Making Access Possible

Swaziland

Financial inclusion through increased access, and diversification of providers, products and services

Financial Inclusion Roadmap

2014–2020

cenfri
The Centre for Financial Regulation & Inclusion

FINMARK TRUST
Making financial markets work for the poor

UNCDF MAP

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.

At country level, the core MAP partners collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Swaziland represents a partnership between UNCDF, Cenfri and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Swaziland.

This report was produced by the FinMark Trust as part of the larger MAP diagnostic work.

The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the Adenium, a flower synonymous with Swaziland. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Swaziland we represent the characteristics of the country, linking financial inclusion with successful growth.

ABOUT MAP SWAZILAND

This Roadmap is a document produced as part of a series of documents in the Making Access Possible (MAP) Swaziland initiative.

MAP Swaziland was requested by the Government of Swaziland as input towards the development of a financial inclusion strategy for Swaziland. The Ministry of Finance set up the Financial Inclusion Task Team comprising representatives from the Ministry of finance, the Microfinance Unit, the Central Bank and the Financial Services Regulatory Authority. The Financial Inclusion Task Team serves as steering committee for the MAP project and is mandated to develop a financial inclusion strategy for Swaziland.

The research findings from the MAP diagnostic in Swaziland are captured in the diagnostic report which contains the findings of a comprehensive demand-side, supply-side and regulatory analyses (''Making Access Possible: Swaziland Diagnostic Report'', 2014). The report covers payments, savings, credit and insurance, and therefore provides an understanding of microfinance in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by target groups and draws from quantitative data provided by the Swaziland FinScope Survey 2011 and qualitative demand-side research conducted by KLA (a market research firm) composed of individual interviews and focus group discussions in October 2013 in Matsapha, Manzini and Mhlume. Supply side stakeholder interviews were conducted in October 2013 and were held with regulators and financial institutions. Other research included in-depth analysis of data contained in regulatory databases, data from suppliers, annual reports and a range of literature and secondary research on the country financial sector context. Lastly, a mystery shopping exercise was done to understand product terms and costs, as well as to experience financial services on offer from the customer's perspective.

Documents produced as part of the MAP Swaziland initiative include: (1) Making Access Possible: Swaziland Diagnostic Report 2014. (2) Making Access Possible: Swaziland Synthesis Report 2014. (3) Qualitative Report on Financial Inclusion in Swaziland, KLA 2014. These are available as separate deliverables. The FinScope Survey 2011 dataset is available on request for research. A new FinScope survey is expected in late 2014.

This roadmap synthesises the main findings and recommendations from the diagnostic, and presents a way forward on the recommended priority areas for financial inclusion in Swaziland. The intended outcome is to develop a national strategy for financial inclusion, and align stakeholders and resources around key priorities.

MAP Swaziland is funded by FinMark Trust.
The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.

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List of Abbreviations and Acronyms

AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
ATM	Automatic Teller Machine
CBS	Central Bank of Swaziland
CMA	Common Monetary Area
DCP	Development Credit Provider
DFID	UK's Department for International Development
CFT	Combating the Financing of Terrorism
EFT	Electronic Funds Transfer
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
FI Act	Financial Institutions Act
FSAP	Financial Sector Assessment Program
FSRA	Financial Services Regulatory Authority
G2P	Government to Person payments
GDP	Gross Domestic Product
GPFI	Global Partnership for Financial Inclusion
HIV/AIDS	Human immunodeficiency virus infection / Acquired immunodeficiency syndrome
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
KYC	Know your customers
KPI	Key Performance Indicator
MAP	Making Access to Financial Services Possible
MF	Micro Finance
MFIs	Microfinance Institution
MFU	Micro Finance Unit
MLFTP Act	Money Laundering and Financing of Terrorism (Prevention) Act
MNO	mobile network operator
NDS	National Development Strategy
NPS	National Payments Department
P2P	Person to Person
POS	Point-of-sale devices
PRAP	Poverty Reduction Action Plan
SA	South Africa
SACCO	Savings and Credit Cooperatives
SACU	South African customs union
SADC	Southern African Development Community
SEDCO	Small Enterprises Development Company Limited
SIPA	Swaziland Investment Promotion Authority
SME	Small and Medium Enterprise
SMME	Small Medium & Micro Enterprise
UNCDF	United Nations Capital Development Fund

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EXECUTIVE SUMMARY

The Kingdom of Swaziland (Swaziland) Financial Inclusion Roadmap lays out a vision for the enhancement of financial inclusion in Swaziland. It is based on the diagnostic contained in the Making Access Possible Swaziland Diagnostic Report, 2014 which in turn draws mainly on the in-country supply side research, qualitative research, and the Swaziland FinScope Survey 2011.

Making Access Possible (MAP) Swaziland was conducted as a result of a formal request by the Government of Swaziland via the Ministry of Finance as input towards the development of a financial inclusion strategy for Swaziland. The programme has been funded by the FinMark Trust.

The research shows that there is need to increase access to financial services. According to FinScope 2011, 50% of the population have no access to formal services, with formal access to credit and remittances being the least developed. At the same time it is necessary to increase the quality and usage of the services currently available. For example while there is significant penetration of bank accounts, usage is very low. The recommendations point to a need for coordinated action by government, private sector and development partners to address these shortcomings.

In order to provide a vision and direction, a policy goal is proposed towards which supportive intervention action is organized and monitored. In line with Swaziland's Maya declaration, the vision for financial inclusion is to:

"Increase Financial Inclusion from 50% in 2011 (FinScope) to 75% in 2022 by growing mobile money and remittances, deepening bank reach, getting credit basics right, ensuring risk management products are available, and enabling alternative channels to serve the poor".

As indicated in the proposed policy goal, in addition to the underlying development of alternative delivery channels, the roadmap proposes five immediate and urgent priorities to support financial inclusion, namely **(1).** Growth in e-money to transact and save **(2).** The development of formal domestic and cross border remittance products to support vulnerable dependent groups **(3).** Expand insurance to better manage impact of risks **(4).** Deepening bank reach to better meet needs and **(5).** Reducing credit costs and protecting consumers.

