Decoding the customer

First impressions from a more granular approach to client typology

MAP GLOBAL INSIGHTS SERIES: NOTE 1 | 2015

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About the Making Access Possible Programme

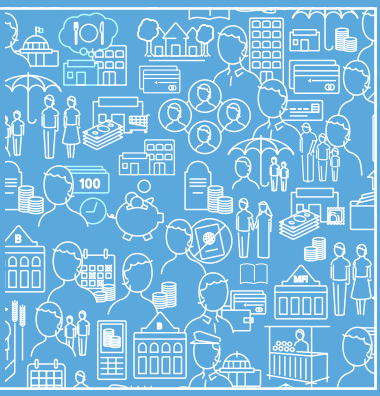
Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders.

MAP was initiated by the United Nations Capital Development Fund (UNCDF) and is implemented in partnership with FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

About the cover

In the course of developing the various MAP publications and media, and in the quest to capture the nuances of the areas and niches in which the programme works, an entire iconography has evolved. The MAP iconography takes into consideration the special characteristics of the people and environments MAP encounters.

These Insight Notes encompass multiple factors across different nations and communities, and the unique and rich patterns identified are reflected on the covers of the MAP Insight Notes.



The MAP Global Insights series

The MAP Global Insights series attempt to consolidate and synthesise the learnings from MAP across the MAP pilot countries. The first of the MAP Global Insights products comprises five thematic cross-country notes, based on the initial round of findings from the country diagnostic studies, which have been conducted in Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi.

NOTE 1 unpacks the target market segmentation approach that is central to the MAP methodology of putting the client at the core of the analysis. Note 1 provides a window into the emerging cross-country segments, and the implications for donors, policymakers and providers in this regard.

The other notes in the MAP Global Insights series are as follows:

NOTE 2 takes a closer look at why consumers need access to a full portfolio of financial services, how access can be measured, and the policy implications of moving away from a linear, one-dimensional view of inclusion.

NOTE 3 considers the cross-country evidence on the gap between access and usage of transactional bank accounts, and why the majority are not used. It concludes with arguing the need for a paradigm shift in the focus of financial inclusion, away from cost and scale to value.

NOTE 4 looks at the role of locally delivered financial services compared to remote financial services, why the majority of adults still rely on financial services that are locally delivered, and the implications for providers and policymakers in terms of learning from, replicating or leveraging the value offered by these existing services.

NOTE 5 describes the different experiences of mobile money across the six MAP pilot countries, and discusses some of the key drivers of these differences, specifically in terms of the relationship between mobile money and cash infrastructure. It concludes with a discussion of the possible implications for policymakers and regulators with regard to the changing financial services environment.

Acknowledgements

Authors: Hennie Bester, Jeremy Gray, Christine Hougaard and David Saunders. *The authors of this note would like to thank those who reviewed the document and provided invaluable comments:* Henri Dommel (UNCDF), Hanadi Tutunji (UNCDF), Kameshnee Naidoo (UNCDF), Brendan Pearce (FinMark Trust), Anthony Githiari (UNCDF), Anna Hainze (UNCDF), Samuel Choritz (UNCDF), and Chiara Pace (UNCDF).

Placing customers at the centre of analysis to drive policy and regulation

Different types of clients behave differently and have different needs for financial services. Traditional financial inclusion analyses include statements such as '95% of adults in Myanmar earn less than $10 a day'. This, however, does not allow for a granular understanding of the people within the group – their needs, their realities and the systematically different policy approaches required to improve their welfare and achieve broader public policy objectives.

Understanding the needs and demands of people and their households makes it possible to develop policy, product and service solutions that better serve the needs of such households and reduce inequalities of access. With greater access to a range of financial services, households and businesses can generate income, build assets, smooth consumption and manage risks.

Market segmentation has traditionally been used by the private sector to determine the potential size of a market, estimate the business case for providing services, and better target the products and services offered to these segments. Segmentation is a crucial tool for investment strategy and market operations for private sector institutions. It is driven by detailed data and analytics, with regard to the country and its population and income characteristics and behaviour.

Understanding the needs and demands of people enables policymakers and providers to design policies and products that assist individuals within the framework of their lived realities. This approach – known as the sustainable livelihoods approach – is currently being adopted by leading global organisations as their main analytical framework. Thus, people – rather than the resources they use, or their governments – are the main concern. Increasingly, policymakers are adopting a similar approach to improving the design of financial inclusion policies: combining the sustainable livelihoods approach with market segmentation.

The MAP initiative collects detailed demand-side data on the population profile, including data on income, usage of financial products and services, and access to these services.

Thus, the departure point for the MAP methodology is to identify unique segments of the adult population that form discrete market segments for the provision of targeted and relevant financial services. These target markets are derived in two stages:

- Initially they are identified based on their primary source of income as reported by the FinScope Consumer Survey.
- They are then evaluated based on a number of key parameters that influence the nature of the segment's demand for financial services.

Client segmentation exercises within the MAP pilot countries in which diagnostic studies have been conducted have illustrated the potential value of improved financial access on the part of some or all of these segments in terms of helping to achieve the country's policy objectives. Thus segmentation informs the formulation of recommendations for targeted interventions to be pursued as part of the MAP financial inclusion roadmap.

Six common target markets emerging. Segmentation conducted in the MAP pilot countries (Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi) found six common target markets emerging across the different countries. Each target market requires differentiated policy approaches to enhance provision of financial services.

Note 1 introduces these different segments of the adult population. It reflects on what each segment looks like, and discusses the demographic characteristics of the segments. Significant sub-markets or indicators that would suggest the need for differentiation within target markets are also examined. Financial services needs, observed usage patterns, specific access barriers, and policy issues pertinent to the financial inclusion objectives for each target market are explored.

By providing illustrative examples of the systematically different needs of target markets and how different implications arise, Note 1 illustrates the value to policymakers of the segmentation tool.

First impressions from a more granular approach to client typology

The MAP pilot countries were found to present similar target markets with broadly similar needs and behaviours. Figure 1 introduces five of the six target markets and their key demographics, and indicates segment-specific indicators in relation to the averages for the overall population. The segment not included in the figure is migrants, because citizens abroad are not captured in the FinScope Consumer Surveys and thus their key demographic information is not available.

