



State of Regional Financial Integration in the Southern African Development Community

Presentation to the Steering Committee

23 March 2016

Table of Contents



- Introduction
- Methodology
- The process of RFI
- Findings
- Conclusions and recommendations

Introduction



- Genesis and Imani were commissioned to undertake a study assessing the state of regional financial integration (RFI) in the Southern African Development Community (SADC)
- The study was an opportunity to explore and report data relevant to the RFI Dashboard, towards the measurement of de facto RFI in SADC

Objective of the assignment:

The study aims to produce **a snapshot of key features of SADC's financial services landscape** in order to stimulate discussion within SADC structures

Methodology



Project approach

Phase 1: Inception

- Review of RFI Dashboard to confirm how RFI is best measured
- Inception workshop with steering committee

Phase 2: Framework development

- Develop detailed definitions for each RFI indicator
- Design data collection model
- RFI Dashboard updated

Phase 3: Data collection

- Data collected - from secondary sources and in-person from 14 member states
- Data collated and analysed

Phase 4: Synthesis

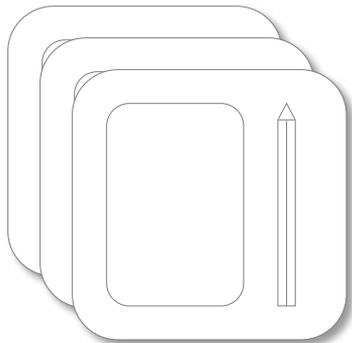
- Data collection tool completed
- Updated RFI Dashboard populated, where possible
- Recommendations made to improve on data gaps

Methodology: Inception phase



- Kick-off meeting to confirm the project scope
- Assumption that the majority of data would be accessible from data sources based in South Africa
- Additional data would be accessed from online sources
- FinMark suggested that their consultants be engaged to collect specific data on financial product prices and money transfer costs

Key deliverables agreed upon during the inception phase include:



- Fieldwork report
- Draft synthesis report
- Presentation
- Final synthesis report

Methodology: Data collection tools and mystery shopping



Development of data collection tools

- Genesis made use of a mixed methods approach to data collection, combining qualitative and quantitative data from a number of sources, to capitalise on strengths and reduce weaknesses that stem from using a single research design

Four themes, each containing several indicators:

- Theme 1: Cross-border investment in other capital markets
- Theme 2: Cross-border capital flows
- Theme 3: Financial products and access to finance
- Theme 4: Trade finance in SADC

Mystery shopping exercise

- Determine the cost (financial and non-financial) of transferring money across SADC borders
- Determine the price of an entry-level current banking product and savings account at Standard Bank/Stanbic Bank and an indigenous bank in the country

Methodology: Document review



Table 2: List of documentation/websites reviewed

Document/website
IMF Article IV Consultations
World Bank database
Aidflows data
Aiddata
Stock Exchange websites
BankScope
South African Reserve Bank data
SIRESS data
UNCTAD database
SADC Payments Project
Regional Integration Brief: African Development Bank
Intra-Regional FDI In SADC: A Case of South Africa And Mauritius Outward FDI
The Cross-border Money Transfer Experience
Fact Sheet: Remittances from South Africa to SADC
Foreign Direct Investment Inflows and Economic Growth in SADC Countries – a panel data approach
FinScope Country Consumer surveys
Standard Bank website

Methodology: Key informant interviews



Table 3: List of stakeholders consulted

Name	Designation	Institution
Anabela Chambuca	CEO	Bolsa de Valores de Moçambique
Andy Lovegrove	Consultant	eCentric
Arnold Dippenaar	Head of Products	Standard Bank South Africa
Arthur Cousins	Head of Project Co-ordination SADC Payments	SADC Banking Association
Bobby Brantley	CEO	Trop-X
Brad Gillis	Head of Payments	Standard Bank South Africa
Carel van der Wath	Financial Director	Inter Africa
Dennis Mwansa	Head of IT Infrastructure	JSE
Donna Oosthuysen	Director: Capital Markets Division	JSE
Edward Leach	Divisional Head: Domestic and Regional Services	South African Reserve Bank
Jaco Viljoen	CEO	Capital Bank
Jean Groenewaldt	Financial Surveillance Department	South African Reserve Bank
Kim Dancey	Digital and Alternative Banking	FNB

Methodology: Key informant interviews



Table 3: List of stakeholders consulted

Name	Designation	Institution
Kobus Louw	CEO	First Merchant Bank
Lloyd Hughes	Business Development Manager: Capital Markets	JSE
Malcolm Fraser	Head of Corporate Banking	Rand Merchant Bank
Mario Elliah	Head of Trade	Barclays
Marius Stander	Financial Surveillance Department	South African Reserve Bank
Palesa Shipalana	Head of Government and International Affairs	JSE
Patrick Sekgoka	Financial Surveillance Department	South African Reserve Bank
Patrick Uka	Head of Value Chains	Ecobank
Ryan Stokes	Head of Structured Trade and Commodity Finance	Standard Bank
Sunil Benimadhu	CEO	Stock Exchange of Mauritius
Thapelo Tsheole	Deputy CEO	Botswana Stock Exchange
Thomas Kadantot	Trade Finance Department	First Merchant Bank
Tiaan Bazuin	CEO	Namibian Stock Exchange

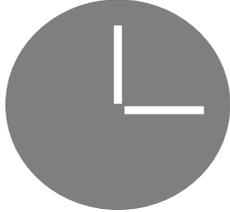
Methodology: Limitations



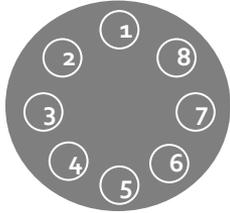
Limitations



Variable geographic coverage based on data availability



Variable time series coverage based on data availability



Data availability from stakeholder consultations



Comparing data to the baseline



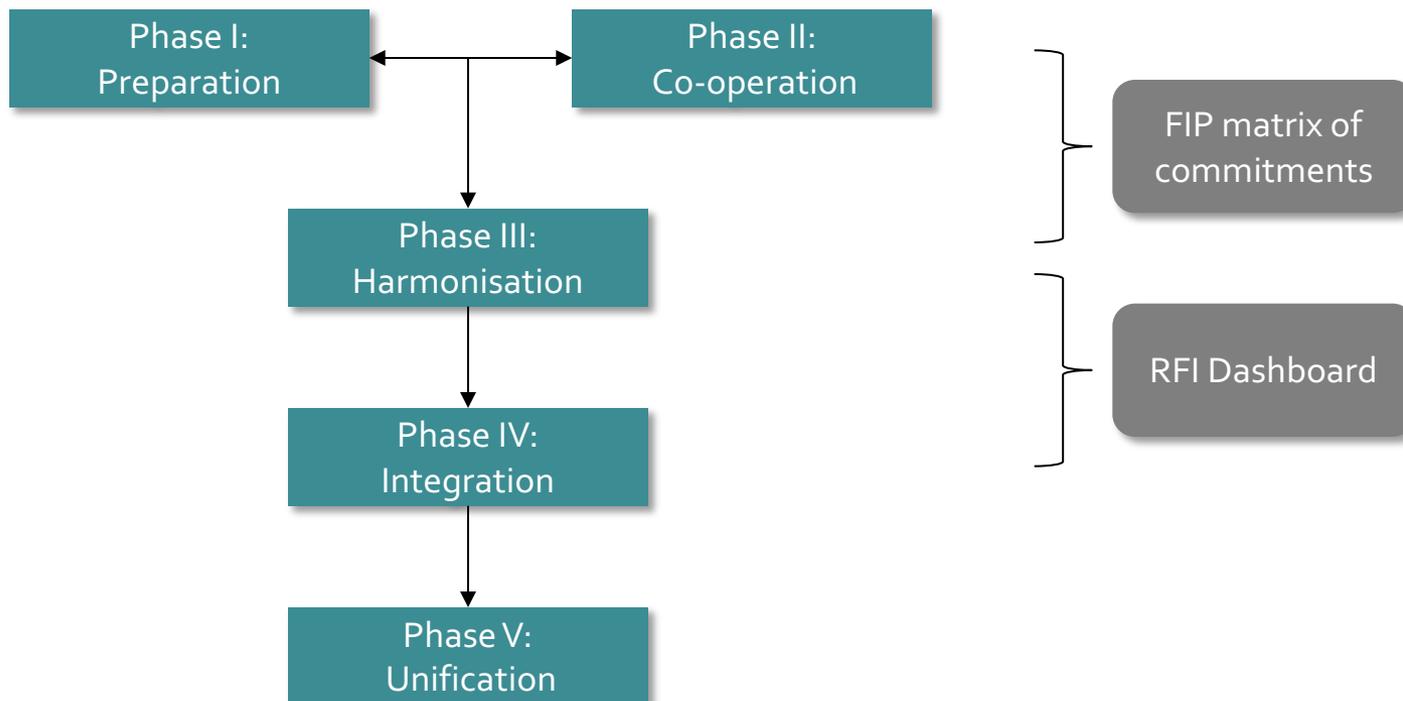
Strength of conclusions based on data availability

