Making Access Possible

Swaziland

Financial Inclusion Country Report

2014

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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.

At country level, the core MAP partners collaborate with Government, other key stakeholders and donors to ensure an inclusive, holistic process. MAP Lesotho represents a partnership between the United Nations Capital Development Fund (UNCDF), the Centre for Financial Regulation and Inclusion (Cenfri) and FinMark Trust for the Development of a Strategic Framework for Financial Inclusion in Lesotho.

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

The cover symbol

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

ABOUT MAP SWAZILAND

This Diagnostic report presents a comprehensive analysis of the financial inclusion environment in Swaziland as part of the Making Access Possible (MAP) Swaziland initiative. MAP will be used to inform the Swazi government's approach to financial inclusion. 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.

The MAP Diagnostic comprises a comprehensive country context, demand-side, supply-side and regulatory analysis. The supply-side analysis covers the markets for payments, savings, credit and insurance, respectively. Hence the report provides an understanding of access to financial services in a broad context. The demand-side component includes an analysis of access, usage, perceptions and attitudes of financial services by different target groups. The demand-side analysis draws from quantitative data provided by the Swaziland FinScope Consumer Survey 2011 and qualitative research in the form of focus group discussions, immersion visits and key informant interviews[1].

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.

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Acknowledgements

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

The Financial Inclusion Task Team including the Ministry of Finance, Financial Services Regulatory Authority (FSRA), Central Bank of Swaziland and the Microfinance Unit provided guidance and support throughout our research process, as well as highly valued feedback on our findings. The FinMark Trust country coordinator, Sabelo Mabuza, provided invaluable assistance: organising countless meetings, conducting research, arranging mystery shopping exercises and providing us with insight into Swaziland and its people.

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

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
ROSCA	Rotating Savings and Credit Associations
RSSC	Royal Swazi Sugar Company
RTGS	real time gross settlement system

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.

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

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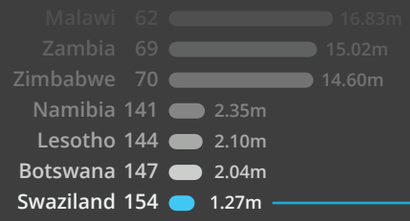
Key facts