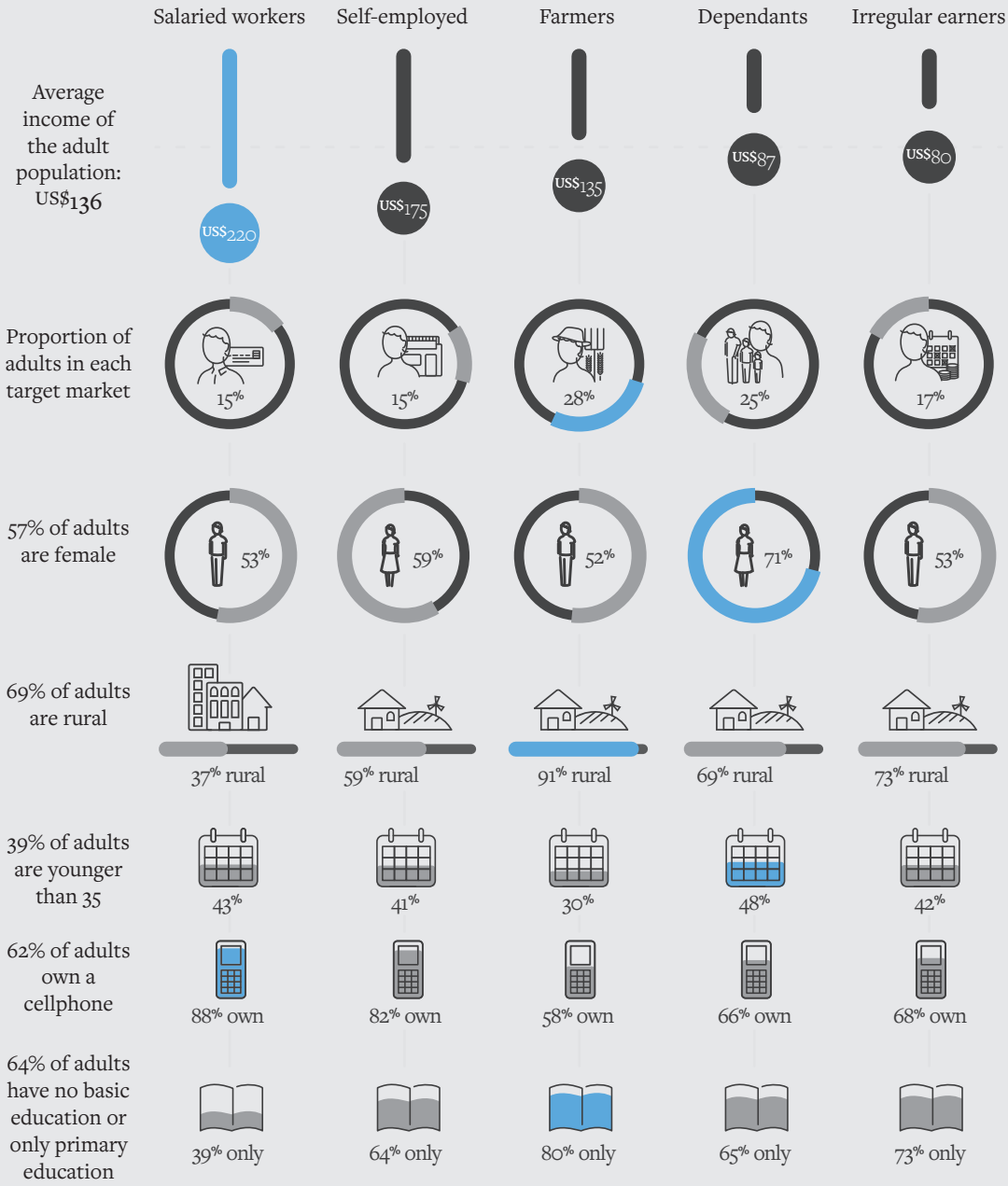


FIGURE 1: Five of the six cross-country segments

Salaried workers are employed adults receiving regular monthly salaries. This includes government employees and salaried workers in the private sector. Salaried workers are typically the wealthiest segment, with an average income more than twice the overall average income of the adult populations of the six countries. They are the most urbanised group, tend to be better educated, are predominantly male, benefit from regular incomes and do not usually face eligibility barriers in accessing financial services.

While they were present in all of the MAP pilot countries, salaried workers constituted a much larger proportion of the adult population in Lesotho, Swaziland and Thailand than they did in Malawi, Mozambique and Myanmar.

Farmers are adults that derive their primary income from agricultural activities. This includes livestock and crop farmers, as well as those who earn their income from fishing. The category farmers is slightly skewed towards males and is the most rural segment. Farmers' average income is consistent with the average income of the adult population. Furthermore, as they are able to consume their own produce, a significant portion of farmers' true income is non-monetised and therefore not fully captured in income statistics. Most of the farmers identified in the six MAP pilot countries would be considered subsistence[1] farmers, given their plot size and the subsistence nature of the bulk of their farming activities. However, further disaggregation revealed that in several countries there is a small – but significant – group that can be targeted for growth.

Where the farmers target market was present, farmers were the largest segment of the adult population – with one exception: Lesotho.

Self-employed adults derive their main income from a small, micro or medium sized enterprise (SMME), whether formal or informal. The self-employed segment tends to conform to the average income and urbanisation levels of each country. A higher proportion of self-employed adults in most countries is female, although female-owned SMMEs tend to be relatively smaller and less formal than those owned by males. The self-employed represent an important target market for policymakers, and MAP finds that there are substantial deviations within the segment that warrant further disaggregation. In each of the MAP pilot countries SMMEs were further segmented based on key parameters to differentiate their financial needs and potential contribution to the achievement of public policy objectives.

Irregular earners are adults that do not have a full-time job, but are engaged in piece work. Locally they are referred to by other names: for example, in Malawi, *ganyu*, and in Mozambique, *biscato*. In most cases this work is seasonal and most are employed on an irregular basis in the agricultural sector. Irregular earners are the poorest target market, earning just half of the average adult income across the six countries. They are predominantly male, rural and poorly educated. This segment is also the group most frequently paid in-kind and, in most countries, is lowest on the social ladder. Irregular earners face significant eligibility barriers to financial inclusion, ranging from identification requirements to lack of collateral.

Dependants are adults that rely on family, friends or the state for their primary source of income. This group includes private dependants and state dependants. State dependants are adults whose main source of income is a transfer from the state.

State dependants were identified as a separate target market in Lesotho and Swaziland.

Private dependants are adults whose main source of income is derived from family and friends. Private dependants include adults whose main source of income is remittances received from a member of the household and those that rely on a household member to pay their expenses.

Dependants are also frequently co-contributors to household livelihoods, such as through involvement in subsistence agriculture, though their primary income source is derived from others.

Migrants are adults that do not currently work in their home country. Although no data is available, the migrant segment is likely to have higher incomes in the host country where they are working than they would get in the home country. While this group is an invisible target market from a national demographic perspective,[2] MAP finds that many adults are reliant on remittances sent from outside the country and that in several of the MAP pilot countries this constitutes a major source of income for adults. Migrants therefore have an important impact on financial services usage and income.

What are we finding?

The pilot MAP diagnostics reveal that each of the different target markets displays different behaviour and has divergent financial services needs. The implication is that the needs of different target markets are most effectively and feasibly met by different financial services providers and require differentiated policy approaches.

Different target markets, different potential contributions to achieving policy objectives. MAP finds that different target markets can make different potential contributions to the achievement of national policy objectives. For example, while the groups salaried workers, a sub-set of farmers, the self-employed (i.e. SMMEs) and migrants directly contribute towards the achievement of the macro policy objectives of economic growth and employment generation, other target markets are primarily focused on maintaining their own livelihoods – and therefore will have a different contribution to the achievement of policy objectives. The nature and needs of each of the target markets therefore call for tailored policy responses, to both enhance access to financial services for the individual segment and maximise the role that segment plays in achieving overarching policy objectives.

