MAKING ACCESS POSSIBLE: Democratic Republic of the Congo

Presentation of Results

Presentation to stakeholders
Kinshasa, 9 May 2016

cenfri

FINMARK TRUST
Making financial markets work for the poor

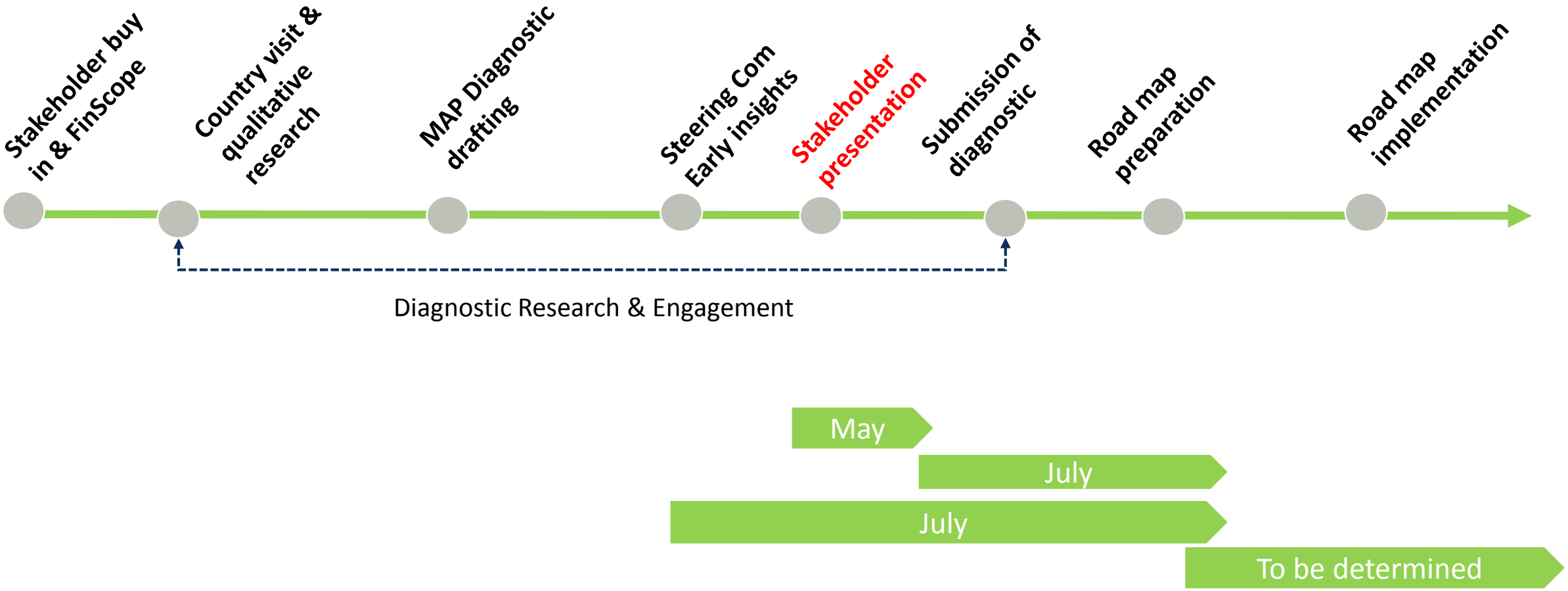
UNCDF

Agenda

- MAP approach
- Why financial inclusion?
- State of financial inclusion
  - Consumer perspective
  - Provider overview
  - Policies and regulation
- Where to focus?
- Potential actions

MAP approach

MAP Process: Where are we



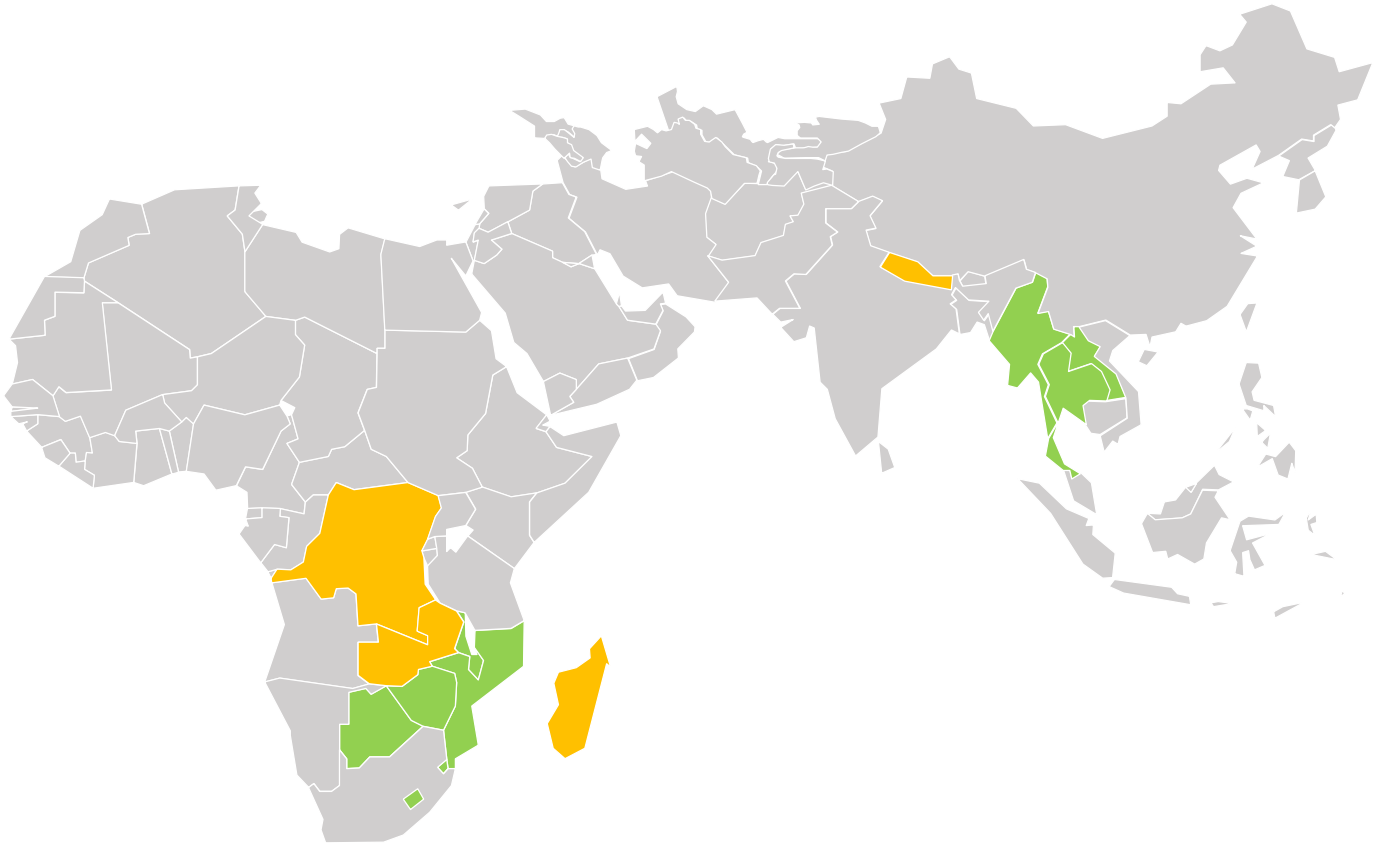
MAP: Where is the process being undertaken?

Completed

Botswana
Lesotho
Malawi
Mozambique
Laos
Myanmar
Swaziland
Thailand
Zimbabwe

Underway

RDC
Nepal
Zambia
Madagascar



MAP Process: Diagnostic inputs

Uncover discrete target markets and needs cases

Demand

- FinScope 2015
- Consumer interviews (2015)
- Household survey (INSS)
- Survey 1-2-3

Product and provider landscape (informal and formal)

Supply

- Interviews (2015)
- Annual reports
- Product data
- Mystery shopping
- FSAP (IMF)

Public policy objectives and regulatory context

Regulation

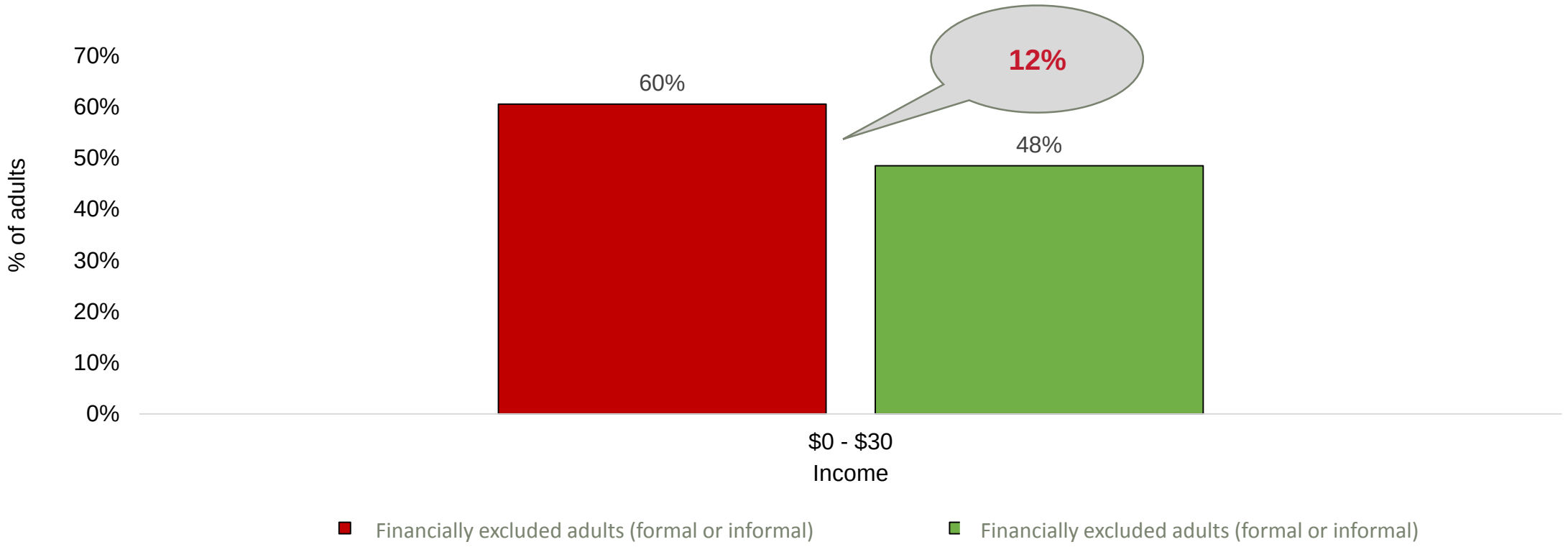
- Interviews (2015)
- Regulatory and policy review

Financial inclusion priorities

Why financial inclusion?

Why financial inclusion? Welfare improved with financial inclusion

A large proportion of adults surveyed, with revenues of less than a dollar a day, indicated that they had to miss a meal, not send their children to school, or have not been able to pay their healthcare fees.

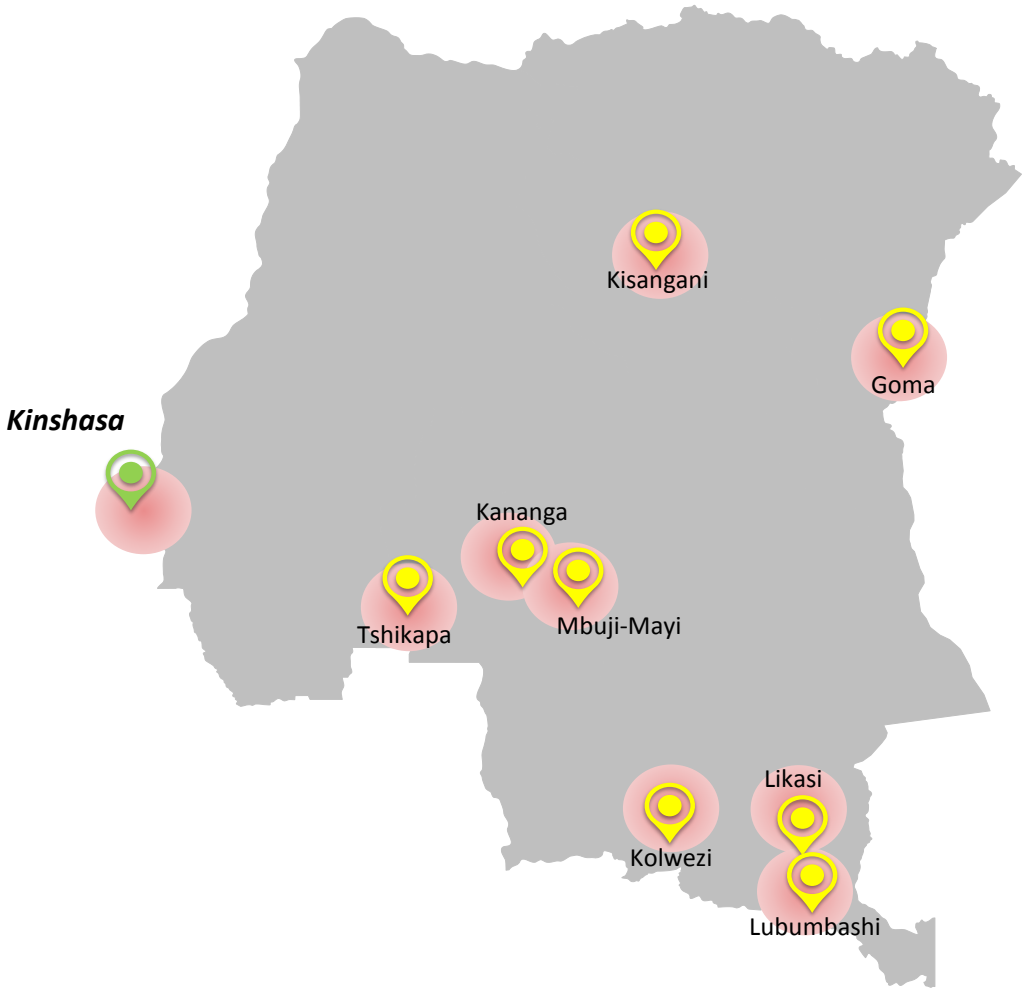


Source: FinScope Consumer Survey DRC, 2015

Why financial inclusion? Important role to enable government development objectives

POLICY GOAL	FINANCIAL INCLUSION ROLE
Improve welfare, stabilisation & human development	• Improve ***reliability*** and ***speed*** of income receipts • Improve efficiency of payments for ***goods and services*** • Improve tools to ***manage risks and liquidity*** • Enable **asset accumulati**on for education & health and improve resilience to shocks
Improve growth and employment	• Mobilise and intermediate savings for ***investment*** • Enable financial services for Farmers **and MSMEs** • Attract ***remittances*** and enable diaspora financial services

