FinMark Trust: State of Regional Financial Integration in the Southern African Development Community

Genesis Analytics

Prepared for FinMark Trust

8 February 2016

CONTENTS

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

The SADC Secretariat and FinMark Trust identified the need to understand the current state of regional financial integration (RFI) within the SADC region. Genesis Analytics, in association with Imani Development, was contracted to undertake the study.

RFI is an economic and political process whereby previously disconnected and distinct countries become increasingly “financially connected”. It becomes quicker and easier for capital to move across borders and for economic entities to transact across borders. As capital moves from relatively capital abundant countries to relatively capital poor countries, theory suggests that the cost of capital will likely converge.

In 2012, Genesis Analytics conducted a similar study and developed an RFI Dashboard of indicators to track the state of RFI. Based on lessons learned during the first study in 2012, the Dashboard was updated for this assignment. Furthermore, a new theme on trade finance was included. The four themes in the revised RFI Dashboard comprised:

- Cross-border investment in other capital markets
- Cross-border capital flows
- Financial products and access to finance
- Trade finance

The assignment was based on the assumption that the majority of data could be accessed from sources based in South Africa and from online sources. Key informant interviews with relevant stakeholders across the region were conducted primarily by teleconference. FinMark Trust consultants and associates in the region assisted with collecting data on financial product prices and cross-border money transfer costs.

The key findings from the study are summarised below:

- With increasing RFI, one would expect the creation of investment/trading platforms (i.e. national stock exchanges) and growth in accompanying investment, and cross-listing behaviour by expanding SADC firms. SADC lags in this regard, with 4 out of 15 countries without a stock exchange, generally insignificant stock market capitalisation to GDP ratio (except Mauritius and South Africa) and very few company cross-listings. Financial sector sophistication and a general lack of market attractiveness may be inhibiting RFI, as it relates to stock market development and growth.

- The behaviour of institutional investors in South Africa is a positive indication for RFI, with a near quadrupling (albeit from a very low base) since 2010 of cross-border institutional investment into the rest of Africa. Disaggregated data was difficult to obtain, however, it would appear that trend is mirrored in SADC, with South African fund managers such as Allan Gray and Coronation Fund Managers showing increases in equity investments in the SADC region. These findings suggest that asset managers are finding attractive investment opportunities in the rest of the region and barriers to invest across borders are falling.

- Average lending rates by commercial banks in SADC have not converged (the standard deviation has increased between 2011 and 2014), which does not suggest that RFI is progressing.

- While capital flows between South Africa and the rest of SADC has been volatile in recent years, there has been a steady upward trend in the value of capital flows. Large capital inflows originate from Botswana, Mauritius and Mozambique, with the largest amount of capital flows to Mauritius and Namibia. As a result, South Africa appears to have integrated more closely with neighbouring countries than other countries. This may indicate that it is easier for countries to become more integrated with each other when geographical distances are diminished.

- Transferring money across borders has become cheaper over time, with a 24% decrease in the average cost of a $200 remittance between 2009 Q1 to 2015 Q2. It is unclear what is driving this change, but it may be a result of new entrants in the market. However, at an average cost of $25 per $200 remittance, the cost is relatively high. It is most expensive to send and receive a remittance from the DRC and Malawi; and the Zimbabwe-South Africa remittance corridor is the cheapest.

- The proportion of SADC-headquartered banks that operate in other SADC countries has shown a modest increase over the period (2011-2015). A greater number of financial service institutions operating in the region can result in increased competition and, theoretically, the convergence of banking prices. The prices charged by foreign banks (specifically, Standard Bank) for entry level current and savings accounts appear to have converged towards the lower prices offered by local banks, to the extent that the charges by foreign banks on savings accounts are lower than that of local banks. This may, however, not be a result of increased RFI within the region but instead reflecting the domestic competition environment and/or internal efficiency of banks.

- Letters of Credit are offered in all SADC countries (except Angola and Madagascar), with the terms and conditions to access LCs being relatively universal throughout all SADC operations of financial institutions. This is a positive indication for RFI, as it relates to trade finance. A 'location bias' in the provision of trade finance can be observed, with a preference for the lending bank and the borrowing trader to be in the same country. However, this preference is to manage risk and reduce administrative costs. It is not the result of regulatory restrictions on cross border provisions of trade finance.

Further investigation is required to determine what is driving certain trends and phenomena, and the extent to which they are an indication of increased RFI. In the meantime, the following recommendations are proposed for future measurement of the RFI Dashboard indicators:

- Where data is available online, these indicators should continue to be tracked over time.
- Where possible, FIP subcommittees such as CCBG Macroeconomic Convergence, Investment and CISNA can be leveraged to track indicators that relate to their focus area.
- Central banks within SADC should be urged to collect data similar to that reported by the SARB.
- Associations such as the SADC Banking Association, SADC Protocol on Trade and trade associations should be encouraged to collect data that pertain to their focus areas.

1 INTRODUCTION

The Finmark Trust commissioned Genesis Analytics and Imani Development to undertake a study assessing the state of regional financial integration (RFI) in the Southern African Development community (SADC).

The Finmark Trust previously commissioned the design of the RFI Dashboard[1], which contains indicators to measure monetary and financial integration, cooperation and unification of markets within SADC member states.

The current study is an opportunity to explore and report data relevant to the RFI Dashboard, towards the measurement of de facto RFI in SADC. This study is not intended to document extensive time series data in order to provide conclusive evidence on the state of RFI in SADC. Instead, the study will produce a snapshot of key features of SADC's financial services landscape in order to stimulate discussion within SADC structures. If successful, this study will generate new knowledge regarding the SADC community's overarching goals to further RFI within SADC.

1.1 Overview of SADC and its financial markets

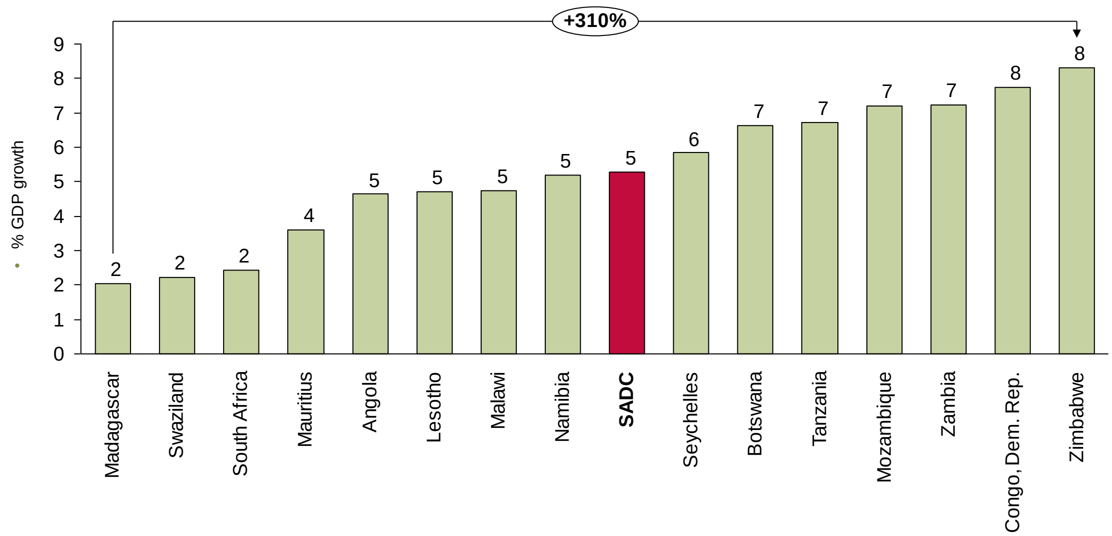
SADC is a region currently comprising 15 member states, namely: Angola, Botswana, Democratic republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. As a collective, the region has acknowledged the importance of working together to promote RFI and financial market development. SADC comprises countries of varying size and stages of economic development, a factor which affects the extent of RFI and the rate of progress towards RFI.

Figure 1 illustrates the average annual GDP (gross domestic product) growth that has been experienced by SADC member countries over the period of 2010-2014.

As a consequence of the diverse nature of the SADC member states, economic growth differs within the region. On average the SADC region has experienced an annual GDP growth rate of approximately 5% between 2010 and 2014. While countries such as South Africa have experienced relatively low GDP growth, 2% on average, between 2010-2014, emerging economies like that of Seychelles, have experienced above-average GDP growth over the same period. There is a 310% gap between the country experiencing the highest GDP growth, Zimbabwe, and the country experiencing the lowest GDP growth, Madagascar, over the period 2010 to 2014. This might suggest that the region is experiencing a period where smaller economies are 'catching up' to the larger economies.

[1] Its primary audience being Ministers of Finance, Commerce, Investment and Economic Development and Central Bank Governors.

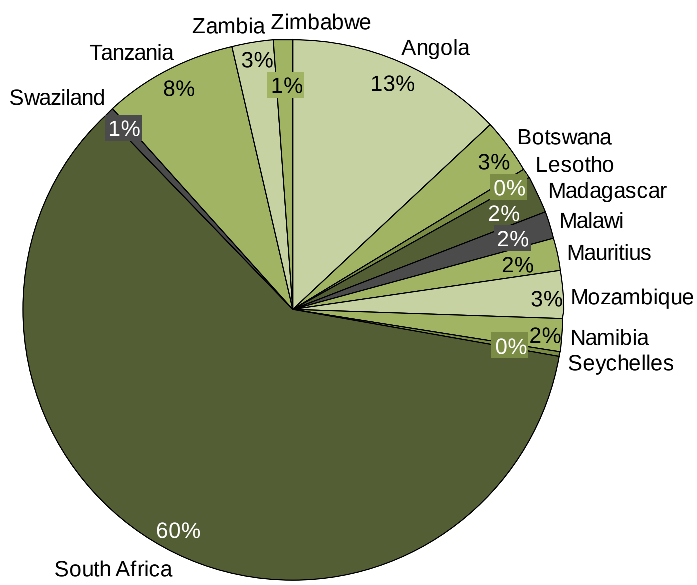
Figure 1: Average annual GDP growth for SADC (%, 2010-2015)



Source: The World Bank database, 2014

Figure 2 depicts the share each country within the region contributes to the total SADC GDP for 2014. South Africa remains the largest economy in the region. Its share of the region's total GDP for 2014 stands at 60%, over four times the value contributed by the next largest economy, Angola, which accounted for approximately 13% of the GDP within the region. Lesotho and Seychelles have the lowest shares of regional GDP, adding to 0.4% and 0.3% respectively.

Figure 2: Share of SADC GDP (PPP $Billions, 2014)



Source: The World Bank database, 2014

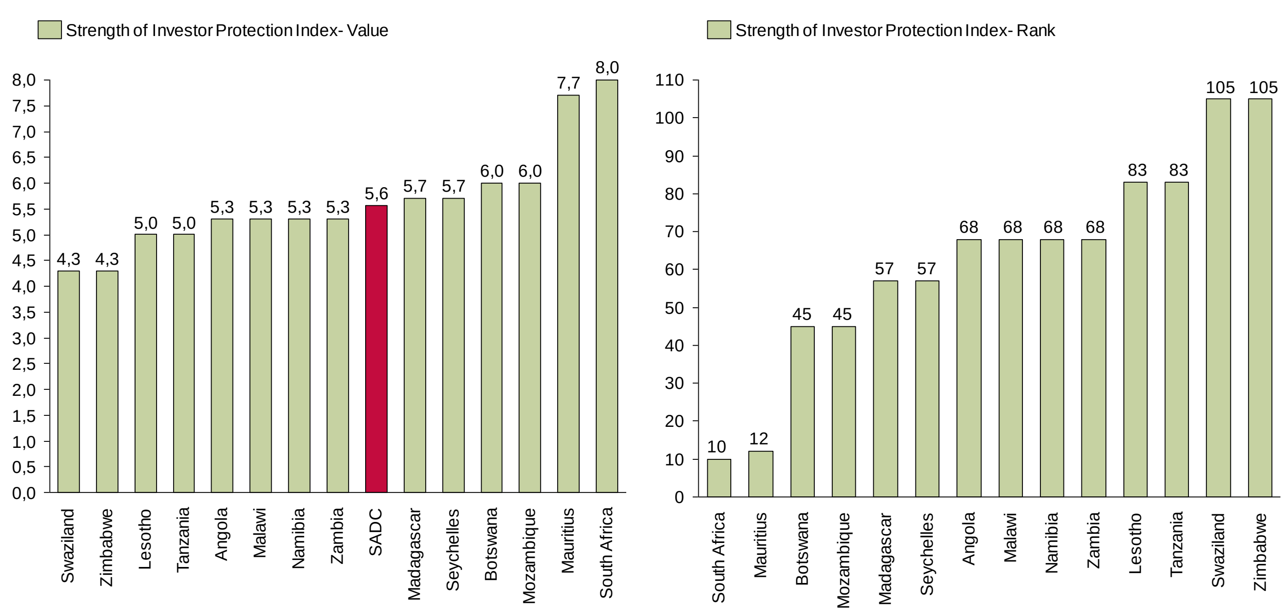
A few reasons often cited for the difference in economic output include diverse factor endowments, different geographical land sizes, connections to international trading routes (some are landlocked, others not) and divergent population sizes. Government policies also differ across the region, and these shape the business environment, influencing the likelihood of companies to invest and trade within the region and the extent to which integration of financial markets can take place.

The strength of a country's legislation around investor protection can have an impact on the level of RFI that can be achieved. In seeking to improve the levels of RFI in SADC, greater emphasis needs to be placed on assuring interested investors, both local and foreign, that their financial interests will be protected from market irregularities and bureaucratic inefficiencies. Providing protection for investors is important for promoting investment and building investor attractiveness. This is outlined as one of the goals of the FIP.

Figure 3 depicts how each SADC member country performs on the World Economic Forum's (WEF) Strength of Investor Protection Index. The Strength of Investor Protection Index is the weighted average of the disclosure index (transparency of transactions), the extent of director liability index (transparency of transactions) and the ease of shareholder suits index (transparency of transactions). The Index ranges from 0 to 10, with higher values indicating better investor protection. The graphs also include the regional average index for SADC for 2014.

Within SADC, six countries have an index result above the regional average of 5.6, namely Madagascar, Seychelles, Botswana, Mozambique, Mauritius and South Africa. This shows that these economies have processes in place to protect investors, which is a positive contributor to investment promotion. In countries such as Lesotho, Tanzania Swaziland and Zimbabwe, the relatively low index value could be a sign that minority shareholders are not provided with rules on the approval and disclosure of related-party transactions; the extent of director liability is very low and shareholders' ability to access corporate information before and during litigation is very limited. This could negatively affect the perception potential investors have of the country and dissuade them from investing, thereby inhibiting investment inflows and slowing the pace of RFI.

