MAKING ACCESS POSSIBLE

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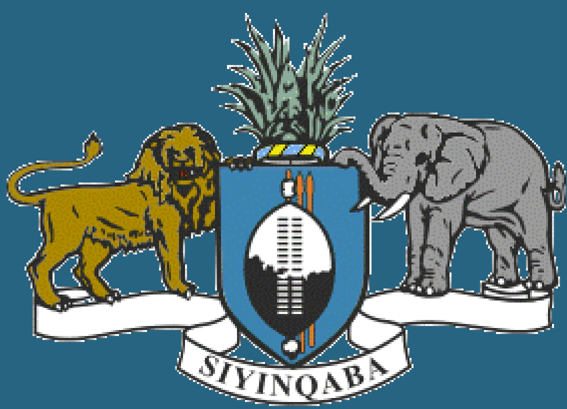
# Swaziland

## DEMAND, SUPPLY, POLICY AND REGULATION




## Diagnostic Report

2014

## THIS REPORT WAS PRODUCED BY THE CENTRE FOR FINANCIAL REGULATION AND INCLUSION (CENFRI)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### PARTNERING FOR A COMMON PURPOSE

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

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


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## List of Abbreviations and Acronyms

| | |
|---|---|
| ACAT | African Cooperative Action Trust |
| ACP | African, Caribbean and Pacific Group of States |
| AFDB | African Development Bank |
| AFI | Alliance for Financial Inclusion |
| AGOA | African Growth and Opportunity Act |
| AHO | Africa Health Observatory |
| AML | Anti-Money Laundering |
| APRU | Average Revenue per User |
| ART | Antiretroviral Therapy services |
| ASCA | Accumulating Savings and Credit Associations |
| ATM | Automatic Teller Machine |
| B2B | Business to Business |
| CBS | Central Bank of Swaziland |
| CCBG | Committee of Central Bank Governors |
| CDD | Customer Due Diligence |
| CET | Common External Tariff |
| CFT | Combating the Financing of Terrorism |
| CGAP | Consultative Group to Assist the Poor |
| CMA | Common Monetary Area |
| COMESA | Common Market for Eastern and Southern Africa |
| CONCO | Coca Cola Swaziland |
| CPL | Continuous Processing Line |
| CWG | Child Welfare Grant |
| DFID | UK's Department for International Development |
| EFT | Electronic Funds Transfer |
| ESAAMLG | Eastern and Southern Africa Anti-Money Laundering Group |
| FAO | Food and Agricultural Organization |
| FAR | Financial Adjustment Roadmap |
| FI Act | Financial Institutions Act |
| FIS | Financial Inclusion Strategy |
| FNB | First National Bank |
| FPE | Free Primary Education programme |
| FSAP | Financial Sector Assessment Program |
| FSRA | Financial Services Regulatory Authority |
| G2P | Government to Person payments |
| GAIN | Global Agricultural Information Network |
| GCI | Global Competitiveness Index |
| GDP | Gross Domestic Product |
| HIV/AIDS | Human immunodeficiency virus infection / Acquired immunodeficiency syndrome |
| HP&L | Hire purchase and lease agreements |
| HTC | HIV Testing and Counselling |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |

| | |
|---|---|
| IFPRI | International Food Policy Research Institute |
| IMF | International Monetary Fund |
| KYC | Know your customers |
| MAP | Making Access to Financial Services Possible |
| MCIT | Ministry of Commerce, Industry and Trade |
| MFIs/DFIs | Microfinance Institution |
| MFU | Micro Finance Unit |
| MLFTP Act | Money Laundering and Financing of Terrorism (Prevention) Act |
| MM | Mobile Money |
| MNO | mobile network operator |
| MOET | Ministry of Education & Training |
| MOF | Ministry of Finance |
| MOH | Ministry of Health |
| MOLSS | Ministry of Labour & Social Security |
| MOU | Memoranda of Agreement |
| MPCI | Multi-Peril Crop insurance |
| MSEPS | Minimum Standards for Electronic Payment Schemes |
| MTO | Mobile Transfer Operator |
| NDS | National Development Strategy |
| NGO | Non-governmental Organization |
| NPL | Non-Performing Loan |
| NPS | National Payments Department |
| NSSF | National Social Security Fund |
| OAG | Old Age Grant |
| ODI | Overseas Development Institute |
| OHCHR | Office of the High Commissioner for Human Rights |
| OSISA | Open Society Initiative for Southern Africa |
| OVC | Orphan and Vulnerable Children's grant programme |
| P2B | Person to Business |
| P2P | Person to Person |
| PAG | Public Assistance Grant |
| PCH | Payment Clearing House |
| PF | Pension Fund |
| POS | Point-of-sale devices |
| PRAP | Poverty Reduction Action Plan |
| PSPF | the Public Service Pension Fund |
| RIRF | the Registrar of Insurance and Retirement Funds |
| RMA | Rand Monetary Area |
| RMA | Rand Monetary Area |
| ROSCA | Rotating Savings and Credit Associations |
| RSSC | Royal Swazi Sugar Company |
| RTGS | real time gross settlement system |
| RTL | Real Time Line processing |
| SA | South Africa |
| SA EFT PCH | South African EFT Payment Clearing House |
| SACCO | Savings and Credit Cooperatives |

| | |
|---|---|
| SACU | South African customs union |
| SADC | Southern African Development Community |
| SAECH | Swaziland Automated Electronic Clearing House |
| SARC | Southern Africa Resource Centre |
| SBS | Swazi Building Society |
| SDB | Swaziland Dairy Board |
| SEDCO | Small Enterprises Development Company Limited |
| SIPA | Swaziland Investment Promotion Authority |
| SIPS | Systemically Important Payment System |
| SIRESS | The Integrated Regional Settlement System |
| SME | Small and Medium Enterprises |
| SMME | Small Medium & Micro Enterprise |
| SNL | Swazi National Land |
| SNPF | Swaziland National Provident Fund |
| SPTC | Swaziland Post and Telecommunication Corporation |
| SRIC | Swazi Royal Insurance Corporation |
| SSA | Sub Saharan Africa |
| STVA | Swaziland Television Authority |
| SWADE | Swaziland Water and Agricultural Development Enterprise |
| SWCS | Swaziland Water Corporations Services |
| SWIPSS | Swaziland Inter-bank Payment and Settlement System |
| TDL | Title deed Land |
| UNCDF | United Nations Capital Development Fund |
| UNCTAD | United Nations conference on Trade and Development |
| USA | United States Of America |
| VAT | Value Added Tax |
| VCT | Voluntary Counselling Testing |
| WTO | World Trade Organization |

## USD/Elangeni Exchange Rate

*Foreign exchange*. The local currency in Swaziland is the Elangeni (E). The United Stated Dollar (USD) equivalent shown throughout this document was calculated using a 12 month average exchange rate (between 1 March 2013 to 28 February 2014) of Elangeni 9.95/USD.

## Key facts

Swaziland has a GDP of USD 3.7 million.

46% of Swazi land is designated as Swazi Nation Land and therefore not owned by private individuals.

$3.30 per day average income

With 1.2 million people, Swaziland's population is the smallest in SADC.

9% of adults have a tertiary education

63.2% of adults are rural

82% of adults have access to a mobile phone.

The average income of government employees is 4 times higher than the overall average income.

## Financial Inclusion Priorities

Priority Areas 1: **E-MONEY TO TRANSACT AND SAVE**

200, 000 Swazis registered for MTN Mobile Money

Priority Area 2: **FORMAL DOMESTIC AND CROSS BORDER REMITTANCE PRODUCTS TO SUPPORT VULNERABLE DEPENDENT GROUPS**

Almost half of adults receive income from others.

Priority Area 3: **DEEPENING BANK REACH TO BETTER MEET NEEDS**

44% of adults have a bank account

Priority Area 4: **INSURANCE TO BETTER MANAGE RISKS**

Only 15% of Swazis have non-funeral insurance

Priority 5: **REDUCING CREDIT COSTS AND PROTECTING CONSUMERS**

Bank credit is only provided to 7% of adults

## Overview of Financial Access in Swaziland

**50%** of adults reported to use at least one financial service from a formal financial service provider

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

## Breakdown of Financial Access in Swaziland by Product Market

**6.7%** of adults borrow from a formal institution

19.4% of adults borrow from an informal institution

**40%** of non-cash transactions are made through e-money

38.6% of adults save with a formal financial service provider

**24.9%** adults save in informal savings groups.

30.2% of adults save in cash at home.

**17.2%** of adults have formal insurance

85% of all those with insurance, have funeral insurance

**44%** of adults have bank accounts but only 24% of adults use bank accounts for saving

# Executive summary

This report summarises the findings from the MAP Swaziland diagnostic, a comprehensive study of the scope for financial inclusion in Swaziland across four product markets: credit, payments, savings and insurance. The global Making Access to Financial Services Possible (MAP) programme is a partnership between the United Nations Capital Development Programme (UNCDF), FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). MAP Swaziland is funded by FinMark Trust and was carried out by 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 has set up a Financial Inclusion Task Team comprising representatives from 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.

MAP does not pursue financial inclusion merely for its own sake, but explores the linkages between financial inclusion and the real economy so as to impact people's welfare. It is set apart from other diagnostic exercises in that: (i) it sets a detailed understanding of the target market and their needs at the core of the analysis; and (ii) is fundamentally linked to a multi-stakeholder process towards the implementation of a roadmap for financial inclusion. The findings in the rest of this report form the evidence base for such a roadmap, which in turn will inform the Financial Inclusion Task team as it develops a financial inclusion strategy for Swaziland.

The analysis is structured to first provide an overview of the country context and regulatory framework, which will shape the nature of the opportunities and constraints for financial inclusion. Based on quantitative as well as qualitative demand-side research, it then takes a closer look at the target market for financial inclusion: their realities, needs and current usage profile. With the target market needs and enabling environment in mind, the analysis then turns to the supply of financial services in Swaziland, unpacking the dynamics of the market for credit, payments, savings and insurance, respectively. Finally, it concludes on the cross-cutting factors driving financial inclusion in Swaziland, outlines five key priorities for extending financial inclusion and, for each, suggests potential actions to unlock the opportunities and overcome the barriers.

Below, we summarise the salient features of the market emerging from the analysis, before outlining the key financial inclusion opportunities in Swaziland.

**Context drives scope for market development**

*Small country, poor population.* Swaziland has a population of only 531,813 adults. Of them, more than 80% either earn below E2,000 a month or have no regular income. Low incomes indicate vulnerability to financial shocks and have implications for the demand for financial services. Where the provision of financial services is concerned, the small population size constrains scope for growth and economies of scale.

*Poor health and high mortality rates.* The fact that Swaziland has among the highest HIV/AIDS infection rates in the world and a life expectancy of only 49 years of age compounds the vulnerability and survivalist outlook generally caused by poverty. The qualitative research suggests that many households look after children of deceased relatives and that funerals are a regular occurrence in the community. Poor health undermines productivity and makes it difficult to get ahead in life. Financial responsibilities "inherited" for extended family members create additional financial strain. The health situation thus constrains demand for financial services on the one hand, but enhances the imperative for risk protection and income smoothing on the other hand.

*Small economic base, high regional integration*. Swaziland has a small, regionally integrated economy. Southern African Customs Union (SACU) receipts historically account for up to 60% of government's budget and many large companies are part of South African groups. 82% of small, medium and micro enterprises (SMMEs) are classified as micro businesses and commercial agriculture accounts for only 6% of land use. The public sector is a key driver of economic activity and the single biggest employer. The combined effect of a small private sector, large public sector and reliance on external revenue is vulnerability to fiscal shocks. The small economic base also implies a small formal employment market. Thus the need for economic diversification to reduce reliance on SACU receipts is the greatest macroeconomic imperative towards achieving sustainable growth. While financial inclusion can "oil the wheels" of the economy, it is unlikely to be the key driver of growth.

**Regulatory framework largely facilitates innovation, but uncertainties and gaps can challenge financial inclusion at scale**

*Regulatory environment in transition.* The financial services landscape is governed by two authorities: the Central Bank and the Financial Services Regulatory Authority (FSRA)[1]. Broadly, the Central Bank governs banks and FSRA governs non-bank institutions. Due to insufficient transitional arrangements and consequential amendments[2], there is uncertainty in the market regarding the jurisdiction of the two authorities where certain entities are concerned, such as credit institutions[3] and the Swaziland Building Society.

A number of elements in the regulatory framework facilitate financial inclusion, including:

- The elegant definition of banking business facilitates non-bank provision of savings and payments, thereby supporting innovation for financial inclusion.

- The facilitation of innovative products, notably branchless and mobile banking, without the system operator necessarily requiring a bank licence, increases the scope of financial inclusion.

- AML/CFT know-your-customer (KYC) threshold exemptions for Mobile Money and bank accounts facilitate financial inclusion, but impact on store of value. Such exemptions are not extended to insurance.

- Microinsurance regulations are underway to improve access to insurance.

However, a number of elements also constrain access, notably:

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[1] FSRA was established by the FSRA Act in 2010.

[2] This refers not only to the strict legal definition but also encompasses the lack of clarity regarding the de facto supervision of certain institutions. For example, regarding the supervision of the Swazi Building Society. It remains unclear whether the de facto will be legislated in time or if the institutions will move to the de jure regulator.

[3] Credit institutions are defined by legislation. Credit institutions currently offer personal loans through payroll lending.

- Lack of clarity on the application of the credit interest rate cap creates uncertainty and the level of the cap constrains formal provision to higher-risk categories[4].

- Lack of sufficient transitional arrangements for the implementation of the FSRA Act challenge a smooth and predictable handover once the requisite regulatory structures are bedded down.

- The absence of consequential amendments to repeal laws and provide for the interpretation of references to the repealed legislation or regulation leads to confusion and misinterpretation of financial legislation among market players.

- SACCOs and medical schemes are currently unregulated. However, regulations are underway to incorporate them under FSRA's authority and enhance prudential oversight.

**Target market realities set the parameters for financial inclusion**

*Struggling to make ends meet.* Qualitative and quantitative demand-side research suggests that the Swazi adult population on the whole faces severe budget constraints. A household often makes a living through more than one means and only a minority of adults have consistent, formal income sources.

*Many excluded from formal financial services.* Around half of Swazi adults are formally served – a number that is relatively high in regional terms. A further 13% use informal services only and 37% are totally excluded. Usage is spread as follows across product markets:

- Only 7% of adults use formal credit. 17% solely make use of informal credit and a further 9% only borrow from family or friends. Two thirds of Swazi adults do not use any credit.

- 12% of adults use formal remittance products and a further 4% use informal products only and. Most remitters (22% of all adults) send money through unintermediated means, that is, by taking cash in person or asking a travelling friend or family member to carry cash to the recipient. 64% of adults do not send or receive remittances.

- Savings accounts are the formal products that reach deepest into the adult population. 39% of adults save in formal institutions. A further 11% of adults save only in informal savings groups and yet another 18% save only at home or in kind. Only a third of adults do not save in any way.

- Formal insurance reaches 17% of adults. This number is fairly high compared to many other developing countries. The reach of community-based risk pooling in the form of burial societies is, however, low by regional standards. 5% of adults belong to a burial society without having formal insurance cover. 78% of adults are without any risk cover.

*A number of usage and access barriers*. Low usage is indicative of a number of barriers to uptake. Though people trust financial institutions to keep their money safe, there is a perception that financial institutions are not transparent, charge high fees and are not targeted at the ordinary man

[4] Although the interest rate cap is not strictly enforced and the caps are sometimes exceeded in practice, consultations with market participants indicated varying levels of understanding and compliance with the interest cap. The behaviour of the different types of credit providers furthermore suggests that even though not enforced, the interest rate cap does influence behaviour and serves as an anchoring point for providers when setting interest rates.

on the street. Even should they choose to use formal financial services, many consumers face substantial access barriers, notably low affordability, inaccessible documentation requirements, lack of flexibility and longer turnaround times vis-à-vis informal alternatives.

**Eight distinct target market segments**

*Not all Swazis face the same realities or have the same needs*. In order to generate a more nuanced understanding of the target market, the analysis segments the adult population into eight discrete target market groups based on main source of income. The members of each group share a number of similar traits and are likely to have similar constraints and needs where financial inclusion is concerned. The profile of each is summarised below:

<table>
<tr><th>Segment</th><th>Profile and current usage summary</th><th>Main financial service needs</th></tr>
<tr><td>Civil servants</td><td>Economically empowered, best served financially<br><br>Swaziland has an estimated 45,640 public sector employees according to FinScope (2011), reducing to 37,000 when considering more recent ITQNet data. They are the most urban, highest income and most well-educated segment: 56% live in urban areas, almost half have a tertiary education and at E4,300 per month, their average income is about four times more than the average for all adults. Compared to the other segments they are older (with 63% being older than 35) and more likely to be male (55% male compared to the population average of 63%). At 96% formally included, civil servants are the best served segment across product markets. Yet 31% of civil servants use only unintermediated remittances and 24% use only informal credit.</td><td rowspan="2">Not the primary target market for financial inclusion as they are already relatively well-served. However, they play a significant role in supporting others, a role which can be facilitated through effective remittance channels. Furthermore, given their stable position and access to credit, these segments have scope to leverage asset-based and other finance for productive purposes in a way that can also benefit those in other segments.</td></tr>
<tr><td>Company employees</td><td>Younger, less wealthy than civil servants, but still well-served<br><br>Company employees’ average monthly income is substantially lower than that of civil servants. They are slightly younger, with 25-34 being the single biggest age band. With only 34% living in rural areas, they are even more urban than civil servants. They also outnumber civil servants: about 61,500 people work for private businesses or companies.<br><br>After civil servants, company employees have the second highest use of formal financial products at 82%. High formal penetration however does not preclude informal usage: they have the highest use of informal credit, informal insurance and un-intermediated informal remittances of all the segments. This may suggest a need for greater formal penetration, but can also be indicative of the fact that informal systems (including savings societies) in their</td></tr>
</table>

| Segment | Profile and current usage summary | Main financial service needs |
|---|---|---|
| | current guise work best for those with regular, relatively high incomes. | |
| **Informal employees** | *Still in good position relative to most other segments*<br><br>At just more than 5% of adults, informal employees are the smallest group. Though not the poorest segment, their low average monthly income of only E791 constrains their ability to improve their economic situation. They are not well educated and are about equally split between urban and rural areas.<br><br>Informal employees have below average usage of formal financial products. 43% of them, compared to 50% of all adults, are formally included. They have the highest usage of informal savings and significant usage of informal credit. The fact that they earn a regular income offers access to financial services, but the low level of their income and their more rural location pose barriers. | Need for credit or savings vehicles to purchase assets or make home improvements, as well as for education. Like most other segments, they would benefit from more efficient ways to transact, as well as from insurance or other mechanisms protecting them against the cost of funeral expenses and other emergencies. |
| **Self-employed** | *Pave their own way to make ends meet*<br><br>The self-employed include both business owners (about 36,500 individuals) and those who are street vendors or hawkers (about 31,700). By working for themselves, they manage to earn on average just less than the informal employees (E719 per month). They are disproportionately female and many of them have a secondary education. Almost two out of every three self-employed individuals live in rural areas.<br><br>Though their irregular and low level of income is a significant constraint to access, they have the third highest use of formal financial products and the highest usage of informal remittances. | They are likely to have a need for access to finance for assets and education, but the nature of their livelihoods suggests that a way to efficiently and cost-effectively transact as well as targeted savings may be even more pertinent needs. |
| **Irregular earners** | *Largely excluded*<br><br>At just below 100,000 individuals, the irregular earners are a substantial group. About 28% of them are farmers, with the rest being piece job workers or making ends meet through other means. They are more likely to be male than the population average and are largely based in rural areas, with only a primary education. Irregular earners are economically in the weakest position, with an even lower average monthly income (just E234) than the private and state dependents. However, their non-monetised income may be significantly higher, as access to land provides food and housing for many. | Their economic profile suggests that their strongest financial service needs are to mitigate risks and to store irregular earnings safely. |

| Segment | Profile and current usage summary | Main financial service needs |
|---|---|---|
| | Only one in three irregular earners uses formal financial products: 28% are banked/use a formal savings product and another 6% use other formal financial products. Only 2% use formal credit and a mere 3% use formal insurance. Just more than half are excluded from any type of formal or informal financial service. | |
| **Private dependents** | *Better served than would be expected*<br>At 154,424 individuals, this is the single largest segment. People in this segment rely on others for their livelihood and have an average monthly income of only E334, with 58% indicating that they do not get an income every month. Furthermore, 47% are younger than 25 years old. This would seem to suggest that the private dependents include a large number of unemployed youth, though the gender profile suggests that this segment also comprises a significant number of females dependent on their spouses or other household members.<br>At 36% formal usage, private dependents are slightly more formally included than irregular earners. Interestingly, they have the highest use of other formal financial products across all segments, but the lowest level of savings. | The irregularity of their income means that, along with the irregular earners and self-employed, they have a particular need for flexible product features.<br>They need an efficient and accessible way to receive their money from others and store it. They are unlikely to be viable as main insurance policyholders, but could be covered on the policies of those that provide for them. |
| **State dependents** | *Least served*<br>State dependents (34,641 individuals) are an interesting category from a financial inclusion point of view because, though at an average of E529 per month their income is very low, the three-monthly state grant means that they have a consistent income at predictable intervals. As expected, they are the oldest segment. They are also by far the most rural (94%) and least well educated. They furthermore stand out in being the segment with the lowest cell phone penetration.<br>They are least well served financially: only 23% are formally included and 54% are excluded from any formal or informal financial service. They take up virtually no formal credit, insurance or remittances services. | They do not need asset or productive finance, but as many elderly are responsible for grandchildren, they are likely to value savings and credit products aimed at financing education. Likewise, funeral insurance or financial services enabling home improvements may be of value. |
| **Expat Swazis** | *Potential enablers*<br>Expat Swazis are likely to have relatively high income compared to their family and friends in Swaziland. Approximately 160,000 Swazis live in South Africa of | Need for low-cost cross-border remittance options that are accessible both in the sending country and for recipients in Swaziland. They |

| Segment | Profile and current usage summary | Main financial service needs |
|---|---|---|
| | whom 10% are legally and formally employed. They can play a significant role as remittance providers and can potentially become investors in small businesses or in the upliftment of family members. | may find a financial service (such as a savings endowment or insurance policy) that allows them to make contributions on behalf of family members attractive. This would require an accessible, low-cost cross-border payment mechanism. |

**Table 1: Segment profile and financial needs summary**

*Source: Authors' own, based on FinScope 2011 and qualitative research insights*

**Small but diverse provider landscape**

The small population and low average income limits the number of financial institutions that can sustainably offer formal financial services. Most financial institutions are at least part foreign-owned. The financial services landscape is comprised of the following institutions:

- *Banking sector and Building Society*. The formal financial services sector in Swaziland is dominated by the four large banks: Standard Bank, FNB, Nedbank and SwaziBank; three of which are subsidiaries of major South African banks. Although the Swazi Building Society (SBS) does not have a banking license it offers many of the services offered by the banks and hence can be considered as a direct competitor to the banks from a consumer perspective. Between them, these five institutions account for 84.5% of total formal credit and 93.5% of formal deposits (excluding pension fund deposits).

- *Insurance*. The liberalisation of the insurance market in 2005 saw a number of new entrants. The most recent insurance licence was awarded in January 2014. There are now six long-term and three short-term insurers alongside one composite insurer, the former state-owned monopoly Swazi Royal Insurance Company. There are also two medical aid providers that are currently unregulated.

- *Development credit providers (DCPs)* offer subsidised credit to SMMEs. The only DCPs of substantial scale is FINCORP and the Inhlanyelo Fund. Others include the Youth Fund, Credit Guarantee Scheme and Community Poverty Reduction Fund.

- *Credit institutions*. There are four registered credit institutions: First Finance, Select[5], Letshego and Blue.

- *SACCOs*. Savings and Credit Cooperatives (SACCOs) serve largely the formally employed market. There are 74 registered SACCOs.

- *Retailers*. There are six furniture and clothing retailers providing credit. Together, they account for 7.5% of consumer credit in Swaziland.

[5] The everyday, common names are used for the financial service providers, with their full legal identities introduced in the body of the document.

- *Informal providers*. The primary informal organisations offering financial services are savings groups, including Accumulating Savings and Credit Associations (ASCAs) and Rotating Savings and Credit Associations (ROSCAs), and informal moneylenders, called shylocks in Swaziland. Savings groups accept deposits and many also offer credit to both members and non-members. In addition, burial societies provide community-based risk pooling. They reach a limited number of people. Lastly, minibus taxis provide informal remittance services. This channel is once again not widely used.

- *MNO*. The mobile network operator, MTN entered the financial services market in 2011 as an e-money provider through its Mobile Money product.

- *Post Office*. Lastly, the Post Office provides remittance and bill payment services.[6]

The following diagram summarises the financial service provider landscape across the four product markets, namely credit (top left), savings (top right), payments (bottom right) and insurance (bottom left). It differentiates between formal and informal providers, with informal providers situated on the outside:

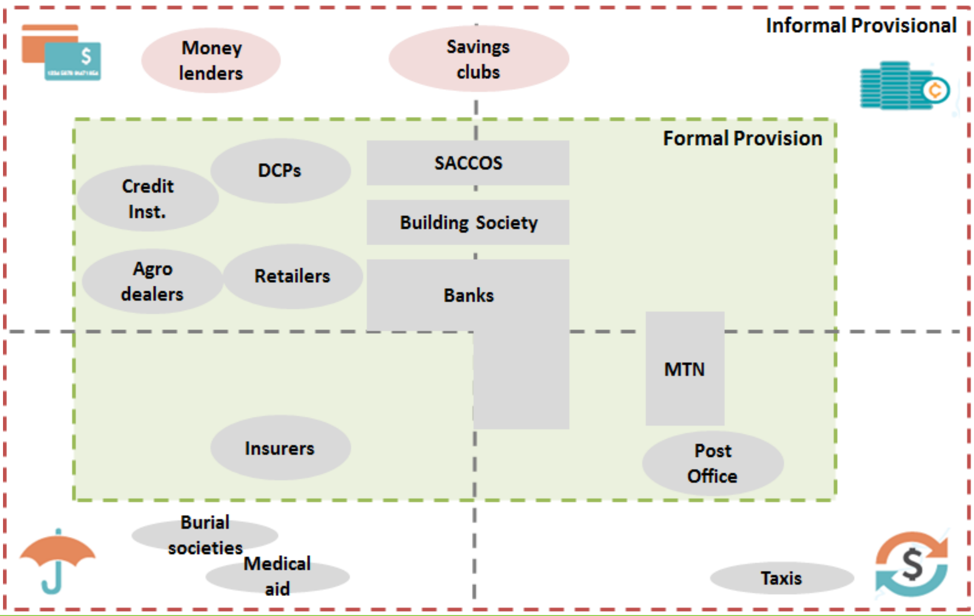


**Figure 1: Provider landscape overview**

*Source: Authors' own representation based on various sources*

### Provision of financial services clusters at the top end of the market

The small size of the market constrains the scope for economies of scale, thereby impacting on cost structures. Most formal sector providers primarily target the formally employed segments. Savings and transaction accounts are the only formal financial products to significantly reach into the remaining target markets. Access to formal credit, insurance and remittances are below 15% for all target markets that are not formally employed. Group-based structures such as SACCOs and savings groups also reach mostly those with a regular and relatively higher income, although savings groups

[6] Post offices offer a broad distribution footprint as a distributor of financial services, however, the current strategic uncertainty regarding SPTC limits short term potential for post offices as a major distribution point, but may represent a medium to longer-term alternative distribution channel

do have some rural reach. While burial societies reach across all target market segments, penetration is low.

Thus it is a matter of all providers "fishing in the same pond" for the upper end of the market, with very few options for the rest but to resort to informal and unintermediated channels.

**Distribution challenged by absence of economies of scale**

Swaziland is already relatively well served in terms of physical banking infrastructure. The small country size means that even rural dwellers live relatively close to urban areas where most financial services infrastructure is situated. Yet the cost of travelling even short distances to access financial services infrastructure can be significant given low incomes and small transaction values. Alternative distributors of financial services present an important opportunity to increase access to financial services. However, the small number of consumers allows few channels to reach the economies of scale needed to sufficiently reduce costs. The two most significant distribution opportunities lie with retailers and MTN Mobile Money, which is already gaining popularity as an affordable, alternative transaction platform with a wide distribution reach.

**Five financial inclusion priorities**

The target market needs and supply-side dynamics suggest the following five priorities for a financial inclusion roadmap in Swaziland:

- E-money to transact and save
- Formal domestic and cross border remittance products to support vulnerable dependent groups Deepening bank reach to better meet needs
- Insurance to better manage risk

Reducing credit costs and protecting consumers The nature and size of the opportunity, the challenges faced and potential actions for realising each opportunity are set out below.

1. E-money to transact and save

*Largely cash-based society.* Swazi consumers still have a strong preference for cash and there are limited affordable alternatives to cash. The cost of cash is not currently measured, but is likely to be expensive due to the nature of cash management processes and the risk of theft. Despite high uptake of transactional accounts, there is very limited use of cards for transacting. Most domestic and cross border remittances are sent through informal channels.

*Many save at home.* The majority of Swazi adults do save in some way, but savings are largely consumptive and short-term in nature for all but the formally employed groups. 18% of adults only save at home or in kind and a further 11% save in informal savings institutions rather than the banking sector.

*Significant barriers to electronic banking and formal savings.* The predominance of cash suggests a need for payments products, while the fact that many people save at home means that a secure store of value can add value. However, it is expensive to transact and save through banks for small amounts. Mystery shopping suggests that the same basic monthly transaction profile that costs E59 in Swaziland would cost about R32 in South Africa and LSL48 in Lesotho. Furthermore, a number of eligibility requirements mean that the poor struggle to qualify for formal products: banks often require proof of income for entry-level accounts, SBS savings accounts require a high minimum balance, SACCO membership requires regular contributions and high joining fees and is restricted to defined groups. Lastly, the need to travel to access current financial sector infrastructure, even if short distances, is expensive for people transacting or saving small amounts.

*Mobile Money provides solution.* Mobile money overcomes these challenges on all fronts. It charges no deposit or monthly service fees, has a wider footprint than the banking sector (41% of agents are distributed in rural areas) and there are currently no documentation requirements to sign up (as accounts are capped at E4,000, an AML/CFT KYC exemption applies). It furthermore meets the need for small value, frequent transactions or savings – average transaction values on MTN Mobile Money and eWallet are a fraction of that of electronic fund transfers. Saving E50 per month with mobile money retains 90% of savings at the end of the year compared to 45% through the average entry level bank account. Increasing use demonstrates demand: there are now more than 500,000 MTN Mobile Money transactions per quarter, making it the single largest payments channel (besides cash) by volume in Swaziland.

*A number of challenges to fulfilling potential.* Nevertheless, it faces a number of challenges to fulfil its full potential as a transaction and savings vehicle. Only about 15% of registered Mobile Money customers are active clients. There is still an aversion to technology among some parts of the population and inconsistency in network connectivity as well as the fact that agents may not be liquid enough (and therefore not always have cash available for users to withdraw) and are not available at all hours may discourage some potential clients. Furthermore, the E4,000 cap limits functionality for those who wish to use Mobile Money to build up savings over time, or who wish to send or receive less frequent, larger amounts.

**Potential actions to realise opportunity**

The following strategies can be considered for overcoming the challenges to Mobile Money uptake:

- Address liquidity constraints of agents, for example by introducing roaming ‘super agents’ to help rebalance mobile money agents
- Train agents to familiarise people with the service when signing them up, thereby overcoming aversion to technology
- Consider a tiered account offering based on KYC thresholds to overcome the restrictive E4,000 cap.
- Consider ways of ensuring consistency of access to the service, such as providing access to funds through ATMs

A number of further actions can be considered to boost the role of Mobile Money in financial inclusion:

- Create an ecosystem of goods and services that can be purchased with mobile money
- Explore potential for distribution of grants via mobile money
- Allow interest payments on the mobile money float and on mobile money accounts

- Develop products appropriate to the needs of informal savings groups
- Conduct further targeted research to better understand the key barriers and opportunities to extend E-money usage.
- Enable the transaction history from individuals' mobile money accounts to be used as a a basis for credit extension by other providers
- Explore the potential to transfer funds from bank accounts into mobile money accounts

2. <u>Formal domestic and cross border remittance products to support vulnerable dependent groups</u>

*Most remittances not formally intermediated*. Almost half of Swazi adults rely on each other for income: about 154,000 adults (the private dependent segment) depend on others for their main source of income and a further 71,400 receive income from others as a secondary income source. At least 100, 000 of these adults receive this income via remittances. Yet only about 19,000 adults receive remittances via formal channels. The main barriers to formal remittances emerging from the demand-side research are perceived high costs and limited awareness of alternatives. 65% of remitters who self-deliver indicated that they do so because they "have no other option". Increased formal use can improve security for both senders and receivers and regularity of income for recipients.

*Regulatory barriers to broader playing field*. Alternative providers such as retailers and mobile money could play a significant role where they have reach and enjoy the trust of consumers. Regional retailer groups such as Shoprite and PEP already play a role in remittances elsewhere in the region. Regulation is the main barrier to be overcome in this regard. Only 5% of Mobile Money transactions are currently to rural areas, suggesting that it does not yet optimise its role as domestic remittance channel. Regulation prevents both categories from engaging in cross-border remittances.

*Untapped potential in banking market*. Banks also have significant untapped potential as remittance providers: only a small proportion of their existing clients use their bank account to send remittances. High charges, as well as limited awareness, are the main constraints to greater bank reach in the remittances market.

**Potential actions to realise opportunity**

Regulators can improve the enabling environment for remittances in two ways:

- By allowing a broader range of domestic remittance service providers, notably retailers
- By engaging peer regulators at the regional level regarding the opening up of the cross-border remittances market.
- Engage in a communication campaign to provide special status to non-resident Swazis and facilitate their inward investment.

Recommendations for banks:

- Consider ways of reducing the costs of formal remittances, including access through bank agents or through mobile products launched by banks such as FNB's eWallet.
- Expand product options specifically targeted at remittance senders and receivers and then marketing it as such.
- Explore partnerships with retailers and other agents to extend reach and overcome doorstep barriers.

3. Deepening bank reach to better meet needs

*Broad reach already.* Banks have a client base of some 230,000 adults. They have the deepest reach across target market segments, significantly more so than any other financial service. 67% of adults indicate that the greatest advantage of banks is that your money is safe from theft and 88% say that if they were to receive a large amount of money they would put it in a bank.

*Yet many bank clients do not use banks to transact and save.* More than 50,000 adults have bank accounts but not savings accounts. Whereas 28% of adults have an ATM card, only 5.3% report having a debit card. Furthermore, the average ATM withdrawal is E740, which is high relative to the average income of most Swazi adults. This suggests that many bank clients use their accounts as a "mailbox" to receive deposits, which are then withdrawn in full without using the account for transaction purposes. Bank reach is also very limited in the credit market. Only 9% of bank clients use credit and many bank clients have informal credit.

Improved disclosure critical to better protect consumers and deepen bank reach. Consumer awareness should be improved, particularly within the lower income brackets, both in terms of what is available and of the fees and terms and conditions applicable to different products. The relatively widespread perception within FGDs that banks "take your money" is partly attributable to high bank fees but is also likely due to a lack of understanding by clients of how bank fees are applied and that many low income consumers have accounts inappropriate to their needs. Therefore a combination of greater disclosure by the banks of their costs and terms and conditions, and improved consumer education is important to deepening bank reach.

*Deeper bank reach a "win-win".* There is therefore significant scope for deepening bank reach. For clients, deeper bank reach can enhance security, discipline and privacy of savings and facilitate lower-cost loans[7]. For banks, reducing dormant accounts and increasing transaction revenues can boost profitability. To do so, a number of barriers however need to be overcome. 30% of Swazi adults think that formal employment is needed to open a bank account. There is also a general - and well-founded - perception that banks are expensive and that charges erode savings balances over time. Furthermore, qualitative market research confirms that people find bank charges, terms and conditions confusing.

**Potential actions to realise opportunity**

[7] As discussed in sections 2.1 and 7.1 the small size of the economy is a major constraint to the growth of financial services and enhancing the productivity in the economy would increase the demand for financial services. While enhanced productivity would improve demand for financial services, even with limited productivity improved access can improve welfare.

Documented international experience on deepening bank reach suggests a number of recommendations for Swaziland:

- Improve consumer awareness and disclosure of terms and conditions for bank related products.
- Leverage non-bank infrastructure to overcome doorstep barriers, increase use and reduce costs
- Consider second tier banking licenses to encourage entry and innovation.
- Consider regulation to enable agency, such as partnerships with retailers for remittances
- Mine data to understand low income clients
- Expand technology/mobile offerings
- Employ SMS communication as confirmation and encouragement

At least five product-related opportunities can be explored given the features of the target market in Swaziland*:*

- Product design and incentives to encourage goal-oriented, committed savings
- Extending credit to a larger group of the employed, especially through revolving facilities such as low balance credit cards
- Playing a larger role in insurance, both as a distribution channel as well as by using embedded insurance as an incentive to increase savings balances or transaction volumes
- Targeting non-resident Swazi citizens for local bank accounts. Designing low cost, easy to access remittance products, and creating awareness around the product
- Consider scope for migrating grant payments to banking system

4. Insurance to better manage risk

*Strong in-principle need.* The economic vulnerability, often fragile health and lack of collective financial functioning deriving from the country context suggest a need for insurance, especially funeral and simple life cover, but also affordable cover towards ancillary expenses when illness strikes or loss of income.

*Low reach beyond formally employed.* Insurance uptake is fairly high among the formally employed (64% of civil servants and 35% of company employees have insurance), but dwindles down the income spectrum and in total only 17% of adults have formal insurance. A further 5% are served only by burial societies.

*Savings and credit substitute for insurance*. Instead, people find other ways to cope with the impact of risks, such as saving or borrowing. 16% of savers save towards medical expenses and 22% of those who save do so to allow for non-medical emergencies. A modelling exercise finds that funeral insurance provides better value than informal credit for any claims ratio above 30% (in Swaziland, long-term insurance claims ratios are close to 100%). Yet almost 8% of those with credit borrow to cover medical expenses and 5.2% borrow because of non-medical emergencies.

*Greatest opportunity at upper end of market*. The fact that people use saving or credit in lieu of insurance is symptomatic of substantial barriers to uptake in the insurance market. Distribution and premium collection challenges, as well as lack of regular incomes, may put a large part of the population beyond the reach of insurers. Furthermore lack of awareness, trust and negative perceptions pose significant usage barriers. Yet there is still room for growth among those currently best served (the civil servants and company employees, notably in terms of health and asset cover) or who could be reached by leveraging existing touch points. For example: the 123,330 individuals with a bank account do not have insurance, 47,847 formal employees are uninsured and 34,428 SACCO savers are not covered by formal insurance yet.

**Potential actions to realise opportunity**

The following can be done to reap the insurance market opportunities:

- Understand specific target market needs for different products and what perceptions drive behaviour
- Consider how product features can speak to target market realities such as extended families and irregular incomes
- Expand suitable product suite to include small-value sum assured cover towards expenses triggered by a health event, income protection and low-cost asset cover
- Build on the current broker and agent distribution channels to increasingly reach out via group structures and aggregators like banks and SACCOs
- Explore the potential of distributing insurance through agricultural value chains
- Explore alternative premium collection methods to payroll or debit orders

Where the regulatory framework is concerned, the main priorities are to finalise and implement microinsurance regulations; reconsider KYC requirements for insurance, building on the threshold exemption precedent set in the banking environment; to develop a streamlined, facilitative framework for medical schemes; as well as to consider allowing a policy initiation fee as part of the commission structure.

5. Reducing credit costs and protecting consumers

*Limited incentive for formal providers to go down-market*. Uptake of formal credit is mostly limited to the formally employed segments (civil servants and company employees) and in aggregate only about 7% of adults have formal credit. The current interest rate cap means that banks have limited incentive to provide loans to riskier target markets. Credit institutions and SACCOs also serve largely the payroll market.

*Informal players fill the gap*. The target market analysis shows that consumers tend to borrow from informal moneylenders rather than banks or credit institutions either because they are not eligible for formal loans (mostly due to not having a payslip), or because they need faster turnaround times and more flexibility (such as the ability to roll over loans and only pay interest). Access and flexibility come at a price though: informal market interest rates are several multiples of that charged by formal players.

*Most SMMEs survivalist*. The analysis showed that an estimated 90% of Swazi entrepreneurs are survivalist in nature, employ only the owner and have limited growth potential. Development credit providers such as FINCORP and Inhlanyelo are the only institutions with substantial exposure to SMME loans. For the most part, development credit providers suffer from high non-performing loans and undercapitalisation. The analysis suggests that broader development policies may play a larger role than credit to develop the SMME and agricultural sectors. This is confirmed by the experience of Malawi, Zimbabwe and Mozambique[8]. In all three countries, savings is a much larger source of finance for SMMEs than credit.

Thus, a broader SMME development strategy is required beyond credit to include addressing challenges in the business environment, education and health, as well as extending the range of savings and insurance products serving this market. While there are a number of SMME support initiatives, coordination and scale is lacking.

Where finance is concerned, development credit providers can go further downmarket to serve SMMEs than most formal providers with subsidised credit, but even they would require a threshold level of viability to extend credit. Furthermore, state-funded SMME development credit is undercapitalised and uncoordinated. The government has provided funding to at least four different organisations providing SMME credit, in each case to a value of less than E20 million, resulting in an inability for most of these to achieve economies of scale and the associated efficiencies and resulting a number of small, undercapitalised, inefficient developmental credit providers. Coordination of loan administration, collection and funding activities could improve efficiencies to achieve sustainability of credit provision and make additional capital available to SMMEs.

*Improved customer information can aid growth in credit provision.* Improved access to reliable and detailed information regarding the credit worthiness and financial services history of clients and potential clients allows credit providers a more accurate picture of their clients, allowing them to price products appropriately. The greater information also reduces the risk induced through asymmetric information. A credit bureau fulfils this role, and the introduction of such an institution in Swaziland, provided all providers share comprehensive client information, should reduce the risk to providers, thereby theoretically allowing them to extend loans to clients that would otherwise have been deemed too risky, including SMMEs.

*Consumer protection imperative*. Despite credit not necessarily being the panacea for financial inclusion in Swaziland, particularly for SMMEs, there is still some scope for the expansion of credit market reach and a number of consumer protection concerns can be overcome to improve the quality of financial inclusion in credit. Notably, limited information is available on terms and costs when taking out credit. The actual cost of credit is therefore often higher than consumers anticipated. In the informal credit sector, abusive practices such as confiscating a customer’s bank card and pin are rampant.

**Potential actions to realise opportunity**

Market conduct regulation to improve transparency in the formal sector and protect consumers against abuses in the informal sector is likely to be the most important

[8] Based on FinScope Small Business Surveys conducted in these three countries.

intervention in the credit market. Further recommendations are:

- Apply an 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
  - Collect appropriate data to monitor credit markets
- Coordination between FSRA and CBS
- Strengthen, recapitalise and coordinate state-supported development credit providers, allow the credit guarantee scheme to earn interest and encourage Expat investment
- Consumer protection measures:
  - Improve transparency of full costs and T &Cs
  - Reduce consumer abuses in the informal credit sector
- Explore alternative credit evaluation methods including mobile money transaction history
- Support donor initiatives to promote savings groups as alternative to informal moneylenders
- A broader policy intervention is needed that focuses on the fundamentals of SMME development
- Target civil servants to start businesses

**Who is best placed to unlock the opportunities and how?**

This question can be answered by assessing the current provider landscape in Swaziland in terms of the incentive of various types of institutions to go down-market, the extent to which they are trusted by the target market as suggested by the demand-side research, as well as the current footprint and potential reach of various players. Such an exercise suggests the following institutional priorities for the roadmap:

- *Prioritise mobile money solutions, development credit providers and retailers (including agro-dealers).* These institutions are best placed to facilitate financial inclusion at scale as they are trusted by the target market, plus have an incentive to reach down-market and an existing presence beyond urban areas. Some of them, such as retailers and agro-dealers, however currently have limited exposure to financial services provision or distribution and others, including the development credit providers, face severe operational challenges. From the roadmap perspective, overcoming barriers to uptake and enabling these institutions as providers and channels is therefore a first-order priority.
- *Incentivise banks, SBS and insurers.* These institutions are trusted by the target market to keep their money safe (though the qualitative research suggests that consumers are often suspicious of large financial institutions' motives), but have a more limited incentive to go down-market, or encompass product features such as a minimum balance, service fees or regular premiums that may make it difficult for consumers to access. The primary roadmap imperative for these institutions is to improve the enabling environment, build efficiency and convince them of the business case for inclusion-relevant products and channels so as to incentivise greater focus on the underserved market.

The following cross-cutting imperatives emerge for these institutions to reach their full financial inclusion potential:

- *Build the financial inclusion business case*. Given the small size of the Swaziland market and the role of head office strategy, it cannot be taken for granted that financial institutions will automatically prioritise financial inclusion.
- *Better understand clients.* The target market analysis shows the value of informing product design and distribution strategies with an understanding of target market needs.
- *Improve transparency and market conduct.* There is a cross cutting need for better communication with clients to ensure sustainable use of products and trust in financial services.
- *Encourage partnerships with alternative distribution channels*. The roadmap should equip banks and insurers to partner with retailers, mobile money operators and other aggregators, including informal savings groups, as distribution channels to reduce costs and increase the footprint

Informal money lenders, savings clubs, burial societies and SACCOs are not covered in the above two categories, yet should not be disregarded in the roadmap. For them, the following imperatives arise:

- *Protect informal credit consumers*. Shylocks are least trusted, yet fairly widely used. The imperative where they are concerned is to ensure consumer protection and devise ways to migrate clients to the formal credit market by reducing barriers and reconsidering the interest rate cap.
- *Acknowledge role of collective mechanisms, but place roadmap priorities elsewhere*. The qualitative research suggest that word of mouth regarding negative experiences of fraud or theft in savings clubs or burial societies erodes trust in these institutions. Though they play an important role for those that they do reach, usage figures suggest that such collective mechanisms do not provide the answer for the majority of the population. Likewise SACCOs, while trusted and providing a viable credit and savings channel for members, are generally only available to the formally employed market. Collective financial institutions should therefore not be the primary target for the financial inclusion roadmap. Nevertheless, donor activities to improve governance in savings groups and burial societies are useful, as they fulfil an important role for those without feasible alternatives.

**Regulatory imperatives**

The analysis suggests a number of cross-cutting actions for the state:

*Improve measurement to understand inclusion*. Develop a framework to obtain targeted information across providers that balances regulators' need for information and the cost impact on providers. This includes revisiting reporting requirements by various types of institutions to include financial inclusion indicators and product and channel information (for example number of customers of different types of products or served through particular channels, number of discontinued/lapsed clients, number of complaints, fees and commissions, and claims ratios by product and channel where insurance is concerned). To avoid disproportionate compliance cost, the reporting framework can be risk-based and incorporate varying frequency of reporting.

*Implement market conduct regulation and consumer empowerment mechanisms*. Product terms and related costs should be published and prominently displayed to improve decision making. Regulators can also publish a table of products and related costs on a regular basis. Furthermore, recourse mechanisms should be strengthened. A pragmatic approach should be sought for creating the Financial Services Ombudsman allowed for under the FSRA Act or broadening the scope of the Insurance and Retirement Funds Adjudicator to fulfil such role. The potential role of an Ombudsman in the banking sector should be investigated. Institutions can also be required to create and disclose internal complaints mechanisms. To ensure a coherent market conduct framework across financial institutions, coordination will be required between FSRA and the Central Bank. Targeted financial education initiatives should also be explored.

*Coordinate between regulators and implement transitional arrangements to smooth implementation of regulation.* Coordination is needed between FSRA and the Central Bank to clarify who regulates whom, to ensure that all consequential amendments are brought about to remove uncertainty, to put appropriate transitional arrangements in place, and then to clearly communicate the outcome to the market. A first step could be to appoint a coordination panel between regulators to suggest appropriate transition mechanisms and evaluate the impact of the FSRA Act on other legislation to determine the need for consequential amendments. As part of the coordination effort, FSRA can consider delegation of authority for SBS to the Central Bank.

*Support SMME development beyond finance.* A broader policy intervention is needed that focuses on the fundamentals of SMME development such as capacity building and the business environment within which they operate. Recommendations on strategies in this regard fall beyond the ambit of the MAP study. Where SMME finance is concerned, the imperative is to improve and coordinate current vehicles, rather than to pursue new avenues. This can be done by coordinating systems among state-run development credit providers to harness and combine resources. For example, the same IT platforms or the same teams can be used to monitor and collect loans rather than each fund developing and managing these resources themselves.

*Leverage grant payment system to promote financial inclusion.* Consider options for converting the current cash system for payment of state grants into electronic channels such as mobile money or banks partnered with retailers.

*Develop policy to target non-resident Swazi citizens*. Develop a policy to facilitate non-resident Swazi citizens (the expat target market) to support local dependents in terms of remittances, to fund educational/health products for dependents, save for their retirement and invest in the SMMEs of friends and families. This could entail a number of actions, including: lobbying of the South African authorities to enhance access to the financial system for undocumented migrants in South Africa; the facilitation of alternative cross-border remittance channels, for example through retailers; and a communication campaign to provide special status to non-resident Swazis and facilitate their inward investment.

Finally, the Central Bank and FSRA can each promote financial inclusion within their specific mandate.

**Recommendations for Central Bank**

*Enable low cost, savings and payments products*. Improved access to low cost savings and payment products should be a key focus area for regulators given target market needs. Two Central Bank actions can promote such an outcome:

- Develop a strategy to enable Mobile Money as transaction and saving product.
- Enable innovation in distribution by developing a framework that explicitly encourages agency relationships between banks and non-banks, most notably retailers and MTN
- Encourage and enforce consumer protection and disclosure/ transparency of product information

*Encourage use of formal domestic and cross border remittance products*. Facilitate formal remittances by allowing non-banks to play in the remittance space. Retailers and mobile money providers are well positioned to offer domestic and cross border remittances. They can do so more cheaply than banks and offer convenience in terms of functional proximity and speed of transfer to customers. People are also often more comfortable to transact in these institutions than in banks.

**Recommendations for FSRA**

*Ensure clarity by finalising regulatory frameworks*. The regulations for entities currently operating without prudential supervision, namely SACCOs, medical schemes (see below) and collective investment schemes should be finalised. Further investigation is needed of governance concerns with informal savings groups to inform whether it would be desirable and viable to regulate groups beyond a certain size.

*Tweak insurance framework to facilitate opportunities*. After addressing microinsurance, which is currently on the FSRA agenda, two further areas to consider are commission regulation and health insurance demarcation. *Where commission regulation* is concerned, the recommendation is to allow a policy initiation commission or fee. In terms of m*edical scheme regulation*, the recommendation is to take care that the demarcation between health insurance and medical schemes does not curtail insurance innovation. Furthermore, the regulatory framework and the corresponding supervision and compliance burden should be proportionate to the small size of the market. Lastly, there is scope to introduce an exemption threshold for AML/CFT "know your customer" (KYC) requirements for insurance. KYC requirements are currently not strictly enforced in the insurance market but, if enforced, would serve as substantial access barrier.

*Apply inclusion lens when finalising credit framework.* Where the credit market is concerned, the new Consumer Credit Bill introduces the role of a credit regulator to regulate credit across institutions. The key regulatory imperatives in the credit sphere are:

- Strengthen market conduct by requiring disclosure of terms and full cost of credit inclusive of any fees
- Increase and clarify the interest rate cap, informed by market research, or introduce exemptions below certain thresholds
- Promote the establishment of a credit bureau for credit information sharing
- Strengthen development credit providers through consolidation of systems and allow the credit guarantee scheme to earn interest

**In conclusion**

Swaziland is already fairly well served, financially, compared to many peer countries. However, the analysis shows that there is still significant opportunity for improved access to support welfare and growth policy objectives. The recommendations set out in this report can form the basis for the development of a roadmap towards realising the priority opportunities.

# 1. Introduction

## 1.1. What is MAP?

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund[9] (UNCDF), FinMark Trust[10] and the Centre for Financial Regulation and Inclusion[11] (Cenfri). In each country, it brings together a broad range of stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country[12]. Financial inclusion is achieved when consumers across the income spectrum in a country can access and sustainably use financial services that are affordable and appropriate to their needs.

MAP incorporates a comprehensive analysis of the country context as well as of the demand and supply of financial services and the regulatory environment in order to identify key barriers and opportunities to increased financial inclusion across four core product markets:

| | |
|---|---|
| | ***Credit*** |
| | ***Payments*** |
| | ***Savings*** |
| | ***Insurance*** |

**Table 2: Four core product markets**

*Source: Authors' own*

*Why focus on financial inclusion?* The MAP approach sees financial inclusion as a means to an end – the end being improved welfare and an impact on the real economy, namely those activities that contribute to GDP and economic growth[13]. Economic theory suggests that financial intermediation can fuel real economy impacts at the macroeconomic level by mobilising savings for investment purposes (including capital allocation for business development), reducing transaction costs and increasing efficiency, thereby contributing to employment generation and growth. At the microeconomic or household level, financial inclusion can impact people's welfare directly by reducing their transaction costs, enabling them to more efficiently manage risks, allocating capital

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

[10] **FinMark Trust** (www.finmark.org.za) is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. The trust was established in March 2002 with funding from the UK's Department for International Development (DFID).

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

[12] For more information on MAP visit any of the partner websites listed in the footnotes above.

[13] It goes both ways, however. As the discussion in Section 2 will show, the real economy and broader country context also impact the scope for financial inclusion by determining the realities within which the target market functions.

for productive use and supporting the accumulation of wealth over time. Financial services can also facilitate access to core services, such as health or education. This can impact growth directly, by triggering service sectors, as well as indirectly, by enhancing productivity.

Figure 2 below summarises the direct and indirect channels through which financial inclusion can impact welfare:

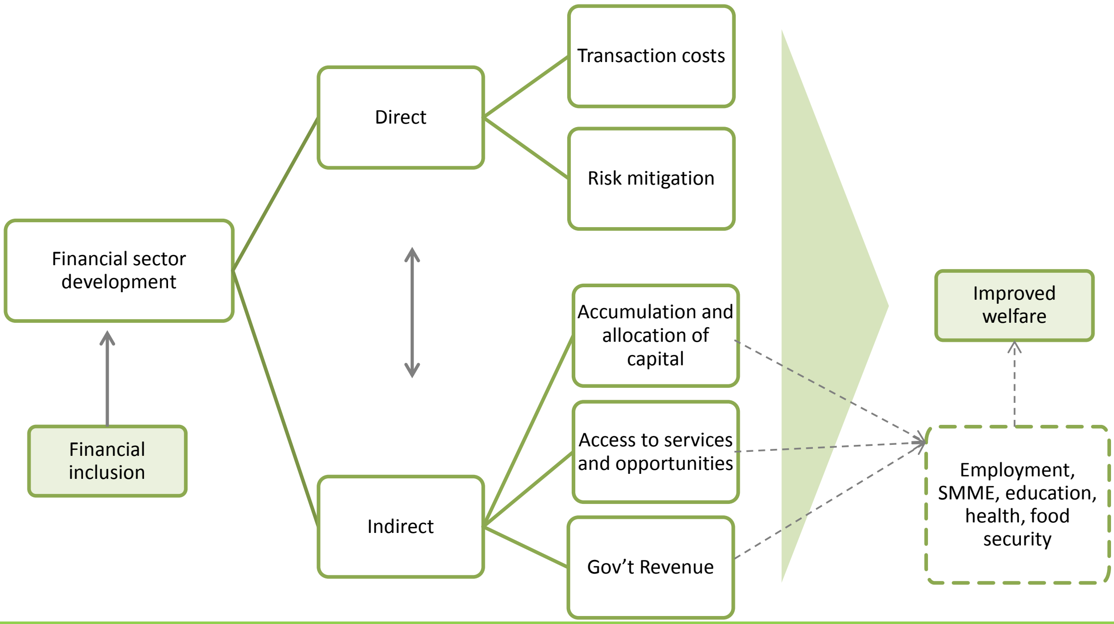


**Figure 2: Financial inclusion real economy impact channels**

*Source: Authors' own, based on Calderón & Liu (2002), King & Levine(1993), and Levine (1997).*

*The customer at the core*. What sets MAP apart from other diagnostic exercises is the fact that the demand-side perspective – the customer and his/her needs – is the point of departure for the analysis and recommendations. Figure 3 illustrates the MAP logic:

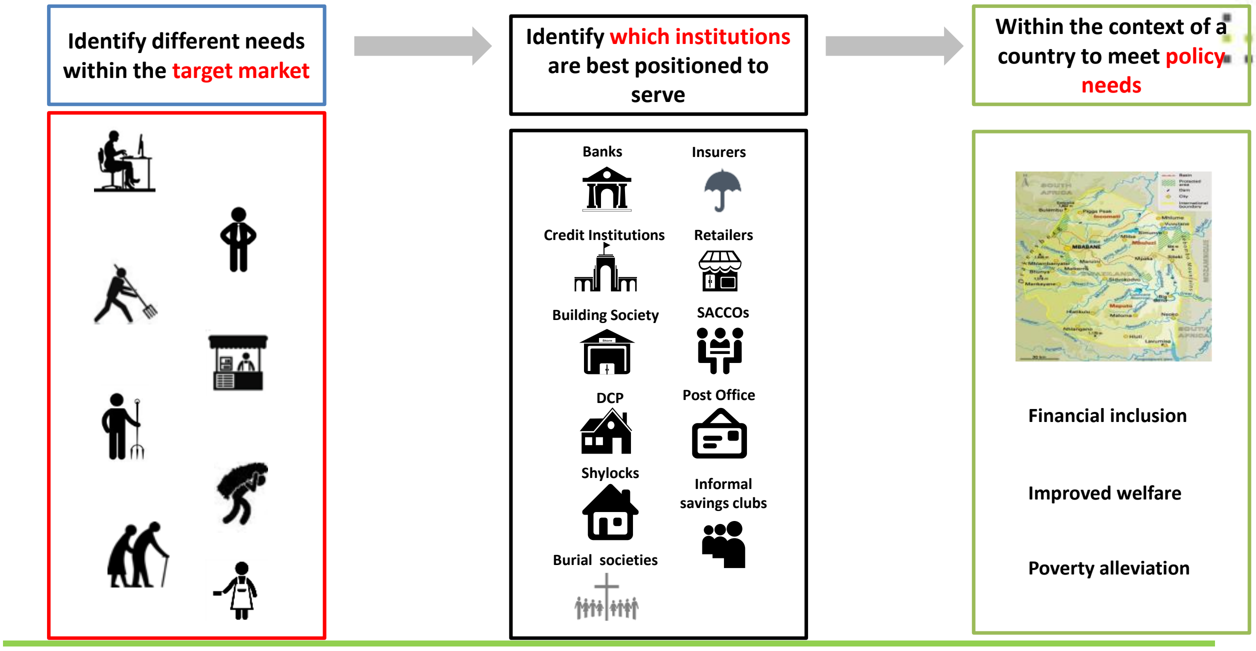


**Figure 3: The logic of the MAP process**

*Source: Authors' own*

As the diagram illustrates, the MAP methodology starts by identifying the different needs in the target market. The adult population is segmented into groups of individuals with similar profiles and needs that could form discrete target markets for financial services. With the target markets in mind, the rest of the analysis then seeks to identify which institutions currently serve which parts of the market through which services, as well as what the potential and gaps are for enhanced provision. The analysis is informed by the realities of the context of the country and ultimately seeks to meet the policy objective of financial inclusion as a tool to improve welfare and poverty alleviation.

## 1.2. Rationale for MAP in Swaziland

*Strong financial inclusion commitment.* The Government of Swaziland recognizes the significant role of the financial services sector in contributing to economic growth, as well as the potential for financial inclusion to contribute to poverty alleviation. A number of strategic priorities outlined in Swaziland's National Development Strategy (NDS) are relevant from a financial inclusion point of view. This includes the need to satisfy the demand for credit among indigenous entrepreneurs, the need to achieve efficiency in state-owned financial institutions (most notably SwaziBank), the repatriation of pension fund investments to stimulate local investment, the incorporation of Savings and Credit Co-operatives (SACCOs) into the formal financial sector, and the empowerment of Swazi nationals as professionals, managers and owners in the financial sector. Furthermore, the Poverty Reduction Strategy and Action Plan (PRSAP) emphasises the need for savings to support poverty alleviation (Government of Swaziland, 1999).

Government has introduced a number of initiatives to promote financial inclusion:

- A Micro Finance Unit (MFU) has been set up under the authority of the Ministry of Finance. Part of its mandate is to drive financial inclusion through the implementation of a Rural Finance and Enterprise Development Programme.

- The government is actively collaborating with the International Fund for Agricultural Development (IFAD) and several financial institutions to improve linkages to financial services and markets to facilitate rural small and medium enterprises' access to finance.
- The Central Bank Governor has stated that the Central Bank of Swaziland will endeavour to complement growth and stability policies with targeted interventions to support broader access to financial services. Furthermore, financial inclusion objectives are included in the National Payments System Strategic Vision 2016.
- In May 2013, the Ministry of Finance became a member of the global Alliance for Financial Inclusion (AFI). The Central Bank of Swaziland (CBS) is an associate member.

*Financial inclusion serves welfare objective*. The policy objective implicit in these various initiatives is that the provision of financial services, particularly to the excluded, has the potential to reduce vulnerability and increase income in the wider economy, thereby impacting on poverty reduction, employment and growth and, ultimately, enhancing welfare.

*MAP as vehicle towards a financial inclusion strategy*. MAP will be used to inform government's approach to financial inclusion. On 12 June 2013, the Ministry of Finance convened a Financial Inclusion Forum, attended by more than 65 participants comprising government, the private sector and development partners, to present the MAP methodology. In October 2012, the Ministry of Finance formally requested FinMark Trust's support for its ongoing financial inclusion agenda. It was agreed that the MAP study will form the basis for the development of a multi-stakeholder roadmap for financial inclusion, which in turn will be leveraged as a vehicle towards an integrated financial inclusion strategy in Swaziland. Government has constituted a Financial Inclusion Task Team to guide the development of the financial inclusion strategy and to serve as steering committee for the MAP project. The Task Team comprises representatives of the Ministry of Finance, the MFU, the Central Bank and the Financial Services Regulatory Authority (FSRA).

## 1.3. Methodology and process

The MAP Swaziland diagnostic is funded by FinMark Trust. It was carried out by Cenfri with the support from the FinMark Trust Swaziland coordinator, Mr Sabelo Mabuza.

*Scope.* This document builds an evidence base across various areas of analysis. It considers the country context, target market features, regulatory framework, as well as the provision of financial services in four product markets: credit, savings, payments and insurance.

*The start of a process*. The diagnostic document is the beginning rather than the end of the road, as it provides the basis for an ongoing multi-stakeholder process across government and the private sector to develop a financial inclusion **roadmap** and implement it through an **action plan**.

**Box 1. What is a financial inclusion roadmap?**

The analogy of a map is central to the MAP approach. MAP is about moving into unchartered territories, in the process mapping the potential routes to get to the end-goal of welfare gains through financial inclusion.

The roadmap is a high-level strategy document that details focus areas and recommendations towards achieving the end-goal. The roadmap will be the foundation for the development of an action plan, which adds further detail to create an implementable and sustainable plan to improve financial inclusion. The action plan will specify specific activities stemming from the roadmap and assign a budget, timeline and responsibilities to each.

The roadmap can be developed into an official Financial Inclusion Strategy adopted by government or simply serve as a consensus document for stakeholders on focus areas and action steps.

*Methodology.* A MAP diagnostic study is based on analysis of five key sources of information:

- *Quantitative demand-side research.* The analysis draws heavily on the FinScope Consumer Survey Swaziland 2011, published by the FinMark Trust in 2012 (henceforth referred to as the FinScope survey). FinScope is a nationally representative demand-side survey implemented by FinMark Trust in a total of 18 countries in Africa and Asia to date. It gauges people's usage, perceptions and interaction with various financial services, as well as barriers to greater financial services penetration. The MAP analysis applies the FinScope survey results to obtain insight into the relative size of different financial inclusion opportunities, as well as the realities, needs and profiles of various target market segments. Note that, as the survey was conducted in 2011, it does not reflect recent trends such as the rise of Mobile Money. Where possible we account for recent developments through the supply-side analysis. A new FinScope survey is underway for 2014.

- *Qualitative demand-side research*. Market research firm KLA was sub-contracted to design and implement qualitative demand-side research as an input to the analysis. Individual interviews and focus group discussions were conducted to get insights into the nature of people's financial lives and their interaction with various financial services. The findings are not representative of the population at large, but complement the quantitative survey results to provide a deeper level of insight into attitudes and other drivers of financial usage behaviour.

  Fieldwork was conducted in October 2013 in the Matsapha/Manzini area as well as in Mhlume. Twelve focus group discussions were conducted across the two regions. Each group comprised seven to ten respondents. In addition, four in-depth interviews and six immersions[14] were conducted, once again split by region. A total of 104 respondents were reached: 49 male and 55 female. Full details on the methodology followed and findings are available in the separate qualitative demand-side research report developed by KLA.

- *Stakeholder interviews.* In October 2013, the diagnostic team met with a total of 53 stakeholders, including regulatory authorities, government departments, financial institutions and support organisations. The purpose was to understand incentives for and constraints to financial inclusion and obtain insights into key market trends and data. Appendix 7 contains a list of institutions consulted.

- *Secondary research.* The stakeholder consultations were accompanied by in-depth analysis of data contained in regulatory databases or obtained from suppliers. In addition, we analysed various institutions' annual reports, conducted a literary review on the country and financial sector context and analysed relevant pieces of legislation and other documents pertaining to the regulatory framework.

[14] Immersions: spending a considerable amount of time interviewing a respondent in his/her own environment

- *Mystery shopping*. Lastly, 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.

## 1.4. Guide to reading this document

In order to impact on the real economy and improve welfare, a suite of appropriate financial services are needed that are accessible and provide value to clients. The scope for financial inclusion is conditioned by the country context as well as the regulatory environment within which the financial sector operates. After taking stock of the context and regulatory framework, we consider the needs and realities of various target market segments, as well as the potential, gaps and barriers for financial services across the four product markets to meet those needs. The recommendations are then informed by an assessment of the potential of various financial services to meet the key target market needs.

The document from this point is structured as follows:

- **Section 2** considers the way in which the country context – macroeconomic, socioeconomic, as well as physical infrastructure – shapes the scope for financial inclusion.

- **Section 3** analyses the relevance of the regulatory framework in Swaziland for financial inclusion.

- **Section 4** takes a closer look at the target market for financial inclusion in Swaziland It considers the economic realities at grassroots level, the profile and needs of different target market groups, how the target market currently uses and perceives financial services, as well as what stands in the way of greater engagement with formal financial services.

- Mindful of target market needs and the country and regulatory context, **Section 5** then provides an overview of current financial services provision in Swaziland to set the scene for the rest of the analysis. It provides an overview of the landscape of providers across product markets and analyses the financial sector infrastructure in terms of the capital market and distribution network.

- **Sections 6.1 to 6.4** consider each of the four product markets that form the backbone of a MAP diagnostic: credit, payments, savings and insurance. For each market, the analysis covers:

    - **Current usage** – the profile of usage in the particular product market
    - **Use cases** - the nature and extent of various use cases for the product (see Box 2 below)
    - **Providers** – an overview of the types and performance of providers serving the particular product market.
    - **Products** – an overview of the suite of available products in the market and their key features from a financial inclusion point of view.
    - **Barriers to access** – determining what stands in the way of greater financial inclusion in the particular product market, be it factors relating to the nature of the target market (such as their perceptions and trust) or the features and accessibility of the product suite.

- **Regulatory issues** - with a bearing on financial inclusion in the particular market
- **Gaps and opportunities** – concluding on the key gaps and opportunities for serving target market needs in the particular product market.

- **Section 7** concludes by identifying five key financial inclusion priorities stemming from the target market needs and supply-side analysis and highlights potential actions to unlock the opportunities.

To facilitate ease of reading, each section starts off with a summary box highlighting the key findings or insights from the particular section.

**Box 2. What is a use case?**

A "use case" is simply an identified need or application for a particular service among the target market, the reason why a particular product is demanded. For each product market, there will be several use cases. The use cases for a particular product will differ across countries, depending on the context and target market features. For example, "to pay bills" or "to send money to rural family members" can both be a use case for payments, while "to provide for education expenses" can be a use case for either savings or credit.

The use cases identified in Section 6 are intended to focus the discussion on the actual or potential needs expressed in the market and the prospective roles that a particular product could fulfil. The use cases for each product market are identified based on the qualitative and quantitative demand-side research, along with an overview of products on the market and insights from provider interviews.

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# 2. Context drivers of market development

The financial sector forms part of a broader economic and social context that will shape market outcomes, demand-side realities and functioning of the financial sector in and of itself. This section unpacks the key contextual drivers of financial market development across the macroeconomic context, socio-economic and demographic context, as well as relating to infrastructure and to the political context. The key context drivers of relevance to the rest of the analysis are summarised below.

**Key findings: context drivers**

The key findings from this section are:

- *Small country, poor population*. Swaziland has an adult population of only 531,813 persons. Of them, more than 80% either earn below E2,000 a month or have no regular income (FinScope, 2011). Low incomes indicate vulnerability to financial shocks and have implications for demand of financial services. Where the provision of financial services is concerned, the small population size constrains scope for growth and economies of scale. At the same time, however, the small country may facilitate distribution; even rural areas are not that remote in Swaziland.

- *Poor health and frequent deaths*. The fact that Swaziland has among the highest HIV/AIDS penetration rates in the world and a life expectancy of only 49 years of age compounds the vulnerability and survivalist outlook generally caused by poverty (Reuters, 2013). The qualitative research suggests that many households look after children of deceased relatives and funerals in the community are a regular occurrence. Poor health undermines productivity and makes it difficult to “get ahead” in life. Moreover, inherited financial responsibilities create additional financial strain. The health situation thus constrains demand for financial services on the one hand, but enhances the imperative for risk protection and income smoothing on the other hand.

- *Small economic base, high regional integration*. Swaziland has a small, regionally integrated economy: Southern African Customs Union (SACU) receipts historically account for up to 60% of government’s budget (Southern Africa Regional Resource Centre (SARC), 2013) and the private commercial and small, medium and micro enterprise (SMME) sector is limited, with 82% of SMMEs classified as micro and commercial agriculture accounting for only 6% of land use (Small Micro Medium Enterprise Unit (SMME) Unit, 2010; Hachigonta, et al., 2013). The public sector is a key driver of economic activity and the single biggest employer. The combined effect is a vulnerability to fiscal shocks and the need for economic diversification to reduce reliance on SACU receipts as the greatest macroeconomic imperative towards achieving sustainable growth. It also means that, while financial inclusion can “oil the wheels” of the economy, it is unlikely to be the key driver of growth. The small economic base also implies a small formally employed market, which is well served by financial services while the bulk of the population are relatively unserved.

## 2.1. Macroeconomic context

*Small country, about half the land not under title deed*. The Kingdom of Swaziland is the smallest country in the southern hemisphere. It is bordered by Mozambique to the East and South Africa to the North, West and South, as shown in Figure 4 below. Its total land area is about 1.7 million hectares and of this, 54% is categorised as Title Deed Land (TDL) and 46% is Swazi National Land

(SNL) (Hachigonta, et al., 2013) [15]. TDL is land that is privately held through a freehold or concession agreement. SNL is customary land held in trust by the King through the chiefs. It may not be sold, leased or mortgaged, but chiefs have the authority to allocate usufruct rights to individual Swazi families (Global Forum for Rural Advisory Services (GFRAS), 2013; Overseas Development Institute (ODI), 1999).

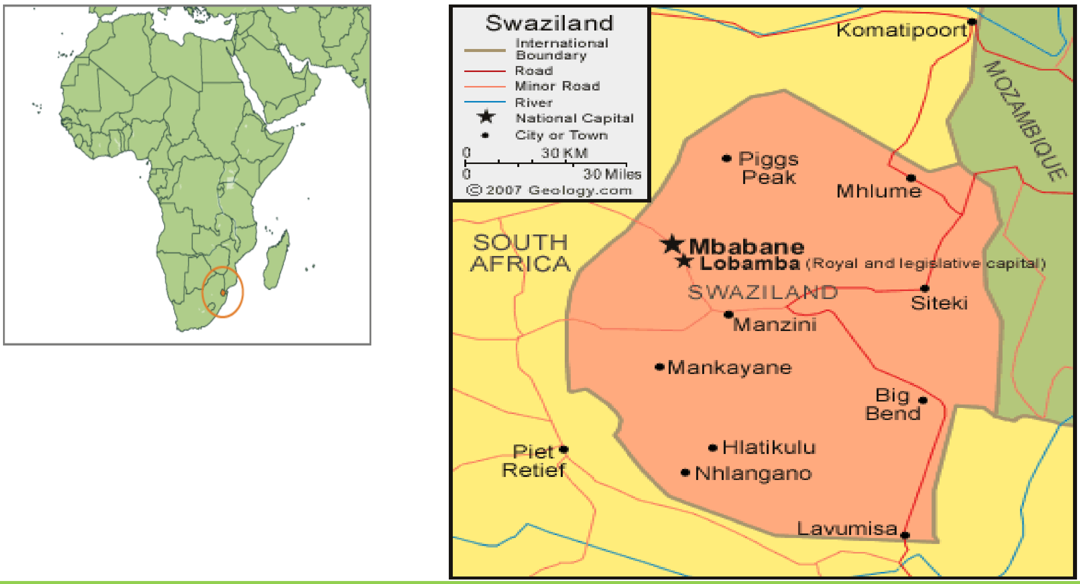


**Figure 4: Map of Swaziland**

*Source: Geology.com, 2014; World Rainforest Movement, 2014*

*Small economy, declining economic growth*. Swaziland has a GDP of USD 3.7 billion, representing the smallest Southern African Development Community (SADC) economy after Lesotho and Seychelles. Swaziland's GDP has experienced sluggish growth averaging just over 2% per year in the last two decades. In recent years, GDP growth has steadily declined from a high of 3.5% in 2007 to a contraction in real GDP of -1.5% in (World Bank, 2013)[16], making Swaziland the slowest growing country in the region. According to the Central Bank of Swaziland, Swaziland's GDP grew by 1.7% in 2012, *nominally* (CBS, 2013).

*Manufacturing and public administration largest contributors to GDP; declining importance of agriculture*. As at 2012, manufacturing contributed 40% to GDP, virtually doubling its share from 26 per cent in 1985. Agriculture has been declining in importance over the years from a high of 23 % in 1980 (World Bank, 2013) to an estimated 8% in 2012. Also notable is that, at 18% of GDP, the public sector is the second largest sector (Swaziland Investment Promotion Authority (SIPA), 2012) as shown in Figure 5 below:

[15] Note that the IFPRI Report draws on data dating back to 1994, which seems to be the latest available data.
[16] As per the CBS Annual Report, real GDP growth was 0.2% in 2012 (CBS, 2013).

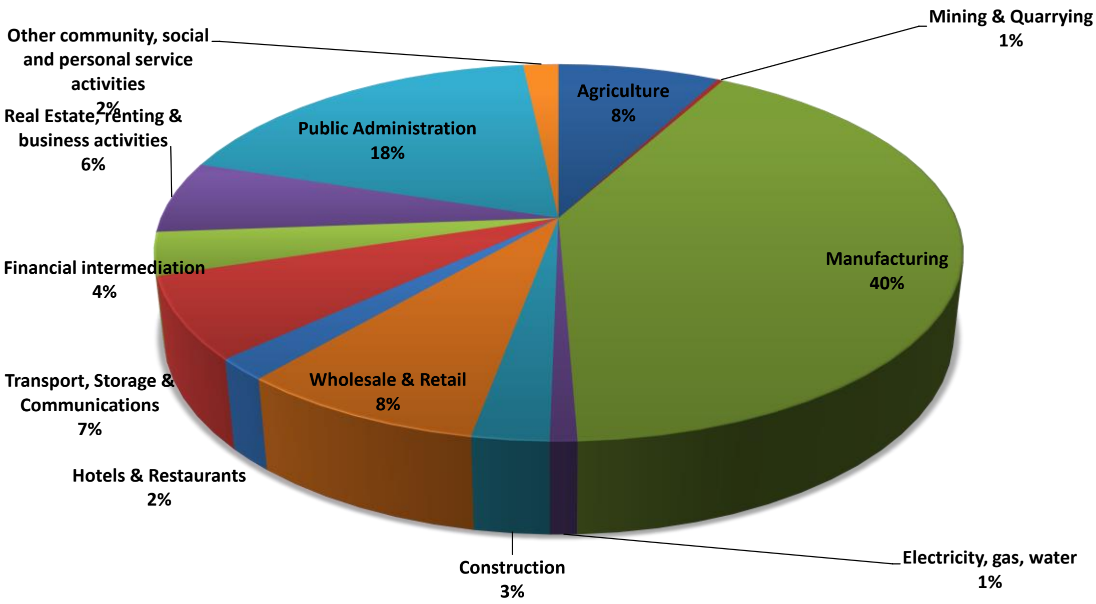


**Figure 5: Swaziland GDP sector composition**

*Source: SIPA, 2012*

Within the manufacturing industry, notable commodities produced include sugar, soft drink concentrate, textiles, canned fruit and wood products (Shabalala, 2009). In particular, Coca-Cola Swaziland (CONCO Ltd), is the largest supplier of Coca Cola concentrates in Africa, and the largest foreign exchange earner for Swaziland, contributing up to 20-35% of GDP (Duncan, et al., 2008; Vandome, et al., 2013). In addition, the US African Growth and Opportunity Act (AGOA) passed in 2000 gave Swaziland's clothing and textile industry preferential access to the US market, resulting in a sharp increase in foreign investment. However, the country struggled to remain internationally competitive following increased global competition that resulted from the end of the Agreement on Textiles and Clothing (ATC) in 2005 and the continued appreciation of the South African Rand, to which the Lilangeni is pegged (Global Edge, 2014; Fontaine, 2007). Several companies disinvested from the sector resulting in a loss of over half the jobs in the textile and clothing industry. In December 2005 the industry accounted for 11,493 jobs compared to 30,000 in 2004 (Madonsela, 2006). Currently, it employs approximately 19,000 people (Sibandze, 2014). The country's competitiveness may be further eroded by the expiry of preferential market access to the EU in 2017 (Vandome, et al., 2013; Schneidman, 2014). Furthermore, Swaziland failed to meet AGOA conditions by a May 2014 deadline, implying that it will lose its AGOA privileges from January 2015[17].

The wood and wood products industry suffered a setback in 2010 when a major pulp mill at Usutu closed down. Yet consultations suggest that the sector is likely to employ more than 2,500 people, with expected growth in the sawmilling industry likely in the medium to longer term.

*Widespread involvement in agriculture disproportionate to its economic contribution*. Despite the declining role of agriculture in the economy, 65% of all households in Swaziland are involved in farming in some way (FinScope, 2011). Yet agricultural production is not able to meet all domestic consumption needs. Food constitutes a fifth of Swaziland's imports by value (Vandome, et al., 2013). This may partly be explained by the fact that Swaziland's agricultural sector, which is dominated by

[17] See, for example (Dlamini, T., 2014) and (Dlamini, W., 2014)

smallholder agriculture, by and large still applies traditional labour intensive techniques rather than the practice of mechanized commercial farming. The output of large-scale agriculture is twelve times that of smallholder agriculture despite the latter covering a significantly larger share of the cropping area (smallholder agriculture covers about 67% and large-scale agriculture about 33% of the total cropping area) (World Bank, 2011). The FinScope survey findings suggest that lack of land (34% of respondents) and lack of money for inputs (18% of respondents) are the main barriers to commercialisation. Furthermore, a relatively low percentage of total farming land is arable. Of Swaziland's total land area, 71% is agricultural land. Just over 10% of this area is classified as arable land and only 0.9% is under permanent crops (FAO, 2013).

**Box 3. Agriculture sector context**

*Agriculture accounts for almost 90% of land use*. The main land uses in Swaziland are communal grazing (50% of the land, mostly on SNL), ranching (19.2%), smallholder agriculture (12.3%), forest plantations (8.1%), large-scale agriculture (6%) and others (4.4%) (Hachigonta, et al., 2013). Smallholder agriculture is based on SNL, and large-scale farming is based on TDL (World Bank, 2011).

*Sugarcane and cotton the only commercial crops*. The main crops cultivated in Swaziland are presented in Table 3 below:

| Crop | Harvest area ('000 ha) | Metric ton production |
|---|---|---|
| **Sugar cane** | 53 | 5 000 000 |
| **Maize** | 47 | 60 765 |
| **Cotton** | 15 | 1 115 |
| **Fruit** | 12 | 88 809 |
| **Legumes** | 12 | 9 426 |
| **Tubers** | 11 | 59 821 |

**Table 3: Area and production of different crops in Swaziland, 2006-2008**

*Source: FAO, 2010 as shown in Hachigonta, et al., 2013*

**Sugarcane,** which is planted on about 53 000 hectares, is Swaziland's largest crop. Swaziland is the fourth-largest sugar producer in Africa. It is predominantly grown under irrigation by large-scale farmers and has an average yield of 94 tonnes per hectare. A few small holder farmers opt to grow it without irrigation on plots smaller than one hectare, but their yields average only one tonne per hectare. The sugar industry is said to account for 60% of agricultural output and 35% of agricultural wage employment (Global Agriculture Information Network (GAIN), 2013). The sugar industry is said to directly provide employment to 16,000 people and another 80,000 indirectly (Swaziland Sugar Association (SSA), 2014). 95% of the sugar produced is for export and only 5% is consumed locally (Hachigonta, et al., 2013). The EU's ACP (African, Caribbean and Pacific Group of States) Sugar Protocol gave Swaziland's sugar industry a guaranteed market and subsidised prices. However in order to comply with WTO rules the EU began removing the subsidies from 2007. Despite this, revenues in the sugar industries have registered growth due to favourable sugar prices (Tibiyo Taka Ngwane, 2012). There are three sugar mills: two belonging to the Royal Swazi Sugar Company (RSSC) and one belonging to Illovo Sugar. Plans are underway for a fourth mill, Nsoko-Msele Sugar Mill, in the Lubombo region (Simelane, 2014).

Irrigation accounts for 85% of water use in Swaziland. This is driven primarily by sugarcane irrigation, which uses 84% of the irrigation water. Other water uses include, domestic (2.3%), industry (1.2%) and livestock uses (1.2%). To facilitate the high need for irrigation, Swaziland has ten major water-catchment dams (FAO, 2005). A number of dams facilitated by Swaziland Water and Agricultural Development Enterprise (SWADE) are specifically aimed at promoting smallholder farmer participation in the sugarcane industry (Hachigonta, et al., 2013).

**Maize** is Swaziland's staple food. The area planted in maize has significantly decreased from about 58 000 hectares in 1993 to 47 000 hectares in 2008. Maize is predominantly rainfed and grown by smallholder farmers who have an average farm holding of only 1.5 hectares in SNL. The average yield is about one tonne per hectare and does not meet domestic demand, which is estimated at around 150 000 tonnes a year (Hachigonta, et al., 2013).

**Cotton** production, like maize production, has severely declined (from 27 000 hectares in 1993 to 15 000 hectares in 2008). In areas that register low rainfall, cotton is a substitute for maize. Its average yield is only 0.07 tonnes per hectare.

**Fruit and vegetables** are mainly produced on a small-scale basis and are often intercropped with maize. Imports are necessary for meeting most of the country's demand.

It should be noted that small scale **livestock farming** is a significant additional activity for the majority of households that rely on agriculture (Hachigonta, et al., 2013).

*Large public sector*. As noted above, public administration is estimated to account for 18% of GDP. The public sector is the largest single employer in Swaziland. In 2010, the public sector absorbed 21.7% of the labour force (Ministry of Labour and Social Security, 2011), implying a large public sector wage bill. At around 15% of GDP, the wage bill is one of the highest in Africa (Badsevant, et al., 2013). Ministry of Finance data indicate that, for 2012/13, the wage bill accounted for 43.5% of government expenditure, thereby exceeding the sum of other recurrent expenditure (21.1%) such as infrastructure, social grants, education and health, as well as capital expenditure (35.3%) (SARC, 2013). In the Financial Adjustment Roadmap (FAR), the government has committed to restructuring and right-sizing public sector expenditure, while improving its efficiency (Government of Swaziland, 2011).

Furthermore, a significant part of the private sector is royal-owned. Through Tibiyo Taka Ngwane, the monarchy holds full or partial ownership in over 20 major companies involved in agriculture, manufacturing, mining, real estate, financial intermediation, tourism, wholesale and retail, communications and transport (Tibiyo Taka Ngwane, 2012).

*Small private and SMME sector faces a number of constraints*. Swaziland's gross fixed capital formation by the private sector as a percentage of GDP was only 5.2% in 2012 , making it the smallest in the SADC region after Angola (World Bank, 2013). The large role of the public sector implies that many private companies, especially SMMEs, are heavily reliant on government contracts. This reliance turned out to be detrimental in 2011 when the Swazi government became heavily in arrears to the private sectors because of the fiscal crisis. The arrears stood at E400 million (about 1% of GDP) as at the end of March 2012 (Mafusire & Leigh, 2014). This led to significant job losses and decreased activity in the private sector SARC (2013).

An enterprise survey conducted by the World Bank in 2006 revealed access to finance and high tax rates as some of the most pronounced constraints to doing business (World Bank, 2006). This is corroborated by the fact that Swaziland's domestic credit to private sector (% of GDP)was only 25%

in 2012, compared to the SSA average of 62% in the same period (World Bank, 2013); and that Swaziland institutes an SMME tax rate of 27.5%,compared to a rate of 0% in Zimbabwe, 15% in Lesotho, and South Africa's range of 0 to 10% (Sibandze, 2013).

**Box 4. SMME landscape**

In Swaziland, the SMME mandate falls under the Small and Medium Enterprise Unit, a department in the Ministry of Commerce, Industry and Trade (henceforth referred to as MCIT).

Table 4 below shows the classification of SMMEs in Swaziland:

| | Micro enterprises | Small enterprises | Medium enterprises |
|---|---|---|---|
| Value of Assets | Under E50, 000 | E50,000 to E2 million | E2 million to E5 Million |
| Staff employed | 1 to 3 people | 4 to 10 people | 11 to 50 people |
| Turnover | Up to E60, 000 | Up to E3 Million | Up to E8 Million |

**Table 4: SMME classification in Swaziland**

*Source: Small Micro Medium Enterprise Unit, 2010*

*SMME sector dominated by micro businesses*. Table 5 below, which is based on the SMME census report (SMME Unit, 2010), shows that the majority of SMMEs are micro enterprises run by sole proprietors, located in the Manzini and Hhohho regions and involved in the wholesale and retail sector:

| Swaziland SMME profile | Total number of SMMEs: 4,926<br>Total staff employed: 8,381 |
|---|---|
| **Size distribution** | 82% micro; 17% small; 1% medium |
| **Regional distribution** | 35% Manzini; 28% Hhohho; 20% Shiselweni; 17% Lubombo |
| **Sectoral distribution** | 58% wholesale & retail; 10% manufacturing; 7% hotels & restaurants; 3% real estate; 2% transport, storage & communication; 2% health & social work; 1.5% education; 1% financial intermediaries; 1% agriculture, hunting & forestry; 13.5% others, including personal services |
| **Gender distribution** | 56% female, 44% male |
| **Registration** | Total number of registered SMMEs: 3,322 |
| **Registered SMMEs by ownership type** | 93% sole proprietorship; 5% registered company; 1.5% partnerships; 0.5% other |

**Table 5: Swaziland SMME profile**

*Source: Small Micro Medium Enterprise Unit, 2010*

It should be noted that these figures only consider established businesses and do not reflect the multitude of self-employed individuals, such as those engaged in street vending for example (see Section 4).

*Many SMMEs formed out of survivalist needs*. Although the main reason for setting up an enterprise is the desire to be self-employed or the identification of market gaps, enterprises that are set up out of necessity resulting from the high unemployment are on the increase (SMME Unit, 2010)). These can be termed survivalist or "reluctant" entrepreneurs. The FinScope survey findings, whereby less than 10% of small business owners or self-employed individuals earn more than E2,000 per month, confirm that most entrepreneurs are survivalist in nature. A case analysis associated with the University of Swaziland revealed that 215 out of 265 SMMEs interviewed mainly used their enterprise proceeds towards maintaining their families or paying for miscellaneous expenses, such as education and health. Many of the businesses whose main goal was to offer sustenance lacked a clear business strategy and were not innovative (Joubert, 2004).

*Access to finance, skills and infrastructure among main constraints*. The 2010 SMME census lists the main constraints faced by SMMEs as: (i) stringent collateral requirements; (ii) costly and protracted business regulatory processes, which result in many entrepreneurs operating businesses without meeting proper statutory requirements; (iii) corrupt practices that allow the mushrooming of foreign traders who drive local traders out of business; (iv) poor road infrastructure and services in the remote areas, which increase the cost of transporting goods and services; (v) stringent requirements for SMMEs accessing finance as they are perceived to be high risk; (vi) lack of business management skills; and (vii) lack of technical skills and appropriate experience.

*Less favourable investment climate*. Despite efforts by the Swaziland Investment Promotion Authority (SIPA) to encourage foreign investment[18], foreign direct investment (FDI) flows to Swaziland have remained relatively constant over the past decade. This was off the base of a sharp decline in the 90s following South Africa's end of political and economic isolation that contributed in eroding Swaziland's advantages as an investment destination (SARC, 2013). In the Global Competitiveness Index, Swaziland ranks 124 out of 148 countries and last compared to the other SACU members (respective ranks: South Africa – 53; Botswana – 74; Namibia – 90; and Lesotho - 123). The five most problematic barriers to doing business were cited as tax rates, access to finance, inflation, government instability and inefficient government bureaucracy (World Economic Forum (WEF), 2013).

*Strong regional integration***.** The Swazi economy is closely integrated with neighbouring South Africa; 70% of its imports are from South Africa and 79% of its exports are to South Africa[19] (SIPA, 2012). Swaziland is a member of the Common Monetary Area (CMA) together with Lesotho, Namibia and South Africa. The CMA agreement came into place in 1986 and dates back to the Rand Monetary Area (RMA) agreement which was signed in 1974 (International Monetary Fund (IMF), 2007). Within the CMA, the rand is used as common currency and the Swaziland Lilangeni, together with the other members' currencies, are pegged to the rand.

Swaziland also forms part of the Southern African Customs Union (SACU) along with Botswana, Lesotho, Namibia and South Africa. The SACU agreement was first effected in 1910 and entails that: (i) a common external tariff (CET) is levied on all goods imported into the union from the rest of the world, (ii) SACU manufactured products are guaranteed free movement within the union countries, without duties or quantitative restrictions; and (iii) a revenue-sharing formula (RSF) is applied for the distribution of import duties collected by the union. The RSF was later revised to include excise duty in the revenue pool.

Figure 6 below indicates trends in SACU revenues accruing to Swaziland in recent years, with a notable dip in revenues in 2010/11:

[18] In 2012, SIPA was runner-up in the United Nations conference on Trade and Development (UNCTAD) Investment Promotion Awards for its efforts in facilitating the provision of factory space, necessary licenses, permits and tax concessions (Mafusire & Leigh, 2014).
[19] The online information portal on the African Growth and Opportunity Act (AGOA) provides a slightly different picture that Swaziland receives more than 90% of its imports from South Africa to which it sends 60% of its exports (AGOA.info, 2014).

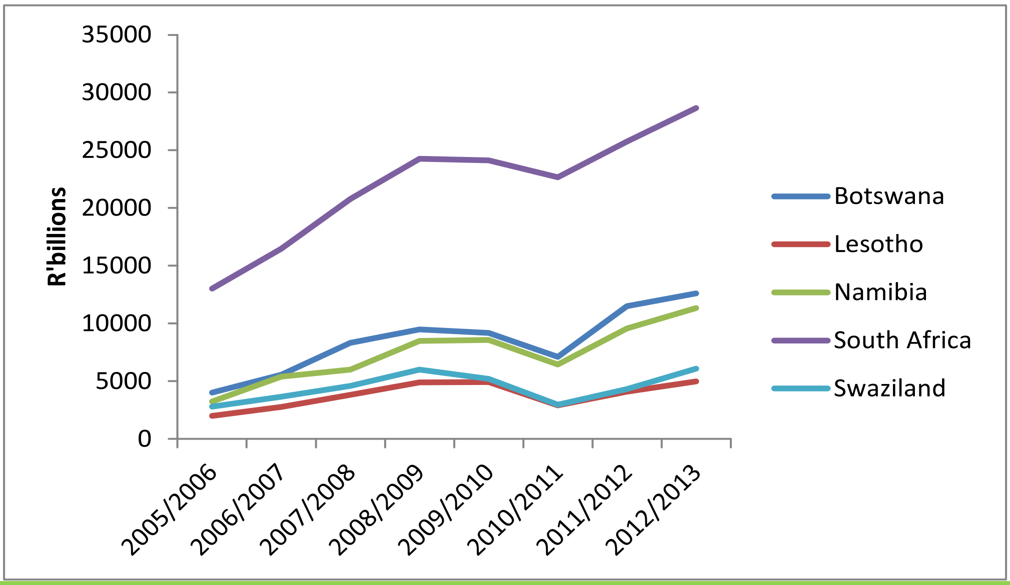


**Figure 6: Trends in member states' SACU revenues**

*Source: Southern African Customs Union (SACU), 2012*

Furthermore, Swaziland is a member of SADC and the Common Market for Eastern and Southern Africa (COMESA).

*Regional integration brings benefits, but creates risks*. Regional integration has a number of advantages for Swaziland. For instance, the monetary policy implications of the pegged exchange rate has ensured largely single-digit inflation since 2000, and the high mobility of goods and investments across the CMA region facilitates technology transfer, employment and efficiencies in trade (Asonuma, et al., 2012). In addition, the presence of several foreign-owned companies, particularly South African telecommunications and financial services firms, has enabled Swaziland to benefit from transfer of specialised knowledge and expertise. The biggest downside to regional integration, however, has been the impact on Swaziland's fiscal revenues from a decline in SACU receipts from 2008/9 to 2010/11, as indicated in Figure 6 above. The drop in receipts was largely the result of the slowdown of the South African economy, which contributes about 97 per cent towards the SACU pool (SARS, 2012; 2008), following the knock-on effects of the global financial crisis, as discussed below.

*Reliance on SACU receipts triggers fiscal crisis*. Due to the small economic base, Swaziland's public funding is heavily reliant on SACU receipts, which historically accounted for about 60 % of total government revenue (SARC, 2013). A significant (38 per cent) drop in SACU revenue, along with the large public wage bill gave rise to a fiscal deficit of 11.3 per cent of GDP in 2011 that plunged Swaziland into a fiscal crisis. As government is the single biggest employer and government and parastatals are such a big part of the "engine" of the economy, that the fiscal crisis had a substantial knock-on effect on the economy. For example, the impact on SMMEs of government arrears as indicated above.

*Fiscal adjustment emphasises need to diversify revenue*. In response to the fiscal crisis and under the guidance of the IMF, government developed a Fiscal Adjustment Road Map in 2010 in an effort to reduce reliance on SACU receipts by increasing domestic revenue collection and reducing expenditure. A major part of the planned expenditure cuts was a reduction in the public sector wage bill. An Updated Fiscal Adjustment Roadmap (UFAR) has since been adopted for 2011/12-2015/16.

Key successes achieved have been the formation of the Swaziland Revenue Authority (SRA) in 2011 and the introduction of Value-Added Tax in 2012. Domestic revenue improved by 8% in the first year of the establishment of SRA (SARC, 2013). The UFAR however underscores persistent vulnerabilities related to a lack of fiscal expenditure controls.