Context very tough for inclusion

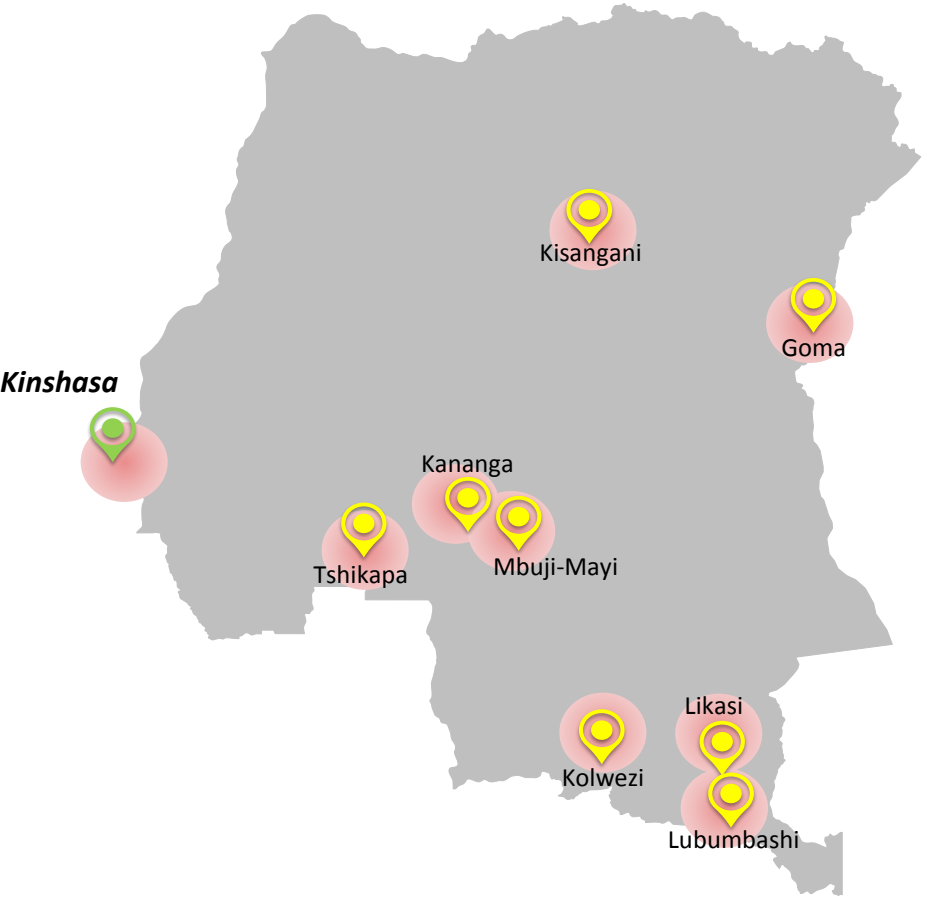


- **Poverty and human development:** HDI of 0,433/1,0 (176/188), GDP per capita of $442, GDP of $33bn
- **Infrastructure constrained:**
  - Road infrastructures: 153 497 km (2,794 km paved)
  - Population accessing electricity: 5%
- **Big country:**
  - 2.344.858 km² (country comparison to the world: 11)
  - ~ 75 million inhabitants
- **Reliance on agriculture:** 55% rely on agriculture
- **Informal economy:** >9 in 10 depend on informal economy
- **Young population:** 60% under 20 years
- **Ease of doing business constrained:** 187/189
- **Ongoing conflict and security concerns**
- **Significant urbanisation & migration:** 4% urbanisation, 9m live abroad

Sources: FinScope (2015), Ease of doing Business report (X), PWC Africa Gearing Up Report (N/D), UNDP Human Development Report DRC (2014), World Bank (2016), CIA World Factbook (2016)

Consumer perspectives

Consumer perspective: Target markets – Kinshasa to deep rural



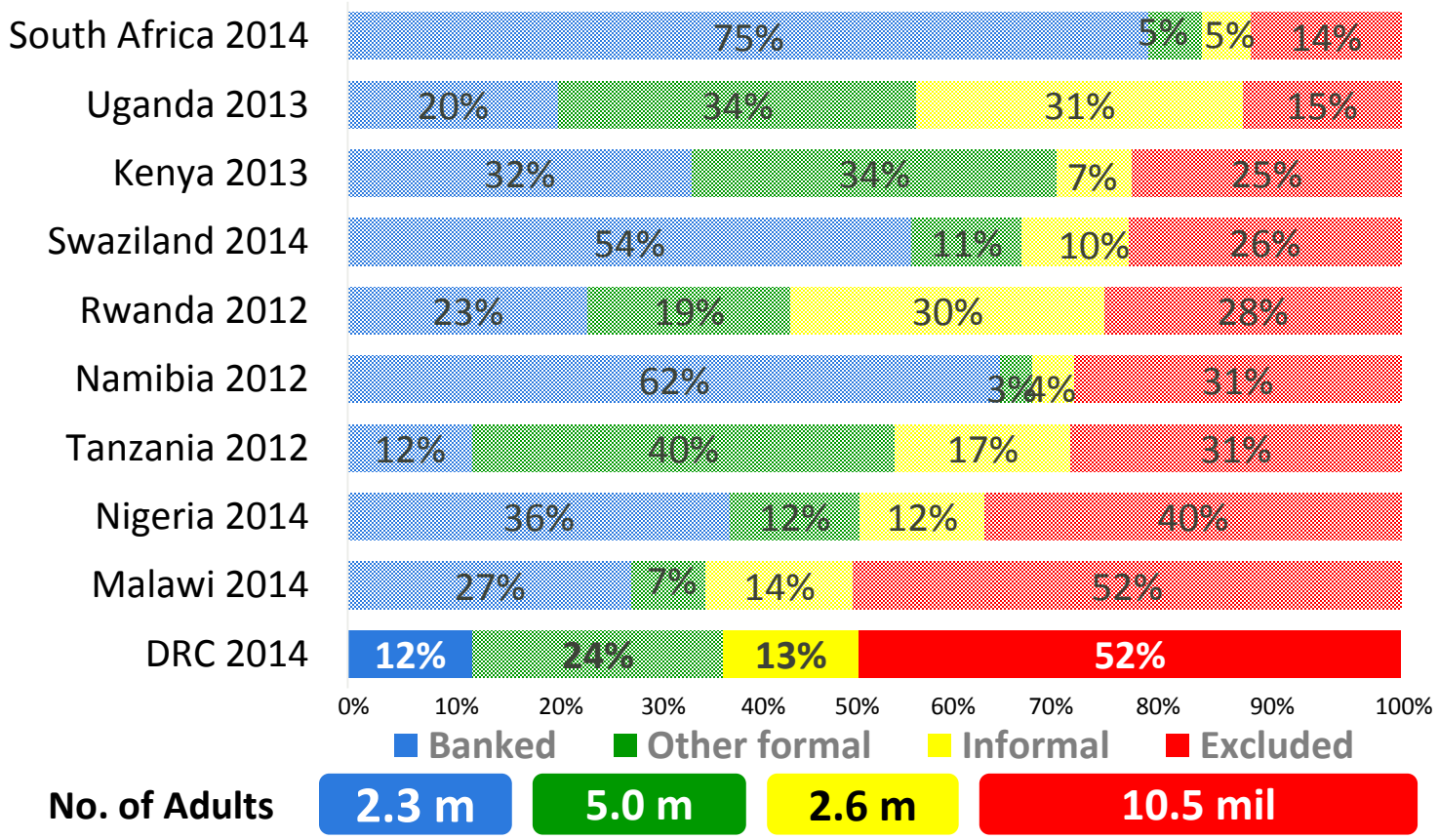
	Deep rural	Rural	Other urban	Kinshasa
Secondary education	26.6%	46% (highest for 41%)	75% (highest for 56%)	72% (highest for 55%)
Average monthly income	$31.10	$58	$94	$118
Own a mobile phone	??	70%	83%	89%
Heard of mobile money	??	18%	49%	57%
Average time to nearest bank branch	??	2 hours	55 minutes	58 minutes
Average time to nearest ATM	??	2.5 hours	49 minutes	57 minutes
% of adult population	48%	28%	15%	10%
No. of adults in FinScope	N/a	11 million	6 million	4 million

Source: Authors own calculations based on FinScope 2015 & Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages, 2015

Consumer perspective: Low take-up of financial services – significant opportunity to extend

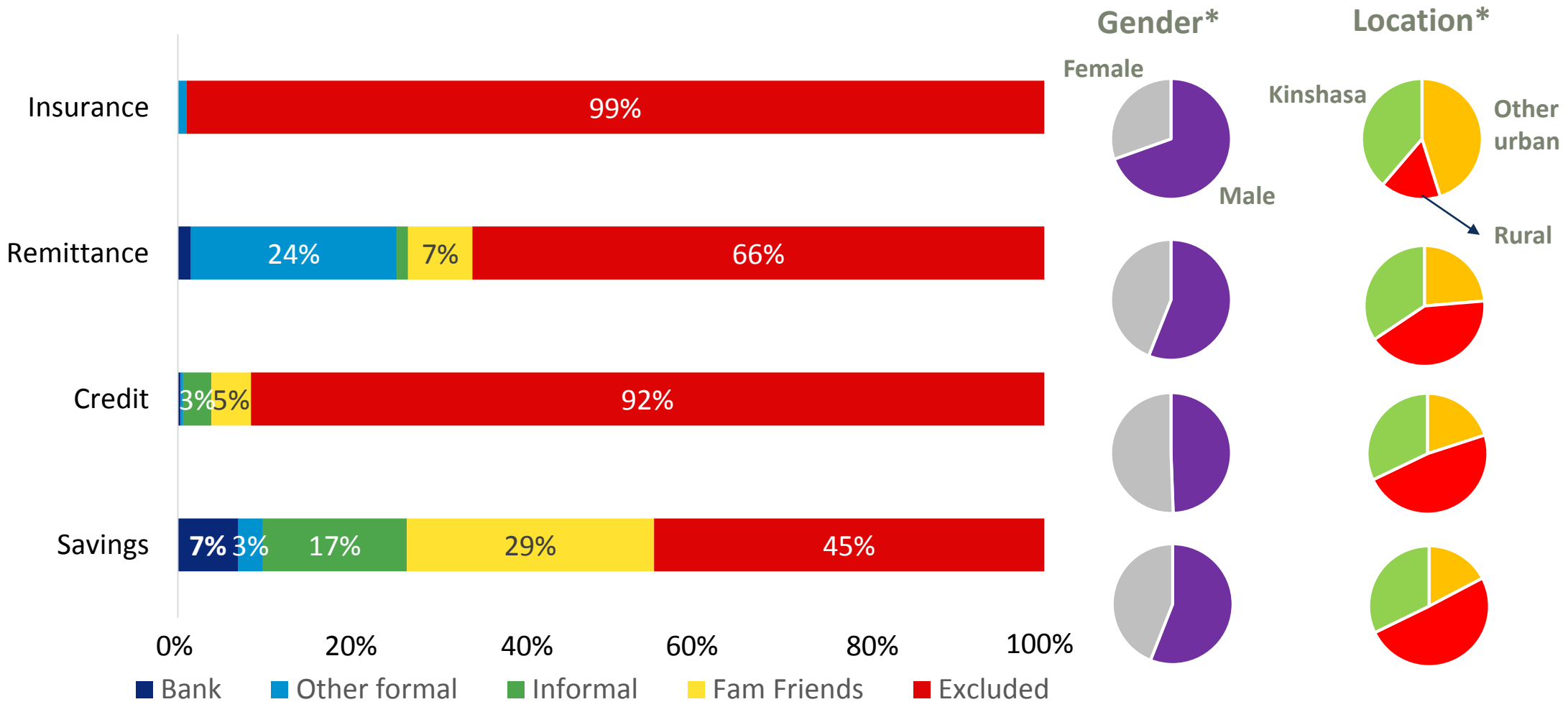
Even wealthy are excluded

- **~ 900k adults:** earn more than $200 pm with no formal access
- **~1.5 mil:** earning between $100-$200 pm with no formal access
- **Half** of those with accounts use them only once a month or less



Source: Authors own calculations based on FinScope 2015 & Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages, 2015

Consumer perspective: Savings most common, remittances drive formal up-take



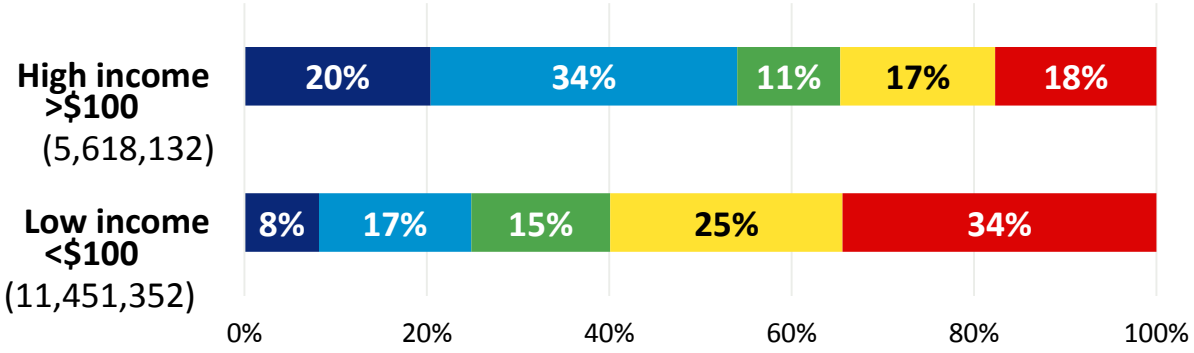
**Gender and Location split for individuals indicating that they have any type of product within the specified category*

Source: Authors own calculations based on FinScope 2015 & Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages, 2015

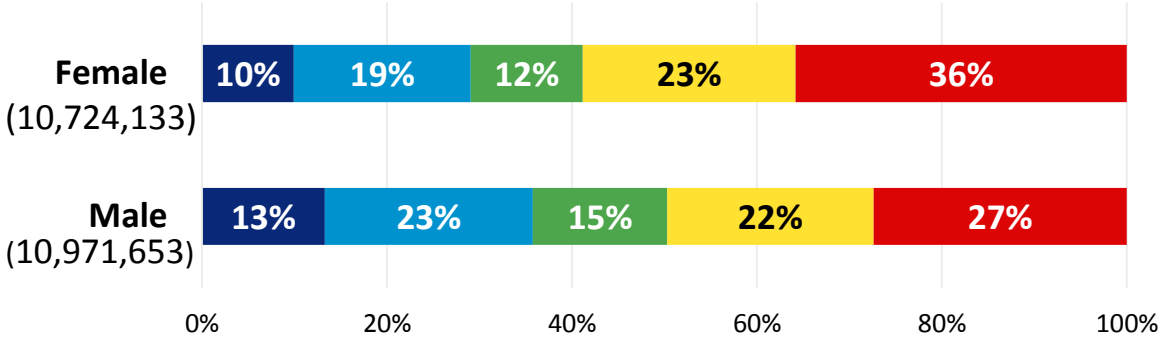
Consumer perspective: Income, gender, geographic, target market