The process of RFI



RFI is an economic and political process whereby previously disconnected and distinct countries become increasingly "financially connected". It becomes quicker and easier for capital to move across borders and for economic entities to transact across borders. As capital moves from relatively capital abundant countries to relatively capital poor countries, theory suggests that the cost of capital will likely converge

The process of RFI



The process of RFI: Adjustments to the RFI Dashboard



Table 1: Adaptations to the RFI Dashboard (De jure indicators removed)

Thematic area	Original indicator of RFI	How has this indicator changed in the current study?
De facto RFI: capital and investment flow indicators	Number of SADC financial service providers offering retail services in other member states	This indicator was retained and was updated to include data pertaining to SIRESS
	Investment flows into and within SADC increase in volume	This indicator was retained
	Capital flows increase within SADC	This indicator was retained and was updated to include SARB data on cross-border transfers through the BoP system
	Capital flows increase into SADC	This indicator was retained
	Size of capital market	This indicator was retained, however the focus was only on stock exchanges and did not include the bond and money markets
	Cross-SADC investment holdings (share of capital markets) by institutional investors increase	This indicator was retained
Outcome indicators of de facto RFI	Interest rates across SADC member states start to converge	This indicator was retained
	Prices of financial services and products across SADC begin to converge	This indicator was retained and was updated to include the price of a mobile money transaction
	Cross border transfer of funds becomes more efficient and cheaper	This indicator was retained and data was collected through the World Bank and a mystery shopping exercise
De facto RFI and access to finance	Number of people with access to financial services	This indicator was retained

FINDINGS



Size of capital market

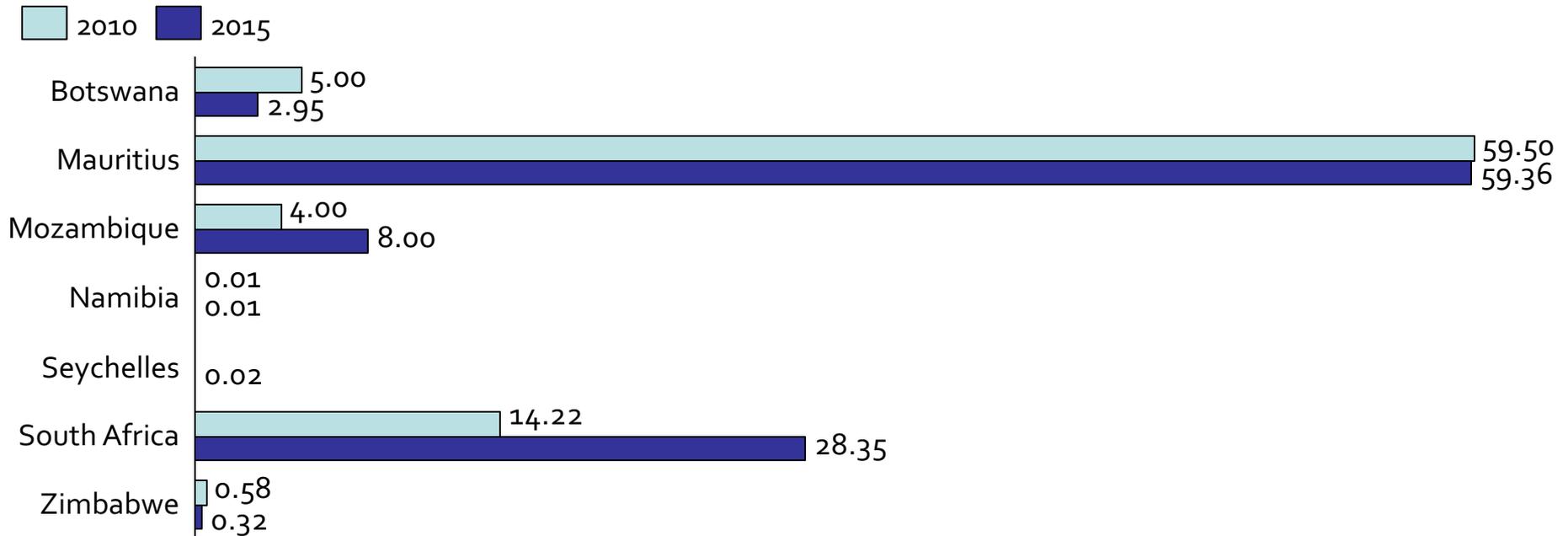


Theme	Indicator	Findings	Implication for the state of RFI
Theme 1: Cross-border investment in other capital markets	Size of capital market (Stock market capitalisation as a % of GDP)	<ul style="list-style-type: none"> • Namibia, Seychelles and Zimbabwe stock exchanges are an insignificant proportion of GDP • Mauritius’s high ratio likely indicates a combination of stock market sophistication and a small local economy • Angola, Lesotho, DRC and Madagascar do not currently have stock exchanges • Limited cross-border listings 	<ul style="list-style-type: none"> • Cross-border investment within SADC is only likely to grow if capital markets present a good investment opportunity

Size of capital market



Figure 1: Market capitalisation of SADC stock exchanges (% of GDP, 2010 and 2015)



Proportion of intra-SADC institutional investment increases



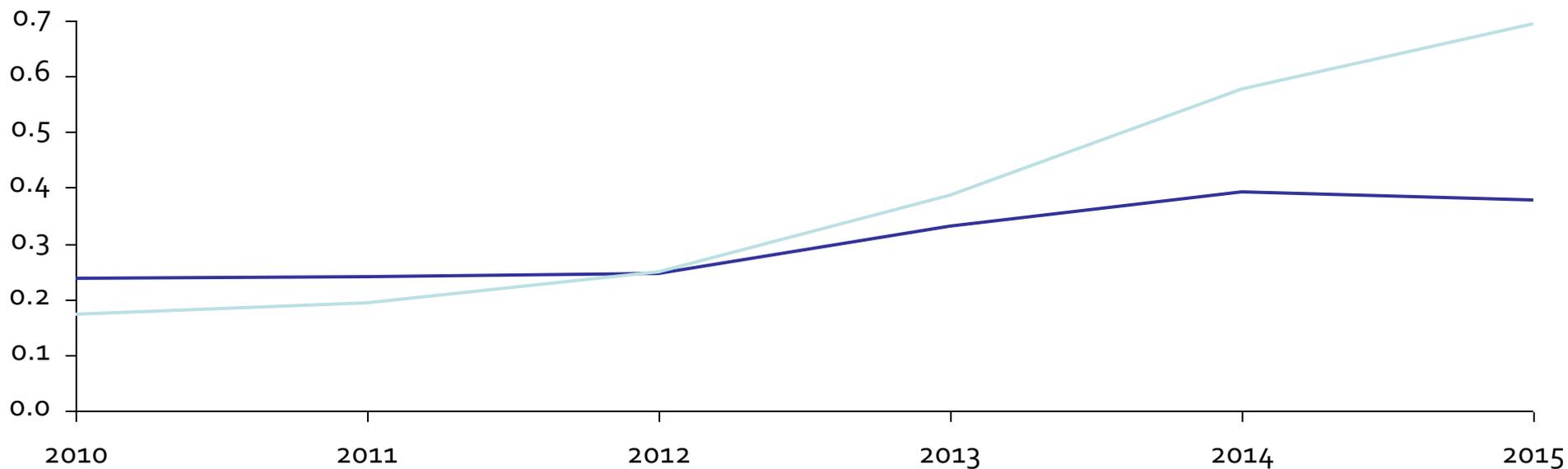
Theme	Indicator	Findings	Implication for the state of RFI
Theme 1: Cross-border investment in other capital markets	The proportion of intra-SADC institutional investment increases	<ul style="list-style-type: none"> • Growth in institutional investment into other African countries by South African institutional investors • Large SA asset managers have invested more than 20% elsewhere in SADC, with the focus on Zimbabwe 	<ul style="list-style-type: none"> • Implications for RFI in SADC are uncertain however case studies are a positive indication of institutional investors' appetite to invest across borders.