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

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

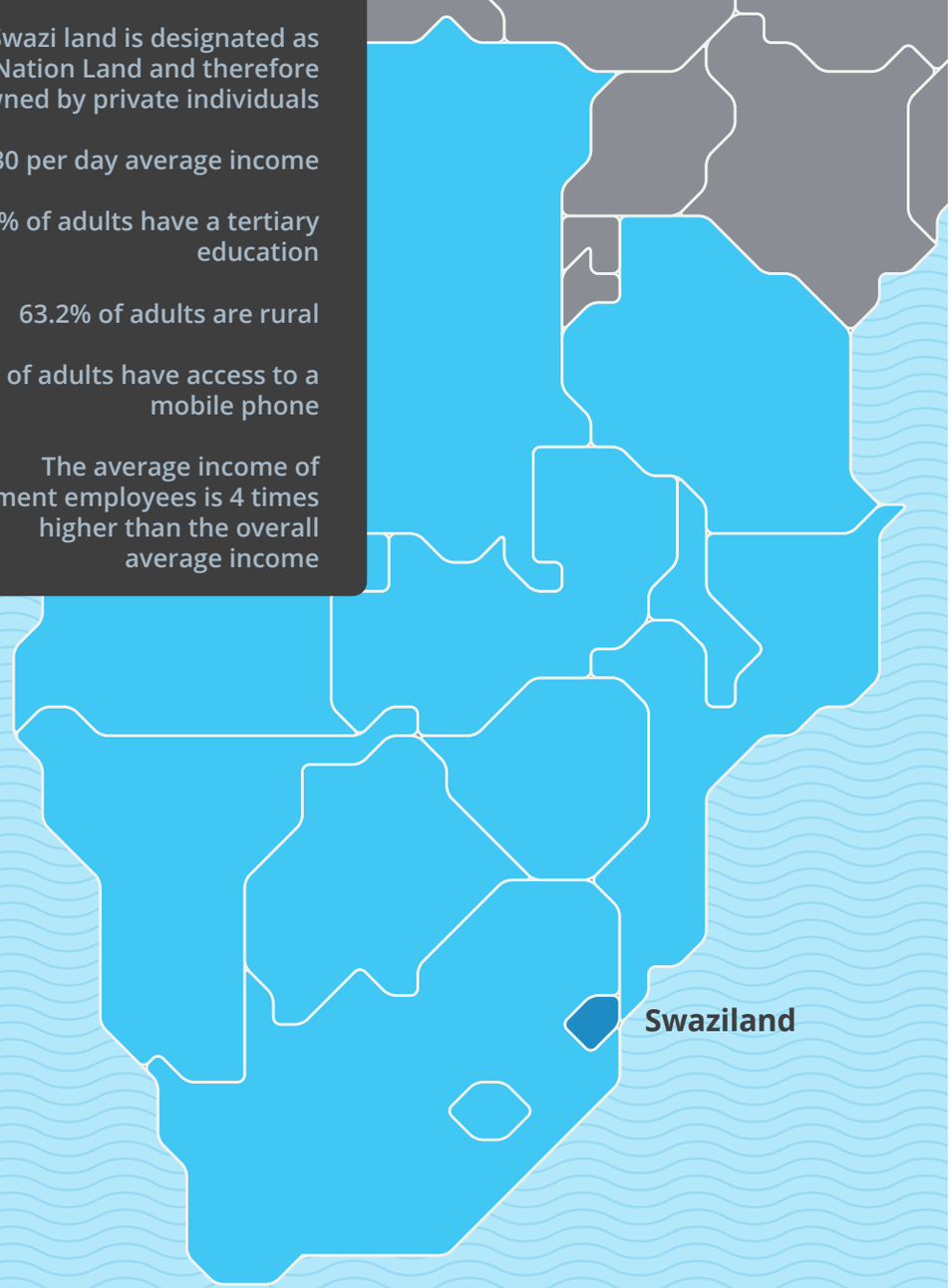
$3.30 per day average income

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

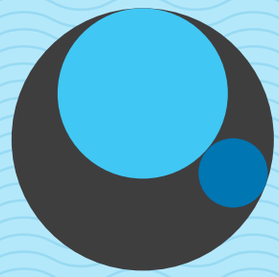
PRIORITY AREA 4: INSURANCE TO BETTER MANAGE RISKS
Only 15% of Swazis have non-funeral insurance

PRIORITY 5: REDUCING CREDIT COSTS AND PROTECTING CONSUMERS
Bank credit is only provided to 7% of adults

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

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

MAP IN 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."

Why focus on financial inclusion? 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. The MAP approach pursues financial inclusion not in and of itself, but in support of enhanced welfare and an impact on the real economy, namely those activities that contribute to GDP and economic growth[2]. Economic theory[3] 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 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.

Why conduct MAP in Swaziland? 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.

The value of MAP. 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.

MAP puts the demand-side perspective – the customer and his/her needs – at the core of the analysis and recommendations. 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 segments 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. The strong demand side focus and the segmentation tool employed, enables MAP to identify the specific needs of specific groups of consumers, rather than treating all individuals alike. This creates the opportunity to identify more specifically targeted actions and to prioritise those which will have the largest impact on overall consumer welfare. Furthermore, MAP looks at financial inclusion across all four product markets: credit, savings, payments and insurance; which allows for a holistic analysis of the financial sector, taking into account the inter-linkages between product markets.

1 Cross-cutting drivers of financial inclusion

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 environment in transition. The financial services landscape is governed by two authorities: the Central Bank and the Financial Services Regulatory Authority (FSRA)[4]. Broadly, the Central Bank governs banks and FSRA governs non-bank institutions. Due to insufficient transitional arrangements and consequential amendments[5], there is uncertainty in the market regarding the jurisdiction of the two authorities where certain entities are concerned, such as credit institutions[6] and the Swaziland Building Society.