Banked | Other formal | Informal | Family and friends | Excluded

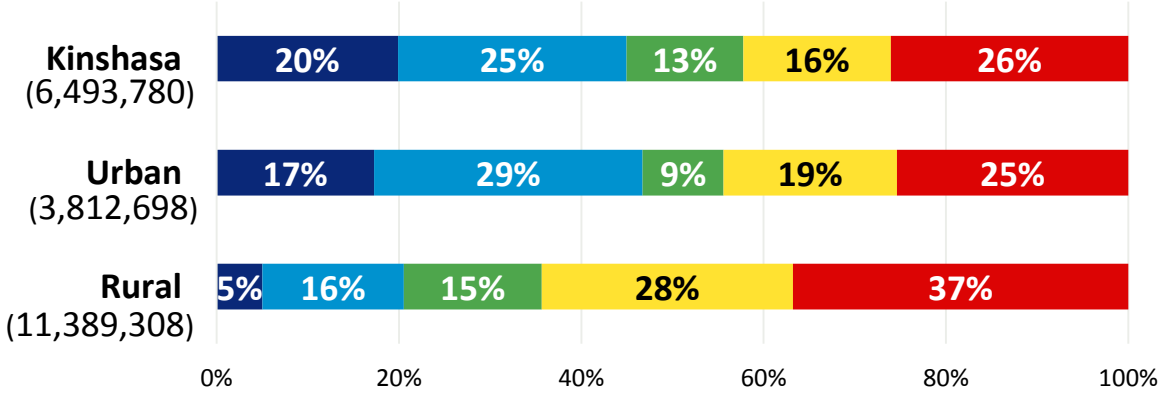
Income



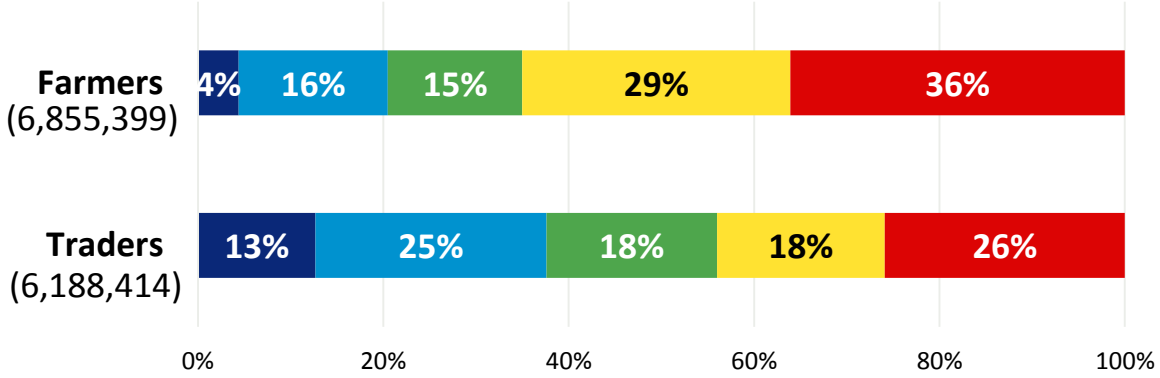
Gender



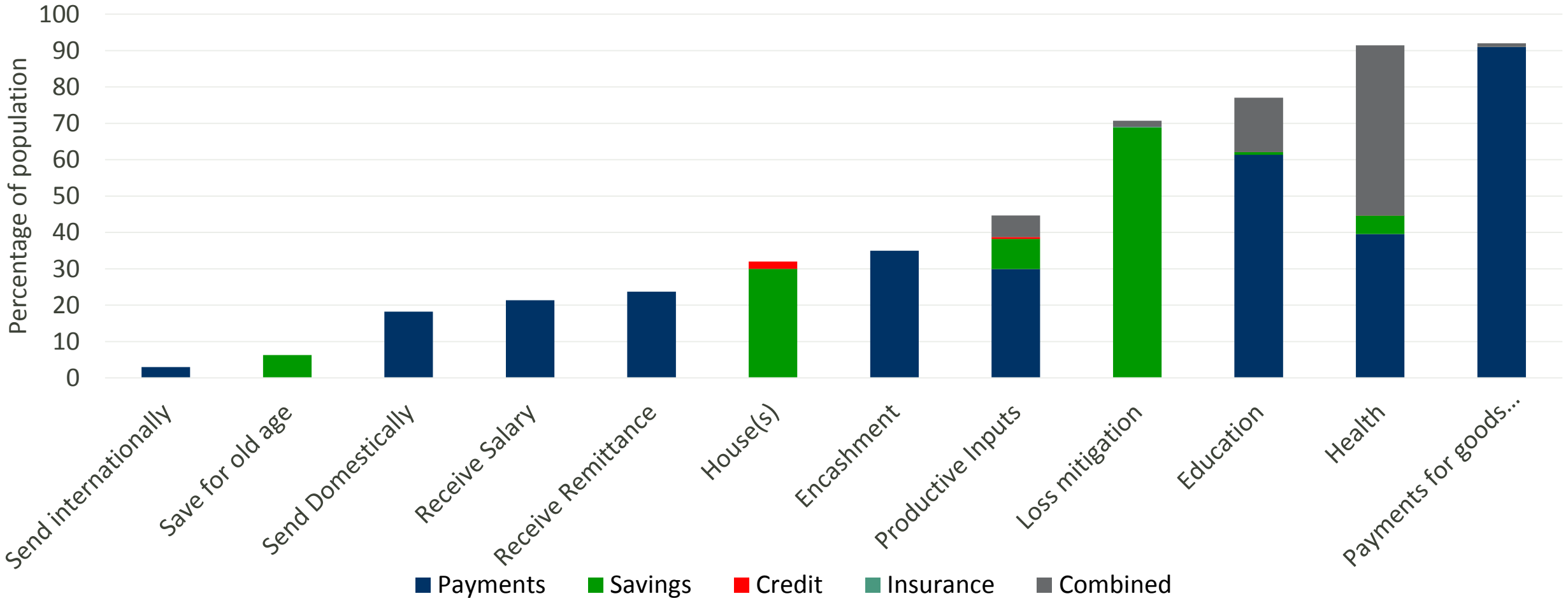
Geographic location



Farmers vs. Traders



Consumer perspective: what do adults use financial services for?



Source: Authors own calculations based on FinScope 2015

Consumer perspective: Experience with formal financial services is problematic

It's too far away

*"[Bankerisation] It is not so good, it obliges us to **not go to work**, because we need so much time. And not only for ourselves, I also know friends in the province that **require us to collect for them** here. I am practically the second signatory for two or three people who live in the province"*

Not for me

*"Banks are **reserved for rich people** who have lots of money."*

I don't trust it

*"There is no confidence in the banks and cooperatives because they have **lost their money** in those sectors. **Personally, I have a little confidence.**"*

I am confused

*"In Kinshasa **we don't know how banks work**."*

It's doesn't work

*"Although I am paid via my bank, **I do not save other there because there are too many problems to get my money**. That is why I keep my money in a shop somewhere around me, not far from my house, because the **bank is a long distance away**, too conventional, and **too many connection problems**."*

I waste my time

*"**I dislike, no, I am disgusted by queuing**. With banks, you'll arrive there, and you will **wait for two, three, maybe five hours.** And time is money."*

Consumer perspective: Key barriers to financial inclusion

Access Barriers

Barrier	Severity	Discussion
Proximity	**High**	Need to travel > 60 minutes to nearest Bank, ATM, supermarket;
Reliability	**High**	Severe connectivity limitations hamper financial infrastructure
Eligibility	**Medium**	23% of Congolese do not have access to an electors card, the primary identity document. Other forms of documents are owned by <10% of adults.
Cost	**Low**	Transaction cost limited barrier compared to others

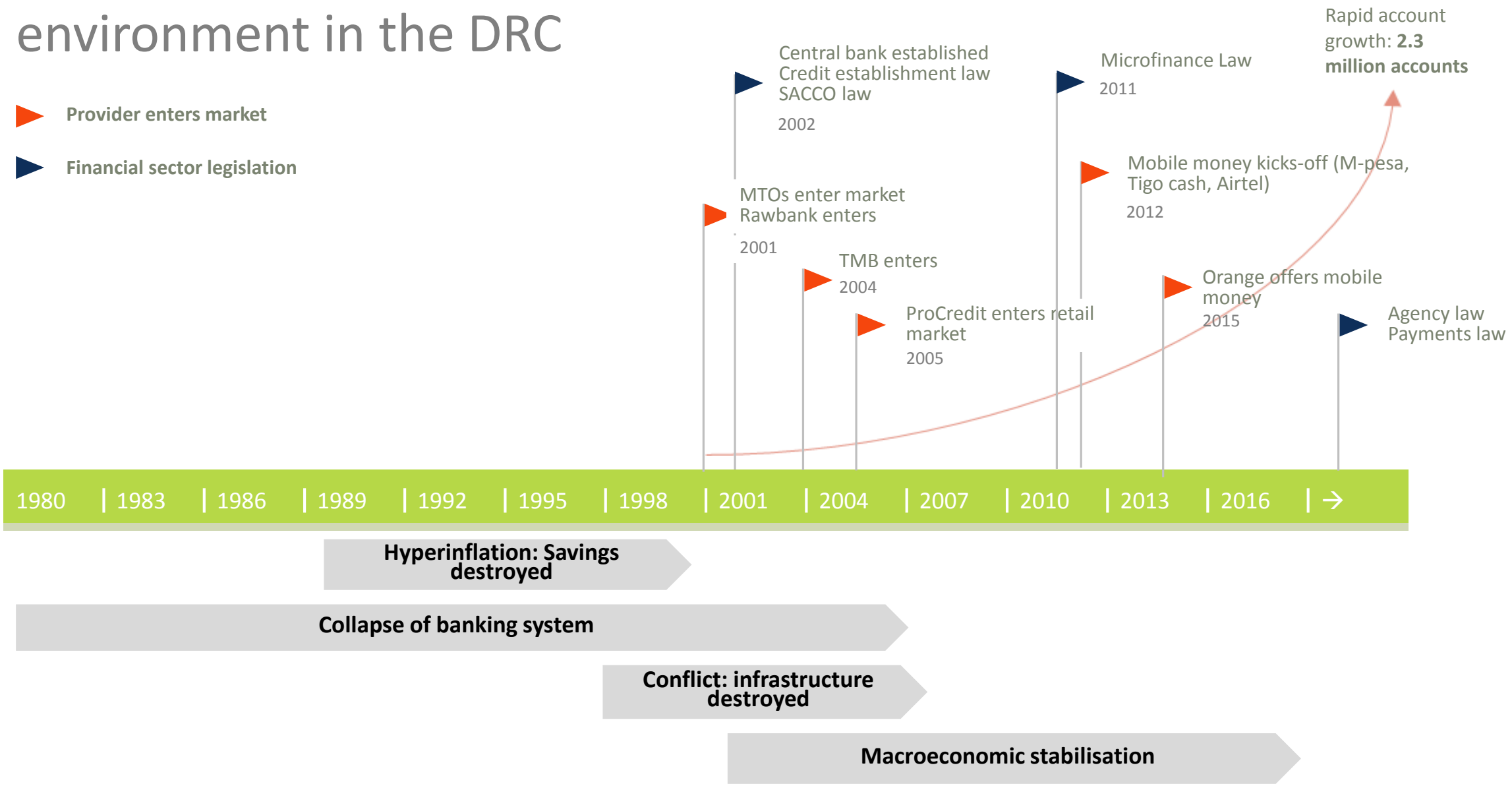
Usage Barriers

Barrier	Severity	Discussion
Capability	**High**	Too complex: 69% Cannot understand: 71% Complex language: 67%
Hassle Factor	**High**	3.5 – 4 hrs bank queue; difficulty claiming insurance
Trust	**High**	History of financial shocks resulting in loss of funds, limited trust in insurance claims
Awareness	**Medium**	60% are unaware of mobile 60% are unaware of insurance
Need	**Low**	High degree of need exists

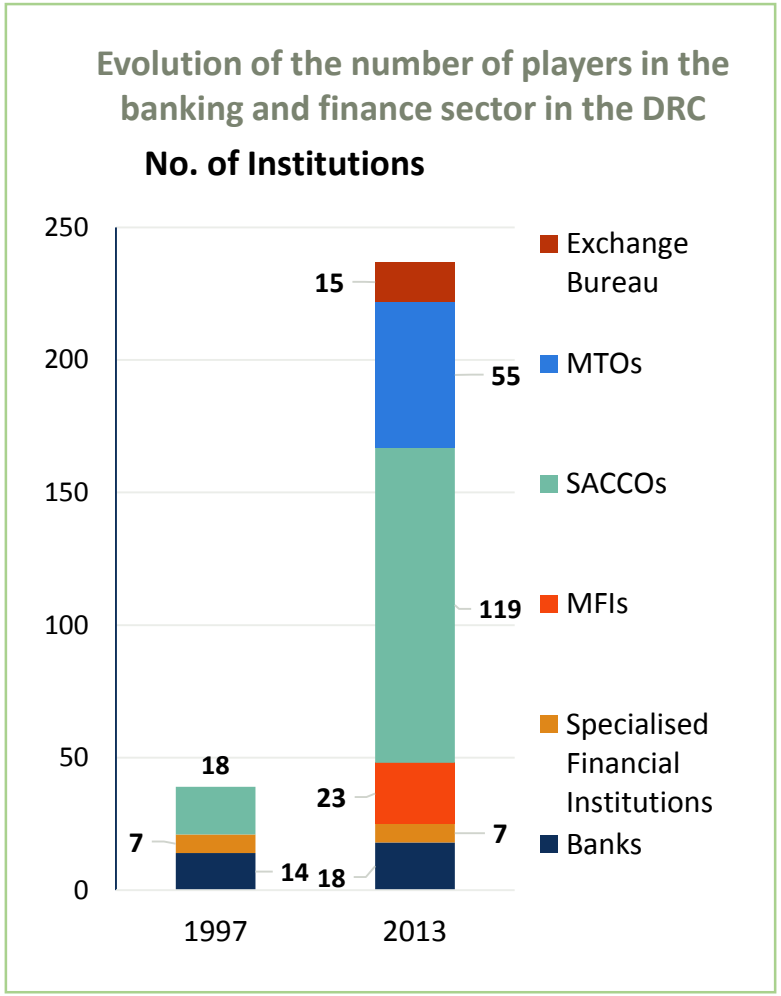
Source: Authors own calculations based on FinScope and qualitative interviews 2015