Proportion of intra-SADC institutional investment increases



Figure 2: Proportion of South African institutional investment held in African assets (ZAR, 2010 – 2015)

— % of retail assets invested in Africa — % of institutional assets invested in Africa



Prime lending rates across SADC member states start to converge



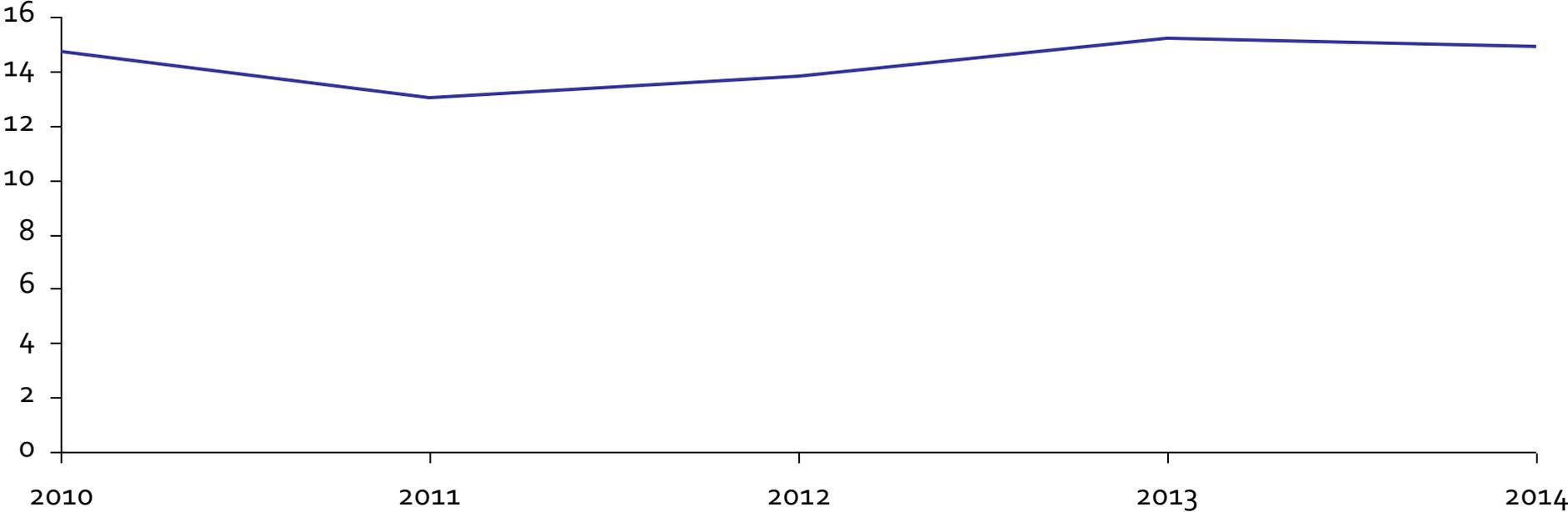
Theme	Indicator	Findings	Implication for the state of RFI
Theme 1: Cross-border investment in other capital markets	Prime lending rates across SADC member states start to converge	<ul style="list-style-type: none">• The standard deviation of SADC countries' average lending rates has increased between 2011 and 2014	<ul style="list-style-type: none">• Average lending rates in SADC have not converged

Prime lending rates across SADC member states start to converge



Figure 3: Standard deviation of average lending rate charged by commercial banks (% , 2010 – 2014)

— Standard deviation in average lending rate



Investment flows into and within SADC increase in volume

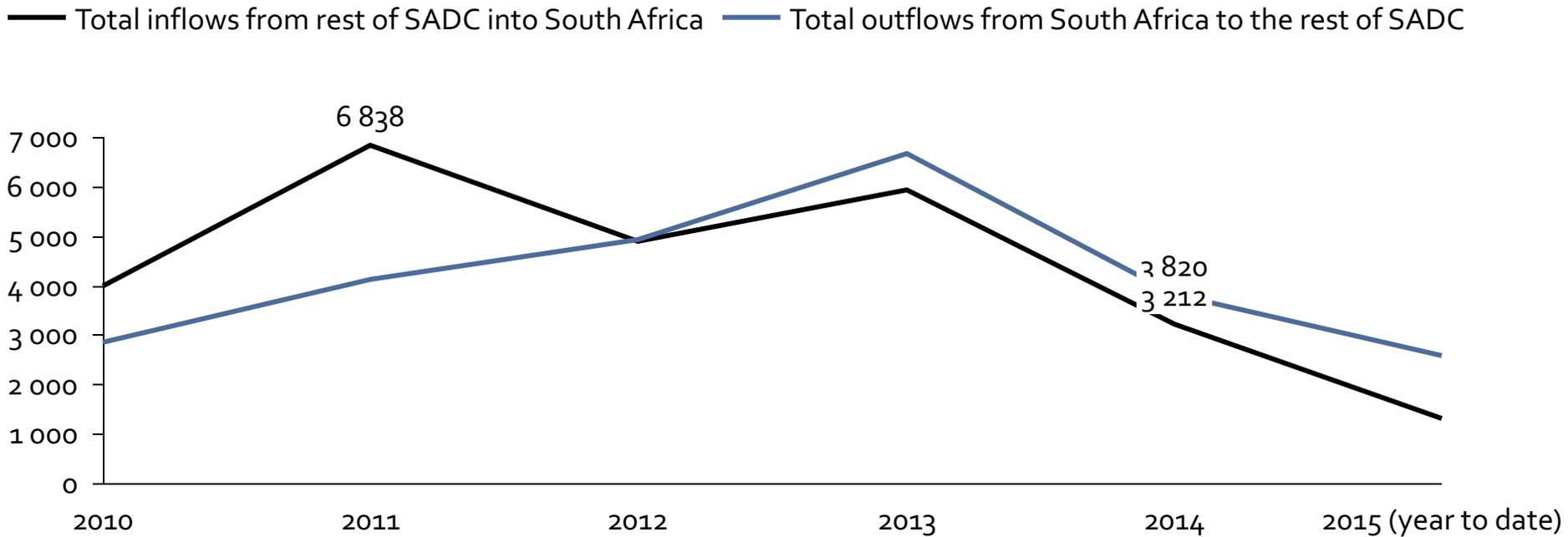


Theme	Indicator	Findings	Implication for the state of RFI
Theme 2: Cross-border capital flows	Investment flows into and within SADC increase in volume	<ul style="list-style-type: none"> • Volume of transfers of a capital nature between South Africa and the rest of SADC has decreased 	<ul style="list-style-type: none"> • Intraregional capital flows are declining, which is contrary to what one would expect with progressing RFI.