## 2.2. Socio-economic and demographic context

*Small, predominantly rural, female and young population.* Swaziland has a population of 1.231 million (World Bank, 2013), of which 531,813 are adults (FinScope, 2011). As shown by Figure 7, almost two-thirds (63%) of adults are female, the same percentage resides in rural areas and over half (53%) are aged between 18 and 34 years:

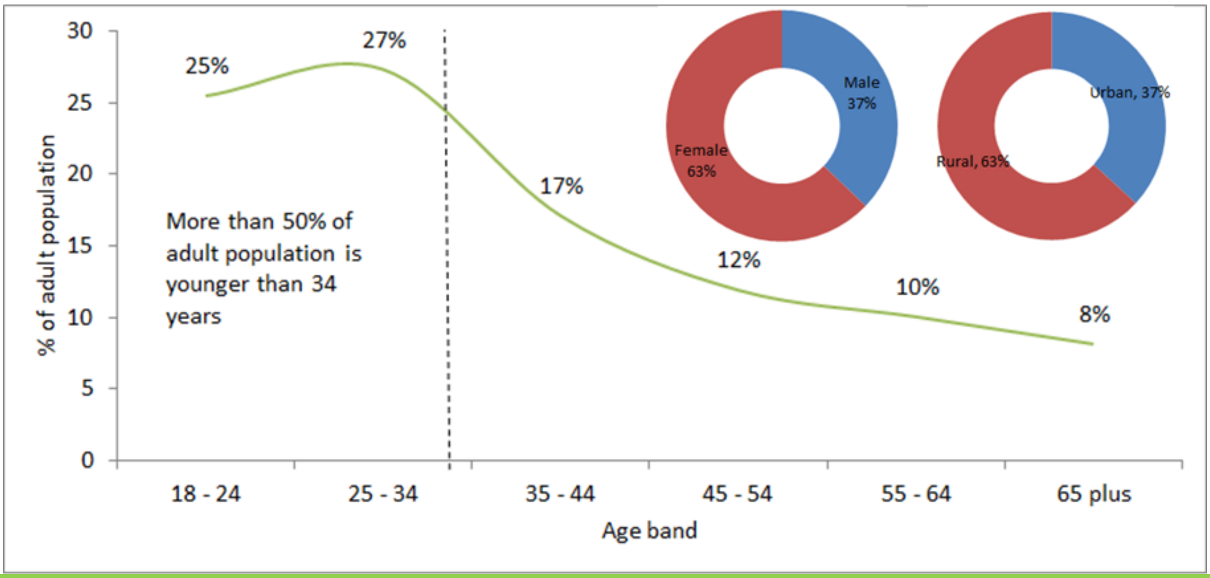


**Figure 7: Adult population split across gender, rural-urban distribution and age**

*Source: FinScope, 2011*

*A significant number of migrants***.** The number of officially recorded Swazi migrants steadily dropped from 15,892 in 1994 to 9,475 in 2001, and finally to 4,800 in 2012. This is attributed to the decline in the South African gold mining industry, the biggest Swazi migrant draw card over the last 20 years and, more recently, the South African Immigration Act of 2002 (amended in 2011) and the new Mining Charter of 2010, which puts pressure on companies to reduce their reliance on foreign workers (Economist Intelligence Unit, 2012). A similar decline in the number of Swazi men employed in the mines: 9,360 in 2000 to 6,878 in 2006 corroborate this trend (International Organisation for Migration (IOM), n.d.). Other research however suggests that actual numbers of migrants could be substantially different to the recorded figures. It is estimated that 160,485 Swazis live outside of Swaziland, 85% (135,720) of them in South Africa (World Bank, 2010)[20]. If these people were included in the FinScope survey, it would add 30% to the adult population. They are furthermore likely to earn substantially more than most of their peers living in Swaziland[21]. World Bank (2010)

[20] The most recent estimate is by (Truen & Chisadza, 2012). They estimate there to be 117,525 Swazi citizens living in South Africa. If accurate, this would suggest a decrease in migrants to South Africa since the publication of the World Bank estimate in 2010.

[21] As an indication: the minimum wage for agricultural workers in South Africa effective from 1 March 2014 is R2420.41 per month (McCarthey & Associates, 2014). This is more than the average wage of company employees estimated for Swaziland (see Section4)

estimates[22] suggest that Swazis abroad remit USD 47 million home annually, USD 40 million of which originates in South Africa. This amounts to approximately 1.3% of GDP.

*Most Swazi adults outside of formal employment*. The 2010 Integrated Labour Force Survey estimates there to be 579,000 adults aged 15 and above (Ministry of Labour and Social Security, 2011). Of them, 61% or 327,000 are economically active (either working or unemployed). The employed population is estimated at 194,000, of which 122,000 are employed in the formal sector (see Figure 8 below). Thus almost 79% of those aged 15 and above are not formally employed.

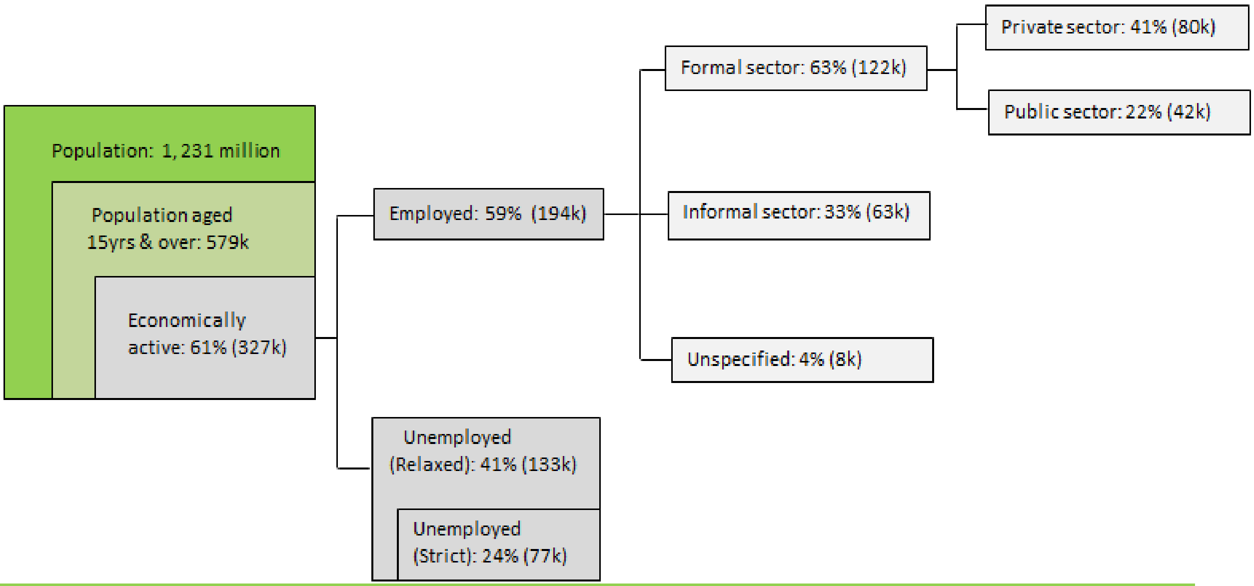


**Figure 8: Labour force structure[23]**

*Source: Ministry of Labour and Social Security, 2011; World Bank, 2013*

As the latest Labour Force Survey data dates back to 2010, it is likely that the employment situation may have changed since then. ITQNet payroll deduction data suggest there to be around 37,000 public sector employees, rather than the 42,000 indicated in the 2010 survey. FinScope (2011) survey findings estimate there to be in the order of 45,000 public sector employees and a further 61,455 employees in the private sector.

*Generally low educational attainment*. More than 40% of adults have no formal education or only primary education. About half have attained secondary (three years junior secondary) or high school education (two years senior secondary), but only 10% has some kind of tertiary education. A recent study suggests that the average Swazi adult receives seven and a half years of schooling (Khumalo, 2013)

**Box 5. Education structure**

**Primary education** in Swaziland involves seven years of schooling. A national examination in grade seven is a compulsory requirement for progression to secondary school. Recognising the importance of promoting the entry to education, the Education Ministry started implementing the Free Primary Education (FPE) programme starting with grades one and two in 2010. It plans to roll out FPE to all the primary grades by

[22] The estimates are derived using migrant stocks, host country incomes, and origin country incomes.

[23] Note that, according to the FinScope survey, 203, 564 Swazi adults are employed and there is a total of 531,813 adults. The employed adult population consists of adults that reported earning a wage, salary or were self-employed. In the rest of this document we will adopt the FinScope survey figures.

2015. Although the programme has resulted in increased enrolment rates (an increase of 15% for both grade one and two in 2010), not all school going age children enrol (Ministry of Education & Training, 2014a). Furthermore, only 60% of those who enrol for grade one actually complete their primary education. This is lower than Zambia's 72%, Zimbabwe's 81% and Botswana's 87% (Khumalo, 2013). It has been noted that although the government pays about USD 62 annually for every pupil enrolled in grade one to five, schools still charge parents a top up fee of about USD 76 (Phakathi, 2013).

**Secondary education** constitutes five years; three years junior secondary and two years senior secondary. Once again, national exams mark the end of each level. **Vocational education** was started as a pilot programme and is only offered in selected schools. It aims to equip learners with technical skills or business enterprise skills (Ministry of Education & Training, 2014)[24]. Government does not offer financial assistance for secondary and vocational education except for pupils registered for the Orphan and Vulnerable Children's (OVC) grant programme (Phakathi, 2013).

Within Swaziland, one can obtain **tertiary education** from a publicly funded university, polytechnics and specialised colleges or privately funded accredited universities and colleges. The government provides scholarships to students wishing to pursue tertiary studies both locally and abroad (Ministry of Labour & Social Security), 2014).

*Mismatch between skills supply and demand.* The Swaziland services sector has registered higher growth than the industry and agricultural sectors each year since 2006 (World Bank, 2013). Growth in the services sector and particularly growth in the telecommunications and financial services has led to a demand for higher skilled labour (SARC, 2013). Yet, only 10% of adults have vocational training and beyond.

*High poverty levels and inequality***.** Swaziland has a Gini coefficient of 51.5%, making it the 21st most unequal country out of 153 countries worldwide (Index Mundi, 2013). As per Figure 9, about 60% of Swaziland's adult population reported either earning less than E500 a month (which equates to less than USD 2 a day) or not earning a regular income. This is consistent with Swaziland's Household Income and Expenditure Survey's poverty rate of 63%, which represents those earning less than E461 per month (CSO, 2011). Of those that earn a regular income, about 24% earn between E500 and E2, 000 (less than USD 7 a day) and only 12% earn more than E2,000. The average monthly income across all adults is only E 1, 018 per month (FinScope, 2011).

[24] http://www.gov.sz/index.php?option=com_content&id=296&Itemid=409

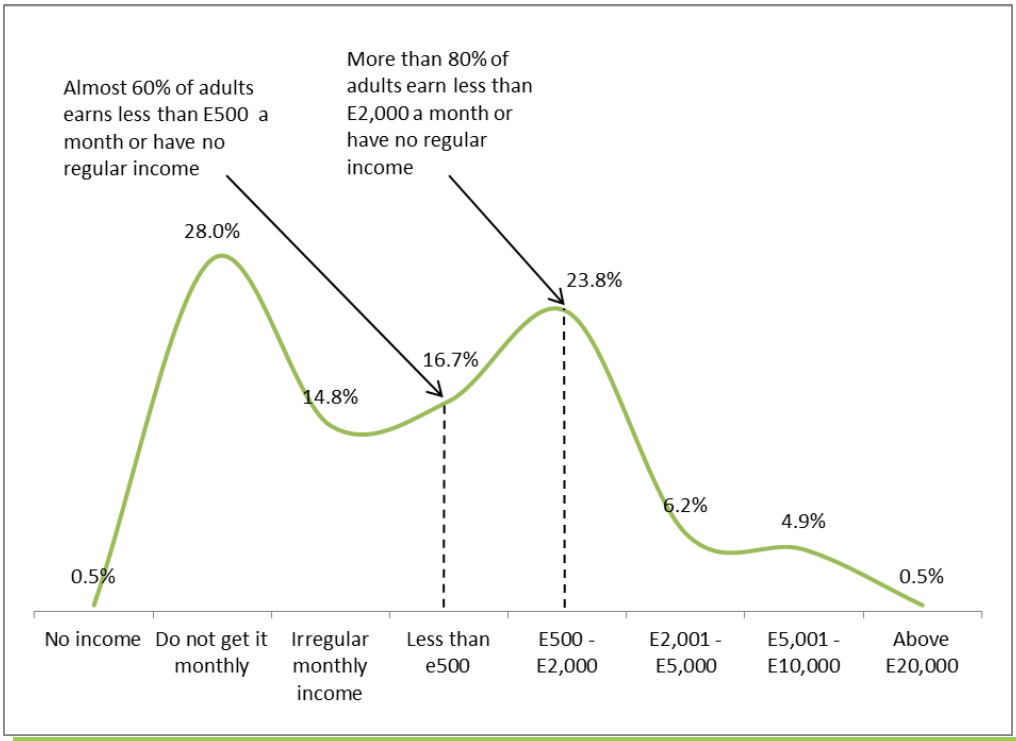


**Figure 9: Monthly income distribution**

*Source: FinScope, 2011*

Figure 10 below shows that urban incomes are significantly higher than rural incomes. Though females have a slightly higher representation in the lower income bands and males slightly greater in the upper income bands, there does not seem to be any real gender disparity.

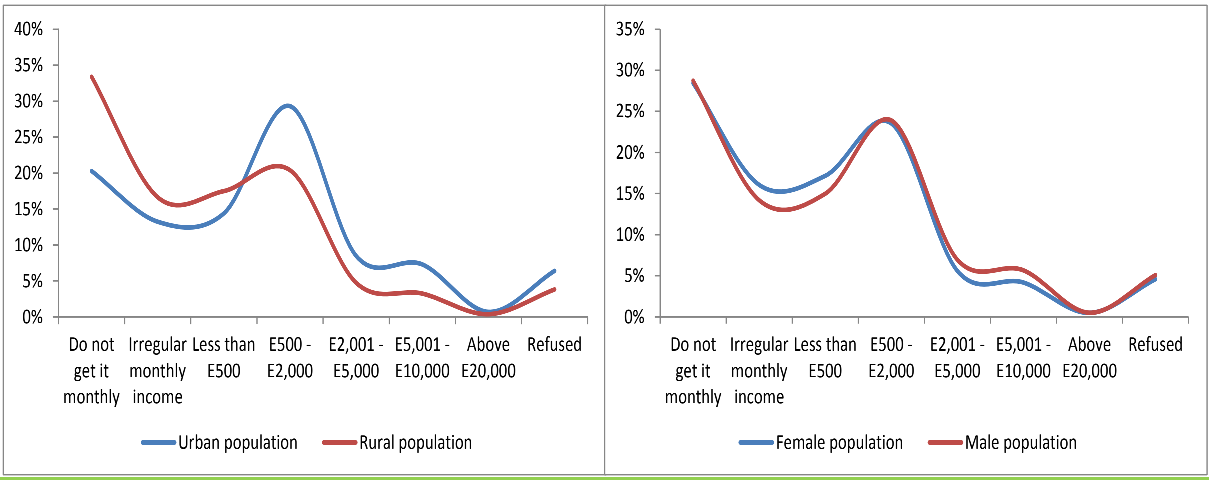


**Figure 10: Income distribution across rural-urban split and gender**

*Source: FinScope, 2011*

*Prevalence of HIV/AIDS undermines health, increases dependence rates*. An estimated 26.5% of the adult population is infected with HIV/AIDS, the highest prevalence in the world (United Nations Children's Fund (UNICEF), 2012). About 40% of all mothers are HIV/AIDS positive. The high HIV/AIDS prevalence leads to a high dependency ratio and is the main reason behind a significant drop in life expectancy from 60 years in the 1990s to 49 years in 2012 (Reuters, 2013)., In 2010, 80% of orphans in Swaziland would have been orphaned as a result of parents dying from HIV/AIDS, according to UNICEF (2006) projections. . The high prevalence of HIV/AIDS in Swaziland has led to the elderly being the primary care givers of orphaned children, thereby further constraining their limited resources (Dlamini, 2007). Average household size ranges between 6 and 8 people.

**Box 6. Health infrastructure**

*Set-up of healthcare system consists of formal and informal.* Swaziland's healthcare system is made up of the informal and formal sector (Ministry of Health, 2014). The informal sector is comprised of traditional healers and other unregulated health practitioners, and the formal sector is comprised of facilities owned by the public sector (45%), industries (12%), missions (15%), NGOs (5%), private practitioners (20%), and private nurses (3%) (Africa Health Observatory (AHO), 2014). The formal sector is organised through a tier system: at the primary level are community based healthcare workers, clinics and outreach services; secondary care is provided by health centres that offer both inpatient and outpatient care; while hospitals, specialised hospitals and referral hospitals represent the tertiary level. Each level acts as a referral point for the level preceding it.

*Provision of healthcare matches with region's average*. For every 1 000 people, there are: 0.17 physicians (2009), 1.6 nurses and midwives (2009), 3.7 community health workers (2004), and 2.1 hospital beds (2011). These compare to Botswana, Lesotho, Namibia and South Africa as follows:

| | Swaziland | Botswana | Lesotho | Namibia | South Africa |
|---|---|---|---|---|---|
| Community health workers (per 1,000 people) | 3.7 (2004) | 0.5 (2006) | n/a | n/a | 0.2 (2004) |
| Hospital beds (per 1,000 people) | 2.1 (2011) | 1.8 (2010) | 1.3 (2006) | 2.7 (2009) | 2.8 (2005) |
| Nurses and midwives (per 1,000 people) | 1.6 (2009) | 2.8 (2010) | 0.6 (2003) | 2.8 (2010) | 4 (2004) |
| Physicians (per 1,000 people) | 0.2 (2009) | 0.3 (2010) | 0.04 (2003) | 0.4 (2010) | 0.8 (2011) |

**Table 6: Provision of healthcare in Swaziland, Botswana, Lesotho, Namibia and South Africa**

*Source: World Bank, 2013*

*Healthcare costs are covered from a range of sources*. Public facilities are by large free apart from a minimal fee that is paid by patients for certain services (AHO, 2014). Based on 2011 figures the government finances 69% of all health expenditure. Of the 31% financed privately, 42% constitutes out-of-pocket expenditure and the remaining 58% is financed by other private means such as insurance, NGOs and through family and friends (World Bank, 2013). It is important to note that health-related expenses are not limited to out of pocket healthcare costs; it is likely that other ancillary expenses relating to transport costs and foregone income due to ill-health are significant cost elements.

*HIV treatment, care and support services are critical*. There are 265 health facilities that offer these services in Swaziland, divided into three models. 201 (76%) offer HIV Testing and Counselling (HTC) services that are integrated into the existing general health care system, 40 are outreach sites and 24 are Voluntary Counselling Testing (VCT) facilities. The latter model is client initiated while the prior two are provider initiated. Moreover, 110 of the 265 health facilities offer comprehensive Antiretroviral Therapy (ART) services. All patients in need of this treatment can obtain free ART services at public centres, outreach sites, NGOs and some private health facilities supported by the Ministry of Health to provide these free services.

The ART services were initiated in 2003 and by 2011, they had registered an overall treatment service coverage rate of 80% (84.3% adults and 53.2% children compared to the targeted 80% adults and 75% children) (UNAIDS, 2012)[25]. Life expectancy within this period showed an improvement: from 46 years in 2003 to 49 years in 2011 (World Bank, 2013).

*Small, but relatively widespread social grants*. The Department of Social Welfare administers social welfare services and transfers in Swaziland. More than 55,000 elderly persons receive a quarterly cash transfer of E660, an equivalent of E220 per month (Dlamini, 2013).

**Box 7. Social welfare**

The state funds four social transfers in Swaziland: the Old Age Grant (OAG), the Public Assistance Grant (PAG), the Child Welfare Grant and the Orphan and Vulnerable Children's (OVC) grant (Open Society Initiative for Southern Africa (OSISA), 2012). The first two are the largest, these are described below:

- **OAG** was introduced in 2005 to provide assistance to those aged 60 and above (the elderly) and receive a monthly pension of less than E 1000 (OCHR, 2013). It is said that the OAG policy was adopted by the government as a response to dealing with the indirect impact HIV/AIDS has on the elderly. The grant is widely disbursed through community centres in various administrative subdivisions, known as Tinkhundla (refer Section 2.4), and social welfare centres. As it is considered a permanent grant, the government is obligated to meet the budgetary cost of the OAG for all registered parties despite any shortfalls in state funds (OHCHR, 2013 & Dlamini, 2013).
- **PAG** provides assistance to the vulnerable under the age of 60 who do not receive any other grant or have no alternative source of income. The main beneficiaries of this grant are the disabled, the chronically ill, the destitute and widows. Similar to the OAG, it is aimed at addressing poverty; however, PAG is temporary and is subject to availability of state funds and the transfer involved are smaller compered to OAG (Dlamini, 2007).

## 2.3. Infrastructure context

*Relatively good infrastructure, but low electrification***.** According to the Global Competitiveness report (WEF, 2013), Swaziland ranked 71 out of 148 countries in terms of the overall quality of its infrastructure. The quality of roads and the railroad, in particular, ranked highly at 43 and 38 out of 148 respectively. Quality of port, air and electricity supply ranked 66, 98 and 91 respectively. Swaziland has a road network of 3 800km, 60% of which is paved. As Swaziland is landlocked, the 301km railway network is essential for movement of goods to neighbouring countries (Mnisi, 2007). The overall electrification rate is about 27% (40% urban, but only 4% rural coverage). The Swaziland Electricity Company (SEC) imports 80% of its electricity from South Africa and 10% from Mozambique (Swaziland Energy Regulatory Authority (SERA), 2013).

*High mobile penetration*. With regards to telecommunications, Swaziland has one Mobile Network Operator (MNO), MTN. The estimated mobile penetration of 86% is above the African average. However, lack of competition has meant that the Average Revenue per User (APRU) is one of the highest in Africa. Internet penetration is relatively low at 27% and fixed line telephone penetration is only 5% (Paul Budde Communication, 2014).

[25] UNAIDS, 2012. *Swaziland Country Report on Monitoring the Political Declaration on HIV and AIDS*, Mbabane - Swaziland: UNAIDS. [Online] Available at: http://www.unaids.org/en/dataanalysis/knowyourresponse/countryprogressreports/2012countries/ce_SZ_Narrative_Report[1].pdf

## 2.4. Political context

*Monarchial democracy*. The King declared the Kingdom of Swaziland a monarchical democracy in September 2013 (King Mswati III in News.24 (2013)) to indicate the interplay between elected structures and the monarchy in governing the country. The traditional governmental structure consists of districts divided into 55 Tinkhundla or administrative sub-districts, which in turn consists of 385 Chiefdoms which act as registration points, nomination points and primary voting constituencies for National Assembly elections (Ministry of Tinkhundla Administration and Development, 2014).

Figure 11 below indicates the national, regional and local structures of government in Swaziland:

- At the **national** level, the legislature consists of the Senate and House of Assembly, with 30 and 65 members respectively. 55 members of the House of Assembly are elected directly from the Tinkhundla centres. Elected candidates are initially nominated and a primary election is held at Chiefdom level. The successful candidate from each Chiefdom then stands for parliamentary elections at constituency or Tinkhundla level. The remaining ten members of the House of Assembly are appointed by the King. Ten senate members are elected by the House of Assembly and the other 20 are appointed by the King. The executive is appointed from among the legislature. The monarch appoints the prime minister on advice from council and the prime minister recommends the cabinet, which is subject to the approval of the King. Political parties are permitted but cannot nominate party candidates for elections under the Tinkhundla system.

- **Regional** government operates through four administrative regions. Each is headed by a regional administrator appointed by the King.

- **Local government** is comprised of an urban council, consisting of 12 municipalities, as well as a rural council represented by the 55 Tinkhundla centres. The urban local authorities are administered and regulated by the Ministry of Housing and Urban Development, while the Ministry of Tinkhundla Administration and Development overseas the Tinkhundla centres. The chiefs fulfil an important role in local administration under traditional law and custom (Association of Finnish Local and Regional Authorities, 2009).

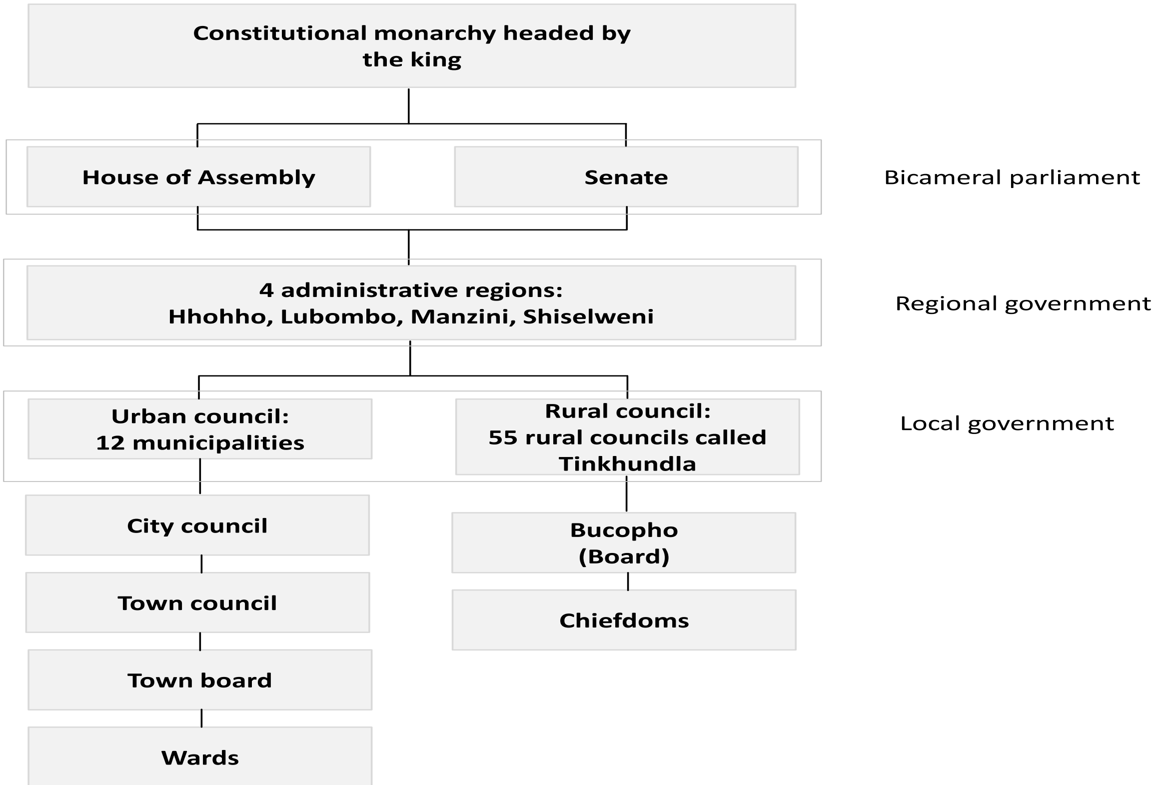


**Figure 11: Governance organogram**

*Source: Information contained in Commonwealth Local Government Forum, 2012*

# 3. Regulatory framework in relation to financial inclusion

This section outlines the regulatory framework applicable to financial services in Swaziland and the key regulatory issues from a financial inclusion point of view. It starts by giving an overview of the context and structure of the regulatory framework, before discussing the applicable policy and regulatory framework and concluding on key regulatory issues. An overview of each piece of legislation is contained in Appendix 1.

**Key issues: regulatory framework**

*Regulatory environment in transition.* The financial services landscape is governed by two authorities: the Central Bank and the Financial services Regulatory Authority (FSRA), which was established by the FSRA Act in 2010. Due to inadequate transitional arrangements and consequential amendments, there is uncertainty in the market regarding the jurisdiction of the two authorities where certain entities are concerned.

A number of elements of the regulatory framework bode well for financial inclusion, including:

- Elegant definition of banking business facilitates non-bank providers, thereby supporting innovation for financial inclusion.
- Facilitation of innovative products, notably mobile transactionality without the system operator necessarily requiring a bank licence, increases the scope of financial inclusion.
- AML/CFT know-your-customer (KYC) threshold exemptions for Mobile Money and bank accounts facilitate financial inclusion, but impact on store of value. Such exemptions are not extended to insurance.
- SACCO regulations are underway to incorporate SACCOS under FSRA's authority and enhance prudential oversight

However, a number of elements also constrain access, notably:

- Lack of clarity on the application of the interest rate cap creates uncertainty and the level of the cap constrains formal provision to higher-risk categories.
- Lack of sufficient transitional arrangements for the implementation of the FSRA Act affect a smooth and predictable handover once the requisite regulatory structures are bedded down.
- The absence of consequential amendments to repeal laws and provide for the interpretation of references to the repealed legislation or regulation leads to confusion and misinterpretation of financial legislation among market players.

## 3.1. Regulatory context and structure

*Dualistic legal system.* Swaziland is historically a former British protectorate administered from the Union of South Africa. Consequently a dualistic approach has emerged where the adopted common law and customary legal system in place had been preserved and developed as opposed to being supplanted by English law. The Swaziland common law is therefore Roman-Dutch based and is applicable in magistrate courts and the High Court in respect of matters between Swazi citizens and between non-citizens, whereas the customary legal system (Swazi law) is recognised and applied in Swazi courts predominantly between Swazi people (Bennet, 2004). The socio-political structure of Swaziland recognises both legal systems, with the Constitution intermediating based on the independent statute of the Bill of Rights (van Schalkwyk, 2006, p. 20). The important aspects of the dualistic legal system in Swaziland in relation to financial inclusion lie in:

- the political and legal convergence of the two legal systems under the Constitution;
- the increasing practical reliance of financial system functions such as money laundering measures and credit management on customary legal structures (for e.g. letters from the chief to confirm address); and
- Swazi law being the predominant or living law for vast numbers of Swazi people due to the structure and values of Swazi society (van Schalkwyk, 2006, p. 19).

Formal financial services investigated in this study are almost exclusively structured and administered according to Roman-Dutch common law principles which do not coincide with the predominant customary means of regulating agreements, addressing disputes and administering property for vast numbers of Swazi people. As financial services are leveraged to achieve more effective integration of people into the Swazi economy, so too does the importance grow of integrating aspects of financial services into the core system of values and customary law of the Swazi people.

*Regulatory and supervisory landscape*. Initiatives affecting the financial regulatory and supervisory framework are driven by the Ministry of Finance (MoF) in conjunction with the Central Bank of Swaziland (CBS) and the Financial Services Regulatory Authority (FSRA):

- The MoF has the overarching mandate to develop and maintain a sound regulatory environment across all financial services. The relevance of financial inclusion as part of such policy objectives was outlined in Section 2.
- The CBS is mandated to regulate financial institutions (such as banks and credit institutions). A number of these institutions are in the process of migrating to the supervisory ambit of the FSRA[26]. The CBS, with technical assistance from the International Monetary Fund (IMF) is in the process of aligning the banking industry with international standards, whilst also maintaining supervision over institutions in the process of adjusting supervisory structures. The CBS furthermore maintains key regional banking relationships and collaborates with the SADC Committee of Central Bank Governors (CCBG), particularly in relation to the regional integration of payments and the setting of common payment standards in line with international guidelines.
- The FSRA was established by the Financial Services Regulatory Authority Act of 2010 with the goal of regulating specific financial services in Swaziland, including the capital market. The emphasis brought in by FSRA is more on market conduct supervision than on prudential management. As such, it has authority over a range of non-bank financial institutions. It is currently primarily occupied with the critical process of building the specific regulatory bodies and competencies to meet the specialised regulatory and supervisory needs of diverse financial service types. Under the Credit Bill, a credit regulator will be established within the FSRA that will have market conduct oversight of all consumer credit, including in the banking sphere.

Key other Swaziland government structures and ministries with a direct or indirect impact on financial inclusion are:

- *The Ministry of Agriculture and Department of Co-operatives:* with specific reference to the positioning and oversight of co-operatives that provide financial services.

[26] See Table 7 for further discussion of de jure and de facto regulation.

- *The Ministry of Information, Communications and Technology:* in particular the licensing requirements and oversight of mobile networks and the regulatory functions of the Communications Commission; with regard to electronic communications, data protection and electronic commerce, upon which all electronic and particularly mobile financial services depend.
- *The Ministry of Commerce, Industry and Trade*: chiefly regarding the mandate over trading licences, hire purchase agreements, consumer protection and co-operative development.
- *The Ministry of Economic Planning and Development*: principally in relation to the facilitation and co-ordination of external assistance from donors and also in the in the facilitation of the Poverty Reduction Strategy and Action Plan (PRSAP).
- *The Ministry of Tinkhundla Administration and Development*: in regard to the management, administration and interaction of financial services within the Tinkhundla system, for instance facilitating Anti-Money Laundering (AML) documentation and the selection, origination and disbursement process of development funds.

## 3.2. Categorisation of financial institutions by regulatory oversight

The transitional provisions in the Financial Services Regulatory Authority Act envisaged a brisk migration of affected financial service institutions to the overarching authority of the FSRA. However, this has proved to be impracticable. Currently financial services institutions are in various stages of transition and hence there are identifiable differences between the legally mandated and actual authority undertaking the regulatory role for various institutions.

As such, Table 7 below indicates the regulation currently applicable to various types of financial institutions in Swaziland. It shows both the *de jure* supervisory authority, set by law, and the *de facto* authority (that is, the authority regulating the type of institution in practice). The colour coding indicates the regulatory authority legally responsible for the particular financial service.

| **Institution type** | **Formality** | ***de Jure* regulatory/supervisory authority** | ***de Facto* regulatory/supervisory authority** | **Main legislation** |
|---|---|---|---|---|
| Commercial Banks | *Formal* | Central Bank of Swaziland | Central Bank of Swaziland | Financial Institutions Act 2005 |
| Savings and Development Bank | *Formal* | Central Bank of Swaziland | Central Bank of Swaziland | Financial Institutions Act 2005 |
| Building Societies | *Formal* | Financial Services Regulatory Authority | Central Bank of Swaziland | Building Societies Act 1962 |
| Credit institutions Under the FI Act | *Formal* | Central Bank of Swaziland | Central Bank of Swaziland | Financial Institutions Act 2004 |
| Other Credit institutions | *Formal* | Financial Services Regulatory Authority | Moving towards FSRA | The Money Lending and Credit Financing Act, 1991; FSRA Act, 2010 |
| Savings and Credit Co-operatives (SACCOs) | *Formal* | Financial Services Regulatory Authority | Commissioner of Co-Operatives and FSRA | Financial Services Regulatory Authority Act 2010 sec 89, The SACCOS Regulations, 2013 |

| Institution type | Formality | *de Jure* regulatory/supervisory authority | *de Facto* regulatory/supervisory authority | Main legislation |
|---|---|---|---|---|
| MFIs | *Formal* | Financial Services Regulatory Authority | Moving towards FSRA | Financial Institutions Act 2005 |
| Co-operatives other than SACCOs | *Formal* | Commissioner of Co-Operatives | Commissioner of Co-Operatives and FSRA | The Co-operative Societies Act, 2003 |
| Pawn brokers | *Formal* | Financial Services Regulatory Authority | Moving towards FSRA | The Pawn broking Act, 1894 |
| Money lenders | *Informal* | Financial Services Regulatory Authority | Moving towards FSRA in the absence of regulations | The Money Lending and Credit Financing Act, 1991 |
| Insurers | *Formal* | Financial Services Regulatory Authority | Transition of RIRF from independent authority to a structure within the Financial Services Regulatory Authority | The Insurance Act, 2005 |
| Retirement Funds | *Formal* | Financial Services Regulatory Authority | Transition from RIRF to Financial Services Regulatory Authority | The Retirement Funds Act, 2005 |
| Medical Schemes | *Informal /Formal* | Financial Services Regulatory Authority | Moving towards FSRA in the absence of regulations | No regulatory framework |
| Securities Exchanges | *Formal* | Financial Services Regulatory Authority | Moving towards FSRA in the absence of regulations | Securities Act 2011 |
| Collective Investment Schemes | *Formal* | Financial Services Regulatory Authority | Moving towards FSRA in the absence of regulations | Financial Institutions Act 2005 Regulations |

**Table 7: Swaziland financial regulatory scheme**

*Source: Authors' own, based on consultations and analysis of legislation*

## 3.3. Comparison by institution

Table 8 below compares certain regulatory requirements across institutions. This is done in order to, firstly, gain a high level impression of the different regulatory regimes and environments each type of institutions exists within and, secondly, to compare aspects between the different regulators for the purpose of gaining insight into factors that potentially promote or impede access to different levels of financial services. The colour coding signifies the regulator currently in control of each aspect.

The regulatory aspects considered were:

- *The ability to intermediate deposits*: intermediation introduces significant risk into a financial service due the potential for a run on capital, but also provides scope for growth and diversification of financial services through pooling of assets allocated to productive use. Conversely, the restriction of intermediation activities reduces risk, but also the potential for diversification in the number, type and pervasiveness of intermediation-based financial services available. An overview of prudential requirements provides insight into balanced risk appropriate intermediation by regulator and institution type.

- *Mandatory investments*: mandatory investments can be applied to promote local investment. Compelling an institution to invest locally can increase local liquidity, but act as a hindrance to achieving sustainable returns for the financial institution itself. The differing requirements set down by regulators provide opportunities for arbitrage between regulatory regimes. For example investing local funds in a local institution under a different regulator to that of the investing institution allows a higher proportion to be invested elsewhere (a practice that will become less possible with the full application of FSRA).

- *Application of interest rate caps:* limits the type of lending and degree to which credit may be extended, thereby having a direct bearing on financial inclusion. At present different caps apply to different institutions. A comparison has been set out below to show the current caps in place.

- *Capital adequacy and liquidity requirements:* limit the ability of institutions to lend all capital resources, thereby directly impeding financial inclusion. Yet, both aspects are also determinants of the risk rating of the organisation and therefore directly affect the ability and cost of raising capital. Different requirements are set to address the differential risks posed by different institutions, but can introduce an un-level playing field. A comparison by regulator and institution has been provided below.

| Institution type | *de Facto* regulatory/supervisory authority | Intermediation of deposits | Mandatory investment | Interest rate cap | Capital adequacy | Liquidity requirement |
|---|---|---|---|---|---|---|
| Commercial Banks | Central Bank of Swaziland | Allowed - FI Act | Up to 5% Liabilities in cash | CBS can regulate | 8% | 19.50% |
| Savings and Development Bank | Central Bank of Swaziland | Allowed - FI Act | Up to 5% Liabilities in cash | CBS can regulate | Guaranteed by GKOS | 19.50% |
| Building Societies | Central Bank of Swaziland | Allowed Building Society Act, Exempt FI Act | Local | Exempt | 8% | 10% Liabilities 30%Deposits<=1year 12%Deposit/liab <=5year |
| Credit institutions Under the FI Act | Central Bank of Swaziland | Not Allowed-FI Act | Up to 5% Liabilities in cash | CBS can regulate | 8% | 5.00% |
| Other Credit institutions | Moving towards FSRA | Not Allowed-FI Act | Local | MLCF Act, repo +8%/10% | N/A | N/A |
| SACCOS | Resistance to Licensing and supervision under the FSRA | Allowed SACCO Regulations, Exempt FI Act | Local | MLCF Act, repo +8%/10% | Min E5000, 10% of total assets and 8% of total deposits min inst capital of 8%. | 15% of savings deposits plus 30day liabilities |
| MFIs | Moving towards FSRA | Not Allowed-FI Act | N/A | MLCF Act, repo +8%/10% | N/A | N/A |
| Co-operatives | Commissioner of Co-Operatives and FSRA | Allowed Co-ops Act | Local | MLCF Act, repo +8%/10% | Up to 50% percent of the assets plus 5% NP thereafter | N/A |
| Pawn brokers | Moving towards FSRA | Not Allowed-FI Act | N/A | Exempt | E1000 | N/A |
| Money lenders | Resistance to Licensing and supervision under the FSRA | Not Allowed-FI Act | N/A | MLCF Act, repo +8%/10% | N/A | N/A |

| Institution type | *de Facto* regulatory/supervisory authority | Intermediation of deposits | Mandatory investment | Interest rate cap | Capital adequacy | Liquidity requirement |
|---|---|---|---|---|---|---|
| Insurers | Transition of RIRF from independent authority to a structure within the Financial Services Regulatory Authority | Exempt FI Act | 30% Local | MLCF Act, repo +8%/10% | E2 million/ E12 million paid up share capital | Shedule3 regulations, up to 75% |
| Retirement Funds | Transition from RIRF to Financial Services Regulatory Authority | Exempt FI Act | 30% Local | MLCF Act, repo +8%/10% | N/A | Shedule1 and 1a up to 75% |
| Medical Schemes | Moving towards FSRA in the absence of regulations | Not Allowed-FI Act | No Regulation | N/a | No regulation | No regulation |
| Securities Exchanges | Central Bank of Swaziland | Central Bank Authorisation | No Regulation | N/A | N/A | Subject to CBS |
| Collective Investment Schemes | Financial Services Regulatory Authority | Central Bank Authorisation | No Regulation | N/A | N/A | Subject to FSRA |

**Table 8: Main prudential requirements per financial institution**

*Source: Authors' own, based on consultations and analysis of legislation*

## 3.4. Regulatory issues for financial inclusion

*Wave of change creates blank slate opportunity*. Beginning with the Financial Institutions (FI) Act, 2005 there have been a number of new enactments and bills that are fundamentally changing the financial services landscape. The FSRA Act signified both a consolidation and also a migration to more specialised market conduct supervision whilst realigning the CBS as the centre of prudential management. Since the establishment of the FSRA, two significant regulatory drafts have emerged: regulations for SAACOs and a Credit Bill. The latter is the first piece of financial legislation, in its current draft, to establish a regulatory centre across all institutions and regulatory silos. The waves of regulatory change have come with significant transitional pressure, but have also brought opportunities to better integrate a wider range of financial services appropriate to act as a catalyst of Swazi economic life.

A number of elements in the regulatory framework are relevant – be it conducive or constraining – to market development and financial inclusion. Most notably:

*Facilitative banking definition*. The FI Act section 2 defines 'banking business' as:

> *"(i) the business of receiving funds from the public through the acceptance of money, deposits of money payable upon demand or after a fixed period or after notice or any similar operation through the periodic sale or placement of bonds, certificates, notes or other securities and the use of such funds either in whole or in part for loans, advances, investments or any other operation authorized by law or customary banking practice, for the account and at the risk of the person doing such business;*
>
> *(ii) any other activity recognized by the Bank as customary banking practice which a financial institution may be authorized by the Bank to engage in"*

The definition of "banking business" elegantly defines the bounds of central bank supervision in relation to the risk posed by intermediation of deposits. The definitions of "banking business" and "deposit taking business" are in contrast to a catch-all definitions of "deposit taking" and "business of a bank", employed in countries such as South Africa, that intentionally widens the ambit of supervision and thereby reduces participation of non-bank entities in lower risk financial services without the co-operation and overhead of registered banks. The Swaziland FI Act therefore raises the possibility of non-banks, with fitting governance structures, offering essential entry level financial services which do not involve the intermediation of deposits, particularly in the areas of low value remittances and un-intermediated store of value. Combined with the delegated powers of the Central bank of Swaziland (CBS), the banking business definition has enabled the development of mobile transactionality without the system operator necessarily requiring a banking license.

*e-Money regulations support financial inclusion.* The e-Money regulations issued by the CBS indicate deep insight into the scope and role of electronic transactionality as a means of bridging the exclusionary gap and thereby fulfilling a role neither sought after by nor viable to traditional financial institutions.

*AML/CFT KYC threshold exemptions promote inclusion.* A new Anti-Money Laundering/ Combatting the Financing of Terrorism (AML/CFT) framework in the form of the Money Laundering and Financing of Terrorism (Prevention) Act, 2011 (MLFTP Act) was passed with a view to creating a separate specialised AML/CFT authority, distinct from the CBS, and consolidate and update AML/CFT regulations in compliance with the prevailing international and regional guidance and recommendations.

Prior to the promulgation of the 2011 act, the previous act provided for the CBS as the AML/CFT authority. Under this authority the Mobile Money operator was granted authority to offer virtual accounts up to an absolute maximum account value of E4,000, with limited know-your-customer (KYC) requirements. The introduction of a threshold exemption has facilitated access. Likewise, in the banking sphere a threshold exemption of E2,500 was instituted by The Money Laundering and Financing of Terrorism (Prevention) Act of 2011. According to consultations with the Central Bank, the threshold has since been raised to E5,000. Such exemptions are not extended to insurance.

*Single KYC threshold exemption impacts scope for Mobile Money to serve as store of value*. The Mobile Money account limit imposed due to the KYC threshold exemption excludes persons with irregular income in singular amounts exceeding the threshold. The threshold also limits the use of the Mobile account as a cost effective means of storing value over time in excess of the threshold. The Mobile Money cap should be increased to reflect the banking cap. A need exists for an additional mobile money account type which is uncapped and available to clients that are compliant with KYC requirements.

*New Consumer Credit Bill to protect and empower consumers.* The new Consumer Credit Bill (2013) creates an explicit and comprehensive legislative framework for the regulation and monitoring of the provision of credit in Swaziland. A primary focus of the bill is consumer protection and improved market conduct by providers. Key issues include:

- *Coordination.* FSRA will house the credit regulator once the Credit Consumer Bill is enacted. FSRA supervises a significant number of credit providing institutions, but the Central Bank will need to input into regulation that affects their supervision of banks as well as setting of monetary policy.

- *Who can provide credit.* All credit providers will need to be registered with the registrar of credit. The extent to which this would apply to informal providers is not yet clear. There is a need to increase access to formal loans which requires regulation to allow entry by additional players in the credit market.

- *Which interest rates apply*. The bill provides for interest rate caps to be set by regulation. Interest rate caps should balance affordability with the need to attract further credit providers into the market.

- *Consumer protection*. The act emphasises the need for appropriate disclosure and an assessment of a customers' understanding of a product and their ability to repay. This assessment may be problematic in the absence of a credit bureau.

*Payroll deductions limited to 33% of income.* The Swaziland Employment Act of 1980 stipulates that deductions from payroll may not exceed one third of the wages due to an employee in any given pay period. This clause covers all payroll deductions directly by the employer or by a third party, but excludes tax and contributions to the National Provident Fund. Credit payments are subject to this limit, including SACCO payments. Though SACCO payments were previously exempted from this clause, there is at present no formal legal basis for such an exemption. In practice, however, the exemption is still applied while FSRA clarifies the legal requirements.

*Limited market conduct regulation and supervision.* The Central Bank has recently requested banks to improve disclosure to clients. Apart from that, limited explicit market conduct regulation has been enforced to date. Market conduct regulation can be expensive for companies to implement and can result in consumers being regulated out of the market due to increased costs. However, simple, cost effective market conduct regulation can enhance recourse for consumers and provide additional transparency and information to clients when buying products.

*Lack of clarity on the application of the interest rate cap*. The Money Lending and Credit Financing (MLCF) Act, 1991 provides a rudimentary credit regulatory framework and stipulates *inter alia* maximum interest rates based on two loan value tiers. The maximum interest rate is set at: (i) 10% above the CBS discount rate for loans below E500; and (ii) at 8% above the CBS discount rate for loans above the E500 threshold. The effective capped rate is not consistently calculated in practice as the prime lending rate determined by commercial banks is substituted for the CBS discount rate as the base rate. The CBS discount rate is stipulated in the act and therefore a commercial bank's prime lending rate is inconsistent with the MLCF Act if used to calculate the maximum possible interest rate. It is legally valid and enforceable to stipulate an interest rate in relation to the prime lending rate of any commercial bank as long as the rate does not exceed the MLCF Act applicable maximum rate calculated in relation to the CBS discount rate at that point in time.

There are differing views on the applicability of the MLCF Act. The confusion seems to originate from a provision in the MLCF Act that exempts institutions licensed under the repealed Financial Institutions (Consolidation) Order, 1975. In practice it appears that parties assume that such an exemption is no longer valid and that the exempted institutions, being banks and all other institutions regulated under the FI Act, therefore fall under the MLCF Act. However, the common law rules of statutory interpretation[27] would either preserve the exemption and give effect to it in the MLCF Act or, as the legislation referred to has been re-enacted in the form of the Financial Institutions Act 6, 2005, the applicable replacement provisions may be read into the reference of the repealed act. This is unless there is a clear intention that the legislator sought to amend the MLCF Act, which is clearly not the case in this situation. The overall impact is that in terms of strict interpretation the exemption for banks, financial institutions and credit institutions remains in force, yet the confusion encountered in the market place operates as a hurdle to offering less secure credit.

This instance speaks to a broader issue regarding the need for coordination between regulators, the absence of consequential amendments, as well as insufficient transitional arrangements incorporated in new legislation.

*Insufficient transitional arrangements and consequential amendments.* The number, scope and impact of regulatory changes on the financial regulatory framework are evident from the number of institutions being regulated and supervised by an entity other than the *de jure* mandated institution as indicated in Table 7. It springs from the creation of the FSRA with a very wide scope of institutions to be regulated, coupled with insufficient transitional provisions and arrangements to affect a smooth and predictable handover once the requisite regulatory structures are bedded down.

Apart from the absence of effective and predictable transitional provisions, provisions repealing laws and thereafter neither amending nor providing for the interpretation of references to the repealed legislation or regulation are also problematic. This was evident in the confusion and misinterpretation of financial legislation encountered during a number of high level interviews for

[27] This refers to the discretion of the courts to interpret the intended application of legislation.

the present study. Most incidents trace back to references relating to replaced legislation that had not been amended nor provided for in the repealing legislation.

For example:

- The Financial Institutions (FI) Act of 2005 provides for the CBS to licence, regulate and supervise credit institutions and other financial institutions. Section 20(1)b of the FI Act allows the central bank to set appropriate prudential requirements in accordance with the type of institution and business. These provisions remain in force, but have effectively been reduced in application to specific institutions and financial legislation by the Financial Services Regulatory Authority Act, 2010 (FSRA Act). Therefore the FI Act needs to be read together with the FSRA Act in order to determine which non-bank financial and credit institutions are regulated only by the CBS as opposed to the Financial Services Regulatory Authority.

- The Credit Bill is very deftly drafted and seeks to balance the detail and complexity required to regulate all commercial credit with the requirements of a small market. However, this holds a challenge that the bill is a significant departure from the regulation of an institution type by one regulator and rather seeks to regulate market conduct topics across all institutions, irrespective of the prudential regulator. According to the current provisions in the bill all financial institutions, including those regulated by the CBS, would be required to register with the Credit Regulator under the FSRA for activities that directly relate to credit provision

  If the South African experience of introducing similar legislation is considered, the proposed transitional provisions need to allow for a phasing in of various sections of the act, particularly:

  - The treatment of existing credit agreements and the impact on credit provider's balance sheets and extension of further credit in the short term
  - The registration of small scale credit providers and the possible exit of small scale credit providers unable to shoulder the administrative burden.
  - The establishment of key new role players such as the credit regulators office, licensed credit providers, credit bureaus and debt counsellors.

*Unequal playing field.* The CBS and FSRA have differential approaches to mandatory local investment requirements and to charging fees. This can create an unequal playing field for different types of institutions and can result in regulatory arbitrage where for example insurers invest in banks to achieve their local investment requirements, but where banks can then invest these funds offshore.

*SACCO regulations to incorporate SACCOS under FSRA's authority, but some uncertainty remaining.* Section 83(1) of the FSRA Act, 2010 divorced Savings and Credit Co-operatives (SACCOs) from co-operatives. As there was no separate legislative framework for SACCOs, a set of SACCO regulations in similar form to an enactment was published by the Minister of Finance under the delegated authority contained Section 89 of the FSRA Act. There appears to be no provision that is inconsistent with the delegated authority of the Minister in terms of Section 89 and therefore if the regulations are to be duly promulgated, they would in principle be valid and enforceable. In the interim, the SACCOs are under the supervision of FSRA, but with no regulations and are not supervised on the basis of any set of legislated parameters.

The prudential and supervisory provisions of the SACCO regulations are much more structured than those of cooperatives and are more akin to banking supervision. However, the SACCO regulations present an anomaly in that a requirement contained in Section 4(b) calls for a certified copy of the SACCOs registration certificate, issued by the Commissioner of Cooperatives. Yet the FSRA Act Section 83 delinks SACCOs from the control of the Commissioner.

*Absence of medical scheme regulatory framework.* There is currently no regulatory framework in place for medical schemes, which could potentially impact the private funding of healthcare options and choices. However, the development of such a framework has been kick-started by FSRA.

*Microinsurance regulations being finalised.* The Registrar for Retirement Funds and Insurance within FSRA is currently finalising microinsurance regulations. These regulations will aim to improve access to insurance through formalisation, but especially by enabling innovative distribution.

# 4. Target Market

Putting the client at the core is a key characteristic of the MAP methodology. This section unpacks the nature, needs and realities of the target market for financial services in Swaziland based on quantitative information from the FinScope 2011 survey[28], as well as qualitative insights from a series of focus group discussions and individual interviews conducted as input to this study[29].

It starts off by considering the financial context of the target market: their profile, how they make a living, their main expenses and their level of financial capability[30]. This is followed by an overview of usage of formal and informal financial services, as well as the various barriers to greater uptake of formal financial services. Lastly, the target market is segmented into distinct groups to allow a more granular understanding of financial services usage and needs as basis for the rest of the analysis.

Below we summarise the key target market features outlined in the rest of the section.

**Key findings: target market**

The key target market findings are:

- *Struggling to make ends meet.* Qualitative and quantitative demand-side research suggests that on the whole the Swazi adult population faces severe budget constraints. A household often makes a living through more than one means and only a minority of adults have consistent, formal income sources.
- *Many excluded from formal financial services.* Though around half of Swazi adults are formally served, a significant number are excluded or face various barriers to formal usage. In the credit and remittances market, this means that a substantial number of the population makes use of informal financial services. However, informal savings groups and insurance risk pooling through community-based groups are limited. Thus many people exclusively save at home and most turn to family and friends, cut down on expenses or draw on savings or informal credit to cope with the impact of risks.
- *A number of usage and access barriers.* Though people trust financial institutions to keep their money safe, there is a perception that financial institutions are not transparent, charge high fees and are not targeted at the ordinary man on the street. Even should they choose to use formal financial services, many face substantial access barriers, notably low affordability, inaccessible documentation requirements, lack of flexibility and longer turnaround times vis-à-vis informal alternatives.
- *Nuanced target market picture.* Current and potential financial inclusion can be unpacked by identifying categories of people that share a main source of income:
    - The best-served segments of the population are those with formal employment in the public or private sector. They are also the wealthiest, most educated and most urban groups.
    - Those who have a job in the informal sector also have a consistent, though much lower income. This counts in their favour as target market for financial inclusion purposes
    - Most entrepreneurs generate very low incomes and are therefore “survivalist” rather than

[28] As the FinScope survey in Swaziland is dated 2011, some of the data may be outdated. Nevertheless, the overall picture should remain valid. Notably, Mobile Money is not yet reflected in the usage figures. Statistics on Mobile Money are provided separately in Section 6.2.
[29] For the full qualitative demand-side research report and an overview of methodology, please see (KLA, 2014a). Please note that the qualitative research is only valid for the small sample considered and cannot be generalised to the population at large. The qualitative findings are therefore indicative only.
[30] We apply the definition of financial capability adopted by the Financial Education Fund (www.financialeducationfund.com), namely that a financially capable person can be regarded as one who has the knowledge, skills and confidence to be aware of financial opportunities, to know where to go for help, to make informed choices, and to take effective action to improve his or her financial well-being. An enabling environment for financial capability building would promote the acquisition of those skills.

"aspirational" in nature. Those who already have some kind of financial service tend to have transactional or savings accounts rather than formal credit or business finance.

- Those doing piece jobs or deriving their main source of income from agriculture have irregular, low incomes. This challenges their uptake of any financial services that require regular contributions, such as insurance or credit.
- A substantial chunk of Swazi adults are dependent on others for their livelihoods – either family members in Swaziland or those working outside of the country. Most of them rely on informal channels (largely taking cash in person) to receive their income. This emphasises the importance of cost-effective, accessible remittance channels. There is also potential for including dependants by targeting those who provide for others.
- Lastly, the state directly provides a main income source via the old age pension and other grants. Grant recipients are least well served by financial services and enhanced access is challenged by their largely rural location, low income and lack of engagement with technology.

## 4.1. Target market context

This section considers the general and financial context of Swazi adults based on insights from the qualitative demand-side research.

### 4.1.1. Societal context

*A society facing many challenges*. The overall impression gained from the qualitative research[31] is that of a disheartened society that finds it difficult to trust formal institutions or even community-based structures. Economic hardship, compounded by the fact that most families are confronted by death and sickness largely due to HIV/AIDS, has led to a fatalistic attitude to life with little hope and proactive planning for the future. People therefore tend to have a survivalist rather than an aspirational outlook. Compounding this, many households "inherit" the responsibility to look after the children of the deceased, with the elderly often becoming caregivers rather than being cared for.

*A proper education the biggest aspiration.* Across the quantitative and qualitative demand-side research it is clear that people place great value on their children's education as a means of ensuring a better future for the child, but also for the household more broadly. According to FinScope, borrowing to cover education expenses constitutes the largest use of credit. Respondents are even willing to liquidate whatever businesses they have to pay towards their child's education, as the following quote illustrates:

*"I used to have a business… I used to sell tomatoes and onions but as things happened, I took that money and used it for school fees… after that I had no more money for the business and had to borrow money… I borrowed about R100.00 and it was not enough and I had to borrow more after which I had to pay back the interest and it took me a very long time to pay off the debt. I did some farming and I made about R400.00 and took about R200.00 and paid for my child's school fees."*

(Mhlume, Male, Aged 41 – 55 years (KLA, 2014b))

[31] This general impression is supported by previously published qualitative research. See (Zollman, 2010) and (Corporate Research Consultancy (CRC), 2011)

*Women most entrepreneurial.* The qualitative research suggests that while men go out to look for piece jobs, women tend to be entrepreneurial; many of them buying and selling goods. They aspire to create a stable and profitable self-employment opportunity to provide for their households.

*Limited collective financial functioning*. While there are strong egalitarian norms which place an obligation on family members and those in the community to help others out, society does not as a rule function collectively where financial services are concerned. This is witnessed in the more limited role of informal savings groups and especially burial societies compared to neighbouring countries (refer to Box 8).

**Box 8. Challenges to community-level collective financial functioning**

As will be apparent from the usage analysis in Section 0, a relatively small proportion of Swazi adults belong to a collective savings group or a burial society.

*Savings groups and burial societies.* As will be discussed in Section 6.1.3.7, there are two types of **savings groups**: "ASCAs" (accumulating savings and credit associations) and "ROSCAs" (Rotating Savings and Credit Associations). ASCAs and ROSCAs are a relatively small phenomenon in Swaziland. **Burial societies** are another commonly-found community-based financial mechanism[32]. Burial societies are used by 60% of adults in Lesotho and 25% of adults in South Africa (FinScope Lesotho, 2011; FinScope South Africa, 2013). Yet less than 6% of Swazi adults belong to a burial society.

*Why the limited uptake in Swaziland?* The qualitative research suggests two reasons for the limited collective financial functioning in the low-income market in Swaziland:

- *Low, irregular incomes*. As the discussion in Section 4.1.2 will show, many households make a living from various sources and do not have a consistent monthly income. The many demands on their budgets make a fixed commitment to regular savings or burial society contributions difficult. This is illustrated by the following quote:

  *"I think you have to have money in order for you join as they said that it is about R100, even though I could have R100, as I said that I do people's laundry in order to survive, if I have money, I have to cater for my children's needs but when I have money, I think of buying food, I tell myself that you have to have a job in order for you to join a group so that you do not owe money."*

  (Mhlume, Females, Aged 21 – 40 years (KLA, 2014b))

  The barrier presented by regular monthly contributions is confirmed by previous research on ASCAs in Swaziland (Zollman, 2010). The study finds that savings groups have not been able to accommodate a large range of income levels. Many of these groups set significantly high contributions that are difficult to maintain on incomes generated from common livelihoods such as selling snacks and handicrafts.

- *Lack of trust*. Another often-quoted barrier in the qualitative research is a lack of trust in the collective vehicle. Many respondents recount having had their fingers burned by a society:

  *"I was part of a society club but we started having money problems, money went missing and I ended up giving up."*

  *(Mhlume, Female, Aged 25 – 40 years (KLA, 2014b))*

[32] Burial societies are a risk-pooling mechanism whereby members agree to pay a certain amount each month/week and when a member experiences a death in the family they will receive a pay-out subject to the availability of funds. In some instances (for example commonly found in Lesotho), burial societies do not rely on *ex ante* regular contributions, but instead entail *ex post* contributions from all those in the society at the time of the funeral. Burial societies also typically, and importantly, provide social support such as helping to prepare the food for the funeral (and related activities) and supporting the bereaved family.

*"I was part of a society club and we had saved about R40 000 but unfortunately there was a lot of corruption, we never got our money, instead people bought furniture with our money and we just basically lost everything."*

(Mhlume, Female, Aged 25 – 40 years (KLA, 2014b))

*"So when someone starts a society they already have plans on how to exploit people."*

*(Manzini, Male, Aged 41 – 55 years (KLA, 2014b))*

*"I left my society when we had dishonesty in our society, the lady that kept our money used to spend it and after crying and complaining I pulled out and realised that societies are not helping me so I decided to just save my money under my pillow because societies are for the enrichment of other people and not yourself, and they would lie and say they were robbed so I left because it was stressing me."*

*(Manzini, Female, Aged 25 – 40 years (KLA, 2014b))*

These findings are once again confirmed by the research of Zollman (2005). It found that larger, more anonymous groups with lower levels of trust tend to adhere to rules more closely than smaller, more familiar groups.

Quotes by some respondents also point towards an underlying breakdown of trust in communities. For example:

*"I would say we have this thing that we do not trust each other … we just don't trust each other anyway."*

(Manzini, Males, Aged 25 – 40 years years (KLA, 2014b))

*"If we could trust each other if we held each other strong and if there was something or a problem that the next person has we should help each other but as Swati people we just do not help each other out at all."*

(Manzini, Males, Aged 25 – 40 years years (KLA, 2014b))

This breakdown of trust may be due to a society over-stretched by economic hardship, poor health and high mortality. Whereas before the strong egalitarian norms meant that contributions from others can be relied on in times of need, there is now a sense among respondents of "being on your own" outside of extended family support structures (a finding also suggested by CRC (2011)).

The upshot of the above factors is that, though savings and burial societies play a valuable role for some, the largest part of the adult population does not belong to collective financial vehicles. This creates an imperative for low-cost, accessible individual financial services.

### 4.1.2. Budget realities

This sub-section considers the insights from the qualitative research on the financial lives of ordinary Swazis: how they make a living, what their main expenditure needs are and how they deal with the budget deficits that more often than not arise.

**Livelihoods**

*Most make a living in the informal sector.* Only one in every five adults earn their main source of income in the formal sector – either as civil servants (9% of adults) or as company employees (12%).

A further 5% have a regular job income from a farm or another individual. The rest of the population have to find a way to make ends meet either through informal trading and businesses, piece jobs or other irregular income sources, or are dependent on family and friends or the state for their living.

*Supplementing main income through other means*. Only about 36% of adults indicate that they have more than one source of income in the FinScope survey. This may be because the FinScope survey focused on the *individual respondent's* income sources. The qualitative research paints a picture of households relying on multiple income sources as a single income stream is insufficient to meet all needs. Moreover, some income streams are infrequent while others (for example piece jobs or remittances from family members) may be inconsistent in terms of the amounts that they will render.

The following quotes show how households patch together a living from different income sources:

*"I am self-employed selling fruits and veggies and the amount is R900 and my husband gets R1000 monthly from helping people and I stock up sweets for my kids to sell at school and from that we get R120."*

(Manzini, Female, Aged 25 – 40 years (KLA, 2014b))

*"R: I have four sources.*

*M: Tell us about it, what are they?*

*R: The first one is self-employment, they add up to R950.*

*M: Part time jobs.*

*R: Yes.*

*M: Alright.*

*R: And my employer, where I stay, he gives me R700 and there is this other part time job that pays me R60 per day but I asked them to give it to me monthly, which is R280 and when the guy that runs a car wash calls me, it depends on how often I go, he gives me R400 per month."*

(Mhlume, Males, Aged 25 – 40 years (KLA, 2014b))

*"I have got 2 sources of income, it's the one that I am making myself which is R2 000 and then my wife sells eggs, chickens, biscuits and those sorts of things and when she calculates her profit at the end of the month she will have made R500."*

(Manzini, Male, Aged 25 – 40 years (KLA, 2014b))

*Subsistence agriculture and small businesses important supplementary role.* Subsistence farming and survivalist small business ventures, which range from selling fruit, vegetables, clothing, airtime, to sewing school uniforms, assist in meeting everyday needs. Tracking of profits and business growth is uncommon. While those with farming as main income source tend to be male, the qualitative research suggests that women are more likely to engage in small businesses.

"*Hi ladies, I am *, I like waking up at the crack of dawn, so by 4:00 I am already awake, I then pray, then I will start sweeping and cleaning. I then have to go to the market stall that I am running, I sell* *all kiddies goodies and fruits and no I don't like working in the fields so I will just plant mealies and sweet potatoes in a small garden patch*."

(Manzini, Females, Aged 41 – 55 years (KLA, 2014b))

*"Hi everyone, my name is *, I love doing housework, I just can't sit still but then on Sundays I go to church. I am also a seamstress; I make children's clothes so I can make up some money to bring up my own children"*

*(Manzini, Female, Aged 41 – 55 years (KLA, 2014b))*

*"I also wake up around 4:00 so I can leave home by 5:00. What I do for a living I hawk bunny chows, airtime, I sit at the station all day long selling these and sometimes I come back around 7 in the evening and then I have to cook because the kids I live with are still small, 3 are mine and the rest are my deceased sister's, I live with them all"*

*(Manzini, Female, Aged 41 – 51 years (KLA, 2014b))*

**Expenses and deficits**

*Women are in charge of household finances.* Although men take credit for being the household decision makers, the qualitative research finds that in reality women determine how the household income is spent and are most in touch with the family's needs.

*Explicit budgeting and planning often absent.* According to FinScope, many people (only 49.8% of adults indicate that they "keep track of income and expenditure on a monthly basis") do not monitor income and expenditure on a monthly basis, especially if they do not have a regular income. The qualitative research confirms that, in addition to not knowing how to track finances, the inconsistency and infrequency of respondents' incomes make it difficult to determine the household's financial position on a regular basis.

*Groceries and school fees the biggest expenses.* The qualitative research allows one to get a sense of the main budget priorities. The top expenditures for urban and rural respondents alike were groceries and school fees. Buying business stock and transport money also featured prominently for urban respondents.

*Expenses often exceed income, with short-term savings and borrowing as stopgap measures*. According to FinScope, 51% of the adult population spends more than it earns. The qualitative research suggests that few respondents are able to save for prolonged periods, as money kept aside is needed for household expenses, emergencies such as sickness or death, or lumpy expenses such as school fees. Once savings are depleted, people tend to borrow from informal moneylenders (called shylocks), societies and each other to make ends meet – even though they would prefer not to borrow. Some also buy goods such as clothing on credit. Thus both rural and urban respondents mentioned the need to service loans from a shylock or retailer as a frequent budget need. One respondent's budget looked as follows:

*"I am paying groceries R1000, school fees R320, R500 for [unclear], Jet R400, Truworths R250, Pep R100, Co-ops R600, bank loan R350, I support my mother with R700, airtime R100, I save Co-ops R200, salon R80."*

*(Mhlume, Females, Aged 25 – 40 years (KLA, 2014b))*

*Cutting down on expenses.* Another way of dealing with budget deficits is to cut down on household expenses, most notably visits to hair salons and airtime. If that is not sufficient, respondents mentioned cutting back on groceries, cooking fuel/electricity and transport costs. The following quotes illustrate:

*"M: Are we all able to cut down?*
*R: Yes! (Chorus)*
*R: Like we stop buying paraffin and make fire for cooking food''*

(Manzini, Female, Aged 41 – 55 years (KLA, 2014b))

*"There is a guy that I work with, we are all getting paid R2 000 yet in 9 months he had finished building a two-roomed house, he even has a ramshackle of a car to call his own. So while we are busy thinking about buying clothes, this and that he wears gumboots and he takes his lunch to work while we are busy showing off by buying takeaways"*

(Manzini, Male, Aged 25 – 40 years (KLA, 2014b))

### 4.1.3. Financial capability

*Broad awareness of formal financial institutions.* Qualitative research respondents were generally aware of banks and to a lesser extent other financial institutions. The degree of awareness varies across the different institutions, with local, government-owned entities such as SwaziBank and FINCORP taking the lead.

*Limited awareness of formal financial products.* Of the formal products, respondents were most knowledgeable about Mobile Money and eWallet, both of which will be discussed in Section 6.2. They could not explain the functioning of any other formal products in detail.

*Some understanding of financial terminology, but confusion on charges and processes.* Respondents seemed to understand general financial terminology such as interest and compound interest on loans, especially when communicating in the vernacular. However, it was clear that there is confusion about bank charges.

"*They take your money and then when you go and ask they will start telling you about those banking terms and you won't understand what they are talking about… you end up just getting out of there all confused*."

(Mhlume, Male, Aged 41 – 55 years (KLA, 2014b))

Furthermore, respondents with bank accounts tended not to keep account details and pin numbers confidential, which may indicate a lack of proper understanding.

*No mention of consumer rights or protection.* Respondents quietly bore abuses from shylocks and where they had grievances with formal financial institutions, never submitted a complaint.

"*Yes, the loan sharks want IDs and bank card to keep*."

(Manzini, Female, Aged 25 – 40 years (KLA, 2014b))

## 4.2. Take-up of financial services

*Half the adult population formally served, 38% excluded.* 50% of the Swazi adult population uses formal financial services and 88% of these formal products are accessed via banks, with 43.9% of adults being banked. An additional 13% use only informal products, while 38% of adults do not use any formal or informal financial services, as shown in Figure 12 below:

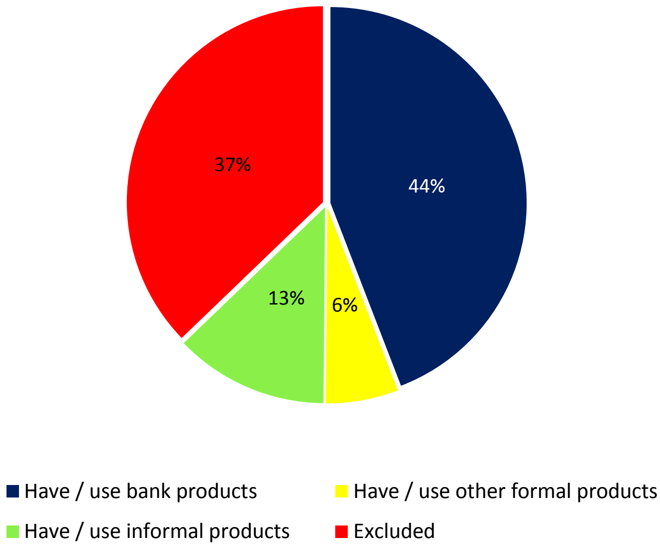


**Figure 12: Financial service usage in Swaziland**

*Source: FinScope, 2011*

**Box 9. The Access Strand explained**[33]

*Breaking down the Access Strand.* The Financial Access Strand is used to enable comparison of levels of financial inclusion across countries or market segments. In calculating the access strand, a hierarchical approach is used in order to depict:

- **Banked:** The percentage of adults that has bank products. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products.
- **Other formal:** The percentage of adults that has financial products from non-bank formal financial institutions such as microfinance institutions (MFI) or insurance companies, *but do not have a bank account*. These individuals could also be using informal products.

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

- **Informal:** The percentage of adults that is not formally served, but use informal financial products or mechanisms. 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.
- **Excluded:** The percentage of adults that does not use any financial products – formal or informal – to manage their financial lives.

The access strand does not show overlaps between the various categories. Consequently, the "other formal"

[33] The access strand explanation has been adopted from the access strand definition used by FinScope.

or “informal only” segments do not indicate total usage of non-bank formal or informal financial services, only those individuals who have a non-bank financial service but not a bank account, or an informal financial service but no formal financial service. An individual with both a formal and an informal financial product would only appear under formal take-up.

*The access strand applied to product markets.* The access strand is furthermore used to illustrate take-up across particular product markets (i.e. credit, savings, insurance and payments). The product market access strands also indicate those reached only by “unintermediated” financial services. These are financial services extended between family and friends, without being intermediated through a third party institution or collective grouping. Thus, for example, saving at home, borrowing from friends and family or sending a remittance with another person would be regarded as unintermediated services.

Particular financial products, services, mechanisms and activities that have been included for each product market access strand are listed below:

**Credit access strand**

- ***Formal***: Having a loan product or credit account with a Bank, Credit Institution, Swazi Building Society, SACCO, Developmental Credit Institution or Retailer. Some of them may also be accessing informal credit or borrow from family and friends.
- ***Informal***: Those who do not have formal credit, but borrowed money from an employer, savings group, informal money lender or shylock. Some of them may also be borrowing from family or friends.
- ***Family or friends only*****:** Those who do not have formal or informal credit as above, but borrowed money from family or friends.

**Remittance strand**[34]

- ***Formal***: Those who have sent or received remittances in the last 12 months via bank transfer (or paying into a bank account), ATM, the Post Office, MoneyGram or TEBA/Ubank. Some of them may also be sending or receiving money through informal channels or family and friends.
- ***Informal***: Those how have not sent or received formal remittances, but have sent or received remittances in the last 12 months via a bus or taxi. Some of them may also be sending or receiving money through family and friends or in person.
- ***Family & friends or self-delivery only***: Those who do not fit into either of the previous two categories, but have sent or received remittances in the last 12 months directly via friends or family, or who delivered the funds themselves.

**Savings strand**

- ***Formal***: Those who save with or have a savings account with a bank, Swazi Building Society, SACCO, Pension Fund or Unit Trust. Some of them may also be saving in an informal institution or at home.
- ***Informal***: Those who do not have a formal savings product as defined above, but who save with a savings group. Some of them may also be saving at home or through other unintermediated means.
- ***Saving at home/with household members*****:** Those who do not fall into either category above, but save in a secret place at home, in livestock or in kind, within the household or family, or who ask another person in the community to keep money safe for them.

[34] Only a remittances access strand is shown within the payments section as the other component of payments is access to bank accounts which is measured as a dichotomous variable i.e. respondents either have a bank account or do not, and hence it is not meaningful to show this in an access strand.

**Insurance strand**

- ***Formal***: Those with any formal insurance product (like funeral insurance) with an insurance company. Some of them may also belong to a burial society.
- ***Informal***: Those who do not have formal insurance, but belong to an informal burial society.

*Relatively high inclusion in African terms, but less so compared to SACU peers*. As shown by Figure 13, banked penetration is relatively high in Swaziland compared to other African countries in which a FinScope survey has been conducted. However, Swaziland has the lowest level of formal financial inclusion in the SACU region:

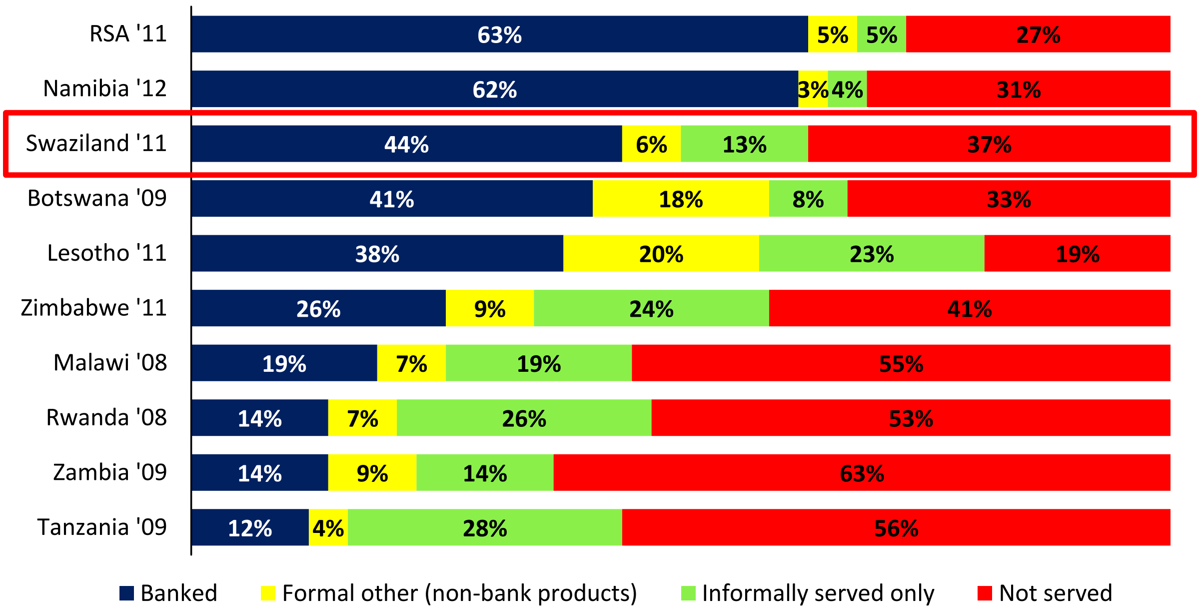


**Figure 13: Cross-country access strand comparison**

*Source: FinScope, 2011*

*Urban areas, males better-included than rural and female groups*. As shown below, a third of Swazis live in urban areas and two thirds of Swazis are female (FinScope, 2011). Comparing these numbers to those in Figure 14 indicate that access to formal financial services is skewed towards males and those living in urban areas.


**Figure 14: Location and demographic splits of the Swazi adult population**

*Source: FinScope, 2011*

**Usage across product markets**

Figure 15 considers the percentage of adults served in each of the four product markets:

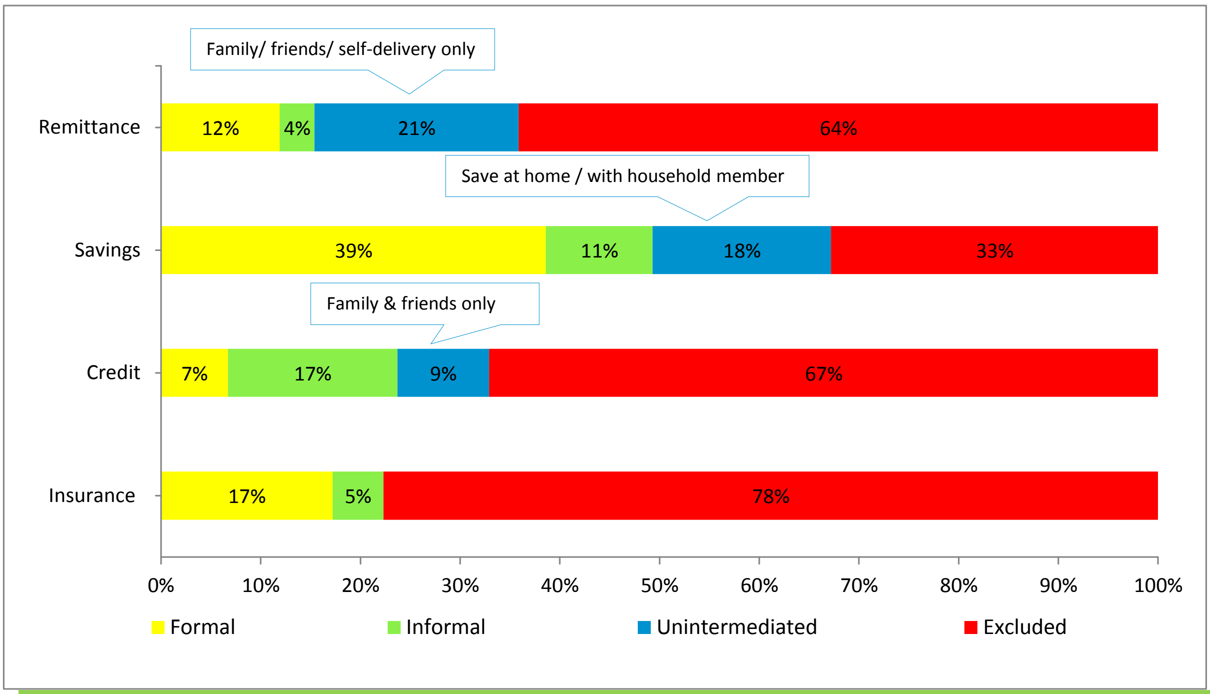


**Figure 15: Usage across product markets**

*Source: FinScope, 2011*

*Saving is the most widely used financial service*. The qualitative research discussed in Section 4.1.2 suggests that many low-income Swazis are not able to accumulate savings over time. Yet FinScope shows that 77% of adults do save in some way. 39% of adults have a formal savings account, while the rest save through informal or unintermediated channels.

*Unintermediated remittances most common*. 36% of adults report using remittance services. Sending or receiving money via family, friends or in person is the single biggest channel, at 21% of adults. Only 12% and 4% of adults use formal and informal channels respectively.

*Most borrowers resort to informal lenders.*33% of adults report using credit, but only 7% of adults use formal credit. 17% of adults use informal but no formal credit and a further 9% only use credit from family and friends.

*Insurance has the second highest formal uptake*. Although only 22% of adults report having any type of formal or informal insurance policies, the fact that 17% of adults have formal policies means that only the savings market is better served, formally. Informal-only penetration through burial societies is relatively low compared to credit and saving and the survey does not record any unintermediated risk-pooling.

### 4.2.1. Barriers to formal usage

It is clear from the analysis above that most adults do not yet use formal financial services across the product markets. What stands in the way of achieving more broad-based formal inclusion? Barriers to usage may arise from two angles:

- **Access barriers** are factors relating to the supply of financial services that preclude certain individuals from using such services. Affordability, availability of the service within easy reach, the eligibility requirements set and the appropriateness of the available products to prospective clients' particular needs are the main access barriers.
- **Usage barriers** refer to factors that cause people not to use financial services even if they technically have access to it. Usage barriers are internal to the individual or society and include perceptions, trust, financial capability and the fear of officialdom.

The qualitative research suggests that the following access and usage barriers may help to explain low usage levels:

**Access barriers**

*Eligibility.* Eligibility requirements are one of the biggest barriers to financial services experienced by respondents, especially so for formal credit. For instance, banks often require confirmation of employment. Yet, according to FinScope, only 21% of the adult population is formally employed. Other documentation requirements may include proof of address and, for some financial services, a title deed. Four out of every five Swazi adults are not able to prove their address and only one in ten has a title deed (FinScope, 2011).

*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.

*Affordability*. The generally low incomes of respondents mean that affordability is an important consideration. In the qualitative research affordability was mentioned especially with regards to insurance. Respondents felt that they could not justify paying premiums for a risk event that is not guaranteed. Furthermore, high bank charges were mentioned as a barrier for savings and transaction products. Theoretically, affordability should also be a main consideration for credit. However, affordability would seem to be trumped by eligibility and flexibility in the case of credit, as respondents tend to borrow informally at much higher interest rates than would apply in the formal sector.

*Proximity.* Financial institutions and financial service access points such as ATMs are mainly located in business and shopping hubs. This requires one to incur transport costs or lose time having to walk to service points.

**Usage barriers**

*Financial capability.* The lack of understanding of formal financial products and processes, highlighted in Section 0, serves as a usage barrier. Respondents do not seem to realise or take advantage of the benefits offered by formal financial products.

*Formal financial institutions regarded with suspicion, though trusted to keep money safe.* Many of the respondents 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.

"*They rip you off. Yes, they say you pay until you die...*"

(Mhlume, Females, Aged 25 – 40 years (KLA, 2014b))

"*There will be too much charges and by the time you get that R100 it will be R50 or even R35. Their charges are too high. They take too much money from us and they become rich*."

(Manzini, Female, Aged 25 – 40 years (KLA, 2014b))

Despite the mistrust with regard to bank charges, FinScope shows that consumers tend to trust banks more than any alternative to keep their money safe. When asked what they would do if they were to receive a large sum of money that they did not spend immediately, 88.3% of all adults replied that they would place it in a bank.

*Perceptions.* The mistrust referred to above is based largely on perceptions. Qualitative evidence reveals two types of perceptions; those that are formed over time through one's own experiences with financial services and those that are merely propagated based the experiences of others. It was clear that respondents based their decisions on both types without investigating the validity of the latter.

*"Banks are not for me".* Lastly, most respondents felt that they were not the target market for formal financial institutions. They perceive financial institutions to serve mainly the affluent or those with a formal job.

## 4.3. Segmenting the target market

In order to better understand and unpack demand-side behaviour, assess the nature of take-up and identify key priority areas for future extension of financial services, it is useful to segment the adult population into distinct groups that can be targeted for financial inclusion purposes. These groups, called target market segments, were determined based on main individual income source as reported by FinScope, but also taking into account geographic, demographic and other parameters. Main income source is used as a proxy for the level and regularity of income, both of which are key predictors to whether a person would be a viable financial service client. The intention was to create clusters of people who are sufficiently different from other groups and yet have enough shared characteristics to form a common target market for financial institutions. FinScope 2011 survey data was then used to profile each of the segments and assess their current interaction with financial services and potential needs.

In the rest of the study the target market segments will form the basis for assessing gaps and opportunities in the various product markets.

### 4.3.1. Introducing the segments

The segmentation exercise renders seven distinct target market groups for Swaziland:

- **Civil servants** (44,924 individuals) – are adults whose main source of income is salaries or wages from the public sector. They tend to be better educated, with higher income levels than the rest of the formally employed market. Thus they warrant analysis as a standalone category.

- **Company employees** (61,455 individuals) – are adults whose main source of income is salaries or wages from a private business or company. Together with civil servants, they make up the formally employed market.

- **Informal employees** (27,904 individuals) – are adults whose main source of income is salaries or wages from an individual or a farm.

- **Self-employed** (67,917 individuals) – are adults who make their own living such as business owners, hawkers and street vendors. One would expect business owners and street vendors to be in different economic groups. However, their income and other profiles are very similar. Hence it was decided to group them together for the purpose of the segmentation analysis.

- **Irregular earners** (97,490 individuals) – are adults who derive their main source of income from inconsistent sources such as piece jobs, farming, fishing, or selling handicrafts or something collected from nature. Just short of 28,000 individuals indicate money from farming as their main source of income, while about 58,800 derive their main income from piece jobs.

- **Private dependants** (154,524 individuals) – are adults whose main source of income is derived from friends and family. This segment includes people who stated that their main source of income is remittances or money received from a member of the household, as well as those for whom a household member pays their expenses. The profile in terms of gender, age and urban-rural split is similar enough across these three sub-groups to classify them as one segment.

- **State dependants** (34,641 individuals) – are adults whose main source of income is a grant from the government, notably old age pensions.

Figure 16 below shows the size of each segment in relation to the adult population:

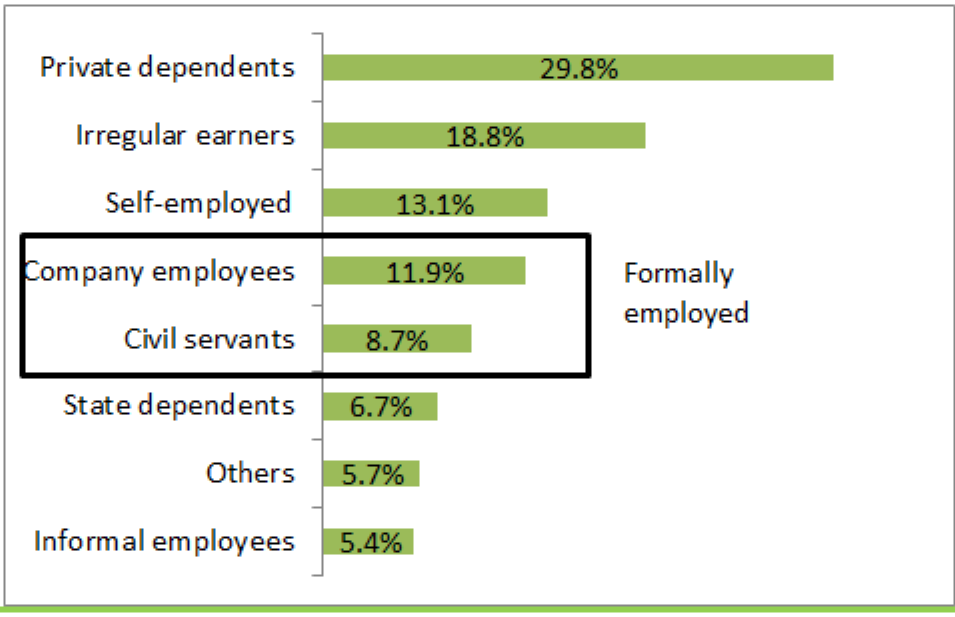


**Figure 16: Target market segments as percentage of adult population**

*Source: FinScope, 2011*

*"Others" excluded*. The segment 'Others', which comprises 5.7% of the adult population, consists of adults who do not belong to any of the segments described above. It includes people earning rental income, maintenance income, estate money or private pensions. None of these income sources are big enough to warrant analysis as a standalone target market for financial inclusion. As the "others" category is not a cohesive segment based on the common parameters required for making assessments related to financial service provision (such as income), it will be excluded going forward.

*Non-resident Swazis as eighth segment*. As indicated in Section 2, the World Bank estimates there to be about 160,000 Swazi citizens living outside of the country, 85% of them in South Africa. While this number will include children and adult dependents, it is likely that a substantial proportion will be income generating individuals remitting money back to Swaziland. Non-resident Swazis are likely to earn a relatively higher income than their family and friends at home. Though not directly the target market for financial inclusion in Swaziland and not part of the adult population analysed by FinScope, they are important enablers for those that they support and must therefore be taken into account when devising strategic imperatives for inclusion in Swaziland.

**Box 10. What about the farmers?**

In a largely rural society such as Swaziland where, according to FinScope, 65% of adults are in some way involved in agriculture, one would have expected farming to warrant a segment of its own. Yet agriculture does not emerge as a strong main income source in the FinScope survey. In-line with the analysis in Section 2 it would seem that most households involved in agriculture actually derive their main income from another source. These situations are explored below:

- Farm workers are captured in the informal employees segment, but only around 7,100 adults indicated a wage or salary from a farm as their main income source.
- Some of the segments are more likely to *only be involved* in farming than others. Notably, 48% of state dependents indicated that their household is only involved in farming, whereas 21% of private dependents indicated the same. For these segments, their main income source comes from outside the

household and the household farming activities are therefore for subsistence purposes. The proportion only involved in agriculture reduces for the irregular or self-employed. For those segments with a regular job (civil servants, company employees and informal employees), the percentage is, as would be expected, zero.

- Across all segments a large proportion of people indicated that their household is involved in farming *as well as* other work. For example, 45% of civil servants are also involved in farming and the proportion rises to as high as 70% for irregular earners and 64% for informal employees.

On this basis, farming is not separated out as a standalone segment as it will be best to regard the target markets from the perspective of their main income source.

Table 9 summarises the key features of the various segments at the hand of a number of indicators.

| | Civil servants | Company employees | Informal employees | Self-employed | Irregular earners | Private dependants | State dependants | Total adult pop. |
|---|---|---|---|---|---|---|---|---|
| **Number and % of adults** | 37 000 (7%) (ITQNet) or 44 924 (9%) (FinScope)[35] | 61 455 (12%) | 27 904 (5%) | 67 917 (13%) | 97 490 (19%) | 154 424 (30%) | 34 641 (7%) | 518 383 (100%) |
| **% female** | 55% | 55% | 67% | 72% | 45% | 74% | 62% | 63% |
| **% rural** | 43.5% | 34.3% | 49.3% | 63.7% | 79.8% | 65% | 94% | 63.2% |
| **Avg. monthly income (E)**[36] | 4 284 | 2 172 | 791 | 719 | 234 | 334 | 529 | 1 018 |
| **% with >1 income source** | 33% | 30% | 35% | 34% | 32% | 41% | 39% | 36% |
| **Most common age group** | 29% are aged 35-44 *(63% are aged 35-plus)* | 34% are aged 25-34 | 52% are aged 25-34 *(79% are aged 34 and under)* | 33% are aged 25-34 | 31% are aged 25-34 | 46% are aged 18-24 *(67% are aged 34 and under)* | 62% are aged 65 plus *(94% are aged 55 plus)* | 27% are aged 25-34 |
| **Most common level of education** | 49% have tertiary education | 42% have high school education | 36% have primary education | 32% have secondary education | 44% have primary education | 29% have secondary education | 48% have primary education *(45% no formal education)* | 30% have primary education |

[35] Note that we quote two figures for the number of public employees: the number of civil servants on the ITQNet payroll system is only 37,000 (ITQNET, 2013). However, about 45,000 individuals self-report as being public employees in the FinScope survey. This may be because not all those working in public institutions are paid through ITQNet, or because some respondents in the FinScope survey may regard themselves as public employees whereas in actual fact they work for sub-contractors.
[36] Note that this is the average income calculated based on the FinScope survey responses. FinScope only captures in which income bracket a person falls, not their actual income. The average was therefore calculated based on the median income for the bracket and should be regarded as indicative only.

| | Civil servants | Company employees | Informal employees | Self-employed | Irregular earners | Private dependants | State dependants | Total adult pop. |
|---|---|---|---|---|---|---|---|---|
| **% that owns a car** | 41% | 21% | 20% | 15% | 9% | 17% | 13% | 18% |
| **% that owns ID** | 98% | 94% | 65% | 85% | 69% | 72% | 94% | 80% |
| **% with proof of address** | 48% | 30% | 6% | 23% | 12% | 17% | 9% | 21% |
| **% with cellphone access** | 96% | 96% | 85% | 88% | 75% | 79% | 50% | 82% |
| **% that has a title deed** | 18% | 20% | 4% | 9% | 7% | 11% | 2% | 10% |

**Table 9: Summary indicators across segments**

*Source: FinScope, 2011*

### 4.3.2. Usage by segment

Usage of financial services is spread as follows across the segments:

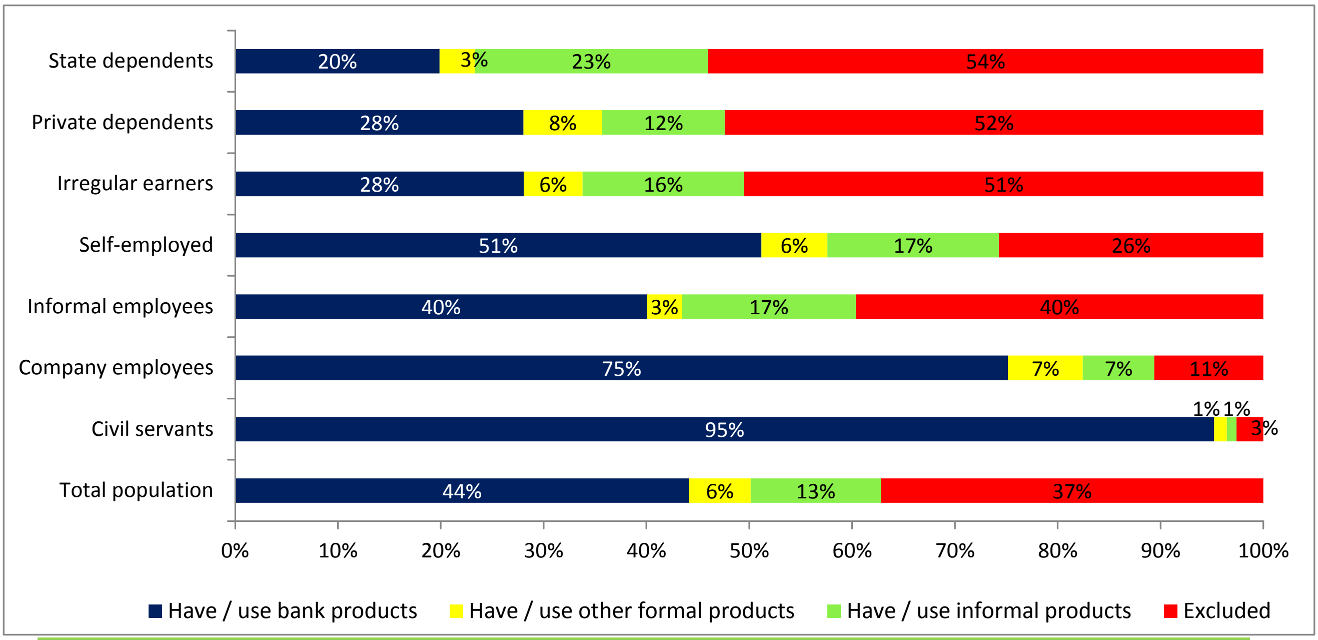


**Figure 17: Access strand by segment**

*Source: FinScope, 2011*

*Usage decreases down the income spectrum*. Figure 17 indicates that civil servants are best served, state dependents least served, and that usage tends to decrease across the spectrum from civil servants to state dependents, with the self-employed being the only outlier in the trend. This would suggest that the level of income, whether a person is employed and the regularity of income (all of which reduce moving up the spectrum from civil servants on the one end to state dependents on the other end) are important predictors of the level of formal access.