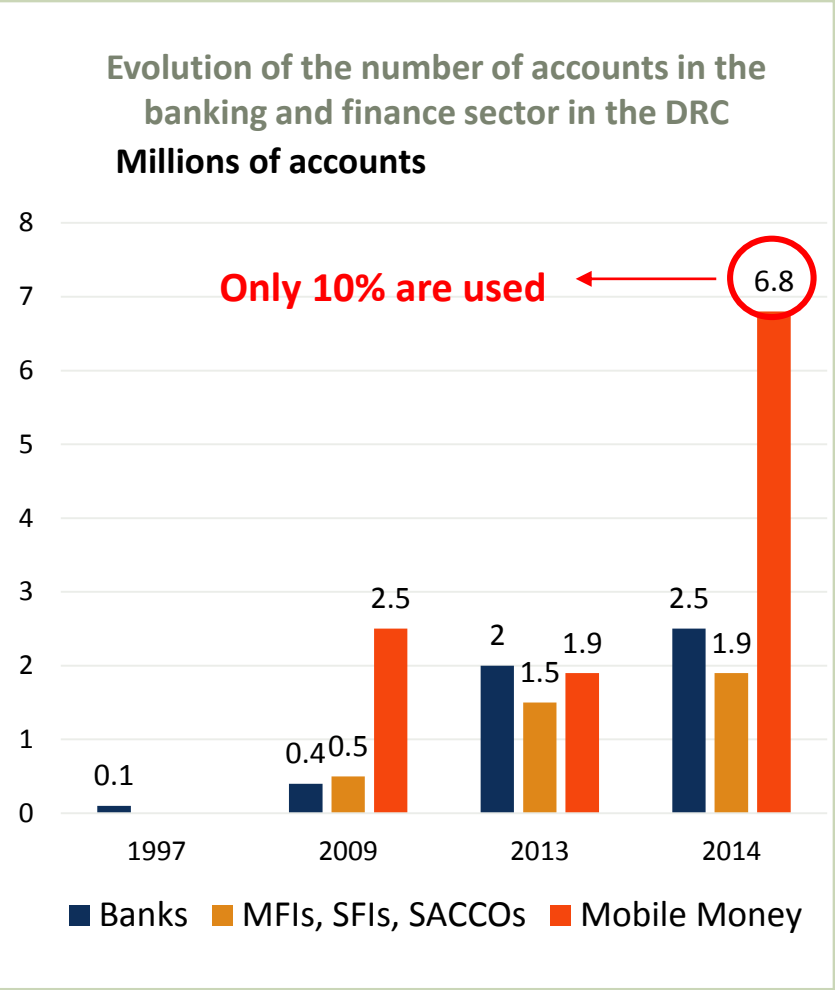
Provider overview

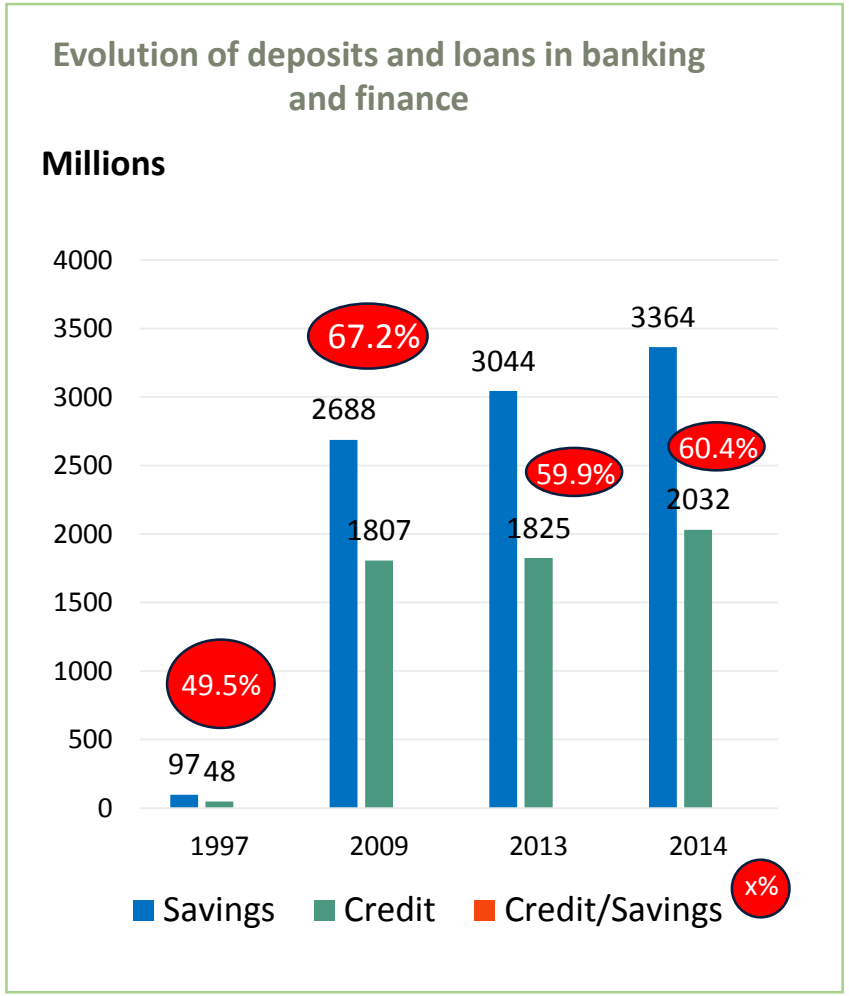
Provider overview: Evolution of the financial services environment in the DRC



Provider Overview: Rapid growth in providers, accounts and balance sheet

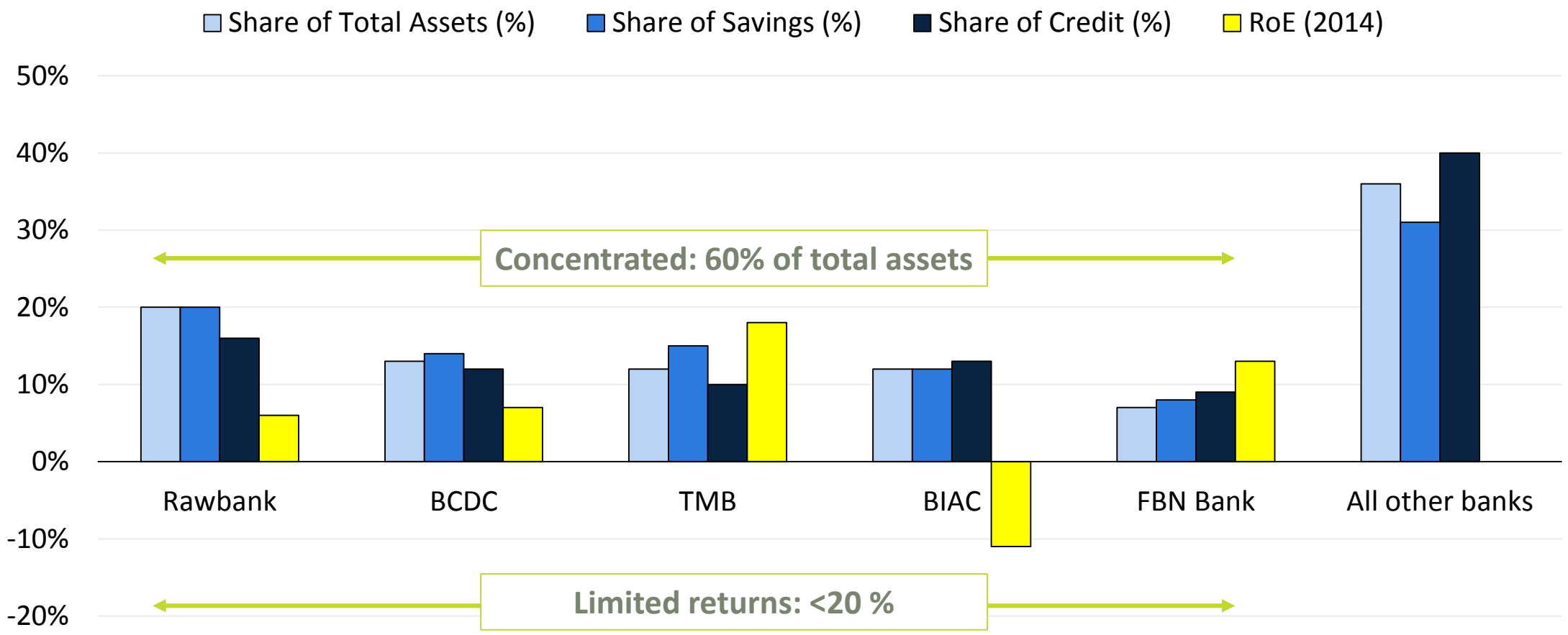






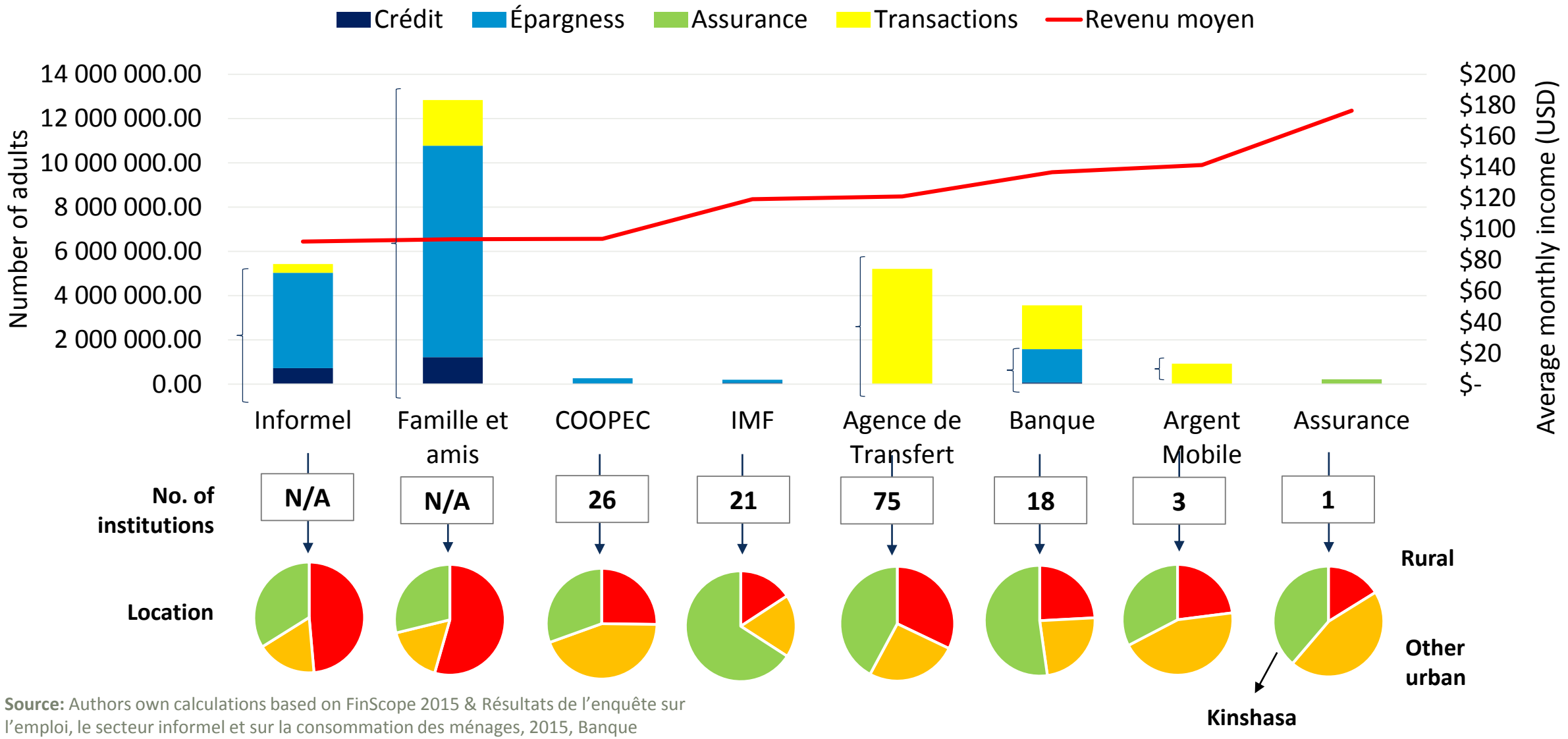
Source: Banque Centrale du Congo

Provider Overview: Concentration in top 5 Banks, returns constrained



Source: Banque Centrale du Congo

Provider Overview: Who provides what to whom?



Source: Authors own calculations based on FinScope 2015 & Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages, 2015, Banque Centrale du Congo

Policy and regulation

Policy and Regulatory Overview

Comprehensive Financial Inclusion Policy needed as part of a national growth policy	• There is currently no consolidated policy on financial inclusion, yet elements are present in other policy documents. • There is a need for the joint development of an integral financial inclusion policy as part of a wider economic growth agenda
OHADA (Organization for the Harmonization of Business Law in Africa) integration is a significant driver	• The adoption of harmonized business law has had a significantly beneficial impact on the re-development of financial services and has enabled elements of the regulatory system to leapfrog developmental cycles and better align with regional and international norms • Continued regulatory reform in line with OHADA opens the possibilities for greater regional and continental integration
Strong awareness, commitment and resolve for financial inclusion	• A widespread awareness of the benefits of the broadening of financial services with both government and private sector • Strong evidence of the commitment and resolve to build an inclusive and stable financial services sector by regulators • Sincere commitment to inclusive market development by private FSPs • Well coordinated and cooperative donor community
Regulators progressing despite scarcity of resources	• Progress towards financial inclusion has made great strides with some of the largest G2P programmes • Limited resources available to regulators due to state budgetary constraints, a capital intensive developing financial sector and the limited use of the national currency

Broader Regulatory Environment

Timing of regulatory instruments	• The time taken to formulate and pass legislation and regulations is always a contentious issue and although a prudent step to avoid rash decisions, but a long incubation period of legislation can inhibit and sometimes undermine the momentum and viability of the financial services sector; e.g. Insurance regulations, NPS Act and Agency Law • More principles based legislation with greater reliance on expertise of regulators with broader delegated legislative discretion would enable considered and timely responses to drive and safeguard financial service development.
Quality of legislation and regulations	• There is no consistency in drafting quality of financial legislation. It varies from superbly drafted and well structured to poorly drafted and tangential • In a civil law system, there is utmost reliance on precise drafting with limited variance for interpretation through a consistently high standard of drafting
Limited access to justice and dispute resolution mechanisms	• The advancement of financial services strongly relies on both FSPs and Consumers being able to resolve disputes and enforce contracts • Courts need technical assistance in the resolution of financial services matters • Effective access to courts and alternative dispute handling mechanisms is limited beyond Kinshasa which would limit growth only to nodes of effective justice, particularly with regard to the extension of Credit • Customary courts are a potentially widespread point of low value financial dispute handling but would require training

Regulatory constraints

Credit requirements increases cost and risk, limited consumer protection	• Consumer protection principles not harmonized across institutions, including standards on fees and effective interest rate disclosure and over-indebtedness • No mandatory requirements to share credit information • Collateral realization problematic, increases risk and cost (>90% of claims lost, 80% of claims go to cost to enforce). Title deeds problematic. • No population register or identity documents increasing cost, risk and access. • Tax provisions against non-performing loans drains cash flow whilst increasing cost and incentivizes under reporting of doubtful debts. • Proportional prudential requirements needed for lower tier banks and non-deposit taking MFIs as it severely hampers lending at smaller scale • Demarcation between banks and MFI client bases negates business case for MFIs

Regulatory constraints

Payments	• National payments needed to ensure fair access, certainty and improve interoperability • More comprehensive e-Money framework needed, including equal access to telecoms and payments platforms for MNOs and financial service providers. • Status of trust accounts unclear, possible attachment by creditors. • Prudential requirements not in line with the proportionately low risk; barrier to competition
AML/CFT to be updated for FATF 2012 requirements in inclusive	• Simplified CCD allowed for single transactions<$10k, but not accounts • FATF 2012 poses risk of exclusion if not implemented with care, effective guidelines key

Regulatory constraints

Regulation in transition	Significant new regulation/ policies underway. Some uncertainty on implementation. • Promulgation of the Insurance Code and liberalization. • Regulation on leasing. • Agency banking regulation under preparation. • Payment system regulation. • Credit bureau • De-dollarisation
Insurance code not principles based, will hamper access, reinsurance and innovation	• Law is not harmonized with international standards (IAIS, OHADA), will limit entry & hamper reinsurance. Innovation severely constrained. • Law is too detailed & prescriptive for an insurance law, not sufficiently principles based • Micro-insurance is not provided for & cannot be accommodated under specified rules of the law, leading to exclusion of largest portion of the Congolese market.

