FINANCIAL INCLUSION IN THE SADC REGION

AN EXCLUDED SOCIETY? FINANCIAL INCLUSION IN SADC THROUGH A FINSCOPE LENS

FINMARK TRUST

Making financial markets work for the poor

PREPARED BY FINMARK TRUST
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Introduction and background

FinMark Trust is due to publish a book titled, **"An excluded society? Financial inclusion in SADC through a FinScope lens"**. The book includes cross-country comparisons of financial inclusion Indicators of 12 SADC countries using findings from the FinScope Consumer Surveys. This booklet contains a summary of the financial inclusion book. As such, it provides country overviews as well as a cross-country/regional perspective on financial inclusion.

About FinMark Trust and FinScope surveys

FinMark Trust was created with initial funding from the UK's Department for International Development (DFID), and is an independent trust whose purpose it is to make financial markets work for the poor by promoting financial inclusion and regional financial integration. FinMark Trust does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to the consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust plays a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers. In order to fulfil its objectives, FinMark Trust developed the FinScope Consumer Survey.

FinScope Consumer Surveys: FinScope is a comprehensive and nationally representative survey on financial inclusion, looking at how adult individuals source their income and manage their financial lives. It provides insight into attitudes and perceptions regarding financial products and services. FinScope was first piloted in 2002 in South Africa and since then has been implemented in 22 countries (12 in the SADC region, 5 in non-SADC Africa, and 5 in Asia). The key objective of the FinScope Consumer Survey is to measure and profile levels of access to and use of financial services by all eligible adults (15/16/18 years and older), across income groups and other demographics, and to make this information available for use by key stakeholders such as policy-makers, regulators, financial service providers, donors and academics. The information provided by these surveys aim to support the reach of financial services as they provide an understanding of the adult population in terms of:

- Their livelihoods and how they generate their income
- Their financial needs and/or demands
- To assess levels of financial inclusion (formal and informal) and provide an overview of the types of financial products (credit, savings, insurance, transactions and remittances)
- Their financial perceptions, attitudes and behaviours
- Their demographic and geographical distribution
- The obstacles they face and the factors that would have an influence on their financial situations
- Current levels of access to, and utilisation of, financial services and products (formal and/or informal)
- The landscape of access (i.e. types of products used in terms of transactions, savings, credit, insurance and remittances)
- Drivers of financial products and services utilisation
- Barriers to, utilisation of, and access to, financial products and services

The main objectives of the FinScope surveys

- To measure the levels of financial inclusion (i.e. the proportion of the population using financial products and services – both formal and informal)
- To describe the landscape of access (i.e. the type of products and services used by financially included individuals)
- To identify the drivers of, and barriers to the usage of financial products and services as such, the survey ultimately aims:

  - To provide baseline information on financial inclusion levels
  - To stimulate evidence-based dialogue that can ultimately lead to effective public and private sector interventions in order to increase and deepen financial inclusion strategies
  - To determine the impact of these interventions with the help of follow-up surveys

FinScope Analytical Framework and Indicators

Financial inclusion concept

The concept 'financial inclusion' is core to the FinScope methodology. Based on financial product usage and access, the total adult population is firstly segmented into two groups: the 'financially excluded' and the 'financially included':

1. **Financially excluded:** Individuals who manage their financial lives without the use of any financial products or mechanisms external to their personal relationships. If they borrow, they rely on family/friends; and if they save, they save at home

2. **Financially included:** Individuals who have/use formal and/or informal financial products and mechanisms. Please note that does not mean that these individuals have the products in their name. They could also, for example, use someone else's bank account to transact or use formal/informal channels to remit funds

   The financially included entail:

   a. **Formally served:** Individuals who have or use products or services from financial institutions that are regulated through an Act of law (formal financial institutions)
   b. **Informally served:** Individuals who have or use products or services from financial institutions that are not regulated (informal financial institutions and mechanisms) and/or use community based organisations/mechanisms to save or borrow money

The **formally served** population can further be segmented into:

- Banked: Individuals who have or use products or services from licensed commercial banks that are regulated by the central/reserve bank
- Served by other formal financial institutions (non-bank): Those individuals who have or use products or services from financial institutions that are regulated through Acts of law but which are not commercial banks

FINANCIAL INCLUSION FRAMEWORK:

Total adult population (15/16/18 years and older in SADC region)

Financially included =
who have/use financial products and/or services – formal and/or informal

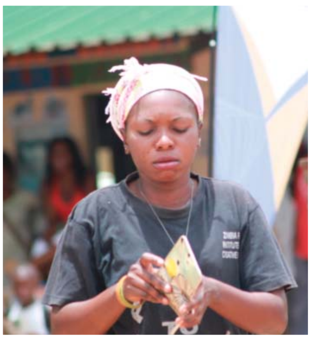
Financially excluded =
do not have/use any financial products and/or services – neither formal nor informal

Formally served =
have/use financial products and/or services provided by a formal financial institution (bank and/or non-bank). A formal financial institution is governed by a legal precedent of any kind and bound by legally recognised rules

Informally served =
have/use financial products and/or services which are not regulated and operate without legal governance that would be recognised, e.g. savings club, motshelo, burial society, matshonisa

Banked =
have/use financial products/services provided by a bank, regulated by the regulatory authorities of a particular country

Served by other formal financial institutions
= have/use financial products/services provided by regulated (non-bank) financial institutions, e.g. a loan by a micro-finance institution or insurance products, mobile money, etc.



Financial inclusion Indicators

The main FinScope analytical tools used in the booklet include the Overview, Financial Access Strand and the Landscape of Access.

1. The **Overview** is a bar graph which depicts the total uptake of different types of financial products/services. The graph includes the overlaps and it adds up to more than 100%. The Overview illustrates total product uptake, the uptake of savings/investment products/services, credit/loan products/services, insurance products/services, as well as remittance products/services.

2. The **Access Strand** is a 100% stacked bar graph which depicts the uptake of different types of financial products/services using a hierarchical approach (without overlaps):

    - The percentage of adults who are banked **(banked)** – identifying adults using commercial bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions and/or informal products as well as bank products.
    - The percentage of adults who are formally served but who are not banked **(other formal)** – adults using financial products from formal financial institutions which are not commercial banks such as microfinance institutions or insurance companies. This excludes bank usage, but is not exclusive in terms of informal usage – these individuals could also be using informal products.
    - The percentage of adults who are not formally served but who are informally served **(informal only)** – adults using informal financial products or mechanisms only. This is exclusive informal usage and does not include individuals who are within the banked or other formal categories of the Access Strand that also use informal services.
    - The percentage of adults who are excluded/unserved **(excluded)** – adults who do not use any financial products/services to manage their financial lives – neither formal nor informal and depend only on family/friends for borrowing and save at home if they save.