Broadly similar demographic profiles are emerging across countries: similar income and urbanisation profiles, with some regional differences. Figure 2 (below) compares the different segments identified across the MAP pilot countries based on two socio-economic descriptors: average income of the target market relative to the average income of the entire population in that country; and level of urbanisation relative to the average for the population.[3]

Level of income and place of residence are important descriptors as they inform what kind of financial products may be appropriate for clients, how likely people are to be able to afford financial services, and the likely distribution challenges in reaching and serving them. Figure 2 shows that the segments across countries tend to cluster together. This further supports the central theme of Note 1: that consistent segments with distinct characteristics are emerging across countries, potentially enabling the identification of common financial services needs and usage and common product features.

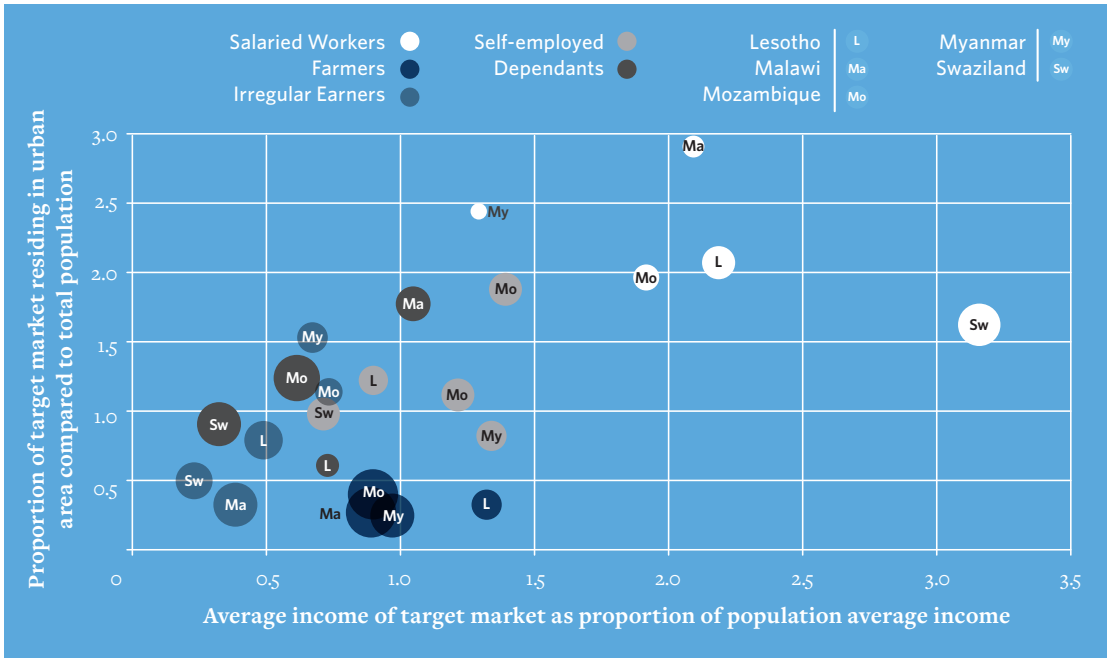


FIGURE 2: Comparing the different segments across the MAP countries[4]

SOURCES: *FinScope Lesotho 2012; FinScope Malawi 2014; FinScope Mozambique 2014; FinScope Myanmar 2013; FinScope Thailand 2012; FinScope Swaziland 2011.*

Salaried workers

Entry point for provision of retail financial services. Salaried workers is the target market that constitutes the initial entry point for the provision of retail financial services. Salaried workers' higher, regular incomes and proximity to urban-based financial services providers make this the target market easiest to reach for those providers. Furthermore, it is often a requirement of salaried workers' employment that they have a bank account into which their salary is paid. This provides a ready entry point for financial services providers to develop a retail market strategy and grow services to a critical mass of clients, enabling providers to operate sustainably.

While salaried workers are often not considered by policymakers as a key target market for financial inclusion, in fact they are critical for initial growth and development of financial services provision and warrant specific consideration. If financial institutions do not yet serve the bulk of this group, it is unlikely that such institutions will expand to serve the other, less accessible target markets. Thus, policies specifically targeting salaried workers will impact upon other target markets. For example, salaried workers are often the primary users of formal payment services, requiring the establishment of a retail payment network that includes ATMs and POS devices.

Salaried workers are often the first target market that has access to unsecured personal loans. This offers formal providers a testing ground to develop unsecured lending models that can reach further downmarket.

- For example, in Mozambique one payroll lender is expanding its book from government workers to salaried workers and higher-income SMMEs.

Within salaried workers, government employees typically better served by financial services. Across the six MAP pilot countries, it was found that more than three-quarters of salaried workers use at least one formal financial service. Within the salaried workers group, take-up differs between government employees and private salaried workers. Government employees are typically better served by financial services providers than private sector employees and often earn higher average incomes. Government employees generally receive statutory benefits from the state in the form of insurance or pensions. In the four African MAP pilot countries, government employees are also eligible for loans from payroll lenders because repayments are facilitated through direct salary deductions from the government payroll.

Multiple sources of income common for salaried workers. In many countries, salaried workers have multiple sources of income, with many salaried workers running their own businesses as a secondary income source.

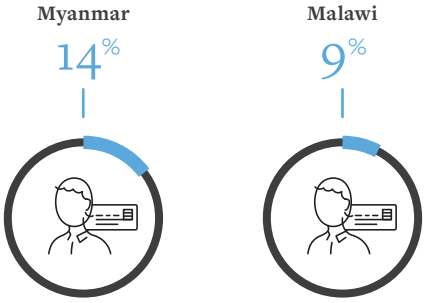
- For example, 14% of salaried workers in Myanmar and 9% of salaried workers in Malawi indicate that they earn a secondary income from running their own businesses.

Personal loans to this target market may thus constitute a low-cost SMME finance distribution channel. An implication of multiple sources of income is that extending personal loans to this target market (which is the most likely group to qualify for such credit) may in fact be a way of extending SMME credit if these loans are used for productive purposes.

- For example, in Mozambique personal loans are often used to invest in an enterprise: 9% and 4% of salaried and government workers, respectively, report using credit for starting or expanding a business (FinScope 2014).

Access for family and friends. Salaried workers may also leverage their relatively greater access to credit to serve as an entry point for productive or asset-based finance for family and friends who cannot meet eligibility requirements.

% of salaried workers that earn secondary income from own business



Farmers

Farmers contribute to achieving a range of public policy objectives. Given their location, farmers are often the most excluded group from formal financial services. However, they are an important target market for policymakers as they contribute to the achievement of a range of broader public policy objectives, including food security, social stability, household welfare, national growth and employment generation. The MAP diagnostics show that not all farmers contribute to these policy objectives equally. The nature and scale of their income-earning activities and their locations require differentiated policies to maximise the return on public resources and private investment.