Figure 3: Strength of Investor Protection Index (2014)



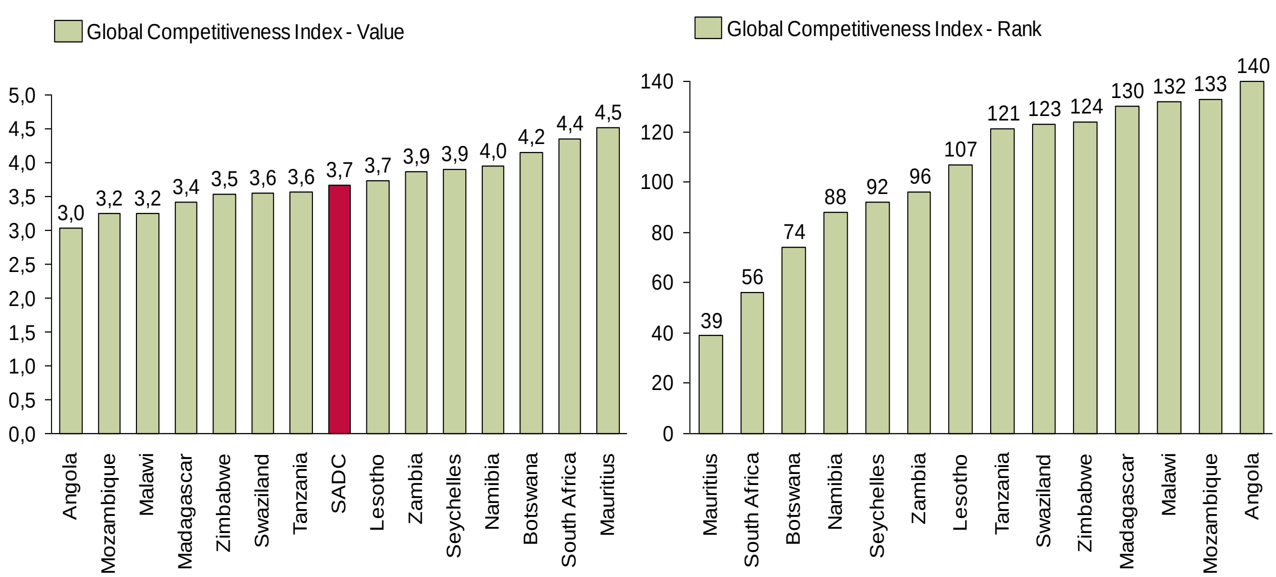
Source: World Economic Forum: Global competitiveness index, 2015

Figure 4 considers the WEF Global Competitiveness Index (GCI) value and rank for SADC member countries during 2014. The Global Competitiveness Index considers the set of institutions, policies, and factors in place to achieve sustainable levels of economic prosperity. Figure 4 also includes the regional average index figure for SADC.

The Index is the weighted average of the "12 pillars of competitiveness", each reflecting an aspect of the competitive environment that exists within an economy. These include: Institutions, Infrastructure, Macroeconomic stability, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market sophistication, Technological readiness, Market size, Business sophistication and Innovation.

According to the GCI report for 2014, the overall competitiveness of SADC member states is inhibited by access to finance, the prevalence of corruption and red tape, insufficient human capital and a lack of physical infrastructure within the region. The graph indicates SADC countries are clustered quite close to the SADC average. However, it is worth noting that due to the composite nature of the Index, differences that appear may not adequately reflect the extent of variation that may exist between its components. This is clear when looking at the country rankings according to the GCI, with Mauritius ranked at 39 and Angola ranked at 140 out of 151 countries.

Figure 4: Global Competitiveness Index (2014)

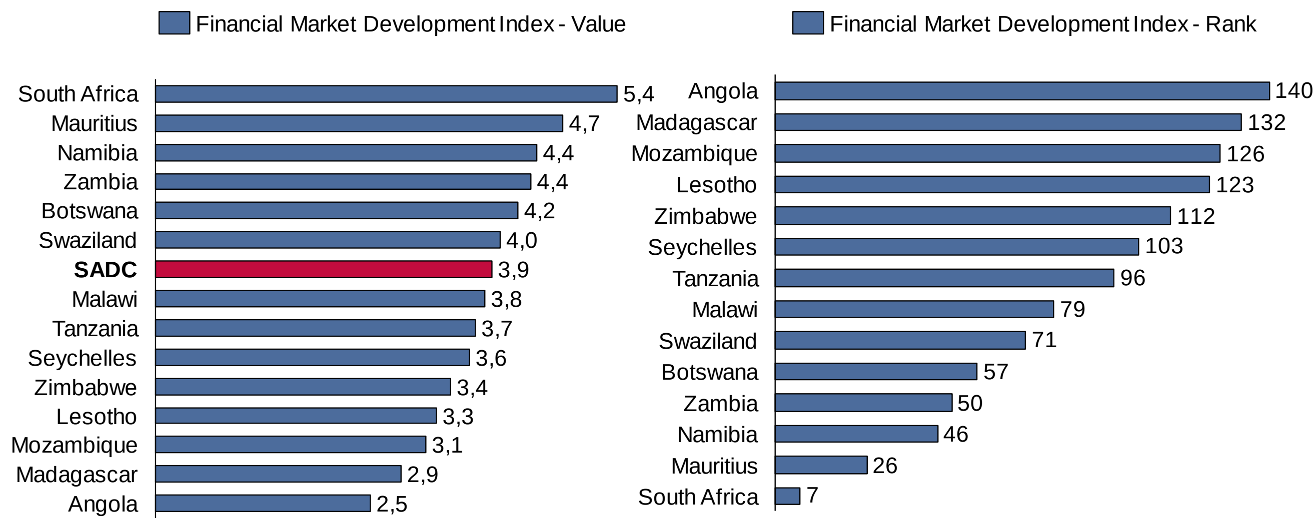


Source: World Economic Forum: Global competitiveness index, 2015

The WEF Financial Market Development Index looks at the policies, factors, and the institutions that lead to efficient intermediation and effective financial markets within an economy. Strong financial markets and institutions play an important role in supporting economic development, because they enhance the exchange of goods and services, the mobilisation of resources (both domestic and international) and the efficient allocation of factors of production within an economic region. Figure 5 measures the extent of financial market development for the SADC economies in 2014.

Within SADC, several countries show high levels of financial market development as is indicated by the rankings of Mauritius, South Africa and Botswana, and their position relative to the SADC regional average of 3.9. Economies that perform well in terms of the Financial Market Development Index are most likely to have the necessary foundation to enable progress towards RFI.

Figure 5: Financial Market Development Index (2014)



Source: World Economic Forum: Global competitiveness index, 2015

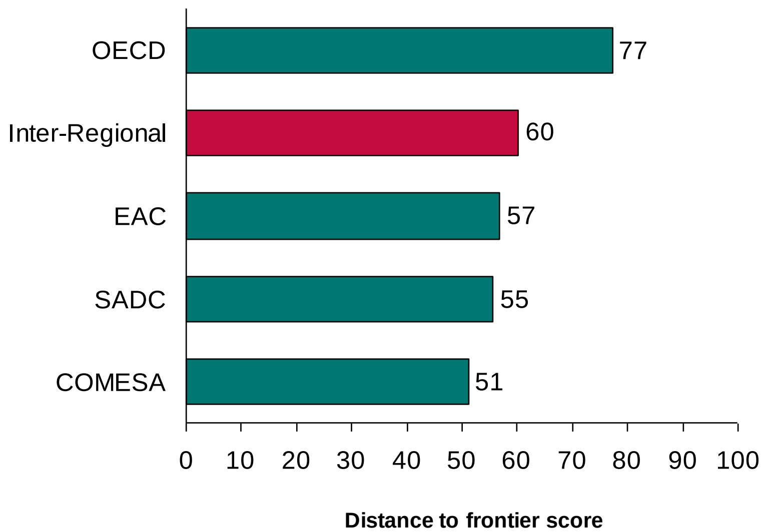
Figure 6 highlights the ease of doing business within different economic regions. The World Bank's Doing Business Index measures the regulations directly affecting businesses, with a nation's ranking on the Index based on the average of 10 sub-indices that indicate the extent to which conditions within an economy enable the process of starting a business.

This measure shows the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the respective regions. An economy's distance to frontier is reflected on a scale from 0 to 100, where zero represents the lowest performance and 100 represents the frontier score. The Inter-Regional average (60), is constructed using the average frontier scores of each region in the sample, namely the Organisation for Economic Co-operation and Development (OECD); the East African Community (EAC); the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

The SADC region performs below the Inter-Regional average in terms of how enabling a business environment it offers entrepreneurs although its distance to frontier score (55) is quite similar to the Inter-Regional average or that of the East African Community (EAC) score (57). An improved business-enabling environment within SADC member countries could act as a catalyst for developing local market capacity as well as attracting foreign market investment within the region. Further, investment promotion is a facilitator of RFI.

There are numerous barriers to doing business which have inhibited the frontier score achieved by the SADC region and could have contributed to the region performing below the average levels of other regional communities. In Mauritius, for example, the category 'inefficient government bureaucracy' is seen as the most significant barrier to doing business, while 'crime and theft' is far less prominent. On the other hand, 'corruption' is mentioned as the most significant obstacle to a flourishing business climate in Lesotho but the category 'restrictive labour regulation' came first in South Africa. Further, while 'access to finance' is perceived to be a relatively minor problem in South Africa, it is mentioned as a major impediment to doing business in all other SADC countries. These findings suggest that the SADC goal of a single monetary union operating under standardised policies and regulations may be difficult to achieve due to the nuanced issues affecting each member state. A more tailored approach to policy development around the elimination of business-inhibiting barriers may need to be adopted and implemented on a country-by-country basis before RFI can be effectively achieved.

Figure 6: Ease of Doing Business by economic region: Average distance to frontier (2015-2016)



Source: World Bank: Doing Business Index(2015)

In summary, over the period of 2010-215 the SADC region has displayed a relatively positive economic performance. Annual GDP growth has been progressing well for the smaller economies over the period 2010-2014, while indicators such as the Strength of Investor Protection, Global Competitiveness and Financial Market Development have all displayed positive features for 2014. However, the diversity in performance on these indices between SADC countries could pose challenges as these markets seek to become more converged.

An immediate concern for the region is the disproportionate size of the member countries' economies, as illustrated by the majority share of total SADC GDP being contributed by South Africa. In addition, member states within SADC seem to enjoy varying degrees of growth which compounds the concern. This may lead to reluctance from other SADC member countries to commit to complete regional integration initiatives as they may feel this would put their economies at a disadvantage due to the dominance of the South African market. A key stepping stone to regional integration is achieving financial integration and it is important to understand what progress has been made in trying to reach regional financial integration within SADC.

2 THE PROCESS OF RFI

RFI is an economic and political process whereby previously disconnected and distinct countries become increasingly "financially connected". These connections mean that previously distinct national capital and financial markets begin to operate as a single regional system. It becomes quicker and easier for capital to move across borders and for economic entities to transact across borders. As capital moves from relatively capital abundant countries to relatively capital poor countries, theory suggests that the cost of capital will likely converge.

RFI is not an event but a process. The diagram below represents SADC's view on RFI and shows that there are, in fact, five phases of RFI that build on each other towards the ultimate objective of unification. While the phases are shown as distinct in the diagram, they overlap in practice, often with activities relating to multiple phases occurring simultaneously. Briefly, the phases are:

Preparatory phase: The first phase involves member states making domestic preparations for integration by modernising and upgrading domestic financial systems and investment regimes so that they are functional, operational, have institutional capacity and are generally in a state to fall in step with regional goals.

Cooperation phase: The second phase involves member states beginning to cooperate with one other, forming groups that work within specified technical areas. These groups meet to share information and to develop basic regional aspirations and standards, including the design of regional frameworks to serve as a convergence beacon. Capacity building and capacity-sharing will also take place.

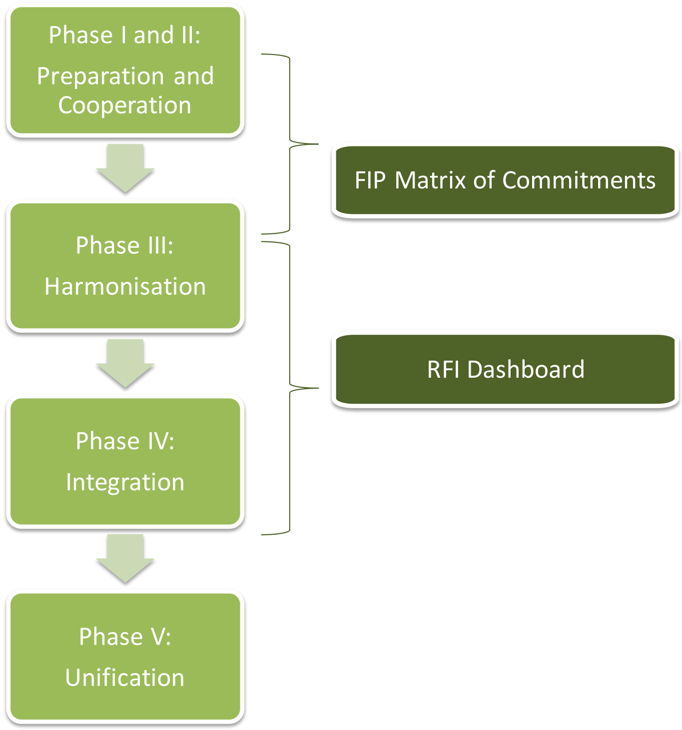
Harmonisation phase: During this phase, the focus shifts from country-level activities to regional activities. A regional decision is reached on the set of harmonised standards, systems and policies that will be implemented. Domestic reforms move domestic standards, systems and policies to converge on the regional frameworks.

Integration phase: Once domestic standards, systems and policies resemble each other, *de facto* integration begins. The integration phase can occur over many years, and is driven by market forces. An increasingly integrated region is indicated by:

- Cost of capital and interest rates in the region will start to converge
- Moving money around the region becomes quicker, cheaper and easier
- Private financial institutions like banks and insurers develop integrated regional systems and see customers in different countries as members of one client pool
- Regulatory and supervisory functions incorporate a single licensing and regulatory process for financial institutions to operate throughout the region
- There is a single financial regulatory agency

Unification phase: In the final phase member states surrender sovereignty over monetary policy to a regional authority; a regional central bank becomes operational and a common currency is introduced. There is a single monetary union.

Figure 7: Phases of RFI and measurement tools



Source: The Protocol on Finance and Investment Baseline Study, 2011
Note: FIP Matrix of Commitments refers to the SADC Financing and Investment Protocol.

2.1 Measuring RFI: The RFI Dashboard

The need to develop a tool in order to monitor the progress in achieving RFI was identified by the region. The first measurement tool that was developed (the monitoring framework for the FIP) measured indicators relating to Phase I, Phase II and Phase III. It is important to note that not all of the FIP annexes will result in integration or unification. For some annexes, harmonisation is the objective which will assist in facilitating integration and unification. In addition, the achievement of these phases does not necessarily translate into more investment or increased integration. In fact, it could be that all commitments in the FIP are implemented, with no or very little change to de facto integration. Therefore, a second measurement framework, the RFI Dashboard, was developed to measure de facto financial integration. The Dashboard was taken on board by the Ministers as part of the original adoption of the Protocol on Finance and Investment Baseline Study recommendations[2]. Figure 7 above shows how the RFI Dashboard relates to the phases of RFI.