3. The **Landscape of Access** is used to illustrate the extent to which financially included individuals have or use financial products and services (both formal and informal). The web diagram depicts, on its five axes, the percentage of the financially included adults that have or use:

    - **Transactional products/services:** secure mechanisms in which funds can be deposited, transmitted, and withdrawn to meet regular transaction needs, e.g. transaction account
    - **Savings/investment products/services:** mechanisms which are used to accumulate funds for future use (short- and/or long-term), whether it is on a contractual or discretionary basis, e.g. savings account, savings group membership
    - **Credit products/services:** mechanisms which are used for the provision of funds in advance against a committed payment stream. This may be further sub-divided into secured and unsecured personal credit, e.g. bank loan, house mortgage, loan from an informal money lender, taking goods on credit
    - **Insurance products/services:** mechanisms which are used to cover a certain defined risk event in return for a premium, e.g. life insurance, medical aid, burial society membership
    - **Remittance products/services:** mechanism which is used to remit money (sending/receiving) to or from family members, friends, family etc. – which could be considered as a sub-category of transactional products. Given its importance, however, it is featured separately.



The Quality of Financial Inclusion Measure (Q-FIM[1]): FinMark Trust has created a new and extensive measurement indicator, concentrating on understanding the quality dimension of usage for financial inclusion. It is worth noting that the quality of financial inclusion should mean that there is a reasonable expectation of individuals to migrate out of poverty through effective use of financial products, coupled with a lesser probability of those that are financially included to slip into poverty.

The Q-FIM analysis takes into account the combination and usage of different landscape products/services (transaction/payment service, savings, insurance, remittances and credit) and thereby creating six segments which are then tiered into the following financial inclusion segments namely:

- Adequately served (Q-FIM 5 & 6) – This segment is more likely to have access to all landscape products and fully benefitting from the overall product offering
- Moderately served (Q-FIM 3 & 4) – This segment is also likely to have access to all landscape products but marginally benefit from the overall product offering
- Thinly served (Q-FIM 1 & 2) – Likely to have access to some landscape products and/or have access to only one landscape product and do not benefit from the overall product offering

[1] This (Q-FIM) indicator will be included in the second version of the SADC financial inclusion book

FinScope SADC footprint

The primary aim of this booklet is to provide an overview of the state of financial inclusion in the SADC region, i.e. the 12 SADC countries in which FinScope Consumer Surveys have been conducted, including the following: Botswana 2014, Lesotho 2011, DRC 2014, Malawi 2014, Mauritius 2014, Mozambique 2014, Namibia 2011, South Africa 2014, Swaziland 2014, Tanzania 2013, Zambia 2015, and Zimbabwe 2014.

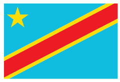
Southern African Development Community in brief

The Southern African Development Community (SADC) is an inter-governmental organisation with a goal to further socio-economic cooperation and integration as well as political and security cooperation among 15 Southern African states namely[2], Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe and Madagascar (FinScope is currently underway).

Botswana

Botswana has a population of about 2 million (World Bank, 2013). According to FinScope 2014, the adult population (18+) is estimated to be about 1.3 million (1 324 572). The population is largely urbanised (68%, including both urban 25% and urban village 43%), female (52%), young (39% of Botswana's adult population are 30 years or younger), with medium levels of education (57% have primary education or less, including 11% without any formal education). About 24% of adults in Botswana do not have access to piped water (inside the dwelling or yard/plot) and 36% do not use electricity for lighting or cooking. Close to a third of Botswana's adult population (28%) earn their income through a salary/wage, while 21% receive money from others. About 37% personally earn P800 (US$ 88) or less per month. A further 22% claimed to have no income at all.

Adoption and uptake of financial products and services – overview: Financial inclusion in Botswana is relatively high. 76% of adult's in Botswana have/use financial services (both formal and informal) to manage their financial lives (about 1 million individuals). 68% of adults are formally served (including the uptake of both bank and other formal non-bank products/services). Every second adult in Botswana is banked (50%) which is largely driven by transactional and savings products, while 56% have/use other formal non-bank products/services. Informal financial products/services continue to play a vital role in Botswana, particularly in the savings space. 39% have/use informal mechanisms, such as savings groups. 24% of adults in Botswana do not use any financial product or service to manage their financial lives outside their personal relationships (about 265 000 individuals). If they save, they save at home, and if they borrow, they borrow from family and friends. About 94% of adults have access to a cellphone, but only 22% use mobile money.



Democratic Republic of Congo

The Democratic Republic of Congo (DRC) has a large population of about 67.5 million (World Bank, 2013). According to FinScope 2014, the adult population in the surveyed areas (15+) is estimated to be about 21.7 million (21 698 341). The population is mainly male (51%), young (53% of DRC's adult population is 34 years or younger), with low levels of education (41% have primary education or less, including 10% without any formal education). About 70% of adults in the DRC have access to water, and 75% do not have access to electricity. 32% generate their main income through farming and fishing and 21% through their own business. 21% mainly rely on others for their income (partner, parents or other family members). Only 7% receive a salary/wage through formal employment. 53% personally earn less than CDF90 000 (US$97.83) per month (including 4% that do not have any income). The combination of low and variable income means vulnerability to financial shocks and limited demand for financial services.

Adoption and uptake of financial products and services – overview: 48% of the surveyed adults in the DRC have/use financial services (both formal and informal) to manage their financial lives (about 10.3 million individuals). 36% are formally served (including the uptake of both bank and other formal non-bank products/services). 12%

[2] All US$ exchange rates are calculated using the rate at point of country fieldwork

of adults are banked which is largely driven by the uptake of transactional and savings products, while 32% have/use other formal non-bank financial products/services (mainly remittance), and 21% use informal mechanisms, such as savings groups. 52% of adults in the DRC do not use any financial products or services to manage their financial lives (about 11.5 million individuals). If they save, they save at home, and if they borrow, they borrow from family and friends. Nearly 57% of the adult population use cellphones. Although 35% know about mobile money, only 4% actually use it.

Lesotho

Lesotho has a small population of about 2 million (World Bank, 2013). According to FinScope 2011, the adult population (18+) is estimated to be about 1 133 711. The population is mainly rural (69%), female (62%), young (39% of Lesotho's adult population is 30 years or younger), with low levels of education (67% have primary education or less, including 26% without any formal education). The high percentage of (male) migrant workers explains (some of) the gender skewness, as well as the importance of remittance in the country. About 79% of adults in Lesotho do not have access to piped water (inside the dwelling or yard/plot), and 55% use firewood/charcoal as their main source of energy in their home. Farming activities are the most important sources of income (31%), while 21% rely on pensions (13% private and 8% government pension), 17% obtain an income from salaries/wages, and 12% rely on remittance (money sent from family/friends) as their main source of money. 68% personally earn less than M750 (US$52) per month.

