



**SADC Financial Inclusion Strategy Workshop Report
Centurion Lake Hotel, Pretoria
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1. Introduction

Considering the Report on Financial Inclusion (FI), the Ministers of Finance and Investment directed the SADC Secretariat to partner with FinMark Trust to develop a Regional Financial Inclusion (FI) Strategy for consideration at their next meeting in 2016. The draft strategy was developed by FinMark Trust and presented to SADC stakeholders on 11th and 12th February 2016 at Centurion Lake Hotel in Pretoria to solicit their inputs before finalisation of the strategy for submission to the Ministers of Finance for consideration. The following report highlights the key messages from the two-day workshop.

The primary orientation of the Strategy is to support SADC Member States in the development and implementation of their own National Financial Inclusion Strategies. As such, this Strategy is regional in nature and aligns with the aspirations of the Regional Indicative Strategic Development Plan (RISDP) and the SADC Industrialisation Strategy and Roadmap. The target audience for this Strategy is primarily national and regional stakeholders working to address regulatory and supply-side constraints to financial inclusion. It is envisioned that this Strategy will provide an overview of the context in SADC and assist in coordinating efforts around a common vision and goal under the leadership of the SADC Secretariat.

1.1. Opening remarks from SADC Deputy Executive Secretary - Dr. Thembinkosi Mlhongo

The workshop was guided by the stakeholder forum where decisions were taken to SADC's Council of Ministers and informed highest policy decision makers. The decisions made were as follows:

- Targeted output on Priority Area No. 1: The development of a strategy for FI and SME access to finance;
- FI is increasingly being recognised as a means to address poverty;
- The key objectives of FI include to (1) improve the range, quality and availability of financial services and products to the unserved and financially excluded, ensuring accessibility, affordability, appropriateness, usage, consumer financial education, innovation, diversification and simplicity; (2) the development of inclusive financial markets that work for the poor with a view of making a contribution to reduction in poverty and unemployment whilst at the same time boosting inclusive economic growth; and (3) to increase the potential for access to finance for SMEs, particularly those in agriculture, a sector that is key to the livelihoods of the majority of the region's population.

As an initial step to the development of the Regional FI Strategy, the Secretariat, in partnership with FinMark Trust, the South African National Treasury and the SADC Banking Association convened a forum in July 2015, which brought together public and private sector stakeholders in the region to share and bring together ideas and learn from each other on the subject.

Under the Decision 56: Development of the Strategy for FI and SMEs access to Finance, Council endorsed the decisions of the Committee of Ministers of Finance and Investment directing the Secretariat:

- (i) to facilitate a co-ordinated approach to dealing with issues of FI and that this should be considered in the context of a regional Strategy on FI and SMEs Access to Finance;
- (ii) in collaboration with FinMark Trust, to undertake FinScope Surveys in all SADC Member States every two years to track progress in terms of FI;





- (iii) to facilitate the creation of a Forum for regular exchange of experience and learning that brings together the relevant stakeholders; and
- (iv) to collaborate with the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to address issues relating to anti-money laundering as they relate to FI.

1.2. Remarks from FinMark Trust CEO - Dr. Prega Ramsamy

The creation of inclusive financial markets that work for the poor has an important contribution to make to reduce poverty and unemployment in the SADC region and to boost inclusive economic growth. A number of studies have shown that an economy is likely to increase its growth potential if its financial system is inclusive and reaches all sectors of the economy. Evidence is also emerging on the positive link between appropriate FI and improved livelihoods of the poor. The role of access to finance in establishing and growing small business (including in agriculture) is well documented and supports the development of a sector that is key to both livelihoods development and growth.

The link between financial development and economic growth has been the subject of significant focus and much research in financial sector policy. The body of thinking generally defines financial development in terms of the combined goals of stability, efficiency, consumer protection and market competition. However, without other targeted actions, market failures, which a well-developed financial sector is intended to alleviate, may continue to persist. Financial exclusion is one of these market failures, but one that is not explicitly targeted in traditional financial sector development frameworks. The pursuit of FI can therefore be viewed as a separate but complementary goal to those articulated in the traditional conception of financial development.