These priority areas of action have been identified based on the most urgent customer needs and potential impact identified in the MAP research, and will be implemented as part of a national financial inclusion policy and strategy. Other ongoing work impacting on financial inclusion will be aligned to the identified priorities. This will ensure that synergies are exploited and duplication avoided in line with the Paris Declaration for Aid Effectiveness[1].

It is envisaged that the proposed interventions will result in an increase in reach, depth and quality of financial inclusion in Swaziland, and a sustainable financial sector able to increase citizen welfare, create economic growth, and hence meet national goals.

"while there is significant penetration of bank accounts, usage is very low."

1 Background

1.1 Swaziland Financial inclusion Roadmap - Introduction

The purpose of the Swaziland Financial Inclusion Roadmap is to assist the government and stakeholders identify and implement actions to improve financial inclusion in Swaziland, based on the research as documented in the diagnostic report.

The diagnostic is based on the application of the MAP diagnostic and programming framework to support expanding access to, or consolidating the provision of, financial services for individuals and micro and small businesses. It is contained in the Making Access Possible: Swaziland Diagnostic Report, 2014 prepared by the Centre for Financial Regulation and Inclusion (Cenfri).

MAP Swaziland was requested by the Government of Swaziland as input towards the development of a financial inclusion strategy for Swaziland. The Ministry of Finance set up a Financial Inclusion Task Team comprising representatives from the Microfinance Unit (MFU), the Central Bank, the Financial Services Regulatory Authority (FSRA), and the Ministry of Finance. The Task Team serves as steering committee for the MAP project and is mandated to develop a financial inclusion strategy for Swaziland.

The key research findings from the MAP diagnostic in Swaziland are captured in the comprehensive demand-side, supply-side and regulatory analyses (‘’Making Access Possible: Swaziland Diagnostic Report’’, 2014) which is based on:

- Quantitative demand side research from the Swaziland FinScope 2011 survey. FinScope is a nationally representative demand-side survey implemented by FinMark Trust. It gauges people’s usage, perceptions and interaction with various financial services, as well as barriers to greater financial services penetration. As the survey was conducted in 2011, it does not reflect the most recent trends such as the rise of Mobile Money but this has been captured in the qualitative and supply-side analysis. A new FinScope survey is underway for 2014.
- Qualitative demand-side research by market research firm KLA including individual interviews and focus group discussions. Fieldwork was conducted in October 2013 in the Matsapha / Manzini area, as well as in Mhlume. The findings are not nationally representative, but complement the quantitative survey. Twelve focus group discussions, four in-depth interviews and six immersions were done.
- Stakeholder interviews in October 2013, including with stakeholders from regulatory departments and financial institutions. The stakeholder consultations were accompanied by in-depth analysis of data contained in regulatory databases, from suppliers, annual reports and other secondary research.
- A mystery shopping exercise was implemented to understand product terms and costs, as well as to experience the process of signing up for a financial service from the customer’s perspective

The roadmap synthesises the main findings and recommendations from the diagnostic and presents a way forward on the recommended priority areas for financial inclusion in Swaziland, and is intended to be the basis for a national financial inclusion policy, strategy, and roadmap.

MAP Swaziland has been funded by FinMark Trust.

1.2 Roadmap approach and methodology

Schematically the roadmap approach is shown in Figure 1. The roadmap is founded on priority areas identified in the research, representing gaps and opportunities in the market which can have the largest positive impact on consumer welfare if appropriately addressed. Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (MM4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

In order to provide a vision and direction, a policy goal (vision) is proposed towards which supportive intervention logic can be organized and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a road map, including responsibilities and accountabilities and activities. Costs, timeframes and targets will be firmed up at the beginning of the implementation phase.

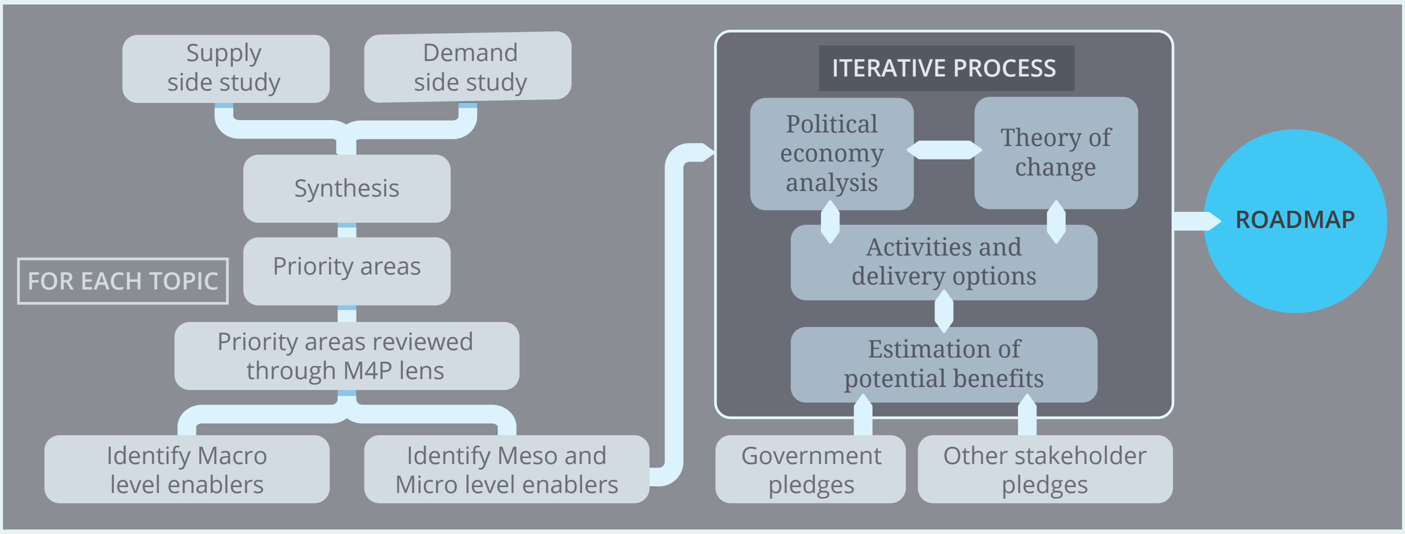

Figure 1: Roadmap approach

2 Swaziland Financial sector context

2.1 Country Context

The Kingdom of Swaziland is small in size and population, with an adult population of 531,813. The small size of the economy constrains scope for growth and economies of scale. However the size also facilitates distribution of financial services as even rural areas are not that remote in Swaziland. Infrastructure is therefore not a major bottleneck, with a fairly good road network and a high mobile penetration of 86%. The overall electrification rate is low at 27%.

