Making Access Possible

Democratic Republic of the Congo

Financial inclusion country report

2016

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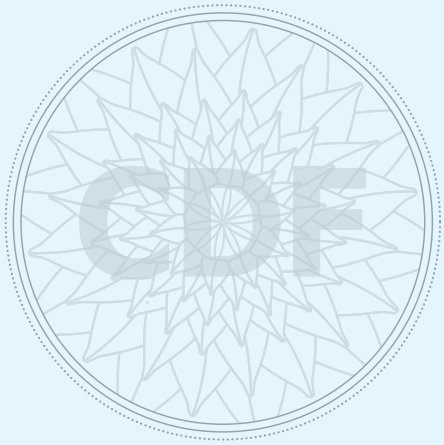
Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended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

This document sets out the comprehensive diagnostic findings which feeds into the Roadmap developed in collaboration with the MAP DRC steering committee.

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 Lobelia deckenii, a flower synonymous with the DRC. 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 the DRC we represent the characteristics of the country, linking financial inclusion with successful growth.



ABOUT MAP DRC

This report presents a comprehensive analysis of the financial inclusion environment in DRC as part of the Making Access Possible (MAP) DRC initiative. MAP will be used to inform the DRC government's approach to financial inclusion. In 2014, the Ministry of Finance formally requested UNCDF'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 DRC.

The MAP Diagnostic comprises a comprehensive country context, demandside, 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 DRC FinScope Consumer Survey 2014 and some qualitative research in the form of targeted interviews with key informants from the identified target segments.

AUTHORS

Mia Thom, Barry Cooper, Jaco Weideman, Wicus Coetzee, Jeremy Gray, Christine Hougaard, and Henri Plessers

In-country support & stakeholder coordination: Monah Andriambalo

FMT regional support: Brendan Pearce, Nikki Kettles

UNCDF global support: Henri Dommel, Kameshnee Naidoo, Mathieu Soglonou, Hanadi Tutunji, Anthony Githiari

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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

ACH Automated Clearing House
AML Anti-Money Laundering
ANAPI National Agency for Investment Promotion
ARCA L'Autorité de Régulation et Contrôle des Assurances (Regulatory Authority and Insurance Supervision body)
ARPTC Autorite de Regulation de la Poste et des Telecommunications du Congo (Regulatory Post and Telecommunication Authority)
ATM Automated Teller Machine
B2B Business to Business
B2G Business to Government
BCC Banque Centrale du Congo (DRC Central Bank)
BCDC Banque Commerciale du Congo
BIAC Banque Internationale pour l'Afrique au Congo
BIC Banque International de Credit
CCA Conseil Consultatif des Assurances (Insurance Advisory Board)
CCBG SADC Committee of Central Bank Governors
CDF Congolese Franc
CENAREF Cellule Nationale des Renseignements Financiers (National financial intelligence unit)
CFT Combatting the Financing of Terrorism
CMA Common Monetary Area
COOCEC Centrale des Coopératives d'Epargne et de Crédit (Centralised Credit and Savings Co-operative)
COOPEC Coopératives d'Epargne et de Crédit (Credit and Savings Co-operative)
CPL Continuous Processing Line
D2B Donor to Business
D2P Donor to Person
DRC Democratic Republic of the Congo
EFT Electronic Funds Transfer
EMI Electronic Money Institution
FBN First Bank of Nigeria
FMT FinMark Trust
FPI Fonds de Promotion de l'Industrie (Industry Promotion Fund)
FPM Fonds pour la Microfinance (Microfinance Fund)
FSP Financial Service Provider
G2B Government to Business
GNI Gross National Income
IMF International Monetary Fund
INSS L'Institut National de Sécurité Sociale (National Social Security Institute)
KYC Know Your Customer
MAP Making Access Possible
MECRE Mutuelle d'Epargne et de Credit (Savings and Credit Mutual)
MFI Micro Finance Institution
MNO Mobile Network Operator
MoF Ministry of Finance
MSME Micro, Small and Medium Enterprise
MTO Money Transfer Operator
OECD Organisation for Economic Co-Operation and Development
OHADA Organisation pour l'Harmonisation en Afrique du Droit des Affaires (Organization for the Harmonization of African Business Law)
P2B Person to Business
P2G Person to Government
P2P Person to Person
PASMIF Programme d'Appui au Secteur de la Microfinance (Microfinance sector programme)
POS Point Of Sale
ROE Return On Equity
RTGS Real-time Gross Clearing and Settlement System
RTL Real Time Line
SA Société Anonyme (Public Limited Company)
SACCO Credit and Savings Co-operative
SADC Southern African Development Community
SARL Société à Responsabilité Limitée (Limited Liability Company)
SIRESS SADC Integrated Regional Settlement System
SONAS Société Nationale d'Assurances (National Insurance Company)
SSA Sub Saharan Africa
STC Société Congolaise de Transfert (National Transportation Company)
TMB Trust Merchant Bank
UNCDF United Nations Capital Development Fund
USD United States Dollar
VAT Value Added Tax
ZAR South African Rand

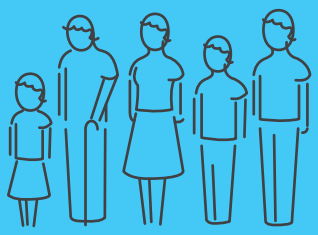
USD/CDF Exchange Rate

Foreign exchange. The local currency in the Democratic Republic of the Congo is Congolese Franc (CDF). The United Stated Dollar (USD) equivalent shown throughout this document was calculated using a 12 month average exchange rate (between 1 January 2015 and 31 December 2015) of CDF 909/USD.

Contents

Key facts[1]

GDP of
USD 33 billion



Total population of
75 million

16 million people
own a mobile phone

16.4%
of people have access
to electricity

75% of adults
are literate

Financial Inclusion Priorities

Priority Areas 1:
EXTEND PAYMENT SYSTEM FOOTPRINT AND USE
Over 90% of adults make all payments in cash

Priority Area 2:
LEVERAGE REMITTANCES TO ATTRACT & SHARE RESOURCES
7 million people receive remittances
- up to USD 9 billion from abroad

Priority Area 3:
BUILD TRUST TO SAVE
Only 37% of adults trust banks,
and only 20% SACCOs or MFIs

Priority Area 4:
UNLOCK INTERMEDIATION FOR INVESTMENT
Credit extension to private sector only 6% of GDP

Priority Area 5:
IMPROVE RISK MANAGEMENT OPTIONS
4 million adults reduce consumption
or sell assets to deal with risks

Priority Area 6:
BUILD INSTITUTIONS & FRAMEWORKS FOR ENABLING ENVIRONMENT
Contract enforcement costs 80% of credit claim

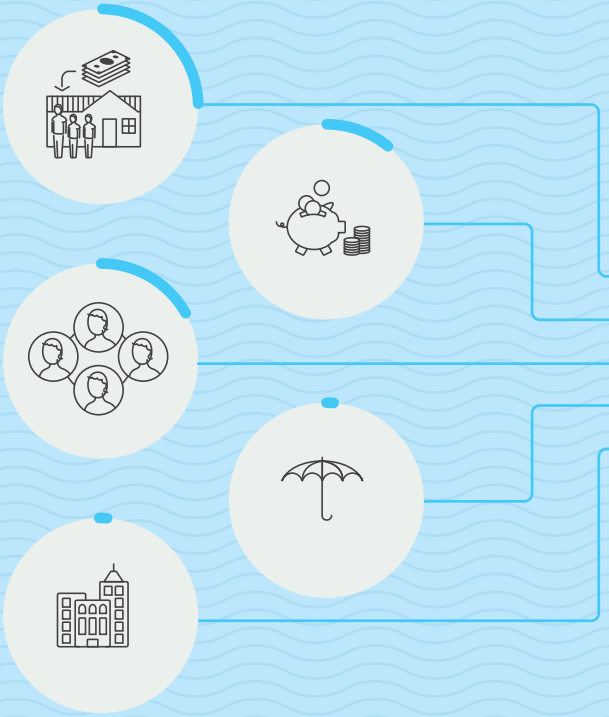
Overview of Financial Access in the DRC

33% of adults have taken up at least one financial service from a formal financial service provider, but...

...only 3% of adults use more than two formal financial services

...whilst 13% of adults make use of informal services only.

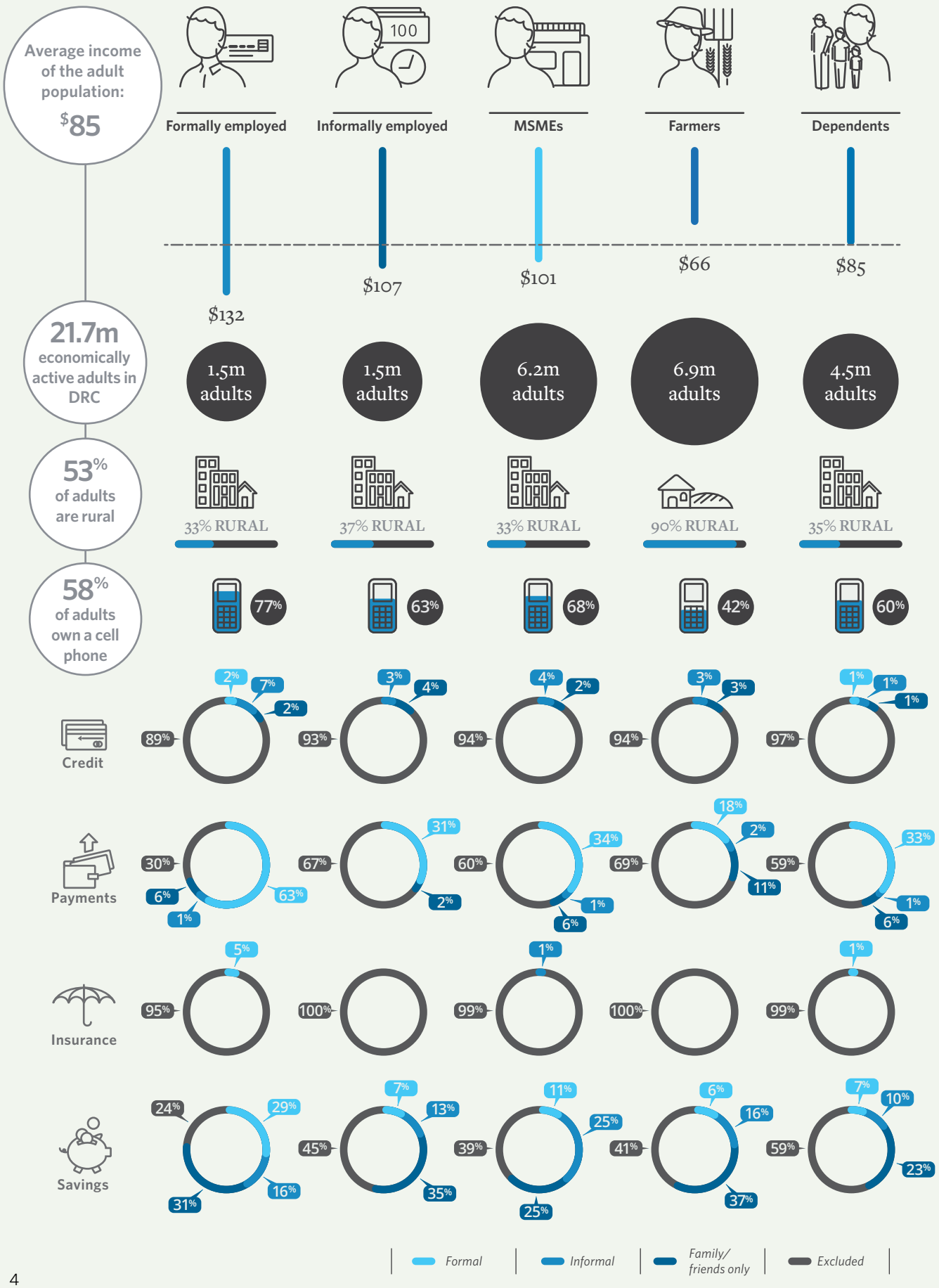
The result is that 54% of adults use no financial services.



Breakdown of Financial Access in the DRC by Product Market

- 24% of adults use formal remittance services
- 10% of adults save with a formal financial service provider
- 17% adults save in informal savings groups
- 1% of adults have insurance
- 1% of adults borrow from a formal institution

Target markets at a glance



MAP in brief

Financial inclusion matters for livelihoods and growth. Financial intermediation can fuel economic growth by mobilising savings for investment, reducing transaction costs and increasing efficiency[2]. At the household level, it can build welfare by reducing transaction costs, and enabling people to more efficiently manage risks, allocate capital for productive use and accumulate wealth over time. Financial services can also facilitate access to core services, such as health or education. But is this really possible in the DRC?

Structural outreach challenges. The DRC is a challenging environment to do business in and the financial sector is no exception. Several decades of conflict saw the financial sector all but come to a standstill. As a result, a whole generation of people grew up without formal financial services. They find it very difficult to understand, let alone trust financial institutions. They also face severe affordability constraints. A mere 7% of Congolese are formally employed and the majority are engaged in subsistence agriculture. 71% of the population are deemed to be financially stressed and almost half of the adult population is so deeply rural that they are not even counted for financial inclusion survey purposes.

Financial institutions, in turn, face structural challenges in serving a broad client base. Since becoming re-established in the mid-2000s, the financial sector has grown fast off a very low base[3]. However, the extremely difficult to navigate topography, coupled with large transport and communications infrastructure gaps, stack the deck against retail market outreach. Furthermore, skills remain limited, there is insufficient data to inform which clients to serve, liquidity is constrained and investment options limited.

The result? Large parts of the population are all but cut off from the formal financial services infrastructure. The formal sector does not have the tools or means to reach out to them and, even should financial services be within reach, prospective clients do not have the knowledge or trust to take up financial services. It is therefore not surprising that formal financial services reach just one in every three of the sample population[4]. While payments and savings accounts have made some inroads, retail credit and insurance markets are virtually non-existent.

Real on the ground needs. However, that does not mean that people do not have real financial service needs. Indeed, the economic hardships they face reinforce ordinary people's need for financial services to help them manage their financial lives. This is attested by the fact that a host of informal mechanisms, from savings clubs to money lenders to innovative risk-pooling groups, have sprung up to "reinvent" financial inclusion from the bottom up in the DRC. Many also turn to family and friends to help them cope financially. In total, 60% of the sample population either use informal financial services or turn to family and friends for their financial needs.

The most front-of-mind financial service needs identified in the demand-side research are the need to pay for goods and services as part of daily life, the need for liquidity to smooth consumption, the need to manage risk, especially for health-related expenses, and the need to build human capital. Coping with loss of income or theft, and acquiring productive inputs are also significant expressed needs.

Unpacking the gap. It is clear from the market synopsis outlined above that there are significant gaps between needs, on the one hand, and the means to serve those needs through formal financial services, on the other. By filling these gaps, financial inclusion can and should play an important welfare-enhancing role in the DRC. But the environment and unique history also mean that this is very difficult to achieve. Finding a solution requires one to think differently about how to reach areas, target markets and products that would normally be regarded as too challenging. This, in turn, requires an understanding of the structural conditions for the development of a market that can start to branch into retail services. This includes a closer look at the enabling environment or framework conditions necessary to achieve financial sector development, as well as the customer perceptions and realities that will shape uptake.

MAP as diagnostic tool. Making Access Possible (MAP) is an evidence-based multi-country initiative to unpack these angles. It is implemented by the United Nations Capital Development Fund (UNCDF), FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri), in consultation with the Ministry of Finance-led MAP DRC Steering committee. MAP uses a comprehensive analysis of the country context, demand, supply and regulation of financial services[5] to identify priority areas to address barriers and leverage opportunities to improve financial inclusion. Given the different needs of different types of consumers in the DRC, adults are segmented into five target markets to better inform how financial services can meet needs[6]. Special attention is given to the plight of women and rural residents.

What can be done to bridge the gap? The MAP diagnostic is designed to inform the steering committee in developing a roadmap that provides detailed and actionable steps to achieve the financial inclusion priorities. Six key priorities are identified to better serve those that are already within reach of the market and, over time, overcome the structural barriers to the development of a more accessible retail market:

1. Extend payment system footprint and use. Payments are critical to allow people to support each other, to access resources and to access financial services. More than 90% of adults make all their payments in cash (FinScope, 2015). A number of policy and market actions can be considered to extend the footprint and use of the payment system, including finalising national payment system regulation to address interoperability, encourage

alternative payment partnerships and allow fair access to payment system and telecommunications infrastructure. Agency can also be deepened through agency banking legislation. On the market side, technology and management solutions to improve reliability of ATMs and POS devices require attention, as does improving the user options for digital payments. Enabling system interoperability is key, as well as connecting existing distribution channels to a broader suite of financial services. Capacity to manage liquidity and reticulate cash throughout the country is another condition for success, and offline card functionality will be important in light of connectivity problems.

2.
Leverage remittances to attract and share resources. Congolese adults are critically reliant on remittances to manage risks, obtain income for their livelihoods and build assets or businesses. Estimates vary, but FinScope indicates that seven million people receive remittances, domestic and foreign. Foreign remittances are significant. The Ministry of Congolese Abroad estimates that nine million people outside of the DRC remit around USD 9 billion annually into the DRC. However, various constraints limit the amount of remittances that flow through the formal sector. Potential actions to support the development of the formal remittances market include supporting an efficient and interoperable payment system as highlighted above, and the development of cross-border corridors for remittances and trade flows. At the diplomatic level, government could pursue bilateral negotiations to remove first mile access challenges in sending countries (including topics like documentation requirements and the conditions for establishing correspondent banking relationships) and a diaspora policy to attract funds.

3.
Build trust to save. The decades of conflict combined with banking collapses and hyperinflation have eroded trust in the formal financial sector. Over 37% of people indicate that they do not trust banks and 20% do not trust SACCOs and MFIs. To overcome the trust barriers to formal savings, it is important for policymakers and regulators to continue to drive the stability of savings institutions, strengthen savings and credit cooperatives (SACCOs or COOPECs (in DRC)) and MFIs to collect and secure savings, build consumer protection and recourse mechanisms, and enable deposit insurance. Financial service providers, in turn, could address payment constraints to improve reliability and convenience, plus can improve the capacity of frontline staff to explain products to consumers.

4.
Unlock intermediation for investment. Domestic credit to the private sector is very constrained, at only 6% of GDP or USD 2 billion according to the World Bank. Critical investment opportunities therefore remain unfunded, which hampers development outcomes. The low level of intermediation creates an imperative to develop the capital market through a three-pronged approach: unlocking savings, promoting pooling of capital and reducing the cost and risk of investment to drive opportunities. Potential actions to do so include addressing the payments system constraints to improve functionality of savings accounts, connecting informal savings and credit options with formal institutions, addressing credit-related regulatory constraints, and strengthening access to consumer data. Ultimately, the capital market should be developed to introduce a wider range of financial instruments and long-term pooling options to invest.

5.
Improve risk management options. Four million people reduce consumption or sell critical assets to manage insurable risks (FinScope, 2015). Financial shocks therefore often push people into poverty or prevent the poor from improving their situation. Health mutuelles and informal mechanisms are often the only mechanism communities have to manage risk. Effective insurance can contribute significantly to development in the DRC, even if it just serves wealthier customers and corporates better and starts to build long-term savings for investment. It can also allow businesses to take productive risks that are currently outside their reach. The insurance market has very recently opened up from state provision to broader market provision. Now it is important to now get a functional insurance supervisory system in place to manage the liberalisation process, to attract and manage the entry of insurers and generally to create a stable industry that will regain the trust of consumers. Given the poverty levels and infrastructure challenges in the DRC, formal insurance will remain unobtainable for many over the coming years. It will be important to apply a proportionate approach to regulation so as to allow the continued operation of community-based risk pooling mechanisms and other entities not traditionally included under the insurance regulatory framework, but now covered under the new Insurance Law.

6.
Build the institutions and framework for an enabling environment. Financial inclusion is challenging to achieve and requires a clear vision, sufficient resources and effective collaboration across a broad range of stakeholders. An important cross-cutting action to enable the various priority areas above is to strengthen financial inclusion at the institutional or infrastructure level. In the first instance, this entails introducing a financial inclusion policy and a coordination strategy for implementation. It also extends to topics such as addressing data constraints to enable providers to identify opportunities and to reduce costs and uncertainty, building financial sector skills and capacitating and empowering customary courts as point of low-value dispute handling. There are furthermore a number of cross-cutting regulatory actions to enable the various strategies outlined above, including a need for more principles-based legislation, as well as proportionate requirements for lower tier banks, agency, credit and e-money service providers, and the inclusive implementation of the latest international AML/CFT requirements. Effective implementation of such actions will be critical to build trust while allowing the Congolese financial sector to address the challenges posed by extreme poverty, constrained infrastructure and nascent skills.

Priority actions. The table below sets out key actions that emerge to implement these priority areas.