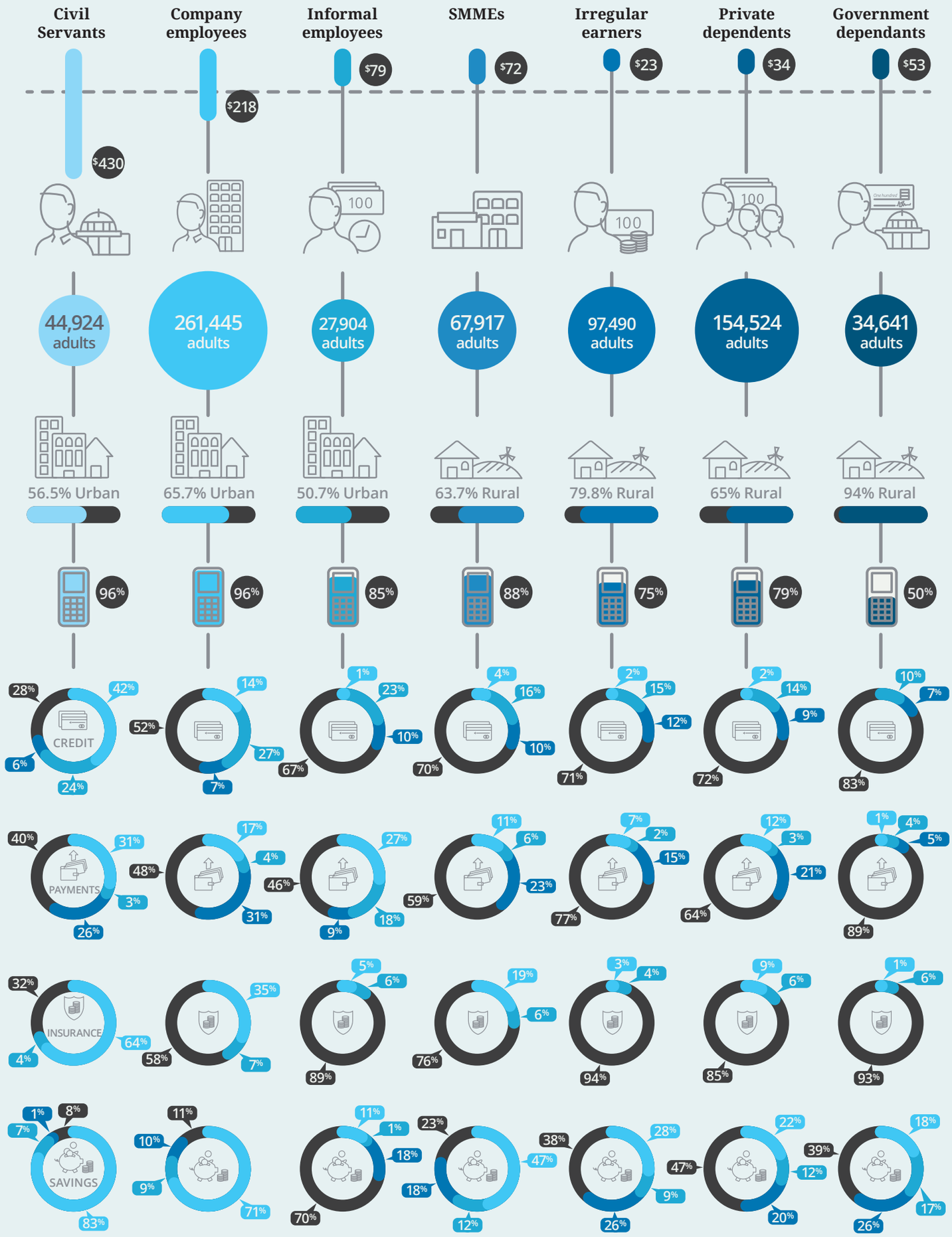
A number of elements in the regulatory framework facilitate financial inclusion, including:

- 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 banking, such as 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:

- 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[7].
- 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.

Figure 1: Target markets for financial inclusion in Swaziland
Source: FinScope, 2011



2 The Swazi consumer

Average income of adult population: $102

1.2m adults in Swaziland

63% of adults are rural

82% of adults own a cell phone

Key

Formal

Informal

Family and friends or self

Excluded

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 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.

2.1 Segmenting the market

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:

- **Civil servants** 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** 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** are adults whose main source of income is salaries or wages from an individual or a farm.
- **Self-employed** 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** 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** 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** are adults whose main source of income is a grant from the government, notably old age pensions.