Originally, the RFI Dashboard was called the Ministers' Dashboard.[3] The RFI Dashboard includes three categories of indicators measuring de jure RFI, six categories of indicators measuring de facto RFI and

[2] The Protocol on Finance and Investment Baseline Study documents the state of progress of implementation of the Protocol on Finance and Investment in SADC
[3] On consultation with the CCBG Secretariat it was agreed that many of the indicators refer to those monitored by central and reserve banks in the region; therefore, the Ministers' Dashboard was relevant to central bank governors too.

two categories of indicators measuring progress in improving the investment climate. Since SADC countries are all developing countries, an indicator measuring the depth and development of financial markets has also been included. The purpose of the RFI Dashboard is to give the Ministers an easy and quick overview of the state of investment success and financial integration in the region.

Table 1: Original RFI Dashboard

Thematic area	#	Indicator of RFI	Why is this important to RFI?	Data required to create indicator and track progress
De Jure indicators – preparatory steps by government	1	Exchange controls are removed	Exchange controls hinder the free cross-border movement of capital	Number of SADC member states with liberalised capital controls
	2	Member states have a real-time gross settlement payment system and this is linked to a regional payments system	Payments system provides the physical link for transfer of funds across borders	Number of SADC countries with an RTGS - linked to a regional payment system
	3	Regulatory and supervisory frameworks are harmonised	Regulatory and supervisory harmonisation ensure that the 'rules' for doing financial business across SADC start to look the same	Number of SADC countries compliant with all 25 Core Basel Principles
	4	One banking licence serves all member states	This would mean identical bank licencing requirements, lowering barriers and costs to regional banking	Number of bank licenses required per number of countries in SADC
	5	SADC converges on globally competitive investment climate ratings	A healthy investment climate is a concurrent factor in improving capital flows and doing business in other member states. Also, investment climate is included in the FIP.	Overall Competitiveness Score, Financial Market Development Score and Investor Protection Score from WEF Global Competeveness Survey
De facto RFI: capital and investment flow indicators	6	Number of SADC financial service providers offering retail services in other member states	Integrated systems, harmonised rules and free capital controls, plus a better investment climate should encourage more cross border business	Number of SADC banks offering retail services in other SADC countries (total)
	7	Investment flows into and within SADC increase in volume	Improved investment climate and lower capital barriers should attract more investment	*Inter*national and *intra*regional stock of inward FDI

Thematic area	#	Indicator of RFI	Why is this important to RFI?	Data required to create indicator and track progress
	8A	Capital flows increase within SADC	As barriers are removed, and investment climate improves, capital should flow more freely between the member states and from external sources	Value of the stock *intra*-SADC capital flows (sub-indicators are: 1) volumes of portfolio investment, 2) FDI, 3) trade credits, 4) reserve assets, and 5) remittances)
	8B	Capital flows increase into SADC	As barriers are removed, and investment climates improve, capital should flow more freely between the member states and from external sources	Value of the stock *inter*national capital flows (sub-indicators are: 1) volumes of portfolio investment, 2) FDI, 3) trade credits, 4) reserve assets, and 5) remittances)
	9A	Size of capital market	Used to calculate Indicator 9	Used to calculate Indicator 9
	9	Cross-SADC investment holdings (share of capital markets) by institutional investors increase	Investors exposed to more regional investment opportunities, strengthening regional integration	The share of bond and money markets owned by institutional investors from elsewhere in SADC
Outcome indicators of *de facto* RFI	10	Interest rates across SADC member states start to converge	A converging cost of capital (interest rate) for assets of the same maturity and the same credit risk class is a strong signal of de facto RFI	Interest rates on public debt (10 year bond), corporate debt (prime rate) and consumer debt (prime rate)
	11	Prices of financial services and products across SADC begin to converge	RFI should mean increased competition and the convergence of prices for comparable services/products	Prices of cheapest current account and savings account products offered by a local retail bank and a foreign retail bank in each SADC country
	12	Cross border transfer of funds becomes more efficient and cheaper	As RFI occurs, the cost for individuals to transfer funds across borders should fall	Average cost of a USD 200 remittance from South Africa to seven other SADC countries
De facto RFI and access to finance	13	Number of people with access to financial services	Movement of financial institutions across borders increases competition and encourages innovation, bringing down product prices and improving access to finance for the poor.	% of national population with access to formal financial products

2.2 Adaptations to the RFI Dashboard

For the purposes of this study, steps were taken to adapt the RFI Dashboard, based on the lessons of the previous study:

- The group of *de jure* RFI indicators was not measured given that these indicators are measured as component of ongoing FIP monitoring.
- The previous themes were cross-cutting and, as such, included disparate areas of capital and financial markets. This did not aid interpretation of indicators. In this study, we have developed an alternative way of grouping indicators, with the intention that this improves analysis. The themes used in this study are as follows:
    - Cross-border investment in other capital markets
    - Cross-border capital flows
    - Financial products and access to finance
    - Trade finance
- A theme on trade finance was added to the RFI Dashboard, given the importance of these financial services to support the nexus between RFI, economic integration and industrialisation. This area of research is nascent but presents an interesting link between RFI and the real economy (i.e. trade issues).
- In the previous study, data gaps were pervasive, limiting the strength of results obtained. In this study, we introduce supplementary indicators and proxy indicators, with the intention that this allows us to generate a more holistic view of SADC capital and financial markets.
- The previous study focused on investment in bond and money markets. However, there is greater data availability on stock exchanges in the region; therefore, the focus was shifted to stock exchanges.
- The SADC Integrated Regional Settlement System (SIRESS) has been launched since the previous study. A consequence of SIRESS's functionality is that system records information on cross-border transfers of participating banks in the region. This data has been added to the RFI Dashboard.
- The South African Reserve Bank (SARB) records very detailed information on cross-border transfers through the Balance of Payments system maintained by the Financial Surveillance Unit. Discussions with this Unit showed that information from the system can be disaggregated to show inflows and outflows of data from South Africa to each of its trading partners. While this does not present a full regional view, this information is useful to show what this kind of system capability can help to show about regional financial integration.
- The cost of remittances remains a key indicator of the RFI Dashboard. The costs reported by the World Bank include exchange rate margin, and so are a comprehensive indication of the true cost incurred by consumers. We conducted a mystery shopping exercise to explore the cost less the exchange rate margin, as well as non-financial costs (time and administrative burden) of remittances between South Africa and selected SADC countries.
- Given the emergence and uptake of mobile money in the region, we included costs of these products where the information was available.

The updated RFI Dashboard is reflected below.

Table 2: Updated RFI Dashboard

Theme	Main RFI Dashboard indicator	Possible proxy indicators or supplementary data
Theme 1: Cross-border investment in other capital markets	1. Size of capital market (Stock market capitalisation as a % of GDP)	1. Number of SADC countries that have a stock exchange
		2. Number of SADC-headquartered companies listed on the local stock exchange
		3. Total number of stock exchange listings
	2. The proportion of intra-SADC institutional investment increases	1. The number of SADC-headquartered institutional investors (e.g. pension funds) investing across borders in other SADC countries
	3. Prime lending rates across SADC member states start to converge	1. Average interest rate charged on debt by commercial banks
		2. Average interest rate charged on deposits by commercial banks
Theme 2: Cross-border capital flows	4. Investment flows into and within SADC increase in volume	1. FDI flows into SADC
		2. Share of total regional FDI per SADC country
		3. Portfolio investment flows into SADC
		4. South Africa's investment into SADC countries
	5. Capital flows within SADC increase	1. Remittances inflows between SADC countries
		2. Remittance outflows between SADC countries
		3. Major recipient countries and sender countries along SADC-to-SADC remittance corridors
	6. Capital flows into SADC increase	1. Remittances inflows between SADC countries and non-SADC countries

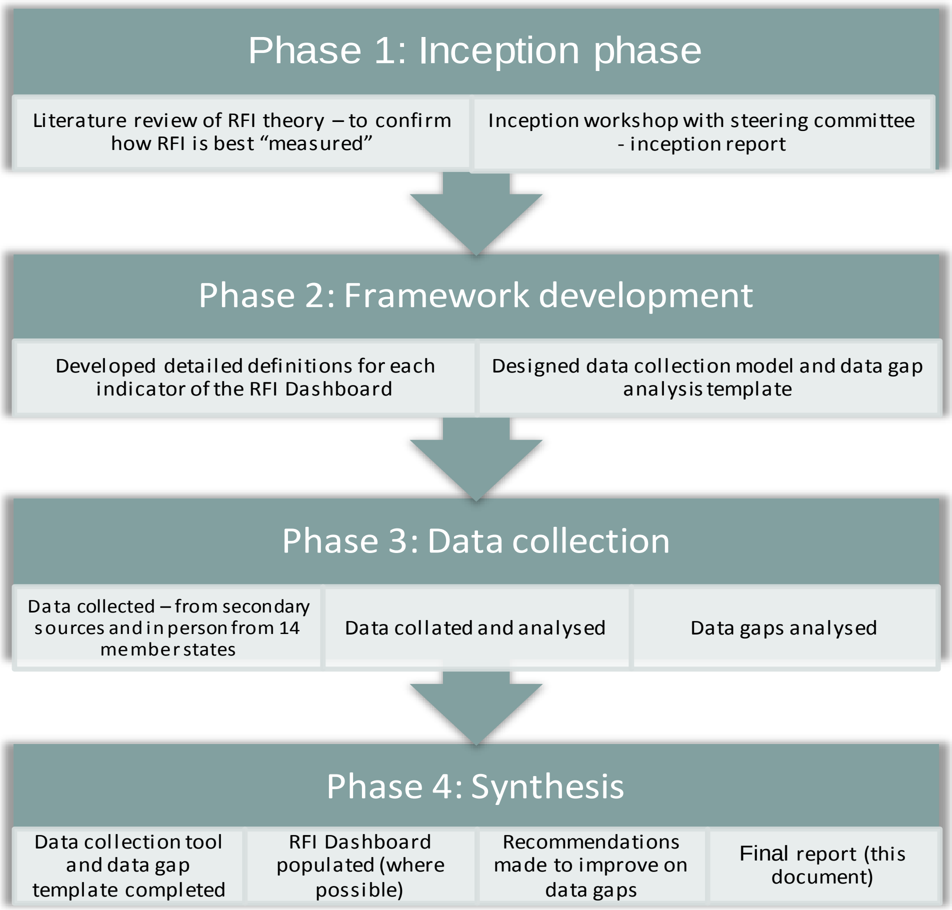
Theme	Main RFI Dashboard indicator	Possible proxy indicators or supplementary data
		2. Remittance outflows between SADC countries and non-SADC countries
		3. Major recipient countries and sender countries along SADC-to-non-SADC remittance corridors
	7. Cross border transfer of funds becomes more efficient and cheaper (Average cost of $200 remittance)	1. Cost of $200 remittance along seven SADC corridors
		2. Number of money transfer agencies in operation in each SADC country
		3. Number of money transfer agencies that operate in multiple SADC countries
		4. Findings of mystery shopping exercise
Theme 3: Financial products and access to finance	8. Number of SADC financial service providers offering retail services in other member states	1. Major FSPs (banks,insurance institutions, mobile money operators and money transfer institutions) that operate in multiple SADC countries
		2. Number of participating banks in SIRESS
		3. Number of banks that hold overnight balances in SIRESS (indicative of frequency of activity)
		4. Volumes of transactions cleared over SIRESS
		5. Volumes of overnight balances cleared over SIRESS
	9. Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product and savings product)	1. Cost of an entry-level transactional product
		2. Cost of an entry-level savings product

Theme	Main RFI Dashboard indicator	Possible proxy indicators or supplementary data
		3. Cost of a mobile money transaction
	10. Increased access to formal financial services (% financially included)	1. Most common type of transaction/account held by financially included
Theme 4: Fragmentation of the market for trade finance in SADC	11. The severity of access to trade finance as a constraint to trade and the variation in countries experiences	Ranking of SADC Countries' access to Trade Finance
		Positive changes to trends in instrument use towards trade finance instruments
	12. The availability of Letters of Credit throughout SADC	Availability of letters of credit in each SADC country
		Availability of alternative trade finance instruments in each SADC country
		Thresholds for letters of credit
	13. The Terms and Conditions for Letters of Credit throughout SADC	Average cost of letters of credit
		Average collateral necessary for letters of credit
	14. The cross border supply of trade finance in SADC	Exchange controls in SADC countries
		Rigid credit checking mechanisms in each SADC country

3 METHODOLOGY

Both quantitative and qualitative research methods were employed during this study. These methods are detailed in the sections that follow.

Figure 8: Project implementation plan



3.1 Inception phase

The project began with a kick-off meeting with Finmark Trust, the Steering Committee and the core project team. A central component of this meeting was to confirm the project approach. Discussions with Finmark Trust during the Inception Phase assisted to clarify the scope of work and required depth of the assignment. The inception meeting was used to acquire available reports, data sets and contact details of key people from Finmark Trust and the Steering Committee, and to discuss and mitigate any potential risks to the success of the data collection activities.

The assignment was based on the assumption that the majority of data would be accessible from data sources based in South Africa, both from the private sector and the public sector. Additional data would be accessed from online sources. It was also decided that in-country stakeholders outside of South Africa would only be consulted via teleconference. Finally, Finmark Trust suggested that their consultants be engaged to collect specific data on financial product prices and money transfer costs.

The outcomes of this discussion informed the final scope of work, which was documented in the inception report.

Key deliverables agreed upon during the inception phase include:

- **Fieldwork report**: This report Finmark Trust serves as an interim report, and documents our progress with the data collection activities.
- **Draft synthesis report**: This report will present all findings, analysis of the findings and our conclusions.
- **Presentation**: The presentation will extract and highlight the key trends and insights from the draft synthesis report. The focus of the presentation will be to communicate the findings in an accessible and visually appealing manner, in order to facilitate discussion within SADC structures.
- **Final synthesis report**: The final synthesis report will incorporate comments received from Finmark Trust.

3.2 Document review

Genesis made reference to a variety of documents during the course of the study. The purpose of the document review is to leverage relevant and available data and information relating to the RFI Dashboard indicators.

Table 3: Documents reviewed

Document	Author	Website	Year
IMF Article IV Consultations	IMF	www.imf.org	2014
World Bank database	N/A	www.databank.worldbank.org/data/home	N/A
Aidflows data	N/A	www.aidflows.org	N/A
Aiddata	N/A	www.aiddata.org	N/A
Stock Exchange websites	N/A	www.ssx.org.sz www.luse.co.zm www.dse.co.tz www.mse.co.mw	N/A
BankScope	N/A	www.bankscope.bvdinfo.com	N/A
South African Reserve Bank data	South African Reserve Bank	N/A	2015
SIRESS data	South African Reserve Bank	N/A	2015
UNCTAD	N/A	www.unctadstat.unctad.org/EN/	N/A
SADC Payments Project	SADC Banking Association	www.sadcbanking.org	2013
Regional Integration Brief: African Development Bank	African Development Bank	www.afdb.org	2013
Intra-Regional FDI In SADC: A Case of South Africa And Mauritius Outward FDI	Reserve Bank of Malawi	www.aercafricaevents.org/	2010

Document	Author	Website	Year
The Cross-border Money Transfer Experience	Finmark Trust	www.Finmark Trust.org.za	2011
Fact Sheet: Remittances from South Africa to SADC	Finmark Trust	www.Finmark Trust.org.za	2012
Foreign Direct Investment Inflows and Economic Growth in SADC Countries – a panel data approach	Edmore Mahembe	www.unisa.ac.za	2014
Country Consumer surveys	Finscope	http://www.Finmark Trust.org.za/finscope/finscope-sme/ http://www.Finmark Trust.org.za/finscope/	2012
Standard Bank	Standard Bank	http://www.standardbank.co.za/standardbank/	2014

3.3 Development of data collection tools

Genesis made use of a mixed methods approach to data collection, combining qualitative and quantitative data from a number of sources, to capitalise on strengths and reduce weaknesses that stem from using a single research design. MS Excel-based data collection templates were used to ensure consistent data collection across countries, and to enable easy data aggregation. These tools are also helpful to document our methodology and to enable a similar approach to data collection to be employed in future.

