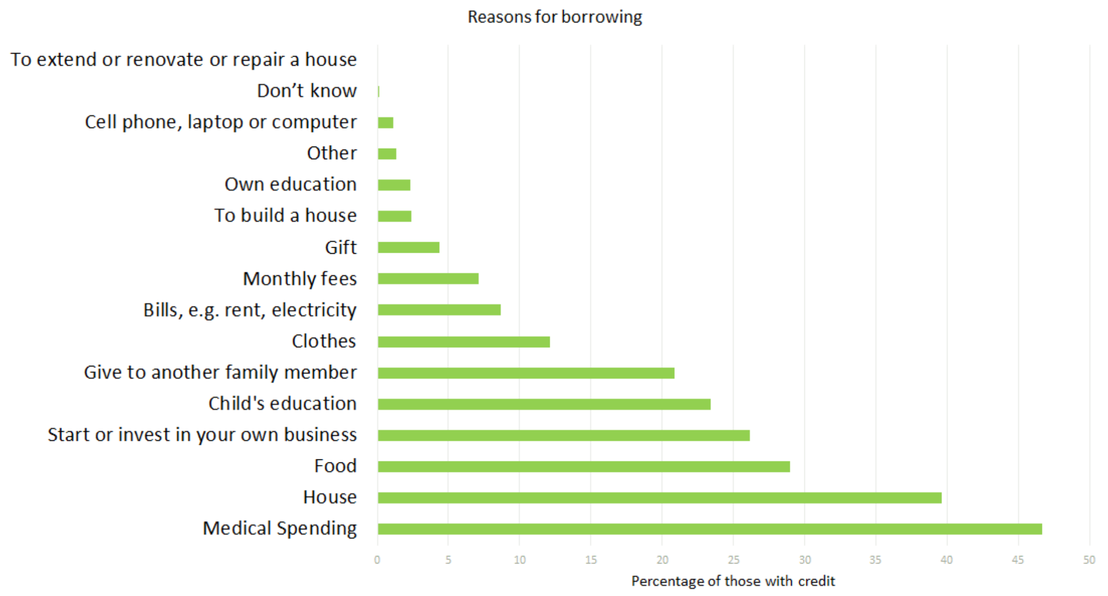

Figure 14. Reasons for borrowing

Source: FinScope (2015)

Most cope with risk outside the insurance market. Figure 14 shows that people use emergency loans to cope with the impact of risk events such as health expenses. Many take even more drastic measures: as indicated in Figure 15 below, four million adults indicate that they have had to sell something or reduce consumption to cope with the financial impact of an insurable event. This is not because they do not believe in insurance: in principle, about 60% of adults think that insurance is worth the cost and improves peace of mind. However, one million adults believe that the insurer will not pay out claims, and a further one million do not understand insurance. Only about 200,000 adults consider themselves to be insured[26].

[26] Note that the FinScope survey underrepresents coverage by *mutuelles de sante*.

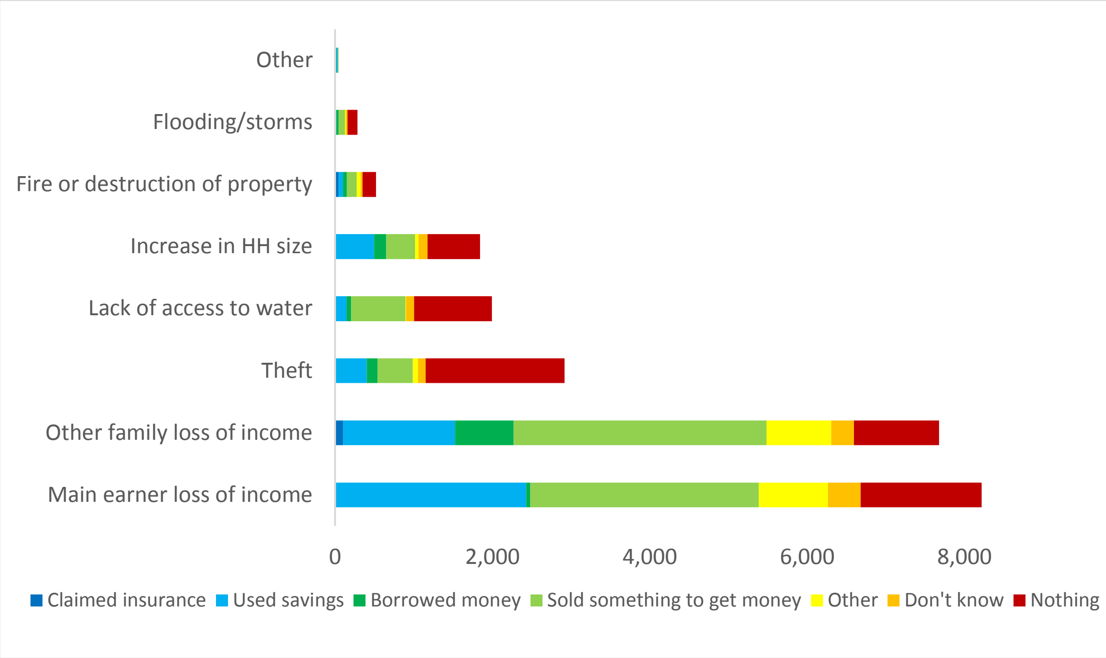

Figure 15. Most frequent risk events experienced in the past twelve months and response

Source: FinScope (2015)

Remittances fulfil important function. Figure 12 indicated that a total of 34% of adults in the sample population use remittances. The qualitative demand-side research suggests that remittances are generally large and infrequent, and are often used for responding to risks and to pay school fees. FinScope confirms that more than 70% of those who send or receive remittances do so only seasonally or, at most, monthly. 24% of adults remit through formal non-bank channels. Figure 16 below shows the overlaps between remittances clients and banking and mobile money clients, respectively. It shows that most people that send or receive remittances do so outside of the banking or mobile money market. The remittances market reaches a substantially broader client base than banks or mobile money providers and fulfils an important role not fulfilled by these two markets.

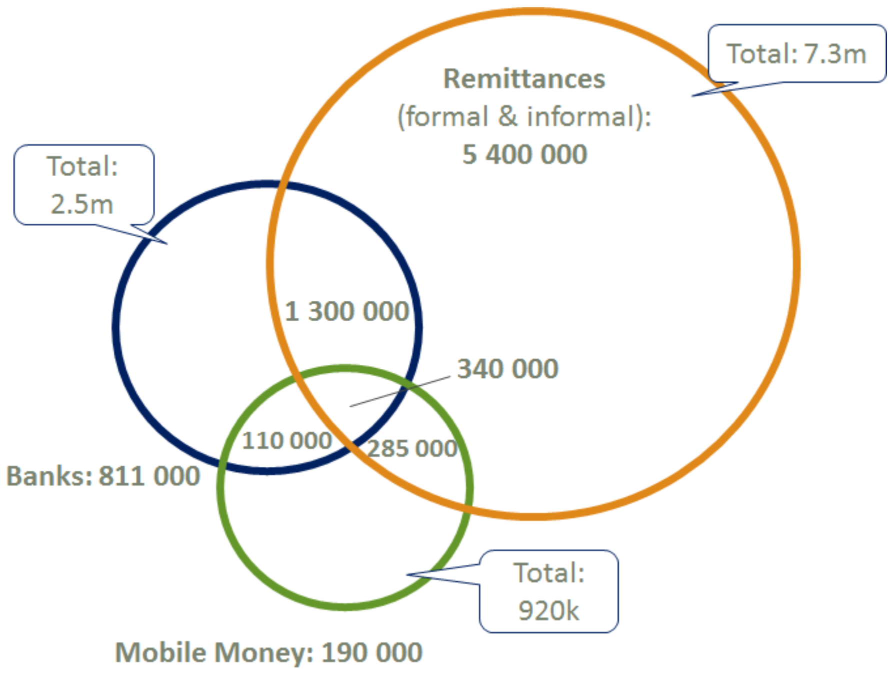

Figure 16. Uptake of different types of remittances instruments

Source: FinScope (2015)

Impressive mobile money numbers, but actual use low. As of 2013, GSMA data indicated there to be 12.4 million mobile money subscribers (refer to Input Note 3 for more detail) (GSMA, 2013). This represents 32.4% of the adult population covered by FinScope. However, providers estimate only 10% of these to be active users (Consultations, 2015).

Supply response constrained

The supply-side picture mirrors the sub-optimal uptake picture outlined above.

Provider landscape dominated by banks, MTOs. The table below provides an overview of the different types of regulated financial service providers in the DRC and their service offerings:

Institution	Institution(s)	Branches	Credit	Payments	Insurance	Savings
Banks	18	403	✓	✓		✓
SACCOs	103	129[27]	✓			✓
Savings banks	1			✓		✓
Specialised financial institution	1		✓			
Financial companies	1		✓	✓		
MFIs	21	36	✓			✓
Insurance	1				✓	

[27] Data received from the Central Bank indicated that there were 26 branches of COOPECs. This figure assumes that each institution has *at least* one branch.

Institution	Institution(s)	Branches	Credit	Payments	Insurance	Savings
Pension funds	1					✓
Exchange bureau	16			✓		
Lotteries	1			✓		
Money transfer operators (MTOs)	75	389		✓		
Mobile network operators (MNOs)	3			✓		

Table 3. DRC financial service provider landscape

Source: Authors' own, based on World Bank (2016c), World Bank (2016e), GSMA (2013), IMF FAS (2015)

The landscape is dominated by the 18 banks and their more than 400 branches. SACCOs, though large in number, play a comparatively smaller role. Given the physical infrastructure constraints in the DRC, money transfer operators (MTOs) fulfil an important function in transferring money across a distance. They operate across 389 branches and serve an estimated 24% of adults (FinScope, 2015).

Concentration in top five banks, with limited returns. Figure 17 outlines the share in total assets, savings and credit of the top five banks, compared to all other banks combined. It also indicates return on equity (ROE) for the top five banks. The picture that emerges is of a concentrated banking sector where the top five banks account for more than 60% of total assets. Yet in many of the top banks returns are low or even negative.

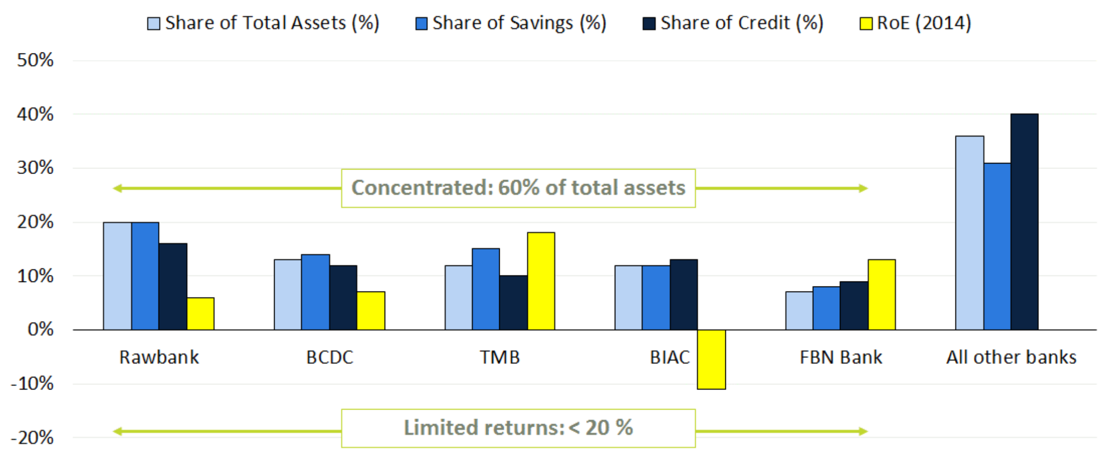

Figure 17. Banking sector concentration

Source: Authors' own based on Banque Centrale du Congo and financial statements

Highly constrained credit market. The very low credit uptake as outlined is confirmed by supply-side figures: credit extension to the private sector totalled only 6% of GDP in 2014 or USD 2 billion. This is very low compared to the least developed countries (LDC) and global averages of 26% and 125%, respectively (World Bank, 2016a). Credit extended by the financial sector totalled only 8.6% of GDP in 2014. Though this ratio has grown substantially in recent years (up from 2.9% in 2006), it is extremely low compared to developing countries with more developed financial sectors, such as South Africa (186%) and Brazil (106%). Domestic capital is furthermore extremely limited. The amount of deposits raised by banks represents only 40.9% of the net foreign direct investment in the DRC (World Bank, 2016b). Institutional investors also do not invest significantly. This curtails investment and growth.

Limited savings mobilised. The savings rate is low compared to other countries, which constrains the domestic assets available for intermediation. National savings amount to USD 3.3 billion or USD 35 per adult (World Bank, 2016b). At 5% of Gross National Income (GNI) this is very low compared to a Sub-Saharan Africa average of 19%.

Financial sector dependent on short-term, small deposits; institutional investors limited. Commercial banks are the largest deposit takers in the DRC. Figure 18 shows the prominence of savings in the spread of liabilities in the banking sector. Savings are typically short term in nature, which makes it difficult to form long term assets (Consultations, 2015).

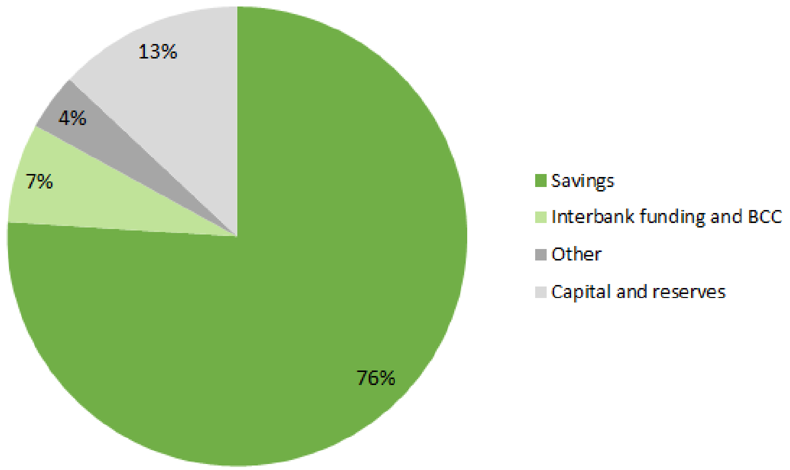

Figure 18. Liabilities of the banking system (2014)

Source: Authors' own based on Banque Centrale du Congo and financial statements

High costs, liquidity requirements limit credit extension and restrict term. Figure 19 breaks down the assets of the banking sector in 2014. Almost half (46%) of banks' assets are held in liquid assets or even physical cash, meaning that these funds are not intermediated. This is confirmed by a loan to deposit ratio of only 59% (which is very low by international banking standards). Banks have an average cost to income ratio of 74%. There is also a high non-performing loan ratio, at over 8% for most credit providers (compared to a 5% average for Sub-Saharan Africa). MFIs and SACCOs had an outstanding credit ratio of 52.2% at the end of 2014 (compared to the prescribed threshold of 70%), and their portfolio at risk rate stood at 12.4% (against a maximum standard of 5%) (*Banque Centrale du Congo* Microfinance Report, 2014).

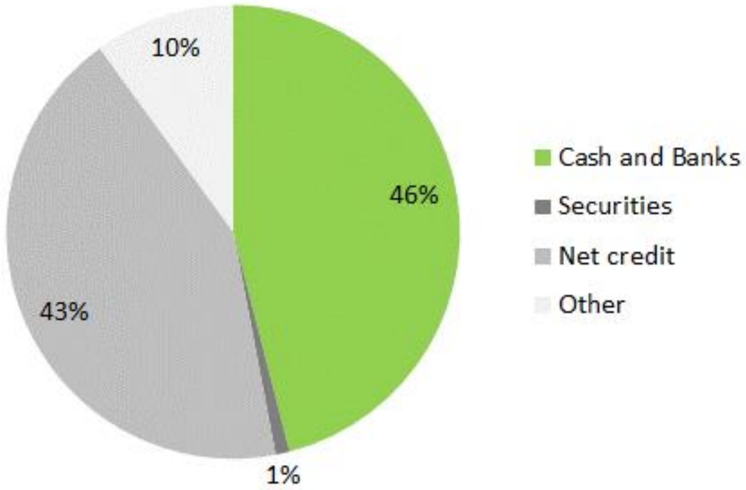

Figure 19. Assets of the banking system (2014)

Source: Authors' own based on Banque Centrale du Congo and financial statements

Unable to connect

Distribution very limited and largely confined to urban areas. Turning to distribution, the picture is equally bleak. As outlined in the table below, financial services distribution is for the most part still branch-based, with MTOs and MNOs being the only providers currently using agents, and then only for limited functionality.

Financial service provider	Distribution outlets	Money to Money	Money to Account	Account to Account	Account to Money
Banks	403	Branch, Agent, Phone	Branch, Agent, Phone, POS, ATM	Branch, Phone, Internet	Branch, Internet, Phone, ATM, POS
SACCOs	129[28]		Branch	Branch	Branch
MFIs	36		Branch, Agent	Branch, Agent	Branch, Agent
MTOs	389	Branch, Agent			
MNOs	Agents	Branch, Agent, Phone	Branch		Branch

Table 4. Distribution mechanisms for various types of transactions across main types of financial service providers.

Source: Banque Centrale du Congo (2016), GSMA (2013)

[28] Includes 103 institutions each assumed to have one branch as well as 26 additional branches spread amongst these 103 institutions. Data obtained from the Central Bank.

The table below indicates that the density of branches and ATMs is very limited, as is the active mobile money agent network:

Description	DRC	Angola	Brazil
ATMs per 100,000 adults	1,14	22,97	129,25
ATMs per 1,000 km^2	0,19	2,08	23,86
Commercial bank branches per 100,000 adults	0,82	12,86	47,32
Commercial bank branches per 1,000 km^2	0,14	1,16	8,74
Mobile money agents	32,000 Of which active: 8,000	No data	No data

Table 5. Distribution infrastructure density

Source: World Bank (2016c), World Bank (2016e), GSMA (2013), IMF FAS (2015)

Expressed in terms of land surface area, the picture is even more dismal: there are only 0.14 bank branches 0.19 ATMs per 1,000km^2 in the DRC. In 2015, over half of the 229 bank branches were located in Kinshasa (Consultations, 2015).

Existing footprint not connected and costly to use. As explained in Input Note 3, there is currently no interoperable domestic real-time gross clearing and settlement system (RTGS). Four banks – RawBank, ProCredit, FBN and BCDC – have established a private system that enables central clearing, settlement, and interoperability between these banks. A project is underway to implement a national RTGS system. In the interim most banks in DRC currently rely on foreign switching, clearing and settling for their payment systems, which adds cost, time and risk. In addition to the private real-time gross settlement system operated by the four banks, the Integrated Regional Settlement System (SIRESS), which will act as the core settlement system to underpin regional clearing houses, has recently become operational. None of DRC's banks are yet connected to SIRESS, but they intend to be phased onto the system in the near future.

This system is outlined in Figure 20 below. It shows how the private RTGS operates domestically, while all other clearing and settling, including the Visa and MasterCard payments, are currently conducted abroad via correspondent banks:

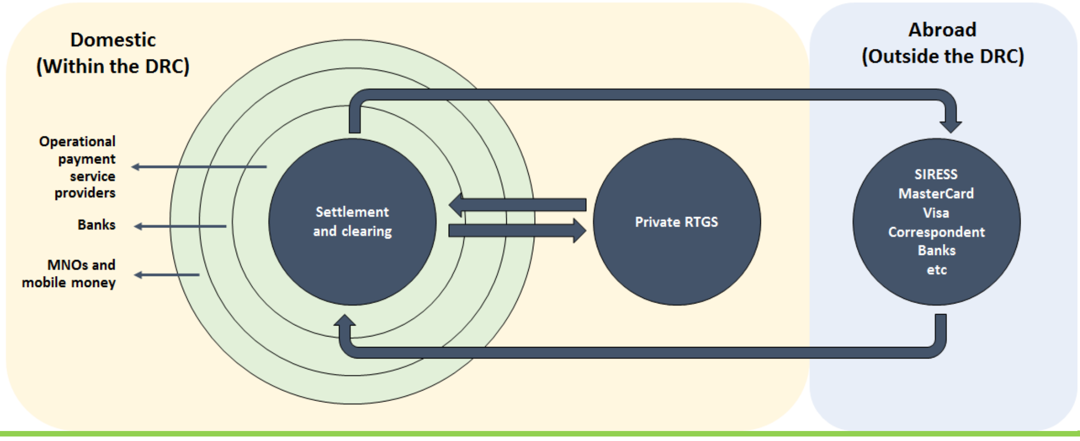

Figure 20. Payment system infrastructure

Source: Authors' own based on consultations

Dollarisation supports stability, but drives up cost and risk. The DRC uses both US Dollars and Congolese Franc as across the national territory[29]. The use of dollars adds stability, but constrains liquidity as dollars have to be imported. It also increases the cost of cash and compliance related costs, and introduces currency risk for the lender and borrower (Consultations, 2015). Discussions are underway to revert to the Congolese Franc over the long term (IMF, 2014).

Regulatory response in progress

Regulation in transition. Box 2 outlines the main tenets of the financial services regulatory framework (for more detail, see Input Note 2). The regulatory framework is evolving to meet the needs of a growing and changing financial sector. This has included the creation of a framework for electronic money provision and the drafting of legislation to liberalise the insurance market. As noted in Box 2, a number of regulatory elements are still under development, including a framework for agency banking and national payment system legislation. There is uncertainty on the timing and nature of implementation.

Box 2. Regulatory framework in a nutshell

Two main regulatory bodies for institutional oversight. The Ministry of Finance is the financial sector policymaker. It oversees monetary policy, credit establishments (including banks) and insurance firms, as well as government finances. The regulatory and supervisory mandate rests primarily with the Banque Centrale du Congo (BCC) and L'Autorité de Régulation et Contrôle des Assurances (ARCA)[30]:

- The **BCC** is at the heart of the regulation of the financial sector. It is mandated, amongst others, to regulate **credit establishments** under the 2002 Law on Credit Establishments, which include

[29] As one potential way to deal with rampant inflation and the collapse of the currency, ordinary Congolese started using foreign currencies, particularly the dollar, for their daily lives, which eventually became government policy. Over time, the dollar permeated all facets of the Congolese economy, even gaining support from government for its use. As the economy and inflation rates have started to stabilize, the government has indicated a desire to return to a single currency system under the Congolese Franc over the longer term (IMF, 2013).

[30] A number of additional ministries and regulatory authorities have jurisdiction over entities and actions of relevance for financial inclusion. These include the Ministry of Planning and Supervision of the Revolution of Modernity with regards to financial sector development policy and the improvement of the business environment, and the Regulatory Authority of Post and Telecommunications of Congo (ARPTC), which is charged with the licensing and oversight of mobile networks and the post office.

banks, financial cooperatives (in certain conditions), savings banks, specialised financial institutions and financial societies[31]. The activities of credit establishments are central to the functioning of the DRC financial system and the term is used frequently throughout other regulation. Only a credit establishment may effect banking operations regularly. In addition to credit establishments, the BCC also oversees a number of other institutions, including microfinance institutions[32], money transfer operators, exchange bureaux and electronic money institutions.

- **ARCA** will be set up as a new regulatory authority for insurance. It is established by the 2015 Insurance Law.

In addition to the institution-specific regulatory provisions, a number of cross-cutting functional areas of regulation are relevant to financial inclusion:

Electronic money already accommodated. Any credit establishment may issue electronic money. In addition, a dedicated electronic money institution may be formed, subject to certain conditions including minimum capital requirements. This is the category under which mobile network operators provide mobile money services. Electronic money accounts are subject to transaction and balance limits.

Agency banking framework being developed. Agency banking is one way to allow for distribution networks of entities such as retailers, mobile operators and even small merchants to extend financial services on behalf of formal FSPs. The BCC is working on an instruction to regulate agency in the DRC.

Comprehensive payments legislation underway. The government of the DRC has been working on draft payments legislation for a number of years. The legislation is intended to promote the development of the sector, including by facilitating interoperability across the payments system.

AML/CFT regulation allows some, but not full proportionality. Anti-money laundering and combating the financing of terrorism (AML/CFT) regulation is of particular relevance to financial inclusion, as the know-your-customer (KYC) requirements that it imposes can exclude large chunks of the population from formal financial services. The DRC framework for AML/CFT dates back to 2004. It allows for proportionality based on the size of the transaction as well as the whether or not the client is a regular client. It also allows for lowered KYC requirements for over the counter transactions below a certain threshold, but not for account-based transactions.

No comprehensive credit law. Credit regulation is spread across several acts with different burdens placed on different players within the market.

Insurance framework to be implemented. A new Insurance Law was enacted in 2015 and came into effect in March 2016. Its implementation is subject to the set-up of the new insurance regulator allowed for in the Law, ARCA.

Finding solutions outside of the formal financial system

Informal services fulfilling a critical role. Against the backdrop of the constrained and uncertain financial sector environment as outlined above and an evolving regulatory framework that

[31] Main institutional types outside of the credit establishments framework include insurers (regulated under the Insurance Code), pension funds (regulated under the social security law, INSS), microfinance institutions (regulated under the Microfinance Act), money transfer operators (regulated by a specific BCC instruction), bureaux de change (regulated under the exchange law) and electronic money institutions (regulated by a specific BCC instruction).

[32] Which are in turn split into credit-only and deposit-taking microfinance institutions, each with dedicated prudential requirements set out in the Microfinance Act.

does not yet fully support an inclusive supply response, it is not surprising that many people rely on family and friends or informal financial services to cope financially and that almost everybody transacts in cash.

Reliance on cash. As indicated in Figure 21, cash dwarfs other payments instruments for all daily transaction needs:

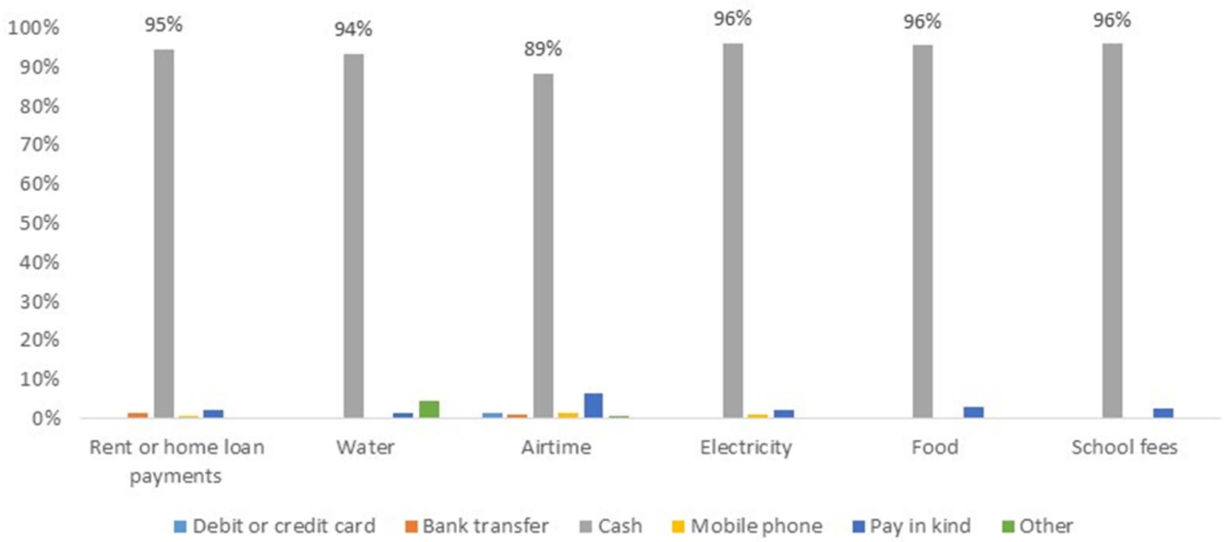

Figure 21. Use of cash versus electronic transaction instruments

Source: FinScope (2015)

Importance of social support. 70% of respondents in FinScope (2015) indicated that they feel that they can rely on their neighbours in a time of crisis. The church plays a particularly strong role: 61% of respondents stated that they can rely on a church or religious group during bad times. Informal support mechanisms also extend to financial services to help people cope with financial shocks and smooth income, for example through self-help groups (BTI, 2016).

> *"I am a member of a group of 14 farmers who meet once a week and contribute USD 1. The group's goal is to help a member in case of a problem. We withdraw an amount from the cashier to help the member in difficulty. But that amount has to be paid back later."*
>
> \- Subsistence farmer, female, 45 years old, Kibumba

Various informal options. The country has a vibrant selection of informal financial services. Some types, such as rotating savings groups or informal money lenders, are also found in other countries whilst others, such as the *mutualitée* and *acosi*, are more unique and come fit-for-purpose given local circumstances. The box below outlines the most popular informal financial services encountered in the research:

Box 3: Overview of informal options within the DRC

Likelemba

The likelemba is a rotating savings group. In its simplest form, all of the members contribute at required intervals. The sum of the contributions is then disbursed to each of the members in turn. More sophisticated forms also exist where payouts are randomised as a form of lottery, or where an individual may purchase two structured payouts by contributing twice as much. This versatility allows the savings group to adapt to the changing needs of the members.

Bwakisa Carte

The Bwakisa Carte is a popular informal mechanism that is prevalent throughout Kinshasa. It constitutes a card, issued by a small business, in exchange for funds that are deposited within the business. The business benefits from this as a short term funding mechanism that helps them meet their expenses, whilst individuals have the knowledge that their money is safely stored. The individual can withdraw their funds at any time, or use their balance to pay for various items from the store.

Money lender (Banque Lambert, Riba)

Informal moneylenders typically lend out funds for a very short duration. The interest rates vary significantly across regions, with Kinshasa reporting interest rates of approximately 50% for a two week loan, and respondents in Goma reporting 25% for the same period. Moneylenders typically obtain an ownership guarantee from their clients. In this guarantee, there is no mention of the loan but simply that the asset of a certain value is being “forfeited” to the moneylender. The moneylender can then choose to act and take this document to the authorities to enforce the loan.

Mutualitée

Kinshasa is a bustling city that attracts residents from many different regions of the DRC. As more and more individuals arrived in the city from the various regions, they started to form communities. As these communities grew, individuals started to hold weekly meetings in order to maintain and protect their heritage. From this, the mutualitée was born. Membership of a mutualitée is often based on some type of common characteristic, though this need not be the case. Examples of common characteristics include ethnic origin or professions. Members typically pursue a common goal. The goal can be self-serving for the members, such as the desire to support each other in the face of uncertain risk events, to more altruistic goals such as the betterment of the society within which the mutualitée functions. They then leverage resources (time and effort as well as financial resources) to reach these goals. Some mutualitées have decided to this component through periodic contributions. These contributions are then kept aside in order to pursue the goal of the mutualitée. Where the goal of a mutualitée is mutual support in the case of a risk event taking place, and the periodic contributions are leveraged, the mutualitée is performing an insurance function. It should be noted that mutualitées have distinct regional flavours. Mutualitées in Kinshasa are much more likely to pursue the self-serving risk mitigation goals and to leverage periodic contributions. This is less likely in the East. Mutualitées may also transform into more formalised entities. One example if this is the creation of a health mutuelle in the case of healthcare risks.

Acosi

Acosi, also known as associations, are predominantly found in the east of the country. The basis of membership is the profession of an individual and the purpose of the association is to collectively deal with business problems that individuals face. They also come to the assistance of the tradesman in the event of certain risks taking place.

3.4. Scoping the gap

It is clear from the usage picture and supply response as outlined above that there are significant gaps in meeting the key financial service needs in the DRC, especially where formal financial services are concerned.

Where are the main gaps?

It is telling to consider who provides which financial services to whom in the DRC. The figure below marries the overview of the financial sector landscape above with the financial service uptake figures to give an indication of who is served by whom in which product markets:

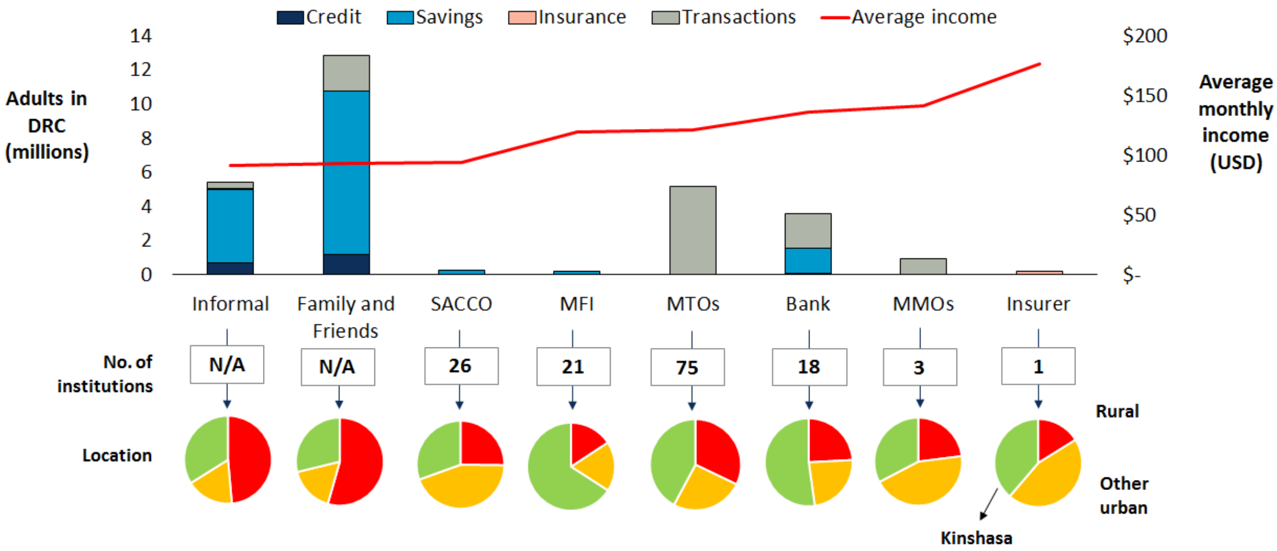

Figure 22. Which providers provide which products to whom?

Source: Authors' own calculations based on FinScope (2015) and Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages (Employment and Household Consumption Survey) (2015)

Longer-term credit, savings gap. Provider consultations and mystery shopping revealed that the credit which is available generally has a maturity of less than three months. Mortgages are very uncommon and very seldom extend beyond five years. Likewise, long term savings to serve risk mitigation needs is virtually non-existent. Formal insurance and long term pooling through pensions are limited to state providers and generally only available to the employed target market.

Informal options reach large, mostly rural population, and persist despite formal inclusion. The diagram indicates that informal providers serve a total of just short of six million clients, just more than half of them outside of the Kinshasa region. Most clients use informal mechanisms for saving purposes, but there is also some uptake of credit and remittances. More than 12 million people in total turn to family and friends as a source of financial services. This includes many who are also formally included. It is particularly telling that 1.7 million adults with bank accounts continue to save at home or informally. This constitutes 67% of banked adults.

Formal sector caters to smaller, more urban client base. Where the formal providers are concerned, all have an urban bias, with strong representation of the Kinshasa region in their client base. SACCOs and MFIs provide credit and insurers provide insurance to a small group of adults. Banks focus on savings and transaction accounts, with negligible retail reach of credit. In total, the banking sector serves fewer than four million clients. Mobile operators are making headway in terms of transactions and remittances, but are still dwarfed by informal sources where client numbers are concerned.

Informal reaches lower down the income spectrum. Most telling is comparing the average income profile of the customers of the various types of providers. The informal providers are able to reach lowest down the income spectrum, followed by SACCOs. The income profile then gets progressively higher across MFIs, banks, MNOs and insurers, who serve largely the top-end of the market.

What prevents greater formal uptake?

Problematic consumer experience with formal products. From the demand-side perspective it is clear that knowledge, perceptions and trust all limit financial service uptake, as indicated by the following quotes:

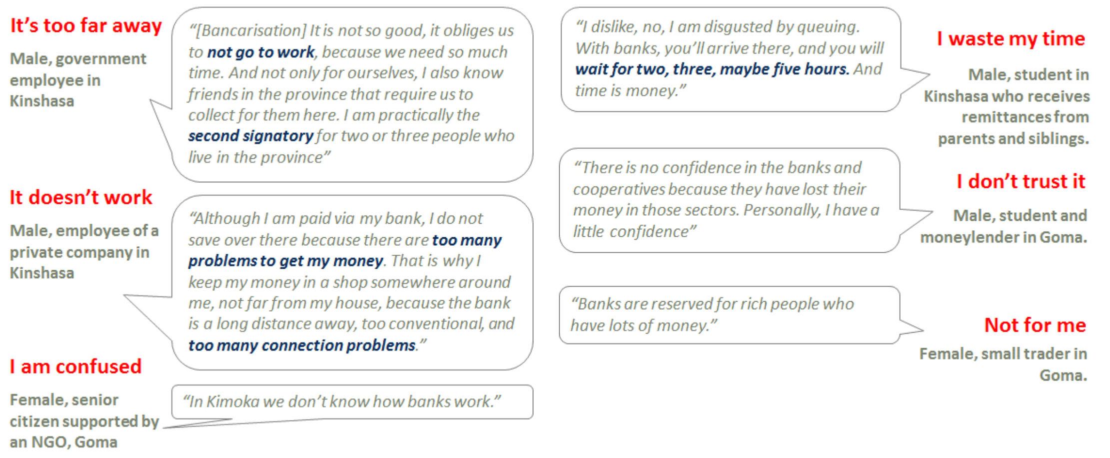

Figure 23. Customer perceptions of formal financial services.

Source: MAP demand-side qualitative interviews (2015)

Trust deficit. As outlined in Section 3.3, the history of conflict led to periods of hyperinflation[33] and a break-down of the financial system in the late nineties that continued up to the mid-2000s. The legacy of this turbulence persists in a lack of trust in the financial system and through the premium placed on security of funds. FinScope confirms the lack of trust: only 37% of FinScope respondents indicated that they trust banks. Only 20% of people indicate that they trust SACCOs or MFIs.

> *"I used to save but since I lost my money last year to [mentions financial institution] I no longer trust banks or financial institutions." [Proceeded to explain what happened to him off the record] "You now understand why I no longer trust the banks, this case is sensitive to me, I went through it myself."*
>
> \- Small business owner, male, Goma

Awareness gap. The fact that most retail financial services were not available during the nineties and early 2000s also created a generation of Congolese who grew up unable to use banking and other financial services. Many are still not aware of the role that banking and

[33] The DRC has experienced a number of hyperinflationary periods, such as the period beginning 1988, when inflation remained above 80% for 9 years and at times exceeded 23,000%. There was also a period during which account holders were not allowed to withdraw their money.

other formal financial services should or can play or how to use them effectively. Interviews also showed that there's limited awareness of how banks differ from SACCOs and MFIs.

These demand-side barriers are reinforced by a number of supply-side factors:

No distribution within reach. Section 3.3 outlined the poor distribution infrastructure. The demand-side data confirms this to be an access barrier: 73% of people do not know where the closest ATM is and 65% do not know where the closest bank branch is (FinScope, 2015). In terms of mobile coverage, between 40% and 50% of the population are not covered by a GSM network at all (GSMA, 2013)

> *"Here in our area there is no security, no electricity, water, hospitals and schools and there are no banks."*
>
> \- Livestock farmer, male, Kibumba

Poor service. Services are unreliable, liquidity is constrained and queues are very long. As discussed in Input Note 3, Automated Teller Machines (ATMs) and Point of Sale (POS) devices are often out of service whilst the GSMA identified the reliability of services as a key barrier to mobile money in the country (GSMA, 2013) Waiting times at branches are excessive. The ability to encash is also uncertain. Most encashment is in USD rather than CDF. A mystery shopping exercise revealed that ATMs only stock minimum denominations of USD 20, which may be too large for the encashment needs or even account balances of ordinary Congolese. Where agents are used, liquidity is also constrained as they rely on banks' limited cash distribution infrastructure.

Many not eligible. Most Congolese do not have the documentation required to open an account at a financial service provider. Only 5.7% of Congolese have proof of income, 8.2% have proof of residence, 4.1% have a passport, 3% have a driver's license and 3.1% have an ID. 23% of the sample population do not have a voter's card (FinScope, 2015). As will be discussed, fraud concerns mean that this card is often not accepted by financial institutions. Thus eligibility remains problematic even for those with this card.

How big is the gap?

Figure 24 uses the access frontier tool to illustrate the current reach and scope of the market in the DRC, as well as the potential for future market development. This provides a framework for estimating the size of the gap:

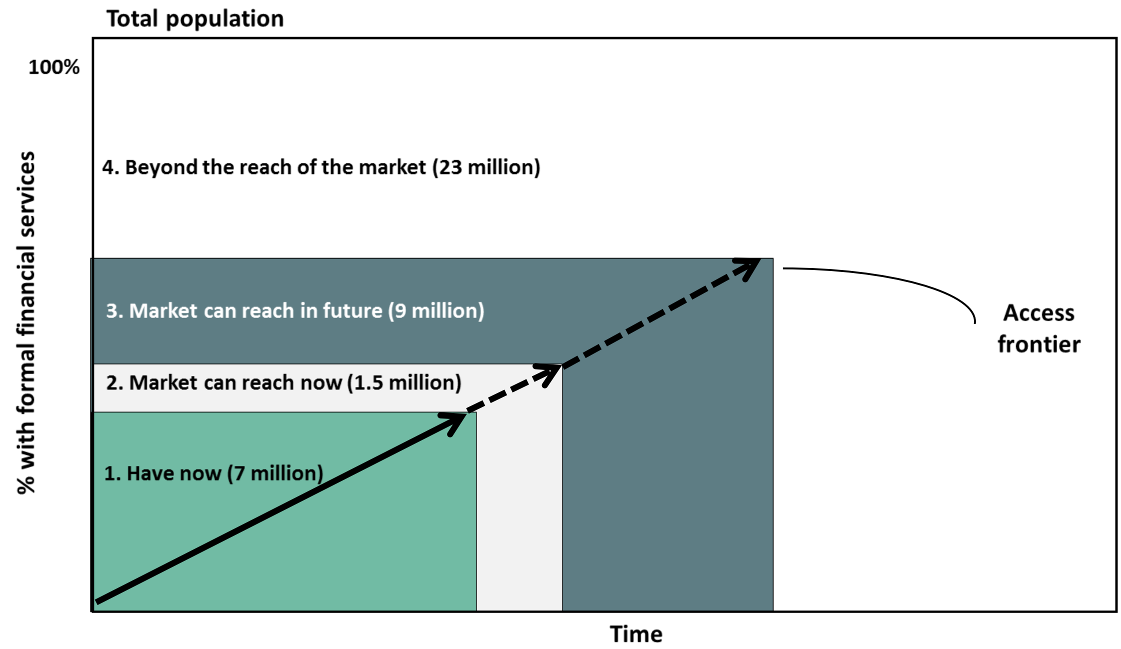

Figure 24. The access frontier: a potential opportunity scenario

Source: Authors' own, based on Porteous (2005) and FinScope (2015)

The access frontier, represented by the diagonal line on the diagram, maps the current and potential reach of the market for financial services over time. The diagram comprises four zones:

- "**Have now**": the proportion of the population that is currently served by formal financial services. In the DRC, this represents the roughly 32% of adults in the sample population (7,040,414 million people) that are formally served. Note that even these individuals will still have unmet financial service needs. Thus there is scope to increase depth of usage (that is, the number and variety of financial services taken up by an individual) within this market.
- "**Market can reach now**": the second block, called the market enablement zone, represents those consumers that already have access, technically speaking, but are not yet using financial services. In the DRC, this would represent, at a minimum, that part of the formally employed market that is not yet formally served (755,401 adults). If we also assume (i) adults who earn more than USD 200 per month and (ii) adults who both earn more than USD 100 and live in Kinshasa proper to be within easy reach, this zone represents an additional 1.5 million people. They could be included as first order priority just by more effective outreach, without any structural market changes.
- **"Market can reach in future":** The third zone, called the market development zone, includes all the people that do not currently have access to financial services but could become part of the target audience over time. Regulatory changes, as well as product and distribution innovation, can be used to extend the reach of the market to this segment. The size of this zone excludes adults covered by the two segments above and includes adults who live within urban areas and those who live in economically active rural areas and earn more than USD 1 per day. This represents more than nine million adults.
- **"Beyond the reach of the market":** The market redistribution zone is made up of all the people who are outside the reach of the market – due to their deep rural location, or

because they are simply too poor to be viable financial services clients. In the DRC, this zone would currently comprise the 19 million adults deemed to live in “economically inactive” areas, as well as a further close to four million individuals that are likely to be too poor to be viable financial service clients, as they earn less than USD 1 per day and live in a rural area. The total size of this zone is therefore estimated to be around 23 million people.

The total gap, then, between the current and potential reach of the market is estimated to be at least 10.5 million people. This gap – if bridged – represents a significant opportunity for financial inclusion.

4. What creates the gap?

Section 3.4 paints a clear picture: formal players do not currently serve the bulk of the population and there are a number of barriers on the demand as well as the supply-side that mean that the situation is likely to stay that way, should market conditions remain as is. This creates a sizable gap between where the market is currently at and where it can potentially reach. What lies behind this mismatch? Understanding the ways in which the country context, the make-up of the financial sector and the regulatory framework determine the scope for financial inclusion is key to identifying what it will take to bridge the gaps.

4.1. A tough environment for a young financial sector to grow

Figure 5 in Section 3.3 showed that, following more than two periods of conflict-induced collapse, the financial sector in the DRC is in many regards still young. From this low base, recent growth has been strong. Yet there are a number of factors that challenge sustained growth to serve a larger client base.

Limited consumer viability, reach. The high instance of poverty, generally poor education outcomes and rural nature of the population make consumers difficult to serve. They are also very difficult to reach. This is attested by the fact that almost half the adult population is officially deemed to be in “economically inactive” regions and disregarded for data and strategy purposes. Agricultural and other value chains are very limited, with most infrastructure destroyed in the war[34]. Thus consumers are by and large not “aggregated”, making them very risky and costly to serve[35].

A lost generation – awareness and trust deficit. To make matters worse, the historical context continues to shape the behaviour of consumers. It has created a trust deficit and a financial literacy gap among a generation of Congolese who grew up without any financial services. This deficit is so entrenched, it poses a structural development to retail market development.

[34] 65% of the country’s population are dependent on inefficient slash-and-burn rain-fed subsistence farming with limited inputs to enhance productivity. Over 50% of farmers live more than 8 hours from the nearest trading centre, and due to a lack of effective refrigeration or storage facilities, post-harvest crop loss can reach 80% in certain areas. A similar pattern of fragmentation and informalisation, commonly referred to as ‘la débrouillardise’, is present across other key industries. One of the main obstacle limiting consumer and market connectivity, aggregation, and development is the near-complete degradation of the country’s transportation infrastructure, most prominently outside city centres, which has led to the geographic isolation and economic localization of many communities (UNEP, 2011).

[35] However, there is an opportunity to serve urban middle income market, who remain underserved especially in credit and insurance.

Skills and technology insufficient to meet rapid recent growth. The lost decades also continue to hamstring the working of the financial sector. The poor financial sector performance indicators discussed in Section 3.3 show how challenging it has proven to manage the rapid recent growth in the financial sector. The large skills deficit among financial service providers is one of the primary challenges. For example, there are no qualified actuaries in the DRC. Some financial institutions still manage key parts of their business in Excel. Front office staff often do not even understand the technology used or the products provided themselves – much less explain it adequately to consumers[36].

Severe infrastructure constraints. To this is added structural infrastructure constraints. The DRC faces some of the most extreme infrastructural challenges on the African continent[37]. The deficient transport infrastructure makes it extremely difficult to travel within the country. It therefore goes without saying that cash distribution is severely challenged. The ability of digital financial services to provide a solution is, however, also undermined by poor infrastructure. Electricity infrastructure reaches only 5% of the population. Connectivity remains low: GSMA (2014) data indicates that mobile penetration stands at 33%, with only 16.3 million unique mobile subscribers. The picture below illustrates the particular infrastructure challenges to transport cash in rural areas:

Figure 25: A bank representative transporting cash to rural areas

Source: Trust Merchant Bank (TMB)

Security constraints remain, add cost. There are still instances of conflict in the East and crime is common throughout the country[38]. Provider interviews indicate that the security required

[36] The consultations, confirmed by a mystery shopping exercise, indicated that even bank managers do not know how to use POS devices, and that customers receive different document requests to open an account from different tellers at the same institution.