Investment flows into and within SADC increase in volume



Figure 4: Transfers of a capital nature, total inflows and outflows between South Africa and the rest of SADC (Rand millions, 2010-2015)



Capital flows within SADC increase

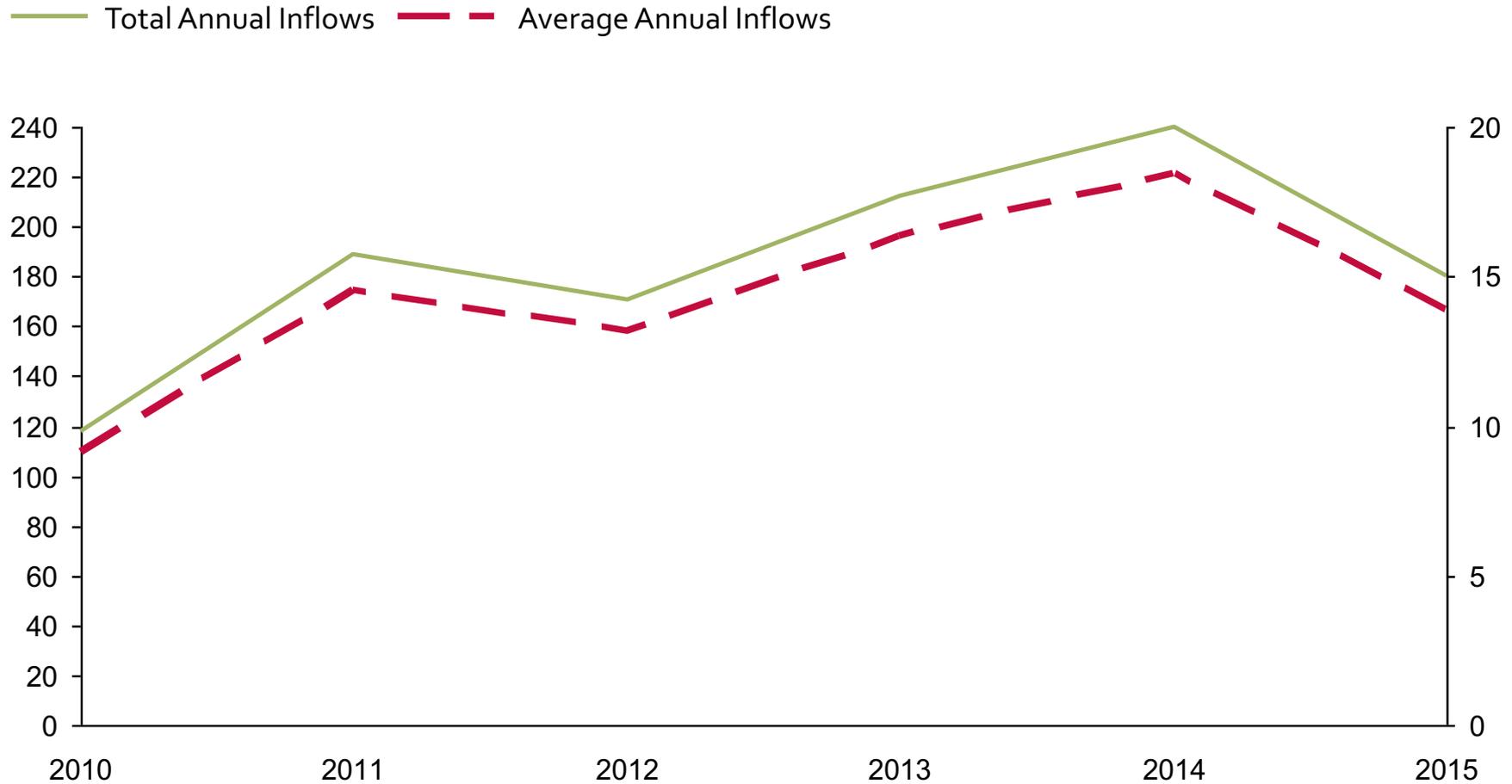


Theme	Indicator	Findings	Implication for the state of RFI
Theme 2: Cross-border capital flows	Capital flows within SADC increase	<ul style="list-style-type: none">• Increase in the total annual inflows and outflows of capital between South Africa and all other SADC states• Trends in remittance inflows and outflows are varied between countries	<ul style="list-style-type: none">• The increase in total annual inflows and outflows is a positive finding, supporting increased integration between South Africa and the rest of SADC• Given the diverging trends between countries, the implication for RFI is unclear

Capital flows within SADC increase



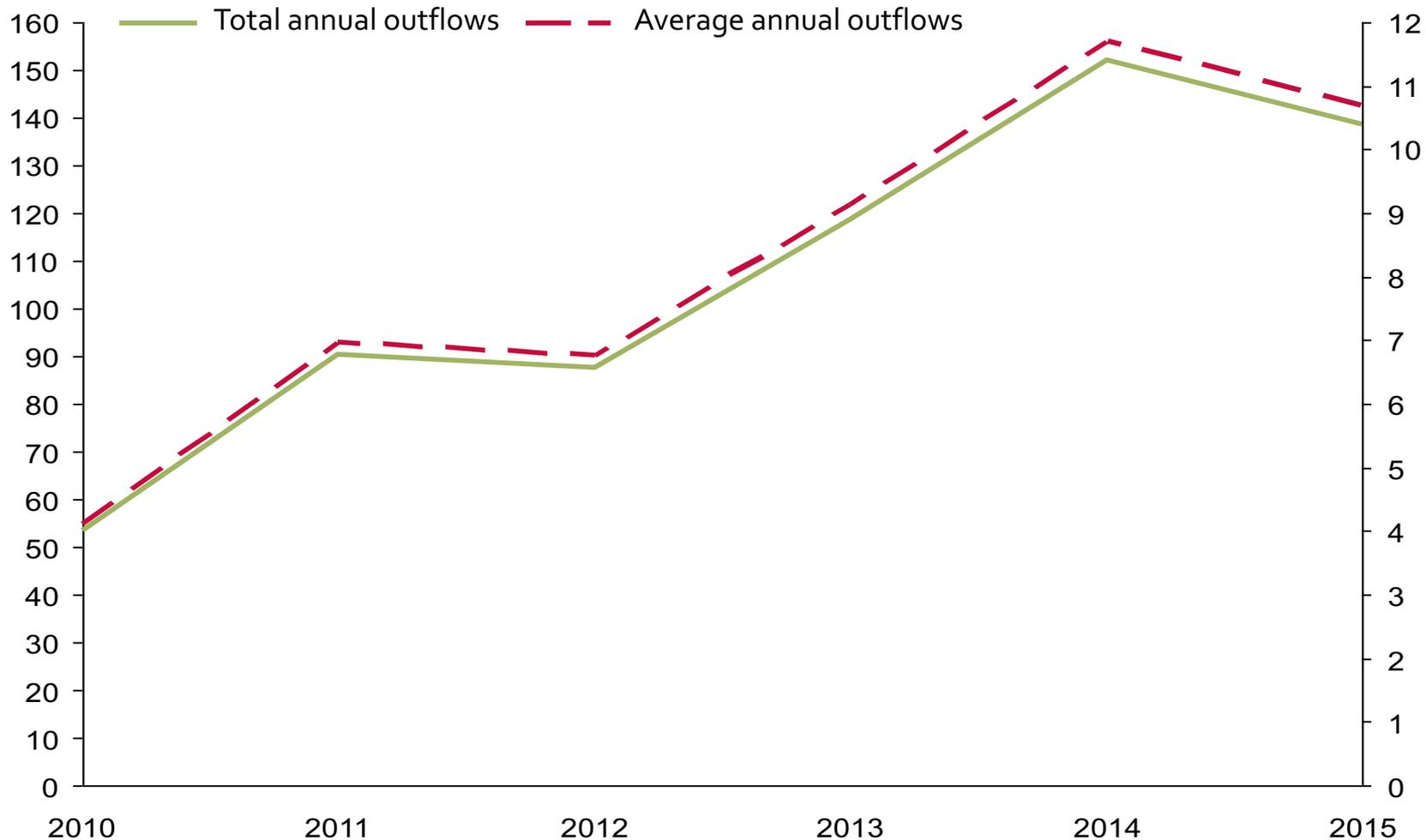
Figure 5: Total annual inflows and average annual inflows within SADC (USD billions, 2010 – 2015)



Capital flows within SADC increase



Figure 6: Total annual outflows and average annual outflows within SADC (USD billions, 2010 – 2015)