Priority area	Actions
Extend payment system footprint and use	• *Improve the use cases/user options for digital payments* • *Improve reliability of ATMs and POS devices* • *Expand bancarisation to go beyond account ownership to use* • *Finalize agency banking legislation* • *Finalise the national payment system regulation* • *Extend investment incentives to relevant financial services providers*
Leverage remittances to attract and share resources	• *Extend cross border remittance channels* • *Address last mile payment constraints to deliver cash* • *Reduce sending country documentation constraints* • *Create formal options for cross border trade flows* • *Enable targeted sending options for human capital related remittances (e.g. education, health, business)* • *Consider a diaspora policy to attract skills and funds*
Build trust to save	• *Strengthen the stability of savings institutions* • *Strengthen SACCOs and MFIs to collect and secure savings* • *Improve capacity of frontline staff to explain products to consumers* • *Strengthen enforcement to terminate illegitimate savings institutions* • *Strengthen consumer protection and recourse* • *Complete framework to implement deposit insurance* • *Address payments constraints to improve receipt of and access to savings*
Unlock intermediation for investment	• *Address payment constraints to improve the receipt of saving and liquidity available for lending* • *Connect informal savings and credit options with formal institutions* • *Address credit-related regulatory constraints* • *Strengthen access to consumer data to lend (including Centrale du Risque)* • *Develop the capital market to introduce a wider range of financial instruments and long term pooling options to invest*
Improve risk management options to mitigate shocks and encourage productive risk taking	• *Build capacity with policy makers, regulators and providers to enable the market and support innovation* • *Build trust in insurance with consumers* • *Refine and implement regulation to serve lower income people* • *Address payment constraints for premiums and claims* • *Maintain effective informal options*
Build institutions and framework for an enabling environment	• *Adopt a financial inclusion policy to strengthen inclusion mandate* • *Strengthen coordination around financial inclusion initiatives to effectively develop market* • *Address data and information constraints to enable providers to identify opportunities* • *Build capacity in financial inclusion initiatives with regulators, policy makers and providers* • *Targeted consumer capacity building and financial literacy training*

Table 3: Table of active donor projects in the DRC

1 About MAP

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It is a partnership between the United Nations Capital Development Fund[7] (UNCDF), FinMark Trust[8] and the Centre for Financial Regulation and Inclusion[9] (Cenfri). In each country, it aligns stakeholders from within government, private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country. In the DRC, MAP is rolled out under the guidance of the MAP steering committee chaired by the Ministry of Finance. The steering committee includes representatives from the Ministry of Finance amongst others National Statistics Agency, Central Bank, selected Financial Service Providers (FSPs), industry associations, development agencies and donors.

Comprehensive scope. MAP compiles a comprehensive picture of financial inclusion drivers, barriers and opportunities across the country context, the demand for and supply of financial services, and the regulatory environment in four core product markets: savings, credit, payments and insurance. Figure 1 below summarises the methodology followed and main sources:

Data-driven approach. An important part of the MAP approach is to directly gather evidence. On the supply-side this is done through a range of stakeholder consultations conducted in 2015 as well as a mystery shopping exercise at branches/outlets of various financial institutions conducted in 2016. On the demand-side, both qualitative and a quantitative data is generated and analysed: qualitative insights were gathered through a series of 48 in-depth qualitative consumer interviews conducted in Kinshasa and Goma in August 2015. These insights are used to add perspective and nuance to the quantitative consumer insights generated through the FinScope DRC consumer survey published by FinMark Trust and the UNCDF in 2015, drawing on 2014 survey data. FinScope is a nationally representative demand-side survey of consumer behaviour and interaction with financial services, as well as consumers' financial realities and perceptions of financial services. FinScope DRC is based on a sample of 5,000 adults (individuals aged 15 and older). This sample is representative of the population residing in "economically active" areas as identified by the Central Bank, totalling 21 million adults (see Section 3.1 for further explanation).

Customer needs at the core. What sets MAP apart from other scoping exercises is that the demand-side perspective is the point of departure. The rest of the analysis then evaluates the supply of financial services in the DRC against the core customer needs identified. Importantly, these needs differ across parts of the country and target market segments.

Keeping the bigger picture in mind. MAP is a financial inclusion diagnostic. As such, the role of financial inclusion in serving public policy objectives takes centre stage. However, financial inclusion can never be seen in isolation. It forms part of the broader financial sector and economic landscape of the country. In the DRC, given its unique and complex history, topography and economic situation, the need to regard financial inclusion as part of the "bigger picture" is particularly pronounced. The overview of the needs, gaps and drivers of financial inclusion in the rest of this document will speak to this bigger picture.

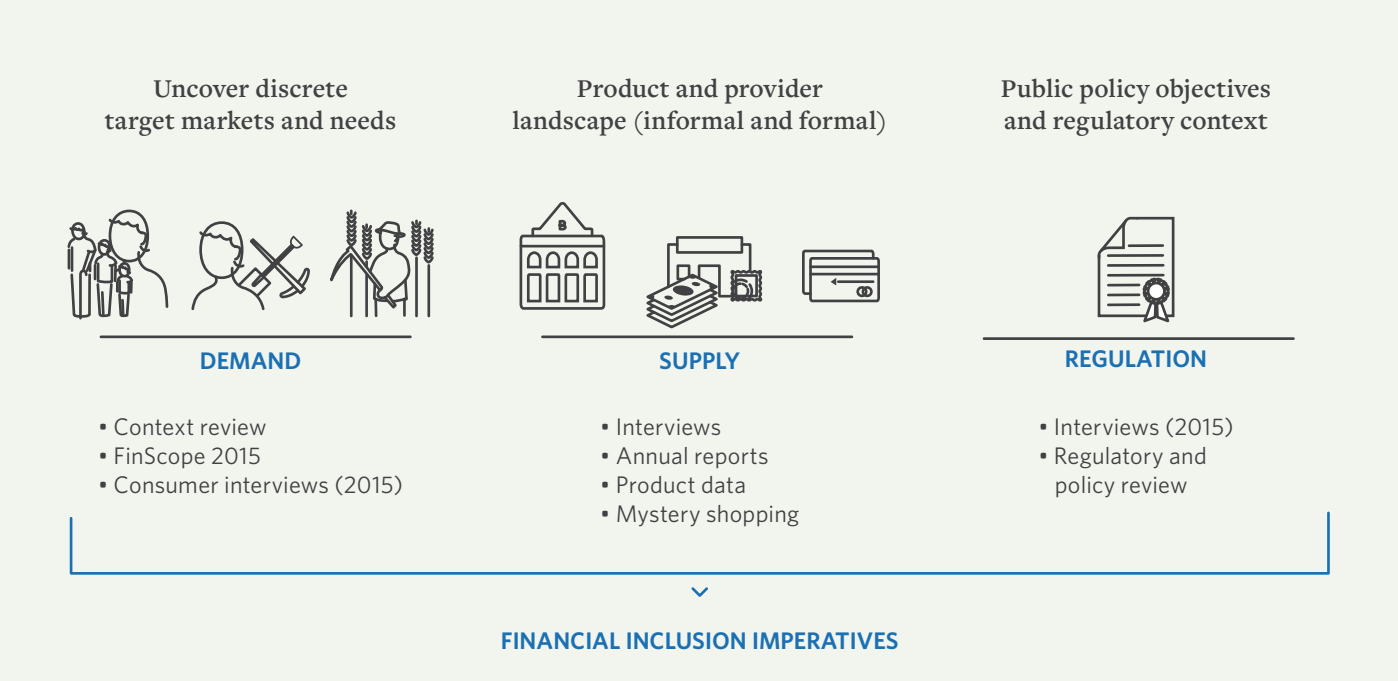


Figure 1. The MAP approach
Source: Authors' own

Overview of financial inclusion. This document summarises the findings of the diagnostic in an issue-based way:

- It starts by outlining why financial inclusion is important in the DRC context and how it can contribute to the government's overall economic development goals **(Section 2)**.

- **Section 3** then unpacks the gaps to financial inclusion in the DRC by considering: (i) the key needs across different target market segments; (ii) the current uptake of financial services and consumer reasons for (not) using financial services; (iii) the supply of financial services across different product markets and the common distribution challenges faced; as well as (iv) the regulatory framework within which the market evolves; in order to conclude on (v) the nature and size of the gaps between needs and reality.

- **Section 4** takes a critical look at the underlying drivers causing the gaps, relating to the country context, business and regulatory environment.

- **Section 5** concludes with priority actions to bridge the gaps and develop a more inclusive financial sector in the DRC.

Deep dive into critical aspects of inclusion. The main text is supplemented by deep-dive analyses into specific thematic areas to provide the evidence and analytical building blocks for the priorities. These deep dives were selected based on key risks and opportunities for financial inclusion[10] and are presented in the following annexures:

- **Input Note 1: Target market analysis** provides an overview of the demand-side context, the current uptake of financial services in the DRC and the barriers to uptake. It proceeds to segment the sample population into five discrete groups, and to profile each group and outline their current financial services usage and likely future needs across product markets.

- **Input Note 2: Regulatory context** outlines the financial services regulatory framework in the DRC.

- **Input Note 3: Market for Payments** provides an in depth analysis of available data on the payments market. From the demand-side perspective, it covers typical needs for payment services and current uptake of various payments products. On the supply-side, it outlines the providers, distribution and product landscape. It also discusses key barriers to greater penetration, including a list of payments-specific regulatory issues, in order to conclude on gaps and opportunities specifically in the payment market.

- **Input Note 4: Risk mitigation** follows the same structure as Input Note 3, but applied to the insurance market. It outlines the near absence of insurance market penetration, considers various formal and informal options on the market and concludes on the scope for insurance market development as a means to support economic growth and protect household livelihoods, and the structural prerequisites to doing so.

2 Why Financial Inclusion?

Large constraints to social participation. The DRC is emerging from decades of conflict. To this, as will be discussed in Section 4.1, is added severe infrastructure constraints and a vast and difficult to navigate topography. Almost half of all adults live in deep rural areas where they are all but cut off from the outside world. Subsistence agriculture plays a particularly important role. The agricultural industry employs 62% of the DRC's men and 84% of its women (USAID, 2015). However, value chains are constrained and a significant proportion of food is imported. It is therefore not surprising that the bulk of the population does not yet share in the benefits of recent economic growth. Input Note 1 shows that only 7% of the population is formally employed. The rest make a living in the informal sector. Poverty is widespread. The average income is only USD 85 per month; 32% of adults earn less than USD 30, or approximately USD 1 per day; and 53% earn less than USD 3.30 per day[11].

"Here we do not have lunch, we [just] have supper. The people are accustomed to the system, because our daily income is maybe USD 1, which cannot be sufficient for both lunch and supper."

Refugee, subsistence farmer, female, Kibumba

Poor human development outcomes. The low incomes combine with poor social services to stunt human development. On the 2015 Human Development Index, which measures the annual rankings of national achievement in health, education and income, the DRC ranked 179 out of 189 countries (UNDP, 2015). Education and health outcomes alike are poor:

- Access to basic education is limited. The World Bank (2012) estimates that the adult literacy rate in the DRC was 75% and in 2013 and the primary school completion rate was 67%.

- The DRC continues to be plagued by high infant mortality rates, low life expectancy and a high disease burden. Life expectancy has not changed over the past five years, currently standing at 59 years. While infant mortality has decreased from 8.3% in 2011 to 7.5% in 2015, it is the highest among its neighbouring countries. The health system is limited as most hospitals are inadequately staffed and equipped. Total annual healthcare expenditure remains insufficient at USD 25 per capita (World Bank, 2014).

Most Congolese financially stressed. The situation of the woman quoted above is indicative of severe financial distress. In total, 71% of FinScope respondents are financially stressed (measured by the self-reported necessity to "often" or "sometimes" go without food or medical treatment, or having to take children out of school). In rural areas, the

figure is 79%, compared to 62% in urban areas and the Kinshasa region. More than 45% of Congolese report not having enough income, while approximately 30% report irregular or unreliable income as problematic. It is also telling that nine out of every ten Congolese report that expenditure on necessities such as food, clothing and health is front of mind for them.

Financial inclusion can help manage deprivation. In this situation of economic hardship and social exclusion, there are structural challenges to connecting people to resources. As the analysis in Input Note 4 shows, people face many risks and financial shocks that reinforce the poverty cycle. Financial services can help to manage these shocks to smooth and grow income. It can also help people to build assets and to transact and live their financial lives more efficiently. The impact is tangible. Figure 2 below shows that 60% of adults who earn less than a dollar a day and who are financially excluded (that is, have no formal or informal financial services) indicated that they have missed a meal, could not send their children to school, or could not pay their health costs. This is shown by the red bar. When considering the corresponding proportion among the financially included (those with any type of formal or informal financial service), the percentage drops to 48% (the green bar). This indicates that, for people with similarly low income levels, whether they are financially included or not makes a significant difference to the likelihood of financial distress.

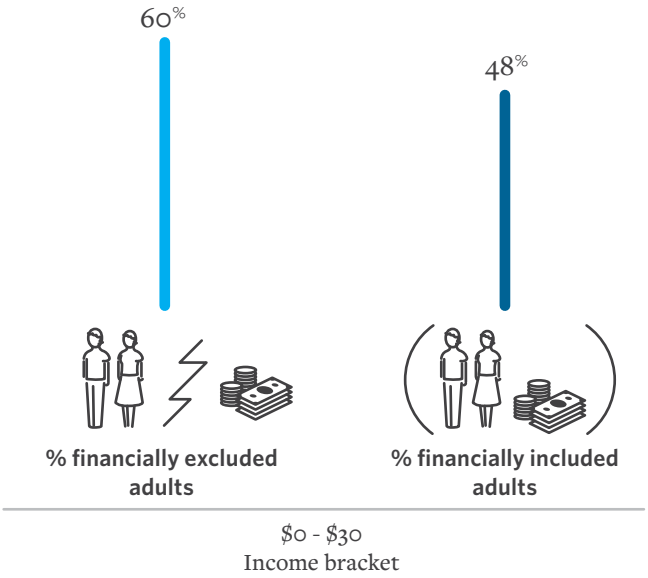


Figure 2. Financial distress among those with and without financial services
Source: FinScope (2015)

Financial inclusion matters as part of the bigger picture. The MAP approach sees financial inclusion as a means to an end – the end being improved welfare and an impact on those activities that contribute to production and economic growth. Effective financial systems[12] 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.

Supporting development policy goals. Against this backdrop, the point of departure for MAP is that financial inclusion can help people and businesses meet key needs so as to maintain their livelihoods, escape from poverty or build productive capacity. By doing so, financial inclusion serves the DRC government's broader development goals in the following way:

Policy goal	Financial inclusion role
Improve welfare	• *Improve reliability and speed of **income** receipts* • *Improve efficiency of **payments** for goods and services* • *Improve tools to **manage risks and liquidity*** • *Enable **asset accumulation** 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***
Cross cutting: Build institutions	• ***Improve institutions** to address constraints in financial services*

Table 1. Role of financial inclusion in serving core policy goals in the DRC
Source: Authors' own, based on Plan National Stratégique de Développement 2017-2021 (National Development Strategy) (National Development Strategy, 2015)

Government resolve for financial inclusion. There is currently no consolidated policy on financial inclusion, but elements of financial inclusion are present in other policy documents. The MAP consultations showed awareness among both government and private sector stakeholders of the benefits of broadening the reach of financial services, and a commitment by government and private sector alike to build an inclusive and stable financial service sector. Initiatives include:

- **Core initiatives:** The government and the central bank have been engaged in a number of initiatives that have direct implications for financial inclusion. Most notable is the so-called bancarisation initiative whereby government is implementing a programme to pay all civil servants via the

Box 1. The role of various financial services in poverty alleviation and growth

Why focus on payments? Effective payments mechanisms are a requirement for the efficient provision of all other financial services and form a vital backbone for the provision of goods and services in the broader economy. Payments allows for the transfer of value between individuals and businesses. Given the frequency with which every member of society makes payments, optimising the efficiency and affordability of payments mechanisms is directly welfare improving[13].

Why focus on credit? The effective allocation of capital for productive purposes is a fundamental goal of the financial system. Credit is a product of this intermediation process and can contribute to productivity through spurring economic growth, employment and improved welfare if used for purposes such as building businesses, funding education, funding larger assets and preventing people from falling into poverty after a shock[14]. However, it can also trap people in a cycle of debt that causes severe hardship. Getting the balance right between improved access to credit and protection against over-indebtedness is difficult and requires a comprehensive view of the market from the consumer and provider's perspective[15].

Why focus on savings? Mobilisation of savings to provide capital for growth and development is one of the key roles the financial sector plays (Levine, 1997). At the household level, the research of amongst others Collins, et al. (2009) shows that low-income people want to save and can save. Formal savings, and to an extent informal savings, offers the benefit of security from crime, wealth accumulation and hedging against inflation, if returns are possible. Most significant might be the built-in self-control mechanism. Funds at home are easier to spend; removing that temptation is a significant first step to building up assets (Banerjee & Duflo, 2011).

Why focus on insurance? In the absence of formal insurance, low-income households cope with risks in various ways (formal and informal) that are often inefficient, perverse and expensive (Dercon & Christiaensen, 2007), whereas studies have shown that where insurance is available, it lessens welfare-reducing behaviour (Carter, 2008). Welfare-reducing risk-coping strategies could include, for example, disposing of productive assets or disposing of assets at a loss, taking children out of school, depleting savings, and taking expensive informal credit (Carter & Barrett, 2006). Such strategies hinder capital formation, limit productivity growth and may result in a "poverty trap" (Carter, 2008)[16]. The absence of insurance has also been shown to cause businesses and farmers tend to accept low returns by engaging in low-risk and low-return activities (Dercon & Christiaensen, 2007). Conversely, studies have shown[17] that insurance allows and incentivises businesses and farmers to make riskier investments and to focus their efforts on higher-yielding and/or more specialised activities.

Insurance furthermore opens up business opportunities otherwise considered too risky. It facilitates trade and access to credit by securing transactions through products such as product liability insurance, and insurance products against political[18] or trade risks, which reduce the costs of doing business (Lester, 2014)[19].

Insurance also enables access to critical services, including healthcare, credit for MSMEs and businesses, and legal services, which would otherwise not have been available. Insurance, for example, contributes to the development of the health services sector by guaranteeing payment for services, thereby making timely and quality healthcare viable (A2ii (2014); Liedtke (2007); Lester (2014)).

Moreover, at the macro level insurers are often the largest institutional investors in a country and, particularly in developing markets, the only domestic source of longer-term capital (Kong & Singh, 2005). This role has been emphasised by various organisations such as the Organisation for Economic Co-Operation and Development (OECD), the World Bank, and the International Monetary Fund (IMF) (OECD, 2014).

From both a microeconomic and a macroeconomic perspective, it is therefore important to unpack the key drivers of the insurance market in order to identify the gaps and opportunities for extending the reach of the market.

financial system. Whilst the principle driver was to reduce fraud and administrative costs, the program has also greatly extended financial inclusion. Further initiatives include the microfinance umbrella program PASMIF (which leverages a broad set of donors to facilitate access to microfinance for low-income individuals), an initiative for the digitisation of the credit bureau and the development of frameworks for a national payments system and agency banking. The Central Bank is also creating a programme for consumer education.

- **Auxiliary initiatives:** There are a number of programmes not primarily aimed at financial inclusion that nonetheless augment inclusion. This includes an education drive for various groups in matters such as small business management. There are also a number of schemes that provide development credit, either government or donor financed, to promising micro or small enterprises (Fonds pour la Microfinance - FPM) or medium sized enterprises (Fonds de Promotion de l'Industrie - FPI).

Understanding gaps and how to bridge these gaps. In order to unlock the role of financial services in serving policy goals, it is important to understand the key needs that financial services can fulfil, the current gaps in serving these needs and the barriers to overcome to improve inclusion. This is the focus of the rest of this document.

3 Where are the gaps?

This section unpacks the needs for financial services in the DRC and compares the current state of financial services uptake and supply to these needs to conclude on the key gaps to overcome.

3.1. Different realities for different target markets

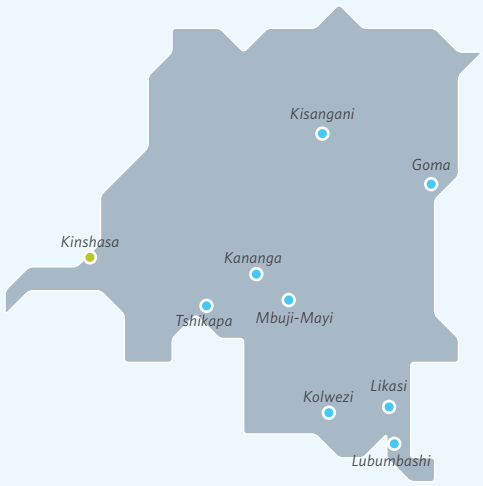
The DRC is a vast country. Thus different parts of the population will have different needs, depending on their location and economic realities.