FMT is pleased to work with the SADC Secretariat to present this draft strategy. The project has been developed in cooperation and active involvement of various stakeholders including SDDC, CCBG, CISNA, SDDC DFRC, SADC BA and others.

1.3. Perspectives of the Private Sector - SADC Banking Association Chair

In July 2015, at the Financial Inclusion Indaba it was agreed that FI in the region is a critical intervention that can fight against poverty and inequality and one that should be focused on across sectors to improve FI. The banking sector believes that FI should be about universal access to financial services and a broad spectrum of simple and affordable financial services and products to vulnerable and low-income segments of the population.

It is important for the banking sector to play an active role in improving the quality and availability of financial services and products to the unserved, under-served and financially excluded. There are three main areas, which the banking sector needs to achieve; access, usage and quality. As a result, FI has the ability to play a key role in enabling effort to promote sustained economic growth and development for those most vulnerable in our society.

The SADC Banking Association has taken the theme of FI as a key strategic agenda for the region. As such, key issues





that need to be deliberated upon include barriers to FI and the required interventions in the region. The Banking Association is aware that the FI barriers are from three perspectives; financial service providers (including banks), consumers and from the policy and regulatory environment.

The Banking Association views financial literacy as a core foundation for FI. As such, there is a need to empower people through financial education and literacy. Through financial education, financial behaviours and attitudes can be formulated in order to provide clients with the requisite skills to engage with financial institutions.

Other key stakeholders are policy makers and regulators. Regulatory authorities need to ensure that they guard against regulatory arbitrage as they allow innovative solutions into the financial sector space. Looking into the future, SADC Banking Association notes the significance of collaboration by various stakeholders as they drive the FI agenda. New eco-systems will need to be developed and all stakeholders must embrace innovation, hence the focus on digital financial services. A focus on growing digital financial services and building credit markets will have a strong developmental effect and will allow SADC to leapfrog slower paths.

2. Strategy presentation Part 1: Content of the Strategy

The SADC Regional FI Strategy complements and strengthens country strategies rather than replaces them. This is done via integration and support. The SADC Regional FI Strategy that was presented was done so in order to consult and obtain agreement amongst SADC stakeholders.

2.1. Definition of Financial inclusion

FI is more than just about access - it is about the delivery of financial services and products that are available, accessible and affordable to all segments of the population. There are three dimensions of FI, i.e. access, usage and quality.

Access: Relates to the availability and appropriateness of financial products and services.

Usage: Deals with the frequency of uptake or utilisation of financial products and services.

Quality: Entails product design, largely product fit, value-add, convenience and risk. These are the features of products and services speaking to the financial needs of the excluded and un-served.

2.2. Degree of formality of inclusion

The degree of formality of inclusion is a crucial aspect of FI. There are two components for formality, i.e. formal and informal.

Formal: Those that have and use financial products and/or services provided by a regulated financial institution.

Informal: Those do not make use of financial products and services that are provided by regulated financial institutions.





2.3. Current state of financial inclusion in SADC

Financial inclusion in the SADC region is relatively low and varies widely across countries. The SADC financial inclusion Access Strand illustrates that 36% are banked, 18% are other formal (non-banked), 12% are informal only and 34% are excluded.

There are four products that constitute FI namely, transactions, savings, credit and insurance. All of these pillars must be built on a solid foundation of consumer protection and financial education.

The levels of uptake across the product categories vary with savings being most widely used and insurance least frequently used.