[37] The country comprises a surface area of 2.3 million square kilometres, making the 11th largest country in the world. Yet the total length of paved roads is less than one and a half times the breadth of country at just short of 2800 km (Consultations, 2015; Ministry of Congolese Abroad, 2015). This is all that is remaining from the pre-war network of roughly 145,000 km of roads (WHO, 2001). No roads or rail network exist to connect the big economic centres. Most of the 20,000 bridges and 325 ferries have not been properly maintained or replaced in decades (UNJLC, 2005). Often, air travel is the only option.

[38] The civil war within the DRC officially ended in 2003. Despite this, the DRC remains the second most violent country in the world according to the ACLED (Armed Conflict Location and Event Data) Project (BTI, 2016). Conflict and violence are especially rampant in the eastern parts of the country. Crime is also a constant fear (Qualitative Study, 2015 & Chêne, (2013).

to work with cash increases the cost to serve retail customers. The fear of crime and the corresponding reluctance to hold cash was a recurring theme throughout the qualitative demand-side research. On the upside, this situation (together with the physical infrastructure constraints) creates an imperative for digital financial services.

> *"But here in Goma, very few people have a good living because of the war, the hunger… This can slow development. Now there is the presence of robbers, crime, insecurity, because people want to survive."*
>
> - Student and moneylender, female, 26 years, Goma

Difficult business environment adds risk, time and cost to deliver services. Private sector development is essential to achieve a productive economy. However, the private sector in the DRC currently faces many constraints, and the DRC remains one of the most difficult countries in the world to do business. According to the World Bank, the DRC ranked 184th out of 189 in the 2016 Ease of Doing Business Indicators, which is much lower than its regional counterparts (World Bank, 2016d). The country's low ranking is mainly due to lengthy processing times and high costs of exporting and importing containers. Other major constraints include electricity, enforcing contracts, the tax system, protecting minority interests, cross border trade and resolving insolvency.

Financial sector infrastructure gaps, capital scarcity inhibit business case. As outlined in Section 3.3, there is no overarching payment system in the DRC, with the majority of the banks relying on foreign switching. Furthermore, the capital market is underdeveloped. Capital is scarce and short-term and there is no stock or bond exchange. Government bonds are limited, as is the interbank lending market. There is no reinsurance at present except for informal offshore reinsurance. Capital is largely raised from consumer demand deposits with some foreign investment into specific projects, as there are no institutional investors to provide long term capital – insurance and pension assets are not retained or not invested in the financial system. Furthermore, the short-term nature of bank assets, combined with the need for liquidity, results in short term lending activities.

4.2. Severe distribution challenges reinforce cash economy, lack of intermediation

Distribution aggregators limited. As indicated in Section 3.3, distribution is still largely branch-based in the DRC. Creating a network of touch points with the consumer is critical to expand distribution. This can be done through agency and partnership with alternative providers such as petrol stations, retailers, agricultural dealers or processors, pharmacies, mines or post offices (Redflank, 2013). The purpose is to piggyback on these third parties' current infrastructure, client footfall or membership base and existing payment linkages with consumers to reduce the cost of reaching individual end-clients. However, networked groups are very uncommon in the DRC and opportunities to partner are limited.[39]

Lack of interoperability and concentration in Kinshasa further limit footprint. Although there are 18 banks with a total of 403 bank branches across the DRC, the lack of interoperability

[39] Money transfer operators have been most successful to unlock such networks, and have managed to do so at reasonable cost of 1-5% for USD 100 transferred (see Input Note 3).

between these banks means that any given consumer only has access to the total number of distribution points of their own bank. Therefore, even a consumer of Trust Merchant Bank, the bank with the largest branch network, only has access to 49 distribution points. Furthermore, because a significant portion of all the bank distribution infrastructure listed above is based in Kinshasa, the effective footprint is much smaller.

Agency banking options still limited. As of yet, there is no agency banking in the DRC to overcome these challenges. There is, however, the prospect of change, as agency regulation is underway (refer to Input Note 2). FINCA, a microfinance institution, has started using agents and others are starting to copy this model[40].

Communications technology challenges. Even should agency banking become a reality, connectivity will remain challenging. The country's limited communications infrastructure as outlined in Section 4.1 undermines the digital payment system by decreasing the accessibility and reliability of cards, internet banking and mobile money. GSMA (2013) reports that the majority of respondents that they interviewed complained of technical problems, such as the network going down, in the previous three months. Network failures were also a major concern among focus group and in-depth interview participants.

> *"Here is a typical example. At my home village, it's 120 km away from Lubumbashi, village Sampwe. There is no network, not even agencies. To call someone, you need to go 15 km far, so do you really think that if you send me money by phone, for an emergency, I will receive it?"*
>
> \- Male, urban, Lubumbashi (Source: ASI, 2014)

Demand for cash reinforces lack of intermediation. The failure of the digital payment system and lack of opportunities for digital usage drive extensive use of cash (as shown in Figure 21, Section 0).The extensive demand for cash, in turn, limits lending. As discussed, almost half of bank assets are held in cash. Capital is held in physical assets rather than loaned out.

4.3. Inability to manage client relationship risks

A lack of consumer data and difficulties in enforcing contracts create uncertainty that challenges decision-making among financial service providers. As they do not have the tools to overcome this uncertainty, it leads to a reluctance to take on clients and extend credit. As outlined below, this undermines retail market development.

Limited consumer data. Detailed data on consumers or provision is extremely difficult to obtain. This creates uncertainty that increases the risk to serve unknown markets, including new consumer groups. Data is especially important for credit and insurance. Though a credit bureau is being established, many providers still do not deliver data to the bureau or have access to information from the bureau (e.g. MFIs cannot access the bureau). This challenges the extension and pricing of credit. There is also no data on consumer risks such as mortality, health and accidents.

[40] FINCA partners with small businesses to mobilise savings and does not charge fees through this channel. It has been successful in using this strategy to attract savings to on-lend (Consultations, 2015).

Lack of effective identity mechanism hampers credit extension. Credit extension – and financial service access in general – is furthermore hamstrung by the lack of a ubiquitous national form of identity. The most common form of identity document is the voter's card, held by 77% of the FinScope sample population. However, these cards are not very secure and are open to identity fraud. They are therefore not accepted by many financial institutions (Consultations, 2015). In fact, many providers have burned their fingers due to identity fraud. It was clear from the consultations that providers do not trust clients and do not have the tools to overcome this hurdle.

Cost and time of recovering collateral prohibitive. The cost and effort to recover collateral in the case of a non-performing loan is generally prohibitive. Approximately 81% of the claim value goes in fees to attorneys, courts and enforcement agencies. The time attached to a claim is also prohibitive, taking an average of 610 days from the date that a claim is lodged to the day that a judgement based on the claim is enforced (World Bank, 2016d). The result is that collateral is both difficult and extremely costly to recover, and it is estimated that more than 90% of claims are never recovered. Of recoveries attempted in court, approximately 98% of rulings go against the providers. These problems were repeatedly flagged by providers during the supply-side interviews. Thus providers are obliged to price for the inability to recover collateral, leading to increased prices and ultimately financial exclusion.

Non-performing loans common and tax treatment exacerbates size of loss. Section 3.3 highlighted the high non-performing loan rates in the DRC[41]. The situation is exacerbated in that write-offs on non-performing loans are taxed (PwC, 2016). This results in a double loss to credit providers: the loss of the loan asset, plus the expense of the tax (Consultations, 2015).

4.4. System challenges to leveraging the cross-border economy

External linkages a lifeline. Given that the DRC is surrounded by nine neighbouring countries and has a large diaspora population, cross-border financial linkages are especially important to the economy. The infrastructure challenges mean that border trade is often simpler than trading between cities within the DRC. And as the needs discussion showed, remittances are critical to survival for many: the Ministry of Congolese Abroad (2015) estimated that there is a total of USD 9 billion in remittances inflows, annually, amounting to close to 30% of GDP. Yet financial sector deficiencies undermine both cross-border trade and formal remittances.

Formal cross-border trade finance options limited and onerous. Digital transaction limitations, notably the cost and time required for formal cross border transfers, mean that most cross-border trade transactions take place in cash. Transfers can take two weeks to complete and cost on average 10% of the transaction value (World Bank, 2016d).

First, middle and last mile challenges undermine formal remittances. Formal remittance options are limited and expensive, and the limited financial sector footprint means that most people are not able to receive remittances through the formal sector (so-called last mile challenges). This is compounded by documentation requirements in the sending countries (first mile challenges). Mystery shopping out of South Africa to the DRC showed that the process to send money to a recipient in the DRC was slow, expensive and required significant documents and information. Many DRC residents are in other countries under asylum visas

[41] Non-performing loan rates are high, at between 8 and 15% for banks. Rates for COOPECs can reach 24%. Average rates for MFIs are understated at 2.5% due to the tax treatment (BCC, 2014).

that are not accepted by banks. There are also structural operational (middle-mile) challenges. The interviews with banks highlighted challenges in establishing correspondent relationships with banks abroad, as well as in sourcing dollar notes through correspondent banks[42]. The net result is that it becomes near impossible for the Congolese diaspora to remit through formal channels. It is therefore no surprise that close to all inbound remittances are estimated to be informal. Indeed, formally recorded figures put annual remittances at only USD 22 million in 2014 (World Bank, 2013), compared to the total estimate of USD 9 billion quoted above.

4.5. Persistent enabling environment challenges despite commitment to inclusion

Commitment and resolve, but policy gap. As discussed, there is currently no formal financial inclusion policy or mandate in the DRC. However, as discussed in Section 2, there is strong awareness, commitment and resolve among policymakers to build an inclusive and stable financial services sector. There is significant progress to support financial inclusion in some areas, such as the roll-out of the government to person transfer programmes known as *bancarisation*. Furthermore, the adoption of harmonised business law via the Organisation for the Harmonisation of Business Law in Africa (OHADA) has had a significantly beneficial impact on the re-development of financial services and has enabled elements of the regulatory system to leapfrog developmental cycles and better align with regional and international norms. Continued regulatory reform in line with OHADA opens the possibility for greater regional and continental integration.

On the whole, however, the enabling environment for financial inclusion remains challenging. Input Note 2 outlines the main elements of the regulatory framework of relevance to financial inclusion. There are a number of issues that challenge market development. These can be grouped into three categories:

- **Framework conditions**: policy, business environment and policy/regulatory infrastructure challenges.
- **Gaps and process challenges**: areas of regulation that are outstanding or under development, and the process challenges in developing and passing new legislation.
- **Content reforms**: existing elements of regulation that could be strengthened or are in need of reform.

Framework conditions

Difficult environment to set up and manage financial institutions. The broader enabling environment constrains financial sector development. As discussed, the DRC ranks the fifth lowest in the world in terms of ease of doing business. This includes bureaucratic red tape, uncertainty on tax arrangements, and difficulties in enforcing contracts[43]. There is also limited

[42] It was mentioned that some South African banks, for example, will not send funds to the DRC due to either complex correspondent relationships or an unwillingness to risk AML/CFT implications. Some DRC banks use small South African banks and corporate banks with United States correspondents or subsidiaries in order to procure US Dollar notes from the Federal Reserve – as a result of de-risking and security concerns.

[43] Contract enforcement is extremely difficult within the DRC. The costs are prohibitive and the waiting times can be very long (also varying substantially by region). The implications are dire for the advancement of credit markets and likely result in severe credit product pricing and affordability limitations.

access to investment incentives for financial service providers, though such investment incentives are available to other businesses[44].

Married women at a disadvantage. Despite not commonly being enforced, married women still require their husband's authorisation to bind the estate. This includes financial contracts, meaning that women are at a disadvantage in accessing financial services.

Limited access to justice and dispute resolution mechanisms. The advancement of financial services strongly relies on financial service providers and consumers alike being able to resolve disputes and enforce contracts. Courts, in turn, need technical assistance in the resolution of financial services matters. However, effective access to courts and alternative dispute handling mechanisms is limited beyond Kinshasa. This limits financial sector growth, particularly the extension of credit, largely to nodes of effective justice. Customary courts are a potentially widespread point of low-value financial dispute handling, but are not currently used to this end.

Lack of resources and capacity. The discussion in Section 3.3 indicated that the regulatory environment is in many regards in flux. As will be outlined below, resource constraints limit the pace of regulatory change. Regulatory resources are limited due to state budgetary constraints, a capital intensive developing financial sector and the limited use of the national currency. Insufficient resources also challenge the judicial system[45]. This severely limits the efficiency, quality and effectiveness of legal redress in financial matters, which in turn impedes financial inclusion.

Challenges to access legal texts. Magistrates passing judgements in the DRC often do not have access to up to date legal texts[46]. The impact is that the law applied is often not in line with the current laws and regulations. The implications for financial inclusion is that despite strides to legislate for greater effective access to financial services, judgements have a significant likelihood of not complying with current financial laws and regulations.

Inconsistent quality of legislation and regulations. Furthermore, the drafting quality of financial legislation is generally inconsistent. It varies from excellently drafted and well-structured to regulation that is difficult to interpret and open to unintended consequences. In a civil law system, there is utmost reliance on precise drafting with limited variance for interpretation, as anything not explicitly specified or prohibited is deemed to be permitted[47].

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[44] Limited liability companies (SARL and SA) are eligible for tax exemptions associated with their investment for a period of 3 to 5 years depending on the location. However, the Investment Code does not apply to banks and insurance companies, which are governed by specific laws. A draft law on the financial sector has been prepared and includes the main provisions of the Investment Code, but has not been voted so far. Nevertheless, ANAPI is temporarily authorized by the government to admit financial institutions (including banks and MFIs) in the scheme of the investment code, but not all financial institutions benefit from this dispensation.

[45] Most courts in the DRC do not have access to basic items that are required for the administration of justice, such as typewriters, filing cabinets or communication equipment. The only means of communication between the Supreme Court or the Ministry of Justice in Kinshasa with courts in other areas of the country is via mobile phone.

[46] This stems from the fact that the only way to access the texts is to buy these directly from the government printing press in the form of an updated gazette. Should a magistrate seek access to this law, they are required to buy the gazette themselves.

[47] As per Ordonnance from the general administrator of Congo on the 14th of May 1886 -- approved by decree 12 of 1886 (official bulletin, pages 188 - 189).

Regulatory gaps and process constraints

Several gaps. As discussed in Section 3.3, there are a number of aspects of regulation that are outstanding or under development. This includes payment system legislation, a full framework for agency banking, an update to the Credit Establishments Law, a framework for deposit insurance and for pooling options for investment, as well as the implementation of the Insurance Law to liberalise the insurance market. Without a complete framework, financial inclusion cannot grow optimally. Investors require regulatory clarity and certainty for new entry as well as expansion of existing businesses. A complete framework is also needed to enable innovation in alternative distribution. Gaps of particular relevance to financial inclusion include:

- *Absence of national payments framework to ensure fair access, certainty and interoperability.* The absence of a comprehensive national payments framework deserves special mention. As of yet, there are no stipulations regarding equal access to telecommunications and payments platforms for MNOs and financial service providers. The status of trust accounts for mobile money is unclear, with the possibility for attachment by creditors. Furthermore, the fact that offline transactions are not accommodated is particularly constraining in an environment challenged by frequent connectivity problems.
- *No comprehensive consumer protection framework.* Another gap relates to consumer protection. Consumer protection principles, including standards on fees, effective interest rate disclosure and over-indebtedness, are not harmonised across institutions.
- *No cross-cutting credit regulation*. As discussed in Input Note 2, there is no single source of credit regulation. Instead, multiple pieces of legislation, including the Microfinance Act and the Credit Establishments Law, contain provisions regarding credit extension. This makes it difficult to gauge the full implications of credit regulation. For example: the definition of microcredit within the microfinance legislation is the same as within the banking legislation. There is no discussion of what constitutes microcredit operations or how they would be distinct from the banking law. Exceptions under the Credit Establishments Law may also open the door to provision of credit by unregulated institutions. Furthermore, there are misconceptions in the market regarding ceilings on interest rates and uncertainty regarding pricing transparency conditions (see Input Note 2 for a detailed overview).

Long lead times for developing regulatory instruments. The regulatory process is hamstrung by long lead times. The time taken to formulate and pass legislation and regulations is a contentious issue, internationally. Although it is prudent to avoid rash decisions, a long incubation period can inhibit and sometimes undermine the momentum and viability of the financial services sector. The payments system and agency banking frameworks are a case in point: both have been several years in the making and were yet to be finalised at the time of writing.

Regulatory contents in need of reform

In addition to the regulatory gaps outlined above, a number of existing regulatory aspects inhibit financial inclusion or may do so in future:

Restrictions on mobile money providers. Though electronic money is provided for in the DRC, the framework is sub-optimal from a financial inclusion point of view. Notably, electronic money institutions are limited to the provision of services related to the issuance, management and provision of electronic money, as well as the storage of electronic money on behalf of other legal entities. They are not allowed to collect public savings or to offer loan products. Prudential requirements are also not in line with the proportionately low risk. This poses a barrier to competition.

Unfair playing field between MFIs and banks. There is no level playing field between microfinance institutions regulated under the Microfinance Law and banks. Notably, many MFIs do not have access to the credit reference bureau[48]. Furthermore, the Microfinance Law obliges microfinance institutions to offer their clients products that are adapted to their capacity for repayment in a manner that prevents all risk. This includes the risk of over-indebtedness. However, it is uncertain whether the same considerations extend to banks.

Tax implications on bad debt reserves and loan terms. The DRC does not recognise provisions of any kind for tax purposes. This has serious implications for the accounting, management and internal practices of financial institutions as they are required to pay taxes on bad debt reserves. Complicating this situation is a restricted ability to carry over net losses from past periods. Prudently providing for bad and doubtful debts therefore affects current tax liability. Therein lies the systemic underpinnings of a tax system that encourages the rolling over of doubtful debts. The cash flow timing implications of paying taxes on bad debt provisions furthermore undermine the viability and capital of institutions and therefore their ability and risk appetite to intermediate funds on deposit. Lastly, the deductibility of interest on productive credit is limited to a five year repayment term. This not only creates an upper limit on loan term but also affects the affordability, value and nature of assets financed by productive credit.

AML/CFT requirements pose risk of exclusion. The anti-money laundering/combating the financing of terrorism (AML/CFT) framework allows simplified customer due diligence for single transactions below USD 10,000, but not for accounts. Given the identification constraints highlighted, this poses a direct barrier to access. Moreover, the latest international standards with regard to AML/CFT[49] pose the risk of exclusion if not implemented with care.

Insurance Law not principles-based, may inhibit access, reinsurance and innovation. The Insurance Law of 2015 is likely to constrain entry, hamper reinsurance and constrain innovation. Notably, the law is too detailed and prescriptive, and not sufficiently principles based. Proportionate treatment of hitherto informal entities serving the lower-income end of the market is not provided for and cannot be accommodated under specified rules of the law. If properly enforced, the law may thus lead to exclusion of the largest portion of the Congolese market[50].

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[48](Consultations, 2015)

[49] In the form of the 2012 Financial Action Task Force (FATF) Recommendations.

[50] Note that the interpretation in this paragraph is based on the Cenfri in-house legal expert's reading of an unofficial translation of the Insurance Code, and is therefore indicative only. No formal assessment can be made without an official translation of legislation.

5. **Bridging the gap**

From gap to opportunity: a long-term view to overcome structural barriers. The low usage picture, together with the context barriers and market constraints as outlined throughout this document, are indicative of a financial services market at the early stages of development. It is characterised by a skills deficit, unsophisticated management information systems that are ill equipped to manage complex businesses, large regulatory gaps and severe infrastructure constraints. Retail financial services, while growing in some areas, are still largely underdeveloped in others, notably credit and insurance.

The policy and market focus should thus be on overcoming the structural barriers to the development of a more accessible retail market that will enable it to move into the market development zone of the access frontier as set out in Section 3.4. This will include improving infrastructure, regulatory changes to enable markets and building the necessary skills and capability to bridge the missing generation of financial service users[51]. Under the access frontier scenario sketched in Section 3.3, doing so could unlock a potential market in the order of 10.5 million additional clients. In the interim, a number of specific actions will help to better serve those that are already within reach of the market (that is, to move the access frontier to into the market enablement zone). This first-order opportunity can already generate up to 1.5 million new financial service clients.

Six financial inclusion priorities. There are six policy and market priorities to push the access frontier from zone 1 to zone 2 and, eventually, into zone 3:

1. Extend the payment system footprint and use
2. Leverage remittances to attract and share resources
3. Build trust to save
4. Unlock intermediation for investment
5. Improve risk management options
6. Build the institutions and framework for an enabling environment

Below, each priority is unpacked by recapping why it is important and what the main challenges are. This is followed by a list of potential actions to unlock the opportunities or overcome the challenges for each priority area. The first five imperatives span both market and regulatory actions, whereas the last one focuses on the levers that government can pull to build an enabling environment for inclusive market growth.

Note that the potential actions as listed under each priority represent a high level menu of options – it may not be feasible to pursue each and every sub-activity, and the details of how to implement each are yet to be defined. It will be important for policymakers and financial sector decision-makers to engage with the potential actions to prioritise and scope out those activities that are within their reach.

It is also important to note that the priorities set out here focus on strengthening <u>formal</u> provision of financial services. That is not to say that informal financial services do not fulfil a valuable role or should be shut down. On the contrary, a significant proportion of Congolese will rely on informal services as their only viable option for many years to come and it is

[51] Noting that a proportion of the population will remain beyond the reach of the financial sector (zone 4 in the access frontier), and that this proportion can only be shrunk through economic growth and increasing incomes.

important that this role be acknowledged and facilitated. However, as financial inclusion diagnostic, the purpose of MAP is to make recommendations to government and financial service providers on how to extend the reach of the financial system and strengthen its operation. Hence the focus in the discussion of gaps, drivers and imperatives is on formal financial services.

5.1. Extend payment system footprint and use

Why important? The needs analysis showed that payments, including remittances, are the most used instruments for people to live their day to day economic lives, to manage risks and to unlock opportunities for human capital development and growth. They form the backbone for all other financial services. Furthermore, efficient payment systems can improve market liquidity to make more capital available for investment.

Why problematic? Yet the analysis depicts an overwhelmingly cash-based society where digital options are limited and where even those with accounts seldom transact digitally. Infrastructure constraints mean that the distribution footprint for electronic payments is extremely limited – for the majority of the population there are simply no options to transact digitally. For providers, the business case to move to digital payments is further undermined by a lack of domestic payment infrastructure to clear, settle and switch. Their customers bear the brunt through costly, frequently unreliable[52] services that are not interoperable between providers and often requires them to queue for hours. This further limits incentives to move away from cash.

What can be done? A number of actions can be considered to extend the footprint and use of the payment system. Policymakers and regulators can:

- Extend investment incentives to all financial services providers to extend their footprint.
- Finalise the national payment system regulation that is currently being developed to address interoperability, encourage alternative payment partnerships, allow offline card transactions and allow fair access to payment systems and telecoms infrastructure.
- Enable agency across a range of institutions by finalising agency banking legislation.
- Deepen the current government initiative for *bancarisation* to go beyond mere account ownership to actual usage of such accounts.

For market players, potential actions (all of which can be supported by government) include:

- Investigate the technology and management solutions to improve reliability of ATMs and POS devices.
- Improve the use cases/user options for digital payments. This can for example be done by introducing digital options for payments to government, including for school fees. Retailers can also be encouraged to take up of digital options. Lastly, the scope should be evaluated for value chain digitisation, for example by moving to electronic options for paying suppliers.

[52] Those touch points that do exist are often out of funds or dysfunctional, or stock only large denomination USD notes that are not suited to the transaction profiles of ordinary citizens.

- Enable payment system interoperability, including the process to establish domestic clearing, settlement and switching systems already underway. Appropriate interchange is critical to ensure adequate investment in distribution. Notably, SIRESS provides an option for domestic and regional switching. This action straddles market and regulatory action: it is important for market players to buy into an interoperable system, but regulators can put incentives or requirements in place to encourage them to do so.
- Connect existing distribution channels to a broader suite of financial services. For example: MTOs are effective at cash distribution and are trusted for money transfers, but have limited options to enable savings. Consider partnerships with banks or other financial service providers to extend the services that they can offer.
- Improve the capacity to manage liquidity and reticulate cash throughout the country.
- Enable offline card technology to accommodate connectivity challenges.

5.2. Leverage remittances to attract and share resources

Why important? The analysis showed that the substantial annual remittance flows matter at the household as well as at the macro level: for the 7 million people who receive remittances, they are critical for survival, for building human capital and for managing financial shocks. And for the economy, remittances represent a source of foreign resources for investment that far outstrips the size of domestic credit provided by the financial sector.

Why problematic? However, there are systemic constraints at the first, middle and last mile to the formalisation of remittances. Domestic remittances are hampered by the limited payment system, while formal cross-border remittance options are limited, expensive and time consuming. Documentation requirements and bank correspondent relationships make it difficult for the diaspora population to send money to the DRC.

What can be done? Potential actions to support the development of the formal remittances market include:

- Address last mile payment constraints as outlined in priority 5.1 above
- Develop cross border corridors to allow more providers to offer such services
- Address first mile issues to send remittances through bilateral engagements with sending countries. This includes documentation requirements and the conditions for establishing correspondent banking relationships.
- Create formal options for trade flows.
- Enable targeted sending options for human capital related remittances (such as remittances to directly pay for health and education).
- Consider a diaspora policy to attract skills and funds.

These actions will require a concerted effort by policymakers, regulators and market players.

5.3. Build trust to save

Why important? Savings are the most used financial service in the DRC if informal options are included. At the macro level, savings are a critical source of funds for investment. It is thus critical to enable savings to mobilise capital. At the household level they are often used as a buffer against financial shocks arising from risk events, thus preventing people from falling (further) into poverty. Indeed, saving is the main reason why people have accounts.

Why problematic? There is a large gap between total savings needs and uptake of formal savings options. Macro data shows that total domestic savings are very constrained. Demand-side data confirms that, of the 11.7 million adults who save, only 2.5 million save in accounts. And two thirds of those with bank accounts (1.7 million people) also save at home or informally. This is symptomatic of a lack of access, but also of a general lack of consumer trust in formal financial services as discussed in Section 3.4. Almost two thirds of people do not trust banks with their savings, rising to 80% for SACCOs and MFIs. This, in turn, is due to a history of bank crises, failed SACCOs and hyperinflation. The breakdown of the financial system meant that there is a missing generation of people that do not understand financial services. Limited consumer understanding is compounded by frontline financial service provider staff who do not have the capacity to explain how services work, as well as system constraints that undermine reliability and, hence, the customer experience.

What can be done? It is important for policymakers and regulators to:

- continue to drive the stability of savings institutions;
- strengthen SACCOs and MFIs to collect and secure savings;
- strengthen enforcement to terminate illegitimate savings institutions;
- strengthen consumer protection and recourse; and
- build framework to implement deposit insurance

For financial service providers, the priorities are to:

- address payments constraints to improve reliability and convenience to get funds into the formal system; as well as to
- improve capacity of frontline staff to explain products to consumers.

5.4. Unlock intermediation for investment

Why important? The analysis showed that there are a number of untapped opportunities for intermediating savings into investment: 2.3 million adults earn more than USD 200 per month, a substantive part of them engaged in small business or agriculture. Yet only about 9% of them have credit. Almost 4 million farmers have some tight value chain connection, but none have formal credit. This speaks to ineffective intermediation.

Why problematic? As outlined in Section 3.3, current credit provision is very limited and short term in nature. The financial sector is dependent on short-term, small deposits, and institutional investors are limited. These factors combine with high costs, liquidity requirements and contracting constraints to limit credit extension and restrict the term of loans offered. There is also a low loan to deposit ratio in international terms, with almost half of the banking system's assets held in cash.

What can be done? This low level of intermediation creates an imperative to develop the capital market through a three-pronged approach: unlock savings, promote pooling and overcoming investment constraints to drive opportunities:

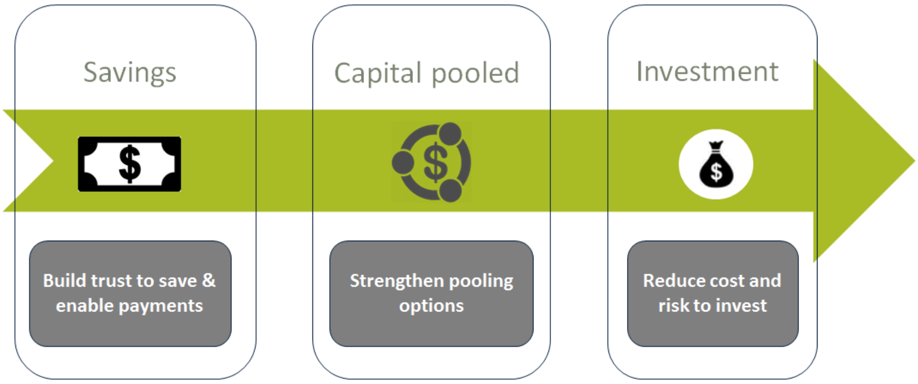

Figure 26. Steps to capital market development

Source: Authors' own

Potential actions to do so include:

- Address payment constraints to improve the receipt of saving and liquidity available for lending
- Connect informal savings and credit options with formal institutions
- Address credit-related regulatory constraints, including the inefficiencies in collateralized lending, the need for alternative credit provision beyond collateral, central credit regulation to overcome the current difficulties of navigating across multiple pieces of legislation
- Strengthen access to consumer data, including through the credit reference bureau
- Develop the capital market to introduce a wider range of financial instruments and long term pooling options to invest

5.5. Improve risk management options

Why important? Congolese are very exposed to shocks that can push them into poverty or prevent them from rising out of poverty. The analysis showed that at least 45% of borrowers use credit for health events. Furthermore, more than 4 million people indicate that they sell assets or reduce consumption to manage the financial impact of risk events. This speaks of an important need for improved financial tools that help consumers manage their risks. Risk management tools can also allow productive risk taking to build businesses and contribute to growth.

Why problematic? As discussed in Input Note 4, the insurance sector in the DRC is emerging from decades of monopoly provision in many categories of insurance, such as compulsory motor vehicle insurance on which no one could claim. Other entities, such as health *mutuelles* were regulated as mutual societies, rather than under laws designed specifically for insurance. The result is an underdeveloped market – corporate as well as retail – in which people cope with the impact of risks in a variety of ways, but only a very small group draws on formal insurance. There are simply very few formal options available to deal with financial shocks. This translates into limited trust in insurance. The market is also characterised by very limited awareness of the potential of insurance as a risk management instrument, even among financial service providers (Stakeholder workshop feedback, 2016). The state of the insurance market has knock-on effects on the credit market, as credit providers cannot manage death-related default risks, as well as on the business sector, which has no mechanism to guard against asset or liability risks. As the overview of regulatory issues showed, the new insurance regulatory framework will provide some opportunities, but will likely still constrain the ability for most consumers and smaller businesses to use insurance to manage risk.

What can be done? The priorities for building the insurance market are set out in Input Note 4. Insurance can contribute significantly to development in the DRC, even if it just serves wealthier customers and corporates better and starts to build long-term savings for investment. It is therefore important to get the building blocks in place for insurance market development. This requires two sequenced steps:

- *Building the legal, regulatory and supervisory prerequisites for market development.* A few critical interventions are required before the market will be able to function in a stable and sustainable manner that extends access to insurance in the DRC. This includes the need to operationalise and capacitate the new regulatory authority, to implement the new Insurance Law in a way that achieves market entry and supports innovation, to generate data to monitor industry trends, and to facilitate insurance of corporates and groups to jump-start insurance market development.
- *Enabling retail market growth.* Once the basics of a functional market are in place, a number of further hurdles need to be overcome for insurance to be used as a financial inclusion tool, including finding premium payment solutions and overcoming distribution challenges. For regulators, it is important to acknowledge the role of community-level/informal risk pooling, especially for the poor who are unlikely to be reached by the formal insurance market, and to make sure that such vehicles are accommodated or carved out in a regulatory dispensation.

The imperative for building risk management options also extends beyond the insurance market, notably to develop savings, remittance and emergency credit options to provide a safety net for those who remain outside of the insurance market as discussed in the sections above.

5.6. Build the institutions and framework for an enabling environment

Consider various supporting infrastructure building blocks to financial sector development. An important cross-cutting action to enable the various priority areas above is to strengthen financial inclusion at the institutional or infrastructure level:

- In the first instance, this entails introducing a **financial inclusion policy** to cement the Ministry of Finance's mandate to focus on lower-income consumers, as well as to mobilise resources and generate a broader support base for financial inclusion.
- Another cross-cutting constraint at the institutional level is **data**. It is important to address data constraints to enable providers to identify opportunities, and to reduce costs and uncertainty. This can be done by building a data reference bureau, strengthening reporting requirements, analysis and publication, and even just by making legislation available electronically. It is also important to build out the credit reference bureau and open it up to microfinance institutions.

- Thirdly, **financial sector skills** should be built at the strategic and client facing level to deliver products that meet consumer and business needs. Equally important is building **regulatory capacity** for inclusive regulation and supervision.
- It will be important to capacitate and empower **customary courts** to unlock the potential of such courts as point of low-value dispute handling.

- Lastly, **consumer capability** should be strengthened to use financial services to their advantage.

Set appropriate rules for a level, accessible playing field. Each of the imperatives in Sections 5.1 to 5.5 above has a regulatory or policy component. Among the important regulatory actions highlighted (each of which is unpacked in more detail in Input Note 2) are the need to finalise the national payments system and agency banking frameworks, to extend the reach of investment incentives to all financial service providers, to strengthen the framework for consumer protection and recourse, to build a cross-cutting credit regulatory framework (including to extend the reach of the credit reference bureau), to develop deposit insurance and to implement the insurance framework to build a competitive market. It will also be important to extend equal rights to married women.

Build a principles-based approach. These actions speak to a broader need for more principles-based legislation, with greater reliance on the expertise of regulators and broader delegated legislative discretion. This would enable considered and timely responses to drive and safeguard financial service development.

Regulatory requirements to fit risk profiles. There is also a cross-cutting need on a number of fronts for regulatory requirements that are proportionate to the nature of the business and the nature and extent of the risks posed by different types of entities. This includes the need for lower prudential requirements for lower tier banks and non-deposit taking MFIs, proportionate requirements for e-Money service providers, and potentially for certain players in the insurance market. Enabling such providers will shore up competition and distribution options for financial services. Furthermore, a proportionate/risk-based approach to the implementation of the latest (2012) global standards for AML/CFT regulation will facilitate financial inclusion across product markets.

MAP DRC Input Note 1: Target Market

This input document was prepared as part of the DRC MAP financial inclusion diagnostic and should be read with the main diagnostic and related input documents.

Financial inclusion is only meaningful if it meets the needs of consumers. This Input Note unpacks the realities and financial services uptake of the target market for financial services. It first considers the world inhabited by the target market: their geographic profile, key factors affecting their livelihoods and budgets and what social support structures they draw on. This is followed by an overview of usage of formal and informal financial services and a discussion of the barriers that prevent people from accessing financial services. The Input Note concludes with a segmentation of the target market into five distinct groups and an analysis of the characteristics and the take-up of financial services by each segment.

The analysis draws on two primary sources:

- The DRC FinScope Consumer Survey undertaken by FinMark Trust and the UNCDF in 2014 and published in 2015 (henceforth referred to as FinScope (2015)), which is a nationally representative demand-side survey of consumer behaviour, uptake of and interaction with financial services, and consumers' perceptions of financial services. The sample size for this survey was 5000 adults (individuals aged 15 and older). It covered a representative sample of the population residing in "economically active" areas as identified by the Central Bank (as will be explained below).
- A series of 48 in-depth qualitative consumer interviews conducted in Kinshasa and Goma from the 10th to the 28th of August, 2015. Total time per interview averaged approximately 150 minutes, of which 90 minutes were dedicated towards the interview and the remaining hour was used to establish a rapport with the interviewee and to put them at ease. The data is not nationally representative: instead, interview locations were selected to meet certain criteria[53].

1.1. Target Market context

This sub-section considers three tenets of the target market context: it builds a geographical picture of the population distribution, it investigates their living conditions, and it provides an overview of the social support structures that they draw on.

1.1.3 Where do they live?

Four distinct population groups, four distinct markets. The DRC is a vast country with different regions facing different economic realities[54]. The Congolese population is divided into four geographic groups for the purpose of the analysis:

[53] The final list of interviews were required to be sufficiently diverse in terms of (i) main source of income, (ii) geographic location (formal urban, peri-urban, and rural), (iii) gender, and (iv) age. Furthermore, at least some female respondents were required to be heads of their households and respondents could only be interviewed if they were willing to discuss their financial situation and management in detail during the interview.

[54] The DRC is a largely landlocked country. It shares borders with nine countries and is the eleventh largest country in the world. In terms of population, the DRC has 75 million people ranking it fourth in Africa. With its total land area of 2.3 millions square kilometres, the population none the less remains widely dispersed with an average of only 24 inhabitants per square kilometre

1. **Kinshasa**: respondents located in the greater Kinshasa region, which includes urban and rural Kinshasa.
2. **Other urban**: respondents located in any urban areas within the DRC, excluding Kinshasa.
3. **Rural**: economically active respondents located outside of urban areas.
4. **Deep rural**: economically inactive people living in remote areas.

There are substantial differences between these regions. A simple comparison between Kinshasa and Goma, for example, shows differences in language, economic opportunity, trading patterns, infrastructure access, environment and poverty. These all impact consumer needs and have given rise to very different informal financial service models found in the various regions.

Kinshasa as hub. Kinshasa, home to about 20 million adults according to FinScope (2015), is the most accessible region with the largest productive capacity. It houses the majority of corporate entities, including the vast majority of financial service providers, and it is the seat of all government departments. Thus it is no surprise that it has the most financial service clients. The continued growth of the region creates an influx of skilled individuals who are a primary target for retail financial services, particularly remittances.

Deep rural areas not part of target market. Large parts of the DRC fall into category four. They are largely cut off from the outside world. Livelihoods are based on subsistence and very little cash is used. The role of the financial system to directly benefit deep rural Congolese is limited over the medium term. The focus of this diagnostic – and the FinScope (2015) survey – is therefore on the part of the DRC where the financial sector can play a more immediate role in improving consumer welfare. This is defined as those residing in "economically active" areas as identified by the Central Bank of the Congo (BCC). The categories are shown in Figure 27. FinScope (2015), and this analysis, covers a total population of 21.1 million economically active adults.

(IMF, 2001). Economic activity in the DRC is concentrated in three district centres: Kinshasa in the Southwest, Lubumbashi in the southeast and Kisangani in the northeast.

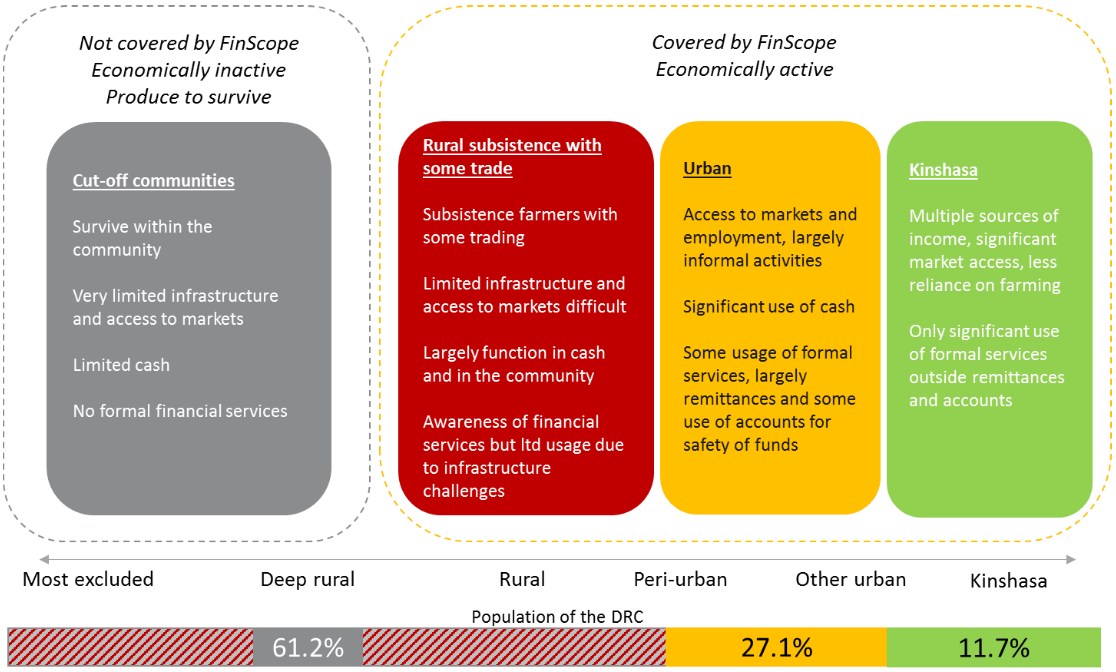

Figure 27. Geographical location of the FinScope respondents

Sources: FinScope (2015), Central Bank of the Congo (BCC)

Difficult to reach rural population. Even after excluding the deep rural population/cut-off communities, more than half of Congolese live in rural areas, are dependent on agriculture, and are located far from financial services and other infrastructure. Even in the "economically active" parts of the country it takes people an hour, on average, to reach a bank branch. Rural Congolese are far poorer, less educated and have little opportunity for employment compared to urban citizens. Effectively serving these consumers is very difficult.

Significant urbanisation and migration. The groups outlined above are not static. There is a high rate of urbanisation at 4% annually (CIA, 2016). The principle drivers of this migration are employment opportunities, conflict and deterioration of living conditions in rural areas. These same conditions are also the reason why a large number of Congolese have chosen to emigrate from the country, creating a diaspora estimated at over 9 million people[55] (Consultations, Ministry of Congolese Abroad, 2015).

1.1.2 What are their realities?

This sub-section considers the insights from the qualitative demand-side and FinScope (2015) research on the financial lives of ordinary Congolese: how they make a living and how they deal with the budget deficits that arise more often than not.

Majority of the population live below the poverty line. The DRC has experienced economic growth throughout the past several years. Yet only 7% of the population is formally employed. The rest make a living outside of the formal economy. Poverty remains rampant: 63% of the population live below the national poverty line (World Bank, 2012). The average income is

[55] The majority of these have emigrated to other African countries. However, sizable communities also exist in Europe and North America.

USD 85 per month. 32% of adults earn less than USD 30, or approximately USD 1 per day, and 53% earn less than USD 3.30 per day[56].

> *"Here we do not have lunch, we [just] have supper. The people are accustomed to the system, because our daily income is maybe USD 1, which cannot be sufficient for both lunch and supper."*
>
> - Refugee and subsistence farmer, female, Kibumba

Rural areas substantially worse off. The qualitative demand side research conducted in the Eastern town of Goma and Kinshasa in the West showed stark differences in the quality of life between the two areas. FinScope (2015) shows that, in rural areas, average income is USD 58 per month, compared to USD 110 in urban areas and the Kinshasa region.

Most Congolese are financially stressed. A proxy for financial stress is how often an individual needs to: (i) skip a meal because they do not have food; (ii) go without medical treatment because they do not have money; or (iii) cannot send their children to school due to a lack of funds. An individual is financially stressed if they indicate "often" or "sometimes" for any of these markers. In total, 71% of FinScope (2015) respondents are financially stressed. In rural areas, the figure is 79% compared to 62% in urban areas and the Kinshasa region. More than 45% of Congolese identify not having enough income as a problem, while approximately 30% report irregular or unreliable income as problematic. It is also telling that most Congolese report that expenditure on necessities is front of mind for them: 89% prioritise food and health expenses, and 92% see clothing as a budget priority.

Poor human development outcomes. The low incomes combined with poor social services stunt human development. In the 2015 Human Development Index (HDI) rankings, the DRC ranked 179th out of 189 countries (UNDP, 2015). The HDI measures national achievements in health, education and income.

Education and health outcomes alike are poor:

- Access to basic education is limited. The World Bank (2012) estimated that the adult literacy rate in the DRC was 75% and in 2013, the primary school completion rate was 67%. These figures are low in absolute terms as well as when compared regionally[57].
- The DRC continues to be plagued by high infant mortality rates, low life expectancy and a high disease burden. Life expectancy has not changed over the past five years, currently standing at 59 years. While infant mortality has decreased from 8.3% in 2011 to 7.5% in 2015, it is the highest among its neighbouring countries. The health system within the DRC is limited as most hospitals are inadequately staffed and equipped. Total annual national healthcare expenditure remains insufficient at USD 25 per capita (World Bank, 2014).

[56] The World Bank poverty line.

[57] For example, the primary education rate is higher in Kenya (85%), Namibia (96%), Rwanda (85%), Swaziland (79%) and Uganda (94%). The literacy rate is also higher in Namibia (77%), Malawi (98%) and Swaziland (88%). Kenya (72%) and Uganda (70%) have relatively similar literacy rates (Unicef, 2013); (World Bank, 2012-2013); (CIA, 2016-2017); (World Bank, 2011-2013).

Health and education constrained by costs and poor quality. Neither health nor education has traditionally been free in the DRC (IRIN, 2011). Public healthcare facilities charge patients a fee, which can inhibit access to basic health services. Out-of-pocket health expenditure has increased from 60.2% in 2011 to 61.3% in 2015 (Foster, 2012). There are a limited number of private facilities in urban areas. These are inaccessible to the majority of the population. This, combined with inadequate state-run health facilities, has led to many non-profit organisations and faith-based organisations taking over a portion of the healthcare burden. In 2010, the Congolese government announced that the first five years of primary education would be free. From 2011 to 2013, the government doubled the proportion of the total public budget being spent on education from 6.5% to 13.8% (Ackerman, et al., 2013). Despite these changes, more than half of the cost of school fees falls on the families, creating a large financial burden for the families (A World At School, 2015). This burden excludes secondary costs such as textbooks and uniforms.

> *"Last year my children studied but I don't know about this year if they will go to school because of my weak income. I have to pay USD 4.50 per child every month."*
>
> - Small trader, female, income estimate USD 150 per month, Goma
>
> *"Yes, all my children go to school but they finished the entire year with a lot of challenges. What happens is I have to balance the money to pay for school fees with my business money. I have to ask myself how I can pay for my merchandise."*
>
> - Informal trader, female, 52 years, Muguna

"Making a plan". Qualitative demand-side research shows that the people of the DRC are very resourceful to make ends meet. Almost half (47%) of respondents in FinScope (2015) indicated that they have more than one source of income. Throughout the qualitative research, many respondents reported saving in various types of assets. Some people also reported doing work without payment on the understanding that they will then be able to call on assistance from those that they helped, should they experience an emergency. Thus, despite being financially stressed, the Congolese people find diverse and innovative ways to navigate their daily lives in harsh circumstances.

1.1.3 Social support structures

Another important way in which people cope with financial stress is by relying on each other.

Community support very important. The Congolese have strong informal support mechanisms. 70% of the FinScope (2015) sample population indicated that they feel they can rely on their neighbours in a time of crisis. Less than two percent indicated that they have nobody to rely on when things go wrong in their lives. These support mechanisms are critical to manage risks. The church plays a particularly strong role: 61% of the sample population indicated that they can rely on a church or religious group during bad times. As state-run social services are limited, churches play a major role in service delivery with 72% of children in primary school attending schools run by religious organisations (World Bank, 2015) and 50% of hospitals being owned and managed by local churches (Widmer, et al., 2011).

> *"I am Catholic. If that church didn't have love we wouldn't be living here."*
>
> - Senior citizen living off support of the church, female, Kinshasa

For those in formal employment, employers often provide healthcare and sometimes even education and credit.