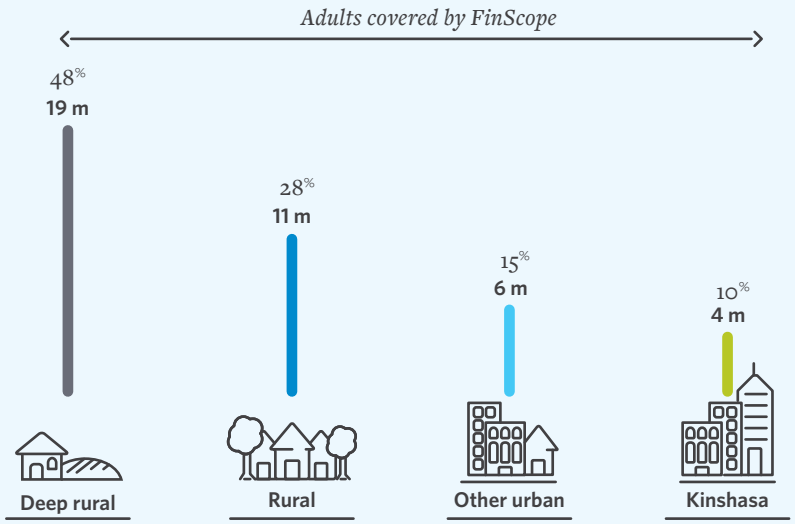
Distinct regional realities. The diagram below shows the main urban centres and the large gaps in the middle and north-western parts of the country. It classifies the population into four distinct groups: the Kinshasa region has the highest income and education profile. Its population is the most connected and the easiest to reach from a financial services distribution point of view (though still dispersed in relative terms, compared to other countries). This is followed by the "other urban" and then rural areas. The deep rural part of the population, estimated at 19 million adults, is so unconnected and difficult to reach, that they are not covered by the FinScope survey and that it was not deemed feasible to include them in the analysis of the potential target market for financial services for MAP purposes.

Significant urbanisation and migration. The groups outlined above are not static. While 65% of the Congolese live in rural areas, there is a high rate of urbanisation, at 4% annually (BTI, 2016). The principle drivers of this migration are employment opportunities, conflict and deterioration of living conditions in rural areas. These same conditions are also the reason why a large number of Congolese have chosen to emigrate from the country, creating a sizable diaspora of over nine million people who remit an estimated USD 9 billion per annum[20] (Consultations, Ministry of Congolese Abroad, 2015).

Distinct gender realities. In addition to the regional differences, there are also gender differences. In general, men are slightly better off than women. Men surveyed in FinScope are more educated (65% have secondary education or more, compared to 52% of women), and wealthier than women. They earn on average USD 93.5 per month, compared to the USD 76.5 average monthly income of females. This may, in part, be explained by the fact that 36% of men, compared to 29% of women, have a formal income source.

Discrete target markets. Another way to differentiate across population groups is by considering main source of income. A farmer, for example, will have different financial service needs than a salaried worker. The DRC population can be





	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%	18%	57%
Average time to nearest bank branch		126 min	55 min	58 min
Average time to nearest ATM		162 min	49 min	57 min

Figure 3. Segmenting the Congolese population by geographic area

Source: Authors' own calculations based on FinScope (2015) and Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages (Employment and Household Consumption Survey) (2015)

divided into five target market segments[21], (Input Note 1 sketches the demographic and financial services profile of each target market in detail):

- **Formally employed (1,505,956)** – are adults whose main source of income is a salary from a private or public institution. They are the wealthiest target market and live mostly in Kinshasa and other urban areas. The formally employed are also by far the best educated. This target market is the second smallest in size, being marginally larger than the informally employed.

- **Informally employed (1,487,460)** – derive their income from a salary or wage received from an individual or from piece work. They are the smallest of the target markets, the second highest earning and the second most educated.

- **Micro, Small and Medium Enterprises (MSMEs) (6,188,414)** – make a living from owning and running their own business. This target market makes up almost a third of the population. MSMEs have the highest number of income sources on average.

- **Farmers (6,855,399)** – are adults whose main source of income is derived from farming. Apart from a small number in the Kinshasa area, they are almost exclusively located in rural areas and are the poorest of the target markets by a significant margin.

- **Dependents (4,481,531)** – rely on family and friends for their main income. They mostly rely on their parents, spouses and other family to pay their expenses or provide them with money. The gender and age distribution in this group is strongly biased towards females and the youth.

3.2. Key needs

The diagram below uses FinScope (2015) data to plot different financial service needs encountered in the DRC across the product markets through which these needs can be met. The various bars on the chart each represent a discrete client need that can be met by one or more financial service. So, for example, a person who receives a salary into a bank account will want to encash the money. Or, a person may have the need to receive remittances or use financial services to acquire productive inputs or pay for education.

Instances of use as proxy for needs. It is important to note that the diagram identifies revealed needs based on an analysis of actual use of financial services as reported by FinScope survey respondents, as well as a number of other survey questions that give an indication of likely needs. These instances are then regarded as a proxy for need[22]. Therefore, the number of individuals who need a financial service will, in reality, be more than is reported in the figure below, but it cannot be less[23]. After this first line of analysis, we also consider what the qualitative demand-side research and other elements of the FinScope survey tell us about unmet needs.

Figure 4 shows the prominence of the various needs in the DRC. The X-axis represents the discrete needs identified and the Y-axis represents the percentage of Congolese who reveal (through their use of the product or service) that they need a particular type of financial service. As indicated in the diagram, there are four ways in which people might use financial services to satisfy any of the particular needs: through payments, savings, credit or insurance. Some needs can only be satisfied by one product, such as the need to pay for goods and services, for which only payment products can be used. In other cases, such as for loss mitigation, more than one product may be used to meet the same need. In some instances, a particular adult makes use of more than one type of product and is then counted in

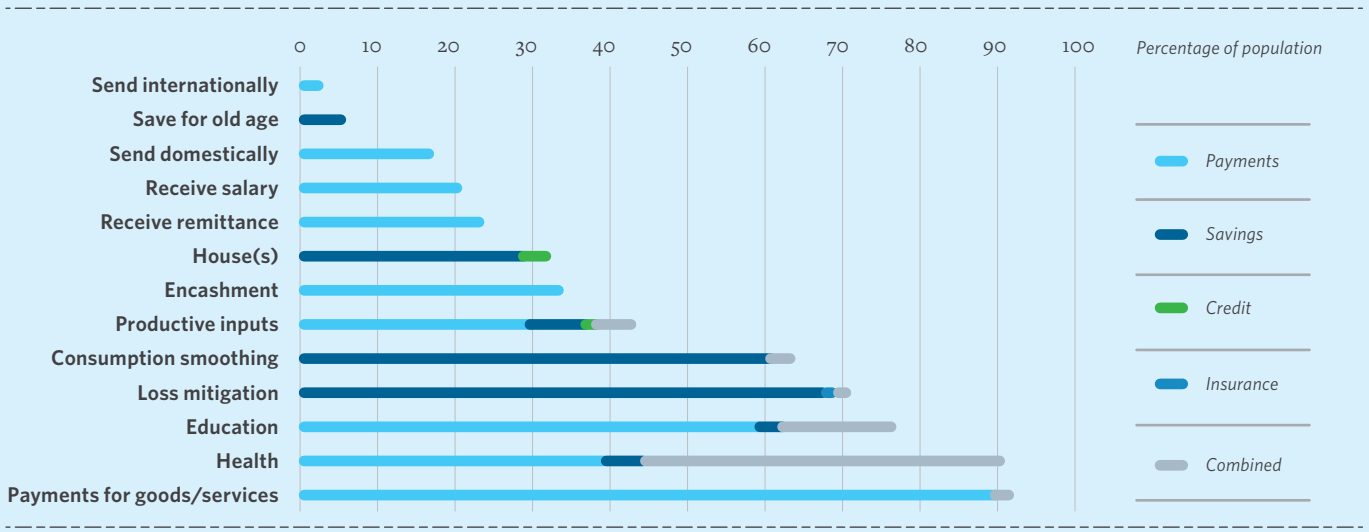


Figure 4. Key expressed financial service needs

Source: Authors' own based on FinScope (2015)

the "combined" category, regardless of which products he or she uses.

Important needs highlighted include:

Paying for goods and services. Everybody needs to pay for goods and services to live their daily financial lives. Thus it is no surprise that this is the prime expressed need among the sample population. This need is virtually exclusively met through the payments market.

Managing the impact of risks. The poor state of health infrastructure and the conflict-ridden past combine to create a strong need for risk management for health expenses, for the expenses and for loss mitigation for risks leading to loss of income related to death, as well as for loss of assets. To the extent that these needs are met by financial services, they are met largely through savings (for loss mitigation), and a combination of payments and savings (for health expenses).

"The last loan I took was when my child was in the hospital: I accepted to pay the bill with interest. It was USD 100. Paying it back was horrible! I sold my field to pay the bill at the hospital!"

Subsistence farmer, female, mother of ten, Riburanga

"I can't talk to you for too long – I need to assist my friends. Their cows were attacked last night by thieves and they injured many of them. I have to help them cure some cows."

Cattle farmer, male, father of 15, Kibumba

"When I have a problem I borrow money from the company where I work to have a little money and I'll pay back little by little... Last month, my wife was involved in an accident, she had fractured bones. I borrowed USD 200 from work and that will be paid back little by little."

Private enterprise employee, male, Kinshasa

"It is very important for the State to insure our health to help us and also in case of a death in family for example, I lost my little brother and I faced a lot of difficulties. I paid for my brother's funeral with the money which was reserved for the shop and that left my family in a desperate situation. I had to sell a pig for USD 240 so that we could manage."

Shop owner, male, Kinshasa

*"It sometimes happens that we spend all we have for that purpose.
If the situation gets worse we use other methods."*

Bwakisa Carte keeper, male, Kinshasa

Education an aspiration, but often not affordable. Education is another prominent expressed need. It was clear from consumer interviews that people value the role of education in improving the economic fate of their children. Despite a recent policy move to make at least the first five years of schooling free, more than half the cost of school fees still falls on families (A World At School, 2015). This financial burden excludes ancillary costs such as textbooks and uniforms. This meet is largely met through payments instruments, sometimes in combination with savings.

"Last year my children studied but I don't know about this year, if they will go to school, because of my weak income."

Small trader, female, mother of six, Goma

"School fees cost USD 1,200 per year for the three children. For each of the three children I spend USD 50 per term or a quarter for children's clothes. For communication it is USD 2 per day, transport USD 67 per month ... I had to borrow money from the company I work for. I borrowed USD 100. I wanted to pay the children's school fees. It was for three months and the company deducted it from my salary. We have special cash in the company meant for the employees. It is necessary to produce an application for the loan and you wait for one week for it to be approved."

Engineer and owner of a poultry farm, male, Kinshasa

"Yes, I will sell it for the school children's accounts. If my husband has nothing to pay for school fees of the children, I can sell them (her jewellery) to meet the academic needs because I do not want my children to miss class just because their father has no money."

Small trader, female, Kinshasa

Consumption smoothing a critical need. More than 60% of surveyed adults indicate that they use financial services (mainly savings) to smooth their consumption. As discussed above, 71% of Congolese take children out of school, skip health care or skip meals due to funding constraints. 25% of those that borrow do so to buy food (FinScope, 2015). They therefore need financial services to help smooth their income and expenses. This trend holds even at higher income levels.

"Yes... I like saving... it insures our future because we don't know what will happen tomorrow so that is the reason why we have to save."

Low-level government employee, male, Kinshasa

"It is always necessary to save because we do not know the future."

Civil servant and owner of multiple businesses, male, Kinshasa

Swift, secure sending and receiving of money over a distance. The small, irregular incomes highlighted in Section 2 and the reliance on community support discussed in Section 3.3 below, coupled with the poor road infrastructure, mean that money transfers play an important role in the DRC. There is a distinct need to send and receive remittances domestically. A large diaspora community also creates a need to send and receive international transfers.

Housing a growing need, increasing with urbanisation. The need to acquire a house or make improvements to living conditions may not feature as prominently as some of the other needs at an overall level, but is important when considering the need for credit. As is apparent from Figure 4, the use of credit to fulfil this need is negligibly small in overall population terms, with most people drawing on savings for their housing needs. Yet within the small credit market, it plays an important role. Housing is the second largest reason to obtain credit after health

risks: 40% of people with credit obtained it to improve or acquire their homes (FinScope, 2015). 15% of the surveyed population indicated that they were building a house at the time of the survey. It is likely that this need will increase with the urbanisation trend highlighted above.

Business and agriculture inputs critical to maintain incomes and escape poverty. Another need highlighted by the diagram is the need to acquire productive inputs. These needs are specifically relevant for small business owners/traders and farmers. More than 50% of economically active adults are farmers or small business owners. Inputs are largely acquired with savings: very few credit products are available.

"In terms of our business we had cows before but other cows became wild. We had a lot of things and for that we had to take credit; we had requested but the credit had not been granted and we had to manage it alone ... We do not have access to tractors and we have not yet benefited from credits: if we can have, we will have a work force."

Subsistence farmer and carer for elderly husband, female, Kinshasa

Longer-term goals such as pensions desired, but out of reach for most. Saving for old age, though identified as a discrete need, does not feature prominently compared to the other main needs identified on the diagram. In this instance, considering revealed use of savings products is likely to underestimate the true need for saving for old age. In fact, 90% of adults think they should save for old age, but very few have the means to do so (FinScope, 2015).

The analysis so far considered needs across the sample population. However, different people will have different needs. Needs will also vary across product markets. Below, we take a closer look at needs through target market and product market lens, respectively. It is interesting to note that the analysis did not pick up any significant gender differences.

How do needs compare across target markets?

As noted, the population comprises different target markets with different profiles and, hence, different likely financial service needs. Table 2 compares needs across the five target market segments. A traffic light system has been used to indicate prominence of needs within and across target market segments. Cells are highlighted green when more than 60% of the target market expressed a particular need. Orange cells have values between 20% and 45%, while red cells have values that are lower than 20%:

	Formally employed	Informally employed	MSMEs	Farmers	Dependents
Receive salary	100%	69%	14%	10%	9%
Consumption smoothing	98%	94%	92%	97%	88%
Payments for goods and services	98%	92%	95%	93%	87%
Health	97%	90%	95%	97%	85%
Encashment	96%	69%	30%	24%	31%
Education	95%	80%	82%	75%	72%
Loss mitigation	90%	77%	76%	69%	62%
Productive inputs	42%	26%	37%	67%	33%
House	42%	27%	28%	44%	18%
Send domestically	41%	13%	19%	16%	15%
Receive remittances	32%	26%	26%	17%	29%
Save for old age	12%	5%	10%	5%	4%
Send internationally	9%	3%	3%	0%	4%

Table 2. Identified needs across target markets

Source: FinScope (2015)

Needs tend to hold across segments. Many needs appear to be similar across the target markets. Consumption smoothing, payments for goods and services, health, education and loss mitigation are all prominent needs amongst all the target markets. Saving for old age and the need to send money internationally, on the other hand, are reported by only a small percentage of each target market. For the remainder, the differences in expressed needs largely correspond to profile differences:

- The formally employed, by definition, have a need for financial services to receive their salary. The informally employed also receive salaries. For the remainder of the target markets, there is no evidence that salary receipt is a strong need, which is consistent with the finding that very few households in the DRC benefit from a formal, regular source of income, or even just a regular informal salary. The need for encashment exhibits the same pattern as that for receiving a salary, possibly because the two needs are related: individuals who receive a salary likely require encashment services.

- As would be expected, only farmers report a high need for productive inputs. MSMEs report a relatively low use of productive inputs. This may, however, be due to the data available and does not necessarily reflect MSMEs' actual needs.

- Only the formally employed make moderate use of services to send money domestically. Their relatively higher earnings and regularity of income places them in the position to send money.

- On the receiving side, farmers report the lowest use of remittance services. It is difficult to interpret this result: farmers are one of the poorer target markets and would therefore potentially require more monetary assistance than some of the other target markets, such as MSMEs or the informally employed. They are also the most rural. Their low uptake of remittances may therefore underestimate true need. On the other hand, it may be indicative of the "disconnected" topography and the challenges of sending money over a distance.

What do these needs mean at a product market level?

Well-established payments/ remittances and savings need; underdeveloped need for credit and insurance. As is apparent from Figure 4 above, payments and savings are the main instruments used to meet the identified needs. The target market analysis in Input Note 1 confirms the need for these instruments, based on the various target market segment profiles. However, it also indicates an in-principle need for credit and insurance that is not captured here. In particular, salaried employees are a prime target market for credit due to their secure, regular income. MSMEs have an especial need for credit to expand their business operations, and farmers for farming inputs. There is also an in principle need across target markets for insurance to cope with the impact of risk events (though, as the analysis below will show, there is a general lack of awareness of insurance and the potential of the insurance mechanism for risk mitigation).

Below, we take a closer look at the current state of financial inclusion – in terms of uptake of financial services as well as the provider, product and distribution landscape – in order to better understand the gaps between the needs as highlighted here and the reality on the ground.

3.3. State of financial inclusion and financial market development

How does the state of the market – from a demand and supply perspective – speak to the needs identified above?

Looking back

History shapes reality. Given the turbulent history, it is important to place the current market picture in historical perspective. The diagram below depicts the evolution of the financial sector in the DRC, overlaid by conflict and macroeconomic trends. It shows that the macro conditions combined to cause a collapse of the whole banking sector since the start of the 1980s. It was only again in the mid-2000s that the retail banking market was re-established. In the following decade to date, the number of bank accounts grew exponentially, yet still represents a small number in absolute terms when compared to the size of the population. The rebuilding of the financial sector has been hampered by the destruction of infrastructure in the conflict period.

Rapid growth in providers, accounts and balance sheets. Figure 6 to the right confirms the rapid growth since the advent of macroeconomic stabilisation: the number of registered financial institutions has grown five-fold and the number of accounts has shown equally strong growth. The loan to deposit ratio, a measure of liquidity, increased sharply from just less than 50% in 1997 to 67% in 2009 and has since stayed at around 60%.

Despite this rapid growth, the state of financial inclusion remains poor and the supply response speaks of an underdeveloped market.

Still limited financial inclusion

Very low take-up of financial services. Input Note 1 provides a full overview of financial services uptake in the DRC. It paints a stark picture. If the total population is considered (including the 19 million deep rural adults as outlined Figure 3, page 11), there are about 40 million adults in the DRC. As indicated in Figure 7 below, the majority of them do not use any type financial services – more than 25 million adults are totally excluded. The contrast is even starker when considering those reached by formal financial services, at only seven million. A mere one million people have more than one type of formal financial service:

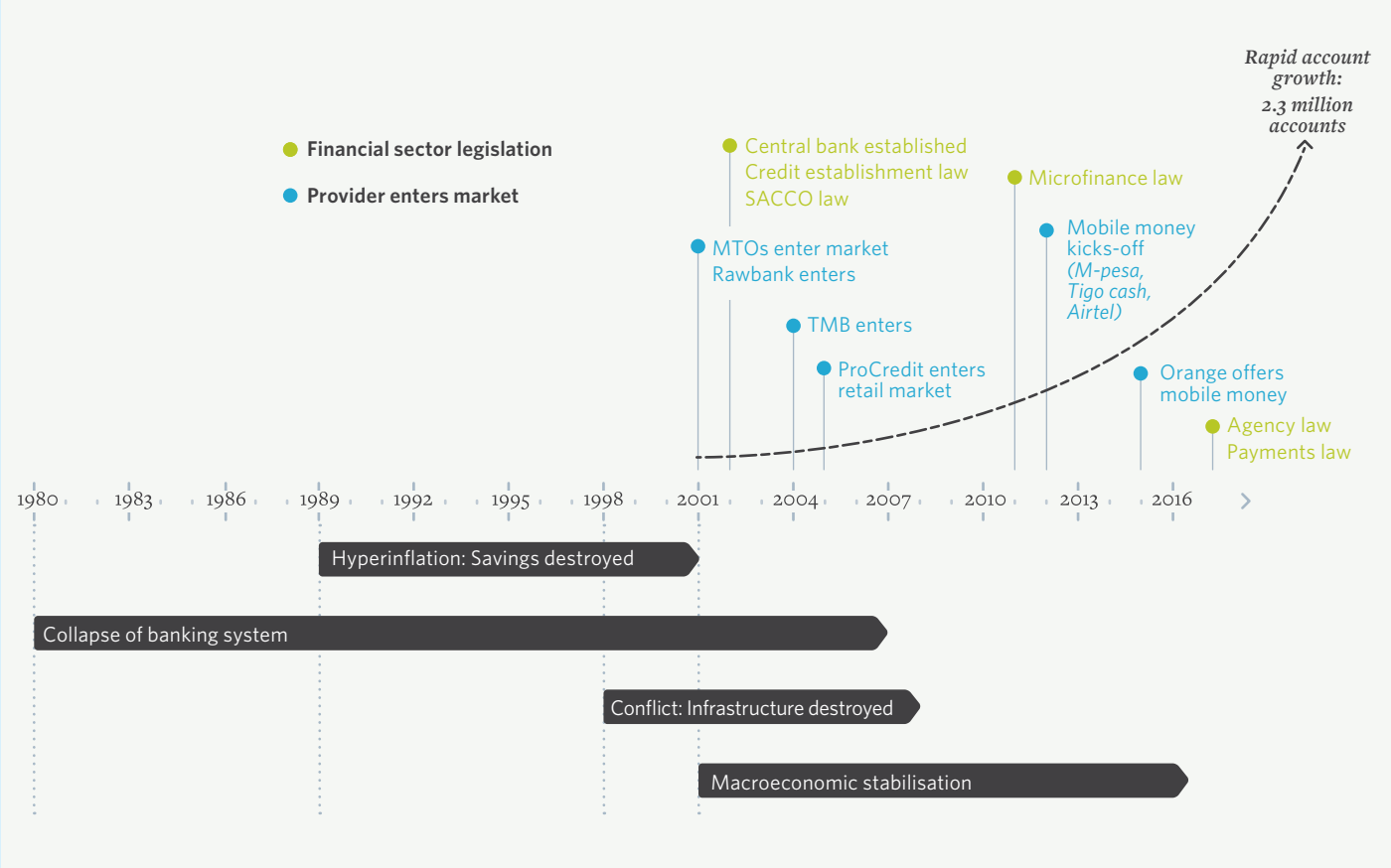


Figure 5. DRC macroeconomic and financial sector development timeline

Source: Authors' own, based on various sources

Figure 6. Evolution of number of players, accounts, deposits and loans since 1997

Source: Banque Centrale du Congo (BCC)

High exclusion in regional comparison. The diagram below places financial service usage in the DRC in regional perspective by using the Access Strand tool as explained in Input Note 1. It shows that, after excluding the deep rural population, only 2.3 million (12%) of the adult population are banked. A further five million are not banked, but use other formal financial services, largely remittances. The remaining adults rely only on informal services, family and friends or are excluded from any services. More than half of the sample population (10.5 million adults) are classified as financially excluded. This places the DRC at the bottom of the financial inclusion spectrum compared to regional peers:

Women slightly more excluded than men. On average, men have marginally higher uptake of financial services than do women, as shown in Figure 9 to the right.