From this initial research, key thematic areas were identified to categorise the indicators and to lay the foundation for the data analysis and synthesis. The themes are as follows:

- Theme 1: Cross-border investment in capital markets
- Theme 2: Cross-border capital flows
- Theme 3: Financial products and access to finance
- Theme 4: Fragmentation of the market for trade finance in SADC

Within each theme, several associated indicators (proxies or supplementary data) were identified to generate a comprehensive view of progress within each theme. These proxies and supplementary data will also fill anticipated data gaps.

Key stakeholders were identified through a consultative process involving Finmark Trust, Imani Development and Genesis Analytics. Further deliberation was required to gauge which contacts were most relevant and how best to approach them. The stakeholders were then contacted individually, and Finmark Trust drafted a letter of introduction explaining the study and urging cooperation. Interviews were conducted primarily via teleconference, but face-to-face meetings were also employed as appropriate.

3.4 Key informant interviews and data collection

Key informant interviews were the primary means of data collection, and were also used to access financial sector stakeholders' insights on the current status of RFI in SADC.

Initial contact was made via email or telephone, explaining the nature of the study and the context in which their input would be needed. Key informant interviews included questions relating to the state of RFI in SADC; the challenges or barriers to RFI; the potential for future market convergence and what measures need to be taken to achieve a more coherent regional financial system. Additional questions were developed for each key informant depending on their specific designation and expertise.

Under Theme 4, the limited data available on the topic made it important to speak to financial institutions directly. These interviews allowed us to better understand the regulatory and commercial constraints they face in increasing their supply of trade finance.

All of the banks interviewed have operations in more than one country in SADC, and collectively they have operations in all countries in the region. The degree of representation, however, varies in each country. For example, five of the interviewed institutions have a presence in Zambia, while only one had a presence in the Seychelles.

Quantitative data gathered from key informants or through desktop research was collated using the MS Excel-based templates.

Table 4: Stakeholder list

Name	Designation	Institution	Purpose of Engagement[4]	Format of Engagement
Anabela Chambuca	CEO	Bolsa de Valores de Moçambique	Input for indicator 1	Telephonic interview
Andy Lovegrove	Consultant	eCentric	Input for indicator 7	Telephonic interview
Arnold Dippenaar	Head of Products	Standard Bank South Africa	Input for indicator 9	Telephonic interview
Arthur Cousins	Head of Project Co-ordination SADC Payments	SADC Banking Association	Indicator 3,4,8	Telephonic interview
Bobby Brantley	CEO	Trop-X	Input for indicator 1	Telephonic interview
Brad Gillis	Head of Payments	Standard Bank South Africa	Input for indicator 3, 7	Telephonic interview
Carel van der Wath	Financial Director	Inter Africa	Input for indicator 7	Telephonic interview
Dennis Mwansa	Head of IT Infrastructure	Johannesburg Stock Exchange	Input for indicator 1	Telephonic interview
Donna Oosthuyse	Director: Capital Markets Division	Johannesburg Stock Exchange	Input for indicator 1	Telephonic interview
Edward Leach	Divisional Head: Domestic and Regional Services	South African Reserve Bank	Input for indicator 8	Telephonic interview
Jaco Viljoen	CEO	Capital Bank	Input for indicators 11 - 14	Telephonic interview

[4] See Table 4 for a full list of the various indicators referred to in this table.

Name	Designation	Institution	Purpose of Engagement[4]	Format of Engagement
Jean Groenewaldt	Financial Surveillance Department	South African Reserve Bank	Input for indicator 8	In-person interview
Kim Dancey	Digital and Alternative Banking	FNB	Input for indicator 7	Face-to-face meeting
Kobus Louw	CEO	First Merchant Bank	Input for indicators 11 - 14	Telephonic interview
Lloyd Hughes	Business Development Manager: Capital Markets	Johannesburg Stock Exchange	Input for indicator 1	Telephonic interview
Malcolm Fraser	Head of Corporate Banking	Rand Merchant Bank	Input for indicators 11 - 14	Telephonic interview
Mario Elliah	Head of Trade	Barclays	Input for indicators 11 - 14	Telephonic interview
Marius Stander	Financial Surveillance Department	South African Reserve Bank	Input for indicator 2	Telephonic interview
Palesa Shipalana	Head of Government and International Affairs	Johannesburg Stock Exchange	Input for indicator 1	Telephonic interview
Patrick Sekgoka	Financial Surveillance Department	South African Reserve Bank	Input for indicators 2, 4, 5, 6 and 8	Telephonic interview
Patrick Uka	Head of Value Chains	Ecobank	Input for indicators 11 - 14	Telephonic interview
Ryan Stokes	Head of Structured Trade and Commodity Finance	Standard Bank	Input for indicators 11 - 14	Telephonic interview
Sunil Benimadhu	CEO	Stock Exchange of Mauritius	Input for indicator 1	Telephonic interview
Thapelo Tsheole	Deputy CEO	Botswana Stock Exchange	Input for indicator 1	Telephonic interview

Name	Designation	Institution	Purpose of Engagement[4]	Format of Engagement
Thomas Kadantot	Trade Finance Department	First Merchant Bank	Input for indicators 11 - 14	Telephonic interview
Tiaan Bazuin	CEO	Namibian Stock Exchange	Input for indicator 1	Telephonic interview

The data collection process also included a mystery shopping exercise[5]. The mystery shopping exercise was used to gather real-time data from member states by assessing the costs associated with transfers at identified financial institutions. The objective of the mystery shopping exercise was to determine the following:

- The cost (financial and non-financial) of transferring money across SADC borders using a money transfer agency such as Western Union or Moneygram.
- The price of an entry-level current banking product at Standard Bank/Stanbic Bank and an indigenous bank in the country. An indigenous bank was defined to mean a bank that was founded and continues to operate within the local economy.

The exercise required Finmark Trust consultants, residing within the identified SADC member states, to conduct the following activities as part of the mystery shopping exercise:

- **Collect brochures from Western Union, Moneygram, Standard Bank/Stanbic and indigenous banks:** Brochures from these institutions provided an alternative source of banking data to complement the desktop research and key informant interview feedback.
- **Visit a Standard Bank/Stanbic Bank branch as well as an indigenous bank branch:** The consultant was required to visit a local branch of Standard Bank/ Stanbic Bank and an indigenous bank branch in order to collect information on the cost of opening an entry-level current banking.
- **Send money using Western Union and Moneygram:** The consultant was required to send money to South Africa using both Western Union and Moneygram. The consultant needed to complete two money transfer transactions per agency, specifically the equivalent of a USD1 transfer and a USD10 transfer respectively. The FMT consultant was then tasked with recording the monetary and administrative costs, as well as the time taken, to send and receive this money. Additional notes and observations relating to the process were also recorded.

The mystery shopping data is intended to assess the ease of cross-border transfers; the costs associated with these transfers and the extent to which that is a barrier to, or enabler of, integration and finally the degree to which identical banking products show a tendency towards converging prices.

[5] Mystery Shopping refers to a process by which a person secretly tests/assesses the goods or services of a business.

3.5 Limitations of the study

In completing this assignment, the project team encountered a significant number of challenges that compromised the extent to which complete data can be accessed and presented. These challenges limit the conclusions that can be drawn, and are discussed in detail below.

Variable geographic coverage based on data availability

While trying to collect data for certain indicators, data was not available for all countries. In attempting to populate the data gaps, different data collection methods were employed. Specifically, collecting data for the following countries under the following indicators was problematic:

Indicator 1: We managed to source data on this indicator directly from the various stock exchanges with the exception of Malawi, Swaziland, Tanzania and Zambia. As a result, we consulted these stock exchange websites; however finding historical data on the number of locally listed companies, SADC-headquartered companies and non-SADC-headquartered companies is not available online. In addition, market capitalisation data is not available on the various stock exchange websites. Angola, DRC, Lesotho and Madagascar currently do not have stock exchanges in existence.

Indicator 2: Under this indicator, we explored the total value of institutional investment in South Africa that has been invested in the rest of Africa. Unfortunately, this information is only reported for Africa as a single destination and cannot be further disaggregated. Therefore, we selected the African equity funds of the three largest asset managers in South Africa to explore their appetite for cross-border investment and the main destinations for their investments. It would have been ideal to find out if there is reciprocal investment by institutional investors in the rest of SADC into the South African market or other SADC economies. However, this information was not available online and we were unable to identify stakeholders for consultations.

Indicator 4: The previous RFI Dashboard study[6] which Genesis undertook for FinMark collected information on FDI and portfolio investment flows between SADC member states (intraregional investment) and into SADC from the rest of the world (international investment). This information was collected from institutions (ministries of finance and investment promotion agencies) in person in each country. Given that this assignment was primarily desktop-based, the decision was taken to prioritise collecting data on South Africa's investment into each SADC member state. This information was available from the SARB Financial Surveillance Unit. While the data for SADC's investment (as a region) into South Africa is available, the data is not further disaggregated by member states.

Indicator 6: SIRESS data is available only for banks that participate in SIRESS. There are currently no banks that participate in SIRESS from Angola, Botswana, DRC, Madagascar, Mozambique and Seychelles. In addition, information on the number of banks within each country was obtained from each central bank's website. We assume that the central banks' websites are up to date.

Indicator 7: Data on the cost of a money transfer where South Africa is not counterparty to the transaction could not be found. In addition, data for money transfers from South Africa to Angola, Mozambique and Zambia are limited to World Bank data that is available online while data for money transfers from South Africa to DRC and Namibia and vice versa is limited to the data collected through

[6] Monitoring regional financial integration in SADC: A study to ascertain the availability of data, Genesis Analytics (2012)

the mystery shopping exercise. Data for money transfers from South Africa to Madagascar, Mauritius, Seychelles and Tanzania could not be collected as this data is not available online and FinMark does not have in-country consultants in these countries.

Indicators 8A and 8B: Data for the previous RFI Dashboard study[7] was collected in person from key institutions. Given that this assignment was primarily desktop-based, the following strategies were employed to enable us to at least present useful information for this indicator:

- Using South Africa as a base country, we analyse data on cross-border transfers received from the SARB Financial Surveillance Unit. This data only reveals information on the relationship between South Africa and other member state, and so cannot be used to draw conclusions on the state of RFI.
- We use intraregional outward and inward remittance data as a proxy for the volume of cross-border transfers between each pair of SADC member states, and also present the main remittance relationships evident from the data. This information was accessed from the World Bank. While this is not a complete measure of capital transfers, it does provide an indication of funds moving across borders. The World Bank did not contain remittances data for Zimbabwe. There were also no outward remittances data for Lesotho. Lastly, there is no bilateral remittances data for DRC, Madagascar and Zimbabwe under indicator 6.

Indicator 11: The price of a transactional account and savings account at a bank is based on data that is available online for countries where the mystery shopping exercise was not conducted (Angola, Mauritius, Mozambique, Seychelles and Tanzania). For the price of a mobile money transaction, online data on this indicator is only available for Vodacom in South Africa, Lesotho, Mozambique, Tanzania and DRC while online data for MTN is available in South Africa, Swaziland, Botswana, Namibia and Zambia. In addition, we attempted to locate key stakeholders that are active in the mobile money market however we were unsuccessful in doing so.

Indicator 13: Data on the proportion of the population with access to financial services was unavailable for Angola, Madagascar and Seychelles through Finscope Consumer surveys. Data on the proportion of MSMEs with access to financial services was unavailable for Angola, Botswana, DRC, Lesotho, Madagascar, Mauritius, Seychelles, Swaziland, Tanzania and Zambia through the Finscope MSME surveys.

Variable time series coverage based on data availability

Our study examined data between the period 2010 – 2015. However, data was not always available for all of the years under consideration. Similar to the above, other data collection methods were employed to attempt to populate the gaps such as consulting other online data sources or requesting stakeholders to provide us with historic data that was not available online. Despite these efforts, the following data gaps remain:

Indicator 3: Historic data on the prime lending rate cannot be retrieved before 2013.

Indicator 5: There is no outward remittances data for Malawi for 2013. In addition, there are data gaps for bilateral remittances as not all countries have reported data for all years.

[7] Ibid

Indicator 6: SIRESS data is only available since 2013 which is when the system came into operation. Historic data on how fast Financial Services Providers (FSPs) are expanding into other markets within the region is unavailable as we relied on desktop research to access this information (desktop data only provides the current footprint of the FSP).

Indicator 7: Given that the mystery shopping data can only report on current prices, we are unable to supplement the World Bank data with additional data on historic prices.

Indicator 11: This indicator only contains data on current prices as data for this indicator was mainly collected through desktop based research and mystery shopping which only reflects current prices.

Indicator 13: Under Indicator 3, data on the proportion of MSMEs with access to financial services was available for 2010 results for South Africa and 2012 results for Mozambique, Zimbabwe and Malawi. However, more recent data was unavailable.

Data availability from stakeholder consultations

Stakeholders were identified according to three methods: i) contacts that FinMark has an existing relationship with, ii) contacts that Genesis has an existing relationship with, and iii) desktop research into key institutions and stakeholders that may hold useful data. The third method yielded poor results in securing interviews. As a result, we were limited to consulting stakeholders where either FinMark or Genesis has an existing relationship with.

The data that was accessed through stakeholders is summarised below:

Indicator 1: Stakeholders from the Botswana Stock Exchange, Johannesburg Stock Exchange, Stock Exchange of Mauritius, Mozambique Stock Exchange, Namibia Stock Exchange, Seychelles Stock Exchange and Zimbabwe Stock Exchange were able to provide us with data for this indicator.

Indicator 2: The Financial Surveillance Unit within the South African Reserve Bank was able to provide us with data on the proportion of institutional investment held by local investors in the rest of Africa. This data could not be disaggregated further to obtain investment into the SADC region. In addition, we were unable to identify corresponding stakeholders in other countries in the region who could provide us with similar data.

Indicator 4: The Financial Surveillance Unit within the SARB was able to provide us with data on transfers of a capital nature between South Africa and each SADC country. We were unable to identify corresponding stakeholders in the other countries who could provide us with similar data.

Indicator 6: The Financial Surveillance Unit within the SARB was able to provide us with data on the SIRESS system.

Indicator 7: FinMark consultants in Botswana, DRC, Lesotho, Malawi, Namibia, Swaziland and Zimbabwe were able to provide us with cost data on transferring money to and from South Africa.