Social networks support the provision of informal financial services. Informal support mechanisms also extend to financial services to help people cope with financial shocks and smooth income, for example through self-help groups and mutualitées[58] (BTI, 2016).

> *"I am a member of a group of 14 farmers who meet once a week and contribute USD 1. The group's goal is to help a member in case of a problem. We withdraw an amount from the cashier to help the member in difficulty. But that amount has to be paid back later."*
>
> - Subsistence farmer, male, 45 years, Kibumba

The qualitative demand-side research shows that access to these structures is conditioned by social factors. Respondents in both the east and the west reported that money lenders will only lend to individuals they know well personally. Where a borrower does not know the moneylender, an individual known to the moneylender will have to vouch for the borrower. In the case of the deposits, only those that command respect within the community and that are well known typically have the ability to attract funding through a *bwakisa carte*[59] scheme. In the case of a *mutualitée*, gaining membership to a group is only possible if certain pre-requisites are met.

1.2. Uptake of financial services

This section draws on FinScope (2015) to discuss take-up of financial services in the DRC at an aggregate level and for various sub-groups, across the different product markets. A key tool for analysing uptake of financial services is the Access Strand.

Box 4. The Access Strand explained

Breaking down the Access Strand[60]. The Financial Access Strand is used to enable comparison of levels of financial inclusion across countries or market segments. It is a stacked bar chart with five categories, as discussed below:

- **Banked:** The first block denotes the percentage of adults who have bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products.

[58] A *mutualitée* is a self-help group that is popular throughout the DRC, particularly in the West. They take on a limited risk sharing approach. For an in depth discussion see Input Note 4, which deals with risk mitigation.
[59] *Bwakisa Carte* (Keeper of money) refers to a service where a customer deposits a specified amount every day for safekeeping with a shop keeper. The shop keeper takes the equivalent of one day's deposit each month for the service. The customer can withdraw money at any time.
[60] The Access Strand explanation has been adapted from the Access Strand definition used by FinScope.

- **Other formal:** To the right of the banked block comes the percentage of adults who have financial products from non-bank formal financial institutions such as microfinance institutions (MFI), SACCOs or insurance companies, *but do not have a bank account*. These individuals could also be using informal products.

The banked and other formal segments together form the formally included population.

- **Informal:** Next comes the percentage of adults who are *not formally served*, but use informal financial products or mechanisms. This category thus looks at "informal only" uptake and excludes those individuals who are banked or use other formal categories in addition to informal services. They could also be turning to family and friends for services.
- **Family and Friends:** This category represents the percentage of adults that make use of their family and friends for financial services, but do not use any other formal or informal financial products or mechanisms. Once again, as it focuses on exclusive use of family and friends, it does not represent the total proportion of people turning to family and friends in addition to other types of financial services.

The four categories above form the financially included adult population.

- **Excluded:** Lastly, to the far right the Access Strand indicates the percentage of adults who do not use any financial products – formal or informal.

It is important to note that, in order to add up to 100% of the adult population, the Access Strand "hides" some overlaps between the various categories. For example: the "other formal" or "informal only" segments do not indicate total usage of non-bank formal or informal financial services. The "other formal" category only depicts those individuals who have a non-bank financial service but not a bank account, while the "informal only" category depicts those who use informal financial services but no formal financial services. An individual who uses both a formal and an informal financial product would only appear under formal take-up. The figures quoted are thus not the total proportion of adults with such services. Therefore, the analysis below also indicates total take-up for each of these categories where necessary.

The figure below depicts the Access Strand for the entire adult population.

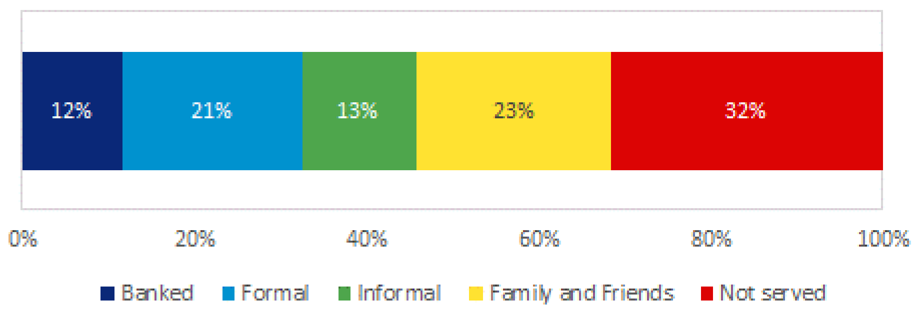

Figure 28. Overall Access Strand

Source: FinScope (2015)

Limited formal uptake, but compensated for by informal use. Figure 28 shows that 12% of adults are banked (the dark blue block) and that a further 21%, though unbanked, make use of formal financial services. Thus a total of a third (33%) of the adult population have taken up a formal financial service. A further 36% of adults, while not formally included, make use of informal financial services and turn to family and friends. In total, therefore, 32% percent of economically active adults in the sample population are fully excluded from financial services.

As the Access Strand is set up to remove overlaps between categories (giving preference to formal usage over informal), it hides the true extent of uptake from informal providers and family and friends. This becomes apparent when one looks at the picture from a different angle, as shown in Figure 29 below, which indicates the Access Strand *in reverse:*

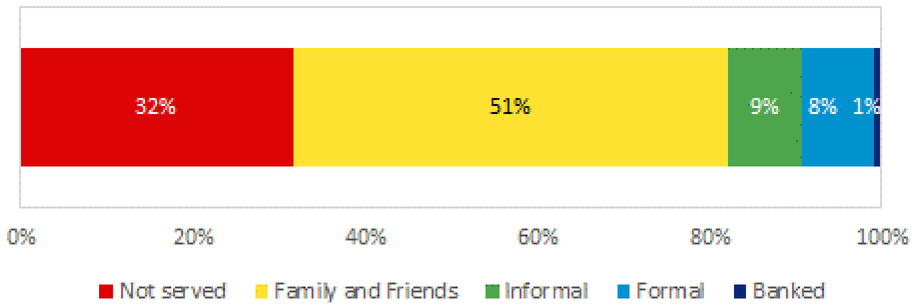

Figure 29. The Reverse Access Strand

Source: FinScope (2015)

Total informal take-up high while exclusive formal take-up very low. The red block indicates that 32% of adults in the DRC have not taken up any financial services (the financially excluded category of the Access Strand). The yellow block indicates that a total of 51% of adults make use of family and friends for financial services. A further 9 % of adults, as indicated by the green block, make use of informal services but not family and friends. Thus, in total, 60% of Congolese use informal services or turn to family and friends. Only 9% (the light and dark blue blocks) have a formal financial product but no informal uptake, while a mere 1% are exclusively banked (that is, have a bank account but no other form of formal or informal financial service).

Low uptake compared to other Sub-Saharan African countries. When compared to other countries in the Southern and East African region, as is shown in Figure 30 below, it is apparent that financial service uptake is very low in the DRC. When family and friends are not considered, the DRC has the highest percentage of excluded adults in the group, at slightly over half of the population.

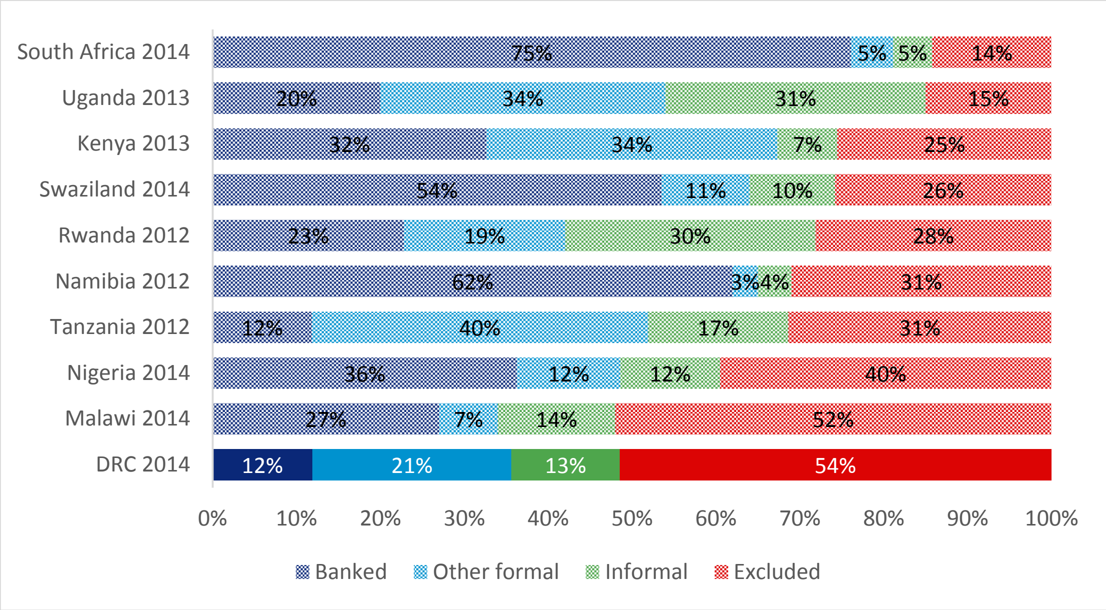

Figure 30. Regional Access Strand Comparison

Source: FinScope (2015)

Beyond the total uptake figures, it is useful to unpack usage behaviour among the formally included.

Usage of formal accounts centred on saving. Figure 31 below shows that adults who have a formal financial account at a bank, SACCO or MFI mostly use it to save or keep their money safe. This high usage of accounts for saving may not be surprising given the prevalence of crime in the DRC. Some adults do withdraw all of their money at once, using their account like a "mailbox" to receive salaries[61], but this group is much smaller. Therefore, accounts in the DRC, unlike in many other countries, are often not dormant. Only a small number report that they use their accounts to obtain credit, make payments or receive money.

[61] An account is said to be a mailbox when it is used only to receive funds and all funds are withdrawn upon receipt.

Figure 31. Account usage patterns

Source: FinScope (2015)

Limited frequency of usage. Figure 32 below indicates that, while mailbox accounts are limited, the majority of adults do not use their accounts very frequently. In fact, most adults indicate that they use their bank accounts "at least once per month" or "less often" across a range of account uses, including bill payments, internet banking, cell phone banking, electronic transfers, getting cash from an ATM and visits to a bank branch. Most transactions also happen within a bank branch or facility, indicating that accounts are not being used digitally.

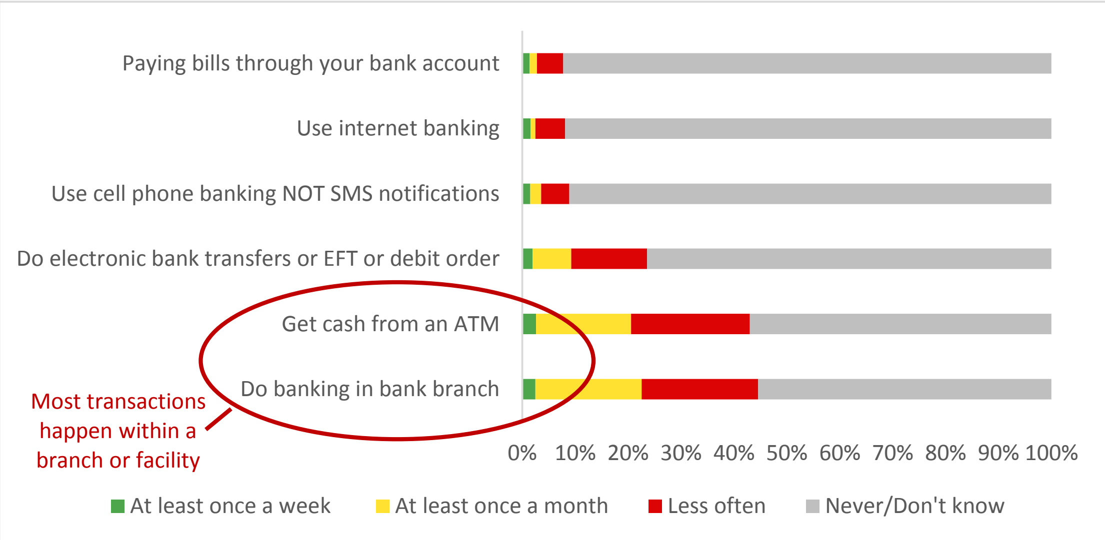

Figure 32. Frequency of bank account usage

Source: FinScope (2015)

The discussion above considered overall levels of take-up in the DRC and ways in which formal accounts are used. There are a number of ways in which we can further unpack take-up. Firstly, we apply a product lens to evaluate take-up per product type (also considering differences by gender and location). Next, we consider depth of usage: that is, the extent to which people have a financial product across more than one category. Lastly, we compare uptake across income levels.

1.2.1. Uptake by product type

Figure 33 below depicts the Access Strand for each product market. Next to each product market Access Strand, it also indicates take-up across gender and location, respectively.

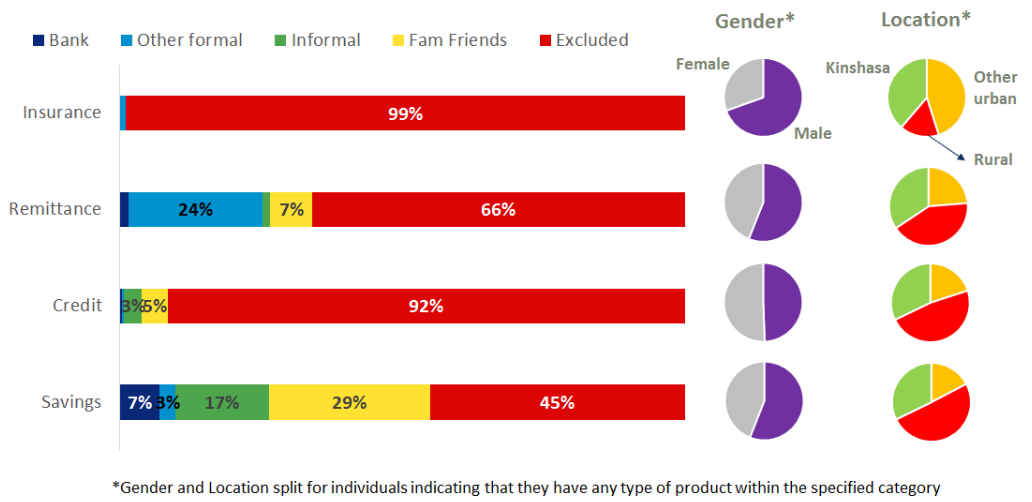

Figure 33. Uptake across product markets

Source: FinScope (2015)

Savings most common, remittances drive formal uptake. Savings is the most used product market, with more than 50% of adults using at least one type of savings product when family and friends are included. However, usage of formal savings products represents a relatively small part of total savings usage, with many more adults relying on informal products and family and friends. Take-up of credit is very low and almost exclusively informal, while take-up of insurance is virtually non-existent and completely captured by formal products. Formal take-up of remittances (24%) far exceeds that of other products, for which formal uptake is very low. Only 2% of adults use informal remittance products without being formally served, and a further 7% turn only to family and friends to remit money.

Men are better served in general. Men are better served across product markets. The gender difference is particularly pronounced for insurance. Within the credit market, men have more formal credit. Women, in turn, depend more on family and friends for loans. The reverse is true for savings take-up, where men rely more on family and friends than women do. Men and women are near equal users of remittance services, although relatively more men make use of formal remittance products.

Uptake highest in the Kinshasa region across all products. Because the Kinshasa area is the wealthiest in the DRC and has the best infrastructure, this region has a unique take-up profile. Financial services uptake is highest in Kinshasa region, followed by other urban areas and rural areas. Rural areas are by far the least served in terms of formal products, specifically savings and remittances. Uptake of credit and insurance is so low throughout the country that comparisons between regions are uninformative. Informal savings – both in informal savings products and saving with family and friends – is relatively consistent across all regions. While there are fewer adults in rural areas who save in bank accounts or other formal accounts, turning to family and friends is prominent in this region.

1.2.2. Depth of uptake

The Access Strand indicates whether a person has a financial service, but not the number of products or product types that the person uses. Thus it only reveals one dimension of usage across different product markets and cannot provide a detailed understanding of the Congolese population's interaction with different types of financial services. This section presents another angle by considering the number of product types taken up on average.

In order to understand product usage at a more granular level, it is necessary to distinguish between "breadth" and "depth of usage.

- **Breadth of uptake**[62] refers to the number of adults in a country who have at least one financial product class,[63] expressed as a percentage of the total adult population. The Access Strand discussion in the previous section provides an indication of breadth.

- **Depth of uptake** refers to the number of different product classes used by those adults who have at least one financial product. Below, depth is expressed in relation to formal products, as well as in relation to total formal and informal uptake, in order to show how depth is affected when adding informal usage.

Figure 34 below indicates the number of product classes that financially included Congolese have on average. It contains two strands. The first – for formal and informal use – indicates the percentage of adults who make use of zero, one, two, three or all of the four product types (credit, savings, payments or insurance). The second strand does the same, but for formal products only. On the far left of each strand, the percentage of people who are not served is shown in red, followed by the percentage served only in one product market (yellow), then the percentage served in across two (green), then for three markets (light blue). On the far right, in dark blue, is the percentage of people served in all four product markets. Note that financial services from family and friends are excluded from the analysis in both cases.

[62] *Uptake* refers to the act of employing a financial product or product class. This is what is measured by the FinScope Consumer Survey. Uptake can be contrasted with *access,* which refers to the availability to a given person of affordable and appropriate financial services.
[63] Financial product *classes* refers to the four types of financial products: savings, electronic payments, credit and insurance. Financial *products* refers to the individual products – such as two different savings accounts.

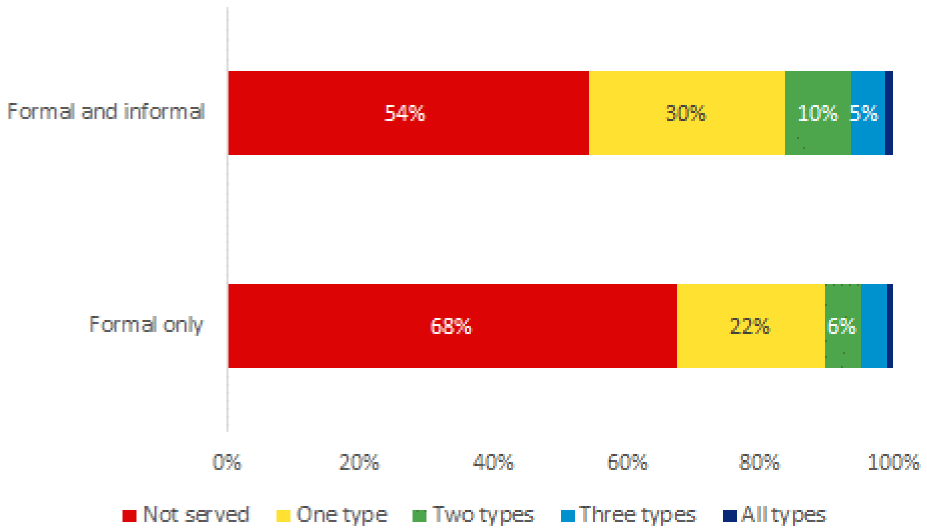

Figure 34. Depth of uptake

Source: FinScope (2015)

Limited depth of uptake. The depth strands indicate that the largest portion of those who are served have only taken up one product type. Thus, there is limited depth of usage in the DRC. When informal products are taken into consideration, the percentage of people who have one, two or three product types each increases. Therefore, informal financial services increase the depth of access, as more people have a wider suite of products when informal services are taken into account.

1.2.3. Uptake across income levels

The monthly income distribution amongst economically active adults can be split into five equal portions of approximately 20% each. The corresponding monthly income categories are: USD 0 to USD 9.9; USD 10 to USD 29.9; USD 30 to USD 99.9; USD 100 to USD 200; and USD 200 or more. The take-up of financial services in each product market[64] by each income category is illustrated in Figure 35 below.

[64] Note that insurance is excluded as the take-up of insurance is so low as to make any income comparison spurious.

Figure 35. Uptake across income segments

Source: FinScope (2015)

No clear relationship between income and take-up. Uptake of transactions and remittance services correlates positively with income level, but this is not true for credit and only to some extent for savings. In the case of credit, the poorest income segment has the largest overall uptake of credit. Formal credit is almost completely absent, and uptake of informal products is low. Turning to family and friends for credit is by far the most common strategy amongst the poorest income segment. Savings, on the other hand, increase with income until households reach USD 30 to USD 99.9 per month, after which overall use of savings declines slightly. Nevertheless, uptake of formal savings channels increases linearly with income. Another interesting occurrence is the high uptake of formal remittance services and limited reliance on informal products or family and friends for remittances across all income segments. The lack of infrastructure and high cost of travel in the DRC may explain this phenomenon.

Even the relatively wealthy often excluded. Although the top two income categories have the highest uptake of formal financial services in all of the product markets, large portions of these income segments remain unserved. Within the highest income category – which consists of adults who earn USD 200 per month or more – 900,000 adults have no uptake of formal financial services. In the second highest income category – adults earning between USD 100 and USD 200 per month – 1.5 million adults have no uptake of formal services. The cohort of unserved adults in the top two income categories is particularly large in the credit and insurance markets. Within the transactions market, formal uptake is also relatively low.

1.3. What constrains take-up?

The section above painted a picture of limited uptake, regardless of whether a product market, gender, location or income lens is applied. What explains the low usage? From the demand-side point of view, there are two types of barriers to uptake: those that *prevent* access to financial services and those that mean that people *choose* not to take up or use financial services, even if they are technically able to access such services. Access barriers exist when people are not eligible (do not qualify or do not have the necessary documents), cannot afford or reach services, or if the services are not available/appropriate to their needs. Usage barriers include low awareness, low value proposition, the complexity involved in using services, the hassle factor associated with using services, and insufficient trust in service providers.

Some barriers are more pronounced than others, depending on the context and type of service. For example: proximity and availability of appropriate products are barriers across the full range of product types. Eligibility affects credit uptake more severely than other product types, awareness (or know-how) particularly limits insurance uptake, and there is little need specifically for payments products (in the predominantly cash economy). Distrust in financial service providers is a widespread barrier affecting all product types, but it hampers uptake of savings and insurance products more than it does credit or payments. This section discusses each of these barriers in more detail.

1.3.1. Barriers to access

Lack of documentation. Many Congolese do not have the documentation required to open an account at a financial service provider. Only 5.7% of Congolese have proof of income, 8.2% have proof of residence, 4.1% have a passport, 3% have a driver's license and 3.1% have an identity document. 77% do have an elector's card. However, these are easy to fake and are therefore not accepted by many financial institutions.

Proximity. Most Congolese live far from touchpoints with financial service providers. Even within towns, financial institutions are often located far from a large number of citizens. This results in long travel times (several hours) for urban residents, while even those adults located just 20-30km outside of towns may require as much as a day to travel to town due to poor infrastructure.

"The long distance of going to the bank is an obstacle to me and sometimes I think it is always better to keep my money close to me."

- Employee on farm, male, Kinshasa

"Here in our area there is no security, no electricity, water, hospitals and schools and there are no banks."

- Livestock farmer, male, Kibumba

1.3.2. Barriers to usage

Turbulent history erodes trust and creates need for security. The history of conflict[65] led to periods of hyperinflation[66] and a break-down of the financial system in the late nineties which continued until the mid-2000s. This turbulence resulted in a persistent lack of trust in the financial system and the premium placed on the security of funds. For example, there is a widespread distrust of the state-owned insurance provider SONAS and of credit provided by financial service providers, particularly banks. This general distrust is evident from the qualitative demand-side research.

> *"There is no confidence in the banks and cooperatives because they have lost their money in those sectors. Personally, I have little confidence. I keep my money in the bank, but never in the cooperative. Here, most people keep their money at home."*
>
> - Student and moneylender, male, Goma
>
> *"Banks, I think they're going to crook my money, that's what I think."*
>
> - Small business owner, female, Kinshasa
>
> *"I used to save but since I lost my money last year to [mentions financial institution] I no longer trust banks or financial institutions." [Proceeded to explain what happened to him off the record] "You now understand why I no longer trust the banks, this case is sensitive to me, I went through it myself."*
>
> - Small business owner, male, Goma
>
> *"There is a friend of mine who lost his money through a bank that was under curatorship and the bank only managed to refund half of the money he had saved in that bank."*
>
> - Government employee, female, Kinshasa

FinScope (2015) confirms the lack of trust. Only 37% of FinScope (2015) respondents indicated that they trust banks.

Awareness gap. The fact that most retail financial services were not available during the nineties and early 2000s also created a generation of Congolese who grew up not able to use banking and other financial services. Many are still not aware of the role that banking and other formal financial services should or can play, or how to effectively use them. Interviews also showed that there is limited awareness of how banks differ from SACCOs and MFIs.

Mismatched value proposition. In addition to the lack of understanding around financial services, some of these services are not designed to meet the needs of the majority of

[65] The DRC is emerging from decades of conflict. The transition to democracy has been ravaged by several regional and civil wars, which has resulted in extreme violence, human rights abuses and the destruction of infrastructure (BTI, 2016).
[66] The DRC has experienced a number of hyperinflationary periods, such as the period beginning 1988, when inflation remained above 80% for nine years and at times exceeded 23,000%. There was also a period during which account holders were not allowed to withdraw their money.

Congolese. FinScope (2015) data indicates that, of adults who are not banked, 46% reported that they are not banked because they do not need a bank account.

> *"The insurance company belongs to the state and there is disorder there, even if I insured myself, it will never satisfy my needs."*
>
> - Multiple enterprise owner, male, Kinshasa

Complexity. FinScope (2015) reveals that the Congolese often find bank, SACCO and MFI products hard to understand. For example, 25% of non-banked adults in FinScope (2015) indicated that they do not have a bank account because they do not understand how it works or how to open one, while 48% indicated that they have difficulty understanding how to open or use a bank account.

> *"I now have a current account because I did not know how to open a commercial account."*
>
> - Multiple enterprise owner, male, Kinshasa

Hassle factor. The combination of long travel times, limited understanding, and difficulties accessing accounts presents a formidable hassle factor that prevents people from using accounts. Service experience is also often poor due to long queues, which add to transaction costs, and a lack of standardisation of requirements, which creates uncertainty. In FinScope (2015), 6% of non-banked adults did not open a bank account, at least in part, due to the hassle factor.

> *"I dislike, no, I am disgusted by queuing. With banks, you'll arrive there, and you will wait for two, three, maybe five hours. And time is money."*
>
> - Student who receives remittances from parents and siblings, male, Kinshasa
>
> *"Some friends criticise the slowness of the banks."*
>
> - Low-level employee, female, Kinshasa

> *"Although I am paid via my bank, I do not save over there because there are too many problems to have to get my money that is why I keep my money in a shop somewhere around me, not far from my house because the bank is a long distance away, too conventional, principles and too many connection problems."*
>
> - Employee and business owner, male, Kinshasa

1.4. Segmenting the target market

The sub-sections above considered the context, uptake of financial services and barriers to further uptake facing economically active adults. For the most part, it did so for the entire adult population, though the uptake discussion also took into account regional, income and gender differences. Where the entire Congolese population has been treated as one homogenous group, this approach has concealed important differences in constraints and needs. For example, a wealthy individual residing in Kinshasa who works for a large corporation would likely have very different financial needs than would a subsistence farmer in a rural area outside Goma.

Therefore, it is useful to segment the adult population into distinct groups that share important characteristics and to explore the profile and financial services interaction of each segment in more depth, drawing on FinScope (2015) survey data. The segments are mainly determined by main source of income: for example, individuals who report that a salary from formal employment is their main source of income would be grouped together. Main source of income serves as a proxy for an individual's level and regularity of income, both of which are strongly correlated with the ability to access financial services. Other variables, such as demographic indicators (e.g. age or gender), level of income and geographic location, are used to test whether adults with different main sources of income can be grouped together. For instance, it was found that street vendors and small business owners can be grouped together even though their main source of income is slightly different, as they are very similar in terms of their other characteristics.

1.4.1. Introducing the segments

The DRC population can be divided into five target market segments[67]:

- **Formally employed** (1,505,956) – are adults whose main source of income is a salary from a private or public institution. They are the wealthiest target market and live mostly in Kinshasa and other urban areas. The formally employed are also by far the best educated. This target market is the second smallest in size, being marginally larger than the informally employed.

- **Informally employed** (1,487,460) – derive their income from a salary or wage received from an individual or from piece work. They are the smallest of the target markets, the second highest earning and the second most educated.

- **Micro, Small and Medium Enterprises (MSMEs)** (6,188,414) – make a living from owning and running their own business. This target market makes up almost a third of the population. MSMEs have the highest number of income sources on average.

- **Farmers** (6,855,399) – are adults whose main source of income is derived from farming. Apart from a small number in the Kinshasa area, they are almost exclusively

[67] Note that a small percentage (1.75%) of the population does not easily fit into the target market categories and cannot be combined into a cohesive segment. They do not warrant analysis as a separate target market and were therefore excluded. This group includes, but is not entirely confined to, individuals whose main income sources are money from informal currency exchange, money from rent, interest received from loans, work pensions, and money from *likelemba* or informal savings groups.

located in rural areas, are the poorest of the target markets by a significant margin, and form the largest group.

- **Dependents** (4,481,531) – rely on family and friends for their main income and to cover expenses. The gender and age distribution in this group is strongly biased towards females and the youth.

Non-resident Congolese not included. As discussed, more than nine million Congolese are estimated to live outside the DRC. These expatriates frequently have larger incomes than their domestic counterparts and they may be important actors in the local economy through the remittances they send. Therefore, they must be considered when devising strategic imperatives for financial inclusion. However, FinScope (2015) does not allow analysis of these individuals.

Table 6 below provides a comparative snapshot of the target market segments, to give a sense of who the adults in these segments are:

	Formally employed	**Informally employed**	**MSMEs**	**Farmers**	**Dependents**	**Total adults**
Number and % of adults	1,505,727 (7.21%)	1,487,460 (7.13%)	6,188,414 (29.6%)	6,855,399 (32.8%)	4,481,531 (21.5%)	21,695,786 (100%)
% Female	38%	39%	47%	46%	63%	49%
Avg. monthly income (CF)	119,206 (US USD 132)	96,124 (US USD 107)	91,307 (US USD 101)	59,283 (US USD 66)	76,731 (US USD 85)	80,856 (US USD 85)
% with less than USD 1 (and < USD 3.30) per day[68]	16.2% (50.1%)	34.7% (57.3%)	28.7% (60.8%)	53.2% (76.8%)	43.9% (66.1%)	39% (65.8%)
% with >1 income source	61%	43%	63%	46%	39%	51%
% younger than 34 years	43%	53%	51%	42%	73%	52%
% with primary education or less	13%	35%	34%	57%	37%	41%
% with secondary education or more	87%	65%	66%	43%	63%	59%
% with access to mobile phone	77%	63%	68%	42%	60%	58%
% with access to a bicycle	17%	11%	17%	29%	18%	21%

[68] USD 3.30 is the World Bank poverty line. The FinScope (2015) income brackets are also bounded at USD 3.30 per day, so this poverty line can be implemented without estimation in the data. The USD 1 per day poverty line may be interpreted as an indication of extreme poverty.

	Formally employed	Informally employed	MSMEs	Farmers	Dependents	Total adults
% who expect their life to be better in 2 years	91%	76%	89%	80%	91%	86%
% who have other formally employed HH members	28%	9%	13%	4%	23%	13%

Table 6. Target market demographics

Source: FinScope (2015)

The urban/rural figures show that the surveyed population can be divided into the largely rural farmers and the urban/Kinshasa-dominated rest. The bulk of the population is made up of MSMEs (29.6%), farmers (32.8%) and dependents (21.5%). These three groups collectively account for 83.9% of adults.

Some interesting cross-segment features are highlighted in the table above:

- Average incomes are low across all five segments, even within the formally employed group. Yet most Congolese, in all five segments, have a positive outlook and expect their prospects to improve.
- The proportion of adults who share a household with someone who is formally employed is low across the board, which shows that most households are not reached by a regular, formal income stream. Interestingly, it is most common for formal employees and MSMEs to have more than one income source compared to the other segments.
- Apart from the wealthy, well-educated formally employed, education and poverty levels are relatively similar across the other urban dominant groups (informally employed, MSMEs and dependents); these groups, in turn, earn far better incomes and are much better educated than the farmers.
- There is a bias towards males in the formally and informally employed groups that cannot be observed amongst MSMEs or farmers and that is reversed amongst dependents.
- The dependents are the youngest by a large margin (73% are younger than 34).
- Mobile phone ownership is highest amongst the formally employed (77%), although this figure does not drastically exceed those for MSMEs (68%), the informally employed (63%) and dependents (60%). The rural farmers are comparatively unconnected (at 42% with a mobile phone). Very few people have access to other (even basic) assets, such as a bicycle.

In the next section, we take a closer look at financial services take-up across the target market segments to understand how the target markets compare to each other. Thereafter, the profile and financial service interaction of each target market is analysed in more depth to better understand each target market's typical constraints and needs.

1.4.2. Take-up across target market segments

Figure 36 below describes the overall Access Strand for each target market.

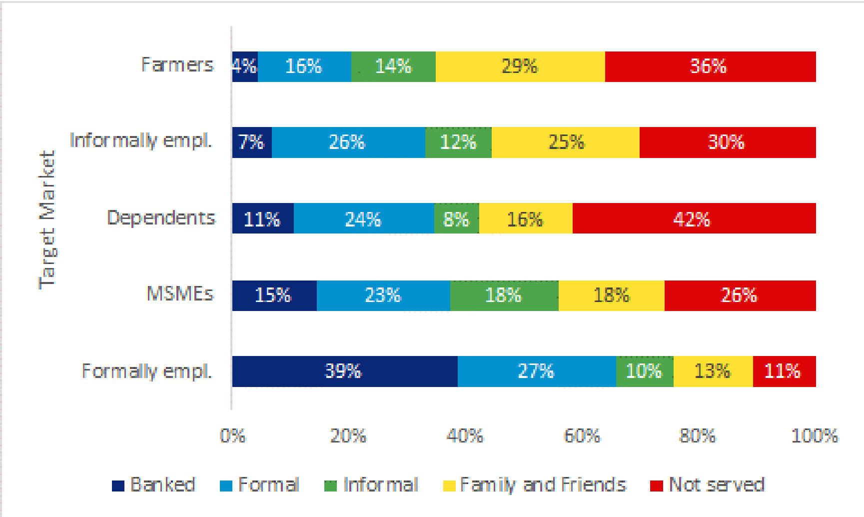

Figure 36. Access Strand by target market

Source: FinScope (2015)

Formally employed most banked, farmers least. 39% of the formally employed are banked, more than twice the percentage of the next highest target market (MSMEs) and nearly ten times that of farmers, who have the lowest take-up. Take-up of formal products other than banking is very similar across all target markets except farmers. Overall, farmers are the least included formally, but they have the second highest take-up of financial services from family and friends, which is consistent with their rural location. This means that only about one in every three farmers is totally financially excluded. The most excluded segment is the dependents.

1.4.3. Depth vs Breadth of take-up across target market segments

Section 1 considered the depth of take-up for the total sample population. Figure 37 below compares the depth and breadth across the five target market segments. The depth of financial inclusion, indicated on the y-axis, is stated as the average number of product types used by each included adult (a value of between 1 and 4). This is mapped against the breadth of financial inclusion (measured as the percentage of the target market using at least one product) on the x-axis. The figure shows the reach of the formal market (represented by the solid bubbles) as well as the combined total of the formal and informal market (represented by the shaded bubbles). The size of the bubble represents the size of each target market.

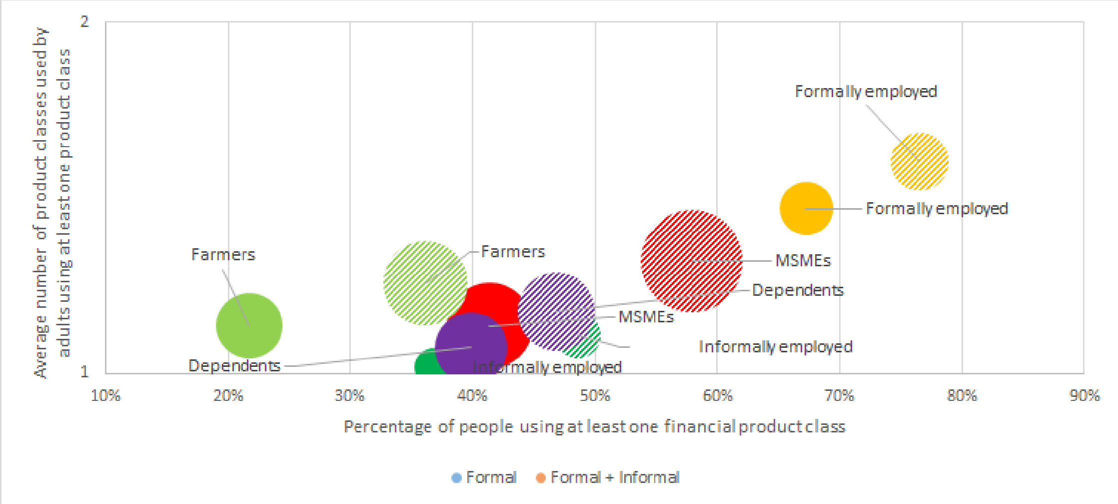

Figure 37. Depth of uptake by target market

Source: FinScope (2015)

Low breadth and depth across segments. The figure indicates that financial services uptake in the DRC is shallow across the population. Apart from the small group of formally employed adults, most adults use only one type of formal financial service. Formally employed adults have higher levels of formal uptake, at just under 1.5 product types on average. There appears to be some correlation between average income and average uptake, with higher earning groups for the most part situated relatively higher on the depth scale.

Informal financial services increase both depth and breadth. Figure 37 furthermore shows that the breadth and depth of uptake increases across all the target markets when informal products are taken into account. There does not seem to be a clear pattern between target market segments in the effect of informal products on either the breadth or depth of uptake. This is an unexpected result, as similar studies in other developing countries have found that the addition of informal financial services disproportionally increases the breadth of uptake for poorer target markets (Bester, et al., 2015). In the DRC, the findings suggest that all target markets derive added value from informal financial services and that the value of these services is not necessarily determined by income levels.

1.4.4. Target market profiles

Below we unpack the profile for each segment based on the summary indicators provided in the previous two sub-sections. This allows us to conclude on the primary financial services needs for each target market.

1.4.4.1. Formal employees

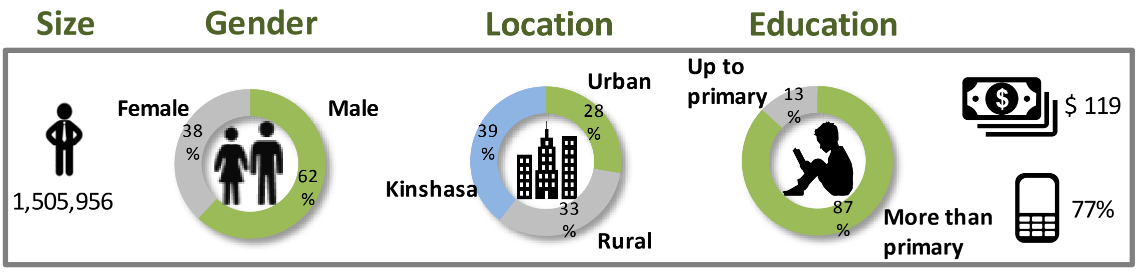

Figure 38. Formally employed demographics

Source: FinScope (2015)

Wealthiest, most urban and best educated target market. The formally employed are in the best economic position of all the target markets, as shown in Figure 38. They earn significantly more than all the other target markets and nearly 30% more than the second highest earning category. This, however, does not make them uniformly wealthy: while very few formally employed adults earn less than USD 1 per day (16.2%), about half still earn less than USD 3.30 per day. This target market is the most skewed towards males and the most urban. They are also by far the most educated.

The best served target market. Their relatively wealthy and urban profile makes the formally employed the easiest target market for financial service providers. Therefore, it is not surprising that they are the best served of the target markets. Figure 39 outlines their uptake profile across product markets.

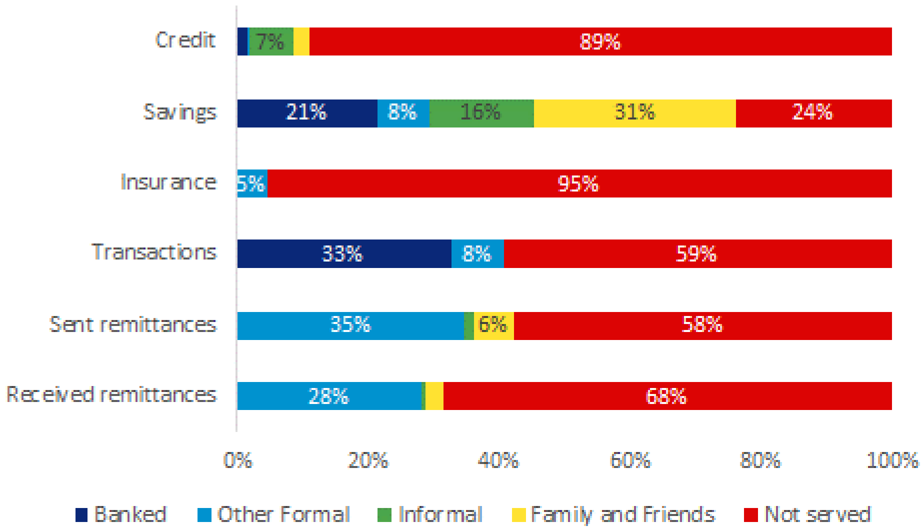

Figure 39. Uptake by the formally employed

Source: FinScope (2015)

Credit and insurance take-up still limited. In total, only 24% of the formally employed do not use any financial services. Savings and remittances are the largest and second largest financial services categories, respectively. Interestingly, they are composed mostly of formal services and services provided by family and friends, with very little use of other informal services. Note that there are many senders as well as receivers of remittances in this group. Credit and insurance take-up is very low (though higher than for other segments) and credit take-up is mostly informal, as is the case in all the target markets.

1.4.4.2. Informally employed

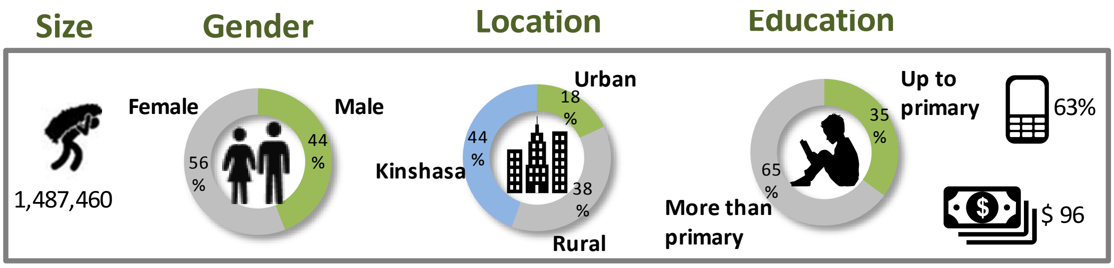

Figure 40. Informally employed demographics

Source: FinScope (2015)

Second most affluent segment. The informally employed constitute the smallest target market, by a small margin. Unlike the case in many developing countries, where informal workers live from hand to mouth, this group has the second highest average monthly income in the DRC. The composition of this group is as skewed towards males as the formally employed, but they are much less educated, resembling the MSMEs and dependents in their average education levels. This group is also less urban than the formally employed, but they are very well represented in the Kinshasa area.

No formal credit or insurance. Perhaps the starkest difference between the formally and the informally employed is in their usage of formal financial services, as depicted in Figure 41 below. They have no formal credit or insurance. They do make use of (mostly informal) savings products, or they save at home/with friends and family. Like the formally employed, many of them use formal remittance channels, but the order is reversed: there are more informally employed who receive money from remittances than there are those who send money.

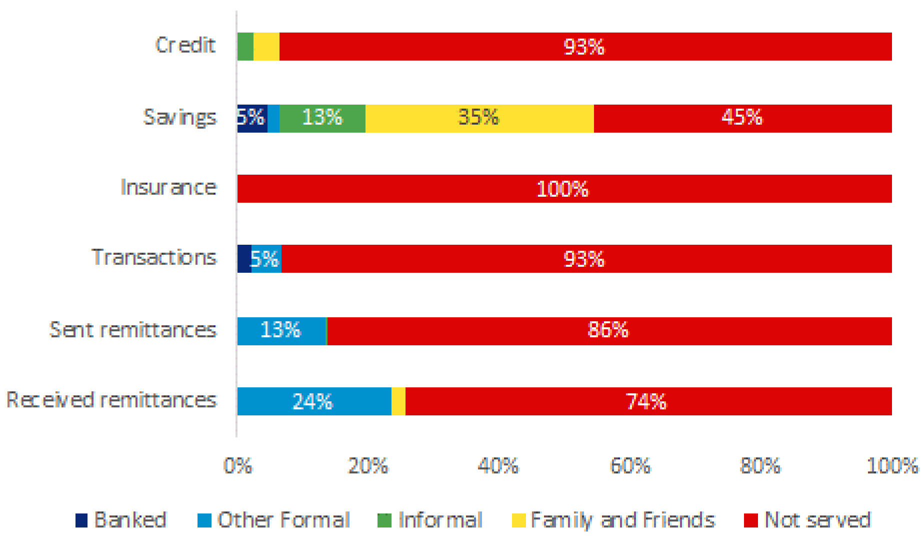

Figure 41. Uptake by the informally employed

Source: FinScope (2015)

1.4.4.3. MSMEs

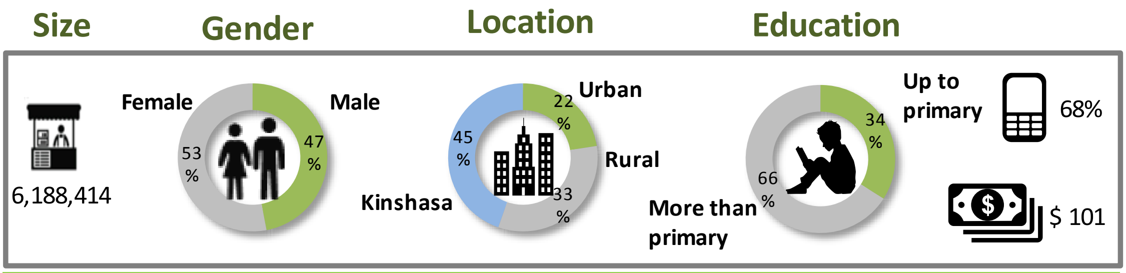

Figure 42. MSMEs' demographics

Source: FinScope (2015)

A large, mostly urban group. Figure 42 shows that MSMEs make up almost a third of the population. As stable employment opportunities offered by the formal and informal sectors are limited, this target market offers a financial recourse to many individuals. MSMEs are more likely to be female than the employed. They trail the informally employed slightly in earnings potential, but have much more financial security than the two poorer target markets (the farmers and dependents). They are also almost as well educated as the informally employed, and are more urban and better connected in terms of access to a mobile phone than informal employees.