### 4.3.3. Target market profiles

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

**Civil servants**

*Wealthiest, most urban and well educated*. Swaziland has an estimated 45,640 public sector employees according to the FinScope survey, reducing to 37,000 when only considering ITQNet data. They are the most urban, highest income and most well-educated segment: 56% live in urban areas, almost half have a tertiary education and at E4,300 per month, their average income is about four times more than the average for all adults. Compared to the other segments they are older (with 63% being older than 35) and more likely to be male (55% male compared to the population average of 63%).

*Best served*. At 96% formally included, civil servants are the best served segment. They have the highest financial services penetration across all product markets, as shown in Figure 18:

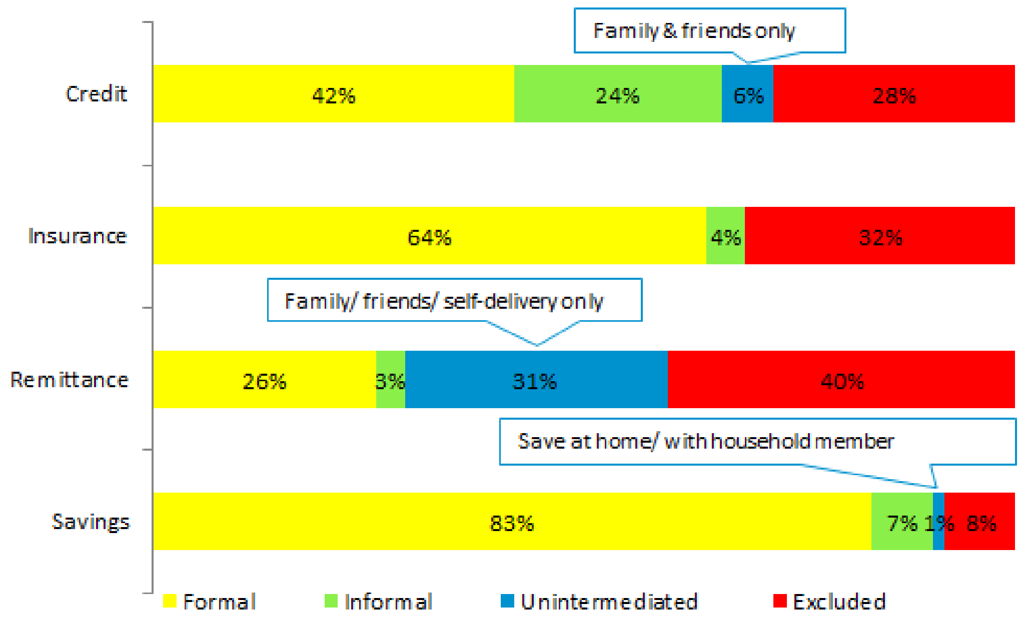


**Figure 18: Civil servants' usage across product markets**

*Source: FinScope, 2011*

Despite being well served by the formal sector, a significant percentage of civil servants still use unintermediated remittances as well as informal and unintermediated credit.

### Company employees

*Younger, less wealthy than civil servants*. At close to E2,200, company employees' average monthly income is substantially lower than that of civil servants. With only 34% living in rural areas, they are even more urban than civil servants. They also outnumber civil servants: about 61,500 people work for private businesses or companies.

*Lower penetration than civil servants, but still well-served.* Company employees have the second highest use of formal financial products after civil servants. 82% of company employees are formally included, compared to 50% of the total adult population. Figure 19 indicates that usage is especially high where savings accounts and insurance is concerned. Penetration of formal credit, at 14%, is about twice as high for company employees than for the total adult population:

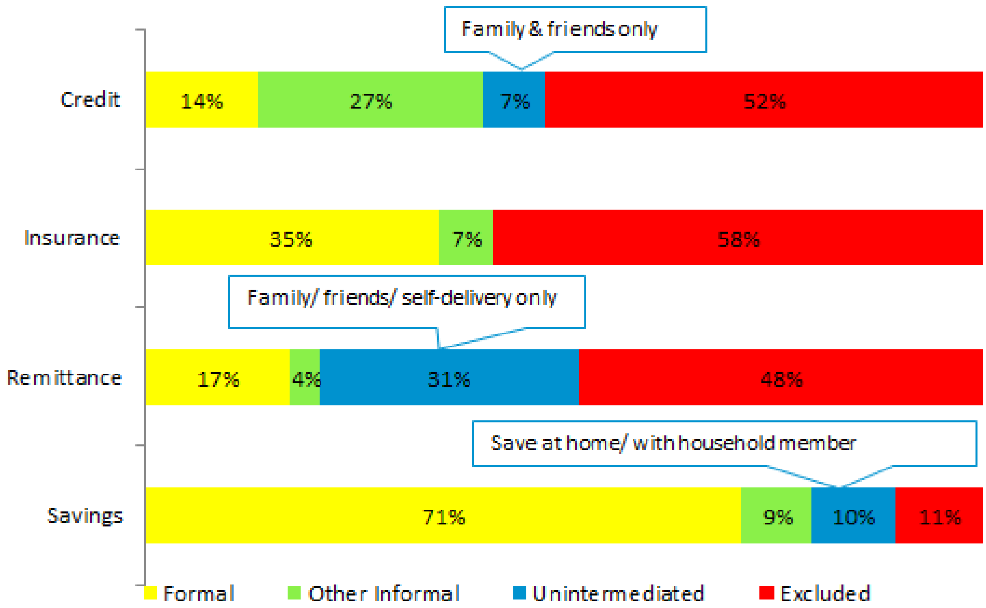


**Figure 19: Company employees' usage across product markets**

*Source: FinScope, 2011*

As Figure 19 indicates, high formal penetration does not preclude informal usage: company employees have the highest use of informal credit, informal insurance and un-intermediated informal remittances of all the target market segments. This may suggest a need for greater formal penetration, but can also be indicative of the fact that informal systems (including savings societies) in their current guise work best for those with regular, relatively high incomes.

The financial service needs for civil servants and company employees are similar:

**Main financial service needs: formally employed**

Civil servants and company employees are not the primary target market for financial inclusion as they are already relatively well-served. However, they play a significant role in supporting others, a role which can be facilitated through effective remittance channels. Furthermore, given their stable position and access to credit, civil servants have scope to leverage asset-based finance and payroll credit for productive purposes in a way that can also benefit those in other segments.

**Informal employees**

*In good position relative to most segments*. At just more than 5% of adults, informal employees are the smallest group. Though they are not formally employed, they have a regular source of income. Yet their average monthly income of only E791 constrains their ability to improve their economic situation. They are not well educated and are about equally split between urban and rural areas.

Many use informal savings and credit. Informal employees have below average usage of formal financial products – 43% of them are formally included, compared to 50% of adults at large. However, they have the highest usage of informal savings among the segments and a significant number of them use informal credit. . This is indicated in Figure 20 below.

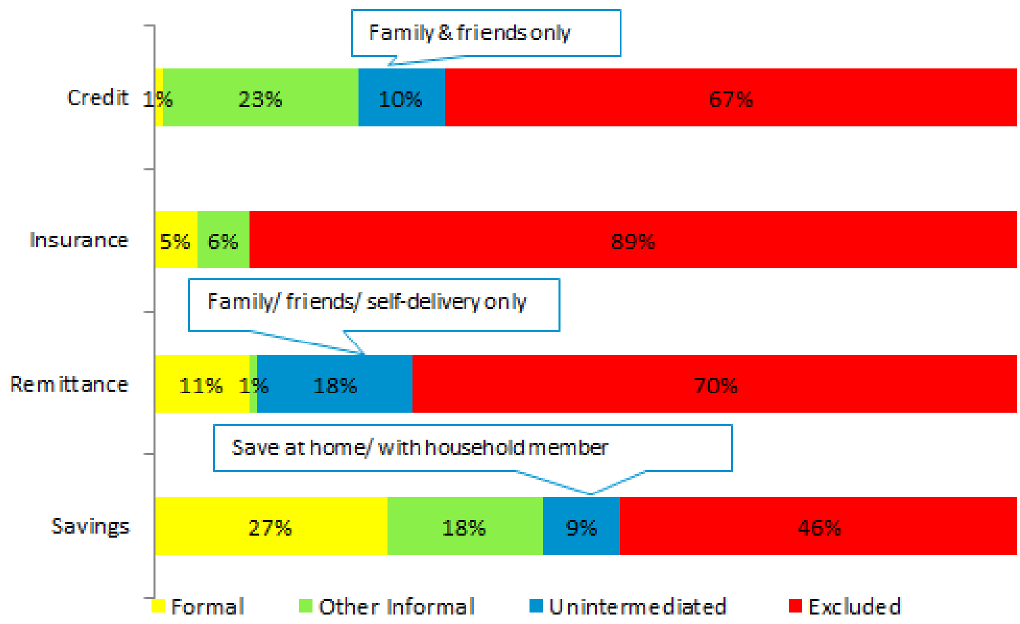


**Figure 20: Informal employees' usage across product markets**

*Source: FinScope, 2011*

**Main financial service needs: informal employees**

Their profile suggests that informal employees will benefit from credit or savings vehicles to purchase assets or make home improvements, as well as for education. Like most other segments, they would benefit from more efficient ways to transact, as well as from insurance or other mechanisms protecting them against the cost of funeral expenses and other emergencies.

### Self-employed

*Pave their own way to make ends meet.* The self-employed include both business owners (about 36,500 individuals) and those who are street vendors or hawkers (about 31,700). By working for themselves, they manage to earn on average just less than the informal employees (E719 per month). They are disproportionately female and many of them have a secondary education. Almost two out of every three self-employed individuals live in rural areas.

*Significant usage despite largely survivalist economic position*. Although their irregular and low incomes are a significant constraint to access, the self-employed have the third highest use of formal financial products and the highest usage of informal remittances among the segments. A total of 57% is formally included, as shown in Figure 21.

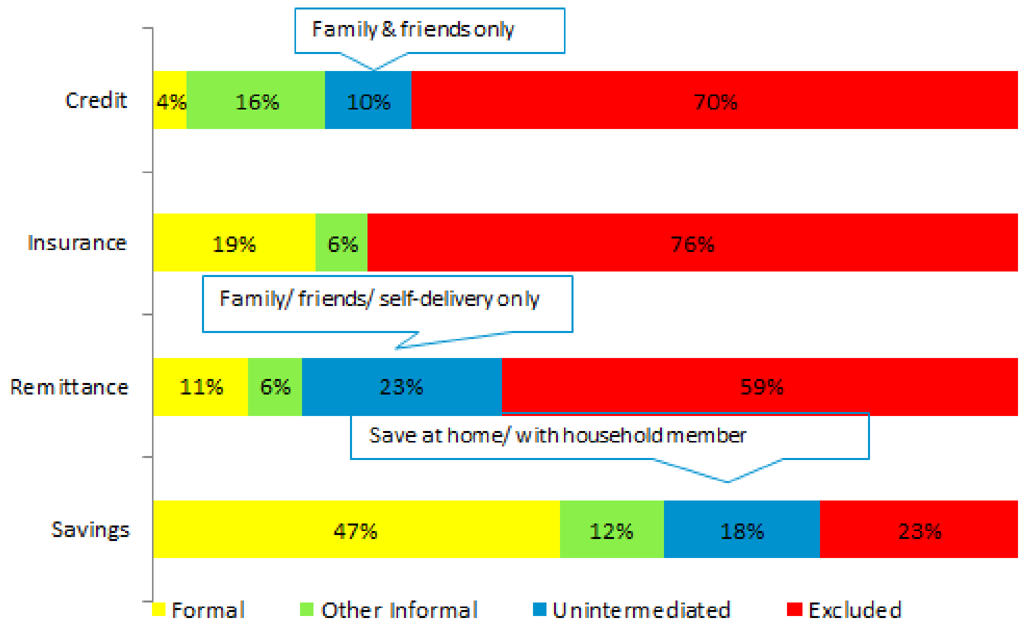


**Figure 21: Self-employed's usage across product markets**

*Source: FinScope, 2011*

**Main financial service needs: self-employed**

The self-employed are likely to have a need for access to finance for assets and education, but the nature of their livelihoods suggests that a way to efficiently and cost-effectively transact as well as targeted savings may be even more pertinent needs.

### Irregular earners

*Rural males earning a living through farming or piece jobs*. At just below 100,000 individuals, the irregular earners are a substantial group. About 28% of them are farmers, with the rest being piece job workers or making ends meet through other means. They tend to be more male than the population average and are largely based in rural areas, with only a primary education. Irregular earners are economically in the weakest position, with an even lower average monthly income (just E234) than the private and state dependents. However, their non-monetised income may be significantly higher, as access to land provides food and housing for many.

*Largely excluded.* Only about one in three irregular earners uses formal financial products: 28% are banked/use a formal savings product and another 6% use other formal financial products. Only 2% use formal credit and a mere 3% use formal insurance. Just more than half are excluded from any type of formal or informal financial service, as shown in Figure 22:

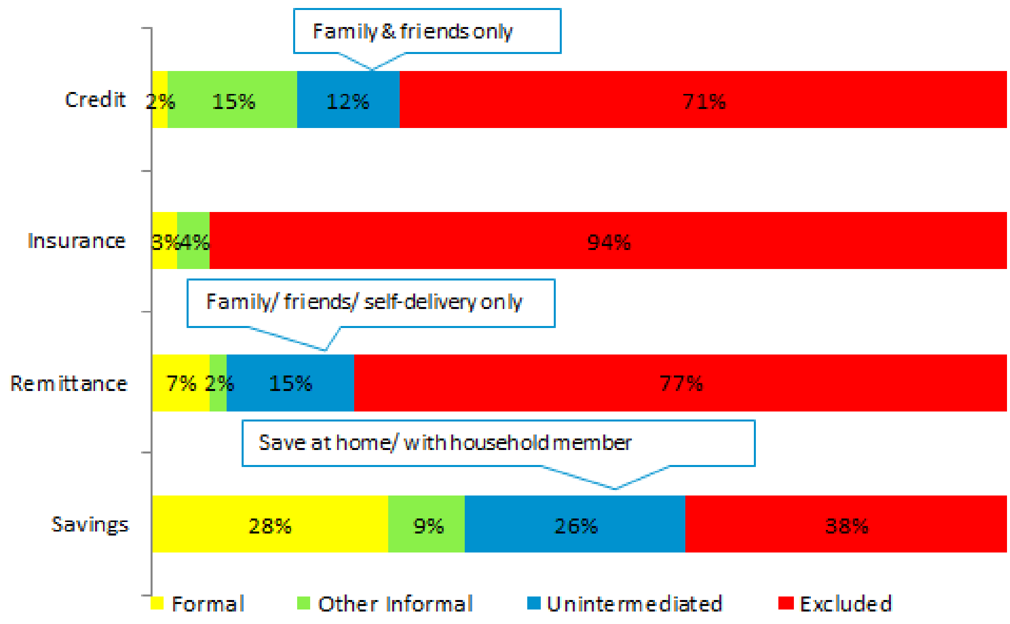


**Figure 22: Irregular earners' usage across product markets**

*Source: FinScope, 2011*

| **Main financial service needs: irregular earners** |
|---|
| Their economic profile suggests that irregular earners' strongest financial service needs are to mitigate risks and to store irregular earnings safely. |

### Private dependents

*Relying on others for their livelihood*. At 154,424 individuals, private dependents form the single largest segment. People in this segment have an average monthly income of only E334, with 58% indicating that they do not get an income every month. Furthermore, 47% are younger than 25 years old. This would seem to suggest that the private dependents include a large number of unemployed youth, though the gender profile suggests that this segment also comprises a significant number of females dependent on their spouses or other household members.

*Better served than would be expected*. At 36% formal usage, private dependents are slightly more formally included than irregular earners. Figure 23 below shows that they have the highest use of other formal financial products across all segments, but the lowest level of savings:

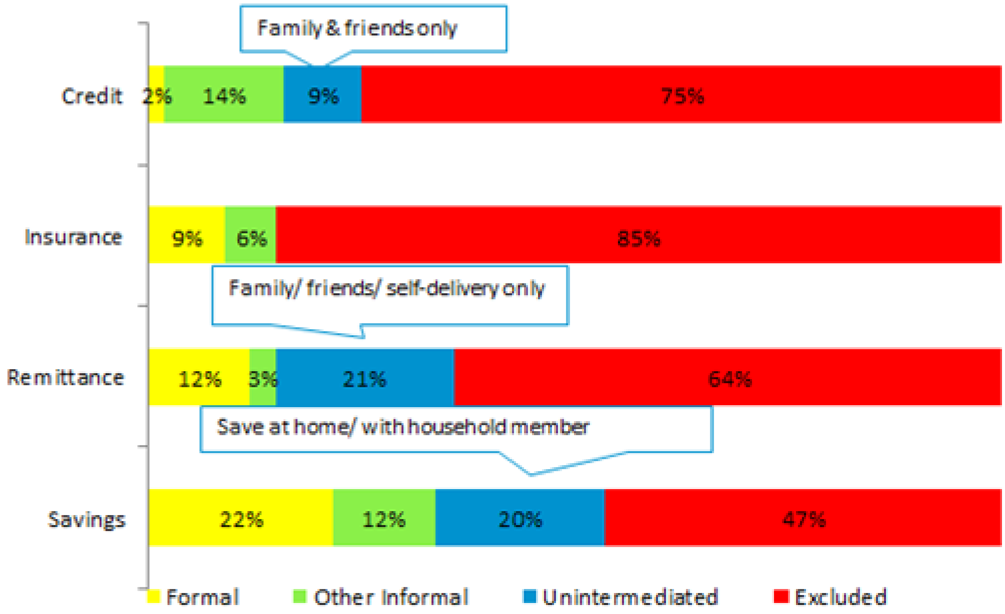


**Figure 23: Private dependants' usage across product markets**

*Source: FinScope, 2011*

**Main financial service needs: private dependents**

The irregularity of their income means that, along with the irregular earners and self-employed, private dependents have a particular need for flexible product features. They need an efficient and accessible way to receive their money from others and store it. They are not directly viable as insurance policyholders, but could be covered by virtue of a policy held by those supporting them.

### State dependents

*Oldest, most rural and least connected segment*. State dependents (34,641 individuals) are an interesting category from a financial inclusion point of view because, though at an average of E529 per month their income is very low, the three-monthly state grant means that they have a consistent income at predictable intervals. As expected, they are the oldest segment. They are also by far the most rural (94%) and least well educated. They furthermore stand out as being the segment with the lowest cell phone penetration.

*Least served.* State dependents are least well served financially: only 23% are formally included and 54% are excluded from any formal or informal financial services. They take up virtually no formal credit, insurance or remittances services, as is indicated in Figure 24:

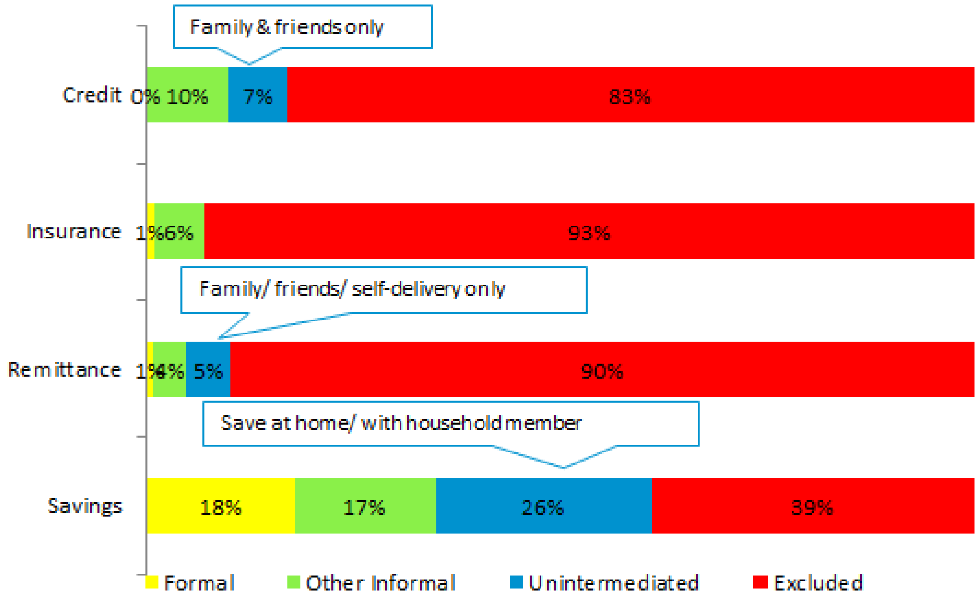


**Figure 24: State dependants' usage across product markets**

*Source: FinScope, 2011*

| **Main financial service needs: state dependents** |
|---|
| State dependents are unlikely to need asset or productive finance, but as many elderly are responsible for grandchildren due to societal health problems, they are likely to value savings and credit products aimed at financing education. Likewise, funeral insurance or financial services enabling home improvements may be of value. |

**Expat Swazis**

*Potential enablers*. Though not directly part of the target market, it is nevertheless important to be conscious of the potential role in financial inclusion to be played by non-resident Swazis. They play a significant role as remittance providers. Furthermore, they have potential as investors in small businesses in Swaziland, or can be leveraged as resources for the upliftment of family members.

| **Main financial service needs: expat Swazis** |
|---|
| Need for low-cost cross-border remittance options that are accessible in the sending country as well as for recipients in Swaziland. They may find a financial service (such as a savings endowment or insurance policy) that allows them to make contributions on behalf of family members attractive. This would require an accessible, low-cost cross-border payment mechanism. |

## 4.4. Conclusion

*Dual society*. This section has shown the implications of high poverty. On the one end of society the formally employed are in a favourable economic position and have the means to better themselves further. On the other hand those without a regular or formal source of income struggle to make ends meet, often live from hand to mouth and have little scope to change their situation, putting them in a survivalist rather than an aspirational frame of mind.

*Formal reach mirrors dual society.* The supply-side analysis in the rest of this report will show that the current landscape of provision also follows this dual structure, with most financial institutions, including collective mechanisms such as SACCOs, focused on the upper end and few formal options being available to the lower end. Transaction costs are perceived to be high, thereby discouraging formal savings or remittances. Where credit is concerned, many resort to informal lenders as they lack access to lower-cost formal alternatives. Despite significant risk management needs, the bulk of adults are excluded from formal insurance and the void is largely not filled by informal community-based risk pooling.

*Education foremost need across segments*. Education is seen by most respondents as the bridge between the two societies, the best way to turn a survivalist approach into an aspirational one. It is therefore prioritised in household budgets. Furthermore, the segments share a need for consumption smoothing and low-cost remittances, as well as for financial services to help manage the impact of risks such as death or illness. Figure 25 below summarises the main product needs across segments for each of the four product markets:

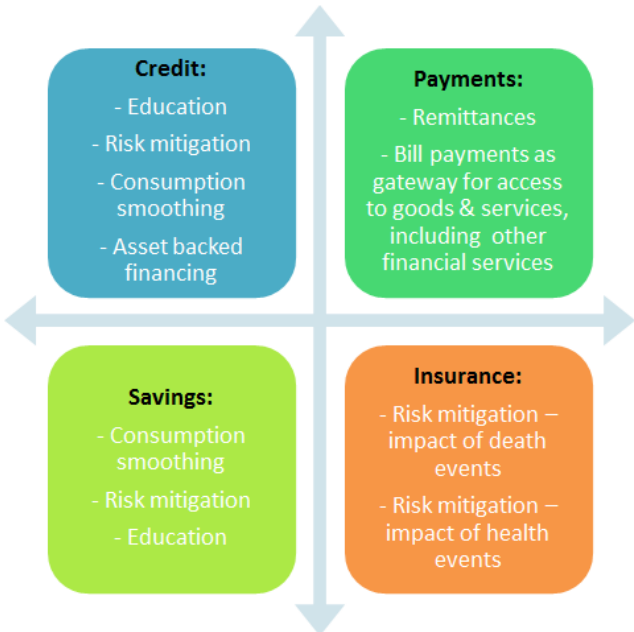


**Figure 25: Summary of target market needs across product markets**

*Source: Authors' own, based on analysis*

We will return to the main target market features and needs in Section 7 where we consider the main opportunities for financial inclusion in Swaziland.

# 5. Provision of financial services

Financial inclusion can only be achieved in a sustainable manner if the needs of the target market are aligned with the incentives of providers to offer appropriate products that match these needs. This section provides an introduction to the main providers of financial services and available financial service infrastructure. In Swaziland this infrastructure consists largely of the capital market, and the various distribution channels available for financial services[37].

**Key issues: provision of financial services**

*Provider overview:*

- There are a small number of providers operating in Swaziland's financial services sector.
- The four banks are the dominant players in the market.
- Swaziland's financial services sector is fairly stable, evidenced by limited changes in the last 15 years, with the exception of the insurance industry.
- The insurance industry has become increasingly competitive since 2005.
- There are limited formal financial services options for unemployed Swazis.
- A large number of Swazis use the informal market, although the value of this market is very small.

*Financial service infrastructure: capital markets*

- Large amounts of capital are being mobilised in Swaziland, most thereof by the retirement funds, with only a limited amount of capital raised through the stock exchange, which is characterised by very limited liquidity. Over a third of Swazi capital is invested outside Swaziland, indicative of limited local investment opportunities.

*Financial service infrastructure: distribution channels*

- The small number of consumers allows few channels to reach the economies of scale needed to sufficiently reduce costs.
- Swaziland is already relatively well served in terms of physical banking infrastructure. Small country size means that even rural dwellers live relatively close to urban areas where most financial services infrastructure is situated.
- Yet cost of travelling, even short distances, to access financial services infrastructure represent a significant cost given low incomes and small transaction values.
- Alternative distributors of financial services present an important opportunity to increase access to financial services
    - MTN mobile money is already gaining popularity as an affordable, alternative transaction platform with a wide distribution reach
    - Retailers present a substantial opportunity as an alternative distributor of financial services.
    - Agro dealers provide some potential to be a provider of financial services for farmers.
    - The Post Office, with the greatest physical footprint, could play a useful role in distribution and provision, but uncertainty about current strategy limits potential.

[37] Swaziland does not have a credit bureau at present.

## 5.1. Provider overview

This section provides an overview of the landscape of various types of financial institutions in the Swaziland financial sector. Understanding this landscape will provide a basis for the exploration of product markets to follow in Section 5.

First, it is important to gain an understanding of the evolution of a market in order to unpack the current conditions. Figure 26 below provides a representation of entering institutions and relevant regulatory changes in the timeline of Swaziland's financial services history.

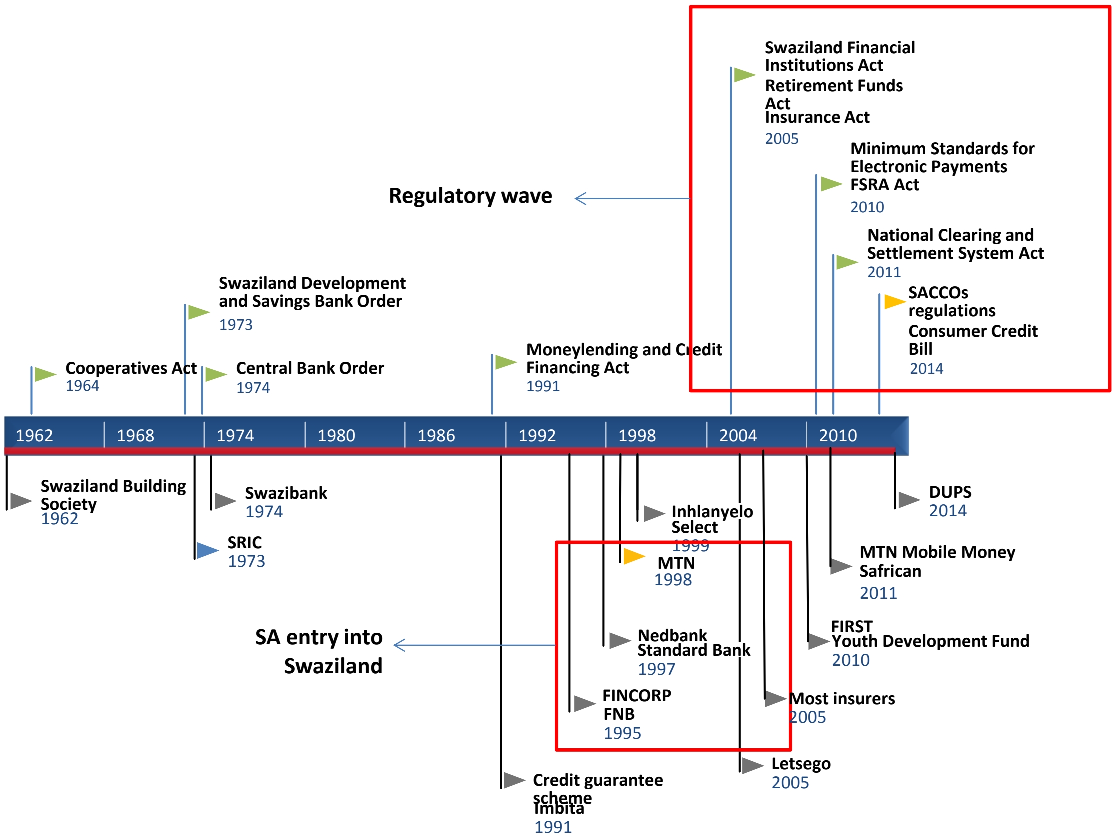


**Figure 26: Timeline of Swaziland's financial services industry**

*Source: Authors' own*

*Stable market with limited changes in the provider space.* The timeline indicates that there have been limited changes in the industry since the mid-to-late 1990s when three of the four major South African banks entered the market. The exception to this is in the insurance industry, which saw the entrance of most of the current market players in the mid-2000s following the liberalisation of the industry. As discussed in Section 3 , the timeline provides a strong depiction of a wave of regulatory changes in recent years.

*Liberalisation triggered significant entry of insurers.* The Insurance Act of 2005 removed the official monopoly that existed for close to 30 years in the insurance industry, with the Swazi Royal Insurance Corporation (SRIC) being the only official player. The industry has registered ten new players since liberalisation, of which one has exited the market, bringing the total number of insurers to ten. This includes six long-term insurers, three short-term insurers and one composite insurer (SRIC). All insurers are majority foreign-owned. SRIC remains the dominant player on the short-term side. In the long-term insurance market, other players have steadily gained market share, reducing SRIC's market share to 36% of gross premiums by 2012.

To understand the landscape of providers, we will explore their relative market position in relation to their product offering and its respective market share.

*Small market size a key determinant of provider landscape.* The small overall size of the Swazi economy largely due to the small population and low average income limits the number of financial institutions that can sustainably offer formal financial services. A small number of financial service providers therefore dominate the current market. Figure 27 below, gives an overview of the financial services provider landscape in Swaziland. The figure shows the different products offered by each provider in the four product quadrants and differentiates between formal and informal providers with informal providers situated on the outside.

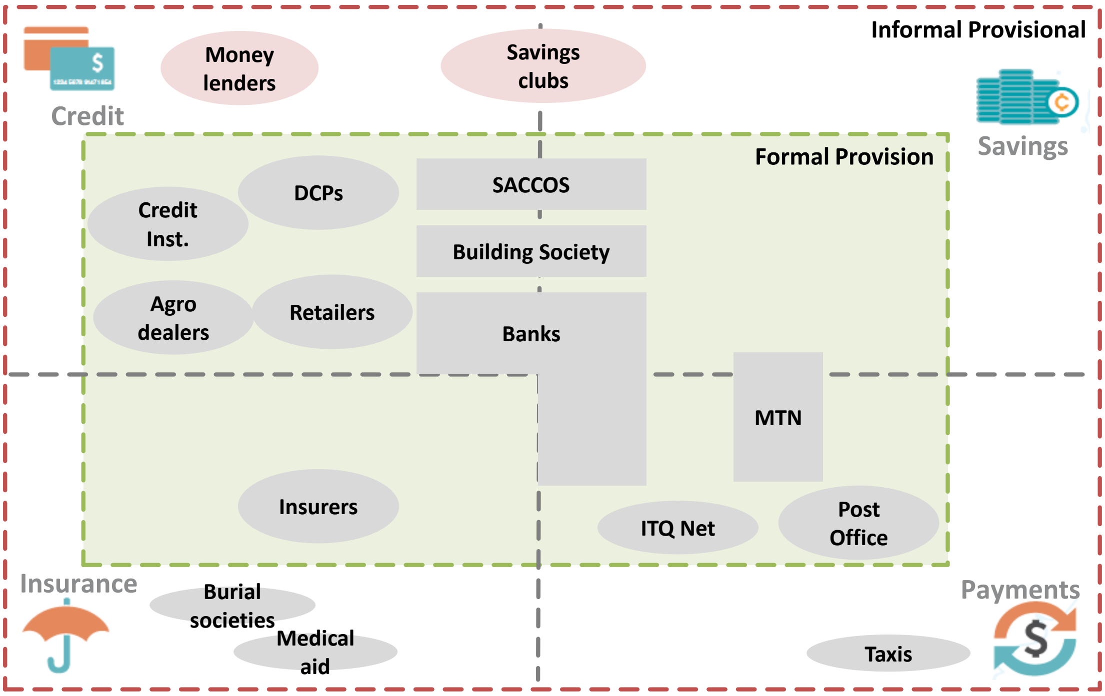


**Figure 27: Overview of providers currently operating in Swaziland**

*Source: Authors' own*

*Most transactions still occur in cash, potential for mobile money.* Over 80% of payments are made and income is earned in cash in Swaziland (see Section 6.2.1). Cash is a simple and convenient, but often unsecure from theft, loss or irresponsible spending. This is especially significant for receipt of large sums of cash through wages or other forms of income. Furthermore, as discussed in Section 3 cash is a risky and expensive tender type for providers. Mobile money provides an alternative as it accommodates small value flexible payments and accordingly is replacing some cash transactions for small value payments in urban areas.

*Major formal deposit-takers dominate the industry.* As illustrated in Figure 26, the formal financial services sector in Swaziland is dominated by the four large banks: Standard Bank, FNB, Nedbank and

SwaziBank; three of which are subsidiaries of major South African banks. Although the Swazi Building Society (SBS) does not have a banking license it offers many of the services offered by the banks and hence can be considered as a direct competitor to the banks from a consumer perspective. Between them, these five institutions account for 84.5% of total formal credit and 93.5% of formal deposits (excluding pension fund deposits).

*Development credit providers cater for SMMEs*. Development credit providers offer subsidised credit to SMMEs. Although not yet officially supervised[38], some of these institutions are able to accept deposits and offer business loans to small SMMEs, while others offer credit only. Most development credit providers are small, undercapitalised and tend to have very high non-repayment rates. FINCORP, which was started by a government grant but now gets most of its funding from donors and bond issuances, is the only development credit provider of substantial scale.

*Informal savings and credit market relatively small value, but large number of users.* The primary informal organisations offering financial services are savings groups, including Accumulating Savings and Credit Associations (ASCAs) and Rotating Savings and Credit Associations (ROSCAs), and informal moneylenders. Savings groups accept deposits and many also offer credit to both members and non-members. The informal moneylenders do not accept deposits but offer low value, short-term credit at high interest rates. A total of 125,820 Swazis (FinScope, 2011) save through some form of informal institutions with deposits in informal institutions estimated at E37m (see Section 6.3.3.6). 103,121 Swazis indicated that they have some form of informal credit (FinScope, 2011). Total informal credit is estimated at E55m (see Section 6.1.3.7).

*Limited role for informal insurance providers*. Informal community-based risk pooling mechanisms are not as pervasive in Swaziland as in neighbouring countries and formal insurance usage far outnumbers informal users. In addition to burial societies operating at community level, there are limited instances of in-house risk retention by credit providers or the provision of funeral cover by SACCOs and funeral parlours without underwriting by a licensed insurer. Furthermore, insurance underwritten in South Africa is in some instances sold in Swaziland in contravention of the Insurance Act, 2005 by subsidiaries of South African credit retailers, as well as travel agents. Probably the largest "informal" insurers are Swazimed, a medical aid, and managed care funds Swazicare and Family Health. These entities are currently not covered by regulation and provide medical cover to around 16,000 to 18,000 members (Hougaard, et al., 2011; RIRF, 2013b). The Financial Services Regulatory Authority is in the process of developing a regulatory framework for medical schemes and has initiated interim registration procedures.

Due largely to eligibility requirements and affordability, access to most formal financial services products is limited to the formally employed with higher and regular incomes, whilst formal financing for small SMMEs is provided by the developmental credit providers on a fairly small scale. Banks have the deepest reach into the unemployed target markets. The value of the informal financial services is very small in comparison to the formal market. Informal money lenders, savings groups and burial societies provide services to all target markets but even these have limited reach to the unemployed target markets.

[38] These institutions are not supervised is due to the nascent stage of development of the FSRA and not because they are acting outside the scope of regulation.

## 5.2. Financial service infrastructure

Financial institutions need access to capital as well as channels through which to distribute their products. These channels can be provided by the institutions themselves (considered traditional channels) or by other institutions (alternative channels). This section discusses these components in two sub-sections: the capital market and distribution channels.

### 5.2.1. Capital markets

Capital markets mobilise savings from those with a surplus and allocate them to investment opportunities in the form of debt or equity. An efficient capital market mobilises large volumes of savings and allocates them to the most productive opportunities at the lowest possible cost to both parties (Levine, 1997). At both ends of the intermediation value chain, this influences the extent to which savings is mobilised and credit is provided through the formal financial sector.

*Large amounts of capital mobilised in Swaziland.* The Swaziland capital market mobilises over E30 billion (just under 10% of GDP) through its various financial service institutions, such as insurance companies, banks and pension funds. The largest providers of capital are the retirement funds who mobilise E17.7 billion of capital. This equals almost double the capital of the banks. Institutional investors also fund banks to enable them to on-lend. 20% of bank capital is provided by retirement funds alone. Of the total E33 billion mobilised, just over E2 billion is again invested in domestic banks by retirement funds and insurers, which brings the net amount mobilised to E30 billion.

*Limited amount of capital raised goes through Swazi stock exchange.* The Swazi stock exchange (SSX) raises a small amount of total capital in Swaziland at E3.3 billion of which E2.1 billion are shares and E1.2 billion are bonds. In total 5 institutions have issued stocks and 6 institutions have issued bonds through the SSX[39]. Government debt accounts for around 82% of the total nominal value of issued bonds.

*Lack of liquidity driven by supply side factors not demand side factors.* Very few trades occur on the SSX, with most investors following a buy and hold strategy. The SSX also has a list of shares and bonds on demand. It would therefore appear that there is an unmet demand for Swazi stocks and bonds. This is further supported by banks indicating that they compete with retirement funds for large local investments and by retirement funds holding most domestic investments in cash as they cannot find sufficient alternatives. Despite this demand, companies are not listing on the SSX.

*Banks and institutional investors likely best positioned to serve small businesses.* Small businesses are unlikely to require sufficient funds to invest on the SSX. Banks are likely to remain best positioned to provide capital to these businesses. Institutional investors play an important role in providing capital to banks to make these investments possible. They often provide longer term liabilities to bank,s which allows them to take on more risk and lend out longer term loans.

*Over a third of Swazi capital invested outside Swaziland.* A significant portion of the capital raised in Swaziland is not invested domestically. Retirement funds alone invest over E10 billion in South Africa (RIRF, 2013a) which accounts for over a third of the capital raised by financial service institutions. The decision to invest in South Africa is driven by the need for higher returns, cost reduction and risk diversification. The SSX is still paper based which limits interaction with pricing and trading platforms. Lack of liquidity also limits how transparent prices are as they will remain at the last price

[39] Stock exchange data was provided as at September 2013 by the SSX (2013).

traded for significant periods of time which, naturally, does not reveal underlying changes in the business that could affect its market value. The significant investment outside Swaziland also reflects a perception of limited investment opportunities in Swaziland at present. This capital also provides an opportunity as it indicates that when profitable opportunities arises, Swaziland has sufficient capital to divert to investing locally. Higher returns and cost savings through saving in South Africa can also ultimately benefit Swazi consumers through reduced charges and improved returns on their retirement and other savings than if investment were limited to domestic assets.

*Targeted strategy and economic growth needed to drive listings and develop exchange.* The small current size of the Swazi economy can support only a limited number of larger entities that focus on serving this market alone. Large Swazi companies that list on the SSX are therefore likely to remain in the minority over the shorter term. South African and regional companies rather list on the Johannesburg Stock Exchange (JSE) as this gives them access to a global pool of funds. Potential remains to target these companies to raise capital through the SSX if it were cheaper to do so. Project and infrastructure bonds hold further opportunity to grow the SSX. These could be included in a targeted strategy to encourage regional groups to raise funds domestically.

*Regional stock exchange limited immediate benefit due to current technology.* A regional stock exchange is in the process of being developed. Sophisticated technology is required to fully link with this stock exchange, which is currently outside the reach of SSX.

## 5.2.2. Distribution channels

Distribution of financial services to low-income and rural populations is often challenging. Traditional provision through branches and agents with well-trained staff is expensive and can seldom be justified to viably serve low income clients. Further, transport costs and the inconvenience to access urban financial centres often places formal financial services outside the reach of many low income people. The formal institutional layout of banks and other formal institutions also provide door-step barriers where consumers feel intimidated or uncomfortable to transact in an environment so foreign to them. Alternative forms of distribution can reduce the cost of provision and improve use of financial services through improved access to the product in an environment that is familiar and trusted.

This section sets out the current traditional and alternative distribution channels used in Swaziland and in doing so, identifies some further opportunities to extend distribution.

### 5.2.2.1. Traditional distribution

*Swazis relatively well-served by bank infrastructure.* Figure 28 illustrates that Swazis are relatively well served in comparison to their SADC neighbours, with the second highest ATM-concentration of the SADC countries, at 9 ATMs per 1000 km$^2$; 3 bank branches per 1000 km$^2$; and 7 branches per 100,000 people.

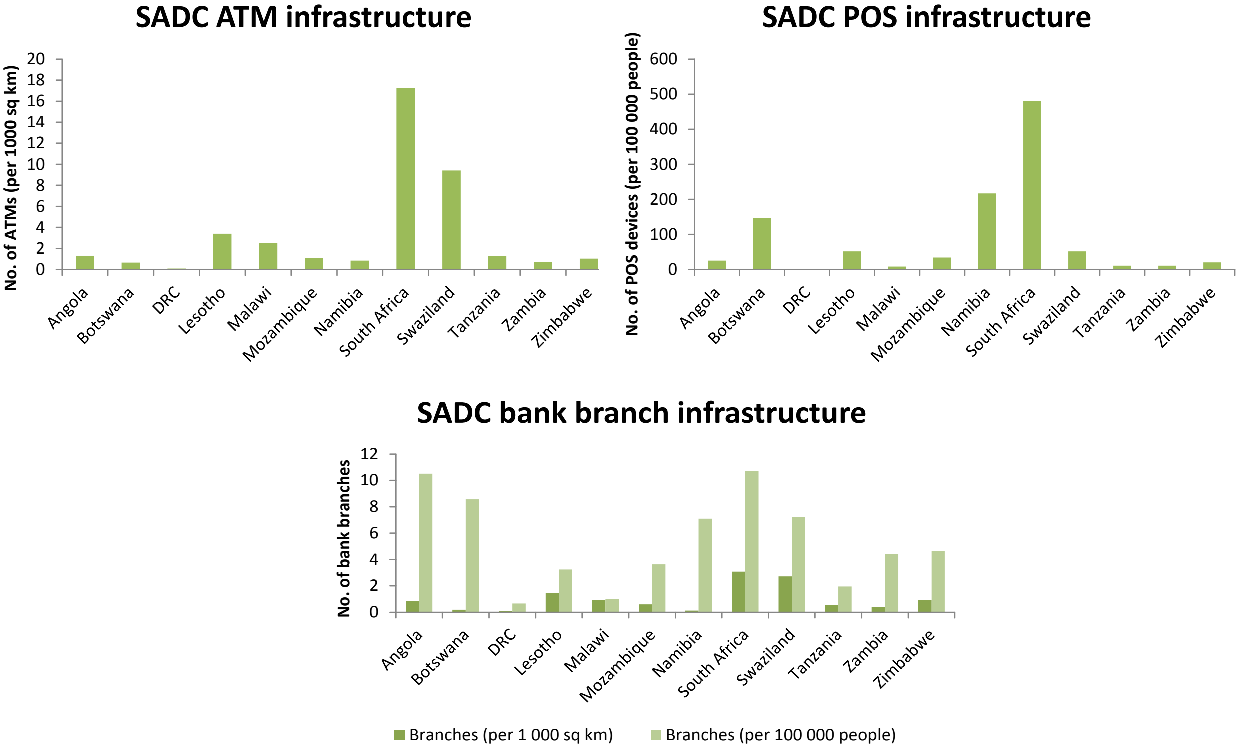


**Figure 28: Swaziland traditional distribution channels, SADC comparison.**

*Source: Red Flank, 2013*

*Majority of Swazis less than an hour's travel from bank or ATM.* Despite the large proportion of Swazis that live in rural areas, most Swazis are situated relatively close to financial services infrastructure as shown in Figure 29. More than a third of Swazi adults live less than 30 minutes travel from a bank branch (34.6%) and an ATM (36.2%), with more than two-thirds less than an hour's travel from a bank branch (71.6%) and an ATM (73.5%).

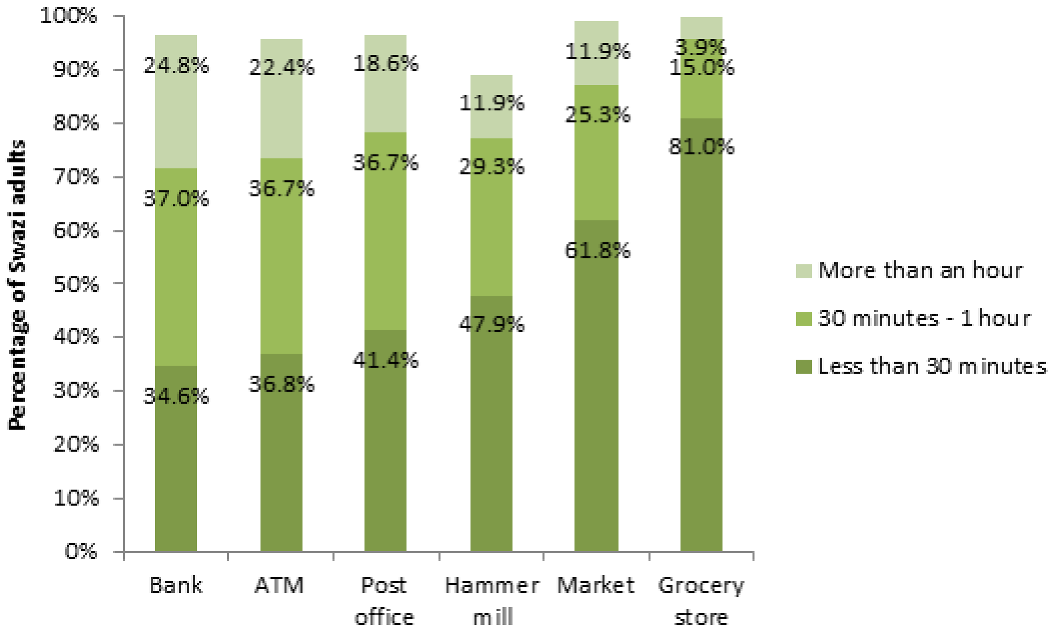


**Figure 29: Travel time to various touch points**

*Source: FinScope, 2011*

*Transport costs still prohibit financial access for small transactions.* Despite the close proximity of financial services infrastructure to the average Swazi, the cost of transport to access bank branches remains a prohibiting factor to regular use of financial services. According to FinScope survey findings, only 14.2% of people in rural areas own a car and so are reliant on public transport. The FinScope survey findings further indicate that 78.1% of respondents require public transport to access a bank branch, and 75.7% to access an ATM.  The State dependents are particularly reliant on public transport (96.2% to access a bank branch and 94% to reach an ATM).

**SHOPS**

**Longest distance travelled:** 10kms
**Most expensive Trip:** E10

**URBAN:**
- Avg. KMs = 3
- Avg. Cost = E3

**Longest distance travelled:** 60kms
**Most expensive Trip:** E30

**RURAL:**
- Avg. KMs = 5
- Avg. Cost = E6

**HOSPITALS OR CLINICS**

**URBAN:**
- Avg. KMs = 6
- Avg. Cost = E5

**Longest distance travelled:** 30kms
**Most expensive Trip:** E14

**RURAL:**
- Avg. KMs = 5
- Avg. Cost = E3

**Longest distance travelled:** 45kms
**Most expensive Trip:** E25

**BANKS**

**Longest distance travelled:** 30kms
**Most expensive Trip:** E10

**URBAN (average):**
- Avg. KMs = 8
- Avg. Cost = E6

**Longest distance travelled:** 35kms
**Most expensive Trip:** E30

**RURAL:**
- Avg. KMs = 14
- Avg. Cost = E12

**MUNICIPAL OFFICES**

**URBAN:**
- Avg. KMs = 10
- Avg. Cost = E6

**Longest distance travelled:** 45kms
**Most expensive Trip:** E10

**RURAL:**
- Avg. KMs = 20
- Avg. Cost = E20

**Longest distance travelled:** 60kms
**Most expensive Trip:** E70

For the most part, respondents living within 3km or less to their destination are more likely to walk, which takes more time but is a guaranteed saving of taxi fare.

**Figure 30: Estimated costs of travel to selected services from FGDs**

*Source: KLA, 2014a*

Qualitative research, per Figure 30 above, shows that the cost of travelling from rural areas to various access points is double those of urban areas. For most rural respondents it cost E12 per trip to reach a bank, as opposed to E6 to a shop, an amount that would make small value regular transactions and savings unaffordable. Alternative channels are therefore key to fulfil these functions.

#### 5.2.2.2. Alternative distribution

Potential alternative distribution channels in Swaziland consist of the retailers, MTN the mobile network operator (MNO), agro dealers and the Post office. The following section discusses the current and possible provision of financial services through these four channels.

### Mobile network operator (MTN)

*Mobile phones a convenient low cost method to transact and save.* Using mobile phones to access financial services is convenient and reduces transport costs needed to access most financial services. Storing and sending funds through mobile phone linked accounts is also safer than using most informal methods as it removes the easy access to the physical funds and is possible to do so privately. Mobile accounts further offer privacy from others, allowing funds to be built up anonymously without the pressure to lend to relatives or friends in need, with often little hope of getting repaid.

*High mobile phone penetration in Swaziland.* More than 80% of Swazis own a mobile phone, ranging from 96% for civil servants to 50% for state dependents (FinScope, 2011). 800,000 mobile phone accounts have been opened in Swaziland (MTN, 2013). Significantly more Swazis therefore own a phone than have a bank account or other type of financial product including informal products.

*MTN the only MNO in Swaziland.* MTN is the only MNO in Swaziland. Users therefore only need to register for one type of account to send to or receive from any Swazi with a mobile phone. This facilitates a particularly convenient cash in and cash out functionality.

*MTN has a wide distribution network with rural reach.* MTN currently has 422 registered agents, 130 of which are currently active. This means that the distribution infrastructure of MTN is larger than any other financial services providers in Swaziland. Figure 31 below, shows the relative distribution of MTN's active agents between rural and urban, indicating that a fairly large proportion of agents are situated rurally. Hence, MTN mobile money has a far greater rural reach than many other distribution channels.

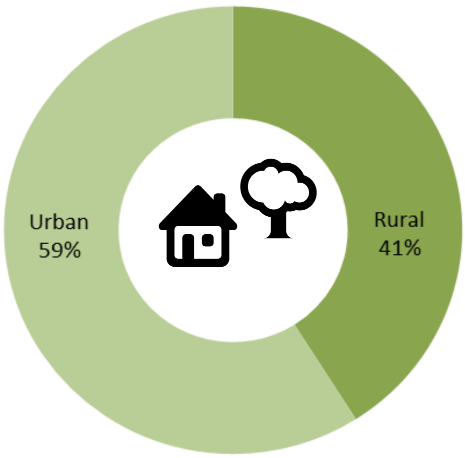


**Figure 31: Distribution of MTN mobile money agents**

*Source: CBS NPS Division, 2013*

*MTN offers MTN Mobile Money for transactions, with potential as store of value.* MTN Swaziland introduced mobile money midway through 2011 and currently has 200,000 registered subscribers, with 15% (30,000) active users[40]. Mobile money is an e-money payments mechanism that allows users to convert cash into mobile money at an agent and then use that mobile money to pay bills (for e.g. electricity, airtime, insurance) or pay someone else – who can then withdraw the money in cash from an agent. Super agents are also able to offer the service of bulk payments like salaries through mobile money. As there is no limit on the time which mobile money can be kept in a subscriber's account, it can be also used as a store of value, i.e. a very basic savings account. Users must register to send, but don't need to be registered to receive mobile money (although there is a cost difference). MTN has also recently launched a credit product through mobile money. Sections 6.1.4.1 and 6.2.3.2 provide more detail on MTN's Mobile Money products.

*Potential to offer low value interest bearing savings accounts.* Mobile money charges no deposit fees which makes it attractive for low value frequent saving. MTN is currently restricted from earning interest on funds deposited and as such does not offer interest to mobile money account holders.

[40] Active is defined as a subscriber that has made at least one transaction.

However, if this restriction is lifted then mobile money could offer interest bearing savings accounts to subscribers.

*Potential for distributing insurance through mobile money.* Due to the low costs and wide distribution associated with mobile money, it would also be a viable vehicle for the alternative distribution of insurance products as premiums can be paid at a low cost and with no associated travel expense by subscribers. MTN has already started to partner with insurance companies to offer this option, but is a service that can be further expanded.

**Retailers**

*Retailers can cost effectively provide financial services on the back of existing infrastructure.* Financial services distribution by retailers can encourage the promotion of financial inclusion through the cost effective provision of financial services because it relies on the established infrastructure of the retailer and thereby holds the potential for reduced costs when compared to a traditional channel that has to set-up and support the financial services provision purely through the sale of related products.

*Financial services distribution by retailers could benefit both individuals and retailers.* The FinScope survey reports that 95% of Swazi adults are within walking distance of a grocery store, as compared to just 12.8% within walking distance of a bank. This indicates that accessing a grocery store would be easier and, crucially, less expensive than accessing a bank as no transport costs would be incurred. Retailers in Swaziland, therefore represent a broad touch point to reach all Swazis. Furthermore, many Swazis may feel intimidated or uncomfortable to transact in a bank and interact with bank staff and are more willing to access financial services from a trusted retailer that is well-known to them (Eighty20, Forthcoming). Distributing financial services through retailers can also be highly beneficial to the retailers themselves as it provides an alternative source of revenue and can reduce the retailer’s cash management costs if a cash-out service is provided. Furthermore, providing the service will provide greater reason for more customers to frequent the store and therefore opens up the opportunity for increased profits through cross-selling. For example, a significant amount of money transfer funds sent through retailers are also spent in retailers (Eighty20, 2013).

*Networked retailers offer good opportunity for distribution.* Around a third of the retail sector in Swaziland consists of franchised stores, with the remainder being independently owned. The franchise stores are generally located in the five urban centres (Red Flank, 2013, pp. 110-111). The majority of networked retailers are South African owned and include: clothing retailers such as Woolworths, Truworths, PEP and Econ (Jet and Edgars); furniture retailers, such as Ellerines, Lewis and JD Group; food retailers such as Spar, Shoprite and Pick ‘n Pay; and hardware/ building retailers such as Cashbuild and Build it. PEP and Shoprite (including USave) have the largest networks, with 19 and 14 stores respectively, but are generally located in urban centres. As established above, these urban centres are within close reach of most rural households. These retailers typically situate their stores in close proximity to existing banking infrastructure, which they are reliant upon for their cash management needs (PEP, 2013). Many consumers would however not transact in the bank even if it is close and prefers using retailers for certain types of transactions.

*Rural-based stores can be networked to offer bill-payments or act as agents.* The majority of the retailers in the rural areas are non-franchise retailers and hence do not explicitly connect into an existing network that can be leveraged to allow customers to pay bills or play a role as agents. Technological innovations, such as Flash[41], offer the potential to create these networks to allow even remote shops to offer financial services.

*Retailers currently offer credit, saving stamps, lay-buys, bill-payments and act as mobile money agents.* Six of the major retailers[42] offer credit purchases; while Cashbuild, Build it and PEP also offer lay-buy purchases. Shoprite allows customers to make bill payments in store, although these are limited to only a few merchants – primarily airtime, electricity and water payments. Shoprite also offers a saving stamp booklet (as in South Africa) that can be redeemed in vouchers to spend at Shoprite.

*Potential products distributed by retailers.* The potential for retailers to distribute financial services in Swaziland is substantial. Retail credit is already widely used and accounts for 31% of total consumer credit accounts. An opportunity exists to extend retailers financial service role to include remittances and insurance products:

- **Money transfers or remittances.** Retailers are currently not providing remittances due to regulatory restrictions. In South Africa, FinScope (2013) indicates that 29.9% of adults who send remittances do so through a money transfer at a retailer. This is in spite of 93.5% of senders and 52.1% of remittance receivers having bank accounts. Retailers therefore can be the preferred provider for financial services.
- **Insurance.** Retailers can also act as distributors of insurance products. As premiums are typically small regular payments, distributing insurance products through retailers can substantially reduce the transaction costs for clients. This can either take the form of active sales through call centres selling insurance to existing retailer credit clients or insurance sales made by retail staff or agents based in the retailer, or passive sales via "starter pack" type insurance which is bought off the shelf

**Agriculture**

*Agro dealers offer rural distribution potential coupled with an incentive to serve rural farmers.* Agricultural value chains offer rural footprints not achieved by most other distribution channels. Agro dealers are also generally networked and have incentives to see farmers prosper to obtain harvests to process and on-sell. Offering farmers input credit to enable them to plant, fertilise and grow their crops increases the likely yield to the agro dealer. Further, mitigating risks through insurance that maintains the productivity of the farmer and his crop would be valuable to ensure this yield occurs. For example, insuring the health of the farmer or providing crop insurance that cushions a farmer in bad seasons and provides the necessary capital to continue farming in the following season after a crop failure, which again benefits the agro dealer who is dependent on future harvests.

*Agriculture in Swaziland largely consumptive rather than productive.* It has been well-established in Section 2.1 that a large number of Swazi's farm to put food on the table. Only 8.3% of people involved in farming also sell the crops (FinScope, 2011). Consumptive products offer very limited potential for financial service distribution.

[41] South African based payment system s provider for local mom and pop stores.
[42] These include Edcon, Ellerines Holdings Group; Woolworths; Truworths; JG Group; and Lewis.

*Sugarcane, cotton and dairy present main opportunity.* Financial service distribution through agro value chains requires a number of farmers linked to a large aggregator, ideally also the institution that purchases the produce from the farmers. As the major commercial crops for Swaziland (see Section 2.1), sugarcane, cotton and diary therefore provide the most viable agro value chains in Swaziland due to the number of farmers involved and the aggregators involved in these industries. Forestry is largely commercial with very limited opportunity to serve smallholder farmers. Honey and vegetables production is still quite small, but could have future potential. The potential held by sugarcane, cotton and dairy are outlined below:

**Sugar**

*Mills act as financial aggregators.* Sugarcane is a major crop in Swaziland, the industry contributes 60% to total agricultural output and account for 35% of private sector agricultural wage employment. The sugar industry in Swaziland consists of large millers and estates (77 % of production); large growers (17 % of production), medium size growers (5 % of production) and small growers (1 % of production). While accounting for a smaller volume of total production, the largest number of growers falls under the category of medium and small growers, the latter estimated at 3,500 farmers (Esterhuizen, 2013). Swaziland has three sugar mills: Mhlume, Simunye and Ubombo with a combined annual production capacity in excess of 800,000 tons. Sugarcane growing in Swaziland is only permissible through a quota issued by the Sugar Industry Quota Board (Esterhuizen, 2013). Registered growers have to sell their crop to the Mill which creates the opportunity for the Mill to play a role in financial services.

*Mills currently reduce the risk to offer credit to growers.* The mills and growers have entered into an arrangement with Nedbank and SwaziBank where the banks lend to the growers with the understanding that the loans will be settled directly from the amounts the mills owe the growers, before paying surplus profit into the farmer’s bank account. This reduces the risk of non-payment to the banks and allows them to extend credit to clients that would otherwise be too risky.

**Cotton**

*Gin acting as financial intermediary.* There are an estimated 3000 cotton growers, selling the cotton on to the single gin that is the buyer of all the cotton in the country to sell largely to the export market (GSMA, 2013). The gin provides input credit to farmers to enable them to plant and harvest and then repay from the amounts realised through the harvests (Technoserve, 2013). There is potential for increased off-take agreements through this channel. In regards to sustainable potential, cotton has seen a major decline in last two decades. Droughts, lack of finance and low cotton prices have caused a decline in the land use, people employed and output of cotton. From 30,000 people employed in the early 1990s, to 16,000 people in 2013 and a 5 % decrease in the land used for cotton farming, the industry is struggling along with that of the cotton industry in its neighbour, South Africa (Hachigonta, et al., 2013).

**Dairy**

*Potential for financial services in dairy value chain.* All milk and dairy products in Swaziland are controlled by the Swaziland Dairy Board (SDB), a statutory body. The latest published figures indicate that annual demand for dairy products in terms of liquid milk equivalent is in excess of 56 million litres and that total commercial milk production around 8.4 million litres with shortfall of 48.2

million litres (that is imported annually in the form of raw, long-life and powdered milk). The number of dairy farmers in the country has increased by 7.6% and the total herd increased by 6.7% from 2011 to 2012. (Ministry of Health, 2014). The approximately 3000 farmers sell milk either in the villages where they live or to Parmalat. Any remaining milk is sold to the SDB.

*Dairy Board or Parmalat potential aggregators.* Both the SDB or Parmalat would offer an opportunity to provide some kind of credit to grow dairy farming or offer insurance for the health of the farmer or theft/illness of livestock. Alternatively a credit guarantee scheme or direct payment of loans as offered by the sugar mills may offer potential.[43]

**Post office**

*Post Office has broad distribution footprint.* The SwaziPost, part of the Swaziland Post and Telecommunication Corporation (SPTC), is the national postal service. There are currently 31 operating post offices in the country in urban, peri-urban and rural areas (SPTC, 2013) SwaziPost services include mail and financial services. The financial services include postal orders, money orders (domestic and cross border), bill payments[44] and '*Sivinini'*[45], (SERA, 2013).

*Potential to expand financial service offering hampered by uncertain future institutional structure.* At the time of writing, SwaziPost was investing in systems infrastructure upgrade to improve the information systems capability to play a larger role in financial services (SERA, 2013). However, at present the future institutional structure of the SPTC seems uncertain, which would in turn limit the potential to significantly expand its financial service operations[46]. In future it could act as a viable branch/agency network for other financial service providers or mobile money given its distribution footprint as an alternative to directly providing financial services.

#### 5.2.2.3. Opportunities to expand distribution

Swaziland already has a significant bank distribution network. Figure 32 below indicates a number of opportunities to expand distribution by harnessing alternative distribution networks:

[43] Parmalat does currently provide letters of motivation for regular supplier applying for credit from banks on an ad hoc basis.
[44] Including bills for Swaziland Electric Company (SEC); MTN; Swaziland Water Corperations Services (SWCS); Swaziland Television Authority (STVA); and SwaziTelecom.
[45] *Sivinini* is a remittance channel using telegram to send money from one post office to another, without the need for a bank account.
[46] For information on the latest announcement on the SPTC, please see: http://www.times.co.sz/news/96067-major-changes-at-sptc.html

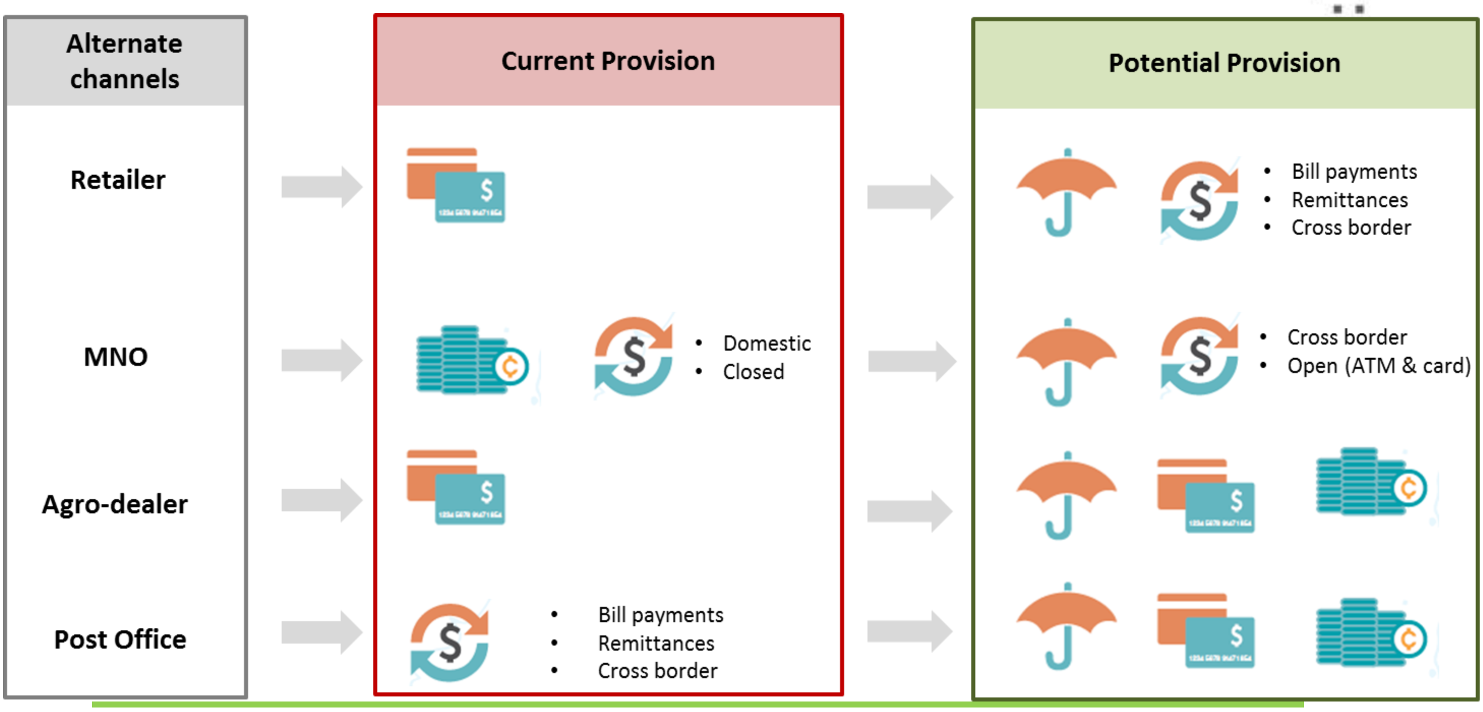


**Figure 32: Potential distribution of financial services in Swaziland**

*Source: Authors' own*

The diagram summarises the opportunities related to four alternative distribution channels:

- **MNOs:** currently, mobile money is used only for the transfer of funds from one person to another (P2P). As in other countries[47], this channel has potential to increase the offering to include: domestic and international payments; bill payments; and even government transfers, such as grants. If the regulation is altered, the mobile platform could be used for savings accounts, i.e. a store of value that is applicable both for individuals or savings groups. Other than payments, it is also possible to sell insurance on a mobile platform.

- **Retailers:** Aside from current credit offerings, retailers have potential to play a larger role to facilitate bill payments, remittances (domestic and international) as well as insurance products – either through passive sales or active sales, such as having an agent branch inside stores.

- **Agriculture and agro-dealers:** through the agricultural value chains for various products, the agro-dealers represent aggregators for financial services – aside from credit, insurance could also be sold through this channel.

- **Post office:** the post office has a substantial rural footprint that could be leveraged to extend the financial service offering beyond payments to a full-service offering, including credit, insurance and savings.

[47] mKesh and m-Pesa in Mozambique both offer P2P products.

# 6. Product markets

## 6.1. Market for credit

*Why focus on credit?* The effective allocation of capital for productive purposes is a fundamental goal of the financial system. Credit is a product of this intermediation process and can contribute to productivity through spurring economic growth, employment and improved welfare if used for purposes such as building businesses, funding education, funding larger assets and preventing people from falling into poverty after a shock. However, it can also trap people in a cycle of debt that causes severe hardship. Getting the balance right between improved access to credit and protection against over-indebtedness is difficult and requires a comprehensive view of the market from the consumer and provider’s perspective.

To help achieve this balance in Swaziland, the following section explores the market for credit, in totality, for the purpose of considering the challenges, gaps and opportunities in further expanding provision to the identified target groups. This includes providing an overview of current take-up, the providers of credit and the products available.

**Key issues: market for credit**

The key issues from this section are the following:

- The uptake of formal credit is low and mostly predominantly by the formally employed.
- The majority of credit (measured by value) provided by the banks. However, they have limited incentive to move downmarket and provide loans to riskier target markets.
- Most people who borrow do so from informal providers as they are not eligible to borrow from formal providers or need access to quick loans.
- Personal loans are the most common form of credit, with payroll lending the dominant category of formally provided personal loans.
- Asset-based lending makes up two thirds of the value of consumer credit, but serves a relatively small proportion of the market.
- Apart from FINCORP and the Inhlanyelo Fund, the developmental credit providers struggle to remain sustainable due to high non-performing loans (NPLs) and undercapitalisation.
- The interest rate cap detailed in the Moneylenders Act guides market behaviour, even for those institutions legally exempt. This restricts lending by formal institutions to low risk opportunities, whilst informal institutions offer credit at substantially higher interest rates, creating a ‘missing middle’ in the Swazi consumer credit market.
- The lack of a credit bureau increases the cost and perceived risk of lending.
- A comparison of the real demand for SMME credit with the supply indicates that the focus should be primarily on better directing the already available credit and on broader development policies to develop SMME and agricultural sectors rather than increasing the supply.
- Limited information of terms and costs is available when taking out a loan. The actual cost of credit is therefore often higher than anticipated by consumers.
- There is some evidence of pockets of over indebtedness amongst civil servants.

### 6.1.1. Credit uptake

This section discusses the extent to which Swazis use various forms of credit. Formal credit generally comes at lower interest rates with improved consumer protection; however it may not be as flexible or inclusive as alternative sources of credit. Where informal use is high this demonstrates an opportunity for formal providers to extend their reach downmarket and may point to a need to develop more enabling regulation to encourage formalisation.

*Low overall uptake of formal credit.* FinScope data, as shown below in Figure 33, indicates that about 35,000 Swazi adults or 6.7% of the adult population have credit through formal financial institutions. A much larger proportion of Swazi adults (19.4%, or 103,121 adults) source credit from informal institutions such as informal moneylenders and savings groups. Figure 34 indicates that most of those respondents are accessing informal credit only, that is, they are not accessing informal credit as a supplement to their formal credit. Given that credit from formal institutions is significantly cheaper (see Figure 39), the high uptake of informal products indicates either constraints in accessing credit from formal financial institutions, or that most Swazis consider informal products more appropriate to meet their needs.

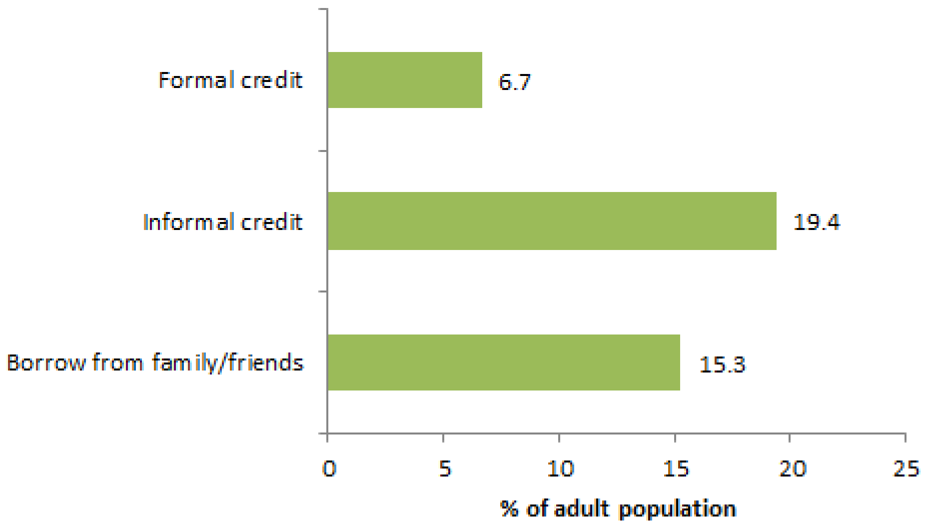


**Figure 33: Total credit uptake**

*Source: FinScope, 2011*

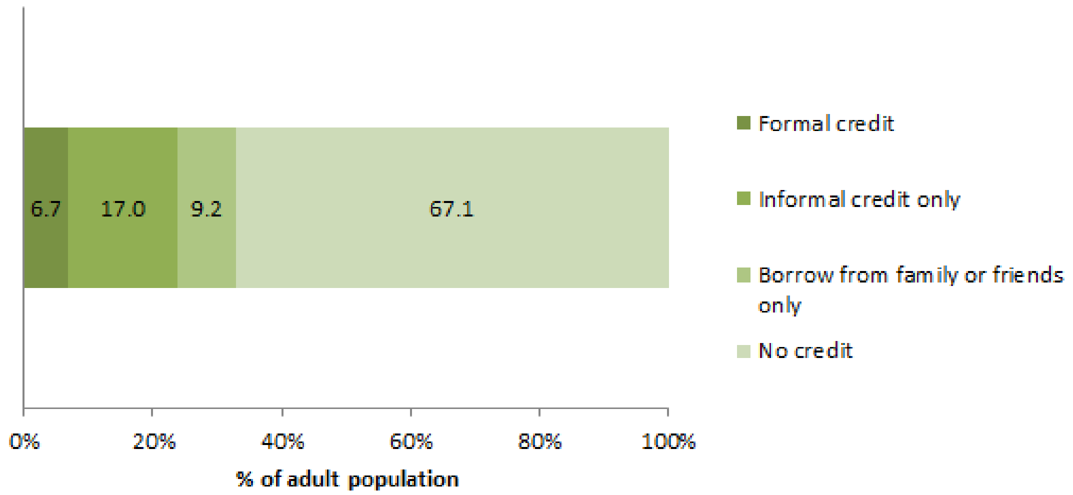


**Figure 34: Credit access strand**

*Source: FinScope, 2011*

*Civil servants most frequent users of credit*. Civil servants constitute the predominant market for credit from formal institutions. Table 10 below, shows that 42% (18,877) of civil servants have credit from a formal institution and they account for 54.5% of total formal credit clients (see Figure 35). As the segment with the highest mean and median income, as well as permanent employment, civil servants are the most likely to meet the eligibility requirements for credit from formal financial institutions. A similar proportion of civil servants (43.1% or 19,399 adults) have credit from an informal provider although, due to greater uptake amongst the other segments, they only account for 19.9% of total informal credit clients. 18% (8,086) of civil servants (FinScope, 2011) have credit from both formal and informal sources. Accessing credit from multiple sources raises the possibility that a portion of these individuals may be over indebted and are accessing one form of credit to repay another. The company employees, although accessing substantially less formal credit than the civil servants, are the second highest users of both formal (13.6%) and informal credit (31.7%) and access significantly more credit than the other target groups.

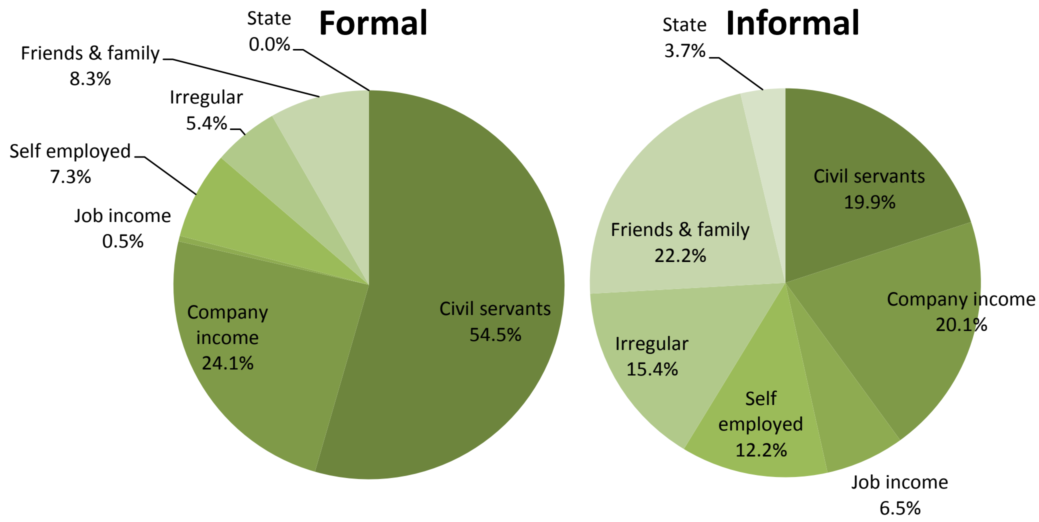


**Figure 35: Proportion of formal and informal credit accessed by different target markets**[48]

*Source: FinScope, 2011*

| Target group | Formal | Informal | Borrow from family/friends | No credit products |
|---|---|---|---|---|
| **Total population** | 6.7 | 19.4 | 15.3 | 67.1 |
| **Civil servants** | 42.0 | 43.1 | 22.3 | 28.0 |
| **Company employees** | 13.6 | 31.7 | 11.5 | 52.2 |
| **Informally employed** | 0.6 | 22.7 | 19.0 | 67.1 |
| **Business owners** | 3.7 | 17.4 | 16.0 | 70.3 |
| **Irregular earners** | 1.9 | 15.3 | 18.6 | 70.5 |
| **Private dependents** | 1.9 | 13.9 | 13.7 | 74.9 |
| **State dependents** | 0.0 | 10.3 | 8.9 | 82.4 |

**Table 10: Total credit uptake per segment**

*Source: FinScope, 2011*

*Minimal formal credit uptake by non-formally employed.* The informally employed, the business owners, the irregular earners, the private dependents and the state dependents between them account for 71.9% (382,376) of the Swazi adult population but just 21.4% (7,421) of adults with formal credit and, as shown in Table 10, penetration of credit is very low in each of these segments, especially the informally employed and state dependents. Although uptake of informal credit is lower amongst these five segments than amongst the formally employed, it is still substantially higher than for formal credit. The five non-formally employed segments account for 60% (58,175) of total informal credit. As the interest charged on formal credit is typically lower than on informal credit, the substantially lower uptake of formal credit than informal credit indicates that either the eligibility barriers to formal credit are restricting uptake amongst these segments or that Swazis in these segments consider informal products more appropriate for their requirements than formal credit products.

[48] Figure 35 illustrates the proportion of each target group making up the total number of adults with formal and informal credit.

*Limited uptake of credit by small businesses.* Just 3.7%, or 2,500, of self-employed have formal credit, as shown in Table 10. Informal credit uptake is relatively higher, but still lower than the employed groups. Considering that business owners would be expected to take out credit for personal use with the same frequency as other similar groups, Table 10suggests that credit uptake for business investment purposes is limited[49]. It may reflect on the small, survivalist nature of the business. As indicated in Section 2, most SMMEs are micro enterprises or individual traders generating very low incomes from their businesses.

*Borrowing from family and friends a significant source of credit*. Figure 36 shows that 15.3% (81,302) of Swazi adults borrow from family and friends, slightly less than the number with informal credit. Amongst the non-formally employed segments, Table 10 shows that borrowing from family and friends is comparable in pervasiveness to informal credit. The relative pervasiveness of borrowing from family and friends (compared to formal and informal credit) suggests that many Swazis in these segments may prefer to borrow from family and friends, when possible, due to aspects such as greater affordability and flexibility in repayment.

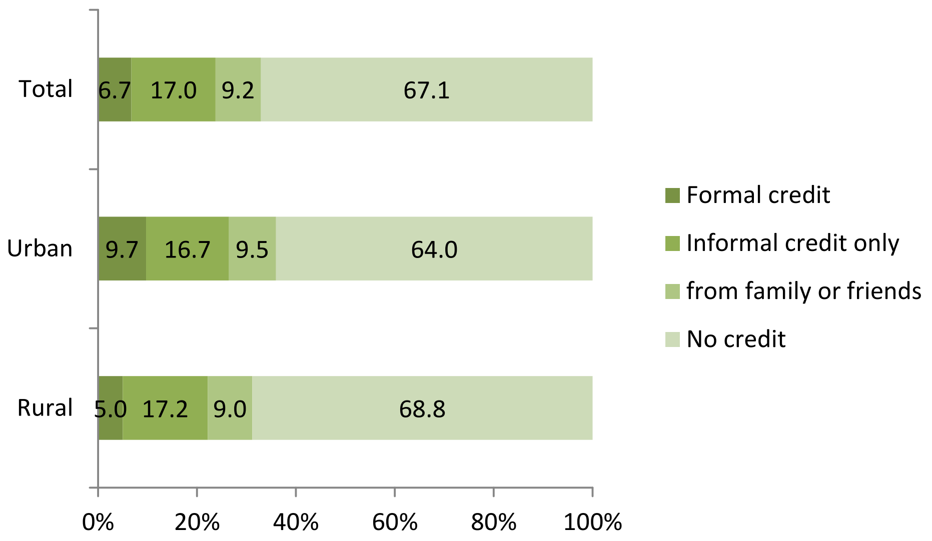


**Figure 36: Credit access strand split between urban and rural take-up**

*Source: FinScope, 2011*

*Urban formal credit uptake higher than rural uptake*. Figure 36 above, indicates that credit uptake is higher in urban areas than rural areas. This is likely due to the clustering of eligible clients in these areas rather than the proximity of branches. The two target groups with the highest credit uptake, civil servants and the formally employed also have the highest proportion of urban dwellers.

### 6.1.2. Use cases

This section outlines the use cases for credit uptake by Swazi consumers, as identified through the qualitative and quantitative demand-side research. At the end of the credit market analysis, we'll return to the use cases as the basis for the identification of gaps in current provision and opportunities to extend access.

[49] It is important to note that FinScope (2011) only reports the number of respondents that took up credit and hence doesn't report the level of credit i.e. the amount of credit used by business owners could be high, even though the uptake is low.

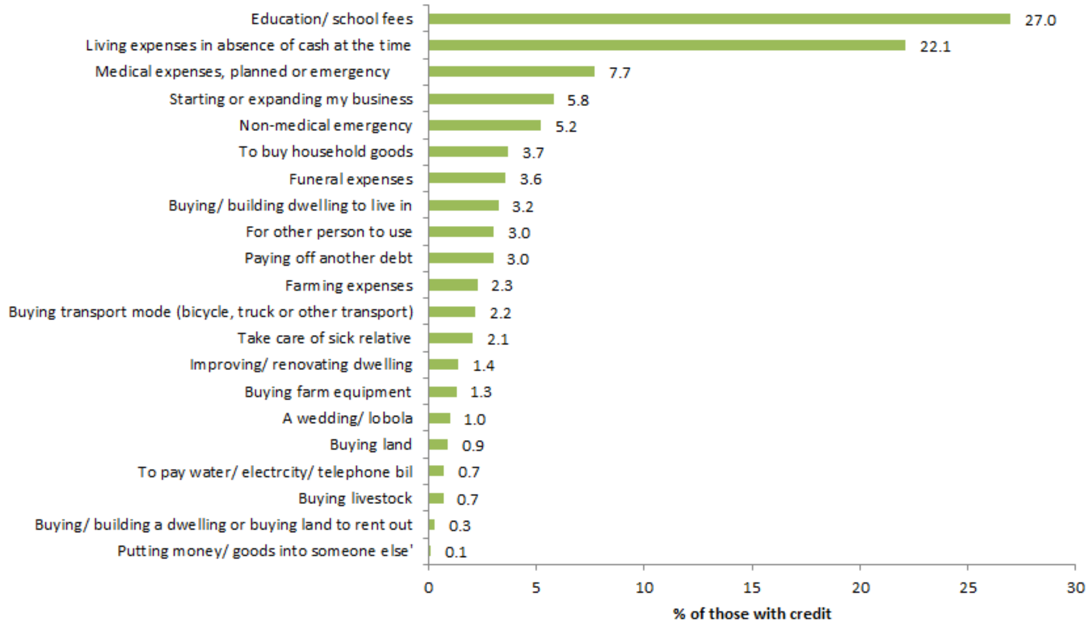


**Figure 37: Main reasons for borrowing money**

*Source: FinScope, 2011*

*Education the biggest reason for Swazis to borrow*. Figure 37 shows that 27% (47,229) of Swazi adults borrow to fund education. This proportion remains similar across the different target markets. School fees are often a family's largest annual expense and are lumpy in nature, being paid either annually or quarterly (each school term). The majority of credit used for education is likely to be for secondary school education, as primary school (up to grade 4) is free. However, the cost of textbooks, stationery and the school uniform must still be covered by parents. The government also covers the tertiary tuition costs of a pre-determined number of students through scholarships. Not all students receive these scholarships and even those who do still have excess expenses for textbooks and living expenses.

*"What drives us to shylocks is our need for money for school things"*

*(Manzini, Females, Aged 41 – 55 years (KLA, 2014b))*

*Consumption smoothing credit used by those not earning a regular income.* FinScope indicates that 22.1% of those Swazis with credit use it to pay "living expenses in absence of cash at the time." Consumption smoothing would be particularly important to those segments earning income on an irregular basis, which constitute a large proportion of the total Swazi population. State dependents are the most dependent on credit for consumption smoothing, with 42.7% of State dependents using credit for this purpose. This may be due to the three-monthly payment of old age grants. The Civil Servants and formally employed have the lowest uptake of credit for consumption smoothing which can be attributed to their higher and regular incomes.

*Credit for risk management.* Credit is often used to cover risk events such as emergencies or funerals. Figure 37 indicates that 7.7% of Swazi adults who use credit, use it for medical emergencies, whilst 5.2% use credit for non-medical emergencies and 3.6% for funerals. All target markets use loans for emergencies, although a lower proportion of civil servants and formally employed with credit use it for emergencies than the other target markets. These two target markets are more likely to have some form of insurance and savings to help cope with such risk events.

*Aspirational SMMEs require business start-up, input and asset financing.* Access to credit is important for most businesses wanting to grow, including SMMEs which frequently require large capital outlay to finance start-up, input and asset costs relative to small amounts of savings. Figure 37 indicates that 5.8% of Swazis with credit use it to start or expand their business. Unsurprisingly, the business owners target market had the highest proportion of respondents that indicated they used their credit for their business (18.1%). Apart from the irregular earners (10.0%), all the other target markets indicated very low uptake of credit for business investment purposes. Just 1.6% of civil servants and 2% of formally employed indicated that they use credit for business purposes, suggesting that only minimal numbers of these target markets are accessing credit in order to start or maintain a business on the side. Longer term credit is often important to grow the business beyond an idea to a productive entity employing others and contributing to economic growth.

*Survivalist SMMEs may use more trade financing or other forms of financial services rather than credit.* Most Swazi SMMEs are micro businesses employing just the business owner who is driven to start the business from a lack of alternatives rather than a sense of entrepreneurship. These businesses indicate their need for credit, but often do not have the skills, ideas or desire to grow the business to enable them to repay debt incurred. Interviews and results from SMME FinScope surveys in other SADC countries indicate that credit may drive these types of businesses into overindebtedness, rather than improve livelihoods. As such small amounts of trade credit or risk mitigation mechanisms such as funeral, property and health insurance are more likely to be needed by these SMMEs (see Section 6.4).

*Limited use of credit for personal asset purchases and mortgages, largely accessed by the formally employed.* The purchase of big ticket items such as motor vehicles and houses are typically too large in value for most individuals to buy outright, and hence credit plays an important role in funding the purchase of these items for household and business use. Figure 37 indicates that 3.7% of Swazis with credit use it to buy household goods, 3.2% use it to buy or build a dwelling to live in, 2.2% use it to buy a transport mode, 1.4% use it to improve or renovate a dwelling and 0.9% use it to buy land. This use of credit is primarily limited to the civil servants and formally employed - those individuals with sufficient income to be able to afford these high value items, but is available to all that can prove they can afford it given the collateral available to reduce the credit risk.

*Personal loans used to bring consumption forward.* Credit, primarily in the form of personal loans, is used to bring consumption forward. One example of bringing consumption forward would be funding a wedding or paying for Lobola from credit rather than savings. Figure 37 shows that 1.0% of Swazis with credit used it to pay for a wedding or Lobola. This form of credit is primarily used by the formally employed.

*Agricultural finance required by farmers.* The irregular nature of farming incomes and the high capital investment required up front in terms of seeds and fertiliser or livestock, and farming equipment means that many farmers require credit up front to fund this initial capital investment. Figure 37 shows that 2.3% of Swazi adults with credit use it for farming expenses, 1.3% use it for farming equipment and 0.5% to buy livestock. The main users of agricultural credit are the irregular earners, unsurprisingly as the farmers are a subcomponent of this target market. FinScope (2011) indicates that 3.9% of irregular earners use credit for farming expenses, 2.7% for farming equipment and 0.5% for livestock.

*Credit used to pay off loans.* Figure 37 shows that only 3% of Swazis with credit use it to pay off existing debt. Borrowing to pay off existing debt is a clear indication of over indebtedness and so the relatively low positive response rate to this question (this is equivalent to just over 5,000 Swazi adults) suggests that over indebtedness may not be a widespread problem. The civil servants would be the target group most likely to use credit to pay off existing loans as they have access to credit from multiple sources.

### 6.1.3. Providers

Figure 38 below, provides an illustration of all the major formal players currently providing credit to the Swazi consumer market. Pension Funds and insurers would also play a significant role in credit extension to corporates and other larger businesses as indicated in Section 5.2.1. This creates competition in this market and could ultimately affect elements relevant to provision of credit to consumers such as provider strategies and transaction costs, but will not be discussed as standalone providers of credit since funding is not provided directly to individual consumers.

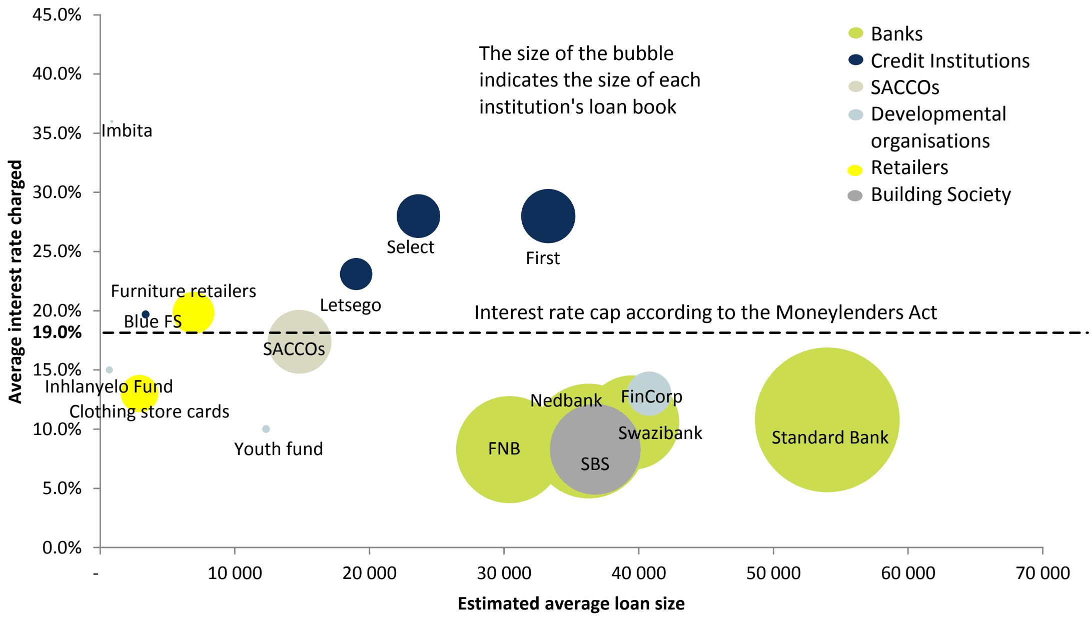


**Figure 38: Landscape of formal credit providers**

*Source: Supply side consultations, 2013; SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Standard Bank Swaziland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013; Swaziland Building Society Annual Report, 2013; FINCORP Annual Report, 2012*

*Similar institutions offer similar interest rates and loan sizes.* Provider interviews and financials show that different types of institutions tend to cluster together, offering similar interest rates and offering similar loan sizes. The banks and SBS offer the lowest cost loans with the highest average size but also have the strictest eligibility requirements. Credit institutions therefore frequently service riskier loans for customers unable to get a loan from the banks or SBS, but at higher interest rates. The SACCOs tend to fall between these two institutional groups in terms of the average interest rate charged and also serve only their members. Most of the developmental credit providers are subsidised and so can offer interest rates similar to those offered by the banks, although these are focused on SMMEs which are typically not served by the banks.

*Money Lenders Act interest rate cap limits risk taking and entry into the market*. Most formal institutions offer interest rates below the interest rate cap of prime +10% as set in the Moneylenders act. Even those charging interest rates above the cap, typically offer an 'official' interest rate below the cap but then add additional administration fees to that interest charged. Provider interviews indicated that most of the institutions believe they are subject to the interest rate cap, even though the act provides an exemption for many of these entities (see Section 3). Therefore, even if the insurance cap is not legally binding, it guides the behaviour of all formal entities operating in the Swazi credit market and may restrict entry into the market to compete with the current offering.

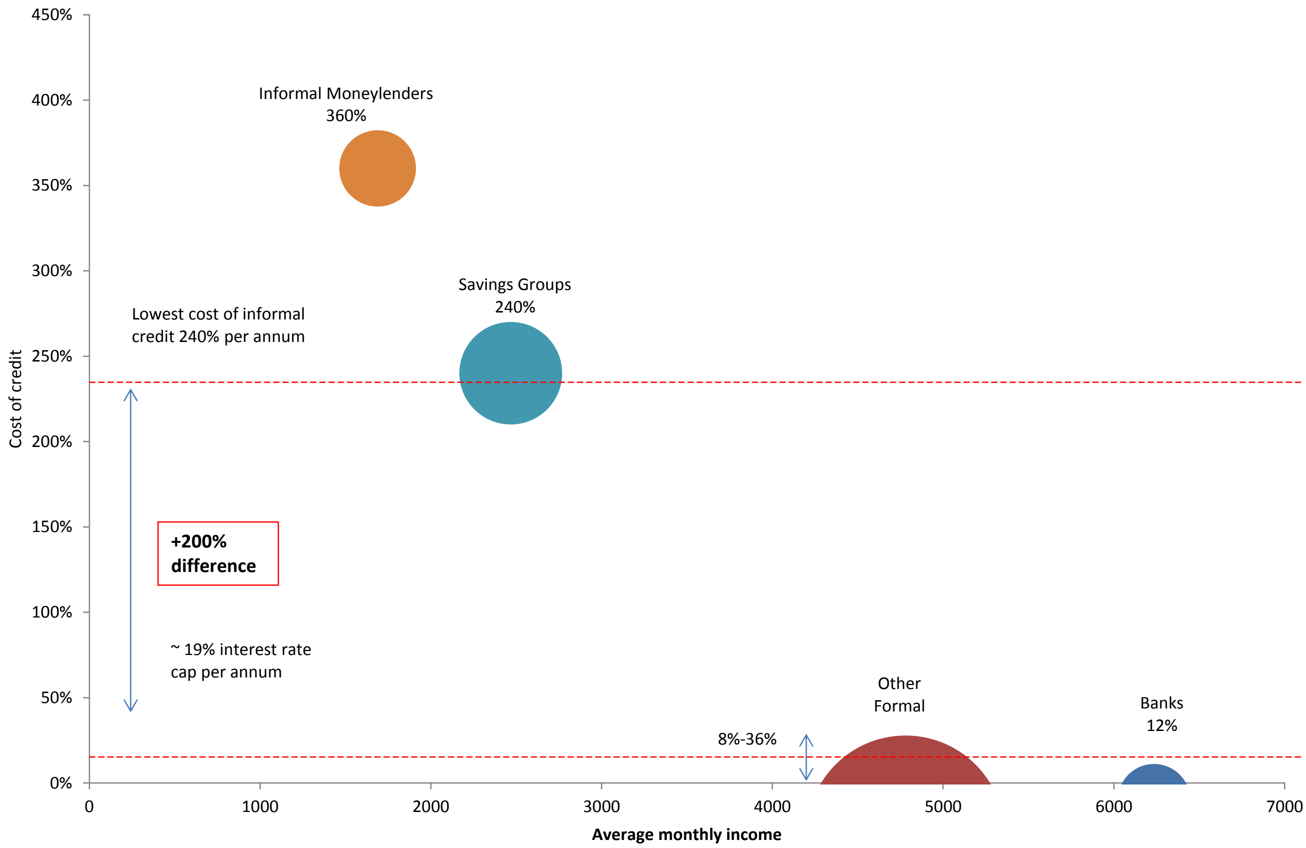


**Figure 39: Comparison of credit extended by the formal sector compared to the informal sector**[50]

*Source: Supply side consultations, 2013; FinScope, 2011*

*Missing middle: large gap between the cost of formal and informal credit.* Most of the formal institutions offer credit at relatively low rates of under 36% per year, as illustrated above in Figure 39. Informal credit is offered by two primary sources: informal moneylenders and savings groups. The credit offered by these groups is short term, generally with a 1-3 month term and on average is charged at 20-30% per month or 240-360% per year, although individual moneylenders or savings groups may offer credit outside of this interest band. This means that there is a large discrepancy

[50] "Other formal" includes credit institutions. Cost of credit rates were based on discussions with the credit institutions.

between the cost of credit[51] charge by formal and by informal organisations. As formal institutions behaviour is guided by the interest rate cap, they are unwilling or unable to offer loans to more risky clients as they cannot increase their interest rates to proportionately price in the greater risk. The result is that the informal providers face no competition from formal providers and are able to maintain high interest rates. More significantly, the discrepancy between the sectors also creates a 'missing middle' in the market which means that clients ineligible for loans from formal institutions are forced to pay the interest rates charged by the informal institutions. Paying these high interest rates could be potentially crippling for an SMME accessing credit or may limit the capacity of individuals to repay loans.