Even the wealthy excluded. The level of exclusion is high even for individuals at the top of the income spectrum. FinScope (2015) shows that there are approximate 900,000 adults who earn more than USD 200 per month, yet have no formal financial services. A further 1.5 million earn between USD 100 and USD 200 per month, but are totally excluded.

Government bancarisation drive extends accounts, but use still limited. Government has been a significant driver of greater uptake of retail financial services. Over 800,000 of the one million people paid by government are now paid via banks, with some paid into mobile accounts. Ironically, however, many of these payments are then again converted to cash that is delivered to the recipient, with no funds ever stored in the account.

Those with accounts use it mostly for saving or security. Figure 10 shows that adults who have a formal financial account at a bank, savings and credit cooperative (SACCO) or MFI mostly use it to save or keep their money safe. Some adults do withdraw all of their money at once, using their account like a "mailbox" to receive salaries[25], but this group is much smaller. Only a small number report that they use their accounts to obtain credit or to make payments or receive funds.

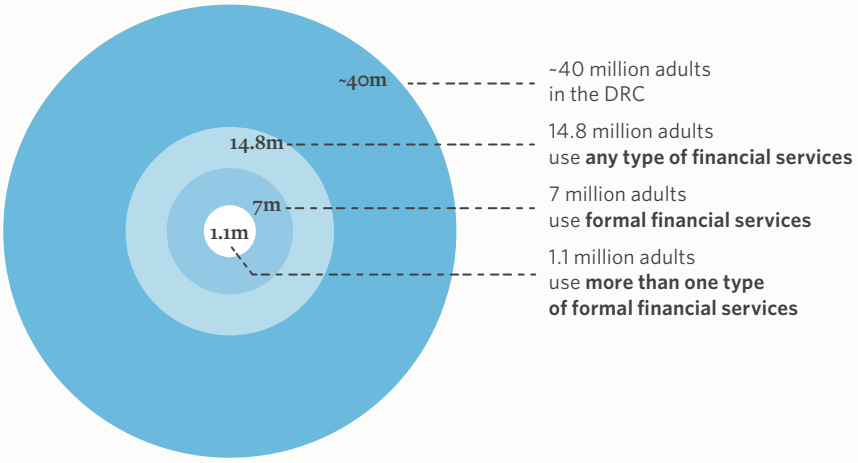


Figure 7. Financial services uptake in the DRC in perspective

Source: Authors' own calculations based on FinScope (2015) and Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages (Employment and Household Consumption Survey) (2015)

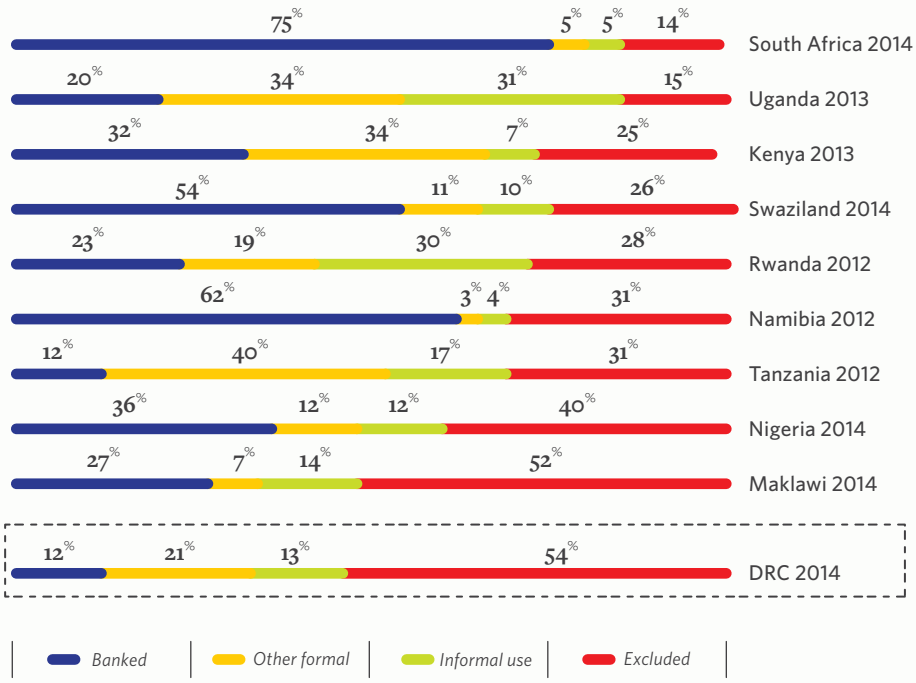


Figure 8. Financial inclusion in the DRC in regional comparison

Source: FinScope DRC (2015), based on population in "economically active" areas; various other country FinScope surveys[24]

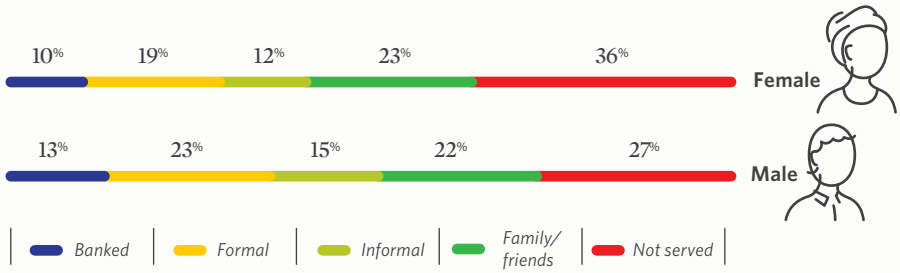


Figure 9. Access Strand by gender

Source: FinScope (2015)

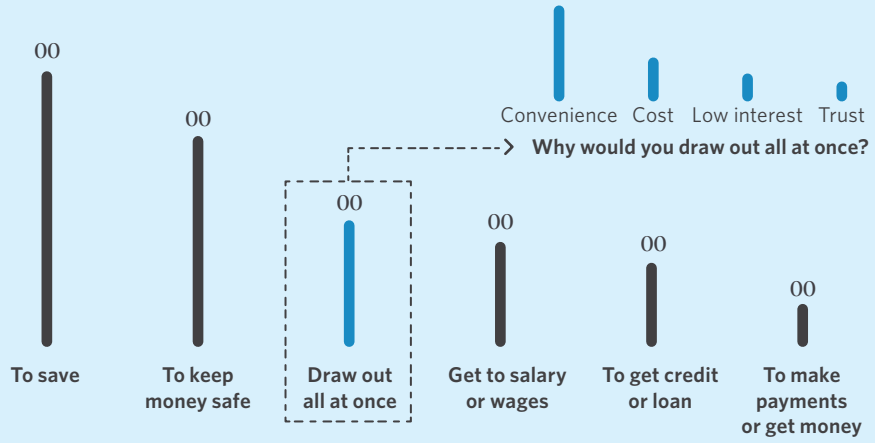


Figure 10. Account usage patterns | *Source: FinScope (2015)*

Limited frequency of usage. Figure 11 below indicates that, while mailbox accounts are limited, the majority of adults do not use their accounts very frequently. In fact, less than 3% of adults use their accounts "at least once a week". Most use their accounts far less often across a range of account uses, including bill payments, internet banking, mobile phone banking, electronic transfers, getting cash from an ATM and visits to a bank branch. Only 50% of those with accounts use it once a month or more. Figure 10 above reveals that this is usually due to inconvenience of accessing the account more frequently.

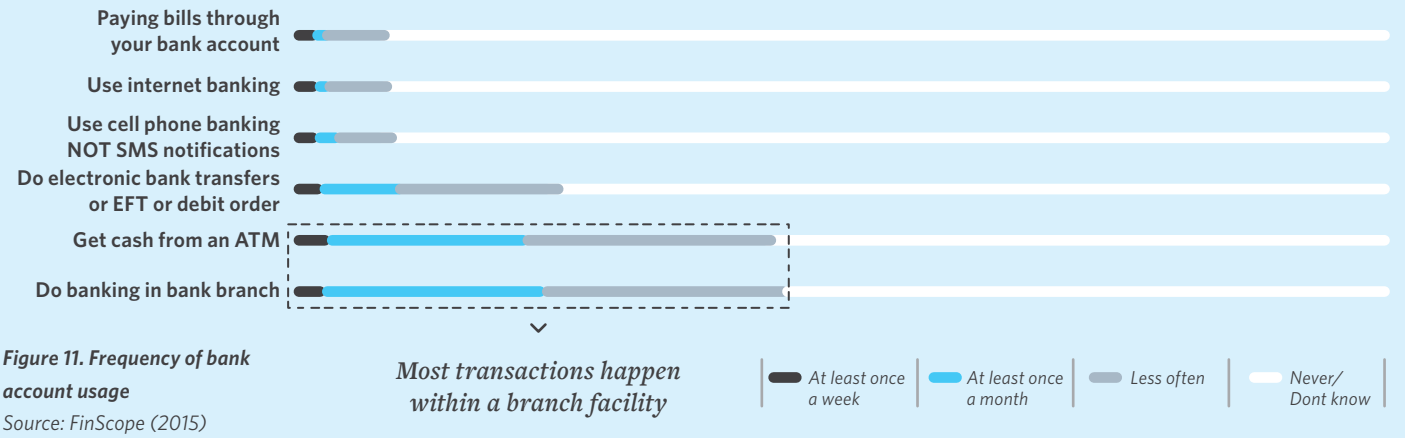


Figure 11. Frequency of bank account usage
Source: FinScope (2015)

Low take-up persists across product markets and is skewed towards women and rural communities. Figure 12 below considers financial services take-up across different product types, and by gender and location. It is clear that most Congolese who are financially included have either remittances or savings products. Total exclusion is reduced because many people turn to family and friends to meet financial service needs (the yellow bar). Formal credit and insurance uptake is virtually non-existent. Females are underrepresented in all product markets, as are rural areas:

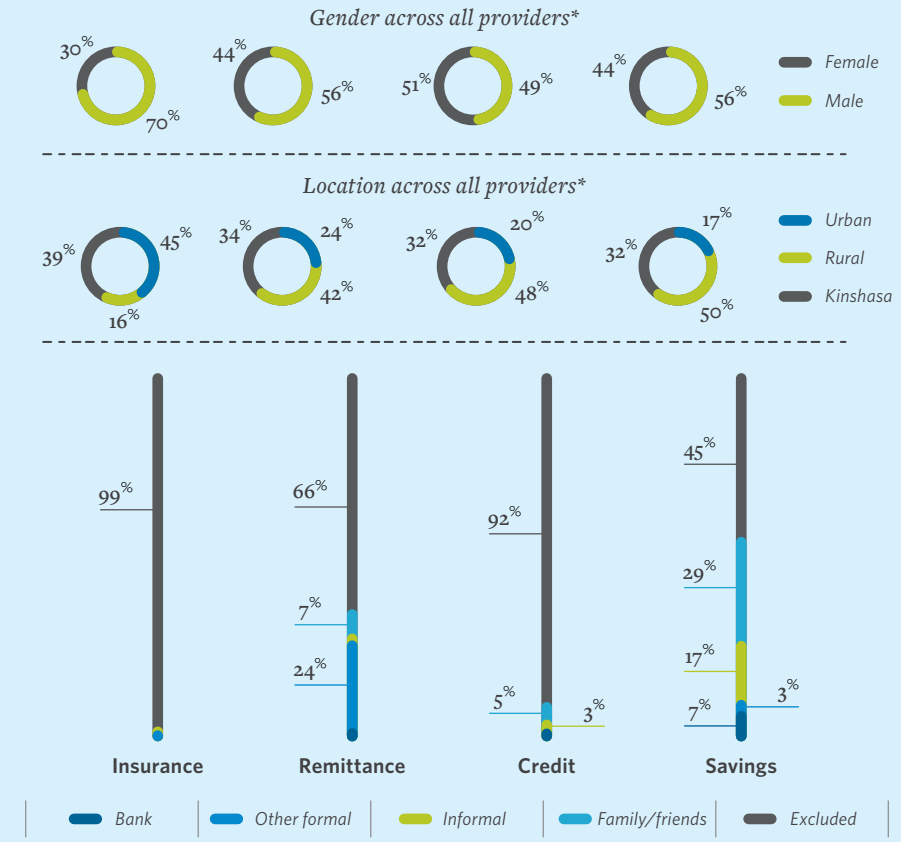


Figure 12. Uptake across target markets and split by gender and location
Source: FinScope (2015). Adjusted to total adults

Savings pervasive, but largely outside formal sector. Figure 12 shows that savings are the single most used product type, with 55% of the sample population saving in some way. However, only 10% of adults save in formal financial services.

Large credit gaps. It is notable that even the formally employed are not well-served by credit: as discussed in Input Note 1, formal credit take-up among formal employees is less than 5% and a total of 89% of formal employees have no credit whatsoever, not even from family and friends or informal moneylenders. The starkest credit gap, however, lies in productive credit. As indicated in Figure 13, 2.3 million adults earn more than USD 200 per month, almost 2 million of them farmers and traders/MSMEs. Yet only 9% have credit:

Health spending and food largest drivers of credit uptake. Among those who have credit, health expenses is the single biggest reason for borrowing, followed by the need for housing, food, investing in a business, and education:

Most cope with risk outside the insurance market. Figure 14 shows that people use emergency loans to cope with the impact of risk events such as health expenses. Many take even more drastic measures: as indicated in Figure 15, four million adults indicate that they have had to sell something or reduce consumption to cope with the financial impact of an insurable event. This is not because they do not believe in insurance: in principle, about 60% of adults think that insurance is worth the cost and improves peace of mind. However, one million adults believe that the insurer will not pay out claims, and a further one million do not understand insurance. Only about 200,000 adults consider themselves to be insured[26].

Remittances fulfil important function. Figure 12 indicated that a total of 34% of adults in the sample population use remittances. The qualitative demand-side research suggests that remittances are generally large and infrequent, and are often used for responding to risks and to pay school fees. FinScope confirms that more than 70% of those who send or receive remittances do so only seasonally or, at most, monthly. 24% of adults remit through formal non-bank channels. Figure 16 shows the overlaps between remittances clients and banking and mobile money clients, respectively. It shows that most people that send or receive remittances do so outside of the banking or mobile money market. The remittances market reaches a substantially

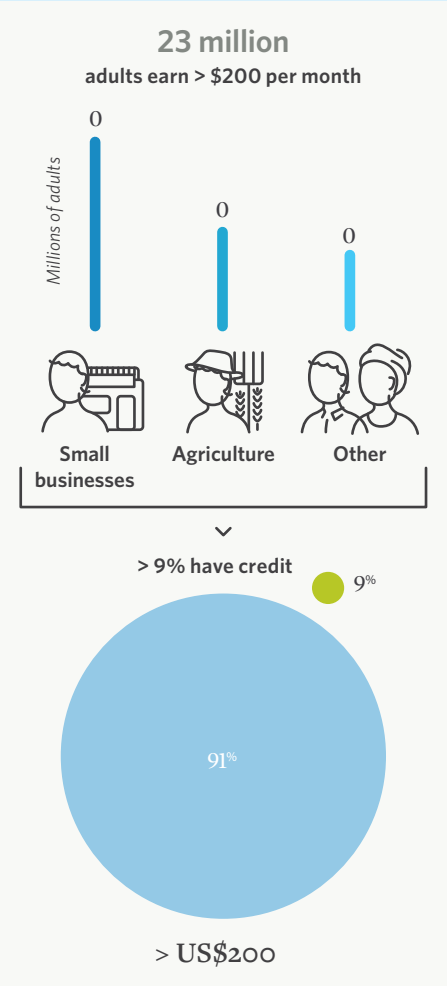


Figure 13. Uptake of credit among higher income MSMEs and farmers
Source: FinScope (2015)

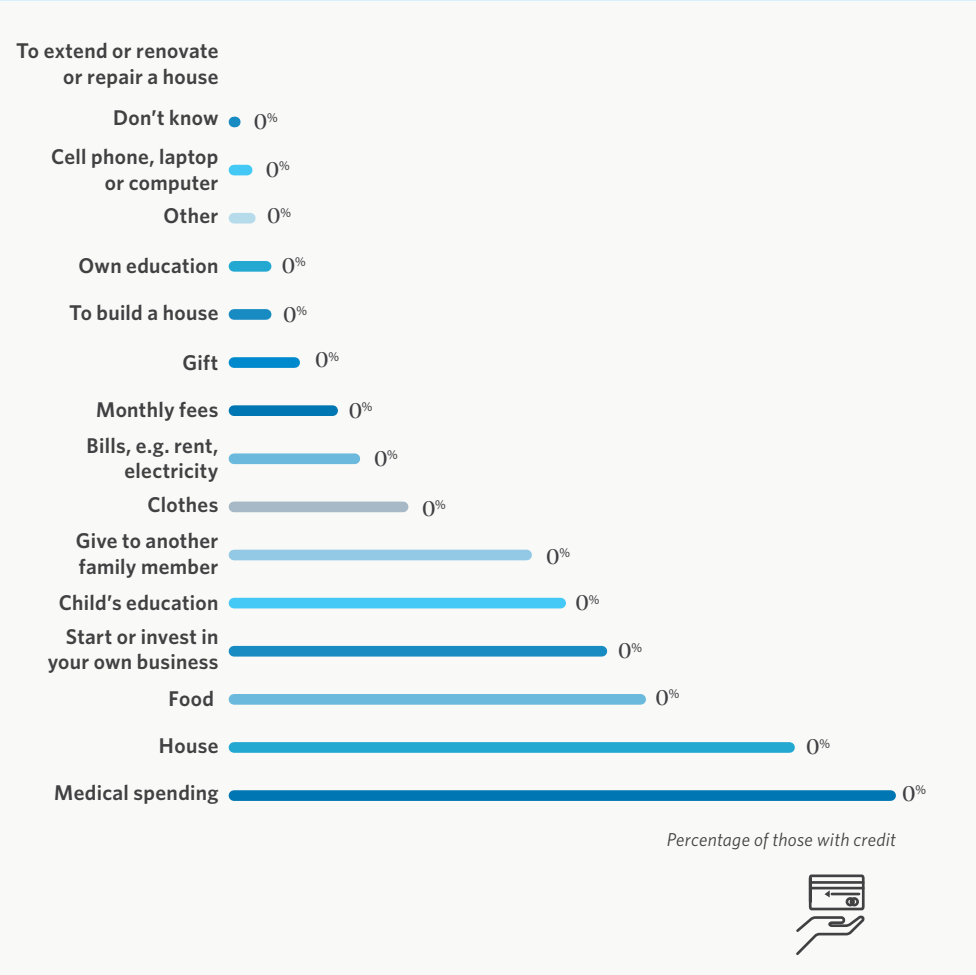


Figure 14. Reasons for borrowing
Source: FinScope (2015)

broader client base than banks or mobile money providers and fulfils an important role not fulfilled by these two markets.

Impressive mobile money numbers, but actual use low. As of 2013, GSMA data indicated there to be 12.4 million mobile money subscribers (refer to Input Note 3 for more detail) (GSMA, 2013). This represents 32.4% of the adult population covered by FinScope. However, providers estimate only 10% of these to be active users (Consultations, 2015).

Supply response constrained

The supply-side picture mirrors the sub-optimal uptake picture outlined above.

Provider landscape dominated by banks, MTOs. The table below provides an overview of the different types of regulated financial service providers in the DRC and their service offerings.