Swaziland has a regionally integrated economy, being closely integrated with neighbouring South Africa; 70% of its imports are from South Africa and 79% of its exports are to South Africa. Swaziland is a member of SADC, the Common Monetary Area (CMA) and the Southern African Customs Union (SACU). SACU receipts historically account for up to 60% of government's budget. SADC has various regional economic and financial integration initiatives taking place of relevance to Swaziland, notably the Finance and Investment Protocol (FIP) and initiatives around a regional payment system.

The private commercial and SMME sector is limited, with 82% of SMMEs classified as micro and commercial agriculture accounting for only 6% of land use. The public sector is a key driver of economic activity being the single biggest employer, and many private companies, especially SMMEs, are heavily reliant on government contracts. The FinScope (2011) survey finding that less than 15% of small business owners or self-employed individuals earn more than E2,000 per month confirms that most entrepreneurs are survivalist in nature. Despite the declining role of agriculture in the economy, 65 per cent of all households in Swaziland are in some way involved in farming (FinScope, 2011).

Swaziland has relatively low incomes (80% earn below E2,000 a month or have no regular income) and one of the highest HIV/AIDS penetration rates in the world (life expectancy of 49 years). These factors indicate vulnerability to financial shocks and a survivalist outlook, and have implications for demand of financial services. The qualitative research suggests that many households look after children of deceased relatives and that a funeral in the community is a regular occurrence. Poor health undermines productivity and makes it difficult to "get ahead" in life. The health situation constrains demand for financial services on the one hand, but also enhances the imperative for risk protection and income smoothing on the other hand.

A significant number of citizens live and work outside of the country (estimated at 160,000[2], of which 136,000 are in South Africa).

Swaziland does not currently have an official strategy document on financial inclusion. Nevertheless government is committed to promoting financial inclusion, and recognizes the significant role the financial services sector can play in contributing to economic growth. A Micro Finance Unit (MFU) has been set up under the authority of the Ministry of Finance to drive financial inclusion through the implementation of a Rural Finance and Enterprise Development Programme. Amongst other measures:

- Government is collaborating with the International Fund for Agricultural Development (IFAD) and several financial institutions to facilitate SMMEs' access to finance.
- The country's Poverty Reduction Action Plan (PRAP) stresses the need to enhance private savings as a mechanism to reduce poverty.
- The Central Bank has committed to targeted interventions to support broader access to financial services and for example such objectives are included in the National Payments System Strategic Vision 2016.
- The Ministry of Finance became a member of the global Alliance for Financial Inclusion (AFI) and the Central Bank an associate member in May 2013.

The policy assumption implicit in these various initiatives is that the provision of financial services, particularly to the excluded, has the potential to improve welfare by reducing vulnerability, poverty reduction, increase employment and, ultimately, growth. The development of inclusive finance in Swaziland can also play an important role in enhancing access to basic services such as health and education.

Financial services play a critical role in enabling poor people to sustain livelihoods and improve living conditions by helping to stretch small, irregular and uncertain incomes to pay for expenses and secure investment opportunities. Improved access to finance is regarded as pro-growth and also a means to reduce income inequality and poverty. A number of studies have shown that countries with more developed formal financial systems record faster declines in income inequality and poverty levels.

2.2 Status of Financial inclusion in Swaziland

Swaziland has moderate levels of formal financial inclusion at 50%, but also has many who are completely excluded from financial services (37% of adults) (Figure 2). The quality and depth of existing access is also a problem, being characterized by high levels of informal access especially for credit, low usage especially of bank accounts, and thin coverage (many use only one formal product).

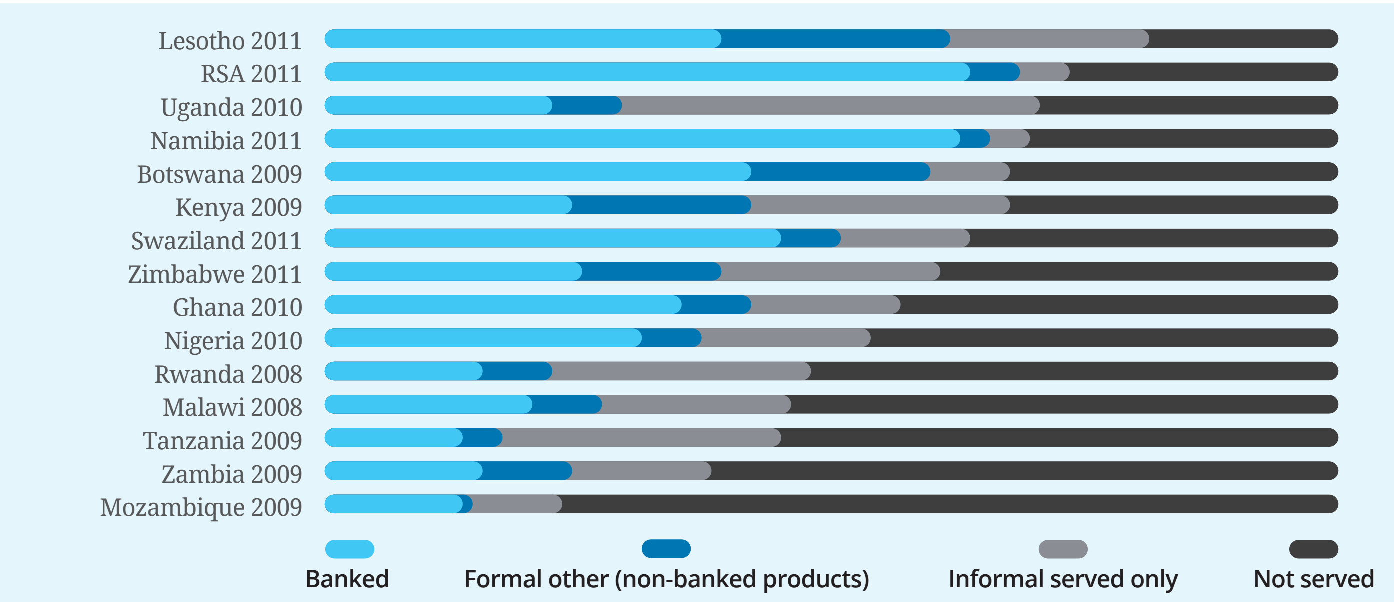

Figure 2: Financial inclusion in selected African countries
Source: FinScope, various dates