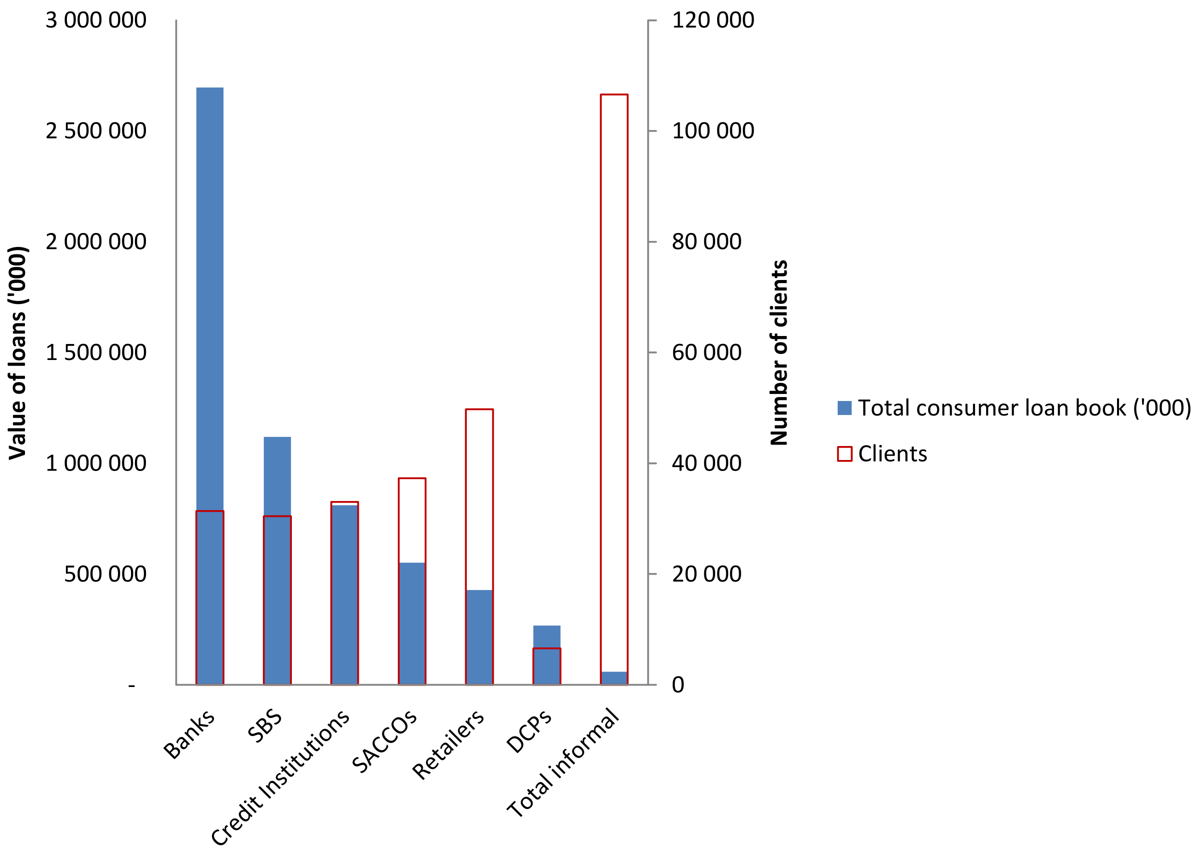


**Figure 40: Total individual loan book and number of credit clients by institution**

*Source: FinScope, 2011; Supply side consultations, 2013; SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Standard Bank Swaziland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013; Swaziland Building Society Annual Report, 2013; FINCORP Annual Report, 2012; KLA, 2014a*

*Limited incentive for formal providers to go down market*. Figure 40 illustrates the relative size of the informal sector compared to the formal sector in terms of the frequency of uptake. The total number of individuals accessing credit from the informal sector (103,121) is substantially larger than the number accessing credit from formal sources (35,727). However, the comparative value of credit

[51] The interest rate can be considered as the base cost of credit, however, additional fees such as administration and annual service costs may drive up the total cost of credit substantially higher than the interest rate. Figure 39 endeavors to show the 'all-in' interest rate i.e. the effective cost of credit to the consumer, however as many of the costs associated with credit provision may be concealed or only be triggered by specific terms, this rate may underrepresent the cost of credit somewhat.

through the informal sector (estimated at E50 million) is very small in comparison to the value of credit through the formal sector (consumer credit is estimated at E5.5 billion, total credit at E10bn[52]). The formal sector would therefore have limited incentive to target this pool of customers.

*Unfilled demand for low value formal loans.* The average size of loans from the informal sector are substantially smaller in value (estimated at E550 based on interviews with clients) than the formal sector (Figure 38 shows that the average loan size of the banks and SBS is generally between E30,000 and E50,000, whilst the CIs offer slightly lower value loans). Only the developmental credit providers offer low value loans comparable to the size of informal loans, although these are targeted specifically at SMMEs. Focus group discussions and interviews with consumers indicate that some of the demand for informal loans is driven by the need for small value loans which are not available and difficult to viably fund through the formal sector. The Inhlanyelo fund and FINCORP[53] (although this does not constitute its primary lending) offers loans of similar value to the informal providers. However, Inhlanyelo fund with approximately 10,000 customers is one of the biggest non-bank financial services providers in terms of number of customers – further indicating there may be an unfilled demand for low value loans at a lower cost than through the informal sector.

*"The problem is when schools are closed then our business comes to a standstill. Now when schools open you are broke so you have to go and get a loan somewhere. That is how we find ourselves there.''*

*(Manzini, Females, Aged 41 – 55 years (KLA, 2014b))*

#### 6.1.3.1. Banks

*Credit market dominated by four big banks.* Swaziland's four banks account for 70.9% of the total value of loans in Swaziland. Even when one only includes the consumer loans offered by the banks, they still account for 47% of the total credit market. The four banks registered in Swaziland are Standard bank, Nedbank, First National Bank and SwaziBank. The market is considered moderately concentrated in terms of the Herfindahl-Hirschmann Index (HHI)[54]. This is not inappropriate given the small size of the Swazi market and the lack of economies of scale that would be available in a market with many players.

*Swaziland's banks comfortably profitable*. Swaziland's banks had profit margins averaging 25.2% for the 2012 financial year[55] which are very similar to those earned by their South African counterparts, which averaged 25% for the same period[56]. This limits their incentive to take on more risk to improve performance.

*Ownership an important determinant of performance, strategy and products*. The four banks operating in Swaziland can be divided into two distinct categories. Three of the banks (FNB, Standard

[52] Author's own calculations based on supply side consultations with banks, credit institutions, developmental credit providers, SACCOs and the Central Bank of Swaziland, October, 2013.

[53] Imbita also offered low value SMME loans but is no longer viable.

[54] The U.S. Department of Justice & FTC in its Horizontal Merger Guidelines (2010) consider a market with an HHI below 1,500 is considered unconcentrated, between 1,500 and 2,500 is defined as moderately concentrated and a market above 2,500 is defined as highly concentrated. The Swazi market is moderately concentrated at 1,518.

[55] Author's own calculations based on figures in SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Standard Bank Swaziland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013

[56] Based on the average profit margin of the three South African banks operating in Swaziland – FNB, Nedbank and Swaziland (FirstRand Bank limited Annual Report, 2012; Nedbank Limited Annual Report, 2012; Standard Bank South Africa Annual Report, 2012)

Bank and Nedbank) are South African owned subsidiaries, whilst the fourth bank (SwaziBank) is wholly owned by the Swazi government.

*South African-owned banks strategy guided by South African parents*. The three South African banks have some autonomy over their Swaziland operations, but are guided by the strategy of their South African parents. Performance targets are typically set by the South African head office. This results in fairly conservative behaviour by these three banks as management is under pressure to match or exceed the profitability of fellow Southern African subsidiaries.

*SwaziBank guided by Government's developmental mandate.* SwaziBank was established by King Sobhuza II under the SwaziBank Order of 1965 and was explicitly endowed with a developmental mandate. Suboptimal management whilst pursuing this mandate led to the verge of collapse in the mid-2000s and the Swaziland government was required to recapitalise the bank. Whilst the bank has reverted to a more conservative strategy with a reduced risk taking, it still has a higher proportion of SMME and agricultural loans on its book than the other three banks and has a substantially higher NPL ratio (see 6.1.3.5).

*SA-owned banks benefit from access to South African infrastructure*. The three South African owned banks benefit from access to their parents' infrastructure. This allows them to piggy-back on existing, advanced banking infrastructure and central resources. The three SA-owned banks are currently able to offer their clients fully interoperable credit and debit cards as they are able to use their South African parents' access to South Africa's card switch – Bankserve (refer to Section 5.2 where the bank's payment system infrastructure is discussed). As Swaziland does not yet have its own card switch, or direct access to a regional switch, SwaziBank is unable to offer the same service to its clients, putting it at a competitive disadvantage[57]. Their close link with South Africa also facilitates simpler and cheaper cross-border transfers to and from South Africa for the three SA-owned banks as they can transfer funds directly to their South African partner without engaging in a correspondent banking arrangement or SWIFT transfer as SwaziBank would be forced to do. This is part of the reason why many Swazis are multi-banked – there are approximately 450 000 bank accounts across the four banks whereas about 235 000 FinScope respondents indicated they have a bank account. Focus group discussions and interviews indicate Swazi's have a 'South African' bank account to send or receive cross-border transfers but perceive the 'local' institutions (SwaziBank and the Swazi Building Society) to be cheaper for domestic banking needs.

Figure 41 shows that these efficiencies contribute to the lower cost ratios[58] of South African subsidiary banks of between 41 and 50% compared to 66.2%, experienced by SwaziBank.

[57] Swazibank is in the process of partnering with Mastercard so as to provide fully interoperable debit and credit cards (Sibandze, 2013)
[58] Operating cost as a proportion of total revenue.

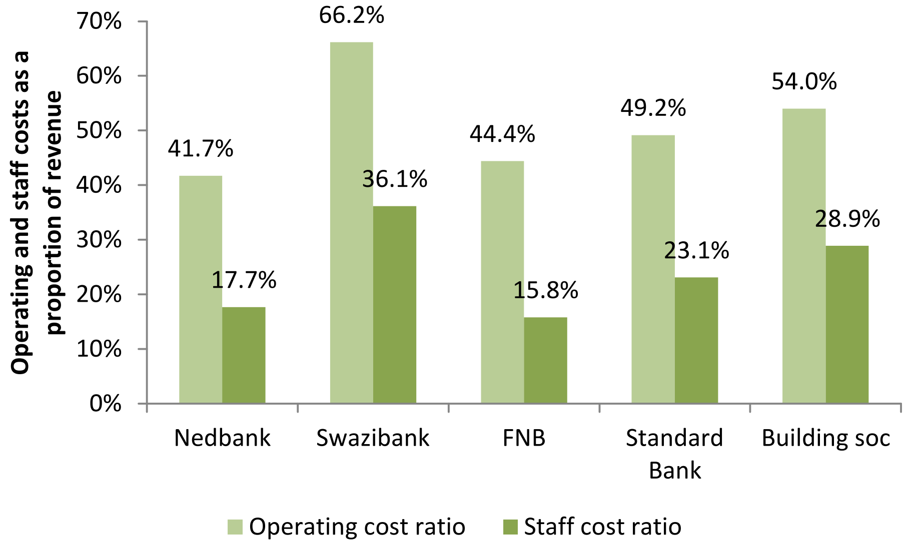


**Figure 41: Costs of banks and SBS**

*Source: SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Standard Bank Swaziland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013; Swaziland Building Society Annual Report, 2013; FINCORP Annual Report, 2012*

*Banks lack incentive to move downmarket.* High levels of liquid assets held by the banks[59] (see Appendix 2) indicate that banks do have the capacity to increase credit provision. In particular, 26.2% of bank assets are held in liquid assets, despite Central Bank regulation requiring only 20% to be held in in liquid assets (CBS, 2013). The profit levels of the banks means they do not need to extend riskier credit to improve returns. Between 50 and 60% of bank revenue comes from bank charges rather than interest[60]. This focus on non-interest income allows the banks to maintain high levels of profitability without pursuing riskier loans. The very low NPL ratios reported by three of the four banks (see Appendix 2) is a further illustration that banks are comfortably profitable and are not driven to provide credit to riskier clients. Furthermore, any new business needs to be not just profitable but at least as profitable as existing operations in order for management to have an incentive to expand in such a direction. Management's incentive is to maximise the profit margins relative to other banks in the same group in the region, rather than total profit.

#### 6.1.3.2. Swazi Building Society

*Swazi Building Society comparable in size and function to the banks.* Although not classified as a bank, the Swazi Building Society (SBS) is of comparable size and function to the banks. It is the country's only building society. The SBS was founded in 1962, making it older than all of the banks. SBS was set up with the primary function to provide long term mortgage finance to members and remains one of the country's major providers supplying loan finance for the purchase of vacant land and the construction of affordable housing (SBS, 2014). SBS has since diversified its product offering and in the credit space now also offers personal loans backed by savings. The SBS has a total loan book of E1.1bn and approximately 100 000 customers, making it only marginally smaller, in terms of credit provision, than SwaziBank.

[59] This is a long-term issue and has been highlighted as such by the Central Bank in all of its last four annual reports.
[60] Figures obtained from SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Stand Bank Swaizland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013

*Mutual structure influences SBS activities*. The Swazi Building Society is structured as a mutual which means that it is owned and governed by its members. Most of its customers become members of the building society through the investment in permanent share accounts. SBS is governed by the Swaziland Building Societies Act of 1962 which defines a "building society" as:

> *An association of persons whose principal object is the making, out of funds derived from the issue of shares to and the acceptance of deposits from the public or from subscriptions by members, of advances for any purpose upon the security of the mortgage of urban immovable property.*

This means that SBS has an explicit focus on mortgage lending and is the biggest provider of mortgage finance in Swaziland. Mortgages accounted for 79.4% of total loans extended SBS in the 2013 financial year (SBS, 2013). As a mutual, the focus is on providing services to the members who are also the owners, rather than a pure profit motive. Although SBS does earn profits (which are redistributed through dividends or added to reserves), this is reflected in low interest rates on its loans[61] and the vast majority of lending (80.2%) is personal rather than commercial lending. Unlike other credit providers, SBS is prohibited from offering unsecured lending. Mortgages are backed by the value of the property, whilst non-mortgage loans must be secured by savings or shares held with SBS.

*Growth strategy focused around technological improvements*. SBS is perceived by many Swazis as a bank, due to the similarities in the products provided. The recent introduction of a short term, flexible savings account to its product suite has further emphasised this similarity. SBS has recently upgraded to an electronic banking platform, although at this stage the system is a combination of paper-based and IT, and introduced ATMs and ATM cards. The organisation also intends to upgrade its technological banking channels with the introduction of internet and cellphone banking and is considering offering card capability through debit cards and POS devices. Given the similarities already existing in its business, and the more onerous requirements and greater restrictions on the products and business in which they can offer and engage detailed in the Building Society Act compared to the Financial Institutions Act, SBS may consider applying for a banking license in future.

*Swazi Building Society serves wealthier target groups beyond the employed.* The average income of SBS customers is about E5,000 pm (FinScope, 2011), indicating that SBS typically targets wealthier customers. Although proof of employment is not generally a prerequisite to access SBS products, the relatively high minimum balances of their savings products, the requirement of collateral for personal loans and the fact that less wealthy individuals would not be applying for a mortgage which also requires regular repayments; means that most SBS clients are formally employed and higher income earners.

#### 6.1.3.3. Credit institutions

*Payroll loans offered by all credit institutions, targeting the formally employed.* Four credit institutions (CIs) currently operate in Swaziland: First, Select, Letshego and Blue. The four CIs differ substantially in size but between them constitute 7.6% of the total formal credit in Swaziland and 14.2% of formal credit extended to individuals as illustrated in Figure 40. All of the CIs offer payroll

[61] SBS earns 7.7% interest on performing mortgages and 13.2% interest on non-mortgage loans. According to SBS Home Loans Brochure (2013), their mortgage interest rates are "the lowest in the sector."

loans exclusively, targeted at the formally employed. More than 90% of CI customers are civil servants[62].

*CIs mostly foreign owned*. Three of the four Swaziland credit institutions are part of regional lending institutions which are dependent on regional head office growth strategies and funding. Funding is generally raised through bonds issued on the Johannesburg Stock Exchange (JSE) in South Africa, which is substantially more liquid than the Swaziland Stock Exchange (SSE). The fourth CI, First Finance, is a subsidiary of FINCORP. Although started by the Swaziland government as an organisation with the mandate to provide development finance primarily to SMMEs, FINCORP also began to offer retail lending in 2003. Substantial demand led to the creation of subsidiary with a separate brand in the form of First Finance. First is therefore wholly owned by FINCORP, which is in turn majority owned by the Swaziland government. First therefore receives its funding requirements from FINCORP, its parent company, which in turn sources funding from a combination of the Government, Donors, loans from local banks and international organisations and a local bond issue. First has grown rapidly since its inception and is now the largest of the four CIs indicating that local ownership and the ability to make more rapid decisions without going through regional structures has benefited the organisation, allowing them to more rapidly adapt to the prevailing environment and needs of their clients. In contrast, it may take months for one of the other CIs to earn approval to launch a new product even after it has been developed. Some of the CIs indicated that they are not actively pursuing new clients as they are in the process of resolving various internal issues in order to comply with parent company requirements.

*CIs source funds from shareholders or public debt, prohibited from deposit taking.* The CIs are not legally permitted to accept deposits. Capital is generally raised through bond issues or group loans at an average rate of 9.4% (CBS, 2013). This is substantially higher than the rates banks pay to source funding from deposits of less than 3%[63]. The total cost of funding needs to take into account the substantially higher compliance, technology and infrastructure costs banks incur to access deposits as reflected in relative profit margins.

*CIs highly profitable.* The CIs are highly profitable, earning an average profit margin of about 40%, despite higher NPL's than the banks at 7.5% and a higher cost of funding than banks (CBS, 2013). To achieve these profits CI's charge higher interest rates than banks with all-in interest rates[64] between 25-35% p.a.

*No significant expansion plans for CIs.* At present CI's are largely dependent on employment levels to extend their payroll lending operations. To serve other target markets with other products will require a significant change in their business models. Most CI's indicated they would be eager to mobilise deposits under a second tier banking license if this were available to reduce funding costs. However, as indicated above the substantial costs of administering deposits make it unlikely that the benefits would outweigh the costs of introducing deposit taking in the CI business model. The high current profits further mean that there is limited incentive for these institutions to invest substantially in a major growth strategy or in developing new products. Most CI's are focusing primarily on improving the quality of their loan book by reducing the number of non-performing loans, rather than on growth through attracting additional clients. First is the only one that continues to grow rapidly.

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[62] Supply side consultations with credit institutions, October 2013 (See Appendix A)

[63] Author's own calculations based on SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Stand Bank Swaizland Limited Annual Report, 2012; and First National Bank of Swaziland Annual Audited Financial Statements, 2013

[64] All-in interest rates are defined as the effective interest rate experienced by the consumer which would include the advertised interest rate plus administration and/ or other similar fees charged by the CIs.

*CIs subject to reduced regulatory burden than banks.* The CIs have lower compliance requirements than the banks both in terms of lower reporting requirements as well as lower prudential and system requirements. The lower regulatory burden means that CIs have lower regulatory compliance costs than the banks.

#### 6.1.3.4. SACCOs

*Comparatively large number of SACCOs.* Compared to the other types of formal financial services providers, there are a large number of SACCOs operating in Swaziland, with 74 individual SACCOs registered with the Department of Cooperatives and a combined membership of 37 286. The total loan book of the SACCOs is E552 million, accounting for 5.2% of total formal credit and 9.7% of formal personal credit in Swaziland, as Figure 40 shows. The Swaziland National Association of Teachers (SNAT) is the largest individual SACCO with 11,000 members and a loan book of about E150 million, which makes it, apart from the banks and SBS, the third largest lender in the formal financial services industry[65]. The Swaziland Association of Savings and Credit Cooperatives (SASSCO) acts as the apex organisation for the SACCOs.

*Cooperative structure determines behaviour of SACCOs.* SACCOs belong to their members and hence their activities are not determined by a profit motive. As the SACCOs are owned by their members, any surplus earned over time should simply be returned to the members. The draft SACCO Bill provides for any surplus after statuary reserves have been complied with, to be distributed by means of dividends based on member shareholding and share type. SACCOs therefore offer high returns on formal savings (about 9.5% on average) while charging lower rates on loans than credit institutions at 15-20% per annum.

*SACCOs mostly serve formally employed, largely civil servants*. Most of the SACCOs, like SNAT, serve civil servants. Individual SACCOs each have different by-laws and entry criteria, but SACCO membership is effectively restricted to the formally employed, as most require a monthly contribution from the member, with the majority being civil servants. Thirty one of the SACCOs (including the biggest SACCOs and therefore accounting for most of the total SACCO members) deduct monthly subscriptions and loan repayments directly from the government payroll. The 33% cap on payroll deductions is not currently being applied to SACCOs, which creates the possibility for members to borrow from SACCOs on top of existing loans and potentially leading to a situation of over indebtedness.

*Considerable variation in performance and management between SACCOs.* Analysing the SACCOs as one generic entity does mask substantial variation in financial and management performance between the individual SACCOs. Mismanagement of SACCOs and members' funds led to significant losses in 2005. Historically cooperatives were required to be licensed and report to the Department of Cooperatives, with limited reporting requirements and supervision. Under the 2010 FSRA Act SACCOs are licensed and regulated by FSRA. The FSRA are also in the process of drafting SACCO regulations.

#### 6.1.3.5. Developmental credit providers

*Nearly all credit for SMME developmental purposes subsidised. .* Finance is provided to SMMEs on a subsidised basis by mainly four developmental credit providers: FINCORP, the Youth Development

[65] FINCORP and First counted as one entity are the largest, with Select second.

Fund, the Community Poverty Reduction Fund and the Inhlanyelo fund[66]. Subsidy is provided by either the government or donors. Government subsidy is also provided in the form of the Credit Guarantee Fund. There are also a number of support institutions such as SEDCO and Technoserve, which do not provide direct finance but try to aid SMME development, including assistance with business plans, training and mentoring which aids SMMEs to access finance.

*FINCORP the major provider of SMME loans.* FINCORP is the largest provider of SMME loans in Swaziland, substantially bigger than any other providers of these types of loans. It was started in 1995 with a large grant from the State and a mandate to provide developmental credit. FINCORP remains 80% owned by the Swaziland government but now sources its funding from a combination of donors, multilateral lenders, international and local loans and a local bond issue. The company focuses purely on providing finance to SMMEs[67] as per their mandate when started by the government. FINCORP's loan book of E268m, extended 6,571 new loans during 2012 and had about 3,000 outstanding loans[68]. The average loan size is approximately E90,000, which indicates that the company focuses to a large extent on financing small and medium aspirational enterprises which would need larger loans. However, during 2013 FINCORP has also extended more than 1,000 micro loans with an average value of less than E5,000. As per its development mandate, FINCORP's interest rates are kept low at about 13% pa (FINCORP, 2012).

**Box 11. Landscape of developmental credit providers**

Aside from FINCORP, there are a range of smaller developmental credit providers currently operating in Swaziland, the larger ones are discussed below:

*The Youth Development Fund (YDF)* was started with a government grant in 2010 and given a mandate to provide development finance to the youth (under 35 years old). However, the size of the grant was substantially smaller than FINCORP and the fund has struggled to recapitalise, with the result that it halted all lending during 2013. The YDF charges a standard interest rate of 10% p.a (Youth Development Fund, 2013).

*The Inhlanyelo Fund* focuses on low income SMME lending and despite the small size of its loan book, serves a large number of customers (about 10,000) due to the small average size of loans which they provide. The Inhlanyelo fund receives subsidised funding from the Swaki group and the Kirsh Foundation and is therefore able to offer relatively low interest rates of 15% p.a. (Inhlanyelo Fund, 2013).

*The Community Poverty Reduction Fund* is entirely state funded and is distributed through the Tinkhundla system. Applicants are required to submit a business plan with all the relevant attachments to a regional committee which assesses the applications to fund. The decision-making committee which is comprised of the regional Tinkhundla officer, key people in the region including local chieftains and headmen, and as the local MP. As with the other state funded organisations, the repayment rate is very poor. The loan is also only disbursed to businesses that will "address national poverty reduction" and "contribute to achievements of national and international policies" (Ministry of Tinkhundla Administration and Development, 2009). The fund received one capital allocation of E20 million in 2009, of which only E4 million has been recovered so far. Loans range between E1,000

[66] Imbita provided developmental credit to SMMEs, but is no longer operational and hence has been excluded.
[67] Apart from its subsidiary First finance, although this is run separately with a separate board and management team.
[68] Loans extended were reflected in the annual financial statements of 2012. The number of outstanding loans were based on supply side consultations with FINCORP (2013).

and E100,000 with a maximum term of 5 years and a flat interest rate of 7.5%.

*The State's credit guarantee scheme* has been in existence since 1991, but has since guaranteed a total of just 991 individual loans with a combined value of E62m, equivalent to less than 50 loans a year and less than E3m in loans guaranteed each year. The average default rate of 6.3% for loans that have been guaranteed. The credit guarantee scheme charges just 1% on the outstanding loan size per annum (on top of the bank's interest rate). This scheme is was undercapitalised in 2013 and had to halt guarantees. Very limited interest is earned on guarantee fund held by the Central Bank, which limits the sustainability of the fund (CBS Credit Guarantee Scheme, 2013)

*Low repayment affect sustainability of state funded credit providers.* The Youth Development Fund has reported an NPL ratio in excess of 40%, whilst FINCORP also has an NPL ratio of 29.9%. The Community Poverty Reduction Plan has to date recovered only R4m of the E20m allocated in 2009. Provider interviews indicate that Swazi's give a lower repayment priority to state linked institutions, seen as "the King's Funds", which affect repayment rate of government run funds. Given that both of these funds charge low interest rates on their loans, the high NPL ratios mean they are not sustainable and must constantly seek new sources of capital to continue lending. The non-performing loan ratios across credit providers are shown in Table 11 below:

| | Banks | Credit institutions | DCPs |
|---|---|---|---|
| **NPL (average)** | 4.9% | 7.5% | 37.3% |
| **NPL (range)** | 1.4%-10% | 3%-13% | 29.9%-43.3% |

**Table 11: Non-performing loan ratios across credit providers**

*Source: Swazibank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Stand Bank Swaizland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013;FINCORP Annual report, 2012; Consultations with the Youth Development Fund, 2013; Inhlanyelo Fund, 2013; Letsego, 2013; Select, 2013; Blue FS, 2013*

*Most developmental organisations undercapitalised.* A consistent theme across many of the developmental organisations apart from FINCORP and the Inhlanyelo Fund, is a lack of funds to lend out. The Youth development fund, the Community Poverty Reduction Fund and the Credit Guarantee Fund have all restricted lending due to a lack of funds and all indicated that they require additional capital. The Credit Guarantee Fund could be more sustainable if allowed to earn more interest than is currently possible with balances held with the Central Bank.

*Lack of coordination inefficient.* The limited amount of resources available to subsidise developmental credit make it imperative that developmental organisations operate as efficiently as possible. Consolidation and coordination should therefore be a focus to avoid unnecessary duplication. The current approach to development finance is fragmented with new funds being started while old funds are undercapitalised and administration being duplicated between institutions[69]. There is also no coordinated approach towards training which requires many SMMEs

[69] A prime example of this is the decision by the State to start a brand new fund in 2010 in the form of the Youth Development Fund, rather than recapitalize existing funds. Further to this, the youth development fund engaged Imbita to perform much of its administration, however it was decided by the State in 2013 that these processes should be conducted in-house by the youth development fund. This process is estimated to significantly increase the youth development fund's running costs whilst the resulting reduction in revenue has resulted in Imbita no longer being operational.

to get training from new providers each time they take out a loan. Cost is incurred by both the provider as well as the loanee. The University of Swaziland is currently developing an SMME accreditation process which should ensure more consistent quality and reduce the cost of such training.

#### 6.1.3.6. Retailers

*Retailers provide 7.5% of consumer credit in Swaziland.* Six major retailers provide E430m, which constitutes 4% of total formal credit and 7.5% of total formal consumer credit as Figure 40 shows. Retail credit in Swaziland is offered by two types of credit retailers: clothing stores and furniture retailers (see also the discussion of retailers in Section 5.2). The clothing stores which are the primary providers of credit include Edcon (including a number of brands, the most significant being Edgars and Jet), Truworths and Woolworths. These three offer store accounts, allowing customers to purchase products on credit. The major furniture retailers include the EHL group (including the brands of Ellerines, Furniture City and Beares), Lewis (under the Lewis Stores and Best Home and Electric brands) and JD Group (under the Barnetts brand).

*Retailers largely serve the urban employed.* Networked retailers are based in towns and generally require a payslip or proof of regular income through bank statements before access to credit is possible, limiting access to the urban employed. There are more than 100 000 retailer credit accounts in Swaziland[70].

#### 6.1.3.7. Informal moneylenders and savings clubs

*Informal loan book small compared to formal.* The informal market includes the largest number of individuals accessing credit. FinScope (2011) indicates that over 100 000 individuals access credit form informal sources. The estimated average loan size from focus group discussions is E550, which when extrapolated indicates that total informal loans amount to E55 million, constituting 0.5% of total formal loans and equivalent to 1% of total formal personal loans[71].

*Informal moneylenders major providers of informal credit provision.* Informal moneylenders or Shylocks constitute a large portion of credit provision in the informal sector and is a significant source of credit for the unemployed or self-employed. Informal moneylenders are typically individuals who lend out their own money from savings and/or take out a loan from a formal institution and on-lend. Loans offered by informal moneylenders are typically short term usually 1-3 months and the interest rate charged is in the region of 30% pm on average[72].

*Informal moneylenders engage in abusive practices*. Focus group discussions indicated that informal moneylenders often force people to hand over the bank cards and PIN numbers as security against the loan as shown in Box 12 below. Informal moneylenders also use physical intimidation to ensure repayment.

[70] Supply side consultations with EHL Group, JD Group, Lewis and Edcon, 2014. Most adults that qualify would have 2 or more accounts, so retailer credit serves around 50,000 Swazis.

[71] This is an estimate calculated by extrapolating the average loan size calculated in a limited sample through qualitative research to the entire population of informal lenders as calculated from FinScope, 2011.

[72] This is based on average interest charged reported in FGDs, one-on-one interviews with informal moneylenders, and consultation with the Informal Moneylenders Association, 2013.

**Box 12. Informal moneylenders retain cards and use physical intimidation if loan unpaid**

"R: Yes, the formal loan sharks want ID's and bank card to keep.

*M: And what happens when you don't pay?*

R: They bring their goons or take your fridge or whatever is to the equivalent of the money you owe them.

*M: Are you scared of them?*

R: They don't play.

*M: And can't you go to the police station?*

R: NO!

R: They will ask you what you did."

*Source: (Manzini, Female, Aged 25 – 40 years (KLA, 2014b))*

*Savings clubs provide credit to earn return on member savings.* Savings clubs are groups of individuals that informally form a society to which they each make regular contributions as a form of savings. These deposits may then be lent out as a way for the club to earn a return on members' savings to members and non-members. There are two primary types of Savings groups with different structures: ROSCAs (rotating savings and credit associations) and ASCAs (accumulating savings and credit associations). ROSCAs, which have been around for decades, operate by taking monthly savings contributions from all the members and then disbursing all these contributions to one member each month. ASCAs, which are a relatively new phenomenon with the first groups beginning in the early 2000s, also require monthly contributions from all members but pool these savings and then lend them out to both members and non-members. ASCAs then disburse the accumulated savings and interest from the loans to the members after a specified period of time – most commonly a year (Zollman, 2010).

The growth of ASCAs in Swaziland within the last decade has been in large part due to the influence of a number of NGOs supporting these clubs in Swaziland. World Vision is the largest savings group-supporting NGO in the country, although there are a number of others also operating in the country including, amongst others, ACAT (African Cooperative Action Trust), Save the Children, and Hand in Hand (Zollman, 2010; World Vision, 2013).

*Loans are short term with slightly lower interest rates than moneylenders.* These loans extended by the ASCAs are generally low in value and have a term of 1-3 months but typically charge a slightly lower interest rate than moneylenders, estimated at 20% per month on average (KLA, 2014a; Zollman, 2010).

### 6.1.4. Products

Four types of credit products are available to Swazi consumers through the different providers discussed in the previous section: personal loans, SMME loans, agricultural loans and asset based finance, as set out in Table 12

| | Personal loans | SMME loans | Agricultural loans | Asset based finance |
|---|---|---|---|---|
| **Banks** | ✓✓ | ✓ | ✓ | ✓✓ |
| **SBS** | ✓ | | | ✓✓ |
| **Credit Institutions** | ✓✓ | | | |
| **SACCOs** | ✓✓ | | | |
| **Developmental Organisations** | | ✓✓ | ✓ | ✓ |
| **Retailers** | | | | ✓✓ |
| **Informal providers** | ✓✓ | | | |

**Legend:**

✓ The institution has a limited focus on providing this product

✓✓ The institution has a major focus on providing this product

**Table 12: Different providers' provision of different credit products**

*Source: Authors' own*

*Formal focus on employed.* Table 12 above shows which institutions offer which credit products. The formal institutions focus on employed consumers, which means that non-formally employed are generally limited to informal providers to access credit. Most providers focus primarily on personal loans and, to a lesser extent, asset based finance.

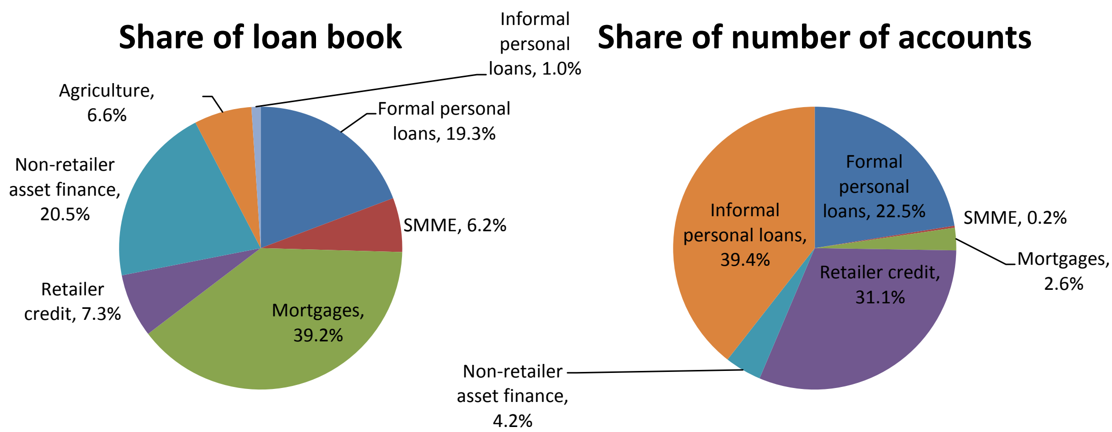


**Figure 42: Individual credit products as a proportion of total formal credit**

*Source: Hawkins & van Niekerk, 2012;, 2012, FinScope, 2011*

*Mortgages largest share of loan book.* Mortgages account for 39.2% of the total value of consumer credit extended in Swaziland, as shown above in Figure 42. Non-retailer asset finance, including assets such as vehicles purchased on credit account for 20.5% of the personal loan book, with personal loans accounting for 19.3% of the total personal credit. Mortgages, retailer credit and non-retailer asset based finance together comprises total asset based finance, accounting for two-thirds of the value of consumer credit extended in Swaziland.

*Personal loans accounts for majority of credit accounts.* Personal loans make up more than 60% of the number of loans issued per Figure 42. Informal personal loans are the most prevalently used credit product in Swaziland (39.4%), followed by 31.1% of retailer credit accounts and and 22.4% formal personal loans.

#### 6.1.4.1. Personal loans

*Personal loans most common product across target markets.* Personal loans are the most commonly offered and used loan product in Swaziland. Personal loans constitute loans extended to individuals for no specific predetermined purpose, i.e. the individual accessing the loan can use the funds for any purpose for which they deem fit. Personal loans are taken up by all target markets. A major use of personal loans is for the most frequently highlighted use of credit (as illustrated in Figure 37) to pay educational expenses. As the primary educational expense is secondary school (as primary school tuition fees are free and many tertiary students heavily subsidised), ordinary personal loans may be used to pay for school fees. A number of formal institutions, particularly the banks, also have 'educational loans', however these are fundamentally similar in design and terms to an ordinary personal loan except that the loan may only be used for tuition and related educational costs.

*Low take-up of credit cards, even for employed.* Credit cards are a lower cost option to support consumption smoothing compared to payroll lending or personal loans. Only 2% of Swazis use credit cards which are significantly less than those that would qualify for credit cards (20% of Swazis that are formally employed in comparison) (FinScope, 2011). A preference for cash and a fear of debt may contribute to this figure. Increasing access to credit cards could provide a low cost alternative to other forms of consumption smoothing.

*Personal loans not core business for banks and SBS*. The banks are the largest providers of personal loans in terms of value (about E900,000), although when considered in relation to their full loan book (personal loans constitute about 12% of the banks' total loan book), it is clear that personal loans are not their core business (CBS, 2013). Similarly, for SBS, personal loans constitute about 16.5% of the organisation's total lending and they offer just one personal loan product, the Sipatji loan, which must be fully secured against savings or share capital already deposited with SBS through one of its savings or share accounts (SBS, 2013).

*CIs specialise in personal loans in the form of payroll lending.* The CIs all specialise in the provision of simple and quick personal loans. The credit institutions offer unsecured loans up to a value of E200 000 to employed individuals and then recoup repayments directly from payroll deductions, thereby substantially reducing the risk of these loans. The CIs charge the highest interest rate amongst formal credit providers at just below 30% p.a. on average, but have the advantages of being simple, easy to access and quick to process, with all the CIs promising that the loan will be approved within 24 hours and the money in the clients' account within 2-3 days.

*SACCOs provide secured personal loans to members.* The SACCOs also provide personal loans to members. These loans are secured against the savings that the member has with the SACCO. Details will vary across the different SACCOs according to their by-laws, but members may be entitled to borrow up to 2-3 times their current savings with the SACCO.

*Informal loans charged at a premium*. All informal loans would constitute personal loans with the majority charged in excess of 200% p.a. These loans are all short term in nature, with the term on most informal loans just one month although the term may be up to 3 months. FGDs and consultation with individual informal moneylenders indicated that savings group tend to charge lower interest on their loans, estimated at about 20% p.m., whilst informal moneylenders charge interest rates of about 30% p.m. on average, although these can range substantially in individual cases.

*Eligibility for formal personal loans limited to formally employed.* The personal loans offered by formal institutions are only available to individuals with formal employment. Proof of employment and a payslip is explicitly required to access personal loans from all formal financial institutions. Applicants also require a bank account and must comply with full KYC requirements, including an ID and proof of address. Formal personal loans are therefore restricted to the civil servants and the formally employed and the civil servants are generally much better served as the CIs, in particular, rely almost exclusively on payroll deductions for credit repayments and therefore primarily (over 90% of their customers) only serve civil servants. As a result all the other target markets are restricted to the informal sector for personal loans.

*Payroll deductions limited to 33% of income.* A large portion of personal loan repayments are automatically deducted from the payroll. This substantially reduces the risk to the lender as the loan repayment is deducted automatically from the payroll, so the credit risk to the provider is reduced as long as the client remains employed. CIs use payroll deductions almost exclusively for loan repayments, whilst SACCOs are also heavy users of the payroll deduction mechanism. Banks use the payroll deduction but to a far lesser extent – usually relying on debit orders from which they earn an additional fee. Payroll deductions can also be used for non-credit purposes such as the payment of insurance premiums and are capped at 33% of income. Credit providers will therefore check whether a potential loan client already exceeds this limit before extending a loan to them. The SACCOs, however, despite being the most frequent deducters from payroll, for both credit repayments and monthly savings contributions, are currently not monitored against the 33% limit[73].

#### 6.1.4.2. SMME loans

*Not all SMMEs are equal, aspirational businesses main target for SMME credit.* SMMEs can broadly be classified as aspirational and survivalist[74]. Aspirational SMMEs have ideas and want to grow their businesses. Survivalist SMMEs are driven to start a business out of desperation due to unemployment. Survivalist SMMEs have very little entrepreneurial capacity, largely run the business to feed themselves and their families and don't have the skills or the desire to grow their business. Aspirational SMMEs need start up and longer term capital (debt and equity) to invest and grow enabling them to employ others and ultimately repay the debt. This group of aspirational SMMEs is the main target market for SMME loans (as well as SMME mentorship programs and training). Survivalist SMMEs live hand to mouth and use debt to fund consumption not to increase productivity, limiting their capacity to repay interest on loans. Credit is therefore largely a risk mitigation and consumption smoothing mechanism for this group. These businesses could not afford market rates on business loans (even if they could qualify) and would not justify subsidised credit given their limited potential for employment and growth. Survivalist businesses are likely to benefit more from risk mitigation strategies through insurance or low cost savings mechanisms than from credit, which could simply introduce an unaffordable interest burden to this market. Trade credit can play a role to facilitate survivalist businesses.

[73] The 33% limit applies to SACCOs since their exemption under the previous act fell away, however the 33% limit is currently not applied to SACCOs.

[74] Aspirational SMMEs refer to business owners who want to be business owners: "entrepreneurs out of aspiration." Conversely, survivalist SMMEs refer to business owners who run business to make ends meet while looking for a wage job: "entrepreneurs out of desperation" (International Finance Corporation (IFC), 2013)

*Variety of products offered by FINCORP*. FINCORP's various types of loan products range in value and term. FINCORP offers the following products:

- **Working capital loans** with a loan size ranging from E5,000 to E500,000 and loan terms ranging from 36 to 60 months. The repayment is structured in line with the business cashflow cycle.

- **Order finance** is a financing method that enables the purchase of raw materials or finished goods that will be turned into products and sold in a very short period of time. Loan terms are therefore a maximum of 6 months and repayment is a once off payment on or before the expiration of the stipulated period. The loan values can range above E500,000.

- **Long-term contract finance** is designed for entrepreneurs that have been granted a contract by a reputable company to either supply or provide services over a long term period. Loans range from E5,000 to above E200,000 with a term of 60 months and repayments structured in line with the business cashflow cycle.

- **Asset lease finance** are loans required to finance the acquisition of business assets and equipment. The asset remains the property of FINCORP until it has been fully repaid. Loans range from E10,000 to above E200,000 and the term of the loan is 60 months. The repayment is structured in line with the business cashflow cycle.

- **Line of credit** is designed to cater for the working capital needs of a business, whereby the client is allowed to operate within the approved limit of the line of credit until the period elapses. The product is equivalent to a normal bank overdraft and is available to clients with a history of short term loans over a prolonged period. Loans have a term of 36 months and range above E200,000.

- **Umtfombo loan** is a micro loan targeted at the informal business sector which comprises of hawkers and or vendors that sell fruits & vegetables at the local market, or practice door to door retail of fruits and vegetables, clothing and accessories to people in the formal employment sector. Most of these clients are not bankable and are considered high risk due to the nature of their business. Loans are short term, with a 6 months maximum period and loan size ranging from E500 to E10,000. The repayment is structured in line with the business cashflow cycle.

*Other developmental organisations service SMMEs but small in size*. The other developmental organisations including the Youth Development Fund, Imbita the Community Poverty Reduction Fund and Inhlanyelo all provide finance to SMMEs but are significantly limited by the lack of funds which they have available to lend out. The Youth Development Fund has provided loans to 678 individuals since its inception in 2010 at an interest rate of 10% pa and currently has an outstanding loan book of E8.4m. The average loan size is estimated at about E12,000, substantially smaller than FINCORP and indicating that the fund generally targets smaller size loans and hence smaller SMMEs, in line with its lower lending capacity. A large portion of loanees are sole traders, such as vendors, hawkers, airtime sellers, firewood sellers or carwashers (The Youth Development Fund, 2013). The Community Poverty Reduction Fund received just one capital disbursement from government in 2009 of E20 million (Ministry of Tinkundhla Administration and Development, 2009). Inhlanyelo fund is similarly small, with a loan book of about E6.5m but has 10,000 clients and therefore provides small value loans to micro enterprises with an average loan size of less than. Inhlanyelo fund charges 15% pa (The Inhlanyelo Fund, 2013).

*Banks play limited role in SMME lending*. The banks do also provide some SMME loans, however these are very limited as most SMMEs are considered too risky by the banks. Most SMME loans extended by the banks would be larger and established medium sized enterprises rather than small or micro enterprises. However, there are some SMME loans extended by the banks:

- **Nedbank** has partnered with SEDCO, the government-funded, apex training and small business development organisation in order to increase its loans to SMMEs. The arrangement is such that SEDCO, after working with SMMEs in terms of training them and helping them to develop a business plan, will pass on the most promising candidates to Nedbank. However, these SMMEs must still comply with Nedbank's full requirements and risk assessment. The result has been that since the inception of this partnership, just 10 SMMEs received funding from Nedbank in the first 9 months of 2013, out of a total of 2 000 that were trained by SEDCO[75] over this period ( (SEDCO, 2013).

- **Standard Bank** introduced a product called quick loans aimed specifically at SMMEs and entrepreneurs. The product was a same day loan and the criteria for the loan was based on a Harvard model of psychometric testing rather than on the fundamentals of a business plan as is typically required. The average loan size of these type of loans was E80 000. However, these loans have been discontinued due to the high default rates experienced of about 20%.

- **SwaziBank**, as a 100% owned government entity with a development mandate, is generally considered the most SMME friendly of the banks. The bank indicated in its most recent Annual report for the 2012 financial year that it granted 121 SMME loans with a total value of E21 million.

- **The credit guarantee scheme** is intended to encourage the banks to increase lending to SMMEs by reducing the risk to the bank. However, the scheme has achieved relatively low take-up; on average less than 50 loans a year since inception. Limited funding has curtailed the activities of the fund in any case and it has currently halted new loan guarantees due to a lack of available funds (CBS Credit Guarantee Scheme, 2013)

*Range of eligibility requirements to access SMME loans*. Eligibility requirements for SMME loans differ across providers, for example only under-35's are eligible for loans from the Youth Development Fund, whilst only women could access credit from Imbita, but the broad eligibility guidelines are fairly consistent across the industry. All applicants require a business plan of some type and all loan providers require some training. This training may be done on the approval but prior to the pay-out of the loan by the credit provider, it may outsource the training to specialised training facility such as SEDCO, or the credit provider may require the training to have been completed prior to the loan application. There is a range of different training providers, some of which provide the credit and some which specialise in training. It can be expensive to attend this training for loan applicants even if they don't have to pay for it, both in terms of transport costs and the opportunity cost of spending days in training. The lack of a coordinated training strategy or

[75] This is the total number of SMMEs that SEDCO trained over the period so most of these did not apply for funding with Nedbank, but indicates the difficulty that SMMEs face in obtaining funding.

central accreditation also means that applicants may have to undergo training each time they apply for additional credit[76].

*Self-employed and irregular earners main users of SMME loans.* FinScope indicates, unsurprisingly, that the self-employed target market is the most likely to use credit to fund their business, with 18% of business owners with credit indicating they use it for business costs. A substantial portion of irregular earners (10%) similarly indicate they access credit for business costs. A small portion of all the other target markets also indicate that they access credit for business costs, indicating that these individuals may run businesses 'on the side.' However, the overall uptake of SMME credit in Swaziland is low – FinScope indicates that just 7.7% of respondents with credit use it to fund businesses, which equates to just over 10,000 individuals. Supply side consultations reveal about 14-15,000 loans SMME loans, but individuals may take out loans from more than one institution at a time, particularly as a large portion of these loans are low value (below E1,000) and therefore may be insufficient to fund growing businesses. FinScope indicates that around 10,000 self-employed earn above E2,000. If this figure is used as a proxy for aspirational businesses this indicates that there is limited scope for significant expansion in the provision of developmental credit and that broader developmental policies are needed to first grow the SMME sector.

*Payroll and other personal loans may also be used to fund SMMEs to a limited extent.* FinScope indicates that a portion of all target markets access credit for the purpose of funding a business. This includes the civil Servants and company employees who are able to access that credit from formal financial service providers in the form of personal loans. However, this usage is very low – approximately 1,000 individuals across the two target markets indicated they use credit to fund their business. However, it is likely that a significant portion of respondents from the other target markets that use credit to fund their small business (those unable to access specific SMME loans from formal providers) get this funding from informal providers in the form of short-term personal loans as they are unable to access credit from formal providers.

*"For example, three hundred chickens need R3000, including chicken food, chicken, electricity and everything. So I buy it for R3000 and I am going to sell it for R40, so I will get R4000, what is your profit, R1000. The bank must be able to help me, not for them to tell me that I must put R4000 for security. I won't be able to do that, what helped me is that I am working, I made a personal loan against my salary."*

(Mhlume, Males, Aged 41 – 55 years (KLA, 2014b))

#### 6.1.4.3. Agricultural loans

*Subsistence farming widespread but loans largely to large commercial agricultural production*. As discussed in Section 2, most Swazis engage in farming. However, this farming is predominantly subsistence in nature. Commercial agriculture does play an important role in the economy of Swaziland making up 10% of GDP. However, despite the high proportion of Swazis engaging in farming activity, commercial agriculture is performed by a limited number of individuals and primarily by large corporations. As such, most of the funding for agriculture is provided by the banks, primarily to large commercial agricultural producers. A large portion of this funding also goes to agro-processing. Total loans extended to agriculture by the banks amount to about E315m, equivalent to 4.1% of total bank loans (CBS NPS, 2013).

[76] The development of central training accreditation and guidelines is in the process of being developed by the University of Swaziland

*Agricultural loans needed by small-scale farmers*. FinScope (2011) indicates that about 28,000 Swazis' main source of income is from farming included in the irregular earners target market. FinScope (2011) shows that 2.3% of Swazi adults with credit use it for farming expenses, 1.3% use it for farming equipment and 0.7% to buy livestock. Given the irregular nature of farming returns, credit can be important in funding the initial capital investment required to sow the crops or purchase the livestock. [77]

*Most individual agricultural lending is linked to the agricultural value chain.* Lending to individual farmers is predominantly linked to the agricultural value chain which acts as an aggregator and therefore a vehicle from which credit providers can extract repayments. Therefore value chains with just one, or at least a limited number, of buyers of the produce are ideal for the extension of credit. Examples in Swaziland include the cotton (with just one cotton ginnery) and sugar (with just two sugar mills) industries, which allows the credit providers to automatically extract payment prior to the farmer receiving their payment for the produce. Nedbank has formed a partnership with the Swaziland Water and Agricultural Development Enterprise (SWADE) to provide loans to sugar farming associations through an offtake agreement. Such an agreement reduces the risk for the financier whilst providing much needed financing to sugar associations.

*Outgrower schemes remain limited.* Outgrower schemes can entail a credit provision mechanism in which a farmer is provided inputs on credit which are then deducted with interest automatically from the harvest revenues. Such schemes can provide a vital source of credit to low income farmers who rarely have the substantial capital required upfront to pay for the various expenses involved in ploughing and other ongoing pre-harvest expenses such as fertiliser. Outgrower schemes in Swaziland seem to be limited primarily to the cotton industry at present. The Swazi cotton board, through the cotton ginnery provides seeds, chemicals and fertiliser on credit and then automatically deduct the costs of these inputs when the cotton is sold back to the ginnery. The interest rate charged is 7.5% on the value of the inputs. The lack of economies of scale of growing cotton make it an ideal crop for low income Swazi farmers who can grow cotton profitably on less than 1ha. This means that these farmers are unlikely to be able to afford the capital outlay upfront and hence makes this scheme potentially crucial to their ongoing operations. There are currently about 3 000 cotton farmers in Swaziland (Technoserve, 2013).

#### 6.1.4.4. Asset based finance

Asset based finance includes all credit used to finance assets and secured by the value of the asset purchased. This includes mortgages, motor vehicle finance, hire purchase and lease arrangements and retail credit.

*Mortgages primarily provided by SBS*. The primary provider of mortgages in Swaziland is the Swaziland Building Society (SBS), with the four big banks providing the balance. The total market for mortgages in Swaziland is E2.3 billion, making up 21.7% of total formal credit in Swaziland. SBS provides 39.3% of total mortgages. The four banks between them provide the remainder – 60.7% of total mortgages in Swaziland. These mortgages are split between personal (79.1%), and commercial (20.9%). Mortgages constitute the highest proportion of the loan book of any type of credit: Figure 42 shows that mortgages account for 39.2% of total personal credit in terms of value, but just 2.6% in terms of the number. Mortgages are therefore used by only a small proportion of Swazis, which may be in large part due to the small portion of title deed land available as collateral (see Section 3).

[77] There may be some overalp between agricultural loans and SMME loans as farms can also be considered as small businesses

*Hire purchase and lease agreements (HP&L) are primarily offered by the banks.* The four banks provide about E1.5 billion in credit through HP&L, constituting 15% of total formal credit in Swaziland. HP&L extended to individuals constitutes 12% of total formal consumer credit in Swaziland (CBS NPS, 2013).

*Retailer credit is primarily offered by six large retailers in Swaziland.* The third major source of asset based finance in Swaziland is through large retailers which sell furniture and clothes on credit. These products therefore also act as security against the loan. The total credit offered by these retailers is about E430 million which makes up 4% of total formal credit and 7.5% of total consumer formal credit in Swaziland[78].

*Asset acts as collateral, reducing eligibility requirements.* Asset based finance would be typically used by the more affluent individuals such as the formal employed to buy or build houses with a mortgage or to purchase large ticket items such as motor vehicles or furniture on credit as these target markets are able to afford such items. These larger value items are typically only available to employed individuals as a payslip is usually an eligibility requirement (in addition to ID documents and proof of address[79]). For smaller ticket items sold on credit, such as clothes, retailers require a bank account and either a payslip or a minimum of 3 months banks statements (as opposed to just one if you are able to produce a payslip). Asset based finance is particularly important to business owners which may require large ticket items for the business and would not have the capital to fund the purchase outright.

### 6.1.5. Barriers to access

*Payslips as eligibility requirement the most significant barrier to accessing formal credit.* Personal loans, the most commonly offered loan product, are offered by nearly all the credit providers. The formal institutions typically require applicants to provide a payslip and have bank accounts. This has two major effects: firstly it means that there is a substantial gulf between credit available to the formal employed and the informal employed or unemployed. This means that the majority of Swazis have limited or no access to formal credit, whilst the relatively small number of formally employed Swazis have access to credit from multiple sources all targeting this one small group of formally employed.

*Affordability of high interest rates charged on informal credit limits uptake.* The most common reason Swazi's do not have credit is because they are "worried they would not be able to pay back." (see Figure 43). This is due to a combination of a healthy dislike of being indebted and the high interest rates charged on informal credit, which is the only avenue open to most unemployed.

*Swazis have an aversion to credit.* Figure 44 below indicates that Swazis overwhelmingly would like to avoid borrowing money; over 90% of the adult population agreed with the statement that they would "avoid borrowing money if you can." This perception may be at least partially driven by the high response rate to the second statement listed in Figure 44 that "buying on credit ends up more expensive than it was." Whilst 42.8% of those without credit indicated it is because the "fear debts" and 32.6% are "worried they would not be able to pay back."

[78] Authors' own analysis of information collected from interactions with the relevant stakeholders.
[79] Applicants can use a variety of measures to provide proof of address if they do not have the traditional lease or utility statement. The most common alternative is to get a signature confirming your address by the local headman of chieftain.

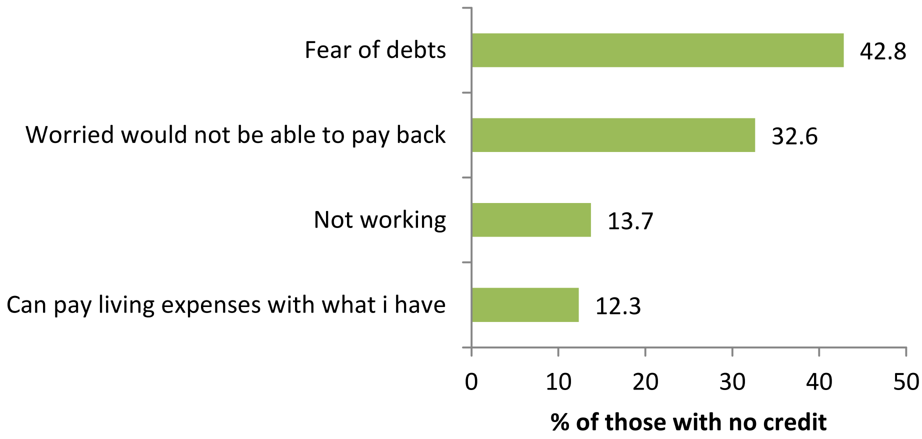


**Figure 43: Why do Swazis not have credit?**

*Source: FinScope, 2011*

*Swazis understand the principles of credit.* The high affirmative response rate of FinScope respondents to the statements: "Buying on credit ends up more expensive than it was," and "You have an idea of interest you pay when borrowing money," as shown in Figure 44 below, indicates that Swazis generally understand the concept of interest and how it works. This was supported by the focus group discussions held. When one considers that the majority of respondents disagree with the statement: "It is embarrassing to borrow money on credit," Swazis aversion to credit seems to be more closely related to the associated costs of credit rather than any social aversion to borrowing.

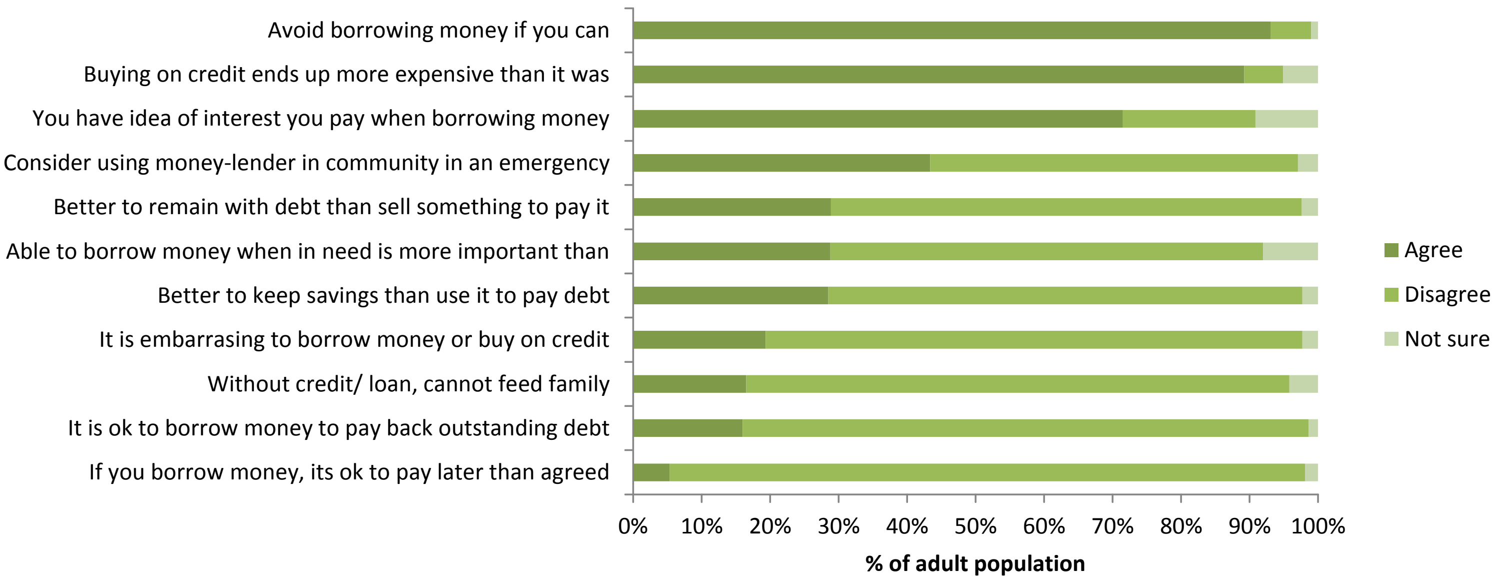


**Figure 44: Perceptions of credit**

*Source: FinScope, 2011*

*High proportion of loan refusals comparative to number of people with credit.* Only 3.5% of Swazi adults have been refused a loan within the last 12 months (FinScope, 2011). However, the number of individuals refused a loan is likely lower than the number who may have required a loan as some may not even have bothered to apply for a loan, knowing they would not qualify, particularly at formal institutions or they could not afford it, particularly at informal institutions. Furthermore if one compares the number of people refused a loan (18,421) to the number with credit (126,318), and even more so the number with formal credit (35,727), it is clear that the number of people refused a loan within the last 12 months is in fact a significant proportion of the number with credit, although remains relatively small as a proportion of the entire adult population.

*Speed of loan an important consideration for credit applicants, often driving informal take up.* The speed at which a loan is approved and paid by the credit provider is an important consideration for loanees due to the extent of reliance on credit for emergencies. Very limited credit cards are used, even among the formally employed as shown in Section 6.2. Beyond credit cards the Credit Institutions offer the fastest loans, typically approved within 24 hours, however, the funds are then transferred to the applicant's bank account, meaning they will often only have access to the funds 2-3 days after applying for the loan. Whilst this is quicker than other formal providers, informal providers such as moneylenders will provide the loan on the spot in cash.

Quick loans are also needed by SMMEs to take advantage of opportunities in time, for example if they have won a tender. However SMME loans take far longer to be approved than personal loans as the application, business plan and the financials of the business need to be scrutinised by the lender. The lender often makes an on-site inspection and generally requires the SMME to complete training as well before the loan may be approved. The slow speed may prove ruinous to the SMME (see Box 13).

**Box 13. Extract from FGD illustrating difficulties in applying for an SMME loan**

"R: I started sewing clothes but in the previous year a new school opened in Shiselweni where they asked me to sew them school uniform so the challenge I had was that I was given the deposit of R100 for the material in advance but needed R200 because I had spent R200 on the necessary materials but now could not get the outstanding R100 which I needed to get more materials and then some of the kids dropped out of school before I could even get that money, so now this year another school approached me to make their school uniforms and after I made a sample for them I got the Tender to sew their uniform but lost it as a could not raise enough capital to get all my materials that I would need to start making the uniforms in time as I had been given a deadline.

*M: So where had you gone for assistance for your capital or are there people you had spoken to for assistance?*

R: I went to the bank but they wanted a payslip which I don't have because I don't work or they wanted my bank statements to see if I had an income coming into my account and I hardly put money in the bank because as soon as I get money I have to use it the very next day to get more material.

*M: So you wanted start-up capital.*

R: Yes, but because I couldn't get it I failed to get the Tender.

*M: Which bank was this?*

R: Building society.

*M: Ok.*

R: Another bank that I went to was FINCORP but they wanted documentation on how the business was running and I had just received this tender.

*M: What did they say to you after you told them that?*

R: They said I should go and start compiling my business documents and financial statements from the bank, even if I deposit the money into my account today and take it out the next day, just to have some kind of record with the bank and I did not have all of that so that's how I lost the Tender."

*Source: (Manzini, Female, Aged 25 – 40 years (KLA, 2014b))*

*Limitations in land ownership limit the potential for land as collateral.* Land as collateral for loans are limited as 46% of Swaziland designated as Swazi Nation Land and therefore not owned by private individuals. As a result more expensive unsecured credit is used to fund some agricultural development or building of houses, such as personal loans. Using land as collateral is not a panacea if the debt can't be repaid from productive businesses and farms as it could destabilise rural communities where large portions of land is lost due to defaulting on debt.

*Physical accessibility not a major barrier to accessing credit in Swaziland.* Section 5.2.2 concludes that, due to the small geographical size of Swaziland, the relatively substantial bank branch and ATM network and the close proximity of rural areas to urban centres, a lack of physical financial services infrastructure is not a major barrier to the access of financial services beyond transactional services. Although individuals may still have to bear transport costs to access financial services, this would be less of a barrier for accessing credit as the application is once off and the repayments through formal institutions are typically through debit orders or payroll deductions. Nevertheless the relative proximity and convenience of informal moneylenders may play a role in Swazis using such sources of credit in favour of formal institutions, particularly when speed of access is important.

*Uncertainty around products and costs deter many from approaching formal institutions.* Accessing information on the types of formal credit available is often difficult and time consuming for consumers, which deters them from pursuing this line of credit. Focus group discussions and mystery shopping indicated that many bank branches struggle to provide details of the costs associated with bank products or for SMME loans the details of eligibility requirements. Contacting multiple branches a number of times is expensive in terms of time, lost income, transport and/or airtime, which limits take-up of formal credit. Credit institutions also charge additional fees beyond interest rates which is not clear upfront and considerably increases the overall cost of credit.

*Flexibility in repayment critical for irregular earners.* 42.8% (227,601) of Swazi adults earn an irregular income which precludes them from accessing a large portion of formal credit. Greater flexibility in product design may be of benefit to both the consumer as well as the credit provider.

For example, it is very difficult for the self-employed to access credit as they do not earn a salary which is required for all personal loans offered by the banks, SBS and the CIs, even though they may have the capacity to repay the loan. The lack of flexibility or at least perceived lack of flexibility of formal institutions in renegotiating the terms of the loan was also considered a barrier by FGD participants and was offered as a reason why they prefer to get credit from informal lenders.

### 6.1.6. Regulatory issues to consider

*Interest rate cap restricts lending*. The current interest rate cap has contributed to a missing middle interest rate between the low rates offered by the formal sector and the 200% p.a. higher rates offered by the informal sector. International precedent suggests that increasing or removing the interest rate cap encourages the extension of more credit to riskier productive opportunities such as SMME and agriculture by existing providers or by encouraging entry by new providers (Davel, 2013).

*Fragmented and uncoordinated SMME policy environment creates inefficiencies and uncertainty.* SMMEs are regulated and assisted by a large number of government and private sector bodies without a central point to access information and services, including access to finance. It is expensive to obtain information and not possible for many small SMMEs that operate on the margin with a good idea. The developmental credit providers represent the primary source of funding for SMMEs, however a lack of coordination between these funds and the relevant government departments has meant that instead of coordinating funding to achieve maximum effect, the segment is primarily made up of small, undercapitalised institutions without economies of scale. This is also true of training providers which are required for most SMME loans.

*De Facto SACCO exemption to 33% limit on payroll deductions can contribute to overindebtedness.* The Cooperatives Act, 2003 effectively authorised any value deduction against payroll as long as it has been agreed to by the employee and therefore a deduction could exceed the 33% set down in the Employment Act.. This would suggest that SACCOs are exempt from the 33% payroll deduction limit. However, Section 83(1) of the FSRA act delinks SACCOs entirely from the Cooperatives Act and hence it is currently unclear whether SACCO deductions fall within the 33% limit. Currently, the cooperative deduction is still considered part of the calculation of the 33% maximum deduction even if it is not subject to the 33% limit. The implication is that non-cooperative deductions do not have preference and may only be deducted from the remaining portion of the 33% not taken up by the cooperative deduction. If the cooperative deduction exceeds 33% then the remaining deductions may not lawfully occur. SACCO payments can also include savings which should be exempt from a maximum cap. SACCO credit payments can contribute to overindebtedness similar to other debt and should be treated in a similar fashion. An important consideration is that the 33% deduction limit is not intended nor structured to be an indebtedness measure, it is labour productivity measure to avoid employees opting out of the labour force or switching jobs when deduction levels approached payroll; irrespective of the type or application of any deduction. It has by default become credit measure in the absence of credit information and legislation.

### 6.1.7. Gaps & opportunities

Table 13 below summarises the major product opportunities in the current provision of credit in Swaziland based on the identified use cases across the various target markets, as well as the likely impact of unlocking the opportunities, drawing on the financial inclusion impact channels set out in Figure 2, Section 1.1.

| Use cases | Relevant target markets | Potential impact and opportunity |
|---|---|---|
| Education | All | Direct: reduced interest cost if more people can access formal credit for education even at higher rates or even greater impact if more can move to saving for education in appropriate products rather than borrowing (see Section 6.3).<br>***Some opportunity for wealthier groups.*** |
| Consumption smoothing | All | Direct: reduced interest cost if more people can access small balance formal revolving credit facilities for consumption smoothing due to e.g. improved information through credit bureaus or even greater impact if savings can increase to create cushion to smooth consumption (see Section 6.3).<br>***Some opportunity for wealthier groups.*** |
| Emergencies | All | Direct: reduced interest cost if more people can access small balance formal revolving credit facilities for emergencies or even greater saving if insurance is rather used (see Section 6.4).<br>***Some opportunity for wealthier groups.*** |
| Business loans | Aspirational SMMEs | Direct: Increased coordination and capitalisation can improve access to information and reduce costs to access this form of credit. |
| | Survivalist SMMEs | Limited opportunity to further extend credit |
| Asset purchases | Formally employed, informally employed and self employed | Direct: Some opportunity to borrow against an extended range of assets, including e.g. to invest in housing. |
| Bring consumption forward | Formally employed | Direct: reduced cost through improved access to formal products. |
| Agricultural finance | Farmers (irregular earners) | Direct: some opportunity to increase access to credit for productive use through value chains and improved access through informal saving groups. |
| Consumer protection | All | Direct: improved disclosure of product terms and cost of credit can improve decision making and ensure more appropriate products are selected.<br>***This is the most significant opportunity, given number of people affected.*** |

**Table 13: Market for credit: opportunities summary across use cases**

*Source: Author's own*

When contrasting the needs highlighted in the table with the current landscape of provision, it is apparent that the main gaps relate to specific products to fund education, SMMEs and agriculture, as discussed below.

*Credit not main need to develop SMMEs.* SMMEs fall broadly into two categories: aspirational SMMEs, which refer to business owners who want to be business owners: "entrepreneurs out of aspiration" and survivalist SMMEs, which refer to business owners who run business to make ends meet while looking for a wage job: "entrepreneurs out of desperation (International Finance Corporation (IFC), 2013)." Extrapolating from FinScope (2011) indicates that about 9,000 self-employed individuals (13.5% of self-employed) can be characterised as aspirational SMMEs[80], with

[80] In Swaziland, these two groups were differentiated using current monthly income as a proxy. SMMEs (or self –employed individuals) earning in excess of E2,000 a month were postulated to be aspirational SMMEs, whilst those earning below E2,000 a month were postulated to be survivalist in nature. Due to the high number of FinScope respondents not earning their income monthly (and therefore

the remainder (about 59,000) classified as survivalist. SMME credit, such as currently provided by the developmental credit providers is most appropriate for aspirational SMMEs, whereas credit is frequently detrimental to survivalist SMMEs. Furthermore, for those individuals that may not be captured in the self-employed target market as they have not yet started an SMME, but plan to, savings is considered a better start to a survivalist microbusiness as credit is unaffordable and often leads to debt traps. Regional SMME FinScopes, as set out in Figure 45, below, show the relative use of savings and credit amongst SMMEs across three comparable countries. Savings are the main source of funding for all businesses. Furthermore 70% of SMMEs that borrow in Malawi, the country with the highest credit uptake do so to pay off existing debt, indicating that easier access to credit has driven survivalist SMMEs in that country into a debt spiral as SMMEs with such low incomes are generally unable to repay loans.

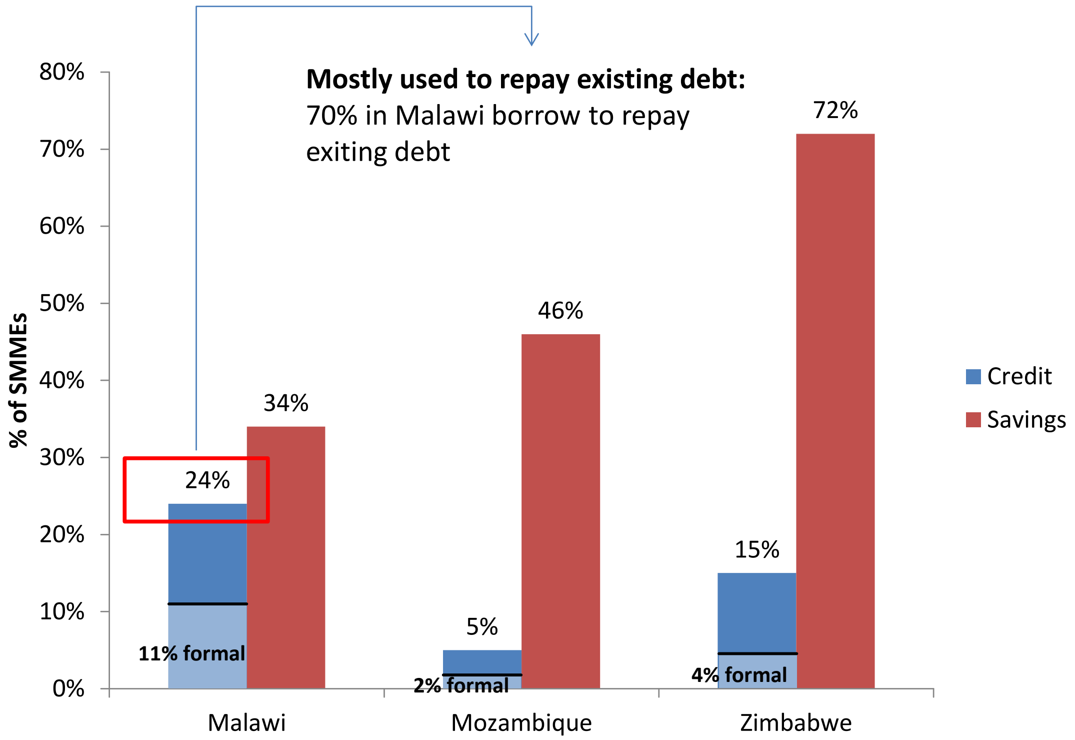


**Figure 45: Proportion of SMMEs with credit and savings in Malawi, Mozambique and Zimbabwe**

*Source: FinScope Malawi SMME survey, 2012; FinScope Zimbabwe SMME survey, 2012; FinScope Mozambique SMME survey, 2013*

*Need to better direct SMME credit, limited opportunity to increase provision.* The analysis of the credit landscape in Swaziland (see Section 6.1) indicates that in excess of 14,000 individuals are currently receiving some form of business credit from the developmental credit providers, primarily from the Inhlanyelo fund and FINCORP. Given that there are only an estimated 9,000 aspirational SMMEs in the country, there would seem to be sufficient developmental SMME credit provision to meet current demand and the focus should rather be on making this credit provision more efficient and effective through cooperation and coordination. Most of the development credit providers are too small to achieve any economies of scale and most require recapitalisation to resume lending. A related constraint is the lack of coordination amongst the multiple training providers which should

classified as earning irregular income with no corresponding income value), The proportion of aspirational SMMEs to survivalist SMMEs was calculated based on those respondents that did indicate their monthly income and then extrapolated in the same proportion to encompass all of the self-employed/SMMEs.

work with the credit providers to provide appropriate and useful training to the SMMEs receiving the credit[81].

Furthermore, a closer analysis of FinScope (2011) reveals that although the level of supply of credit to the SMME sector may be sufficient, it may not be optimally directed. Only about 5% of aspirational SMMEs are accessing credit from formal sources. A similar proportion of survivalist SMMEs are accessing formal credit, but due to the much larger number of survivalist SMMEs, this means that about five times as many survivalist SMMEs are accessing credit than aspirational SMMEs. The high proportion of lending to survivalist SMMEs may also be a contributing factor to the very high NPL ratios experienced by these credit providers as survivalist SMMEs will be substantially less likely to repay debt.

There is thus a need for a strong apex organisation that can coordinate the activities and funding of the institutions within this sector to improve efficiencies and focus lending towards aspirational SMMEs.

*Agricultural credit provision limited.* Farmers typically require significant investment upfront, with returns only at the end of the harvest season, making credit an important component of commercial farming. Such credit should ideally be linked to the value chain and repayments automatically deducted from the point of sale where possible so as to reduce risk for credit providers, allowing them to increase provision of agricultural credit.

*Filling in the missing middle.* The major gap in credit provision in Swaziland is the so called 'missing middle' as highlighted in Figure 39 in Section 6.1. There are a number of factors leading to this including the interest rate cap and limited information available on borrowers due to the absence of a credit bureau. Addressing these issues are the key opportunities in extending access to formal credit in Swaziland. Allowing formal providers to operate in this space can give the non-formally employed target groups access to cheaper credit than they are currently forced to access in the informal market.

*Lack of incentive for formal credit providers to move downmarket.* The biggest providers of credit in Swaziland are the four large banks, however, at least three are already highly profitable and hence have little incentive to offer loans to any but the least risky clients. The credit institutions (CIs) face a similar incentive structure to the banks in that they are already very profitable. The CIs also rely almost exclusively on payroll deductions for loan repayments, further entrenching their inability to move beyond the formally employed. Therefore, in order for formal credit provision to be extended to this 'missing middle' either the incentive structure of the current formal providers needs to be altered through direct state intervention or by allowing and encouraging new players into this market.

*Potential for a credit bureau to extend lending and reduce costs*. A credit bureau provides a valuable and vital source of information about loan applicants to the lenders. Access to such information provides the lenders with a more complete picture of the applicant, thereby making it less risky to lend out. A credit bureau should therefore be a primary priority for Swaziland in order to alter the incentive and ability of banks and other formal credit providers to move downmarket.

[81] The University of Swaziland is in the process of attempting to coordinate and provide accreditation for the different SMME training programmes.

*Encourage new players to fill the gap*. If banks or other existing credit providers are not incentivised to move downmarket, an alternative is to encourage new entrants to fill this gap. The estimated informal loan book is E55 million, small compared to a bank, but certainly a large enough market to support smaller institutions. The informal market does play an important and specific role in credit provision which cannot be achieved by the formal sector so formal players will not be able to capture this entire market, but it is likely that they will also serve new clients currently unserved by the formal sector due to ineligibility and unserved by the informal sector due to unaffordability. A major barrier to new players entering this market is the existing interest rate cap which restricts any formal lending at higher interest rates.

*Understanding overindebtedness.* The extent of indebtedness in Swaziland is not clear. ITQNet data and FGDs suggest that high proportions of income are paid to service debt. 49.5% of civil servants exceed the 33% limit on monthly payroll deductions which go to formal credit. FinScope indicates that 43.1% of Civil Servants also have credit from informal providers in addition to their formal credit. The FGDs also indicated relatively high levels of indebtedness in among unemployed or self-employed, where respondents indicated around 40% of income went to repay loans. On the other hand Figure 37 shows that just 3.0% of Swazis with credit use it to repay existing debt which indicates that consumers are not sufficiently desperate to enter the cycle of acquiring debt to repay debt. Additional research is needed to understand the nature of civil servant overindebtedness as current ITQNet deductions include SACCO deductions for savings which would not indicate debt levels. The lack of clarity surrounding the SACCO deductions and whether or not they are legally subject to the 33% payroll deduction gap also creates a legal gap, increasing the likelihood of overindebtedness amongst those accessing credit from SACCOs. There is, however, an opportunity to close this gap by explicitly addressing the issue in the SACCO regulations currently being drafted by the FSRA.

*Understanding the market.* More detailed data collection, particularly from the non-bank credit providers, will allow regulators to get a better understanding of the current market served by these institutions, the risks inherent in the institutions and what is preventing them from extending access. It also important to understand the consumer or potential consumer's needs and to understand why they are or are not accessing a specific product or institution.

*Greater transparency.* Formal financial services providers in Swaziland are typically unwilling to share product information, including prices, interest rates, terms and conditions, of their various loan offerings. Requiring all credit providers to make this information freely available would aid customers in better understanding the costs and terms and conditions of the products and allow them to more easily compare products across institutions, thereby allowing them to choose the most appropriate product for their needs.

## 6.2. Market for payments

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

This section unpacks the key drivers for the market for payments with a view to exploring the gaps and opportunities for improving payments in Swaziland. This will include exploring providers and product areas, such as transaction banking, E-money (including Mobile Money), money transfers and payroll based products.

**Key issues: market for payments**

The key issues from this section are the following:

- The small size of the market limits the opportunity to achieve economies of scale.
- Consumers have a strong preference for cash, due to its flexibility and limited affordable alternatives. The cost of cash is not currently measured, but is expensive due to the nature of cash management processes and risk of theft.
- MTN's Mobile Money is the most frequent method of transacting after cash. It is playing an increasingly important role as a low cost, widely accessible payments system.
- There is very limited use of cards for transacting, despite the high uptake of transactional accounts.
- The current lack of interoperability puts SwaziBank at a competitive disadvantage to other banks.
- Bank charges are higher than comparable countries in the region.
- Many entry level bank accounts are only available to those earning below a specified income level, effectively restricting eligibility to the formally employed.
- There is a lack of transparency regarding product options, costs and terms.
- ITQ Net's payroll deductions are a significant payments system given the extent to which they enable access to other financial services, although access is restricted to civil servants.
- Most domestic and cross border remittances are sent through informal channels. Formalising these remittances by introducing low cost formal remittance products would have significant benefits for remitters as well as for providers such as the banks.
- Cross border transfers from South Africa are expensive. There is a potential role for retailers and mobile money to provide both domestic and cross border transfers.

### 6.2.1. Current usage

*Cash the predominant tender type.* Cash remains the preferred mechanism with which to pay for goods and services in Swaziland. Most income is also received in cash Figure 46 below illustrates the prevalence with which cash is used to pay for different types of consumer goods and indicates that amongst consumers, cash is overwhelmingly the predominant means by which goods and, by extension, services are paid for. Figure 46 emphasises the pervasiveness of cash in the Swazi economy with even 36.8% of civil servants and 55.7% of company employees reporting that they receive at least some of their income in cash[82]. Nearly all the respondents from the other, non-formally employed, target markets indicated they receive their income in cash. This means that most Swazi adults receive their income in cash and then directly pay for most goods and services with that cash.

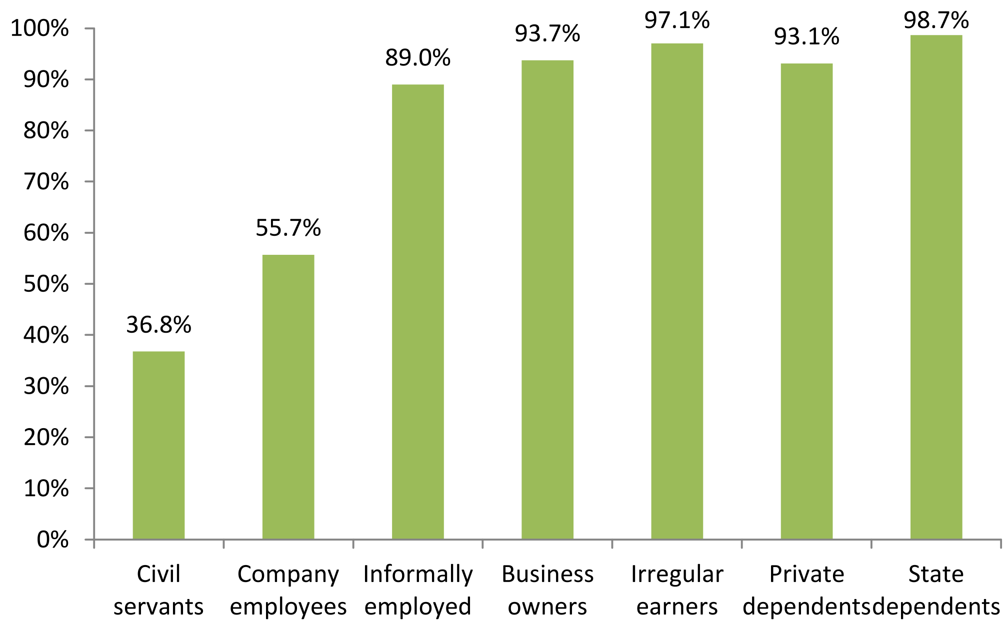


**Figure 46: Proportion of target markets that receive income in cash**

*Source: FinScope ,2011*

*Rapid growth in use of e-money, most frequently used transaction platform.* Figure 47 below, shows the rapid growth in the use of e-money as a payments mechanism. Since being introduced midway through 2011, mobile money (a subset of e-money) has experienced exponential growth in use. As will be shown in Figure 50, mobile money is now the most frequently used platform to transact. This trend is likely to continue as more people become familiar with e-money. Currently, 500 000 MTN Mobile money transactions are made per quarter. FNB's eWallet is used on a substantially lower scale as MTN Mobile Money, but still achieved 8.8% month-on-month growth for the first 9 months of 2013 in terms of the volume of transactions.

[82] Most expenses are also paid in cash. FinScope (2011) shows that 96.3% of Swazi adults pay for food with cash, 87.8% for clothes, and 31.0% for larger appliances.

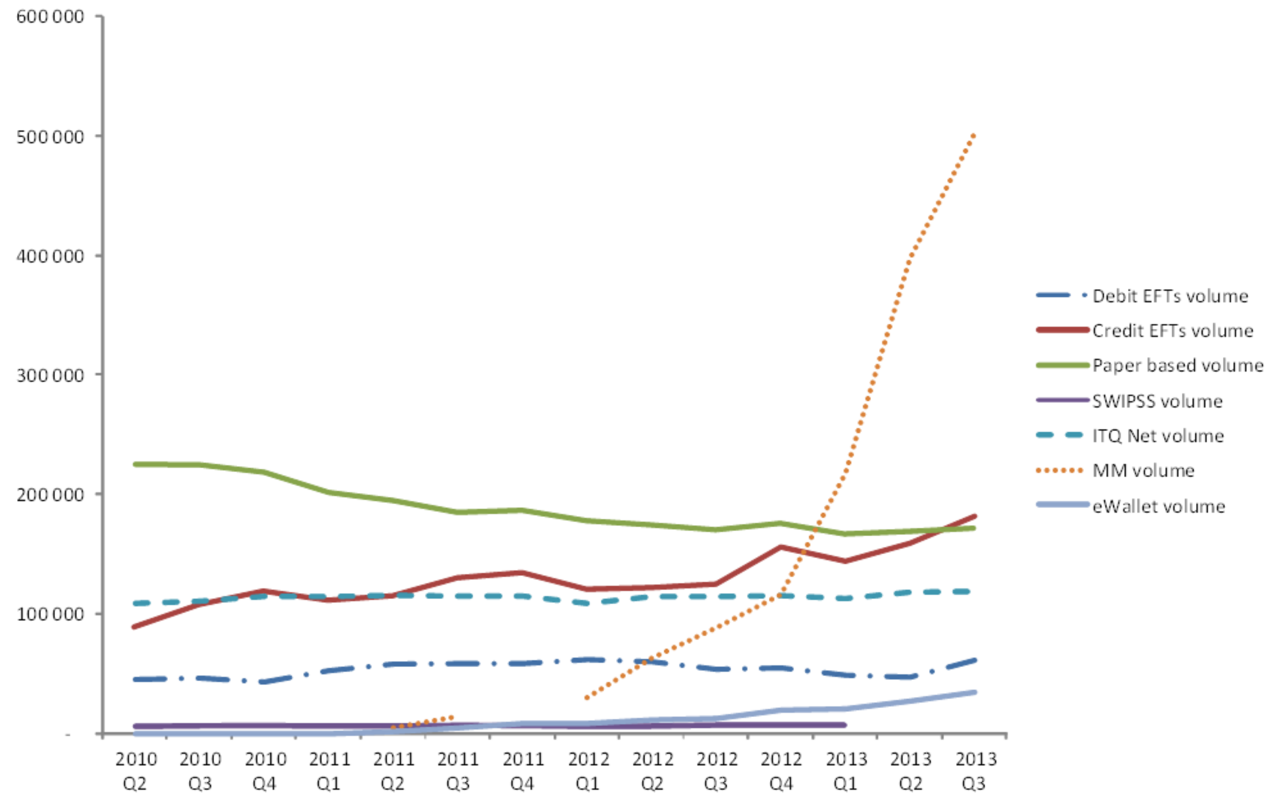


**Figure 47: Volume of transactions per payment mechanism per quarter from 2010-2013**[83]

*Source: CBS NPS, 2013 and First National Bank (FNB), 2013*

*Mobile money with lowest transaction values, providing unserved low income niche.* Particularly notable in Figure 47 above is that the average transaction values of mobile money are substantially lower than alternative payment mechanisms. This indicates that mobile money is serving a currently unserved niche for low value payments, most likely because the fees related to alternative payment mechanisms render lower value payments unfeasible (see Section 6.2.4.1). This is particularly relevant for money transfers where the formal alternative is debit EFTs or the Post Office.

[83] ATM withdrawals are excluded as they are not a payment between two different parties

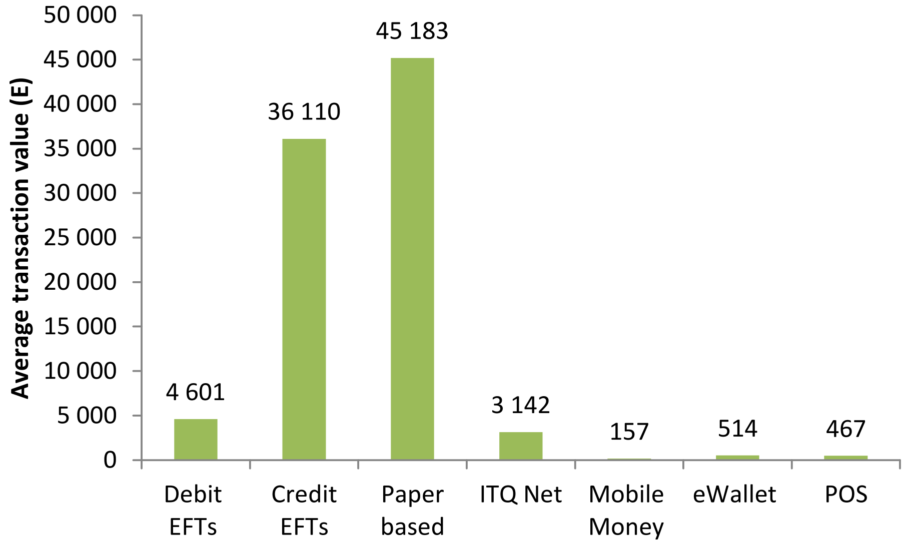


**Figure 48: Average transaction value by payment platform**

*Source: Central Bank of Swaziland,2013 and FNB, 2013*

*MTN Mobile Money uptake largely urban, but rural potential given footprint.* Figure 48 shows that 41% of active mobile money agents are situated in rural areas. However, Figure 48 also shows that just 4.3% of mobile money deposits and withdrawals by value take place in rural areas, will the majority of transactions occur in the urban areas. The implication is that mobile money is that the number of rural agents indicates an untapped potential to offer mobile money as a remittance channel to rural areas, as indicated in Figure 49 below.

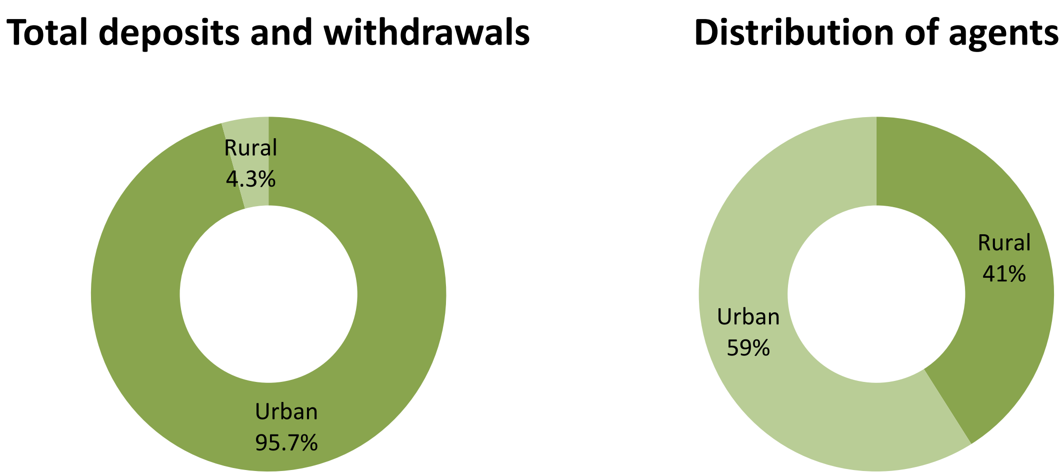


**Figure 49: Urban rural split between mobile money usage and agents**

*Source: Central Bank of Swaziland, 2013*

*High uptake of transaction accounts but indications many used as 'mailbox'.* FinScope (2011) indicates that 37.6% of Swazi adults have a bank account with transactional capability. The majority of these transaction accounts are linked with an ATM card, allowing consumers to withdraw cash from ATMs. 29.2% of Swazis have ATM cards and an average of 2 million ATM withdrawals were made per quarter in 2011 (CBS NPS, 2013), substantially higher than the total number of transactions made through the various payment systems. The relatively high average values of the transactions (E740 per withdrawal (CBS NPS, 2013)) further indicate that many ATM withdrawals constitute a substantial portion of salaries. The estimated gross average income of those FinScope respondents who indicated they do have a transaction account is about E2,400., 58.7% of transaction account holders with a regular income are earning less than E2,000 per month.

*Declining use of cheques.* Figure 47 also shows the declining use of cheques (paper based transactions) over time. Given the high price charged to the consumer for processing cheques and the development of both alternative higher value and lower value credit payment streams, the declining use of cheques as a payment mechanism is both unsurprising and offers potential cost efficiencies for the economy.

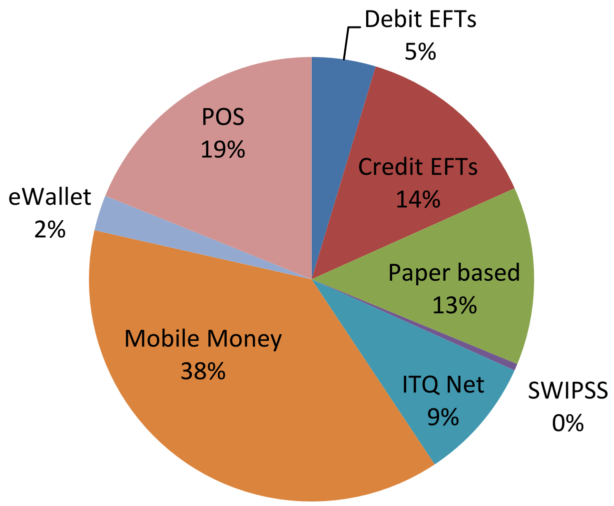


**Figure 50: Volume of transactions by payment mechanism**[84]

*Source: CBS NPS, 2013 and FNB, 2013*

*POS transactions increasingly widely used.* Figure 50 shows that POS (Point of Sale) transactions make up about 19%[85] of the total number of transactions in Swaziland. Figure 50further shows that the average value of POS transactions are still fairly high at E467. The increasing prevalence of POS devices (the number of POS devices in Swaziland rose 28% between 2011 and 2013), the inherent convenience of card POS transactions and the planned future interoperability of SwaziBank suggest that POS transactions will become an increasingly significant payment stream.