Regulatory constraints

Proportionate prudential requirements on non-deposit taking MFIs and eMoney service providers needed	• Proposed prudential requirements on non-deposit taking high relative to risk to borrower. • Current limits likely to reduce formal MFI credit extension. • eMoney services will struggle to grow to scale without prudential requirements proportionate to the risk; will drive down competition and distribution

Regulatory constraints

Ease of doing business constrained	• Some progress, still difficult environment to set up and manage business • Enforcing claims problematic • Uncertainty on tax arrangements
No access to investment support for financial service providers	• Investment incentives available to other businesses, not to financial service providers. • Could assist to overcome business case constraints to serve excluded.
Still contractual constraints on married women	• Despite not commonly enforced, married women still require husband's authorization to bind the estate. Includes financial contracts.

Where to focus?
Making financial inclusion matter to more people

Long term priorities key for full inclusion

- Growth in income and opportunities
- Extend infrastructure to improve distribution footprint
- Enable entry of more players to pool funds and offer long term options
- Address business and contractual environment

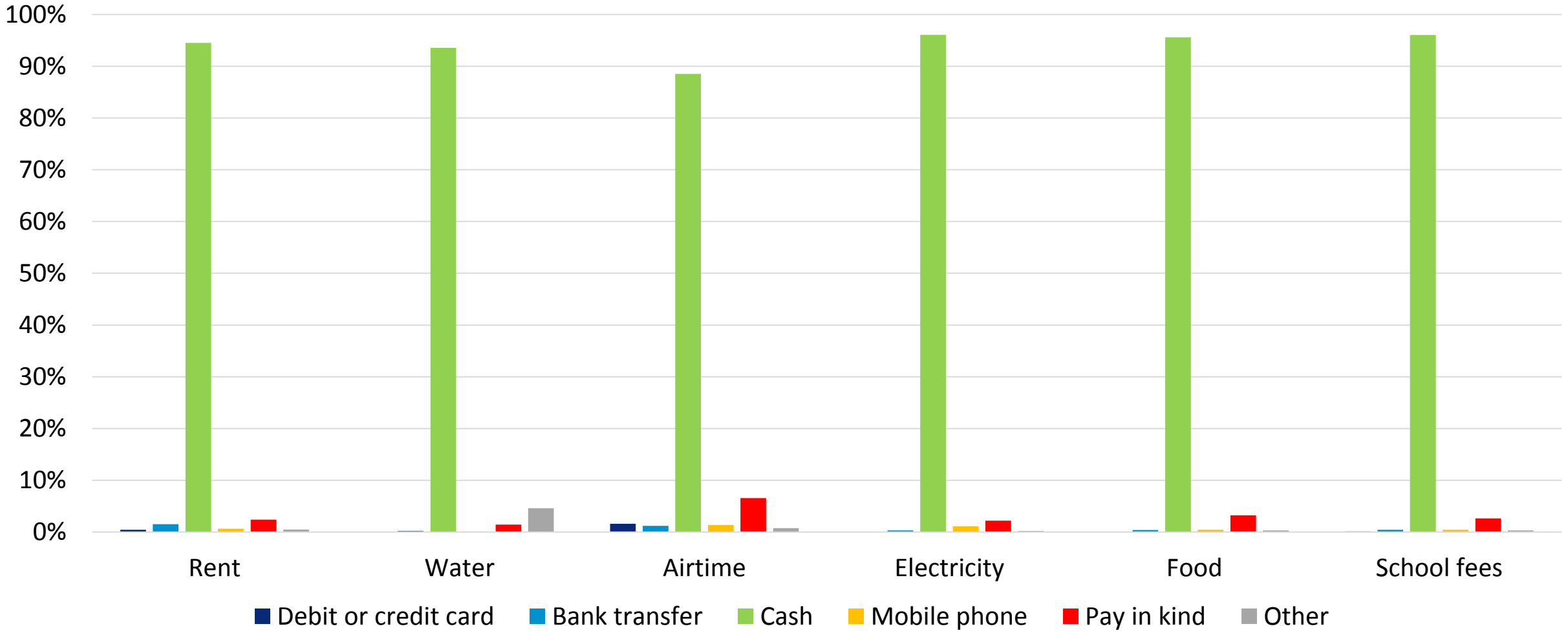
Will take time to fully address: leverage partnership and technology to improve inclusion

Priority Areas

1. Improve reliability and convenience of payments
2. Leverage remittances to attract and share resources
3. Build trust to save
4. Unlock intermediation for opportunities
5. Improve risk management for viable consumers
6. Strengthen institutions for inclusion

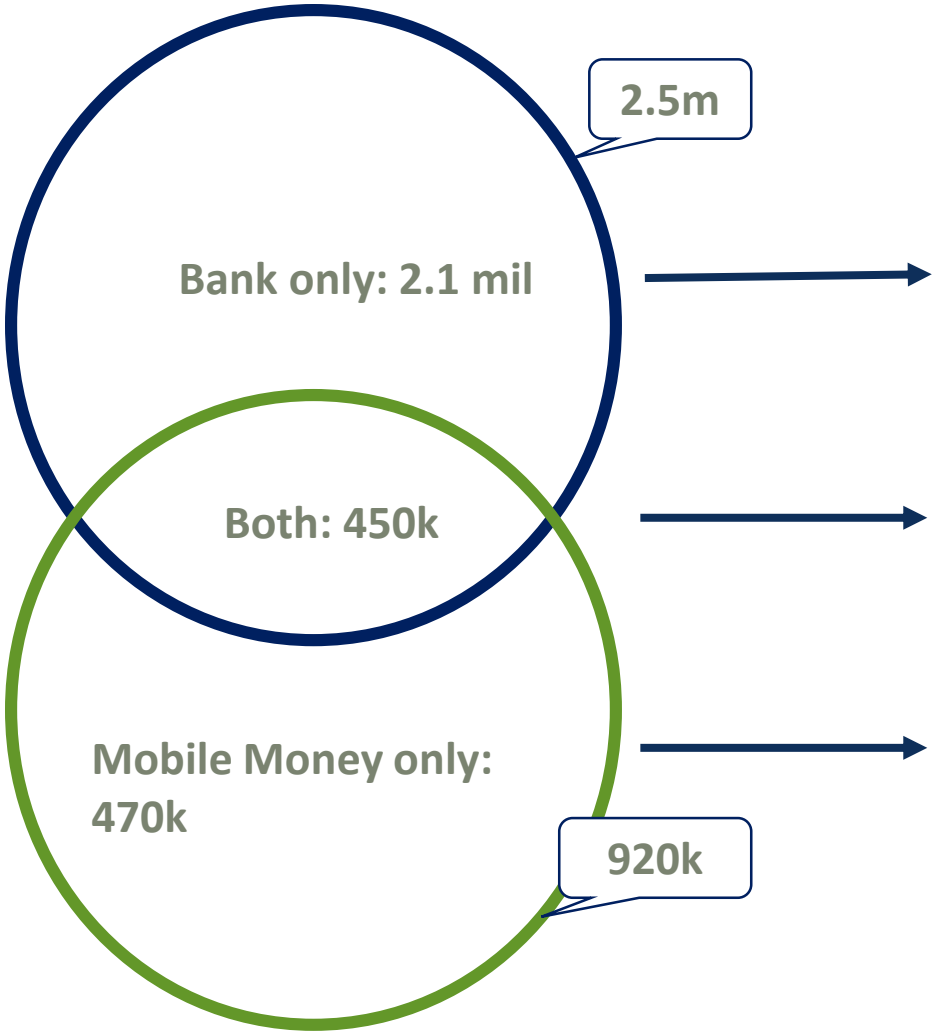
1. Improve reliability and convenience of payments

Use of cash pervasive, digital options limited



Source: Authors own calculations based on FinScope 2015

Even those with accounts seldom use them



	Location	Frequency	Gender
		123	
	Rural: 26% *Urban 20%* **Kinshasa: 53%**	41% use once a month or more	**Male**>Female
	Rural: 15% **Urban 48%** Kinshasa: 37%		**Male**>Female
	Rural: 30% **Urban 41%** *Kinshasa: 29%*	~600 000 use once in 90 days	Male<**Female**

Source: Authors own calculations based on FinScope 2015 & Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages, 2015

Distribution foot print extremely limited, unreliable and inconvenient

*"Although I am paid via my bank, I do not save other there because there are **too many problems to get my money**. That is why I keep my money in a shop somewhere around me, not far from my house, because the bank is a long distance away, too conventional, and **too many connection problems**."*

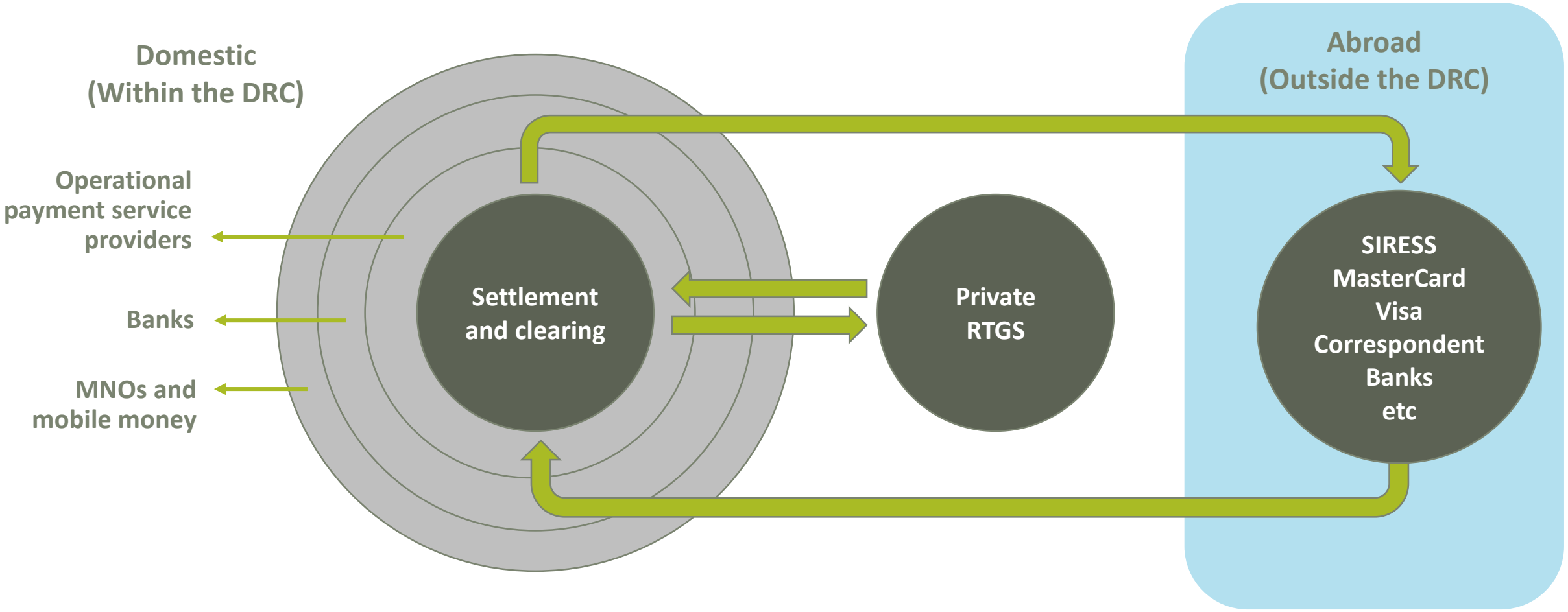
Male, employee of a private company in Kinshasa

Description	DRC	Angola	Brazil
ATMs per 100,000 adults, Number	1,14	22,97	129,25
ATMs per 1,000 km2, Number	0,19	2,08	23,86
Commercial bank branches per 100,000 adults, Number	0,82	12,86	47,32
Commercial bank branches per 1,000 km2, Number	0,14	1,16	8,74
Active mobile money agents (active)	32 000	*No data*	*No data*

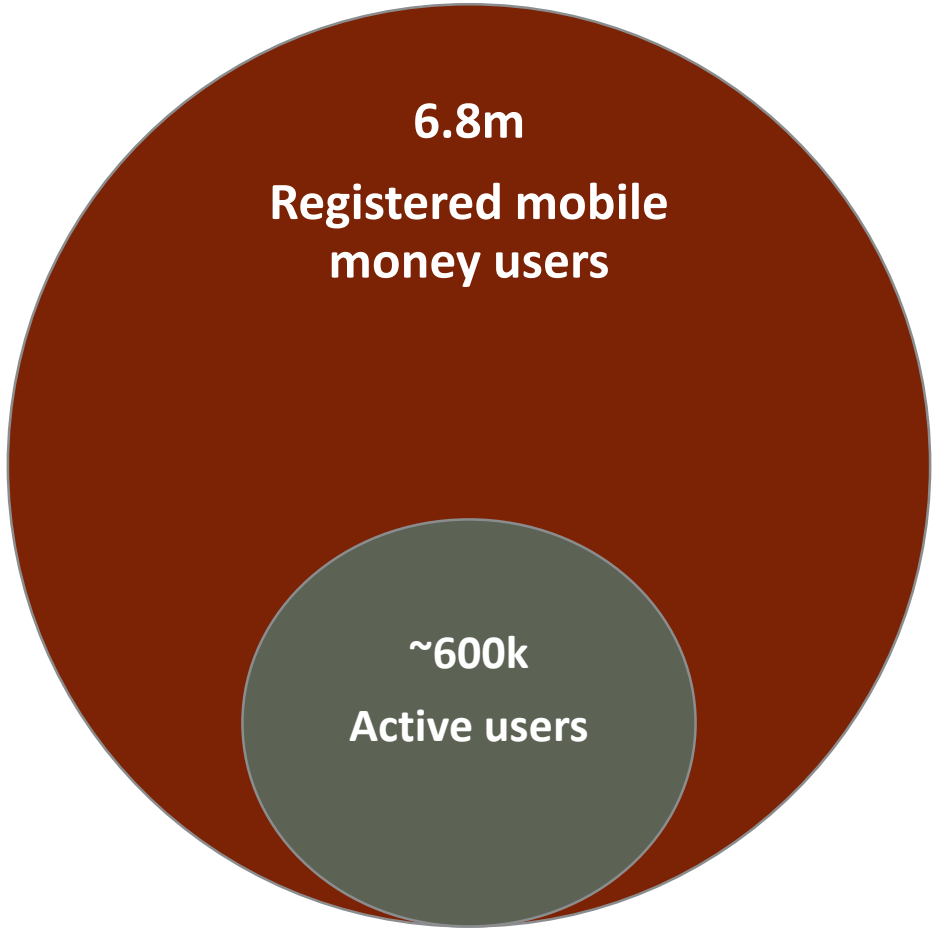
Only 8000 mobile money agents are active