Adoption and uptake of financial products and services – overview: The level of financial inclusion in Lesotho is unexpectedly high with 81% of adults (about 924 212 individuals) using financial services (both formal and informal) to manage their financial lives. The main reason for the high level of financial inclusion is the uptake of funeral cover which drives informal and other formal services. Even banking is rather high compared to other countries in the region with 38% of adults using financial products/services provided by a commercial bank, which is mainly driven by transactional and savings products. While 46% have/use other formal non-bank financial products/services, 62% use informal mechanisms. Although the high uptake of non-bank formal products/services and informal mechanisms is mostly driven by funeral cover as mentioned above, a significant proportion of those who use these, do so to gain access to credit facilities offered by non-bank formal institutions and by the informal sector. Only 19% of adults in Lesotho (about 209 499) do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. One could easily attribute the high levels of financial inclusion in Lesotho to the fact that in terms of land size and population, Lesotho is a relatively small country with just more than one million adults to serve financially. Providing access to financial services might therefore be relatively less problematic than in most other countries. However, an assessment of the type of services and products used by formally served individuals seems to indicate that non-bank formal service providers, in particular, are doing something right in terms of reach; certainly as far as addressing the need for insurance provision and microfinance is concerned. Cellphones are common in Lesotho with 70% of adult population owning a cellphone. Uptake of mobile money was not assessed in the 2011 survey.


Malawi

Malawi has a population of 16.3 million (World Bank, 2013). According to FinScope 2014, the adult population (16+) is estimated to be about 8 million (8 025 052). The population is largely rural (81%), female (57%), young (40% of Malawi's adult population are 30 years or younger), with low levels of education (76% have primary education or less, including 15% without any formal education). Although access to infrastructure improved slightly compared to 2008, about 90% of adults in Malawi do not have access to piped water (inside the dwelling or yard/plot) or electricity for lighting or cooking. Farming and ganyu (casual work, e.g. on farm) remain the most important sources of income (46% and 45% respectively) and overall 90% of Malawian households are involved in agriculture (mainly tobacco, maize and groundnuts). Malawi's dependency on agriculture makes it particularly vulnerable to external shocks like floods and droughts. Both farming and ganyu tend to be seasonal and associated with low levels of income. Only 8% of adults in Malawi receive a regular salary, and 45% personally earn less than MK10 000 (US$20) per month. A further 10% claimed to have no monthly personal income at all.

Adoption and uptake of financial products and services – overview: Financial inclusion in Malawi is relatively high considering the low levels of income. 49% of adults in Malawi have/use financial services (both formal and informal) to manage their financial lives (about 3.9 million individuals). 34% of adults are formally served (including the uptake of both bank and other formal non-bank products/services). Just above a quarter of adults (27%) are banked which is largely driven by transactional products, while 18% have/use other formal non-bank products/services, mainly for remittance purposes. Informal financial products/services continue to play a vital role in Malawi, particularly in the savings space. 25% have/use informal mechanisms, such as savings groups. 51% of adults in Malawi do not use any financial products or services to manage their financial lives outside their personal relationships. If they save, they save at home, and if they borrow, they borrow from family and friends.

About 72% of adults in Malawi have access to a cellphone. Although 20% (1.6 million) know about mobile money, only 3% (about 264 000) actually use it, either as registered users (2%) or using another person's mobile account (1%).

Mauritius

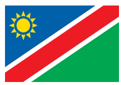
Mauritius has a small population of about 1.2 million (World Bank, 2013). According to FinScope 2014, the adult population (18+) is estimated to be about 921 007. The population is mainly rural (58%), female (51%), with youth accounting for 24% of Mauritius' adult population (30 years or younger), with high levels of education (50% have secondary education, including 10% with professional studies or university degrees). About 99.9% of adults in Mauritius have access to piped water (inside the dwelling or yard/plot), 97% use liquid gas as their main source of energy for cooking while 97% have access to a flush toilet. Salary from private companies (24%) and from government/parastatals (11%), while 21% rely on pensions. About 56% personally earn less than MUR12 000 (US$380) per month.

Adoption and uptake of financial products and services – overview: The level of financial inclusion in Mauritius is high with 90% of adults (about 829 000 individuals) using financial services (both formal and informal) to manage their financial lives. The main reason for the high level of financial inclusion is the uptake of transactional products which drives banking services. Banking is high compared to other countries in the region with 85% of adults using financial products/services provided by a commercial bank, which is mainly driven by transactional and savings products. While 49% have/use other formal non-bank financial products/services, 26% use informal mechanisms. Only 10% of adults in Mauritius (about 92 100) do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. One could easily attribute the high levels of financial inclusion in Mauritius to the fact that in terms of land size and population, Mauritius is a small country with less than one million adults to serve financially. Providing access to financial services might therefore be relatively less problematic than in most other countries, especially since Mauritius is more financially sophisticated than most SADC countries. However, an assessment of the type of services and products used by formally served individuals seems to indicate that non-bank formal service providers, in particular, are doing something right in terms of reach; certainly as far as addressing other needs, for example, for insurance provision. Mobile phones are common in Mauritius with 84% of the adult population using a mobile phone. However, only 2% of the population is registered to use mobile money.

Mozambique

Mozambique has a population of about 25.8 million (World Bank, 2013). According to FinScope 2014, the adult population (16+) is estimated to be about 14 431 915. The population is mainly rural (67%), female (52%), young (46% of Mozambique's adult population is 30 years or younger), with low levels of education (64% have primary education or less). About 18% of adults in Mozambique have access to piped water (inside the dwelling or yard/plot), and 27% use electricity as their main source of energy in their home. 31% mainly rely on farming to generate an income and 30% rely on other household members as their main source of income. Only 8% receive a salary or wage. 65% personally earn less than MT5 000 (US$15) per annum.

Adoption and uptake of financial products and services – overview: The levels of financial inclusion in Mozambique are one of the lowest in the region with only 40% of adults using financial services (both formal and informal) to manage their financial lives (about 5 772 766 individuals). 20% of adults use financial products/ services provided by a commercial bank, which is mainly driven by transactional services, savings products and remittances. Only 10% have/use other formal non-bank financial products/services (e.g. insurance). The uptake of financial products/services is mainly driven by informal mechanisms (27%). 60% of adults in Mozambique do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. One could easily attribute the low levels of financial inclusion in Mozambique to the insufficient physical access to banking infrastructure (combined with low levels of cellphone ownership and availability/use of mobile money). However, other factors need to be taken into consideration such as low levels of education/knowledge/ awareness, high proportion of adults with irregular income and very low levels of income. The lack of resources will remain a principal impediment to accessing financial services. As such, there are large urban-rural differences, as well as gender discrepancies. Almost every second adult in Mozambique (48%) has access to a cellphone. Although 21% know about mobile money, only 3% (360 000) are registered. Key barriers to the uptake of mobile money are the lack of awareness/knowledge.



Namibia

Considering its geographical size, Namibia has a small population of about 2.3 million (World Bank, 2013). According to FinScope 2011, the adult population (16+) is estimated to be about 1 117 525. The population is mainly rural (58%), female (61%), young (47% of Namibia's adult population is 30 years or younger), with good levels of education (32% have primary education or less, including 7% without any formal education). About 48% of adults in Namibia do not have access to piped water (inside the dwelling or yard/plot), and 51% use firewood as their main source of energy in their home. Salaries/wages are the most important source of income (33%, including salary/wages from individuals, companies, and government/parastatals). 12% receive a Government old age pension as their main source of income, 11% receive most of their income from their own business (self-employed), and 10% rely on remittances. 52% personally earn less than NAD1 000 (US$80) per month, and 19% claim to have no income at all.