Salaried workers 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, 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.

Company employees are the second best served target market and as with the salaried workers are not the primary target market for financial inclusion due to their already relatively high levels of access to finance. However, as with the salaried workers they do play a significant role in supporting others and therefore access to effective remittance channels and their scope to leverage asset-based and other finance for productive purposes can benefit those in other segments.

Informal employees' profile suggests that they 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 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 are largely excluded from financial services. Their economic profile suggests that irregular earners' strongest financial service needs are to mitigate risks and to store irregular earnings safely.

Private dependants have a particular need for flexible product features due to the irregularity of their income. 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 dependants 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.

Given the large number of Swazi citizens living outside the country, primarily in South Africa, this group is considered as an additional target market. 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.

Expat Swazis' primary need is 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.

3 Overview of financial sector institutions

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[8], 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.
- ***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.[9]

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:

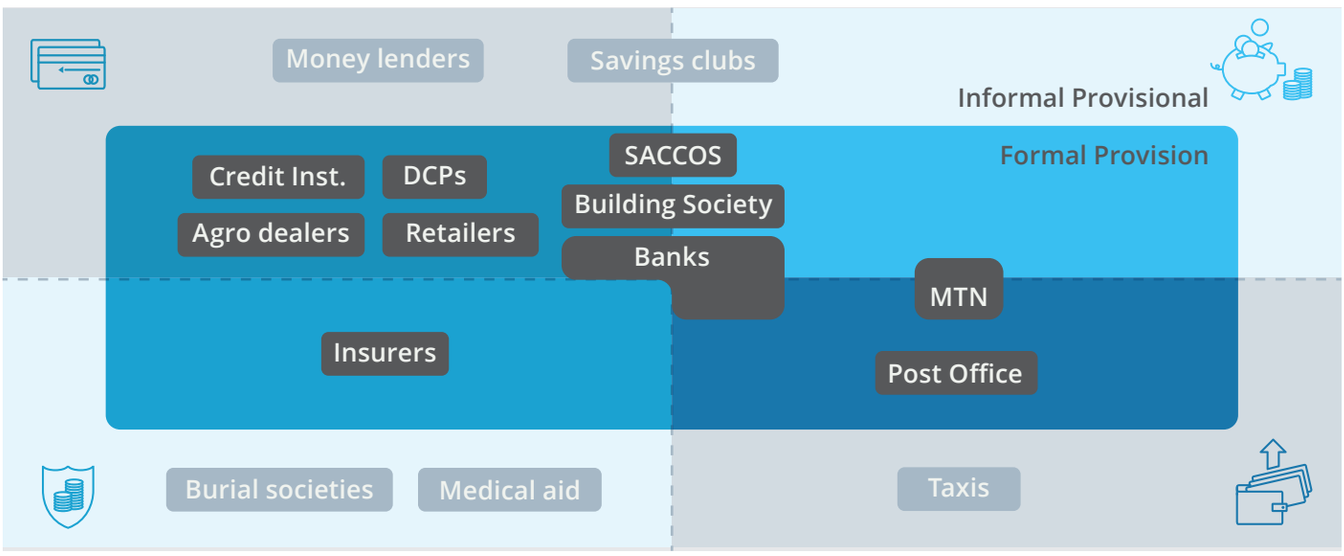


Figure 2: Provider landscape overview
Source: Authors' own representation based on various sources

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 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.

4 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.

4.1. 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 M48 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