Capital flows into SADC increase

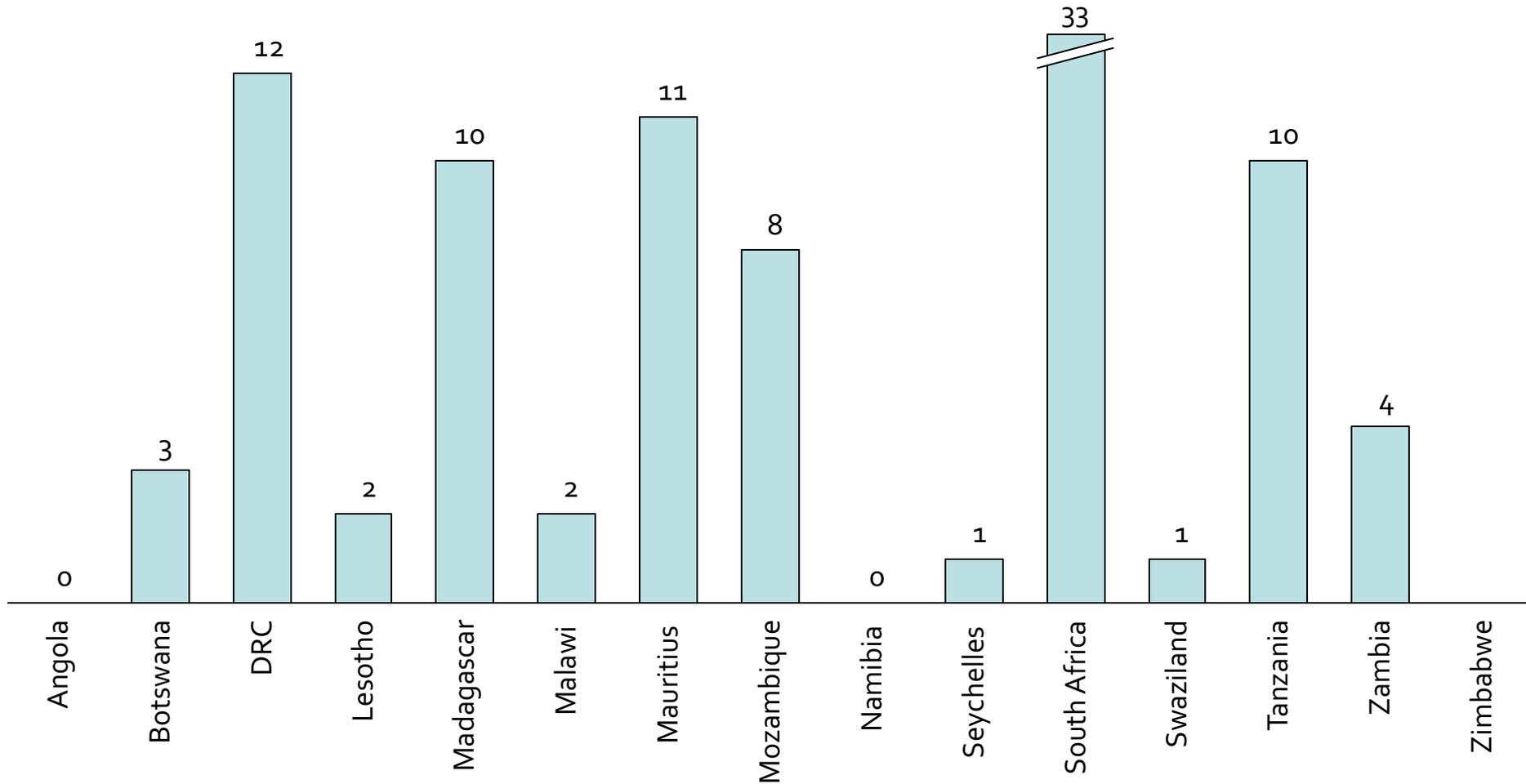


Theme	Indicator	Findings	Implication for the state of RFI
Theme 2: Cross-border capital flows	Capital flows into SADC increase	<ul style="list-style-type: none">• The findings on this indicator are mixed• Half of the countries for which we have data receive remittances from less than four non-SADC countries	<ul style="list-style-type: none">• The diversity of relationships present along SADC-non-SADC corridors makes it difficult to interpret the findings and extract an implication for RFI

Capital flows into SADC increase



Figure 7: Number of major international non-SADC remittance sources (2014)



Cross border transfer of funds becomes more efficient and cheaper

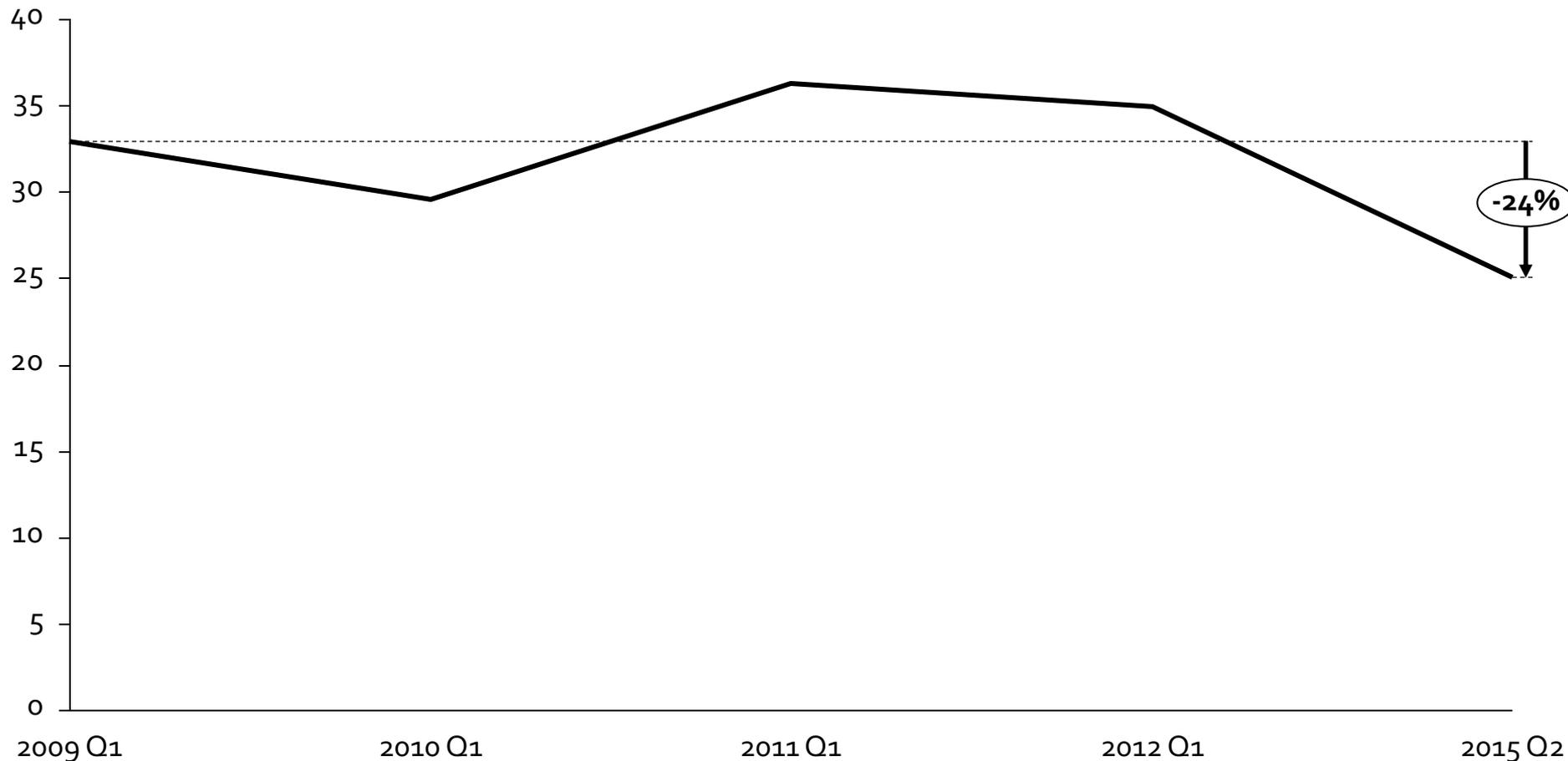


Theme	Indicator	Findings	Implication for the state of RFI
Theme 2: Cross-border capital flows	Cross border transfer of funds becomes more efficient and cheaper (Average cost of \$200 remittance)	<ul style="list-style-type: none"> • 24% decrease in the average cost of \$200 remittance since 2009 Q1 to 2015 Q2 • The mystery shopping exercise showed that it was most expensive to send and receive a remittance from the DRC and Malawi • Zimbabwe-South Africa is the cheapest remittance corridor 	<ul style="list-style-type: none"> • The decrease in the average cost of \$200 remittance is a positive signal of RFI.