Adoption and uptake of financial products and services – overview: Financial inclusion is relatively high in Namibia. 73% of adults (about 913 000 individuals) have/use financial services (both formal and informal) to manage their financial lives. Inclusion is driven by the uptake of formal financial services, especially banking products. 70% are formally served (including the uptake of both bank and other formal non-bank products/services). 62% of adults are banked which is high compared to other countries in the SADC region. Banking is largely driven by the uptake of transactional and savings products. 48% have/use other formal non-bank financial products/services (mainly insurance and savings products), and 13% use informal mechanisms, such as informal money lenders and savings groups. 27% of adults in Namibia (about 332 960) do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. Cellphones are common in Namibia with 95% of the adult population having access to a cellphone. The uptake of mobile money was not assessed in the 2011 survey.

South Africa

South Africa has a population of about 53.1 million (World Bank, 2013). Statistics South Africa estimated the total population to be 54 million in 2014. According to FinScope 2014, the adult population (16+) is estimated to be about 36.8 million (36 778 676). The population is mainly urban (66%), female (52%), young (39% of South Africa's adult population is 30 years or younger), with good levels of education (10% have primary education or less, including 2% without any formal education). The large majority of adults in South Africa have access to electricity (94%) and piped water (97%, inside the dwelling or yard/plot). However, impoverished pockets without access to adequate infrastructure remain among low LSM groups, especially in remote rural areas. Money from salary/wages are the most important sources of income (34%), while 34% obtain money from others, 30% rely on Government grants as their main source of income. 39% earn a personal income of less than R2 000 (US$200) per month A further 8% claim to have no personal monthly income.

Adoption and uptake of financial products and services – overview: South Africa has one of the highest levels of financial inclusion in the SADC region. In 2014, 86% of adults in South Africa have/use financial services (both formal and informal) to manage their financial lives (about 31 629 661 individuals). 80% of adults are formally served (including the uptake of both bank and other formal non-bank products/services) which steadily increased over time. 75% of adults are banked which is largely driven by the uptake of transactional products and income payments, while 52% have/use other formal non-bank financial products/services (mainly credit products and funeral cover), and 56% use informal mechanisms, such as savings groups and burial societies. 14% of adults in South Africa do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. Cellphones are common in South Africa with 90% of the adult population using a cellphone. Cellphone banking is used by 24% of adults in South Africa (= about 8.6 million), mainly to buy airtime (82%), check balances (54%), send/receive money (17%), and to pay bills (10%).

Swaziland

Swaziland has a small population of about 1.2 million (World Bank, 2013). According to FinScope 2014, the adult population (18+) is estimated to be about 565 043. The population is mainly rural (67%), female (55%), young (36% of Swaziland's adult population is 30 years or younger), with low levels of education (36% have primary education or less, including 12% without any formal education). About 59% of adults in Swaziland do not have access to piped water (inside the dwelling or yard/plot), and 64% use electricity as their main source of energy in their home. 66% of households are involved in farming. While only 23% work full time for a wage or salary, almost 1 in 3 adults are dependent on someone else for money. 39% personally earn less than SZL500 per month (US$47) and only 37% claim to have money they can use as they wish. The combination of low and variable income means vulnerability to financial shocks and limits the demand for financial services.

Adoption and uptake of financial products and services – overview: 73% of adults in Swaziland have/use financial services (both formal and informal) to manage their financial lives. The majority (65%) is formally served (including the uptake of both bank and other formal non-bank products/services). 54% of adults are banked which is largely driven by the uptake of transactional and savings products, while 56% have/use other formal non-bank financial products/services (mainly savings products), and 41% use informal mechanisms, such as savings groups and shylocks. 27% of adults in Swaziland do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. Cellphones are common in Swaziland with 92% of the adult population owning a cellphone. Only 21% of Swazis use mobile money. Key barrier to mobile money usage relate to lack of information/awareness.

Tanzania

Tanzania has a population of about 49.2 million (World Bank, 2013). According to FinScope 2013, the adult population (16+) is estimated to be about 24.2 million. The population is mainly rural (66%), female (53%), young (44% of Tanzania's adult population is 30 years or younger), with generally low levels of education (77% have primary education or less, including 12% without any formal education). Money from farming (subsistence and agribusiness) is the main source of income (21% and 16% respectively). 23% are dependent on others, and 22% receive their main income from their own business (self-employed). Only 7% receive a salary/wage (4% from the formal sector, and 3% from the informal sector). As such, average incomes are low. 70% personally earn Tsh 150 000 (US$93) or less per month.

Adoption and uptake of financial products and services – overview: Financial inclusion levels in Tanzania improved since 2009 mainly due to an increase in the uptake of formal non-bank products, i.e. mobile financial services. In 2013, 73% of adults in Tanzania (about 17 597 028 individuals) had/used financial services (both formal and informal) to manage their financial lives. 57% of adults (about 13 770 765) are formally served (including the uptake of both bank and other formal non-bank products/services). However, only 14% of adults (about 3 348 45) are banked which is largely driven by the uptake of savings and transactional products, while 56% (about 13 549 620) have/use other formal non-bank financial products/services (mainly mobile financial services used to remit money), and 44% (about 10 648 342) have/use informal mechanisms, which is driven by credit. 27% of adults in Tanzania (about 6 634 736 individuals) do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. Cellphones are common in Tanzania with 61% of the adult population owning a cellphone. Every second adult in Tanzania (51%) uses mobile financial services, mainly to remit money.

Zambia

Zambia has a population of 14.5 million (World Bank, 2013). According to FinScope 2015, the adult population (16+) is estimated to be about 8.1 million. The majority of the adult population reside in rural areas (55%), are relatively young (60% of Zambia's adult population are 35 years or younger), with generally low levels of education (44% have primary education or less, including 8% without any formal education). Zambia's adult population has a fairly even gender distribution with 51% being female (contrary to many of its neighbouring countries). Money from farming and others are the main sources of income for Zambians, while only 15% rely on salaries/wages from business/government.

Adoption and uptake of financial products and services – overview: Financial inclusion in Zambia in 2015 has improved tremendously compared to 2009. About 59% of adults have/used financial services (both formal and informal) to manage their financial lives. 25% of adults are banked and 29% have/used other formal non-bank financial products/services (mainly insurance products). In total, 38% are formally served (taking overlaps into account) and 38% use informal mechanisms such as savings groups to manage their financial lives. As such, the formal and informal sectors play an equally important role in Zambia. In turn, 41% of adults in Zambia do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. Majority (77%) of Zambians have access to cellphones and 53% are aware of mobile money, but only one in seven use it.