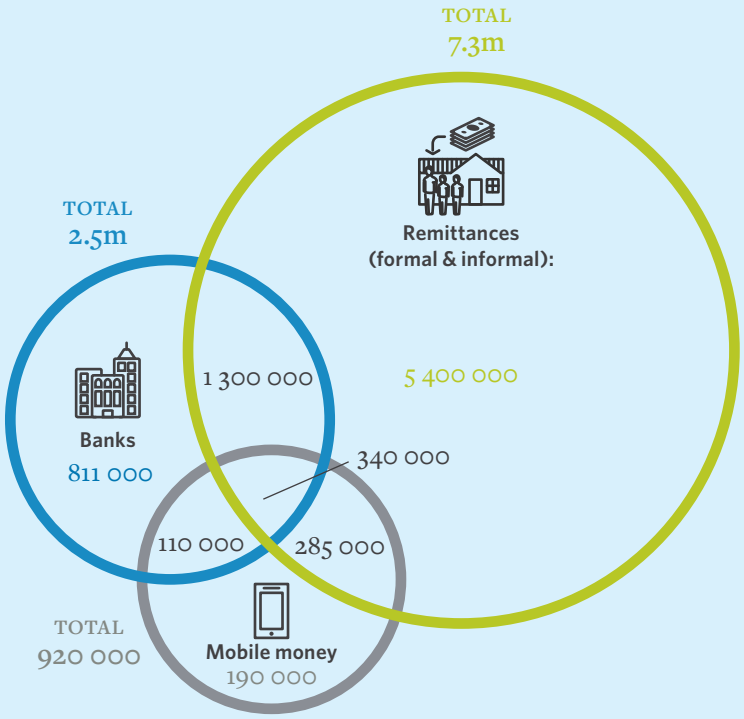


Figure 16. Uptake of different types of remittances instruments
Source: FinScope (2015)

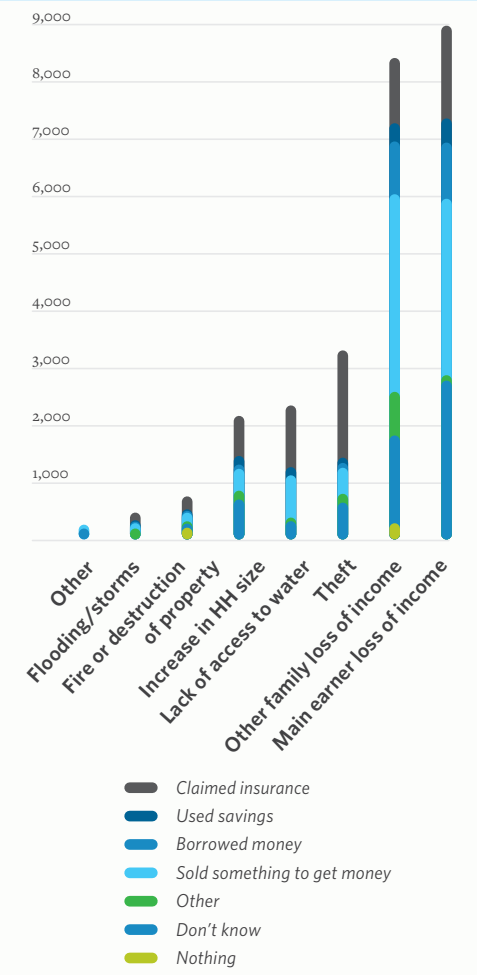


Figure 15. Most frequent risk events experienced in the past twelve months and response
Source: FinScope (2015)

Institution	Institution(s)	Branches	Credit	Payments	Insurance	Savings
Banks	18	403	✓	✓		✓
SACCOs	103	129[27]	✓			✓
Savings banks	1			✓		✓
Specialised financial institution	1		✓			
Financial companies	1		✓	✓		
MFIs	21	36	✓			✓
Insurance	1				✓	
Pension funds	1					✓
Exchange bureau	16			✓		
Lotteries	1			✓		
Money transfer operators (MTOs)	75	389		✓		
Mobile network operators (MNOs)	3			✓		

Table 3. DRC financial service provider landscape
Source: Authors' own, based on World Bank (2016c), World Bank (2016e), GSMA (2013), IMF FAS (2015)

The landscape is dominated by the 18 banks and their more than 400 branches. SACCOs, though large in number, play a comparatively smaller role. Given the physical infrastructure constraints in the DRC, money transfer operators (MTOs) fulfil an important function in transferring money across a distance. They operate across 389 branches and serve an estimated 24% of adults (FinScope, 2015).

Concentration in top five banks, with limited returns. Figure 17 outlines the share in total assets, savings and credit of the top five banks, compared to all other banks combined. It also indicates return on equity (ROE) for the top five banks. The picture that emerges is of a concentrated banking sector where the top five banks account for more than 60% of total assets. Yet in many of the top banks returns are low or even negative.

Highly constrained credit market. The very low credit uptake as outlined is confirmed by supply-side figures: credit extension to the private sector totalled only 6% of GDP in 2014 or USD 2 billion. This is very low compared to the least developed countries (LDC) and global averages of 26% and 125%, respectively (World Bank, 2016a). Credit extended by the financial sector totalled only 8.6% of GDP in 2014. Though this ratio has grown substantially in recent years (up from 2.9% in 2006), it is extremely low compared to developing countries with more developed financial sectors, such as South Africa (186%) and Brazil (106%). Domestic capital is furthermore extremely limited. The amount of deposits raised by banks represents only 40.9% of the net foreign direct investment in the DRC (World Bank, 2016b). Institutional investors also do not invest significantly. This curtails investment and growth.

Limited savings mobilised. The savings rate is low compared to other countries, which constrains the domestic assets available for intermediation. National savings amount to USD 3.3 billion or USD 35 per adult (World Bank, 2016b). At 5% of Gross National Income (GNI) this is very low compared to a Sub-Saharan Africa average of 19%.

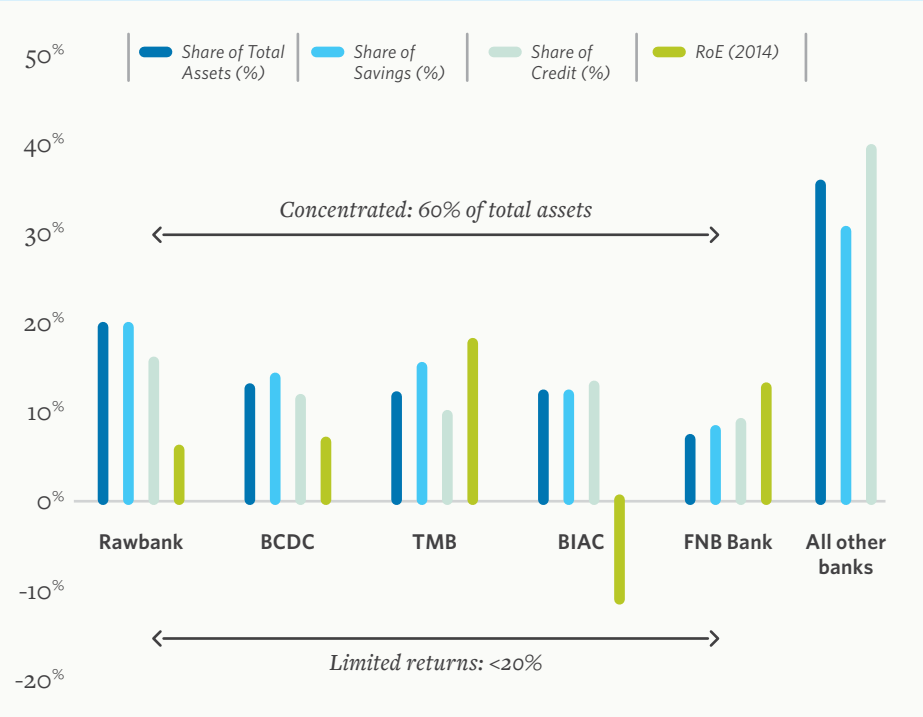


Figure 17. Banking sector concentration

Source: Authors' own based on Banque Centrale du Congo and financial statements

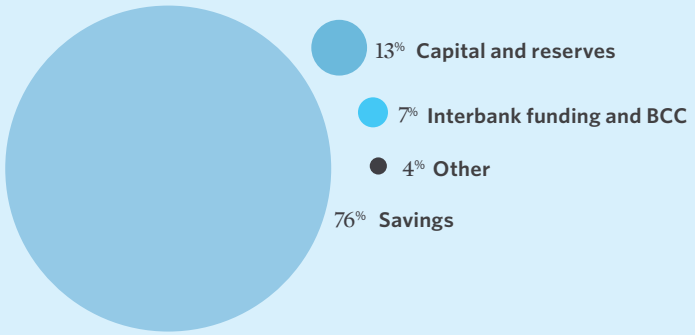


Figure 18. Liabilities of the banking system (2014)

Source: Authors' own based on Banque Centrale du Congo and financial statements

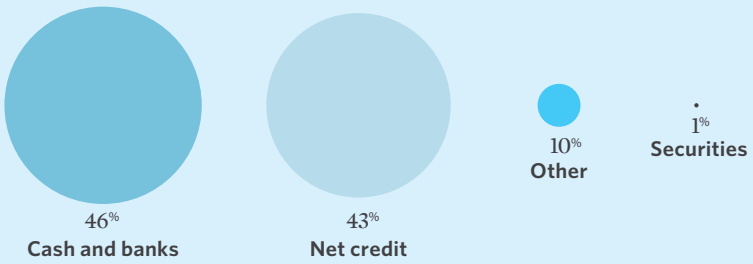


Figure 19. Assets of the banking system (2014)

Source: Authors' own based on Banque Centrale du Congo and financial statements

Financial sector dependent on short-term, small deposits; institutional investors limited. Commercial banks are the largest deposit takers in the DRC. Figure 18 shows the prominence of savings in the spread of liabilities in the banking sector. Savings are typically short term in nature, which makes it difficult to form long term assets (Consultations, 2015).

High costs, liquidity requirements limit credit extension and restrict term. Figure 19 breaks down the assets of the banking sector in 2014. Almost half (46%) of banks' assets are held in liquid assets or even physical cash, meaning that these funds are not intermediated. This is confirmed by a loan to deposit ratio of only 59% (which is very low by international banking standards). Banks have an average cost to income ratio of 74%. There is also a high non-performing loan ratio, at over 8% for most credit providers (compared to a 5% average for Sub-Saharan Africa). MFIs and SACCOs had an outstanding credit ratio of 52.2% at the end of 2014 (compared to the prescribed threshold of 70%), and their portfolio at risk rate stood at 12.4% (against a maximum standard of 5%) (Banque Centrale du Congo Microfinance Report, 2014).

Unable to connect

Distribution very limited and largely confined to urban areas. Turning to distribution, the picture is equally bleak. As outlined in the table below, financial services distribution is for the most part still branch-based, with MTOs and MNOs being the only providers currently using agents, and then only for limited functionality.

The table below indicates that the density of branches and ATMs is very limited, as is the active mobile money agent network:

Expressed in terms of land surface area, the picture is even more dismal: there are only 0.14 bank branches 0.19 ATMs per 1,000km2 in the DRC. In 2015, over half of the 229 bank branches were located in Kinshasa (Consultations, 2015).

Existing footprint not connected and costly to use. As explained in Input Note 3, there is currently no interoperable domestic real-time gross clearing and settlement system (RTGS). Four banks – RawBank, ProCredit, FBN and BCDC – have established a private system that enables central clearing, settlement, and interoperability between these banks. A project is underway to implement a national RTGS system. In the interim most banks in DRC currently rely on foreign switching, clearing and settling for their payment systems, which adds cost, time and risk. In addition to the private real-time gross settlement system operated by the four banks, the Integrated Regional Settlement System (SIRESS), which will act as the core settlement system to underpin regional clearing houses, has recently become operational. None of DRC's banks are yet connected to SIRESS, but they intend to be phased onto the system in the near future.

Financial service provider	Distribution outlets	Money to Money	Money to Account	Account to Account	Account to Money
Banks	403	Branch, Agent, Phone	Branch, Agent, Phone, POS, ATM	Branch, Phone, Internet	Branch, Internet, Phone, ATM, POS
SACCOs	129[28]		Branch	Branch	Branch
MFIs	36		Branch, Agent	Branch, Agent	Branch, Agent
MTOs	389	Branch, Agent			
MNOs	Agents	Branch, Agent, Phone	Branch		Branch

Table 4. Distribution mechanisms for various types of transactions across main types of financial service providers
Source: Banque Centrale du Congo (2016), GSMA (2013)

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

Table 5. Distribution infrastructure density
Source: World Bank (2016c), World Bank (2016e), GSMA (2013), IMF FAS (2015)

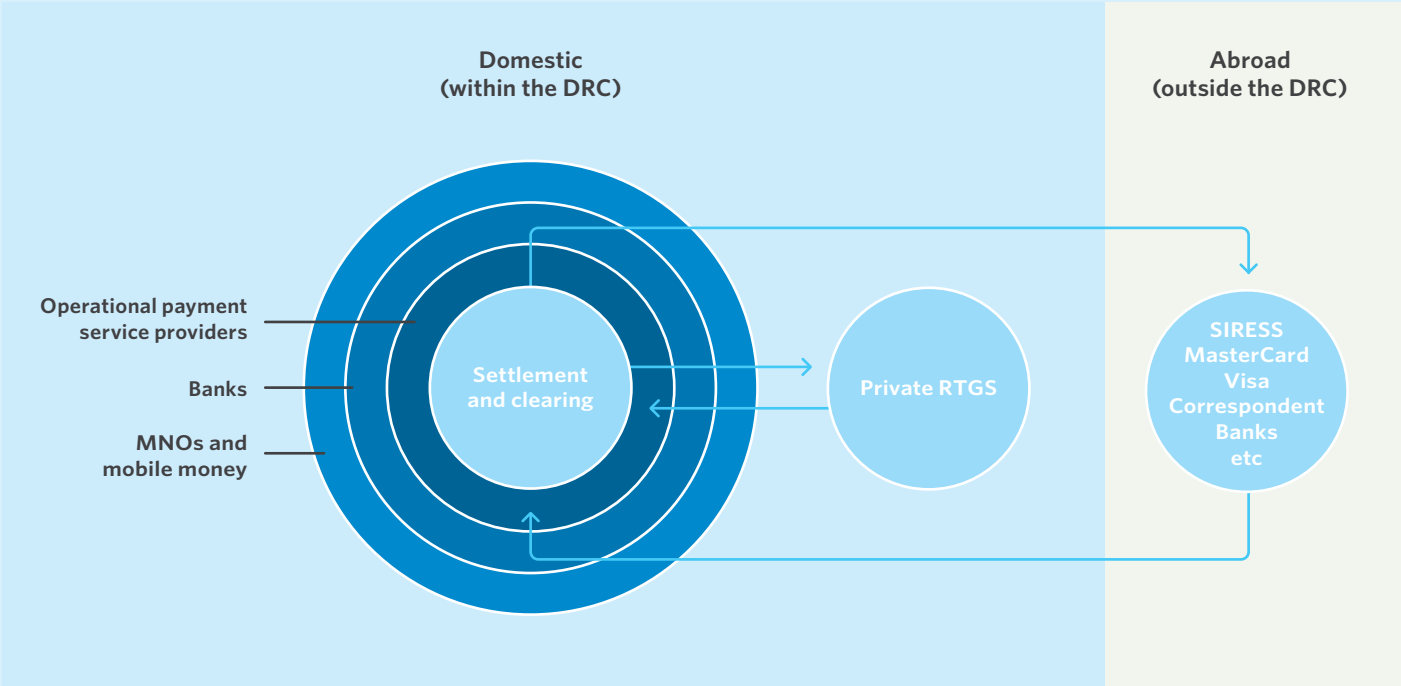


Figure 20. Payment system infrastructure
Source: Authors' own based on consultations

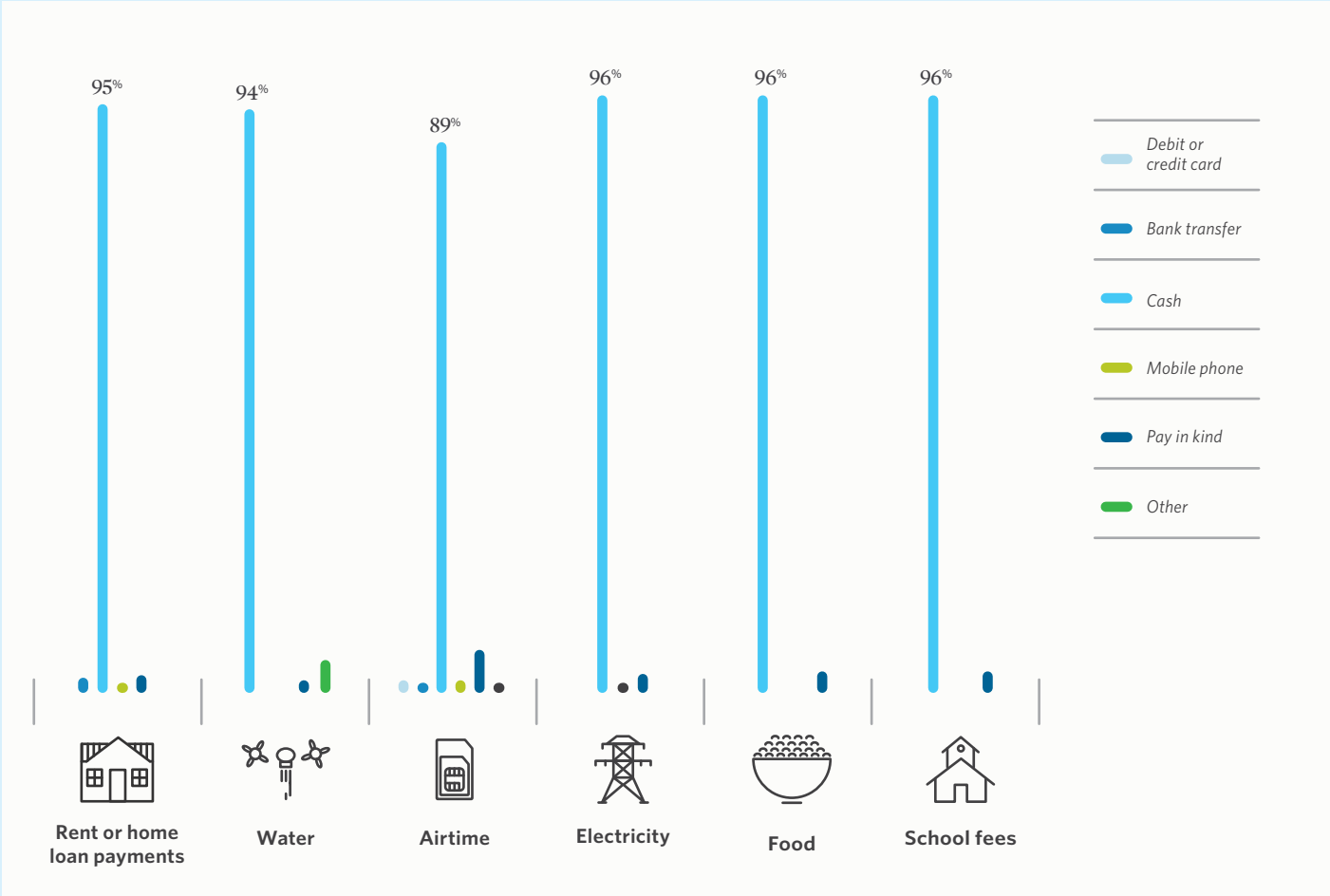


Figure 21. Use of cash versus electronic transaction instruments
Source: FinScope (2015)

This system is outlined in Figure 20. It shows how the private RTGS operates domestically, while all other clearing and settling, including the Visa and MasterCard payments, are currently conducted abroad via correspondent banks.

Dollarisation supports stability, but drives up cost and risk. The DRC uses both US Dollars and Congolese Franc as across the national territory[29]. The use of dollars adds stability, but constrains liquidity as dollars have to be imported. It also increases the cost of cash and compliance related costs, and introduces currency risk for the lender and borrower (Consultations, 2015). Discussions are underway to revert to the Congolese Franc over the long term (IMF, 2014).

Regulatory response in progress

Regulation in transition. Box 2outlines the main tenets of the financial services regulatory framework (for more detail, see Input Note 2). The regulatory framework is evolving to meet the needs of a growing and changing financial sector. This has included the creation of a framework for electronic money provision and the drafting of legislation to liberalise the insurance market. As noted in Box 2, a number of regulatory elements are still under development, including a framework for agency banking and national payment system legislation. There is uncertainty on the timing and nature of implementation.

Finding solutions outside of the formal financial system

Informal services fulfilling a critical role. Against the backdrop of the constrained and uncertain financial sector environment as outlined above and an evolving regulatory framework that does not yet fully support an inclusive supply response, it is not surprising that many people rely on family and friends or informal financial services to cope financially and that almost everybody transacts in cash.

Reliance on cash. As indicated in Figure 21, cash dwarfs other payments instruments for all daily transaction needs.

Box 2. Regulatory framework in a nutshell

Two main regulatory bodies for institutional oversight. The Ministry of Finance is the financial sector policymaker. It oversees monetary policy, credit establishments (including banks) and insurance firms, as well as government finances. The regulatory and supervisory mandate rests primarily with the Banque Centrale du Congo (BCC) and L'Autorité de Régulation et Contrôle des Assurances (ARCA)[30]:

- The BCC is at the heart of the regulation of the financial sector. It is mandated, amongst others, to regulate credit establishments under the 2002 Law on Credit Establishments, which include banks, financial cooperatives (in certain conditions), savings banks, specialised financial institutions and financial societies[31]. The activities of credit establishments are central to the functioning of the DRC financial system and the term is used frequently throughout other regulation. Only a credit establishment may |effect banking operations regularly. In addition to credit establishments, the BCC also oversees a number of other institutions, including microfinance institutions[32], money transfer operators, exchange bureaux and electronic money institutions.