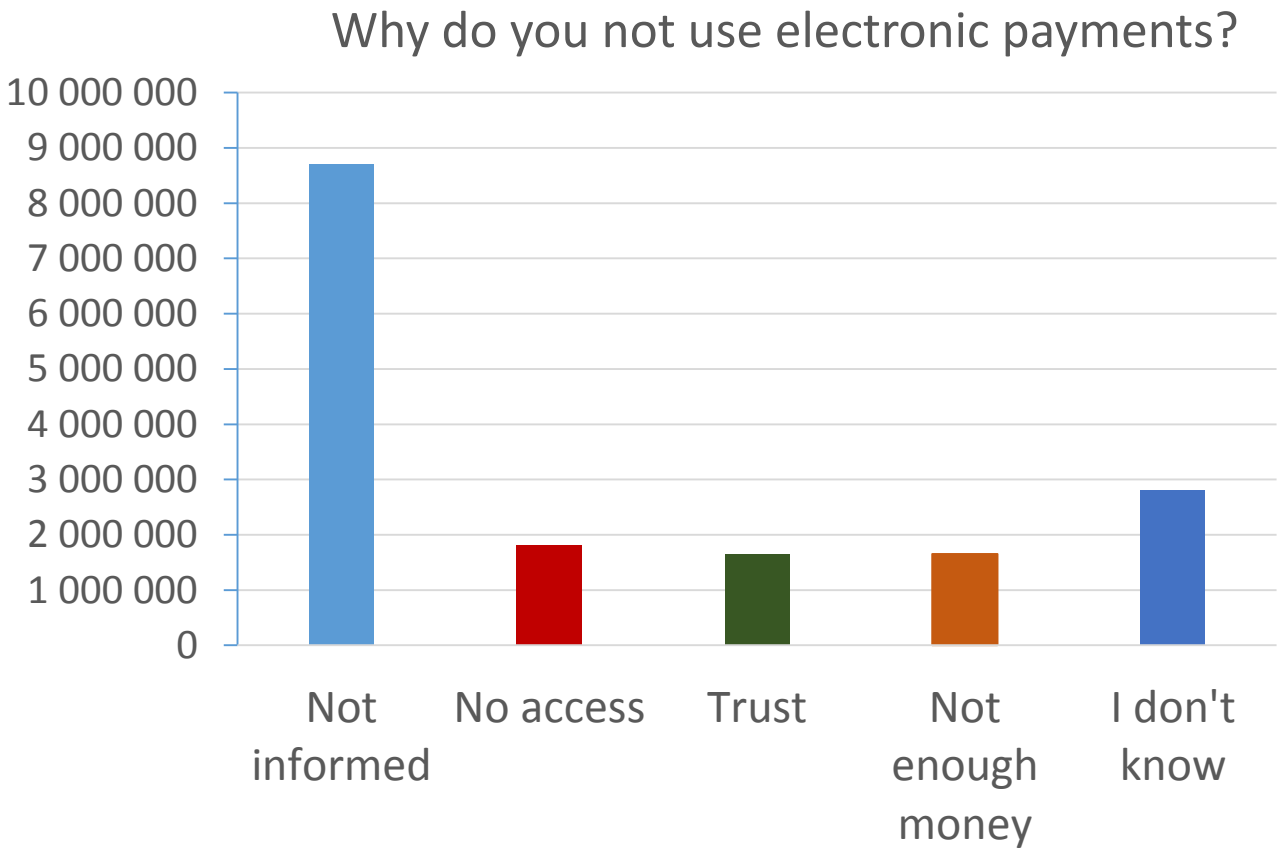
Source: IMF FAS (Financial Access Survey)

Existing footprint not connected and costly to use



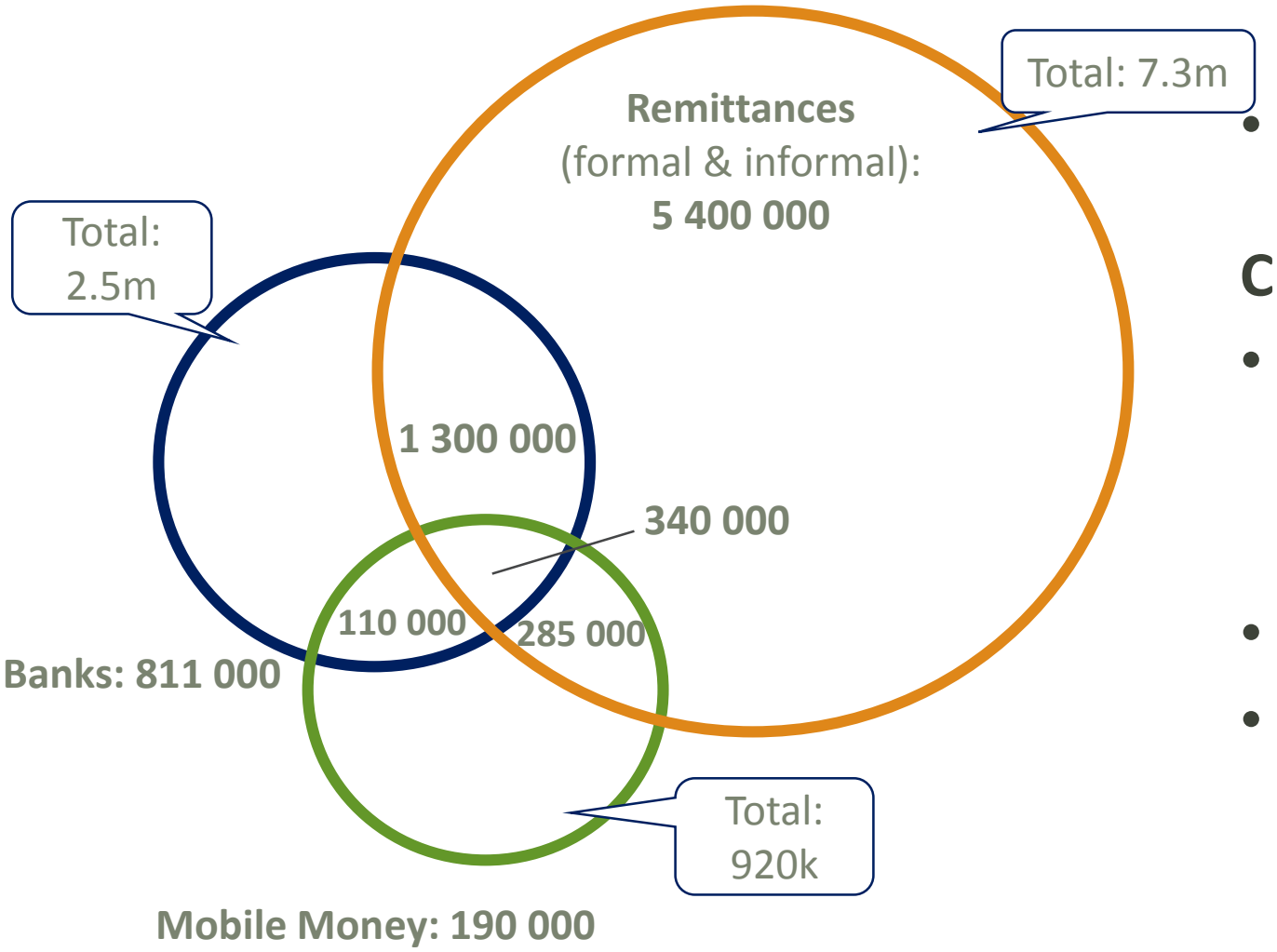
Mobile money is a new option: But knowledge, footprint, and trust constrain usage





2. Leverage remittances for risk and opportunities

Substantial remittance flows critical for survival



- Remittances large and infrequent – often for risk or school fees
- Remittances largely through MTO and informal channels

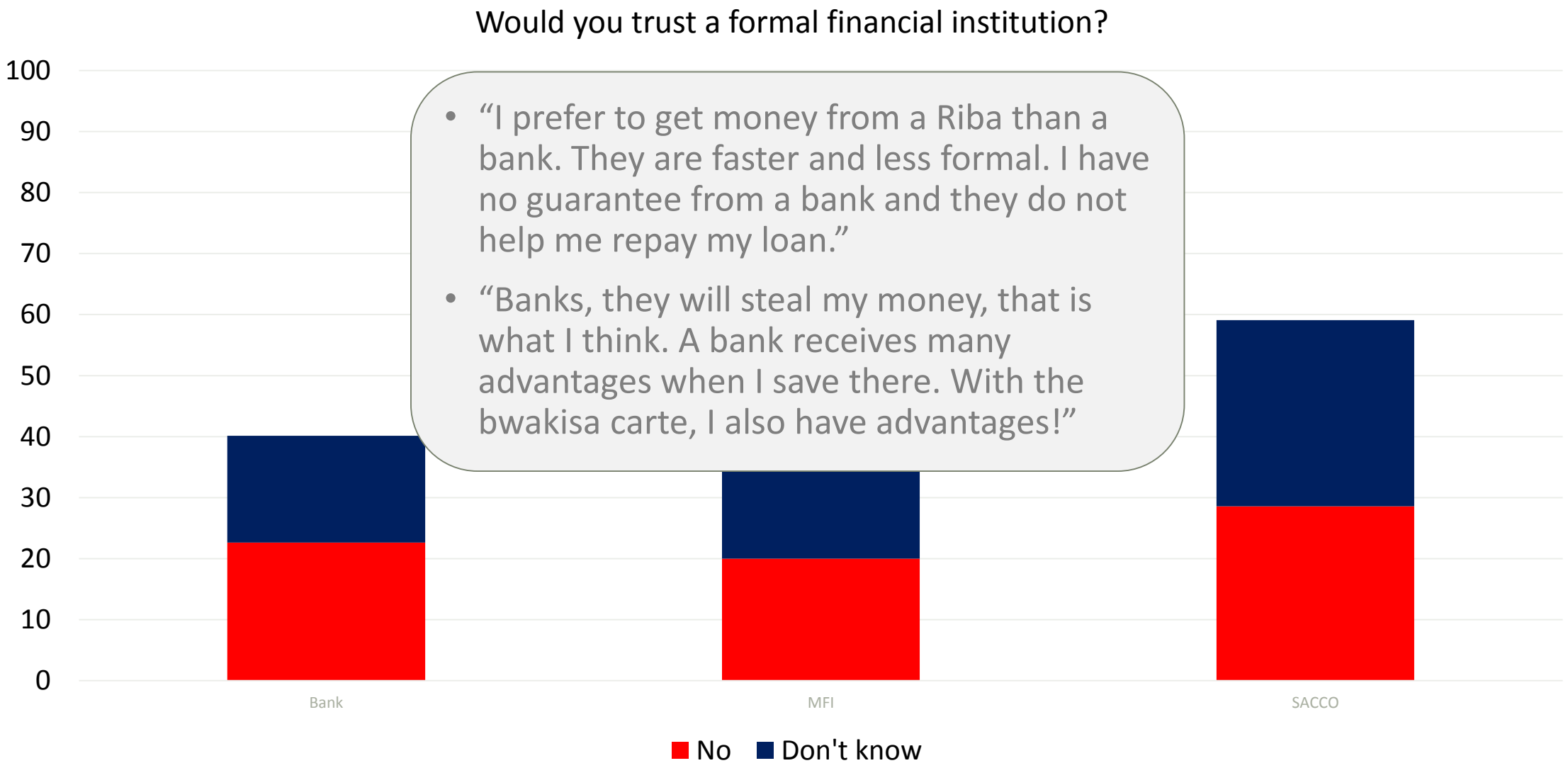
Cross border

- Values significant. $9bn total flows into DRC (45% of GDP) from 9m people, very different from total formal figures of $22m remittances
- Formal options limited and expensive
- Documentation and bank relationships in receiving countries difficult

FinScope 2015, World Bank 2015, Ministry of Congolese Abroad (2015)

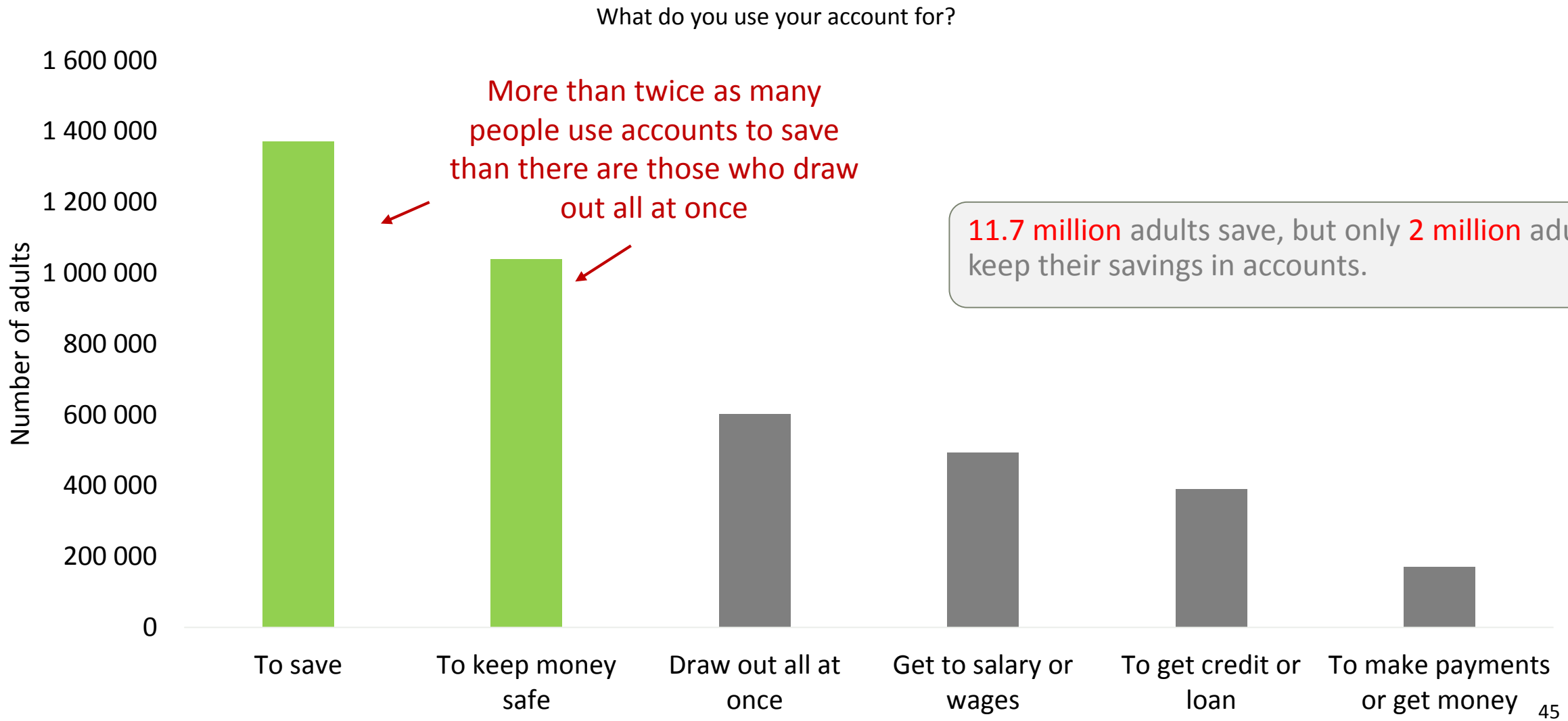
3. Build trust to save

Low confidence in formal financial institutions



- "I prefer to get money from a Riba than a bank. They are faster and less formal. I have no guarantee from a bank and they do not help me repay my loan."
- "Banks, they will steal my money, that is what I think. A bank receives many advantages when I save there. With the bwakisa carte, I also have advantages!"