Farmers support multiple livelihoods. Adults that derive their primary income from farming-related activities constitute the largest segment of the adult population across the six MAP pilot countries. Furthermore, farmers have a multiplier effect as they support the livelihoods of adults that derive their primary income as farm workers, who are mostly included in the irregular earner target market.

Beyond those adults that earn their primary income from farming, a large number of adults from other target markets engage in farming and farm work as a secondary source of income:

- For example, in Myanmar there were 12.1 million adults that reported their main source of income as farming, 2.2 million that reported their main source of income as farm work and 8.7 million that reported farming and farm work as a secondary source of income.
- Similarly, in Malawi and Mozambique, irregular earners, who are among the largest segments of the adult population, derive their income almost exclusively from farm work.

Farming therefore supports the livelihoods of most adults across the six MAP pilot countries.

Farmers require differentiated treatment due to their location and needs. Given the nature of their work, farmers are overwhelmingly located in rural areas. Thus their primary barrier to accessing financial services is proximity to financial services distribution points. In addition, the seasonal nature of farmers' income requires financial services that respond to their distinctive cash flow needs; farmers earn 'lumpy', seasonal income and have a lag of four to six months between investing in agricultural inputs and receiving the return on their investment. Moreover, if they are forced to sell immediately after harvest, they tend to receive significantly lower returns than if they are able to delay selling until produce prices have increased. The MAP diagnostics find that formal financial products for farmers generally respond poorly to these cash flow dynamics:

- In Myanmar, focus group discussions highlighted that the application for credit from formal providers of agricultural credit was a lengthy process; that loans are often disbursed late (due to administrative hurdles or difficulty in obtaining land title certificates); and that the repayment period was not suitable as it forced farmers to sell their produce right after harvest at low market prices in order to make the repayments.
- In Swaziland, farmers have a very small window of time in which to plant cotton. Any delay in capital funding (e.g. to access a loan) delays the planting of the cotton and in turn reduces the size of the harvest for the famers. This was highlighted as a major issue for smallholder farmers.

Financial services providers fail to mitigate farmers' risks. Furthermore, farmers face unique risks. Across the MAP pilot countries where farmers were present, the top risks experienced or identified by adults were commonly related to agriculture. These risks ranged from natural disasters such as floods, to fluctuating commodity prices. None of the MAP pilot countries provide evidence of a commensurate response on the part of financial services providers to this risk profile.

For farmers, the loss of their crops – at any point in the farming cycle – presents a significant threat to their incomes and livelihoods:

- In Myanmar, nearly half of all farmers (5 million adults) experienced agriculture-related risks in 2013. However, only 2% of farmers in Myanmar have any type of insurance. In the absence of insurance, nearly half of the farmers (42%) that experienced these agriculture-related risks reported using credit to mitigate risk, when in some cases another financial service would be more efficient.

- In Malawi, 99% of agricultural land is used for rain-fed cultivation and therefore farmers are highly vulnerable to weather-based events. FinScope (2014) shows that 13% of adults (1.1 million) recognise drought and 4% natural disasters (360,000 adults) as key risks to income. However, only 1% of farmers have insurance. Agriculture insurance products have struggled in the past due to design issues, unaffordable premiums and lack of product understanding on the part of the farmers.
- In Mozambique, rural qualitative fieldwork has indicated that for those engaged in the agricultural economy, loss of land productivity and natural disasters are real risks.[5] The most cited risk to household finances by 49% of adults is a weak or lost harvest. Despite this, only 1% of farmers have insurance.

Mostly subsistence farmers. Across the MAP pilot countries, two discrete groups of farmers emerge. These groups are disaggregated based on their income, plot sizes or ability to generate a surplus for selling. The distinction is between those farmers that potentially have the ability to grow and scale their farming activities and those that do not ('subsistence farmers').

- The former group was found to be much smaller and in some cases, such as Mozambique, represented less than 1% of farmers.
- However, in other countries, such as Myanmar and Lesotho, it made up closer to 10% of all farmers.

The remaining group of farmers – subsistence farmers – produce enough to feed their households and for low-value trading. Their primary focus is on sustaining livelihoods, and they have limited potential to grow. This group is reliant on non-monetised income, as evidenced by the quote below from a Malawian farmer:

"I sell about 25 bags of cassava at MK6,000 [US$14] each. I can get up to 100 bags if I have enough fertiliser. 17 bags of maize are for food consumption only. I send 3 bags to my mother and I sell the rest at about K1,500 [US$3.60] each depending on the season."

Reliance on informal sector requires policy rethink. Given their lack of proximity to formal providers, farmers often have the lowest take-up of formal financial services. The result is that most farmers primarily rely on informally delivered financial services:

- In Lesotho, for example, 38% of farmers report having credit from informal providers, compared to 8% from formal providers.
- In Malawi, where savings is the primary financial service used by farmers, 17% save with informal providers, such as the village savings and loan associations (VSLAs), and 21% save at home, compared to 12% that save with formal providers.
- In Myanmar, where the government has extended subsidised agricultural credit to farmers through the Myanmar Agricultural Development Bank (MADB), informal take-up is still high. Nearly 30% of farmers that report using formal credit also access credit from an informal provider.

The exception is Thailand, where the use of informal financial services by farmers has started to diminish. The Royal Government of Thailand has leveraged local savings groups to set up local financial associations ('village funds') in every village and urban community in Thailand, encouraging savings and providing credit, and resulting in products that better meet farmers' needs.

Strengthening informal providers might be more effective. As a strategy for improving financial access on the part of farmers and enabling them to contribute to the achievement of national policy objectives (including food security, GDP growth and employment generation), capacitating local, informal financial services providers and encouraging them to design products suitable for farmers may be more effective than encouraging existing formal providers such as banks or MFIs.

Self-employed

Unlike farmers, most self-employed adults already use financial services. Across the six MAP pilot countries, more than half of self-employed adults use at least one type of financial service and are consistently the second best-served target market after salaried workers. The self-employed target market is primarily reliant on informally, rather than formally, provided financial services in most of the countries:

- In Malawi, 15% of self-employed adults use informal credit and 22% informal savings, compared to just 4% using formal credit and 19% using formal savings.
- The findings in Myanmar were similar, with 9% of self-employed adults using formal credit and 9% formal savings, compared to 19% and 11% using informal credit and informal savings. Even among those self-employed that do not use formal or informal financial services, many save at home, borrow from family and friends and deal with regular payments.
- In Malawi and Myanmar, 34% and 42%, respectively, of self-employed adults save at home. As a result, a larger proportion of self-employed adults have greater interaction with financial services and therefore have already developed greater financial capability.
- In Malawi, self-employed adults scored an average of 1.53 on a financial literacy index compiled from FinScope questions, compared to farmers, who scored 0.88 on average.[6]

The self-employed group therefore has a greater familiarity with financial services than farmers do; and, given that a large proportion of the self-employed are situated in urban areas, the focus is less on reaching the members of this group and more on delivering financial services that effectively meet their needs.