Cross border transfer of funds becomes more efficient and cheaper



Figure 8: Average cost of a \$200 remittance along eight SADC corridors (USD, Q1 2009 - Q2 2015)



Number of SADC FSPs offering retail services in other member states

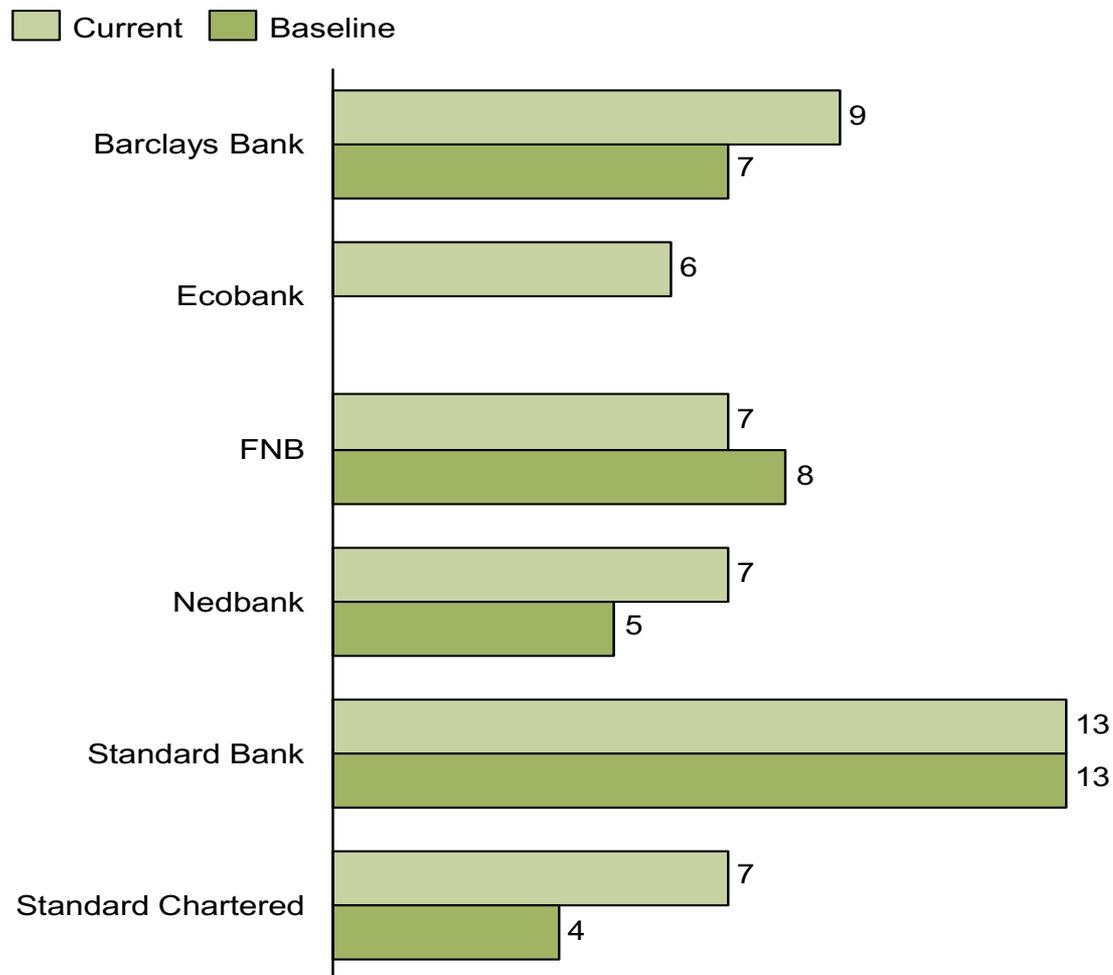


Theme	Indicator	Findings	Implication for the state of RFI
Theme 3: Financial products and access to finance	Number of SADC financial service providers offering retail services in other member states	<ul style="list-style-type: none"> • Increase in the number of multinational banks operating across SADC since the baseline • 73 participating banks and 9 participating countries in SIRESS 	<ul style="list-style-type: none"> • This is a positive result for RFI

Number of SADC FSPs offering retail services in other member states



Figure 9: Number of Multinational banks operating in SADC (2015)



Source: Bank websites, 2015

Cost of financial service products across SADC begin to converge



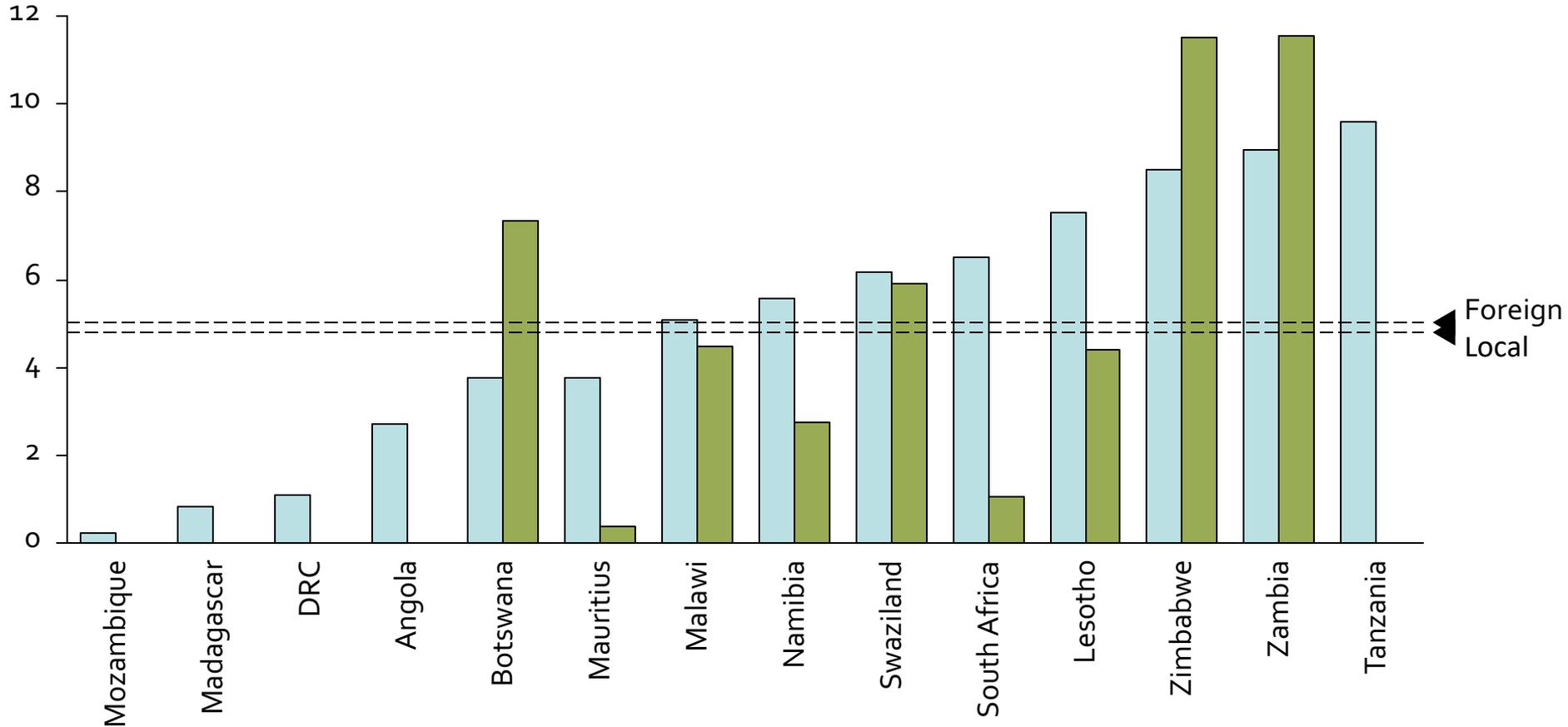
Theme	Indicator	Findings	Implication for the state of RFI
Theme 3: Financial products and access to finance	Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product)	<ul style="list-style-type: none"> • Average differential between the cost of a foreign bank's current account and a local bank's current account has decreased • Average differential between the cost of a savings account at a local bank and the cost of a savings account at a foreign bank has increased • Variation in the cost of mobile money transactions across SADC member states 	<ul style="list-style-type: none"> • The decline in the average differential in the cost of a current account is positive • The result on the savings account should be interpreted with caution since the composition of local banks is different to the last study • The information on mobile money is inconclusive