*Low use of credit and debit cards.* According to FinScope (2011), just 2.5% of Swazi adults have a credit card and 5.3% have a debit card, however, 29.2% indicated they have an ATM/Cash point card, which usually doubles as a debit card. This discrepancy is likely due to the interpretation of respondents, but suggests that those that indicated they have an ATM card identify it as such because they use it largely for ATM withdrawals[86].

[84] ATM withdrawals are excluded as they are not a payment between two different parties
[85] This is based on the number of transactions in 2011 (the most recently available, courtesy of the Swazi Central Bank), whereas the other payment mechanisms are based on 2013 data, so the number of POS transactions is likely underreported.
[86] SwaziBank and the Swazi Building Society both have ATMs but are do cannot yet offer full card interoperability and hence their ATM cards cannot be used for most POS transactions, so this likely also accounts for some of the discrepancy.

*High proportion of Swazis multi-banked.* FinScope reports that about 235,000 Swazi adults have bank accounts, yet supply-side consultations indicated that the combined number of customers across the four banks is about 450,000. Whilst some of the additional number may be accounted for by corporations with accounts, this still indicates that a large number of Swazis have accounts at multiple banks. Anecdotal evidence suggests that this multibanked phenomenon may be due to customers using different banks for different types of transactions. For example, the South African owned banks may be used for cross border transfers due to their link to South Africa, whilst SwaziBank is used for Swaziland transactions because it is perceived as cheaper.

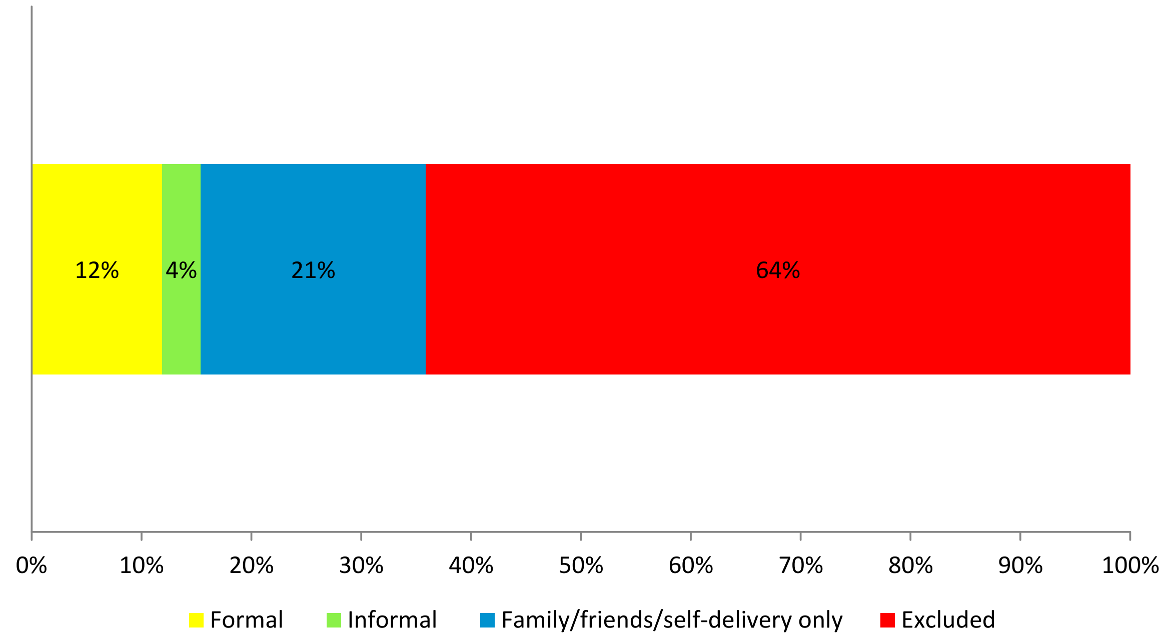


**Figure 51: Remittances (sent and received) access strand**

*Source: FinScope, 2011*

*Large immigrant population remitting back to Swaziland.* As indicated in Section 2, 160,000 Swazis are living outside the country (approximately 15% of the local Swaziland population). Of these, 84% (136,000) live in South Africa. FinScope (2011) suggests that about 15,000 Swazis receive remittances from outside the country, however, due to the large number of Swazi immigrants, it is likely that this figure is substantially underreported[87]. This is indicated in Figure 51, which shows that 64% of Swazi adults do not have access to remittances. To illustrate the possibility of remittance underreporting, DNA Economics (2012) estimates that, on average, 50% of Swazi immigrants in South Africa remit back to Swaziland, which would correlate to 60,000 – 70,000 Swazis remitting from South Africa to Swaziland. DNA Economics (2012) further estimates that this amounts to nearly R400 million remitted from South Africa to Swaziland annually, with just R50 million sent through formal channels. This, therefore, constitutes substantial income for the receivers of these remittances in Swaziland, most of which are sent through informal channels.

[87] This is likely due to differing interpretation and understanding of the term remittances by FinScope respondents.

| Senders and Receivers | Total sent | | Total received | |
|---|---|---|---|---|
| | Frequency | % | Frequency | % |
| ***Total population*** | *110,022* | *20.7* | *102,173* | *19.2* |
| **Civil servants** | 21,966 | 48.9 | 3,134 | 7.0 |
| **Company employees** | 25,818 | 42.0 | 4,112 | 6.7 |
| **Informally employed** | 4,137 | 14.8 | 3,979 | 14.3 |
| **Business owners** | 17,921 | 26.4 | 7,744 | 11.4 |
| **Irregular earners** | 10,105 | 10.4 | 9,867 | 10.1 |
| **Private dependents** | 20,764 | 13.5 | 64,952 | 42.1 |
| **State dependents** | 1,146 | 3.3 | 3,216 | 9.3 |

**Table 14: Total number of people that sent and received remittances in the last 12 months per target market (formal, informal and self/ family and friends)**

*Source: FinScope,2011*

*Higher income target markets send more, dependents receive.* Table 14 above, indicates a relatively consistent trend between the sending of remittances and the average income of the target market. The civil servants (48.9%) and company employees (42%) have greater resources and therefore are more able to send remittances. The private dependents are the primary receivers of remittances with 42.1% indicating they receive remittances. Indeed remittances may be the primary source of income for a substantial portion of this target market.

*Consistently higher use of family or friends or self-delivery channel across all target markets.* FinScope (2011) indicates that civil servants make the greatest use of formal channels to send and receive remittances. As the overwhelmingly majority of civil servants have bank accounts, formal channels would seem the most convenient for this group. However, even civil servants make greater use of family or friends or self-delivery to remit, suggesting that even the wealthiest and best served target markets may find this channel more appropriate for their remittance needs than formal channels. This preference reflects a combination of lack of awareness of alternatives (60% of those that self-deliver indicate they are not aware of any alternatives), the convenience of self-delivery with frequent interaction with family members in rural homesteads and the cost of alternatives. Section 6.2.4.4 indicates how expensive domestic remittances are if sent via formal channels relative to small transfers. Transport costs to collect remittances in urban centres need to be added to these costs. Cross border transfers are even more expensive, with 8 of the top 32 most expensive global remittance corridors between South Africa and another SADC country (DNA Economics, 2012). Last mile challenges in the form of lack of distribution points is a further hurdle for cross border transfers.

*Domestic urban to rural the primary remittance channel.* The majority (60.7%) of remittances is received in rural areas whilst the largest portion (41.7%) is sent from urban areas, per Figure 52 below. This indicates that the primary remittance channel is domestic urban to rural, with 10-15% sent across the border (again likely underreported as indicated above).

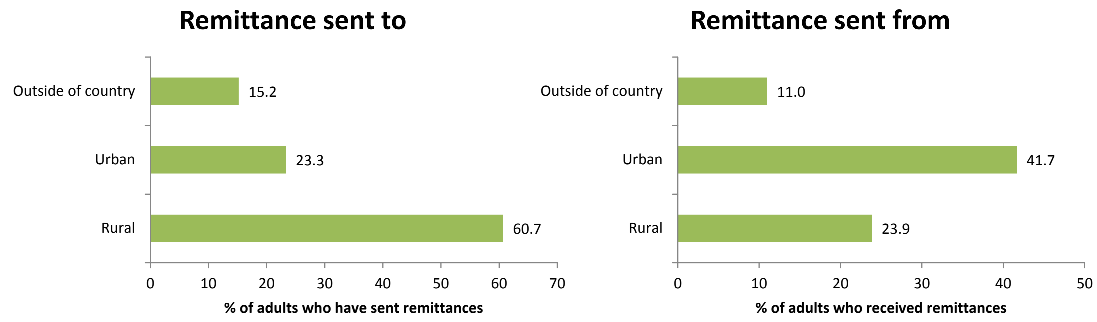


**Figure 52: Areas where remittances are sent to and from**

*Source: FinScope, 2011*

### 6.2.2. Use cases

In this section we outline some of the main use cases for potential uptake by Swazis of efficient and cost-effective payments mechanisms. At the end of the payments market analysis, we'll return to the use cases as the basis for the identification of gaps in current provision and opportunities for growth. Figure 53 below shows the main payment categories in Swaziland:

**PAYER**

**PAYEE**

| | **Government (G)** | **Business (B)** | **Person (P)** |
|---|---|---|---|
| **Government (G)** | | Tax (B2G) | Tax (P2G) |
| **Business (B)** | Procurement (G2B) | Bill payments (B2B) | Bill payments (P2B) |
| **Person (P)** | Grants,<br><br>Salaries (G2P) | Salaries,<br><br>Loan disbursements (B2P) | Remittances,<br><br>Bill payments,<br><br>Wages (P2P) |

**Figure 53: Payment Grid-Categories of payments in Swaziland**

*Source: Authors' own*

*Remittances (P2P).* FinScope (2011) finds that 225,000 adults receive income from others through remittances as well as payments by household members. Remittances are defined in Bester et al. (2010) as "non-reciprocal transfers from one person to another across a distance" and therefore constitute a person to person money transfer. Remittances are used by all the target markets but are of particular importance to civil servants and company employees, which are the major senders of remittances, and the private dependents which are the largest receivers of remittances. Remittances are largely used to support dependents.

*Bill payments (P2B, B2B, P2P).* Bill payments constitute the payment by a person or a business to another person or business in return for a good or service. For example, bill payments include payments for water, electricity, airtime, loan repayments, insurance premiums, school fees, groceries, clothes and appliances. Bill payments are relevant for all the target markets as all individuals have to pay bills of some form. However, the self-employed with SMMEs may be required to directly handle make many bill payments over a month (generated from their business activities) and hence the transaction cost of bill payments becomes particularly important for the business owners.

*Salary payments (B2P, G2P, P2P).* Salary payments constitute the payment of individual employees by their employer, either a business or the government. As salary payments constitute a bulk payment disbursal, it is important that employers are able to use efficient and cost effective channels to conduct these payments. From the individual receiver's perspective it is imperative that they receive salaries on a consistent, timely and reliable basis. The employed and self-employed (who employ others) are the target markets primarily affected by this use case. As the salaries of many of the formally employed are paid into bank accounts, this can act as a driver for individuals to open bank accounts simply to receive their monthly salary and might not be a sufficient driver in the cash-based Swazi society to further utilise these accounts a transaction mechanism (as discussed in Section 6.2.1).

*Grant payments (G2P).* Grant payments constitute the payment of grants[88] to grant recipients by the Government. As with salary payments, grants also constitute a bulk payment disbursal by the state, but the recipients have a considerably different profile that will affect the payments mechanisms used. In Swaziland, grants are paid in cash as it is deemed that most grant recipient do not have access to other payments mechanisms. The use of cash makes the overall cost of distributing grants substantially more expensive for the government, which in-turn means that the value of the grant itself is less and it is only cost effective to distribute the grants quarterly, rather than monthly. The State dependents are the primary target market affected by grant payments.

*Tax payments (B2G, P2G).* Tax payments would largely affect the higher income target groups that are required to pay income tax and the self-employed who are required to pay VAT on goods and services sold. Improved tax collection is fundamental to fiscal sustainability in Swaziland (see Section 2). Efficient, simple payments mechanisms provide a significant contribution to effective tax collection.

*Procurement (G2B)*. Small businesses are paid for government tenders. Criteria around government procurement payments are particularly important when dealing with SMME tenders and access to particular types of banking facilities.

*Loan disbursements (B2P)*. Most formal credit institutions pay loans into a client's bank rather than in cash therefore restricting credit provision to the formally banked.

[88] A specific sum of money allocated by a government to purposes necessary for the protection of an individual's social welfare, such as replacing basic income lost due to disability or providing basic monetary support to the poverty stricken for child support.

## 6.2.3. Providers

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

*Who provides?* Banks are the traditional providers of transaction products and still have the largest number of clients amongst the providers, reaching all the target markets to some extent (as shown below in Figure 54). However, MTN's mobile money has experienced substantial growth in usage since its introduction into the Swazi market. Despite a far lower market penetration than the four banks, the product has achieved higher usage rates by their clients. Further, the value being processed through automatic government payroll deductions by ITQ Net, makes this a significant payment system. Retailers and the Post Office also play an increasing role in payment provision and a significant potential for remittance payments.

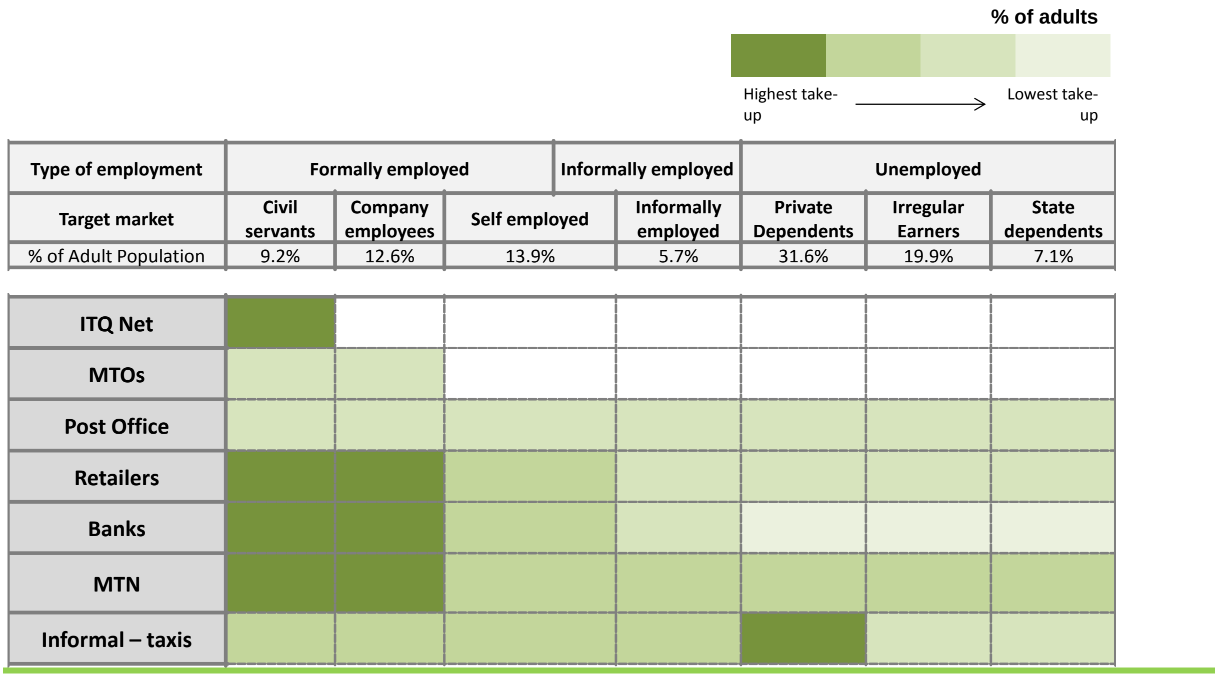


**Figure 54: Existing and potential reach of the different payments providers**

*Source: Authors' own*

### 6.2.3.1. Banks

*Banks the primary providers of transaction products.* The banks have historically been the primary providers of non-cash transaction channels for consumers. They offer the ability to transfer cash directly into an account, conduct EFTs (Electronic Fund Transfers) between accounts and the three South African owned banks offer debit and credit cards (as opposed to an ATM card) that allow consumers to pay for goods and services through a POS device, thus reducing the need to access cash. The three South African banks also offer internet and cellphone banking, adding avenues for customers to make payments and transfers without any physical interaction with the bank. However, the usage of internet and cellphone banking remains very low in Swaziland.

*Bank services come at a cost.* Whilst banks provide a full range of payments options and mechanisms to clients, these come at a cost and in Swaziland that is substantial. Section 6.1.3.1 discusses the proportional breakdown of the Swaziland banks' revenue between interest revenue and revenue earned from transactions. The strong focus by the banks on non-interest revenue means that consumer bank fees are very high, particularly given the low average income of Swazis. Table 15 below shows the relative costs of Swazi banks to South African and Lesotho banks and MTN mobile money, respectively. The discrepancy between Swaziland's average monthly service fee and the cost of debit orders is particularly stark in comparison to South Africa and even Lesotho, a country similar in scale to Swaziland. The high bank costs discourage the use of banks for transaction purposes and are often poorly understood by consumers which exacerbate negative perceptions of the banks.

*"The bank charges are astronomical… And they fail to explain this right from the beginning, you put your money in and when you take it out you are shocked to find that it's lesser than what you expected."*

*(Manzini, Female, Aged 41 – 55 years (KLA, 2014b)*

| | Assumed transaction profile[89] | Swaziland (E) | South Africa (R) | Lesotho (LSL) | Swazi MTN Mobile money (E) |
|---|---|---|---|---|---|
| Monthly service fee | | 12.93 | 3.00 | 8.53 | 0.00 |
| Debit orders | 1 | 18.96 | 3.67 | 14.48 | n/a |
| Debit order bounce | | 314.08 | 10.33 | n/a | n/a |
| ATM withdrawals--on us (w/d: R100 each) | 3.1 | 4.67 | 5.00 | 4.83 | 3.00 |
| Statements requested – ATM | 1.2 | 4.16 | 3.67 | 2.74 | n/a |
| Statements requested – Counter | 0.11 | 11.18 | 11.17 | 20.15 | n/a |
| Deposit (R500) – counter | 0.31 | 21.23 | 12.50 | 13.70 | 0.00 |
| **Estimated monthly cost[90]** | - | **59.14** | **31.67** | **47.73** | **N/A** |

**Table 15: Average bank charges for entry level transaction accounts across Swaziland, South Africa and Lesotho**

*Source: Mystery shopping, 2014; Genesis, 2005; 2014,*

*Perceptions hinder uptake, Swazis generally trust banks but don't think they need them.* Figure 55 below indicates that the majority of Swazis (74%) do trust banks with their money and 52% believe that banks do try to understand consumers' needs and offer products that meet them. However, 64% also believe that you can easily live your life without a bank account. This reflects the high reliance on cash in Swazi society. Cash also offers greater flexibility for consumers as they always have immediate access to their money.

[89] This banking profile is based on the postulated Southern African profile for low income bank customers (Genesis, 2005) . The profile estimates the usage of a low income user that is using the account to a limited extent, although more frequently than simply as a 'mailbox'
[90] Estimate is based on the weighted average according to the market share of the four operating banks in Swaziland and Lesotho, and the average costs of the three banks operating in South Africa which also operate in both Swaziland and Lesotho (i.e. FNB, Nedbank and Standard Bank).

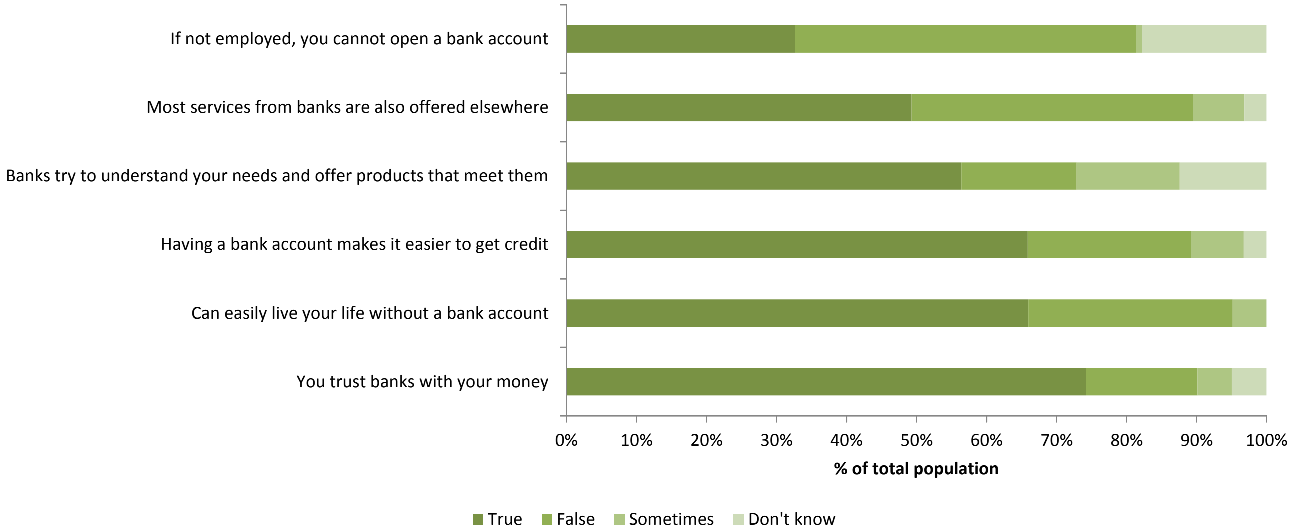


**Figure 55: Swazi adults' perceptions of banks**

*Source: FinScope, 2011*

*Bank accounts provide safety from theft.* Figure 56 below indicates that many Swazi may prefer a bank account to guard against theft, even if they don't think it is a necessary tool to "live their lives". 67% of Swazi's considered this to be the main advantage of bank accounts. The threat of theft of money saved at home could be a major driver of Swazis using bank accounts or alternatives. Access to transactional functionality does not seem to be a main driver of use, again reflecting reliance on cash.

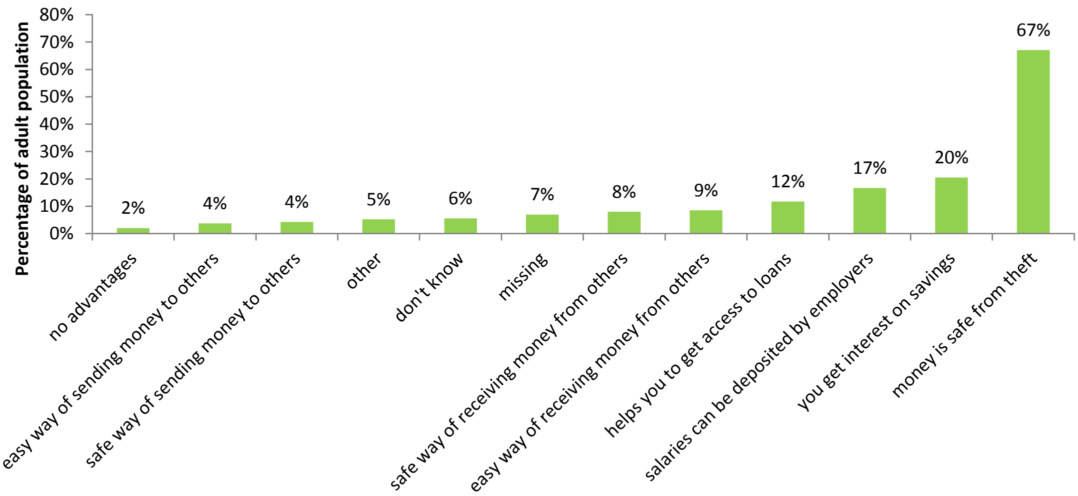


**Figure 56: What are the advantages of using a bank account?**

*Source: FinScope, 2011*

**Box 14. Bank-related payments infrastructure**

**Swazi payments system infrastructure**

This box explores the infrastructure that makes banking payment services possible. Table 16 starts by introducing Swazi payment systems infrastructure components.

| Name of payment system component | Location | Function |
|---|---|---|
| **Swaziland Interbank Payment and Settlement System (SWIPSS)** | Swaziland | SWIFT based real time gross settlement system (RTGS). |
| **Swaziland Automated Electronic Clearing House (SAECH)** | Swaziland | An interbank payment system for low value electronic credit and debit order transactions between Swaziland based bank accounts only. |
| **SA Electronic Funds Transfer Payment Clearing House (EFT PCH)** | South Africa | South African based clearing house for the clearing and settlement of payments instructions within SA and in the CMA where one leg of the transaction originates or terminates at another South African parent banking institution. |
| **South African Multiple Option Settlement system (SAMOS)** | South Africa | The SWIFT based real time settlement system of the South African Reserve Bank. It is the primary high value settlement mechanism for all formal interbank payment systems. |
| **The Southern African Development Community Integrated Regional Settlement System (SIRESS)** | Regional (currently located in South Africa and operated by the South African Reserve Bank (SARB) for the SADC Banking Association) | SADC's SWIFT based real time settlement system. It is a high value regional payment and settlement system for participating banks and central banks within SADC. |
| **Bankserv** | South Africa | Bankserv is the current automated clearing house operator for most payment systems in South Africa. |
| **Society for Worldwide Interbank Financial Telecommunication (SWIFT)** | Belgium | An international co-operative organisation that provides a secure transactional network and sets standards of interoperability for international financial transactions. |

**Table 16: Payment infrastructure components**

*Source: Authors' own CBS Payments Department, 2014; Payments Association of South Africa, 2014; SWIFT, 2014*

*Low levels of volumes and majority SA banks result in infrastructure located in Swaziland and SA*. Historically there has been reliance by South African subsidiary banks in Swaziland upon their parent company's systems and national payment infrastructure. This position has benefitted those organisations, and potentially their clients, in not having to duplicate functionality in a comparatively small market. Understandably there is reluctance to replicate internal payment infrastructure and therefore it is only done in compliance with regulatory requirements. As a result, an organic structure has developed with clearing happening both within Swaziland and within South Africa; regulatory exceptions permitting. High value credits and low value EFT debits and credits between Swaziland based accounts may not be cleared through South African payment systems and hence are cleared and settled locally, whereas card-based transactions between Swaziland subsidiaries of SA banks are still cleared through South Africa. Transactions between SA banks and SA bank subsidiaries in Swaziland are also cleared and settled through the SA National Payment System (SA NPS) with the SA institutions accepting full risk and responsibility for Swaziland based clearing and settlement. Given the CMA treaty, objectively there is no incentive from an institutional or customer viewpoint to establish separate clearing systems in each bank, for a market the comparative size of a South African branch cluster. The comparatively high EFT prices in Swaziland in respect of local EFT transactions (see Table 15 above) are indicative of difficulties in reaching viable scale in smaller markets. The advent of regional settlement systems for retail transactions raises the possibilities of closer regional integration with potentially lower unit transaction costs than local clearing systems.

*SWIPSS reduces risk to payments system but is underutilised* The Swaziland Inter-bank Payment and Settlement System (SWIPSS) is a SWIFT based real time gross settlement system (RTGS) which is operated by the Central Bank of Swaziland (CBS) and participation is limited to the Treasury Department through the Minister of Finance, the central bank and commercial banks[91]. The SWIPSS system (illustrated below in Figure 57) constitutes the underlying settlement mechanism through which most payments are ultimately settled and therefore underpins most local electronic transactions. An efficient, secure core payment system reduces the intraday risk and collateral required by banks in the case of batch processing as well as the risk, cost and complexity of bilateral clearing mechanisms and therefore constitutes an ongoing systemic benefit to all the financial systems it supports. Current volumes and average ticket values processed tend to point to the system not being utilised to its potential, which is a function of the small market in which it operates and consequently is not currently regarded as a Systemically Important Payment System. [92]

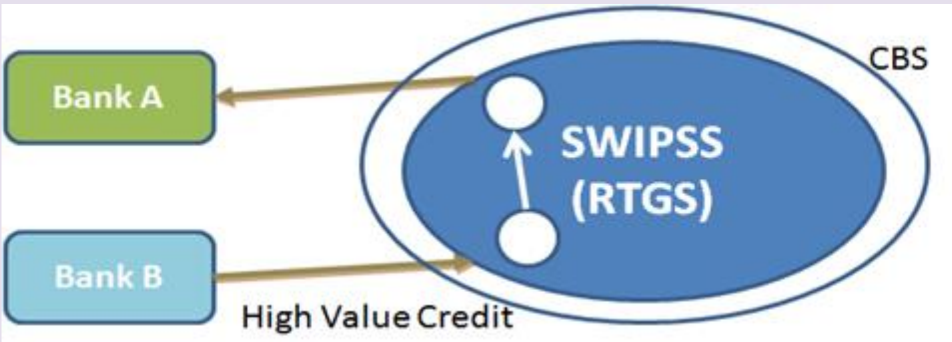


**Figure 57: Swaziland's core real time gross settlement SWIPSS**

*Source: Authors' own*

*SAECH facilitates low value bill and salary payments.* SAECH (Swaziland Automated Electronic Clearing House) is a low value credit and debit EFT system which clears payment instructions between participating bank systems and facilitates a net settlement between banks within the SWIPSS system. As illustrated in Figure 58 below, it facilitates debit orders and stop orders between banks and related unpaid or return functionality. SAECH facilitates local to local EFT transactions that may not be cleared and settled in another Common Monetary Area (CMA) party state. SAECH facilitates low value G2P, P2G, G2B, B2B, P2P, B2P and P2B interbank credits and P2B and B2B debit orders which represent a step beyond using a bank account merely as an encashment mechanism or mailbox. Debit orders are one component of risk reduction with a direct relationship to the pricing of credit. Inefficient or ineffective low value EFT payment systems can hamper the

[91] SWIPSS enables the treasury and commercial banks to make high value credit payments in real time that are irrevocable and caters for the pledging of security in respect of Intraday Liquidity Facility (ILF) to meet obligations by participants. SWIPSS acts as the principle settlement system for inter-bank Swaziland based retail payment systems.
[92] In time SWIPSS will likely become the Systemically Important Payment System (SIPS), but currently ECH/Cheques are listed as the SIPS for Swaziland, particularly if cross border cheques reduce as regional payments emerge.

development and uptake of appropriate financial services with an EFT component.

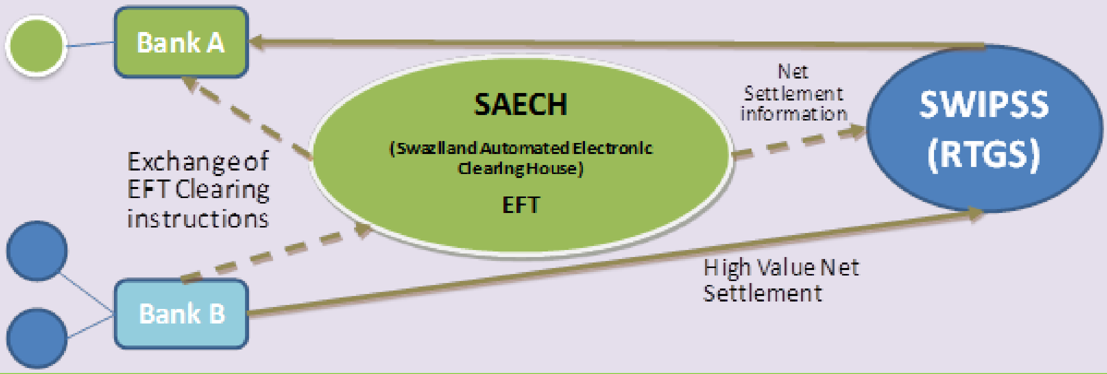


**Figure 58: SAECH Retail payment systems for batched low value debits and credits**

*Source: Authors' own*

*South African-owned banks have a competitive advantage over SwaziBank in administering cross border flows with South Africa.* Figure 59 below shows that currently the SA-owned Banks are able to utilise the South African national payment system and parent company's payment clearing infrastructure to facilitate inward and outward payments with South Africa, both interbank and intrabank and thereby leverage the scale and efficiency of the larger parent organisation. SA subsidiary banks in Swaziland are thereby able to clear EFT payment instructions from participating banks in SA through the South African EFT Payment Clearing House (SA EFT PCH) operated by Bankserv which also facilitates a net settlement between banks within the South African RTGS (SAMOS) system at the South African Reserve Bank (SARB). Essentially it facilitates payment instructions between SA banks with Swaziland subsidiaries. Without institutional membership of the SA clearing house, the local SwaziBank is required to effect inward and outward transfers by means of SWIFT via correspondent banks, typically taking two days as opposed to inter-day.

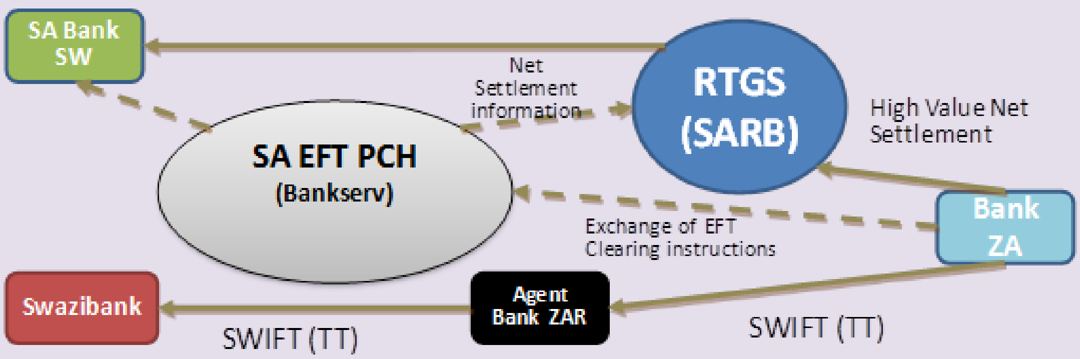


**Figure 59: South African NPS infrastructure utilised for Inward and Outward Remittances and EFT**

*Source: Authors' own*

*Inappropriate payments mechanisms available to banks raise the cost of cross border remittances.* The different approaches between the SA banks and SwaziBank in the clearing of ZAR EFT payments demonstrates how scale and payment routing are key factors that have a bearing on financial inclusion, the most glaring example is the use of a predominately wholesale B2B payment method such as SWIFT and correspondent banking to facilitate low value P2P and P2B interbank credits which although inappropriate, is currently the only mechanism at the bank's disposal. The cost and timing would render this payment modality inappropriate for medium to lower income people..

*Only SA-owned banks currently offer card interoperability.* SA subsidiary banks in Swaziland are able to clear card Point of Sale (POS) and Automatic Teller Machine (ATM) transactions between participating banks in SA through the SA Card PCH and switch operated by Bankserv which also facilitates a net settlement between banks within the RTGS (SAMOS) system at the SARB. Swaziland do not currently have a local card clearing and settlement system, but there are long standing plans to establish one. The SA banks are able to switch clear and settle card transactions between each other in South Africa utilising their parent company infrastructure and the SA NPS which operates at significant scale compared to Swaziland volumes (as shown in Figure 60 below). SwaziBank and the Swazi Building Society do not have institutional access to the SA national payment system and therefore do not have interoperability. SwaziBank is currently undergoing certification with an international card association to establish interoperability.

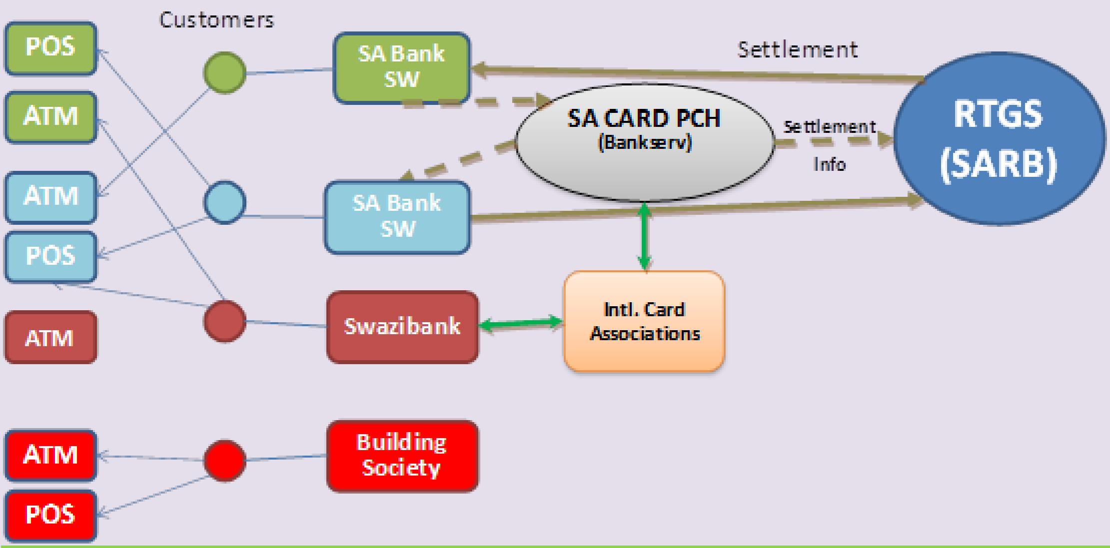


**Figure 60: South African NPS infrastructure utilised for Inward and Outward Remittances and EFT**

*Source: Authors' own*

*The case for and against a Swaziland national card clearing house and transaction switching.* The Central Bank of Swaziland's National Payments Department (CBS NPS) have for a number of years had plans to implement a national card clearing house and transaction switching infrastructure.

*Case For:*

- Level playing field for all card providers
- Better value for SwaziBank and SBS clients who will have access to interoperable cards.
- Autonomy over local payments system

*Case Against:*

- Substantial initial investment required due to the costs associated with the time, expertise, administrative burden and the cost of implementing a certified card switching, clearing and settlement system.

- Small market size means relatively low volumes, and would likely result in relatively high transaction charges which would likely defeat any attempt to build operational scale.
- SwaziBank already undergoing MasterCard certification which would provide access to SA bank's ATM networks as they are certified for all international card associations, making them fully interoperable with the three SA-owned banks.

The regional switch SIRESS is the core regional settlement system upon which a regional card switching and clearing system is intended to be be developed. A regional card payment clearing house is intended to enable full card interoperability regionally and locally..

*Swaziland Paper Based Transactions.* Cheques are seen as a systemically important payment system in Swaziland due to the high number of high value transactions. Cheques are an expensive means of transacting due to the logistics required for the exchange of physical instruments. ZAR denominated paper is cleared through the SA NPS and utilising the parent bank infrastructure whereas Emalangeni denominated paper is cleared through the CBS operated clearing house.

**Regional payments system infrastructure**

*New regional switch recently operational.* The SADC Committee of Central Bank Governors (CCBG) agreed to the development of SADC regional payments structure in 2009 in the interests of more effective financial integration in the SADC region. The Integrated Regional Settlement System (SIRESS) was developed under auspices of SADC and the CCBG. The regional payment system accommodates Continuous Processing Line (CPL)[93] , and Real Time Line (RTL) processing of high value irrevocable settlements directly between regional banks, as illustrated below in Figure 61 below. Swaziland was part of the initial pilot phase that went live after testing in July 2013. Banks in non-CMA countries have already started testing, first clearing in ZAR and later in regional currency ZAR equivalents, although there is no long term finality as to the choice of the main switching currency. SIRESS is the core settlement system which will underpin regional payment clearing houses, initially for batched low value EFT Credits and Debits and later for other payment instruments such as card based payments.

[93] CPL is a queuing system for payments on hold for liquidity which is passed around member banks as payments are made within the system.

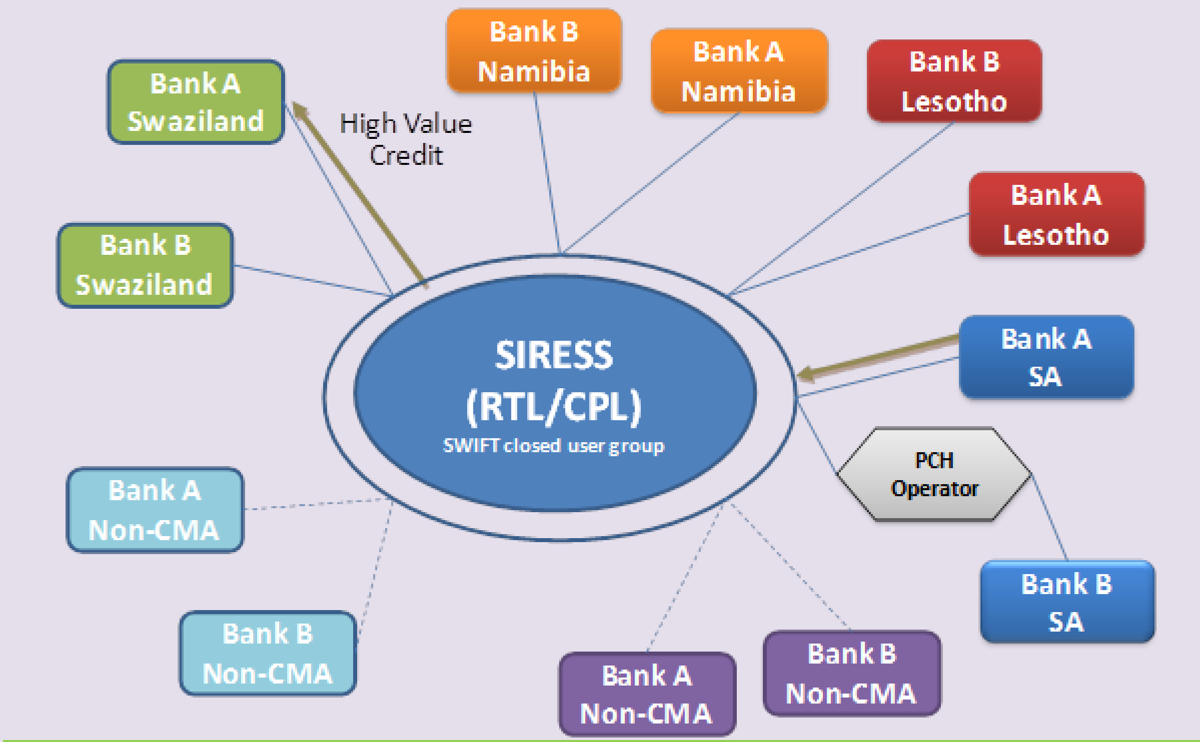


**Figure 61: The SADC regional payments system – SIRESS**

*Source: Authors' own*

***SIRESS can create substantial economies of scale, reducing costs on cross border transfers, domestic transfers, reduce risks and create a level playing field between local and foreign owned banks.*** SIRESS makes it possible to send wholesale payments directly from one regional bank to another in real time and at minimal cost and disruption, bypassing costly and slow correspondent banking systems. Regional clearing agreements and facilities hold much potential for Swaziland as these arrangements are designed to operate at vast scale and at a marginal cost that would be near impossible for any single country to match. Most countries will likely maintain their internal clearing facilities, but the possibility exists that banks in the same jurisdiction which are members of regional clearing structures could clear payments between each other on the regional infrastructure, particularly in smaller markets where there are limited economies of scale. Regional payment clearing also has the potential to level any disadvantage between local and foreign owned institutions. Local banks, like SwaziBank, will be able to use the regional card switch for local card switching, making it fully interoperable with the other banks.

#### 6.2.3.2. MTN

*A new financial services player but rapid uptake demonstrates potential.* MTN first entered Swaziland as a mobile network operator (MNO) in 1998 offering mobile telephony. Midway through 2011, MTN then introduced its financial services offering: MTN Mobile Money. As illustrated in Figure 47 in Section 6.2.1, the usage of this product has grown rapidly since its introduction and it now accounts for nearly half of all formal transactions made in Swaziland. As indicated in Section 5.2.2.2, MTN has a total of about 800,000 mobile phone subscribers. Over 35% of Swazi adults (200,000) have registered for mobile money, with 15% of these (about 30,000 individuals) operating as active users with a total float of around E7million [94]. Given the high overall number of transactions, most of these active users are using the service with regularity (each active user made an average of about 5.5 mobile money transactions[95] per month in the third quarter of 2013).

> *"I went and registered and this mobile money is good because if you do not have electricity you can buy it with mobile money and you can press and there and the electricity can be bought like this. There are lots of things that can be done with mobile money even water can be bought with it."*
>
> *(Manzini, Male, Aged 25 – 40 years* (KLA, 2014b))

*Monopoly MNO position has both costs and benefits*. The monopoly position that MTN has in Swaziland allows it to charge relatively higher fees than it could in a competitive environment. This is clearly illustrated through the relative telephony costs charged in Swaziland as shown in Table 17Table 17. However, the mobile money transaction costs charged by MTN are relatively competitive with comparative countries (see Table 17), as in the payments space MTN does face competition – primarily from the banks. Being the only MNO also has significant benefits in the provision of financial services as there are no interoperability issues as all Swaziland mobile subscribers are necessarily MTN subscribers. A similar lack of interoperability issues has been identified as a key factor in the success of M-Pesa in Kenya as all customers can be immediately connected through the service instead of the fragmented market, making it easier to achieve network externalities, create a virtuous cycle of uptake and achieve scale (Donovan, 2012). As the only operator, MTN may also have an increased incentive to invest in education and awareness regarding the use of mobile money as there will be no spillover positive externalities to a competitor i.e. MTN will reap the full benefit of any investment in the education and encouragement of people to use mobile money.

| | Voice call rates during peak time (R/E per minute)[96] | Cost to *send* mobile money to a registered user (R/E)[97] |
|---|---|---|
| MTN Swaziland | 2.05 | 3.00 – 5.00 |
| MTN South Africa | 1.20 | 0.00 |
| Vodacom South Africa | 1.20 | 2.45 |
| Vodacom Lesotho | 1.20 | 1.00 – 7.59 |
| Econet Lesotho | 0.50 | 2.00 – 15.00 |
| Orange Botswana[98] | 1.61 | N/A |
| Mascom Botswana[99] | 1.38 | N/A |
| MTC Namibia | 0.99 | N/A |

[94] Active users are defined by MTN as a customer that has done a transaction i.e. bought airtime, sent money, paid bill or withdrawn money. This definition and amount of float was provided by consultations with MTN (2013)
[95] Including withdrawing from or depositing with agents, making person to person transfers, and paying bills.
[96] Based on pre-paid rates
[97] The costs of sending mobile money are generally tiered based on the value sent. Also note that this is the cost of sending money from one account to another, fees are also usually levied on withdrawals and may also be levied on deposits.
[98] Based on the exchange rate as at 1 March 2014 of 1.1958 (Oanda, 2014). Swaziland, Namibia and Lesotho all have exchange rates pegged to the South AFrican Rand
[99] Ibid, 2014.

| | Voice call rates during peak time (R/E per minute)[96] | Cost to *send* mobile money to a registered user (R/E)[97] |
|---|---|---|
| Safaricom Kenya[100] | 0.46 | 0.37 – 4.03 |
| Vodacom Mozambique[101] | 1.39 | 0.99 – 8.28 |

**Table 17: Relative telephony and mobile money sending charges across selected MNOs in the region**

*Source: Respective MNO websites*

*Agent commission tiered according to transaction value.* As mentioned in Section 5.2.2.2, MTN currently has 422 registered agents, although only 130 of these are currently active. The majority of these active agents are situated in urban areas, although a significant proportion (41%) are situated rurally. Mobile money agents are remunerated based on commissions from the number of deposits and withdrawals made to and from them. The commissions are based on tiered system so they earn E1 for any deposit below the value of E125, up to E12 for deposits between E2,001 and E4,000. Similarly for withdrawals, agents earn E1.50 for the lowest tier up to E18 for any withdrawals above E2,000. This correlates to agents earning between 0.5% and 1.5% of the value deposited in commission, on average and between 1% and 2.5% on withdrawals[102].

**Box 15. Mobile money infrastructure**

This box explores the infrastructure that makes mobile money services possible.

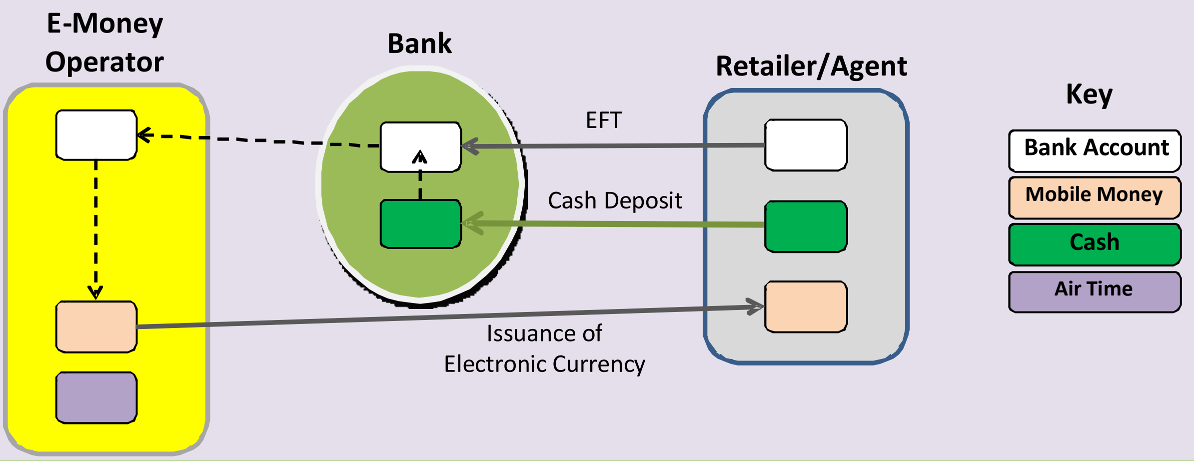


**Figure 62: Flow of funds between agent, bank and MTN/E-money operator**

*Source: Author's Own*

*E-money agents can benefit from a reduction in bulk cash handling charges.* Figure 62 illustrates how e-Money agents interact with e-Money operators. Agents purchase electronic currency from the e-Money operator who then originates and issues the electronic funds into a system account in the name of the agent, which is then reflected on the agent's mobile electronic view of the system. The purchase transaction is effected by either a cash deposit directly into the bank or an EFT into the float account which is then electronically traced and uploaded to the e-Money system. As the agent has purchased the electronic currency, the agent's own electronic funds are being traded. Redemption of e-Money occurs the opposite way around whereby the agent

[100] Based on the exchange rate as at 1 March 2014 of 0.122 (Oanda, 2014)
[101] Based on the exchange rate as at 1 March 2014 of 0.3310 (Oanda, 2014)
[102] This is the approximate range and excludes the percentage earned on very small values and very large values

redeems currency back to the operator who in turn initiates an EFT from the float account to the merchant's bank account. The added benefit to an agent is that if the electronic currency was accumulated through encashment using retail cash receipts, the subsequent electronic deposit on redemption is not subject to bulk cash handling charges normally charged to cash based merchants.

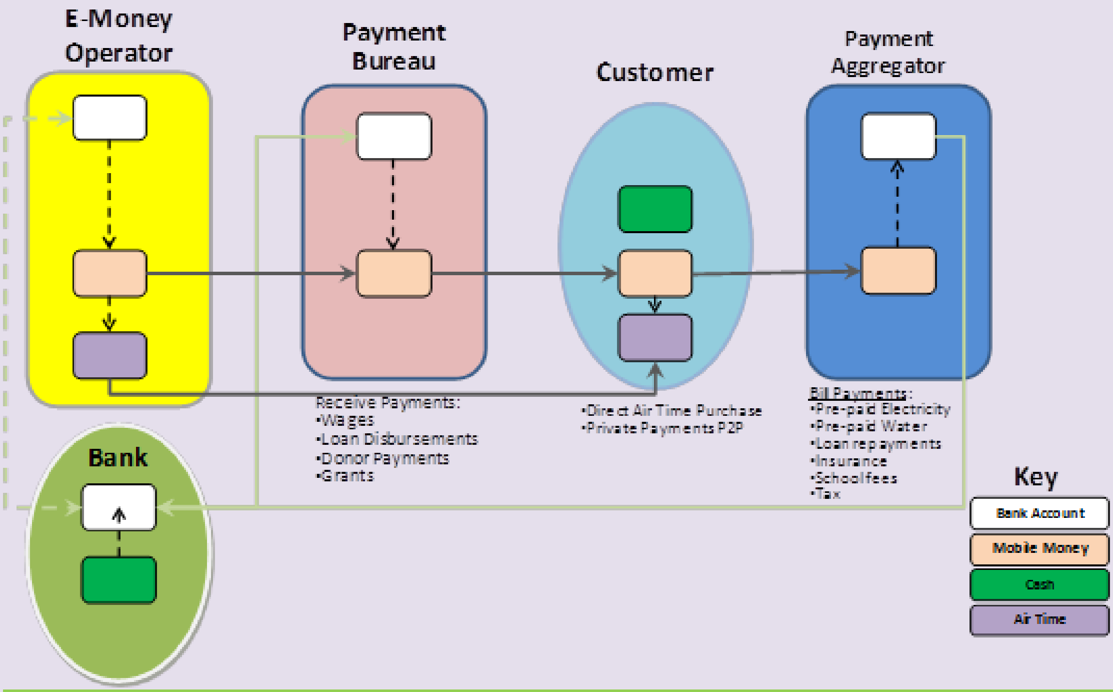


**Figure 63: The mechanics of the E-Money payments system**

*Source: Authors' own*

*Range of transactions available through MTN's mobile money.* Figure 69 illustrates the possible B2P, G2P, P2B and P2G electronic transaction routing of mobile money in Swaziland. Consumers can receive electronic value in the form of bulk payments from an employer, donor, credit institution or government department disbursed into the e-money system by a mobile money agent operating as a payment bureau. Electronic value can likewise be aggregated through e-money agents operating as bill payment aggregators, essentially simplifying the collection and financial administration processes for corporates, government and parastatals by providing aggregated collection data files and a single reconciling bank EFT. The incentive for consumers is convenience (relative proximity), minimising account service charges, deposit fees, transaction fees, encashment fees and opening up markets for financial services involving micro-payments.

*Mobile money can benefit banks.* The potential benefit to the banking industry is about intermediation of large deposits that would otherwise be too costly to pursue; reduced float transactions and overall less cash handling and management costs in respect of corporate accounts. Swaziland's e-money system has the potential for versatility allowing e-money providers to service a wide range of Swazi payments needs more cheaply and efficiently than alternative providers, particularly for low value payments.

#### 6.2.3.3. ITQ Net

*Payroll deductions a substitute for debit orders.* ITQ Net conducts the government payroll deductions for all civil servants (including tax payments). There are currently about 37,000 government employees using the ITQ Net system for deductions from their payroll. About 50 different financial services providers, including banks, credit institutions, insurers and SACCOs, are registered as payroll deducters. The total value of deductions in December 2013 was E163m with a total of 267,586 individual deductions. One of the primary uses of payroll deductions is for loan repayments. The Credit Intuitions (CIs), in particular, extend nearly all their loans on the basis that it will be repaid directly from payroll deductions as this substantially reduces the risk of non-repayment. Due to the high cost of debit orders through the banks, civil servants increasingly use the payroll deduction system for a variety of monthly payments. The volume and value of monthly payroll deductions, makes this a very significant payment system.

*Competition due to 33% cap.* All government employees are subject to a 33% cap on their payroll deductions in order to try and ensure they do not become over indebted. Although certain essential costs and currently also SACCO deductions are exempt from this 33% cap, it does create a situation where different products are competing for this space, including savings and non-medical insurance products.

*ITQNet data used as informal credit bureau.* The ITQ Net data is also used by credit providers as an informal credit bureau. Due to the lack of an operating credit bureau in Swaziland, providers of credit resort to the ITQ Net to give an idea of the level of debt of the credit applicant. However, this is a sub-optimal measure as the data simply tells providers whether or not the individual is above or below the 33% threshold and hence if they will be able to repay via payroll deductions.

#### 6.2.3.4. Retailers

*Some retailers offer bill payments, further potential for money transfers.* PEP with 19 stores and Shoprite with 14 stores (including Usaves) are the two retail chains with the largest footprint in Swaziland. Both offer a limited range of bill payments to consumers whilst Shoprite hopes to offer a full domestic and cross border remittance channel to clients once regulation permits. However, despite having larger physical distribution networks than any of the individual banks, retailer branches are urban and tend to be situated within close proximity of a bank branch in order to meet the retailer's cash management needs. Recent research in South Africa indicates that physical proximity is only a small part of the choice to remit through a retailer. Many South Africans that remit through retailers are not aware of bank options and perceive retailers and their staff as more approachable than banks (Eighty20, Forthcoming).

*Retailers as mobile money agents.* Larger retailers (networked and un-networked) have the liquidity and reach to serve as effective mobile money agents. Using cash resources to pay out mobile money claims reduces the retailer's cash management costs and the commission can offer an additional revenue stream for the retailer.

#### 6.2.3.5. Post Office

*SPTC provides remittances and bill payments.* Swazi Post and Telecommunications (SPTC) is a parastatal which operates Swaziland's post offices and fixed line provider. SPTC currently has 31 active post offices through which it offers money transfers both domestically, between local branches, and cross border, with other post offices in the region. Customers can also pay bills for airtime, electricity and water at the post office. This distribution footprint places SPTC in a strong position to offer financial services. Expansion of financial service strategies in the short term appears unlikely, given current uncertainties about the future configuration of SPTC (Magagula, 2014).

#### 6.2.3.6. Money transfer operators

*Moneygram the only MTO.* The only money transfer operator (MTO) currently operating in Swaziland is Moneygram, which operates through Standard Bank. Remittances sent through Moneygram to Swaziland therefore need to be collected from a Standard Bank branch and similarly must be sent from a Standard Bank branch. Moneygram does not add to the distribution footprint and merely constitutes cross border transfers sent via SWIFT, although according to the World Bank (2012), sending money from South Africa to Swaziland via Moneygram is cheaper than through the banks and also quicker.

#### 6.2.3.7. Informal

*Informal remittances sent via taxis/buses/trucks.* According to FinScope (2011), 3.7% of Swazi adults send remittances via informal channels. Of those adults that send remittances, 6.7% send them via bus or taxi, 5.4% of remittance receivers receive them from a bus or taxi. Other research in the region suggests that the use of taxis, buses and trucks to send remittances, particularly across the border may be even higher. DNA Economics (2012) found that 40-50% of immigrants in South Africa (not specifically Swazis) preferred sending remittances via bus or taxi. The major advantage of this channel is that no paperwork or bank accounts are required, enabling access by undocumented migrants, and that it is highly convenient as the cash can often be sent door-to-door, a major advantage if the recipient resides in a rural area. The major disadvantage of this channel is the expense (R10-R30 per R100 sent, although formal channels may not be substantially cheaper) and there are little or no safeguards against theft and the loss of the money. The delivery of the money is also uncertain and may take a long time (DNA Economics, 2012).

### 6.2.4. Products

#### 6.2.4.1. Transaction banking

*Transaction accounts expensive.* Table 15 (in Section 6.2.3.1) shows the relative cost of entry level transaction accounts in comparison to South Africa, Lesotho and MTN mobile money. Given the low income nature of the Swazi population, the prices charged by banks are too high for the majority of Swazis. The cost of debit orders, for example, renders premium payments through banks on low cost insurance products impractical due to the expense (some insurance premiums are cheaper than the debit order cost to pay the premium). Based on a simple, basic monthly transaction profile (see Table 15Table 15), the monthly costs associated with a transaction banking account in Swaziland range from E38.97 to E98.33. The calculated weighted average cost across the banks amounts to E59.14. This corresponds to 5.8% of average gross income (FinScope, 2011). As physical bank infrastructure is situated in urban centres, clients may also have to travel to interact with the bank which entails a further transport cost of E6-E12 (see Section 5.2.2).

*Banks have a full range of transaction products available.* Banks are able to offer customers a variety of tools and platforms linked to their bank accounts. These include credit cards, debit cards which can be used to pay for goods and services directly through a POS device; EFTs either directly at the bank through the teller or through online or cellphone banking; debit orders and stop orders.

*SwaziBank not currently interoperable.* SwaziBank is currently unable to provide interoperable debit and credit cards as it can’t link to South Africa’s card switch as is done by the other banks with South African parents. SwaziBank consumers therefore have a substantially reduced capability from their transaction accounts. Cash can only be withdrawn from SwaziBank's ATMs and, as SwaziBank has no POS machines, SwaziBank consumers cannot purchase any goods and services with a debit or credit card[103].

*Formally employed the primary users of transaction bank accounts.* The target markets that make the greatest use of transaction banking are the civil servants (95.2% have bank products) and the company employees (75.2% have bank products). Most are required to have a bank account to receive their salaries, although many may immediately withdraw the entire amount and prefer to transact in cash. The self-employed (51.2% have bank products) are also relatively frequent users of transaction banking as they may need to make payments to suppliers' bank accounts and to receive payment in their account. In comparison, few irregular earners (28.1%), private dependents (28.1%) and State dependents (19.9%) have bank products. 40.1% of the informally employed have bank products.

#### 6.2.4.2. E-money

*E-money used for remittance payments (P2P), salary payments (B2P) and bill payments (P2B).* MTN's mobile money and FNB's eWallet both allow subscribers to send money, deposited in their mobile money account or wallet, to any other individual, who can then withdraw this as cash, either from a mobile money agent (for mobile money) or from an FNB ATM (for the eWallet). No registration or bank account is required to receive money. Both products also allow subscribers to pay bills directly from their phone to registered merchants, including certain lenders and insurers.

*Bulk payment disbursals also possible with mobile money.* MTN's mobile money also has the capability to allow employers to register as quasi agents and make bulk payment disbursals such as salaries to their employees. Although the uptake of this service is currently still low, there is significant potential for growth due to its relative affordability. Mobile money accounts are currently capped at E4,000 by the Central Bank which may also be an obstacle to the increased use of mobile money to pay salaries. Lastly, mobile money can also be used by government to disburse grants at a far lower distribution cost than the current distribution of cash. However, relatively lower access to mobile phones by State dependents and their aversion to technology are potential barriers to the distribution of grants via mobile money.

*MTN Mobile money potentially used by all target markets.* The low cost of mobile money relative to alternatives and lack of eligibility constraints makes it an appropriate payment mechanism for the lowest income target markets such as the private dependents, irregular earners and informally employed. Even for the wealthier target markets such as the civil servants and company employees, mobile money can be used as a complement to a bank account due to the cheaper transaction costs. Mobile money could also be particularly valuable to these target markets for sending domestic remittances as they are the highest senders of remittances, mobile money is cheaper than alternative channels and the remittance recipient may be required to travel to an urban area to access other formal channels, whereas they simply need to travel to the closest mobile money agent to withdraw the remittance. Business owners can also benefit from the use of mobile money as a cheaper mechanism through which to make payments, including salaries. The State dependents are currently the least likely target market to use mobile money due to lower mobile phone penetration and an aversion to technology. 12% of Swazi adults did not respond affirmatively[104] to the

[103] As mentioned in section 6.2.3.1, Swazibank is in the process of negotiating to provide interoperable credit and debit cards through a partnership with Mastercard

[104] They either disagreed with the statement or said they are not sure.

statement: “technology improves the quality of life.” Amongst State dependents this was 37.1%, with 15.4% of State dependents actively disagreeing with the statement.

*Potential for grant payments.* Distributing grants through mobile money could have substantial benefits to state dependents by:

- Reducing the State’s distribution costs, thereby potentially allowing them to raise the value of the grant proportionately;
- Allowing the State to distribute grants monthly rather than quarterly, providing more regular income to State dependents;
- Eradicating any travel costs to receive the grants (travel cost would be incurred to cash out the mobile money, but agents may be closer than the grant distribution centres and travel could also happen at a time convenient to the recipient); and
- Eliminating the potential for abuse at the point of distribution.

*FNB eWallet a mobile money alternative.* FNB offers the eWallet as shown in Box 16 below, which allows mobile payments for bills and to recipients without bank accounts. It has the added advantage of cash out at an FNB ATM, which is available at any point in time, generally has funds and does not suffer network limitations as does MTN at times. However, eWallet’s disadvantage is that only FNB clients can use the product to send money and pay bills, restricting the potential pool of users.

**Box 16. The FNB eWallet**

The eWallet enables consumers to send money or make payments to anyone with a valid cellphone number in Swaziland. The recipient does not require a bank account or bank card to withdraw the money.

Any FNB account holder can create an eWallet for themselves, by sending money from one of their FNB accounts to their cellphone number. Money can be sent from an FNB ATM, Cellphone Banking or Online Banking. Similarly, any FNB account holder can send money to anyone else’s cellphone using these channels.

The person receiving the money can withdraw the money from an FNB ATM without requiring a bank card. They can also buy prepaid airtime with the money in the eWallet or send the money on to someone else’s cellphone.

*Source: FNB eWallet Brochure, 2013*

#### 6.2.4.3. Payroll deductions

*Payroll deductions a substitute for debit orders.* The high cost of debit orders makes automatic payroll deductions a cheaper alternative for lower value monthly deductions. ITQ Net charges 1.3% of the value of a deduction, and SACCOs receive a preferential rate of 0.8%, compared to an average debit order cost through the banks of E13. Therefore, it is cheaper to use the ITQ Net for any monthly deduction less than E1,000. This is particularly relevant for low value insurance which has very low premiums. As ITQNet serves only the government payroll at this point, civil servants are the only target market with access to this product.

#### 6.2.4.4. Money transfers

*Significant payments to dependents, but informal.* As indicated above FinScope (2011) reports that 35.8% of Swazi adults either send or receive remittances. Most of these are domestic remittances sent from urban to rural areas either with friends or family or self-delivery[105]. This may be a convenient method due to frequent interactions of breadwinners with their rural homes. However lack of awareness of alternatives may also be a contributor. FinScope (2011) reports that approximately 65% of those delivering remittances themselves said it was because they have no other option. Reliance on family, friends or the breadwinner to deliver the remittance themselves may be cheap but creates cash flow uncertainty as the remittance is dependent on when they are able to travel which may be irregularly.

*Informal remittances often more expensive than formal.* Table 18 below shows the relative costs of the different providers to customers to send remittances domestically. Further to the cost of sending must be incorporated the cost to the recipient to travel to the nearest distribution point, which for most providers will be situated in an urban area.

| Provider | Cost to remit E500 | Percentage cost |
|---|---|---|
| Banks *(deposit and withdrawal)* | E25.00 | 5% |
| FNB E-wallet *(send and withdraw)* | E14.00 | 2.8% |
| MTN Mobile Money *(send and withdraw)* | E15.00 | 3% |
| Post Office | E24.25 | 4.9% |
| Taxis[106] | E50.00 | 10% |

**Table 18: List of domestic remittance providers and associated costs to send and receive domestically**

*Source: Supply side consultations, 2013; and Mystery shopping 2013;, DNA Economics, 2012*

*Consistently higher use of family or friends or self-delivery channel across all target markets.* Table 19 shows that Civil servants make the greatest use of formal channels to send and receive remittances. As the overwhelmingly majority of civil servants have bank accounts, formal channels would seem the most convenient for this group. However, even civil servants make greater use of family or friends or self-delivery to remit, suggesting that even the wealthiest and best served target markets may find this channel more appropriate for their remittance needs than formal channels. This preference reflects a combination of lack of awareness of alternatives (60% of those that self-deliver indicate they are not aware of any alternatives), the convenience of self-delivery with frequent interaction with family members in rural homesteads and the cost of alternatives. Section 6.2.4.4 indicates how expensive domestic remittances are if sent via formal channels relative to small transfers. Transport costs to collect remittances in urban centres need to be added to these costs. Cross border transfers are even more expensive, with 8 of the top 32 most expensive global remittance corridors between South Africa and another SADC country (DNA Economics, 2012). Last mile challenges in the form of lack of distribution points is a further hurdle for cross border transfers.

[105] The majority (60.7%) of remittances are received in rural areas whilst the largest portion (41.7%) is sent from urban areas. This indicates that the primary remittance channel is domestic urban to rural, with 10-15% sent across the border (again likely underreported as previously indicated).
[106] This is an estimate based on regional FGDs.

| | Formal remittances | Informal remittances | Family or friends or self delivery | Don't remit |
|---|---|---|---|---|
| **Total population** | 11.9 | 3.7 | 21.9 | 64.2 |
| **Civil servants** | 26.0 | 3.2 | 34.1 | 40.3 |
| **Company employees** | 17.3 | 3.6 | 32.5 | 48.3 |
| **Informally employed** | 11.2 | 1.2 | 18.2 | 69.9 |
| **Business owners** | 10.9 | 6.3 | 24.8 | 59.4 |
| **Irregular earners** | 6.5 | 2.7 | 15.0 | 76.5 |
| **Private dependents** | 12.2 | 3.6 | 22.9 | 63.7 |
| **State dependents** | 0.9 | 4.0 | 5.6 | 89.8 |

**Table 19: Proportion of adults sending remittances by target market and channel**

*Source: FinScope, 2011*

*Potential for e-money as a domestic remittance provider*. Table 18Table 18 above, illustrates the relative affordability of sending remittances via e-money in comparison to alternative channels. Sending remittances via mobile money also reduces the travel costs for the recipient due to the distribution footprint of mobile money agents. Figure 49(in Section 6.2.1) shows that although 41% of mobile money agents are situated in rural areas, just 4.4% of total deposits and withdrawals take place in rural areas. The implication is that mobile money is not currently used a major remittance channel. Mobile money therefore has significant potential to grow as a domestic remittance mechanism.

*High cross border costs, limited formal provision.* The remittance flow from South Africa to Swaziland is a substantial channel of funds and an important source of income for many Swazis. Table 20 below, shows the World Bank's cost estimates for the different formal cross border providers. There are only a few available options for cross border transfers, most are expensive and all have limited physical infrastructure in Swaziland increasing the cost to collect. Alternatives are needed to reduce costs and encourage the inflow of funds into Swaziland. Sending from Swaziland is less expensive and simpler, but not the focus of financial inclusion.

| | Cost (R/E) | Percentage | Time taken |
|---|---|---|---|
| **Post Office** | 40.96 | 3.0% | >6 days |
| **Moneygram** | 182.76 | 13.3% | 1 hour |
| **Banks** | 219.45[107] | 16.0% | 3-5 days |

**Table 20: Cost of sending a USD 200 (R1,370) remittance from South Africa to Swaziland**

*Source: World Bank, 2012*

### 6.2.5. Barriers

*Affordability a major barrier for transaction accounts and remittances.* High bank charges effectively excludes large portions of the population as they are simply too expensive for the low average incomes of most Swazi adults. The cost of sending remittances across the border, are also very high despite the large volumes and value of funds being sent. Most remittances is therefore sent outside the formal sector via taxis and buses, which is also very expensive but is at least more convenient, or with family, friends or by themselves as they see no other affordable option.

[107] This is the average cost across the four major South African banks. Costs range from R193.86 to R230.02.

*Lack of understanding of bank products and terms.* Mystery shopping showed that when opening a bank account limited information is available on the options available and related costs and terms. This results in miss-selling where inappropriate accounts are opened by clients (e.g. high cost transaction accounts rather than lower cost saving accounts). This also deters clients from opening bank accounts or transacting with banks due to the perception that it will be expensive and there will be charges that are not always transparent or understood.

*Perception that entry level bank accounts require proof of income.* Each of the banks offer entry level banking products which, though still expensive, are cheaper than their 'mainstream' products. In order to qualify for these accounts, applicants need to prove they earn below a predetermined threshold monthly income (usually between E1,500 and E2,500 a month) ostensibly to ensure that only low income individuals are able to access the benefits of the lower bank charges for these accounts. This barrier is further indicated by the fact that 38.5% of FinScope (2011) respondents believe that you cannot open a bank account if you are unemployed. However, this creates a substantial barrier for all non-formally employed target groups. Irregular earners and business owners receive lumpy income and do not receive a monthly payslip making it very difficult to prove that their monthly income falls below a specified threshold. Whilst for the unemployed (which constitutes the majority of Swazi adults), it is virtually impossible to prove that you do not earn an income.

*"They asked me how much my income was and they wanted a pay slip and I left the building as if my feet were on fire"*

*(Mhlume, Male, Aged 41 – 55 years (KLA, 2014b))*

*Full KYC requirements a barrier for majority of Swazis.* All customers with bank accounts below a value of E5,000 are exempt from the full KYC requirements, however for those with bank accounts exceeding this threshold, the full KYC requirements may frequently prove a barrier to access. Although 80% of Swazi adults now have IDs, only 21.3% have proof of residence (FinMark Trust, 2012a). Therefore to comply with the KYC regulations, the most commonly used method is to have their local chief confirm their address. However, this requires the customer to travel to meet the chief (who may not always be available) to sign their proof of address form. Anecdotal evidence further suggests that the chiefs frequently abuse this process requiring some form of payment in exchange for their signature. The proof of address requirement therefore adds significant time and inconvenience to applying for a bank account and hence can be a major barrier to access.

*Cap on mobile money restricts usage.* The Central bank currently limits the maximum size of mobile money accounts to E4,000. This is primarily to keep the amounts low and therefore keep mobile money exempt from the full KYC requirements. However, the cap is restrictive for potential bigger users of mobile money such as businesses that wish to transact with mobile money and pay salaries. Businesses are currently able to register as quasi agents and pay salaries to employees via mobile money but the monthly salaries would have to be less than the cap and if the employee already has some mobile money in their account then there is even less space in the account to pay the salary into. The cap also restricts the ability of customers to use mobile money as a store of value.

*Advanced technology of mobile money a usage barrier.* The high mobile phone penetration in Swaziland means that most Swazis have access to mobile money through their mobile phone, although those without a mobile phone are excluded from accessing the product. There is also an apparent unwillingness by some Swazis, even with access to a mobile phone, to use the product because it is perceived as being advanced technology. This is exemplified by the fact that 12.3% of adults either disagreed or indicated they were unsure about the statement “Technology improves the quality of one’s life” but this rose to 37.1% of State dependents (FinScope, 2011), indicating an aversion to adopting new technology, particularly amongst older respondents which make up the State dependents target market. Even amongst those without an aversion to technology, acquiring the knowledge of how to use the mobile money product initially may be an issue as the example in Box 17 below illustrates:

**Box 17. Advanced technology of mobile money can create a usage barrier**

The following extract from a focus group discussion illustrates the barriers to actual usage among registered mobile money customers:

“M: *There is this thing called mobile money? Do you know it?*
R: Yes I do know it
M: *Are you registered with it?*
R: I am registered but I have not used it before
M: *Okay*
R: Yes, I have not used it before
M: *When you registered for mobile money, what made you join mobile money at this point?*
R: They came and they asked us to join
M: *Did they come here at home?*
R: Yes
M: *Ja*
R: They asked us to join this mobile and they made us join and they completed the forms for us
M: *When they arrived here what did they say, did they explain how it works or did they just make you join?*
R: Ja
M: *So if they said use it now would you be able to use it?*
R: (Laughing), I would not be able to because I have never used it”

*Source: (Manzini, Female, (KLA, 2014b))*

*Lack of reliability of MTN network a barrier to mobile money usage.* A number of FGD participants indicated that the unreliability of the MTN network created problems for them in accessing mobile money and in some cases can lead to a preference for alternative products, most notably the eWallet.

**Box 18. Unreliable MTN network a barrier to accessing mobile money**

“M: *So who is mobile money made with in mind, who is their target market?*
*R: MTN customers mainly, another disadvantage with mobile money is that if the network is down at MTN on that particular day you won’t be able to access your money whereas with ATMs it hardly ever happens that the network is down”*

*Source: (Manzini, Male, Aged 25 – 40 years (KLA, 2014b))*

*“M: Are there any disadvantages about this?*

*R: Sometimes you don't get the money on time because of the network."*

*Source: (Manzini, Female, Aged 25 – 40 years (KLA, 2014b))*

*Distribution footprint of formal remittance providers a barrier.* Only a limited number of providers are permitted to offer remittance services in Swaziland, particularly for cross-border remittances. Nearly all of these providers apart from MTN (and the Post Office has some rural branches) only have distribution points in the urban areas. As most remittances in Swaziland are sent to rural areas (see 6.2.4.4), recipients of remittances sent through formal channels are required to pay the transport fee to travel to an urban area and the closest distribution point to access the remittance. Even Swaziland is geographically small with nearly all the rural areas relatively proximate to an urban centre, the cost of travelling, even a fairly short distance, may constitute a not insignificant portion of the value of the remittance sent, therefore adding to the cost of sending and receiving remittances.

### 6.2.6. Regulatory issues to consider

*Existing regulatory restrictions on mobile money.* Mobile money is currently operating under a letter of no objection from the Central Bank, allowing them to provide the mobile money product subject to certain restrictions and operating guidelines. These restrictions include a cap of E4,000 per each mobile money account and that the mobile money float is held with FNB Swaziland in a non-interest bearing Trust Account. As discussed above in Section 6.2.5 the cap may be acting as a barrier on the increased usage of mobile money, whilst the inability of MTN to earn interest on the mobile money float results in foregone revenue for MTN mobile money which may be passed onto consumers either through the development of an interest bearing mobile savings account and/or through reduced transaction fees.

*Retailers and mobile money providers currently not authorised to provide cross border remittances.* Cross border remittances can currently only be offered by banks. Retailers and mobile money providers offer the potential to extend the use of formal remittances if regulation so allowed.

### 6.2.7. Gaps & opportunities

Efficient payments systems are necessary for the effective functioning of all other financial services, and indeed the broader economy. Given the low average incomes of Swazi adults and the high bank charges, cheaper and more efficient payment mechanisms will have a direct welfare enhancing effect on the majority of Swazis. Hence the opportunity of mobile money which provides a simple, but cheap, payments product presents significant potential for financial inclusion in Swaziland. Similarly, the potential role of retailers in money transfers and bill payments will improve welfare by providing greater options for consumers, reducing costs and increasing competition in the market. However, there is also a significant opportunity for the banks, which already have the greatest reach of any financial institution, to innovate to reduce costs and tailor products appropriately to provide greater value to consumers and encourage increased use to increase their revenues. This section sets out the main gaps and opportunities to improve financial inclusion in Swaziland.

Table 21 below considers the main needs (in terms of identified use cases) and opportunities for impact of payment products across target markets. It shows that the most significant opportunities lie in remittances and bill payments given the extent of use across target markets.

| Use cases | Relevant target markets | Potential impact and opportunity |
|---|---|---|
| Remittances | Formally employed<br>Private dependents | Direct impact: Vital source of income for large number of Swazi dependents. Reduced cost improves funds available. Improved predictability reduces cashflow risk.<br>Indirect impact: Increased cross border inflows have investment potential.<br>***This is a significant area given the number of people affected.*** |
| Bill Payments | All | Direct impact through reduced cost and improved efficiency. Also improves access to goods and services.<br>***This is a significant area given the number of people affected.*** |
| Salaries | Formally employed<br>Self-employed | Direct impact: efficient disbursal of salaries vital to salary earners and reduced costs to businesses |
| Grants | State dependents | Direct impact: reduced costs and improved distribution can increase the value of grants to recipients.<br>Indirect impact: Improved value of grants will see recipients able to invest more in productive areas such as education for grandchildren and health.. |
| Tax | Formally employed<br>Self-employed | Direct impact: Efficient payments mechanism can reduce costs to pay taxes.<br>Indirect impact: Efficient payments mechanism can increase collections and supplement government revenue |

**Table 21: Market for payments: opportunities summary across use cases**

*Source: Author's own*

*Potential to meet need for low cost, flexible small value payments.* The high cost of transactional banking products makes them inappropriate for a large portion of the Swazi population due to low average incomes. Given the small scale of the market there are few providers that can achieve the scale required to offer low cost options at high volumes in this market. MTN can reach the highest number of people in Swaziland and offers a number of opportunities to potentially better meet the needs of the different target groups through mobile money and thereby improve the uptake:

- *Potential to increase use with a higher cap on mobile money.* The E4,000 cap on the value of a mobile money account is a constraint to the self-employed who may need to transact larger values, or at least exceed this cap at times. Similarly, the cap is a barrier to the formally employed groups receiving salaries in their mobile money accounts and also to use mobile money as a store of value. Allowing a tiered mobile money account in which those transacting below the threshold are exempt from the full KYC requirements (as is currently the case for all users), whilst those requiring larger accounts are subject to the full KYC requirements. This would not only benefit those users requiring larger accounts but indirectly may also benefit those transacting below the threshold as greater use of the product by more affluent individuals would increase volumes and values of mobile money thereby increasing availability, improving the business case for additional mobile money agents and increasing the general market for mobile money to be used to pay for goods and services.

- *Potential to distribute grants via mobile money.* Distributing grants via mobile money would substantially reduce the distribution costs to government, thereby potentially allowing higher grant pay-outs and more regular grant pay-outs to State dependents. Distributing grants via mobile money may also reduce abuse at the point of distribution as the grant will be sent directly to the State dependent's mobile money account, rather than being distributed by an individual in cash, as is currently the case. Distributing State grants via mobile money would immediately double the number of active mobile money users, thereby increasing the value of the product to all users as the more people that use the product, the more comfortable people are transacting with it. If usage continues to rise demand for goods and services to be sold directly in mobile money will also rise, potentially forcing suppliers to offer customers the option to pay directly with mobile money, thereby substantially improving the value of the mobile money product to individuals. As nearly all State dependents reside in rural areas distributing grants via mobile money will substantially increase the volume of mobile money transactions in these areas, thereby incentivising additional mobile money agents and hence further improving the distribution network. The psychological impact of seeing retirees using mobile money can also not be understated in encouraging younger target groups to also make use of the product. Distributing grants through mobile money is not without challenges which will need to be managed (see Section 7.2.1).

- *Merchant-stocked ATMs to overcome network challenges.* MTN have considered introducing mobile money ATMs which will be stocked by agents such as retailers, from which subscribers would be able to withdraw cash from their mobile money accounts. The major advantages of the mobile money ATMs would be that they will be available to subscribers 24 hours a day, and so subscribers would not be restricted by agents' working hours and the ATMs will also reduce the cost to the agent as subscribers will not be taking up tellers' time withdrawing money from their mobile money account.

- *Introduction of account-linked cards to increase use.* Introducing cards that are linked to subscribers' mobile money accounts would allow users to access mobile money accounts without requiring a mobile phone, thereby removing that as a barrier to accessing the product. Introducing cards would also create future potential that these could be used to pay for goods and services through POS devices, thereby making it far easier to pay for goods and services directly with mobile money.

- *Potential to offer competition to banks.* MTN Mobile money can act as an alternative to banks and other saving products at lower cost. This can demonstrate the opportunity in this market to banks, but also incentivise banks to lower fees to remain competitive.

*Potential increased use of internet and cellphone banking*. Increased use of internet and cellphone banking benefits banks as they are significantly cheaper to administer than traditional bank branch and ATM interactions. As these channels do not require a direct interaction with physical bank infrastructure, they can also improve access of their products and in Swaziland eradicate the travelling costs that most Swazis face when interacting with the bank. FinScope (2011) reports that just 1.3% of Swazi adults have internet banking and 1.8% have cellphone banking. 17.3% of Swazi adults have access to internet and over 80% have access to cell phones, which reflects the scope for increased up-take of this type of banking.

*Opportunity for formal providers to play larger role in remittances.* Given the high proportion of Swazi adults dependent on remittances, 19.2% (102,173) of adults received a remittance within the previous 12 months (FinScope, 2011), and the limited use of formal channels to send these remittances, just 18.6% (18,993 adults) of these remittances were sent through formal channels, there is an opportunity for formal providers to play an increased role in transmitting remittances, both domestically and cross border. However, the restricted use of the existing formal channels, indicates that they are currently inappropriate for most Swazi remitters, either due to cost, distribution or product design.

*Bank reach suggests potential for banks to play an important remittance role in remittance flows.* Given the significant reach of Swaziland's banks (44% or 230,000 adults have bank accounts), these institutions constitute a pre-existing formal remittance platform for nearly half the Swazi population. However, just 2.1% (11,292) of adults receive their remittances through banks. A reduction in costs as well as targeted marketing and consumer education and awareness around these products would enhance value to consumers as well as constitute a significant opportunity for the banks to increase their revenue. DNA Economics (2012) estimates that E391m is remitted across the border annually of which E343m is remitted informally, even formalising 50% of these informal remittances would constitute a 10% increase in current total personal bank deposits in Swaziland.

*Retailers and mobile money well placed for remittance provision.* The potential of mobile money as a payments platform is substantial. The low usage of mobile money in rural areas indicates that despite the potential it has to reduce costs and improve the distribution of domestic remittances, there is substantial room for growth as a remittance provider. Retailers also represent an important potential alternative remittance provider. Although no retailers are currently providing a money transfer service, both Shoprite[108] and PEP have expressed interest in introducing money transfer products similar to their existing South African products into Swaziland. The significant success of money transfers offered by retailers in South Africa, suggests that retailers could play an important role as remittance providers in Swaziland.

*Regional payments switch potential to reduce costs of cross-border transfers.* The introduction of the regional SIRESS switch allows banks to send regional cross-border transfers far more cheaply than through the existing system of SWIFT transfers and correspondent banking. Payments through the SIRESS switch cost R4.76 each and this cost can be reduced even further to individual consumers if banks send batches of individual money transfers through the system as one transaction.

*Interoperability of SwaziBank to make it more competitive.* As a fully state owned bank with an explicit development mandate, SwaziBank has potential to act as a disrupter to the Swazi banking industry by offering lower cost banking products. It is currently constrained by its relatively high operational costs but also by its competitive disadvantage of not being interoperable with the other three banks as this reduces the value of its products to consumers. Therefore, its impending partnership with Mastercard which will allow it to offer fully interoperable debit and credit cards and the establishment of internet and cellphone banking platforms will improve the value provided by its products to its clients and make it more competitive with the other banks. The civil servants and the company employees would be primary beneficiaries of this development, whilst the self-

[108] Shoprite is working with various Central Banks in SADC to open a number of cross border and remittance channels in the region in cooperation with FinMark Trust.

employed may benefit substantially if they transact frequently as many small businesses are required to do.

*Improved transparency potential to improve use of bank accounts.* Across all the product markets, Swaziland providers are typically averse to providing product information, particularly with regards to price. This is a concern from a consumer protection perspective across the product markets and therefore applies equally to payments. The range of costs charged by the banks on transaction accounts and the multiple different options of accounts and within accounts make this space already complicated for consumers to navigate, a lack of transparency in providing the full set of pricing information and the terms and conditions of the products therefore creates major concerns regarding the ability of consumers to make appropriate choices[109].

*Improved customer and product information at policy maker level can improve ability to identify risks and enable innovation to serve the lower income market.* The Central Bank of Swaziland, as the banking supervisor, collects a range of information from the banks but most of this relates directly to prudential requirements and the financial stability of the institutions. This is undoubtedly of critical importance to ensure the ongoing health of the industry. However, access to additional data offers the opportunity to better understand the market to address risks and enable provision to lower income people. Such additional data include: the types of products offered by the banks and the related costs and conditions; who the bank's primary consumers are; and the ticket sizes of the transactions being processed by the payments system.

[109] The Central Bank has recently issued a directive to the banks regarding the transparency of their product disclosure (CBS Bank Supervision consultations, 2014)

## 6.3. Market for savings

*Why focus on savings?* Mobilisation of savings to provide capital for growth and development is one of the key roles the financial sector plays (Levine, 1997). Small amounts of savings are pooled to fund investment in larger, more productive projects. Saving requires forgoing current consumption for future consumption in the hope that these small amounts can build up to fund an asset, send a child to school, cope with emergencies or protect against an income shock.

Initiatives to promote savings in developing countries have traditionally been limited. The focus has been on microcredit under the assumption that low-income households cannot save and rather need credit to improve their livelihoods (Ledgerwood, 2013). However, this assumption has been changing. Evidence has revealed that savings might be more important for low-income household where small fluctuations in cash flows can have a significant impact (Collins et al. 2009). Low income people want to save and can save. Formal savings offers the benefit of security from crime, anonymity to save and rise above ones beginnings and hedging against inflation if returns are possible. Most significant might be the built-in self-control mechanism. Funds at home are easier to spend; removing that temptation is a significant first step to building up assets (Banerjee & Duflo, 2011). Finding appropriate instruments to accommodate small value irregular savings should be the policy focus to allow people to better manage their own futures.

In order to maximise these emerging benefits, this section will explore the current usage and use cases for savings in Swaziland, as well as provide an overview of the formal and informal institutional and product landscape (including barriers for access and usage). From this it will conclude with identifying the gaps and opportunities for savings in Swaziland.

**Key issues: market for savings**

The key issues from this section are the following:

- A high proportion of Swazi adults save. However, savings are generally short term in nature for all target markets except the formally employed.
- Many formal savings products entail a number of eligibility barriers, including proof of income, joining fees and mandatory monthly contributions that exclude members of lower income groups.
- A large number of Swazi adults save through informal channels, but the total value of these deposits is very low.
- More Swazis save in banks than through informal savings groups across all target markets due, at least in part, to a lack of trust in the informal groups.Many Swazis are excluded from both formal and informal savings mechanisms and save at home
- Almost all formal savings products currently offered earn a negative real return.
- High bank charges rapidly erode small value savings.
- The fact that MTN Mobile Money does not charge deposit or monthly service fees makes it a better store of value than a low cost bank account, despite paying zero interest.
- The high cost of dormant or low balance bank accounts to banks means that offering additional services to customers and incentivising greater use of the accounts would not only increase value to customers but also increase ARPU (Average Revenue Per User) for the banks, making them more profitable.
- Goal oriented savings products, such as for school fees or retirement, can be a powerful commitment device and driver of longer-term savings.

### 6.3.1. Current usage

*High number of adults saves, but total value is low as a percentage of GDP.* Figure 64 reveals that the percentage of adults saving with formal institutions is higher in Swaziland than it is in neighbouring countries such as South Africa, Lesotho, and Mozambique. In Swaziland, 38.6% of adults save in formal institutions, 10.7% save through informal mechanisms only, 17.9% save at home or with household members only and 32.8% use no savings mechanism at all.

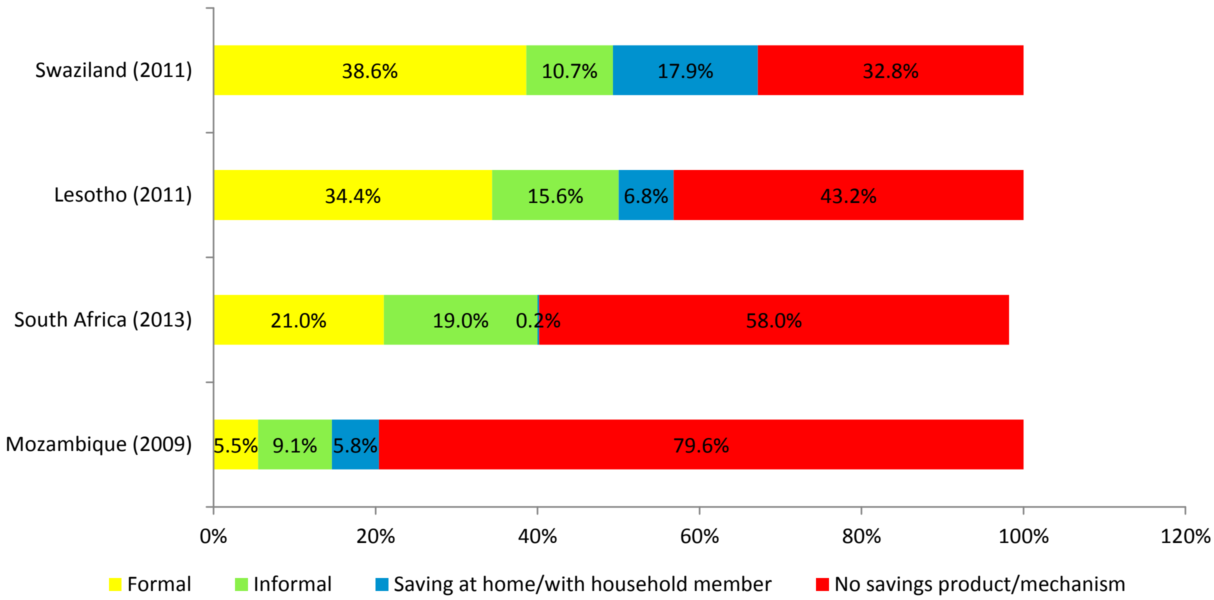


**Figure 64: Savings access strand for Swaziland and neighbouring countries**

*Source: FinScope Mozambique, 2009; FinScope Lesotho, 2011; FinScope Swaziland,2011; FinScope South Africa 2013*

*Formal saving is largely driven by urban population.* The split in formal savings between urban and rural adults in Swaziland is significant. Figure 65 indicates that 56.3% of urban adults report saving in formal institutions compared to 28.3% of rural adults. Section 4 revealed that the urban population have higher incomes and includes the majority of formally employed (civil servants and company income) who have regular income, access to payslips and other documents often required for formal institutions. Rural groups also live further away from physical distribution networks, which adds to the cost of formal saving.

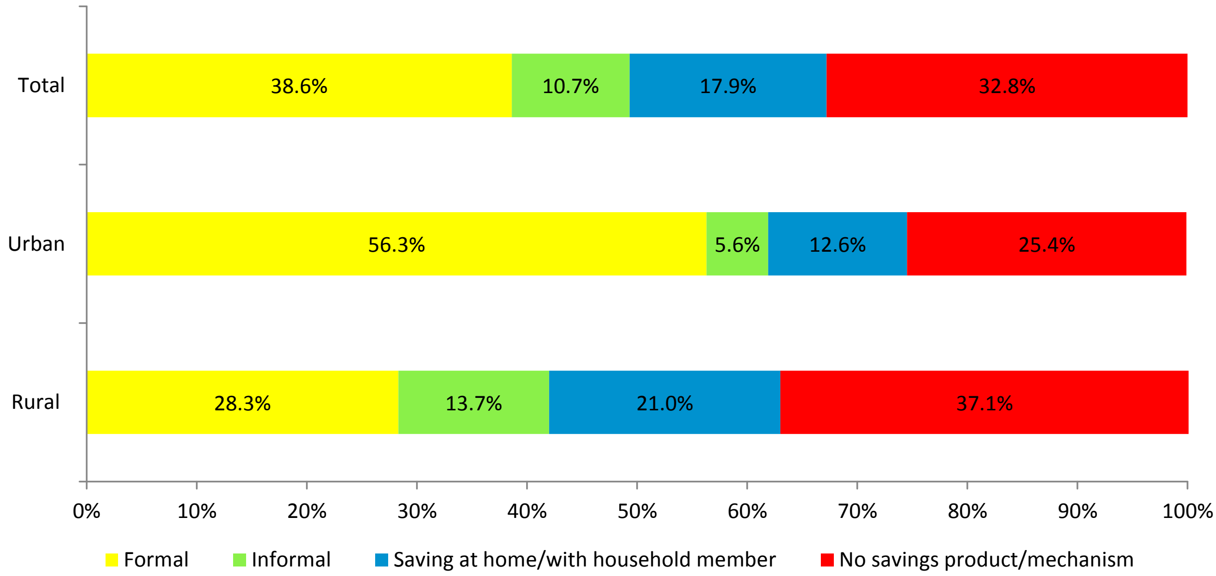


**Figure 65: Swaziland savings strand Urban vs Rural**

*Source: FinScope, 2011*

| | Formal savings products | Informal savings products only | Save at home / with household member | No savings product / mechanism |
|---|---|---|---|---|
| Total population | 38.6 | 10.7 | 17.9 | 32.8 |
| Civil servants | 83.4 | 7.1 | 1.3 | 8.3 |
| Company employees | 71.0 | 8.5 | 9.9 | 10.5 |
| Informal employees | 27.1 | 18.4 | 8.9 | 45.6 |
| Self-employed | 47.1 | 12.1 | 18.2 | 22.5 |
| Irregular earners | 27.6 | 8.8 | 25.6 | 38.0 |
| Private dependents | 21.6 | 11.8 | 19.9 | 46.8 |
| State dependents | 17.6 | 16.9 | 26.2 | 39.3 |

**Table 22: Uptake of savings by target markets**

*Source: FinScope, 2011*

*Formally employed the biggest savers.* The formally employed target markets have the highest uptake of savings with 91.7% (41,194 adults) of civil servants and 89.5% (54,992 adults) of company employees saving, as shown in Table 22 above. The majority of these (83.4% of civil servants and 71% of company employees) are saving with formal channels. The reasons for the higher uptake of savings in these target groups is therefore likely due to their higher income allowing them to save as well as access to a wider range of institutions to save with. In addition, 77.5% (52,615 adults) of the self-employed report saving (47.1% formally). The other segments all have significantly lower uptake of savings, reflecting their lower incomes and reduced access to products, but all target markets do report uptake greater than 50%, indicating a fairly deep savings culture throughout all tiers of Swazi society.