Indicators 8A and 8B: The Financial Surveillance Unit within the SARB was able to provide us with capital flows data between South Africa and each SADC country. We were unable to identify corresponding stakeholders in the other countries who could provide us with similar data.

Indicator 11: FinMark consultants in Botswana, DRC, Lesotho, Malawi, Namibia, Swaziland and Zimbabwe were able to provide us with data on the price of a transactional bank account and savings account at an international bank and a local bank in their country of residence

Indicator 13: FinMark was able to provide us with the latest FinScope survey data in Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe.

Comparing data to the baseline

The previous RFI dashboard study[8] was dependent on in-country consultations with key stakeholder institutions in order to access relevant data. However, this study was limited to desktop data and stakeholder consultations that could be arranged electronically. Therefore the baseline study and the current study each employed a different methodology in carrying out the research which compromises the extent to which data can be compared across the two studies. This is most noted in indicators 7, 8A, 8B, 1 and 9 as the data that was collected to calculate these indicators differs significantly from the data that was collected during the baseline.

Strength of conclusions based on data availability

As a result of the data limitations explained above, restricts our ability to draw strong conclusions on the state of regional financial integration within the region. In some indicators such as indicator 6, 10, 13 we managed to collect very strong and representative data on the relevant dashboard indicator. However, the data that has been collected for the other indicators is patchy and there remain a number of data gaps, which does not allow us to make definitive conclusions..

[8] Monitoring regional financial integration in SADC: A study to ascertain the availability of data, Genesis Analytics (2012)

4 FINDINGS

This section provides an overview of the findings that have emerged through the data collection process. The findings are presented firstly by thematic area and then by indicator. Under each thematic area, the rationale for including individual themes is explained, together with an overview of the indicators under each theme. If there are any changes to the indicator since the previous study was undertaken, the motivation for the change is explained.

Under each indicator, the data collection process is explained in detail and how this may have been different to the process in the previous study. Thereafter, the rationale for including the indicator is explained together with the data collection issues that may have been experienced. Lastly, the data that has been found is presented and analysed in order to identify emerging trends.

Each thematic area concludes by examining the emerging insights based on the data that has been analysed and qualitative information from stakeholder consultations.

4.1 Theme 1: Cross-border investment in other capital markets

Rationale

An increase in SADC member state's cross-border investment into their neighbours' capital markets implies that barriers in accessing capital across borders have declined. Companies will be able to raise capital more easily and from beyond their immediate country of operation.

Indicators and supplementary data

This theme consists of three main indicators; namely:

1. Indicator 1: Size of capital market (Stock market capitalisation as a % of GDP)
2. Indicator 2: The proportion of intra-SADC institutional investment increases
3. Indicator 3: Prime lending rates across SADC member states start to converge

The following table presents supplementary data collected and the source of information for each indicator.

Table 5: Theme 1 indicators and supplementary data

Indicator	Supplementary data	Source of information
Indicator 1 Size of capital market (Stock market capitalisation as a % of GDP)	Number of SADC countries that have a stock exchange Number of SADC-headquartered companies listed on the local stock exchange Total number of stock exchange listings	Consultations with stock exchanges Visiting stock exchange websites Data available online from the World Bank
Indicator 2 The proportion of intra-SADC institutional investment increases	The number of SADC-headquartered institutional investors (e.g. pension funds) investing across borders in other SADC countries	Consultations with the South African Reserve Bank (SARB) Fact sheets of Allan Gray, Coronation and Stanlib
Indicator 3 Prime lending rates across SADC member states start to converge	Average interest rate charged on debt by commercial banks Average interest rate charged on deposits by commercial banks	Data available online from the World Bank Data available from IMF Article IV Reports

What have we learned since the previous study?

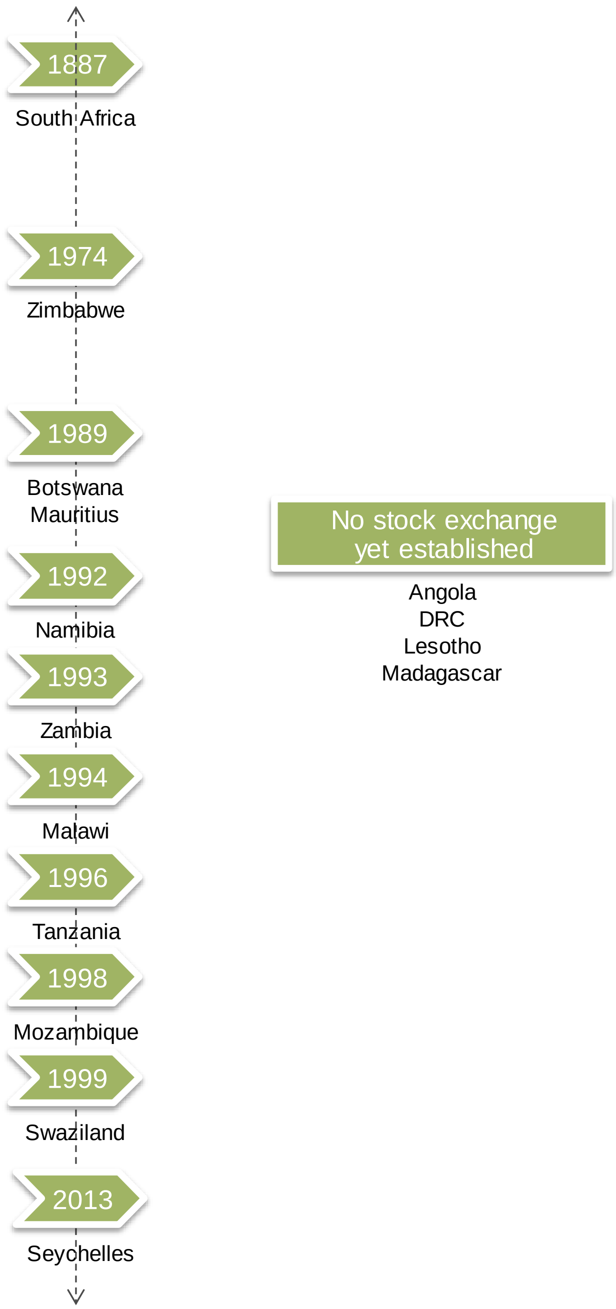
- In the previous study, Indicator 1 considered cross-border investment into neighbouring bond and money markets. However, this indicator had pervasive gaps which are explained below. Therefore, the focus of the theme in this study is the stock market
- Institutional I investors, like insurance funds and pension funds, are an important source of investment and liquidity for the development of SADC capital markets. Therefore, we have retained the focus on institutional investment for Indicator 2 from the previous study.
- In Indicator 3, the focus on the previous study was examining the interest rate on public debt, corporate debt and consumer debt. In the previous study, definitional differences made it difficult to collect and analyse comparable data. In this study, we focus on the prime lending rate and the average commercial bank lending rate given that these are more easily available and are directly relevant to consumers in the region. We also expand our data to look at the interest rates on deposits by commercial bank.

Indicator 1: Size of capital markets (stock market capitalisation as a % of GDP)

The previous study focused on analysing the market capitalisation of the bond market and money market, before determining the value of each SADC member state's holdings of that particular bond and money market. This data was not available online and data collected directly from country institutions had gaps. Therefore, this study focuses on the stock market instead. It is important to note that the focus on stock markets does not compromise the rationale for measuring the indicator nor its usefulness.

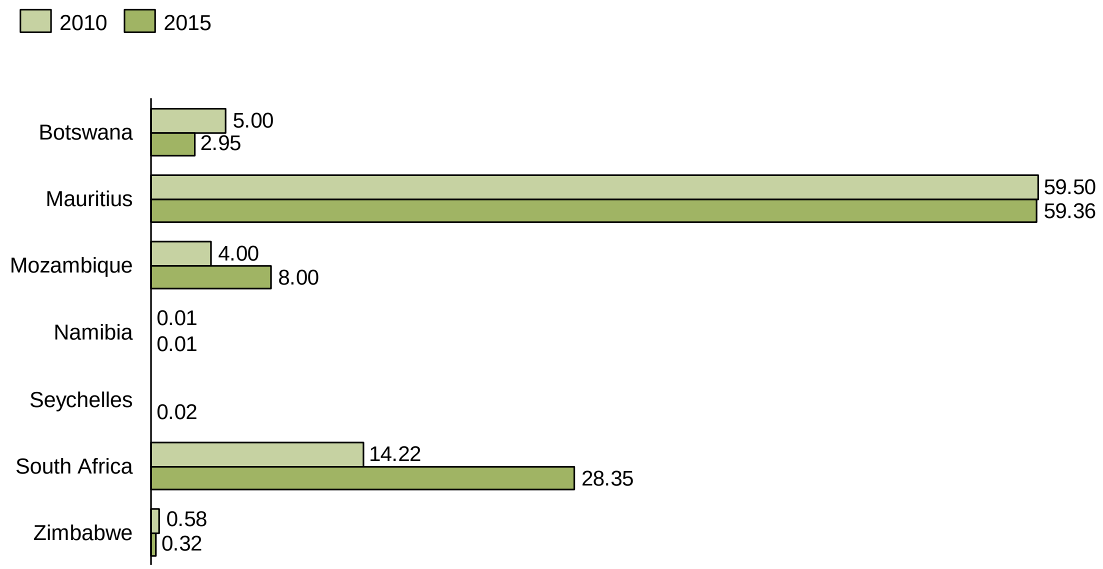
The year a stock exchange was established is an (imperfect) proxy for the level of development of that stock exchange. The more developed a stock exchange, the more likely it is to have the infrastructure and systems required to facilitate cross-border listings and trading. Key to note is those SADC countries that do not currently have a stock exchange.

Figure 9: Year of establishment of SADC stock exchanges



The following graph presents stock market capitalisation to GDP ratio, which is used to determine the relative size of the stock market to the economy. This indicator is used as a proxy for capital market depth. Generally, the higher the proportion of stock market capitalisation to GDP, the more sophisticated that financial sector. The stock exchanges in Namibia, Seychelles and Zimbabwe are an insignificant proportion of GDP, whereas Mauritius's high ratio likely indicates a combination of stock market sophistication and a small local economy. South Africa has shown the largest increase in market capitalization/GDP – an indication of the growth of the stock market over time. Market capitalisation data was not available for the countries not represented on the graph; namely, Malawi, Swaziland, Tanzania and Zambia.

Figure 10: Market capitalisation of SADC stock exchanges (% of GDP, 2010 and 2015)



Source: Interviews with stock exchange representatives, 2015

The graph below presents SADC-headquartered companies listed on the local stock exchange, as a proportion of all listings[9]. We have not included listings of local companies with the SADC-headquartered companies since we are interested in the prevalence of cross-border listings. An increase in cross-border listings implies that companies have greater opportunity to raise capital in markets beyond their operations, which is a benefit of RFI.

Two data challenges are important to note when interpreting these graphs:

- Historic data on the number of locally listed companies, SADC-headquartered companies and non-SADC-headquartered companies is not available online for Malawi, Swaziland, Tanzania and Zambia.
- Definitional issue on how 'local' is defined (even if parent company is not local, subsidiaries are regarded as such).
- Most companies in the region do not appear to be listing across borders. Namibia and South Africa have the highest number of SADC-headquartered companies listed on their stock exchanges.

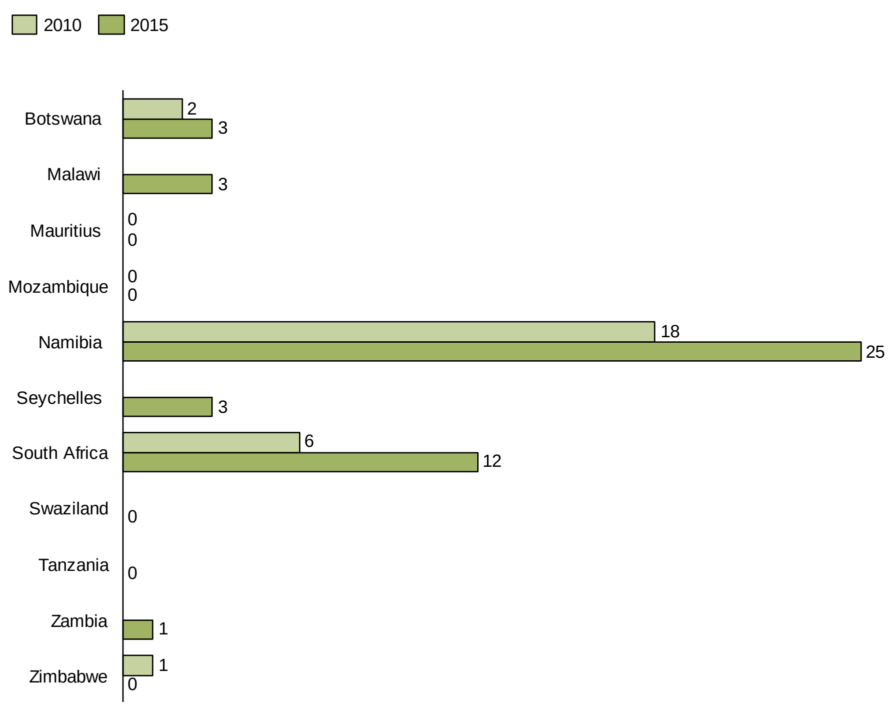
Our consultation with Namibia Stock Exchange (NSX) revealed that a key aspect of their growth strategy is to attract large SADC companies to list on their exchange by harmonising listing

[9] This excludes companies whose headquarters are local to that stock exchange.

requirements and conscientiously facilitating the listing process. This is essential to improve the liquidity of their stock exchange, and is evident in the growth in the number of SADC-headquartered stock exchanges listed on their exchange between 2010 and 2015. Most of the non-Namibian SADC companies that are listed on the Namibian stock exchange are South African companies.