- ARCA will be set up as a new regulatory authority for insurance. It is established by the 2015 Insurance Law.

In addition to the institution-specific regulatory provisions, a number of cross-cutting functional areas of regulation are relevant to financial inclusion:

Electronic money already accommodated. Any credit establishment may issue electronic money. In addition, a dedicated electronic money institution may be formed, subject to certain conditions including minimum capital requirements. This is the category under which mobile network operators provide mobile money services. Electronic money accounts are subject to transaction and balance limits.

Agency banking framework being developed. Agency banking is one way to allow for distribution networks of entities such as retailers, mobile operators and even small merchants to extend financial services on behalf of formal FSPs. The BCC is working on an instruction to regulate agency in the DRC.

Comprehensive payments legislation underway. The government of the DRC has been working on draft payments legislation for a number of years. The legislation is intended to promote the development of the sector, including by facilitating interoperability across the payments system.

AML/CFT regulation allows some, but not full proportionality. Anti-money laundering and combating the financing of terrorism (AML/CFT) regulation is of particular relevance to financial inclusion, as the know-your-customer (KYC) requirements that it imposes can exclude large chunks of the population from formal financial services. The DRC framework for AML/CFT dates back to 2004. It allows for proportionality based on the size of the transaction as well as the whether or not the client is a regular client. It also allows for lowered KYC requirements for over the counter transactions below a certain threshold, but not for account-based transactions.

No comprehensive credit law. Credit regulation is spread across several acts with different burdens placed on different players within the market.

Insurance framework to be implemented. A new Insurance Law was enacted in 2015 and came into effect in March 2016. Its implementation is subject to the set-up of the new insurance regulator allowed for in the Law, ARCA.

Importance of social support. 70% of respondents in FinScope (2015) indicated that they feel that they can rely on their neighbours in a time of crisis. The church plays a particularly strong role: 61% of respondents stated that they can rely on a church or religious group during bad times. Informal support mechanisms also extend to financial services to help people cope with financial shocks and smooth income, for example through self-help groups (BTI, 2016).

"I am a member of a group of 14 farmers who meet once a week and contribute USD 1. The group's goal is to help a member in case of a problem. We withdraw an amount from the cashier to help the member in difficulty. But that amount has to be paid back later."

Subsistence farmer, female, 45 years old, Kibumba

Various informal options. The country has a vibrant selection of informal financial services. Some types, such as rotating savings groups or informal money lenders, are also found in other countries whilst others, such as the mutualitée and acosi, are more unique and come fit-for-purpose given local circumstances. The box below outlines the most popular informal financial services encountered in the research:

Box 3: Overview of informal options within the DRC

Likelemba

The likelemba is a rotating savings group. In its simplest form, all of the members contribute at required intervals. The sum of the contributions is then disbursed to each of the members in turn. More sophisticated forms also exist where payouts are randomised as a form of lottery, or where an individual may purchase two structured payouts by contributing twice as much. This versatility allows the savings group to adapt to the changing needs of the members.

Bwakisa Carte

The Bwakisa Carte is a popular informal mechanism that is prevalent throughout Kinshasa. It constitutes a card, issued by a small business, in exchange for funds that are deposited within the business. The business benefits from this as a short term funding mechanism that helps them meet their expenses, whilst individuals have the knowledge that their money is safely stored. The individual can withdraw their funds at any time, or use their balance to pay for various items from the store.

Money lender (Banque Lambert, Riba)

Informal moneylenders typically lend out funds for a very short duration. The interest rates vary significantly across regions, with Kinshasa reporting interest rates of approximately 50% for a two week loan, and respondents in Goma reporting 25% for the same period. Moneylenders typically obtain an ownership guarantee from their clients. In this guarantee, there is no mention of the loan but simply that the asset of a certain value is being "forfeited" to the moneylender. The moneylender can then choose to act and take this document to the authorities to enforce the loan.

Mutualitée

Kinshasa is a bustling city that attracts residents from many different regions of the DRC. As more and more individuals arrived in the city from the various regions, they started to form communities. As these communities grew, individuals started to hold weekly meetings in order to maintain and protect their heritage. From this, the mutualitée was born. Membership of a mutualitée is often based on some type of common characteristic, though this need not be the case. Examples of common characteristics include ethnic origin or professions. Members typically pursue a common goal. The goal can be self-serving for the members, such as the desire to support each other in the face of uncertain risk events, to more altruistic goals such as the betterment of the society within which the mutualitée functions. They then leverage resources (time and effort as well as financial resources) to reach these goals. Some mutualitées have decided to this component through periodic contributions. These contributions are then kept aside in order to pursue the goal of the mutualitée. Where the goal of a mutualitée is mutual support in the case of a risk event taking place, and the periodic contributions are leveraged, the mutualitée is performing an insurance function. It should be noted that mutualitées have distinct regional flavours. Mutualitées in Kinshasa are much more likely to pursue the self-serving risk mitigation goals and to leverage periodic contributions. This is less likely in the East. Mutualitées may also transform into more formalised entities. One example if this is the creation of a health mutuelle in the case of healthcare risks.

Acosi

Acosi, also known as associations, are predominantly found in the east of the country. The basis of membership is the profession of an individual and the purpose of the association is to collectively deal with business problems that individuals face. They also come to the assistance of the tradesman in the event of certain risks taking place.

3.4 Scoping the gap

It is clear from the usage picture and supply response as outlined above that there are significant gaps in meeting the key financial service needs in the DRC, especially where formal financial services are concerned.

Where are the main gaps?

It is telling to consider who provides which financial services to whom in the DRC. The figure below marries the overview of the financial sector landscape above with the financial service uptake figures to give an indication of who is served by whom in which product markets:

Longer-term credit, savings gap. Provider consultations and mystery shopping revealed that the credit which is available generally has a maturity of less than three months. Mortgages are very uncommon and very seldom extend beyond five years. Likewise, long term savings to serve risk mitigation needs is virtually non-existent. Formal insurance and long term pooling through pensions are limited to state providers and generally only available to the employed target market.

Informal options reach large, mostly rural population, and persist despite formal inclusion. The diagram indicates that informal providers serve a total of just short of six million clients, just more than half of them outside of the Kinshasa region. Most clients use informal mechanisms for saving purposes, but there is also some uptake of credit and remittances. More than 12 million people in total turn to family and friends as a source of financial services. This includes many who are also formally included. It is particularly telling that 1.7 million adults with bank accounts continue to save at home or informally. This constitutes 67% of banked adults.

Formal sector caters to smaller, more urban client base. Where the formal providers are concerned, all have an urban bias, with strong representation of the Kinshasa region in their client base. SACCOs and MFIs provide credit and insurers provide insurance to a small group of adults. Banks focus on savings and transaction accounts, with negligible retail reach of credit. In total, the banking sector serves fewer than four million clients. Mobile operators are making headway in terms of transactions and remittances, but are still dwarfed by informal sources where client numbers are concerned.

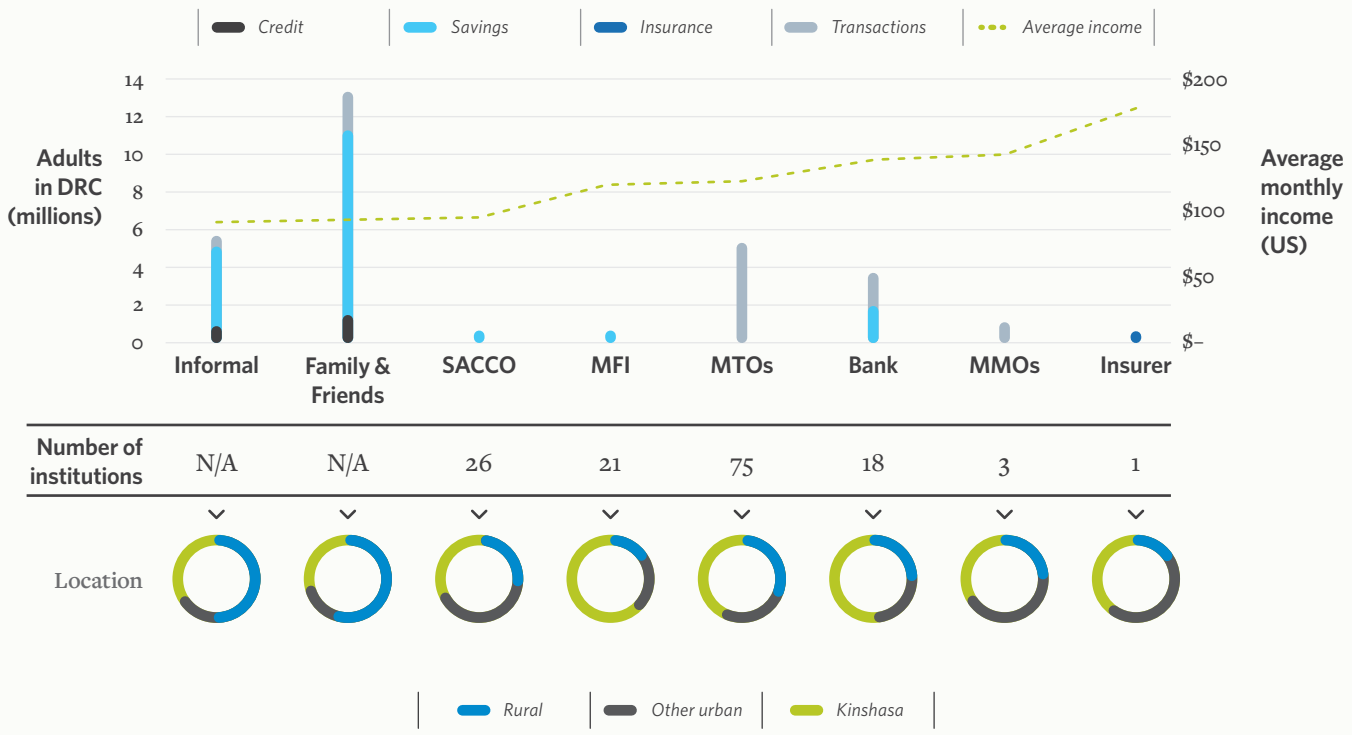


Figure 22. Which providers provide which products to whom?

Source: Authors' own calculations based on FinScope (2015) and Résultats de l'enquête sur l'emploi, le secteur informel et sur la consommation des ménages (Employment and Household Consumption Survey) (2015)

Informal reaches lower down the income spectrum. Most telling is comparing the average income profile of the customers of the various types of providers. The informal providers are able to reach lowest down the income spectrum, followed by SACCOs. The income profile then gets progressively higher across MFIs, banks, MNOs and insurers, who serve largely the top-end of the market.

What prevents greater formal uptake?

Problematic consumer experience with formal products. From the demand-side perspective it is clear that knowledge, perceptions and trust all limit financial service uptake, as indicated by the following quotes:

It's too far away

Male, government employee in Kinshasa

"[Bancarisation] 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."

It doesn't work

Male, employee of a private company in Kinshasa

"Although I am paid via my bank, I do not save over 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 am confused

Femail, senior citizen supported by an NGO, Goma

"In Kimoka we don't know how banks work."

I waste my time

Male, student in Kinshasa who receives remittances from parents and siblings

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

I don't trust it

Male, student and moneylender in Goma

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

Not for me

Female, small trader in Goma

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

Figure 23. Customer perceptions of formal financial services.
Source: MAP demand-side qualitative interviews (2015)

Trust deficit. As outlined in Section 3.3, the history of conflict led to periods of hyperinflation[33] and a break-down of the financial system in the late nineties that continued up to the mid-2000s. The legacy of this turbulence persists in a lack of trust in the financial system and through the premium placed on security of funds. FinScope confirms the lack of trust: only 37% of FinScope respondents indicated that they trust banks. Only 20% of people indicate that they trust SACCOs or MFIs.

"I used to save but since I lost my money last year to [mentions financial institution] I no longer trust banks or financial institutions." [Proceeded to explain what happened to him off the record] "You now understand why I no longer trust the banks, this case is sensitive to me, I went through it myself."

Small business owner, male, Goma

Awareness gap. The fact that most retail financial services were not available during the nineties and early 2000s also created a generation of Congolese who grew up unable to use banking and other financial services. Many are still not aware of the role that banking and other formal financial services should or can play or how to use them effectively. Interviews also showed that there's limited awareness of how banks differ from SACCOs and MFIs.

These demand-side barriers are reinforced by a number of supply-side factors:

No distribution within reach. Section 3.3 outlined the poor distribution infrastructure. The demand-side data confirms this to be an access barrier: 73% of people do not know where the closest ATM is and 65% do not know where the closest bank branch is (FinScope, 2015). In terms of mobile coverage, between 40% and 50% of the population are not covered by a GSM network at all (GSMA, 2013)

"Here in our area there is no security, no electricity, water, hospitals and schools and there are no banks."

Livestock farmer, male, Kibumba

Poor service. Services are unreliable, liquidity is constrained and queues are very long. As discussed in Input Note 3, Automated Teller Machines (ATMs) and Point of Sale (POS) devices are often out of service whilst the GSMA identified the reliability of services as a key barrier to mobile money in the country (GSMA, 2013) Waiting times at branches are excessive. The ability to encash is also uncertain. Most encashment is in USD rather than CDF. A mystery shopping exercise revealed that ATMs only stock minimum denominations of USD 20, which may be too large for the encashment needs or even account balances of ordinary Congolese. Where agents are used, liquidity is also constrained as they rely on banks' limited cash distribution infrastructure.

Many not eligible. Most Congolese do not have the documentation required to open an account at a financial service provider. Only 5.7% of Congolese have proof of income, 8.2% have proof of residence, 4.1% have a passport, 3%

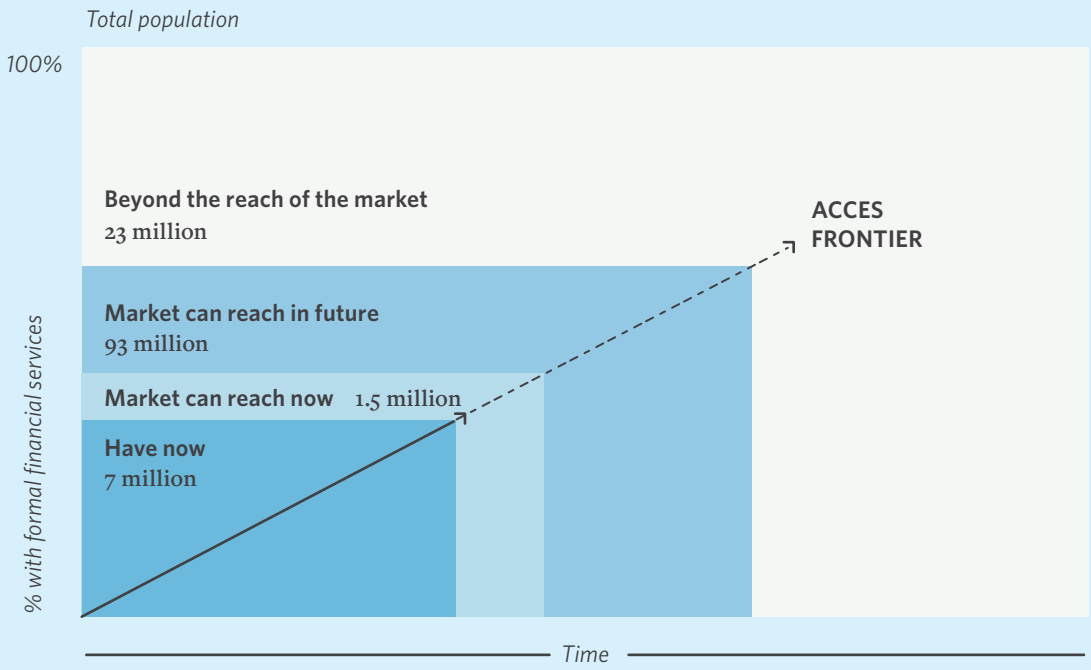


Figure 24. The access frontier: a potential opportunity scenario
Source: Authors' own, based on Porteous (2005) and FinScope (2015)

have a driver's license and 3.1% have an ID. 23% of the sample population do not have a voter's card (FinScope, 2015). As will be discussed, fraud concerns mean that this card is often not accepted by financial institutions. Thus eligibility remains problematic even for those with this card.

How big is the gap?

Figure 24 uses the access frontier tool to illustrate the current reach and scope of the market in the DRC, as well as the potential for future market development. This provides a framework for estimating the size of the gap.

The access frontier, represented by the diagonal line on the diagram, maps the current and potential reach of the market for financial services over time. The diagram comprises four zones:

- **"Have now":** the proportion of the population that is currently served by formal financial services. In the DRC, this represents the roughly 32% of adults in the sample population (7,040,414 million people) that are formally served. Note that even these individuals will still have unmet financial service needs. Thus there is scope to increase depth of usage (that is, the number and variety of financial services taken up by an individual) within this market.

- **"Market can reach now":** the second block, called the market enablement zone, represents those consumers that already have access, technically speaking, but are not yet using financial services. In the DRC, this would represent, at a minimum, that part of the formally employed market that is not yet formally served (755,401 adults). If we also assume (i) adults who earn more than USD 200 per month and (ii) adults who both earn more than USD 100 and live in Kinshasa proper to be within easy reach, this zone represents an additional 1.5 million people. They could be included as first order priority just by more effective outreach, without any structural market changes.

- **"Market can reach in future":** The third zone, called the market development zone, includes all the people that do not currently have access to financial services but could become part of the target audience over time. Regulatory changes, as well as product and distribution innovation, can be used to extend the reach of the market to this segment. The size of this zone excludes adults covered by the two segments above and includes adults who live within urban areas and those who live in economically active rural areas and earn more than USD 1 per day. This represents more than nine million adults.

- **"Beyond the reach of the market":** The market redistribution zone is made up of all the people who are outside the reach of the market – due to their deep rural location, or because they are simply too poor to be viable financial services clients. In the DRC, this zone would currently comprise the 19 million adults deemed to live in "economically inactive" areas, as well as a further close to four million individuals that are likely to be too poor to be viable financial service clients, as they earn less than USD 1 per day and live in a rural area. The total size of this zone is therefore estimated to be around 23 million people.

The total gap, then, between the current and potential reach of the market is estimated to be at least 10.5 million people. This gap – if bridged – represents a significant opportunity for financial inclusion.

4 What creates the gap?

Section 3.4 paints a clear picture: formal players do not currently serve the bulk of the population and there are a number of barriers on the demand as well as the supply-side that mean that the situation is likely to stay that way, should market conditions remain as is. This creates a sizable gap between where the market is currently at and where it can potentially reach. What lies behind this mismatch? Understanding the ways in which the country context, the make-up of the financial sector and the regulatory framework determine the scope for financial inclusion is key to identifying what it will take to bridge the gaps.

4.1 A tough environment for a young financial sector to grow

Figure 5 in Section 3.3 showed that, following more than two periods of conflict-induced collapse, the financial sector in the DRC is in many regards still young. From this low base, recent growth has been strong. Yet there are a number of factors that challenge sustained growth to serve a larger client base.

Limited consumer viability, reach. The high instance of poverty, generally poor education outcomes and rural nature of the population make consumers difficult to serve. They are also very difficult to reach. This is attested by the fact that almost half the adult population is officially deemed to be in "economically inactive" regions and disregarded for data and strategy purposes. Agricultural and other value chains are very limited, with most infrastructure destroyed in the war[34]. Thus consumers are by and large not "aggregated", making them very risky and costly to serve[35].

A lost generation – awareness and trust deficit. To make matters worse, the historical context continues to shape the behaviour of consumers. It has created a trust deficit and a financial literacy gap among a generation of Congolese who grew up without any financial services. This deficit is so entrenched, it poses a structural development to retail market development.

Skills and technology insufficient to meet rapid recent growth. The lost decades also continue to hamstring the working of the financial sector. The poor financial sector performance indicators discussed in Section 3.3 show how challenging it has proven to manage the rapid recent growth in the financial sector. The large skills deficit among financial service providers is one of the primary challenges. For example, there are no qualified actuaries in the DRC. Some financial institutions still manage key parts of their business in Excel. Front office staff often do not even understand the technology used or the products provided themselves – much less explain it adequately to consumers[36].

Severe infrastructure constraints. To this is added structural infrastructure

Figure 25: A bank representative transporting cash to rural areas
Source: Trust Merchant Bank (TMB)

constraints. The DRC faces some of the most extreme infrastructural challenges on the African continent[37]. The deficient transport infrastructure makes it extremely difficult to travel within the country. It therefore goes without saying that cash distribution is severely challenged. The ability of digital financial services to provide a solution is, however, also undermined by poor infrastructure. Electricity infrastructure reaches only 5% of the population. Connectivity remains low: GSMA (2014) data indicates that mobile penetration stands at 33%, with only 16.3 million unique mobile subscribers. The picture below illustrates the particular infrastructure challenges to transport cash in rural areas:

Security constraints remain, add cost. There are still instances of conflict in the East and crime is common throughout the country[38]. Provider interviews indicate that the security required to work with cash increases the cost to serve retail customers. The fear of crime and the corresponding reluctance to hold cash was a recurring theme throughout the qualitative demand-side research. On the upside, this situation (together with the physical infrastructure constraints) creates an imperative for digital financial services.