"Eligibility requirements are one of the biggest barriers, especially for formal credit."

Savings is the most developed product, with 39% of adults reporting access to a formal savings mechanism. Access to insurance, remittances and credit is much less developed (formal access being 17%, 12% and 7% respectively). Most borrowers for example resort to informal lenders (33% of adults report using credit, but only 7% of adults use formal credit).

Un-intermediated remittances are common, and although 36% of adults report using remittance services, only a third of them (12%) use a formal channel. Sending or receiving money via family, friends or in person is the single biggest channel (21% of adults). Insurance has the second highest formal uptake. An estimated 17% of adults have formal policies, while 5% rely on informal-only channels such as burial societies.

The overall picture painted is one where there is a high penetration of bank accounts that are not fully utilised, and a low penetration of the other financial service products. This would indicate Swaziland to be between Group 2 (entry focused) and Group 3 (breadth focused) positioning on the GPFI financial inclusion framework[3], characterized by a mix of needs; a need for increased access to most of the products, and the need to shift from an access focus towards quality and usage for bank accounts. There is also a need to start focusing on consumer empowerment.

2.3 Barriers to financial inclusion

Access barriers:

1. **Eligibility.** Eligibility requirements are one of the biggest barriers, especially for formal credit. These include confirmation of employment (only 18% of the adult population is formally employed), proof of address (four out of every five Swazi are unable to prove their address) and title deeds (only one in ten has a title deed). Requirement for payslips is also an important barrier to accessing formal credit as it excludes many from personal loans, the most commonly offered loan product
2. **Appropriate features.** Turnaround time and flexibility regarding administrative processes and repayment terms were cited in the qualitative research as an important reason why the target market resorts to informal credit. The fact that insurance requires regular premium payments was raised as another feature-related barrier.
3. **Affordability** is an important barrier due to low incomes. This is especially so for insurance where many feel that they cannot justify paying premiums for a risk event that is not guaranteed. High bank charges were also mentioned as a barrier for savings and transaction products. Although affordability should also be a main consideration for credit, eligibility and flexibility appear more critical as people tend to borrow informally at much higher interest rates than would apply in the formal sector.
4. **Proximity.** Financial institutions and financial service access points such as ATMs are mainly located in business and shopping hubs, leading to added transport costs and time.

Usage barriers:

5. **Financial capability.** The lack of understanding of formal financial products and processes serves as a usage barrier. Many respondents do not seem to realise or take advantage of the benefits offered by formal financial products.
6. **Formal financial institutions regarded with suspicion, though trusted to keep money safe.** Many do not trust formal financial institutions to act in consumers' best interests, particularly where bank charges are concerned. They feel that banks are not honest and steal from customers under the pretext of service charges.
7. **Door step barriers.** Respondents felt that they were not the target market for formal financial institutions. "Banks are not for me". They perceive financial institutions to serve mainly the affluent or those with a formal job.

Additional barriers to increased use of specific products also exist. For credit, a fear of credit, slow speed of formal loans especially when they are transferred to a bank account adding a further 2-3 days (versus informal providers who provide the loan on the spot in cash), limited flexibility in repayment that does not match income profiles, large gap between the low rates offered by the formal sector and the 200% p.a. or higher rates charged by the informal sector, and gaps in specific products to fund education, SMMEs and agriculture contribute to a low take up in addition to the access barriers mentioned above.

For payments there are transaction and transport costs, uncertain terms and conditions, and limited awareness. Savings are most impacted by the high bank fees and proof of income requirement (for low cost options), while insurance faces challenges including the need for regular income to pay premiums, proximity of suppliers, affordability of premiums and KYC documentation if enforced.

3 Enhancing Financial Inclusion in Swaziland

"institutions are also prioritised based on the (current or potential) scale, incentive to go down market, and the extent to which consumers trust or use the institution."

3.1 MAP Prioritisation process

In defining and prioritising measures to improve financial inclusion, seven priority target market segments were identified for Swaziland, namely **(1)** Formally employed, **(2)** Informally employed, **(3)** Self-employed, **(4)** Irregular earners, **(5)** Private dependants, **(6)** State dependants, and **(7)** Non-resident Swazis.

The main needs identified for each of these segments from the research are shown below.

Segment	Estimated size	Identified needs
Formally employed	98 000	• *Well-served, not main FI priority* • *Low-cost transactional services* • *Long term (educational) savings* • *Increased insurance* • *Transfer informal to formal credit and borrow for businesses*
Informally employed	28 000	• *Low cost transactional and remittance services* • *Low cost savings options* • *Asset-based credit (limited)* • *Funeral and health insurance*
Self-employed	68 000	• *Need low cost savings and transactional services* • *Given survivalist nature, business credit unlikely* • *Civil servants and Expats could fund*
Irregular earners	97 000	• *High level of home savings* • *Need to mitigate risks and to store irregular earnings safely*
Private dependants	154 000	• *High level of home savings* • *Need to mitigate risks and to store irregular earnings safely*
State dependants	35 000	• *High level of home savings* • *Need to mitigate risks and to store irregular earnings safely*
Non-resident Swazis	160 000	• *Largest group* • *Need to save and send money home – enhanced access in sending country* • *Longer-term savings and asset accumulation towards retirement* • *Cross-border products for dependants*

Table 1: Needs by market segment

Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, it has been necessary to adopt a criteria to select the highest priorities that will provide the largest impact in extending financial inclusion. Most importantly, the selected priorities should support the welfare policy objective, by reducing transaction costs, improving households' opportunities to access goods and services, offering tools to mitigate risks, increasing accumulation of capital and allocating such capital to productive opportunities. Financial inclusion interventions should be prioritised according to those opportunities that best meet the welfare objective. This in turn is linked to how closely a particular intervention impacts each of the segments' needs, and hence its potential reach given the number of people and average income of each segment (Figure 3).