Their high reliance on informal products and their relatively higher financial capability implies that, in many countries – given that salaried workers are often already relatively well served – the self-employed target market may offer the largest immediate potential to extend formal financial services.

Not a homogeneous market. Different types of SMMEs have different profiles, exhibit different behaviour, have different financial services needs and offer differing potential contributions to achieving a country's policy objectives. The International Finance Corporation (IFC 2013) distinguishes between 'entrepreneurs of aspiration' and 'entrepreneurs out of desperation'. Aspirational SMMEs will typically be more established and wealthier, and will benefit from greater access to finance, particularly credit, in order to further grow their businesses. By contrast, survivalist SMMEs – with the primary goal of making ends meet while looking for a wage job – may in fact be adversely affected by easy access to credit if the credit is not used to improve business returns, resulting in a situation where it is difficult to pay back the original loan and, in the worst case, the SMME is pushed into unmanageable debt.

MAP, using available FinScope tools, is able to construct a good indication of both the characteristics and scale of these different types of SMMEs in a country (see Box 1 on page 10).

Most are entrepreneurs out of desperation. MAP has used a variety of parameters to understand the characteristics and scale of the different types of SMMEs described above. Most of the self-employed in the study countries are entrepreneurs out of desperation, with very low incomes.

- Using personal income as a proxy in Lesotho and Swaziland, MAP found that only about 11% and 10% of self-employed adults, respectively, can be regarded as aspirational.[7]
- In Myanmar, MAP segmented the self-employed based on whether they had registered for tax, and found that 2.5 million small businesses were classified as formal enterprises. Another 4.7 million fall outside of the tax network and are therefore classified as informal enterprises. The average monthly income of formal enterprises followed a similar trend to aspirational SMMEs in Lesotho and Swaziland and was almost twice that of their informal counterparts.

Entrepreneurs out of desperation largely skewed towards women. The MAP findings across the pilot countries indicate a gender aspect to the sub-category entrepreneurs out of desperation.

- In Lesotho, the majority of small business owners (61%) reside in rural areas and are female (68%). Most (66%) have no formal education. This suggests that theirs are mainly unlicensed enterprises, ranging in size from micro to small, and largely

survivalist in nature. The qualitative research confirms that this is quite a heterogeneous group, mostly engaged in individual survivalist business activities: in urban areas, such business owners will include those that sell shoes, airtime, snacks, chickens and groceries; while in the rural areas, business owners will include those selling agricultural produce such as vegetables and fruits, as well as those selling traditional herbs and medicine, groceries, chickens and livestock.

- In the case of Swaziland, it was found that self-employed adults manage to earn on average just less than informal employees (about US$72 per month compared to US$79 per month). They are disproportionately female and many of them have a secondary education. Almost two out of every three self-employed individuals live in rural areas.
- In Myanmar, women are more likely to own informal enterprises: 55.6% of the formal enterprise target market was male, compared to 46.5% of the informal enterprise target market. The group is also more rural, with more than 50% of informal enterprises located in rural areas, compared to only 26% of formal enterprises.

Capability a critical determinant of potential to grow. MAP is able to take analysis further and to consider the capability of self-employed adults, using education as a proxy. This approach was used in both Malawi and Mozambique, where the FinScope MSME survey[8] was available. Using this survey, SMMEs were segmented into four sub-groups or sub-segments based on their motivation and ability. Box 1 illustrates the Malawi example.

Box 1: Segmenting the SMMEs in Malawi

Table 1: SMME segmentation in Malawi
Source: Thom et al. (2015).

Across the two countries in which the FinScope MSME survey was conducted: survivalists have the lowest average income, followed by the struggling go-getters, implying that those with relatively low skills tend to fare the worst economically.

Reluctant entrepreneurs have slightly higher incomes. Those with both the aspiration and the skills, the driven achievers, however, have by far the highest income profile. In Malawi, the revenue of driven achievers is more than three-and-a-half times higher than the average revenue of all other SMMEs and just over three times higher than the second highest-earning segment, the reluctant entrepreneurs.

This difference in economic profile is confirmed by a number of further indicators, including level of urbanisation and asset ownership, both of which tend to be highest for driven achievers, and lowest for survivalists.

Aspirational SMMEs provide greater return on investment. Segmenting the self-employed target market indicates that interventions targeted at growth and employment will have the greatest impact by focusing on those aspirational SMMEs with both the ability and motivation to grow. These SMMEs would likely be able to improve their productivity if they had access to sufficient capital, which could come from both savings and credit:

- A lack of capital was cited as the greatest obstacle to growth by 45% and 34% of the self-employed in Mozambique and Malawi, respectively.
- In Malawi, 61% of driven achievers (as defined in Box 1) save with either formal or informal providers, compared to an average of 35% for all self-employed adults.
- Similarly, in Mozambique, 51% of driven achievers save either formally or informally, compared to 24% of other self-employed adults.

Targeted interventions – credit vs skills development. For policymakers, the implication is that targeting financial interventions, particularly in the form of credit provision, at the small subset of self-employed adults with the skills and ambition to grow will provide the greatest return on resource investment. Skills development may be a more effective intervention for other self-employed adults.

Targeting aspirational SMMEs has a multiplier effect. Additionally, as illustrated by the Malawi example, any intervention targeted at the aspirational SMMEs will have a far greater multiplier effect, given that they employ more than four times as many employees as the average.

Targeting entrepreneurs out of desperation may have a negative effect. By contrast, the larger subset of self-employed adults (considered entrepreneurs out of desperation and lacking the willingness or ability to grow their business) may actually end up worse off if supplied with credit that they are unable to repay, as evident in the quotation below from a self-employed Malawian:

"I decided to take a loan at Pride Africa to boost my business. I started a firewood business. I was transporting firewood on my bicycle, the firewood to the markets, and I would sell for k10.00 [US$0.02] a bundle. I bought a machine and goats, and decided to take another loan at [Finca Malawi]. Due to failure of paying back the loan I sold my machine and goats to repay and I went down to zero."

Low-cost payments likely entry point for most self-employed adults. Given their need to make regular payments, a low-cost payment mechanism that provides a secure store of value, such as mobile money, may be the entry point to financial services for most self-employed adults.

- In Malawi, of those self-employed adults using only one formal product class, 71% use formal payments.

Capital investment may be sourced from unexpected places. MAP highlights that alternative products sometimes provide solutions when self-employed adults' needs are not met directly. For example, SMME credit is often not provided directly as SMME loans, and the majority of self-employed adults with access to formal credit are found to rely on personal loans from both local and national providers. This is often due to the challenge of developing a sustainable SMME lending model. However, this also undermines the growth potential of SMMEs; personal loans typically have short terms and so do not provide SMMEs with long-term growth capital.

Remittances as a potential source of capital. Similarly, remittances could constitute a source of capital for SMMEs.

- In Lesotho, 44% of self-employed adults receive remittances, compared to 47% that use credit from formal or informal providers.

Personal and business budgets interchangeable. For many unskilled SMME owners, there is no separation between the income of the business and that of the household. The implication is that in order to serve the self-employed target market effectively, it is important to understand the segment's household dynamics. For example, a risk that arises in the household will be mitigated by whatever means available, such as investment capital, if alternative tools are not provided.