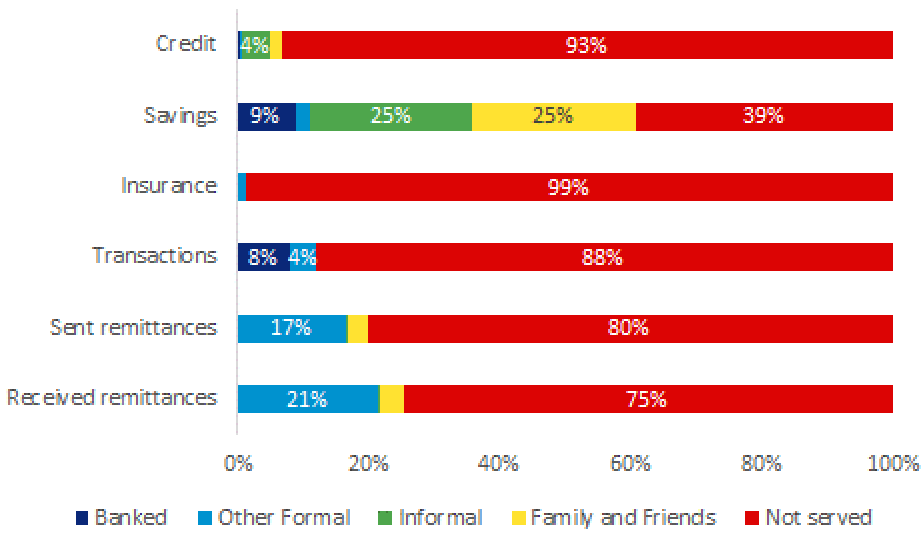

Figure 43. Uptake by MSMEs

Source: FinScope (2015)

Limited credit uptake a particular gap. MSMEs outperform all of the other target markets except the formally employed in both the breadth and depth of their average uptake. Yet the figures illustrated in Figure 43 above remain very low for each product market. Fewer than 10% of MSMEs report having any type of credit. Given the importance of credit for small business growth, the near absence of formal credit usage is noteworthy. Insurance uptake is also close to zero. As in the other target markets, saving is quite prevalent, but mostly through informal methods. More MSMEs receive than send remittances.

1.4.4.4. Farmers

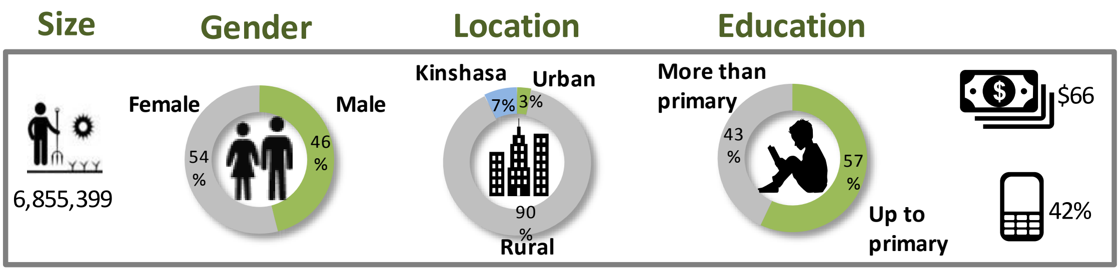

Figure 44. Farmers' demographics

Source: FinScope (2015)

Largest, impoverished and most rural segment. Farmers represent the largest target market. They exceed MSMEs by more than half a million and make up more than a third of the adult population (6.9 million adults). An additional 4.8 million adults from the other segments are involved in farming, but do not view it as their main income source (hence they are not classified in the farmer segment). Of them, two million also derive an income from farming. Therefore, a total of 11.7 million adults are involved in farming in some way and 8.8 million derive an income from their farming activities.

Together with the dependents, farmers constitute one of two target markets in which women are more numerous than men. It is the poorest target market by a large margin, with the average farmer earning approximately half of the average income reported by the formally employed. Farmers are also the least educated and by far the most rural. Whereas the other target markets are all majority represented in urban areas and Kinshasa, farmers live almost exclusively in rural areas. They are therefore an isolated and impoverished group.

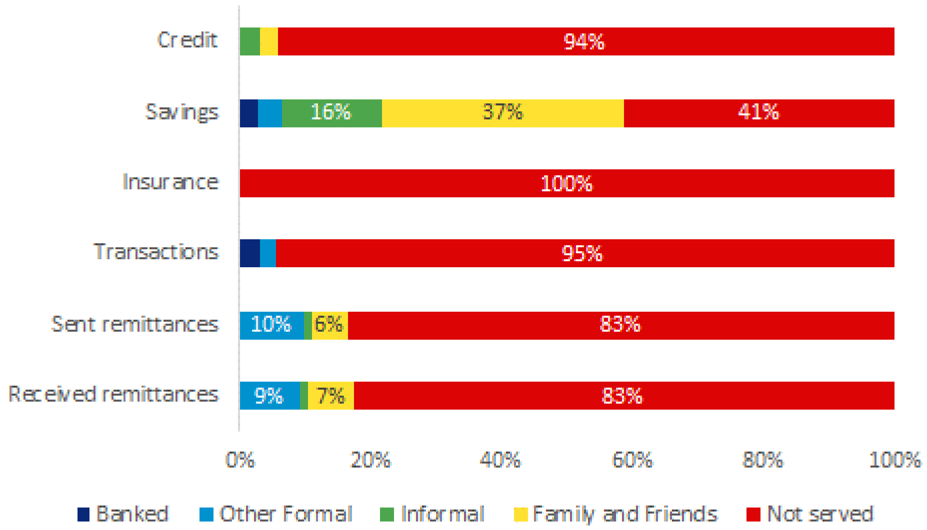

Figure 45. Uptake by farmers

Source: FinScope (2015)

Most underserved segment. As can be seen in Figure 45, the farmers' poor and isolated profile is reflected in their very low financial service uptake. They are the least served of all the target markets. Uptake is greatly constrained by their rural location and the lack of financial system infrastructure in the DRC. More farmers save than use any of the other products combined. However, usage of formal savings products is low, with farmers relying on informal savings products and saving with family and friends. Given their rural location and low average income, it is not surprising that many farmers use remittances. A smaller percentage of farmers use these channels than is the case in the other target markets, but in absolute numbers, farmers form an important part of the formal remittance network.

A closer look at value chain linkages

Given the size of this group, it is important to get a better understanding of different types of farmers in the DRC. This allows us to identify that sub-group most likely to be a viable target market for financial services purposes.

Thus far in this section, the so-called "deep rural" areas in the DRC have been excluded from the analysis. However, in order to present a more nuanced view of farming in the DRC, the "deep rural" adults need to be reintroduced for the remainder of the farmer target market discussion, as all adults in this part of the country are deemed to be involved in subsistence farming. When farmers in "deep rural" areas are considered alongside the total population in economically active areas involved in farming, three groups can be identified: (i) all Congolese farmers, including those in "deep rural" areas; (ii) all adults who are not in "deep rural" areas, but who are involved in farming; and (iii) the farmer target market, which is a subgroup of the previous category but only includes those adults who derive their main income from farming. These groups will henceforth be referred to as the broad farming group (30.7 million adults), the narrow farming group (11.7 million adults) and the farmer target market (6.9 million adults), respectively.

Only a small potentially viable financial services target market. Figure 46 below breaks the farmer population up according to the type of farming activity they conduct. It shows that 62% of the broad farming group (19 million individuals) consists of subsistence farmers, compared to about 11.7 million individuals (the narrow farming group), who produce products for sale.

Figure 46. Nature of farming value chain

Source: FinScope (2015)

Only a small proportion of farmers connected via "tight" value chains. Farmers who sell part or all of their produce are said to operate within a "tight" value chain if they sell their produce under contract to a processor or central buyer. If they sell their produce on the open market they operate within a "loose" value chain. From a financial services point of view, it is easier to reach farmers who operate in "tight" value chains, as they can be reached through a central contact point that has already built a relationship with them. However, as shown in Figure 46 above, only 6,700 farmers in the DRC operate exclusively in "tight" value chains. A further 2.9 million – 9% of the broad farming group (25% of the farmer target market) – sell their produce in both “tight” and “loose” value chains. The remainder of the narrow farming group, or 8.7 million adults (28% of the broad farming group; 74% of the farmer target market), only sell their produce in “loose” value chains.

In principle, farmers in both “tight” and “loose” value chains require a broad range of financial services, including agricultural credit, savings for inputs and seasonal income smoothing, and insurance for risk protection. However, their low incomes, dispersed and rural location, and unconnected nature mean that “loose” value chain only and subsistence farmers are unlikely to be viable financial services targets. This leaves farmers operating in “tight” value chains or a combination of “tight” and “loose” value chains: they can be reached via the central party with whom they have a relationship and are contracted to and are therefore more likely to be viable financial services targets.

1.4.4.5. Dependents

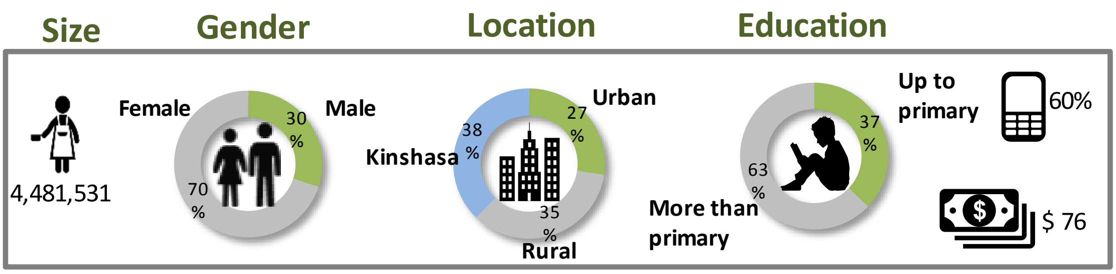

Figure 47. Dependents’ demographics

Source: FinScope (2015)

Female and relatively poor. The dependent group is large, at just over one fifth of the population. It is the only group with a strong female bias, as can be observed in Figure 47. They are relatively well-educated and largely urban-based. The dependents earn a relatively low income, but their average income is nearly 10% higher than that of farmers.

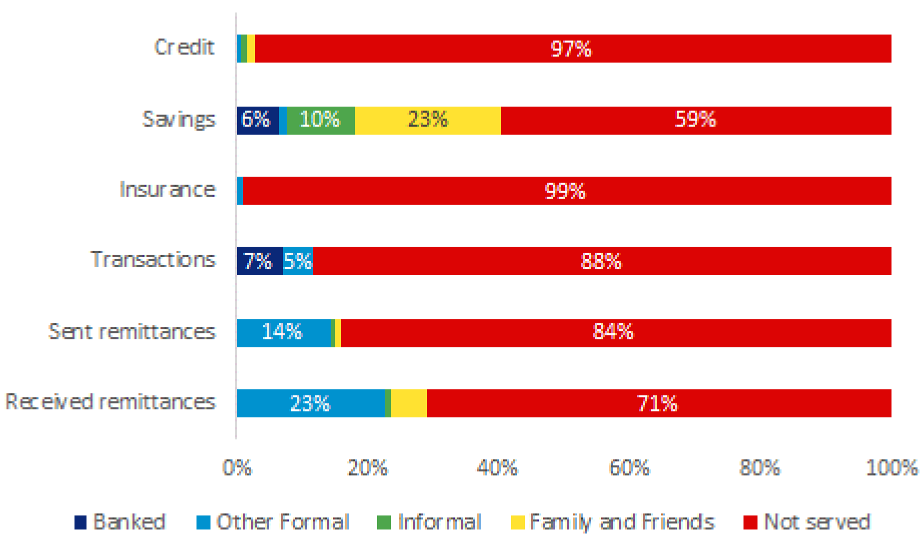

Figure 48. Uptake by dependents

Source: FinScope (2015)

Informal savings and formal remittances play biggest role. Figure 48 depicts uptake by dependents across the different product markets. Given that they are not breadwinners themselves, it is not surprising that take-up of credit is very low overall and that they have only taken up informal credit and loans from family and friends. The very low uptake of insurance is not unique to this group. Dependents do save, but mostly in informal ways and not to the degree that most other target markets do. Remittances have the highest formal penetration in this target market.

1.4.5. Financial service needs by target market

Table 7 below summarises the likely needs for financial services as can be surmised from the demographic profile and current financial uptake of each segment outlined above.

Segment	**Likely need/opportunity per product category**			
	Saving	**Credit**	**Insurance**	**Remittances**
Formally employed	Low uptake in absolute terms suggest untapped opportunity.	Prime target market for credit due to secure, regular income.	Prime target market for insurance due to secure, regular income.	Relatively high uptake suggests need; scope for further expansion.
Informally employed	Low uptake of formal, high uptake of informal savings may be indicative of need for formal savings products	Income profile suggests scope to improve, but eligibility may constrain uptake.	Income profile suggests scope to improve, but distribution may constrain uptake.	Relatively high uptake suggests need; scope for further expansion.
MSMEs	May require saving to smooth income - scope for formal expansion given relatively higher penetration of informal.	Low current uptake. Need for credit to expand operations.	Very low current uptake. May need insurance to manage trading risks.	Relatively high uptake suggests need; scope for further expansion.
Farmers	Low uptake of formal, high uptake of informal savings may be indicative of need for formal savings products.	Low current uptake. Need for credit to expand operations, but distribution and ability to repay will be problematic given largely subsistence profile.	Very low current uptake. May need insurance to manage risks, but distribution will be problematic.	Likely remittance need, but undermined by unconnected profile.
Dependents	Relatively high uptake of informal savings may be indicative of need for formal savings products.	Uptake very low, and given income dependence, need may not be high.	Uptake very low, but unlikely that need is high given dependent status.	Dependent status and relatively high uptake suggest need; scope for further expansion.

Table 7. Key financial needs by target market

Source: Authors' own

The table suggests the following needs or opportunities per target market segment:

- **Formally employed -** The majority of the formally employed make use of at least one financial service, making them well-served on average. Consequently, depth of financial access is a greater priority for this group than extending breadth. Some of the wealthier adults in this group have a range of financial services to fulfil their needs, but most still have only one type of product. In particular, they are a prime target market for extending the reach of credit and insurance, as they have the secure and regular income needed to qualify for such products. Most of the segment also still do not have formal savings products, suggesting a potential opportunity.
- **Informally employed -** Given their relative proximity compared to the more rural groups and their relatively higher income than most other groups, the informally employed are likely to be a second-order priority target group after the formally employed. However, their less predictable income stream makes distribution more challenging. There is scope to significantly expand breadth of uptake across all products, though the lack of formal employment may challenge particularly credit (from an eligibility point of view) and insurance (from a distribution point of view).
- **MSMEs -** Given their profile, MSMEs are likely to have a particular need for credit, but greater access to transaction and savings products may also be important to facilitate their businesses and help with consumption smoothing.
- **Farmers -** Farmers have extremely low take-up of credit and insurance. They also have low take-up of formal savings products. These three groups of products – savings, credit and insurance – are important for the management of risks, such as crop failure and livestock disease, that farmers typically face. However, given their deep rural and subsistence nature, it is unlikely that farmers outside of "tight" value chains will be a viable target market for financial services.
- **Dependents -** The need to receive income implies a corresponding remittance/payments need. Dependents' relatively high uptake of informal savings may also be indicative of an implied need for more accessible formal savings options.

MAP DRC Input Note 2: Regulatory framework in relation to financial inclusion

This input document was prepared as part of the DRC MAP financial inclusion diagnostic and should be read with the main diagnostic and related input documents.

This annex outlines the legal system and regulatory framework applicable to financial services in the DRC and the key regulatory issues from a financial inclusion point of view. It starts by outlining the general policy and judicial environment for businesses, including financial service providers, insofar as it is relevant for financial inclusion. This is followed by a brief overview of the financial services regulatory framework pertaining to different types of institutions, as well as with regards to cross-cutting functional areas/topics. On this basis, a number of financial inclusion issues or challenges are identified that stem from the regulatory environment, followed by recommended actions to overcome the challenges.

2.1. General policy and business environment

Legal and justice system

Civil law system with three legislative tiers. The DRC legal system is based on a codified civil law structure. This implies that law is based solely on a civil code and there is no formal recognition of judicial precedent. In general, unless something is explicitly forbidden by law, it is implicitly permitted[69]. Laws are structured according to three tiers (International Bar Association, 2009):

- *Constitutional*: The first tier is comprised of constitutional laws, which form the basis of the Congolese State and legal system. This category of laws sets out the functioning of the state, the delegation of powers to the various organs of state (legislature, executive, judiciary) and the basic rights that are to be respected in DRC law.
- *Legislative*: The second tier is comprised of legislative enactments, which are subservient to constitutional laws. Legislative enactments are typically principle-based laws. The legislature may delegate limited legislative powers to members of the executive or specific regulators with the objective of ensuring the detailed, practical implementation and enforcement of its enactments. The legislature may not delegate more powers than its original authority, nor may it delegate control over the legislature or its enactments.
- *Regulatory*: The third tier pertains to regulatory instruments. These comprise all decrees and ordonnances issued by the president, ministerial "arrets" as well as instructions and circulars by administrative bodies. The latter category are not considered to be legal texts in their own right but rather serve to illuminate legal texts. The president may also issue laws in the form of delegated legislation (ordonnance laws and decree laws) in legal areas that are permitted by the constitution or by original legislation. All regulatory instruments must at all times comply with all constitutional acts, all laws and all ratified international treaties to the extent that these are not in conflict with one another.

Four-tier justice system. On the implementation side, the legal system is organised into four tiers with the *Tribunal de Paix* (Tribunal of Peace) being the court of first instance for items

[69] As per Ordonnance from the general administrator of Congo on the 14th of May 1886 -- approved by decree 12 of 1886 (official bulletin, pages 188 - 189).

that carry a penalty of less than five years. Penalties of five years or more are heard directly by the *Tribunal de Grande Instance*, which also serves as appellate court for the *Tribunal de Paix*. From there the Court of Appeal is the third level, with one in existence for every bar in the DRC. The final arbiter in the justice system is the *Court Supreme de Justice* in Kinshasa.

Traditional courts still functional. The ongoing legal status of the traditional courts is based on a 1982 ordinance which predates the *Tribunal de Paix* system and provides for the validity of traditional courts based on received customary principles. The recognition of traditional courts is an interim measure and only valid in the absence of a functioning Magistrates Court in any given area. The jurisdiction is limited to adjudicating civil matters in compliance with current laws, decrees, regulations and ordinances in force. Out of the 180 magisterial districts legislated in the DRC, only 45 are functioning, meaning that for 75% of the DRC territory, traditional courts are the primary and sole access to justice. This highlights the importance of the traditional courts for at least the medium term in the adjudication of lower value and most often informal financial services matters[70].

Financial inclusion policy environment

No formal financial inclusion policy. At present, there is no comprehensive policy on financial inclusion in the DRC. However, a national development strategy is currently being developed by the Ministry of Planning, which will include a financial inclusion policy (Consultations, 2015).

Various initiatives indicate commitment to financial inclusion. Despite the lack of a national policy a number of financial inclusion initiatives are underway. As an example, the UNDP and UNCDF have created a support program, PASMIF, in cooperation with the Ministry of Finance that seeks to support microfinance within the DRC. Several donors have also come together to roll out a financial literacy initiative in partnership with the Central Bank.

Business environment

A number of other elements of the general policy and legal framework pertaining to business operations in the DRC are indirectly of relevance to financial inclusion:

Regulatory environment results in high cost of doing business. Starting a business in the DRC is generally challenging. Legal challenges include burdensome permit requirements, heavy taxes that are complex to pay, and challenges around dealing with contract enforcement (see Box 5 for an overview) (World Bank, 2016). As will be discussed in Section 2.3.1, the constrained ability to enforce contracts and the challenges in getting credit have a profound effect on the development of financial services in the DRC and are therefore critical hurdles to wider financial access and financial market development.

Box 5: DRC and the "Doing Business" report

The DRC was ranked respectively 184th and 187th out of 189 economies in the 2016 and 2015 editions of the World Bank's "Doing Business" report. Table 8 below shows the evolution of the key indicators for each topic benchmarked against regional averages.

[70] As will be discussed in Section 1, this also creates an imperative for greater awareness and basic technical assistance in the field of financial services laws and concepts among traditional court officials.

Topics	DB 2016 Rank	DB 2015 Rank	Change in Rank
Starting a Business	89	172	up 83
Dealing with Construction Permits	131	157	up 26
Getting Electricity	174	173	up -1
Registering Property	135	135	No change
Getting Credit	133	128	up -5
Protecting Minority Investors	174	173	up -1
Paying Taxes	173	170	up -3
Trading Across Borders	187	187	No change
Enforcing Contracts	165	165	No change
Resolving Insolvency	189	189	No change

Table 8: Evolution of the "Doing Business" report's key indicators

Source: World Bank, 2016

Investment incentives not extended to all players. Limited liability companies (SARL and SA) are eligible for tax exemptions associated with their investment for a period of 3 to 5 years depending on the location[71]. However, the Investment Law does not apply to banks and insurance companies, which are governed by specific laws. A draft law on the financial sector has been prepared and includes the main provisions of the Investment Law, but has not been voted so far. Nevertheless, the *Agence National pour la promotion des investissements* (ANAPI - National Agency for Investment Promotion) is temporarily authorized by the government to admit financial institutions (including banks and MFIs) in the scheme of the Investment Law, but not all financial institutions benefit from this dispensation (Investment Law, 2002).

No deposit insurance. A deposit insurance scheme is key for an emerging market with a recent history of financial institution insolvencies and where there is limited trust in formal institutions. It is all the more relevant considering the significant growth the sector has been recording during the last decade. There is currently no deposit insurance scheme in the DRC.

Moving towards regional harmonisation. The general framework for conducting business in the DRC is being shaped by the DRC's adoption of the OHADA harmonised framework. *L'Organisation pour l'Harmonisation en Afrique du Droit des Affaires* (Organization for the Harmonization of Business Law in Africa - OHADA) is an organisation established by treaty between 17 member states in West and Central Africa. It promotes legal integration in Francophone Africa by adopting "Uniform Laws"[72]. On February 10, 2006, the DRC announced its willingness to join OHADA. This would constitute a profound change in the Congolese business legal framework, mainly on matters in financial law, competition law, tax law, and civil and commercial proceedings. Its ratification in February 2010 rendered OHADA legislation applicable from 12 September 2012 (Masamba, 2012). Local companies have benefited from a two-year transition period to bring their constitutive documents in line with the OHADA Uniform Law on Commercial Companies (OHADA Legis, 2016), whilst the country prepared itself for the implementation of OHADA legislation (Masamba, 2012). The OHADA framework

[71] Thus the Investment Law impacts financial inclusion indirectly by generating demand for productive credit from start-up firms receiving the incentive, in that it provides incentives to take on productive credit to support capital investments. It also impacts the affordability and sustainability of productive credit in the near term as there is limited initial liquidity drain in the form of taxes.

[72] For more information, see Biensan & Martin-Sisteron, 2016.

is now in place on paper, but capacity constraints mean that some legislation is not het harmonised in practice.

Modernisation of the general business legal framework underway. The accession to OHADA represents a modernisation and lower risk legal framework for improving the business climate. Modernisation is taking place across a wide variety of areas, but particularly around business and trade law, some of which still date back to the colonial ages. The OHADA laws aim to provide the DRC with a reinforced legal framework for joint ventures, including new and more appropriate forms of companies (SA and SARL) and sophisticated corporate governance rules. OHADA also intends to introduce strict accounting and auditing requirements for DRC companies. For financiers, the OHADA Uniform Law on Security provides a wide range of security interests, a comprehensive enforcement procedure and a register centralising all securities filed against debtors. In addition, the adhesion of DRC to OHADA has opened the door for parties to apply OHADA arbitration regulations to their disputes. Finally, the Common Court of Justice and Arbitration is serving as a supranational court, competent to hear final appeals on OHADA related disputes originating in the DRC.

Thus OHADA is conducive to business in general and facilitates the entry of foreign players, all of which benefits the development of the financial services sector. This is confirmed by the latest World Bank “Doing Business” report as set out above, which stresses the positive impacts resulting from the adoption of the OHADA, including a broader range of assets that can be used as collateral for credit, enhanced measures to protect minority investors and measures to more easily resolve insolvency (World Bank, 2016).

Provision for electronic contracts and signatures. Electronic contracts within the DRC are considered to have the same legal effect as written contracts. Electronic signatures are also deemed to be of the same status as signatures on physical documents. This stems from the ratification by the DRC of the OHADA Law of General Commercial Rights of 2011 and is a significant step towards the promotion and development of digital financial services with positive implications for financial inclusion.

2.2. Financial sector regulatory framework

This section outlines the regulatory framework relevant for financial inclusion. It starts off by considering who the main regulatory bodies are and what their jurisdiction is, before outlining the main contents of regulation of relevance to financial inclusion.

2.2.1. Regulatory bodies

Two main regulatory bodies. The Ministry of Finance is the financial sector policymaker. It oversees monetary policy, credit establishments (including banks) and insurance firms, as well as government finances. The regulatory and supervisory mandate rests primarily with the *Banque Centrale du Congo* (BCC) and *L’Autorité de Régulation et Contrôle des Assurances* (ARCA):

- The **BCC** is at the heart of the regulation of the financial sector in the DRC. It is mandated, amongst others, to regulate **credit establishments**, which include banks and financial cooperatives. It also oversees a number of other institutions, including money transfer operators, exchange bureaux and electronic money institutions.

- **ARCA** will be set up as a new regulatory authority for insurance. It is established by the 2015 Insurance Law which came into effect on 15 March 2016.

Box 6. Regulatory authorities and their powers

The **Central Bank Law** N°005/2002 establishes the BCC and sets out its mission, objectives and powers. It is mandated with ensuring price stability and a number of additional objectives, provided that these do not conflict with its price stability mandate:

- Ensure internal and external stability of the national currency
- Hold and manage the official reserves of the country
- Promote the good functioning of payments systems
- To regulate and control credit establishments, microfinance institutions and other financial intermediaries
- Enact regulations that concern foreign currency transactions
- Participate in all international negotiations pertaining to payment modalities and to ensure their execution.
- Promote the development of money and capital markets.

The bank is also charged with the role of both the banker and the cashier of the government. These functions are concluded in terms of conventions between the Ministry of Finance and the BCC. In support of this, the BCC accepts and effects payments on behalf of the state. The bank may designate credit establishments to undertake these activities in areas where it is not present.

The 2015 **Insurance Law** creates two new regulatory bodies with different mandates and powers:

- *ARCA mandated with regulation of insurance market.* ARCA is the regulatory body responsible for insurance and reinsurance activities in the DRC. ARCA has a mandate to oversee the insurance and reinsurance sector to create an environment compliant with international insurance core principles, standards and guidance. It has the power to grant, annul or revoke the licence of insurers and reinsurers and monitor market behaviour on an ongoing basis.

- *Conseil Consultatif des Assurances (CCA – Insurance Advisory Board) created to promote market development.* The CCA is an advisory body that is mandated with the oversight of structure of the insurance sector. As such, it has no legally binding powers. It executes its mandate through the issuing of opinions that ARCA as well as the government minister responsible for insurance (currently the Minister of Finance) will take into account in their decisions on the insurance sector.

Source: (Leganet, 2002)*, drawing on Central Bank Law 2002; Bootsi & M'bay (2015), drawing on Insurance Law 2015*

Various additional bodies relevant for financial inclusion. The Ministry of Finance is the principle entity charged with oversight of the financial sector. However, in the laws that establish its powers, several exemptions exist for entities and actions that are governed by other ministries:

- *The Ministry of Planning and Supervision of the Revolution of Modernity* is responsible for the facilitation and coordination of external assistance from donors, as well to facilitate the improvement of the business environment. It is also responsible for the development and roll out of the national strategic plan for development which, in turn, includes both financial inclusion and financial sector development.

- *The Ministry of Post and Telecommunications and New Information and Communications Technology* is responsible for the Regulatory Authority of Post and Telecommunications of Congo (ARPTC). ARPTC is charged with the licensing and oversight of mobile networks as well as the regulation of the post office. Both of these entities are important to the distribution of financial services.

- *The Ministry of Small Enterprises* is mandated with the development of small businesses. As such, it facilitates the provision of financial and educational assistance from donors and also provides assistance itself. This assistance can take the form of either a grant or a loan, with the latter providing opportunities for increased financial inclusion.

- *The Ministry of Industry* has jurisdiction over the Industry Promotion Fund (FPI). The FPI is a public institution enabled to provide loans to economic agents including small enterprises. It conducts the business of a credit establishment, but is exempt from regulation under the BCC by the Credit Establishment Law.

- *The National Social Security Institute (INSS)* is a public institution with legal personality and financial autonomy, which is in charge of the general social security scheme in the country. It is specifically exempted from regulation under both the 2015 Insurance Law for its insurance/pension activities, and the Credit Establishments Law for activities relating to Credit Establishments.

2.2.2. Regulatory scheme

Regulatory environment in transition. The Congolese regulatory framework is increasingly adapting to the requirement for suitable supervision and control of a broadening scope of activities. This includes the recent introduction of mobile payment facilities, the creation of mobile money operators, and the release of a new Insurance Law to liberalise the insurance market. A number of regulatory elements are still under development, including a framework for agency banking and national payment system legislation. Below, the main tenets pertaining to the institutional and functional regulatory framework, respectively, are outlined.

2.2.2.1. Institutional regulation

Credit establishments framework central, encompasses banks. Banks are considered to be credit establishments and are regulated in terms of the 2002 Law on Credit Establishments. The activities of credit establishments are central to the functioning of the DRC financial regulation and the term is used frequently throughout other regulation. The term credit establishment is also a protected term with associated rights and responsibilities. Who is defined as a credit establishment, as well as who is exempted, therefore deserves further elaboration.

In the Credit Establishments Law, credit establishments are defined as juristic persons that conduct, as part of their principle business, banking operations (Leganet, 2002), namely:

- **Reception and collection of funds from the public**: This is considered as the receipt of funds from the public, where one third is kept in the form of a deposit. The only exceptions are for firms that receive payments from their salaried workers provided that this does not exceed 10% of its capital, or for funds they are received from shareholders.
- **Credit operations**, whereby one person promises to make funds available for another. This includes rental purchase agreements.
- **Payment operations and the management of payment operations**: Defined as all methods of payment, all instruments that support in whichever way the process of payment that allows people to transfer funds.

Various categories of financial institutions. Within this definition, the law allows for five different classifications: banks, savings and credit cooperatives, savings banks, specialised financial institutions and financial societies. Entities that are specifically exempted from the definition of a credit establishment are (Leganet, 2002):

- Insurance firms: governed in terms of the Insurance Law or the Social Security Law depending in the type of activity conducted
- Organisations related to retirement: regulated under the INSS Law.
- Bureaux de change or foreign exchange agents: regulated under the Exchange Law.
- Lotteries and specialised enterprises that collect for social goals
- Financial messaging services: these form the object of a specific instruction by the Central Bank.

Only a credit establishment may effect banking operations regularly, receive funds at fixed or variable terms or create the impression that it is a credit establishment[73].

Institutional landscape. The table below summarises the categories of regulated financial institutions, their applicable legislation and the regulatory authority tasked with oversight:

Regulatory authority	**Institution**	**Legislation[74]**	**Permissible activities**	**Minimum capital requirements**	**Prudentially regulated?**
BCC	Banks	LAW N ° 005/2002 (Central Bank of Congo) LAW N ° 003/2002 (Credit	Credit, payments, savings	Equivalent of 15 million USD[75]	Yes

[73] Exemptions to the provision of credit are for:
- Non-profit entities that, as a part of their mission and for the objectives of social order, grant loans, from its own resources to certain of its members
- An entity that, exclusively in an auxiliary capacity to its principle profession as constructor or service receiver, allow for physical persons that access the property to pay different prices than they have subscribed to
- Enterprises that grant salary advances to their employees in exceptional circumstances for the purposes of social order.

The limitations also do not apply to physical or juristic persons that are:
- Allowing payment advances or delays to contractors as part of the execution of their business
- Concluding rental agreements that are accompanied by a purchase option
- Conducting Treasury operations with societies that a firm is directly or indirectly linked to
- Issuing of securities that are short term and negotiable on a regulated market
- Issuing vouchers or cards that are used for buying a determined good or service

[74] Note that legislation such as AML/CFT that applies across institutions is not stipulated separately in this table.
[75] This source is attributable to the BCC (DR Congo Investment Promotion Agency, 2016), however upon further research, only Instruction 14 was in force setting a minimum capital requirement of 1.5 million USD.

Regulatory authority	Institution	Legislation[74]	Permissible activities	Minimum capital requirements	Prudentially regulated?
		Establishments Law)			
	Savings banks	LAW N ° 005/2002 (Central Bank of Congo) LAW N ° 003/2002 (Credit Establishments Law)	Payments, savings	Equivalent of 15 million USD[76]	Yes
	Deposit-taking MFIs (microfinance banks)	LAW N ° 020-2011 (Microfinance Law)	Credit, savings	USD 350 000; to USD 700 000 1st Jan 2017	Yes
	Credit-only MFIs (including Moneylending Institutions)	Instruction 002 (Prudential Norms for Savings and Credit Cooperatives & Microfinance Institutions) and Microfinance Law Credit Establishments Law (only where specifically indicated)	Credit	USD 100 000; to USD 250 000 1st Jan 2017	Yes
	SACCO (cooperatives)	LAW N ° 002/2002 (Credit and Savings Cooperatives) Instruction 002 (Prudential Norms for Savings and Credit Cooperatives & Microfinance Institutions)	Credit, savings		Yes, with supervision directly by BCC or delegated to COOCEC
	COOCEC (associations of cooperatives)	LAW N ° 002/2002 (Credit and Savings Cooperatives) Instruction 002 (Prudential Norms for Savings and Credit Cooperatives & Microfinance Institutions)	Credit, savings		No
	Exchange bureaux	Exchange Control Law	Currency Exchange Payments		Yes

[76] This source is attributable to the BCC (DR Congo Investment Promotion Agency, 2016), however upon further research, only Instruction 14 was in force setting a minimum capital requirement of 1.5 million USD.

Regulatory authority	Institution	Legislation[74]	Permissible activities	Minimum capital requirements	Prudentially regulated?
	Money transfer operators (MTOs)	Instruction administrative du 18 mai 2001 (006) portant réglementation de l'activité des messageries financières (Banque Centrale du Congo) Exchange Control Law	Payments		Yes (minimal requirements)
	Electronic money institutions (including MNOs)	Credit Establishments Law, Exchange Control Law, Instruction No. 24 on the Issuance of Electronic Money and the rules pertaining Electronic Money Institutions	Payments, Store of Value		Yes
	Specialised financial institution	Credit Establishments Law.	Credit, savings		Yes
	Financial companies	Credit establishments Law.	Credit, savings		Yes
ARCA	Commercial insurers	Insurance Law 2015	Insurance		*De jure*, not yet *de facto* (subject to ARCA establishment)
ARCA	Non-profit mutual insurers	Insurance Law 2015	Insurance		*De jure* only[77]
Ministry of Labour	Pension funds and other retirement vehicles	Social Security Law (as amended)	Savings, Insurance		Self-regulatory

Table 9. Overview of regulated institutions and applicable regulation

Source: Authors' own, based on various legal instruments

Below, more detail is provided on the regulatory framework applicable to key types of non-bank institutions.

Savings and credit cooperatives

[77] As discussed elsewhere, this is subject to legal interpretation.

Savings and credit cooperatives in the DRC are classified into three tiers: primary cooperatives called COOPECs, apex organisations called COOCECs, and Federations of COOCECs. These entities face different prudential requirements, and have different powers and responsibilities.

Box 7. Savings and credit cooperatives: who may do what?

Savings and credit cooperatives are subject to a specific law (002-2002 Law of 2 February 2002). Their functions are governed specifically within this law and the Credit Establishments Law does not apply to them *unless* there is specific reference to the banking law. COOPECs are also subject to the law on microfinance (020-2011) insofar a SACCO engages in microfinance activities. Previously COOPECs were allowed to engage in insurance activities, provided these did not infringe on the monopolies granted to SONAS in terms of the Ordonnance-law of the 23rd November 1966 (COOPEC Law, 2002).

COOPECs have at least 20 physical persons as members. They are required to hold liquid and short term assets equal to at least 80% of the outstanding debts, but there is no minimum capital requirement. They are also required to ensure that loans do not constitute more than 20% of all the deposits of their members. Their only allowable activities are to take deposits from their members and to extend loans to their members. They are not integrated into the national payment system. COOPECs are also limited in terms of what activities they may undertake in terms of investment of funds and participation in financial markets.

COOCECs have only COOPECs as members. They may undertake more activities than COOPECs, including the exchange of negotiable instruments with other credit establishments on behalf of its members. They may also make investments and take on debt necessary for their own account as well as for the accounts of the COOPECs. Yet the prudential requirements of COOPECs do not apply to COOCECs and they operate without any prudential regulation.

Federations have only COOCECs as members. They are generally charged with industry level tasks, such as representing their members to national and international partners, supporting technical, administrative and financial functions of their members, etc. They are also tasked with the inspection of the administrative and financial aspects of their member COOCECs or COOPECs.

Source: (COOPEC Law, 2002)

COOPEC supervision delegated. COOPECs are supervised by the Central Bank. Those that are not linked to networks must be inspected by the Central Bank once per year. Those that are linked to an apex body may be inspected by the apex body on behalf of the Central Bank. In all cases, the Central Bank retains the right to inspect the COOPEC directly.

Microfinance institutions

In terms of Law 11-020, microfinance institutions are defined as entities that conduct microfinance operations. Microfinance institutions are constituted either as limited liability companies (SARL) or as public limited companies (SA) in OHADA law. MFIs may be formed by national and international private investors, including national and international NGOs involved in microfinance, provided that the institution or subsidiary registered as an MFI is a SARL or SA.

Credit-only vs. deposit-taking MFIs. Within the microfinance law, microfinance entities are split into two categories:

- *Microfinance enterprises (Entreprises de micro-crédit) enabled to provide direct credit operations to their clients*. Microcredit enterprises are not allowed to collect savings from the public. They have a reserve requirement of USD 100,000 up to the year 2017, when the requirement will rise to USD 250,000.
- *Microfinance enterprises collecting savings from the public and granting loans to customers*. They have a reserve requirement of USD 350,000 up to the year 2017, when it rises to USD 700,000.

No clear definition of microfinance. The definition of microfinance operations is the provision of financial services to individuals that do not have access to the formal banking system. There is no definition in terms of target market or typical services provided, as actions that a microfinance institutions can undertake are very similar in law to those that a bank can undertake. There is no clear demarcation between the activities of a microfinance institution and those of a bank[78].

Money transfer operators

Money Transfer Operators (MTO) are subject to oversight by the BCC as per the Exchange Control Law. The BCC outlines the requirements for establishment of an MTO in Instruction No. 006. A financial intermediary other than a bank could use this category to have an authorised tool to make funds transfers. In order to be established as an MTO, an entity must meet the requirements of either a Category A or category B MTO:

- Category A: These are authorised to operate domestically and are required to pay a deposit of USD 2,500 as well as a USD 500 fee.
- Category B: These are authorised to operate domestically and internationally and are required to pay a deposit of USD 5,000 as well as a USD 1,000 fee.

Domestic transfers are not capped, whilst international transfers have a maximum of USD 2,500 per person and per operation. MTOs are required to comply with all aspects of the Exchange Control Law. They are explicitly exempted from all requirements laid out in the Credit Establishments Law.

Insurers

Insurance Law & Social Security Law main source documents. Insurance activities in the DRC are split into two regimes. Those that pertain to social security and employment are governed

[78] Banks as well as SACCOs are authorized to undertake microfinance activities. They are only regulated in terms of specific provisions of the microfinance regulation and only if they offer microfinance products. Any bank that provides a product to a client would however be deemed to be including them in the banking system and hence the product can *by definition* not be a microfinance product.

by the Social Security Law (1961), and all other activities are governed by the Insurance Law of 2015:

- *Social Security Law*: The Social Security Law governs insurance related to professional risks[79]. It grants an exclusive mandate to the INSS to provide cover for professional risks alongside cover for pensions. Cover is compulsory for a broad set of workers, including all state employees and all workers covered by the Labour Law. The Law also allows for the INSS to cover health insurance, but gives it no exclusive mandate in this regard.
- *Insurance Law*: The Insurance Law of 2015 sets out the requirements that insurance firms must meet before they may operate. It also lays out the factors that ARCA must take into consideration for the approval or rejection of licenses to operate within the DRC. Separate capital requirements apply to life ("persons and capitalisation") and non-life ("damages") business. Health cover ("diseases") may be provided under either licence. Before ARCA may consider licensing, an applicant must meet the following requirements:
    - For public companies, a capital requirement of 10 billion CDF (which, at ruling exchange rates at the time of writing equated to almost USD 10.6 million)
    - For mutual associations, which must be non-profit, a capital requirement of 3 000 000 000 CDF (approximately USD 3 million).
    - The head office of the enterprise must be established in the DRC. A firm may create a subsidiary firm but this firm must be housed within the DRC.
    - For public companies, these must comply with all requirements as per the OHADA Uniform Act[80].

    The Insurance Law furthermore provides for the conditions where approval for insurance or reinsurance activities from ARCA is not required. These are elaborated on in Annex 4. It is important to note that the Law is structured at a regulatory level. This means that there is very limited scope for ARCA to adjust the framework to the needs of a developing insurance sector by means of regulation.

    Exact position of mutual associations not clear. The Insurance Law mandates commercial enterprises to register with ARCA. Mutual insurance organisations are still regulated in terms of the Law, but a strict interpretation[81] of the Insurance Law suggests that they would not be subject to oversight by ARCA, as they do not meet the for-profit definition of commercial enterprises (see Annex 4 for a more in depth explanation). This requires clarification.

[79] Professional risks are related to accidents, diseases caused in the execution of professional duties as well as incapacitation (both permanent and temporary) and unemployment benefits.
[80] The Organization for the Harmonization of Business Law in Africa ("OHADA") is an organisation established by treaty between 17 member states in West and Central Africa. It promotes legal integration in Francophone Africa by adopting "Uniform Acts". For more information, see Biensan & Martin-Sisteron, 2016.
[81] See definition 31 on the definition of an insurance company or firm, read in conjunction with article 303 and article 399 of the Insurance Law.

Flexible distribution regulation. The Insurance Law is flexible around insurance distribution mechanisms. It allows for distribution via agents, brokers as well as directly to the public by the insurance company.

2.2.2.2. Cross-cutting functional elements

In addition to the institution-specific regulatory provisions, a number of cross-cutting functional areas of regulation are relevant to financial inclusion.

Electronic money

Broad scope for electronic money provision. The provision of electronic money is subject to oversight by the BCC as per the Exchange Control Law (2014). Mobile money is included under this definition and is regulated by the Instruction No. 24 on the Issuance of Electronic Money and the rules pertaining Electronic Money Institutions. Electronic money may be issued by three types of entities:

- Any credit establishment may issue electronic money if approved to do so.
- Furthermore, any institution that is not a credit establishment may apply for authorisation from the Central Bank to become an electronic money issuer. Upon approval of this, the institution will be considered a financial society in terms of the Credit Establishments Law. It will therefore also be considered to be a credit establishment.
- In addition, there is scope for the creation of electronic money institutions (EMI) which may not fulfil other functions of credit establishments and are subject to dedicated requirements (di Castri, 2014). Such institutions are subject to a minimum capital requirement that is the counterpart in Congolese francs of USD 2.5 million. Their commercial operations are limited to the provision of services related to the issuance, management and provision of electronic money, and the storage of electronic data on behalf of other legal entities. Consequently, they are not allowed to collect public savings, provide interest on any deposits, nor offer loan products.

Account limits. All electronic money accounts are subject to the following limits:

- Maximum stock: USD 3,000
- Maximum daily operations: USD 500
- Maximum monthly operations: USD 2,500

Agency in distribution

Agency banking framework forthcoming. Agency banking is an effective way for the financial services sector to capitalise upon the distribution networks of entities such as retailers, mobile operators and even small merchants, in order to extend financial services on behalf of formal financial service providers. The BCC is working on an instruction to regulate agency in the DRC.

AML/CFT regulation

Proportionality allowed. Anti-money laundering legislation was modernised in 2004. Law 016 of 2004 sets out the principles of AMT/CFT that are applicable in the DRC (Anti-money Laundering Law, 2004). The accountable institutions it covers include credit establishments (including banks and COOPECs), money transfer operators, exchange offices and MFIs. The law allows for proportionality based on the size of the transaction as well as the whether or not the client is a regular client. It also allows for lowered know-your-customer (KYC) requirements for over the counter transactions[82], whilst maintaining stringent requirements in the case of suspicious transactions and high value transactions.

CENAREF established as financial intelligence unit. The AML/CFT Law establishes the National Centre for Financial Information, CENAREF. It is a legal entity falling under the Ministry of Finance with the mission of assisting AML/CFT research, both in cases of suspected infringement as well as a in a systematic manner to support the government and the financial sector. CENAREF itself does not have any power over the financial sector (these remain vested with the BCC), nor does it have any investigative powers (these remain vested with the justice authorities). Any suspected infringements in terms of the AML/CFT Law must be reported to CENAREF for further investigation

KYC identity requirements for banks set by accord between CENAREF/ACB. The principles outlined in the AML/CFT law are outlined in an accord between CENAREF and the banking association, ACB. The only documents that a bank may use to verify customer identity are election cards, passports or a declaration by a public official that the aforementioned has been lost. A driver's license may also be used if it is supported by further documentation. This presents a significant access barrier as passports and driver's licenses are not widely available, whilst election cards are only issued during election times and have been extensively forged to the extent that they lack credibility.

Law does not account for biometrics. The use of biometrics to verify customer identity is not explicitly accommodated in legislation. Nevertheless, some market players are leveraging biometrics to identify customers that do not have access to traditional identification documents. This has directly benefited financial inclusion.

Consumer protection regulation

Consumer protection framework lacking. There is no consolidated consumer protection legislation that clarifies consumer rights, principles and responsibilities. Currently, there are only a few legal instruments that contain consumer protection clauses. The first is the Microfinance Law, which explicitly mandates select consumer protection provisions for institutions engaging in microfinance. The second and third are instructions pertaining to the interest rates given for deposits and charges for interest rates that bind all credit establishments regulated by the Central Bank.

Consumer protection absent in Credit Establishments Law. Unlike the Microfinance Law, the Credit Establishments Law does not contain comprehensive market conduct norms nor consumer protection provisions apart from interest rate provisions. The implication is that credit establishments, with the exception of those bound by the Microfinance Law, are not subject to substantive consumer protection clauses.

Central Bank aware of consumer protection issues and working towards resolving them. The Central Bank is considering several key areas for consumer protection moving forward, including prevention of over-indebtedness, measures for transparent pricing, ethical staff

[82] Walk-in (non-account) customers that are transacting for less than USD 10,000 need not be identified by the FSP.

conduct and protection of confidential client information (Consultations with BCC, 2016), (CPCAI, 2016).

Payments legislation

Comprehensive payments legislation underway. The government of the DRC is working on draft payments legislation. The legislation is intended to promote the development of the sector, including by facilitating interoperability across the payments system.

Credit regulation

No comprehensive credit law. Credit regulation is fragmented across several acts with different burdens placed on different players within the market. This fragmented nature makes for an uneven playing field between current market players.

Definition of microfinance uncertain. As discussed, the definition of microfinance operations within the microfinance legislation is the same as within the banking legislation. There is no discussion of what constitutes microfinance operations or how the services would differ if provided by banks or microfinance institutions.

Retail credit governance uncertain. The Credit Establishments Law prohibits any entity except for a credit establishment from undertaking the business of banking. There are however several exceptions to this clause. Notably, a juristic or natural person may, under their professional activities, extend advances or delays of payment to their contract. This definition may lend itself to credit provided by retailers or agricultural value chains. It is unclear whether an institution operating under this clause would be required to register under the BCC.

Microfinance Law requires combatting of over-indebtedness. The Microfinance Law obliges microfinance institutions to offer their clients products that are adapted to their capacity for repayment in a manner that prevents all risk. This includes the risk of over-indebtedness. It is uncertain whether the same considerations extend to microfinance provided by banks.

Productive loan term limits. The deductibility of interest on productive credit is limited to a five year repayment term (PwC, 2016).

Credit bureau housed by Central Bank. Instruction number 5 of 1999 forms the basis for the Centrale des Risques (credit bureau) (Leganet, 2002). It mandates the transmission of positive and negative credit information from banks, SACCOs and MFIs to the Central Bank, which houses the credit bureau. Declaration on credit and repayment histories to the bureau are mandatory by all participating institutions. The Central Bank will provide information to credit establishments on a client that is seeking a loan from them based on copies of credit application forms. The Central Bank has recently launched the ISYS credit management system which will assist in overcoming the limitations implicit in the handling and logistics of physical records and copies. The system brings credit history records into electronic format and provides an almost instantaneous answer on creditworthiness for a client to all participating institutions (currently recorded as 91% of credit establishments in the country). Credit information is provided dating back five years for banks and two years for MFI and COOPECs (BCC, 2013). However, some of the MFIs interviewed stated that they do not have effective access to the credit bureau as yet, nor do they contribute credit information. This suggests some challenges in implementation. Furthermore, although Credit Establishments are required to correct errors expeditiously, there is limited opportunity for consumers to scrutinise their credit history records and there is also limited opportunity or procedures for consumer to ensure their records are promptly corrected.