In finalising the prioritisation process, institutions are also prioritised based on the (current or potential) scale, incentive to go down market, and the extent to which consumers trust or use the institution. In this regard MNOs, Retailers, the post office, agro dealers and Development Credit providers (DCPs) are prioritised given their scale, high incentive to go down market, and extent of consumer use, while other traditional large players (Insurers and banks) need to be incentivised to serve low income customers. Money lenders and informal savings clubs are well positioned in the low income market, but potential consumer protection concerns would need to be adequately addressed.

Based on the needs of the various target markets, as well as the nature and challenges to provision evidenced

Products		Formally employed	Informally employed	Self-employed	Irregular earners	Private dependants	State dependants	Expats	Est. potential (1000s)	
Number (k)		98	28	68	97	154	35	160		
Average Income		2-4k	791	719	234	334	529			
Credit	Personal Loans								<50	Transaction costs
	Asset finance								<20	Access to opportunities, Allocation of capital
	SMME finance								<20	Access to opportunities, Allocation of capital
	Agricultural								<20	Access to opportunities, Allocation of capital
	Cons protection								<90	Risk mitigation, Transaction costs
Payments	Debit orders								<20	Transaction costs
	CB remittances								<80	Transaction costs
	Dom. remittances								<200	Transaction costs
	Low cost transaction								>350	Transaction costs, access to services
Savings	Low cost savings								>350	Transaction costs and accumulation of capital
	Targeted savings								>100	Transaction costs and accumulation of capital
Insurance	Health								<50	Risk mitigation
	Hospital cash plan								>100	Risk mitigation
	Funeral/Life								>200	Risk mitigation
	Asset								<20	Risk mitigation

Need

Highest Lowest

Impact

High Medium Low

Figure 3: Prioritisation framework for financial inclusion in Swaziland

through the analysis, the following priorities for financial inclusion were shortlisted:

1. E-money to transact and save
2. Formal domestic and cross border remittance products to support vulnerable dependent groups
3. Insurance to better manage risk
4. Deepening bank reach to better meet needs
5. Reducing credit costs and protecting consumers

It should be noted that these are not the only opportunities to enhance financial inclusion in Swaziland. However, these selected strategies are likely to have the most far-reaching impact on financial inclusion, given the nature of the target markets.

3.2 A Proposed Goal for financial inclusion in Swaziland

In order to provide a vision and direction for financial inclusion in Swaziland, a policy goal in line with the Vision 2022 of Swaziland is proposed:

"Increase financial inclusion[4] from 50% in 2011 (Finscope) to 75% in 2022 by growing mobile money and remittances, deepening bank reach, getting credit basics right, ensuring risk management products are available, and enabling alternative channels to serve the poor"

The goal identifies the five main priority outcomes needed to achieve it, in addition to the underlying need to develop alternative delivery channels.

E-money to transact and save. Amongst these priorities the most crucial is the need to grow mobile money and more generally electronic money (e-money) to enable more effective savings and payments products. Currently, cash and savings at home are often used but these are unsecure and inefficient, while group savings come with the pressure to share these savings with the community. Banks overcome these concerns but they are expensive for small values and present eligibility and doorstep barriers for the poor. Mobile money is therefore ideal as it overcomes these challenges, with low eligibility barriers, privacy to build assets over a short term, potential to reduce transport costs for the rural, and presently being significantly less expensive than banks.

Formal domestic and cross border remittance products to support vulnerable dependent groups. Remittances are a major source of income for many, and there is a need for alternative mechanisms for domestic and cross border remittances to support vulnerable dependent groups. Almost half of Swazi adults rely on each other for remittance income, mainly through informal channels. Some of the key barriers to formal services include the transaction costs, a limited awareness of alternatives (60% of those that self-deliver indicate they are not aware of any alternatives), formal provider doorstep barriers, perceived complexity in the identification requirements, and waiting period for payment to clear through bank accounts. Alternative providers could play a significant role where they have reach and trust, especially MNOs and retailers. Banks can also further extend their reach through increased awareness and cost reductions.

Insurance to better manage risk. There is significant need to expand insurance given the high mortality and vulnerability. With collective mechanisms becoming exhausted, credit and savings are being used as alternatives. There is therefore room for growth, even among best-served target markets (civil servants have 64% formal uptake, company employees 35%, self-employed 19%, the rest below 10%). In long term insurance, while there is a broad suite of relevant products across providers uptake is constrained by the low and irregular customer incomes and limited mechanisms for premium collection. In short term insurance the existing monopoly is being eroded, but the products still offer low client value (low claims ratio). Going forward it will be necessary to encourage innovation in insurance, for example in distribution and premium collection (mobile payments, groups and agro-dealers could play a role), flexible payment periods, targeted low income products, expanding healthcare (“Bite-size” health solutions for the low income), life insurance with education products and appropriately designed, affordable asset cover. There is also a need to provide exemptions to KYC requirements included in insurance regulation, given limited access customers have to relevant documentation.

Deepening bank reach to better meet needs. Deepening bank usage has been prioritised given that banks have the broadest penetration of any provider, but the accounts suffer from limited use by customers, with limited activity and low balances. Additionally only 13% of bank clients access bank credit. Whilst trusted, banks are perceived to be expensive, confusing and “not for me.” The solution will lie in reducing the complexity of bank costs, addressing doorstep barriers and improving value to consumers. High in priority include more proactively analysing data and talking to clients to tailor approach, awareness of options and terms, partnerships and agencies, regular communication, lower eligibility requirements, technology to reduce transaction costs, competition from retailers and MNOs and reducing costs through proactive regulation. Partnerships and disclosure have been identified as priority areas to improve use and quality of bank products.