A quotation from a trader in Swaziland explains the difficult trade-offs faced by many:

"I used to have a business... I used to sell tomatoes and onions. But as things happened, I took that money and used it for school fees... After that I had no more money for the business and had to borrow money... I borrowed about R100.00 (US$9) and it was not enough and I had to borrow more, after which I had to pay back the interest, and it took me a very long time to pay off the debt. I did some farming and I made about R400.00 (US$38) and took about R200.00 (US$18) and paid for my child's school fees."

Irregular earners

Irregular earners overlooked, yet important target market for policymakers. Irregular earners are often considered unfeasible for formal financial services providers to reach. Unlike the case with farmers and SMMEs, they are rarely the target of specific policies leveraging financial services. However, the MAP pilot country research revealed that irregular earners constitute a significant number of adults.

- For example, in Malawi, 25% of adults derive their main income from piece work.

Thus, any policies targeting financial services for improved welfare, job creation and social stability must consider this group.

Irregular earners mostly reliant on seasonal work on farms. MAP finds that the majority of irregular earners derive their income as seasonal workers, mostly from the agricultural sector. They lack the ownership of assets that can be used to empower them to derive their income from their own economic activities.

- In Myanmar, 93% of farm workers (3 million adults) do not own farm land. However, unlike the dependants target market, they do not directly derive their income from others, but rather from the labour they provide, most of which is manual.

The majority of irregular earners are male and located in rural areas, close to farmers. Irregular earners do not belong to a single industry and are not networked in any organised way. Given their lack of alternative options for income, they are often willing to travel long distances in search of work.

Irregular earners reliant on informally provided financial services. Given the severely low incomes of irregular earners, they are generally considered unfeasible for nationally provided financial services. However, this does not mean that they do not use financial services. Across the six MAP pilot countries, irregular earners report using mechanisms in the form of either savings or credit that help to smooth their consumption:

- In Swaziland, more than 60% of irregular earners report saving.
- In Mozambique, half of all *biscato*[9] report saving.
- A similar trend was found among *ganyu*[10] in Malawi.

Across these countries, informal financial services providers are the primary channel used by this target market:

- In Myanmar, irregular earners reported the highest usage of credit from informal providers only. As in Swaziland, Mozambique and Malawi, this credit is used to smooth consumption over time and mitigate risks.

Thus, despite their low incomes, irregular earners do require financial services that provide them with the tools to meet these needs.

Irregular earners highly vulnerable to risks. Since most irregular earners work in the agricultural sector, they are vulnerable to agriculture-related risks such as poor harvest or droughts, when there is less work available for them. Furthermore, their engagement in manual labour renders them vulnerable to personal accidents. While irregular earners have demonstrated that they do save despite their low incomes, when one of these risk events occurs they need to use their limited savings to respond to the risk:

- For example, in Malawi, 99% of *ganyu* do not have insurance.
- In Myanmar, 40% of farm workers rely on family and friends or on themselves for risk mitigation.

Primary need for store of value. Irregular earners' primary need is for financial services that provide them with a low-cost, accessible and secure store of value to accumulate their limited income over time and help smooth consumption and mitigate risk. Mobile financial services have the potential to meet this need for this group where most formal providers cannot. However, the extension of other formal financial services – such as credit, savings or insurance – will be a challenge, and individuals in this group will continue to rely on informal groups and locally provided services to meet most of their financial services needs.

Targeting employers. Irregular earners' reliance on the employer means that targeting their employers, such as farmers, with financial services that increase productivity has the potential to simultaneously improve irregular earners' incomes in terms of certainty, regularity and size.

Dependants

Dependants emerging as a critically important segment of the adult population for policymakers. Like irregular earners, dependants are often not considered a target market that can contribute to the achievement of broader policy objectives. Yet, MAP is finding that financial inclusion policies targeted at dependants can play a key role in building human capital, empowering women and potentially stimulating youth employment. As dependants rely on others to provide their income, they often have an increased incentive to engage with the formal financial sector to receive their income. This provides a clear entry point for policymakers and financial services providers alike.

A variety of different groups emerge within the dependants target market. The dependants target market can be further segmented into those that receive government grants ('state dependants') and those that receive their income from family or friends ('private dependants'). Further differentiation can be made within private dependants between adults that are remittance receivers and rely on family or friends living remotely, and household dependants that rely on family or friends living within the household ('private household dependants'). The private household dependants can be further segmented into housewives and youth dependants.

This segmentation of different types of dependants reveals different needs and specific implications for interventions. MAP has begun to examine the different characteristics and needs of each of these groups of dependants.

State dependants' primary financial need for efficient payments. In Swaziland and Lesotho, state dependants have been identified as a discrete target market due to the government's capacity to deliver pensions or old-age grants to a significant number of adults. State dependants need to receive these grants as easily and cheaply as possible through reliable, efficient payment mechanisms, and they require a reliable store of value to smooth consumption between grant payments. The impact of these payments goes beyond the recipients.

State dependants often funding education. In the MAP countries where the state dependants group was identified, it is often the case that, due to the impact of HIV/AIDS, they are responsible for grandchildren; and for this reason they tend to value savings and credit products targeted at education. The implication is that improved access to such products for this group of elderly state dependants may impact positively on achievement of the country's educational objectives:

- In Swaziland, state dependants are the target market with the second highest use of credit for education in the country after salaried workers.

Remittance receivers' reliance on payments an entry point into formal financial sector. Remittance receivers rely on income received through person to person (P2P) money transfers. The fact that they derive their income from money transfers incentivises remittance receivers to access cost-effective and reliable payment services. Given that most cost-effective and reliable payment services are through formal channels, this is often an entry point for many excluded adults into the formal financial sector.

Remittance receivers' reliance on payments may build financial capability. There is an added benefit; remittance receivers' financial capability is increased by the fact that they are forced to engage with the formal sector:

- In Malawi, those who received formal remittances scored 3.1 on a financial literacy index compiled from FinScope questions, compared to an average score of 1.2 for the entire population.

When this engagement with the formal sector is valuable and increases their understanding of formal financial services, it empowers remittance receivers to expand their usage of financial services to other product types, depending on their needs. Such expanded usage has the potential to increase household welfare both directly and indirectly, including the possibility of creating income-generating opportunities.

Housewives responsible for household finances require portfolio of products. Across the six MAP pilot countries, the majority of adults in the dependants segment are female. Many of these are wives of breadwinners within the same household. As internal and cross-border migration[11] continues to rise with mostly adult males migrating in search of economic opportunities, these housewives become *de facto* heads of households, and require a portfolio of financial services to appropriately meet their needs. Not only will this facilitate greater empowerment of women – an important policy objective across countries – but females are also typically found to be more responsible users of financial resources and budget more effectively than men.[12] This group of female dependants may therefore represent an underserved and overlooked target market, which could conceivably have a major impact on long-term human capital development if appropriately served, as they are more likely to budget for children's educational, nutritional and healthcare requirements.