2.4. Importance of financial inclusion

Financial inclusion is important because it improves livelihoods, drives economic growth and drives industrialisation and is of specific focus due to its ability to drive industrialisation. There are five pathways in which access to finance can initiate and enhance industrialisation. These pathways are analysed within the context of SADC's Industrialisation Strategy

Five Pathways of the Industrialisation Strategy

1. *Domestic resource mobilisation* - There is a need to improve tax collection, cross-border payments (remittances) and augmenting the deposit base, all of which could be used for industrialisation.
2. *Agriculture production and agro-processing* - As the agriculture sector in the region is performing well below its potential, especially in terms of value addition, there is the need for financial products and services to be employed to improve and increase agricultural production and processing. This is especially the case as agriculture stakeholders are underserved by financial institutions. All four-product categories have the potential to contribute to increasing agricultural production from producers to processors.
3. *Strengthening SMEs* - This segment is crucial for broadening the regions industrial and economic base. Not all SMEs are related, therefore there is the need to find ways to identify the SMEs that can contribute and stimulate growth and employment - the SMEs that are contributing to manufacturing and productive sectors. Different financing mechanisms are required for SMEs as there is a 'middle gap' where MFI's offerings are too small or insufficient for growing individual companies, while commercial banks are not willing to take on the risk of financing SMEs.
4. *Information and Communication Technology* - There is a correlation between financial inclusion and mobile cellular penetration. In the region, ICT skills and capabilities are not sufficient to develop the required products and services that are deep and varied, to propel growth and industrialisation. As such, skills will be a critical focus in improving ICT development. However the need for access to financial services with the use of mobile money can be the cause of new innovations entering the market.
5. *Skills development* -- Education is stagnant in the region and improving education attainment is a critical factor to drive industrialisation. Additionally financial exclusion hinders individual and company's ability to attain the required skills to drive industrialisation.

2.5. Barriers to Financial inclusion





The barriers to FI mentioned below are experienced differently across the four product categories of transactions, savings, credit and insurance;

Supply barriers: the lack of incentives, capacity and appropriate delivery channels have been identified as the supply-side barriers that constrain financial institutions from providing and extending financial products and services to un-served and under-served segments.

Demand barriers: demand barriers include administrative, systemic and attitudinal challenges, many of which are more pronounced amongst certain groups such as youth and women. These barriers prohibit or undermine their ability to access and use financial products and services.

Policy and regulatory environmental barriers: demand and supply barriers are exacerbated by the current policy and regulatory environments.

2.6. Strategic pillars of a SADC FI strategy

There will be a focus on two main pillars (1) digitisation based on strong payment systems and (2) building credit markets, within the context of driving regional integration. The strategy focus will operate across four main categories of intervention.

- 1) Funding
- 2) Research and Development
- 3) Advocacy
- 4) Capacity Building and Technical Assistance

3. Strategy presentation Part 1: Content of the strategy plenary session feedback

Following the presentation on the content of the strategy, the stakeholders broke away into groups to discuss;

- a) What they liked about the content/approach in the document and;
- b) What concerns them and what they think needs to be changed/added.

The remainder of this section consolidates and synthesises the group feedback. The actual presentations from each group can be found in Annex 1.

3.1. Content and approach satisfactions

3.1.1. Approach and methodology

There was agreement across all groups on the comprehensiveness and contextualization of the strategy document. Others thought it was concise and incremental, therefore easy to follow. The proposed barriers were made quite clear which provided a situational analysis that lead to the resulting practical intervention areas.

The options within the intervention areas such as digitisation and the building of credit markets was also





appreciated

3.1.2. Regional alignment

Many groups appreciated the alignment between national and regional strategies as well as the comparison made amongst member states.

3.1.3. FI link to industrialisation

Discussions also covered how the strategy linked to broader development goals in the region, more specifically industrialisation.

3.1.4. Promotion on inclusive economic climate

From SMEs to agriculture, many groups mentioned how the strategy well articulated how FI can catalyse economic growth.

3.2. Concerns and items requiring change or addition

3.2.1. Link between industrialisation and SADC FI Strategy

There was consensus that the link between industrialisation and the SADC FI Strategy was not as clear and contextualised as it could have been. Suggestions were made to see FI as broader than industrialisation but also for addressing poverty.