Reducing credit costs and protecting consumers. Addressing the basics in credit to increase the low uptake of formal credit in the SMME segment, as well as to consumers is the other proposed priority. Currently the credit market is dominated by the use of informal credit (flexible but expensive) although it has to be acknowledged that there is limited overall capacity to absorb much additional credit given limited productive potential. Key challenges to be addressed are therefore to ensure improved coordination and re-capitalisation for DCPs to address the SMME market, and to expand access to consumer products through banks and the leveraging of expatriates and civil servants to fund small businesses. SMME should also be encouraged to move to tailored business products. From a consumer perspective customer protection is crucial and especially access to better information when taking up credit.

National coordination of financial inclusion and in particular the implementation of the priority interventions that have been proposed is recommended. The responsible coordination body will also ensure there is harmony of new and existing policy in respect of financial inclusion, better product based information to address financial inclusion, and consumer empowerment across all product categories.

4 Implementation Areas

4.1 E-Money to transact and save

The objective of this initiative is to reduce transaction costs for customers through a migration to e-money, encourage them to build savings balances, and ensure services are able to reach the rural population. Some of the challenges encountered to date include low liquidity by mobile money agents, unfamiliarity of consumers and limited trust in the mobile money technology, a regulatory cap on mobile money account balances of E4,000, and inconsistency of access due to issues in the mobile network.

Proposed actions to resolve these challenges and grow mobile money include:

- Introducing roaming 'super agents' and partner with banks to help overcome illiquidity problems
- Investigating a tiered account structure, allowing customers with KYC to have higher account balances
- Introducing e-money ATMs, or partner with banks to improve consistency of access
- Reviewing regulatory environment including interest payable to customers to encourage savings and increased usage (linked saving wallet potential)
- Enabling an ecosystem of goods and services that can be purchased with e-money (including retail stores, insurance and savings)
- Exploring potential for distribution of grants via e-money, staggered to counter liquidity problems
- Increasing consumer awareness to encourage use
- Using E-Money transaction history for use by other providers to extend credit
- Exploring potential to transfer funds from bank account into mobile money account
- Further targeted research to better understand the opportunities to extend e-money usage.

The initiative will be coordinated by the NPS.

4.2 Formal domestic and cross border remittances to support vulnerable dependent groups

The objective of this initiative is to reduce remittance transaction costs, enable more granular remittances and hence income consistency (regularity of receipt), and to ensure increased security of money transfers. The main challenges include removing regulatory restrictions on alternative providers, addressing AML/CFT restrictions from South Africa, creating awareness of existing formal options, and removing doorstep barriers for low income customers.

A number of specific actions are proposed:

- Enable alternatives: Allow a broader range of cross-border and domestic remittance channels, including retailers and mobile money
- Targeted marketing and product design strategies to encourage remittances through bank accounts
- Develop specific financial services targeted at expatriates, such as education savings or health insurance products for their dependants that they can directly contribute towards. Some actions to realise this may include:
  - *Approaching the South African authorities to enhance access to the financial system for low value transactions (AML / CFT exemptions) and undocumented migrants in South Africa*
  - *A communication campaign to provide special status to non-resident Swazis and facilitate their inward investment*
  - *The facilitation of alternative cross-border remittance channels, for example through retailers*
- Risk based approach to documented and undocumented migrants

The NPS will also coordinate this initiative.

4.3 Insurance to better manage risk

It has also been proposed to expand insurance to better manage risks. The key objectives of this initiative are to improve risk mitigation for Swazi citizens, and to enable access to better value insurance through improved product design and reduced transaction costs. The products potentially offering the highest impact are life (funeral and beyond), insurance with a health trigger other than comprehensive medical aid (plus medical aid potential among the formally employed), vehicle insurance, and products designed for the breadwinner to pay premium on behalf of the policyholder who may be a dependent or remittance receiver.

Challenges in expanding insurance include the distribution, premium collection, negative perceptions and low and irregular incomes that are not suited to the current products. The key corrective actions envisaged include:

- Entrench and encourage innovation in insurance:
  - *Understand customers: Understanding specific target market needs for different products and what perceptions drive behaviour is the first step towards greater penetration.*
  - *Explore distribution innovation such as targeting viable aggregators like banks and SACCOs.*
  - *Introduce low cost, simple sum assured products beyond funeral.*
  - *Explore alternative premium payment frequency and collection methods such as mobile money rather than costly bank debit orders.*
  - *Agro-value chain insurance to be investigated.*
- Finalise and implement microinsurance regulation
- Reconsider KYC requirements for insurance, building

on the existing bank exemptions precedents
- Maintain existing emphasis on 'as and when' commissions over the life span of the policy, but explicitly allow a transparent policy origination fee upfront to provide sufficient incentive to sell low-premium policies.
- Develop a streamlined, facilitative framework for medical schemes

The FSRA will coordinate this initiative.

4.4 Deepening bank reach to better meet needs

Deepening of bank account usage will offer customers security of savings and remittances against self and from theft, help build saving balances, improve regularity of remittance income, and in general lead to improved convenience and reduced transaction cost. This is only possible if stakeholders address the high cost to serve the target market in bank branches, increase awareness of bank products and terms, eliminate door-step barriers, and lower eligibility requirements. These objectives can be achieved through:

- Bank innovation:
  - *Incentives and increased communication and awareness to increase transaction volumes and balances.*
  - *Use of data to better understand and target specific clients and client groups.*
  - *Leveraging non-bank infrastructure, such as retailers and mobile money to overcome doorstep barriers, increase use and reduce costs.*
  - *Expand the use of technology and mobile offerings to reduce cost and improve convenience.*
  - *SMS can be used as a tool for reminders and confirmations of transactions.*
  - *Encourage goal-oriented savings.*
  - *Extend credit to larger group of employed.*
  - *Play a larger role as a distribution channel for insurance.*
- Increase grant payments through banking infrastructure
- Regulation to enable agency arrangements (e.g. partnerships with retailers for remittances)
- Proactive regulation on costs, and on targets to extend services to the poor
- Improve disclosure of product costs and terms
- Leverage relationship to educate consumers, e.g. how to change behaviour to minimise costs

The CBS (Supervision) will coordinate this initiative.