*Significant overlap between saving formally and informally, with few adults saving informally only.* Figure 66 shows that 24.9% of adults save informally, but just under half of these adults (11.2%) save formally as well. Adults that save both formally and informally are the higher income target groups and very few adults save in informal mechanisms only (6.3%). Saving in informal only is more prevalent with informal employees, having the highest take-up of informal only mechanisms.

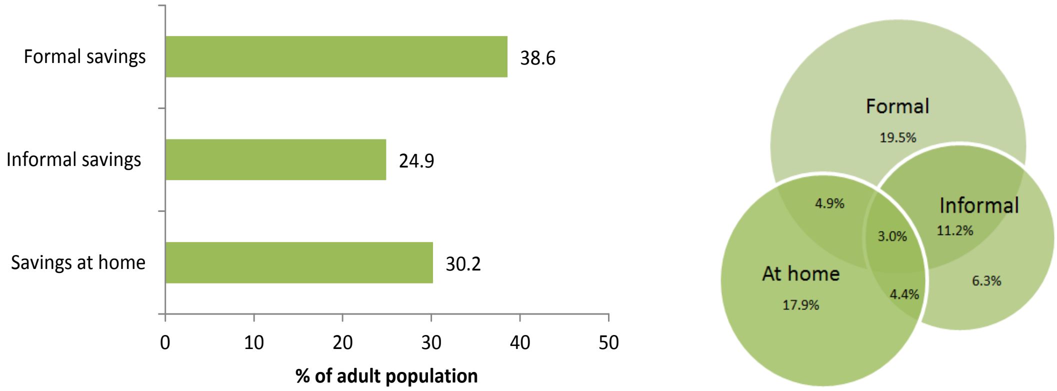


**Figure 66: Total uptake and overlap for savings by formal, informal and savings at home**

*Source: FinScope, 2011*

*Significant numbers of adults save at home only, mainly unemployed income groups.* Savings in cash at home or with household members only is the most liquid and accessible form of savings, but also the most vulnerable to pressure for unintended or unnecessary expenditures and at the most risk of theft. In FinScope 67% of adults indicated that the greatest advantage of banks is that your money is safe from theft – indicating theft is a major concern. However, there is still a significant number of adults that save at home. FinScope reported that 30.2% (160,534) of adults save at home (44.9% of total adults that are saving), with over half of these adults (17.9%) saving at home only. Savings at home is higher than informal savings for both urban and rural adults. However, unlike with informal savings, fewer adults from the higher income target groups save at home, as shown below in Figure 67. Instead, the savings at home is highest amongst the poorer target groups that include the self-employed, the state dependents, irregular earners and private dependents. This may be due to limited access to both formal and informal institutions to save with.

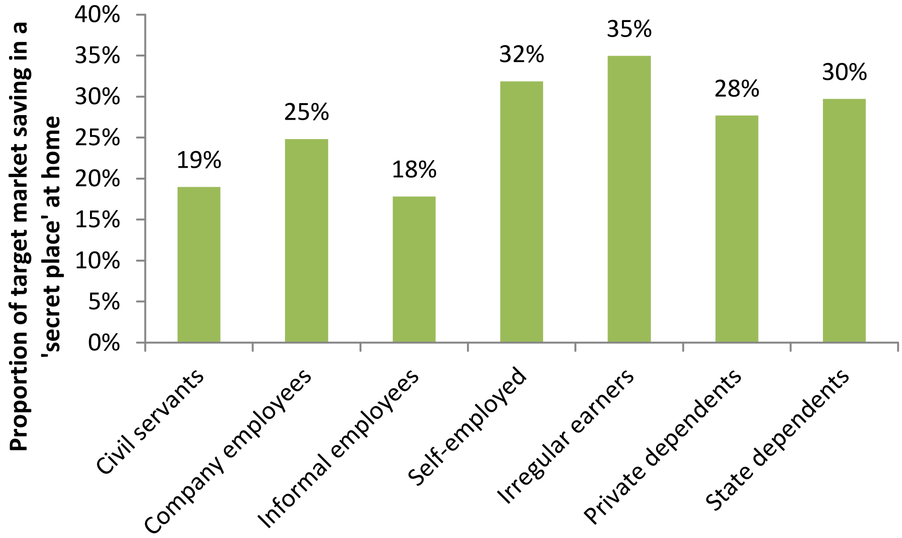


**Figure 67: Proportion of the different target markets saving in a 'secret place' at home**

*Source: FinScope, 2011*

*Savings in assets largely driven by livestock.* To avoid the risk of savings at home in cash, many choose to save in assets – storing value in home improvements, animals or jewellery. Savings in livestock is the most common and can provide short-term income from sale of products such as milk, eggs or wool. In addition, selling animals can support the need for medium lump sums. Figure 68 reveals that In Swaziland 14% (71,800) of adults save in assets. The majority of which is livestock (7%) with the others being investing in own business (3%) and property (3%). These savings can bring significant returns, but are often not very liquid or divisible.

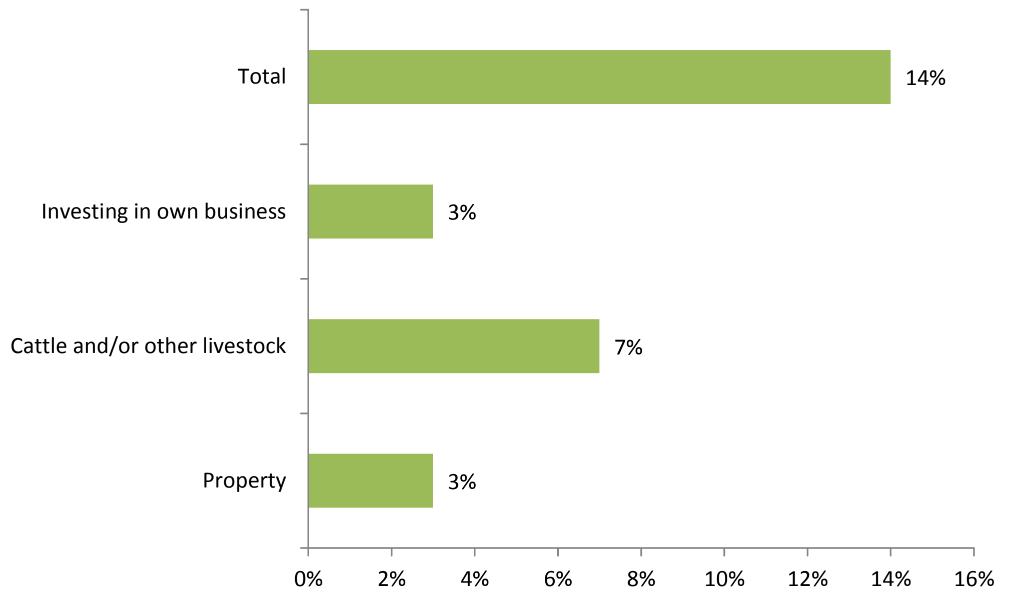


**Figure 68: Proportion of savings in assets**

*Source: FinScope, 2011*

### 6.3.2. Use cases

This section outlines the use cases for uptake of savings products as identified through the qualitative and quantitative demand-side research. At the end of the savings market analysis, we'll return to the use cases as the basis for the identification of gaps in current provision and opportunities for growth.

Figure 69 organizes the most important reasons for saving in Swaziland by the following use cases: (i) savings for consumption smoothing; (ii) savings for risk mitigation; (iii) savings to enhance productivity; and (iv) savings for retirement or old age.

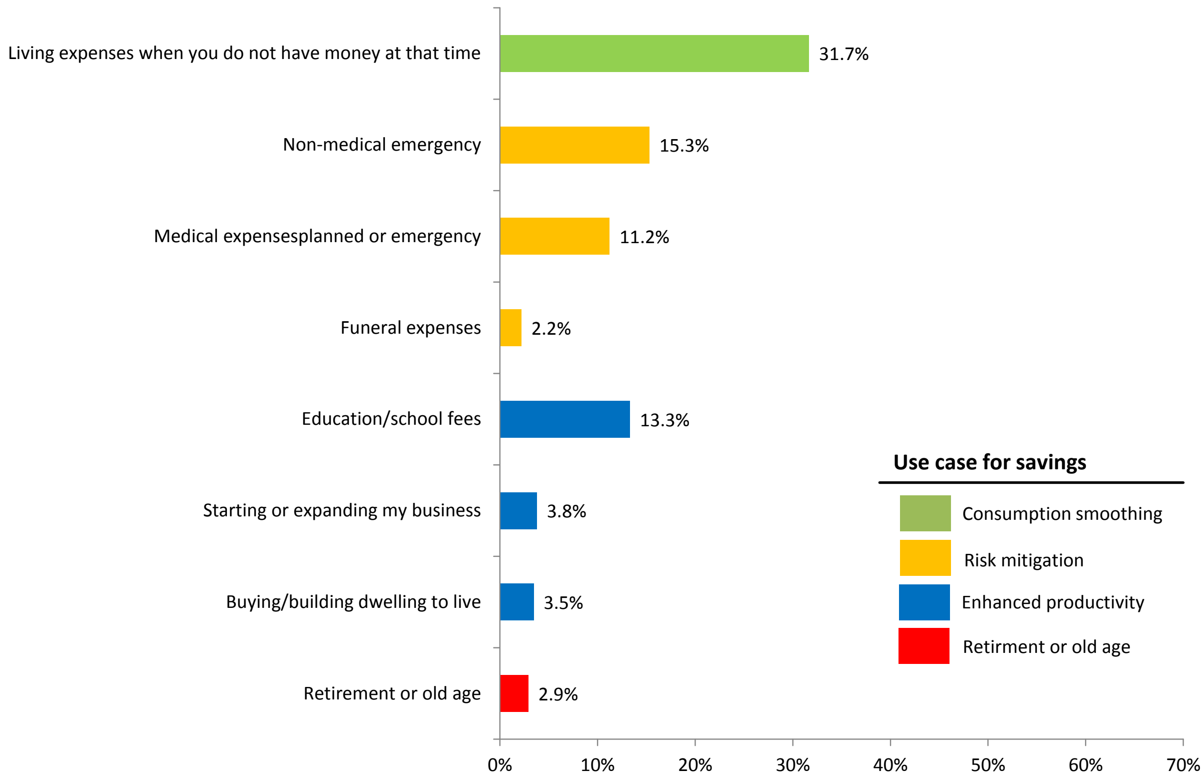


**Figure 69: Reasons for savings**

*Source: FinScope, 2011*

*Use of savings for consumption smoothing.* Saving for consumption smoothing is to meet living expenses and manage irregular cash flows. FinScope reports that 31.7% of adults in Swaziland identified using savings for living expenses when they do not have money at the time. Savings for consumption smoothing is prevalent across all the target groups, but is highest for private dependents (37.7%) and lowest for informal employees (22.7%).

*Use of savings for risk mitigation.* Savings for risk mitigation requires the accumulation of funds to absorb losses during risk events. In Swaziland, FinScope revealed the main risks that savings are used for are emergencies other than medical (15.3% of adults), a medical emergency (11.2%) and funeral expenses (2.2%). Saving for a non-medical emergency was high for all target markets, but peaks for private dependents (19%) and self-employed (18.4%). Savings for medical expenses has more variance with it being much higher for the rural unemployed that include state dependents (19.8%) and irregular earners (13%) than for employed – civil servants (6.5%), company income (9.3%) and job income (8.26%). Savings for funeral expenses was limited, but civil servants (3.9%) and irregular earners (4.3%) are the target markets with the highest use of savings for funeral expenses . Out of pocket health expenses are likely more significant for rural groups who have to travel further to access health care, especially for the elderly who are ill more often. Despite high mortality rates people tend to contribute towards funerals, reducing the out of pocket expenses for the individual.

*"It is better when there is a death in the family if you ask help from neighbours, death is something that everybody is in awe so you can go to people you know and borrow and you can give something to the value of the money that they have borrowed you."*

*(Manzini, Male, Aged 25 – 40 years (KLA, 2014b))*

*Use of savings for education.* FinScope (2011) revealed that education was a major reason to save (13.3% of adults). Saving for education is largely correlated with the income of the target markets with the formally employed target markets saving above the average for education and the unemployed target markets (private and state dependents) saving below. Company employees and informal employees report saving more for education than civil servants with 17.5% and 18% of adults respectively. In addition, although state dependents save almost no money for education or school fees, FGDs focus group discussions revealed they still have a desire for their grandchildren to be educated

*"I have brought up small children … the biggest thing would be to have an education maybe because I am struggling because I do not have an education."*

*(Manzini, age unknown, Male (KLA 2014b))*

*Use of savings for investment purposes*. Saving invested in a business, a home or an asset can all be considered as investments. FinScope (2011) indicates that 3.8% of adults save to invest in their businesses and 3.5% to buy or build a home. Savings to start or expand business is driven mainly by the self-employed. FinScope reported 7% of self-employed adults save to invest in a business, nearly twice the average. Savings for buying or building a dwelling to live in is largely driven by the informal employees. FinScope reported 11.4% of informal employees save to buy or build a dwelling, more than three times the average. State dependents are elderly and have limited need for additional accommodation, as a result they don't save to build or expand homes. A further 1% of Swazi adults save to buy household goods and appliances, whilst 7% of adults invest in livestock (see Figure 68).Figure 69

*Use of savings for old age and retirement.* FinScope (2011) reported that only 2.9% of adults in Swaziland save for old age and retirement. The degree to which adults save for old age and retirement varies significantly across the target markets. Civil servants and state dependents save well above the average at 8.5% and 8.2% of adults respectively (this is likely underreported given that most civil servants contribute to retirement funds). The next highest target market is company employees with 3.7% of adults saving for old age and retirement. Outside of these target groups, savings for old age and retirement is negligible. Less than 1% of self-employed, irregular earners and informal employees save for old age and retirement with as little as 0.07% of informal employees adults reporting saving for this reason.

### 6.3.3. Providers

Figure 70 below provides an overview of the providers operating in the market for savings in Swaziland. It compares the average monthly income and return on savings for clients across formal and informal providers, as well as the total number of clients saving in each. This provides us with orders of magnitude in terms of the number of clients and price (in terms of return rate p.a.) that providers are offering for their savings. Figure 73 will compare the total number of clients with total deposit accounts across institutions to indicate the value of that savings.

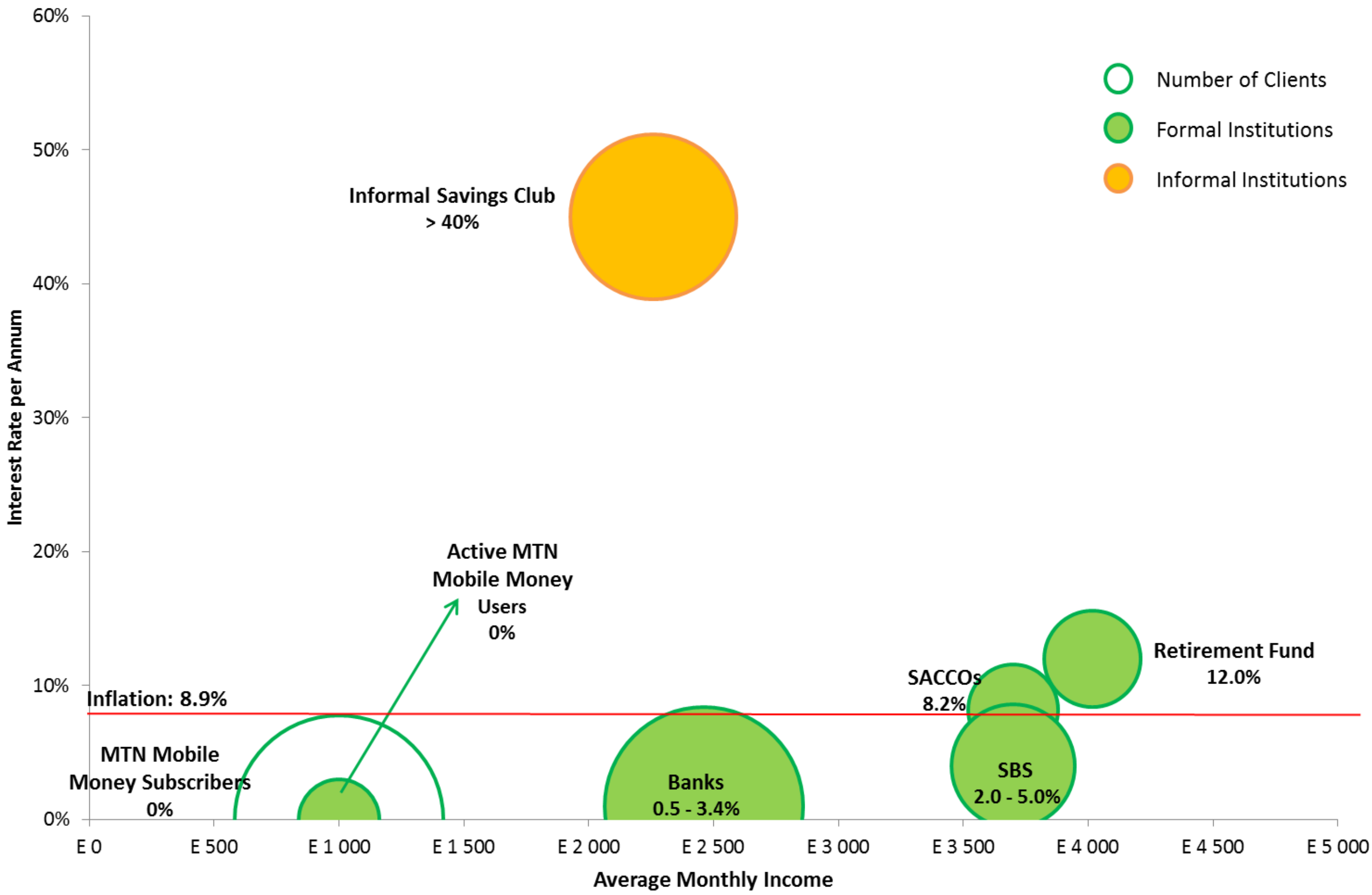


**Figure 70: Market for savings, average monthly income, returns on investment and size of client[110]**

*Source: FinScope, 2011 and Supply side consultations, 2013*

*All formal providers except pension funds offer on average negative real return for clients*. The average per annum return offered by formal providers is lower than inflation (at 8.9% as indicated by the red line in Figure 70) for all except pension funds, which serves among the lowest number of people[111].

[111] Unit trusts are excluded as they are targeted at a higher income groups earning above E7,000 per month on average. Unit trusts do offer potential for more sophisticated small value savers with regular income as monthly contributions start at R100.

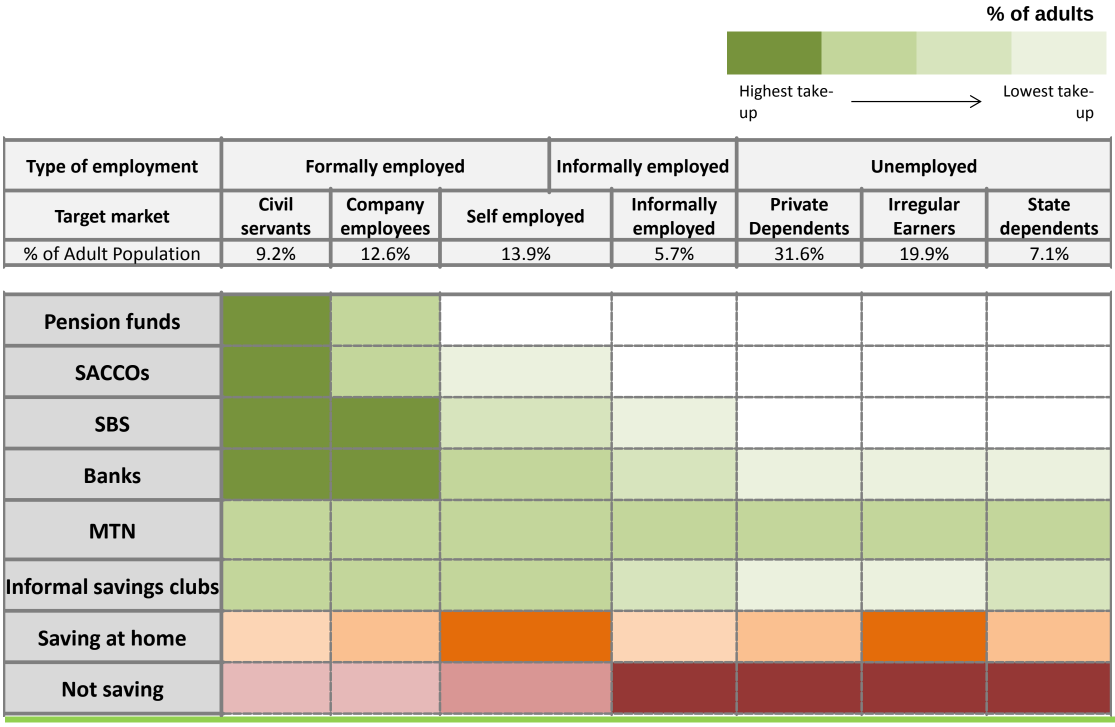


**Figure 71: Existing and potential reach of savings providers**

*Source: Authors' own*

*Banks already reach downmarket, MTN has potential to extend reach*. Figure 71 above, shows that Pension funds, SACCOs and SBS are limited to serving the higher income target markets only with little access for non-formally employed target markets. In contrast, banks already serve all the target markets, although the lower income target markets do have lower uptake. However, as illustrated in Figure 71 (above) and Figure 75 (below), a higher proportion of all target markets (except the State dependents) save with banks than with informal savings groups. The implication is that banks are already reaching all target markets but the use of these bank products by the lower income target groups remains limited. Figure 71 also illustrates the potential reach of MTN mobile money. The product is currently primarily used by urban-based higher income markets and mainly as a payments mechanism, rather than as a savings product, but due to its low costs and broad distributional reach, the product has the potential to viably serve all the target markets.

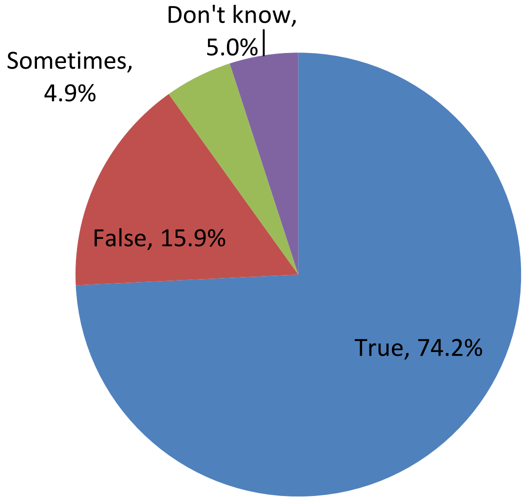


**Figure 72: Proportion of Swazi adults that trust banks with their money**

*Source: FinScope, 2011*

*Safety from theft an important benefit of formal institutions.* Figure 72 above shows that 74.2% of Swazi adults trust banks with their money. Even more significantly, 88.3% of adults indicated that they would save a windfall in a bank (FinScope, 2011). Comparatively, just 1.1% indicated they would save a windfall with an informal savings club (FinScope, 2011).

#### 6.3.3.1. Retirement funds

*Retirement funds hold 83% of total savings by value.* The total value of consumer savings mobilised in Swaziland is E20.5 billion (compared to the consumer credit market which is E5.1bn per Section 6.1.3). Figure 73 below reveals that retirement funds account for 83% of accumulated savings in Swaziland, but serve only 42,000 clients (FinScope, 2011). Retirement fund saving generally requires employment and regular contributions and are therefore largely used by the formally employed. According to FinScope (2011), 40.7% of civil servants and 25.6% of company employees save with a pension fund. Between them, these two target markets account for more than 80% of total pension fund clients.

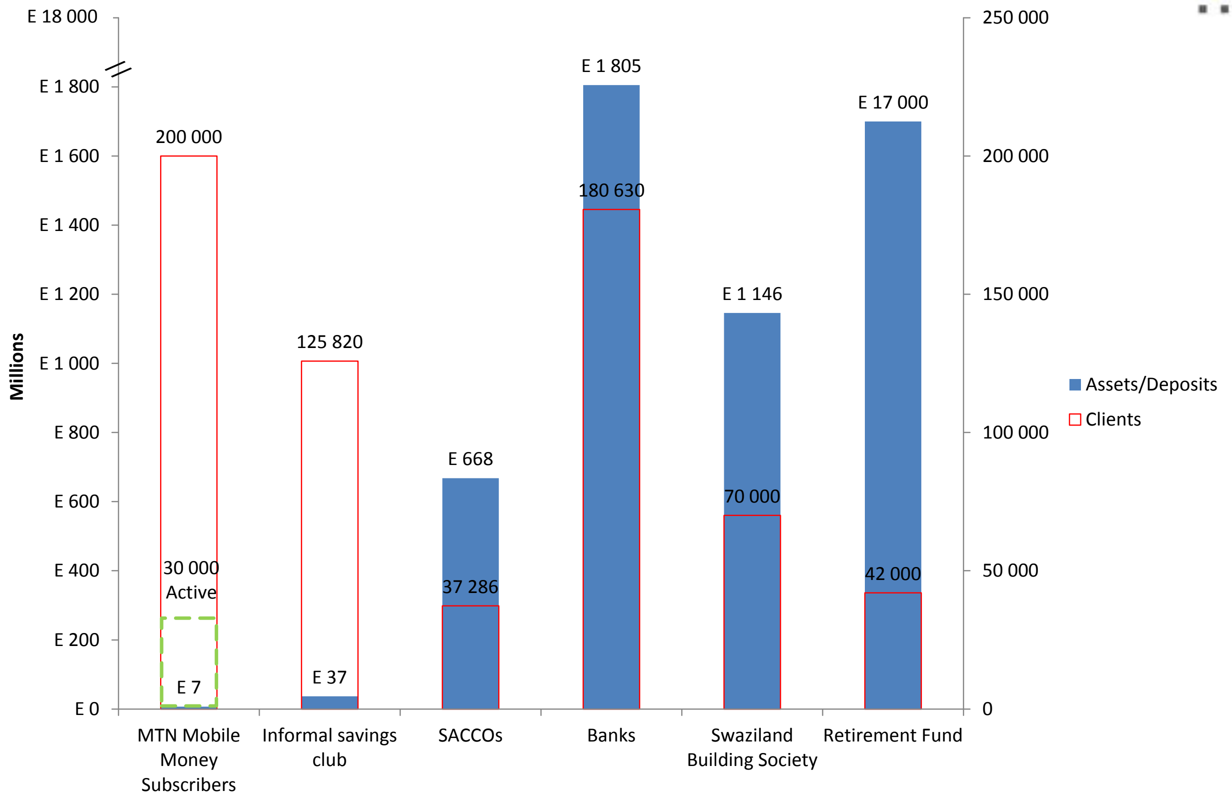


**Figure 73: Total consumer/member deposit/investment balances compared to number of clients**

*Source: FinScope, 2011; Supply-side consultations, 2013; CBS, 2013; RIRF,2013.*

### 6.3.3.2. Banks

*Banks serve largest number of savers.* Banks have the second largest consumer deposit book with E1.8 billion and have the highest number of clients with 180,630 adults indicating that they save with banks (FinScope, 2011). Banks serve largely the formally employed, including civil servants and company employees. However, there is a relatively high uptake of bank accounts from the lower income target markets as well. This is supported by Figure 70 which reveals that the average income for adults with bank accounts is lower than all other formal providers and only marginally higher than informal savings groups.

### 6.3.3.3. Swaziland Building Society

*SBS open to anyone but high entry fees exclude lower income target markets.* The SBS is open to anyone that can pay the joining fees, however the magnitude of these fees effectively excludes most of the Swazi population from accessing most of their products. SBS has around 70,000 savings accounts and E1.119 billion in total deposits, SBS has two different types of savings products: the flexible Gold account and share accounts. The Gold account allows immediate access to funds but requires a E1,000 minimum deposit. The share accounts have fixed terms of at least a year and eligibility to save at in share account begins with a minimum deposit of E 100 for their lowest-level share account (see Section 6.3.4). Figure 70 shows the average income for adults saving in SBS is higher than banks and unlike with banks, very few adults from the lower income target groups save in them. SBS saving is mainly limited to the formally employed and self-employed.

### 6.3.3.4. SACCOs

*SACCOs exclude lower income target markets from membership.* SACCO membership criteria differs across the different groups but is typically based on common purpose such as being limited to a group of common professionals (e.g. SNAT is the Association of Teachers). Hence SACCOs are generally only eligible for the employed. SACCOs have 37 286 clients and E668 million in total deposits. For SACCOs, a joining fee of E 100, along with a minimum monthly contribution starting at E 20 is usually required[112]. Different SACCOs may offer different savings products but broadly these can be differentiated into two categories: withdrawable and non-withdrawable. Withdrawable savings are typically inflexible savings products with funds able to be withdrawn at specified intervals, such as monthly or annually. However, the majority of SACCOs' savings products are non-withdrawable which means that members may only access their savings when they leave the SACCO. As with SBS, the average income earned by SACCO members is higher than bank clients' and few adults in the lower income target markets are permitted access (Figure 70). Figure 70 also shows that SACCOs offer the highest average return on deposits amongst formal institutions, excluding the pension fund.

### 6.3.3.5. MTN

*MTN Mobile Money small, but growing player for store of value.* Figure 70 and Figure 73 show that MTN Mobile Money now has 200,000 subscribers and 30,000 active clients with a float of around E 7 million (MTN, 2013; CBS NPS, 2013). Mobile money accounts are capped at a value E 4,000 by regulation, limiting the potential size of deposits, especially in the case of lumpy income such as harvests. However, as noted in 6.3.1 most deposit values are small and the only eligibility criteria is that the adult must be an MTN subscriber, which covers 81.5% of adults in Swaziland and includes all of the target markets even state dependents (49.5%).

### 6.3.3.6. Informal savings groups

*Informal savings groups [113]have the second highest number of clients, but the smallest total deposit book.* Informal savings clubs are the only informal savings mechanism in Swaziland, with 125,000 adults saving using them as a savings vehicle (see Figure 73). However, the total value of the savings is the lowest amongst all providers estimated at E37 million[114] and focus group discussions revealed that mandatory monthly contributions start at around E50. Informal saving groups are most used by civil servants and private dependents, but serve all target markets to some extent (see Figure 73).

*Composition of informal savings groups varies, corruption a problem*. Informal savings groups vary between accumulating self-help savings clubs, rotating savings clubs and societies. The members of these clubs are almost exclusively female and the clubs generally run from January to December, with pay-out in December to help with holiday season and to pay for school tuition in January (Zollman, 2010).

*"They are beneficial all right in helping us progress, they enable us to save a bit of money and not use all the money you have… otherwise we wouldn't be able to pay school fees"*

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[112] Swaziland has 72 registered SACCOs each with its own individual set of by-laws and hence entry requirements may different substantially across different SACCOs.

[113] Calculation for the return on savings for informal savings clubs was based on interest rates charged on loans by these groups per qualitative consultations as well as by assuming a conservative default rate double that experienced by FinCorp.

[114] Calculation for the total market for savings was based on the number adults reporting being a member of an informal savings club in FinScope and multiplied it by the average savings per month from the qualitative reports and interviews with World Vision (E 50).

(Mhlume, Female, Aged 41 – 55 years (KLA, 2014b))

*Informal savings groups' clients have lower income, but not irregular*. Despite high uptake amongst adults in the wealthier target groups, informal savings clubs members have lower average incomes than there formal counterparts. However FinScope (2011) indicates that irregular earners who report saving more with formal providers (FinScope, 2011).

#### 6.3.3.7. Saving at home

*Significant percentage of the population saving at home or with a household member only.* In Swaziland, there are 95,000 adults who do not save in any formal or informal mechanism, but still consider themselves savers as they store value at home or with someone in the household. Almost everyone in Swaziland saves at home to some extent, but those adults that only save at home or with a household member with no other mechanism are highest for the irregular earners. Relative to other target groups, irregular earners have the highest percentage of adults reporting that they save at home or with a household member only.

### 6.3.4. Products

Figure 74 below plots the different savings products offered in Swaziland by the term of savings product and the interest earned per annum. It shows that savings products can be categorized into flexible products, those that have a term length of less than a year, and fixed-term products, those that have a term length greater than a year. As noted in Section 6.3.3 above, most products offered in Swaziland offer negative real returns.

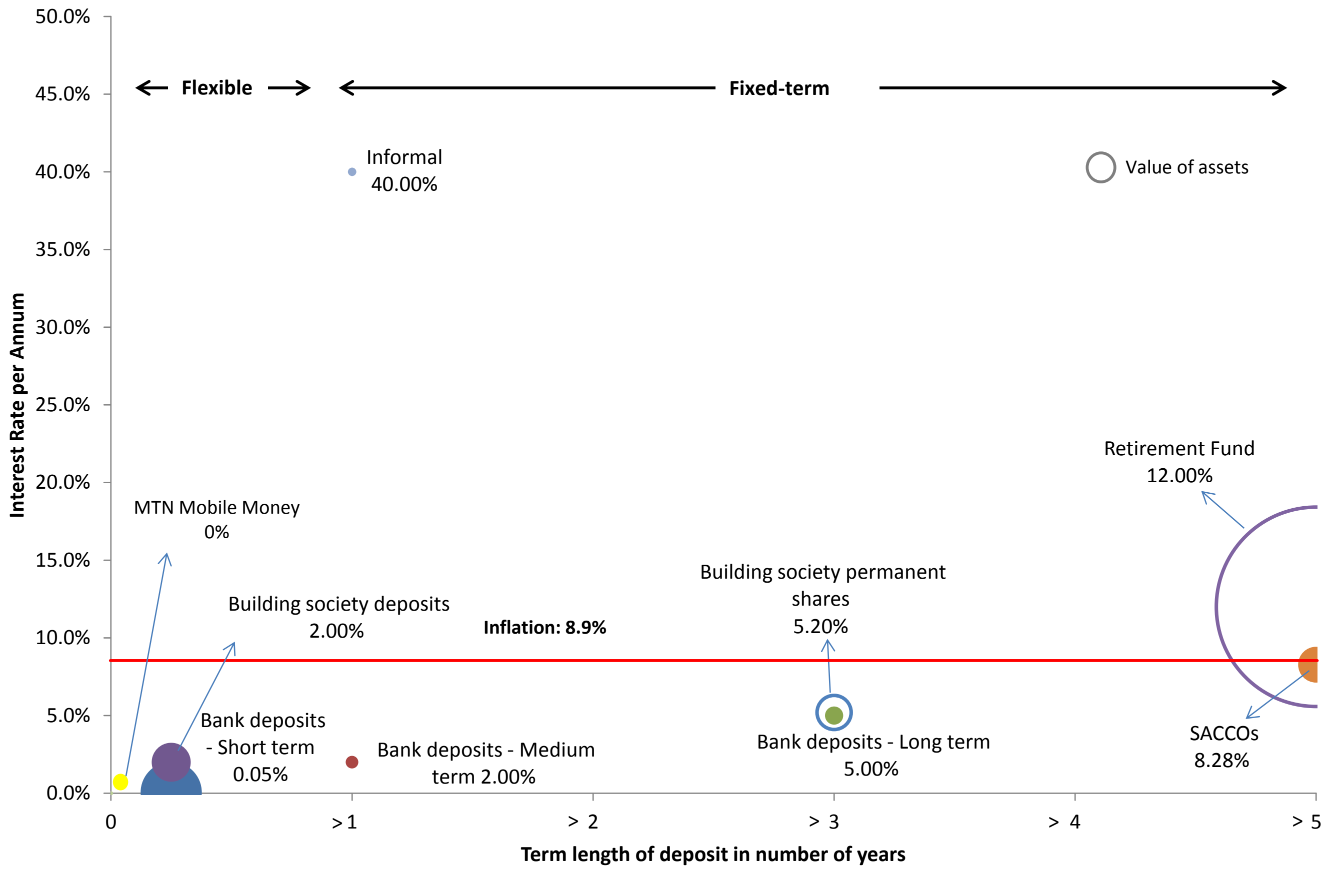


**Figure 74: Term of savings product and return with total deposit size**

*Source: Supply-side consultations (2013), Swazibank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Standard Bank Swaziland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013; Swaziland Building Society Annual Report, 2013; FINCORP Annual Report, 2012*

#### 6.3.4.1. Flexible short term products

*Banks the primary provider of flexible short term products.* As discussed above in Section 6.3.3, banks are the largest providers of savings products in Swaziland. Banks' short-term savings products are the most widely used. According to FinScope (2011), 29.3% of Swazi adults (155,966 adults) have a basic, short-term savings account with a bank. This constituting 86.3% of respondents who save with banks (FinScope, 2011).

*Bank costs erode small value savings*. Table 23 below, shows the amount of saving left at yearend after saving E 50 or E100 monthly in a bank or with mobile money based on an average bank costs obtained during mystery shopping. The table shows that saving through a bank has substantially higher costs associated with it than MTN mobile money, even though the banks pay some interest and even if a zero monthly service fee is assumed. The table shows that high bank costs significantly erodes the return from low-value savings. It is estimated that saving E50 a month for a year through the banks will return the saver a lump sum equivalent to just 45.2%, when adjusted for inflation, of the total nominal sum saved during the year. Banks offer lower cost saving products with zero monthly service fees, but many customers are unaware of these products. These calculations do also not take into account transport costs which can amount to a further monthly E10-E12 to reach the bank (see 5.2.2). Banks still offer a secure form of saving much valued by customers, but alternatives may be needed for very small amounts.

| | Entry level bank savings account[115] | | MTN Mobile money | |
|---|---|---|---|---|
| Monthly deposit | E50 | E100 | E50 | E100 |
| Interest earned (p.a.) | 1% | 1% | 0 | 0 |
| **Total deposits during the year** | **600.00** | **1200.00** | **600.00** | **1200.00** |
| Less total annual deposit fees (1 deposit each month) | (183.51) | (189.96) | 0.00 | 0.00 |
| Annual interest compounded monthly | 2.26 | 5.49 | 0.00 | 0.00 |
| Less total annual service fee (monthly charge x 12) | (116.44) | (116.44) | 0.00 | 0.00 |
| Less withdrawal fee | (4.67) | (10.73) | (12.00) | (18.00) |
| **Nominal value of savings at yearend** | **297.64** | **888.36** | **588.00** | **1182.00** |
| **Real value of savings at year end adjusting for inflation ( less 8.94%)** | **271.03** | **808.94** | **535.43** | **1076.33** |
| **Percentage of initial deposits left at the end of 12 months** | **45.2%** | **67.4%** | **89.2%** | **89.7%** |
| Percentage of initial deposits assuming zero monthly service fee at the end of 12 months | 62.8% | 76.2% | 89.2% | 89.7% |
| Percentage of initial deposits (not adjusting for inflation) at the end of 12 months | 49.6% | 74.0% | 98.0% | 98.5% |

**Table 23: Estimated value of savings of monthly savings in banks and mobile money after 12 months of contributing E50 or E100**

*Source: Mystery shopping, 2013 and Supply side consultations, 2013*

*MTN Mobile Money offers store of value for small regular amounts*. Although MTN's mobile money product is primarily a transactional product, it offers significant potential a simple, low cost, non-interest bearing savings account. Mobile money accounts constitute a store of value account at substantially lower cost than bank products as shown in Table 23 above, resulting in double the final amount at year end compared to bank accounts for E50 per month savings. However mobile money accounts are currently capped at E4,000 and offer no interest.

*Mobile money offers greater distribution potential and reduced eligibility requirements than the banks.* Additionally to the substantially lower costs of saving relatively small amounts, mobile money further reduces the transport and access costs of consumers due to their superior distribution network through mobile money agents. As discussed in Section 5.2.2, travelling to access a bank account can constitute a substantial cost for low value savings. The other major advantage of mobile money is the substantially lower eligibility requirements. Mobile money simply requires an ID and access to a mobile phone to register as a user, whilst entry level bank savings accounts usually require proof of income as most of these products are restricted to clients earning below a defined threshold. Proof of income constitutes a major barrier to use to all non-formally employed target

[115] This is calculated on the average weighted average costs across the four banks' entry level savings accounts based on the market share of consumers

groups and for unemployed individuals it will be even more difficult to prove they do not have an income.

*Flexible short term SBS account offers returns, but requires significant minimum balance.* SBS offers one short term, flexible savings product in the form of their Gold Account. As with the banks, a low interest rate is earned on deposits in this account, however, the account requires a minimum balance of E1,000. The minimum balance requirement limits this product to wealthier income groups.

#### 6.3.4.2. Fixed term or longer term products

*Informal savings groups offer the highest real return, but also most risk of negative return.* Swazi ASCAs tend to use two different methods to allocate interest back to members. The savings-based model entails the group distributing the interest earned from lending activities in proportion to how much each member saved. This is the traditional ASCA model and similar to a bank's approach. In the borrowing-based model distributions to each member includes their savings contributions plus the interest they personally repaid on any loans themselves, so if a member does not take a loan they will earn zero interest for the period. The latter method puts pressure on members to borrow because if they do not they will earn no interest on their loans (Zollman, 2010). In FGDs from Zollman (2010) participants estimated that 10-25% of their members "cry" at the end of the year because they have either earned negative returns on their savings or because they still owe the group money from the loan.

*Lack of loan repayment and mismanagement of funds has led to a lack of trust, undermining many savings groups.* Focus Group Discussions revealed issues of trust with many savings groups as set out in Section 2). A major problem cited was the non-repayment of loans: *"There have been challenges yes, like some people do not pay back their loans as expected and that means we have to charge more interest"* (Interview with Mhlume society leader, KLA (2014b)). The issues of non-repayment of loans or members 'running away with the money' appear relatively widespread from focus group discussions and have resulted in the collapse of the groups and even broader community issues:

*"Some people took loans last year and ran away. The others talk a lot about them and the gossip was too hurtful… I also belonged to a group at a school, but it had some disappointments. When some teachers took loans, others would talk and say they had the spirit not to repay the loan. It made us talk badly about each other and we could see that some are more trusted than others. It was not a good spirit to have in the school, so we said, we better stop it"*

(Zollman, 2010)

*"I left my society when we had dishonesty in our society, the lady that kept our money used to spend it and after crying and complaining I pulled out and realised that societies are not helping me so I decided to just save my money under my pillow because societies are for the enrichment of other people and not yourself, and they would lie and say they were robbed so I left because it was stressing me."*

*(Manzini, Female, Aged 25 – 40 years (KLA, 2014b))*

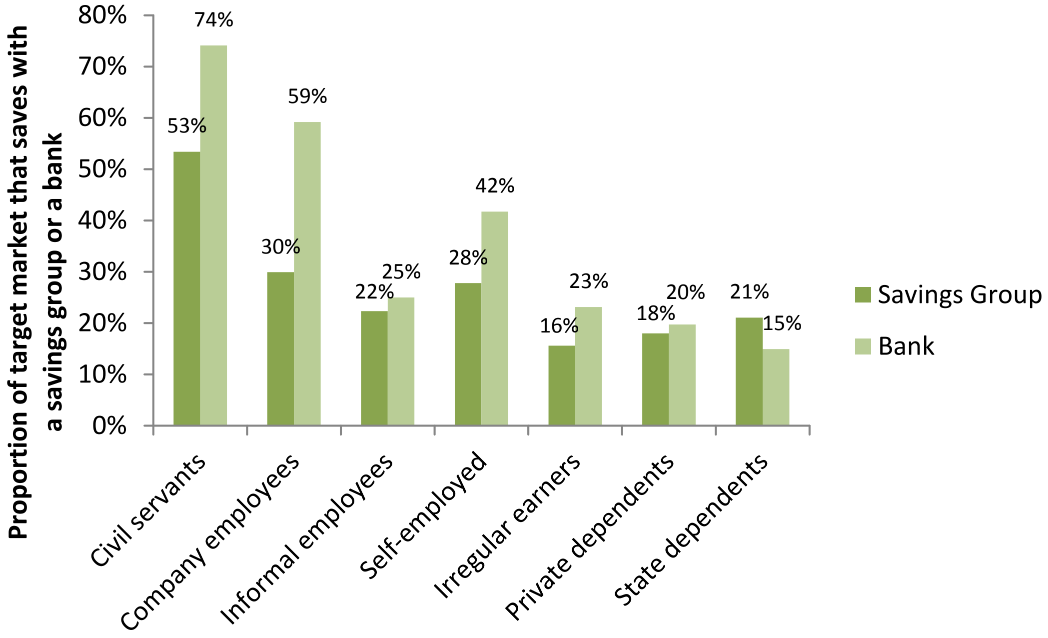


**Figure 75: Proportion of members of the target groups that save with informal savings groups and banks**

*Source: FinScope, 2011*

*Savings groups more used by wealthier target markets, but some penetration in poorer markets.* Figure 75 above shows that the higher income groups, particularly the civil servants, make greater use of the informal savings groups than the lower income target groups. One reason for this is the requirement by informal groups for all members to make monthly contributions which may be difficult for lower income groups and can cause groups formed by these target markets to collapse when the pressure to meet living expenses gets too much. With the reduction in community support structures (as discussed in Section 4.1), low income individuals are also gravitating towards individual mechanisms which offer anonymity so that other community members do not have access to their finances, hence the fact that all target markets (apart from State dependents) have higher uptake of bank savings accounts than savings groups as illustrated in Figure 75).

*SACCOs and SBS the other major providers of long term savings products.* In terms of value, SACCOs are the largest providers of long term savings products with total deposits of E668m (Genesis, 2014). Although the terms will differ across the SACCOs according to each specific set of by-laws, the average interest rates offered by the SACCOs are in excess of other formal institutions (outside retirement funds). However, membership to SACCOs is typically determined by a shared common purpose, commonly a shared profession (for example the Swaziland National Association of Teachers (SNAT) which is the largest SACCO in the country), and is therefore unavailable to most Swazis. The SACCOs also typically require joining fees and a specified monthly savings and membership fee. The savings products offered by the SACCOs are very inflexible, with many only allowing the withdrawal of funds when the member leaves the SACCO. The membership of SACCOs is therefore primarily restricted to the formally employed. SBS is the other major provider of long term savings products with total deposits for long term savings products of E496m and offering two share accounts – subscription shares and permanent shares. Subscription shares require a minimum balance of E100 and have fixed terms of 1, 2 or 3 years and can only be withdrawn at the end of the specified period. Permanent shares require a minimum deposit of E5,000 and have a fixed 3 year term. Medium and long-term personal bank deposits make up the smallest amount of long-term savings with only E68 million.

*Commitment devices in savings are valued.* Outside of pension funds the size of total personal deposits in long-term savings is only E1.3 billion compared to the total size of personal flexible products which is E2.2 billion. However, given the relatively poor returns of long term savings vehicles and the inflexibility of these products, even 37% of total personal deposits is higher than may be expected to be invested in these products. It is likely that many savers value the commitment device offered by inflexible savings products which tie them into savings and ensure that the lump sum is not spent. A number of studies, including Kast et al. (2012), Goss et al. (2011) and Militzer (2014), find that people find it difficult to save by themselves due to self-control problems. Where there is easy access to savings it is difficult to build up amounts over time as there are always competing priorities. Anecdotal evidence from Swaziland supports this, with the banks indicating that inflexible savings accounts are amongst their most popular types of products. Standard Bank, for example, offers a an entry level savings account from which customers may only withdraw at a branch and they have a maximum of 1-2 withdrawals per month. Despite the inflexibility of the product, it is reportedly very popular (Standard Bank Swaziland Limited, 2013).

### 6.3.5. Barriers

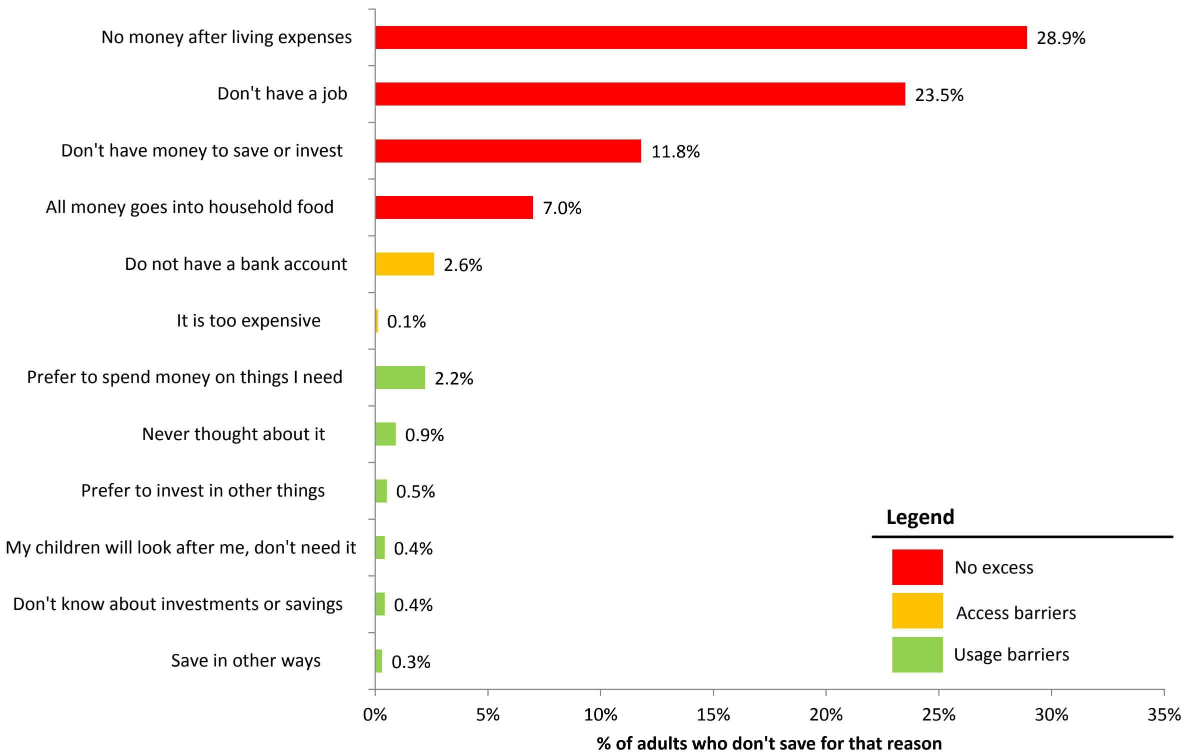


**Figure 76: Reasons adults do not save in Swaziland**

*Source: FinScope, 2011*

*Access and usage barriers seem limited.* The barriers for savings reported by adults in Swaziland that would fall under either access or usage barriers are negligible (less than 1%) with the exception of those adults who report not having a bank account (2.6%) and those reporting that they prefer to spend money on things they need (2.2%) (see Figure 76 above).

*Lack of excess income main barrier for savings, however may point to lack of appropriate products.* Figure 76 above reveals that most adults in Swaziland who do not save indicate that this is due to lack of excess income. This is either because (i) expenditures – they have no money left over after living expenses (28.9% of adults); or (ii) income – because they do not earn enough, either because they do not have job (23.5% of adults) or do not generate enough income from their job to save (11.8% of adults). Living expenses can be adjusted if one has clear saving goals and feel they are attainable. Appropriate low cost goal oriented saving products can encourage saving.

*"There is a guy that I work with, we are all getting paid R2 000 yet in 9 months he had finished building a two-roomed house, he even has a ramshackle of a car to call his own. So while we are busy thinking about buying clothes, this and that he wears gumboots and he takes his lunch to work while we are busy showing off by buying takeaways"*

*(Manzini, Male, Aged 25 – 40 years* (KLA, 2014b))

*High services charges deters saving.* Although banks are perceived as an easy access to funds when required, FGDs revealed that service fees for banks create lots of confusion at banks and have the potential to erode savings.

*"They take your money and then when you go and ask they will start telling you about those banking terms and you won't understand what they are talking about… you end up just getting out of there all confused"*

*(Mhlume, Male, Aged 41 – 55 years (KLA, 2014b))*

*"M: Instead of putting that R100 under your pillow, why don't you save it in your bank account?*

*R: There will be too much chares and by the time you get that E100 it will be E50.*

*R: Or ever E35*

*R: Their charges are too high*

*R: They take too much money from us and they become rich."*

*(Manzini, Female, Aged 25 – 40 years (KLA, 2014b))*

*Minimum balances and joining fees barrier to usage.* Joining fees and minimum balances for certain products such as SBS limits access to those that can afford these fees.

*Corruption in informal savings clubs undermining value.* FGDs revealed that informal societies are in most cases considered to be the optimal savings mechanisms. However, since trust in society has been eroded (see Section6.3.3), very few respondents belong to such societies. Almost everyone in Swaziland has a story of corruption in their informal savings clubs (Zollman, 2010).

*"R: I do not like about organizations, our hearts are not yet ready to form organizations.*

*M: What is the cause of that?*

*R: I don't know how to answer you.*

*R: Corruption.*

*M: Alright, where does this corruption come from?*

*R: It starts within the committee, we have five committee members, about 50 members at the bottom, the members at the bottom are controlled by the committee, sometimes, as … is saying, as Swazi people, what happens in the organizations, the committee doesn't call meetings in order to get a mandate from the members, they make decisions on their own and implement them and the people at the bottom suffer, when the money comes in, one person will start the whole thing of corruption, they all agree because they all want cars and by the time you realize that, the organization is dead because you trusted the members of the committee."*

*(Mhlume, Male, Aged 41 – 55 years (KLA, 2014b))*

### 6.3.6. Regulatory issues to consider

*E4,000 cap on mobile money accounts restricts potential for store of value.* The existing regulatory cap on mobile money which limits accounts to values below E4,000 limits the extent to which Swazis can build up savings through mobile money and prevents large value deposits such as in the event of a windfall or lumpy income (for example from harvests or remittances).

*MTN restriction from earning interest on the float limits institution's incentive.* The regulatory restriction on earning interest on the mobile money float by MTN limits the institution's incentive to promote and incentivise savings activity through mobile money. Allowing clients to build up larger balances in mobile money bears no benefit to MTN and in fact if it leads to reduced transactions will reduce mobile money revenues.

*No formal regulatory identity for informal saving groups.* Abuse of member funds in informal saving groups is of significant concern per the FGDs. The lack of a formal identity for the groups means that members are unable to hold the groups to account. These groups would not be able to report any information to a regulator, but registration alone may offer members some protection.

*"In my opinion, the associations, as he is saying, if the government could make associations to be legalized, so that when the chairperson or treasury misuses the money, we can be able to take them to court because currently, you are not able to take associations to court if they can misuse money"*

*(Mhlume, Male, Aged 41 – 55 years (KLA, 2014b))*

### 6.3.7. Gaps & opportunities

Table 24 summarises the main savings product gaps and opportunities for each identified use case across target markets:

| Use cases | Relevant target markets | Potential impact and opportunity |
|---|---|---|
| Consumption smoothing | All | Affordable and accessible flexible savings products allows more effective and affordable smoothing of consumption than credit<br>***This is a significant area given the number of people affected.*** |
| Risk mitigation | All | Affordable savings products allow individuals to accumulate funds to be used in the event of an emergency. The alternative is to borrow from |

| | | |
|---|---|---|
| | | an informal moneylender which is substantially more expensive and welfare reducing. For funerals, however, funeral or life insurance may provide a better value proposition in Swaziland. ***This is a significant area given the number of people affected.*** |
| Education | Formally employed<br>Informally employed<br>Self-employed<br>State dependents | Targeted educational savings products can help Swazis build up sufficient savings for their dependents' education. Improving educational outcomes can have significant beneficial effects on the real economy. ***This is a significant area given the number of people affected.*** |
| Investment | Formally employed<br>Informally employed<br>Self-employed<br>State dependents | Productive investments allow individuals to earn a return. The use of savings to finance business development is frequently more appropriate than credit, particularly for survivalist SMMEs and start-ups. |
| Retirement | Formally employed<br>State dependents | Given the low value of the old age state grant, saving for retirement is savings goal. Many of the formally employed have access to the pension fund for this purpose. However, saving for retirement may be relatively less important in Swaziland than in comparable countries as most Swazi adults have access to a plot of land, contributing to welfare. |

**Table 24: Market for savings: opportunities summary across use cases**

*Source: Author's own*

*Formal institutions preferred to informal savings groups.* Figure 75 shows that more adults from every target group (except the State dependents) save with banks than with informal savings groups. Figure 75 also shows that a higher proportion of the formally employed target markets save with informal savings groups than the lower income groups. The qualitative research, through FGDs and individual interviews, indicates that the low usage of informal savings groups by the lower income target markets is largely attributable to a breakdown in trust in the community structures due to a number of contextual factors, such as the high prevalence of HIV/AIDs and the 2011 Fiscal crisis (see Section 2). This has led to numerous examples of members failing to repay loans or simply 'running away' with the money. The savings groups which are successful are typically larger with more official and professional management structures and a degree of anonymity between members. These groups usually also require mandatory, specified monthly contributions and may also require an initial joining fee. This makes the higher income target markets with regular income more likely to be able to join these groups, whilst the target markets with irregular incomes may remain excluded. Due to the lack of trust in savings groups and their accompanying challenges, it would seem that they do not present a major opportunity to improving access to financial services in Swaziland.

*Creating a formal regulatory identity for savings groups may improve member protection.* The lack of a formal regulatory identity for savings groups means that members have little opportunity for formal recourse if member funds are mismanaged or misappropriated. Creating a formal regulatory provision for such groups may therefore help to improve trust in these organisations as members would have access to appropriate recourse mechanisms if required.

*Due to trust and reach, banks represent a viable opportunity to increase access*. Most Swazis trust banks and formal institutions – 74% of adults responded affirmatively to the statement "You trust banks with your money" and 88.3% of adults indicated that if they received a large windfall and did not spend it, they would save it in a bank (just 1.1% indicated they would save it with a savings club). Furthermore, Figure 71 and Figure 75 both show the extent of banks' reach with significant proportions of all target markets indicating they have a bank account. Banks therefore have substantial reach. This reach can be deepened to improve inclusion.

*Encouraging bank deposits can improve bank profitability and client value.* Due to the associated costs of bank accounts (as shown in Table 23) the lower income target markets make limited use of their accounts, maintaining very low balances and/or using it as a mailbox account (as discussed in Section 6.2.1). GAFIS (2013) looked at banks across five developing countries and found that banks make a substantial loss on dormant or accounts with a low balance. Banks, therefore, have the opportunity to reduce or reverse these losses by incentivising clients to maintain higher account balances, thereby allowing them to earn more revenue per account from the interest spread on the balance. At least four strategies can be considered for doing so:

- Incentivising clients to more actively use bank accounts would start with a small reduction in the transaction costs, particularly in terms of monthly service charges and deposit fees as these rapidly erode the value of deposits (as illustrated in Table 23) and make it illogical for clients to save with banks.
- Offering an additional incentive to clients who achieve a specified monthly balance, such as a low value funeral insurance policy or bonus interest rates, can also encourage clients to maintain higher balances. This links to an additional opportunity for the banks to distribute alternative financial services to clients as a means of increasing ARPU (Average Revenue per User). By selling multiple products to each client, the bank may make a loss on the low balance account but still make an overall profit on each customer. This approach can provide the bank a competitive advantage and while at the same time benefitting other financial service providers such as insurers, who will be able to piggy-back on the bank's existing infrastructure and benefit from the bank's client base.
- Engaging in increased levels of consumer education or information sharing at point of sale/transaction can make clients and potential clients aware of the benefits of using a bank account, thereby encouraging greater usage.
- Accommodating the needs or entry level or low-income clients may pay off over the longer term as clients' income levels grow. Equity bank in Kenya, for example, explicitly speaks of "growing with its customers," and "can point to high-income clients today who opened Equity accounts when they were quite poor.

*Mobile money presents an alternative low-cost, formal, flexible savings account.* Although primarily designed as a payments mechanism, MTN's mobile money presents a significant opportunity as a low cost, flexible savings account. Although the account does not offer interest, the zero monthly and deposit fees, make it an effective store of value account for low income consumers. As a formal product, it offers the same benefits as a bank of safety from theft and anonymity but also has the added benefits of being significantly cheaper for low value savings (see Table 23) and a greater distribution network through its agents which reduces the travel costs of savers to make deposits. An existing constraint on using mobile money as a store of value is the regulatory cap of E4,000 on each account which constrains the total value that can be saved. However, for many Swazis, this may not be a major barrier given the low value of their incomes and therefore savings.

*Goal oriented savings products a powerful commitment device and driver of longer-term savings.* Long-term savings products explicitly targeted at specific goals such as education or starting a business. A long term savings products specifically designed and marketed for education, for example, creates a commitment device for savers. For example, the education product may allow irregular deposits throughout the year but only permit withdrawals in January, when school fees are due. Imbita offered a product similar to this with reported success from which withdrawals were only permitted in September for ploughing season and January for school fees. Similarly the rationale for many members of savings groups is similar as the groups usually disburse the funds at the end of the year. Evidence indicates that individuals prefer to compartmentalise savings and hence the allure of targeted savings product. Cross-country evidence also suggests that savings may be a more appropriate means of financing a business start-up or a survivalist business than credit and hence targeted savings products for businesses or individuals who want to start a business may also be effective in aiding SMME growth in the country.

*SACCOs currently unregulated.* SACCOs house a substantial amount of savings for especially the employed target markets. SACCOs are currently unregulated as the regulations to the FSRA Act have not yet been implemented and any supervision by the Department of Cooperatives fell away under Section 83(1) of the FSRA Act. SACCO member savings could therefore be at risk in the absence of regulations to protect them. FSRA is currently developing these regulations.

## 6.4. Market for insurance

*Why focus on insurance?* The qualitative and quantitative demand-side research suggests that many people borrow or use savings towards insurable risk events or emergencies. This creates a cycle whereby hard-won savings are depleted and debt is incurred, making it difficult for people to progress up the income and welfare ladder. In principle, there is therefore a strong value proposition for insurance to promote individual welfare. Moreover, at the macro level insurers, along with pension funds, are often the largest institutional investors in the economy. Increased insurance intermediation is thus a means to aggregate small value “savings” in the economy and leverage it for investment purposes, which in turn can impact on economic growth.

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

**Key issues: market for insurance**

The section gives rise to the following key findings:

- Current usage is high compared to some other countries in the region, at a total of 22% of adults included, but usage is largely concentrated among civil servants (64% penetration) and the rest of the formally employed. Most of those with insurance have only a funeral policy.
- After the liberalisation of the market in 2005/6, a number of insurers formally entered the market. In the past four years, there have only been two new entrants, both of them assistance business (funeral insurance) license holders.
- The sector is financially sound and profitable. Competition is strong in the long-term insurance market and over the past three years new entrants have started to make significant inroads into the traditional monopoly on the short-term side.
- Gross insurance premiums are growing strongly, especially in the long-term insurance market.
- The long-term insurance market offers good client value. On the short-term side, low claims ratios and growing expenses, along with sustained high profits suggest poor consumer value.
- The retail market is funeral-driven, but there is already a broad product suite that would be relevant to the entry-level market.
- Distribution and premium collection challenges, as well as lack of regular incomes, may put a large part of the population beyond the reach of insurers. However, there is still room for growth among those currently best served or for whom there are existing touch points that could be leveraged for insurance distribution purposes (including having a bank account, SACCO membership and mobile phone ownership).
- KYC requirements – which are currently not enforced – are the only large looming regulatory issue. Furthermore, there is a need for a streamlined regulatory framework for medical schemes that does not preclude innovation in health-related insurance by insurers.

### 6.4.1. Current usage

*Relatively high uptake*. 17.2% of Swazi adults (about 100,000 people) have formal insurance and a further 6.8% (about 36,000 individuals) only have informal cover through a *masingcwabisane* (burial society). 1.6% of Swazi adults have both formal and informal cover, bringing total insurance usage to 22.3% of adults (132,000 individuals). This is high compared to many other developing countries. For instance, insurance usage in Kenya and Nigeria is estimated at 6.8% (FinScope Nigeria, 2009) and 2% (FinScope Kenya, 2008) respectively, even though both countries have bigger insurance sectors (measured in terms of insurance contribution to GDP) than Swaziland (Hougaard, et al., 2011).

*Bulk of population remains excluded*. Nevertheless, as shown in Figure 77 below, more than three quarters of Swazi adults remain excluded from the insurance market, with no formal or informal cover:

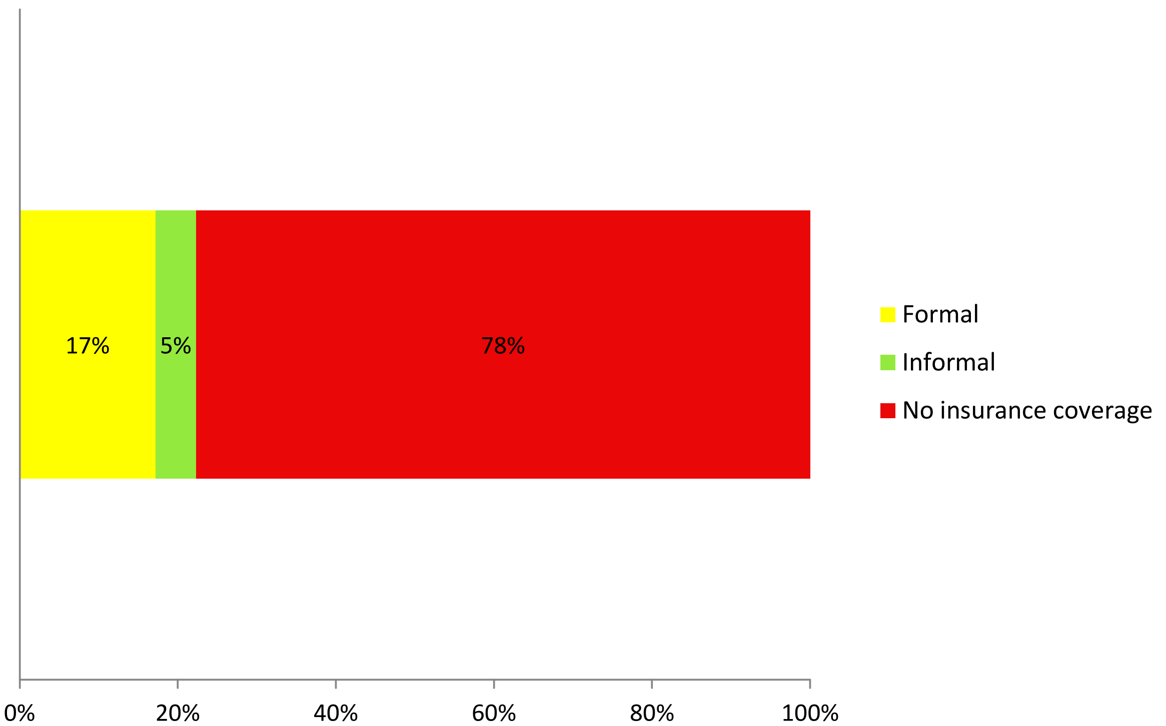


**Figure 77: Insurance access strand**

*Source: FinScope 2011*

*Funeral insurance most popular product*. 85% of all those with insurance, just short of 78,000 individuals (14.7% of adults), have funeral insurance. Thus funeral insurance accounts for the bulk of insurance usage in Swaziland. The second biggest usage category is life insurance, at 19,193 policy holders or 3.6% of adults, followed by medical insurance (15,790 individuals, 3% of adults) and then motor vehicle insurance (13,858 individuals, 2.6% of adults). Other forms of insurance such as property, household, personal accident or credit life insurance are all used by less than 1% of adults.

*Formally insured tend to be more affluent, urban, male and educated*. The demographic profile of the formally insured differs from that of the informally served and the excluded. 57% of those with formal insurance live in urban areas, compared to only about a third of the uninsured or those with informal cover only. Those with formal insurance have a higher proportion of males than the population average: 58.5% of policyholders are female compared to a population average of 63%. Conversely, 70.2% of all those with informal cover are female. As would be expected, those with insurance tend to be better educated than those without. 35% of all formally insured individuals have tertiary education, dropping to 13.2% of those who are informally served and only 4.3% of the uninsured. Furthermore, a much larger proportion of the formally insured than the informally insured or uninsured have incomes above E2,000 per month.

*Formally employed best served*. When considering how insurance usage is distributed across the various target market segments, it is clear that civil servants are best served, followed by company employees, as indicated in Figure 78. Alongside funeral insurance, they are also the segments with most life insurance, medical insurance and vehicle insurance.

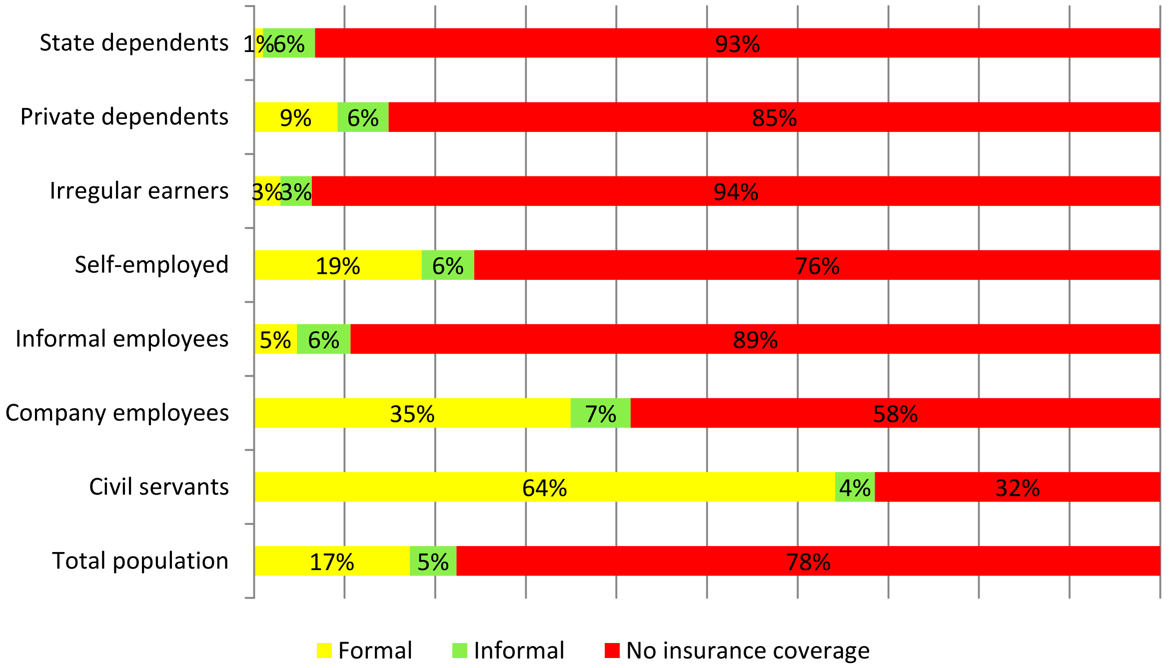


**Figure 78: Insurance usage by segment**

*Source: FinScope 2011*

The higher penetration among these sections is to be expected, given that they have the most regular incomes and are mostly banked. These are also the segments most likely to have insurance through a group scheme (for example as an employee benefit). Even among these categories, however, there is still significant scope for deepening penetration: more than a third of civil servants and just less than two thirds of company employees remain formally unserved.

### 6.4.2. Use cases

This section outlines the use cases for insurance uptake as identified through the qualitative and quantitative demand-side research. At the end of the insurance market analysis, we will return to the use cases as the basis for the identification of gaps in current provision and opportunities for growth.

*To provide for funeral expenses*. The usage figures quoted in Section 6.4.1 suggest that funeral insurance is by far the largest use case for insurance in Swaziland. This is confirmed when looking at the risk experience and coping mechanisms quoted by FinScope respondents: about 57% of adults indicated that they had experienced a death in the family over the past 12 months – either of the main breadwinner (27.4%) or of another family member (29.8%). Qualitative research underlines that funeral insurance is by far the most prominent use case in people's minds.

However, uptake of funeral insurance underperforms relative to the potential demand. When asked how they would cover the cost of a funeral: 57% of all Swazi adults indicated that they would turn to family and friends, 9.2% will draw on savings, a further 8.6% would need to sell something to raise cash, and a number will also borrow from various sources. Only 11.7% indicated that they would draw on insurance. This is due to a variety of both usage and access barriers, as will be explained in Section 6.4.4.

*To cover the costs related to illness*. From the risk experience indicated in FinScope, there is also a strong use case for health insurance: illness within the family that requires medical expenses was indicated by 37.1% of adults as a risk incidence over the past 12 months. As discussed in Section 4, the cost of care is not necessarily the constraint, but rather the transport, lost income and other ancillary costs associated with illness. The qualitative demand-side research suggests that medical expenses are not prioritised as part of the monthly household budget as it is not something that is expected to happen every month. However, respondents recognise that when they do arise, medical expenses need to be contended with in some way. Once again, the use case is underutilised, as only a fraction of the adult population has health insurance and what take-up there is, is limited to the formally employed population.

*Default credit life use case*. Credit providers may make credit life insurance compulsory for persons taking out a loan[116]. This creates a default use case for credit life insurance for the nearly 7% of adults with loans from the formal sector. However, awareness of credit life insurance is likely to be low. The qualitative demand-side research did not pick up any mention of it and in the FinScope survey only 0.7% of adults reported having insurance to cover a loan.

The demand-side research furthermore suggests a number of *potential* use cases, namely use cases suggested by insurance needs, but that are not currently reflected in insurance usage figures:

*Income protection insurance*: 18.2% of adults indicate the loss of a job within the household as a key risk event experienced in the past 18 months. Focus group discussions and individual interviews confirm the fact that household finances are fragile. Should a main income source fall away due to retrenchment, chronic sickness or disability, it creates a serious budget dilemma. This suggests a potential use case for income protection insurance (including retrenchment, dread disease and disability cover). It is likely that this type of insurance will be most viable among the limited formally employed population base.

*Life insurance to provide for children's education*. Qualitative research emphasises the importance of providing for children's education as an "investment" in Swaziland. Specifically, funds are needed for secondary education, as primary education is in the process of becoming free for all and tertiary education is heavily subsidised. In the first instance this presents a savings use case, including for endowment policies to save towards education. However, it also indicates a potential use case for risk cover of which the pay-out, should the policyholder die or become disabled, will be targeted at beneficiaries' education expenses.

[116] Section 50 of the Insurance Act, 2005.

*To protect against asset loss or business damage*. Insurance against loss of stock or infrastructure due to a variety of perils could hold significant value for the self-employed, though insurance uptake is likely to be more viable for larger businesses than for survivalist individual entrepreneurs. Furthermore, according to FinScope 2011 more than 80% of adults own a cell phone, three quarters own a radio and about half own a television. 47% own a refrigerator/freezer and 37% an electric stove. In addition, almost 18% of adults own a car, around 10% own a van/bakkie/truck and a further 1.3% own a motorcycle. Quite a number of people are therefore likely to own household goods that would, collectively or individually, be insurable. This indicates a potential use case for asset insurance – either personal or business-related. Yet, current usage of short-term insurance is extremely limited, at only 3.7% of adults (less than 20,000 individuals) in total, of which 13,858 (2.6% of adults) have vehicle insurance. The qualitative research suggests that this is mostly due to limited incomes, which implies a sense of simply having to start over, do without, or gradually build up the assets again, should a risk event occur. Asset insurance is perceived to be unaffordable and more appropriate for higher-income earners.

*Limited agricultural insurance use case*. Theoretically, there should be a strong use case for agricultural insurance, as almost two thirds of adults are in some way involved in agriculture. However, small plot sizes, the pervasiveness of subsistence agriculture and the limited nature of strong agricultural aggregator networks such as markets/processing plants with offtake agreements with smallholder farmers, means that agricultural insurance is unlikely to be viable for the bulk of the population (please see Section 5.2.2.2 for potential means to provide financial services to those serviced by these limited networks). Neither does there seem to be a large-scale spontaneous demand for it: qualitative research picked up no mention of agricultural insurance. Agriculture-related risks also did not feature among the top five risks experience over the past twelve months as indicated in the FinScope survey.

*Insurance as a substitute for current informal credit usage.* The qualitative research findings presented in Section 4, as well as the credit and savings market overviews in Sections 6.1 and 6.3 suggest that many people borrow or draw down savings to cope with insurable risk events. 7.7% of borrowers borrow for medical expenses and 5.2% for non-medical emergencies. 22.3% of savers say that they save for non-medical emergencies and 16.4% save towards medical expenses. Furthermore, 27% of borrowers and 19.4% of savers borrow or save towards school fees or education. All of these relate to potentially insurable events.

Would a person taking out a loan to pay for an insurable event have been better off rather paying an insurance premium? Appendix 6 models the relative value that insurance offers compared to credit. It finds that insurance indisputably offers better value than informal credit for most Swazis. The finding is less clear-cut for formal credit given the substantively lower interest rates of this offering, but it is still likely that insurance would offer better overall value than formal credit to a large proportion of Swazis. Moreover, as the analysis in Section 6.1 shows, formal credit is outside the reach of most.

Where people resort to credit rather than insurance as a coping mechanism, it is therefore indicative of an implicit use case for insurance that could be unlocked by overcoming the various *access and usage barriers* in the insurance market (see Section 6.4.4 for further detail on these barriers).

### 6.4.3. Providers & products

This sub-section considers the supply of insurance in Swaziland in terms of players and products.

**Who provides?**

*Relatively stable formal provider landscape*. As indicated in Section 5.1, the Swaziland insurance market saw a wave of new entry following the liberalisation of the market in 2006. Over recent years, however, the provider landscape has been relatively stable, with only two new entrants (and one exit) over the past four years. The most recent entrant – Dups – received its licence in January 2014. There are currently six long-term, three short-term and one composite insurer in Swaziland, as shown in Table 25 below:

| Long-term insurers | Short-term insurers |
|---|---|
| Liberty Life Swaziland<br>Metropolitan Swaziland<br>Momentum Life Swaziland<br>Old Mutual Swaziland<br>Safrican (assistance business licence)<br>Dups (assistance business licence) | Orchard Insurance<br>Lidwala Insurance<br>Getmed Insurance |
| Swaziland Royal Insurance Corporation | |

**Table 25: Licensed insurers**

*Source: RIRF (2013)*

Of these, two insurers, Safrican and Dups, have a dedicated assistance business licence, which limits their operations to life insurance policies below E50,000[117].

**Box 19. Historical factors explaining the provider landscape**

The Swazi insurance market was subject to a state-mandated monopoly from 1973 when Swaziland Royal Insurance Corporation was established as composite insurer by a King's Order-in-Council in terms of founding legislation No. 32/1973 up to the liberalisation of the market in 2006 after the commencement of the Insurance Act of 2005. During that time, Swaziland was in a fairly unique situation whereby a few South African long-term insurers sold policies in Swaziland across the border, without formally operating as insurers in Swaziland. Their presence was largely due to the fact that they were managing substantial pension fund assets on behalf of Swaziland clients.

Therefore some of the long-term insurers have had an on-the-ground presence in the market for a much longer time than the official figures would suggest. As short-term insurers would not have been involved in managing pension fund assets, the short-term market was not characterised by cross-border provision and did not see the same initial wave of entry as the long-term market.

Post-2005, all foreign insurers doing business in Swaziland were faced with the choice of setting up subsidiaries in Swaziland or having to wind down their existing books.

*Players vying for position in the long-term market.* Figure 79 below indicates the trend in respective market share for long-term insurers over the past few years[118]. Most notable is the reduction in market share by Metropolitan, as well as the growth in market share by Old Mutual[119]. SRIC's market

[117] Assistance business is a term also found in South African insurance legislation, where it traditionally refers to funeral insurance. In Swaziland the regulatory framework does not limit assistance business providers to funeral policies, but rather to life products below a maximum sum assured of E50,000. Dedicated, lower, prudential requirements currently apply to assistance business licence holders.
[118] Note that 2012 is the latest year for which RIRF had data available at the time of writing.
[119] Note that the jump in 2010 is partly accounted for by a reclassification of business previously underwritten out of South Africa.

share, which was officially at 100% before liberalisation in 2005, had reduced to 36% by 2012. The 2012 picture is one of a fairly well spread out market, indicative of sound competition:

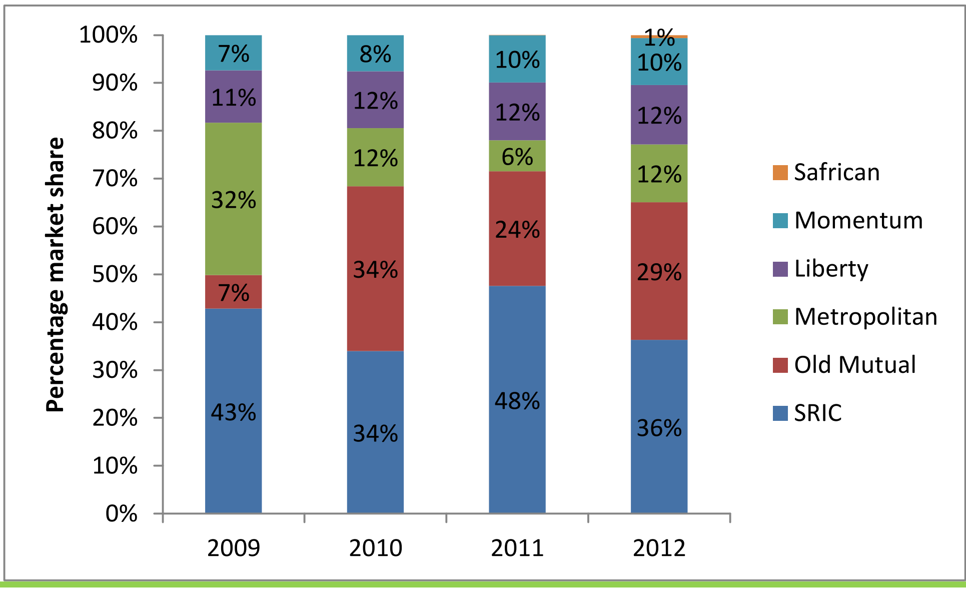


**Figure 79: Percentage share of gross premiums: long-term insurers**

*Source: RIRF (2013)*

*Lidwala making inroads into traditional SRIC short-term monopoly*. On the short-term side, the increasing market share of Lidwala indicated in Figure 80 is a significant development. As the other two short-term insurers each operate in a specific niche – Getmed[120] in health insurance and Orchard in serving the client base of its owner, Select Africa - Lidwala is effectively the only short-term insurer directly competing with SRIC.

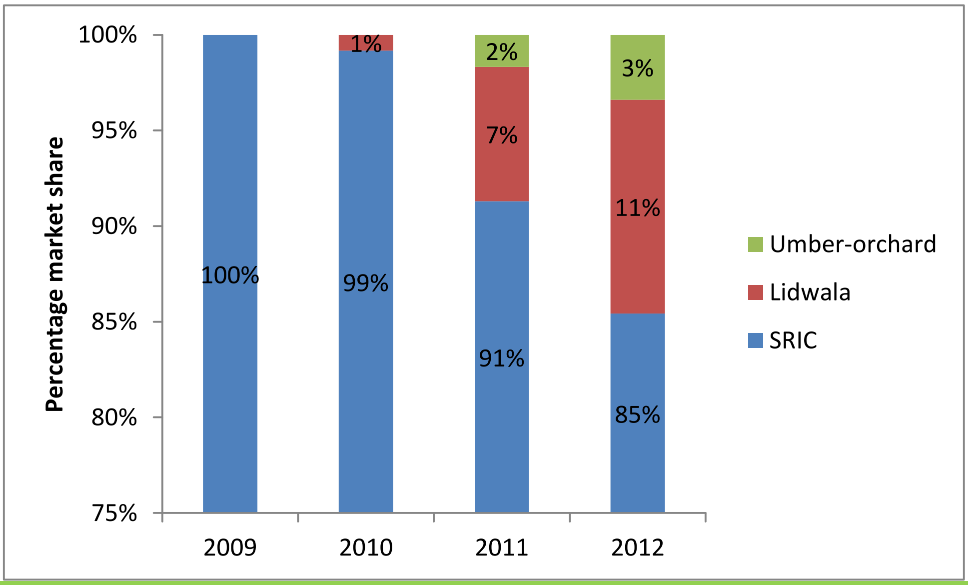


**Figure 80: Percentage share of gross premiums: short-term insurers**

*Source: RIRF (2013)*

[120] Note that the fourth short-term insurer, Getmed, did not report data reflected in the RIRF statistics.

SRIC's gross premium levels have remained fairly constant over the period in question (at a compound annual growth rate of only 2%), while that of Lidwala has grown from zero to E42m since entry and Orchard has grown to almost E13m. Thus overall growth in short-term premiums is largely due to the new entrants.

*Performance indicators suggest sound market with room for growth.* A number of key performance indicators can be used to gauge the health of the insurance market. These include the solvency ratio (assets over expected liabilities), the net profit ratio (net profits as a percentage of revenue), return on equity (as a measure of investor value), total expense ratio (expenses as a percentage of net premiums) and the claims ratio (incurred claims as a percentage of net premiums, which is an indicator of the value that customers derive from their premiums). An analysis of industry data from 2008 to 2012 renders the following insights for the long-term and short-term market, respectively:

- *Relatively mature, well-regulated long-term market.* The long-term insurance industry is performing well, with good growth in premiums. Profitability has improved significantly from losses in 2008 and 2009 to healthy but not excessive profits in 2012. The industry has been consistently financially sound (indicative of a well-regulated market) and expenses are under control. Claims ratios are very high, suggesting that clients are "getting a good deal". The fact that reserving is outstripping premium growth suggests growth in particularly the retail life market. The main challenge for the long-term industry is to find new avenues of growth under challenging economic circumstances and given the small population. Innovation is required to penetrate the lower income or informally employed market.

- *Profitable short-term industry can improve efficiency, client value.* The short-term industry is not witnessing the same level of premium growth as evidenced above and the bulk of growth is coming from new entrants, rather than the incumbent, SRIC. Profitability is very high, potentially as a result of SRIC's sustained strong market position. Like the long-term industry, the short-term industry is financially sound. However, client value as measured by the claims ratio is fairly low and reducing, while expenses are on an upward trend. This trend is not sustainable and new entrants seem to have done little to improve the situation. The biggest challenge for the short-term industry is to find new markets, particularly for SRIC if it is to halt its loss of market share. For the new entrants, a further challenge is to sustain the growth that they have achieved.

More details and data on the above trends are contained in Appendix 5.

*Small informal sector.* As indicated in Section 4.1.1, informal insurance provision consists largely of community-level risk pooling in the form of burial societies or *masingcwabisane*, but these are not widespread. Most credit institutions and large funeral parlours obtain underwriting from a licensed insurer, acting either as agent or broker, and there is limited indication of informal insurance in these spheres. Other instances of informal provision include:

- There are a few instances of in-house risk retention by SACCO funeral funds. Under the proposed Microinsurance Regulations, FSRA through the Registrar of Insurance and Retirement Funds (RIRF) will seek to address this by creating a microinsurance license that will be accessible to mutual organisations.
- There is still some indication of insurance being underwritten cross-border in contravention of the Insurance Act, notably the credit life and funeral or other add-ons provided via furniture and clothing retailers. RIRF is aware of this phenomenon and is taking steps to curb it.

*Unregulated medical scheme sector*. Lastly, medical insurance is provided outside of the current regulatory framework by medical aid and managed care funds. There is one medical aid fund, Swaziland Medical Aid Scheme (Swazimed), administered by Medscheme medical administrators. At the end of 2012, it had approximately 14,000 members, covering a total of 45,000 lives. There are also two managed care funds, the largest of which is Swazi Care (which had just more than 2,000 members at the end of 2013) and Family Health. Under the FSRA Act, medical schemes have for the first time found a regulatory home, but no regulatory framework has been developed yet. FSRA is currently investigating the options for regulating medical schemes.

*Limited current role for state as provider, but social insurance plans*. The insurance landscape is characterised by commercial provision and there are no examples of state-subsidised insurance in Swaziland[121]. The state's involvement is currently limited to the Public Service Pension Fund (PSPF) and the Swaziland National Provident Fund (SNPF), which are compulsory for public and private (formally employed) employees, respectively. They are self-administered pension and provident funds that also provide some death and disability benefits. Both funds reside under the Ministry of Labour and Social Security and are not regulated by FSRA[122]. Provision of workmen's compensation insurance, which is compulsory for all employers, is outsourced to SRIC. The rates vary by industry[123].

Government has plans to develop a fully-fledged national social security fund (NSSF) that would incorporate even temporary workers and domestic workers. The plan is for the NSSF to comprise a national social pension fund, national health insurance, and workmen's compensation fund. Though a task team has been set up to for the formation of the NSSF, no framework documents had been developed at the time of writing and no timeline set.

**Product landscape**

*Long-term vs. short-term share indicative of relatively developed market*. In underdeveloped insurance markets, the contribution of long-term insurance to total insurance market premiums is often much lower than that of general or asset insurance. For example, in Tanzania, life premiums account for only 11% of total premiums (Hougaard at al., 2012). This is indicative of an underdeveloped retail life insurance market, with the largest proportion of insurance premiums accounted for by asset insurance targeted at the corporate sector. In Swaziland, however, long-term insurance has steadily gained ground vis-à-vis short-term insurance and shares in total premiums are now virtually equal at 49% long-term and 51% short-term (see Figure 81). This suggests a relatively well developed retail life insurance market.

[121] In other parts of the world, for example China, India, Thailand or Peru, the state plays a large role in the provision of insurance. For an overview of regulatory approaches, globally, see Bester et al, forthcoming. *Access to Insurance Initiative Cross-country Synthesis Document 2: Regulatory approaches for Inclusive Insurance Markets*. Will be available at www.access-to-insurance.org.
[122] Source: PSPF and SNPF websites.
[123] http://www.doingbusiness.org/data/exploreeconomies/swaziland/starting-a-business

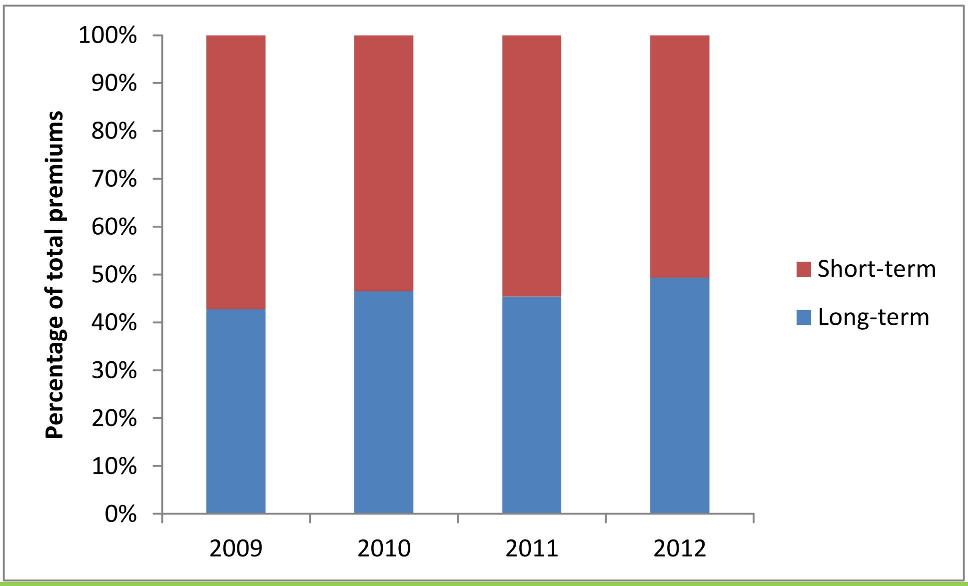


**Figure 81: Relative size of long-term vs. short-term insurance industries**

*Source: RIRF (2013)*

*Bulk of premiums generated in upper end of the market*. The analysis in Section 6.4.1 showed that funeral insurance dwarfs other types of insurance products in terms of uptake. However, it accounts for only a small proportion of overall long-term premiums, with the bulk of premiums in Swaziland comprised of whole life and group life business, followed by term assurance. The very small contribution of health insurance as shown in Table 26 below does not reflect the premiums in the unregulated medical scheme market:

| Long-term product lines | 2009/2010 premiums (E 000')[124] | % of total |
|---|---|---|
| Whole life | 107 547 | 45% |
| Group life | 64 818 | 27% |
| Term assurance | 39 519 | 16% |
| Pension and annuity schemes | 19 761 | 8% |
| Group funeral | 8 928 | 4% |
| Health insurance | 88 | 1% |
| Capital disability | - | 0% |
| Income disability | - | 0% |
| **Total** | 240 661 | 100% |

**Table 26: Formal Long-term insurance product universe**

*Source: Company product brochures and RIRF Annual Report,2010*[125]

*Broad suite of entry-level market products.* Overall premium trends do not give an indication of the extent and features of products on the market that are relevant from a financial inclusion point of view. Our research indicates a fairly broad range of products relevant to the entry-level market.

[124] Note that this is the latest date for which premium breakdown by business lines is available. We could not carry out the same detailed analysis of the premiums per product line on the short-term side as this information is not reported in the registrar's annual report.
[125] Note that this is the latest data for which a breakdown by product line is available.

Though a number of products are available that provide life, disability or short-term cover, the majority of available products identified are funeral insurance products.

Table 27 gives an overview of the categories of entry level products available in the market. A more comprehensive overview of the features of different available products is contained in Appendix 3 [126].

| Category of products | Number of providers | Benefit and premium ranges/description | Distribution channel |
|---|---|---|---|
| **Funeral** | All long-term, plus one short-term insurer | • Benefits typically start at E5,000, lowest E3,000.<br>• Premiums vary widely: start from below E20 (E7 lowest) individual only & around E25 for family. Ranges up to E150 and beyond depending on cover level and number of people covered. | Mostly brokers, some agent and branch walk-ins. Often distributed to groups. |
| **Credit life** | Most long-term, one short-term insurer | • Benefits depend on loan amounts.<br>• Wide variation in premiums, from E1.54/E1000 outstanding to E6.17/E1000, with the same plan ranging up to E24.66/E1000 depending on age. | Credit providers. |
| **Short-term**:<br>Household, cell phone, agricultural, vehicle | 2 short-term insurers | • Benefits and premiums depend on value of assets and perils covered.<br>• Entry-level relevant products include household insurance starting from E40,000 and first loss cover for "grey" second hand car imports of as low as E15,000 or E20,000, plus third party liability. | Mainly brokers, some agents and branch walk-ins. |
| **Death & disability**: Group life, disability & income replacement; individual life, personal accident | At least 2 insurers sampled as providing entry-level relevant products | • Benefits: up to 15 times annual salary for employees, wide ranges for individual cover.<br>• Premiums: range in line with cover, but some policies min E100 premium life, E350 pa for personal accident (E29 monthly equivalent). | Mostly through groups, some individual through brokers, agents and walk-ins. |
| **Other**:<br>Health (managed care, gap cover); investment or education endowment with risk element | Medical-related: 1 long-term, 3 short-term insurers<br>[did not analyse unregulated medical schemes]<br>Endowment: 3 long-term | • Benefits for medical products reviewed include E200,000 - E600,000 inpatient; great variation in out-of-hospital and other benefits .<br>• Among sampled medical products, premiums range as follows: Main member: E270-E730, spouse: + E205-E550, child: + E80-E310 monthly.<br>• Premiums start from E100/month for education endowment. | Brokers, agents, walk-ins<br>Schools for one of the education endowments. Groups for some of the medical cover. |

**Table 27: Summary of typical categories of microinsurance-relevant or entry level products**

*Source: Supply side consultations, 2013*

[126] Note that it was not possible to document all products on the market. For the purpose of the analysis, we therefore considered those entry-level products that we could identify while in-country. The list of products in the appendix is thus not exhaustive.

*No embedded cover outside of credit life insurance*. Currently, no insurance offering in Swaziland offers free cover to clients of banks or the mobile network operator as a type of loyalty reward. It is a rising phenomenon internationally for such cover (often entailing personal accident or funeral cover) to be embedded in an underlying service, be it a deposit account at a bank or a mobile network subscription This is done at limited or no charge to the customer, with the bank or mobile network operator paying the premium on behalf of customers.

## 6.4.4. Barriers

The availability of a suite of insurance products in itself does not guarantee that people will buy insurance. This section considers the various usage and access barriers that lead to relatively low uptake outside of the civil servant and company employee target markets in Swaziland.