2.3. Issues for financial inclusion

A number of elements in the legal framework, justice system and financial regulatory framework as outlined above constrain financial inclusion, notably the slow pace of expected legal and regulatory reforms. The issues and challenges can be grouped into two categories:

- **Framework conditions**: policy, business environment and policy/regulatory resources and infrastructure challenges
- **Regulatory issues and gaps**: areas of regulation that are outstanding or under development, or existing elements of regulation that could be strengthened or are in need of reform

2.3.1. Framework conditions

The nature and working of the **general justice system** has a number of implications for financial inclusion.

Formal recourse unaffordable for most. Access to justice is problematic in the DRC. Most citizens are not capable of accessing the formal justice system as they cannot afford to pay the fees. They are then entitled to legal aid from their local bar association. However, this can only be accessed after a certificate of indigence, which must be issued by the local municipalities. As the certificates themselves carry considerable cost, which many people cannot afford, access to formal justice remains inaccessible to most Congolese citizens.

Structural resource constraints on justice system. In 2009, it was estimated that the DRC had 2,150 military and civil magistrates, where it required approximately 12,000, plus that there were only 45 functional courts of peace versus the 180 allowed for in the constitution (International Bar Association, 2009). The legal system is also severely underfunded and, as a result, subject to corrupt practices, which undermines trust in the system[83].

Geographical disparities. Furthermore, the legal profession faces severe skills shortages, and available skills are largely concentrated in Kinshasa. The DRC has approximately 6,000 legal practitioners divided into 13 different bar associations across the country. Of these, 5,000 lawyers live and practice in Kinshasa, with some of the bar associations not having a single member. This means that access to recourse is largely limited to Kinshasa.

[83] This includes inadequate funding for salaries and equipment. Most courts in the DRC do not have access to basic items that are required for the administration of justice, such as typewriters, filing cabinets or communication equipment. The only means of communication between the Supreme Court or the Ministry of Justice in Kinshasa with courts in other areas of the country is via mobile phone. This severely limits the efficiency, quality and effectiveness of legal redress in financial matters which represents a sever impediment to the widening and deepening of access to financial services (International Bar Association, 2009).
The severe lack of funding has reportedly necessitated many in the justice sector to supplement their incomes via corrupt activities. This combined with lax (in many cases no) oversight has led to a system that has, over the years, become endemically corrupt. This undermines trust and the effectiveness of essential redress in financial matters and would be a significant barrier to entry or expansion, particularly for internationally funded and compliant institutions (International Bar Association, 2009).

Lack of enforcement. Once judgements have been passed, they must be enforced. Before any judgement can be enforced, however, all of the fees associated with the enforcement (transport costs, etc.) must be paid upfront by the person who is seeking the enforcement of the judgement. This provides another hurdle to the administration of justice, particularly to low-income consumers.

Traditional justice only recourse. The above factors mean that, often, customary courts are the only form of justice that is accessible to the public. These courts may apply their customary laws as long as they do not contradict written Congolese law, public orders, principles of human dignity and equity or Congolese morals. These courts are not authorised to hear criminal matters, but in many cases, as the only judicial authority present, they do hear and pass judgement on these matters (International Bar Association, 2009).

The constraints to the justice system have direct implications for financial inclusion. Collectively, the constraints mean that financial matters are often not dealt with appropriately. In particular:

Laws not readily available. Magistrates passing judgements in the DRC often to not have access to up to date legal texts. This stems from the fact that the only way to access the texts is to buy these directly from the government printing press in the form of an updated gazette. Should a magistrate seek access to this law, they are required to buy the gazette themselves. The impact is that the law applied is often not in line with the current laws and regulations. The implications for financial inclusion is that despite strides to legislate for greater effective access to financial services, judgements have a significant likelihood of not complying with current financial laws and regulations.

Contract enforcement a severe constraint. Contract enforcement is extremely difficult. The costs are prohibitive and the waiting times can be very long (also varying substantially by region). This, combined with severe underfunding in the legal system leads to frequent judgements against credit providers in particular as judges seek to protect consumers, sometimes outside of their legal mandate in terms of the law (World Bank, 2016), (International Bar Association, 2009). The implications are dire for the advancement of credit markets.

Difficulties in recovering debts. The legal framework for debt collection is challenging. According to the Chairman of the Congolese Banks Association (ACB), banks are reported to lose 98% of their debt recovery cases, as the legal instruments are unsuitable for very small amounts of debt. In addition, OHADA does not reform the Congolese civil procedure itself, which is likely to remain an obstacle to the realisation of collateral. This dis-incentivizes the provision of retail credit.

Tax implications upon bad debts, reserves. The DRC does not recognise provisions of any kind for tax purposes.[84] This has serious implications for the accounting, management and internal practices of financial institutions as they are required to pay taxes on bad debt reserves. Complicating this situation is a restricted ability to carry over net losses from past periods. Prudently providing for bad and doubtful debts therefore affects current tax liability, meaning that a conflict arises between accounting and financial services business practices in line with international norms, on the one hand, and accounting and practice for tax purposes on the

[84] PWC 2015/16 Democratic Republic of the Congo, Corporate Deductions

other hand. Therein lies the systemic underpinnings of a tax system that encourages the rolling over of doubtful debts. Furthermore, the cash flow timing implications of paying taxes on bad debt provisions undermines the viability and capital of institutions and therefore their ability and risk appetite to intermediate funds on deposit.

Another framework condition of particular relevance to financial inclusion is **regulatory and supervisory capacity**.

Inconsistent quality of legislation and regulations. The drafting quality of financial legislation is generally inconsistent. It varies from excellently drafted and well-structured to regulation that is difficult to interpret and open to unintended consequences. In the civil law system of the DRC, there is utmost reliance on precise drafting with limited variance for interpretation, as anything not explicitly specified or prohibited is deemed to be permitted.

Central bank facing several challenges. The Central Bank faces capacity constraints to effectively oversee the financial sector. It lacks representation in parts of the country and has a shortage of skilled staff. This impairs its ability to oversee and effectively supervise credit establishments. Furthermore, the lack of trust in the CDF undermines the ability of the BCC to conduct monetary policy via traditional monetary policy interventions, resulting in an inability to effectively regulate various components of the financial market, such as interest rates. These in turn undermine the ability of the bank to create a monetary policy environment that supports growth.

Capacity challenges to set-up of new regulator. The general capacity constraints, coupled with the dearth of skills and underdeveloped nature of the insurance market will also challenge the set-up of the new insurance regulator, ARCA.

Capacity constraints contribute to overbearing regulation. The DRC government faces severe resource constraints and financial sector regulators are no exception. To reduce risk in the financial sector the regulators and lawmakers thus place heavy regulatory requirements and burdens on entities that are, in many other countries, unsupervised. A prime example is the strict prudential requirements for SACCOs.

Challenges to setting up a deposit insurance scheme. The potential implementation of a deposit insurance scheme is constrained by capacity and resources, as an in-depth diagnostic of financial institutions must precede any creation of a viable insurance system for deposits.

A last relevant framework condition relates to the impact on the financial sector of the policy position on local versus **foreign currency**.

Dollarisation increases cost of compliance. Since 2001, regulations authorize foreign currency-based and denominated deposits and funding of operations in the DRC. Presently, more than 80% of deposits are denominated in USD and operations are mainly carried out in Dollars or in Euro. With no local clearing system for foreign currencies, national and international transactions are mostly cleared and settled through correspondent banks abroad. Complying with international requirements is becoming more and more constraining in the context of increasing accountability and cost of US revenue authority compliance as well as AML/CFT measures and standards that underpin de-risking by correspondent banks. In the longer term, high exposure to foreign currency compliance and payment systems increase the cost of providing financial services, and hence limits incentives to serve the lower income segment.

2.3.2. Regulatory issues and gaps

Several gaps. As discussed, there are a number of aspects of regulation that are outstanding or under development, including payment system legislation, a full framework for agency banking, an update to the Credit Establishments Law, a cross cutting instruction on consumer protection for all credit establishments[85], an instruction on deposit insurance, regulation on the pooling options for investment, as well as the implementation of the Insurance Law to liberalise the insurance market. A complete framework is also needed to enable innovation in alternative distribution. The time taken to formulate and pass legislation and regulations is always a contentious issue and although it is prudent to avoid rash decisions, a long incubation period of legislation can inhibit and sometimes undermine the momentum and viability of the financial services sector. Without a complete framework, financial inclusion cannot grow optimally. Investors require regulatory clarity and certainty for new entry as well as expansion of existing businesses.

National payments framework under construction for some time. The absence of a national payments framework is of particular relevance to financial inclusion. As of yet, there are no stipulations regarding equal access to telecommunications and payments platforms for MNOs and financial service providers. The absence of a coherent framework thus undermines fair access, certainty and interoperability.

Credit regulatory gaps. Another notable gap is the absence of a coherent regulatory framework for credit provision, which creates an unlevel playing field. In particular, consumer protection mechanisms are not harmonised across institutions, including standards on fees, effective interest rate disclosure and over-indebtedness. Collateral realisation is problematic and there is no comprehensive population register or identity system. The tax provisions against non-performing loans drain cash flow whilst increasing cost and incentivizes under-reporting of doubtful debts. All of this combines to increase cost and risk in the credit market. Furthermore, the fact that interest charges on productive credit are limited to a five year term not only creates an upper limit on loan terms but also affects the affordability, value and nature of assets financed by productive credit.

There are also a number of existing regulatory elements that are sub-optimal from a financial inclusion point of view.

Investment incentives not extended to all players. Although most of the recently established institutions have benefited from investment incentives, as discussed, tax incentives do not yet apply to the investment and development prospects of all players in the financial sector.

KYC poses access barriers. The modernisation of KYC requirements remains unfinished given the absence of a viable national identification system and comprehensive population register. This directly impacts access to the formal financial system with a particularly severe effect on access to formal credit. Furthermore, simplified KYC is allowed for single transactions below USD 10,000, but not for accounts. The DRC is required to implement regulatory changes to bring the AML/CFT measures and systems in force up to par with regional and international

[85] The principles will be drawn from the Smart Campaign (BCC Consultations, 2016).

standard setting bodies at the risk of regional and international exclusion through de-risking. In particular, the (2012) FATF revised recommendations pose a high risk of consumer exclusion if not implemented with care.

Microfinance providers de jure not allowed to serve banking clients. According to a strict interpretation of the law on microfinance, the definition of microfinance means that a microfinance provider that provides financial services to a client that is already included in the formal banking system would not be deemed to be conducting microfinance activities. It would by definition not fall under the purview of the microfinance law nor its accommodating regulation and the MFI would effectively be conducting the business of a credit establishment, which requires more stringent prudential requirements and regulatory compliance. This creates a middle segment of banking customers that do not qualify for banking credit, yet are excluded from accessing credit in the microfinance sector. Microfinance institutions are further challenged by de facto lack of access to the credit bureau, though being granted access in law (Consultations, 2015).

Credit-only microcredit prudential requirements disproportionate. The reserve requirement on credit-only microcredit enterprises (currently USD 100,000, to rise to USD 250,000 by 2017) is disproportionate to the risk posed, given that there are no public deposits involved. Such a provision likely operates as a barrier to entry for competition, particularly for niche providers in more remote areas. Consolidation of smaller niche or local providers due to higher prudential requirements will reduce competition and is unlikely to extend the reach of local services. It will in no way impact risk to consumers. The rapid development of the MTO market is an illustration of the impact of low prudential barriers where there is no or limited risk to consumers.

New Insurance Law introduces a number of uncertainties, high entry barriers and restrictive product requirements. The definition of insurance[86] in the Insurance Law may encompass activities performed by a wide variety of current financial sector players, which will then be required to register with ARCA (see Annex 4 for a full discussion). In many cases this may result in challenges to their current business model or may mean that existing operations would need to be shut down. It will also place large capacity requirements on the new regulator. In particular, a strict interpretation of the Law raises ambiguities regarding the regulatory treatment of non-profit mutual associations such as *mutuelles*.

Furthermore, the Insurance Law sets high entry requirements by international standards, as well as strict product requirements. For example, it regulates individual product features and specifies features such as frequency of premium payment. The result is that providers will find it difficult to provide innovative products that meet consumer needs in the retail sector, whilst simultaneously driving up the cost of insurance.

2.4. Recommendations

A number of actions can be considered to overcome the regulatory gaps and challenges. The recommendations can be grouped into three categories:

[86] "The insurance contract is an agreement under which, on payment of a fee called premium or contribution, the insurer undertakes to another, the policyholder, to provide a service stipulated in the Contract in the event of an uncertain event that, as applicable, the insured or the beneficiary has an interest in not achieving".

- the **framework conditions** for financial inclusion;
- the **capacity and approach** of the regulators and supervisors; and
- **content areas** of regulation in need of reform.

Below, each is unpacked in turn.

2.4.1. Set the framework conditions for financial inclusion

After emerging from a turbulent history, the financial sector is seeing rapid growth, albeit off a low base. Such growth requires the right enabling environment to be sustainable and inclusive. The enabling framework includes appropriate financial services regulation (the recommendations for which are set out below), but also elements related to the general framework and incentives for doing business and the judicial system. Specific framework conditions to get in place include[87]:

- *Improve access to justice and dispute handling mechanisms.* The nature and capacity constraints in the justice system means that traditional courts are often the only recourse for people on the ground. This raises a structural imperative for building and capacitating the justice system over time, which includes the imperative to develop a programme of alternative dispute resolution mechanisms, such as an ombudsman system. There is also a need to strengthen the working of the traditional court system through sufficient access to legislation and training to rule on financial services cases. In rural areas, this will include expertise on informal financial services. Building the judicial system is a long-term project and quick-wins are unlikely. However, proactively engaging on this topic is necessary to build the infrastructure for an effective financial services sector.
- *Equal rights for married women.* Despite not being commonly enforced, married women still require their husbands' authorisation to bind the estate. This includes financial contracts. The upshot is that women are at a disadvantage in accessing financial services. Granting equal rights to married women is therefore a first-order financial inclusion opportunity.
- *Careful implementation of OHADA framework.* The adoption of harmonised business law has had a significantly beneficial impact on the re-development of financial services and has enabled elements of the regulatory system to leapfrog developmental cycles and better align with regional and international norms. Continued regulatory reform in line with OHADA will continue this process. As OHADA laws are based on model laws applicable throughout the region, their implementation within the DRC should be conducted with care not to upset the provision of financial services within the country. Appropriate transitory frameworks and, where applicable, exemptions may be required to allow for the exploitation of the benefits that come with harmonisation without unduly burdening already functioning local entities.
- *Making the investment incentives stack up.* Ensuring that investment support, in the form of tax incentives, are extended to all financial service providers, will make for a level playing field and encourage entry.

[87] An additional, more general, framework aspect relates to accounting standards. Financial services need to migrate to international accounting standards. This would include the harmonization of the tax methodology on financial service companies with international standards.

- *Implement deposit insurance to boost risk appetite.* There is a significant case for deposit insurance given the past financial sector turmoil and implications for consumer trust. The legal groundwork for deposit insurance mechanisms already exists in the Credit Establishments Act. The BCC may put in place one or several deposit protection systems in its regulatory texts and the banks will be obliged to adhere to this. It is a significant advantage to have the regulatory authority in place for deposit insurance, as that could reduce the rollout time by a number of years. In designing a deposit insurance scheme, it would be important to ensure harmony with insurance legislation and alignment with the mandate granted to ARCA.
- *Facilitate creation of comprehensive central identity registrar and recognition of biometric identification.* The absence of a comprehensive central identity repository challenges financial institutions' efforts to sign up new clients. Building a national identification system, as with the other framework recommendations, is a long-term, resource intensive project that requires careful planning. Once implemented, however, it will have significant financial inclusion benefits. As part of such a framework, it will be important to recognise biometric identification. Development of a legal framework for the control, management and application of biometric identification will reduce identity risks that financial service providers are exposed to whilst enabling effective access to those currently excluded.

2.4.2. Build capacity around a financial inclusion paradigm shift

A regulatory framework is only as strong as the mandate, approach and capacity of the regulators who design and implement it. Three sequenced strategies are required:

- *Setting a policy mandate.* A policy mandate for financial sector development is the first step towards a more inclusive regulatory framework. Such a mandate forms the basis for regulators to acknowledge the need for financial inclusion and explore what it takes for a framework to accommodate financial inclusion. It is also required for the financial inclusion to attract the necessary resources. Thus it would be important to facilitate the roll out of the national development strategy in order to create a defined policy space for financial inclusion. This will allow players in the financial inclusion space, including donors, government as well as private sector entities to orientate themselves and work in a cohesive manner.
- *Creating a regulatory paradigm shift.* Exploring the scope for enacting the financial inclusion mandate requires an appreciation of what a developing financial sector looks like, what the building blocks are for financial sector development, what risks regulation tries to address and what the potential unintended consequences of regulation could be for financial inclusion. This appreciation then provides the basis for understanding what a proportionate approach to regulation would entail, versus a template/cut and paste approach based on the regulation of developed markets. Given the history of the financial services sector, there is a need to reconstitute institutional memory within financial services regulators and build a new paradigm for inclusive market development.
- *Capacitating regulators to implement the new paradigm.* All of this forms the basis for building the capacity to create and enforce regulation that promotes financial inclusion. The capacity building programme must be informed by the specific needs for regulatory reform identified for specific regulatory authorities, which give rise to technical drafting assistance requirements. Setting up and capacitating the new insurance regulator, ARCA, is a particular need. There is also a broader underlying need for sensitisation of regulatory

and supervisory staff on financial inclusion matters to bring about the necessary paradigm shift. Delegated regulatory discretion will be important to enable regulators to react in a timely manner to market changes.

For development organisations wishing to support regulatory capacity building and change, it is important to note that the process as described here is not something that happens overnight with a handful of defined interventions – a paradigm shift of this nature takes time. It requires accompaniment of the regulatory process to gradually build capacity and change perspectives.

2.4.3. Regulate strategically

The recommendations above aim to put in place the framework and capacity for an inclusive regulatory framework. The imperative is then to use such capacity to shape the regulatory and supervisory framework in a way that promotes financial inclusion. As it is not possible to do a complete overhaul of the regulatory framework, it is important to know what the priorities are, what areas have the greatest impact on financial inclusion and what change is feasible to pursue in the medium and long term, respectively. This requires a strategic approach to the design of the regulatory programme, both in terms of closing gaps in the current framework and honing in on specific changes that can make a difference.

Moving from a rules-based to a principles-based approach. In general, there is a need for more principles based legislation, with greater reliance on the expertise of regulators and broader delegated legislative discretion. This would enable considered and timely responses to drive and safeguard financial service development. There is also a need to harmonise consumer protection provisions across regulatory areas, based on a principles-based approach to consumer protection[88].

Specific areas of regulation to be prioritised are:

- *Promulgate payments and agency legislation.* Agency and payments system regulation will both facilitate the more efficient leveraging of existing distribution system. The laws that have been in draft format for these two topics should be released as soon as possible.
- *Leverage the scope for a risk-based AML/CFT approach.* Following the release of the revised FATF recommendations in 2012, all countries have to implement a risk-based approach to AML/CFT regulation. If not properly designed, this poses the risk of financial exclusion. At the same time, the imperative for change is an opportunity to implement a more inclusive framework.
- *Create a unified framework for the regulation of credit.* The credit-related issues as highlighted in Section 2.3 could all be dealt with in a unified credit regulatory framework that cuts across all institutions that are responsible for extending credit. Such regulation would level the playing field between institutions whilst ensuring that all institutions meet minimum requirements regarding items such as consumer protection.
- *Implement the Insurance Law to build entry.* The insurance industry is at a watershed moment. New insurance legislation has just come online and a regulatory authority is

[88] This includes cross-cutting aspects such as clarity of contracts, cooling off periods, unconscionable conduct, consumer redress mechanisms, reaffirming of consumer rights, creation of specific ombuds or dispute handling mechanisms and enablement of informed consumer choice.

being set up. It is an opportune time to take stock of the likely implications of the regulatory framework for entry and for the operation of current players in the market.

Below, more in depth consideration is given to the priorities for each of these four areas.

Payments framework

The national payments framework, once implemented, would need to ensure fair access, certainty and interoperability. In addition to a better functioning domestic system, such a framework should also help facilitate cross-border remittances, which are an important inflow for the DRC that is currently largely accommodated outside of the formal system. Key areas to cover include.

- *A more comprehensive e-money framework.* The framework should allow for equal access to telecoms and payments platforms for MNOs and financial service providers. Furthermore, current prudential requirements for electronic money institutions need to be revisited, as they are not in line with the proportionately low risk posed and hence for a barrier to competition.

- *Interoperability principles.* The operators and participants need to apply defined international payments standards and protocols (ISO), irrespective of whether they operate in a closed loop or not, in order to facilitate greater interoperability at an appropriate market developmental stage. Such a move would also facilitate any merger and acquisition activity in the financial services market with the least disruption to the payments system.

- *Demarcate competitive and non-competitive payment activities.* Distinguish between competitive activities and non-competitive payment activities where cooperation will promote the financial services industry and the interests of consumers. Cooperation between providers can then be allowed for the latter, whilst retaining the essential element of competition in payments provision for the former. Areas of cooperation could include supporting the development of common communications infrastructure, consolidated cash reticulation activities and the maintenance of payments infrastructure such as ATMs. This allows for the pooling of funds from all of the industry players to support these activities, which in turn allows the achievement of scale in these areas. The cost reductions that come with economies of scale will benefit the entire payments system.

- *Allow for payment revocability.* Payments legislation should allow for revocability before a payment[89] has been effected to allow for reductions in the losses of both fraudulent and inadvertent payments. Furthermore, fraudulent payments should be declared void.

- *Set standard payment value date.* To ensure that value dates and interest are calculated in a uniform and fair manner across the industry, a default payment value date should be set as close as possible to the actual date of payment. This dis-incentivizes payments

[89] Before payment is finally effected is interpreted to be before the batch files are submitted into the payments system for clearing.

providers to prolong posting payments in the interest of holding funds for their own banking activities.

- *Allow digital instruments to substitute for physical ones.* In the case of the destruction of a physical instrument, such as a cheque, during the payment clearing process, a digital copy (image) should be given the same legal status as the original physical instrument.

- *Impose value ceilings for physical instruments.* Physical instruments present a risk due to their susceptibility to fraud. This risk should be limited in a systemic manner within the payments system through mandating that all transactions above a certain limit are required to be cleared electronically through the payments system. The limit should be set sufficiently high not to hamper financial inclusion.

- *Facilitate offline transactions (chip & pin).* The payments law should provide for the possibility of off-line transactions (offline authentication) using international best practices and technology. This is important to facilitate trust in instruments and reduce the disruption of commerce by the reliability of networks, whilst balancing potential risks with restrictions on the number and value of offline transactions and the use of offline reserve funds.

- *Facilitate SIRESS.* It would be desirable for the payments law to facilitate the implementation of the Integrated Regional Settlement System (SIRESS) being rolled out across the SADC region. It should allow for the use of SIRESS in both clearing within the DRC as well as outside of the DRC. This eliminates the requirement for duplicate payments systems whilst simultaneously providing the DRC access to cross border transactions across Sub-Saharan Africa.

Agency framework

Aspects to accommodate with regards to agency, based on emerging frameworks elsewhere, include:

- *Open agency to all financial service providers (FSPs).* Any financial service provider licensed under the Credit Establishments Act, the Insurance Law and other legislation should be allowed to leverage agent networks in order to extend their services.

- *Allow a variety of transactions to be conducted by agents.* Agents should be allowed to conduct various types of transactions, such as the application for credit and the opening of an account[90] in addition to sending and receiving of remittances, including from abroad.

- *Maintain prudential decisions with the FSP.* Decisions such as whether or not to extend insurance or to grant credit should remain with the FSP and not be delegated to the agent. This is necessary to ensure proper management of the core business model of the FSP and allows for the FSP to retain the responsibility for the correct implementation of AML/CFT legislation.

[90] The final decision on the opening or closing of an account should always rest with the FSP. The agent should however be authorised to act as a proxy for the FSP once the FSP has reached an appropriate decision. This allows the agent to accept applications for processing and to relay decisions in areas where FSPs have no other presence.

- *Mandate supervision of agents by FSP.* The FSP should be held responsible for all agreements conducted on behalf of the agent. It should also be responsible for ensuring that operational requirements, such as liquidity, of its agents are met to a satisfactory degree.

- *Allow agents to partner with more than one FSP.* Given how limited distribution infrastructure is within the DRC, agents should not be disallowed from offering the products on behalf of several FSP provided that they have the functional capacity[91] to effectively act as agents on behalf of all the FSPs.

- *Enable agents to function offline.* Infrastructure within the DRC is almost exclusively available in urban areas. Even within these areas it is unreliable. Agents should be allowed to conduct transactions even when supporting infrastructure is not immediately available, provided the method is secure and reliable[92].

- *Mandate reporting of certain data.* FSPs should provide the regulator with specific data on their agents including the number, geographic location, nature of the products and the services that may be provided.

AML/CFT framework

Towards a risk-based approach. The current AML/CFT environment is relatively inclusion-friendly, but the absence of a comprehensive population register and formal identity documents may result in de-risking within the country and across borders. The scope for reduced KYC requirements is also not yet consistently applied, neither is there formal scope for allowing biometric identity verification. The imperative to comply with new international standards provides a reform opportunity. Any new guidelines would need to be implemented with caution to ensure both integrity and inclusion, and should make use of the scope for a risk-based approach whereby lower-risk customers and accounts are defined and tiered requirements are set accordingly. This indicates a need for technical assistance to develop a national risk assessment as required under new international standards.

Credit framework

Elements to take into account in the design of a cross-cutting credit regulatory framework include:

- *Introduce proportionality.* Proportionate prudential requirements are needed for lower tier banks and non-deposit taking MFIs, as the current requirements severely hamper lending at smaller scale. The current demarcation between bank and MFI client bases also negates the business case for MFIs.
- *Remove tax on non-performing loans.* The taxation of non-performing loans drives up credit cost considerably. Tax reforms are thus needed to reduce credit cost.
- *Clearly demarcate microfinance from banking activities.* Microfinance institutions are currently at risk in terms of the definition of their activities. They are also facing regulatory constraints in terms of their minimum capital requirements. An update of the

[91] Functional capacity is understood to include items such as operational requirements such as sufficient liquidity, staff, and other elements that are important for the effective provision of services.
[92] An example of a reliable method that has worked well across many other nations is that of the Chip and Pin card.

microfinance legislation is needed to clearly demarcate their activities vis-a-vis banking activities and revisit the minimum capital requirements for non-deposit taking MFIs.

Insurance framework

As recommended in Annex 4, support to establish ARCA as a functional authority is a prerequisite for the formation of a competitive insurance market. In addition to the market elements recommended in Annex 4, a number of regulatory actions are required:

- *Evaluate the Insurance Law in light of international standards.* There is need for a thorough regulatory impact assessment of the Insurance Law in line with international principles set by the International Association of Insurance Supervisors (IAIS). Particular aspects to consider are the scope for proportionality to facilitate innovation and entry, and to allow current risk-pooling activities in the market to find a regulatory home that is proportionate to the level of risk that they pose.
- *Create transitory regime.* As discussed, the status of a number of existing entities currently operating in the insurance market is uncertain in light of the new Insurance Law. It is therefore important for the implementation of the Insurance Law to include appropriate transitory arrangements to ensure that consumer needs will continue to be met.

MAP DRC Input Note 3: Market for Payments

This input document was prepared as part of the DRC MAP financial inclusion diagnostic and should be read with the main diagnostic and related input documents.

Payment mechanisms backbone of economy. Effective payments mechanisms are a requirement for the efficient provision of all other financial services and form a vital backbone for the delivery of goods and services in the broader economy. Payments allow for the transfer of value between individuals and businesses. Given the frequency with which every member of society makes payments, optimising the efficiency and affordability of payment mechanisms is directly welfare improving.

This section unpacks the key drivers for the market for payments with a view to exploring the gaps and opportunities for improving payments in the DRC. This will include exploring providers and product areas such as transaction banking, e-money (including mobile money) and money transfers.

3.1. Current usage

Payments the most used financial service in the DRC. In order to better understand consumers' financial needs, a good starting point is to examine how they are currently using financial products, both formal and informal. Figure 49 below shows the major financial needs identified by economically active adults and which financial products they are currently using for each. The clear inference from this analysis is that the most widely used financial product in the DRC is payments. This illustrates a clear imperative to focus on improving the efficiency and removing the friction from the country's current payment mechanisms.

Daily payments the most ubiquitous need. Making and receiving payments form the basis for the most commonly identified financial needs by FinScope respondents. 92% of economically active adults use payments for goods and services. These types of transactions are usually made frequently. For example, 78% of economically active adults indicate that they buy food and drinks at least once a week, including 54% that buy these daily. Basic payments for goods and services is therefore the financial product that economically active adults interact with most frequently.

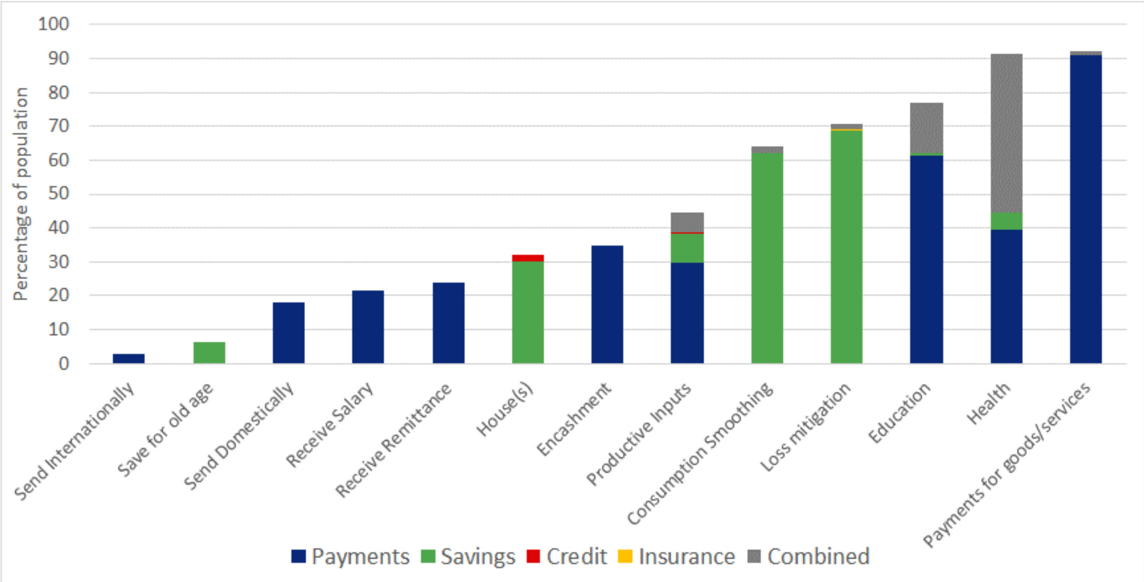

Figure 49. Financial needs identified

Source: FinScope (2015)

Payments tools required to facilitate health and education. Two of the primary developmental needs, education and health, require effective payment mechanisms to enable adults to pay school fees and other related expenses, like books and uniforms.

Income receipt a central payments needs. The ability to conveniently and cost effectively receive one's income is a critical need for most adults. Income may be received as a salary and/or from remittances sent by family or friends. An efficient and accessible payment mechanism to pay salaries and remittances is therefore critical for economically active adults to maintain their livelihoods.

Cash pervasive as a payments tool. Cash is the only payment mechanism of any significance used in the DRC. Figure 50 below shows that more than 90% of economically active adults indicate making all their payments in cash. Payments in kind is identified as the second most used payments tool, although only 2 to 3% of adults indicate making payments in this way. In contrast, electronic payment alternatives are barely used at all. For example, only 160,000 adults indicate using either bank cards, bank transfer or their mobile phone to buy groceries or pay school fees.

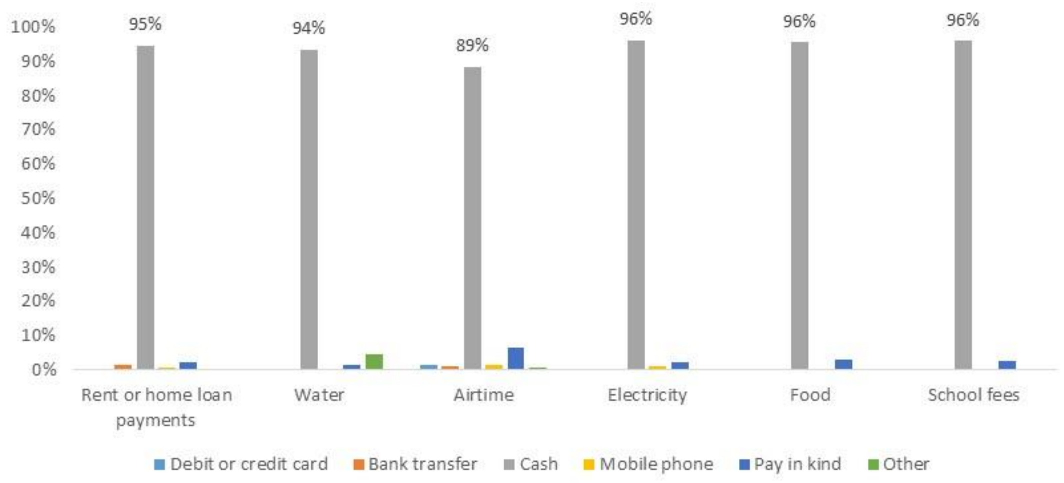

Figure 50. Method of payment for various services

Source: FinScope (2015)

Financial services provider interviews indicated that cash is so pervasive that even at the corporate level large transactions are handled on-site and in physical cash, placing a significant burden upon FSPs to stockpile disproportionate levels of vault cash.

Nearly all income received in cash. Cash is also the primary means by which economically active adults receive their income. Figure 51 below, shows the proportion of different sources of income that is paid using different payment channels. 89% of incomes received are in cash, 5% are paid in kind. Comparatively, just 2% of incomes are paid into the recipients' bank accounts. Even amongst the formally employed, the target market with the highest ownership of bank accounts, 71% of government salaries and 83% of company salaries are paid in cash. The pervasiveness of cash payments places considerable economic reliance upon the distribution and reticulation of cash throughout the DRC.

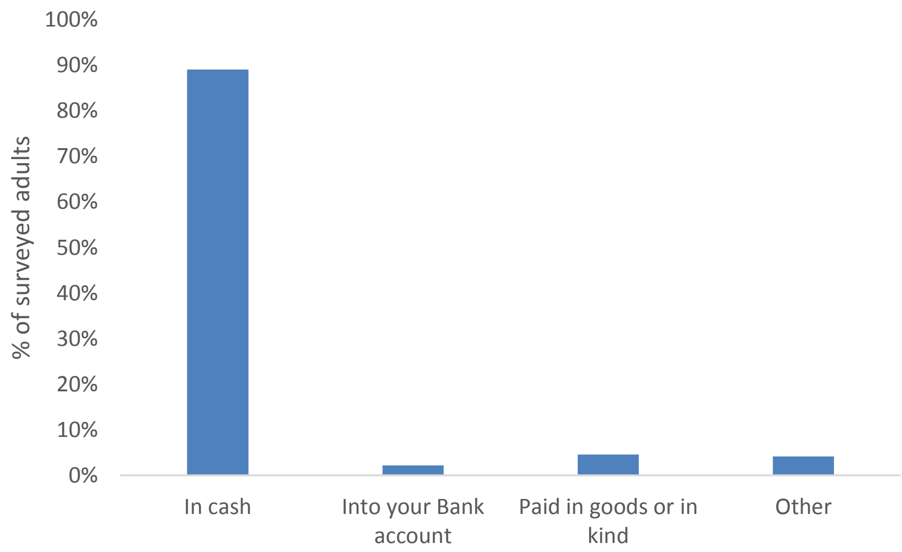

Figure 51. Income channels

Source: FinScope (2015)

This strong reliance on cash together with the almost non-existence of Point of Sale (POS) devices or other means to accept non-cash payments throughout the economy, make it almost impossible for most adults to rely primarily on electronic payment mechanisms. The receipt of most income in cash reinforces the relative benefit of transacting purely in cash. There is very little benefit for individuals to store their money in formal accounts when their lives are lived entirely in cash as the quotes below illustrates:

Interviewer: How do you carry out all these payments?

"I do it in cash because I am paid in cash. We are not affiliated to any bank."

- Livestock trader, female, Kinshasa

"We function with cash. You give me cash, I give my strip wood, and that is it."

- Small business trader, male, Mungunga

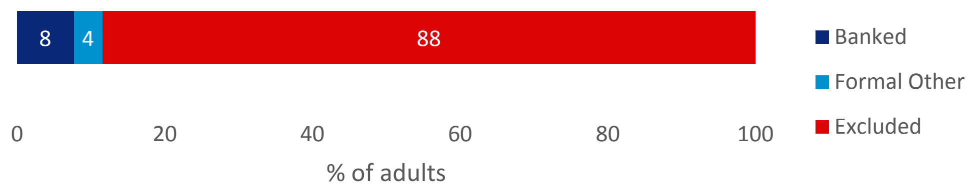

Figure 52. DRC transaction account Access Strand

Source: FinScope (2015)

Low uptake of transaction accounts. Just 12% of economically active adults indicate that they have their own or have access to a transaction account (Figure 52 above). 8% of these adults own bank accounts and an additional 4% own only another formal account from a Microfinance Institution (MFI), savings and credit co-operative (SACCO) or Mobile Network Operator (MNO), in the form of a mobile money account. Figure 53 below compares formal transaction account ownership in the DRC with fellow Southern African Development Community (SADC) member countries. The figure illustrates that the DRC has the lowest relative uptake of formal transaction accounts.

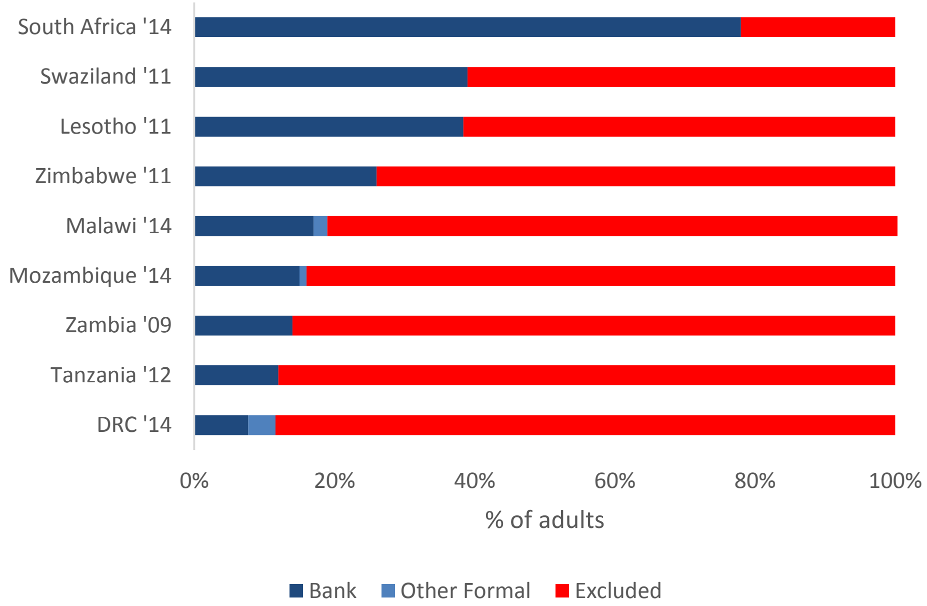

Figure 53. Formal transcation account ownership comparison

Source: FinScope (2015)

Highest transaction account penetration amongst formally employed. A far higher proportion of the formally employed compared to other target markets report owning transaction accounts. 41% of the formally employed indicate owning a transaction account compared with 12% of MSMEs, as the next highest amongst the target markets.

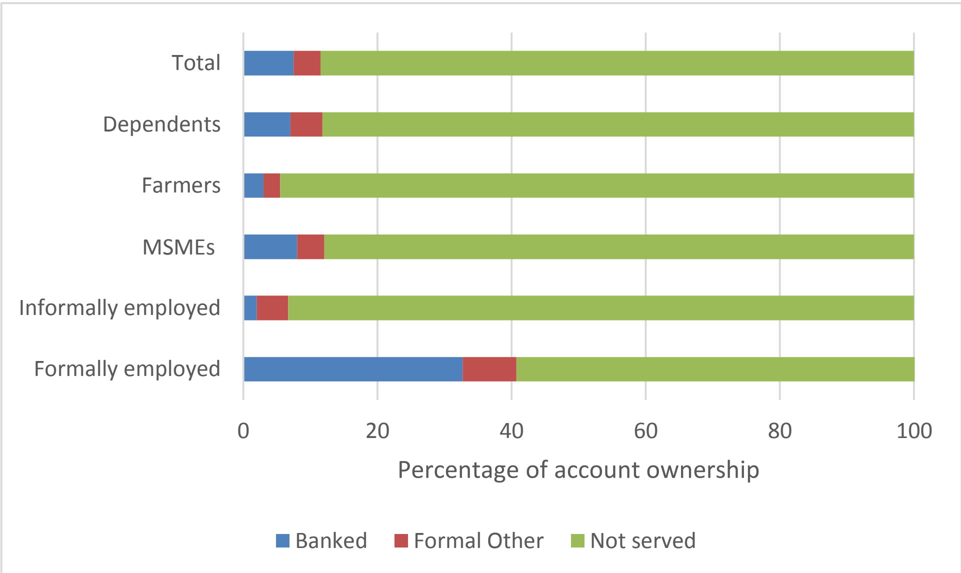

Figure 54. Transcation account ownership by target market

Source: FinScope (2015)

Bancarisation a major driver of differential uptake by target markets. A major driver of this difference is the government's *bancarisation* policy. By 2014, the State had opened "878,201 bank accounts for administrative and political institutions staff" (DRC Ministry of Finance, 2014). The intention behind this initiative is to improve the efficiencies and transparency of Government to Payment (G2P) payments by shifting them from cash to electronic channels.

Many accounts see limited or no use. Whilst *bancarisation* encouraged the uptake of bank accounts amongst government employees, many of these are either unused or underutilised. Whilst the State opened 880,000 new bank accounts, the self-reported number of adults employed by government with bank accounts in FinScope was 370,000. The implication is that more than half of all accounts opened through *bancarisation* are unused or these adults are apparently unaware that they even exist due to the long distance encashment processes conducted by some banks. Amongst those economically active adults that do report owning a bank account, the majority seem to make very limited use of their accounts. Figure 55 below shows that 63% of self-reported formal account owners use their account less than three times a month, typically to receive an income and make one withdrawal per month. This is comparable to other countries in the region but still means that just over a third of economically active adults who report having accounts, use formal accounts for anything beyond receiving their income.

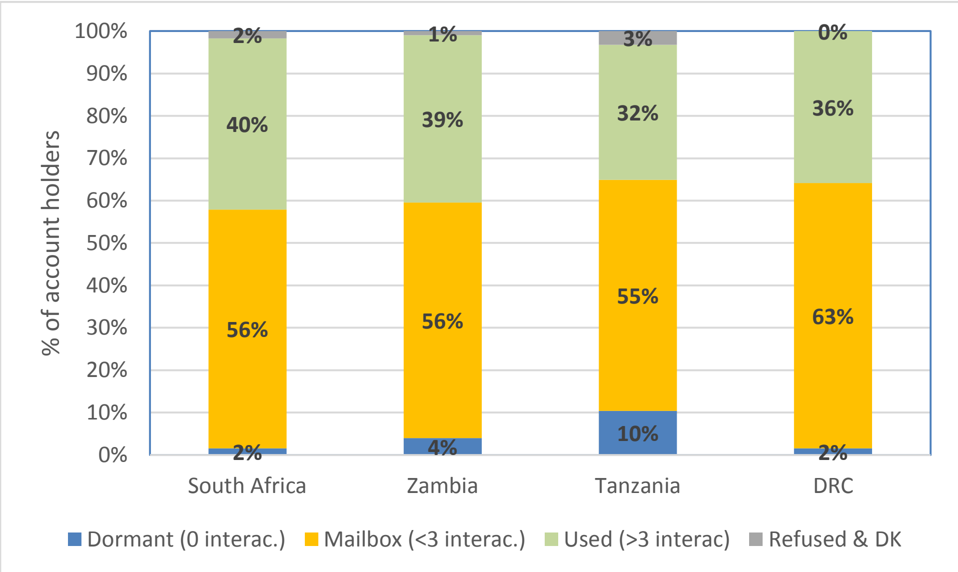

Figure 55. Proportion of formal account holders and frequency of monthly account usage

Source: Findex (2014)

On the positive side, despite limited use, accounts are not generally used as 'mailboxes' (withdrawing all income at once). Although most economically active adults use their accounts to a very limited extent, Figure 56 below shows that those with formal accounts do see them as mechanisms to store value and do not withdraw their entire balances each month. This suggests that the limited use of accounts shown in the figure is due to the relative unavailability of non-cash payment mechanisms throughout the country rather than a lack of trust or value in the account mechanism. This is further supported by Figure 56 (inset) below, which shows that, amongst those adults who do withdraw their entire funds each month, the primary reason identified is its relative convenience. The accounts are still used by most accountholders as a type of commitment device to build up savings over time. The broader implications are that greater access to transactional accounts through measures like *bancarisation* are having a beneficial impact on the development of markets for associated financial services like payments but this potential is being constrained by payments infrastructure and limitations on the distribution of cash.

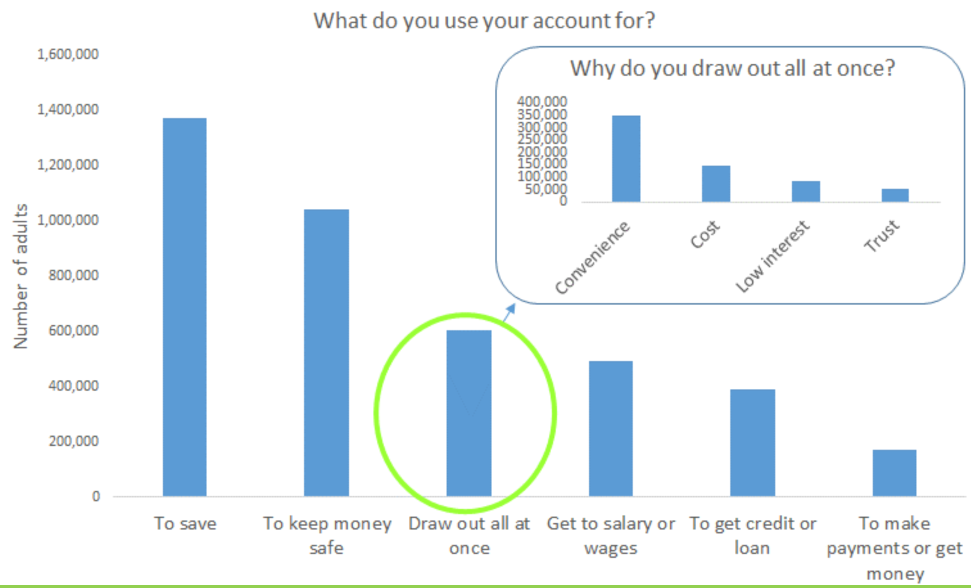

Figure 56. Needs cases for accounts

Source: FinScope (2015)

Most interactions with banks through ATMs and branches. The majority of adults that indicate using bank services only interact with the banks through branches and ATM cash withdrawals, as shown in Figure 57 below. The use of electronic channels is very low. Just 150,000 adults indicate that they use electronic bank transfers or Electronic Funds Transfer (EFT) or debit orders at least once a month, whilst only 40,000 adults use internet banking at least once a month, indicating a significant opportunity for banks to develop lower cost channels through facilitating wider merchant electronic bill payment acceptance.