Critical to enable savings to mobilise capital



11.7 million adults save, but only 2 million adults keep their savings in accounts.

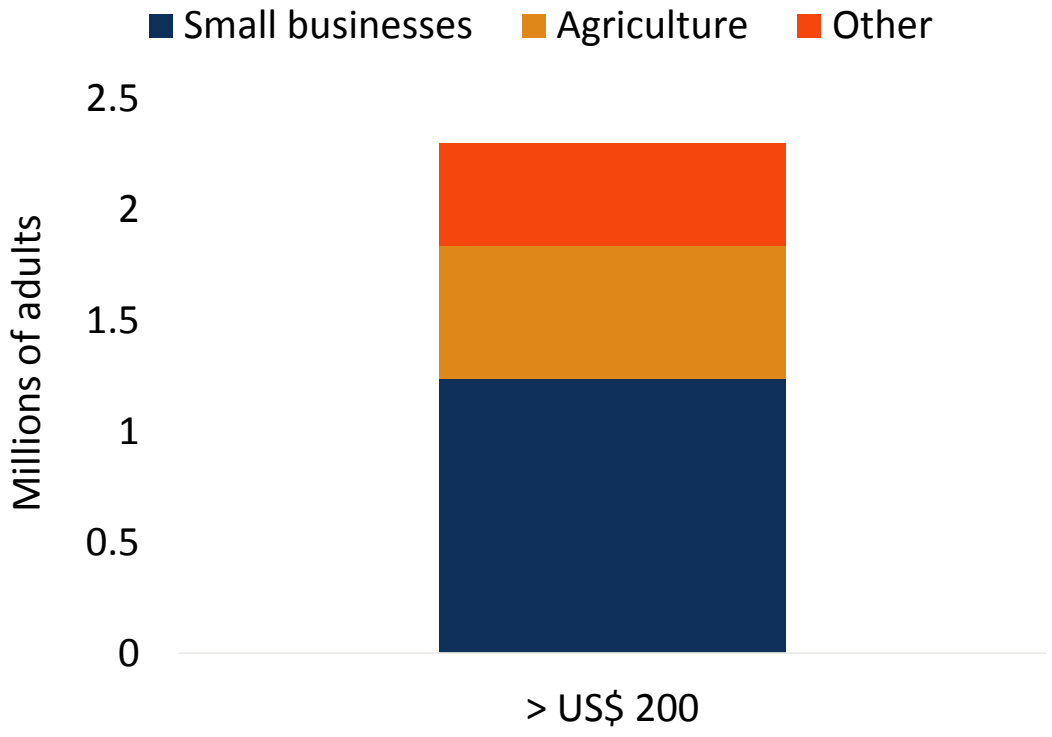
FinScope 2015

4. Unlock intermediation for opportunities

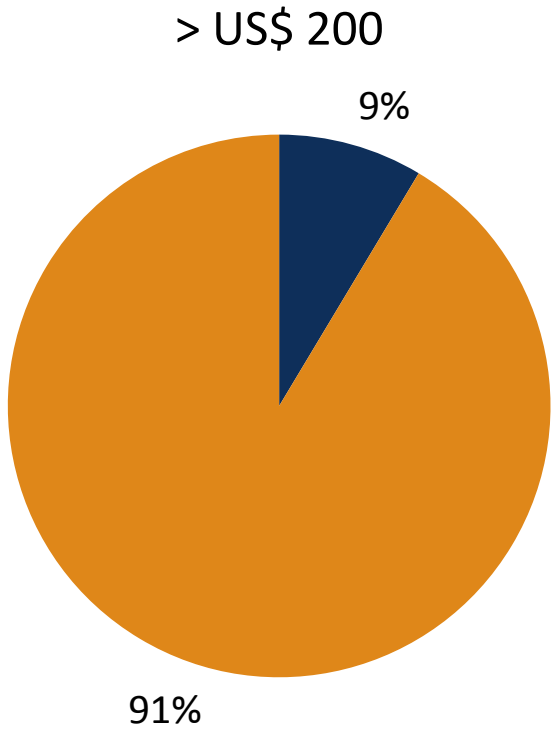
Market for productive retail credit

Value chains constrained which impacts credit opportunity, however productive credit options remain

2.3 mill adults earn > $ 200 per month



< 9% have credit



Credit provision very limited and short term

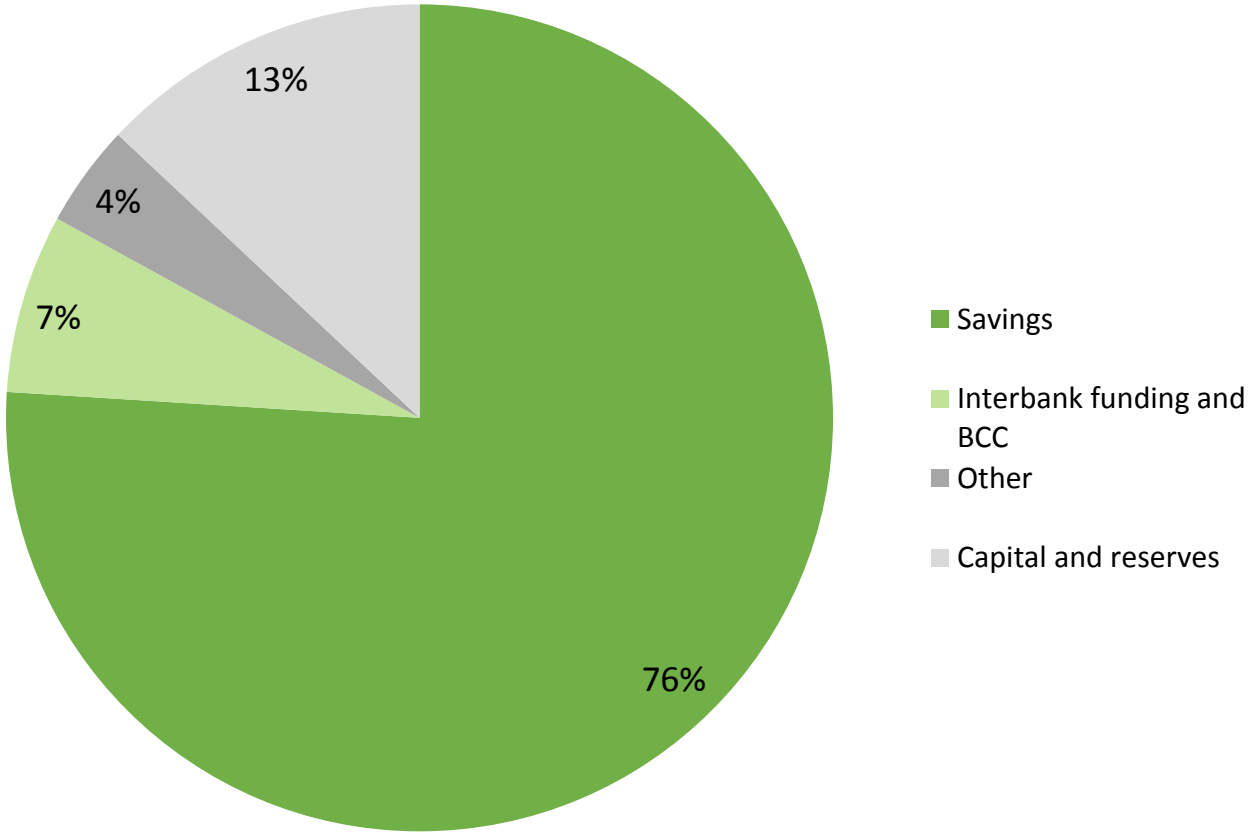
Domestic credit provided by financial sector (% of GDP)	2006	2009	2014
Brazil	82.9	93.4	108.3
DR Congo	2.9	0.8	8.6
South Africa	171.5	182.2	185.6

Domestic credit to private sector (% of GDP)	2006	2009	2014
Brazil	35.4	52.8	69.1
DR Congo	2.1	5.4	6.2
South Africa	146.1	149.5	151.5

Agricultural value chains constrained by credit. Farmers interviewed produce lettuce as the maturity of the crop matches the maturity of the farmers debt.

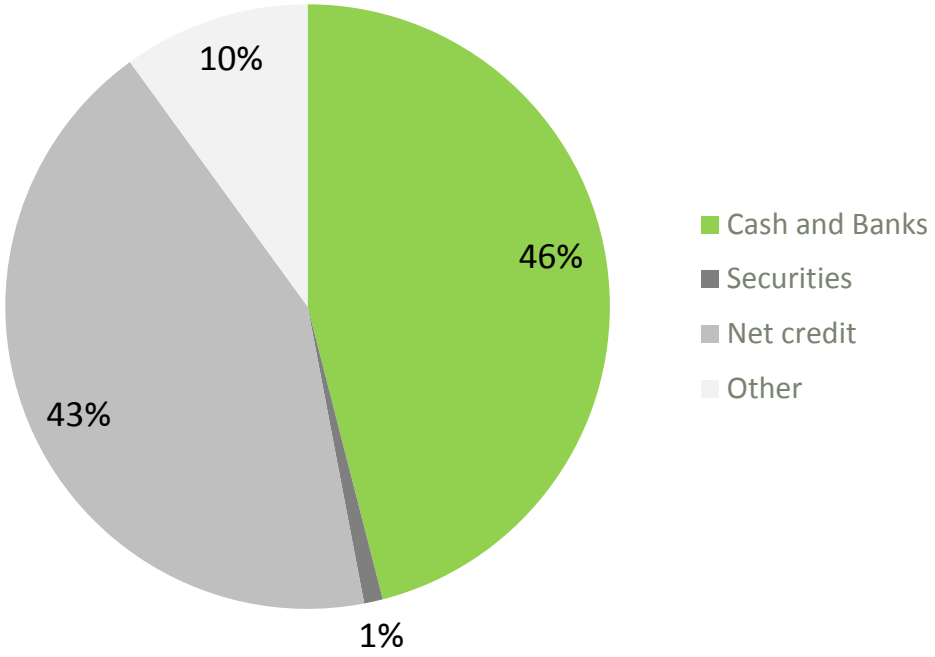
Dependent on short term small deposits, institutional investors limited

- Commercial banks largest deposit takers.
- Largest depositors: high income, urban population; civil servants; state officials; army.
- More than half of deposits concentrated in Kinshasa.
- Nearly 30% of 278 bank branches (2013) located in Kinshasa.
- Savings typically short term in nature – difficult to form long term assets.



Liabilities of the banking system (2014)

High costs, liquidity requirements and contracting constraints limit extension and restrict term



Assets of the banking system (2014)

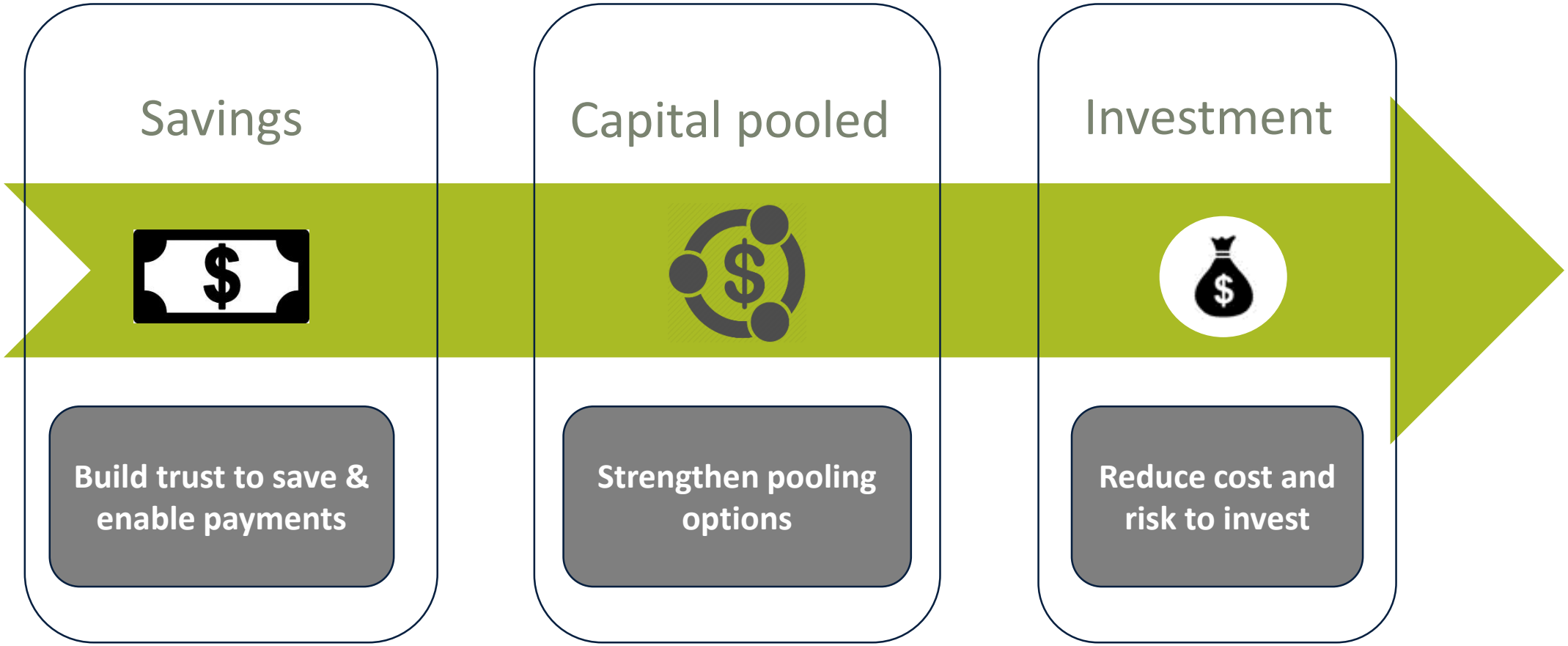
Banks

- Very high cash: 46%, not intermediated
- Loan-deposit ratio: 59% (low by international banking standards).
- High NPL ratio: over 8% for most (5% average for Sub-Saharan Africa)
- Average bank cost to income ratio of 74%