Zimbabwe

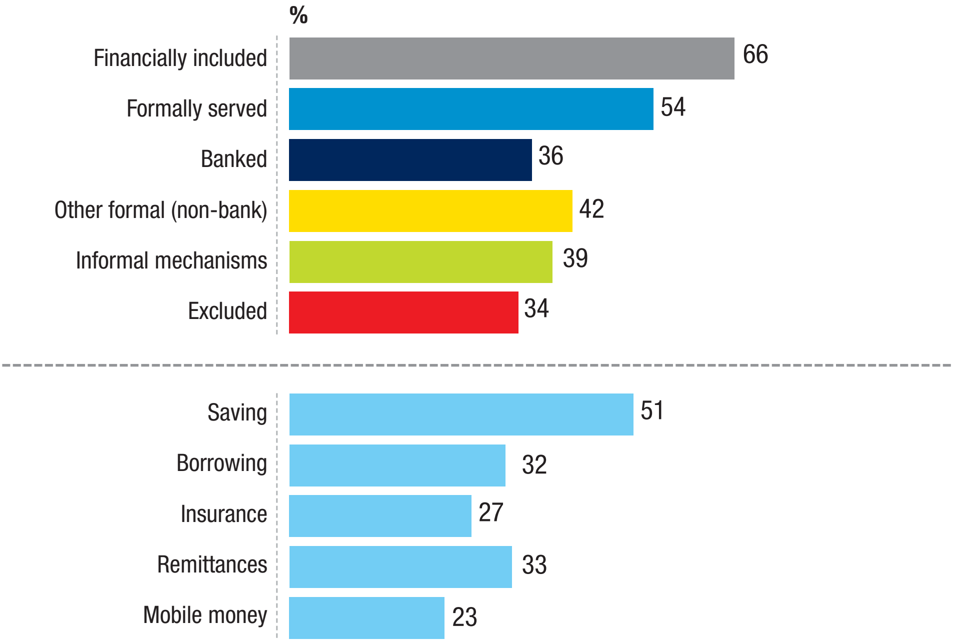
Zimbabwe has a population of 14.1 million (World Bank, 2013). According to FinScope 2014, the adult population (18+) is estimated to be about 7 million (6 998 144). The majority of the adult population reside in rural areas (70%), are mainly female (57%), young (33% of Zimbabwe's adult population are 30 years or younger), with relatively good levels of education (38% have primary education or less, including 3% without any formal education). About 71% of adults in Zimbabwe do not have access to piped water (inside the dwelling or yard/plot) and 71% reside in households that do not have access to electricity. In rural areas, where the majority of Zimbabweans live, adults spend most of their time fetching water and firewood to meet basic needs, and hence are less likely to think about accessing financial services. Money from farming is the main source of income for Zimbabweans (36%), while only 14% receive a regular salary. 65% of the adult population earn less than US$100 per month (including 7% who do not have an income at all).

Adoption and uptake of financial products and services – overview: In Zimbabwe 77% of adults have/use financial services (both formal and informal) to manage their financial lives. 69% are formally served. 30% of adults are banked (which is mainly driven by the uptake of transactional and savings products), and 67% have/use other formal non-bank financial products/services (mainly mobile money services and remittances). The informal sector pushes out the boundaries of financial inclusion in Zimbabwe: 37% of adults use informal mechanisms such as savings groups to manage their financial lives. 23% of adults in Zimbabwe do not use any financial products or services to manage their financial lives. If they save, they save at home, and if they borrow, they borrow from family and friends. Mobile money is well known in Zimbabwe, with 91% of the adult population aware of mobile money. 82% of the adult population comes from households that own one or more cellphones. About 1 in 2 (47%) adults in Zimbabwe use mobile money services.

Highlights of the SADC financial inclusion findings

SADC levels of inclusion

In total, 66% of adults in the region are financially included (including both formal and informal financial products/services) – around 83.5 million individuals. Overall levels of financial inclusion vary considerably across the region from 90% in Mauritius, 86% in South Africa to 40% in Mozambique. Mauritius, South Africa, BLNS countries, and Tanzania show the highest levels of overall financial inclusion.



Formally served: About 54% of adults in the SADC region have/use formal financial products/ services (around 68 million individuals), including banked and other formal (non-bank) financial products/services. Again, levels vary significantly from 88% in Mauritius; 80% in South Africa to 24% in Mozambique. Mauritius, South Africa, BLNS countries, and Tanzania also show the highest levels of formal financial inclusion. Formal inclusion is mainly driven by the uptake of banking products/services in these countries, with Tanzania, Lesotho and to a less degree Swaziland being an exception where formal inclusion is driven by the uptake of other formal (non-bank) financial products/services, i.e., mobile money in Tanzania, and (funeral) insurance in Lesotho and Swaziland.

Banked: About 36% of adults in the SADC region are banked (around 44.6 million individuals). The proportion of adults that are banked ranges from 85% in Mauritius to 12% in the DRC. Mauritius, South Africa and neighbouring BLNS countries show the highest levels of banked population. Key drivers of banking are transactional products/services i.e. receiving/paying/sending money (including for example, payment channels such as internet/online/mobile banking, as well as ATM, debit, and credit cards), as well as savings, i.e. having a mechanism to keep money safe from theft, others, and oneself (e.g. savings account, deposit account, savings book at a bank). Key perceived barriers to banking mainly relate to income (i.e. low/no/insufficient income, irregular income, no job, insufficient balance after paying for expenses) as well as other monetary reasons and issues of affordability (e.g. account fees, bank charges, and having to keep a minimum balance).

Other formal (non-bank): About 41.7% of adults in the SADC region have/use other formal (non-bank) financial products/services (around 52.3 million individuals). The proportion of adults that have/use other formal (non-bank) financial products/services ranges from 67% in Zimbabwe to only 10% in Mozambique. Botswana, Zimbabwe, Tanzania, Swaziland and South Africa show the highest levels of other formal uptake. In most countries, the uptake of other formal (non-bank) financial products/services is mainly driven by mobile money and insurance products (especially funeral insurance). In Zimbabwe, for example, the uptake of other formal (non-bank) products/services is driven by mobile money and other formal remittances channels. Whereas, uptake in Tanzania is driven by mobile money, in South Africa credit provided by other formal institutions (e.g. store accounts) plays an important role. As such, other formal financial services increase overall levels of formal inclusion, particularly in Tanzania and Botswana.

Informally served: In total, 39% of adults in the SADC region have/use informal financial products/services mechanisms (around 49.2 million individuals). Levels vary from 62% in Lesotho to 13% in Namibia. Lesotho, South Africa, Tanzania, and Swaziland show the highest levels of informal inclusion. The informal sector plays an important role in extending the overall levels of financial inclusion, particularly in rural areas and among women, especially in Lesotho, Zimbabwe, and Tanzania. However, despite the vital role of informal financial mechanisms, the uptake of formal financial services (both banked and other formal) is higher compared to the uptake of informal services. Nevertheless, there are a few exceptions where the uptake of informal financial mechanisms is higher than the proportion of the formally served – in Mozambique, for example, where the preference for informal mechanisms might be related to accessibility issues. Uptake of informal mechanisms in Lesotho is driven by funeral cover (burial society membership).