Cost of financial service products across SADC begin to converge



Figure 10: Cost of an entry-level transactional account (USD, 2014)

Foreign Local

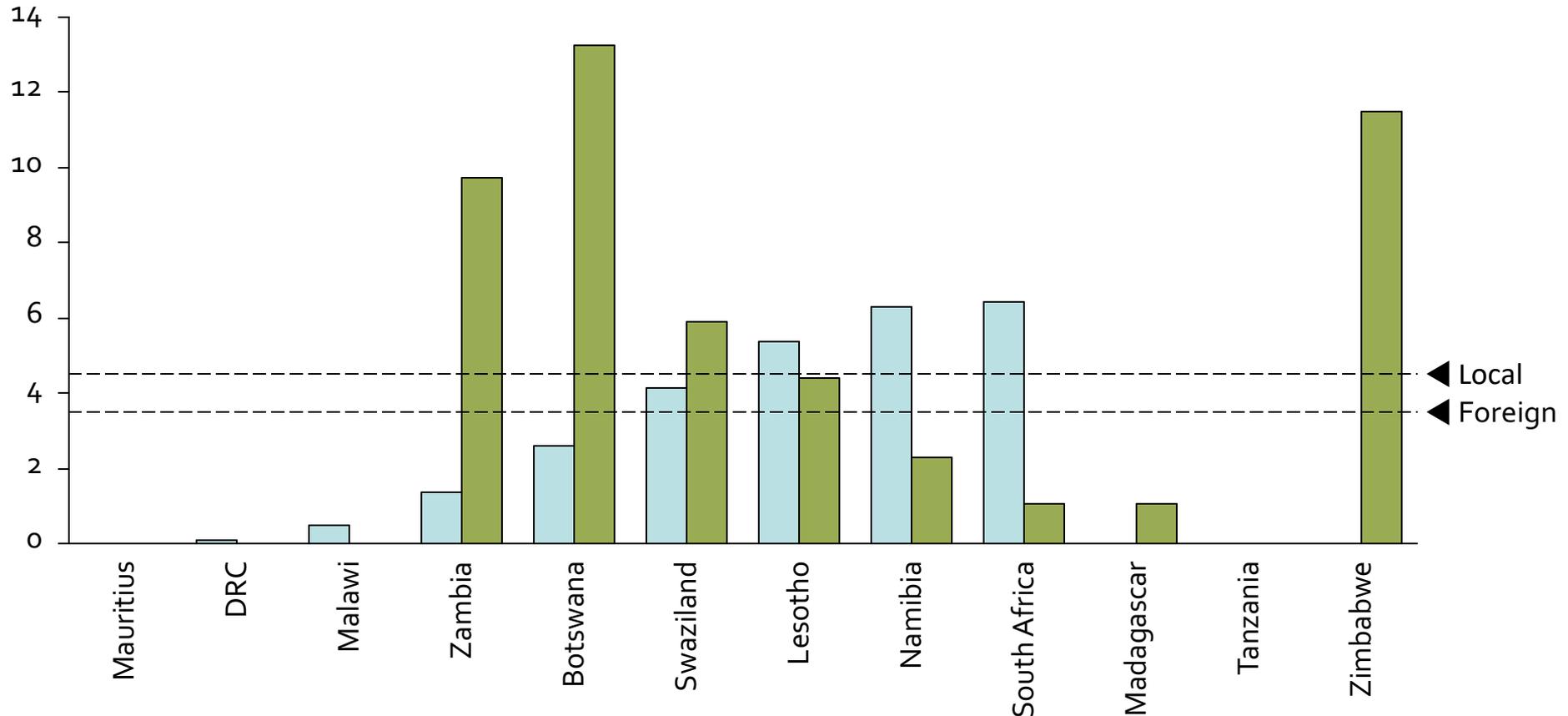


Cost of financial service products across SADC begin to converge



Figure 11: Cost of an entry-level savings account (USD, 2014)

Foreign Local



Increased access to formal financial services

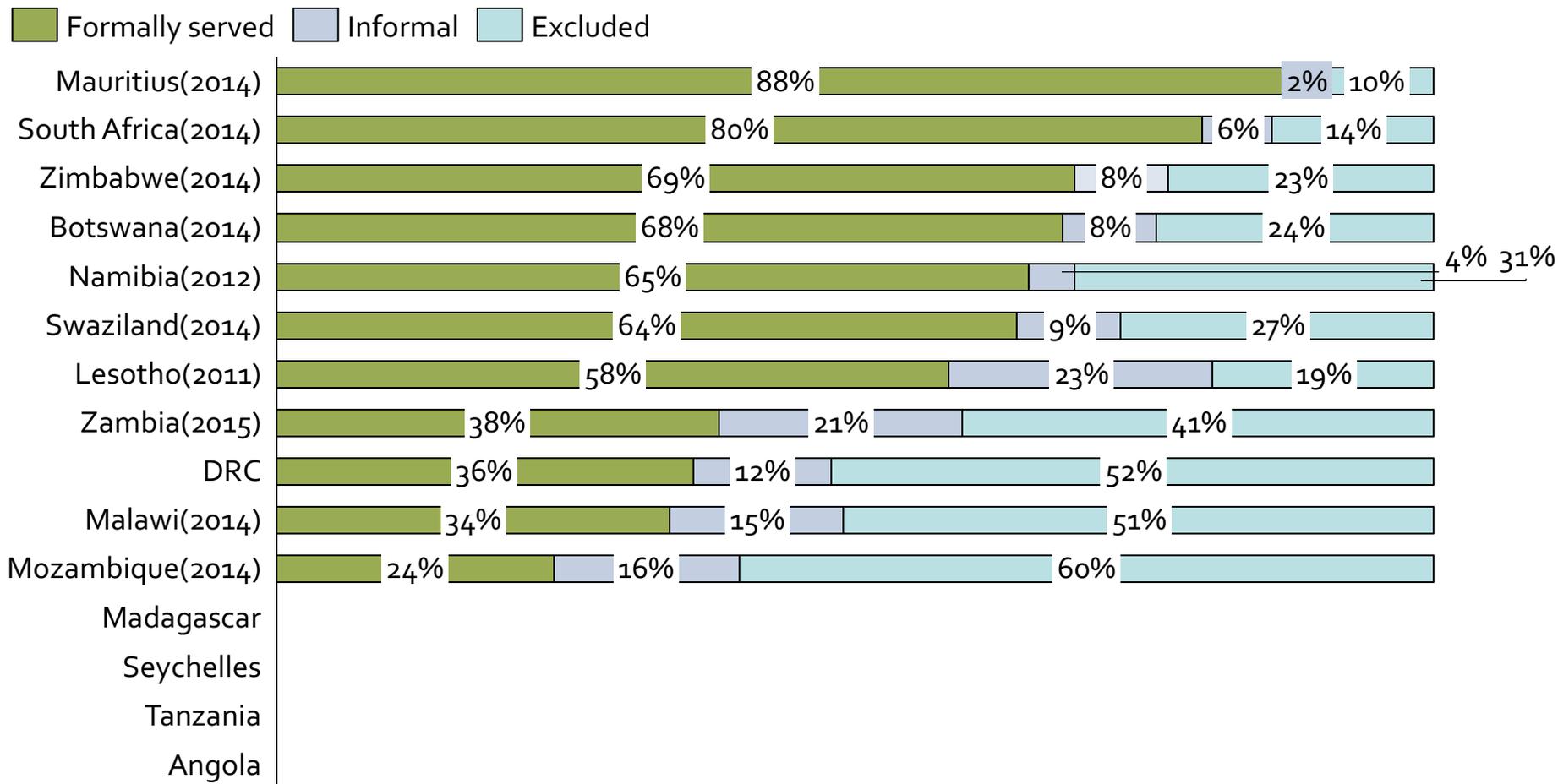


Theme	Indicator	Findings	Implication for the state of RFI
Theme 3: Financial products and access to finance	Increased access to formal financial services (% financially included)	<ul style="list-style-type: none">• Increasing access to formal financial services across SADC• Increase in proportion of people with accounts at a financial institution between 2011 and 2014	<ul style="list-style-type: none">• This indicator on its own is not an indicator of RFI