3.2.2. Consumer education and consumer protection

Considering that these are foundations on which the four FI products must rest on, it was suggested that these could be considered as separate pillars or at least focused on more detail in the document.

3.2.3. Additional financial products requirement

Many felt that there was more focus on credit and that other the financial products and services such as simple savings and investment products should be given attention. Additionally, the type of credit should be more focused such as credit to SMEs and/or small agriculture players.

3.2.4. Stakeholder responsibilities

The roles and relationships between SADC and other stakeholders in member countries in strategy implementation should be clarified and better articulated for promoting FI. This could be done in a stakeholder mapping exercise, as suggested by one group. .

4. Strategy presentation Part 2: Implementation arrangements plenary session feedback

It was noted that there is still not a full list of activities for implementation. Rather, the categories of activities that lend themselves to the FI space are focused on.





4.1. Four categories of intervention

There are many stakeholders working in the space so there is need for coordination. To support countries and resolve challenges that thwart FI, SADC can get engaged in 4 categories of intervention;

1. **Funding** - - The mobilisation and provision of funding for interventions and programs that address identified priorities.
2. **Advocacy** - - Interventions that seek to influence policy development and the overarching agenda.
3. **Research and development** - - Generation of new knowledge and data to drive interventions, product development and better provision of services of un-served and under-served segments of the population.
4. **Capacity building and technical assistance** - - Interventions that seek to address constraints related to limited expertise and capacity.

SADC should target interventions that can be carried out more efficiently and effectively at the regional level. As such, they are best placed to focus on (1) advocacy and (2) research and development with the aim of targeting specific activities for funding and technical assistance. Through these interventions SADC activities aim to contribute in a structured way to more inclusion.

4.2. Way forward

Theory of change

The strategy theory of change has three pathways, namely, supply-side, regulatory environment and demand-side which lead to a vision of greater industrialisation, inclusive growth and improved livelihoods in the SADC region through greater FI.

Project management office: NThe DES suggested that we should refer to the functions here and not the structure ie PMO

Successful implementation of a financial inclusion strategy will be enhanced on setting up a project management office (PMO) and a regional forum. The regional forum would be a wide range of stakeholders that meets periodically to focus on sharing learning's, tracking progress and defining regional needs and potential interventions. The PMO will exist permanently in SADC and will report to the appropriate institutional and political structures. They will focus on coordinating activities across countries, providing support to countries and regional stakeholders through programme management, and identifying and elevating areas requiring regional alignment.

Indicators

The PMO will also be tasked with monitoring progress against 9 key indicators spanning 4 categories;

1. Overall

- Regional access strand





2. Product Indicators

- Remittances
- Mobile money
- Savings
- Credit
- Insurance

3. Demographic Indicators

- Gender
- Location
- Age

4. Policy Indicators

- FI strategy

5. Strategy presentation Part 2: Implementation arrangements plenary session feedback

Following the presentation on the implementation arrangements of the strategy, the stakeholders broke away into small groups to discuss;

- a) Whether they think the SADC Financial Inclusion regional platform/forum is the correct place to discuss FI, share learning etc. at a regional level?;
- b) Whether they think the role/focus SADC should play including the 4 focus activities identified in the document is correct?;
- c) Whether they think the indicators and suggested targets for SADC are appropriate?;
- d) Whether they think the overall strategy is appropriate for SADC?; and
- e) What do their individual countries need in order to support strategy implementation?

The remainder of this section consolidates and synthesises the group feedback. The presentations from each group can be found in Annex 2.

5.1. SADC FI regional platform/forum

There was agreement across all groups that there is a need for such a regional platform to discuss FI and share learning and experience, while acting as a peer review mechanism. As indicated by some stakeholders, this forum would be the means in which stakeholders from member states could monitor strategy implementation. Many groups expressed the need to use established structures within SADC to assist with the technical discussions around FI and within the platform.