Youth dependants constitute youth unemployed. Dependants represent the target market with the most number of adults that are younger than 35 years of age (48%). In Swaziland and Malawi, 47% and 40%, respectively, of private dependants are younger than 25 years of age. This suggests that the private dependants include a large number of unemployed youth. The level of youth unemployment globally increasingly makes this a critically important group for policymakers to target. The dynamics and financial service needs of this group must be interrogated further in future MAP research.

Migrants

Migrants provide an alternative source of income that policymakers can leverage. Across the six MAP pilot countries, cross-border remittances support the livelihoods of a substantial portion of adults in migrants' home countries. The number of migrants relative to the population varies greatly across the different countries.

Box 2 provides a picture across regions from the broader MAP research on the nature and role of migrant labour.

Differentiated policy approach required. While the phenomenon of cross-border remittances is found to a varying degree across all of the MAP pilot countries, remittances are likely to increase as migration increases. The location of migrants in other countries outside of the jurisdiction of local policymakers will require a differentiated policy approach to tap into this potential.

Undocumented migrants face vastly different challenges to documented migrants. Migrants can be differentiated in terms of those formally residing in their destination country and those without formal documentation. A high proportion of migrants are undocumented and hence are forced to rely on informal financial services. They therefore face quite different barriers to the other target markets, as they are usually close to the distribution touch points and so proximity is not an issue. However, their lack of official documentation precludes them from using formal financial services in their country of employment.

The implication is that the initial focus should be on addressing migrants' lack of documentation or allowing undocumented migrants to access formal financial services:

- For example, South Africa, the primary source of cross-border remittances to Swaziland and Lesotho, published an exemption in June 2015 that allows reduced documentation for low-value cross-border money transfers.

Most migrants view their country of origin as home and want to return at some point. Even documented migrants often lack access to appropriate products that enable them to invest in the home country. Migrants have a need for products that enable asset formation within the

Box 2: Migrants and financial inclusion across the MAP pilot countries

In the small Southern African economies of Lesotho and Swaziland, migrants constitute a large portion (10%) of the adult population; Swaziland and Lesotho are both major exporters of labour to neighbouring South Africa. In **Lesotho** and **Swaziland**, 18% and 11% of adults, respectively, receive remittances sent from outside the country. In contrast, in South Africa the numbers of migrants from **Mozambique** and **Malawi** are estimated to be far lower, accounting for only about 1% and 3% of the adult population, respectively. If appropriately targeted, migrants' income can be used for productive investments into small businesses, or the health and education of family members, in the home country.

Similar dynamics were apparent in Southeast Asia. MAP found that 7% of adults in **Myanmar** receive remittances from abroad; nearly a third of this is received from Myanmar citizens working in Thailand. Numbers are likely to increase with increasing labour mobility in the ASEAN (Association of Southeast Asian Nations) region. Remittances sent home by these migrants are used for a variety of purposes, including consumption smoothing, risk mitigation, and investments in small business or human capital.

Thailand is a unique case among the six MAP pilot countries, as rather than its workers going abroad, it is home to a large number of migrant workers, an estimated 2.5 million of which are undocumented (Chamberlain et al. 2015). This presents a unique challenge among the MAP countries because undocumented workers are unable to access formal financial services in their country of work.

home country through either savings products or physical assets such as house construction. Developing financial products and diaspora policies that ease migrants' ability to make cross-border payments and to invest back home therefore represents an important source of capital for many countries:

- In Lesotho, for example, cross-border remittance inflows constitute 23% of GDP.

Beyond sending basic remittances home, migrants can be encouraged to invest in SMMEs back home, pay for dependants' school fees directly or purchase insurance policies covering family members.

Box 3 provides a sample of strategies for leveraging migrant worker investment in the home country.

Box 3: Explicit strategies to leverage migrant worker investment in the home country

In Lesotho, not only SMMEs and farmers but also migrant workers can be targeted for productive investments:

- The establishment of credit provider Moliko Trust by the South African National Union of Mineworkers (NUM) is indicative of a demand expressed by migrant workers in South Africa for productive credit back home in Lesotho. Moliko Trust has a loan book of just M2 million (US$227,000) and offers low-value, short-term loans. Business activities supported by Moliko Trust include sales of agricultural inputs, other retail shops, hawkers (clothes) and carpentry. Lesotho banks also offer limited SMME credit.

- TEBA is the most important formal cross-border remittance channel for South African-based mineworkers from Lesotho, and is also the recruitment agency for such migrant workers. These mineworkers are required by law to save (or 'defer') 30% of their pay, which is then sent back to Lesotho at the end of their contracts. This money is remitted through Ubank (formerly TEBA Bank) in South Africa, and paid out by TEBA in Lesotho.

  In addition to deferred pay, there are other voluntary and contractual savings channels for mineworkers and their families. Mineworkers are largely paid through their Ubank accounts. A portion can be set aside in a linked account and withdrawn by a spouse or other relative in Lesotho.

  Mineworkers at the end of their contracts typically keep any accumulated savings in their Ubank account and withdraw these funds on returning to Lesotho, rather than travelling with large amounts of cash.

  In addition, pensions may be paid through this channel, as well as 'industry-generated funds' such as retrenchment payments, death benefits, long-service awards, and compensation monies for occupational diseases or injuries.

Source: Jefferis & Manje (2014).

What does this all mean for providers, policymakers and donors?

The target markets identified in Note 1 provide an illustrative example of the value of segmentation for policymakers, financial services providers and donors in terms of highlighting the unique and specific roles that each can play in enhancing financial inclusion.

For example, salaried workers are typically not considered a target market for financial inclusion, yet MAP finds that if they are not served, there is little chance that any of the other groups will be either. This is because the critical mass of clients provided by the salaried workers target market is usually essential for ensuring the sustainability of financial services providers embarking on a retail strategy. The salaried workers group provides an entry point for providers to develop, test and refine innovative business models for new markets.

MAP illustrates that the traditional financial inclusion target markets – self-employed adults and farmers – are not homogeneous. This requires differentiated interventions from policymakers. Within the self-employed and farmers target markets there are sub-groups that can contribute to the achievement of broader public policy objectives such as employment and growth; while spending public resources on other sub-groups within the same target markets will not achieve such an impact. Financial inclusion policies that target each segment as a single group can lead to inappropriate use of financial services. Rather, the various sub-groups need to be identified and targeted with financial services that meet their specific needs. Furthermore, interventions targeted at those sub-groups within self-employed adults and farmers that have growth potential have a multiplier effect because of the number of people employed by those target markets.

A number of new target markets are emerging and require appropriate attention from policymakers. These target markets include irregular earners, dependants, and migrants. While not all of these target markets will contribute to the achievement of broader public policy objectives to the same extent, they merit individual and focused attention:

- For example, migrants from Lesotho working in South Africa present an opportunity for financial services providers in Lesotho to sell investment and savings products, while policymakers can tap into this flow of funds to ensure increased investment in human capital development.
- While dependants are still considered a single group, MAP reveals that there are multiple sub-groups within that segment that can contribute to achieving a range of public policy objectives if targeted correctly.
- Similarly, irregular earners, often considered unreachable, might benefit from policies not directly targeted at them, but at their employers: farmers.