4.5 Reducing credit costs and protecting consumers

This initiative will seek to increase supply of formal credit to small businesses, lower the cost of credit and enhance consumer protection. Among existing challenges are the high default rates, the inherent increase in risk and cost accompanying small value flexible loans, and the fragmented, undercapitalised SMME support mechanisms.

In achieving the above objectives, interventions that are envisaged include:

- Apply a financial inclusion lens to the finalisation of the credit bill
  - *Increase and clarify the interest rate cap, informed by market research*
  - *Promote the establishment of a credit bureau and the submission of positive and negative credit information by credit providers to reduce costs and increase entry into the market.*
  - *Consumer protection measures:*
    - *Improve transparency of full costs and product Terms and Conditions*
    - *Implement measures to reduce consumer abuses in the informal credit sector*
- Coordination between FSRA and CBS around the design and supervision of the requirements of the consumer credit bill.
- Coordinate and recapitalise DCPs and related government bodies; improve scale through consolidation of systems, allow the credit guarantee scheme to earn interest
- Encourage Expatriate investment (e.g. the MF SMME Investment Fund envisaged in the MF policy)
- Explore alternative credit evaluation methods including mobile money transaction history
- Support donor initiatives to promote savings groups as alternative to informal moneylenders
- Target civil servants to start businesses
- Broader policy intervention that focuses on the fundamentals of SMME development

These activities will be coordinated by the Ministry of Finance in conjunction with the credit regulator.

4.6 National Coordination

Achieving the above objectives will require a well-funded financial inclusion programme meeting the financial inclusion vision and targets. Such a programme will also address the current lack of a financial inclusion policy, and limited coordination between stakeholders. Specific recommended actions include:

- Investigate structures to ensure better coordination between the FSRA, CBS and the telecom regulator on financial inclusion matters, and to address:
  - *Transitional requirements*
  - *New regulation harmonized with existing regulation*
  - *Data collection and analysis at a central point to improve scale and build/ efficiently use analytical capacity.*
  - *Developing a measurement and evaluation framework for the financial inclusion policy being developed.*
  - *Further research into need and strategy*

for Financial literacy, Cooperatives (beyond SACCOs) to encourage saving/ distribute insurance, improving informal savings and other groups' governance structure, and support to broader SMME development initiatives

- Finalise regulations to FSRA act including SACCO regulations.
- Introduce basic consumer empowerment policy and regulation that provides transparent fair treatment to the consumer while not imposing an unsustainable cost burden on the provider.
- Prepare and approve financial inclusion strategy and policy, integrating the Micro finance Policy
- Ensure harmony between the Financial Sector Development Implementation Plan (currently being developed) and financial inclusion
- Coordination of new and existing policy to ensure it is aligned to financial inclusion objectives

The Ministry of finance will coordinate these activities.

5 Roadmap to reform

5.1 Anticipated Programme benefits

The research indicated that Swaziland has a high penetration of bank accounts that are not fully utilised, and a low penetration of the other financial service products. This would indicate a need for increased access to most of the products, and the need to shift from an access focus towards quality and usage for bank accounts. The proposed programme will address these issues and benefit the country in the following ways:

- Direct improvement in household welfare through efficiency gains and better risk mitigation as a result of the emergence of products that more efficiently serve the target market, especially lower cost transactional accounts, low cost domestic and cross border remittances, more effective low cost savings accounts and increased options for risk mitigation products.
- Support for economic growth through targeted SMME credit by supporting financial institutions to better serve them.
- Better harnessing of migrant resources in South Africa and beyond to create growth within Swaziland.
- At the macro level the programme will enable an enhanced legal and regulatory framework that allows for market players to more effectively deliver services to the poor, especially the banks, Mobile network operators, Insurers, money lenders and others.
- Quantify and track parameters that will measure financial inclusion in Swaziland, to ensure that the programme of action remains relevant to national objectives.
- Overall the program will result in a deepening of financial inclusion in Swaziland, addressing some of the quality barriers observed, and extending reach to unserved consumers and SMMEs.

Increasing quality and depth of access will be beneficial to the economy, as there is substantial evidence that financial inclusion yields tangible benefits for the poor. By providing more relevant savings, credit, transaction and insurance services, financial services will better enhance people's capacity to diversify and manage risk and encourage entrepreneurial behaviour and economic dynamism.

5.2 MAP in the context of other ongoing financial inclusion work

The Swazi National Development Strategy (NDS) outlines a number of strategic priorities that are relevant to financial inclusion, for example the need to satisfy the excess demand for credit among indigenous entrepreneurs, the need to achieve efficiency in state-owned financial institutions (most notably Swazi Bank), the repatriation of pension fund investments to stimulate local investment, the incorporation of SACCOs into the formal financial sector, and the empowerment of Swazi nationals as professionals, managers and owners in the financial sector.

More pertinently, the Central Bank in cooperation with the World Bank is currently working on a Financial Sector Development Implementation Plan which is yet to be finalised and which will include financial inclusion as a focus area. The team is closely coordinating with the MAP team to minimise unnecessary duplication.

Swaziland does not currently have an official policy or strategy document on financial inclusion. In 2013 the Ministry of Finance convened a Financial Inclusion Forum, attended by more than 65 participants from government, the private sector and development partners, where it was agreed that MAP will be used to inform government's approach to financial inclusion. A Financial Inclusion Task team was subsequently formed, to guide the development of a financial inclusion strategy and to serve as steering committee for the MAP project. It was agreed that the MAP study and the stakeholder process and roadmap stemming from it will be leveraged towards an integrated financial inclusion strategy in Swaziland. At its meeting to discuss the roadmap on 18 June 2014, the Financial Inclusion Task Team confirmed the MAP study as the basis to prepare a cabinet level national policy paper on financial inclusion.