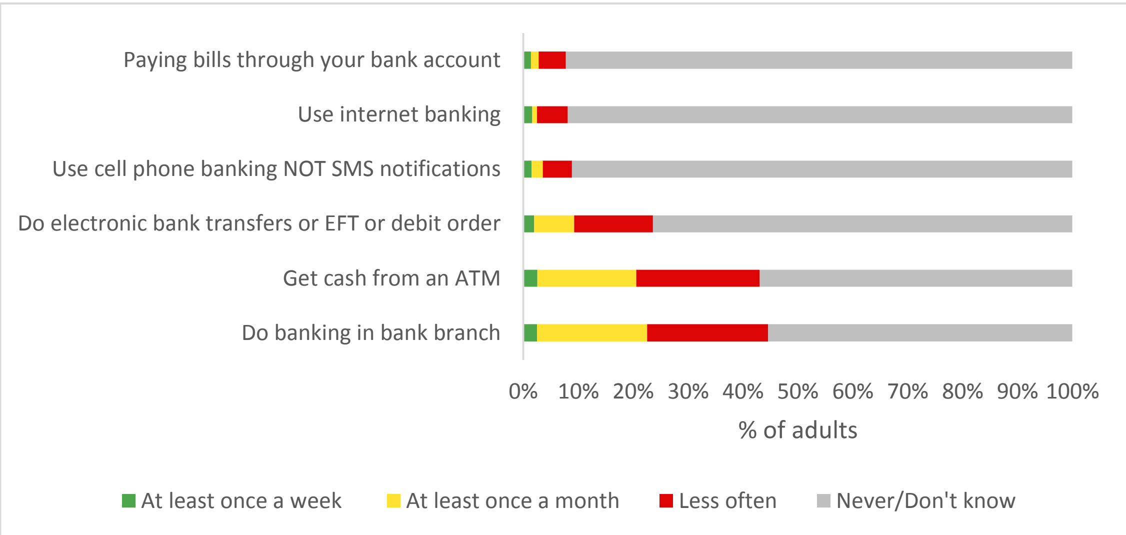

Figure 57. Bank interactions

Source: FinScope (2015)

The combination of a limited physical bank infrastructure, unreliable ATMs and the reliance on bank branches by individuals in conducting their banking business leads to long queues in branches with high opportunity cost for accountholders. 82% of respondents indicated that they usually spend more than five hours inside a banking agency before their needs are met.

Interviewer: You mean there are always long bank queues?

"Yes, it is not good, it inconveniences us a lot. At times, I have to withdraw money for others who stay out of town. I'm practically the second signatory of two or three people who live in the province."

- Government employee, female, Kinshasa

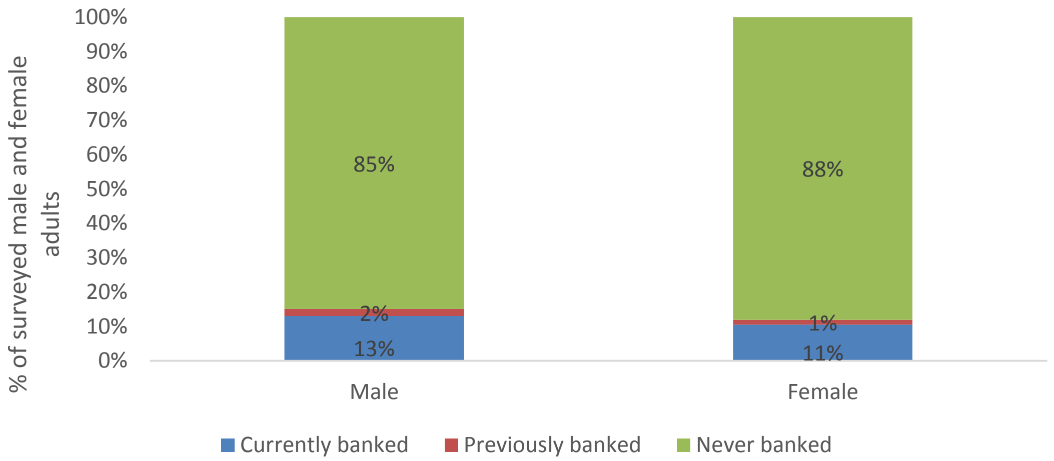

Figure 58. Bank penetration by gender

Source: FinScope (2015)

Similar level of bank account penetration between men and women. Figure 58 above, shows that bank account penetration is comparable between surveyed men and women in DRC. 13% of surveyed men indicated that they currently have a bank account compared with 11% of women. This analysis does not, however, show differences in the level and way that men and women may use their accounts.

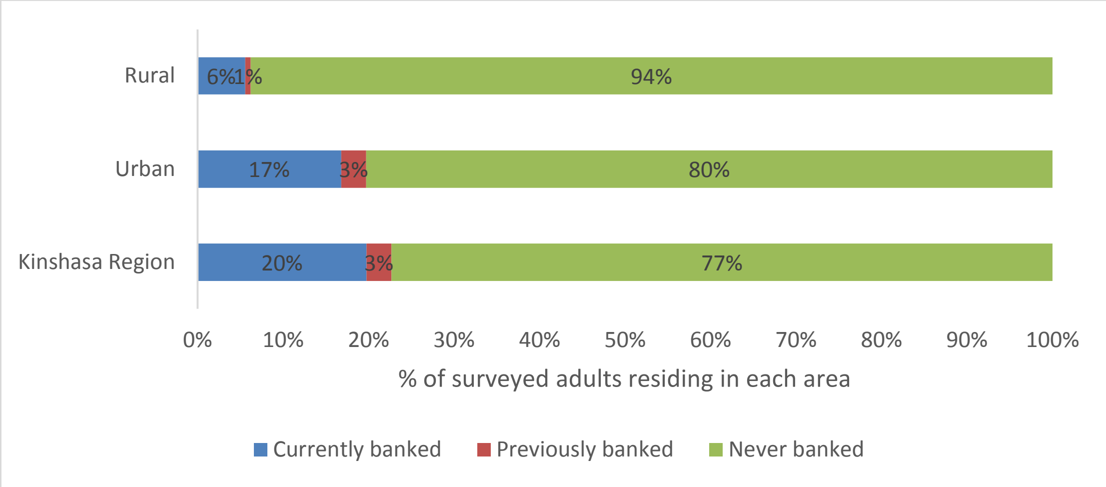

Figure 59. Bank penetration by region

Source: FinScope (2015)

Bank account penetration far higher in urban areas. Figure 59 above compares the relative penetration of bank accounts amongst surveyed adults in urban vs rural vs Kinshasa areas. The figure clearly shows that the reach of banks is mostly limited to the urban areas, within touch of most of the established general infrastructure.

Most Congolese use a mobile phone and therefore the potential exists to use the phone to access financial services. 58% of economically active adults in the DRC, which equates to 11.9 million adults, indicate that they have access to a mobile phone (FinScope, 2015). 9.7 million of these adults own their own mobile phone. This constitutes a potential opportunity for both banks and MNOs to offer financial products like mobile money to consumers using their mobile phone as a communication and, to some extent, distribution channel. Although the phone creates an easy and affordable conduit between providers and consumers, effective payments products still rely on a physical network of agents or branches with the ability to exchange electronic money and cash. The infrastructural deficiencies in the DRC mean that even though consumers can be accessed by mobile phone, extending mobile financial services beyond the major urban centres may still be exceedingly challenging.

Large number of mobile money subscribers, but low activity. BCC reports 6.8 million mobile money subscribers in the DRC. Vodacom and Airtel account for the largest proportion of these accounts. Despite the relatively high number of accounts reported, activity levels are very low. One provider indicated that as few as 10% of mobile money subscribers are considered active. FinScope (2015) reported 925,000 mobile money subscribers. The large discrepancy can be attributed to the low activity levels and shows that the vast majority of adults with accounts are either unaware of their account’s existence or at least do not consider it as an account that they would use.

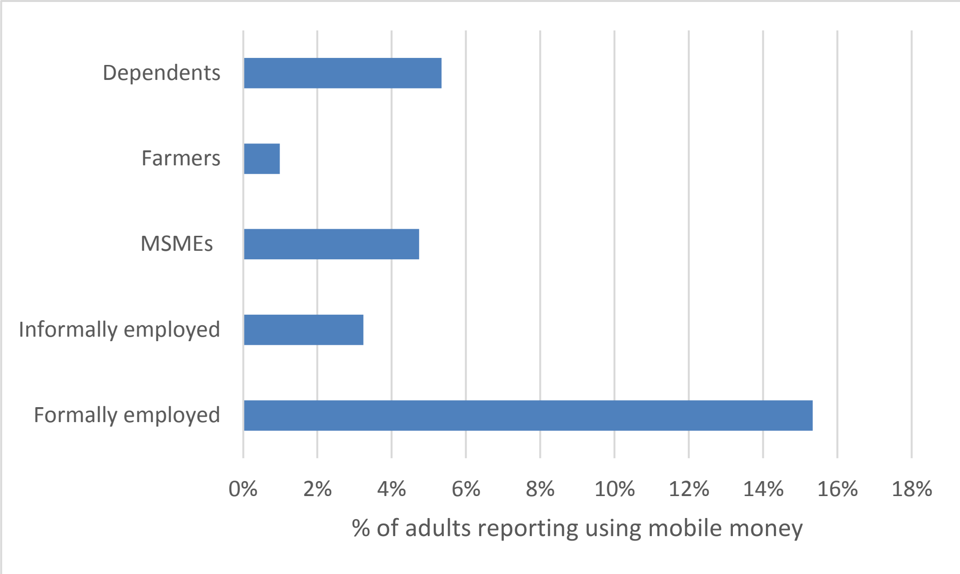

Figure 60. Mobile money usage by target market

Source: FinScope (2015)

Greatest mobile money penetration amongst formally employed. Figure 60 above, shows that, as with bank accounts the formally employed are the greatest users of mobile money in the DRC. Although with lower relative penetration, MSMEs and dependents account for a similar absolute number of the total mobile money users due to the larger size of these target markets. Figure 61 below also shows that slightly more than half of mobile money users do not also have a bank account. It would therefore seem that mobile money is playing a role in extending formal account services, rather than simply being used as a complementary product to a bank account.

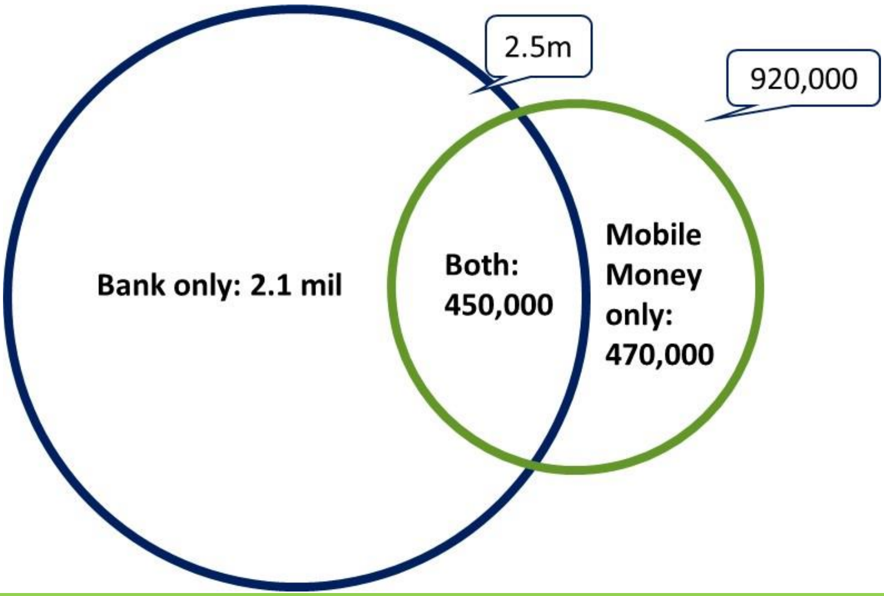

Figure 61. Bank and mobile money usage

Source: FinScope (2015)

Remittances an important source of income for many DRC adults. More than seven million economically active adults indicate that they receive remittances. 28% of these adults (about two million) indicate that they receive remittances from outside of the DRC with the remainder receiving remittances from senders within the DRC. The large number of remittances received from across the border explains why there are fewer remittances senders than receivers in the DRC, as illustrated in Figure 62 below. Formal international remittances are reported as low as USD 22 million (World Bank, 2013) but estimates of formal and informal remittances from the DRC diaspora in cash and kind are between USD 7 billion (Rodima-Taylor, 2015) to USD 9 billion in 2014 (Consultations, 2015). International remittances from the DRC diaspora were estimated at USD 9 billion in 2014 (Consultations, 2015). The United Nations Department of Economic and Social Affairs estimated that there are 1.4 million formal DRC migrants globally (UN DESA, 2015), although the total number is estimated at closer to nine million. High rates of urbanisation, estimated at 4% per year also create an increasing need for domestic remittances. Given the number of reported recipients, the difference between formal records and estimates of total inflows points towards a considerable market for international remittances that is currently informally served. The ability to send and receive remittances in the DRC has a direct impacts on the welfare of many Congolese, underlining the need for formal, cost effective remittances.

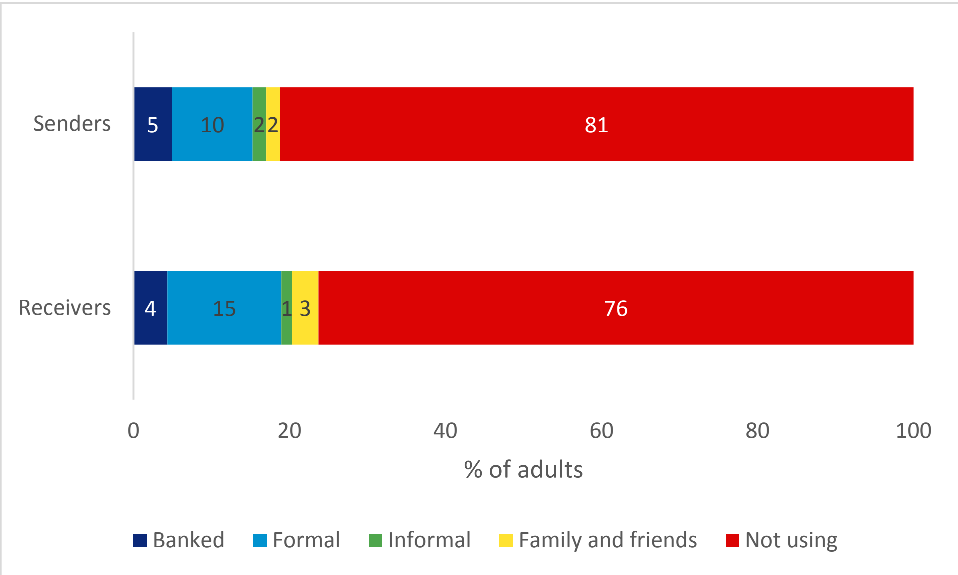

Figure 62. Remittance senders and receiver sources

Source: FinScope (2015)

Heavy reliance on other formal channels to send and receive domestic remittances. As illustrated by the Access Strands, the largest portion of remittances is sent through money transfer operators (MTOs). 67% of remittance receivers indicate that they receive their remittances via MTOs with 23% receiving remittances directly in cash from family and friends. In contrast, just 4% of receivers receive their remittances via a bank and 2% via a mobile phone transfer. Given a more dispersed agent network, fewer points in urban areas and some cooperation between MTOs offering the beginnings interoperability, provides the MTOs with a larger geographic reach than alternative providers. MTO's are also the most trusted provider with 70% of remittance receivers identifying MTOs as the provider they would most trust to receive their money.

	Receivers	Percentage	Senders	Percentage
Formally employed	538 935	36%	743 002	49%
Informally employed	470 621	32%	235 388	16%
MSMEs	1 877 888	30%	1 397 722	23%
Farmers	1 243 163	18%	1 151 670	17%
Dependents	1 483 365	33%	892 791	20%

Table 10. Remittance receivers and senders by target market

Source: FinScope (2015)

Formally employed the greatest relative senders, all target markets receive remittances. Table 10 above shows that the formally employed are the greatest relative senders, with 49% of the group having sent a remittance within the last 12 months. However, as the formally employed are a relatively smaller group, they do not account for the largest number of remittance senders. The table also shows that substantial portions of all the target markets have received remittances within the last 12 months.

Remittance receivers mostly reliant on extended family. Figure 63 below shows that 'other family' emerges as the biggest source of remittances received. This illustrates a close reliance amongst the community and particularly amongst the extended family rather than simply the nuclear family that one typically finds in neighbouring countries.

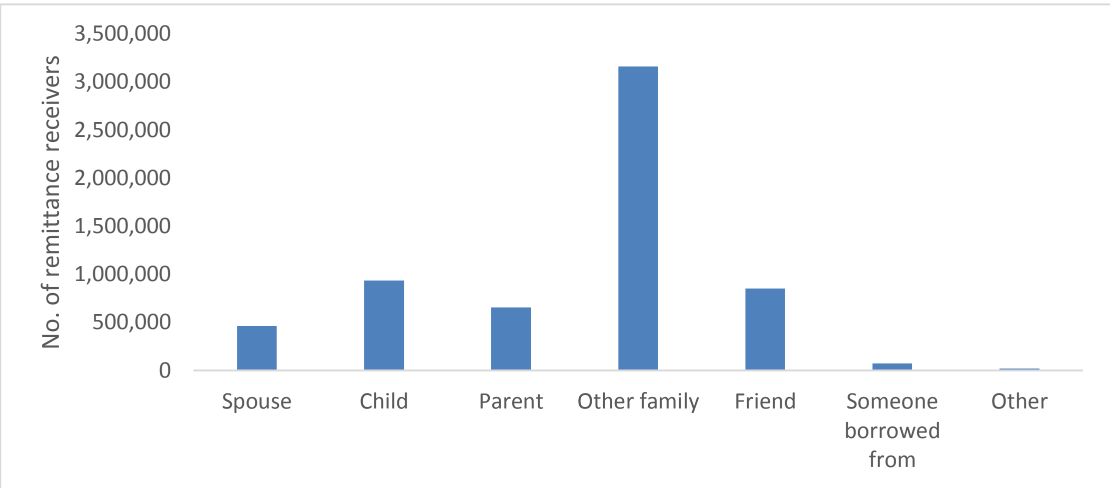

Figure 63. Source of remittances received within the last 12 months

Source: FinScope (2015)

Most remittances sent infrequently. A large number of adults rely on remittances as an important source of income. The majority of these remittances are sent seasonally, as shown in Figure 64 below. This suggests that most remittances are sent when the sender has excess income available, rather than as a regular income stream to support dependents throughout the year. This also means that the individual values of remittances are generally quite high with the average estimated sent in the last three months being between USD 60 and USD 65, equivalent to 75% of average monthly income. 32% of remittance receivers also indicate that they have received more than USD 100 in remittances in the last three months.

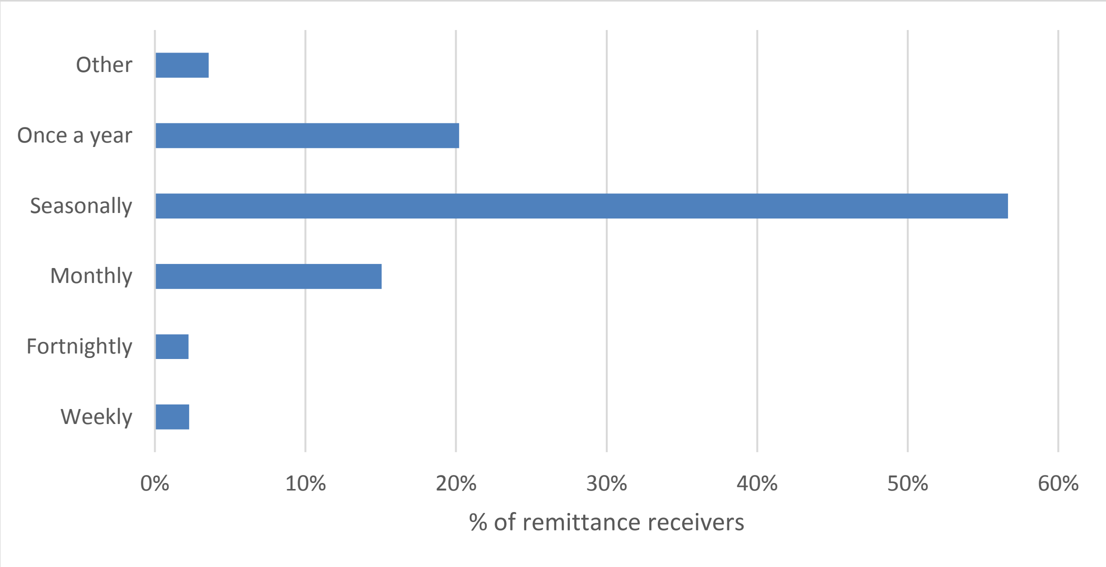

Figure 64. Frequency of remittances received

Source: FinScope (2015)

Remittances used as a key tool to share and support family and community members. DRC adults rely on a large network of people from which they receive remittances but that these are sent relatively infrequently. Given that, 37% of people that have received a remittance in the last 12 months have also sent a remittance during that period. The picture that emerges is that economically active adults use remittances to share excess income amongst their social network when they have surplus or when someone in the network experiences a financial shock or has a specific need, as the quote below illustrates.

> **"***I help them with small amounts of money, maybe for school fees."*
>
> **Interviewer: How frequently do you do this?**
>
> *"I send that money irregularly, I send it only when they ask for help."*
>
> \- Private enterprise owner, female, Sake

This enables individuals to build up social capital with a network that they themselves can draw upon when in need. The social and community reliance is further illustrated by the relative importance of member-based financial service providers like SACCOs and *mutualitées*. They can be an effective means for individuals to manage the liquidity/smooth their consumption over time and to manage risks. However, this also highlights the critical importance of payment mechanisms that can be trusted to transfer money over distance quickly. This goes some way to explaining why, unlike in any neighbouring countries, formal MTOs are strongly preferred to informal channels. The formal MTOs are generally more trusted and secure and can rapidly shift funds over distance, unlike informal channels like buses and taxis that physically move the cash. The lack of physical infrastructure in the DRC further increases the relative value to consumers of immediate, or nearly immediate, transfers of value of distance.

3.2. Use cases

In this section we outline some of the main use cases for potential uptake by Congolese of efficient and cost-effective payments mechanisms. At the end of the payments market analysis, we will return to the use cases as the basis for the identification of gaps in current provision and opportunities for growth. Table 11 below shows the main payment categories in DRC:

		PAYER			
		Government (G)	***Donor (D)***	***Business (B)***	***Person (P)***
PAYEE	***Government (G)***		Grants, Tax (D2G)	Tax (B2G)	Tax (P2G)
	Business (B)	Procurement (G2B)	Business funding/ loans, Bill payments, Grants (D2B)	Bill payments, Spot payments (B2B)	Bill payments, Spot payments (P2B)
	Person (P)	Social transfers, Salaries (G2P)	Social transfers, Salaries (D2P)	Salaries, Loan disbursements (B2P)	Remittances, Wages (P2P)

Table 11: Payment Grid-Categories of payments in DRC

Source: Authors' own adapted from BTCA (2013)

Remittances (P2P). 7.1 million DRC adults receive remittances according to FinScope (2014). Nearly a third of these remittances are sent internationally from DRC diaspora, with the remainder sent domestically. Remittances are defined in Hougaard, *et al.* (2008) as "non-reciprocal transfers from one person to another across a distance" and therefore constitute a person to person money transfer. Remittances are important for all the target markets. The formally employed are proportionately the largest senders of remittances but large portions of all the target markets receive remittances. MSMEs account for the largest number of both senders and receivers.

Bill payments (P2P, P2B, B2B). Bill payments refer to the settlement of documentary accounts once presented for acceptance. A key element of a bill payment transaction is that it can be discounted to an intermediary and still charged in full to the client. For example, bill payments include payments for water, electricity, airtime, loan repayments, insurance premiums, school fees. Bill payments are relevant for all the target markets as all individuals have to pay bills of some form.

Spot payments (P2B). Spot payments constitute the payment by a person to a business in return for a good or service. Spot payments are payments that are made at the point at which delivery is taken of the good or service. The distinction between bill and spot payments hinges upon the immediacy of the transaction and fulfilment, coupled with the handover of possession or control of goods and therefore whether the transaction is better described as *ad hoc*, on the spot for possession of goods versus the settlement of documented accounts of future or past services or in respect of delivery of goods. For example, spot payments include payments for groceries, clothes and appliances. Spot payments are the most frequently used payments in DRC and are almost entirely conducted in cash. 96% of adults pay for food with cash and these are also the most frequently made payments by economically active adults: 55% buy food and non-alcoholic drinks every day.

Salary payments (B2P, G2P, D2P, P2P). Salary payments constitute the payment of individual employees by their employer, either a business, individual, donor or government. From the individual receiver's perspective it is imperative that they receive salaries on a consistent, timely and reliable basis. The formally employed and MSMEs (who employ others) are the target markets primarily affected by this use case. The *bancarisation* programme endeavours to shift most of the government's salary payments from cash to electronic payment channels. According to FinScope, 71% of government salaries and 83% of company salaries are still paid in cash.

Social welfare transfers (G2P, D2P). Social welfare payments constitute the payment of grants to grant recipients by government or transfers to grant recipients by donors. As with salary payments, grants also constitute a bulk payment disbursal by the state or donors, but the recipients have a considerably different profile that will affect the payments mechanisms used.

Tax payments (B2G, P2G). Tax payments would largely affect the formally employed that are required to pay income tax and the MSMEs who are required to pay Value Added Tax (VAT) on goods and services sold. Improved tax collection is fundamental to boost the DRC's government revenues. Efficient, simple payments mechanisms provide a significant contribution to effective tax collection.

3.3. Providers

This section considers the supply of payments services in the DRC in terms of providers and products, including the payments infrastructure underlying each of the providers' operations.

	Banks	Mobile money	Money Transfer Operators	Informal remittances	Remittances sent with Family & Friends	Population
% urban	75%	77%	69%	16%	27%	48%
% female	44%	48%	44%	50%	44%	49%
% primary education or less	19%	18%	23%	39%	39%	41%
% tertiary education	30%	41%	24%	5%	7%	11%
Average income (USD)	133	141	126	91	111	85
% Formally employed	25%	26%	14%	8%	7%	7%
% Informally employed	4%	6%	8%	2%	2%	7%
% MSMEs	37%	33%	35%	23%	24%	30%
% Farmers	13%	8%	19%	49%	50%	34%
% Dependents	21%	27%	25%	19%	17%	22%

Table 12. Payment provider usage by target market

Source: FinScope (2015)

Major differences in the profiles of users of formal and informal payments channels. Table 12 above shows the demographic profiles of the economically active adults that use each type of payments provider. The users of banks, mobile money and MTOs are mostly urban, fairly well educated and fall disproportionally into the formally employed and MSMEs target markets. In contrast the users of informal remittance providers and those that use family and friends to send remittances are mostly rural, far less educated and the biggest portion of them are farmers. The stark differences between these consumer groups illustrate that formal financial services are limited mostly to the urban and better educated groups within the DRC. In contrast, those lesser educated, rural adults make greater use of informal services.

3.3.1. Banks

Small banked population but rapid growth. FinScope (2015) indicates that 8% of DRC economically active adults, equivalent to 1.5 million, own a transaction bank account. The Central Bank (BCC) reports a total of 2.5 million bank accounts in the country[93]. Although the penetration is low, growth has been rapid as illustrated in Figure 65 below. This rapid growth in bank accounts has been driven almost entirely by the government's *bancarisation* programme.

[93] The discrepancy is due to FinScope being a demand side survey and measuring number of adults. Therefore it will not pick up adults with multiple bank accounts or corporate accounts. Also, adults that have a bank account but have not used it will be unlikely to report owning an account whilst the provider will still count this as an open account.

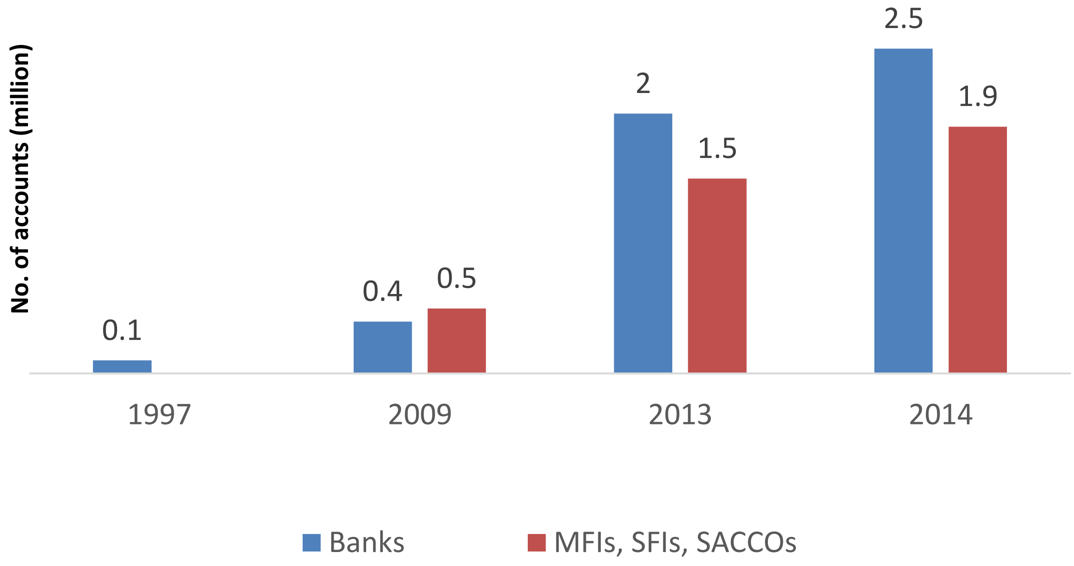

Figure 65. DRC account ownership

Source: Banque Centrale du Congo (2014)

Bancarisation a key shaper of the payments landscape. Bancarisation or the payment of state employee wages into bank accounts is considered “a major project which forms part of the institutional reforms advocated by the government to strengthen the effectiveness of the state” (Ministry of Finance, 2014). The primary objective of this project is to improve the efficiency and reduce the losses incurred by both the State and employees when salaries are paid in cash. In particular, the project endeavours to eradicate issues like ghost employees and the reoccurring problem of wage arrears. This project also reduces the risk of illegal deductions from employees’ salaries through the wage dispersal value chain.

The State estimates that improving the execution of these remuneration expenses would lead to a reduction of almost half of public expenditure. Additionally, channelling the government payroll through the banking sector provides a major boost to the development of the sector.

Despite gains, bancarisation continues to struggle. The push to digitise the government payroll created large savings for government, however the initial implementation encountered major challenges. Foremost amongst these was the limited reach of financial services infrastructure which meant that the distribution cost of the salaries was transferred from the State to the end recipients. In many cases, government employees were forced to travel long distances simply to access their salary. Low awareness of the project and mistrust of banks also meant the many recipients were unaware of how to receive their income. The providers also struggled to maintain sufficient liquidity at cash distribution points to meet the increased demand. This forced the government to slow the initiative. Those residing in the greater Kinshasa area continue to receive their salaries into their bank accounts, but those residing more remotely receive cash. Some of this group residing outside of Kinshasa is quasi banked, with these employees’ allocated accounts at a bank. The bank then takes the responsibility for distributing this cash to the recipient. The government pays the bank for this service. However, this cash distribution is still limited only to specific areas or along specific nodes, primarily those areas covered by either roads or traversable rivers. Hence many employees still need to travel long distances to access their salaries.

Even small improvements to cash distribution can have big benefits for bancarisation. The existing version of *bancarisation* is very expensive to implement as banks are still responsible for distributing cash to remote beneficiaries and also imposes large costs on most beneficiaries who must travel long distances to receive their incomes. Even within Kinshasa, 46% of adults indicate they must travel more than an hour to reach the closest bank branch. Therefore, even small improvements in infrastructure that reduce the costs of cash distribution, higher quality notes (such as polymer-based) that can stay in circulation for longer, collaboration between the banks in their cash distribution could all reduce the cost of distributing cash and therefore enhance the effectiveness and impact of *bancarisation*.

Safety the primary advantages of bank accounts identified by DRC adults. Figure 66 below shows that the safety from theft was identified most frequently as an advantage of bank accounts. The ability to easily and safely receive money, either salaries or from others, and send money were the other major advantages identified for a bank account.

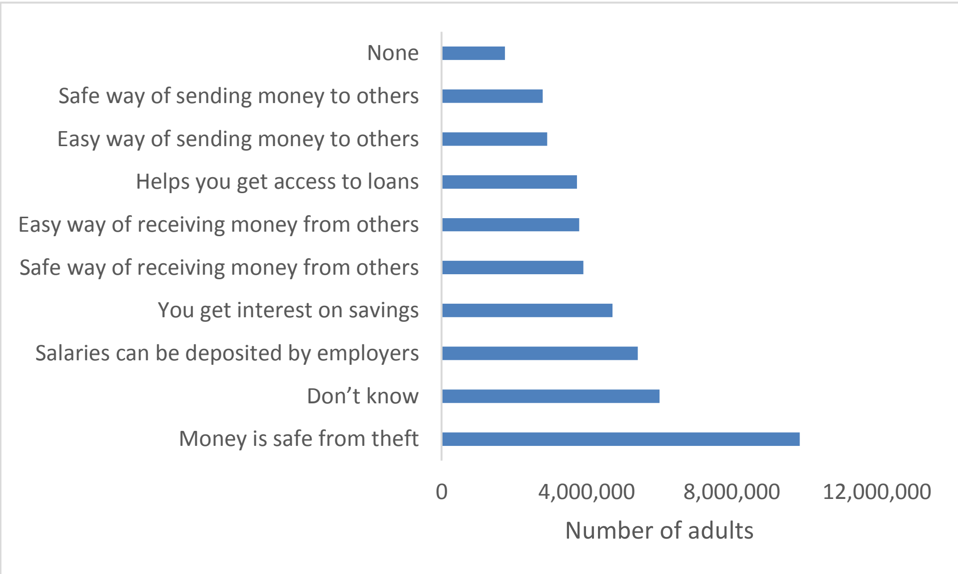

Figure 66. What are the advantages of a bank account?

Source: FinScope (2015)

Small bank distribution footprint. Across the DRC there are a total of 403 bank branches. This corresponds to one branch per 120,000 adults and only 0.14 bank branches per 1,000km^2. ATMs are similarly sparse with one ATM per 88,000 adults. As illustrated in Table 13 below, this is substantially lower even than most other developing countries. However, even these overstate the true level of access as the bank infrastructure is largely concentrated in urban areas. Additionally due to the limited interoperability between banks up to now, consumers would only have been able to use their own banks' infrastructure. The number of ATMs and branches or FSP agents would need to increase by a factor of four to equal the average Sub Sahara African (SSA) infrastructure and ATMs alone would need to increase by a factor of 20 to support a strong retail financial services sector. Interoperability of financial infrastructure is crucial given the high cost of deployment.

Description	DRC	Angola	Brazil
ATMs per 100,000 adults, Number	1,14	22,97	129,25
ATMs per 1,000 km2, Number	0,19	2,08	23,86
Commercial bank branches per 100,000 adults, Number	0,82	12,86	47,32
Commercial bank branches per 1,000 km2, Number	0,14	1,16	8,74

Table 13. ATMs and bank branches penetratio n

Source: IMF FAS (2015)

TMB, Rawbank and BIAC the dominate market share. FinScope (2015) indicates that the Trust Merchant Bank (TMB) has the largest number of clients amongst the DRC's banks, with 30% of banked adults indicating that they use TMB. Rawbank and Banque Internationale pour l'Afrique au Congo (BIAC) account for 18% and 15% of banked adults, respectively. Banque International de Credit (BIC) accounts for 10% of banked adults, however the remaining banks each account for only a small number of banked adults. One implication of this large number of small banks is that they do not benefit from economies of scale. Small banks may also be vulnerable to shocks, risking clients' deposits.

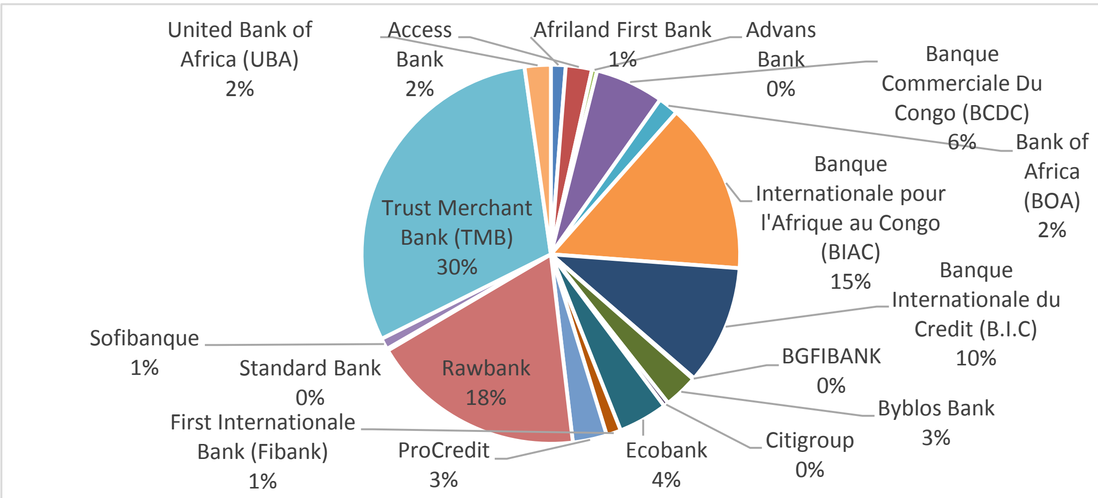

Figure 67: Which of these banks do you use?

Source: FinScope (2015)

Box 8: DRC Payments system infrastructure

Figure 68 below provides an illustration of the DRC's payments infrastructure. With no central Real Time Gross Settlement (RTGS) or switching provider, most of DRC's banks are not interoperable. Payments are settled bilaterally between the different banks. Four of the largest banks: RawBank, ProCredit, FBN and BCDC have established a private RTGS platform and were planning a retail Automated Clearing House (ACH) to enable the institutions to centrally clear and settle payments between the four participants. This is far more efficient than doing so bilaterally and also promotes greater interoperability between these four banks.

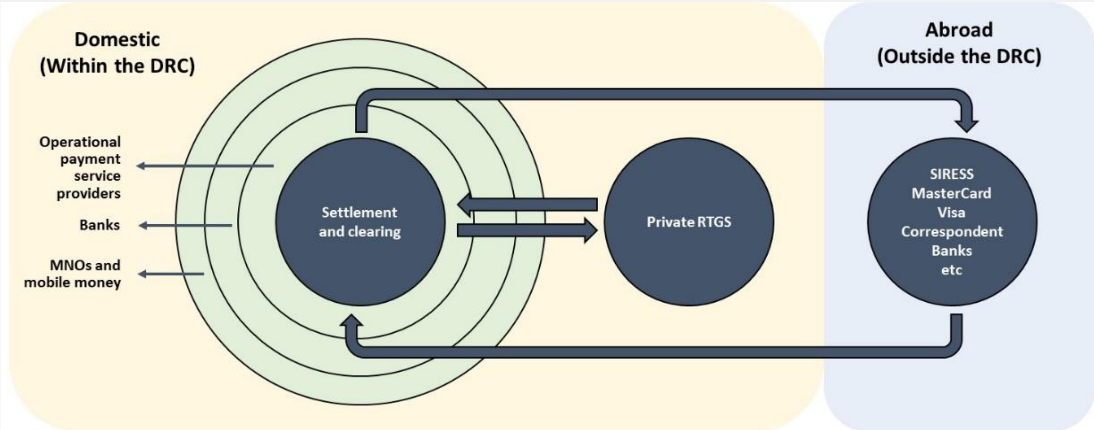

Figure 68. DRC payment infrastructure

Source: Authors' own

New regional switch recently operational. The SADC Committee of Central Bank Governors (CCBG) agreed to the development of SADC regional payments structure in 2009 in the interests of more effective financial integration in the SADC region. The Integrated Regional Settlement System (SIRESS) was developed under auspices of SADC and the CCBG. The regional payment system accommodates Continuous Processing Line (CPL), and Real Time Line (RTL) processing of high value irrevocable settlements directly between regional banks, as illustrated below in Figure 69. Banks in non-CMA (Common Monetary Area) countries have already started testing, first clearing in ZAR and later in regional currency ZAR equivalents, although there is no long term finality as to the choice of the main switching currency. SIRESS is the core settlement system which will underpin regional payment clearing houses, initially for batched low value EFT Credits and Debits and later for other payment instruments such as card based payments. None of DRC's banks are yet connected to SIRESS, however the intention is for them to be phased onto the system in the near future.

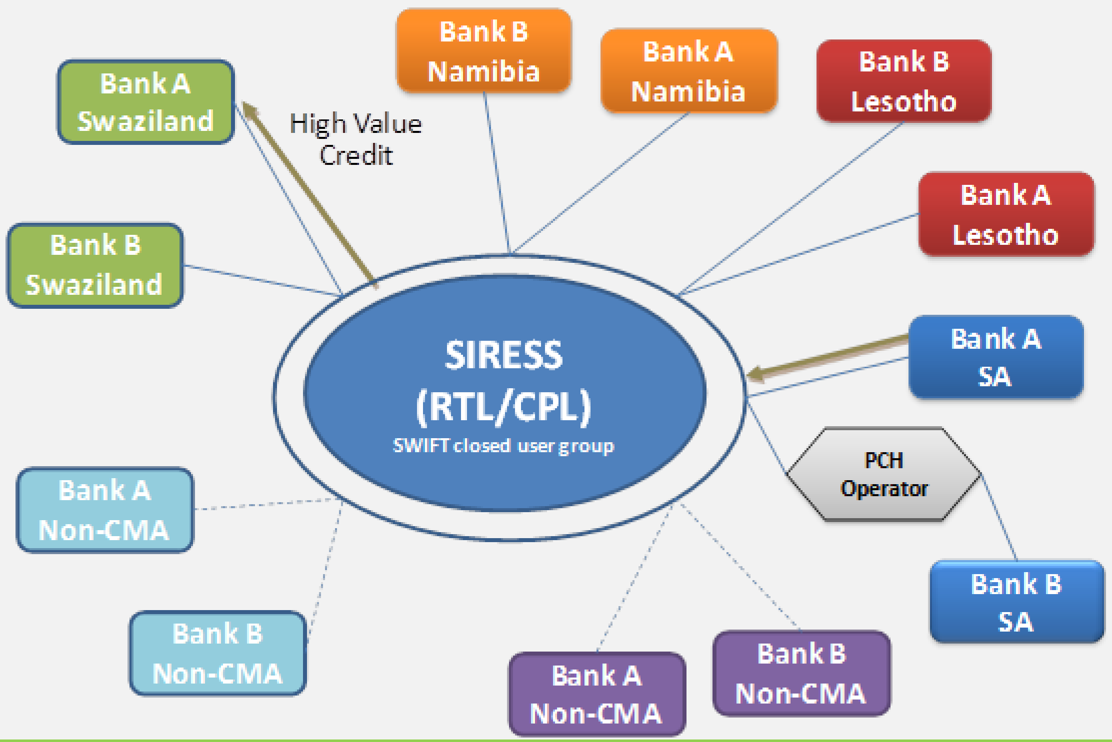

Figure 69: The SADC regional payments system – SIRESS

Source: Authors' own

SIRESS and associated retail ACHs is able fulfil the role of a national switch. The planned link to SIRESS and retail ACHs by DRC's banks will enable these banks to not only clear and settle payments with other banks in the region but also with all other local SIRESS connected banks. This would circumvent the need to establish and maintain costly local clearing and settlement installations. Given the low volumes of electronic payments within the DRC, switching and settling payments through regional infrastructure makes far greater sense than paying the costs for a local switch which will struggle to reach sufficient volumes to make it cost-efficient. There is currently an artificial bar against under developed countries benefitting from the scale and low cost of domestic use of regional clearing and settlement infrastructure due to the high installation sunk domestic costs incurred by smaller SADC countries as part of previous international schemes, policy instruments and loans.

3.3.2. Mobile Network Operators

Large number of Congolese use mobile phones. 47% of FinScope adult respondents indicate that they own a mobile phone, whilst the GSMA (2014) estimated mobile penetration for the entire country at 33%. Whilst this is still a minority of the population this corresponds to 16 million subscribers, a substantial market for providers.

Mobile money still a relatively new product. Mobile money was first introduced into the DRC market in 2012 with the introduction of Airtel's Airtel Money product. Since 2012, three additional MNOs, Vodacom and Tigo introduced their own mobile money products. In 2016, Orange completed the acquisition of Tigo in the DRC to reduce the number of MNOs which provide mobile money products to three. TMB also offers a mobile money product called *Pepele mobile*. Ecobank has also developed their own mobile banking services.

High uptake but low use. GSMA (2013) reported 12.4 million total mobile money subscribers in 2014, substantially higher than the number of banked adults. However, the vast proportion of these subscribers remain inactive. Providers estimate as few as 10% of subscribers are active users. GSMA (2013) calculated 90-day activity rates of 13.3% in December 2013. As of December 2013, 1.2 million mobile money transactions for a total value of USD 30.7 million per month were conducted. The BCC reported that the average number of mobile money transactions per month had risen above six million by 2015 (BCC, 2015).

Infrastructural challenges substantial for MNOs. MNOs are unable to reliably provide telecommunications to large swathes of the DRC, this limits the potential to extend financial services to rural areas through this channel to support the current strongest financial services need being the remote transfers of value. Furthermore, mobile money agents are reliant on banks' cash distribution and logistics in order to manage their own liquidity. The limited reach and high cost of banks' cash distribution infrastructure makes liquidity a major challenge for most mobile money agents and from the banking industry view, wider distribution and higher levels of mobile agent activity will have a severe impact on the cost of cash logistics borne by the banks. Extending partnerships with retail cash aggregation points such as retail stores, agri-dealers and fuel retailers reduces reliance on bank infrastructure.

> *"Here is a typical example. At my home village, it's 120 km away from Lubumbashi, village Sampwe. There is no network, not even agencies. To call someone, you need to go 15 km far, so do you really think that if you send me money by phone, for an emergency, I will receive it?"*
>
> \- Male, urban, Lubumbashi (Source: ASI 2014)

Low awareness a challenge for mobile money providers. Nearly two-thirds of DRC adults indicate that they have never heard of mobile money. Even amongst the formally employed target market, that would likely be the most directly exposed to the product, 42% have never heard of the product. Whilst just 16% of farmers have heard of the product.

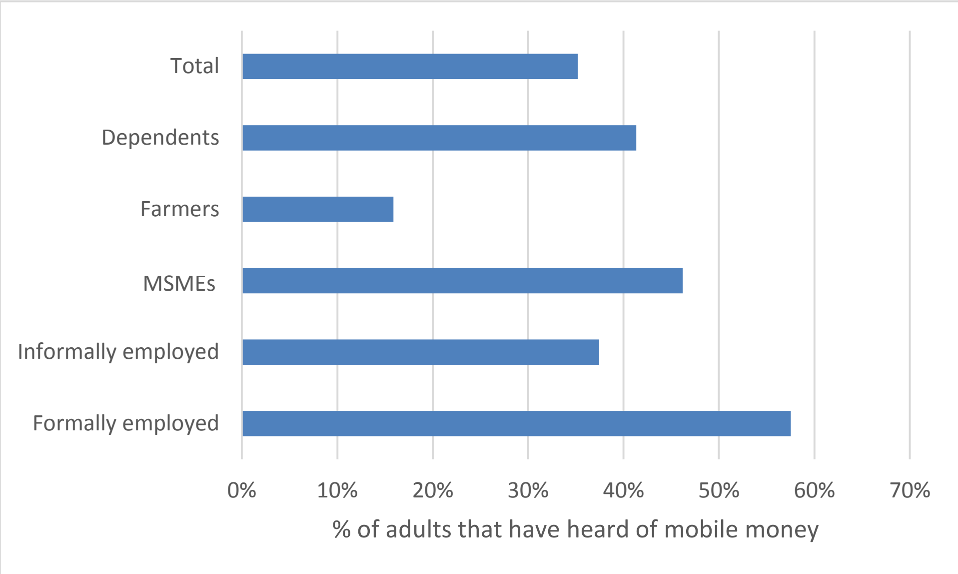

Figure 70. Mobile money awareness

Source: FinScope (2015)

Convenience the major advantage of mobile money. Across the small number of mobile money users in the DRC, convenience emerges as the most prevalent reason why subscribers use the product. 50% of users cited the convenience of the product as the primary reason why they use mobile money. The relative inexpensiveness of mobile money was also highlighted by 40% of respondents.