5.2. Role and focus of SADC

Generally all groups agreed that the role and focus of SADC on the four focus activities identified in the document are





correct. They also expressed that there should not be an overreliance on SADC, and that other role players must also be involved. For example, in terms of effectiveness in funding, they could be more effective by identifying funding synergies rather than being reliant upon for funding. In terms of advocacy, banking associations and micro-finance organisations should also be involved. The role of SADC should be been as supplementary to individual member state efforts and more of coordination.

5.3. Indicators and suggested targets

Many thought the indicators could be better defined and elaborated upon. On a higher level across all indicators, there was a suggestion to focus on total inclusion rather than formal alone, necessitating the measurement of informal inclusion. Additionally, it was felt by some that measuring usage would be a more reliable metric to measure at this stage rather than access.

There was also a request to have some of the research questions modified. Under credit, it was suggested that the research questions should encompass SMEs in addition to adults. Additionally under the product indicators, if investment products were to be focused on they should be included as indicators.

Under the demographic indicators, it was proposed that proximity of access be included in location's research question in addition to the rural vs. urban disaggregation.

Some indicators were deemed too ambitious. To combat this, one group suggested the need for more research to support the targets.

A suggestion for the prioritisation of the targets was made as some could be achieved earlier than others. These points will be considered at national strategy development stages.

5.4. Appropriateness of overall strategy

The key take away message was that overall the strategy has been well developed. Stakeholders are looking forward to seeing many of the suggestions and comments from the workshop taken into account and incorporated into a revised document.

5.5. SADC support to member states for strategy implementation

All groups clearly stated that they would welcome funding support from SADC for strategy implementation.

Groups also suggested that SADC could support through the provision of technical assistance in the form of research and legislative and regulatory reforms.

Lastly, for the success implementation of the SADC FI strategy, it was thought that SADC could be well placed to introduce a FI framework in which member states could operate to bring about better coordination of efforts. This framework could include well-defined communication channels between SADC and member state focal persons.

After concluding the day's discussions, two main issues were confirmed;





1. The regional forum is a widely accepted idea - however it needs to be refined in its role and where it fits into the broader SADC structures, and how feedback from this forum will feed into other higher structures.
2. On the overall strategy approach and the positioning of the strategy, feedback was broad and in the right direction. There are several aspects that need to be changed and modified in order to move it to the next level. 'A strategy is a roadmap to achieve the greatest impact with your available resources'; this is the lens in which stakeholders were advised to look at the drafted document.

Ownership of the draft strategy has now been established. The document has moved from the consultants to those in the forum. The key content issues to be dealt with have been identified.

6. Conclusion and closing remarks

6.1. Process moving forward

It is important to note that the regional strategy has not been developed to replace country level strategies. Rather, it has been developed to support and guide member states in implementing theirs.

Key aspects that will be focused on at the regional level will be the two pillars of enhancing digital payments within and between countries and creating an enabling environment for SMEs and small agricultural players to access credit. Countries will have other priorities that they will be focusing on, but the pillars mentioned above will be supported with the provision of technical assistance on a regional level.

Regional support that will be provided to individual member states to implement activities will include (1) assistance in fund mobilisation for regional FI programmes; (2) facilitation of regional advocacy for FI prioritisation areas; (3) capacity building and technical support; and (4) research and development.

Once the strategy has been adopted and agreed upon by member states, several key activities will need to occur;

1. An operational plan within the strategy, with immediate focus and prioritisation areas, will need to be created;
2. Programme funding will need to be secured;
3. The coordination of roles will need to be made for the short, medium and long term; and
4. The next regional stakeholder platform will need to be planned;
5. The FI Strategy will need to be presented to other key SADC structures with the aim of allocating components of the strategy to them

6.2. Closing remarks - SADC Secretariat





The workshop recommended that support should be given to countries to develop their strategies. This will be done through technical assistance as well as through the sharing and learning sessions as part of the SADC Regional FI Forum.

Moving forward, the process will involve senior Treasury officials receiving feedback from the consultants that drafted the reports. The draft strategy will then be cleared for submission to the Ministers of Finance and then Council.