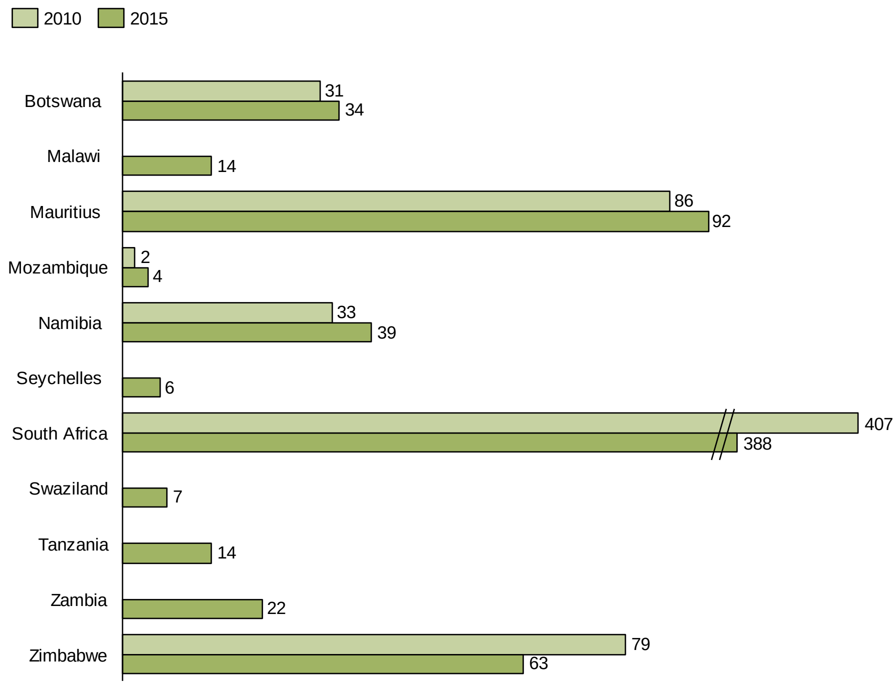
Also of interest is the fact that there are no SADC-headquartered companies listed on the Stock Exchange of Mauritius (SEM) and SADC-headquartered companies make up only small proportion of total listings on the Johannesburg Stock Exchange (JSE). This phenomenon is difficult to interpret. It is possible that the cost of listing is a deterrent. However, it is more likely a function of demand for accessing neighbouring markets. Companies cross list to access new investors in other markets, either to make up for a lack in their own market or to fund expansion across a region or in a specific country. If neighbouring markets are insufficiently attractive or have a dearth of investors, then cross listing will be diminished. In this instance, one might expect more cross listing with the JSE. However, the more competitive market in South Africa might act as a countervailing force for some SADC headquartered companies.

Figure 11: Number of SADC-headquartered international companies listed on the local stock exchange (excluding local listings) (Units, 2010 and 2015)



Source: Interviews with stock exchange representatives, 2015

Figure 12: Total number of companies listed on the local stock exchange (Units, 2010 and 2015)



Source: Interviews with stock exchange representatives, 2015

Indicator 2: The proportion of intra-SADC institutional investment increases

The previous study focused on measuring the proportion of capital markets (bond and money markets) held by institutional investors. Since this data was not available, we focused the current study on the stock market instead. An increase in cross-border institutional investment suggests that asset managers are findings attractive investment opportunities in the rest of the region and barriers to invest across borders are falling. Therefore, this is potentially a strong indicator of progressing RFI.

In addition, the previous study noted that institutional investors in South Africa are larger and expanding their holdings into the rest of Africa. Specifically, we explored the total value of institutional investment in South Africa that has been invested in the rest of Africa. Unfortunately, this information is only reported for Africa as a single destination and cannot be further disaggregated. Therefore, we selected the Africa equity funds of the three largest asset managers in South Africa to explore their appetite for cross-border investment and the main destinations for their investments.

It would have been ideal to find out if there is reciprocal investment by institutional investors in the rest of SADC into the South African market or other SADC economies. However, this information was not available online and we were unable to identify stakeholders for consultations.

The graph below presents the proportion of South African funds under management that have been invested offshore into the rest of Africa. The graph shows:

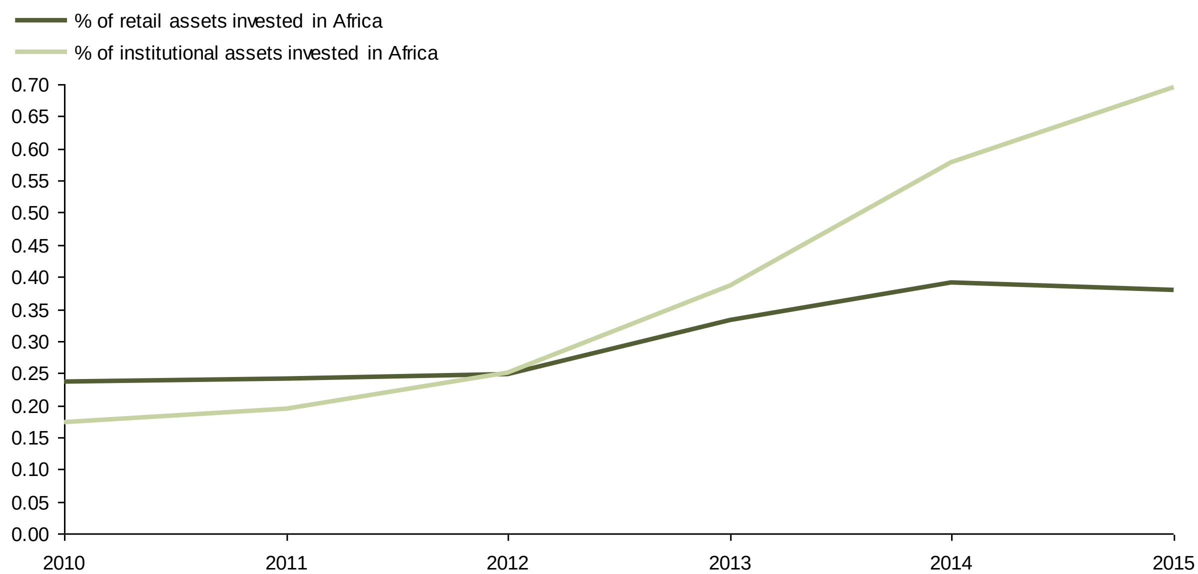
- **Retail assets**: Retail assets refer to the origin of the assets received and managed by institutional investors on behalf of non-institutional investors. These are assets received from individuals and other entities such as companies, trusts, nominee companies, partnerships and investment managers not registered with the SARB's Financial Surveillance Department.

- **Institutional assets**: Managed on behalf of other institutional investors who are retirement funds, collective investments scheme management companies, long-term insurers (linked and non-linked business) and investment managers registered with the South African Reserve Bank (SARB).

This information was provided by the SARB Financial Surveillance Unit. Both types of institutional investors are required to report the proportion of their investment that will be made into the rest of Africa on a quarterly basis. They are not, however, compelled to report this information by country, which limits the relevance of this indicator since the SADC proportion is not discernible.

However, an important trend visible in the data is that institutional investment into Africa represents a growing proportion of total funds under management when compared to retail assets. This shows that Africa is an increasingly important investment destination for South African institutional investors, although the implications for SADC remain uncertain.

Figure 13: Proportion of South African institutional investment held in African assets (ZAR, 2010 – 2015)



Source: South African Reserve Bank Data, 2015

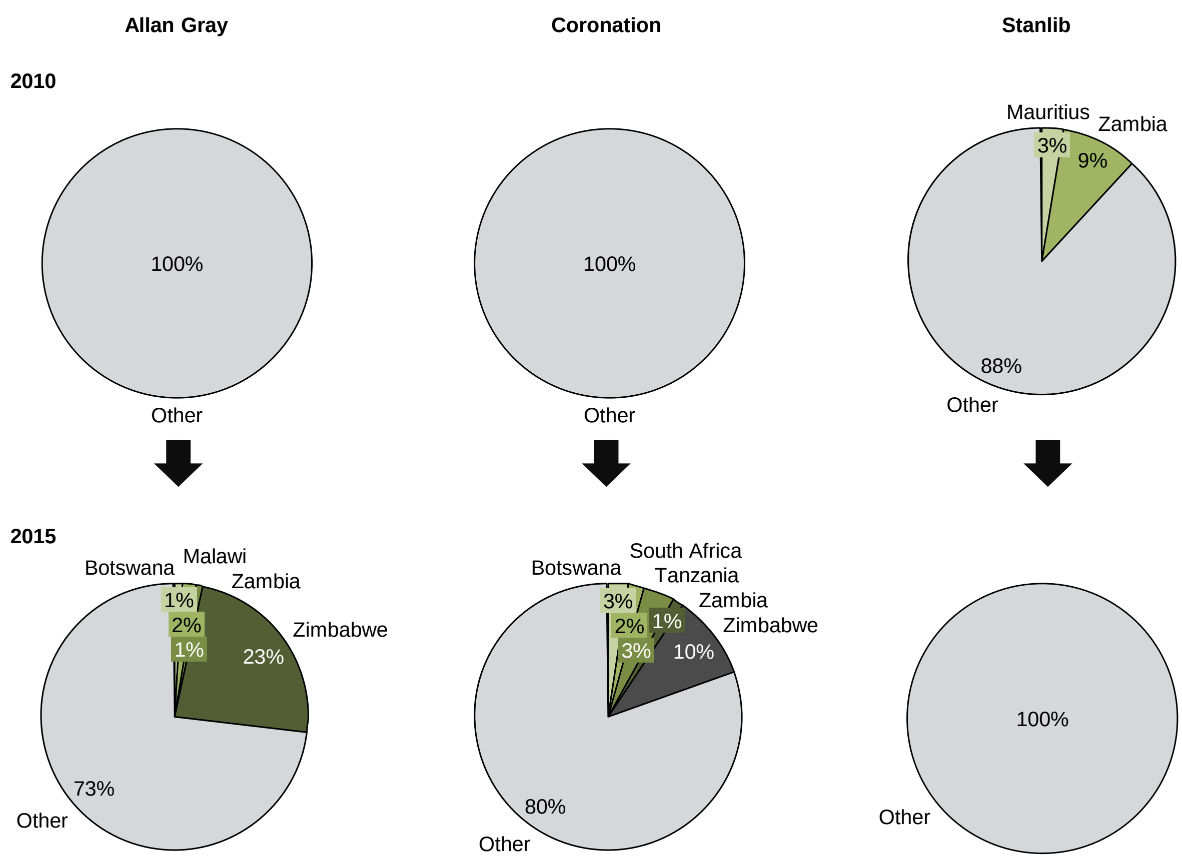
The information in Figure 14 is extracted from the fact sheets published by Allan Gray, Coronation Fund Managers and Stanlib on their comparative Africa equity funds. In 2010, Allan Gray and Coronation did not have any assets under management that had been invested elsewhere in SADC. By 2015, this had shifted such that:

- Allan Gray currently has 27% invested elsewhere in SADC, with the majority of this investment (23%) focused on Zimbabwe.
- Coronation shows a similar trend, and currently has 20% invested elsewhere in SADC, with the majority of investment (10%) focused on Zimbabwe.

Stanlib shows a contradictory trend, however, having previously invested in Mauritius and Zambia but evidently disinvesting in these markets. Stanlib does not currently have assets under management in the rest of SADC.

These observations suggest that there might be appetite to invest across borders; however, it is unclear from the information gathered what is driving these investment decisions.

Figure 14: Cross-border investment in SADC as a proportion of total assets held by large asset managers in their Africa equity funds (%, 2010 – 2015)



Source: Fund fact sheets of respective asset managers, 2015

Indicator 3: Prime lending rates across SADC member states start to converge

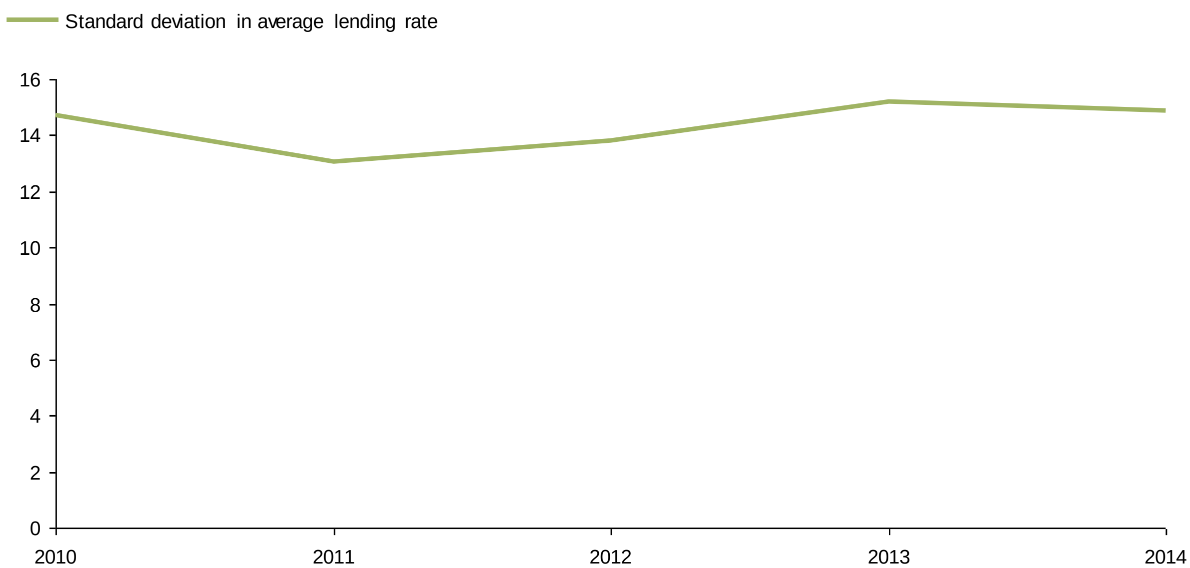
The previous study focused on the prevailing interest rates on three debt instruments; namely, public debt, corporate debt and consumer debt. In this study, we focus on the prime lending rate and the average commercial bank lending rate given that these are more easily available and more pertinent to consumers. We also expand our focus to explore interest rates on an entry level savings account offered by a specific commercial bank.

The standard deviation of a distribution of numbers measure the distance between each number and the mean, and then finds the average of those distances. A standard deviation close to zero implies that numbers are quite similar and grouped close to the mean, while a high standard deviation implies that numbers are less similar and are some distance from the mean. Simply, standard deviation measures how spread out numbers are. Therefore, a decreasing standard deviation of lending rates implies a converging cost of capital (interest rate) for assets of the same maturity and the same credit risk class. This is a strong indicator of RFI.

It would be preferable to use prime lending rates for this analysis, since these rates are more closely associated with countries' risk profile. Unfortunately, historic data on the prime lending rate could only be retrieved online for a relatively short time series – from 2013 to 2015. Therefore, we have analysed the standard deviation of the average lending rate charged by commercial banks, as presented in Figure 15.

The standard deviation of average lending rates in 2010 was 14.71. This decreased to a five year low in 2011 of 13.03, increasing again to 14.88 in 2014. This information, therefore, does not provide compelling evidence of increasing RFI and is likely only to be observed when examining a longer time series.