MFIs and SACCOs

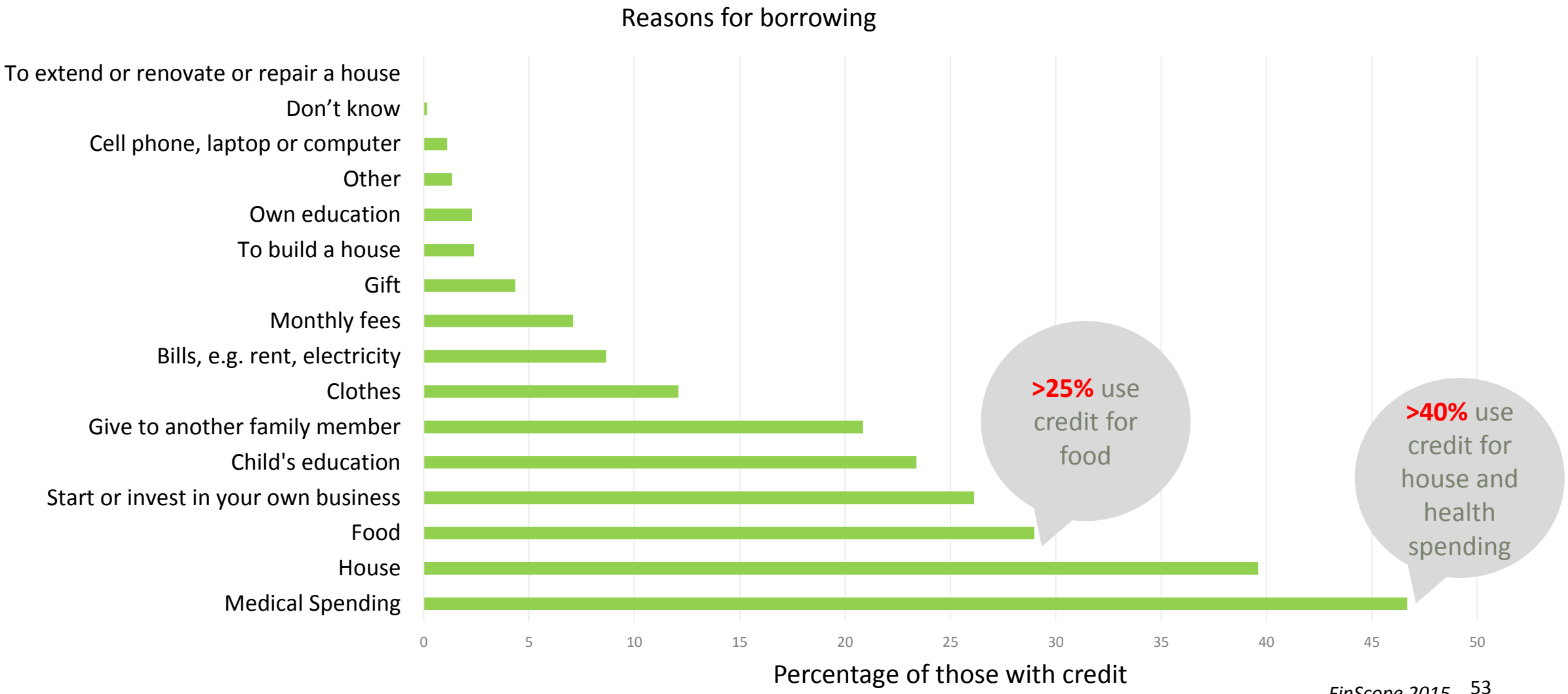
- MFIs and SACCOs' PAR30 12.4% (maximum standard 5%).
  - MFIs average: 2% (understated)
  - SACCOs average: 24.7%

Develop capital market: Unlock saving, pooling and investment constraints to drive opportunities



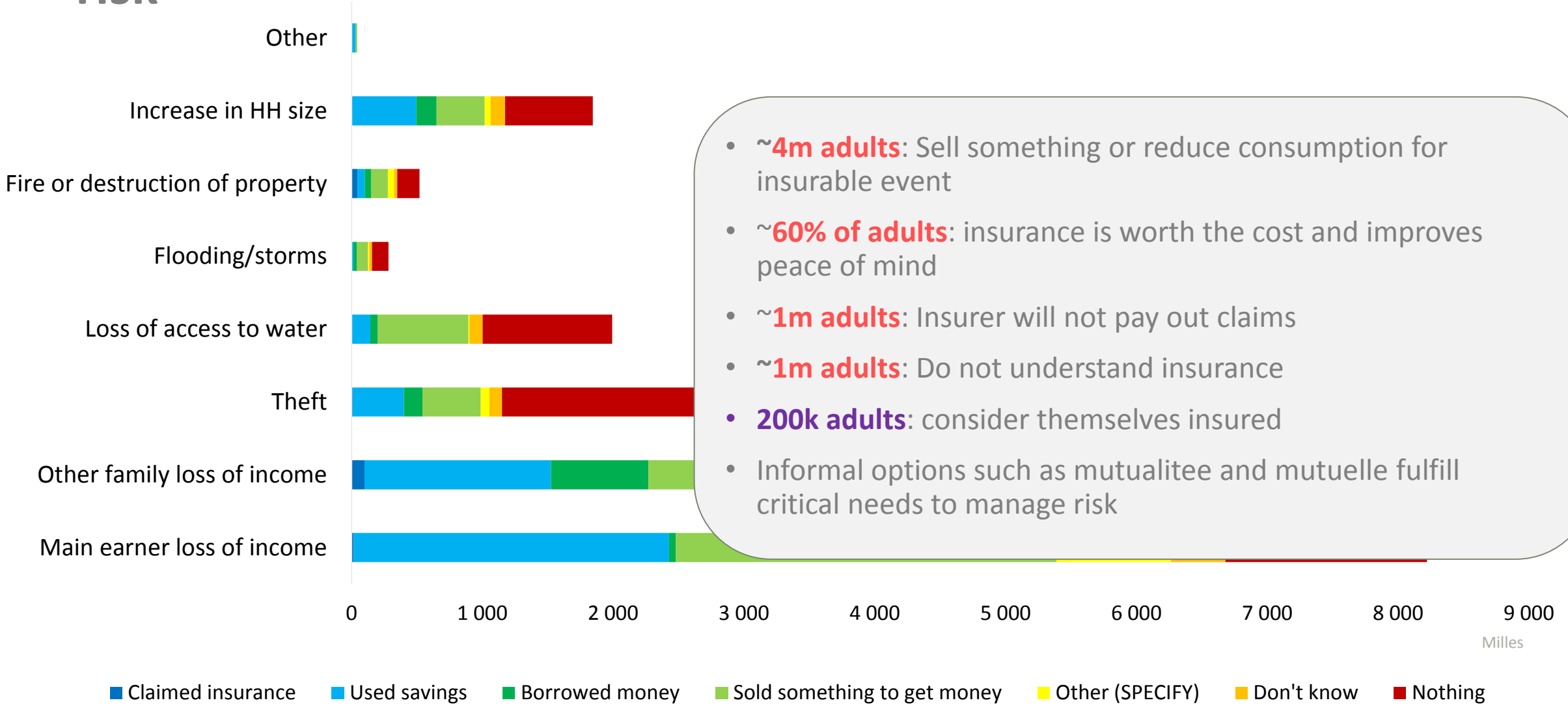
5. Improve risk management for viable groups

Health spending and food largest drivers of credit, emergency credit can protect against poverty



FinScope 2015

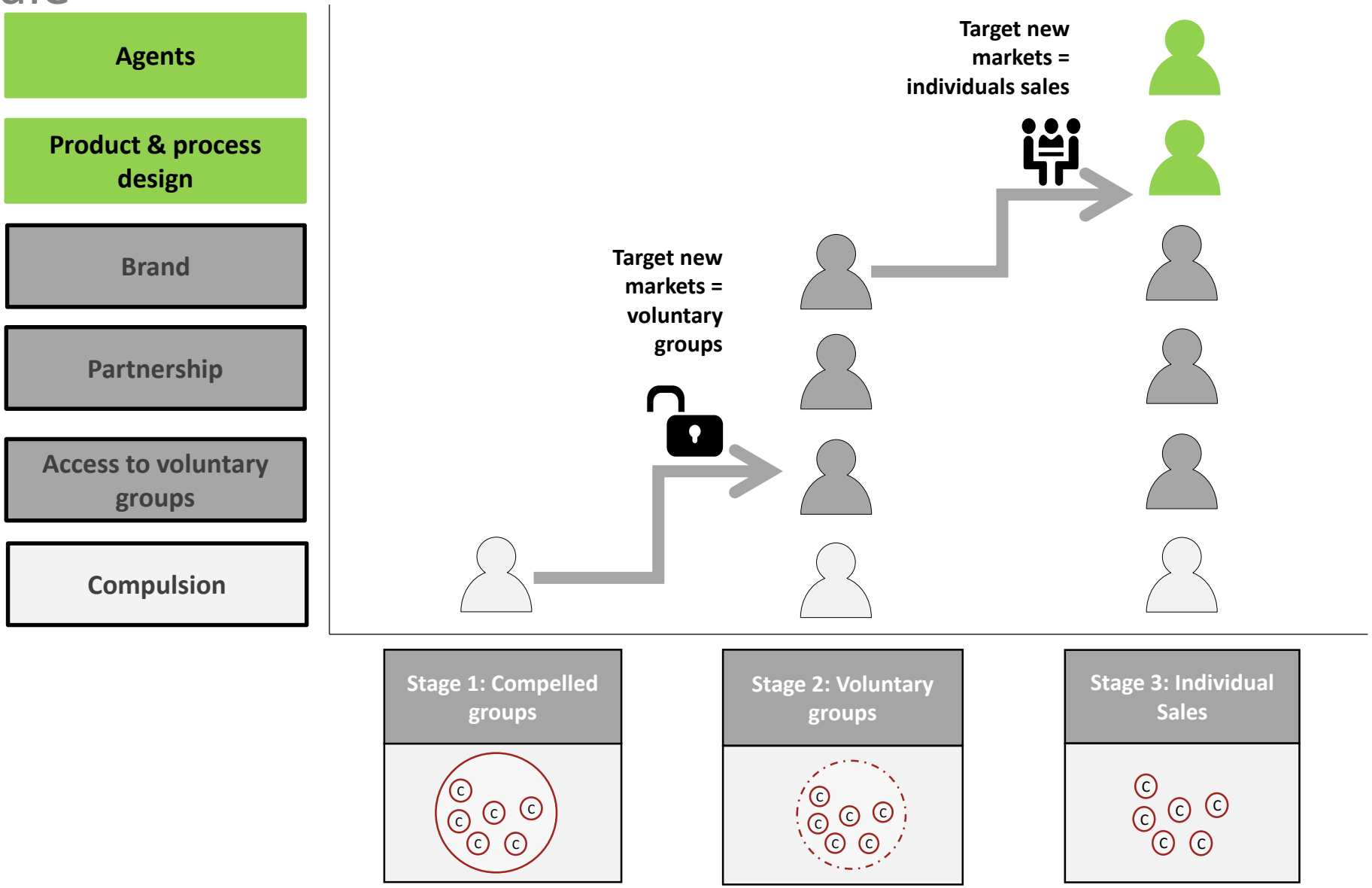
More than 4m sell assets or reduce consumption to manage risk



- **~4m adults**: Sell something or reduce consumption for insurable event
- **~60% of adults**: insurance is worth the cost and improves peace of mind
- **~1m adults**: Insurer will not pay out claims
- **~1m adults**: Do not understand insurance
- **200k adults**: consider themselves insured
- Informal options such as mutualitee and mutuelle fulfill critical needs to manage risk

Finscope, 2015

Insurances: New area, typical retail insurance market development to scale



6. Strengthen institutions for inclusion

Strengthen Institutions and Regulation for inclusion

- Financial service skills and technology constrained
- Data extremely constrained to identify opportunities and manage risk: no credit reference bureau and public data on FS market limited
- Critical regulatory constraints increases cost and risk to provide
- Address institutional gaps:
  - Payment system interoperability
  - Capital market & institutional investors
  - Functional credit reference bureau
  - Identity system
- Introduce financial inclusion policy to strengthen mandate

Towards a roadmap

Potential actions for inclusion

Priority	Potential actions
1. Improve reliability and convenience of payments	• Improve reliability of ATMs and POS devices • Enable payment system interoperability and SIRESS • Enable agency and alternative payment partnerships • Improve use cases for digital payments, value chain digitisation • Consider investment incentives to extend footprint • Connect distributors with broader FS services • Extend cash reticulation • Deepen bancerisation to go beyond ownership to usage • Enable offline card technology to accommodate connectivity challenges
2. Leverage remittances for risk and opportunities	• Develop cross border corridors • Address first mile issues to send with sending countries • Create formal options for trade flows • Enable targeted send options for human capital (e.g. health and education) • Address last mile payment constraints

Potential actions for inclusion

Priority	Potential actions
3. Build trust to save	• Continue to drive stability of savings institutions • Address payments constraints to improve reliability • Improve capacity of frontline staff to sell • Strengthen enforcement to terminate illegitimate savings institutions • Strengthen consumer protection and recourse • Consider deposit insurance
4. Unlock intermediation for investment	• Address payment constraints to improve receipt of saving and liquidity available for lending • Strengthen SACCOs and MFIs to collect and secure savings • Connect informal options with formal institutions • Address credit related regulation constraints • Strengthen consumer data – e.g. credit reference bureau • Develop capital market, financial instruments and long term pooling options

Potential actions for inclusion

Priority	Potential actions
5. Improve risk management for viable groups	• Address regulatory insurance constraints to enable entry and provision for key groups – employed and business • Develop emergency credit options
6. Strengthen institutions and build consumer capability	• Introduce financial inclusion policy • Address data constraints (including credit reference bureau) • Address regulatory constraints • Build financial sector infrastructure • Strengthen financial sector skills • Strengthen consumer capability

Thank You!

Cenfri (The Centre for Financial Regulation & Inclusion) is an independent think tank based in Cape Town. Our mission is to support financial inclusion and financial sector development through facilitating better regulation and market provision of financial services. We do this by conducting research, providing advice and developing capacity building programmes for regulators, donors, financial service providers and other parties operating in the low-income market. In collaboration with key partners and funders we actively engage across Africa, Latin America and Asia.

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