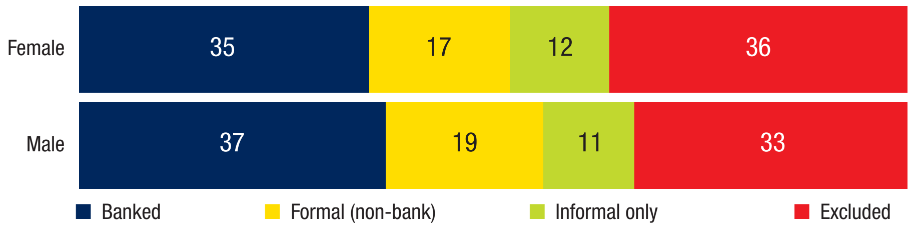
Excluded: More than a third of adults in the SADC region (34%, around 41.9 million individuals) do not use any financial products or services (neither formal nor informal) to manage their financial lives, i.e. they are financially excluded. Levels of exclusion vary considerably across the region from 60% in Mozambique to 10% in Mauritius and 14% in South Africa. Mozambique, the DRC and Malawi have the highest proportion of financially excluded adults. As shown here, traditionally vulnerable groups such as the poor, those residing in remote rural areas, women, and the youth are more likely to be financially excluded.

SADC Access Strand

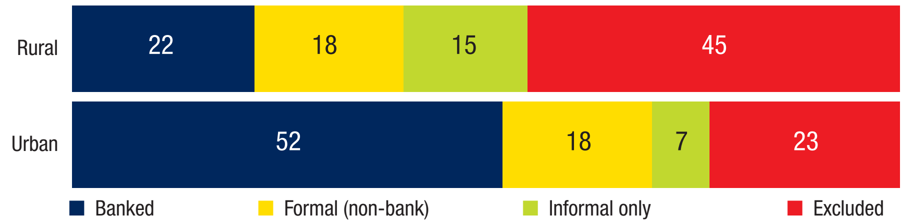
The Access Strand illustrates the uptake of financial products/services using a hierarchical approach. The uptake of banking products (any financial product provided by a commercial bank) is used as the primary variable. It also distinguishes between other non-bank formal financial products and informal products – together they constitute the level of financial inclusion in the region. In constructing the SADC Access Strand, the overlaps in financial product/services usage are removed, resulting in the following segments:

- 34% of the adult populations in the region are financially excluded adults, i.e., they do not use any financial products – neither formal nor informal.
- 12% of adults rely ONLY on informal mechanisms but NO formal products/services
- 18% of adults have/use formal non-bank products/services but NO commercial bank accounts – they might also have/use informal mechanisms
- 36% of adults have commercial bank products/services – they might also have/use other formal and/or informal mechanisms

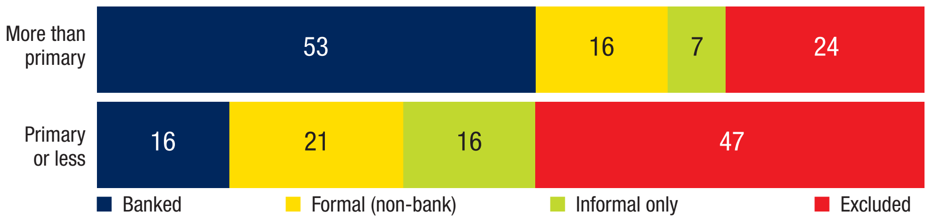
SADC Access Strand by gender



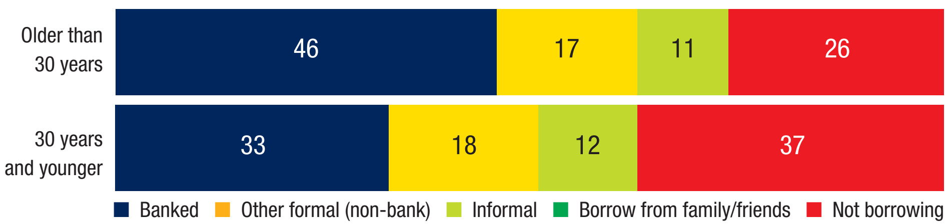
SADC Access Strand by location



SADC Access Strand by education

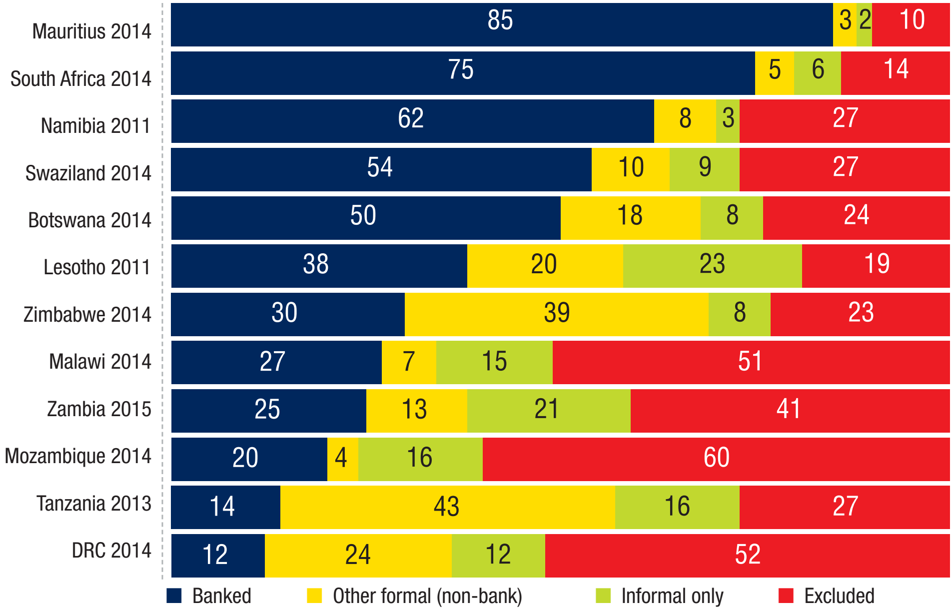


SADC Access Strand by age



Income is probably the strongest determinant of financial inclusion followed by location (22 percentage points difference between urban/rural SADC total) and education (23 percentage points difference between those with primary education or less than more than primary education SADC total). Whereas the gender gap is relatively small in the SADC region (3 percentage points between male/female SADC total). In general, traditionally vulnerable groups such as the poor, those residing in remote rural areas, women, those with lower levels of education, and the youth are less likely to take up (formal) financial products/services (i.e. lower levels of financial inclusion). They are also more likely to rely only on informal financial services.

Country comparison Access Strands



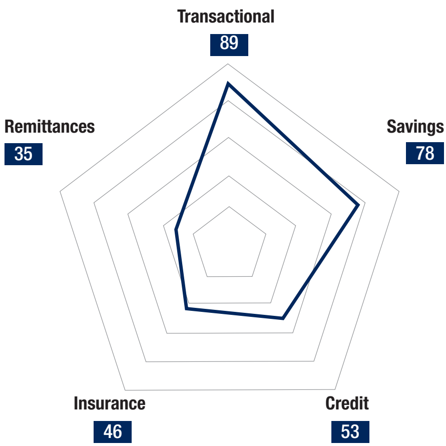
Middle income countries such as Mauritius, South Africa, Namibia, Swaziland, Botswana, and Lesotho have the highest proportion of banked adults, with Zambia being an exception. In general, low income countries, such as Malawi, Zimbabwe, Tanzania, and Mozambique feature lower proportions of banked adults as shown (due to a variety of reasons, not only income levels).