The segmentation approach enables donors to assist countries to meet their national policy commitments to financial inclusion through the development and implementation of a country roadmap and strategy. The data makes possible a comprehensive analysis and highlights the potential market size, while ensuring that the likely policy and regulatory interventions are targeted and respond to the current market needs.

By disaggregating the adult population into these target markets and further sub-groups, MAP provides a granular understanding, from a financial inclusion viewpoint, of the different types of adults within each country. This enables policymakers to focus their policies where they can have the biggest impact. It enables donors to focus on where the intervention is most required and to better target the intervention. And it highlights for financial services providers potential market opportunities that would otherwise have been missed.

In an environment where resources are limited for policymakers and donors, where financial services providers increasingly demand better returns on investment, and where financial inclusion is expected to deliver where it matters most – namely, on equitable growth – the segmentation approach used by the MAP diagnostics is an exceptionally valuable tool.

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Endnotes

1 Subsistence farmers are defined as farmers that consume most of their produce, but may still sell a small portion of it.

2 Citizens abroad are not captured in FinScope Consumer Surveys.

3 For the purposes of this cross-country analysis, similar segments across countries have been grouped together. Note, however, that there are certain target markets (such as informal employees in Swaziland, or migrant workers in Thailand, Swaziland and Lesotho) that are unique to some of the countries and hence not included in this representation. Some of the countries also do not have all of the six target markets identified. For example, the category farmers was not large enough in Swaziland to form a discrete target market; and no dependants target market was identified in Myanmar. The groups are calculated as a proportion of the total population, included to ensure that the total population represented here adds up to 100%. Therefore the 'other' group (the minority of adults that do not fall into any of these target markets) was not included in this analysis.

4 Please note the following: averages for salaried workers for Swaziland and Mozambique were estimated between government workers and company employees; it is thus a 'rule of thumb' indication, rather than an exact estimate. Thailand is not included because a full segmentation exercise was not conducted for MAP Thailand.

5 MAP Mozambique qualitative fieldwork (July 2013).

6 The financial literacy index is a calculation of the number of financial terms (out of 10) that the respondent was familiar with, as asked in the FinScope Consumer Survey.

7 In both countries a personal income proxy of E2,000 per month (roughly US$8/day) was used.

8 FinScope MSME surveys are nationally representative surveys of how small-business owners source their income and how they manage their financial lives. The survey looks at owners of micro, small, and medium enterprises, as well as at individual entrepreneurs.

9 *Biscato* is the term used for piece workers in Mozambique.

10 *Ganyu* is the term used for piece workers in Malawi.

11 The number of international migrants, people living outside their country of birth or citizenship, reached an all-time high of 232 million in 2013 and is projected to rise to 400 million by 2050 (Martin 2013).

12 Thomas (1997) and Duflo and Urdry (2004) found that income in the hands of women is associated with a larger increase in the share of the household budget devoted to human capital and nutrition.

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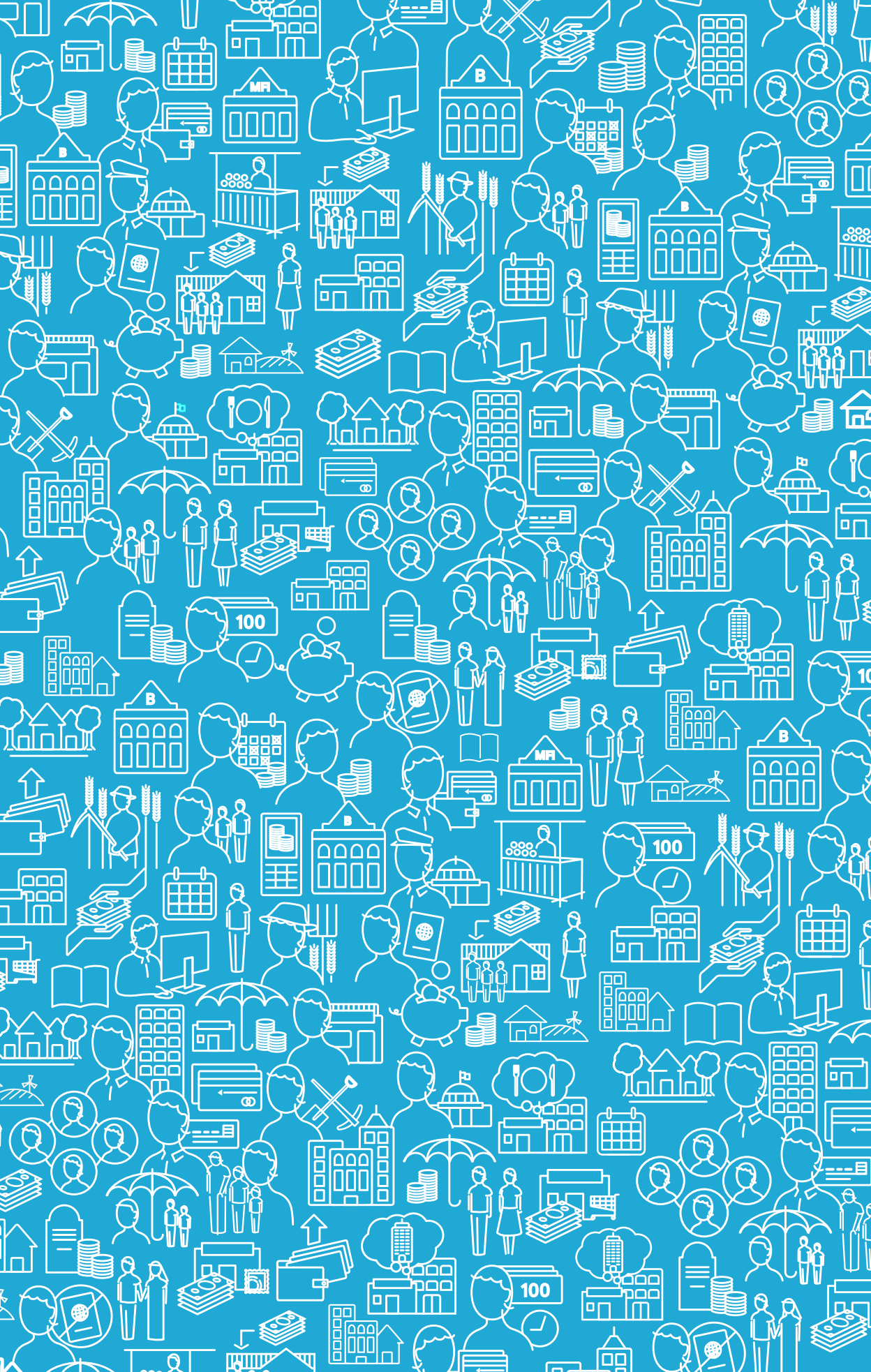
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