Increased access to formal financial services



Figure 12: Proportion of population with access to financial services (% , 2015)



Trade finance

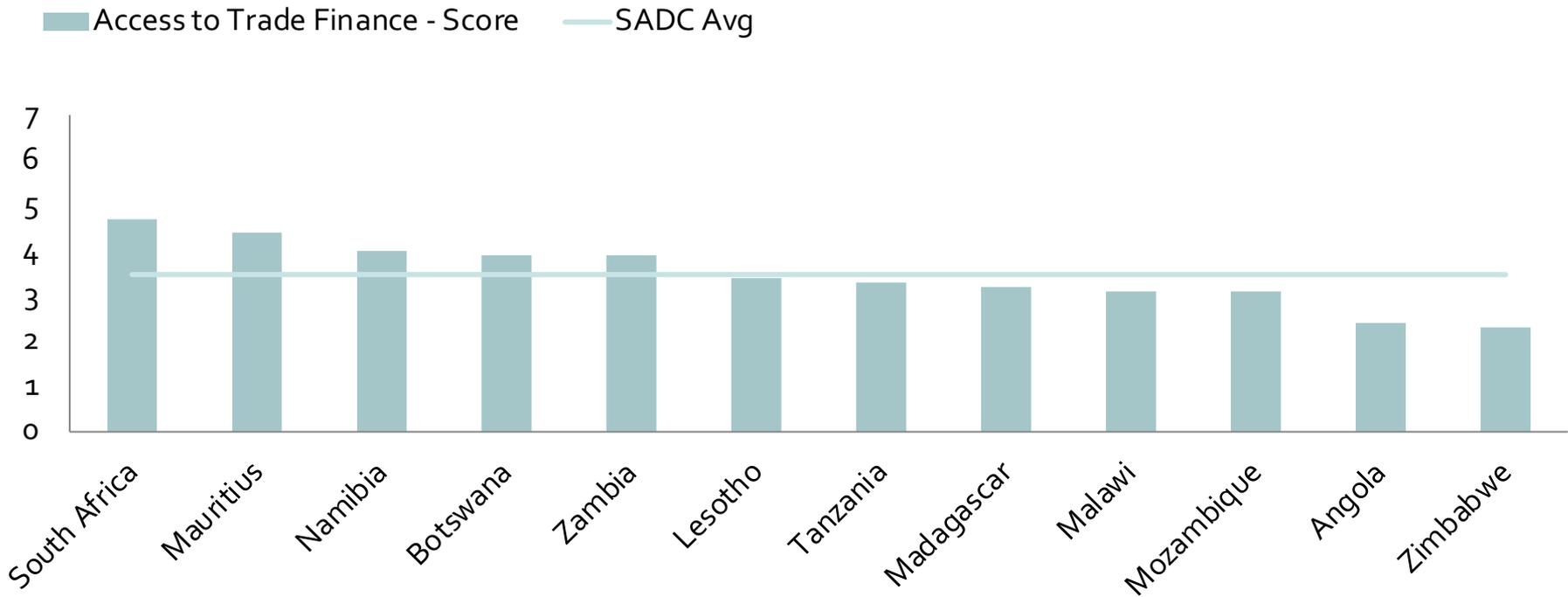


Theme	Indicator	Findings	Implication for the state of RFI
Theme 4: Trade finance	The severity of access to trade finance as a constraint to trade and the variation in country experience	<ul style="list-style-type: none">• Access to trade finance is a key impediment hindering trade in SADC.	<ul style="list-style-type: none">• The limited access to trade finance in the region is a negative indicator of RFI.

Trade finance



Figure 13: WEF Global Enabling Trade Index - Access to Trade Finance (higher scores indicate better access)



Trade Finance (continued)



Theme	Indicator	Findings	Implication for the state of RFI
Theme 4: Trade finance	The availability of Letters of Credit throughout SADC	<ul style="list-style-type: none"> Letters of Credit are offered in all SADC countries with the exception of Angola and Madagascar; Receivables financing is not provided in Angola, DRC, Lesotho, Malawi, or Seychelles 	<ul style="list-style-type: none"> Countries are on a positive path to improving access to trade finance in the region. This is a positive indication of RFI.
	The Terms and Conditions for Letters of Credit throughout SADC	<ul style="list-style-type: none"> The terms and conditions to access LCs are relatively universal throughout all SADC operations of financial institutions 	<ul style="list-style-type: none"> There is regulatory harmonisation across countries in respect of LCs. This is a positive indication of RFI.
	The cross border supply of trade finance in SADC	<ul style="list-style-type: none"> There exists a 'location bias' in the provision of trade finance, with a preference for the lending bank and the borrowing trader to be in the same country 	<ul style="list-style-type: none"> The lending bank's preference to either be in the same country as the borrowing trader or to liaise with the trader's domestic bank poses barriers to RFI.

Conclusions and recommendations



Theme	#	Indicator	Recommendation
Theme 1: Cross-border investment in other capital markets	1	Size of capital market (Stock market capitalisation as a % of GDP)	This information is easily obtained online and should continue be measured over time.
	2	The proportion of intra-SADC institutional investment increases	SADC institutional investors and regulators should be urged to collect data similar to that reported by the SARB
	3	Prime lending rates across SADC member states start to converge	Prime lending rates should be available from central and reserve banks in the region, and could be added to the indicators that the CCBG Macroeconomic Convergence subcommittee measures (if it is not measured currently).

Conclusions and recommendations



Theme	#	Indicator	Recommendation
Theme 2: Cross-border capital flows	4	Investment flows into and within SADC increase in volume	Investment Cooperation subcommittee should urge member investment promotion agencies and ministries of finance to collect and report this information
	5	Capital flows within SADC increase	Central banks in the region should be consulted to ascertain whether similar data to the SARB can be collected
	6	Capital flows into SADC increase	Central banks in the region should be consulted to ascertain whether similar data to the SARB can be collected
	7	Cross border transfer of funds becomes more efficient and cheaper (Average cost of \$200 remittance)	Where information is available online, this should be tracked CISNA's relationships in the region could be leveraged to have the data gaps reported by regulators

Conclusions and recommendations



Theme	#	Indicator	Recommendation
Theme 3: Financial products and access to finance	8	Number of SADC financial service providers offering retail services in other member states	SADC Banking Association should be encouraged to collect and collate this information
	9	Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product)	SADC Banking Association should be encouraged to collect and collate this information from member state banking associations.
	10	Increased access to formal financial services (% financially included)	FinScope and Findex should be extended to countries where there exists no data

Conclusions and recommendations



Theme	#	Indicator	Recommendation
Theme 4: Trade finance	11	The severity of access to trade finance as a constraint to trade and the variation in country experience	The World Economic Forum publishes the Global Enabling Trade Index should be consulted in future for updated rankings
	12	The availability of Letters of Credit throughout SADC	Local trade associations as well as the SADC Protocol on Trade can play a role in facilitating access to this information
	13	The Terms and Conditions for Letters of Credit throughout SADC	In countries where we do not have data, it is recommended that the local regulator for trade can provide relevant information in future
	14	The cross border supply of trade finance in SADC	Local trade associations as well as the SADC Protocol on Trade can play a role in facilitating access to this information



Thank you

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