> *"It's quite simple and very convenient. At times I will be very busy and so occupied that I can't leave my workplace so that's why I always opt to use this service provider; and I also don't have to use any transport."*
>
> \- Small business owner, female, Kinshasa

Large number of agents but few active. The GSMA (2014) reports that as of 2014, mobile money providers had a distribution network of 32,000 mobile money agents. However, just 8,000 (25%) of these were considered active. The implication is that the mobile money network is still many times larger than any other payments providers' but it is likely that most of these agents are clustered around existing banking infrastructure as they remain reliant on banks' cash distribution infrastructure to maintain their liquidity.

3.3.3. Money Transfer Operators

Money transfer operators the preferred and trusted providers of remittances. Figure 71 below shows that MTOs are the preferred vehicle to send and receive remittances by DRC adults. Two-thirds of DRC adults receiving remittances do so through an MTO. A major driver of this preference for MTOs is the trust that the Congolese have for this category of providers. 72% of FinScope (2015) respondents indicated that they would trust MTOs the most out of any provider to send money to someone in the DRC. 76% indicated that they would trust MTOs the most to send money to someone outside of the DRC. MTOs also have good agent networks making them more accessible than most alternatives. Transfer companies also accept very small transfers, unlike banks which often have minimum transfer sizes (GSMA, 2014).

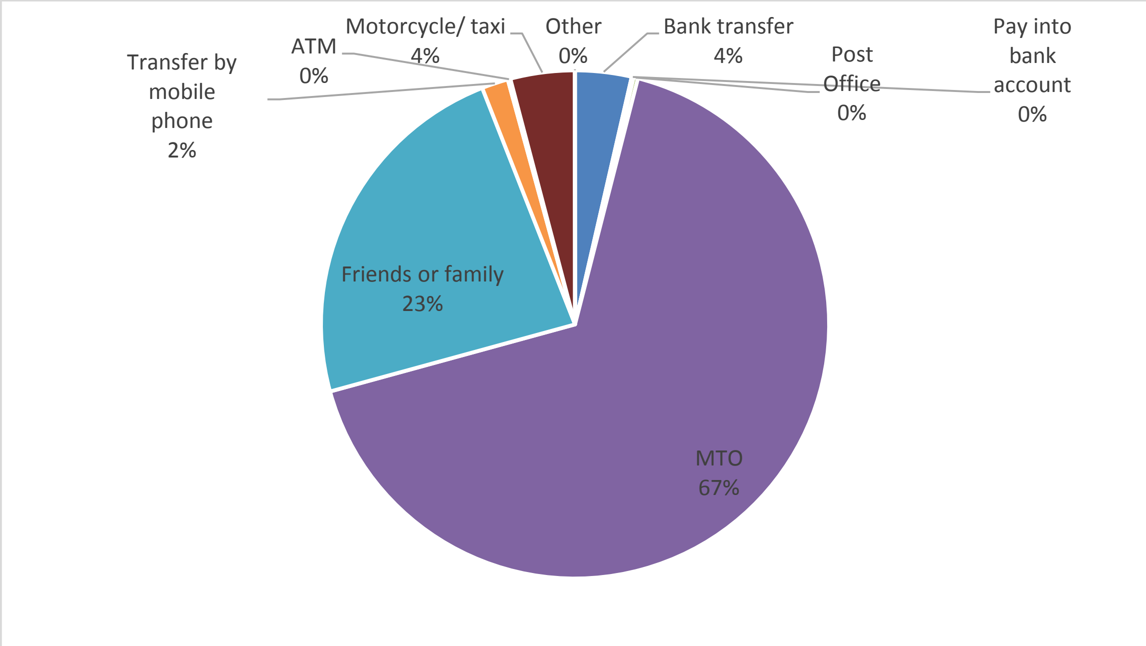

Figure 71. Preferred remittance channels

Source: FinScope (2015)

Relative reach may be important driver of MTO preference. MTOs have a total of 389 branches distributed throughout the country. However, the evidence indicates that these are more broadly distributed than most alternative providers. The MTOs also achieve greater distribution by partnering with a range of parties to leverage existing distribution points and cash movement networks. The MTOs are generally considered more innovative than the alternative payment providers in the DRC. Their reach, combined with reliability have helped to build the trust that the Congolese have in these institutions as they most effectively meet their needs when they need to send or receive emergency funds rapidly to or from their social network

Competitive market between both international and local providers. The strong demand for long distance remittances within the DRC has spawned a number of local companies that offer transfer services, including Amis Fideles, Société Congolaise de Transfert (STC), Soficom, Solidaire Transfert, and Agence de Freres. The two large global MTOs: Western Union and MoneyGram are both active in the DRC market and are generally the preferred option for cross border money transfers (GSMA, 2014).

International Transfer Operators. Western Union and Moneygram are the only international players in the market. Most of the biggest banks in the DRC are connected with Western Union or Moneygram (RawBank only). Western Union has broadened its distribution network over the past two years, by recruiting retail outlets that are not bank branches. Western Union now offers its services through supermarkets, Satellite TV shops, mobile phone shops and DHL outlets. Moneygram have partnered with Total gas stations (22 in Kinshasa) (Consultations, 2015).

There are many local providers of money transfer services. Two of the largest are Soficom and STC:

Soficom is widely present throughout the DRC. Soficom started as a network of Lebanese MSMEs, sending and receiving money from various locations in the DRC, and being paid a small commission (below 5%), depending on the amount that was transferred. The MTO grew rapidly in the early 2000s when companies started using their services to handle payroll, receive payments from distributors or trade partners, pay taxes to local administration or manage suppliers' payments outside Kinshasa. In response to this demand, the company established points of service in each key city of DRC. Soficom has since widened its scope of activities, being a Soficom Transfert and Sofibanque. Soficom illustrates the potential for money transfer operators to expand their financial services offerings in a growing DRC economy.

STC was established in parallel with *Mutuelle d'Epargne et de Credit* (MECRE) to provide money transfer services to MECRE Members. STC distribution was then directly connected to MECRE agency network: wherever MECRE opened a branch, STC also established a distribution point inside the branch or very close to it. As result, STC has rapidly grown to reach 40 outlets countrywide with the annual value of transfers (in-coming and out-going) estimated at USD 97 million in 2014. STC illustrates the potential for financial service providers to piggy back on existing aggregation networks and existing infrastructure to extend their services.

3.4. Product landscape

			Number of customers	Products				
				Account based products		***Non-account based products***		
				Bank accounts	*e-money accounts*	*Domestic money transfers*	*International money transfers*	*Other payments*
Providers	***Banks***		2.5 million	✓	✓	✓	✓	✓
	MNOs		6.6 million (10% active)		✓			✓
	Post Office							
	Retailers							
	MTOs		5 million			✓	✓	
	Informal	*Motorcycles & taxis*	370,000			✓	✓	
		Friends, family or self	2 million			✓	✓	

Table 14: Matrix of providers and the products they provide

Source: Authors' own based on FinScope (2015)

Table 14 above shows which providers provide which products. The banks and MNOs between them account for the account based products. There are about 1.5 million adults with bank accounts. Additionally there are 6.6 million mobile money subscribers, although the vast majority of these are not active users. The mostly widely used payments providers are the MTOs with 5 million customers. A large number of adults also use informal channels, either paying motorcycle or taxi drivers to physically transport their cash transfer or leveraging family and friends to transport the cash.

3.4.1. Account based products

DRC banks charge relatively high monthly fees, low encashment fees. Table 15 below shows the average monthly service fees and ATM withdrawal fees (for USD 10) across a number of SADC countries. The table compares the average costs charged by banks on entry level transaction accounts. The average fees charged by mobile money providers in the DRC is also included. This analysis shows that the DRC's banks charge much higher monthly service fees than banks in the other countries. The monthly service fee alone, constitutes 7% of the average monthly income of adults in the DRC. This fee may, therefore, constitute a major barrier for many adults.

Conversely, the average ATM withdrawal fees charged by Congolese banks are relatively cheaper than in other countries. Whilst this makes encashment affordable for consumers, it also minimises the incentive for DRC's banks to invest in critical ATM infrastructure. A limited cash distribution network imposes greater travel costs on consumers to access the infrastructure and may actually make them relatively worse off than if fees were increased in order to fund more distribution points.

	DRC	Malawi	Swaziland	South Africa	Lesotho	DRC mobile money
Monthly service fee	6	2.47	1.11	0.26	0.73	0
ATM withdrawals--on us (w/d: USD 10 each)	0.06	0.12	0.40	0.43	0.42	0.54

Table 15. Average monthly bank service fees (in USD)

Source: Authors' own based on product research

Mobile money pricing the reverse of banks. Unlike the banks, DRC's mobile money providers charge users no monthly service fee but relatively high cash withdrawal fees. Three of the four MNO provided mobile money products also charge fees on P2P transfers. Usually these fees are higher when sent to users not subscribed to the same mobile money provider. Airtel is the only exception which charges zero fees on all P2P transfers.

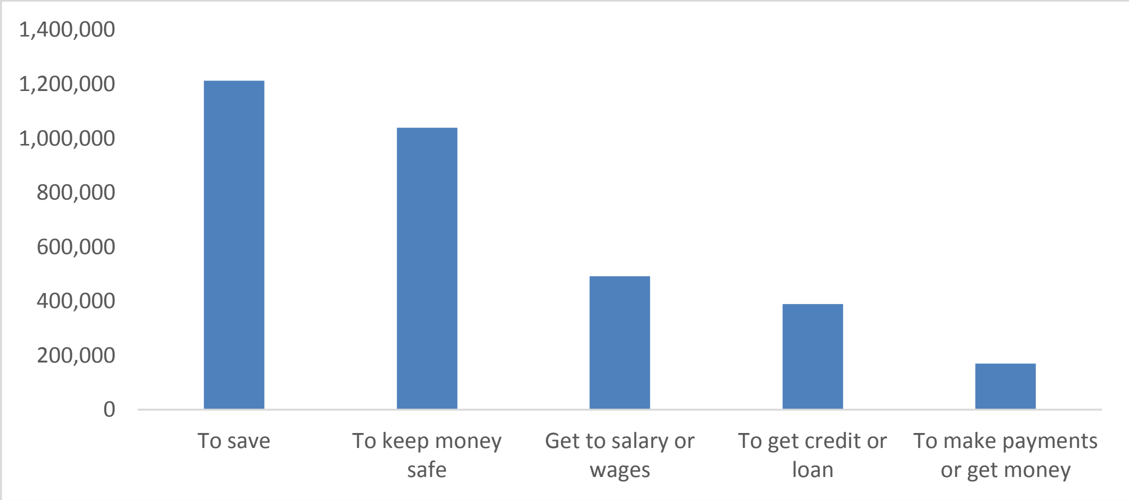

Figure 72. Identified reasons for having a bank account

Source: FinScope (2015)

Savings accounts the most popular bank accounts. FinScope indicates that the largest portion of banked adults (57%) have a savings bank account, whilst 47% indicate owning a checking account. It is likely that many of those with a savings account use the account for their transaction needs as well as to save in. Similarly, it is likely that many checking accounts are used as store of value. Figure 72 above does show that saving and keeping money safe are the two main reasons identified for having an account. Receiving a salary is also identified as an important reason to own an account.

Sizeable portion of banked have cards. 17% of banked adults indicate having a debit or ATM card and 19% a credit card. The debit cards are required to make ATM withdrawals, however, given the lack of POS devices and therefore the limited ability to make purchases directly with cards, the relatively large number of credit cards is surprising.

Prepaid card launched by BIAC in 2015. BIAC launched the *Heyano* MasterCard Prepaid card in December 2015. BIAC claims that the card is intended to demonstrate the benefit of electronic over cash payments. MasterCard branded, the cards are accepted by any MasterCard linked payments provider globally. The cards have an EMV-chip.

This card functions just like an electronic wallet. Cardholders will be able to withdraw cash from ATMs displaying the MasterCard logo, pay for goods at POSs, transfer money from one card to another and make international money transfers. Cardholders are able to safely reload money onto their *Heyano* Prepaid card when funds are depleted. The card can furthermore be used to make bill payments and to top-up prepaid mobile phone accounts. The card costs 5,000 CDF.

Internet banking is expensive and not widely used. Apart from network access challenges the cost to access internet banking services is high: charged at USD 20 per year. The bigger banks offer payment services through their online banking platforms but mostly on-us payments to other bank customers and branches and some international correspondence banking transactions due to a lack of domestic interoperable clearing and settlement. Smaller banks have limited online transactional functionality and mostly offer statements and account management correspondence due to challenges in attaining appropriate security standards.

MNO usage initially increased rapidly but has since remained relatively constant. Figure 73 below shows the average volume of mobile money transactions per month since 2013. The figure shows rapid initial growth in usage since the product first entered the market in 2012 but this growth appears to have stalled since 2014.

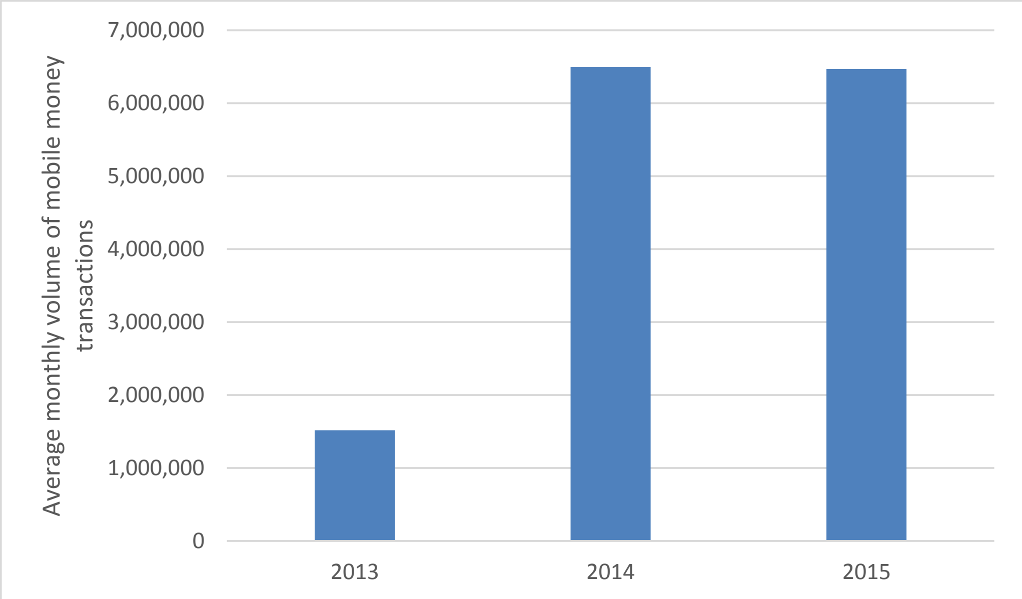

Figure 73. Average volume of mobile money transactions per month

Source: Banque Centrale du Congo (2015)

Mobile money providers maintain low transaction limits. The highest daily transaction limit permitted by mobile money providers is USD 500 with a deposit maximum of USD 3,000. Whilst this is likely sufficient for most low income customers, it may be restrictive for salary or supplier payments which would tend to be larger.

Only M-Pesa offers tiered KYC. M-Pesa offers a standard account for which customers can register by text with their name and date of birth. This account has a daily transaction limit of only USD 100. However, by providing proof of ID at a Vodashop with a voter card, driver's license or passport customers can upgrade to a premium account with a USD 500 daily transaction limit. The other providers require proof of ID to be presented at an agent for a customer to open a mobile money account.

3.4.2. Non account based products

Domestic money transfers

MTOs the most widely used payments providers. MTOs are the preferred provider of money transfers by DRC adults. 70% of remittance senders report using MTOs to send their remittances and 72% selected MTOs as their most trusted channel to send remittances.

Increased use of USD, decrease in CDF sent locally. Figure 74 below, shows the value of funds transferred domestically within the DRC in USD and CDF. The figure shows that the value of dollars transferred by MTOs domestically has increased between 2013 and 2015, whilst the value of CDF has decreased. However, it is likely that these official figures only capture a portion of the total value of domestic flows. The implications of the increased use of USD based transfers requires greater either real-time or bilateral USD settlements through correspondent banks and ultimately higher reliance on international banking relationships and therefore increased exposure to international guidelines, standards, pressures and costs.

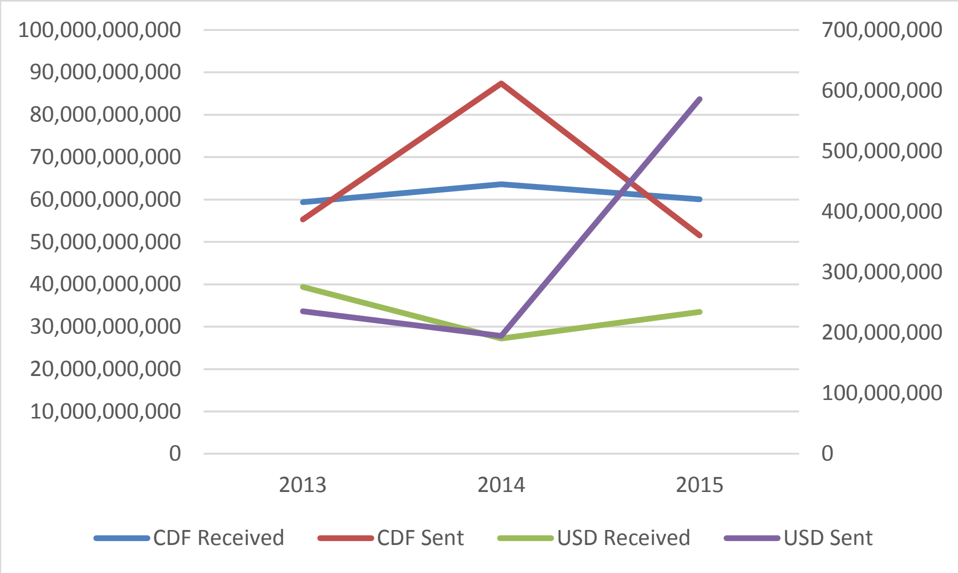

Figure 74. Domestic value transfer

Source: Banque Centrale du Congo (2015)

MTOs relatively affordable. The GSMA (2013) estimated that MTOs charge on average 1-5% of the value sent for a sum of USD 100. This makes MTOs comparable in price to mobile money providers. The table below compares the estimated cost of sending a USD 100 remittance between the different mobile money products and MTOs. The reach of the MTOs compared to the MNOs has the potential to reduce travel and associated total transactional costs making MTOs affordable both in relative and absolute terms.

	Cost to send (USD 100)	Cost to withdraw (USD 100)	Total cost as a %
MTOs	USD 1-5		1-5%
Mpesa	USD 0.4	USD 1.25	1.65%
Tigo Cash	USD 0.5	USD 1	1.50%
Orange Money	USD 0.55	USD 1.7	2.25%
Airtel Money	0	USD 1.21	1.21%

Table 16. Fee comparison across providers

Source: Authors' own based on product research

Cross border money transfers

Value of cross border money transfers decreased from 2013. Figure 75 below shows that the officially reported cross border money transfers conducted by the MTOs decreased between

2013 and 2015. However, it is likely that these figures only capture a small portion of the total value of cross border transfers over this period.

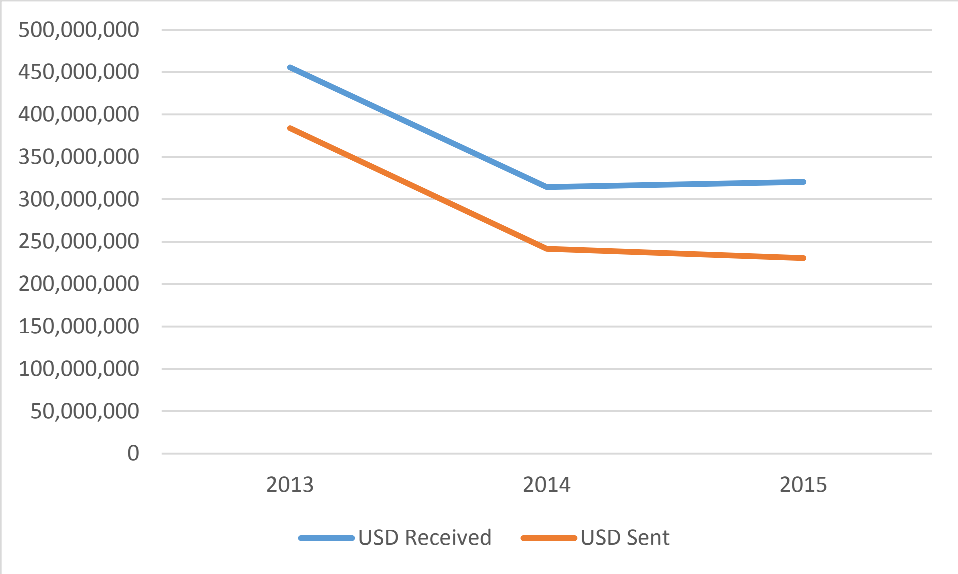

Figure 75. Cross border value transfer

Source: Banque Centrale du Congo (2015)

Cross border transfers from South Africa to DRC comparable to other SADC countries, but still relatively high. Eighty20 (forthcoming) conducted a mystery shopping exercise to map the cost of sending remittances from South Africa to four other SADC countries. Figure 76 below shows the average cost to send remittances to the DRC is fairly consistent with the costs to send remittances to the three other countries considered. The study also noted that the DRC remained one of the most difficult markets to send remittances to by means of formal channels. The cost and efficiency of formal cross border transfers is likely to improve with the implementation of the SADC regional SIRESS inter-bank system. The frequency and value of inward formal remittances will likely improve with changes in cost and effectiveness of formal channels.

MTOs cheaper for lower value transfers, but banks cheaper for higher sums. The figure also shows MTOs are relatively cheaper than banks for smaller value cross border transfers but more expensive for larger transfers. The cost of sending money transfers as a proportion of the value stays relatively consistent for MTOs for sums ranging from USD 55 to USD 500. In contrast banks charge in excess of 30% for a money transfer of USD 55, 11% for a USD 200 transfer and 5% for USD 500. For most individuals sending low value remittances, MTOs are therefore likely to usually be more cost effective than banks.

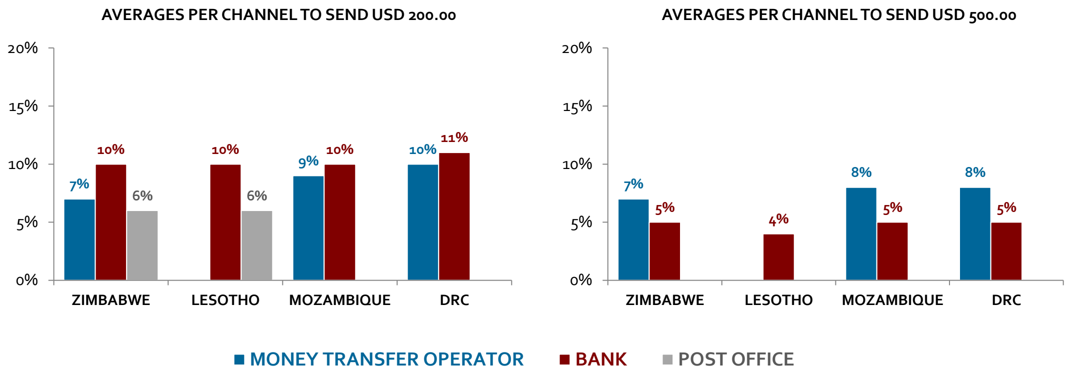

Figure 76. Average cost of remittances from South Africa to selected SADC countries

Source: Eighty20 (forthcoming)

Fees to send money from Belgium to the DRC comparable to South African corridor. The average costs to send USD 200 from Belgium to the DRC is 8.58% of the value. The average to send via a MTOs is slightly lower at 8.1%. Most of these transfers are either immediate or sent the same day, with two of the providers completing the transfer the next day. Belgium accounts for 15% of the formally recorded cross border remittances sent to the DRC (World Bank, 2013).

Money transfers fees for funds sent from France to DRC range generally cheaper than SA and Belgium corridors. The cost to send Euro 100 from France to the DRC ranges between 1% and 13% of the value, however most providers offer these services within the lower end of this band, with few providers charging more than 5% for a transfer of this size. Most of these providers also offer same day services, meaning that the transfer is available almost immediately to the recipient in the DRC (AFD, 2016). France accounts for 11% of the formally recorded cross border remittances sent to the DRC (World Bank, 2013).

Informal channels sophisticated, priced competitively and more convenient than formal alternatives. Eighty20 (forthcoming) also investigated the costs and procedure to send money from South Africa to the DRC via selected informal money transfer agents. These were considered as sophisticated operations and charged between 1.6% and 9% (for transfers of USD 700 and USD 15, respectively) of the value of the transfer, cheaper than a comparable sized transfer through an MTO or bank. The informal agents also required no documentation or registration meaning that the transfer was completed within five minutes on each occasion. In contrast, a formal transfer through MoneyGram required the sender to present both proof of identity and proof of address, major challenges for undocumented migrants. Additionally, it took the sender 25 minutes to complete the transfer. The box below provides a description of the mystery shoppers' engagement with the informal agents.

Box 9. Mystery shopping and informal agents

Two mystery shoppers sent transfers using **informal agents**. Julie, an asylum seeker from the DRC needed to send money home urgently for a funeral. When she could not access formal services she went to an informal agent who she has used before. The agent has offices in the Cape Town city centre. Sending through the informal agents was simple. Julie told the agent that she wanted to send USD 700. The agent quoted ZAR 9,391 which implied a fee of 1.6% of amount sent using prevailing exchange rates. Had she sent this same amount via MoneyGram it would have cost her approximately 4.9%[94].

After handing over the cash Julie was given a unique code which she texted to the recipient. The recipient could collect the funds immediately after the transaction has been completed at a collection point in the DRC. The location of this collection point was not disclosed to the research team.

The second mystery shop through an informal agent was conducted by Daniel. Daniel has been living in South Africa for many years and works principally as a French facilitator although he has numerous side jobs. The agent he uses appeared to be an import-export company with offices in the Cape Town city centre. Access to the office was controlled so that they mystery shopper needed to ring an intercom to be let in. There were approximately seven other people at the agent sending or receiving money at the time. No documentation was required.

Daniel sent USD 15, the minimum transaction amount at this agent. He was quoted R220. Based on exchange rate at the time of the transfer, the total cost to send was about 8.6% of the amount sent. After completing the transaction, the agent issued Daniel with a receipt that had a unique code that he would need to pass on to the recipient. It took less than 10 minutes to complete the transaction.

Source: Eighty20 (forthcoming)

3.5. Barriers to uptake

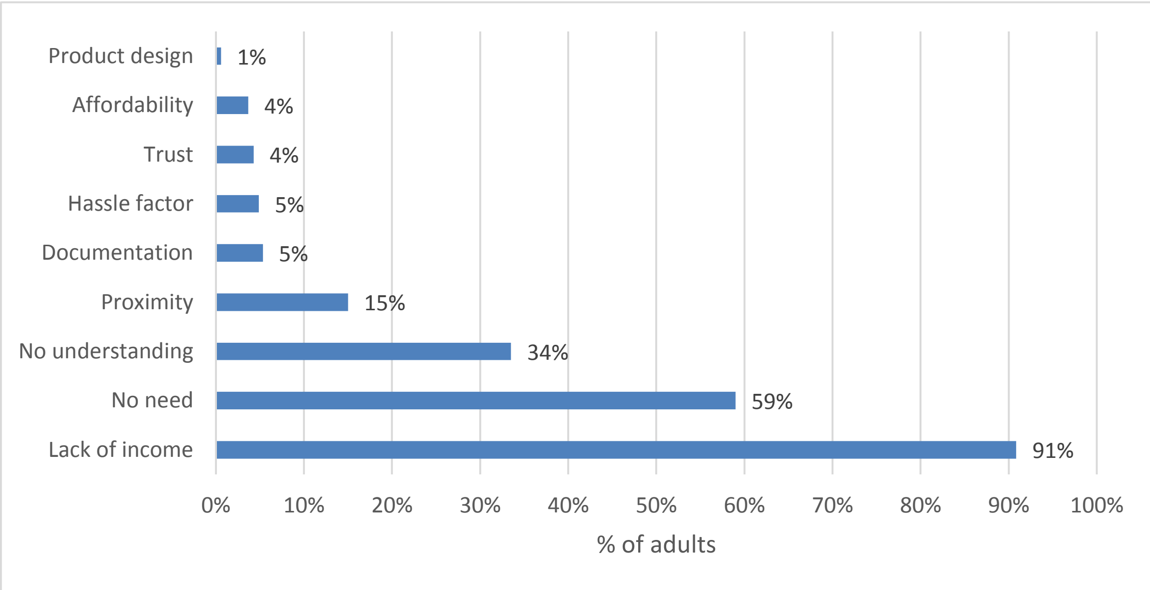

Figure 77. Identified reasons for not using a bank account

Source: FinScope (2015)

Insufficient income. Figure 77 above shows that the top reason identified by economically active adults why they don't use a bank account is 'lack of income'. The low incomes earned by most Congolese mean they have limited surplus value left over after expenses. Accounts

[94] According to the MoneyGram fee estimator on the MoneyGram website.

are primarily seen as savings and storage mechanisms, and therefore most economically active adults consider accounts as not useful to meet their needs given their low incomes. This is tied to the limited available digital payments use cases in the countries meaning that bank accounts can only be primarily used to store value. 59% of respondents suggest they have no need for a bank account, further supporting this point. Additionally, the relatively high monthly fees charged by banks are unfeasible for low income earners to pay each month. 49% of respondents agreed with the statement that 'banking fees are too expensive'.

Interviewer: Are you well informed about banks?

"*Yes, but those kinds of transactions are not for us; they are for rich people who have consistent incomes."*

- Subsistence farmer, female, Kibumba Kingalame

Proximity - limited distribution footprint. The limited bank distribution network in the DRC and the need for customers not living in major urban centres to travel long distances at is a barrier for many DRC adults. The lack of interoperability between banks means that the effective distribution network for a given consumer remains very limited.

Interviewer: Do you use banks for your activities?

"*No, there is no Bank here in Sake."*

- Small business owner, female, Sake

Financial literacy and lack of basic education. Low levels of financial literacy and education levels make it challenging for many Congolose to deal with formal financial providers. 34% of respondents highlight a lack of understanding as the reason why they do not have a bank account. This is further supported by the finding that 47% of respondents agreed with the statement that it is too complicated to open a bank account.

Interviewer: Do you think that you are going to apply for a credit from any bank or microfinance institution if you have a bank account?

"I don't know. In Kimoka we don't know how banks work."

- Government grant receiver, female, Kimoka

Trust. A large portion of DRC adults do not trust banks. 41% of respondents disagreed with the statement that they would trust a bank with their money. This is also reflected by the relatively greater trust in MTOs indicated by FinScope respondents.

> *"People have lost their confidence in Banks and Cooperatives because they have lost their money in those sectors. Personally, I have a little confidence; I keep some money in the Bank but never in the Cooperative. Here, most of the people keep their money at home."*
>
> \- Money lender, male, Goma

Inconvenient opening hours and hassle factor. The limited opening hours of banks are a barrier to using the provider for many DRC adults. 80% of FinScope respondents indicated that banking hours are an inconvenience to using bank products. Additionally, the long queues in many bank branches and at ATMs increase the time and inconvenience for consumers to interact with banks.

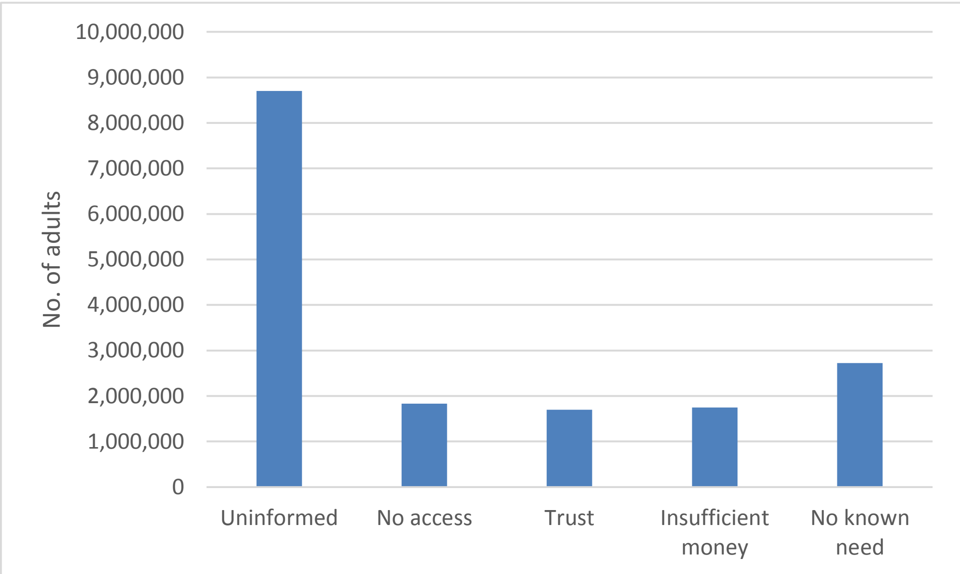

Figure 78. Identfied reasons for not using a mobile money account

Source: FinScope (2015)

Low awareness of mobile money primary barrier to use. Figure 78 above shows that the most highlighted reason by FinScope respondents was that they do not have enough information about it. The lack of awareness both of the existence of the product and of how it works is a major barrier to broader adoption of the product in the DRC. Even amongst mobile money account owners there is widespread uncertainty about the product and a lack of confidence in being able to use the product correctly. GSMA's (2014) research observed the following issues:

- Fear of forgetting their PIN number, or having their phones hacked or stolen

- The need for more technical education on how to conduct transactions
- Fear that text messages can be easily deleted, leaving no proof of payment
- The absence of a way to reverse a transaction without help from a mobile money agent (who may not be readily available).

> *"There are also some disadvantages [to mobile money]; a friend of mine has had his money stolen from his account. Someone saw his code in the text message, he used it and replaced his SIM card after he took all the money that it contained; my friend lost his money."*
>
> \- Money lender, male, Goma

Lack of reliability and poor infrastructure. The lack of widespread, high quality communications infrastructure means that many economically active adults are excluded from mobile phone network access. In areas where there is access, the network is frequently unreliable. GSMA (2013) reports that the majority of respondents that they interviewed complained of technical problems, such as the network going down, in the previous three months. Network failures were also a major concern among focus group and in-depth interview participants. While a dropped call may be just a nuisance, a network outage in the middle of a monetary transaction, such as through mobile money, is not a trifling matter (GSMA, 2014).

Trust and a lack of income also highlighted as barriers. As with banks, a lack of trust in MNOs to keep consumers money safely and accessibly is a barrier to use. This is exacerbated by the poor reliability of MNO networks. Also similar with banks, is that a lack of surplus income is a barrier to using the account to store value.

> *"I did not trust it [mobile money] because my phone can be stolen and I will lose my money."*
>
> \- Subsistence farmer, female, Kibumba Kingalame

No return on deposits compared to alternatives. The lack of interest or return on deposits offered by mobile money accounts is a barrier to us as it makes the alternatives relatively more attractive. The quote below illustrates this barrier as livestock (cattle) is considered a more profitable savings alternative.

> *"In mobile money, that doesn't produce anything, it is not profitable."*
>
> **Interviewer: In livestock is it profitable?**
>
> *"Yes it is profitable."*
>
> \- Subsistence farmer, male, Kibumba Rubiranga

Withdrawal limits. The mandated withdrawal limits of USD 500 on an M-Pesa premium account and even lower on other accounts can be a barrier to using the account for larger value payments such as salary or supplier payments.

Inability to send money to suppliers and employees on different networks. The lack of interoperability between mobile money providers creates a larger barrier for users that want to make payments to recipients on different networks. Payments cannot be made directly into accounts on other networks but would have to be received in cash. Additionally payments to mobile phone numbers on different networks are charged at a higher fee by most networks.

Interviewer: Why do you prefer calling someone from Bweremena to come and collect the money if you can use Airtel money?

"They have not yet subscribed to Airtel money."

- Small business owner, female, Sake

Although generally preferred, MTOs also face barriers. Although MTOs are the most widely used payments providers and are more trusted than the alternatives, GSMA (2013) did highlight a number of challenges identified by focus group participants with MTOs. Many focus group participants said they wasted a great deal of time at local transfer offices waiting in long lines to make a transfer. Also, when receiving money, participants said local transfer offices are often not open late enough to collect their money. Some participants were concerned about security after receiving money, fearing they could be robbed after leaving the transfer office. Other frustrations from the focus groups included lack of liquidity and KYC issues on the recipient side (GSMA, 2013).

3.6. Regulatory issues to consider

Broad scope for electronic money provision. The provision of electronic money is subject to oversight by the BCC as per the Exchange Control Law (BCC, 2014). Mobile money is included under this definition and is regulated by the Instruction No. 24 on the Issuance of Electronic Money and the rules pertaining Electronic Money Institutions. Electronic money may be issued by three types of entities (di Castri, 2014):

- Any credit establishment may issue electronic money if approved to do so.
- Any institution that is not a credit establishment may apply for authorisation from the Central Bank to become an electronic money issuer.
- In addition, there is scope for the creation of electronic money institutions (EMI) which may not fulfil other functions of credit establishments and are subject to dedicated requirements.

E-money account limits prescribed by regulation. All electronic money accounts are subject to the following limits:

- Maximum stock: USD 3,000
- Maximum daily operations: USD 500
- Maximum monthly operations: USD 2,500

Comprehensive payments legislation underway. The government of the DRC is working on draft payments legislation. The legislation is intended to promote the development of the sector, including by facilitating interoperability across the payments system.

Agency banking framework forthcoming. The BCC is currently working on an instruction to regulate agency in the DRC. This framework would clearly define agents and which institutions are permitted to offer products through agents as well as provide clear guidelines regarding the scope for agents' activities. The planned agency banking instruction will, however, require all payments are made whilst online. If instituted this requirement will make offline payments illegal so that all merchants wishing to offer digital transaction functionality, like card payments, to consumers will have to be online at all times to process payments. This is a very stringent requirement in a country with the limited connectivity infrastructure and reliability of the DRC.

MTOs subject to own regulation with reduced regulatory requirements. MTOs are subject to oversight by the BCC as per the Exchange Control Law. The BCC outlines the requirements for establishment of an MTO in Instruction No. 006. A financial intermediary other than a bank could use this category to have an authorised tool to make funds transfers. MTOs operating both internationally and domestically are only required to pay a deposit of USD 5,000 and a USD 1,000 fee to operate. For MTOs operating only domestically, requirements are half of this. The MTOs are also explicitly exempted from all requirements laid out in the Credit Establishments Law.

3.7. Gaps and opportunities

Infrastructure a major barrier. Whilst extending the distributional reach of payments services to the deep rural areas is unfeasible, extending the distributional reach even a little further could create access to large additional market. The current model of *bancarisation*, in which banks are paid by government to distribute salaries to rural areas, may create a business model for further investment by banks in permanent cash distribution networks to those areas, to reduce their overall cash distribution costs each month. Indeed, the long queues reported at formal providers in both qualitative and quantitative research indicates that even increasing the distribution number of distribution points would increase effective access to consumers and enhance the value and reduce the costs of them using formal financial products. Allowing card transactions to be completed offline as is permitted in a number of countries globally, would also limit the exposure of the card payments stream to unreliable network connectivity to merchant POS devices and thereby build trust in the dependability and availability of digital transactions.

Banks not incentivised to invest in cash distribution infrastructure. Banks' current fee pricing structure may not be facilitative of further investment in cash distribution. Currently banks charge high monthly account fees but low cash withdrawal fees. The high costs associated with distributing cash are not recouped by the revenue earned on these transactions. This dis-incentivizes providers from investing in cash distribution points as it would merely promote un-recouped encashment costs.

Banks and MNOs can learn from MTOs innovative models. The success of the MTOs in the DRC is part due to their innovative solutions to distributing cash throughout the country. MTOs have partnered with a number of entities to use existing distribution points and leverage distribution chains already moving cash around the country. Further partnerships with large retail, manufacturing and agricultural value chains, like beer and petrol distributors, could hold further potential for efficiencies in distributing cash.

Lack of existing use cases for digital payments. Digital payments are widely used to send and receive remittances in the DRC, primarily through MTOs. However, apart from remittances, few payers even have the option of digital payments. There are few POS devices throughout the country to enable card payments at merchants and most service providers require bill payments to be paid in cash. Even the government requires many of its payments, like tax payments, to be made in cash. Encouraging large service providers and government departments to at least offer bill payers the option of making payments digitally is an opportunity to increase the available use cases for digital payments and thereby increase the adoption of digital payments, enhancing efficiency and enhancing consumer allowing consumers the option to avoid long queues.

Limited interoperability. The limited interoperability between the different banks increases the cost of doing business and reduces reach and distribution of financial infrastructure. Although there are a total of 403 bank branches across the DRC, the lack of interoperability means that any given consumer has access to the total number of distribution points of their own bank. Therefore, even a costumer of TMB, the bank with the largest branch network, only has access to 49 distribution points. The lack of a local national payments system also means that banks are required to use correspondent banking relationships to clear and settle payments between one another and are reliant on offshore switching. This is both more expensive and inefficient. The NPS and associated interoperability has been planned for a number of years but has yet to be implemented. In the interim, four of the largest banks have developed and implemented a private switch. Whilst this improves efficiencies for these banks and increases the effective distribution network available to the clients of these banks, it is not optimal that the majority of banks remain excluded from national payment clearing. However, the low volume and value of digital payments in the DRC means that a national payments system may not be efficient either. Clearing and settling domestic payments through the SADC SIRESS functionality and Retail ACHs, is a potential immediate solution without costly capital investment, legacy investment costs and extensive ongoing operational costs that would become a needless burden to the financial services industry. An artificial bar to the use of regional clearing and settlement systems for domestic transactions is however in place to protect large legacy NPS investment costs in small markets, due to policies or international loan instruments that were implemented in those jurisdictions.

Maintaining dual currencies expensive. The use of two currencies, US dollars and Congolese Francs, is expensive and creates distributional challenges. ATMs in the DRC usually only distribute one or other currency, which means that effectively distributing both currencies requires twice as much investment in the physical ATM infrastructure. The physical movement of cash is also made more challenging as both currencies must be distributed.

Limited stock of liquidity and currency. US Dollars is the more widely used of the two currencies in the DRC. However, as the Central Bank does not print the currency, the dollars must be imported. This is expensive and means that there is a limited stock of dollars available. Shortages of physical dollars is therefore a recurring issue and frequently affects the reliability and accessibility of financial services by customers. Added to this is that most ATMs only distribute minimum denominations of USD 20. This is a substantial sum of money for most low income adults and also may be challenging for payment recipients to provide change.

Lack of skills and access to technology. Due to past decades of reduced financial services activity, there is limited institutional memory and intricate layers of financial experience that develop over generations and consequently the DRC's financial sector lacks both in breadth and depth, many of the requisite skills and technology to efficiently offer broad based retail financial services. This has been exacerbated by the pressure from the rapid growth in retail banking in the last few years, mostly driven by *bancarisation*. Whilst the unavailability of relevant skills may be a long-term structural issue, better trained tellers and agents can make a big impact on consumers' experiences and perception of these providers. The tellers and agents are the personal interface for consumers with providers and hence their experiences with these individuals will be a major factor defining their perception of the organisation. Furthermore, encouragement, help and advice by these front office employees is often a powerful driver in changing consumers' behaviour and triggering them to try new financial products. For example, a forthcoming study in South Africa and Zimbabwe found that this kind of interpersonal encouragement to try a new product was the second biggest trigger amongst account holders to try digital payments for the first time (Eighty20, forthcoming).

Cross-border/diaspora payments require explicit policy attention. The DRC's diaspora may be considered the country's greatest asset and is the source of the largest inflows. This asset should therefore be protected and nurtured. Incentivising the diaspora to send money back into the country can incentivise the continuing growth of these inflows. Box 10 below provides some examples of other countries that have incentivised diaspora flows. These type of interventions also incentivise those remittances that are currently flowing through informal channels to shift formal channels to take advantage of the incentives. Shifting these flows to the formal sector will further aid the growth of the sector and help ease some of the liquidity constraints. The strong reliance on these flows also means that extreme caution must be taken against disincentivising them in any way. Imposing a tax on these remittance flows, for example, should absolutely be avoided.

Box 10. International comparative examples: diaspora-focused policies

Broader than simply a financial services focus
Any policy to target migrant workers as a mechanism to extend financial inclusion through the inward remittances, investments and deposits needs to take an holistic view of the needs of emigrants beyond simply financial services. Fundamentally, in order to "get something out of" emigrants, they would require some benefits in return. Potential policies in this regard can fall into various categories:

- *Symbolic nation-building*, which may comprise a broad range of initiatives and programmes to increase emigrants' sense of belonging to a transnational community of co-nationals, and to boost the profile of the state within this community.
- *Institution-building policies* in order to furnish the state with technologies – systems and institutions – to 'govern' diaspora populations. A first step for many states is the implementation of surveillance which would entail compiling some form of database of all emigrants and then to collect statistics on which to base strategic orientations towards emigrants.

- *Extending Rights* such as allowing emigrants to maintain a dual nationality, vote or even run for office (Gamlen, 2006). The DRC, for example, does not currently allow dual citizenship which places emigrants in a difficult position in choosing their citizenship.

Various ways to target diaspora investment
There are a number of policies that have been developed by countries around the world targeting remittances with the aim of channeling them into investments. Examples include:

- Rewarding remitters such as duty free allowances in the Philippines and free passport issuance in Pakistan
- Offering preferential interest rates in India and Pakistan
- Allowing small-minimum-deposit foreign-currency bank accounts in Nigeria and Ghana
- Issuing foreign currency denominated bonds to expatriates
- 'Matching fund' programmes such as *Tres Por Uno* implemented by Mexico, under which every peso remitted by migrants is matched by three from local and federal governments at home.

In addition to these programmes, many countries have developed a specific focus on incorporating expats as investors into their broader FDI and development strategies. Turkey has experimented with expatriate seeded venture capital funds (Faist, 2004), while China, Taiwan and India have created special economic zones to attract expatriate investments. Another approach, as used in India, is the establishment of high level 'investor relations' offices that allow expatriates to bypass bureaucratic red tape associated with large-scale investment.

Source: Gamlen (2006)

MAP DRC Input Note 4: Insurance

This input document was prepared as part of the DRC MAP financial inclusion diagnostic and should be read with the main diagnostic and related input documents.

Insurance as risk management tool. As identified in the main text, Section 3.2, risk mitigation – and more specifically responding to or coping with the impact of risk – is one of the key consumer needs in the DRC. Risks can be managed in many ways, one of which is via the insurance mechanism. For the purpose of this annex, insurance is defined as the assumption of risk in return for a regular premium. This definition allows for analysis of both formal and informal options available in the DRC.