SADC Landscape of Access

In order to illustrate the extent to which adult people in the region have or use financial products and service, FinScope uses the Financial Landscape of Access. The Landscape of Access looks at the types of products taken up by consumers who are financially included (about 83.4 million adults) and describes the percentage of adults that have/use formal/informal products into the following:

- Transactional products/services (including mobile money/banking)
- Savings products/services
- Credit products/services
- Insurance products/services
- Remittances

The figure below shows the Financial Landscape of Access for the region. The axes indicate the percentage of financially included adults using each product category.



Savings and investments

About 51% of adults in the SADC region save, including all forms of savings (around 62.8 million individuals). The proportion of people who save varies from 88% in Tanzania to 32% in South Africa. Tanzania, Namibia, and Mauritius have the highest proportion of people who save. Savings mechanisms vary across the region – while adults in Namibia and Mauritius, for example, mainly save through commercial banks, adults residing in Botswana, Mozambique, and Zimbabwe prefer informal savings mechanisms such as savings groups. In turn, adults in Malawi, the DRC and Tanzania mainly save at home. People in the region mainly save to pay for living expenses (in times of hardship), as well as emergencies (medical and non-medical), funeral costs, and education-related expenses. Perceived barriers to savings mainly relate to income, i.e. low/no/insufficient income, irregular income, no job, insufficient balance after paying for expenses. However, the average level of income in a country (measured here by GNI per capita, World Bank) does not seem to relate closely to a savings culture. For example, 88% of adults in Tanzania save (= classified as low-income), whereas only 32% of adults in South Africa (=higher-middle income country) save.

SADC Savings Strand

Borrowing and credit

About 32% of adults in the SADC region borrow, including all forms of borrowing (around 39.9 million individuals). The proportion of adults who borrow varies from 64% in Lesotho to only 9% in the DRC. People in the region mainly borrow from friends and family with a few exceptions. People in Mauritius and Botswana mainly borrow through commercial banks, while people in Malawi and Swaziland mainly borrow using informal mechanisms (such as money lenders or Village Savings and Loan groups), and people in South Africa mainly borrow through other formal (non-bank) institutions (e.g. retail credit). Overall, the incidence of savings is higher compared to borrowing, with South Africa and Lesotho being the exception (which might be related to the availability of credit). Key drivers and barriers to borrowing are similar to those of savings. People mainly borrow to pay for living expenses which is of great concern as it increases the vulnerability of the poor. Other reasons for borrowing refers to emergencies (medical and non-medical), as well as education-related expenses. Key barriers to borrowing relate to the fear of indebtedness and the inability to pay it back.

SADC Credit Strand

Insurance and risk mitigation

In general the uptake of insurance is low in the SADC region. Only about 27% of adults in the region have/use insurance products, including both formal and informal insurance mechanisms (around 33.2 million). Levels of insurance vary from 62% in Lesotho (mainly funeral cover) to only 1% in the DRC. The proportions of adults with insurance are the highest in Lesotho and South Africa. Product uptake is driven by funeral cover, medical aid/insurance, and life assurance which closely relates to the biggest perceived risks to livelihoods, i.e. death/funeral as well as other health related issues, which are also main reasons for savings and borrowing. Again, main perceived barriers relate to income i.e. low/no/insufficient income, insufficient balance after paying for expenses, and affordability issues. In addition, the lack of consumer awareness and knowledge seems to prevent people from taking up insurance.

SADC Insurance Strand

Remittances

About 33% of adults in the SADC region send/receive money, including all forms of remittances (around 41.2 million individuals). The proportion of adults who send/receive money varies from 57% in Lesotho to 6% in Mauritius. Methods of remitting money differ across the region. Namibia and Lesotho adults mainly remit through commercial banks, while adults in Tanzania and Botswana mainly remit through other formal non-bank channels. About 25% of adults in the region remit through formal sources, while about 8% remit only through informal mechanisms (this includes those who are using the runner (taxi/bus drivers) and relatives and friends). The region has about 4 million people in the diaspora. In-country remittances are significant and predominately related to intraregional migration. Nevertheless, there are a few exceptions where money that flows out of the countries are higher than the proportion of remittances coming in to the countries. In South Africa, Namibia and Swaziland, for example, remittances that come into countries are smaller compared to remittances that go outside these respective countries.

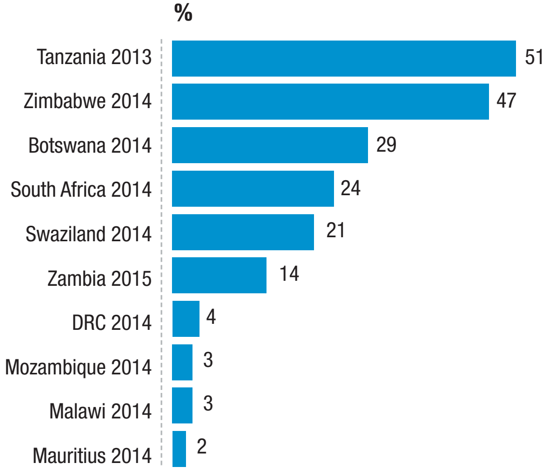
SADC Remittances Strand

Mobile money

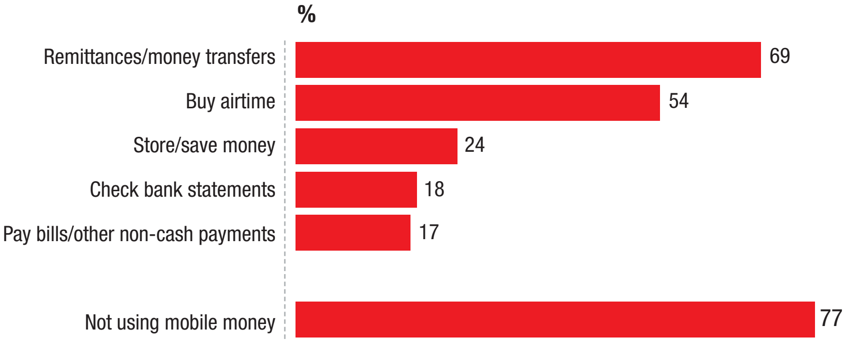
About two in nine (27.7 million) adults in the region use mobile money services, this is despite the fact that nearly 70% (86 million) adults coming from households that own or have access to mobile phones. Among the services available to the users of mobile money are money transfers, payments and mobile banking, however, mobile money services are mainly used for remittances and cellphone airtime top ups. The rate of mobile use is highest amongst urban and banked households. Countries including Tanzania and Zimbabwe have the pervasive influence of mobile money on everyday life. Mobile money in these two countries has revolutionised the financial sector through driving financial inclusion. Key barriers in using mobile money are two-fold:

- Countries like South Africa, Mauritius, Swaziland and Botswana have comparatively larger rich population that may not need mobile money and relies on debit and credit cards and other ways of transacting that obviate the need for mobile money; including sophisticated banking systems and economies as a whole
- Low penetration in mobile money usage in countries including DRC, Malawi and Mozambique is attributed to lack of awareness about the services and insufficient understanding of mobile money. These barriers are partly due to high rates of illiteracy in these countries

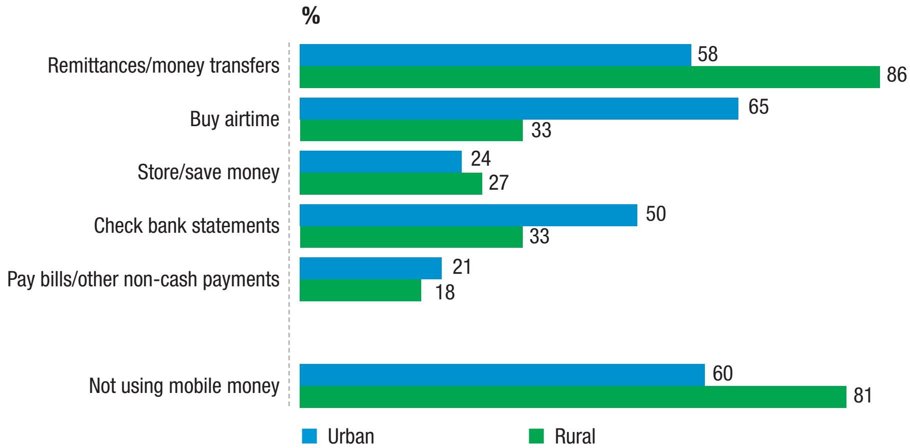
Uptake of mobile money in SADC



Use of mobile money in SADC



Use of mobile money in SADC by urban/rural



Drivers, barriers and opportunities

Drivers and barriers to uptake of products

Banking

The main **drivers of banking** across the region refer to transactional products/services, i.e. receiving/paying/sending money (including for example, payment channels such as internet/online banking, as well as ATM, debit, and credit cards). From a supply-side perspective, formal institutions are likely to target these individuals. From a demand-side perspective, those who receive salaries and wages are likely to need a formal product for the purpose of processing their salaries and wages. Another important driver of banking relates to savings, i.e. having a mechanism to keep money safe from theft, others, and oneself (e.g. savings account, deposit account, savings book at a bank). Nevertheless, it is important that the benefits (interest) exceed the costs associated with savings through a bank account (e.g. account fees, bank charges, minimum balance), and that the money is easily accessible in case of an emergency.

In turn, main perceived **barriers to banking** relate to income, i.e. low/no/insufficient income, irregular income, no job, insufficient balance after paying for expenses. Monetary reasons and issues of affordability from a supply-side perspective also include account fees, bank charges, and having to keep a minimum balance.

Savings

Main **reasons for saving** vary slightly across the region. Adults mainly save for consumption purposes, e.g. living expenses, followed by emergencies (medical and non-medical), funeral costs, and education related expenses. Often reasons for saving and borrowing are similar.

Main (perceived) **barriers to savings** relate to income: low/no/insufficient income, no money left after paying for expenses. However the average income in a respective country (GNI per capita) does not seem to be the driver/barrier for saving.

Credit

The main **reasons for borrowing** vary across the region. Of concern, however, is that they often relate to non-productive reasons. Similar to the reasons for saving, adults mainly borrow for consumption purposes, e.g. living expenses, followed by emergencies (medical and non-medical), and education related expenses. While (medical) emergencies are insurable, education expenses are predictable and could therefore be financed using alternative measures such as savings (e.g. education fund). Borrowing for living expenses, however, is of great concern – this suggests that people are not making ends-meet. This might re-occur throughout the year, increasing the need for borrowing and as such the vulnerability of the poor attempting to pay back their debt within a resource constrained environment. Often, this puts people at risk of being caught in a debt cycle. As such, the main (perceived) **barrier to borrowing** relate to the fear of indebtedness/inability to pay it back.

Insurance

Insurance is mainly **driven** by the uptake of funeral cover, medical insurance/aid, and life assurance – which relates to the main risks to livelihoods identified, namely death/funeral (own, household/family member, main income earner) as well as health related issues (which are also main reasons for savings and borrowing).

In turn, main **barriers** relate to affordability and lack of income (i.e. low/no/insufficient income, insufficient balance after paying for expenses, can't afford insurance), as well as a lack of consumer awareness and knowledge (never heard about it, never thought about it, does not know what insurance is, does not know where/how to get it).

Remittances

A quarter of the adult population in the SADC region (25% = about 31.6 million) remit through formal sources. Interestingly about 12.3 million adults who remit formally reside in Tanzania (mobile money effect). About 9.4 million adults of the region remit only through informal mechanisms – this includes those who are using the runner (taxi/bus drivers) and relatives and friends.

Mobile money

Main **reasons for using mobile money** are consistent across the region. Adults mainly use mobile services for convenience and cost effectiveness.

Main (perceived) **barriers to mobile money** usage vary slightly across the region. Majority of m-money non-users in Tanzania do not have access to mobile phones, while lack of awareness and insufficient understanding of mobile money are main barriers in countries with high rates of illiteracy.

Opportunities

Based on FinScope survey findings, opportunities to bring the financially excluded into the fold of financially inclusion include the following:

- Creating an enabling environment that does not limit innovation
  - Supportive legal frameworks and enabling regulation
  - Usefulness and appropriateness of financial products/services
  - Innovative marketing/distribution channels
- Deepening banking reach to address identified constraints
  - Regulation and Know Your Customer (KYC) issues
  - Barriers to entry by new players who may have the passion and interest to serve the lower end of the market
  - Cost issues
  - Lack of products and services to meet the needs of the markets
- Reducing credit costs and promoting responsible finance
- Inclusive remittances strategy
  - Leveraging the diaspora in the region
  - Remittances to support vulnerable dependents through innovative cost-effective channels
- Insurance to better manage impact of risks beyond funeral cover
  - Appropriate, relevant and affordable insurance products
  - Convenient effective premium collections (without a bank account collection is not possible)
- Opening mobile money usage beyond remittances purposes
  - People want a safe and convenient place to keep money
  - Easy access to their money
  - Transactional capability
- Banking 80 million unbanked (64%) adults in the region
  - A huge population that cannot be ignored
  - Have low/irregular income
  - Composed of vulnerable groups (rural, younger (30 years and less) and low education levels)
  - Need to think and do things differently.

Contact

For further information about financial inclusion in the SADC region, please contact

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FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002, and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. This is done by promoting and supporting financial inclusion, regional financial integration, as well as institutional and organisational development, in order to increase access to financial services for the un-served and under-served. In order to achieve this, FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust developed the **FinScope** tool, including both the FinScope MSME Survey and the FinScope Consumer Survey.

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