### 6.4.4.1. Usage barriers

*Lack of familiarity*. When asked why they do not have insurance, one of the three most often-quoted reasons among FinScope respondents was that they have never thought about it. Other reasons include "don't know enough about it", "never heard about it" and "don't believe in insurance". These answers are relatively consistent across the various segments, including the formally employed. It would therefore seem that the most significant usage barrier is a lack of familiarity with insurance.

*Negative perceptions*. The qualitative demand-side research confirms that negative perceptions can add to lack of knowledge to discourage insurance usage. One respondent remarked that "they rip people off", while another emphasised "I just don't trust the insurance business". Others do not believe in insurance or perceive insurance premiums to be "money down the drain" if they do not claim soon. The following quote illustrates:

*"Take me for example; the idea of taking a funeral cover repels me because it suggests the imminence of death (Laughter). Another reason is say the money you have contributed over the years by now amounts to R15 000 that will not change the fact that the agreement was that they'd pay out a sum of R5 000 in case of death."*

*(Manzini, Male, Aged 25 – 40 years (KLA, 2014b))*

*Not on the radar screen*. Apart from funeral insurance, respondents in the qualitative research simply did not consider the concept of insurance. It has never occurred to them as a product that would be within their reach or that is applicable to them.

### 6.4.4.2. Access barriers

**Affordability**

*Affordability ranks high in people's minds*. The first and most prominent access barrier for insurance is affordability. "Do not have a job" or "do not have a regular income" are two of the three most often quoted reasons for not having insurance in the FinScope results. This is confirmed by the qualitative findings, as illustrated by the following quotes:

*"Actually I don't think there is anyone alive who doesn't want a decent funeral but not all of us can afford to pay for a funeral cover, period!"*

*(Manzini, Male, Aged 25 – 40 years (KLA, 2014b))*

*"Insurance, where would we get the money to pay for it?...Our businesses are too small for us toafford insurance, it's people with big business who have insurance products"*
*(Manzini, Females, Aged 41 – 55 years (KLA, 2014b))*

*Low incomes rather than high premiums drive affordability*. There are a few options for funeral cover, the most prominent insurance use case, starting from E25 per month or even below. Nevertheless, a significant proportion of even those with a regular income (15.6% of civil servants, 9.2% of company employees and 13.2% of the informally employed segments) indicated that high charges or fees are the reason why they do not have funeral cover. It is likely that the lack of perceived affordability of long-term insurance products is driven by generally low incomes or misinformed perceptions, rather than by excessive pricing.

**Box 20. How real is the affordability barrier?**

A simple exercise can help to unpack the nature of the affordability barrier in Swaziland. If we assume a family cover funeral insurance product at a premium of E50 per month, what proportion of their monthly budget would a typical Swazi adult need to pay towards such insurance?

The income analysis in Section 4 suggests that almost 60% of Swazi adults either earn below E500 a month or do not earn a monthly income. An E50 premium represents 10% of income for a person earning E500 a month. If we assume that those without a monthly income also earn an equivalent of up to E500 a month it means that, for 60% of all Swazi adults, the insurance premium would be 10% or substantially more of their monthly income (most in the up to E500 bracket are likely to earn well below this amount). Thus, though products with relatively low premiums are available, the low incomes prevalent in Swaziland mean that a large chunk of the population is likely to face a significant affordability barrier.

**Proximity**

The industry consultations confirmed that distribution and premium collection are the single biggest supply-side challenges in the market.

*Almost half of adults outside easy reach*. Insurance distribution in Swaziland is largely through brokers, defined groups and agents, with the use of own agents as a rising trend since the 2011 diagnostic. Most distribution activity is based in Manzini and Mbabane, with distribution beyond these urban centres largely limited to group-based insurance (for example through SACCOs, funeral parlours or employee groups). 55.3% of Swazi adults live in the Hhohho and Manzini regions. For the remaining 45%, proximity is likely to be a significant challenge.

*Aggregator potential*. The 2011 Microinsurance Diagnostic (Hougaard *et al.*) indicated a substantial aggregator[127] landscape that could be considered for insurance distribution purposes. These include

[127] Client aggregators are entities, that bring together people for non-insurance purposes and that are then utilized by insurers, with or without the intervention of agents or brokers, to distribute insurance. For example, entities such as: retailers, service providers,

clothing retailers and supermarket chains, as well as a number of furniture stores, Swazi Post agencies and numerous petrol stations. Much of the retailer infrastructure is still in urban centres, but Swazi Post has a broader distribution network. Furthermore, the approximately 1,100 MTN airtime vendors and 122 active Mobile Money agents represent a potential network for insurance sales and premium collection. Other potential aggregators include churches (for funeral cover), sugar millers, SWADE or other agricultural value chain entities, or market associations (see Section 5.2.2.2). However, it is challenging to identify partners with the requisite reach, systems, interest and capacity, as well as to design and implement partnerships that work for both parties[128].

*Premium collection a challenge for most*. Those insurers that are able to leverage cash premium payments through their branches or through groups consider this essential to success. Yet collecting premiums in cash is, by and large, challenging. The preferred means of premium collection, traditionally, is by debit order or through payroll deduction. However, 56% of Swazi adults do not have a bank account and close to 80% are not formally employed. Even where potential clients have a bank account, debit order collection is problematic: supply-side consultations suggest that debit order fees of around E9 can be almost as much as the premium itself (with some premiums as low as E15). Furthermore, high debit order bounce fees (refer to Section 6.2) mean that many clients lose trust in insurance if a bounce fee is incurred due to a premium deduction. Furthermore, insurance premiums compete with credit for the 33% limit on payroll deductions for civil servants.

*Mobile money has challenges to resolve before adoption by insurers*. Mobile money would seem an obvious solution in that it provides a lower-cost and more accessible payment mechanism than debit orders. However, the experience of at least one insurer has shown that the market may be slow to adopt mobile money as the “face of insurance”. They must first be directly convinced of the value of insurance – either individually or via a group. Another challenge is that the mobile money channel requires clients to push payment of premiums, rather than the insurer being able to actively pull the payment (as would the case with a debit order or payroll deduction).

**Eligibility**

*KYC not yet a barrier*. In general, insurance does not pose significant eligibility barriers, such as the submission of a payslip, to prospective customers. The Anti-Money Laundering Guideline for Insurers (2010) does require potentially onerous customer identification which could exclude a large number of prospective clients (RIRF, 2011; Hougaard, et al., 2011). However, indications are that KYC requirements are not yet enforced in the insurance industry.

**Appropriateness of product features**

*Funeral products appropriate to extended families*. The demand-side research suggests that funeral insurance is the most relevant product for the largest part of the target market and that flexible cover is needed that also extends to extended family members. An analysis of the available product suite suggests that many products already allow for additional spouses, several children and even parents to be added to a funeral policy.

*Low-income appropriate health cover*. Low income profiles imply a need for “bite-sized” insurance that provides benefit cover towards medical or ancillary expenses triggered by a health event.

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membership based organizations or civil society organizations. In many instances, this is considered the most cost-effective way to service and reach large numbers of low-income clients.

[128] For a discussion on alternative distribution partnerships, see: (Smit & Chamberlain, 2011)

Currently, most health insurance options on the market are still comprehensive products targeted at the formally employed.

*Regularity of premiums*. The regularity of premium payments often does not coincide with the income profile of those with irregular income flows. The target market features suggest that insurance premiums designed to coincide with for example seasonal agricultural income or a savings society's pay-out cycle may gain traction.

*Waiting periods problematic for some*. The standard practice of imposing a waiting period to control for anti-selection of clients[129] was picked up as a problematic feature in the market research. The following quote illustrates:

*"I was paying for burial insurance, R72 per month, they were supposed to recognize me after 12 months and I lost my job on the 11th month, it means I lost all the money I have been paying."*

*(Mhlume, Males, Aged 41 – 55 years (KLA, 2014b))*

Though it will not be possible to do away with waiting periods, the quote suggests the need for clearer communication in this regard upfront to manage customer expectations.

### 6.4.5. Regulatory issues to consider

*Few apparent regulatory concerns*. The 2011 Swaziland Microinsurance Diagnostic (Hougaard *et al.*) concluded that the insurance regulatory framework is well crafted despite a few areas of uncertainty, mostly around definitions. Prudential requirements were found not to be a barrier to entry and the existence of an already defined assistance business space was found to provide a "hook" for broader incorporation of microinsurance. The main gaps identified were that intermediation requirements do not yet accommodate the scope for alternative distribution that is often needed for microinsurance and the fact that no clear framework exists for health insurance. Furthermore, as discussed above, the AML/CFT guidelines for insurers (if properly enforced) was flagged as a potential access barrier.

The main regulatory challenge emphasised in industry consultations at the time was the 30% local investment requirement. The consultations for the current study only raised one further concern, namely the stricter stance taken on the need for an "as and when" commission structure. Under RDI 11 of the 2008 Insurance Directives commission shall only be payable upon receipt of premium by the insurer. In September 2012, RIRF issued a circular to declare that upfront payment of commission is undesirable. This was in response to abuses by intermediaries that charge consumers a different premium than what is paid over to the insurer. However, industry argues that not being able to pay a policy initiation fee disincentivises sales in a low-premium environment.

*Most issues to be addressed*. Many of the issues identified are now being addressed by FSRA through the development of microinsurance regulations. The proposed microinsurance regulatory framework will broaden the space for intermediation and pave the way for the creation of a

[129] "Anti-selection" or "adverse selection" refers to the phenomenon where: "people who know they have a higher risk of claiming than the average of the group will buy the insurance, whereas those who have a below-average risk may decide it is too expensive to be worth buying. In this case, premiums set according to the average risk will not be sufficient to cover the claims that eventually arise, because among the people who have bought the policy more will have above-average risk than below-average risk" (Economist, 2014).. Insurers allow for the risk that anti-selection will undermine their pricing by imposing a waiting period, namely a standard period during which premiums are paid but no cover is payable yet.

dedicated microinsurance licence that will also be available to member-based organisations. Furthermore, it is on the agenda to develop a regulatory framework for medical schemes.

*Commission regulation, AML/CFT as main outstanding issues*. The main regulatory issues not yet being addressed are the regulation of commission structures and whether a risk-based AML/CFT threshold could be considered for microinsurance (and indeed for most insurance more broadly, as arguably posing low money laundering and terror financing risk). With regard to a KYC exemption threshold, Central Bank Circular 1-2013, whereby a threshold exemption is introduced in the banking sphere, sets a notable precedent. The final issue, namely that of local investment requirements, would not seem open for debate.

### 6.4.6. Gaps & opportunities

This sub-section concludes the insurance market analysis by summarising the main gaps and opportunities with regard to insurance inclusion emerging from the rest of the analysis.

*Substantial untapped market*. The economic and social vulnerability highlighted in Sections 2 and 4, coupled with the risk experience of the population as captured in FinScope suggest an in-principle need for insurance in Swaziland. This is confirmed by the fact that many people use credit or savings as a risk coping mechanism. The analysis has shown that there is already quite a broad suite of relevant products on the market and an increasingly competitive provider landscape, which should bode well for expansion of the client base down the income spectrum.

We summarise the main insurance opportunities and the likely welfare impact thereof across the use cases identified in Section 6.4.2 at the hand of the following table:

| Use cases | Relevant target markets | Potential impact and opportunity |
|---|---|---|
| To provide for funeral expenses | All | Direct: reduced need to draw down savings or incur informal debt at high interest<br>***Opportunity across the board, but beyond formally employed requires innovative distribution and payment flexibility*** |
| To cover costs incurred when ill | All | Indirect: can improve productivity<br>Direct: prevents income loss and enables consumption smoothing<br>***Affordability constraints likely to limit opportunity to wealthier groups*** |
| To provide for children's education | All | Indirect: can enhance access to education, which impacts on productivity, and serves as intergenerational transfer<br>***Beyond wealthier groups would require very low-cost products, with flexible payment options*** |
| To protect against loss of income due to retrenchment, critical illness/dread disease, accident or disability | Formally and informally employed<br>Aspirational self-employed, irregular earners (for all but retrenchment cover) | Direct: through consumption smoothing effect in the event of retrenchment or another trigger that undermines income generation<br>***Opportunity for very low cost policies across the board, but challenged by consumer awareness*** |
| To protect against asset loss or business damage | Formally employed<br>Aspirational self-employed | Direct: by preventing business losses or removing the need for households to draw on savings or resort to credit in the event of asset loss<br>***Opportunity limited to wealthier segments*** |

**Table 28: Market for insurance: opportunities summary across use cases**

*Source: Authors' own*

*Many gaps remaining.* It is clear from the usage analysis in Section 6.4.1 that most of these opportunities are not yet realised. The majority of Swazi adults remain without any insurance cover. Only civil servants and to a lesser extent company employees are substantially served by insurance. The self-employed and private dependents also have moderate take-up, but for the rest penetration is very low. Informal cover is present but low across the board. Furthermore, most of the approximately 90,000 Swazi adults who currently have insurance cover only have a funeral insurance policy, implying that most use cases remain unfulfilled.

*Significant challenges to large-scale uptake.* Beyond those with a regular income (civil servants, company employees and informal employees), the payment of a regular premium becomes challenging. Community-level risk pooling is also not a solution for most, as burial society penetration is low across segments (see Section 6.3). Furthermore, the small formally employed base and the fact that more than half of adults are still without a bank account pose a challenge to distribution and premium collection.

*Most obvious opportunity among best-served segments.* The upshot is that the most immediate opportunities for further growth in the insurance client base are in the more affluent target market segments. The target market opportunities can be classified into three categories:

- *Reach deeper.* Among the formally employed (civil servants and company employees) there is still room to reach deeper and to cross-sell, especially to company employees, of whom only 35% currently have insurance.
- *Innovate for some reach.* In the middle are those without formal employment, but still with some economic means (the self-employed) or regular incomes (informal employees). They may be a viable target market, but it would require innovation in terms of product and distribution to reach them.
- *Very difficult to reach.* Those without a regular or significant main income source (the irregular earners, private dependents and state dependents) are unlikely to be a viable target market for insurance unless they are reached via another entity already reaching into this part of the target market, for example: an agro-dealer or processor for farmers or the state grant payment system for state dependents. They could also be reached via another, more affluent individual, for example employed or expat family members that pay premiums on behalf of private dependents.

*Priority on life and health products.* Table 28 suggests that the most immediate product needs in the middle to upper end of the market would be for life cover, especially if designed or marketed to pay out towards education expenses for dependents upon the death of the policy holder. There is also scope for appropriately designed, affordable vehicle and asset cover to be cross-sold in the upper end of the market. Another major unserved need is for health insurance, which currently reaches less than 4% of adults. Beyond comprehensive medical cover, which is only likely to be affordable to the top end of the formally employed market, there is also likely to be significant scope for affordable insurance not directly related to the cost of care, but rather providing a cash pay-out towards expenses upon a health trigger.

In the lower end of the market the primary opportunity is likely to remain funeral cover, with potential scope for very low cost, special-purpose life insurance products. For example, life cover towards education expenses or with a health-related trigger. Low-value sum assured policies for personal accident, disability or dread disease cover may also be viable, but is challenged by a lack of consumer awareness and buy-in to the value proposition.

# 7. Towards a financial inclusion roadmap in Swaziland

The Financial Inclusion Task Team, comprising the Micro-Finance Unit, FSRA and the Central Bank, is tasked to develop a financial inclusion strategy for Swaziland. The MAP analysis will be used to develop a roadmap for financial inclusion in Swaziland that will serve as an input to the strategy. The roadmap is a document that sets out practical actions or levers towards overcoming the core barriers and unlocking the key opportunities identified through the MAP analysis set out in this document.

As basis for the roadmap, this section concludes on the main financial inclusion opportunities stemming from the analysis and recommends actions to covert the opportunities into reality. It starts by summarising the key factors that will determine the scope for financial inclusion. Then it considers a framework for narrowing down the range of financial inclusion opportunities into a set of five core priorities – each of which is unpacked in turn. Finally, it formulates a number of strategic imperatives for financial institutions and regulators, respectively, which cut across the five financial inclusion priorities.

## 7.1. Drivers of financial inclusion

The roadmap should take cognisance of the factors that determine the current state of financial inclusion as well as the potential for enhanced inclusion. The following key drivers emerge across the various elements of the analysis:

***1.*** **Context constrains scale, but creates imperative for financial inclusion**

The analysis has shown that the small size of the Swaziland market, coupled with the historic fiscal dependence on an outside revenue source (in the form of SACU receipts) and a very small private sector economic base, leads to external vulnerability and a top-of-mind policy imperative for economic diversification together with the creation of domestic investment opportunities. Regional integration and the small size of the Swaziland market also means that most financial institutions are driven by head office policy and the need for efficiency gains in the absence of economies of scale, rather than domestic priorities, in setting their strategy.

Furthermore, the largely poor and rural population poses a challenge for distribution and suggests that current eligibility requirements and fee structures may be inappropriate for large-scale growth in the client base. The situation is compounded by poor health among a significant part of the population, which constrains productivity, increases dependence, and generally puts households under financial strain.

Nevertheless, the fact that many people do save at home, use informal remittance channels and are only able to borrow at very high interest rates from informal money lenders – coupled with the limited reach of collective financial services through cooperatives and societies beyond those with a formal or regular income – mean that there is a real need for greater formal financial inclusion. Improved access offers the opportunity to directly improve individual welfare: by reducing transaction costs, enhancing income smoothing and asset building, as well as by reducing the financial impact of risk events.

At the macro level, financial inclusion will not be the key to economic diversification. Neither will greater access to finance be the primary driver of SMME growth at scale if not accompanied by a range of measures to get the fundamentals for SMME development right. However, financial inclusion, particularly through accessible, low-cost savings and payments solutions, can "oil the wheels" of economic development and create efficiency gains.

### *2.* Regulation facilitates innovation, but enabling environment not yet optimal

The definition of banking business and the existing KYC exemption thresholds for bank accounts and mobile money facilitate financial inclusion-friendly innovation in Swaziland. At the same time, uncertainties relating to the transition of financial institutions to FSRA, insufficient consequential amendments and gaps in the regulatory framework with regard to credit providers, SACCOs and medical schemes may have hampered financial inclusion. Furthermore, limited provision is made for market conduct regulation in financial services and there is scope for further facilitation of the role of Mobile Money. Lastly, the level of the current interest rate cap, as well as uncertainties regarding which institutions it applies to, constrain the scope for the formal sector to reach into that part of the credit market currently served only by informal moneylenders.

The legislative process is underway to fill the gaps with regard to credit, SACCO and medical scheme regulation. Regulations to be developed under the new credit regulatory framework will revisit the current interest rate caps.

### *3.* Distinct target market features drive need for financial services

Section 4 highlighted the key target market needs for financial services. These needs form the point of departure for the conclusions and recommendations on financial inclusion priorities in the rest of this section. The Swazi adult population is not a homogenous market. Needs and circumstances differ across the seven segments identified, based on their income realities and demographic profile. The main needs across target markets are the ability to send and receive money at low cost, store value securely and cheaply, manage the impact of risks, as well as to access short-term loans in a flexible way. Figure 82 below recaps the main needs per target market segment:

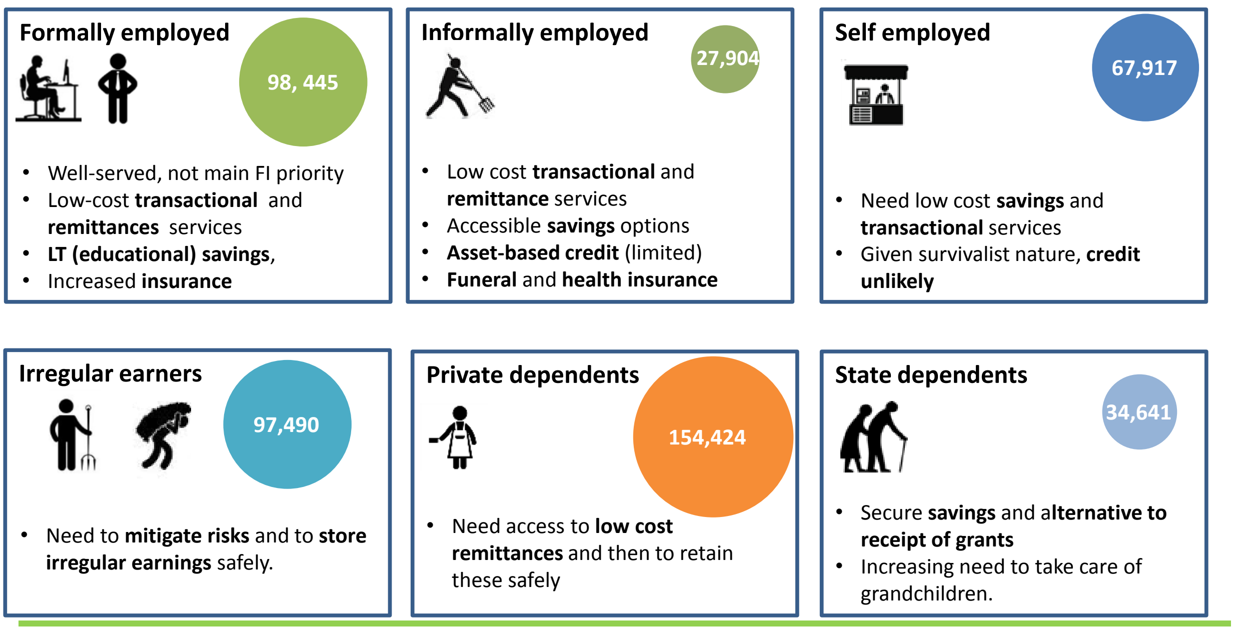


**Figure 82: Main needs per target market**

*Source: FinScope, 2011; (KLA, 2014a)*

### 4. Usage and access barriers limit uptake

It is apparent from the analysis that needs do not necessarily translate into uptake – a number of usage and access barriers constrain demand. The main barriers across the four product markets are:

| | |
|---|---|
| **Usage barriers** | *Perceptions*: The target market expresses a reluctance to deal with formal financial institutions due to the perception that formal financial institutions are not targeted at the low-income market and impose high fees to profit at the expense of consumers.<br><br>*Preference*: There is a preference for informal financial services (especially credit) due to the lack of flexibility, need for paperwork and slower turnaround time that people associate with the formal sector vis-à-vis informal alternatives.<br><br>*Ability*: Limited financial capability also constrains usage. This is for example seen in people who register for but do not know how to use Mobile Money and people who, instead of savings accounts, open more expensive transaction accounts to store value. |
| **Access barriers** | *Affordability*: The costs associated with formal remittances, transaction and savings accounts, as well as the affordability constraint implied by the need for regular insurance premiums, limit access for those with low and irregular incomes<br><br>*Eligibility*: The need to prove income in order to access credit and some transaction and savings accounts limits access. In theory, the need to verify identity when buying an insurance policy also limits access, though KYC requirements are not currently enforced in the insurance sector.<br><br>*Proximity*: Lastly, the need to incur transport costs to reach formal financial outlets is an access barrier for those in rural areas. This barrier holds especially for products requiring regular transactions. |

**Table 29: Summary of cross-cutting usage and access barriers**

*Source: Authors' own*

### 5. Providers prioritise the top end of the market

The landscape of provision outlined in this document shows that most formal sector providers are currently targeted at the formally employed segments. Savings and transaction accounts are the only formal financial products to significantly reach into the remaining target markets. Group-based structures such as SACCOs and savings groups also reach mostly those with a regular and relatively higher income, although savings groups do have some rural reach. While burial societies reach across all target market segments, penetration is low. Thus it is a matter of "all providers fishing in the same pond" for the upper end of the market, with very few options present for those segments outside of the formally employed market. Often, saving at home, borrowing from an informal moneylender, sending money via another person and turning to family and friends for loans or contributions for emergency or lumpy expenses, are the only options for most segments.

## 7.2. Financial inclusion priorities

*Identifying priorities*. Section 5 identified a number of gaps and opportunities to extend financial inclusion in each of the four product markets. A financial inclusion roadmap will not be able to bridge every gap and realise every opportunity. In light of the analysis and given the various drivers of financial inclusion outlined above: what are the priorities for extending financial inclusion in Swaziland?

As basis for the roadmap, this section concludes on the key financial inclusion priorities and provides strategic recommendations for unlocking each priority.

*Priorities should support welfare policy objective.* As discussed in Section 1.1, financial inclusion can improve welfare 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.

*Priorities identified based on needs and potential reach*. The key financial inclusion priorities are identified at the hand of Table 30. It shows the potential for deeper reach of different financial services in each of the various target market segments (grey shading, with darkest shading indicating largest potential), as well as the number of people and average income of each segment. To the right it indicates the estimated potential clients that could be impacted for each financial service type and the welfare impact that could be had from that service based on the various impact transmission channels introduced in Section 1.1. On this basis, the likely impact is ranked as high (green shading), medium-level (yellow) or low (red)[130].

[130] The number of people impacted was estimated by looking at the number of unserved or underserved in each target market that could benefit from improved access based on FinScope (2011) uptake figures. For credit consumer protection, everyone who takes up credit or wants to take up credit could potentially benefit from improved protection, but only a proportion of those are likely to suffer abuse. A rate of 50% was assumed for the purpose of this matrix.

% of adults

Highest Need → Lowest Need

| Products | | Formally employed | Informally employed | Self-employed | Irregular earners | Private dependents | State dependents | Expats | Est potential clients ('000) | Impact: High / Medium / Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 |

**Table 30: Priorities matrix**

*Source: Authors' own, FinScope 2011*

Table 30 shows that the most significant impact for financial inclusion is possible where the focus is placed on enabling formal **remittances** (domestic and cross border), low cost **savings** and **transaction** products, as well as greater risk mitigation through funeral or life **insurance**. Though further extension of **credit** *per se* is not ranked as a potentially high-impact opportunity in terms of the number of people it can viably reach, there is nevertheless a need to improve consumer protection for credit across the board.

*Five key priorities.* Based on the needs of the various target markets, as well as the nature and challenges to provision evidenced through the analysis, we identify five priority strategies to capitalise on these opportunities:

1. Expand the scope for the use of Mobile Money to transact and save
2. Facilitate products and channels to support dependents
3. Deepen bank reach
4. Ensure accessible options to manage the impact of risks
5. Improve the working of the credit market

These are not the only opportunities for enhanced financial inclusion. For example: goal-oriented products such as savings sub-wallets for specific goals to encourage saving can also be implemented by SACCOs and the Building Society and the role and capacity of accumulating or rotating savings groups in providing a community-level savings and credit option can be enhanced. However, these five strategies are likely to have the most far-reaching impact on financial inclusion, given the nature of the target markets.

Below we unpack each of these five strategies in more detail, considering the nature of the opportunity, the main challenges to be overcome and potential actions to realise the opportunity.

**Box 21. Where does consumer empowerment and financial education fit in?**

Consumer financial education and empowerment aims to promote awareness and understanding of financial services, as well as to improve the ability of consumers to effectively use financial services. The need for financial education to overcome usage barriers is a common refrain in financial inclusion strategies world-wide, but the impact thereof in practice is not always clear. A whole literature has developed on methods for and impact assessment of financial education[131].

Financial education could go hand in hand with each of the five financial inclusion priorities discussed in the rest of this section. The key consumer empowerment and financial education need that emerged from the diagnostic centred around a lack of sufficient information to make appropriate decisions when opening an account or when transacting.

As is clear from the target market analysis in Section 4, financial behaviour is impacted not only by objective factors, but also by perceptions and trust. To be effective, consumer education should therefore overcome negative perceptions and engender trust in financial institutions. Financial education strategies, activities and channels have to align with what is relevant and applicable to the local context, based on the particular target market needs, socio-economic context and provider landscape. When deciding on which activities to incorporate in the roadmap and in what way, it is important to take into account the various dimensions according to which financial education can be classified[132]:

*Content*. Consumer education can either be product-specific (including on the features of products across product markets and how to use various channels) or generic, relating to financial concepts, budgeting, consumer rights and responsibilities. Part of the task for the roadmap process is to determine what combination of generic or product-specific education will be most appropriate for each financial inclusion priority. The diagnostic suggests that product specific information and education is a key need to be addressed in the roadmap.

*Sequencing*. Another important consideration is when in the roadmap process financial education is best placed. Should financial education precede the supply-side response, or follow once relevant product and distribution options are in place to which the financial education can relate?

*Audience*. Financial education can be targeted at various audiences, for example: children, the youth, employees at the workplace, those active in a specific economic sector such as farming, or members of a specific community, to mention just a few. The target audience can also be set by income level or socio-economic class. The audience can furthermore either be potential clients (in order to introduce them to the products) or existing customers (to enable them to effectively use the financial products that they have and

[131] See, for example. Gale & Levine (2010): http://www.brookings.edu/~/media/research/files/papers/2010/10/financial%20literacy%20gale%20levine/10_financial_literacy_gale_levine.pdf, or the literature review on the effect of financial education by Martin (2007): http://finalist-project.eu/Portals/0/A%20Literature%20Review%20on%20the%20Effectiveness%20of%20Financial%20Education.pdf
[132] The contents of this box draw directly on (Access to Insurance Initiative (a2ii), 2013)

become ambassadors for financial services in their community). Relevant initiatives with regard to existing consumers can include coordinated efforts to set up a call centre for consumer queries or joint efforts across industry to standardise/simplify terminology used in documentation.

*Channels*: Consumer education methods or channels can include mass media such as radio, classroom-style workshops, sitcoms, posters and other print material or street theatre. The target audience determines what the most appropriate method(s) are and a combination of various channels may be called for.

### 7.2.1. E-money to transact and save

*Opportunity snapshot.* Table 31 summarises the Mobile Money opportunity in Swaziland as discussed in the rest of this sub-section:

| | |
|---|---|
| **Welfare impact** | Direct – through cheap and flexible transaction and savings products<br>Indirect – cheaper transaction costs can assist SMME growth and facilitate access to services such as insurance that require regular payments |
| **Size of opportunity** | ~350,000 adults for transactions and savings[133] |
| **Benefits of mobile money** | • Affordable<br>• Greater potential for rural reach than banking sector<br>• Limited eligibility constraints<br>• More secure than cash |
| **Main challenges** | • Illiquidity of agents<br>• Unfamiliarity of consumers and limited trust in technology<br>• E4,000 account cap<br>• Inconsistency of access |
| **Potential actions to realise opportunity** | • Support environment for MTN to invest in mobile money<br>• Enable an ecosystem of goods and services that can be purchased with mobile money<br>• Explore potential for distribution of grants via mobile money<br>• Various actions to solve main challenges |

**Table 31: Mobile Money opportunity summary**

*Source: Authors' own*

*Need for low cost, flexible transaction and savings products.* Sections 6.2 and 6.3 identified affordable and efficient transaction and savings products as key needs across target markets. Given the low income of the majority of the Swazi population, most transactions are relatively low value but frequent. Most Swazis also receive income in irregular amounts which requires a facility to safely store value between receipts. SMMEs are particularly dependent on efficient low-cost transaction and saving mechanisms as they need to regularly pay suppliers, receive payments from customers

[133] Estimate is based on the total number of adults currently saving through any mechanism – formal, informal or at home according to FinScope (2011) - and hence could benefit from using Mobile Money as a transaction and savings tool.

and store value from bulky receipts. This creates an imperative for an affordable and accessible transaction platform that also allows store of value.

*'Traditional' providers struggle to offer appropriate products for low-income Swazis.* The traditional providers of transaction and savings services in Swaziland, namely banks, the Swazi Building Society (SBS) and SACCOs, struggle to offer products suitable to meet this particular demand. Key barriers include:

- *Lack of affordability.* Section 6.2 highlighted the affordability barrier posed by bank charges in Swaziland. Transaction bank accounts not suited to frequent low-value transactions as the bank charges on transactions are usually a fixed monetary value (as opposed to a percentage of the transaction value) and apply to each transaction made. Similarly, the costs of savings accounts are often high with some products charging a monthly service fee and a deposit fee on any savings deposited with the bank.

- *Proof of income.* Entry level transaction and savings products offered by the banks are only available to customers that earn less than a specified monthly income level. This requires prospective customers to prove their income, which will be an onerous requirement for anyone not formally employed. Thus, ironically, the method of ensuring targeting for entry-level products exclude many of those targeted.

- *Minimum balance.* Savings accounts with SBS have a minimum balance requirement. Similarly, most SACCOs require joining fees and monthly contributions. The minimum balance or joining fee requirement may be a substantial barrier to many Swazis who want to engage in low-level savings. Similarly the required monthly contributions to SACCOs could be barrier to those target market segments not formally employed and therefore not receiving a regular income.

- *Doorstep barrier.* Banks and other formal institutions are frequently viewed as inaccessible and 'not for us' amongst low income populations across developing countries. This impression was reiterated during qualitative demand-side research conducted in Swaziland.

- *Restricted entry.* SACCO membership is usually restricted to specific employee groups or based on a common bond. SACCOs are therefore not accessible to most Swazis.

- *Travel costs.* Figure 30 in Section 5.2.2 illustrates the costs of travelling to access bank infrastructure. Although geographical proximity is not a major barrier to accessing financial services in Swaziland, most citizens incur costs to reach financial services infrastructure even if they live in an urban centre. Given low incomes and small transaction values, these transport costs (which include both the direct cost of public transport as well as the cost of the time spent travelling) can constitute a significant barrier to accessing financial services.

*High reliance on cash.* The result of the barriers outlined above is that cash is the overwhelmingly predominant means of transacting in Swaziland, particularly for low-value transactions. Similarly, the high incidence of savings at home illustrates the lack of viable alternatives to cash for low value savings. Cash is convenient, but is easily spent and not secure from theft.

*Mobile Money can fill the gap.* MTN mobile money has the potential to fill the need for low-value transactions and store of value and reduce the reliance on cash in the Swazi economy. It entails limited eligibility requirements beyond access to a mobile phone. Most Swazis already have mobile phones and MTN is considering the introduction of cards, which will allow access to Mobile Money accounts without needing access to a mobile phone. Furthermore, Section 6.2 showed that the low cost of Mobile Money, with no service or deposit fees, make it substantially more affordable than banks for both transactions and savings. Lastly, it can reduce travel costs for consumers as it has a substantially wider distribution network than the other providers through its agents. The rapid rise in low-value mobile money transactions show that people are starting to "vote with their feet".

*Opportunity for greater rural penetration*. Mobile money is currently used almost exclusively in the urban areas. However, there is a significant network of rural agents (currently 41% of mobile money agents are situated in rural areas), which gives mobile money a greater rural reach than any other financial services provider. This represents a substantial opportunity for improving access to financial services to those residing in rural areas. MTN may also be the only existing institution that can achieve scale in the low-income market given its low-cost provision structure.

*Potential as a savings vehicle.* Although currently used primarily for transactions, the zero monthly service charges and deposit fees, combined with the relative proximity of agents to customers make mobile money appropriate as a low cost savings account. Mobile Money enables customers to make frequent, low value and irregular savings contributions at low cost.

*Growth of mobile money raises competition for banks.* In addition to the direct benefits for consumers, the increasing market share and role of Mobile Money in the financial services sector enhances competition and may prompt other financial institutions to reduce their costs and offer products more suitably designed for the low-income population.

Despite these advantages, Mobile Money faces a number of challenges to operate at scale:

- *Illiquidity, particularly in rural areas.* Mobile money agents with limited cash flow, such as small retailers, may face liquidity constraints, should a large number of customers attempt to withdraw funds on the same day. This would be a particular concern for rural areas as the cash flow from ordinary activities will likely be lower than in urban areas. As discussed in Section 6.2, the primary remittance corridor is from urban to rural areas. If a substantial portion of remittances are sent via mobile money, rural agents may need to pay out more than they are receiving. This issue would be further exacerbated if grants are distributed via mobile money as nearly all state dependents reside in rural areas.

- *Aversion to technology.* FinScope (2011) indicates an aversion to technology amongst certain pockets of the Swazi population, most significantly amongst state dependents. The qualitative demand-side research also revealed that many Swazis are unable to use mobile money as they do not know how it works.

- *Cap limits savings and potential to receive lumpy income.* The existing regulatory cap on mobile money accounts of E4,000 limits the potential for it to be used for long-term savings as the cap may be a barrier as the saved amount increases over time and also as a repository for lumpy income such as from remittances or harvests. Given the high proportion of Swazis earning income on an irregular basis this could be a barrier to a substantial portion of the population. Although their average monthly incomes may be below the cap, if they receive their entire annual income at one time, such as from harvest income, it may exceed the cap.

- *Inconsistency of access.* The unreliability of the MTN network and agents' limited opening hours were highlighted as barriers to using Mobile Money during the qualitative demand-side research.

**Potential actions to realise opportunity**

*Overcome barriers.* The following strategies can be considered for overcoming the challenges to Mobile Money uptake:

- *Illiquidity.* A potential solution is to introduce roaming 'super agents' to help rebalance mobile money agents by redistributing liquidity from overly liquid agents (such as in urban areas) to illiquid agents (such as in rural areas). MNOs in Kenya (SafariCom Mpesa)), Philippines (G-Cash) and Uganda (MTN mobile money) (Davidson & Leishman, 2010 and IFC, 2011) are already using super agents for this purpose. Forming partnerships with all the banks, beyond just FNB, would also allow agents to access the nearest bank branch or ATM and not be restricted to only FNB infrastructure. Where state grants are concerned, staggering of payments over different days may mitigate illiquidity concerns.

- *Aversion to technology* can be resolved with greater consumer training (by in turn training agents in how to familiarise people with the service when signing them up). Furthermore, as uptake continues to rise over time consumers will learn how to use the product from acquaintances already using this channel. Secondly, creating an ecosystem of goods and services that can be paid for with mobile money will substantially increase the value of mobile money to consumers as they will be able to use it directly rather than withdrawing it and will therefore create a greater incentive for individuals to use the product.

- *Restrictive transaction cap.* The limits of the E4,000 cap can be overcome if regulators permit MTN to provide a tiered account offering whereby all accountholders with accounts below E4,000 are exempt from the full KYC requirements (as is currently the case), but those wishing to exceed this cap are permitted to have uncapped accounts, provided they comply with the full KYC requirements. This is currently the case in both Mozambique and Lesotho and is similar to the current structure of low cost bank accounts in Swaziland.

- *Inconsistency of access.* MTN has considered introducing mobile money ATMs which would be available 24 hours a day and should not be affected by poor network connectivity. Partnering with banks to make direct payments through ATMs would be another option, but may be unfeasible due to competition between channels.

In addition to overcoming the barriers, at least three further actions can be considered to boost the role of Mobile Money in financial inclusion:

*Support long-term incentive for MTN investment in mobile money.* Since its launch in 2011, MTN Mobile Money has achieved consistent and significant growth. Nevertheless, revenue from mobile money remains a small proportion of total MTN revenue and therefore there may be limited incentive over the short term for MTN to invest heavily in mobile money infrastructure. However, if Mobile Money continues to grow, it could constitute a substantial alternative revenue stream over the longer term. Allowing MTN to share in some of the interest earned on the float may provide additional incentives for MTN to encourage use of mobile money for saving.

*Create an ecosystem of goods and services that can be purchased with mobile money*. The key to greater usage of Mobile Money is to create an ecosystem of goods and services that can be purchased directly with Mobile Money. MTN already offers users the opportunity to pay a number of bills, including airtime, electricity, water and insurance premiums, on the Mobile Money menu, as well as receive some salary payments. Increasing the number of goods and services that can be purchased with Mobile Money will further improve the value proposition of the product for users. Greater usage will mean that more agents can profitably operate and more agents in turn provide greater access for consumers – thereby creating a virtuous cycle.

*Explore potential for distribution of grants via mobile money*. The low mobile phone penetration amongst the state dependent target market segment and their aversion to technology, as well as liquidity constraints among rural agents may mean that, in the short term, banks may have more potential in grant disbursement than Mobile Money (also see Section 7.2.3 where bank potential for grant disbursement is discussed). However, over the longer term the distribution of grants through Mobile Money has the potential to substantially reduce the cost of distributing the grants, will entail lower transport cost for recipients to access than if grants were paid into a bank account, and can more than double the number of active Mobile Money users, thereby increasing the demonstration effect to non-users.

*Limited further regulatory imperatives.* The definition of banking business, the approach of the Central Bank to innovation and the threshold KYC exemption have all facilitated the rise of Mobile Money. The need to consider a tiered KYC structure was highlighted above. The main other regulatory consideration would be to allow the provision of interest on Mobile Money accounts. Section 7.4 further unpacks the regulatory imperatives.

### 7.2.2. Formal domestic and cross border remittance products to support vulnerable dependent groups

*Opportunity snapshot.* The size of the private and state dependent target markets means that findings ways of enabling them to efficiently and cost-effectively receive money from family and friends will be an important financial inclusion strategy. Table 32 summarises the opportunity:

| | |
|---|---|
| **Welfare impact** | Direct – through cheaper and more efficient remittance channels<br>Indirect – increased cross border remittances and investment can have a multiplier effect on domestic consumption and growth |
| **Size of opportunity** | ~80,000 cross border[134]<br>~200,000 domestic[135] |
| **Potential providers** | • MTN Mobile money for cross-border and increased use domestically<br>• Retailer provision of remittances<br>• Banks through affordable and specifically targeted products and partnership with alternative distributors |
| **Main challenges** | • Regulatory restrictions on alternative providers |

[134] Based on the estimated number of cross border remitters to and from Swaziland (estimated from DNA, Economics , 2012 and World Bank, 2010).
[135] Based on the estimated number of Swazis currently sending or receiving remittances (FinScope, 2011) and would benefit from cheaper remittance products.

| | |
|---|---|
| | • Liquidity constraints for mobile money<br>• Affordability (particularly through banks) |
| **Potential actions to realise opportunity** | • Targeted marketing and product design strategies to facilitate use of bank accounts for remittance purposes<br>• Allow a broader range of cross-border and domestic remittance channels, including retailers |

**Table 32: Supporting dependents opportunity summary**

*Source: Authors' own*

*Large number of adults receive remittances.* FinScope (2011) indicates that 42.5% (225,863) of Swazi adults receive at least some of their income from others. This includes remittances, as well as income from family and friends within or external to the household. Of these, 154,424 adults (29% of total adults) state income from others as their main source of income – the private dependents target market. This emphasises the importance of remittances as financial inclusion channel. The role of cross border remittances is also important given the substantial number of Swazis living outside the country.

*Limited use of formal channels.* Despite the significant need for remittances, just 18.6% of total remittance receivers (18,993 adults) receive their remittances through formal channels. The low usage of formal channels is a symptom of the fact that current formal options are expensive and insufficiently marketed among the general public. The result is a high reliance on friends, family or oneself to transport the remittance – 65% of self-remitters[136] indicated that they self-deliver because they "have no option." This, in turn, means that dependents receive remittance income irregularly.

*Banks can play an important role.* Given the significant reach of Swaziland's banks, these institutions constitute a pre-existing formal remittance platform for nearly half the Swazi population. However, just 2.1% (11,292) of adults receive their remittances through banks. Expanding the formal remittance footprint therefore represents a significant opportunity for banks to increase revenue. Where cross-border remittances are concerned, DNA Economics (2012) estimates that E391m is remitted from South Africa annually of which E343m is remitted informally. Formalising even just 50% of this would constitute a 10% increase in total personal bank deposits in Swaziland.

*MTN as alternative remittance provider.* MTN Mobile Money is already permitted to conduct domestic money transfers but has the potential to substantially increase remittance activity to rural areas, where the majority of remittances are received but only 5% of Mobile Money activity currently takes place. Mobile Money also offers significant potential as a cross border remittance provider, should it be permitted by regulation, due to its fee structure and distribution network.

*Retailers another potential alternative.* The success of retailers as remittance providers in neighbouring South Africa illustrates the potential role that retailers can play in providing money transfer services. Regulation currently restricts retailers from offering remittance services, but both Shoprite and PEP (the two retailers with the largest networks in Swaziland) are examining the possibility of replicating their South African model in Swaziland. The primary benefits include affordability (Shoprite charges a standard fee of R9.99 per money transfer, cheaper than the costs of

[136] Self-remitters simply refers to remitters who personally deliver the remittance to their dependent

a similar transfer through the banks in Swaziland as set out in Table 14 and Table 16) and overcoming doorstep barriers[137].

*A number of challenges to be overcome.* Each of the current and potential channels faces challenges. The biggest current challenge lies in the fact that regulation does not allow retailers to act as remitters or MTN to facilitate cross-border payments. Where MTN's role as domestic remittance provider is concerned, liquidity – described in Section 7.2.1 – is again an issue. Lastly, all channels, particularly banks, face an affordability hurdle, should consumers' alternative be to take the money themselves or send it via a family member or friend.

**Potential actions to realise opportunity**

*Enabling environment.* The foremost strategy to unlock this opportunity lies with regulators, namely to allow a broader range of domestic remittance service providers, notably retailers, as well as to engage peer regulators at the regional level regarding the opening up of the cross-border remittances market. See Section 7.4 for more detail on the regulatory imperative in this regard.

*Tailoring offering.* For banks, options include considering ways of reducing the costs of formal remittances and designing products specifically targeted at remittance senders and receivers and then marketing it as such. Partnerships with retailers and other agents, subject to CBS authorisation, can also be explored to extend banks' reach and overcome doorstep barriers.

*Targeting expat Swazis.* Lastly, specific financial services targeted at expats, such as specific education savings or health insurance products for their dependents that they can directly contribute towards, could also encourage remittance flows and direct investment into the Swaziland economy.

### 7.2.3. Deepening bank reach to better meet needs

*Banks best positioned for scale. .*Banks currently reach 44% of adults or over 230,000 Swazis across all target markets. This is far more than any other institution including informal savings groups which attract 125,820 savers across a wide range of individual groups. Banks also have a widespread distribution footprint that is accessible for most Swazis for larger transactions if not for regular payments. Most formal institutions outside of banks are difficult to access by those not employed in the formal sector as they either have a high joining fee, high minimum balance and regular income or employment requirements. These requirements are generally key to the business model and unlikely to significantly change. Though some opportunities remain to improve financial inclusion among these institutions, the largest opportunity therefore lies with banks

*Opportunity snapshot.* Table 33 below summarises the banking opportunity:

| | |
|---|---|
| **Welfare impact** | Direct – through reduced transaction costs and improved risk mitigation from flexible transaction and savings products<br><br>Indirect – through access to goods and services, including insurance, and increased accumulation of capital which can reduce costs for banks and in |

[137] Evidence from South Africa indicates that individuals prefer dealing with retailers rather than banks as the bank is seen as "not for us". For example, FinScope South Africa (2013) shows that 93.5% of those sending money through retailers and 52.1% of receivers in South Africa also have a bank account. The clear implication being that even though they have access to a bank and the costs in South Africa are similar through both channels (or even cheaper through a bank), people prefer interacting with a retailer.

| | |
|---|---|
| | turn passed on to consumers |
| **Size of opportunity** | ~200,000 existing customers[138]<br>~30,000 potential customers[139] |
| **Benefits of deepened reach** | • Security of savings and remittances from self and theft<br>• Privacy of savings<br>• Regularity of income (remittances)<br>• Improved convenience and reduced transaction cost |
| **Main challenges** | • Limited awareness of bank products and terms, door-step barrier<br>• Eligibility requirements<br>• Transaction costs to customers relative to small balances<br>• High cost to banks to serve target markets in branch |
| **Potential actions to realise opportunity** | • Incentives and increased communication to increase transaction volumes and balances<br>• Using data to understand and target clients<br>• Leveraging non-bank infrastructure<br>• Regulation to enable agency (e.g. partnerships with retailers for remittances) |

**Table 33: Deepening bank reach opportunity summary**

*Source: Authors' own*

*"One stop shop", security and convenience.* As providers of a range of transaction, savings and credit products, banks have the potential to serve the needs of most target markets – and to more deeply serve those that they are already reaching. The banking sector is also key to the provision of non-bank financial services that require regular payments – such as insurance and credit. For those who are already banked, increased card rather than ATM or branch transactions have the scope to reduce transaction costs and enhance convenience.

Banks furthermore offer significant advantages above transacting informally or through family and friends. Saving in a bank offers security, can provide discipline to accumulate small amounts of funds (which is often simply spent if left at home) and enables privacy of a person's financial life so as to manage claims on funds from family and friends. 88% of adults would put a large amount in the bank and 67% indicated that the main advantage of bank accounts are that funds are safe from theft (FinScope, 2011). Remittances through banks are quicker and more secure than through most other channels. In some cases the costs can also be lower than those of informal remittances. Bank credit is far cheaper than informal credit.

*Bank reach indicates opportunity to expand remittance offerings.* Banks already have a substantially greater reach than alternative financial service providers with 230,000 customers (FinScope, 2011). The banks already provide remittance products but the low uptake (just 18.6% of remittances are sent through formal channels) can be attributed to a large extent to the high expense and

[138] Based on the number of existing bank customers (FinScope, 2011)
[139] Based on the number of Swazi adults currently using other formal financial services but without bank accounts.

administration (at least compared to informal channels or Mobile Money). The magnitude of the remittance flows (it is estimated that formalising 50% of the informal cross-border flows alone, would constitute a 10% increase in total personal bank deposits) also makes this a significant opportunity for the banks to increase revenue. The introduction of SIRESS, the regional switch, should reduce the transaction costs for banks for cross-border transactions, allowing them to offer lower cost products to consumers.

*Despite broad bank access, still indications of limited use.* Many bank accounts are used as "mailboxes" where any receipts are withdrawn in one transaction per month. A number of factors indicate limited use of bank accounts: 50,000 Swazis have bank accounts, but don't use them for saving; average ATM withdrawals amount to E740[140] which is more than the monthly earnings of more than 60%[141] of the population; despite 44% being banked, only 28% of Swazis have ATM cards; only 3.5% report having a debit or credit card and only 9% of Swazis currently take out credit through banks (FinScope, 2011). Uptake of mobile products offered through banks such as FNB's eWallet, cellphone banking and internet banking are also limited, although there are signs of growth.

The total opportunity to extend access therefore includes deepening reach by getting existing customers to better use their bank accounts to transact and save more efficiently (amounting to an estimated 200,000 customers) as well as a smaller opportunity to broaden reach to encourage more Swazis to have accounts appropriate to their needs (estimated at 50,000 further customers).

*Banks "not for me".* The demand-side research indicates that banks are not seen as a welcoming institution by lower income people. They find the bank branch to be an intimidating environment and prefer to transact elsewhere. This phenomenon is termed a "doorstep barrier".

*High charges, poorly understood terms.* The demand-side research indicates a general view among the target market that bank charges are too high. The analysis of bank charges in Section 6.2 confirms that charges may be prohibitive for those with a low-value transaction profile. Furthermore, understanding of terms and conditions is low. Limited information is available when opening an account, implying that people do not fully understand the options available or the likely costs associated with the account. This reduces trust in banks. It also prevents consumers from shopping around for the product most suited to their needs.

*Eligibility requirements and perceptions pose access barrier.* Eligibility requirements mean that formal credit is not accessible to most Swazis. Furthermore, 30% of Swazis think that you need to be employed to open a savings account. As discussed, a number of banks have low cost transaction and saving products which are only accessible to low-income people. The requirement to prove low income constrains access for those without a payslip or regular source of income.

*High cost of branch-based transactions.* As discussed in Section 6.2 serving clients in bank branches is expensive for the bank as it takes up time from trained staff and increases the amount of physical infrastructure needed to serve clients. The target market is also not comfortable to transact in a bank (GAFIS, 2013).

[140] Calculated from the total ATM cash withdrawals divided by the volume of withdrawals for 2011 (CBS NPS, 2013)
[141] 60% of the Swazi adult population earn less than E500 per month, or do not earn their income monthly, whilst 83.8% earn below E2,000 per month (FinScope, 2011).

**Potential actions to realise opportunity**

*Increasing volumes and balances.* Dormant accounts or accounts with small balances are not profitable to banks. Increasing saving balances and transaction volumes can improve bank profitability. Fees currently make up around 50% of bank revenue. Competition for transaction volumes through products like MTN's mobile money is likely to reduce transaction volumes going forward. Banks will need an increased focus to drive transaction and savings balances to retain current profit levels in the future. One way is by considering incentives for clients to retain balances in their bank accounts or to transact more. Furthermore, improved information can improve use. Alternative ways of disclosure, such as by SMS, can be explored.

*Deepening bank reach.* Swazi consumers can benefit from increased usage of appropriately designed bank products through banks. Banks also have the incentive to focus in more depth on lower income consumers to retain current profit levels. Banks often see the lower end of the market as unprofitable and to some extent an undesirable market to focus on given the amount of time required to service this market. A number of innovative approaches are emerging globally that showcase how banks are increasing transaction volumes and saving balances to improve profitability. These approaches all start with the bank developing a targeted strategy to understand their lower income clients. Banks have a substantial amount of data on clients that can be mined to best understand how to target clients. Improving the range of goal oriented savings products (such as sub-wallets for specific targets), SMS communication to act as a reminder to save or a confirmation of a transaction, incentives to reach saving targets, revisiting some proof of income related eligibility requirements and an increased focus on agency arrangements with retailers to reduce the cost of in-branch transacting while encouraging clients to transact are all approaches that could be adopted to improve bank profitability while serving clients better:

- *Leverage non-bank infrastructure to overcome doorstep barriers, increase use and reduce costs.* Entering into agency arrangements with retailers or mobile money agents for cash in and out can reduce costs while encouraging increased transacting (GAFIS, 2013). Retailers have an existing physical distribution footprint and employ less educated staff which allows them to offer services at lower costs than banks. Their distribution footprint and experience with cash management position them well to act as agents for banks, as well as mobile money or similar providers. This role can be limited to cash in and out or can include opening of accounts. The product offering can also be extended to remittances and targeted credit related to the retail offering, for example credit for building supplies.
- *Mine data to understand low income clients.* Low income clients differ in their needs and behaviour. Bank data can be used to identify clients that are more likely to save or transact and products can be designed around these clients. Few banks currently have detailed low income client strategies despite the fact that these clients make up the largest number of clients.
- *Expand technology/mobile offerings*. The increased use of technology (including mobile) can reduce the cost of transacting compared to people transacting in a bank. As people become more familiar with technology it can also increase the number of transactions that are done electronically compared to cash transactions which improves convenience for the consumer and increases profitability for the bank.
- *SMS as confirmation and encouragement.* Banks generally have cellphone details of consumers. This can be used to confirm transactions which increases trust in the bank to enable further transacting and saving. SMS messages can also be used as a reminder or to communicate incentives to further encourage saving.

At least four product opportunities can be explored:

- *Product design to encourage goal-oriented, committed savings*. Saving requires sacrifice today for a future goal. This is easier when the future goal is clear and appears realisable. Saving in wallets or in products linked directly to the goal for which is being saved encourages consumers to save more.
- *Extending credit to a larger group of employed*, especially through revolving facilities such as low balance credit cards.
- *Playing a larger role in insurance*, both as a distribution channel as well as by using embedded insurance as an incentive to increase savings balances or transaction volumes. This would require proactive engagement of insurers.
- *Offering accounts to non-resident Swazi citizens*. The opportunity posed by expats and the need to target them directly was discussed in Section 7.2.2. Apart from remittance products, special purpose bank accounts or loans could also be offered.
- *Offering low cost, easy to access remittance products.* Reducing the costs of remittance products would allow greater use of formal channels to send remittances, with all the concomitant benefits for consumers in terms of reduced risk, increased speed and increased frequency of remittance transfers. Furthermore, activating greater remittances through banks could substantially increase revenues for those institutions.
- *Migrating grant payments to banking system.* State grants are currently paid by cash. This is expensive to the state and risky to consumers. Banks could play a role to facilitate grant payments. However, at present only 5,165 (14%) of state dependents have bank accounts (FinScope, 2011). The rural nature of most dependents limits this opportunity in the absence of agency arrangements with merchants or, in future, mobile money to make funds more accessible[142].

The following regulatory actions can support deepening of bank reach (Section 7.4 considers the regulatory imperatives in more detail):

*Encouraging agency.* The main regulatory imperative is to ensure that the enabling environment is in place for banks to leverage non-bank infrastructure. A clear agency regulatory framework including appropriate risk mitigation measures and standards, similar in form to the current e-Money regulations will be an important foundation to enable banks and other financial institutions to move towards effective agency models.

*Consider scope for second tier or niche banks.* Given the size of the market, it would be difficult to accommodate a large number of institutional types, but there is possibly room for second tier banks or community banks to service the demands not attractive, nor possibly viable to the larger commercial banks. Well managed second tier or niche banks can potentially offer competition in key or specialised markets as well as assisting with the spread of concentration risks.

*No basic bank account*. Due to the small bank market in Swaziland, a basic bank account (such as the Mzansi account adopted in South Africa) is not recommended. Economies of scale are unlikely and banks already have a fair reach and simple products. Additional communication and information is needed to direct customers to appropriate accounts.

[142] Mobile money could also be used for grant payments as indicated in section 7.2.1. Mobile money is likely to be a cheaper platform, but due to the shorter term challenges with mobile money adoption raised in that section banks may offer a more immediate opportunity.

### 7.2.4. Insurance to better manage risks

The insurance market analysis in Section 6.4 indicated a substantial need across segments to manage the impact of risks and illustrated that insurance in Swaziland offers better value as a risk coping strategy than informal credit. By allowing more cost-effective financial management of risks, insurance can have a direct welfare benefit for those that it serves.

*Opportunity snapshot.* Table 34 below summarises the insurance opportunity in Swaziland:

| | |
|---|---|
| **Welfare impact** | Direct – through better risk coping |
| **Size of opportunity** | ~200,000 policyholders (more lives covered through family cover) |
| **Highest-impact products (ranked in order of importance)** | 1. Life: funeral and beyond<br>2. Insurance with a health trigger other than comprehensive medical aid (plus medical aid potential among the formally employed)<br>3. Vehicle insurance<br>4. For dependents and remittance receivers: product designed for breadwinner to pay premium on behalf of policyholder. |
| **Main challenges** | • Distribution and premium collection<br>• Low and irregular incomes, as well as negative perceptions among the target market |
| **Potential actions to realise opportunity** | • Distribution innovation targeting viable aggregators<br>• Low cost, simple sum assured products beyond funeral<br>• Regulatory tweaks to ensure accessibility |

**Table 34: Managing risks opportunity summary**

*Source: Authors' own*

*Opportunity for life and health cover, some asset.* The target market analysis indicated a need for funeral insurance and basic life cover, including cover that specifically provides for education expenses. Though the potential target market is smaller than for life insurance, there is also a distinct need for some cover that will help households cope with the ancillary expenses related to an illness in the family (that is, health insurance de-linked from the cost of healthcare). Furthermore, the penetration of asset insurance is still very low among the more than 95,000 Swazis that own a car and the even larger number that have other insurable household goods. Another opportunity is to leverage those family members that live and earn a living outside of Swaziland as premium payers for relatives in Swaziland. Products marketed at migrant workers to provide for the funeral, health-related or education expenses of their families in Swaziland may find traction.

*Significant barriers to be overcome.* Beyond those with a regular income (civil servants, company employees and informal employees), the payment of a regular premium becomes challenging. This is evidenced by the fact that insurance penetration is below 20% for all segments other than civil servants and company employees. Apart from the affordability challenge, the analysis in Section 6.4 highlighted distribution (how to reach prospective customers cost-effectively in a low premium environment) as well as premium collection as the main challenges to insurance uptake at scale. In particular, high debit order fees constrain premium collection for low-value premiums. Furthermore, the demand-side research suggests that consumer trust and awareness, as well as the low priority placed on insurance premiums relative to other household budget needs, pose significant challenges. Community-based risk pooling in the form of burial societies is present, but very low, across segments and therefore does not fill the gap left by formal provision.

*Up to 200,000 potential clients.* Should we assume that the private dependents, state dependents and the irregular earners will not be an immediate priority target market for insurance given their low and/or irregular incomes (noting that some of them may still be reached via those that provide for them or via defined networks that they already belong to), it brings the immediate potential target market for insurance policies to around 202,000 individuals[143]. Though just more than 90,000 individuals already have formal insurance cover, the bulk of them have only funeral cover and they therefore remain part of the target market for cross-selling of other products.

**Potential actions to realise opportunity**

At least five elements are needed to reap the insurance market opportunities:

- *Know your customers.* The target market analysis shows that many people do not fully understand the concept or value proposition of insurance, that they do not trust insurance companies and perceive insurance not to be "for them". Understanding specific target market needs for different products and what perceptions drive behaviour is the first step towards greater penetration.

- *Let customer needs inform product design.* In new product design, consider how product features can speak to the target market realities such as extended families and irregular incomes. Pitch marketing at overcoming negative perceptions, building trust and speaking to the key target market priority on education. Consider how individual insurance can be marketed as a solution to those living in societies where community support to cover the full cost of a funeral can no longer be taken for granted.

- *Expand suitable product suite.* The target market needs inform not only the features of current products, but also suggest the addition of new products to the market. The most notable need may be for small-value sum assured cover towards expenses triggered by a health event. Another potentially valued product would be income protection insurance for those with a regular job. Though there are already isolated examples on the market, there is furthermore a need for low-cost asset cover. This could be achieved by considering sum assured rather than indemnity insurance that provides partial cover on high-value assets such as a vehicle.

- *Explore distribution opportunities.* The opportunities can only be realised if insurers build on the current broker and agent distribution channels to increasingly reach out via group structures. The "low-hanging fruit" from a distribution perspective would be the 123,330 individuals with a bank account that do not have insurance, the 47,847 formally employed who are uninsured and the 34,428 SACCO savers that are not covered by formal insurance yet. Beyond these first-order groups, more innovative thinking is needed about reaching pockets of the target market via other potential so-called "client aggregators". In particular, 79% of the uninsured indicated in FinScope that they live close to a shop and 78% of the uninsured own a cell phone. The scope for mobile money to act as distribution channel thus warrants further analysis, though it may be

[143] Note that this number was calculated using the FinScope (2011) rather than the ITQNet estimate of the number of civil servants.

difficult initially to achieve customer buy-in. Likewise, retailer distribution can be explored, once again noting the potential challenges regarding workable partnerships and client buy-in.

- *Explore alternative premium collection methods.* The need to reduce premium collection costs emerged strongly from the insurance analysis. The insurance market will benefit from strategies to reduce debit order fees and bounce penalties. Mobile money provides another potential solution.

*Various regulatory elements can support inclusion.* Where the regulatory framework is concerned, the main priorities are to reconsider KYC requirements for insurance, building on the threshold exemption precedent set in the banking environment, to develop a streamlined, facilitative framework for medical schemes, as well as to consider allowing a policy initiation fee as part of the commission structure. Section 7.4.2 considers the regulatory recommendations in more detail.

### 7.2.5. Reducing credit costs and protecting consumers

Formal credit take-up is below 2% outside of the civil servant and company employee target markets and credit is unlikely to be a primary avenue for extending financial inclusion at scale. Nevertheless, there are a number of opportunities for improving the working of the credit market to formalise and extend reach and better protect consumers.

*Opportunity snapshot.* Table 35 below summarises the credit opportunity in Swaziland:

| | |
|---|---|
| **Welfare impact** | Direct – through reduced transaction costs with more transparent choices in cost of credit, improved access to formal loans can reduce cost of credit compared to informal, reduced vulnerability through unauthorised access to bank account when ATM and pins are used by moneylenders<br><br>Indirect –improved transparency in cost of credit can increase competition and reduce overall formal cost of credit |
| **Size of opportunity** | ~90,000 consumers[144] |
| **Benefits of getting credit basics right** | • Lower cost of credit<br>• Enhanced consumer protection |
| **Main challenges** | • High default rates, need for small value flexible loans increase risk and cost<br>• Consumer protection concerns<br>• Fragmented SMME support mechanisms |
| **Actions to realise opportunity** | • Implementing consumer protection measures<br>• Increasing interest rate cap<br>• Supporting credit information sharing<br>• Promoting savings groups as alternative to informal moneylenders |

[144] 175,000 adults take up credit from all sources.. All will benefit from improved choices, but this would be overstating the opportunity as improved information would not necessarily lead to better choices. An optimistic 50% has been estimated to potentially benefit from credit improvements, which covers the number of people borrowing from credit institutions and informal providers who would be the main beneficiaries of improved credit regulation.

| | |
|---|---|
| | • Strengthening development credit providers |

**Table 35: Getting credit basics right opportunity summary**

*Source: Authors' own*

*Potential to formalise constrained by significant barriers.* Section 6.1 showed that 19.4% of Swazis use credit from informal sources. This percentage increases to 43.1% for civil servants. Formal credit is substantially cheaper than informal credit with an estimated annual difference of 200%. Formalisation of credit will also enhance consumer protection. However, a number of barriers constrain the ability of the formal sector to reach down-market. A lack of information sharing and the relatively low interest rate cap mean that providers are unwilling to take on risky clients, leading to high eligibility requirements for formal credit. As the credit analysis showed, the likely total portfolio of informal credit is also not big enough to make it attractive for formal providers. Furthermore, low and irregular incomes constrain the ability to repay loans for those outside of formal employment.

*Consumer protection concerns.* Qualitative market research feedback and our own mystery shopping suggest that Swazi consumers have difficulty identifying and understanding the different product options available to them. Information is not readily available at branches or in brochures and product terms and costs are often not disclosed prior to taking out a loan. Once loans are taken out consumers often find that the interest rates quoted excluded a number of additional fees that are charged on top of this rate to substantially increase the overall cost of credit. When accessing informal credit it is also common for moneylenders to implement intimidation tactics or take bank cards and ATM pins to ensure repayment.

*Most SMMEs not viable credit clients unless subsidised.* The analysis showed that an estimated 90% of Swazi entrepreneurs are survivalist in nature, employ only the owner and have limited growth potential. These businesses are started with the owner's own savings and assistance from family and friends. Cash flow is generally uncertain and contingencies such as poor health of the owner can easily result in the failure of the business. Informal credit is often used to manage personal risks rather than invest in the growth of the business. Though they would benefit from the lower interest rates charged in the formal sector, the uncertain nature of these businesses makes unsubsidised credit to survivalist SMMEs unviable for formal providers. The need for small value flexible business loans, especially in rural areas, requires costly monitoring and collection mechanisms and would only be viable for businesses with growth potential.

To grow this sector a broader SMME development strategy is required beyond credit to include addressing challenges in the business environment, education and health, as well as extending the range of savings and insurance products to develop this market. While there are a number of SMME support initiatives, coordination and scale is lacking. Where finance is concerned, development credit providers rather than private financial institutions will be best place to serve SMME needs, but even they would require a threshold level of viability to extend credit. Furthermore, SMME development credit is undercapitalised and uncoordinated.

**Potential actions to realise opportunity**

*Enhancing consumer protection.* Market conduct regulation to improve transparency in the formal sector and protect consumers against abuses in the informal sector is likely to be the most important intervention in the credit market.

*Increasing the interest rate cap to encourage formalisation of credit*. Increasing the interest rate cap or providing exemption below a certain limit would allow formal institutions to viably take on more risk and serve poorer clients. It could also encourage new formal providers to enter the market to serve consumers beyond fully secured and payroll lending.

*Promoting information sharing*. The timely establishment of credit a bureau and the compulsory submission of detailed credit records by all credit providers, as detailed in the Credit Bill, will likely revolutionise the credit market, enabling the extension of formal credit to a larger number of clients. It could also reduce the cost of non-performing loans which, in a sufficiently competitive environment, should enable formal institutions to use these savings to reduce transaction costs or lower interest rates charged on debt.

*Promoting borrowing from savings groups as alternative to informal moneylenders.* Accumulating savings groups achieve a deeper rural reach for credit than banks. Borrowing from savings groups rather than informal moneylenders can improve welfare given lower interest rates and increased flexibility in repayment; although the number of people affected is small (across target markets around 23,544 adults borrow from money lenders and 42,466 adults borrow from saving groups). To significantly increase the credit available from saving groups would require additional savings in these groups. However, qualitative demand-side research suggests that savings club membership may not be viable for those with a regular income. Furthermore, governance is of concern as most qualitative research participants had lost funds saving in this way. Working with donors such as World Vision to educate saving groups can improve the security of small-scale informal savings and build asset bases to on lend in rural areas.

*Strengthening development credit providers.* Development credit providers are currently unregulated. This will change with the new Consumer Credit Bill. Many development credit providers are undercapitalised and government has limited resources to provide additional funding to these institutions. Consolidating some of these providers or allowing them to use similar infrastructure and systems should reduce costs to improve sustainability and allow more funds to be available for lending. The credit guarantee scheme also currently earns very limited interest on the pool of funds it has available to leverage for its guarantee as these funds are held in cash with the Central Bank. Allowing it to earn a higher interest rate should make this scheme more sustainable. An overarching SMME policy beyond credit is also required to improve access to information and opportunities for SMMEs.

## 7.3. Institutional priorities

The previous sub-section outlined potential actions to realise each of the priority financial inclusion strategies. Which institutions are best placed to realise these opportunities?

The diagram below plots the provider landscape in Swaziland in terms of their incentive to go down-market as well as the extent to which they are trusted by the target market, as suggested by the demand-side research. The size of the bubbles gives an indication of the reach of various players:

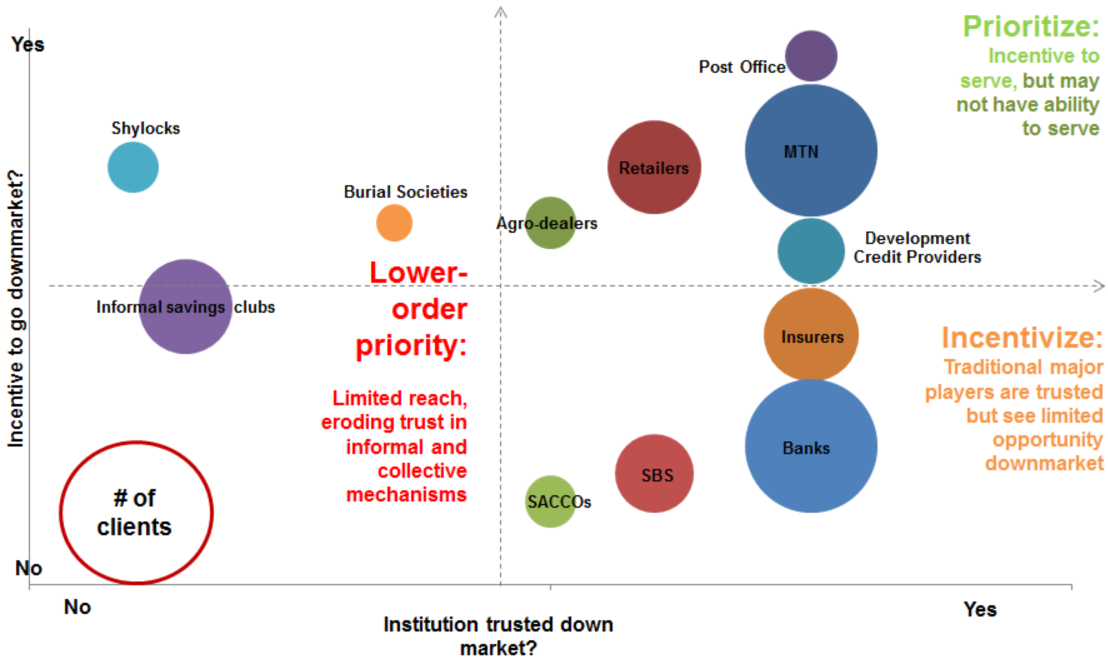


**Figure 83. Financial institutions current reach and potential**

*Source: Authors' representation based on demand-side research and supply-side analysis*

The right-hand-side of the diagram indicates the institutions likely to be best placed for achieving financial inclusion at scale, should barriers to uptake be overcome:

- *Prioritise MNOs, development credit providers and retailers*. The institutions classified in the top-right quadrant are best placed to facilitate financial inclusion at scale as they are trusted by the target market, plus have an incentive to reach down-market and an existing presence beyond urban areas. Some of them, such as retailers and agro-dealers, however currently have limited exposure to financial services provision or distribution and others, including the development credit providers, face severe operational challenges. From the roadmap perspective, enabling these institutions as providers and channels is therefore the first priority.
- *Incentivise banks, SBS and insurers*. The bottom right quadrant represents institutions like banks and insurers that are trusted by the target market to keep their money safe (though the qualitative research suggests that consumers are often suspicious of large financial institutions' motives), but have a more limited incentive to go down-market given their current cost structures. The primary roadmap imperative for these institutions is therefore to improve the enabling environment, build efficiency and convince them of the business case for inclusion-relevant products and channels so as to incentivise greater focus on the underserved market.

The following cross-cutting imperatives emerge for these institutions to reach their full financial inclusion potential:

| Imperative | Rationale | Indicative potential roadmap activities |
|---|---|---|
| *Build the financial inclusion* | Given the small size of the Swaziland market and the role of head office strategy, it cannot be | Dissemination of the MAP results is the first step in engaging financial institutions on the potential for financial inclusion. Incorporating |

| Imperative | Rationale | Indicative potential roadmap activities |
|---|---|---|
| *business case* | taken for granted that financial institutions will automatically prioritise financial inclusion. | the private sector in a joint roadmap process will be another important avenue. Roadmap activities can for example include targeted workshops with specific institutions or categories of players to discuss the nature and size of the opportunity for them to profitably reach down-market and to share international experience. |
| *Better understand clients* | The target market analysis shows the value of informing product design and distribution strategies with an understanding of target market needs. | The roadmap can include targeted research to understand the nature and needs of particular target markets for particular types of institutions or as needed to support a particular financial inclusion priority. |
| *Improve transparency and market conduct* | There is a cross cutting need for better communication with clients to ensure sustainable use of products and trust in financial services. | Potential roadmap activities include an industry agreement or Code on the publication of charges and fees, as well as other key elements of disclosure and ways of educating customers at the point of sale and the mode that it should take. |
| *Encourage partnerships with alternative distribution channels* | The roadmap should equip banks and insurers to partner with retailers, MTN Mobile Money and other aggregators, including informal savings groups, as distribution channels to reduce costs and increase the footprint | Roadmap activities can include: identifying potentially viable partners and establishing a forum for engagement; research and dissemination regarding the implications for product design of alternative distribution[145]; and engagement with regulators to ensure an enabling framework for agency relationships (see Section 7.2.3) |

**Table 36: Market imperative summary**

*Source: Authors' own*

For institutions on the left of the diagram, the following imperatives arise:

- *Protect informal credit consumers*. Shylocks are least trusted, yet fairly widely used. The imperative where they are concerned is to ensure consumer protection and to migrate clients to the formal credit market by reducing barriers and reconsidering the interest rate cap.
- *Acknowledge role of collective mechanisms, even if not main roadmap priority*. The qualitative research suggest that word of mouth regarding negative experiences of fraud or theft in savings clubs or burial societies erodes trust in these institutions. Though they play an important role for those that they do reach, usage figures suggest that such collective mechanisms do not provide the answer for the majority of the population. Likewise SACCOs, while trusted and providing a

[145] For example: an insurance product targeted at savings groups should take into account the purpose of the group to inform the type of insurance product that will be relevant, as well as the cycle for member payouts, which informs the frequency of premium payments

viable credit and savings channel for members, are generally only available to the formally employed market. Collective financial institutions should therefore not be the primary target for the financial inclusion roadmap. Nevertheless, donor activities to improve governance in savings groups and burial societies are useful, as they fulfil an important role for those without feasible alternatives.

Appendix 4 outlines a number of recommendations per type of financial institution.

## 7.4. Regulatory imperatives

The analysis suggests a number of cross-cutting actions for the state:

1. **Improve measurement to understand inclusion**

*Imperative.* Develop a framework to obtain targeted information across providers that balances regulators' need for information and the cost impact on providers. This includes revisiting reporting requirements by various types of institutions to include financial inclusion indicators and product and channel information (for example number of customers of different types of products or served through particular channels, number of discontinued/lapsed clients, number of complaints, fees and commissions, and claims ratios by product and channel where insurance is concerned). To avoid disproportionate compliance cost, the reporting framework can be risk-based and incorporate varying frequency of reporting.

*Rationale.* Regulators and policymakers have very little information at a consumer and product level. Most information is balance sheet or income statement related[146]. This provides information for prudential regulation, but does not provide insight into the number of consumers served by different providers or which financial products are delivering value. Policymakers are therefore not in a position to make fully informed decisions to identify risks or promote opportunities that can protect and benefit the consumer. Improved information on products in the market and the number of customers using various products could provide this information.

2. **Implement market conduct regulation and consumer empowerment mechanisms**

*Imperative.* Product terms and related costs should be published and prominently displayed to improve decision making. Regulators can also publish a table of products and related costs on a regular basis. Furthermore, recourse mechanisms should be strengthened. A pragmatic approach should be found for creating the Financial Services Ombudsman allowed for under the FSRA Act or broadening the scope of the Insurance and Retirement Funds Adjudicator to fulfil such role. The potential role of an Ombudsman in the banking sector should be investigated. Institutions can also be required to create and disclose internal complaints mechanisms. To ensure a coherent market conduct framework across financial institutions, coordination will be required between FSRA and the Central Bank. There are currently no formal regulations for a Banking Ombudsman or similar consumer protection forum. The banking industry may well take the lead to establish self-regulation and industry code of practice in the same style as the Ombudsman for Banking Services in South Africa, which has become highly effective due mostly to its agreed code, staffing, structure and funding mechanism. A centralised and more partisan styled institution will likely not be effective for banks and consumers alike if it not part of the banking industry and staffed with skilled bankers.

[146] Statement of financial position and Statement of comprehensive income per International Financial Reporting Standards.

*Rationale*. Many Swazis struggle to obtain product related information prior to opening accounts or purchasing products. This limits competition as products are not sufficiently transparent to allow comparison. Current recourse options are also limited.

**3. Coordinate between regulators and implement transitional arrangements to smooth implementation of regulation**

*Imperative.* Coordination is needed between FSRA and the Central Bank to clarify who regulates whom, to ensure that all consequential amendments are brought about to remove uncertainty, to put appropriate transitional arrangements in place, and then to clearly communicate the outcome to the market. A first step could be to appoint a coordination panel between regulators to suggest appropriate transition mechanisms and evaluate the impact of the FSRA Act on other legislation to determine the need for consequential amendments. As part of the coordination effort, FSRA can consider delegation of authority for SBS to the Central Bank.

*Rationale*. Uncertainty limits innovation and increases costs. Effectively managing the transition phase to the FSRA require coordination with the Central Bank, consultation with stakeholders and appropriate transition mechanisms while regulations are finalised to limit the disruptive impact and encourage innovation. FSRA are aware of the need for clarification in this regard and have already started the engagement process with stakeholders, but the capacity required to implement all the new areas under their mandate can be substantial. One way of bridging capacity constraints is to delegate authority for entities such as SBS, whose activities closely resemble a bank, to the Central Bank.

**4. Support SMME development beyond finance**

*Imperative.* A broader policy intervention is needed that focuses on the fundamentals of SMME development such as capacity building and the business environment within which they operate. Recommendations on strategies in this regard fall beyond the ambit of the MAP study. Where SMME finance is concerned, the imperative is to improve and coordinate current vehicles, rather than to pursue new avenues. This can be done by coordinating systems among state-run development credit providers to harness and combine resources. For example, the same IT platforms or the same teams can be used to monitor and collect loans rather than each fund developing and managing these resources themselves.

*Rationale*. The analysis suggests that lack of access to finance is not the primary constraint for SMME development in Swaziland. However, coordination between development credit providers can improve sustainable provision and reduce reliance on limited state capital.

**5. Prevent skirting of local investment requirements through regulatory arbitrage**

*Imperative*. There is scope for regulation of the arbitrage opportunities between local and foreign investments as discussed in Section 3.3. FSRA and CBS should coordinate to ensure that sufficient assets are available for local investment in Swaziland.

*Rationale*. Differential local investment requirements create an unequal playing field between different types of financial institutions. It would seem that many financial institutions indirectly circumvent the requirements by placing their investments in the banks, which are not subject to any local investment requirements. This effectively entails regulatory arbitrage, which defeats the purpose of the regulation and reduces capital that was intended for the local economy.

**6. Leverage grant payment system to promote financial inclusion**

*Imperative*. Consider options for converting the current cash system for payment of state grants into electronic channels such as mobile money or banks partnered with retailers.

*Rationale*. Cash payment of grants is expensive and can create security concerns for the state and recipients. The state dependent target market, as well as their dependents, can benefit from more cost-effective grant payment mechanisms, should the cost savings be passed on to them. Any innovation should ensure that they are able to transact without the need to incur additional costs (GAFIS, 2013).

**7. Develop policy to target non-resident Swazi citizens**

*Imperative*. Develop a policy to facilitate non-resident Swazi citizens (the expat target market) to support local dependents in terms of remittances, to fund educational/health products for dependents, save for their retirement and invest in the SMMEs of friends and families. This could entail a number of actions, including: lobbying of the South African authorities to enhance access to the financial system for undocumented migrants in South Africa; the facilitation of alternative cross-border remittance channels, for example through retailers; and a communication campaign to provide special status to non-resident Swazis and facilitate their inward investment.

*Rationale*. Expat citizens support a number of domestic dependents and may eventually want to retire in Swaziland. A policy aimed at them can improve the livelihoods of many resident Swazis while encouraging flow of funds into the country.

In addition to these cross-cutting recommendations, the analysis suggests a number of specific recommendations in line with the agendas of each regulatory authority. These are outlined below.

### 7.4.1. Central Bank

*Current focus.* The Central Bank's main priorities for financial inclusion include the improvement of bank disclosure, better data, the development of a Financial Sector Development Plan (FSDP), as well as enhanced access for women. The MAP analysis suggests two strategies most likely to realise the financial inclusion priorities highlighted in Section 7.3:

**1. Enable low cost savings and payments products**

*Imperative.* Improved access to low cost savings and payment products should be a key focus area for regulators given target market needs.

*Rationale.* Formal savings can improve security of savings, increase the amount saved through improved discipline and allow savings to build up over longer periods of time as there is less pressure to share savings with social networks given the privacy with which funds are accumulated. Formal transactions provide access to services that are otherwise not possible.

Two Central Bank actions can promote such an outcome:

- *Develop a strategy to enable Mobile Money as transaction and saving product.* A coordinated strategy is needed to encourage the provision and use of Mobile Money. Further targeted research is needed to better understand the key barriers and opportunities to extend Mobile Money provision in cooperation with MTN. The inability of Mobile Money to offer interest should be reconsidered Another quick-win action already suggested in Section 7.2.1 relates to the E4,000 cap for Mobile Money. The cap limits the extent to which Mobile Money can be used for saving and receipt of lumpy income. Box 22 outlines the regulatory options for instituting a second, uncapped, tier of Mobile Money accounts with full KYC .

**Box 22. A way forward for AML/CFT KYC compliant e-money accounts**

Diverting anonymous cash holdings and transactions into the traceable e-Money system has many potential benefits, including: reduced cash maintenance costs, reduced consumer total transaction costs, higher speed or turnover of transactions, more social accountability and a larger proportion of intermediated funds in the banking industry (leading to potentially higher liquidity and stability of the banking system). The risks posed by a more inclusive e-Money system at the very worst are similar to those risks posed by the pervasive cash economy. Thus there is scope for due consideration of a tiered e-Money account structure, including:

- A higher initial threshold exemption to render e-Money accounts more appropriate for the purposes of those with small irregular incomes received in large single values, as well as for savers needing a cost effective store of value.
- Provision to operate accounts above the threshold based on higher KYC requirements.

In terms of Section 6(8) of the MLFTP Act combined with the e-Money regulations, the following types of regulatory changes could be considered:

- Regulatory provision for the use of e- Money accounts on a second tier above the threshold exemption limit, based on full customer due diligence/KYC verification measures in terms of Section 6 of the MLFTP Act.
- Guidance as to the appropriate use of photocopies of identity documents as proof of verification to prevent a proliferation of identity document copies in circulation and to reduce the cost and logistics involved in accessing centralised photocopy facilities particularly by the rural poor.

- *Enable innovation in distribution* by developing a framework that explicitly encourages agency relationships between banks and non-banks, most notably retailers and MTN.

**2. Encourage use of formal domestic and cross border remittance products**

*Imperative.* Facilitate formal remittances by allowing non-banks to play in the remittance space. Retailers and mobile money providers are well positioned to offer domestic and cross border remittances. They can do so more cheaply than banks and offer convenience in terms of functional proximity and speed of transfer to customers. People are also often more comfortable to transact in these institutions than in banks.

*Rationale.* A substantial number of Swazis rely on remittances. Improved access to formal remittances can improve the regularity with which remittances are received, provide a secure mechanism to send remittances and in some cases reduce the cost of the remittance.

### 7.4.2. FSRA

*Current focus*. The introduction of FSRA has offered a blank slate to legislate a number of institutions. The FSRA is currently working towards regulations to support the Credit Consumer Bill, including a number of market conduct requirements and the design of new interest rate caps. Further priorities are the development of a regulatory framework for SACCOs, medical schemes, collective investment schemes and the stock exchange. In the process, a number of institutions need to migrate to the regulatory jurisdiction of the FSRA.

The regulatory change introduced by FSRA provides an opportunity to protect consumers and enable inclusion, but can also introduce uncertainty and an unlevel playing field. To ensure the former and prevent the latter, the analysis suggests three recommendations:

1. **Ensure clarity by finalising regulatory frameworks**

*Imperative.* The regulations for entities currently operating without prudential supervision, namely SACCOs, medical schemes (see below) and collective investment schemes should be finalised. Further investigation is needed of governance concerns with informal savings groups to inform whether it would be desirable and viable to regulate groups beyond a certain size.

*Rationale*. The primary rationale is to ensure the safety of funds held within these vehicles and protect the consumers that interact with them. The current client profile of these entities means that financial inclusion is a less direct priority in crafting the regulatory frameworks. Nevertheless, avoidance of potential access barriers can position these institutions to serve a larger client base in future.

2. **Tweak insurance framework to facilitate opportunities**

*No further microinsurance-specific recommendations.* The Registrar for Retirement Funds and Insurance within FSRA is currently finalising microinsurance regulations. These regulations should improve access to insurance through formalisation but especially by enabling innovative distribution and it is important not to lose momentum in this regard.

Three further areas to consider are commission regulation, health insurance demarcation and AML/CFT KYC requirements:

| Imperative | Rationale |
|---|---|
| *Commission regulation*: allow a policy initiation commission or fee | A pure as and when commission model without an upfront component can provide insufficient incentive to sell low-premium policies. The current emphasis on as and when commissions is the result of misconduct among intermediaries that charge additional fees to consumers. This could be managed by still emphasising as and when commissions over the life span of the policy, but explicitly allowing a transparent policy origination fee upfront. |

| | |
|---|---|
| *Medical scheme regulation*:<br><br>• Take care that demarcation between health insurance and medical schemes does not curtail insurance innovation.<br><br>• Start by putting simple prudential and monitoring requirements in place for current operators and over time develop a streamlined framework tailored to the size and nature of the market. | The health context and target market analysis emphasise the need for insurance to mitigate against the income impact of poor health. Medical schemes are often unaffordable to the poor and insurance with a health trigger that is not related to the underlying cost of the service, such as hospital cash plans, can offer good value to lower income clients without directly competing with medical schemes. The small medical aid market in Swaziland does not warrant the cost of a full-scale, complex medical scheme regulatory framework that is modelled on that of countries with larger, more developed medical aid markets. |
| *AML/CFT regulation:* investigate the scope for an exemption threshold. | Most insurance products pose low money laundering and terror financing risk. International precedent and guidance (refer to the discussion in Hougaard & Chelwa, 2011) suggest that an exemption threshold for insurance may be justified. In Swaziland, this would extend the exemption regime already in place in the banking and mobile money sphere to insurance. |

**Table 37: Insurance regulatory imperatives summary**

*Source: Authors' own*

### 3. Apply inclusion lens when finalising credit framework

Where the credit market is concerned, the new Consumer Credit Bill introduces the role of a credit regulator to regulate credit across institutions. Currently unregulated lenders such as retailers, development credit providers and moneylenders will need to be regulated under this bill. Section 7.2.5 made a number of regulatory recommendations for improving the functioning of the credit market. The table below recaps the key regulatory imperatives in the credit sphere:

| Imperative | Rationale |
|---|---|
| *Strengthen market conduct by requiring disclosure of full cost of credit inclusive of any fees* | The cost of credit is often not transparent to the consumer. This undermines informed decision-making. |
| *Increase and clarify the interest rate cap, informed by market research* | The current interest rate cap is very low and it is not always clear who is regulated by the cap. International best practice recommends removing interest caps as it results in sub-optimal lending practices or offering usury exemptions for loans below a certain amount (Davel, 2013). Increasing the interest rate cap can encourage entry into the market by providers that can further extend formal lending beyond payroll and fully secured lending. A higher cap could also |

| | |
|---|---|
| | encourage existing providers to go down market. We support the regulator's plans for market research to inform the development of the cap. |
| *Promote the establishment of a credit bureau for credit information sharing* | A credit bureau could improve information available on clients that reduce losses to credit providers and enable them to lend to customers who can currently not access credit. |
| *Strengthen development credit providers through consolidation of systems and allow the credit guarantee scheme to earn interest* | Consolidation and sharing of infrastructure and systems should reduce costs and allow more funds to be available for lending. Allowing the credit guarantee scheme to earn a higher interest rate could boost its operation. |
| *Manage the graduation of institutions to ensure proportionality of regulation* | It will be prudent to regulate the graduation of institutions from less regulated types to more formally regulated institutional forms on the basis of achieving relative thresholds. Under existing regulation there is no space for money lenders to formalise and have a legal standing to institute claims against their borrowers. The new Consumer Credit bill allows for the registration of these institutions to enhance their legal standing and to allow the regulator to have oversight into their activities. Regulation applicable to credit providers will need to be proportionate to their activities and the risk they pose to the system to encourage them to formalise rather than remain off the radar. |

**Table 38: Credit regulatory imperatives summary**

*Source: Authors' own*

## 7.5. In conclusion

Swaziland is already fairly well served, financially, compared to many peer countries. However, the analysis shows that there is still significant opportunity for improved access to support welfare and growth policy objectives. The recommendations set out in this report can form the basis for the development of a roadmap towards realising the priority opportunities.

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# Appendix 1: Details of key pieces of financial sector legislation

## 1. Legislation and Defined Institutions Regulated by the Central Bank of Swaziland

The Central Bank of Swaziland is mandated to regulate banks, credit institutions, financial institutions and payment systems. We will examine the three statutes directly linked to the Central Bank: the Central bank Order, 1974;the Financial Institutions Act, 2005; and, the National Clearing and Settlement Systems Act, 2011. We will also look at each type of institution dealt with within each piece of legislation.

### 1.1.1. Central Bank Order, 1974

The Central Bank Order, 1974 as amended (CBS Order) mandates the Central Bank of Swaziland (CBS) to formulate monetary policy and promote financial stability, issue and redeem currency and securities, hold foreign exchange reserves and to formulae foreign exchange policy and intervene in foreign currency markets.

Within the domestic financial sector, the CBS is mandated to promote, regulate and supervise the national payment system and to supervise banks, credit institutions and other financial institutions. The CBS Order is framed in general and wide terms as it was not envisaged at the time of the last amendment that any other regulatory authority would coexist with the CBS.

Section 41 of the CBS Order enables the CBS in conjunction with the MoF to set maximum and minimum deposit and credit rates, maximum deposit amounts and minimum security on loans. These provisions are in contrast to proposed provisions of the Credit Bill which gives the Minister responsible for finance the power to set maximum credit rates and fees (see Section 43 of the Credit Bill). The section also provides for the direct regulation of maximum and minimum service charges and commissions by banks and financial institutions.

### 1.1.2. Financial Institutions Act, 2005

The Financial Institutions Act, 2005 (FI Act) defines different types of financial institutions and provides for the licensing and requirements for each type or class of financial institution. The primary definition distinguishes banks, credit institutions, other financial institutions and exempt institutions.

The framework of definitions contained in Section 2 of the FI Act, *prima facie* presents anomalies in that contrary to the general definition of a "financial institution", not all financial institutions are required to be licensed as banks and therefore "other financial institutions" are not financial institutions as defined, but rather non-bank institutions. Similarly credit institutions are a separate category of non-bank institution, defined in the FI Act as "any financial institution other than a bank". These are likely definitions that have been amended over time and practically amount to banks, financial institutions that do not provide credit, for example a collective investment scheme and financial institutions that provide credit.

Financial institutions are defined in general terms as those entities licensed to carry on "banking business" which aligns with the specific definition of a bank. A separate class of financial institution, termed a credit institution, is defined as any financial institution other than a bank. That said, the FI

Act also defines “other financial institutions” as any institution licensed by, or subject to the supervision and regulation of the Central Bank of Swaziland (CBS).

The FI Act Section 2 defines ‘banking business’ as:

"banking business" means-

(i) the business of receiving funds from the public through the acceptance of money, deposits of money payable upon demand or after a fixed period or after notice oi any similar operation through the periodic sale or placement of bonds, certificates, notes or other securities and the use of such funds either in whole or in part for loans, advances, investments or any other operation authorized by law or customary banking practice, for the account and at the risk of the person doing such business;

(ii) any other activity recognized by the Bank as customary banking practice which a financial institution may be authorized by the Bank to engage in”.

The definition of “banking business” elegantly defines the bounds of Central Bank supervision in relation to the risk posed by intermediation of deposits. The definitions of “banking business” and “deposit taking business” are in contrast to the catch-all definitions of “deposit taking” and “business of a bank” employed in South Africa, that intentionally widens the ambit of supervision and thereby reduces participation of non-bank entities in lower risk financial services without the co-operation and overhead of registered banks. The Swaziland FI Act therefore raises the possibility of non-banks, with fitting governance structures, offering essential entry level financial services which do not involve the intermediation of deposits, particularly in the areas of low value remittances and un-intermediated store of value.

The FI Act also provides for the exemption of the following types of financial institutions that are regulated under other specific legislation:

- Building Societies
- Co-operative Societies
- Insurers

In terms of Sections 19, 20 and 21 of the FI Act, read with Section 63, the Central Bank has the delegated legislative authority to initiate by-laws setting *inter alia* capital adequacy, liquidity requirements, provisioning and risk based evaluation methodologies for banks, credit institutions and other financial institutions except those that are exempt.

#### 1.1.2.1. Specific Institutions Regulated under the FI Act

*Banks.* Two categories of banks are defined; local financial institutions and foreign financial institutions. The Swaziland Development and Savings Bank is also subject to the FI Act to the extent that the Act is consistent with The Swaziland Development and Savings Bank Order, 1973.

Apart from The Swaziland Development and Savings Bank (SwaziBank), the other three commercial banks in Swaziland are all locally incorporated as subsidiaries of South African banks. The defined categories of “local financial institution” and “foreign financial institution” are problematic when considering a bank, which in terms of the Section 2 FI Act definition is required to be a company that is established under the Swaziland Companies' Act, 1912 and licensed under the FI Act as a bank, and hence would technically qualify as a local financial institution established under the laws of Swaziland. This position is consistent with the Sections 3(3), 3(5), 384(b) and 386 of the laterCompanies Act, 2009.

In terms of the Companies Act, 2009, the requirement for a local institution in terms of Section 15(3) was set as a majority of Swazi shareholders and board members being Swazi citizens. Therefore, in terms of the 2009 Act, the three South African banks definitively fall within the definition of a foreign company, but would not fall within the definition of a foreign financial institution unless the FI Act is amended. The importance of a bank being defined and treated as a local or foreign institution is important from the type and degree of regulation imposed on a bank, with regard to shareholding transactions, capital movements, material asset transactions and liaison with any foreign regulatory authority. Foreign financial institutions would be required to comply with prudential requirements in both the local and the foreign jurisdiction at the higher of the two standards, with regard to the locally assigned capital.

In terms of Sections 19, 20 and 21 of the FI Act, read with Section 63, the Central Bank is granted the power to issue subordinate legislation regarding prudential and other matters including the classes of financial institution. The wide ambit of authority of the central bank to issue by-laws has the potential to either accommodate or to restrict institutions involved in the provision of financial services. Section 63 allows the central bank to align prudential requirements and measures in the ongoing progression to international banking norms.

The central bank has the discretion to impose a mandatory local investment value up to a maximum of 5% of liabilities. It also has the power to stipulate base industry lending rates and set maximum lending rates for the institutions under its supervision.

*Non-Banks.* The FI Act provides for the central bank licensing, regulating and supervising credit institutions and other financial institutions. Section 20(1)b of the FI Act allows the central bank to set appropriate prudential requirements in accordance with the type of institution and business. These provisions remain in force but have effectively been reduced in application to specific institutions and financial legislation by the Financial Services Regulatory Authority Act, 2010 (FSRA Act). Therefore the FI Act needs to be read together with the FSRA Act in order to determine which non-bank financial institutions and credit institutions are regulated only by the CBS as opposed to the Financial Services Regulatory Authority.