Insurance as development tool. Assisting individuals to cope with the financial impact of risk events is one of the channels through which the financial sector can make a real and positive impact on people's lives[95]. The insurance sector also has an important macroeconomic role, acting as an institutional investor and insuring corporate assets to allow productive risk-taking. The government of the DRC views insurance as a critical tool to support infrastructure development and mandates certain types of insurance[96]. It recognises that insurance can help industries function more reliably whilst simultaneously contributing to the long term capital markets of the country[97].

The remainder of this annex outlines the insurance landscape in the DRC, considering:

- current uptake of insurance and other financial services used for risk mitigation;
- the formal and informal providers of insurance;
- the range, types and features of insurance products on the market;
- the barriers to and challenges of greater uptake of insurance; and
- any specific regulatory issues impacting the development of the market; in order to conclude on
- the gaps and opportunities in the insurance market and to develop key recommendations for overcoming the gaps and unlocking the opportunities.

Note on data limitations. The analysis is largely based on information from supply side interviews, a review of an unofficial translation of legislation, qualitative research and FinScope (2015) data. Further data, such as annual financial statements as well as information on product offerings are not available. This constrained data environment is indicative of an

[95] Provision for loss means that the productive capacity of the economy, on a microeconomic level, is not disrupted whilst ensuring that individuals, small businesses and the communities are not pushed into poverty/do not see their economic progression undermined by financial shocks due to insurable events. Furthermore, being able to securely plan for the future changes the way that individuals invest for the future. Having security in their health and livelihoods allows for them to focus on the expansion of their businesses. This changing mind set indirectly leads to economic benefits (ESRB, 2015).
[96] For example, the new Insurance Law mandates insurance for all vehicle owners.
[97] At the macro level, a well-functioning insurance market provides a good source of long term capital. This can be lent out for productive long term engagements (DRC Insurance Law No 15/005, 2015).

even more constrained market environment. Much of the analysis therefore "reads between the lines" to infer findings from what is and what is not available.

4.1. Current usage

Health, death largest drivers of risk mitigation need. Figure 79 illustrates the risk events experienced by individuals as per FinScope (2015). Death and/or illness of the main income earner or of a family member, along with the associated loss of income is the most experienced risk event in the DRC, followed by theft.

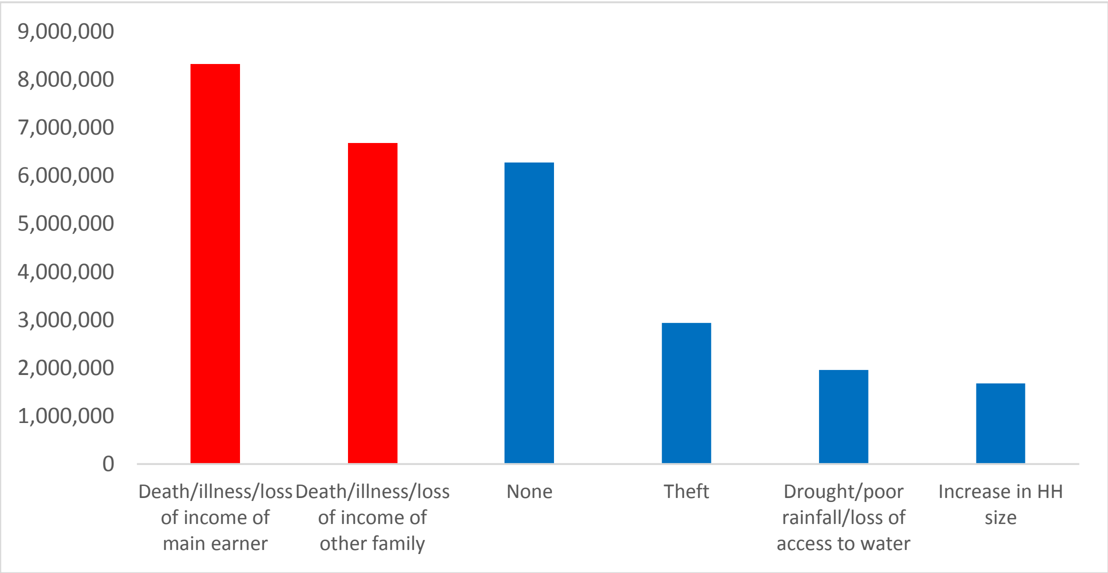

Figure 79. Number of adults that experienced various risk events in the past 12 months

Source: FinScope (2015)

> **Interviewer: If there is a problem in your family, let's say an illness or death, what happens?**
>
> *"It is very important for the State to insure our health to help us and also in the case of death. In my family, for example, I lost my little brother and I faced a lot of difficulties."*
>
> \- Farmer, Male, Kinshasa

Savings and credit often used as risk management tool. Savings, credit and insurance products can all be used, either exclusively or in conjunction with one another, to deal with the losses associated with risk events. As illustrated in Figure 80 below, savings is by far the most prominent risk management tool used in the DRC with 12.6 million people (70% of total) using savings to deal with the loss arising from the risk event. Of them, only 6% indicate that they also make use of credit or insurance to manage risk. Almost half of all people who borrow to mitigate risk also use savings or insurance to this end. This suggests that credit may often be added to other services to cope with the impact of risk events.

Insurance uptake very low, mostly used in conjunction with other strategies. Figure 80 shows that most economically active adults do not use insurance to cope with risks. In total, FinScope

(2015) records only 162,000 users of insurance, although this is likely understated[98]. Unlike in the case for savings, almost half of insurance users also make use of another financial service in addition to their insurance policy in order to manage risks, with savings being the most popular product. This is despite a strong value proposition for insurance: 68% of individuals in the sample population (5.8 million) indicated that insurance was worth the cost, whilst 60% (5.2 million) stated that insurance grants them peace of mind. These statistics suggests a large unmet need for insurance in the DRC.

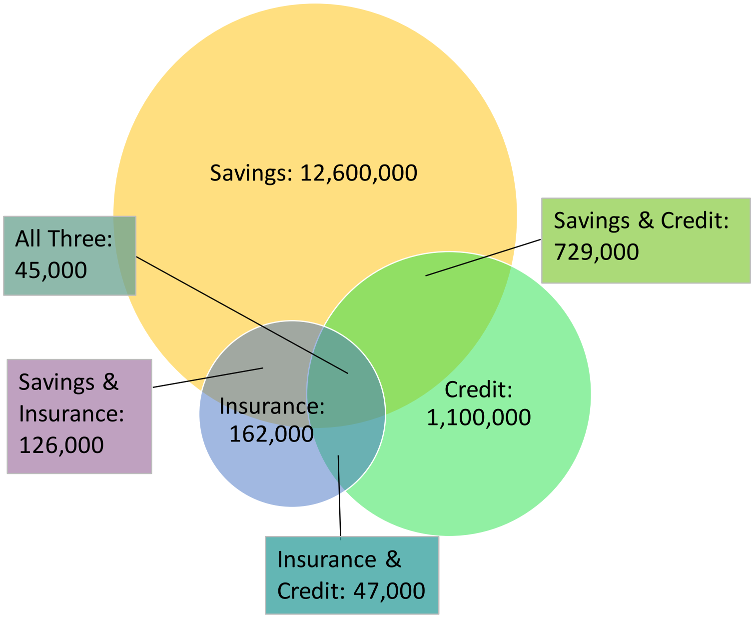

Figure 80. Number of adults using savings, credit, insurance or combination to cope with risk

Source: FinScope (2015)

Insurance usage constrained across target markets. The low uptake is echoed in the Access Strand, which shows all individuals who have insurance products as a percentage of the sampled population[99] (see Figure 81). In total, only about 1% of economically active adults have insurance. Compared to the other product markets, insurance is the least used product in the DRC. This low penetration holds across target market segments:

[98] Desktop research suggests that one prominent *mutuelle*, alone, accounts for 21,000 members with over an estimated 250,000 beneficiaries (Radio Okapi, 2015).
[99] In economically active areas covered by the FinScope research.

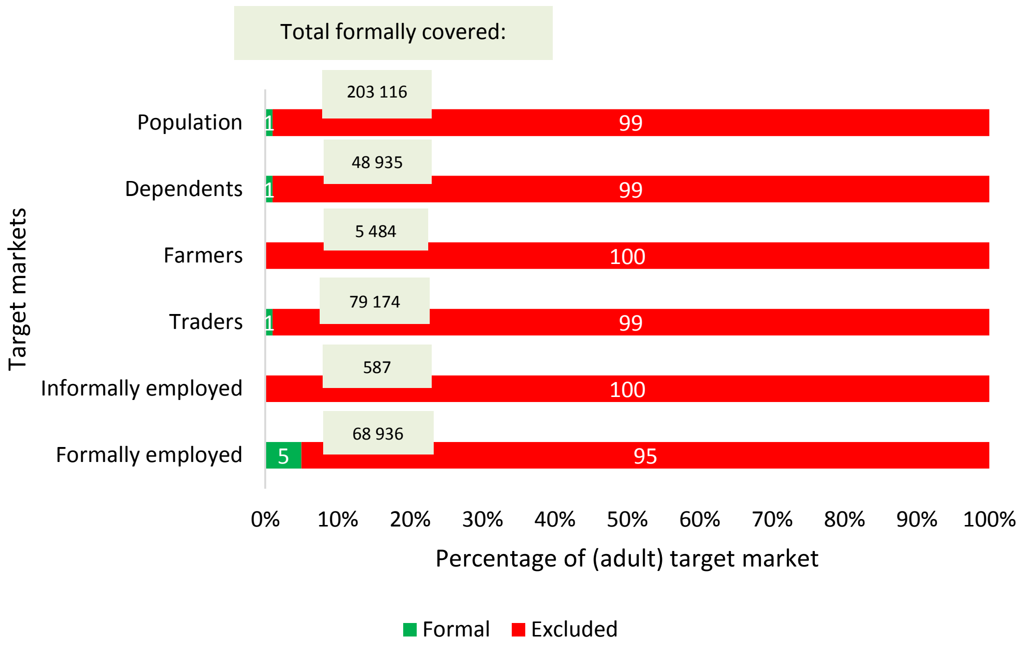

Figure 81. Insurance by target market

Source: FinScope (2015)

Employed individuals, MSMEs drive insurance uptake. The formally employed are the most likely to have insurance at 5% uptake (69,000 users). Traders are the most prominent in absolute numbers (79,000), but only 1% of traders are insured. In the remaining target markets collectively only 55,000 people are insured. Virtually no farmers report having insurance, despite the prominent role of agriculture in rural livelihoods. Informally employed individuals, likewise, are not insured at all.

Interviewer: Are you insured?

"I am not even informed about insurance."

- Informal business owner, female, 28 years, Goma

Higher-income males most likely to be insured. FinScope (2015) shows that insured respondents have incomes that are approximately double those of the population average (USD 187 a month vs. USD 89 a month[100]) and are much more likely to receive their income monthly (64%) than the national average (33%). They are also more likely to be paid via a bank account (27% vs 3%). They are predominantly male (approximately 70%) and are located primarily in urban areas (47%).

Informal uptake in the west. FinScope did not cover whether or not respondents are members of a *mutualitée*. However, the qualitative research indicated that the *mutualitée* is pervasive in Kinshasa as well as other regions in the west. In the east, so-called *acosi* or associations take

[100] These figures are based on respondents that indicated that they receive an income. Respondents that do not receive an income, or indicated that they do not know what their income is, were excluded from the calculation of these income figures.

over many risks that are associated with the practicing of the profession. See the Provider landscape discussion below (Section 4.2.2) for more detail. The implication is that true risk cover is higher than the negligible formal uptake indicated on the Access Strand.

Interviewer: Do the women who sell at the market have their *mutualitées*, others call it *moziki* mothers?

"Yes, it's moziki, but we belong to Lisungi community [community of help]. It supports the community to help each other. If we have a friend in the hospital we can contribute USD 5 or if she has a child in hospital we contribute USD 5. We contribute for every need."

- Informal trader, female, Kinshasa

Interviewer: And when you had a problem, did the community [the *mutualitée*] assist you in the event of an illness or any other problem?

"Yes. And we contributed one bottle of beer a month."

Interviewer: If somebody had a private problem, was he authorised to borrow money?

"There was an article about that in the regulations."

- Engineer, male, Kinshasa

4.2. Provider landscape

4.2.1. Formal options

Transitioning towards a new regulatory regime. Until recently, formal insurance provision in specific markets in the DRC was the exclusive remit of *Société Nationale d'Assurances* (SONAS), a state owned monopoly which also acted as market regulator for these products. The new Insurance Law that came into effect in March 2016 ends the SONAS monopoly and provides for a new insurance regulatory authority, *l'Autorité de Régulation de Contrôle des Assurances* (ARCA). Under the Law, SONAS must apply for licensing under the new dispensation within three months after the Law comes into effect (Bootsi & M'bay, 2015). Other entities, such as *mutuelles de santé,* may also be required to register although this is not yet clear. As the regulator has not yet been established at the time of writing, SONAS and *mutuelle* contracts are still functioning under the old regime in a *de facto* manner.

Some banks authorised to offer credit life insurance. Consultations indicate that some banks have been granting credit life insurance to their clients. This practice runs contrary to the 2015 Insurance Law and is unlikely to be allowed to continue once ARCA has been set up.

New legislation paves the way for new entry. The liberalisation of the insurance market may see an increase in the number of players. The 2015 Law allows for both public companies and mutual associations to undertake insurance activities. Supply-side consultations in 2015 indicated that a number of local financial service providers have been closely monitoring the regulatory situation and had intentions of entering the insurance market once the market is properly established. During 2016, a number of foreign firms had started enquiring about obtaining an insurance license[101]. Whilst ARCA is not yet operational, and entry was thus not possible at the time of writing, consultations indicated that the regulator would become operational shortly.

Severe operational constraints. In practice, then, SONAS is still the *de facto*, if not the *de jure*, monopoly across many sectors. The effectiveness of SONAS is constrained by a number of factors:

- *Skills constraints.* Consultations indicate that the current effectiveness of the insurance operations in the DRC is limited by a skills deficit, such as a lack of actuarial skills. Effectiveness is further hampered by the fact that SONAS has no centralised information system to track management information, the number of clients or claims behaviour among clients.
- *Insufficient assets to cover liabilities.* There are no published financial statements to gauge the exact solvency situation of SONAS. Documented figures show that SONAS had assets of USD 13.1 million in 2007, whilst in 2012 an auditing exercise revealed a shortfall of approximately USD 211 million. Supply-side interviews suggest that SONAS does not have a detailed registry of the total outstanding liabilities or assets.
- *Constraints to covering large corporate risks.* The severe constraints faced by SONAS challenge its ability to insure large and complex risks faced by corporations. These corporations frequently turn to international insurance firms to support their insurance activities.

Mutual associations serve health space. Apart from SONAS, the only other institutionalised insurance providers at present are the health *mutuelles*. Consultations suggest that they will fall under the ambit of ARCA, once established, although this is not clear from the Insurance Law. Qualitative research revealed that the *mutuelles* are both known and relatively prominent entities throughout the DRC. They principally provide indemnification against health related risks for their members. In the western DRC, some evolved from informal *mutualitées* that have grown in size (see the discussion below). In the east, they frequently evolve from industry associations that exist to further the collective bargaining powers of their members. Congolese health *mutuelles* have even come into existence abroad for the Congolese diaspora to come together to cover their relatives living in the DRC (see Box 11. The case of the health *mutuelle* "Sunga Famille Na MbokaBox 11).

Interviewer: Now tell me about those health *mutuelles*.

"I was told a health mutuelle is a group of people like any other group. They hold meetings, they make contributions and they have registered cards that they show when they go to the hospital where their mutuelle is affiliated so they can receive medical care."

- Small business owner, male, 27 years, Kinshasa

[101] Consultations with the Ministry of Finance.

Box 11. The case of the health *mutuelle* "Sunga Famille Na Mboka"

In response to a continuous stream of support requests from their families in the DRC, Congolese living abroad can contribute to a health *mutuelle* named *"Sunga Famille Na Mboka*", which assists their families back home with medical expenses.

The association "Aidons le Congo" was formed by the Congolese diaspora in France in 2003 to provide humanitarian assistance to the Congolese population and to support local development projects in the DRC (Net1901.org, 2014). In 2013, the association formed the health *mutuelle* in collaboration with the Catholic Church in the DRC. Families are able to seek treatment in 45 Catholic health centres in and around Kinshasa if their family members abroad join the scheme for a monthly fee (KongoTimes!, 2013).

4.2.2. Informal options

As outlined above, there is limited formal market provision. This means that almost all those who have some form of insurance cover, have informal cover.

Credit risks self-insured by some MFIs and SACCOs. The supply-side interviews conducted in Kinshasa suggested that several microfinance institutions and SACCOs provide credit-life insurance to their customers in-house. This is most often not regarded as insurance, but simply as a fee charged upfront by the financial service provider to protect itself. They then do not require loans to be repaid when the borrower passes away. Many Congolese may therefore be insured, but unaware that they have insurance.

Local risk pooling solutions. The most prominent informal provision is at the community or mutual level. In fact, the case of the DRC illustrates how, in the absence of a functioning retail insurance market, informal risk pooling at the community level "steps in" to fulfil the same role. Two risk pooling vehicles exist at community level: the *mutualitée* and the *acosi*.

Box 12. Overview of community-level risk pooling vehicles: *mutualitée* and *acosi*

Mutualitée

Kinshasa is a bustling city that attracts residents from many different regions of the DRC. As more and more individuals arrived in the city from the various regions, they started to form communities. As these communities grew, individuals started to hold weekly meetings in order to maintain and protect their heritage.

A *mutualitée* generally has three elements (with substantial flexibility and variation in how the elements play out in practice):

- *It is made up of people that share a common characteristic*. Membership of a *mutualitée* is often based on some type of common characteristic, though this need not be the case. Examples of common characteristics include ethnic origin or profession.
- *The group has at least one defined goal*. The goal can be self-serving for the members, such as the desire to support each other in the face of uncertain risk events, to more altruistic goals such as the betterment of the society within which the *mutualitée* functions.
- *It leverages its resources in order to pursue this goal*. Resources are broadly defined and include the time and effort of the members as well as the assets of the *mutualitée*, whether financial or other.

Some *mutualitées* have formalised the resource leveraging component through periodic contributions. These contributions are then kept aside in order to pursue the goal of the *mutualitée*. Where the goal of a *mutualitée* is mutual support in the case of a risk event taking place, and the periodic contributions are leveraged, the *mutualitée* is performing an insurance function.

It should be noted that *mutualitées* have distinct regional flavours. *Mutualitées* in Kinshasa are much more likely to pursue the self-serving risk mitigation goals and to leverage periodic contributions. This is less likely in the east. *Mutualitées* in the east (more commonly referred to as associations – see below) are less likely to use period contributions and none of those interviewed in the qualitative study reported using period contributions to mitigate risks on behalf of their members. They are more likely to be professionally based and protect the interest of their members through collective bargaining with government.

Mutualitées may also transform into more formalised entities. One example if this is the creation of a health *mutuelle* in the case of healthcare risks.

Acosi

Acosi are also known as associations and have predominantly been found in the east of the country. The basis of membership is the profession of an individual and the purpose of the association is to collectively deal with business problems that individuals face. They typically engage with local government in order to come to arrangements regarding professional fees and they also come to the assistance of the tradesmen in the event of certain risks taking place.

The case of the “red helmets” illustrates:

One of the quickest ways to get around the town of Goma is to take a local motorcycle taxi. Known for their iconic red helmets, these motorcycle drivers have formed a professional association that provides the taxi drivers a means of collectively dealing with issues they face. One of these issues is accidents on the road.

To mitigate health costs associated with accidents, the association has formed a partnership with a hospital in the area that will admit any motorcycle driver who had an accident whilst working for treatment. In return, the association provides a monthly fee to the hospital regardless of how many members are admitted. This is known as a capitation agreement.

The church & community important safety net. Respondents throughout the qualitative research indicated that their communities are an important source of support during difficult times. Local churches play a particularly prominent role. Such support does not technically amount to informal insurance, as no premium is levied in exchange for a defined benefit, yet it fulfils an important risk management role.

“I am in a church group known as SESI.”

Interviewer: What does SESI mean? What is its purpose?

“To help each other in difficult times as we make contributions.”

- Restaurant owner, female, 24 years, Goma

> *"Christians provide clothing for us and the State assists us. If the Cardinal finds anything good he gives it to us."*
>
> - Pensioner, female, Kinshasa

Employers provide health insurance for workers. In both the supply-side consultations and the demand-side qualitative research evidence emerged of employers entering into capitation agreements with hospitals for their workers. Under a capitation arrangement, the employer pays a monthly fee to the healthcare providers. Workers then have access to healthcare for some health events. It is not clear what the legal status or regulatory dispensation for such agreements is, particularly in the wake of the new Insurance Law. Also, as this option is only available to the formally employed, it is out of reach for the majority of the target market.

> **Interviewer: What do you do when a member of your family or somebody else in your household falls sick?**
>
> *"When somebody is sick, we often take him to the hospital."*
>
> **Interviewer: Do you have a hospital close to your premise?**
>
> *"Yes but we are affiliated to the hospital AKRAM where my children also go when they fall sick. The company pays each month at the hospital for the employees for that purpose."*
>
> - Employee at a private company and poultry farmer, male, Kinshasa

4.3. Product landscape

Absence of official premium and product data. No brochures are available on the SONAS product offerings. The firm also does not publish financial statements that enable the analysis of the performance of various products. Neither is there any published regulatory data. The new regulatory dispensation will introduce reporting requirements. However, since ARCA is not yet functional and data collection has not yet started, a meaningful product level analysis is not possible.

No reinsurance to date. Currently, there is no use of international reinsurance markets.

Limited retail product suite. To date, SONAS's approach has been to investigate each individual risk and construct a contract around the specifics of that risk as well as the person seeking cover. That means that, in theory, any type of risk cover would be available. In practice, however, the consultations suggest that there is a limited suite of retail insurance products on the market, and that the bulk of SONAS's retail business is comprised of motor vehicle and third party liability insurance (Consultations, 2015). No information could be sourced on the nature of such products, the typical benefits offered or cover-to-premium ratios. Consultations suggest that premiums are typically levied annually, a practice that is likely to continue under the new Insurance Law. Mystery shopping at a SONAS branch did not render any product brochures. Neither was the branch staff able to provide an indication of types of products offered or their features.

Towards defined life and non-life categories. The range of products is made explicit in the new Insurance Law. It specifies two classes of insurance: damages (any non-life insurance, notably property and liability insurance) and life and capitalisation insurance. Each contains a number of business classes. Disability cover is included under life, as are contractual savings (capitalisation). Health cover (termed “diseases”) and personal accident cover are included in both types of insurance (Bootsi & M'bay, 2015). Cover currently in place will continue to remain legally binding and once licences are dispensed under ARCA, consumers will have the option of cancelling their existing cover or accepting the product that is offered under the new regime (Consultations, 2016).

Mandated retail cover. Both the old and the new Insurance Law mandate cover for certain types of risks, of which motor vehicle insurance is the most notable. The prime minister may also decree any other type of damage insurance to be compulsory.

Mandated employment cover. The social security law carves out a space for the insurance of risks related to employment. This is covered exclusively by the Institute National de Securité Sociale (INSS), an entity whose activities are exempt from the new Insurance Law. Data pertaining to the products and extent of cover by the INSS were not available at time of writing, however given the institutional challenges that the entity has faced in the past it is unlikely to be offering extensive coverage.

Credit life offered by some financial service providers. As indicated above, some credit life is offered in-house by banks and SACCOs. The reach of these products is limited to the credit client base and these products will be rendered invalid once ARCA is set up. No information is available on the typical fee/premium structure and benefit ratios.

Health insurance most popular. Throughout the qualitative research, *mutuelle* membership and arrangements between employers and health service providers were the only formal insurance products cited by employees. The existence of such health insurance offerings is confirmed by desktop research, but no detail is available around the specific product offerings, including contribution and benefit levels. The INSS also offers health insurance (INSS, 2010) although no detail was available on this product at time of writing.

Lack of other products suggests underdeveloped market. Very few other products, including life insurance and property insurance, are taken up in the market. In summary, the little product information that is available suggests that there is by and large no functional retail insurance market in the DRC. As was clear from the provider discussion, the operational challenges to date have meant that the corporate asset insurance market is equally underdeveloped, with the nature and scope of the local product suite not suited to corporates' needs.

No deposit insurance. As discussed in the main text, overall trust in the formal financial system remains low in the DRC. Deposit insurance schemes have worked successfully in other countries to restore and maintain trust in the formal financial system. There is, however, currently no deposit insurance scheme in the DRC. Supply-side consultations have indicated that new regulation is underway to pave the way for deposit insurance. Until the issue is addressed, however, bank failure remains a critical risk for consumers.

4.4. Barriers to uptake

The FinScope (2015) and qualitative demand-side research suggests a number of reasons, from the consumer's perspective, for the very low insurance uptake in the DRC.

Limited and irregular income. FinScope queried consumers on the reasons why they do not have insurance. The top three reasons all pertain to a lack of income[102].

No affordable product offering. Beyond not having spare income to allocate to insurance, the product suite – to the extent that it is at all available – is likely to be unaffordable to most. SONAS, as the only current provider of many products, does not have a product offering that is accessible to the average citizen in the DRC. The standard practice of annual or quarterly premium collection also presents a cash flow/affordability barrier to most people, as it requires a larger lump sum payment than would be the case for more regular premiums.

Proximity a severe constraint. Most SONAS offices are in the main cities. Under the new legislation, insurance may be provided by brokers and agents. However, until ARCA is functional (discussed below), insurance is only accessible via infrastructure located in urban areas. Even then, many traditional aggregators that might be able to sell insurance, such as banks and retail groups face challenges in reaching rural areas. Supply-side consultations confirm that insurance access for those outside of urban areas therefore remains improbable in the near to medium term.

Lack of familiarity. Many adults indicated that they do not understand how insurance works. This is echoed in the qualitative research, where a large number of respondents did not understand the term "insurance". The concept was not alien to them as they understood that they can obtain assistance from various groups (*mutualitée* or *acosi*). They did not refer to this as insurance, however.

Interviewer: Are you affiliated to any insurance company or a mutual insurance company which enables you to benefit from health care?

"No."

Interviewer: Why?

"I do not know where exactly to start from if I want to benefit from it."

- Farmer, male, Kinshasa

[102] The top three reasons are: Do not need insurance because the value of my assets is too low (5.6 million), I do not have a regular job or income (2.2 million) and I earn too little to make it worthwhile (1.8 million).

Mistrust in SONAS. Whilst many respondents were unaware of the activities of SONAS, those that were aware of it did not believe that it is an institution that they would trust. They also indicated that they do not believe that SONAS would be able to insure the risks that they face.

Interviewer: Personally, are you insured?

"No, the insurance is not reliable in our country."

- Employee at a private company, male, Kinshasa

Contract enforcement constraining insurance growth. Contract enforcement in the DRC is problematic (Ernst&Young, 2016) as contracts are often not respected. Contracts take a long time (610 days on average) to enforce and even when enforced, the costs often do not merit the engagement (costing approximately 80% of the claim) (World Bank, 2016). While this is not an insurance-specific issue, it undermines insurance market development, as pay-outs may be delayed and the cost of obtaining them may not merit the effort, thereby contributing to low insurance uptake.

4.5. Regulatory issues

Input Note 2 outlines the financial sector regulatory framework in broad terms. Where the insurance market is concerned, regulation has so far shaped the market largely by creating a partial monopoly in some areas of insurance, whilst other areas of insurance were almost entirely unregulated. Before the 2015 Insurance Law, the insurance market was not supervised by an independent regulatory authority. With the new Insurance Law a new, comprehensive framework has been introduced with the in-principle scope for allowing entry by companies and mutuals, and for regulating provision across defined product lines and distribution categories. Some of the potential regulatory issues arising, based on our reading of the Insurance Law, are outlined below[103].

High barriers to entry. The Insurance Law, while for the first time allowing market entry, sets a number of barriers to such entry. These include very high minimum capital requirements[104] (refer to Box 13 for an overview of licensing requirements) as well as prescriptive regulation at the product level.

Box 13: Requirements for insurance and reinsurance firms in the DRC

ARCA is mandated with the regulation of all insurance and reinsurance activities in the DRC except where statutory provisions are made for their exemption. Separate capital requirements apply to life ("persons and capitalisation") and non-life ("damages") business. For ARCA to consider the licence application, an applicant must meet the following requirements:

- For public companies, a capital requirement of 10,000,000,000 CDF (which, at ruling exchange rates at the time of writing equated to almost USD 10.6 million (Oanda, 2016)).

[103] Note that, as no official translation is available, this interpretation should be regarded as indicative only.
[104] The new capital requirements in the Insurance Law are the highest by a substantial margin among all SADC countries as per a 2013 stock-take of insurance regulation in the region. See Figure 18 in: Chamberlain, et al., 2013.

- For mutual associations, which must be non-profit, a capital requirement of 3 000 000 000 CDF (approximately USD 3.18m).
- The head office of the enterprise must be established in the DRC. A firm may create a subsidiary firm but this firm must be housed within the DRC.
- For public companies, these must comply with all requirements as per the OHADA Uniform Act[105].

The ways in which a firm can operate without being licensed by ARCA are:

- **Exemption by the Minister**. The Minister that has insurance activities within his portfolio may grant exemption from ARCA approval to foreign firms that are not headquartered within the DRC. This exemption may only be granted if no local insurance or reinsurance activities are offered for a category of risks and if the need for insurance of these risks exists within the DRC.
- **State owned enterprises conducting reinsurance activities.** Reinsurance enterprises whose activities are entirely backed by the state for the reasons of public interest are not required to obtain approval from ARCA to operate within the DRC.
- **Exemption by international agreement.** African or inter-African regional reinsurance enterprises acting under bilateral or inter-state agreements, to which the DRC is a party, do not require approval from ARCA to function within the DRC.

Source: Bootsi & M'bay (2015)

Strict enforcement would risk closing down much of current provision outside SONAS. Many entities functioning in the DRC may fall under the definition of insurance activity as defined by the new Insurance Law[106]. If this is the case, they would be subject to regulation and oversight by ARCA and would have to meet the entry requirements stipulated above. These entities are split into four categories:

- **Credit providers**: Under the old regime, some SACCOs and banks offered credit-life insurance to protect their deposit books without explicit licensing, as long as it did not conflict with the monopolies that were accorded to SONAS. Many SACCOs also offer products that could be construed to be credit life insurance, although it is not called such. These entities charge a fee when the account is created that is put into a central fund. This fund is used to write off the outstanding debt of any member that passes away with outstanding debts. Under the new regime, such practices will no longer be acceptable. However these entities may act as agents for insurance firms where an appropriate memorandum of understanding is set up.

[105] The Organization for the Harmonization of Business Law in Africa ("OHADA") is an organisation established by treaty between 17 member states in West and Central Africa. It promotes legal integration in Francophone Africa by adopting "Uniform Acts". For more information, see Biensan & Martin-Sisteron (2016).

[106] Central to the definition of what an insurance activity is, is the definition of an insurance contract, defined as *"an agreement under which, on payment of a fee called premium or contribution, the insurer undertakes to another, the policyholder, to provide a service stipulated in the Contract in the event of an uncertain event that, as applicable, the insured or the beneficiary has an interest in not achieving".*

- **Informal risk pooling**: *Mutualitées*[107] or *acosi*[108] as well as some large employers[109] that have formalised the provision of risk cover in a contract[110] may contravene the definition of insurance in the new Insurance Law.
- **Health-related pooling**: Health *mutuelles* were regulated under the Ministry of Health before the promulgation of new Insurance Law (Bonyi, 2005). Whilst *mutuelles* must meet specific requirements in terms of the Insurance Law, whether or not they will be supervised remains unclear. The Insurance Law specifies, under the mission of ARCA, that such associations are included and consultations suggested that it is the regulatory intent to cover mutual associations. Minimum capital requirements are also specified for mutual associations, as outlined in Box 13. However, elsewhere in the Law the jurisdiction of ARCA is defined in terms of "commercial enterprises". Definition 31 lays out that insurance firms in the current law are understood to be aggregated commercial enterprises, whilst Article 399 defines the entities that are subject to ARCA control as being direct insurance firms. However, Article 303 defines a *mutuelle* as a not for profit group that ensures risks brought by their members. It is therefore unclear whether mutual associations fall under the ambit of ARCA by law, and clarification is required.

- **Cross border**: Qualitative demand-side research and desktop research have pointed to insurance products that assist the diaspora in covering their relatives at home. This type of arrangements runs afoul of the definition if insurance as per the Insurance Law. There is a risk to beneficiaries and policy holders that the legal system in the DRC may not provide recourse in the event of a contractual dispute.

If all these entities were to fall under the ambit of the Insurance Law and were required to formalise or re-establish their insurance business, it would severely challenge ARCA's capacity. It would also curtail the ability of many Congolese to meet their risk mitigation needs if entities such as the multitude of *mutualitées* and *acosi* that cannot meet the high entry requirements are forced to shut down. Thus it is not clear how broad-based the enforcement of the definition will be in practice.

Uncertainty puts market "on hold". Whilst ARCA had been established in terms of law and had been given a mandate to function, it did not yet have an office or staff at the time of writing[111]. This creates a large degree of uncertainty in the market. To this is added the uncertainty regarding the scope of activities that will be regulated by ARCA, as set out above. Until such time as the framework is operational, potential new entrants cannot enter the market and the liberalisation of the market will remain, for all practical purposes, on hold. It is therefore the continued uncertainty, rather than the specifics of the new framework *per se*, that will shape the market in the near future.

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[107] *Mutualitées* collect funds that are held centrally and disbursed to members when members suffer a loss associated with certain risks. Whether or not this is considered an insurance activity will depend on the way that the *mutualitée* is set up: are contributions voluntary or mandatory and does the member have a right to recourse, or is it a decision that the group undertakes on an ad-hoc basis?

[108] Associations in the DRC often venture into insurance activities in that they assist their members in dealing with the losses associated with certain risks, including damage to property, that is required for their businesses, as well as health events associated with the normal conduct of their businesses.

[109] The Insurance Code covers all insurance and reinsurance activities within the DRC with the exception of social security. It is unclear whether employer contracts with healthcare providers to cover their employees in the form of a capitation agreement will be considered to be in contravention of the Insurance Code in the case of arrangements above and beyond what is required under the auspices of social security.

[110] Contracts can be written, oral, or electronic in the DRC.

[111] As of April 2016.

4.6. Gaps and opportunities

A number of structural gaps. It is clear from the discussion above that the insurance market in the DRC is still very nascent. Retail insurance is all but non-existent, with negligibly low penetration across target market segments – only 5% of even the top-earning segment has insurance. There is no full retail product suite and no broad-based distribution system. Neither did the consultations suggest that there is a well-functioning local corporate insurance market. The lack of supply-side data makes it impossible to get a full grasp of the market or to monitor trends. This is further challenged by the absence of sophisticated management information systems. There has hitherto been no regulated playing field, and the current monopoly situation of SONAS will take some time to break down, given the entry barriers posed and the fact that no regulatory authority was in place yet at the time of writing. In the interim, there is no competition in that part of the market dominated by SONAS and the demand-side analysis shows a large degree of mistrust by consumers. Together, these factors mean that insurance is likely to remain outside the reach of the bulk of Congolese citizens for the foreseeable future.

Gaps as opportunities. Nevertheless, there is a need for insurance: among corporates to enable productive risk taking and among the various target market segments to meet their risk mitigation needs. The spontaneous existence of *mutualitées* and *acosi* can be seen as an indication of this "latent" demand. Thus, the sheer size of the gaps is also an indication of opportunity, but with large structural barriers to overcome.

Two sequenced imperatives. In a scenario like the one sketched above, the first order priority is not inclusive insurance/microinsurance per se, but rather getting the rudimentary building blocks in place for insurance market development. Simply by more effectively serving corporate clients, insurance can already make an impact on growth and development. Such a scenario does not preclude retail/mass market insurance as an objective, but acknowledges that it is unlikely to be a short- to medium term reality. Two main imperatives, one following the other, are required to overcome the gaps and unlock the opportunities:

- *Structural prerequisites for market development.* A few critical interventions are required before the market will be able to function in a stable and sustainable manner.

- *Retail market growth.* Once the basics of a functional market are in place, a number of further hurdles need to be overcome for insurance to be used as a broad-based financial inclusion tool.

Keep and nurture what is there already. In the meantime, it is important to acknowledge the role of community-level/informal risk pooling, especially for the poor who are unlikely to be reached by the formal insurance market, and to make sure that such vehicles are accommodated or carved out in a regulatory dispensation.

Pre-retail market development stage. Each of these imperatives is discussed in more detail in the sub-sections to follow. As framework for doing so, it is useful to position the DRC in terms of the typical stages of retail market development as outlined in Box 14 below. This framework draws on the analysis of the drivers of scale in microinsurance markets in Thom*, et al.* (2014). In the baseline market development state that comes before stage one, an insurance market typically provides only corporate asset insurance, with a very limited retail reach only at the very upper end of the market. Distribution happens exclusively via brokers and some corporate agencies (Chamberlain, et al., forthcoming). It is clear from the discussion above that this is where the DRC is currently at. The recommendations for structural development are designed to enable the country to reach stage one. Retail financial sector development will then be required to move beyond stage one.

Box 14. An overview of drivers of scale

Once a retail insurance market starts to develop, there are three further stages towards reaching scale. The first stage focuses on creating compelled groups of clients, largely through employers. The second expands the risk pool to voluntary groups. The third involves large scale retail insurance also among individuals as the market moves towards maturity.

Stage one: establish a risk pool through compelled groups. In the early stages of insurance market development, the role of compulsion is central. It allows the risk pool to be created, to develop the necessary critical mass quickly and to ensure that the system remains stable by having enough individuals within the system to guarantee that it can handle large claims. It also removes problems of adverse selection since membership is entirely rules-based. Financial inclusion is not a priority at this stage of development.

Stage two: expand the risk pool through voluntary groups. Once the risk pool is sufficiently large and stable, insurance firms can start focusing on its brand and the key partnerships that it will require for future success. At this stage, it can leverage groups to slowly expand the reach beyond the core of compelled clients. This allows for the risk pool to expand slowly, whilst introducing minimal adverse selection risk.

Stage three: individual sales. In stage three, the insurance market reaches maturity. It has developed its brand and all of the support systems that it requires. The risk pool is also robust and, with the development of appropriate underwriting activities, can offer mass market insurance on an individual basis. Products can now be tailored for individual segments of consumers and financial inclusion via appropriate products becomes achievable.

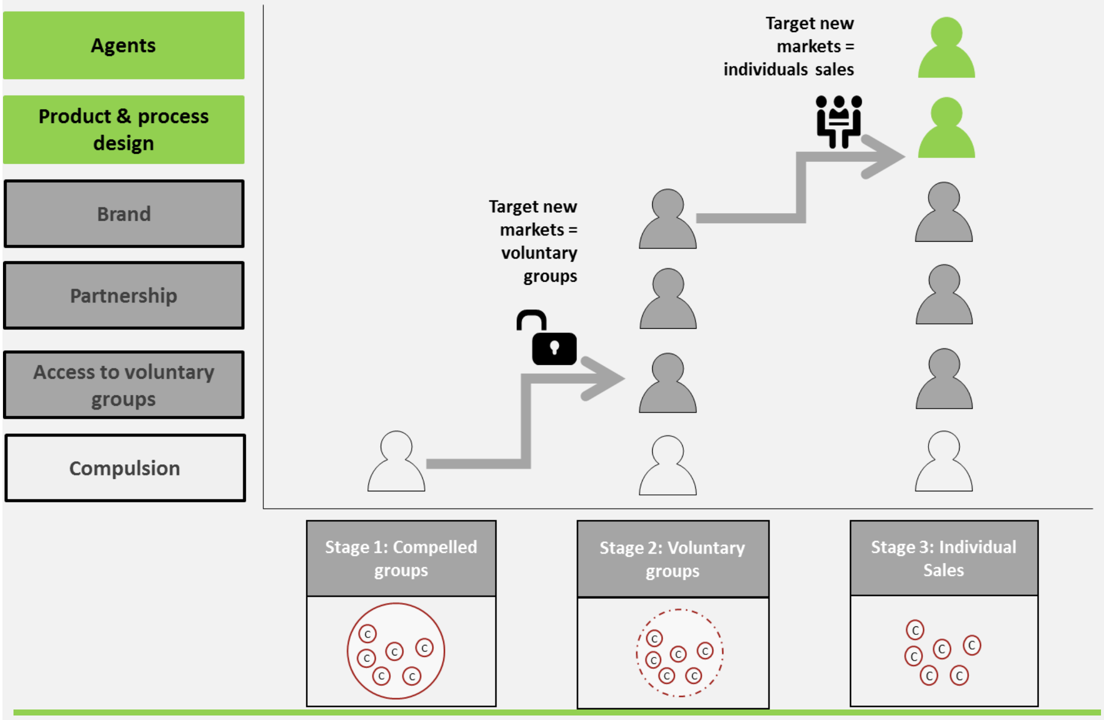

Figure 82: Insurance market development

Source: Thom, et al. (2014)

4.6.1. Structural prerequisites for market development

Operationalise and capacitate the regulatory authority. The establishment of ARCA as an independent authority allows for the insurance market to be regulated and monitored. Creating a functional regulator is a baseline requirement for the establishment of a multi-player market. In order for it to commence with its activities, it will require funding, skilled staff and the support of various government agencies, particularly the Ministry of Finance, in order to execute its regulatory mandate.

Achieve market entry. Once the regulator is functional, the first priority is to put the conditions in place to attract entry so as to introduce competition to the market. This will require dialogue with potential players on the barriers to entry posed by the current framework and the preconditions for entry. Addressing these barriers will allow existing players, such as *mutuelles* and larger *acosi* or *mutualitées,* to formalise whilst also facilitating new entry. It is also important to consider the dispensation of smaller *acosi* and *mutualitées* that will not be able to meet the formalisation hurdle, but nevertheless fulfil an important risk-pooling role at community level.

Generate data to monitor industry trends. In order to execute its functions as regulator, ARCA will require data from market participants, including on solvency, premium trends, lapses, commissions, claims (paid and rejected) and reinsurance. The existence of reliable data and the ability to track such data is simultaneously an indicator of well-functioning market players. Considerable capacity building and systems support is needed to reach this point.

Support deposit insurance framework. As discussed, deposit insurance remains a key barrier in the DRC due to both a history of bank failures as well as remaining current frailty of the financial system. The government and regulatory authorities do not have the capacity to guarantee all of the deposits within the country and external support may be required to set up such a scheme.

4.6.2. Towards retail market growth

Once the basics of insurance market development are in place and entry has been achieved, retail market development imperatives will include the following three elements.

Develop corporate and employer-distributed insurance. The initial market development focus should be on meeting corporate asset insurance needs and creating an appropriately large risk pool among corporate employees so as to start to facilitate the development of critical skills and systems among insurers that will be required for more broad-based retail offerings. The top-end market segment, the formal employees, represent an untapped first-order target market with a regular income and a distribution touch point through their employers. Building the employee benefits market (risk as well as pensions) simultaneously serves to help develop the role of insurance as institutional investor for the longer-term development of the capital market.

Enable effective insurance premium payment mechanisms. A functioning insurance market requires effective premium collection. This, in turn, is reliant on a well-functioning payments infrastructure. Outside of corporate employee groups (where collection can take place via the employer), premium collection is severely challenged in the DRC. The development of an accessible national payments system (see Input Note 3) will facilitate the payment of insurance premiums and allow the requirements around such premiums to be relaxed in order to accommodate monthly payments.

Build provider capacity around customer needs and distribution opportunities. Generating and disseminating client-centric research will facilitate the development of insurance products that meet key customer needs. There is also a need for capacity building and skills development to identify and build the distribution partnerships required for establishing voluntary groups and, eventually, mass market individual sales.

Annex I: List of Consultations

Advans Banque
Agence Francaise de Developpement (AFD)
Airtel
Association Congolaise des Banques (ACB)
Association Nationale de la Microfinance (ANIMIF)
Association Profesionelle de des Cooperatives d’Espargne et de Credit (APROCEC)
Banque Centrale du Congo (BCC)
Banque Commerciale du Congo (BCDC)
Banque Internationale pour L’Afrique au Congo (BIAC)
EcoBank
ELAN RDC
Fondation d’Espoir pour le Developpement Communautaire (FEDECO)
Fonds Nationale pour la Microfinance (FNM)
Fonds pour l’Industrie (FPI)
Fonds pour la Microfinance/Fonds pour l’inclusion financiere (FPM)
Foundation for International Community Assistance (FINCA)
Gesellschaft für Internationale Zusammenarbeit (GIZ)
I-Finance
INS Investment
International Fund for Agricultural Development (IFAD)
International Monetary Fund (IMF)
Kreditanstalt fur Wiederaufbau (KfW)
Ministry of Agriculture
Ministry of Congolese Abroad
Ministry of Finance
Ministry of MSMEs
MUFESAKIN
Mutuelles d’Epargnes et de Credit du Congo (MECRECO)
Opportunity
OXUS
ProCredit
RAWBANK
Societé Financiere de Developpement (SOFIDE)
Societé Nationale d’assurance (SONAS)
Swedish International Development Agency (SIDA)
Tigo
Trust Merchant Bank (TMB)
UKAID
Union & Charité
United Nations Development Program (UNDP)
Vodacom DRC

Annex II: Overview of Laws and Regulations

List of core laws consulted	Commonly referred to as
Law 003 / 2002 – Activity and Control of Credit Establishments	Credit Establishments Law
Law 002 / 2002 – Credit and Savings Cooperatives	SACCO Law & Credit and Savings Cooperatives Law
Law 005 / 2002 – The Establishment & Functioning of the Central Bank of the Congo	Central Bank Law & BCC Law
Law 04 / 16 – Law on anti-money laundering and counter financing of terrorism	AML/CFT Law
Law 25 of March 2014 – Exchange Control Regulation	Exchange Law & Exchange Control Law
Law 11 / 020 – Law on Microfinance Institutions	MFI Law
Decree 09 / 64– Establishes FPI	FPI Law
Law 89 / 031 – Law on the creation of the tax for the FPI	FPI Tax law
Law 15 / 005 – Law on the Insurance Code	Insurance Law
Law on the Labour Code	Labour Law
Decree-Law of 29 June 1961 – Organic of Social Security	Social Security Law
Instruction 006 - Regulating Activity of Financial Messaging	Instruction 6
Instruction 007 - Regulating Activity in Exchange Offices	Instruction 7
Instruction 015a – Activity and Supervision of Credit	Instruction 15a
Instruction 016 - Bank Definition and Classification of Credits	Instruction 16
Instruction 017 - Internal Control and Compliance of Credit Institutions	Instruction 17
Instruction 018 - Approval of Banks and their Lenders and Statutory Situations	Instruction 18
Instruction 019 - Statutory Auditing of Credit Institutions	Instruction 19
Instruction 021 - Credit Institutions	Instruction 21
Instruction 022 - Risk Management in Credit Institutions	Instruction 22
Instruction 023 - Regulation of Banking Agents	Instructions 23
-=Instruction 024 - On the Issuance of Electronic Money and Electronic Money Institutions	Instruction 24
Instruction 002 – Prudential norms for Savings and Credit Cooperatives as well as Microfinance Institutions	Instruction 2
Instruction 003 – On the classification of credit provisions of Credit and Savings Cooperative and Microfinance Institutions	Instruction 3
Instruction 005 – On the financing of fixed assets by Credit and Savings Cooperative and Microfinance Institutions	Instruction 5
Instruction 006 – On the use of … Credit and Savings Cooperative and Microfinance Institutions	Instruction 6

List of core laws consulted	Commonly referred to as
Instruction 007 – On the governance of Credit and Savings Cooperative and Microfinance Institutions	Instruction 7
Instruction 008 – On internal control and of Credit and Savings Cooperative and Microfinance Institutions	Instruction 8
Insruction 009 – On the submission of periodic situations of Credit and Savings Cooperative and Microfinance Institutions	Instruction 9
Instruction 010 – On the minimum capital requirements of MFIs	Instruction 10
Law 004 of 21 February 2002 – Law on the investment code	Investment code

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