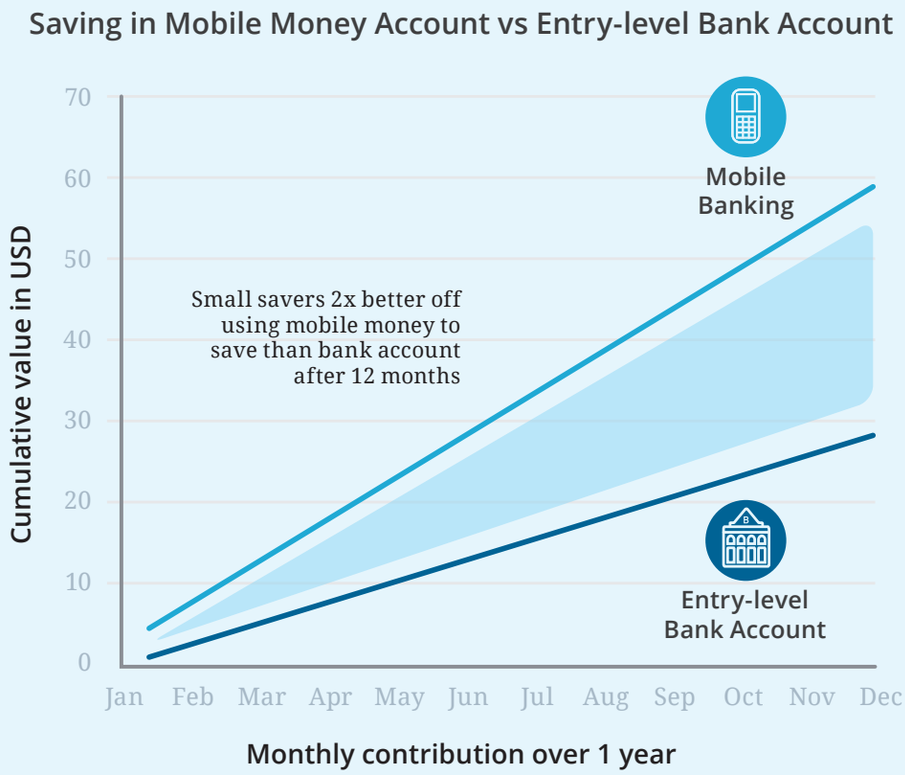


Figure 3: Saving in a MTN Mobile Money account vs an entry-level bank account
Source: Mystery shopping, 2014

the end of the year compared to 45% through the average entry level bank account (as illustrated in Figure 3 below). 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 basis for credit extension by other providers
- Explore the potential to transfer funds from bank accounts into mobile money accounts

4.2. Formal domestic and cross border remittance products to support vulnerable dependent groups

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 three 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.

4.3. 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 awareness and disclosure critical to deepening bank reach. Greater awareness of available bank products by customers, 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[10]. 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

Documented international experience on deepening bank reach (GAFIS, 2013) suggests a number of recommendations for Swaziland:

- 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 six 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

4.4. 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.

4.5. 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[11]. 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.

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 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*
- 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 terms*
  - *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

"Access and flexibility come at a price though: informal market interest rates are several multiples of that charged by formal players."

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.

5 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

"Retailers and mobile money providers are well positioned to offer domestic and cross border remittances."

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.

6 Regulatory imperatives

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

Improve information available 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 recourse 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.

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 dependants in terms of remittances, to fund educational/health products for dependants, 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.

6.1. Recommendations for the 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.

6.2. Recommendations for the 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 medical 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

7 Going forward

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.

In this report MAP has identified five priority areas which will provide the largest marginal gain in welfare through the extension of financial services. Addressing these areas will require a coordinated effort across institutions, product categories and market segments, in order to ensure that the underlying market inefficiencies are adequately addressed and the opportunities capitalised on. It will also require the government to work together with other stakeholders such as the private sector, development partners and sector experts. To assist these stakeholders address the opportunities in harmony, a MAP Roadmap has been developed and discussed by the MAP Task Team. The roadmap outlines in further detail the programme of action necessary to address the identified priority areas.

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Endnotes

1. For more information on the research methodologies and scope of the qualitative research conducted, please refer to "Making Access Possible qualitative demand report: Swaziland", 2014.
2. It goes both ways, however. The real economy and broader country context also impact the scope for financial inclusion by determining the realities within which the target market functions.
3. See, for example: Calderón & Liu (2002), King & Levine (1993), and Levine (1997)
4. FSRA was established by the FSRA Act in 2010.
5. 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.
6. Credit institutions are defined by legislation. Credit institutions currently offer personal loans through payroll lending.
7. 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.
8. The everyday, common names are used for the financial service providers, with their full legal identities introduced in the body of the full diagnostic document.
9. 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
10. 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.
11. Based on FinScope Small Business Surveys conducted in these three countries.

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