### 1.1.3. National Clearing and Settlement Systems Act, 2011

The National Clearing and Settlement Systems Act, 2011 (NCSS Act) sets formal requirements for the recognition, supervision and control of clearing and settlement systems, and prohibits the operation of unrecognised systems. The Act aligns well with BIS core principles for systemically important payment systems and the responsibilities of central banks in applying the core principles. The Act places the national regulations in line with regional and international standards and therefore opens up possibilities for future interoperability which would be not possible without common operational standards, equivalent definitions and risk mitigation frameworks.

*e-Money Regulation.* The Central bank of Swaziland adopted Minimum Standards for Electronic Payment Schemes (MSEPS) in September 2010, cognisant of the need to develop viable alternatives to cash whilst providing suitable risk mitigated electronic payment options for those with no or limited access to financial services. The nature of how "deposit taking" is differentiated from intermediation in the Swaziland legal context allows non-financial institutions, without a banking license, to play a positive role in the provision of payment services where there is no intermediation of depositor's funds. The promotion of e-Money schemes also has a direct impact on the amount of liquidity that becomes available for bank intermediation in the trust accounts through which the e-Money float is managed.

MSEPS stipulates *inter alia* the following requirements for e-Money schemes:

- stable and risk-mitigated systems and processes based on international best practice with specific reference to standards that support international interoperability between electronic switches for ATMs, cards, terminals, related devices and software;

- open systems capable of becoming interoperable with other electronic payment systems based on compliance with the minimum international acceptable standards;

- systems capable of wide geographic outreach;

- enforceable legal framework including finality of payments;

- pricing polices appropriate for the affordability of the market.

The CBS has expressed a direct intention that e–Money systems would be cultivated through banks and no-financial institutions alike as an alternative to cash and particularly in the interests of broader financial participation.

Interoperability of e-Money systems will become a key future consideration as at present interoperability only exists between EFT payment systems and authorised wholesale agents.

There is no current interoperability between the two e-money systems in Swaziland; a person who receives funds from both Mobile Money and e-Wallet will have two separate accounts which cannot be transacted upon or withdrawn in one amount.

## 1.2. Legislation and Defined Institutions Regulated by the Financial Services Regulatory Authority

### 1.2.1. Financial Services Regulatory Authority Act, 2010

The objectives of the Financial Services Regulatory Authority Act, 2010 (FSRA Act) are to foster the stability, fairness, and soundness of Swaziland's financial services industry by means of regulation and prudential supervision by an independent authority. The legislated objectives of the FSRA Act have the potential to advance the pace and quality of financial services delivered by centralising and integrating key regulatory and supervisory resources under one body. The objectives and legislative approach in creating the FSRA are particularly relevant in that the types of institutions supervised by the Financial Services Regulatory Authority (FSRA) require more emphasis on market conduct supervision and less emphasis on prudential management. A common, central regulatory authority for institutions outside the ambit of the central bank, aligns well with scale and efficiency imperatives required by a small market. The negative implications for financial inclusion are the potential for concentration risk and the effectiveness of a regulatory body with a mandate covering diverse financial services, particularly where such an institution has been focused on developing internal structures and expertise in the short to medium term.

The ambit of the FSRA's powers are to administer and regulate financial services which are broadly defined in Section 2 of the FSRA Act as financial services offered to the public by financial services providers, which are in turn defined as non-bank financial services providers. Furthermore, the Act defines non-bank financial service providers as as any person or institution listed in the Second Schedule of the FSRA Act or declared as such in terms of regulatory powers of the Minister. In the absence of any further promulgated regulations by the Minister, the ambit of the FSRA Act is therefore limited to the following specific types of financial institutions: central securities depository; collective investment schemes; credit bureaux; dealers; fund administrators; representative of dealers; insurance agents; insurance brokers; insurers; investment advisors; pawnbrokers; representatives of collective investment schemes; medical aid schemes; medical aid scheme providers; nominee services; SACCOs; retirement funds; trustees of retirement funds; securities exchanges and provident funds.

In addition to the specific types of financial institutions, the Financial Services Regulatory Authority is given powers to control or revoke licenses issued under specific financial services laws which are defined in Section 2 of the FSRA Act, namely: The Hire Purchase Act, 1969; The Insurance Act, 2005; The Lotteries Act, 1963; The Money Lending and Credit Financing Act, 1991; The Pawn broking Act, 1894; The Retirement Funds Act, 2005 and the Securities Act, 2010.

This has the effect of extending the regulatory influence of the FSRA to institutions and activities provided for under the above pieces of legislation.

The provisions of Section 83 of the FSRA Act also affect the ambit of the FSRA in that Section 83(1) specifically excludes SACCOs from the authority of the Co-operative Societies Act, 2003 thereby rendering SACCOs exclusively within the regulatory and supervisory control of the FSRA. Section 83(2) allocates the authority and functions of the Registrar under the Building Societies Act, 1962 to the FSRA, effectively bringing the Swaziland Building Society under the FSRA, similarly the FRSA also stepped into the shoes of the Registrar of Insurance and Retirement Funds (RIRF) as it was effectively disbanded on the passing of the FSRA Act, but practically continued to function under the auspices of the FSRA.

There are, however, types of non-bank financial institutions that do not fall within the ambit of the FSRA, namely Co-operative Societies in terms of the Co-operative Societies Act, 2003 and those institutions licensed under the FI Act as "credit institutions" and "other financial institutions". During consultations, a case was made that as The Money Lending and Credit Financing Act, 1991 (MLCF Act) was regulated in terms of schedule 1 of the FSRA Act as a "financial services law" under the FSRA, and that credit institutions would likewise be regulated under the FSRA. The legal argument is sound and therefore it follows that institutions and people who offer credit services will indeed need to operate under the license, market and prudential supervision of the FSRA, except for credit institutions licensed under the FI Act which are specifically exempt from The Money Lending and Credit Financing Act, 1991 and therefore are required to be licensed and supervised by the central bank.[147] Similarly banks are specifically excluded from the control of the MLCF Act in terms of

[147] In this regard section 10 of the The Money Lending and Credit Financing Act, 1991(MLCF Act) lists institutions that are exempt from the application of the MLCF Act, including all institutions licensed under the the Financial Institutions (Consolidation) Order, 1975 which is the

Section 10 and therefore the FSRA cannot currently set the credit and usury criteria for banks and credit institutions licensed under the FI Act. This will change if the Credit Bill is enacted in its present form, whereupon the FSRA will be mandated to regulate credit across all regulatory silos.

### 1.2.2. The SACCOS Regulations, 2013

As mentioned above, Section 83(1) of the FSRA Act divorced SACCOs from Co-operatives in 2010, and as there was no separate legislative framework for SACCOs, a set of SACCOs regulations in similar form to an enactment was published by the Minister in terms of delegated authority contained Section 89 of the FSRA Act. In reviewing the content of the regulations, there appears to be no provision that is inconsistent with the delegated authority of the Minister in terms of Section 89, and therefore if the regulations have been duly promulgated, they would in principle be valid and enforceable.

The SACCOS Regulations, 2013 (SACCO regulations) present an anomaly in that part of the requirements in Section 4(b) requires a certified copy of the SACCOs registration certificate, issued by the Commissioner of Cooperatives, and yet the FSRA Act Section 83 delinks SACCOs from the control of the Commissioner.

The prudential and supervisory provisions of the SACCO regulations are a lot more structured than those of cooperatives and are more akin to banking supervision. An application to be licensed as a SACCO requires a three year strategic and business plan indicating the scope and nature of business operations, detailed financial projections and risk management policies with particular emphasis on the appointment of skilled persons and demonstrating an organizational competency to identify, measure, monitor and control the level and types of risks assumed. In addition there are requirements of detailed current financial statements if the SACCO had previously been in operation as a cooperative. The applicant SACCO is also required to prove institutional capital is in place. In terms of operations and operational risk, the SACCO would need to demonstrate adequate information management systems and installation of a strong room and safe.

In terms of capital adequacy, the minimum capital is the greater of E5000, 10% of total assets and 8% of total deposits plus a minimum institutional capital of 8%.

The regulations also set a liquidity ratio: 15% of savings deposits and other short term (30 day) liabilities are required to be maintained in liquid assets.

The IMF has voiced concern about the increasing extension of consumer credit from SACCOs and cooperatives as opposed to commercial banks (Basdevant, 2012) The financial crisis exposed the risk of the GKS to SACU receipts. Commercial banks are faced with direct risk to the GKS, as well as indirect risk as a regard of non-payment of state contractors and the resulting impact on SMMEs. Commercial banks have therefore adopted an increasingly conservative approach to credit

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direct predecessor to the FI Act 2005. There is common law authority beyond the Interpretation Act 33 of 1957, in force at the time of the promulgation of the Swaziland Independence Constitution 1963; (*Solicitor-General v Malgas 1918 AD 489); (Morake v Dubedube 1928 TPD 632*) inter alia clarifying the applicable common law rules for interpretation of statues. Essentially these cases confirm that if an act or provision is referred to in another piece of legislation it is considered re-enacted for the purposes of the referring legislation and hence survives after the original act is repealed. Another presumption in common law is that legislation does not intend to change existing law more than necessary. Any repeal or change in the application of the MLF Act would need to have been legislated explicitly and cannot be merely inferred by an amendment or re-enactment of the act or provision referred to. The rule is to read in the earlier and subsequent enactments and to reconcile them. In terms of the common law rules of interpretation and presumptions, the MLF Act was not amended explicitly by the re-enactment of the FI Order of 1975 in the form of the FI Act 2005 and therefore the category of institution exempt would be reconciled to the equivalent in the later Act. Similarly financial institutions incorporated in terms of the Companies Act, 2009 would not be considered ineligible in terms of the FI Act 2005 as it refers only to the Companies' Act, 1912.

extension, while SACCOs and cooperatives have not adopted a similar approach. SACCOs, have thus become the credit providers of choice, resulting in the IMF voicing concern over the apparent lack of effective prudential and supervision standards, and proposing that SACCOs at least be supervised by the CBS.

Whilst the FSRA is building regulatory and supervision capacity, this concern may be valid, particularly if there is no vital cross check of multiple memberships of SACCOs. If there is effective checking in place of membership, then any risk is contained to the level of credit extended by each SACCO as multiple lines of credit would, in that event, be less likely.

### 1.2.3. The Consumer Credit Bill, 2013

The Consumer Credit Bill, 2013 (Credit Bill) is very deftly drafted and seeks to balance the detail and complexity required to regulate all commercial credit with the requirements of a small market.

The Bill is a significant departure from the regulation of an institution type by one regulator, but rather seeks to regulate market conduct topics across all institutions, irrespective of the prudential regulator. According to the current provisions in the Bill, all financial institutions including those regulated by the CBS would be required to register with the Credit Regulator under the FSRA for activities that directly relate to credit provision.

The Bill seeks to establish a credit framework for both consumers and businesses below a threshold, and seeks to render reckless credit extension not readily enforceable, which is technically a risk to credit providers that could be priced into future interest rates. That said, the precedent set by the third of wages set by the Employment Act (see Section 1.3.2) and the ambit of the MLCF Act would likely mean that most credit providers currently operate within similar parameters.

The Bill seeks to repeal the Pawn Broking Act, the MLCF Act and the Hire Purchase Act, and to provide for and regulate the activities under licence of the Registrar of Credit.

A key element of the Bill is the introduction of provisions for the regulation of credit bureaux and coupled with that, the introduction of debt counselling. The introduction of controls on interest rates, fees and charges will take some time to implement. Controls in the form of capping of rates and credit related charges both in terms of maximum rates and the total quantum of allowable charges similar to the *in duplum* common law rule are envisaged to be promulgated by means of regulation from time to time. The MAP diagnostic as a survey of current market practices and needs, could be utilised as one source to inform the setting of initial regulatory credit controls.

If the South African experience of introducing similar legislation is considered, the proposed transitional provisions need to allow for a phasing in of various sections of the Act, particularly regarding existing credit agreements with the possibility of ring fencing older agreements, particularly where existing credit providers will be adversely affected across an entire portfolio and where such regulatory risk may be mitigated.

The Bill also seeks to limit any small scale credit providers that are not licensed. This could have a considerable effect on small value short term loans and remove access from informal credit as the requirements for credit providers are onerous and costly for informal providers. Consideration should be given to a threshold in value and/or number of loans by informal providers, particularly in outlying areas.

### 1.2.4. The Building Societies Act, 1962

Registration of a building society requires a minimum of seven members, elected office bearers and a set of rules in conformity with the Building Societies Act, the object of which is to fund mortgage lending by means of long term paid up share capital, fixed deposits, demand deposits and transmission account balances. There is wide discretion with regards to any additional registration requirements.

A building society is restricted to lending secured by fixed property, by means of a mortgage or ceded lease with a maximum term of thirty years and a maximum loan to the value of one hundred percent. It may also entertain credit facilities secured by either demand deposits or paid up share capital. Building societies therefore may not enter into unsecured lending transactions.

Demand deposits cannot be linked to any payment mechanism such as cheques in order to protect the funding of the society. Payment instruments may be linked to a separate transmission account. On the lending side, building societies are exempt from the interest rate caps of the MLCF Act, in the unlikely event that secured lending rates exceed capped rates.

A building society is exempt from the prudential and supervisory powers of the central bank, unless it has been formally placed under the supervisory control of the central bank. There are however prudential requirements in the Act which include:

- Capital adequacy of 8% of risk weighted assets based on fixed capital;

- Provisions akin to bank liquidity requirements which stipulate the maintenance of a reserve fund in the form of liquid securities of up to 10% of liabilities and in addition further liquid assets to be held of 30% in respect of demand deposits payable within one year and all interest payments plus twelve percent of fixed deposits, subscription share of five years or less and any institutional loans payable within five years.

- Restrictions on the categories of investments that a building society may undertake, which are prescribed by the registrar from time to time, including treasury bills, bonds and similar rated liquid securities.

The overall amount of liquidity requirements, coupled with very restricted lines of financial services allowed in the Act, would tend to place a building society on the conservative end of a risk continuum: stable, steady and constrained. Within the regulatory structure of building societies there are positive possibilities to extend access to financial services in the form of:

- specialisation in long term financing of leased land, given the constrained availability of land leases;

- a competitive focus on longer term deposit products;

- increased emphasis on store of value transmission accounts, provided there is increased interoperability within payment systems.

The building society, by virtue of its institutional structure has an advantage over the banks in providing long-term capital such as home loans. As SBS has a long term capital structure and a relatively light operational expense structure it can engage in high value and long-term capital financing more efficiently than the banks which have a more immediate profit motive and so are less inclined to invest short-term liabilities in long-term assets.

Regulatory factors that would constrain access to financial services through building societies would include:

- the current regulatory regime required for the creation of tradable leases on land as well as access to freehold;
- complex share capital structures required in terms of the Building Societies Act and the ease of understanding such arrangements by prospective consumers;
- constrained ability of building societies to intermediate deposits in terms of restricted activities and prudential requirements.

### 1.2.5. The Money Lending and Credit Financing Act, 1991

The Money Lending and Credit Financing Act, 1991 (MLCF Act) provides a rudimentary credit regulatory framework and stipulates *inter alia* maximum interest rates based on two loan value tiers. The maximum interest rate is set at 10% above the CBS discount rate for loans below E500, and at 8% above the CBS discount rate for loans above the E500 threshold. The effective capped rate is not consistently calculated in practice as the prime lending rate determined by commercial banks is substituted for the CBS discount rate as the base rate. The CBS discount rate is stipulated in the act and therefore a commercial bank's prime lending rate is inconsistent with the MLCF Act if used to calculate the maximum possible interest rate. It is legally valid and enforceable to stipulate an interest rate in relation to the prime lending rate as long as the rate so stipulated does not exceed the MLCF Act applicable maximum rate calculated in relation to the CBS discount rate at that point in time.

In terms of Section 10 of the MLCF Act, the following transactions and institutions are exempt from the MLCF Act:

- any money-lending or credit transaction to which the Pawn broking Act, 1894 applies;
- any money-lending or credit transaction to which the Land and Agricultural Loan Act, 1929 applies;
- any institution licensed under the Building Societies Act, 1962 or the Financial Institutions (Consolidation) Order, 1975;
- any hire-purchase transaction to which the Hire-Purchase Act, 1969 applies;
- any credit card scheme recognized and adopted by any institution licensed under the Building Societies Act, 1962 or the Financial Institutions (Consolidation) Order, 1975.

As stated above, there are differing versions of the applicability of the MLCF Act in that the provision in that Act exempts institutions licensed under the repealed Financial Institutions (Consolidation) Order, 1975 and therefore it has been assumed that such an exemption is no longer valid, and therefore the banks and all other institutions regulated under the FI Act fall under the MLCF Act. The common law rules of statutory interpretation would either preserve the exemption and give effect to it in the MLCF Act, or as it has been re-enacted in the form of the Financial Institutions Act 6, 2005, the applicable replacement provisions will be read into the reference of the repealed aAt unless there is a clear intention that the legislator sought to amend the MLCF Act, which is clearly not the case in this situation. The effect of this is that in terms of strict interpretation the exemption for banks, financial institutions and credit institutions remains in force, yet the confusion encountered in the market place is a hurdle to offer less secure credit.

### 1.2.6. The Hire Purchase Act, 1969

The Hire Purchase Act, 1969 (Hire Purchase Act) sets out minimum hire purchase agreement requirements and in a sense codifies the essential and natural elements of an instalment sale agreement of movables. It also defines reciprocal consumer and creditor rights. A separate part of the Act does provide limited provisions for the purchase of immovable property by means of a species of instalment sale agreement akin to the common law deed of sale agreement for the purchase of immovable property with the added provision for the transfer of the property once more than 50% has been paid and the securing of the remaining outstanding balance by means of a mortgage bond.

The implications for financial inclusion are that a defined and balanced regulatory framework for asset based finance exists in the form of this Act, and regulatory provisions for instalment sale agreements with regard to both movable and immovable property. The inclusion of this Act in terms of the FSRA Act, means that the FSRA is the regulator of these types of agreements which were previously under the Finance Ministry. The Hire Purchases Act is slated to be repealed by the Credit Bill and therefore it is imperative that regulations promulgated under the Credit Bill, once enacted, adequately address hire purchase market conditions and requirements.

The provisions of this Act can be employed to intermediate illiquid property and can also link rising SMME's with capital. The hire purchase of building materials for the erection of buildings would be problematic if the property is not freehold nor subject to a long term tradable lease agreement, as the financed movables lose their character as separate individual movable items once combined and attached to a building or piece of land. There is therefore a gap in the financing of building materials under this legislation.

### 1.2.7. The Insurance Act, 2005

The Insurance Act, 2005 (Insurance Act) created the Office of the Registrar of Insurance and Retirement Funds (RIRF) in Swaziland and together with The Insurance Regulations, 2008, issued in terms of Section 118 of the Insurance Act, form the regulatory framework for long term and short term insurance, brokers and intermediaries. The framework is designed for context – maintaining a balance between necessary complexity and practicality in a small and developing market.

Key financial inclusion concerns with regard to insurance regulation include access to appropriate risk based financial products, and appropriate progression from entry level products to financial services that promote overall social welfare and financial security.

The definition of insurance business in the Act specifically excludes:

- friendly societies, although the Act defines friendly societies as not employing any person to recruit members nor collect and aggregate contributions, not providing lump sum benefits in excess of E10 000 nor annuities in excess of E1200 per annum being considered low enough risk not to be encumbered with a regulatory burden.

- medical schemes, which is problematic in that there is no current regulatory framework for medical schemes;

- unemployment insurance business;

- agricultural co-operatives;

- the activities of a deposit taking institution; this exemption seems to indicate the drafting of the legislation originates elsewhere as it does not take into consideration that in the Swaziland regulatory framework “deposit taking” does not technically define a specific institution.

- the activities of a retirement annuity fund;

Insurance business as defined includes short term and long term risk categories except where specifically excluded.

The definition of short term and long term business is unclear. According to the Act, long term insurance business includes life business and assistance policies, which includes capital disability and super annotation annuity policies. Yet, short term insurance includes a category of accident and health policies, which includes disability, health and death events, provided the policy renewal is not more than twelve months, which would point to negating or circumventing prudential measures in relation to long term insurer reserving and specific asset management requirements. A similar definition of the category of accident and health polices occurs in schedule 2 of the 2008 regulations as a long term category which is very similar to the short term definition for the same category in schedule 1 of the regulations. A reasonable interpretation would be that the Act allows for short term insurers to undertake certain traditionally long term lines provided the policy is renewed at least annually.

Possible barriers to entry into the market were investigated in the *Swaziland Microinsurance Review*, which noted that the prudential requirements did not pose a significant barrier to entry, given the second tier assistance business license with much lower requirements, although the point was raised that there is a requirement beyond brokers and agents in the form of third party aggregators such as retailers and cooperatives to promote wide and more effective distribution (Hougaard, et al., 2011).

The main regulatory requirements for the establishment of an insurance business are:

- Public company with an effective minimum of 12.75% Swaziland ownership; 25% of the share capital and voting rights owned by a local company with a minimum of 51% Swazi ownership; the minimum structure is therefore in the form of a joint venture company owned 75% by an external entity and 25% by a Swazi company of which 51% of that company is required to be Swazi owned.

- E2 million (USD 200 000) share capital in respect of a company licensed for one category of insurance business and E 400 000 (USD 40 000) in respect of a company licensed for assistance business. Regulatory proposals would see the paid up share capital rise to E12 million (USD 1.2 million).

Companies are precluded from operating multiple categories of insurance business and hence may only underwrite long term or short term business. The exception is the Swazi Royal Insurance Company (SRIC), the traditional monopoly, which is allowed to operate as a composite insurer.

There are regulatory requirements for 30% of assets "invested in the Kingdom of Swaziland" and yet the local capital and securities markets have limited investment opportunities and are quite illiquid.

The term "invested in the Kingdom of Swaziland" is defined in the Act as an investment that is not reinvested in full or in part, outside of the borders of the Kingdom of Swaziland. The intention is therefore that the capital should remain within the Kingdom, however the investment of funds in a bank in Swaziland would comply on one level as it is intended for the funds to remain to the credit of the bank within the Kingdom. That said, funds invested are intermediated by a bank meaning that the ultimate destination of the funds is irrelevant as the funds become co-mingled on the bank's balance sheet, and yet the investment or the claim upon the bank remains within the Kingdom. It would make no legal difference if the bank pointed out any local destination of such funds as the notional investment in any such destination would cause a theoretical displacement of funds elsewhere.

### 1.2.8. The Retirement Funds Act, 2005

The Registrar appointed in terms of the Insurance Act, 2005, also acts as registrar for retirement funds in Swaziland. The Retirement Funds Act, 2005 and the Retirement Fund Regulations, 2008 apply only to private retirement funds, which are not permitted to perform any additional type of business. The Act is quite comprehensive and envisages a relatively sophisticated retirement fund industry. Provision is made for the appointment of an adjudicator in the interest of timely and effective dispute resolution. There is an obligation for retirement funds to invest 30% of assets within Swaziland and in compliance with the schedules of approved local and international asset types and corresponding maximum exposure. Given the illiquid securities exchange in Swaziland, the funds would likely place more emphasis on foreign securities, local bonds, and bank investments, and therefore the argument would hold true that if a local investment proportion is invested with a bank and then intermediated in a foreign market, then it would still be considered having been invested in Swaziland as funds become co-mingled in the bank's balance sheet.

### 1.2.9. The Pawn broking Act, 1894

The Pawn broking Act, 1894, is a very brief act defining the pawn broking business in Swaziland. The Act requires that pawn brokers be licensed and provide security for E1000 in the form a deed security which in turn is required to be secured by two equal sureties by means of un-indebted immovable property of E500 each. Clearly inflation has made the required security irrelevant. The pawn broking industry provides an important asset-based proto-banking financial service to both banked and un-banked people. It provides a means of intermediating physical assets, including livestock and provides a monetary link with the formal economy. There are limited registered pawn brokers in Swaziland; predominantly in urban areas. The Act is intended to be repealed under the

Credit Bill which represents an opportunity to enhance intermediation of movable assets by means of appropriate delegated regulatory provisions.

### 1.2.10. The Lotteries Act, 1963

The Lotteries Act, 1963, criminalises lotteries except society lotteries and public lotteries. Society lotteries are legal under certain strict criteria and the establishment of public lotteries is provided for.

The implication for financial inclusion is that the Act, as it stands, criminalises saving schemes that have a type of lottery or prize to a single person instead of immaterial interest to each individual saver. These schemes provide a store of value and an incentive to save, despite the lack of predictable interest, and therefore would be worthwhile for Swazi citizens if provided in a manner that promotes consumer protection.

### 1.2.11. The Securities Act, 2010

Security exchanges are regulated under the FSRA. In the context of the size and complexity of the Swaziland economy, the Securities Act, 2010 provides for a sound regulatory framework with effective oversight. The Swaziland Stock Exchange (SSX) remains undeveloped with few counters of relatively illiquid securities.

## 1.3. Legislation Affecting Financial Inclusion under other arms of Government

### 1.3.1. Money Laundering and Financing of terrorism (Prevention) Act, 2011

The definition of an "accountable institution" in terms of the Money Laundering and Financing of Terrorism (Prevention) Act, 2011 (MLFTP Act) is cast very wide and includes banks, insurers, investment brokers and traders, fund managers, legal practitioners, real estate businesses, trust and nominee services, and precious metal dealers, among others, as one would expect. However, the phrase "acceptance of deposits and other repayable funds from the public, lending, including consumer credit" is wide enough to cover Co-operatives, ASCAs, MFIs and developmental finance institutions which would struggle to perform all required activities of an accountable institution and in particular the appointment of compliance officers.

The list of competent authorities[148] includes the Attorney General, Director of Public Prosecutions, Governor of the Central Bank, Commissioner General and any law enforcement agency, but excludes the Financial Services Regulator.

Summarised Customer Due Diligence (CDD) required:

- For occasional amounts below E2,500, no proof of identity, residence or income is required (subsequently increased to E5,000 by the CBS (CBS, 2013)).

- Mobile Money (MM) accounts have been granted exemption under the previous AML Act to a maximum balance of E4,000.

[148] Competent authorities is defined

- For non-MM amounts above E5,000, and when establishing a client relationship, proof and verification of identity, physical address and occupation of the person and national identity card or passport or other applicable official identifying document as well as reasonable measures to establish the source of wealth and source of property;

- For cash transactions above E10,000 and other transactions above E20,000, the source, destination and purpose of the transaction need to be reasonably ascertained.

An accountable institution is required to maintain CDD records in such a manner that they are readily accessible for five years, and capable of reconstructing the transaction. There is no stipulation requiring the retention of copies of identity documents and proof of address but the real threat of penalties attached to maintenance of records have understandably created a *de facto* requirement for photocopier facilities to be on site where such equipment can be least afforded, creating a proliferation of copies of identity documents; affecting the availability of photocopied identity documents which can be used as proof of any transaction and therefore ultimately undermining objective of the act.

There is a limit of E15,000 in cash per person in his/her personal luggage or effects when crossing the border which would criminalise transfers by taxi courier if the aggregate of funds entrusted to the driver are in excess of the limit.

The implications of the MLFTP Act for financial inclusion are partly positive in that the E5,000 threshold would assist poorer or non-monetised people who do not have ready access to identification documents and utility accounts to prove their residential addresses. The impact of the E4000 MM account limit is equally positive for the same reason, as despite having complied with RICA requirements in respect of obtaining SIM cards or mobile phones, customers only have to physically re-verify their identity in order to transact.

### 1.3.2. Employment Act, 1980

The Employment Act, 1980 provides for a maximum proportion that may be deducted from payroll by the employer, which is set by Section 56(4) as one third of wages in any period. The deductible portion includes any value assigned by the employee for the payment of any commitments to third parties. The one third is not always secure and certain as any over payment by the employer in a prior period as well as any deduction for protective clothing and tools issued to the employee may be deducted out of the third before any third party deduction is made. Also included in the one third deduction is any membership fee or contributions to organisations which the employee is a member of, for instance a SACCO or cooperative plus any garnishee order or attachment of salary by a court order. This is problematic in that some contributions to cooperatives are regular savings as opposed to debt repayment. The employee is however quite welcome to make up payments from the net pay after deductions once received.

Excluded from the one third deduction rule are tax, pension, and any repayment of an advance from the employer.

The one third deduction rule has *de facto* also become a credit or lending affordability or indebtedness standard. Although wage deductions are available and enforceable against all employers, in practice deduction orders or tri-partite agreements are in the main systematically processed only against civil service payrolls by the payroll service provider ITQNet.

### 1.3.3. Cooperative Societies Act, 2003 & Cooperative Societies Regulations, 2005

The Cooperative Societies Act, 2003, provides for the creation of a juristic person as a vehicle for members to act jointly with pooled capital for an agreed and common purpose. In form it has some elements of club or society, aspects of a trading trust and commonalities with companies but requiring far less technical financial expertise. The legislation maintains a balance between complexity and context. There were two types of cooperative societies distinguished: those with a specific savings and credit objective (SACCO), and those with a predominantly agricultural or productive activity objective, termed a Cooperative. In terms of Section 83(1) of the FSRA Act, SACCOs no longer fall under the Cooperative Societies Act, 2003 but are regulated under the FSRA by means of SACCO regulations under the FSRA Act.

The regulatory structure of a cooperatives aims to achieve an element of scale by aggregating impracticable amounts of capital and thereby accumulating funds and growth over time to reach an economic viability.

Formation requirements for a cooperative are a minimum of seven individuals with a common bond or objective, having elected a formation committee. No member may hold membership of two or more cooperatives with the same or similar purpose at the same time. Apart from administrative forms and application fees, the members must have agreed by-laws as well as a business plan and financial projections.

The legislated prudential requirements are conservative with a mandatory build-up of a reserve fund of up to 50% of the assets and thereafter a minimum of an additional 5% of the annual surplus. The manner in which the regulatory framework is structured is to create a simplified juristic person that builds non-distributable, liquid reserves incrementally and indefinitely.

There appears to be an agreement in place with the Commissioner of Co-Operatives that the FSRA will provide prudential supervision support, which seems sound although it is currently not a legal requirement and therefore may revert to the Commissioner.

Education is a legislated component of co-operatives where Section 95 specifically requires the setting aside of 10% of the annual surplus for cooperative education. At the very least, members will receive a working understanding of share capital, the functioning of juristic persons and insight into business and collective decisions.

The Act provides for the formation of an apex organisation to provide centralised support to the member cooperatives in the form of administration, logistics, financial and audit management, centralised financial facilities of member cooperative funds and group negotiation or purchasing power in relation to common goals and activities.

The agricultural orientated cooperatives tend to be predominantly rural whereas the savings and credit cooperatives (SACCOs) tend to be more urban based.

The importance of cooperatives for financial inclusion is not to be underestimated, in that they provide a communal vehicle for financial engagement and economic coordination. Cooperatives also perform an aggregation function in that they collect low value fees, repayments and contributions and deposit the funds into a small number of bank accounts in high value amounts which are then intermediated by a commercial bank. The aggregation of value essentially provides an indirect wholesale banking facility where the value of individual contributions would not ordinarily justify a retail banking service.

## Appendix 2: Overview of formal financial institutions

| | Banks | Swazi Building Society | Credit Institutions | Developmental Credit Providers | SACCOs | Retailers |
|---|---|---|---|---|---|---|
| Total Loans (E'000) | 7 403 105 | 1 119 191 | 810 397 | 301 032 | 552 000 | 428 503 |
| Total Deposits (E'000) | 8 626 479 | 650 107 | N/A | N/A | 640 298 | N/A |
| Total Accounts | 443 265 | 100 000 | 33 000 | 11 749 | 37 286 | 99 515 |
| Average NPL ratio | 4.9% | DK | 7.5% | 37.3% | DK | DK |
| Average profit margin[149] | 25.2% | 39.2% | 39.4% | 2.7% | DK | DK |
| Average RoA[150] | 2.9% | 2.8% | 10.8% | -12.8% | 2.6% | DK |
| Average interest rate earned on consumer loans | 9.7% | 8.3% | 23.9% | 11.4% | 17.4% | 17.9% |
| Average interest rate paid on consumer deposits | 2.0% | 3.5% | N/A | N/A | 8.2% | N/A |

**Table 39: Overview of key data of formal financial institutions in Swaziland**

*Source: Supply side consultations, 2013; SwaziBank Annual Report, 2012; Nedbank (Swaziland) Limited Annual Report, 2012; Standard Bank Swaziland Limited Annual Report, 2012; First National Bank of Swaziland Annual Audited Financial Statements, 2013; Swaziland Building Society Annual Report, 2013; FINCORP Annual Report, 2012; Genesis, 2013*

[149] Annual net profits as a proportion of annual revenue.
[150] Annual net profits as a proportion of assets.

## Appendix 3: Overview of microinsurance-relevant products and services

***Funeral insurance***

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **Liberty Life** | Group Funeral Benefit | Brokers and agents | Pays out lump sum to claimant on death of a principal, max 2 spouse, 4 children, 4 parents/ parent-in-law and 4 other dependent relatives; Max entry age 64 principal, 74 extended family | E5 000 - 15 000 per main member (from 2,000 for spouse, lower children) | n/a | None accidental; 6 months extended family, natural death; 24 months suicide |
| **Liberty Life** | Standard Bank Funeral Plan | Standard bank branches | Pays out lump sum to claimant on death of a principal; immediate family 1 spouse & 6; 4 Parents/ parents-in-law; 4 additional dependents (spouses &children); Max entry age 64 principal, 74 extended family | E10 000 main member | E49 principal & immediate family; Add-ons: E8 - E29 extra | None accidental; 6 months natural death & extra immediate family; 12 months parents & extra extended; 24 months suicide |
| **Orchard** | Group Funeral Benefit | Via own branch network | Funeral benefits for family (1 spouse, 6 children); pensioner; and pensioner & 1 spouse. Add on: unlimited spouse, children, 4 parents, 4 extended family members. Max entry age 65 yrs. family, 80 yrs. pensioner & spouse | E5,000 - E30 000 main member | E18 - E145<br>Add-ons: 6 -154 extra | None family, extra child, extra spouse; 6 months extended family; 9 months parent, pensioner & spouse |
| **Orchard** | Lusendo Funeral Insurance | Via own branch network | Funeral benefits for family (1 spouse, 6 children); single parent family. Add on: unlimited spouse, children, 4 parents, 4 extended family members. Max entry age 65 yrs. family, 80 yrs. parents & extended | E5,000 - E50 000 | E16 - E204<br>Add-ons: 6 -154 extra | None accidental, 6 months all except parents, 9 months parents. Suicide excluded |

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **Old Mutual** | Value Plus Funeral Plan | Agents, walk-ins | Funeral benefits for individual or family. Unlimited children at no additional cost. Up to 8 extended family at additional cost. Paid-up benefit after 10 years even if premiums cease and on death or disability of policyholder after 12 months. Double benefit on accidental death | Individual and family: E7,500 to 50 000 Parents and extended family: E5,000 to E30,000 | Individual: E105 to E800 Family: E108.75 to 1250 Parents: E90 to E1.320 Extended family: E87.50 to E1 500 depending on age and pay out. | None accidental, 6 months natural, 12 months non-accidental disability. Money back if death occurs during waiting period |
| **Metropolitan** | Sitanani Funeral Plan | Brokers, agents, walk-ins | Funeral cover with 3 levels of coverage: Silver, Gold and platinum. Lump sum paid on the death of a member.In the event of the Main Member's death or disability, the participants of the Gold and Platinum options will continue to be covered with no further premiums to be paid. Platinum option becomes paid up on retirement. | E5,000 - E30,000Double benefit for accidental death. | Silver option:Member only: E65-E243Member & Spouse: E84 - E423Family:E94-E483Extended family and parents/ parents in law (per person): E23- E531Increases with age and option selected | 6 months |
| **Momentum** | Funeral benefits | Brokers - employee groups | Funeral benefits for policyholder, spouse, 4 children under 26yrs, parents under 75yrs. Also pays out if disability while in service. Double benefit on accidental death | E20,000 for main member, spouse, lower cover for children depending on age | Depends on age and cover selected | None accidental, 6 months other |

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **Dups (*up to January 2014 underwritten by Liberty*)** | Dignified Family Plan | Walk-ins or groups | Family plan policies provide cover to policyholder, spouse and 6 children. Additional children, spouse, parents/ parents-in-law and 4 extended family members can be included at an additional cost. Children below 22 years, full time students between 22-26 years. Funeral home provides services, but policy pays allowing choice. | Individual and family cover (Under 64yrs): E3,000-E50,000<br><br>Individual and family cover (65-85yrs): E3,000-E10,000 | Individual cover (Under 64yrs) : E7-E110<br>Family cover (Under 64yrs): E25-E275<br><br>Individual cover (65-85yrs) : E36-E120<br>Family cover (Under 64yrs): E48-E120 | 6 months for groups, 12 months for walk-in clients |
| **Safrican** | Likusasa funeral benefit plan | Limited number of gents, walk-ins, groups | Individual or group plan.<br>Cash benefit in settlement of a valid death claim. Products can be tailored around a group's need. Options include:<br>i) Basic Funeral Cover<br>ii) Optional-Extended family cover<br>iii) Wider Children Benefit | Main member: E5 000 - E15 000<br>Spouse: E5 000 - E15 000<br>Children: E500 - E10 000<br>Extended family: E5 000 | Single person: E24-E36<br>Single parent & Children: E28-E42<br>Full family: E34-E59<br>Extend family (optional):<br>18-64yrs: E15 per dependant<br>65-74yrs: E39 per dependant<br>75-84yrs: E60 per dependant<br>Wider children (optional): E5 per dependant | None accidental and compulsory groups, 6-12 months voluntary groups, 9 months individual below 74 yrs., 12 months individual above 74 years |
| **SRIC** | Funeral Insurance | Various, including SACCOs, other groups, brokers | Provides funeral cover for policyholder, spouses and unmarried children up to age 21. Issued as stand-alone or as a rider to another risk policy. SRIC risk policies include life, endowment and term assurance and a mortgage protection plan | E5 000 - E50 000 | Min E25 (lower for existing clients) | None accidental, 6 months otherwise, 9 months parents |

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **SRIC** | Wonkhe Wonkhe Funeral Plan | Brokers, agents, walk-ins | Funeral cover for policyholder, spouse and up to 6 children under 21 (additional spouses & children can be added at extra premium). E10 000 cover option at higher premium for policyholders >65 age of entry. No medical underwriting. Available to individuals and groups. | From E5,000 | From E25/month | 6 months all except 12 months senior citizens. No if transferring from another funeral scheme |
| **SRIC** | Litsemba funeral scheme | Swaziland Building Society | Family funeral cover for policyholder, spouse and up to 6 children under 21. Additional spouses, children and parents can be added at extra premium. | Member: E5k to E25k<br>Spouse: E5k to E25k<br>Children: E5kto E25k<br>Parents: E3k | Family: E16.90 to E80.50<br>Additional spouse: E2.20 to E20.80<br>Additional child: E1 to E5<br>Parents: E25.50 | 3 months all, 12 for parents |
| **SRIC** | B3 Funeral plans | B3 funeral parlours | 10 different funeral plans/ cover for: policyholder only; policyholder and spouse; policyholder and a max of 5 children under 21 yrs.; policyholder, spouse and children. Option to obtain income, accident and supplementary benefits on death of policyholder. Also, an investment component and cash withdrawal for education, weddings or dowry may be allowed for certain plans. | Member: E16k to E38k<br>Spouse: E16k to E38k<br>Children: E2 to E38k<br>Parents: E20k<br>May accrue additional benefits e.g. pre-funeral fund, catering, tombstone etc. valued from E1000 to over E22000 depending on the plan | Policyholder only: E167 to E384<br>Policyholder and spouse: E172-E389<br>Policyholder plus children: E172-E389<br>Policyholder, spouse and children: E182 to E399<br>Additional child: E5 to E125 (depending on age and plan)<br>Parents and extended family: E125 each | None accidental, 12 months other |

**Table 40: Overview of funeral insurance products and services**

***Death and disability insurance***

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **Liberty Life** | Group Life Assurance (GLA) | Groups (employer) | Compulsory cover for eligible employees, pays out a lump sum to the Fund/ employer on death of member before retirement; entry age earlier of 65 or retirement age | Max 15 times employees annual salary | Calculated depending on size of the group , average age, gender and type of industry | Immediate cover |
| **Liberty Life** | Group Life Assurance with Permanent Disability (GLA with PD) | Groups (employer) | Compulsory cover for eligible employees, pays out a lump sum to the fund/ employer on death or permanent disability of member before retirement; entry age earlier of 65 or retirement age | Max 15 times employees annual salary | Calculated depending on size of the group , average age, gender and type of industry | Standard 6 months but changeable at scheme level to 12/ 24 |
| **Liberty life** | Income Replacement (PHI) | Groups (employer) | Pays a monthly benefit to an Employee who becomes totally disabled temporarily or permanently until the member recovers, dies or up to normal retirement age | 15 000 - 37 500 | Calculated depending on size of the group , average age, gender and type of industry | 1, 3, 6, 12 or 24 period selected at Scheme level |
| **SRIC** | Pure Risk Life Cover | Brokers, agents, walk-ins | Sum assured is payable to dependents on death of assured life. Minimum term 12 months | Sum assured | Min monthly premium E100 | Immediate |
| **SRIC** | Risk Plus Savings Life Cover | Brokers, agents, walk-ins | Sum assured is payable to dependents on death of assured life or maturity of policy. Minimum term 10 yrs. | Sum assured | Min monthly premium E101 | |
| **SRIC** | Personal Accident | Brokers, agents, walk-ins | Provides monetary benefit for the insured, spouse and children in the event of accidental death or disablement; and cover medical expenses related to covered accident. Must be 15 - 65 yrs. | No minimum limit cover | Min E350 p.a. | No waiting period is accidental death |

**Table 41: Overview of death and disability insurance products and services**

*Credit life insurance*

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **Liberty Life** | Vehicle Loan Protection Plan | Agent - Standard bank | Covers death and total & permanent disability of single or joint lives; Disability cover ceases at 60 yrs.; Max term 84 months | Max 500 000 | E6.17 - E24.66 for every E 1000 sum insured (age 19 to 36 yrs. age 62 to 65 yrs.) | None but exclusions may apply |
| **Liberty Life** | Personal Loan Protection Plan | Agent - Standard bank | Covers death and total & permanent disability of single or joint lives; Disability cover ceases at 60 yrs. | | Monthly | None but exclusions may apply |
| **Liberty Life** | Home Loan Protection Plan | Agent - Standard bank | Provides a death benefit and a total and Permanent disability benefit, 18 - 64 yrs. at age of commencement | E50 000 - E900 000 | Monthly, dependant on age band & outstanding loan | None but exclusions may apply |
| **Orchard Insurance Limited** | Group Credit Life | Added to own credit products | Pays up outstanding loan at time of death | Lesser of principal outstanding plus up to 3 instalments of interest payments in arrears; or E 200 000 | E1.54 per E1 000 outstanding | None |
| **SRIC** | Credit Life Insurance (Short Loans) | Agent - credit providers | Settles outstanding loan on death of assured before expiry of the loan repayment term. Loan structure should be that amount reduces linearly. Max 7 yrs | Max loan E350 000 | Dependent on profile. Usually charge a Unit Rate in respect of all the loans. Single or monthly premiums depending on scheme. | None |

**Table 42: Overview of credit life insurance products and services**

*Short-term insurance*

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums |
|---|---|---|---|---|---|
| **SRIC** | Household insurance | Mainly brokers | Cover for theft, fire, flood, etc. Pay out on first loss basis. Can cover any structure. | Min E13,000 | Rate of 2.7% p.a. for cover valued at less than E40,000.<br>Min E353 p.a. ~ E29 p.m. |
| **SRIC** | All risks (Cell Phone Insurance) | Mainly brokers | Repair, refurbish or replace upon theft, loss or accidental damage | Limited to one loss per insured | E250 per month |
| **SRIC** | Multi-Peril Crop insurance (MPCI) | Mainly brokers | Covers various perils, including drought, flooding. Application cut-off date, normally two to three weeks before planting to remove anti-selection | Cover for Total Financing =<br>Planted Area (ha) x Total Production Cost (Emalangeni/ha);<br>Cover for Total Yield = Planted Area (ha) x Long Term Average Yield (tonnes/ha) x Pre-Agreed Value (Emalangeni/tonne); not exceed 200 ha | % of sum Insured; Paid upfront |
| **SRIC** | Named Peril Crop Insurance | Mainly brokers | Farmer can choose to cover certain perils and exclude others. Mainly hail cover. Hail applications have a 48 hr waiting period and can be taken anytime during the season. Also covers livestock. | Dependent on crop value | Dependent on sum insured |
| **SRIC** | Vehicle insurance for "grey 2nd hand imports" | Through dealerships | Lower write-off limit (60% vs. 75% normal), lower premium for equivalent engine than on SA-built cars, excess cover. First loss benefits, plus third party liability cover. | Based on vehicle, typically E15,000-E20,000. Third party cover set relative to vehicle sum assured. E.g. E50,000 would include 3rd party cover up to E3m | Between 6-8% of cover |
| **Lidwala** | Sugarcane fire | Walk-ins, agents, brokers | | | |

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums |
|---|---|---|---|---|---|
| **Lidwala** | Farm comprehensive | Walk-ins, agents, brokers | personal, farming and motor insurance | | |

**Table 43: Overview of short-term insurance products and services**

*Other insurance products*

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **SRIC** | Lilunga Graduate Plan | Walk in, Agents & brokers | Education savings endowment with a minimum term of 10 yrs. The policy assists to cater for the ever escalating university costs when the child goes to university or college. | Benefits depend on term of the investment, the premiums paid, and inflation | Min E200/month | n/a |
| **Liberty Life** | Education Plan | Agent - School | Compulsory product, covers future schooling expenses of a child on death of parent or guardian | 120% of current fees multiplied by outstanding terms of schooling | 2.1% fees greater E50 000 - 8.45% fees less than E 6 000; Embedded in school fees | n/a |
| **Old Mutual** | Investment Plan | Brokers, agents, walk-ins | Min 10 year savings plan, with part-withdrawal option every 5 years. Full benefit payable on maturity or member's earlier death or disability. | Depends on monthly contribution and term. Added "24 hr health support/advice", HIV counselling & treatment following assault or accidental exposure. | Min E175/month, up to E2,000/month | n/a |

| Underwriter | Name | Distribution channel | Key features | Benefits | Premiums | Waiting period |
|---|---|---|---|---|---|---|
| **Momentum** | Momentum Managed Care Benefit Options (Imphilo) | | Offers a range of both in-patient and out-patient options. Includes funeral benefits. Premiums depend on ones earnings. (Open to corporates only) | Medical benefits: In-Hospital: E525,000 - E600,000 per family;<br>Out-of hospital: provided but value range is not easy to determine<br>Funeral benefits ranging between E1 250 - E 10 000 (contained in all Imphilo products) | Main member: E335 - E600<br>+ spouse: additional E285-E460<br>+ child: additional: E190-310 (monthly) | |
| **Getmed** | X-Care Health Protection | Broker | Various levels of dread-disease, hospital and general health care plans offered. | In-Hospital: E200,000 - E600,000;<br>Out-of hospital: About E4,500 - E7,570;<br>Chronic: No benefit - Unlimited;<br>Dental: E1,200 - E2,000; Vision: E 1,080-E1,620; and Other additional benefits as specified | Main member: E270 - E730<br>+ spouse: additional E205-E550<br>+ child: additional: E80-181 (monthly) | 31 days |

**Table 44: Overview of other insurance products and services**

# Appendix 4: Barriers and opportunities for financial inclusion per institutions

The figures that follow below highlight the barriers and opportunities for expanding financial inclusion for each of the provider institution types. The box at the top of the figure provides a brief overview of financial institution in terms of its market position, what it provides and who it serves. The figures on the left indicate which of the four financial products (credit, savings, payments and insurance) the institution provides. The graphic in the centre illustrates which target markets already have (shown by the green box) or could potentially have access to the institution. Finally, the boxes on the right hand side discuss the major barriers and opportunities for the financial institutions to increasing the uptake of their products.

## 1.4. Commercial Banks

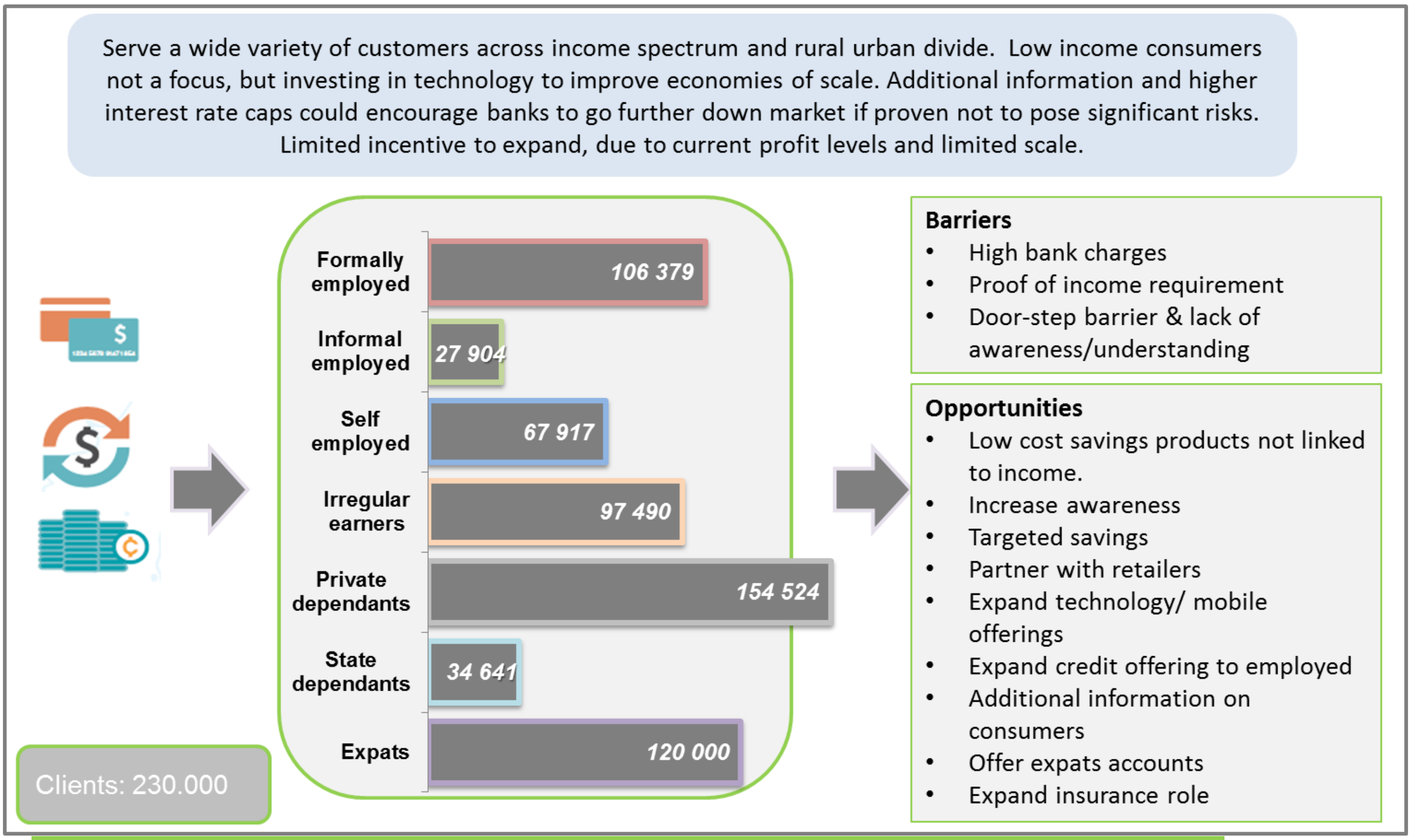


**Figure 84: Commercial banks' barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.5. The Swazi Building Society (SBS)

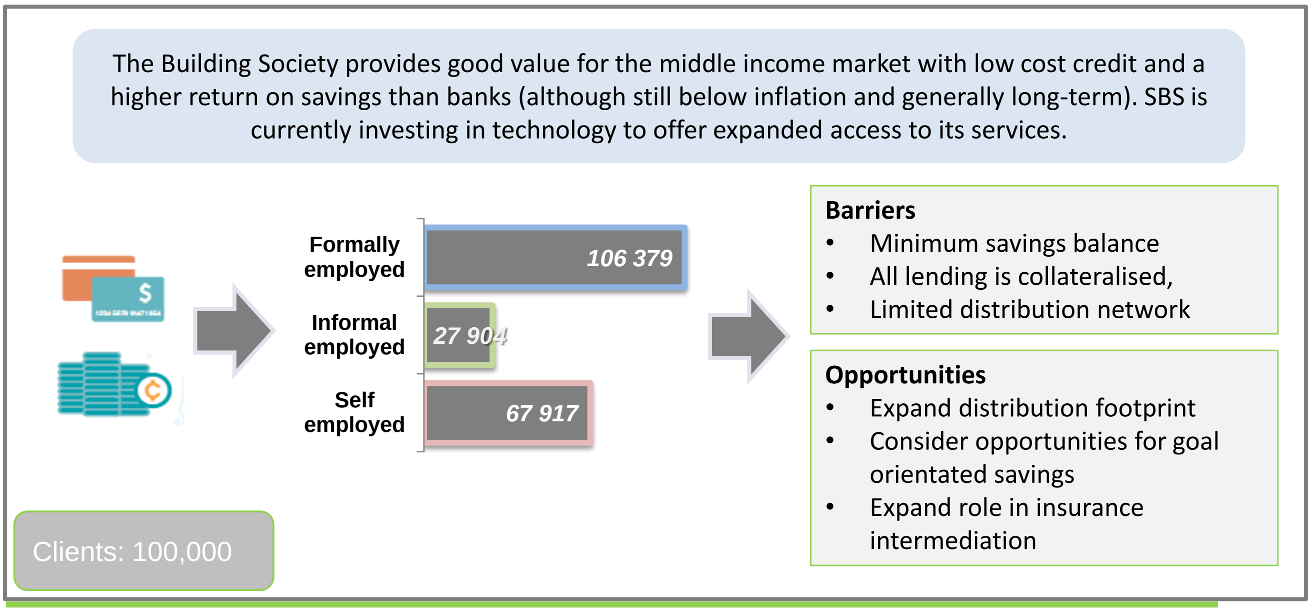


**Figure 85: The Swazi Building Society's barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.6. Credit Institutions

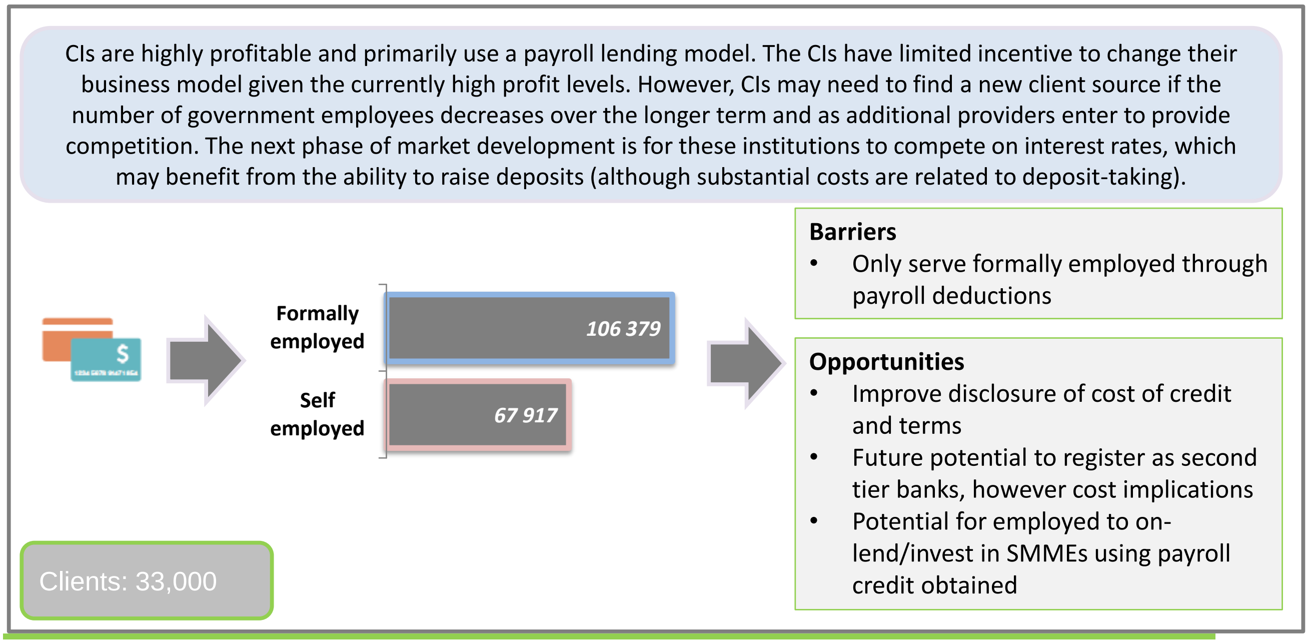


**Figure 86: Credit Institutions' barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.7. Developmental Credit Providers (DCPs)

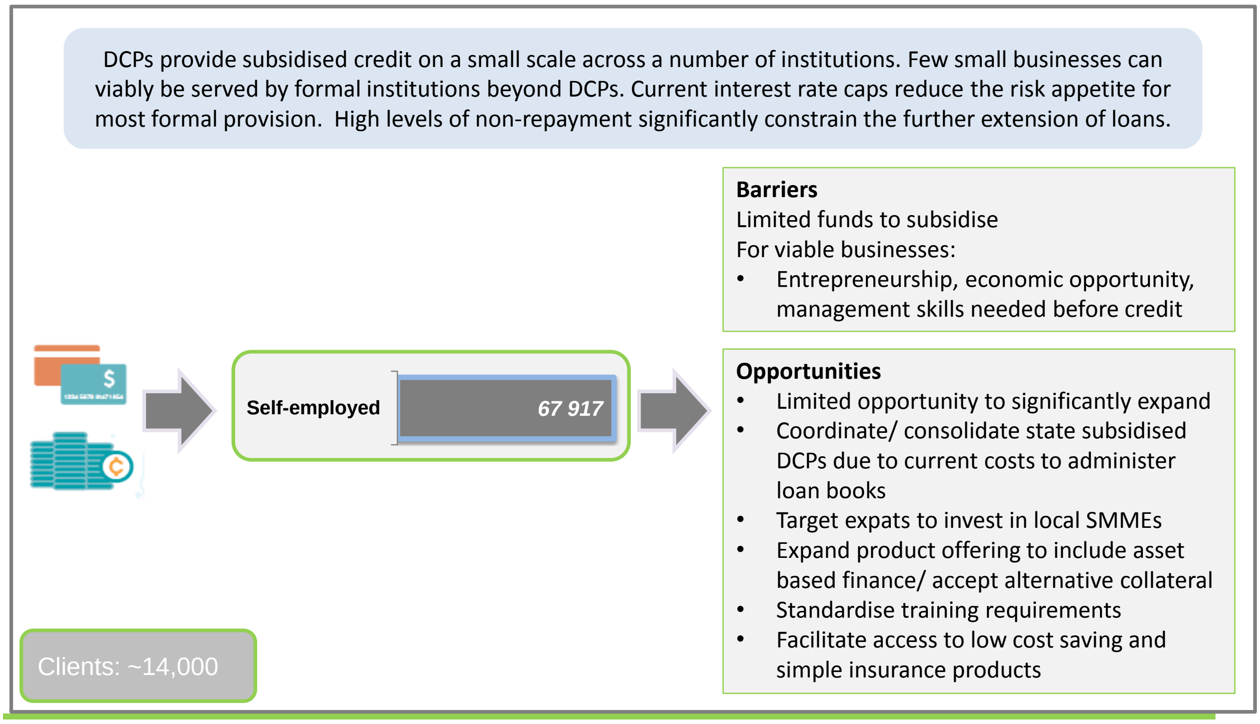


**Figure 87: Developmental Credit Providers' barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.8. SACCOs

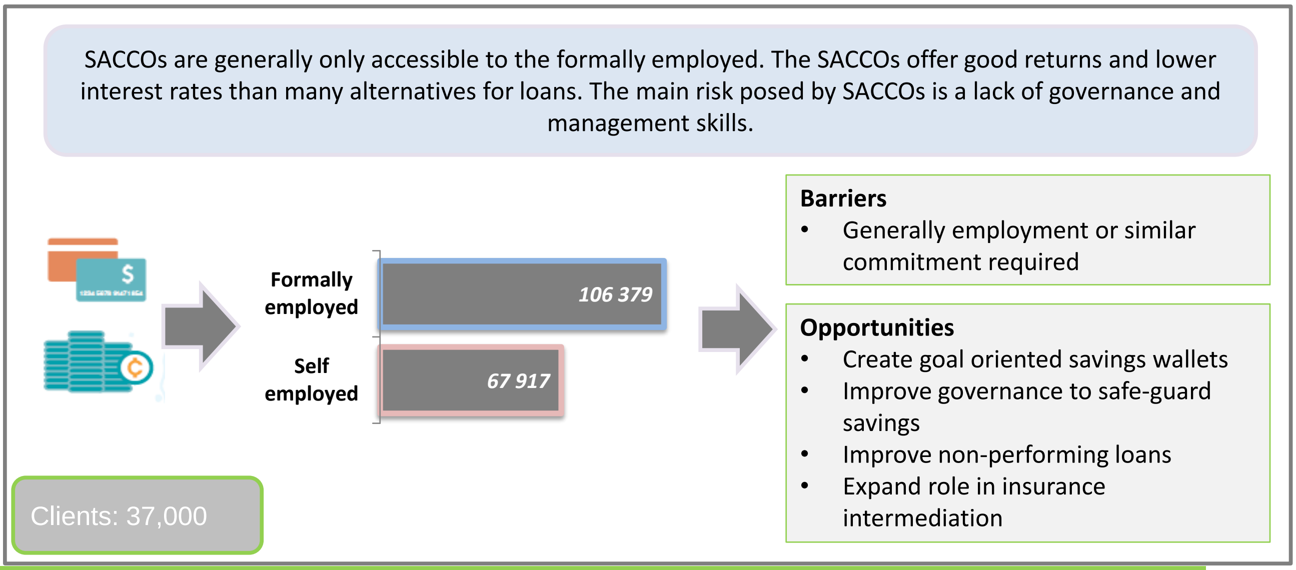


**Figure 88: SACCOs' barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.9. Insurers

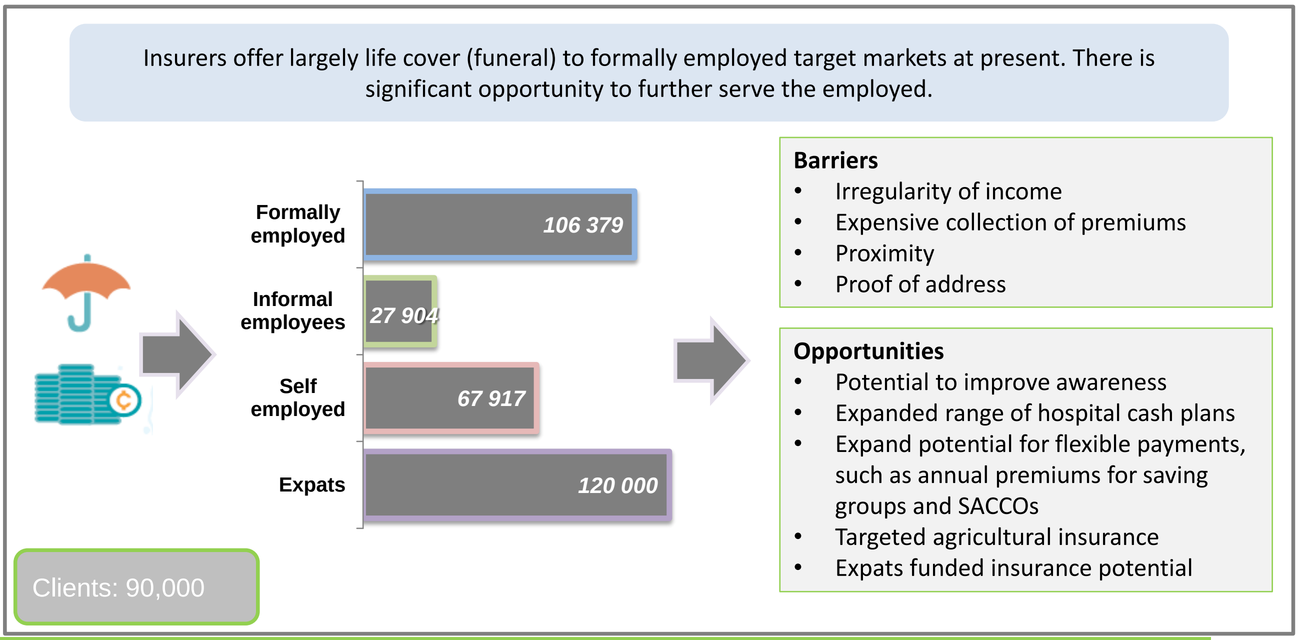


**Figure 89: Insurers' barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.10. MTN Mobile Money

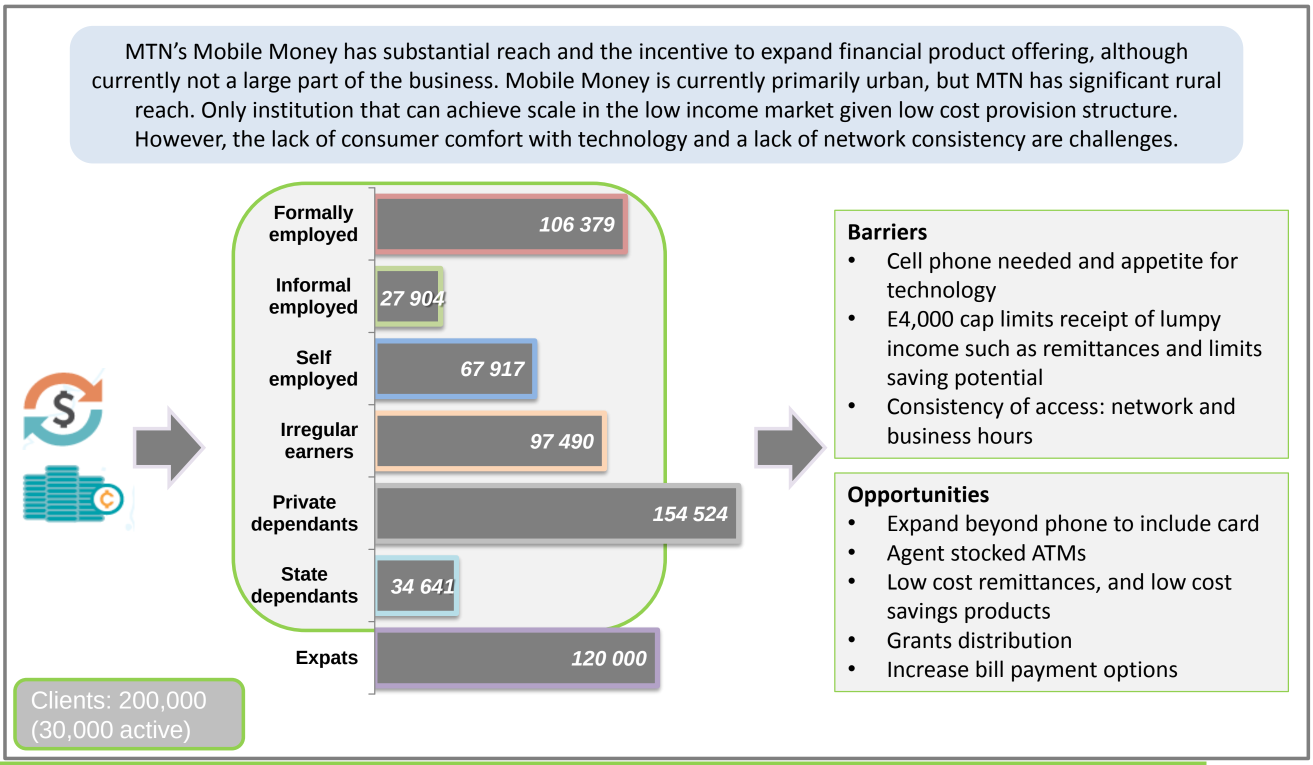


**Figure 90: MTN Mobile Money's barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.11. Retailers

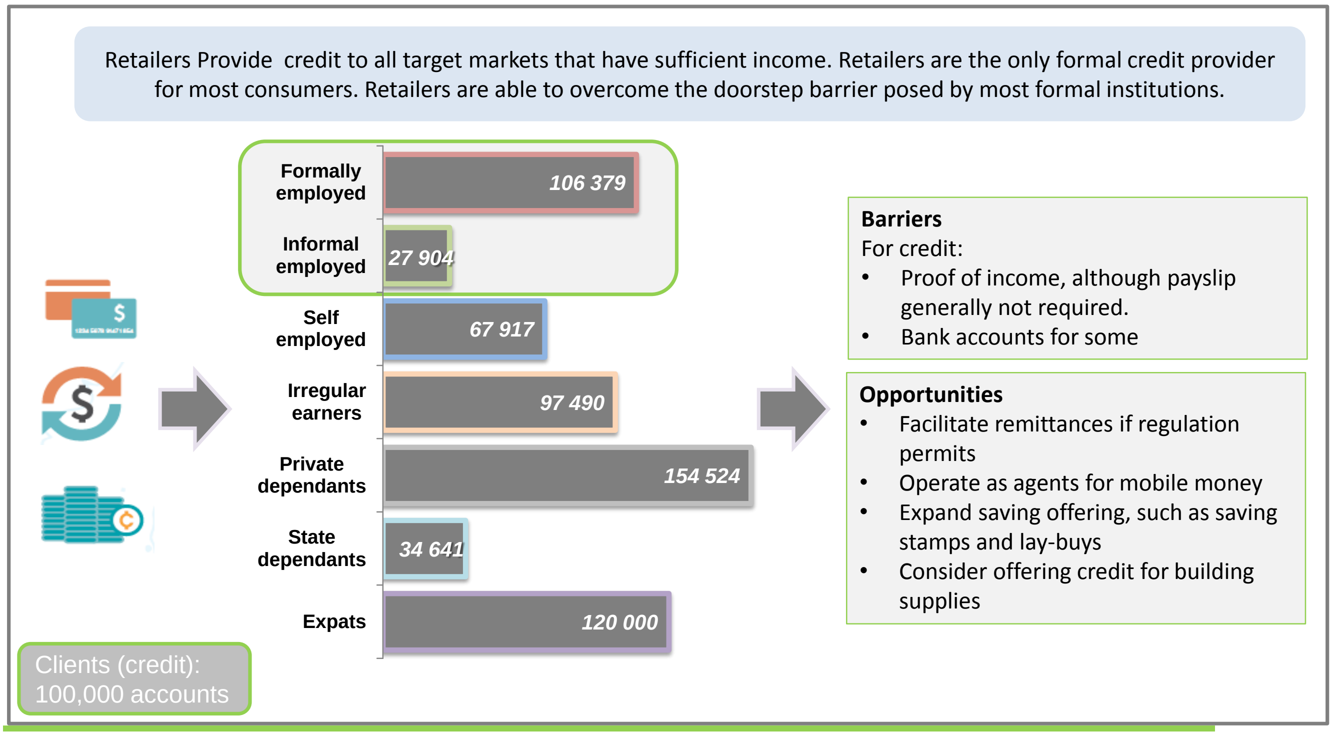


**Figure 91: Retailers' barriers and opportunities for financial inclusion**

*Source: Authors' own; FinScope, 2011*

## 1.12. Post Office

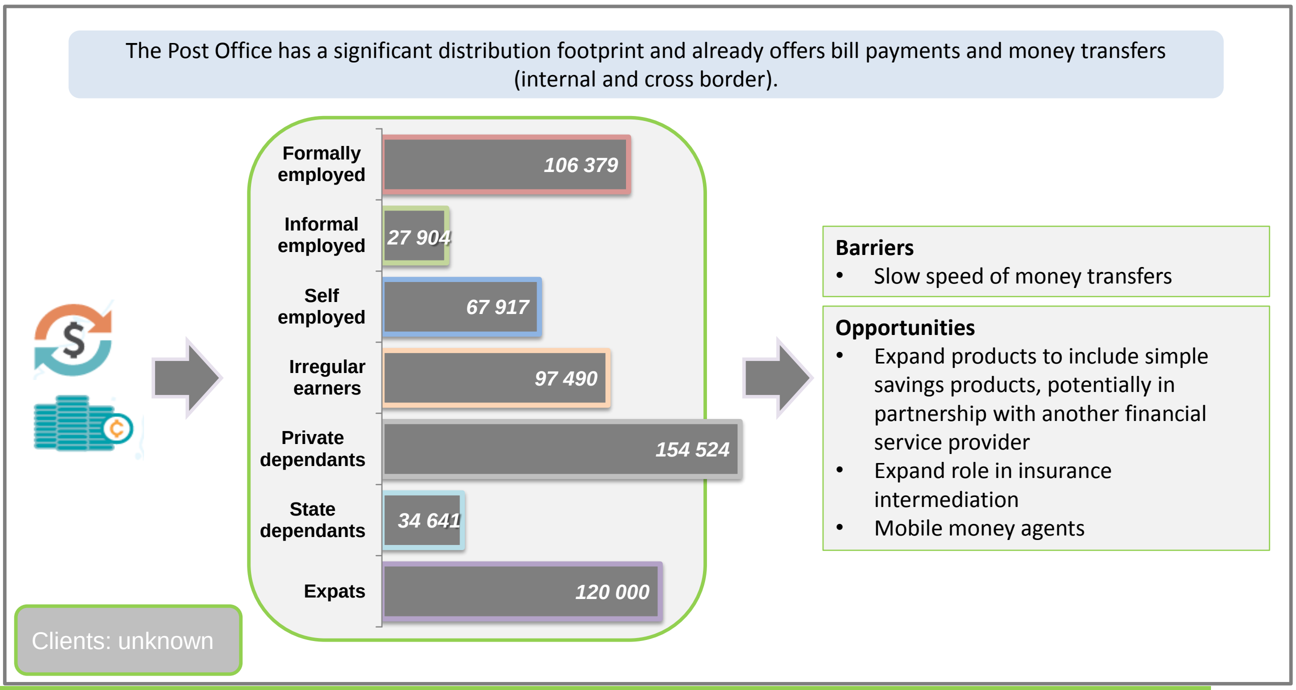


**Figure 92: Post Office's barriers and opportunities for financial inclusion**

*Source: Authors' own from FinScope, 2011 and consultations with SPTC, 2014*

## Appendix 5: Insurance performance analysis

*Sound financial position*. Despite a downward trend, financial soundness of the life industry remains good at a solvency ratio of more than 120%. Likewise, the short-term industry is in a sound financial position.

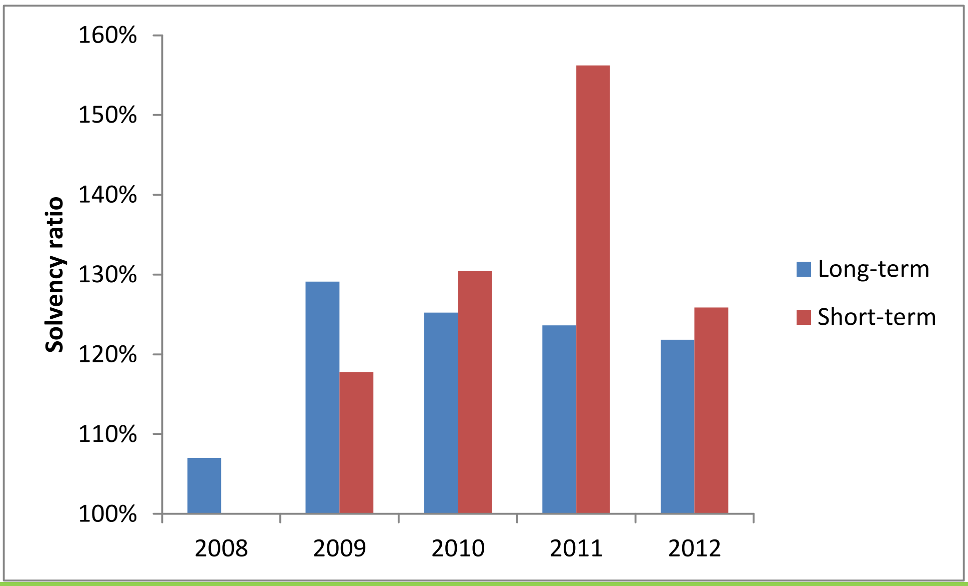


**Figure 93: Solvency ratios**

*Source: RIRF data*

*Generally profitable, short-term more so than long-term*. Figure 94 shows trends in return on equity for long-term and short-term insurers, respectively:

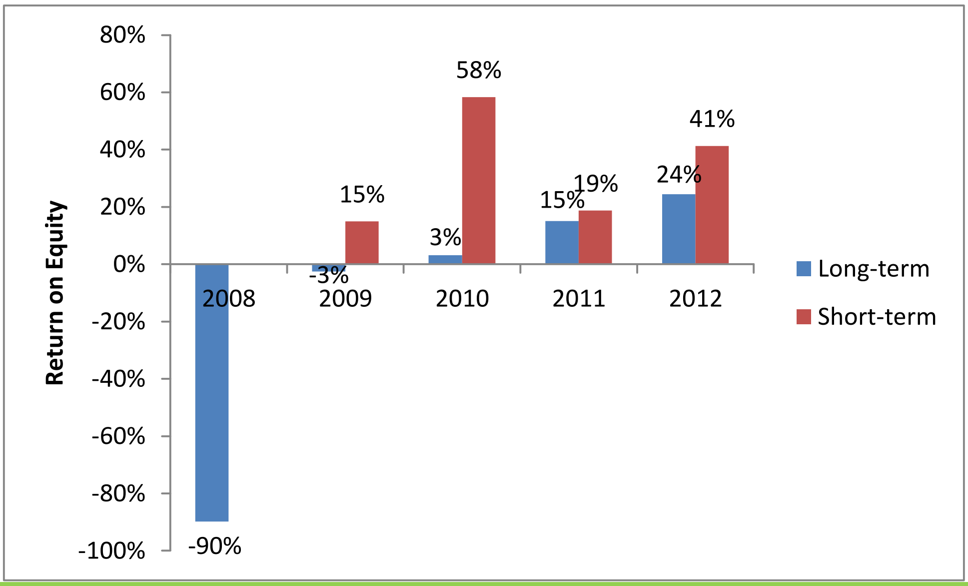


**Figure 94: Return on equity**

*Source: RIRF data*

For long-term insurers, return on equity grew steadily from a trough of -90% in 2008 to 24% in 2012. This was due to a sharp jump in equity between 2009 and 2010,[151] as well as a compound annual growth rate in net profits of 31% over the period (reversing losses in 2008 and 2009[152]). Note that profits in the long-term industry stem solely from investment returns. In line with relatively mature life insurance markets internationally, the long-term industry in Swaziland maintains a combined ratio (claims ratio plus expense ratio) of well above 100%. This means that premium income is not sufficient to cover claims and expenses and the industry relies on returns on its investments to generate profits.

On the short-term side, the return on equity is relatively high, at 41% in 2012. Net profit grew at a compound annual growth rate of 54% between 2009 and 2012, while equity grew at 10% over the same period. At a combined ratio (claims and expenses) of around 70% of net premiums, the short-term industry already makes a profit on its underwriting business. To that are added profits from investment returns. Fluctuations in net profit in 2009 and 2011 can be ascribed to poor investment returns.

*Apparently good client value on long-term side*. Claims ratios in excess of 60% are generally thought to provide good value to customers. Long-term claims ratios in Swaziland are high (in excess of 100% most years). This suggests an underwriting loss, with profits being made purely from investment returns. It can also suggest that prudence is being built into reserves, implying that the percentage of premium set aside for reserving is higher than will actually be needed for future claims. Reserves have grown at a compound annual growth rate of 54% over the period, while premiums have grown at 21%. As group life reserves grow in line with premium growth, this suggests growth specifically in retail life business.

All in all, the high claims ratios are indicative of a competitive industry and suggest that customers receive good value.

*Short-term insurance provides questionable value*. Claims ratios in the short-term industry have remained consistently low, declining from 45% in 2009 to 37% in 2012. This suggests poor value to customers. The low claims ratio suggests that there is no substantial undercutting of rates by new entrants. A combined ratio of approximately 70% in the short-term market means that there is scope to improve the claims ratio and, hence, value to customers. This scope will increase even more, should efficiency gains reverse the increasing operating expense trend (see below).

*Increasing short-term operating expenses a warning signal.* In the short-term industry, the total expense ratio increased steadily from 25% in 2009 to 34% in 2012. This is driven largely by an increase in operating expenses from 18% of net earned premium in 2009, to 25% in 2012. Acquisition costs have also risen slightly: from 6% in 2009 to 9% in 2012:

[151] This was due to a substantial increase in retained earnings.
[152] The loss in 2008 is due to negative investment returns due to the global financial crisis, while the loss in 2009 is the result of a large increase in operating expenses (105%) as well as an increase in reserves materially higher than increase in premiums (96% and 69% respectively).

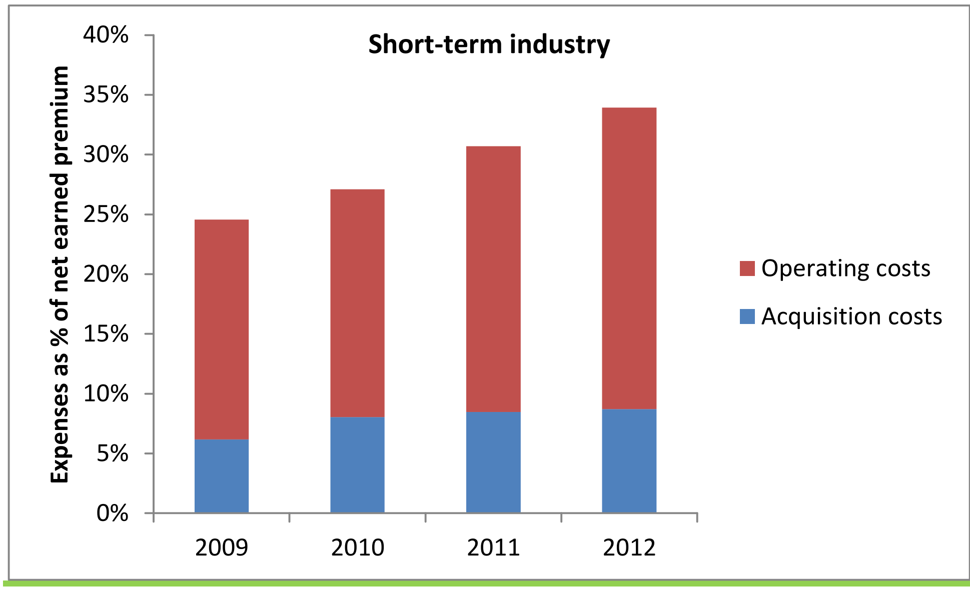


**Figure 95: Total expense ratio trends in the short term insurance industry**

The increase in acquisition costs suggests that brokers are still holding the balance of power in the short-term market and may possibly even be using new entrants to raise commission levels. A closer look at operating costs suggests that the establishment cost of new players is largely behind the rising costs at an industry level, as SRIC's operating expenses as a percentage of net premium have increased more slowly than that of the industry as a whole.

Both acquisition and operating expenses are growing faster than premiums (which over the same period grew at a compound annual growth rate of 8%). This situation is not sustainable in the long-term. The relatively low combined ratio (due to low claims ratio) means that profitability is still sufficient to continue to absorb rising expenses for a number of years. From an efficiency and client value point of view, this is however not a desirable scenario.

*Reducing expenses in long-term industry, but efficiency gains still possible*. The total expense ratio (the sum of acquisition costs and operating costs) for the long-term industry has been reducing slightly in recent years to 28% in 2012:

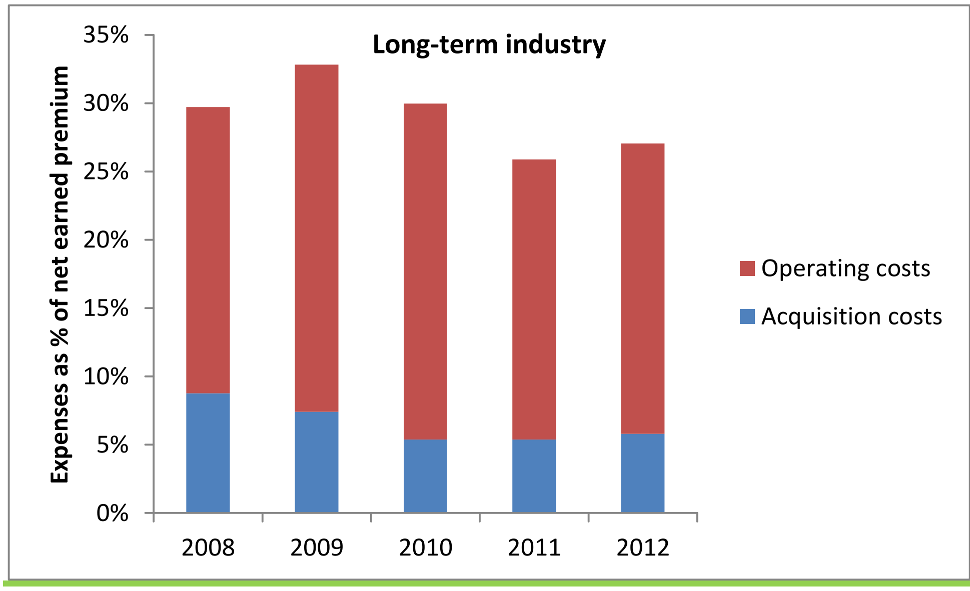


**Figure 96: Total expense ratio trends in the long-term insurance industry**

A reducing expense ratio means that expenses are growing slower than premiums. Operating expenses as a percentage of premiums have remained in the low 20%'s and are growing more or less at the same rate as premiums. This suggests that there is no evidence of economies of scale yet and that efficiency gains could still be had. Rather, the decline in the total expense ratio is driven by a reduction in acquisition costs (which is largely comprised of commissions). This could be indicative of a decrease in broker dominance as more insurers start to emphasise agent or direct sales.

## Appendix 6: Relative value proposition of insurance versus credit for financial inclusion

*Credit outweighs insurance as coping mechanism.* FinScope findings indicate that 25% of those that in the past year experienced an illness in the household that required medical expenses borrowed to cover the cost, while only 3% claimed from insurance. 22% borrowed in order to meet funeral and other expenses when a household member died, while once again only 3% claimed insurance. Does this mean that credit offers better value than insurance? The FinScope data implies that people either think credit offers better value or that there are significant barriers to obtaining insurance.

*Value of insurance trumps informal credit*. Below we outline the results of a modelling exercise that aimed to assess the relative value proposition of insurance vis-à-vis credit. Using funeral expenses as an example, the findings suggest that insurance does indeed offer better value than informal credit for most low-income Swazis, though the finding is less clear-cut for formal credit. Thus usage and access barriers to insurance uptake, rather than a lack of value, would explain the low insurance uptake.

In order to assess the relative value proposition of insurance vis-à-vis credit, we assumed the incidence of a funeral costing E10,000 and asked whether it would make more sense to cover the cost by insurance or credit. The following assumptions were used in the calculations:

- A funeral insurance risk premium of E16.67 per month[153].
- The analysis covers a 12-month period.
- A lower-bound estimate of risk aversion based on empirical research in this regard[154]. This means that we conservatively assumed people to be less risk averse. More risk-averse individuals would place greater value on insurance[155].
- How valuable a service is perceived to be depends on the utility derived from it. Theoretically, utility is stated relative to the level of wealth that a person has. Assumptions based on financial diaries data were used to derive a crude estimate of the relationship between income levels (which are available for Swaziland) and levels of wealth (for which specific data is not available). Note that, while the income conclusions in the analysis below are thus indicative rather than conclusive, the exact income to wealth ratio is unlikely to affect the overall conclusion.
- The relative value proposition of insurance also depends on the cost of the alternative, namely credit. We used three credit interest rate scenarios: 3% per month (which is roughly in line with interest charged among formal lenders), 20% per month and 30% per month (the latter two representing the lower and upper bound range of informal interest rates as indicated in qualitative demand-side research).

[153] Note that this is the risk premium and not the actual premium charged to the consumer (the gross premium). The gross premium depends on the assumed claims ratio. For example, a 70% claims ratio implies a gross premium of 16.67 / 0.7 = E23.81 per month.
[154] Based on discussions with a leading scholar in this regard.
[155] In the graph below, higher risk aversion will shift the curves down, making insurance more "valuable". Therefore the graph can be considered to be worst case scenarios for insurance (or best case scenarios for credit).

The following graph illustrates the findings:

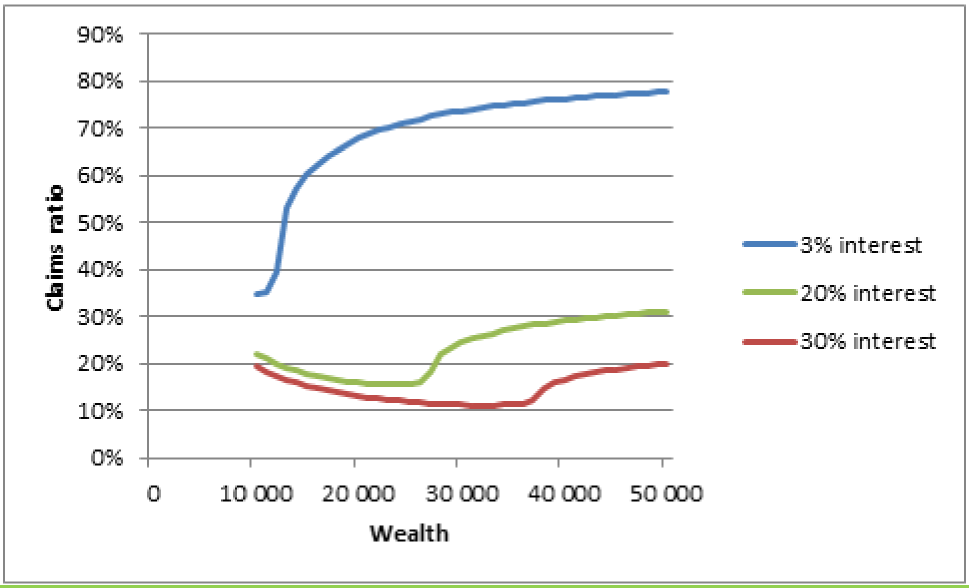


**Figure 97: Insurance claims ratios at which funeral insurance value proposition would exceed that of credit**

The curves on the graph show the claims ratio at which insurance becomes more "valuable" than credit for each of the three credit interest rate scenarios. Any claims ratio above the curve means that insurance is more valuable and any claims ratio below means credit is more valuable.

*What does this tell us?*

The curves indicate that credit at 30% interest definitely offers worse value than insurance. Insurance claims ratios would have to be lower than 20% for credit to even have a chance of offering better value. This is not the case in Swaziland.

The same goes for credit interest rates of 20% per month: claims ratios must be lower than 30% before credit begins offering better value than insurance, even for more wealthy individuals.

Relative value is less clear cut when comparing insurance against the formal credit market (at roughly 3% interest per month). Funeral insurance claims ratios, calculated as the percentage of premiums paid back to customers in the form of claims, are in the order of 50% to 60% in Swaziland. On the graph, this would mean that insurance provides better value for wealth levels of up to about E15,000, above which credit begins offering better value. The majority of the Swazi population earns less than E2,000 per month (FinScope, 2011), which roughly equates to wealth of around E25,000. It is therefore not clear cut whether insurance provides better value than credit for the average low income Swazi adult, should they borrow from the formal sector.

However, as the qualitative market research and credit market analysis in Section 6.1 indicate, most Swazi adults indeed do not access formal credit and are unlikely to be able to do so soon. Instead, many turn to informal money lenders for lumpy expenses such as a funeral. For them, it would clearly make more sense to have had insurance than to take out a loan at informal market interest rates. This highlights the imperative of overcoming both usage and access barriers to insurance.

## Appendix 7: List of supply-side meetings

| Date | Institution Name | Institution Representatives |
|---|---|---|
| 2013/10/21 | Ministry of Finance | Victor Nxumalo |
| | Department of Cooperatives (non-Financial Services) | Thembelihle Khanyile |
| | Central Bank (Deputy Governor) | Sibongile Mdluli |
| | | Gcina Nxumalo |
| | | Wellington Motsa |
| | | Linda Khumalo |
| | MoComm SMME | Michael Zwane |
| | Central Bank (National Payment System) | Linda Khumalo |
| | | Fikile Shongwe |
| | Financial Intelligence Unit | Zwelethu Desmond Jele |
| | Youth Fund | Sandile Bhembe |
| | Old Mutual | Dantago Nico Haobeb |
| 2013/10/22 | First National Bank | Hezekiel T Nsibandze |
| | | Lomakhosetve Nzuza |
| | | Zama Dlamini |
| | | Nkosi Nzuza |
| | Swazi Royal Inns | Zama Ngcobo |
| | Shoprite | Albert Fakudze |
| | Building Society | Timothy Nhleko |
| | | Tina Khoza |
| | Central Bank (Banking Supervision) | Wellington Motsa |
| | Pension and Insurance Adjudicator | Doris Shabalala |
| | FSRA (Non-bank Credit and Savings Institutions) | Ncamiso Ntshalintshali |
| | Central Bank (Credit Guarentee Scheme) | Gcina Nxumalo |
| | Imbita | Sibongile C Mthembu |
| 2013/10/23 | World Vision | Precious N Mdluli |
| | MTN | Mbongeni L Mkoko |
| | MICT | Andrea Dlamini |
| | | Dudu Sihloyonyone |
| | SwaziBank | Enock Mavimbela |
| | FINCORP/ First | Dumisani Msibi |
| | Swaziland Industrial Development Company | Silungile Ntshalintshali |
| | Microfinance Unit | David Myeni |
| | FSRA (Registrar of Capital Markets) | Mbongiseni Nkambule |
| | Safrican | Zandile Mabundza |
| | Technoserve | Cooper Swift |
| 2013/10/24 | Nedbank | Fikile Nkosi |
| | | Dean Adams |
| | | Phesheya Nkambule |
| | Dups | Kevin Thring |

| Date | Institution Name | Institution Representatives |
|---|---|---|
| | | Bongani Shongwe |
| | | Neli Desousa |
| | Financial Services Regulatory Authority (FSRA) | Sandile Dlamini |
| | | Ncamiso Ntshalintshali |
| | | Thuli Nkwanyana |
| | Letshego | Mbuso Dlamini |
| | Swaziland National Agricultural Union | Zwelisha Motsa |
| | Swaziland Association of Savings and Credit Co-operatives (SASSCO) | Grace Dludlu |
| | Sugar Cane Growers' Association | Peter Ginindza |
| 2013/10/28 | The Federation of Swaziland Employers and Chamber of Commerce (FSE & CC) | Bonisiwe Ntando |
| | | Celani Dlamini |
| | SME Networks | Lyndon Hermanson |
| | Select | Wesley Groening |
| | Standard Bank | Nelus Agenbach |
| | | Ricky Holloway |
| | Inhlanyelo Fund | Wandile Kunene |
| | Ministry of Tinkundhla | Dambuza Ntshalia |
| 2013/10/29 | PEP stores | Arno van Rooyen |
| | Blue Financial Services | Reginald Vilikazi |
| | Swaziland Stock Exchange | Peace Mabuza |
| | | Sipho Dlamini |
| | GetMed | Montie Lloyd |
| | SEDCO | Bheki Dlamini |
| | Swaziland Revenue Authority | Ayanda Ziyane |
| | | Ntombifuteni Nhlengethwa |
| | Ministry of Labour and Social Security | Cleopas Sibanda |
| 2013/10/30 | DataNet | Moray Clayton |
| | ITQ Net | Robert Oude Vrielink |
| | NybSys | Moshtaq Ahmed |
| | Ministry of Economic Planning | Albert Ncibi |
| | Ministry of Health | Siviso Mavuso |
| | Swaziland Sugar Association | Walter Matsebula |
| | | Sikhumbuzo Dlamini |
| | Momentum Metropolitan (MMI) | David Takis |
| 2014/02/05 | Swaziland Post and Telecommunications Corporation (SPTC) | Shongwe Phumelela |