Figure 15: Standard deviation of average lending rate charged by commercial banks (%, 2010 – 2014)



Source: World Bank database, 2015

The table below displays the prime lending rates for each country in SADC for 2013 and 2014. The SADC average prime lending rate was calculated for both years, in order to ascertain which countries were above the average (indicated in red) and which are below the average (indicated in green). The table holds two interesting observations:

- Madagascar, Malawi and Zimbabwe have considerably higher interest rates that have the effect of pulling the SADC average upwards. When these countries are excluded from the calculation of the average, it falls to 12.27%.
- By 2014, five SADC countries have single digit interest rates. Since most of SADC has adopted an inflation targeting monetary policy, this might indicate the countries that are experiencing a less inflationary environment. However, a longer time series of prime lending rates is required to support this conclusion. Regardless, one can see three clear groups of countries emerging, which is indicative of the diversity of the regional economy.
    - Single digit interest rates: Botswana, Mauritius, Namibia, South Africa and Swaziland.
    - Interest rates between 10% and 20%: Angola, DRC, Lesotho, Mozambique, Seychelles, Tanzania and Zambia

- Interest rates above 20%: Madagascar, Malawi and Zimbabwe

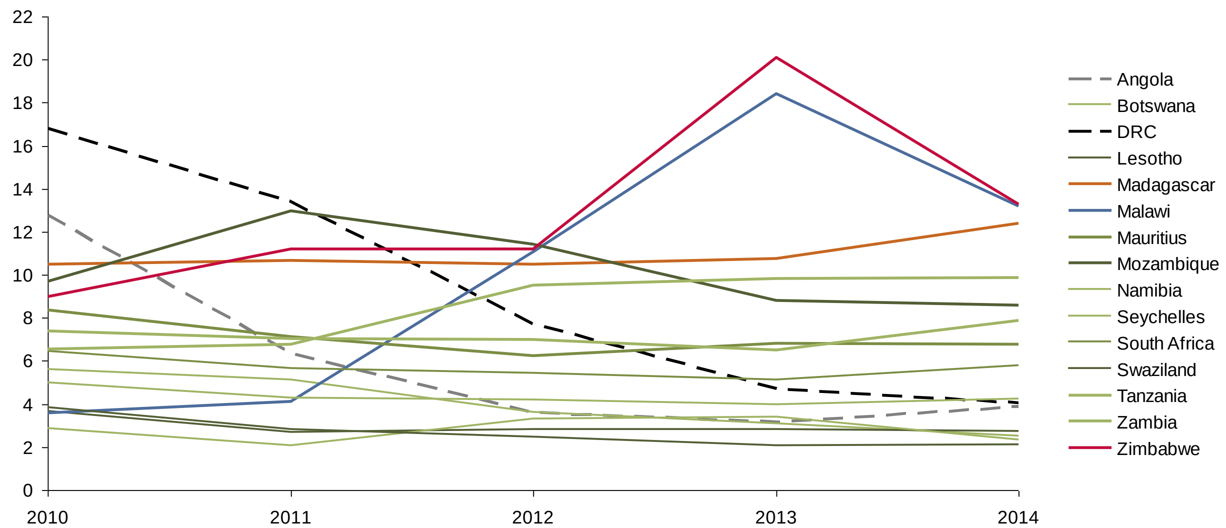
Table 6: Prime lending rates (%, 2013 and 2014)

	2013	2014
Angola	15.8	15.2
Botswana	10.19	9
DRC	19.38	17.4
Lesotho	9.92	10.2
Madagascar	58.98	61
Malawi	46	44
Mauritius	8.5	8.7
Mozambique	15.33	15.3
Namibia	8.29	9
Seychelles	12.29	13
South Africa	8.5	9.25
Swaziland	8.5	8.8
Tanzania	15.82	17.4
Zambia	9.52	14
Zimbabwe	28	22
SADC average	18.34	18.28

The figure below presents the average interest rate earned on deposits. Three observations emerge:

1. Madagascar and Malawi experienced a sharp increase in interest rates, peaking in 2013. These countries, along with Zimbabwe, offer a relatively higher average interest rate on deposits in comparison to the rest of SADC.
2. Angola and DRC have seen a sharp decline in average interest rates on deposits, and are now more aligned with average interest rates in SADC.
3. All other countries in SADC have average interest rates that fall below 10%, so the region appears quite similar when exploring this indicator.

Figure 16: Average interest rate earned on deposits (%, 2010 – 2014)



Source: World Bank database, 2015

Emerging insights

The manner in which RFI should take place needs to be carefully monitored. In the case of SADC, there has been considerable discussion on whether the shift towards having a regional stock exchange would be optimal in achieving RFI. Stakeholders have cautioned that such a move may in fact be damaging to individual economies as it is likely that investment will only flow to few countries with highly liquid stock exchanges and a highly regarded profile, for example the JSE, SEM and Botswana Stock Exchange.

An alternative opportunity that should be taken into consideration is the possibility of leveraging technology across different stock exchanges. Namibia's stock exchange is currently linked to the JSE's system such that the NSE uses the JSE's trading system. This provides Namibia with the opportunity to leverage the most up to date technology at a cheaper cost as opposed to purchasing the technology independently. Linking multiple stock exchanges to the same system provides similar advantages of having a regional stock exchange but does not require members to forgo their independence. This option and others are currently being investigated by the Committee of SADC Stock Exchanges (COSSE).

Success stories include:

- Some countries have harmonised their stock exchange listing requirements within the region which enables easier cross-listings.
- In Botswana, there has been progress in securing dual listings of Botswana-owned companies on the JSE and it is expected that this will begin to increase in the future
- The SADC Integrated Regional Electronic Settlement System (SIRESS) is currently being used by central banks, regional banks and commercial banks in the region. Stakeholders consulted suggest that lessons that have emerged during the process of launching SIRESS are relevant to stock exchanges in the region, since ease of settlements and sharing of information are critical for integrated stock exchanges.

Challenges to cross-border investment remain:

- Exchange rate risk and stability of investments continue to diminish the attractiveness of intraregional investment. Therefore, key focus areas for SADC are macroeconomic convergence, exchange control liberalisation and investment promotion. Cooperation and harmonisation will only go so far to encourage SADC investors to invest across borders.
- Taxation policy, particularly how foreigners are treated in terms of tax on dividends and withholding tax, is a highly volatile area in SADC. Stakeholders consulted report that this creates barriers to companies wanting to list on other stock exchanges as the constantly changing tax landscape is costly to navigate.
- Stakeholders consulted who are involved in COSSE suggest that political willingness to encourage integration is low, because this is viewed by certain governments as surrendering independence of capital markets. These stakeholders suggest that the discourse should change to encourage *de facto* integration of capital markets (e.g. higher volumes of cross-border trade) rather than *de jure* integration of capital markets (e.g. linking or combining stock exchanges).

4.2 Theme 2: Cross-border capital flows

Rationale

An increase in cross-border capital flows implies that barriers to investing across borders have declined. Local investors are able to expand their portfolio to include investments into other economies within the region.

Indicators and supplementary data

This theme consists of four main indicators; namely:

- Indicator 4: Investment flows into and within SADC increase in volume
- Indicator 5: Capital flows within SADC increase
- Indicator 6: Capital flows into SADC increase
- Indicator 7: Cross border transfer of funds becomes more efficient and cheaper (Average cost of $200 remittance)

The following table presents supplementary data collected and the source of information for each indicator.

Table 7: Theme 2 indicators and supplementary data

Indicator	Supplementary data	Source of information
Indicator 4 Investment flows into and within SADC increase in volume	FDI flows into SADC Share of total regional FDI per SADC country Portfolio investment flows into SADC South Africa's investment into SADC countries	UNCTAD database World Bank database Academic papers
Indicator 5 Capital flows within SADC increase	Remittances inflows between SADC countries Remittance outflows between SADC countries Major recipient countries and sender countries along SADC-to-SADC remittance corridors	SARB (capital flows data) World Bank database
Indicator 6 Capital flows into SADC increase	Remittances inflows between SADC countries and non-SADC countries Remittance outflows between SADC countries and non-SADC countries Major recipient countries and sender countries along SADC-to-non-SADC remittance corridors	World Bank database
Indicator 7 Cross border transfer of funds becomes more efficient and cheaper (Average cost of $200 remittance)	Cost of $200 remittance along seven SADC corridors Number of money transfer agencies in operation in each SADC country Number of money transfer agencies that operate in multiple SADC countries Findings of mystery shopping exercise	World Bank database IMF Article IV reports

What have we learned from the previous study?

- Intraregional investment flows are not available from online data sources. The first study confirmed that data on foreign direct investment and portfolio investment are most likely available from in-country data sources. Therefore, data gaps are expected for Indicator 4.
- Indicator 5 is core to measuring RFI. Perfect measurement of this indicator would map all capital flows between each pair of member states, and would consider a complete set of capital flows. The SARB Financial Surveillance Unit measures the following as the main categories of capital flows within the balance of payments:
    - Derivatives
    - Financial investments/disinvestments and prudential investments

  - Intellectual property and other services
  - Loan and miscellaneous payments
  - Merchandise
  - Transactions relating to income and yields on financial assets
  - Transfers of a capital nature
  - Transfers of a current nature

  There are numerous subcategories measured within each, which ensures comprehensive measurement of capital flows information. The SARB contributed data on South Africa's inflows and outflows of each category of capital, to and from each other SADC member state for the years 2010 to 2015 (year to date). Unfortunately, we were not able to identify institutions in other SADC member states who could contribute similar data.

- For both Indicator 5 and Indicator 6, we provide information on the volume of formal remittance flows between SADC member states and into SADC from the rest of the world, as a proxy for otherwise unavailable capital flows data.
- For Indicator 7, the previous study looked at the average cost of a USD 200 remittance from South Africa to seven other SADC countries. This is replicated in this study. We also conducted a money transfer mystery shopping exercise to estimate the financial and non-financial cost of transferring USD1 and USD10 between South African and the SADC member states in which a Finmark Trust associate consultant was identified.

Indicator 4: Investment flows into and within SADC increases in volume

An improved investment climate and lower barriers to the movement of capital should attract more investment into SADC, and ensure that greater intraregional investment is circulated within SADC. Therefore, this is a compelling indicator of the dual objectives of the FIP of investment promotion and RFI.

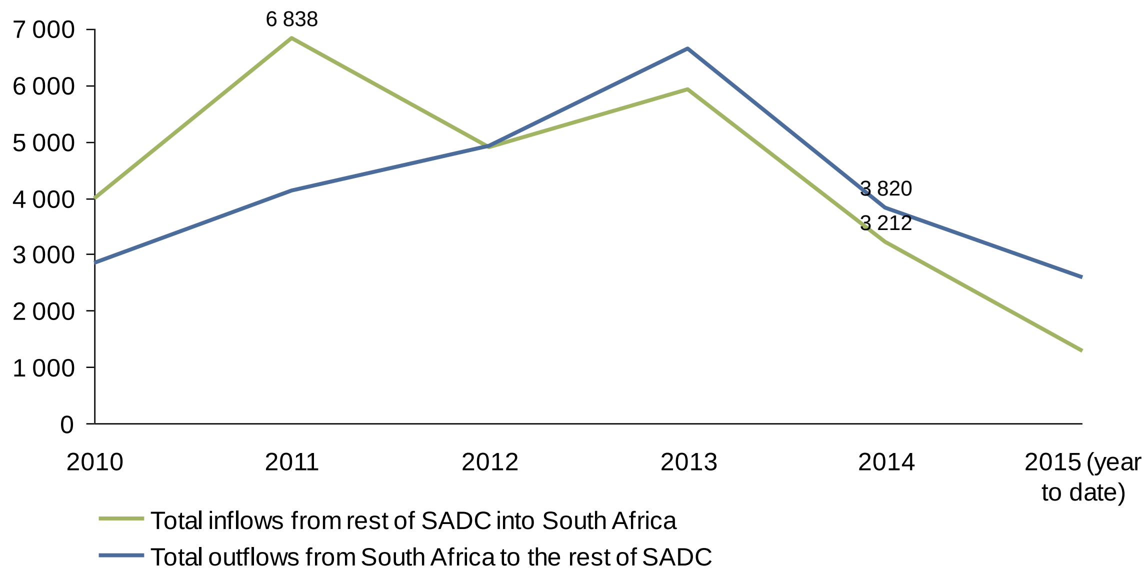
The previous study collected information on FDI and portfolio investment flows between SADC member states (intraregional investment) and into SADC from the rest of the world (international investment). This information was collected at institutions (ministries of finance and investment promotion agencies), in person, in each country. This approach yielded good information, particularly in terms of international investment. Intraregional investment information had extensive gaps; however, good information was found for subsets of countries (e.g. SACU).

Given that this assignment would be primarily desktop-based, the decision was taken to prioritise collecting data on South Africa's investment into each SADC member state. This information was available from the SARB Financial Surveillance Unit. No data was found for SADC investment into South Africa.

The graph below shows transfers of a capital nature, a Balance of Payments categorisation that amounts to FDI and portfolio investment, for 2010 to the third quarter of 2015. From 2012 to the 2015, inflows and outflows closely track each other, with South Africa's outflows of FDI and portfolio investment slightly greater than inflows from the rest of SADC. The years prior to 2012 show a reversal of this relationship, possibly due to South African investors' reluctance to invest across borders in the wake of the financial crisis. However, more information is required to justify this conclusion.

Importantly, the total volume of transfers of a capital nature between South Africa and the rest of SADC has decreased between 2012 and 2014. A longer time series should be examined to draw more precise conclusions; however, it appears that intraregional capital flows are declining. This is contrary to what would be expected with increasing RFI, and runs counter to the popular narrative around extensive and sustained investment by South African firms in the region. Further investigation is required in order to understand what is driving the decline in transfers of a capital nature.

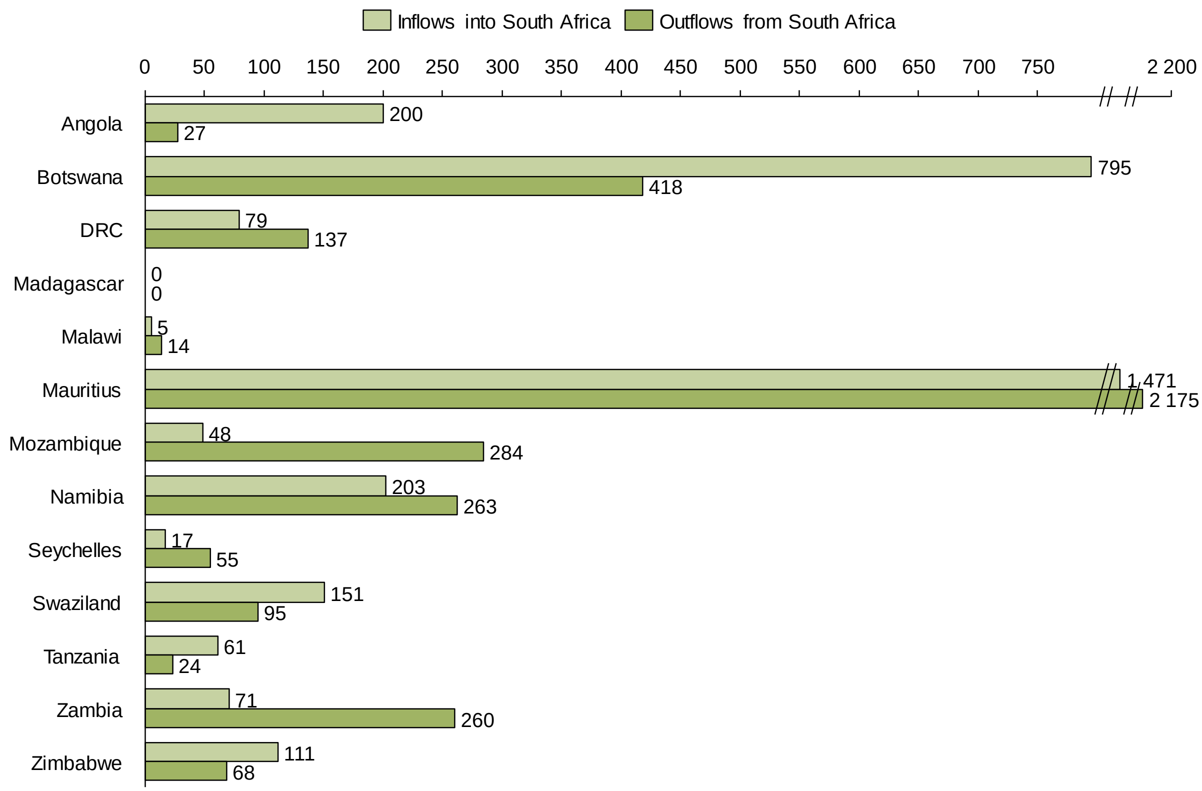
Figure 17: Transfers of a capital nature, total inflows and outflows between South Africa and the rest of SADC (Rand millions, 2010-2015)



Source: South African Reserve Bank data, 2015

Figure 18 shows a cross-section of transfers of a capital nature, specifically inflows and outflows between South Africa and each other SADC country for 2014. The largest volume of cross-border inflows and outflows of investment is observable between South Africa and Mauritius. South Africa's next most important group of investment destinations consists of Botswana, Mozambique, Namibia and Zambia. The countries with the highest outflows of capital into South Africa are Angola, Botswana, Mauritius and Namibia.