"But here in Goma, very few people have a good living because of the war, the hunger... This can slow development. Now there is the presence of robbers, crime, insecurity, because people want to survive."

Student and moneylender, female, 26 years, Goma

Difficult business environment adds risk, time and cost to deliver services. Private sector development is essential to achieve a productive economy. However, the private sector in the DRC currently faces many constraints, and the DRC remains one of the most difficult countries in the world to do business. According to the World Bank, the DRC ranked 184th out of 189 in the 2016 Ease of Doing Business Indicators, which is much lower than its regional counterparts (World Bank, 2016d). The country's low ranking is mainly due to lengthy processing times and high costs of exporting and importing containers. Other major constraints include electricity, enforcing contracts, the tax system, protecting minority interests, cross border trade and resolving insolvency.

Financial sector infrastructure gaps, capital scarcity inhibit business case. As outlined in Section 3.3, there is no overarching payment system in the DRC, with the majority of the banks relying on foreign switching. Furthermore, the capital market is underdeveloped. Capital is scarce and short-term and there is no stock or bond exchange. Government bonds are limited, as is the interbank lending market. There is no reinsurance at present except for informal offshore reinsurance. Capital is largely raised from consumer demand deposits with some foreign investment into specific projects, as there are no institutional investors to provide long term capital – insurance and pension assets are not retained or not invested in the financial system. Furthermore, the short-term nature of bank assets, combined with the need for liquidity, results in short term lending activities.

4.2. Severe distribution challenges reinforce cash economy, lack of intermediation

Distribution aggregators limited. As indicated in Section 3.3, distribution is still largely branch-based in the DRC. Creating a network of touch points with the consumer is critical to expand distribution. This can be done through agency and partnership with alternative providers such as petrol stations, retailers, agricultural dealers or processors, pharmacies, mines or post offices (Redflank, 2013). The purpose is to piggyback on these third parties' current infrastructure, client footfall or membership base and existing payment linkages with consumers to reduce the cost of reaching individual end-clients. However, networked groups are very uncommon in the DRC and opportunities to partner are limited[39].

Lack of interoperability and concentration in Kinshasa further limit footprint. Although there are 18 banks with a total of 403 bank branches across the DRC, the lack of interoperability between these banks means that any given consumer only has access to the total number of distribution points of their own bank. Therefore, even a consumer of Trust Merchant Bank, the bank with the largest branch network, only has access to 49 distribution points. Furthermore, because a significant portion of all the bank distribution infrastructure listed above is based in Kinshasa, the effective footprint is much smaller.

Agency banking options still limited. As of yet, there is no agency banking in the DRC to overcome these challenges. There is, however, the prospect of change, as agency regulation is underway (refer to Input Note 2). FINCA, a microfinance institution, has started using agents and others are starting to copy this model[40].

Communications technology challenges. Even should agency banking become a reality, connectivity will remain challenging. The country's limited communications infrastructure as outlined in Section 4.1 undermines the digital payment system by decreasing the accessibility and reliability of cards, internet banking and mobile money. GSMA (2013) reports that the majority of respondents that they interviewed complained of technical problems, such as the network going down, in the previous three months. Network failures were also a major concern among focus group and in-depth interview participants.

"Here is a typical example. At my home village, it's 120 km away from Lubumbashi, village Sampwe. There is no network, not even agencies. To call someone, you need to go 15 km far, so do you really think that if you send me money by phone, for an emergency, I will receive it?"

Male, urban, Lubumbashi (Source: ASI, 2014)

Demand for cash reinforces lack of intermediation. The failure of the digital payment system and lack of opportunities for digital usage drive extensive use of cash (as shown in Figure 21, Section 0).The extensive demand for cash, in turn, limits lending. As discussed, almost half of bank assets are held in cash. Capital is held in physical assets rather than loaned out.

4.3 Inability to manage client relationship risks

A lack of consumer data and difficulties in enforcing contracts create uncertainty that challenges decision-making among financial service providers. As they do not have the tools to overcome this uncertainty, it leads to a reluctance to take on clients and extend credit. As outlined below, this undermines retail market development.

Limited consumer data. Detailed data on consumers or provision is extremely difficult to obtain. This creates uncertainty that increases the risk to serve unknown markets, including new consumer groups. Data is especially important for credit and insurance. Though a credit bureau is being established, many providers still do not deliver data to the bureau or have access to information from the bureau (e.g. MFIs cannot access the bureau). This challenges the extension and pricing of credit. There is also no data on consumer risks such as mortality, health and accidents.

Lack of effective identity mechanism hampers credit extension. Credit extension – and financial service access in general – is furthermore hamstrung by the lack of a ubiquitous national form of identity. The most common form of identity document is the voter's card, held by 77% of the FinScope sample population. However, these cards are not very secure and are open to identity fraud. They are therefore not accepted by many financial institutions (Consultations, 2015). In fact, many providers have burned their fingers due to identity fraud. It was clear from the consultations that providers do not trust clients and do not have the tools to overcome this hurdle.

Cost and time of recovering collateral prohibitive. The cost and effort to recover collateral in the case of a non-performing loan is generally prohibitive. Approximately 81% of the claim value goes in fees to attorneys, courts and enforcement agencies. The time attached to a claim is also prohibitive, taking an average of 610 days from the date that a claim is lodged to the day that a judgement based on the claim is enforced (World Bank, 2016d). The result is that collateral is both difficult and extremely costly to recover, and it is estimated that more than 90% of claims are never recovered. Of recoveries attempted in court, approximately 98% of rulings go against the providers. These problems were repeatedly flagged by providers during the supply-side interviews. Thus providers are obliged to price for the inability to recover collateral, leading to increased prices and ultimately financial exclusion.

Non-performing loans common and tax treatment exacerbates size of loss. Section 3.3 highlighted the high non-performing loan rates in the DRC[41]. The situation is exacerbated in that write-offs on non-performing loans are taxed (PwC, 2016). This results in a double loss to credit providers: the loss of the loan asset, plus the expense of the tax (Consultations, 2015).

4.4 System challenges to leveraging the cross-border economy

External linkages a lifeline. Given that the DRC is surrounded by nine neighbouring countries and has a large diaspora population, cross-border financial linkages are especially important to the economy. The infrastructure challenges mean that border trade is often simpler than trading between cities within the DRC. And as the needs discussion showed, remittances are critical to survival for many: the Ministry of Congolese Abroad (2015) estimated that there is a total of USD 9 billion in remittances inflows, annually, amounting to close to 30% of GDP. Yet financial sector deficiencies undermine both cross-border trade and formal remittances.

Formal cross-border trade finance options limited and onerous. Digital transaction limitations, notably the cost and time required for formal cross border transfers, mean that most cross-border trade transactions take place in cash. Transfers can take two weeks to complete and cost on average 10% of the transaction value (World Bank, 2016d).

First, middle and last mile challenges undermine formal remittances. Formal remittance options are limited and expensive, and the limited financial sector footprint means that most people are not able to receive remittances through the formal sector (so-called last mile challenges). This is compounded by documentation requirements in the sending countries (first mile challenges). Mystery shopping out of South Africa to the DRC showed that the process to send money to a recipient in the DRC was slow, expensive and required significant documents and information. Many DRC residents are in other countries under asylum visas that are not accepted by banks. There are also structural operational (middle-mile) challenges. The interviews with banks highlighted challenges in establishing correspondent relationships with banks abroad, as well as in sourcing dollar notes through correspondent banks[42]. The net result is that it becomes near impossible for the Congolese diaspora to remit through formal channels. It is therefore no surprise that close to all inbound remittances are estimated to be informal. Indeed, formally recorded figures put annual remittances at only USD 22 million in 2014 (World Bank, 2013), compared to the total estimate of USD 9 billion quoted above.

4.5 Persistent enabling environment challenges despite commitment to inclusion

Commitment and resolve, but policy gap. As discussed, there is currently no formal financial inclusion policy or mandate in the DRC. However, as discussed in Section 2, there is strong awareness, commitment and resolve among policymakers to build an inclusive and stable financial services sector. There is significant progress to support financial inclusion in some areas, such as the roll-out of the government to person transfer programmes known as bancarisation. Furthermore, the adoption of harmonised business law via the Organisation for the Harmonisation of Business Law in Africa (OHADA) 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 possibility for greater regional and continental integration.

On the whole, however, the enabling environment for financial inclusion remains challenging. Input Note 2 outlines the main elements of the regulatory framework of relevance to financial inclusion. There are a number of issues that challenge market development. These can be grouped into three categories:

- **Framework conditions:** policy, business environment and policy/regulatory infrastructure challenges.
- **Gaps and process challenges:** areas of regulation that are outstanding or under development, and the process challenges in developing and passing new legislation.
- **Content reforms:** existing elements of regulation that could be strengthened or are in need of reform.

Framework conditions

Difficult environment to set up and manage financial institutions. The broader enabling environment constrains financial sector development. As discussed, the DRC ranks the fifth lowest in the world in terms of ease of doing business. This includes bureaucratic red tape, uncertainty on tax arrangements, and difficulties in enforcing contracts[43]. There is also limited access to investment incentives for financial service providers, though such investment incentives are available to other businesses[44].

Married women at a disadvantage. Despite not commonly being enforced, married women still require their husband's authorisation to bind the estate. This includes financial contracts, meaning that women are at a disadvantage in accessing financial services.

Limited access to justice and dispute resolution mechanisms. The advancement of financial services strongly relies on financial service providers and consumers alike being able to resolve disputes and enforce contracts. Courts, in turn, need technical assistance in the resolution of financial services matters. However, effective access to courts and alternative dispute handling mechanisms is limited beyond Kinshasa. This limits financial sector growth, particularly the extension of credit, largely to nodes of effective justice. Customary courts are a potentially widespread point of low-value financial dispute handling, but are not currently used to this end.

Lack of resources and capacity. The discussion in Section 3.3 indicated that the regulatory environment is in many regards in flux. As will be outlined below, resource constraints limit the pace of regulatory change. Regulatory resources are limited due to state budgetary constraints, a capital intensive developing financial sector and the limited use of the national currency. Insufficient resources also challenge the judicial system[45]. This severely limits the efficiency, quality and effectiveness of legal redress in financial matters, which in turn impedes financial inclusion.

Challenges to access legal texts. Magistrates passing judgements in the DRC often do not have access to up to date legal texts[46]. The impact is that the law applied is often not in line with the current laws and regulations. The implications for financial inclusion is that despite strides to legislate for greater effective access to financial services, judgements have a significant likelihood of not complying with current financial laws and regulations.

Inconsistent quality of legislation and regulations. Furthermore, the drafting quality of financial legislation is generally inconsistent. It varies from excellently drafted and well-structured to regulation that is difficult to interpret and open to unintended consequences. In a civil law system, there is utmost reliance on precise drafting with limited variance for interpretation, as anything not explicitly specified or prohibited is deemed to be permitted[47].

Regulatory gaps and process constraints

Several gaps. As discussed in Section 3.3, there are a number of aspects of regulation that are outstanding or under development. This includes payment system legislation, a full framework for agency banking, an update to the Credit Establishments Law, a framework for deposit insurance and for pooling options for investment, as well as the implementation of the Insurance Law to liberalise the insurance market. Without a complete framework, financial inclusion cannot grow optimally. Investors require regulatory clarity and certainty for new entry as well as expansion of existing businesses. A complete framework is also needed to enable innovation in alternative distribution. Gaps of particular relevance to financial inclusion include:

- **Absence of national payments framework to ensure fair access, certainty and interoperability.** The absence of a comprehensive national payments framework deserves special mention. As of yet, there are no stipulations regarding equal access to telecommunications and payments platforms for MNOs and financial service providers. The status of trust accounts for mobile money is unclear, with the possibility for attachment by creditors. Furthermore, the fact that offline transactions are not accommodated is particularly constraining in an environment challenged by frequent connectivity problems.
- **No comprehensive consumer protection framework.** Another gap relates to consumer protection. Consumer protection principles, including standards on fees, effective interest rate disclosure and over-indebtedness, are not harmonised across institutions.
- **No cross-cutting credit regulation.** As discussed in Input Note 2, there is no single source of credit regulation. Instead, multiple pieces of legislation, including the Microfinance Act and the Credit Establishments Law, contain provisions regarding credit extension. This makes it difficult to gauge the full implications of credit regulation. For example: the definition of microcredit

within the microfinance legislation is the same as within the banking legislation. There is no discussion of what constitutes microcredit operations or how they would be distinct from the banking law. Exceptions under the Credit Establishments Law may also open the door to provision of credit by unregulated institutions. Furthermore, there are misconceptions in the market regarding ceilings on interest rates and uncertainty regarding pricing transparency conditions (see Input Note 2 for a detailed overview).

Long lead times for developing regulatory instruments. The regulatory process is hamstrung by long lead times. The time taken to formulate and pass legislation and regulations is a contentious issue, internationally. Although it is prudent to avoid rash decisions, a long incubation period can inhibit and sometimes undermine the momentum and viability of the financial services sector. The payments system and agency banking frameworks are a case in point: both have been several years in the making and were yet to be finalised at the time of writing.

Regulatory contents in need of reform

In addition to the regulatory gaps outlined above, a number of existing regulatory aspects inhibit financial inclusion or may do so in future:

Restrictions on mobile money providers. Though electronic money is provided for in the DRC, the framework is sub-optimal from a financial inclusion point of view. Notably, electronic money institutions are limited to the provision of services related to the issuance, management and provision of electronic money, as well as the storage of electronic money on behalf of other legal entities. They are not allowed to collect public savings or to offer loan products. Prudential requirements are also not in line with the proportionately low risk. This poses a barrier to competition.

Unfair playing field between MFIs and banks. There is no level playing field between microfinance institutions regulated under the Microfinance Law and banks. Notably, many MFIs do not have access to the credit reference bureau[48]. Furthermore, the Microfinance Law obliges microfinance institutions to offer their clients products that are adapted to their capacity for repayment in a manner that prevents all risk. This includes the risk of over-indebtedness. However, it is uncertain whether the same considerations extend to banks.

Tax implications on bad debt reserves and loan terms. The DRC does not recognise provisions of any kind for tax purposes. This has serious implications for the accounting, management and internal practices of financial institutions as they are required to pay taxes on bad debt reserves. Complicating this situation is a restricted ability to carry over net losses from past periods. Prudently providing for bad and doubtful debts therefore affects current tax liability. Therein lies the systemic underpinnings of a tax system that encourages the rolling over of doubtful debts. The cash flow timing implications of paying taxes on bad debt provisions furthermore undermine the viability and capital of institutions and therefore their ability and risk appetite to intermediate funds on deposit. Lastly, the deductibility of interest on productive credit is limited to a five year repayment term. This not only creates an upper limit on loan term but also affects the affordability, value and nature of assets financed by productive credit.

AML/CFT requirements pose risk of exclusion. The anti-money laundering/combating the financing of terrorism (AML/CFT) framework allows simplified customer due diligence for single transactions below USD 10,000, but not for accounts. Given the identification constraints highlighted, this poses a direct barrier to access. Moreover, the latest international standards with regard to AML/CFT[49] pose the risk of exclusion if not implemented with care.

Insurance Law not principles-based, may inhibit access, reinsurance and innovation. The Insurance Law of 2015 is likely to constrain entry, hamper reinsurance and constrain innovation. Notably, the law is too detailed and prescriptive, and not sufficiently principles based. Proportionate treatment of hitherto informal entities serving the lower-income end of the market is not provided for and cannot be accommodated under specified rules of the law. If properly enforced, the law may thus lead to exclusion of the largest portion of the Congolese market[50].

5 Bridging the gap

From gap to opportunity: a long-term view to overcome structural barriers. The low usage picture, together with the context barriers and market constraints as outlined throughout this document, are indicative of a financial services market at the early stages of development. It is characterised by a skills deficit, unsophisticated management information systems that are ill equipped to manage complex businesses, large regulatory gaps and severe infrastructure constraints. Retail financial services, while growing in some areas, are still largely underdeveloped in others, notably credit and insurance.

The policy and market focus should thus be on overcoming the structural barriers to the development of a more accessible retail market that will enable it to move into the market development zone of the access frontier as set out in Section 3.4. This will include improving infrastructure, regulatory changes to enable markets and building the necessary skills and capability to bridge the missing generation of financial service users[51]. Under the access frontier scenario sketched in Section 3.3, doing so could unlock a potential market in the order of 10.5 million additional clients. In the interim, a number of specific actions will help to better serve those that are already within reach of the market (that is, to move the access frontier to into the market enablement zone). This first-order opportunity can already generate up to 1.5 million new financial service clients.

Six financial inclusion priorities. There are six policy and market priorities to push the access frontier from zone 1 to zone 2 and, eventually, into zone 3:

1. **Extend the payment system footprint and use**
2. **Leverage remittances to attract and share resources**
3. **Build trust to save**
4. **Unlock intermediation for investment**
5. **Improve risk management options**
6. **Build the institutions and framework for an enabling environment**

Below, each priority is unpacked by recapping why it is important and what the main challenges are. This is followed by a list of potential actions to unlock the opportunities or overcome the challenges for each priority area. The first five imperatives span both market and regulatory actions, whereas the last one focuses on the levers that government can pull to build an enabling environment for inclusive market growth.

Note that the potential actions as listed under each priority represent a high level menu of options – it may not be feasible to pursue each and every sub-activity, and the details of how to implement each are yet to be defined. It will be important for policymakers and financial sector decision-makers to engage with the potential actions to prioritise and scope out those activities that are within their reach.

It is also important to note that the priorities set out here focus on strengthening formal provision of financial services. That is not to say that informal financial services do not fulfil a valuable role or should be shut down. On the contrary, a significant proportion of Congolese will rely on informal services as their only viable option for many years to come and it is important that this role be acknowledged and facilitated. However, as financial inclusion diagnostic, the purpose of MAP is to make recommendations to government and financial service providers on how to extend the reach of the financial system and strengthen its operation. Hence the focus in the discussion of gaps, drivers and imperatives is on formal financial services.

5.1 Extend payment system footprint and use

Why important? The needs analysis showed that payments, including remittances, are the most used instruments for people to live their day to day economic lives, to manage risks and to unlock opportunities for human capital development and growth. They form the backbone for all other financial services. Furthermore, efficient payment systems can improve market liquidity to make more capital available for investment.

Why problematic? Yet the analysis depicts an overwhelmingly cash-based society where digital options are limited and where even those with accounts seldom transact digitally. Infrastructure constraints mean that the distribution footprint for electronic payments is extremely limited – for the majority of the population there are simply no options to transact digitally. For providers, the business case to move to digital payments is further undermined by a lack of domestic payment infrastructure to clear, settle and switch. Their customers bear the brunt through costly, frequently unreliable[52] services that are not interoperable between providers and often requires them to queue for hours. This further limits incentives to move away from cash.

What can be done? A number of actions can be considered to extend the footprint and use of the payment system. Policymakers and regulators can:

- Extend investment incentives to all financial services providers to extend their footprint.
- Finalise the national payment system regulation that is currently being developed to address interoperability, encourage alternative payment partnerships, allow offline card transactions and allow fair access to payment systems and telecoms infrastructure.
- Enable agency across a range of institutions by finalising agency banking legislation.

- Deepen the current government initiative for bancarisation to go beyond mere account ownership to actual usage of such accounts.

For market players, potential actions (all of which can be supported by government) include:

- Investigate the technology and management solutions to improve reliability of ATMs and POS devices.

- Improve the use cases/user options for digital payments. This can for example be done by introducing digital options for payments to government, including for school fees. Retailers can also be encouraged to take up of digital options. Lastly, the scope should be evaluated for value chain digitisation, for example by moving to electronic options for paying suppliers.

- Enable payment system interoperability, including the process to establish domestic clearing, settlement and switching systems already underway. Appropriate interchange is critical to ensure adequate investment in distribution. Notably, SIRESS provides an option for domestic and regional switching. This action straddles market and regulatory action: it is important for market players to buy into an interoperable system, but regulators can put incentives or requirements in place to encourage them to do so.

- Connect existing distribution channels to a broader suite of financial services. For example: MTOs are effective at cash distribution and are trusted for money transfers, but have limited options to enable savings. Consider partnerships with banks or other financial service providers to extend the services that they can offer.

- Improve the capacity to manage liquidity and reticulate cash throughout the country.

- Enable offline card technology to accommodate connectivity challenges.

5.2 Leverage remittances to attract and share resources

Why important? The analysis showed that the substantial annual remittance flows matter at the household as well as at the macro level: for the 7 million people who receive remittances, they are critical for survival, for building human capital and for managing financial shocks. And for the economy, remittances represent a source of foreign resources for investment that far outstrips the size of domestic credit provided by the financial sector.

Why problematic? However, there are systemic constraints at the first, middle and last mile to the formalisation of remittances. Domestic remittances are hampered by the limited payment system, while formal cross-border remittance options are limited, expensive and time consuming. Documentation requirements and bank correspondent relationships make it difficult for the diaspora population to send money to the DRC.