The proposed financial inclusion policy paper will integrate all ongoing initiatives, notably:

- Review the role of the MFU whose current mandate is to drive financial inclusion through the implementation of a Rural Finance and Enterprise Development Programme.
- The Microfinance policy paper (currently draft), which focuses on developing sustainable microfinance in Swaziland with particular emphasis on creating appropriate enabling infrastructure / environment (monitoring / assessment of DCPs, clearing house strategy etc.), consolidation of donor funding and impact assessment
- A Cabinet directive on increasing role of cooperatives in financial services
- The ongoing IFAD funded programme to improve linkages to financial services and markets to facilitate the access of small and medium enterprises to rural financing services.
- Actions proposed within the country's Poverty Reduction Action Plan (PRAP) which stresses the need to enhance private savings as a mechanism to reduce poverty.
- The financial inclusion objectives included the National Payments System Strategic Vision 2016.
- Credit Information bureau, an initiative of the Government of Swaziland and Finmark Trust
- Cross border remittances, an initiative of the Government of Swaziland and Finmark Trust in partnership with Shoprite

5.3 Implementation and evaluation

On finalisation of the MAP outputs and the accompanying stakeholder feedback process, the roadmap will be approved by the Financial Inclusion Task Team, and presented to the Minister of Finance for endorsement. It will then be converted and presented to the cabinet as a policy paper on financial inclusion. In this way the roadmap will become a national policy and implemented and tracked at cabinet level.

On approval, the Ministry of Finance through its various organs and in conjunction with the CBS will be responsible for the actual implementation of the policy and programme. The Minister of Finance will therefore provide oversight, coordinate and ensure the implementation of the recommendations, and allocate the appropriate resources from within government or from its development partners.

Activities requiring the input of other Ministries will be escalated to them within the cabinet framework. It is suggested that each ministry or organisation will implement specific areas of the roadmap under their jurisdiction, and report to the Ministry of finance on progress. In some instances an area of the roadmap may require more than one organisation, and working sub-groups are recommended for these.

The key stakeholders required during implementation are shown in Figure 4 below.

	Categories	Institutions	Roles & Responsibilities
1	Regulatory authorities	• MFU • CBS • FSRA	1. Regulatory and support to FI 2. Advice and guidance to their institutions on achieving Financial Inclusion targets.
2	Ministries	• Finance • ICT • Agriculture • Public Service • Commerce & Trade • Economic planning • Education • Foreign affairs	1. Coordination of Initiatives 2. Budget 3. Ensure that initiatives within ministry comply with Policy statements and with best practice
3	Associations & networks	• Microfinance • Banking • Postal network	1. Represent members' ideas in Financial Inclusion committees meetings 2. Encourage best practice among members
4	Sector entities	• Public & private sector entities	1. Implementation of best practices 2. Feedback to coordinating bodies
5	Development partners	• Development partners	1. Financial and Technical support 2. Ensure that all funded initiatives are unsustainable 3. Coordinate amongst each other and with Government

Figure 4: Financial inclusion stakeholders in Swaziland

5.4 Measurement

Successful implementation partly depends on being able to measure progress, as well as communicating the outcomes of the interventions. The Ministry of finance will monitor and evaluate the proposed outcomes, and provide regular report backs to various government organs.

The actual measurement criteria will be finalised as a first step of the implementation process to ensure ownership, but activity based tracking is recommended, and in addition the tracking of outcome based KPIs, namely Access, Usage, Affordability, Appropriateness, Financial literacy, and Consumer protection.

Secondary indicators will be proposed through the work-planning process where necessary, to report on the progress or impact of specific stakeholder initiatives. Examples of these include average bank fees for a low income account, penetration and usage of mobile money accounts, number of SMME served, and percent reduction in an average payment transaction cost.

6 Conclusions

The research indicated that Swaziland has a high penetration of bank accounts that are not fully utilised, and a low penetration of the other financial service products. This would indicate a need for increased access to most of the products, and the need to shift from an access focus towards quality and usage for bank accounts. The focus of the roadmap has been initiatives that will address these critical needs, and as a result enable financial services to be leveraged or re-engineered to more effectively alleviate poverty and support economic growth.

The proposed programme will deepen and broaden financial services and directly improve household welfare through the emergence of products that more efficiently serve the target market, especially lower cost transactional accounts, low cost domestic and cross border remittances, more effective low cost savings accounts and increased options of risk mitigation products. It will also result in support for economic growth through increased credit for SMME, and better harnessing of migrant resources in South Africa and beyond to create growth within Swaziland. The roadmap target is to increase financial inclusion to at least 75% by 2022 through the proposed priority initiatives.

The roadmap provides a framework to define the financial inclusion policy document for Swaziland.

The immediate next steps in implementing the roadmap include:

- Implementation of certain aspects of roadmap to commence immediately
- Further stakeholder consultation to be driven by MFU / Task Team, including with heads of the organisations represented in the Task Team, Ministries to be involved in the implementation, donor partners and private institutions required for implementation
- Encapsulate the research findings and draft roadmap in a policy document to be adopted by government to guide / drive implementation. Cabinet approval to be spearheaded by MFU / Ministry of Finance.
- In parallel, roadmap development to commence, with stakeholder engagement process of 3 – 6 months driven by FinMark Trust Swaziland and the MFU
- Resourcing to be finalised between MFU and development partners
- Close interaction with the Financial Sector Development Implementation Plan to ensure alignment between the two programmes
- Any necessary update to the financial inclusion priorities and roadmap after FinScope 2014 is completed
- Review of Task team terms of reference in post research phase

Endnotes

1. Paris Declaration for Aid Effectiveness, available at www.oecd.org/dac/effectiveness/34428351.pdf

2. World Bank, 2010. Estimates of Migrant Stocks. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22803131~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html [Accessed March 2014].

3. Financial Inclusion Data: Assessing the Landscape and Country-level Target Approaches, Oct 2011, prepared by the IFC on Behalf of the Global Partnership for Financial Inclusion

4. Financial inclusion here is in accordance with the G-20 definition and means effective access to formal credit, savings (defined to include current accounts), payments, and insurance services from formal institutions. "Effective access" means convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider (GPFI 2011)

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