What can be done? Potential actions to support the development of the formal remittances market include:

- Address last mile payment constraints as outlined in priority 5.1 above.

- Develop cross border corridors to allow more providers to offer such services.

- Address first mile issues to send remittances through bilateral engagements with sending countries. This includes documentation requirements and the conditions for establishing correspondent banking relationships.

- Create formal options for trade flows.

- Enable targeted sending options for human capital related remittances (such as remittances to directly pay for health and education).

- Consider a diaspora policy to attract skills and funds.

These actions will require a concerted effort by policymakers, regulators and market players.

5.3 Build trust to save

Why important? Savings are the most used financial service in the DRC if informal options are included. At the macro level, savings are a critical source of funds for investment. It is thus critical to enable savings to mobilise capital. At the household level they are often used as a buffer against financial shocks arising from risk events, thus preventing people from falling (further) into poverty. Indeed, saving is the main reason why people have accounts.

Why problematic? There is a large gap between total savings needs and uptake of formal savings options. Macro data shows that total domestic savings are very constrained. Demand-side data confirms that, of the 11.7 million adults who save, only 2.5 million save in accounts. And two thirds of those with bank accounts (1.7 million people) also save at home or informally. This is symptomatic of a lack of access, but also of a general lack of consumer trust in formal financial services as discussed in Section 3.4. Almost two thirds of people do not trust banks with their savings, rising to 80% for SACCOs and MFIs. This, in turn, is due to a history of bank crises, failed SACCOs and hyperinflation. The breakdown of the financial system meant that there is a missing generation of people that do not understand financial services. Limited consumer understanding is compounded by frontline financial service provider staff who do not have the capacity to explain how services work, as well as system constraints that undermine reliability and, hence, the customer experience.

What can be done? It is important for policymakers and regulators to:

- continue to drive the stability of savings institutions;
- strengthen SACCOs and MFIs to collect and secure savings;
- strengthen enforcement to terminate illegitimate savings institutions;
- strengthen consumer protection and recourse; and
- build framework to implement deposit insurance

For financial service providers, the priorities are to:

- address payments constraints to improve reliability and convenience to get funds into the formal system; as well as to
- improve capacity of frontline staff to explain products to consumers.

5.4 Unlock intermediation for investment

Why important? The analysis showed that there are a number of untapped opportunities for intermediating savings into investment: 2.3 million adults earn more than USD 200 per month, a substantive part of them engaged in small business or agriculture. Yet only about 9% of them have credit. Almost 4 million farmers have some tight value chain connection, but none have formal credit. This speaks to ineffective intermediation.

Why problematic? As outlined in Section 3.3, current credit provision is very limited and short term in nature. The financial sector is dependent on short-term, small deposits, and institutional investors are limited. These factors combine with high costs, liquidity requirements and contracting constraints to limit credit extension and restrict the term of loans offered. There is also a low loan to deposit ratio in international terms, with almost half of the banking system's assets held in cash.

What can be done? This low level of intermediation creates an imperative to develop the capital market through a three-pronged approach: unlock savings, promote pooling and overcoming investment constraints to drive opportunities:

Potential actions to do so include:

- Address payment constraints to improve the receipt of saving and liquidity available for lending
- Connect informal savings and credit options with formal institutions
- Address credit-related regulatory constraints, including the inefficiencies in collateralized lending, the need for alternative credit provision beyond collateral, central credit regulation to overcome the current difficulties of navigating across multiple pieces of legislation
- Strengthen access to consumer data, including through the credit reference bureau
- Develop the capital market to introduce a wider range of financial instruments and long term pooling options to invest

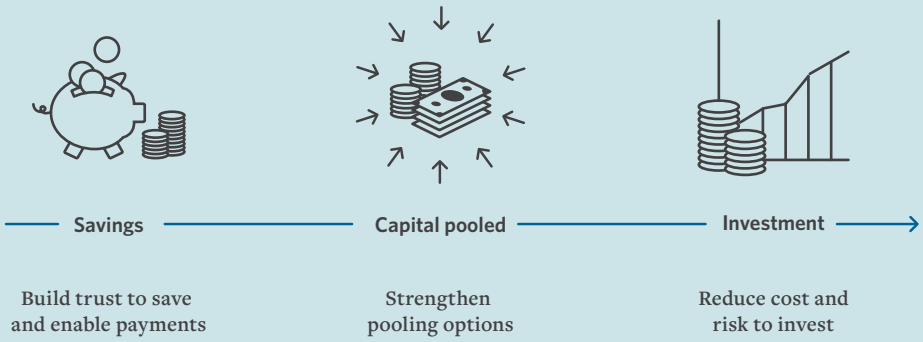


Figure 26. Steps to capital market development
Source: Authors' own

5.5 Improve risk management options

Why important? Congolese are very exposed to shocks that can push them into poverty or prevent them from rising out of poverty. The analysis showed that at least 45% of borrowers use credit for health events. Furthermore, more than 4 million people indicate that they sell assets or reduce consumption to manage the financial impact of risk events. This speaks of an important need for improved financial tools that help consumers manage their risks. Risk management tools can also allow productive risk taking to build businesses and contribute to growth.

Why problematic? As discussed in Input Note 4, the insurance sector in the DRC is emerging from decades of monopoly provision in many categories of insurance, such as compulsory motor vehicle insurance on which no one could claim. Other entities, such as health mutuelles were regulated as mutual societies, rather than under laws designed specifically for insurance. The result is an underdeveloped market – corporate as well as retail – in which people cope with the impact of risks in a variety of ways, but only a very small group draws on formal insurance. There are simply very few formal options available to deal with financial shocks. This translates into limited trust in insurance. The market is also characterised by very limited awareness of the potential of insurance as a risk management instrument, even among financial service providers (Stakeholder workshop feedback, 2016). The state of the insurance market has knock-on effects on the credit market, as credit providers cannot manage death-related default risks, as well as on the business sector, which has no mechanism to guard against asset or liability risks. As the overview of regulatory issues showed, the new insurance regulatory framework will provide some opportunities, but will likely still constrain the ability for most consumers and smaller businesses to use insurance to manage risk.

What can be done? The priorities for building the insurance market are set out in Input Note 4. Insurance can contribute significantly to development in the DRC, even if it just serves wealthier customers and corporates better and starts to build long-term savings for investment. It is therefore important to get the building blocks in place for insurance market development. This requires two sequenced steps:

- **Building the legal, regulatory and supervisory prerequisites for market development.** A few critical interventions are required before the market will be able to function in a stable and sustainable manner that extends access to insurance in the DRC. This includes the need to operationalise and capacitate the new regulatory authority, to implement the new Insurance Law in a way that achieves market entry and supports innovation, to generate data to monitor industry trends, and to facilitate insurance of corporates and groups to jump-start insurance market development.

- **Enabling retail market growth.** Once the basics of a functional market are in place, a number of further hurdles need to be overcome for insurance to be used as a financial inclusion tool, including finding premium payment solutions and overcoming distribution challenges. For regulators, it is important to acknowledge the role of community-level/informal risk pooling, especially for the poor who are unlikely to be reached by the formal insurance market, and to make sure that such vehicles are accommodated or carved out in a regulatory dispensation.

The imperative for building risk management options also extends beyond the insurance market, notably to develop savings, remittance and emergency credit options to provide a safety net for those who remain outside of the insurance market as discussed in the sections above.

5.6 Build the institutions and framework for an enabling environment

Consider various supporting infrastructure building blocks to financial sector development. An important cross-cutting action to enable the various priority areas above is to strengthen financial inclusion at the institutional or infrastructure level:

- In the first instance, this entails introducing a **financial inclusion policy** to cement the Ministry of Finance's mandate to focus on lower-income consumers, as well as to mobilise resources and generate a broader support base for financial inclusion.

- Another cross-cutting constraint at the institutional level is **data**. It is important to address data constraints to enable providers to identify opportunities, and to reduce costs and uncertainty. This can be done by building a data reference bureau, strengthening reporting requirements, analysis and publication, and even just by making legislation available electronically. It is also important to build out the credit reference bureau and open it up to microfinance institutions.

- Thirdly, **financial sector skills** should be built at the strategic and client facing level to deliver products that meet consumer and business needs. Equally important is building **regulatory capacity** for inclusive regulation and supervision.

- It will be important to capacitate and empower **customary courts** to unlock the potential of such courts as point of low-value dispute handling.

- Lastly, **consumer capability** should be strengthened to use financial services to their advantage.

Set appropriate rules for a level, accessible playing field. Each of the imperatives in Sections 5.1 to 5.5 above has a regulatory or policy component. Among the important regulatory actions highlighted (each of which is unpacked in more detail in Input Note 2) are the need to finalise the national payments system and agency banking frameworks, to extend the reach of investment incentives to all financial service providers, to strengthen the framework for consumer

protection and recourse, to build a cross-cutting credit regulatory framework (including to extend the reach of the credit reference bureau), to develop deposit insurance and to implement the insurance framework to build a competitive market. It will also be important to extend equal rights to married women.

Build a principles-based approach. These actions speak to a broader need for more principles-based legislation, with greater reliance on the expertise of regulators and broader delegated legislative discretion. This would enable considered and timely responses to drive and safeguard financial service development.

Regulatory requirements to fit risk profiles. There is also a cross-cutting need on a number of fronts for regulatory requirements that are proportionate to the nature of the business and the nature and extent of the risks posed by different types of entities. This includes the need for lower prudential requirements for lower tier banks and non-deposit taking MFIs, proportionate requirements for e-Money service providers, and potentially for certain players in the insurance market. Enabling such providers will shore up competition and distribution options for financial services. Furthermore, a proportionate/risk-based approach to the implementation of the latest (2012) global standards for AML/CFT regulation will facilitate financial inclusion across product markets.

Endnotes

1. Based on World Bank (2016b) and GSMA (2014)

2. See, for example, Calderón & Liu (2002), King & Levine(1993), and Levine (1997).

3. The number of registered financial institutions has grown five-fold, with the 18 banks and the 75 money transfer operators fulfilling the most important financial outreach role, followed by the 103 registered COOPECs and 21 MFIs. The number of accounts has grown from virtually zero in 1997 to 2.5 million bank accounts, 1.9 million COOPEC and MFI accounts and 6.8 million mobile money accounts (albeit only 10% of which active) in 2014. The government bancarisation drive, whereby more than 800,000 recipients of government income now receive their money into a bank account, has played a significant role in this growth.

4. In total, just more than half of Congolese adults in the sample population have no form of financial inclusion, whatsoever. The sample population is defined as those 21 million adults living in "economically active" areas of the country. Beyond this is the hinterland, where an estimated further 19 million adults reside that who are not even considered for financial inclusion measurement purposes. Almost 8 million of those with financial services use only informal financial services. Only 7 million are formally included. Those with accounts use it mostly for savings, but account usage is infrequent. Low take-up persists across product markets and is skewed towards women and rural areas. Even the wealthy and formally employed are excluded. There are 900,000 people who earn more than $200 per month (placing them in the top income quintile of the population), yet have no formal financial services. The picture is even starker for credit. Only 5% of the formally employed have credit and fewer than one in 10 small business owners or farmers with an income above $200/month have credit.

5. MAP DRC relies on demand side data from the FinScope DRC survey, drawing on survey data gathered in 2014 and a range of qualitative immersive interviews in Kinshasa and Goma, as well as supply side data from stakeholder interviews with financial service providers, regulators and policymakers, published annual or interim financial statements and reports and data collected by supervisors.

6. Five target markets were identified based on main income source: formal employees, informal employees, MSMEs, farmers and dependents.

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

8. FinMark Trust (www.finmark.org.za) was established in March 2002 with funding from the UK's Department for International Development (DFID). FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor by promoting financial inclusion and regional financial integration'. FinMark Trust has been engaging with the government of Zimbabwe on financial inclusion for a number of years, including the roll out of the FinScope Consumer Survey in 2011 and 2014, as well as the FinScope MSME Survey in 2012.

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

10. The market for payments is critical to meet consumer needs and enable other services. The market for insurance is in the process of liberalising and presents significant opportunity if appropriately enabled. The market for savings and credit is covered in the main text.

11. The World Bank poverty line.

12. See, for example, Calderón & Liu (2003), King & Levine (1993), and Levine (1997).

13. See Jain & Hall (2012), Radcliffe & Voorhies (2012), and Jain, et al. (2014).

14. See Bagehot (1873), Schumpeter (1934), Gurley and Shaw (1955), Goldsmith (1969), McKinnon (1973), and Levine (2005).

15. See Braucher (2006) and Gloukoviezoff (2006).

16. See Janzen & Carter (2013) for a discussion on the literature.

17. See, for example, Dercon (1996), Hill (2009) and Morduch (1991).

18. The political risks covered frequently include (i) losses caused by currency transfer restrictions, (ii) confiscation, expropriation and nationalization of property or funds, and (iii) losses caused by war, civil disturbance or terrorism. An example of the use of political risk insurance that has recently become more common is the securitisation of debt used in capital market financing for infrastructure projects.

19. Liedtke (2007) argues that we can easily identify numerous instances of economic activity that would not occur in the absence of insurance: for example, many ships would not leave the harbour uninsured, trucks would not depart to deliver cargo, and contracts would not be signed to secure high-value deals, particularly with respect to real estate or infrastructure projects.

20. The majority of these have emigrated to other African countries. However, sizable communities exist in Europe and North America as well. These expatriates frequently have larger incomes than their domestic counterparts and may be important actors in the local economy through remittance channels and other economic connections. Therefore, they must be considered when devising strategic imperatives for financial inclusion. However, FinScope does not allow analysis of these individuals.

21. Note that a small percentage (1.75%) of the population do not easily fit into the target market categories and cannot be combined into a cohesive segment. They do not warrant analysis as a separate target market and were therefore excluded. This group includes, but is not entirely confined to, individuals whose main income sources are money from informal currency exchange, money from rent, interest received from loans, work pensions, and money from likelemba or informal savings groups.

22. This means that the analysis largely looks at the universe of "already served" needs, taking these to be indicative of needs more broadly. It is important to note that this analysis will not correspond one on one to the Access Strand figures quoted elsewhere in this document. For example: in Figure 4 more than 60% of adults are shown to use savings for consumption smoothing. Yet the savings Access Strand as outlined in Input Note 1 shows that 45% of adults are excluded from any type of savings. The reason for the discrepancy is that survey questions that record individuals who indicate that they would use a financial service to meet a need, or who make use of an unspecified type of financial service to meet a need, are also included – but would not be captured in the Access Strand or total uptake figures.

23. For this reason, comparisons between the overall need for various financial services should be made with caution. For example, the need for consumption smoothing can be interpreted as important because more than 90% of respondents report using financial services to meet this need, but it cannot necessarily be said to be more important than the need for encashment, which is only demonstrated by 46% of adults.

24. See Input Note 1 for an overview of the Access Strand tool as applied in this diagram.

25. An account is said to be a mailbox when it is used only to receive funds and all funds are withdrawn upon receipt

26. Note that the FinScope survey underrepresents coverage by mutuelles de sante.

27. Data received from the Central Bank indicated that there were 26 branches of COOPECs. This figure assumes that each institution has at least one branch.

28. Includes 103 institutions each assumed to have one branch as well as 26 additional branches spread amongst these 103 institutions. Data obtained from the Central Bank.

29. As one potential way to deal with rampant inflation and the collapse of the currency, ordinary Congolese started using foreign currencies, particularly the dollar, for their daily lives, which eventually became government policy. Over time, the dollar permeated all facets of the Congolese economy, even gaining support from government for its use. As the economy and inflation rates have started to stabilize, the government has indicated a desire to return to a single currency system under the Congolese Franc over the longer term (IMF, 2013).

30. A number of additional ministries and regulatory authorities have jurisdiction over entities and actions of relevance for financial inclusion. These include the Ministry of Planning and Supervision of the Revolution of Modernity with regards to financial sector development policy and the improvement of the business environment, and the Regulatory Authority of Post and Telecommunications of Congo (ARPTC), which is charged with the licensing and oversight of mobile networks and the post office.

31. Main institutional types outside of the credit establishments framework include insurers (regulated under the Insurance Code), pension funds (regulated under the social security law, INSS), microfinance institutions (regulated under the Microfinance Act), money transfer operators (regulated by a specific BCC instruction), bureaux de change (regulated under the exchange law) and electronic money institutions (regulated by a specific BCC instruction).

32. Which are in turn split into credit-only and deposit-taking microfinance institutions, each with dedicated prudential requirements set out in the Microfinance Act.

33. The DRC has experienced a number of hyperinflationary periods, such as the period beginning 1988, when inflation remained above 80% for 9 years and at times exceeded 23,000%. There was also a period during which account holders were not allowed to withdraw their money.

34. 65% of the country's population are dependent on inefficient slash-and-burn rain-fed subsistence farming with limited inputs to enhance productivity. Over 50% of farmers live more than 8 hours from the nearest trading centre, and due to a lack of effective refrigeration or storage facilities, post-harvest crop loss can reach 80% in certain areas. A similar pattern of fragmentation and informalisation, commonly referred to as 'la débrouillardise', is present across other key industries. One of the main obstacle limiting consumer and market connectivity, aggregation, and development is the near-complete degradation of the country's transportation infrastructure, most prominently outside city centres, which has led to the geographic isolation and economic localization of many communities (UNEP, 2011).

35. However, there is an opportunity to serve urban middle income market, who remain underserved especially in credit and insurance.

36. The consultations, confirmed by a mystery shopping exercise, indicated that even bank managers do not know how to use POS devices, and that customers receive different document requests to open an account from different tellers at the same institution.

37. The country comprises a surface area of 2.3 million square kilometres, making the 11th largest country in the world. Yet the total length of paved roads is less than one and a half times the breadth of country at just short of 2800 km (Consultations, 2015; Ministry of Congolese Abroad, 2015). This is all that is remaining from the pre-war network of roughly 145,000 km of roads (WHO, 2001). No roads or rail network exist to connect the big economic centres. Most of the 20,000 bridges and 325 ferries have not been properly maintained or replaced in decades (UNJLC, 2005). Often, air travel is the only option.

38. The civil war within the DRC officially ended in 2003. Despite this, the DRC remains the second most violent country in the world according to the ACLED (Armed Conflict Location and Event Data) Project (BTI, 2016). Conflict and violence are especially rampant in the eastern parts of the country. Crime is also a constant fear (Qualitative Study, 2015 & Chêne, (2013).

39. Money transfer operators have been most successful to unlock such networks, and have managed to do so at reasonable cost of 1-5% for USD 100 transferred (see Input Note 3).

40. FINCA partners with small businesses to mobilise savings and does not charge fees through this channel. It has been successful in using this strategy to attract savings to on-lend (Consultations, 2015).

41. Non-performing loan rates are high, at between 8 and 15% for banks. Rates for COOPECs can reach 24%. Average rates for MFIs are understated at 2.5% due to the tax treatment (BCC, 2014).

42. It was mentioned that some South African banks, for example, will not send funds to the DRC due to either complex correspondent relationships or an unwillingness to risk AML/CFT implications. Some DRC banks use small South African banks and corporate banks with United States correspondents or subsidiaries in order to procure US Dollar notes from the Federal Reserve – as a result of de-risking and security concerns.

43. Contract enforcement is extremely difficult within the DRC. The costs are prohibitive and the waiting times can be very long (also varying substantially by region). The implications are dire for the advancement of credit markets and likely result in severe credit product pricing and affordability limitations.

44. Limited liability companies (SARL and SA) are eligible for tax exemptions associated with their investment for a period of 3 to 5 years depending on the location. However, the Investment Code does not apply to banks and insurance companies, which are governed by specific laws. A draft law on the financial sector has been prepared and includes the main provisions of the Investment Code, but has not been voted so far. Nevertheless, ANAPI is temporarily authorized by the government to admit financial institutions (including banks and MFIs) in the scheme of the investment code, but not all financial institutions benefit from this dispensation.

45. Most courts in the DRC do not have access to basic items that are required for the administration of justice, such as typewriters, filing cabinets or communication equipment. The only means of communication between the Supreme Court or the Ministry of J ustice in Kinshasa with courts in other areas of the country is via mobile phone.

46. This stems from the fact that the only way to access the texts is to buy these directly from the government printing press in the form of an updated gazette. Should a magistrate seek access to this law, they are required to buy the gazette themselves.

47. As per Ordonnance from the general administrator of Congo on the 14th of May 1886 -- approved by decree 12 of 1886 (official bulletin, pages 188 - 189).

48, (Consultations, 2015)

49. In the form of the 2012 Financial Action Task Force (FATF) Recommendations.

50. Note that the interpretation in this paragraph is based on the Cenfri in-house legal expert's reading of an unofficial translation of the Insurance Code, and is therefore indicative only. No formal assessment can be made without an official translation of legislation.

51. Noting that a proportion of the population will remain beyond the reach of the financial sector (zone 4 in the access frontier), and that this proportion can only be shrunk through economic growth and increasing incomes.

52. Those touch points that do exist are often out of funds or dysfunctional, or stock only large denomination USD notes that are not suited to the transaction profiles of ordinary citizens.

Kameshnee Naidoo

MAP Global Programme Advisor
Kameshnee.naidoo@uncdf.org
map.uncdf.org

UNCDF | MAP