Figure 18: Transfers of a capital nature, inflows and outflows between South Africa and each SADC member state (Rand millions, 2014)



Source: South African Reserve Bank data, 2015

Indicator 5: Capital flows within SADC increase

The previous study defined capital flows as consisting of:

- Volumes of portfolio investment[10]
- FDI[11]
- Trade credits[12]
- Reserve assets[13]
- Formal remittances[14]

[10] A portfolio investment is a passive investment of securities in a portfolio which is made with the expectation of earning a return on it.
[11] A foreign direct investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country.
[12] A trade credit is an agreement where a customer can purchase goods on account (without paying cash), paying the supplier at a later date.
[13] Reserve assets refer to currency, commodities or other financial capital held by monetary authorities, such as central banks, to finance trade imbalances, check the impact of foreign exchange fluctuations and address other issues under the purview of the central bank
[14] Formal remittances refer to those remittances which enter a country through official banking channels,

This composite measure is aligned with the SARB Financial Surveillance Unit's comprehensive approach to measuring cross-border transfers, and is in accordance with the literature. Therefore, this holistic definition was retained for this study. Additionally, we remain interested in intraregional capital flows, in other words capital flows within SADC. This requires measurement of flows between each pair of SADC member states.

The rationale behind this indicator is that as barriers are removed, and as the investment climate improves, capital should flow more freely between member states. This is a strong indicator of RFI, and one directly related to the economic development benefits of RFI because capital should move from capital rich member states to capital scarce member states. Therefore, this indicator is also a measure of whether SADC is achieving a more efficient internal allocation of capital.

The findings of the previous study show that this indicator was problematic. Data was available for subsets of countries; however:

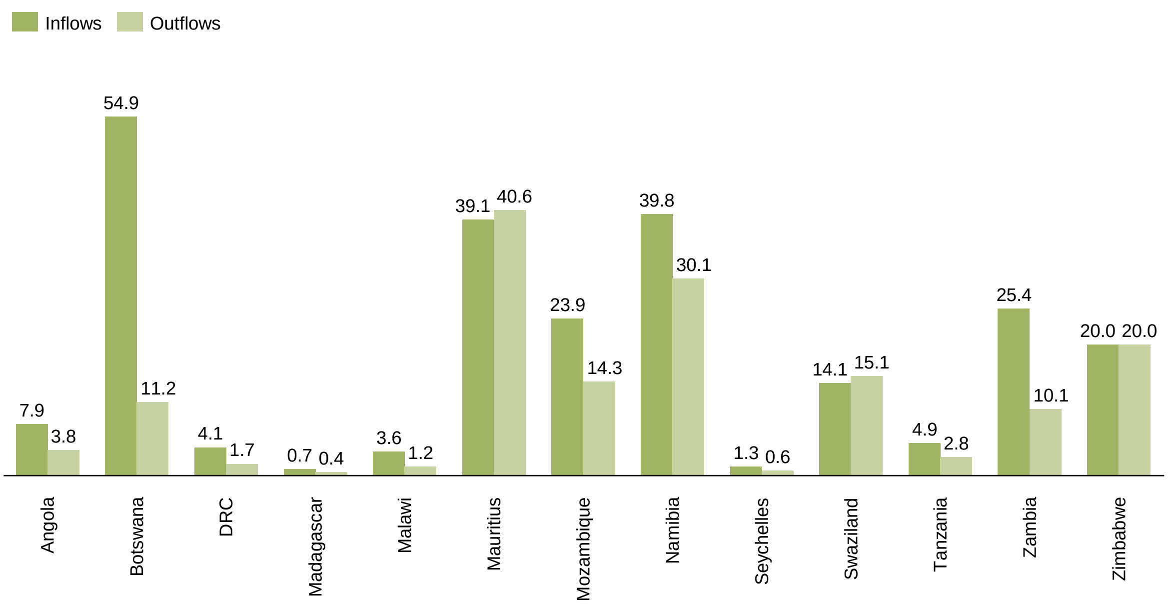
- Member states seldom measure the full composite definition of capital flows.
- Member states only track the bilateral flows for a few countries, usually those with whom they enjoy a strong investment relationship.
- Where data was available, it still required in-country visits to obtain this information from stakeholders.

However, two strategies were employed to enable us to at least present some useful information for this indicator:

- Using South Africa as a base country, we analyse data on cross-border transfers received from the SARB Financial Surveillance Unit. This data only reveals information on the relationship between South Africa and other member state, and so cannot be used to draw conclusions on the state of RFI.
- We use intraregional outward and inward remittance data as a proxy for the volume of cross-border transfers between each pair of SADC member states, and also present the main remittance relationships evident from the data. This information was accessed from the World Bank. While this is not a complete measure of capital transfers, it does provide an indication of funds are moving across borders.

The figure below reflects annual capital inflows to South Africa from the other SADC countries and annual capital outflows from South Africa to the other SADC countries. As can be seen, large capital inflows originate from Botswana, Mauritius and Mozambique while the largest amount of capital flows to Mauritius and Namibia.

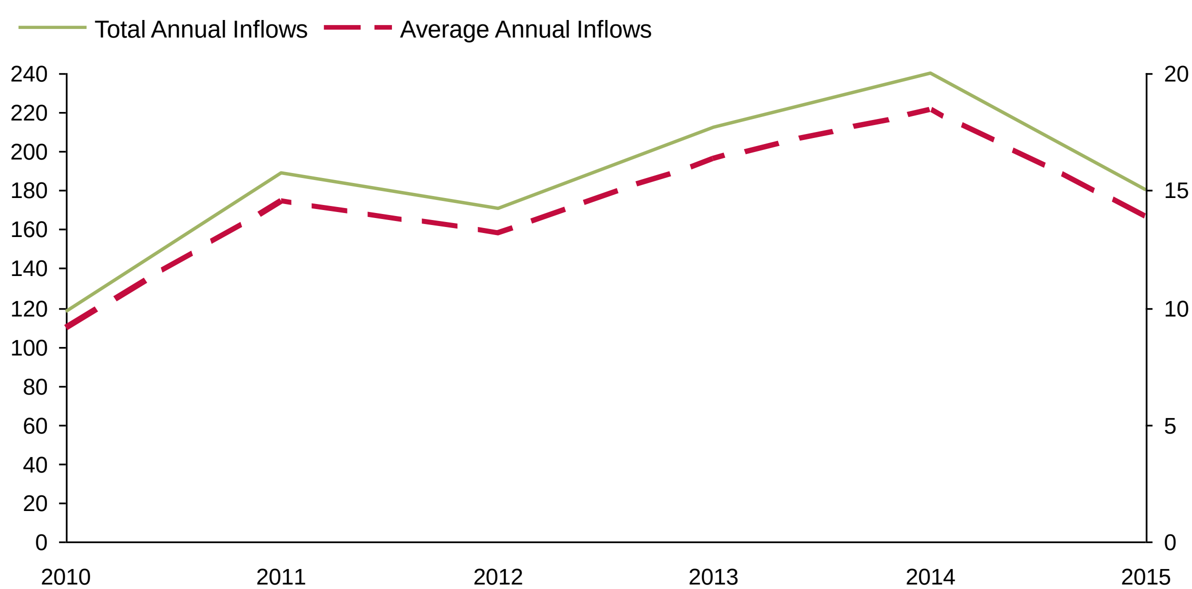
Figure 19: Total annual capital flows to and from South Africa (USD billions, 2014)



Source: South African Reserve Bank data, 2015

Capital inflows within the SADC region have been volatile in the last few years as can be observed in the diagram below. However, there is a steady increase in total capital inflows in the region. Total annual inflows are in line with the average annual inflows, indicating that inflows are growing in a similar fashion across countries.

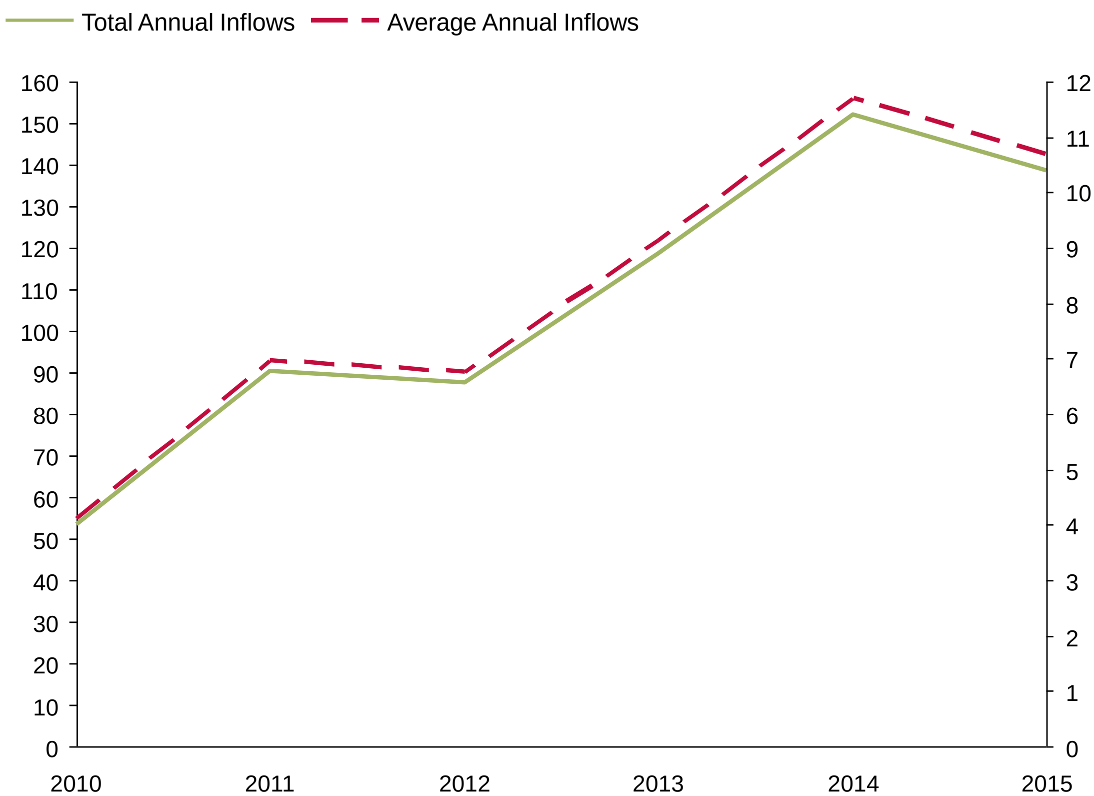
Figure 20: Total annual inflows and average annual inflows within SADC (USD billions, 2010 – 2015)



Source: South African Reserve Bank data, 2015

Similarly, capital outflows within the SADC region have also been volatile in the last few years but have been increasing steadily. Again, total annual outflows are in line with the average annual outflows, indicating that outflows are growing in a similar fashion across countries.

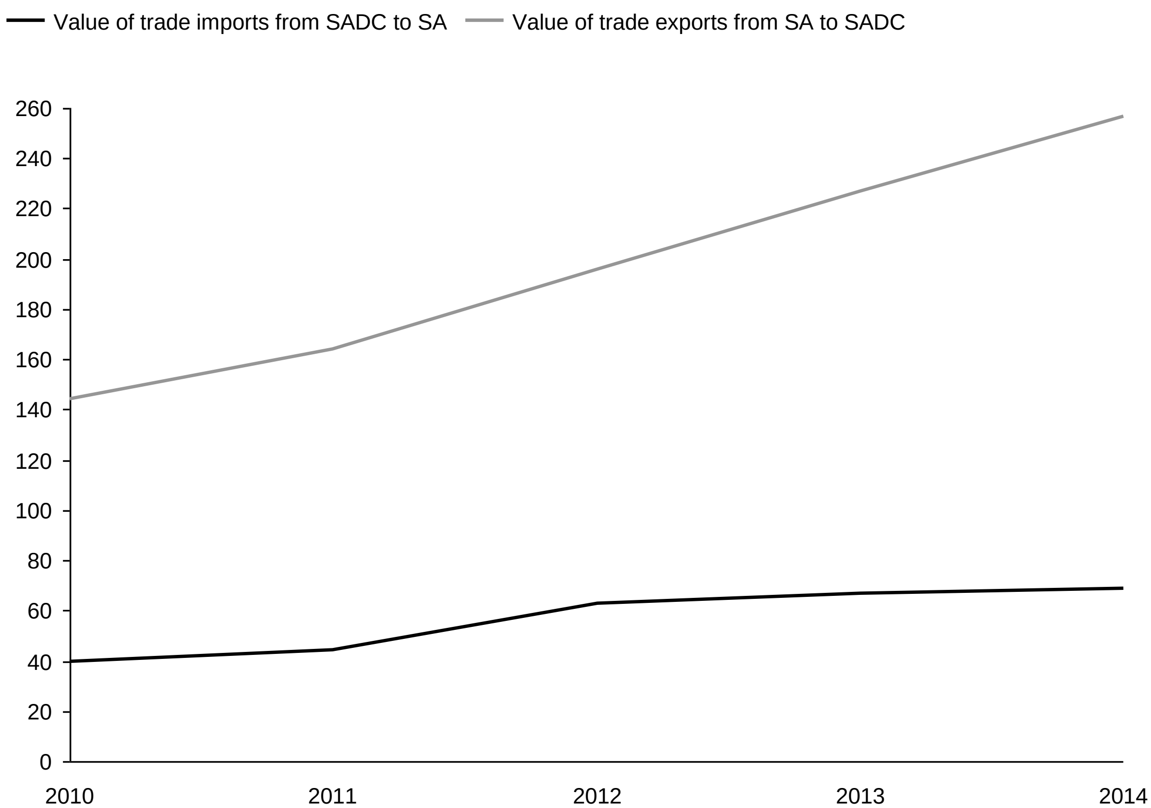
Figure 21: Total annual outflows and average annual outflows within SADC (USD billions, 2010 – 2015)



Source: South African Reserve Bank data, 2015

Given that trade is a large component of capital flows, we examined trade flows data to determine whether a decrease in, or the volatility of, capital flows is influenced by trade flow patterns. However, this does not seem to be the case, as trade flows have been increasing steadily over the period.

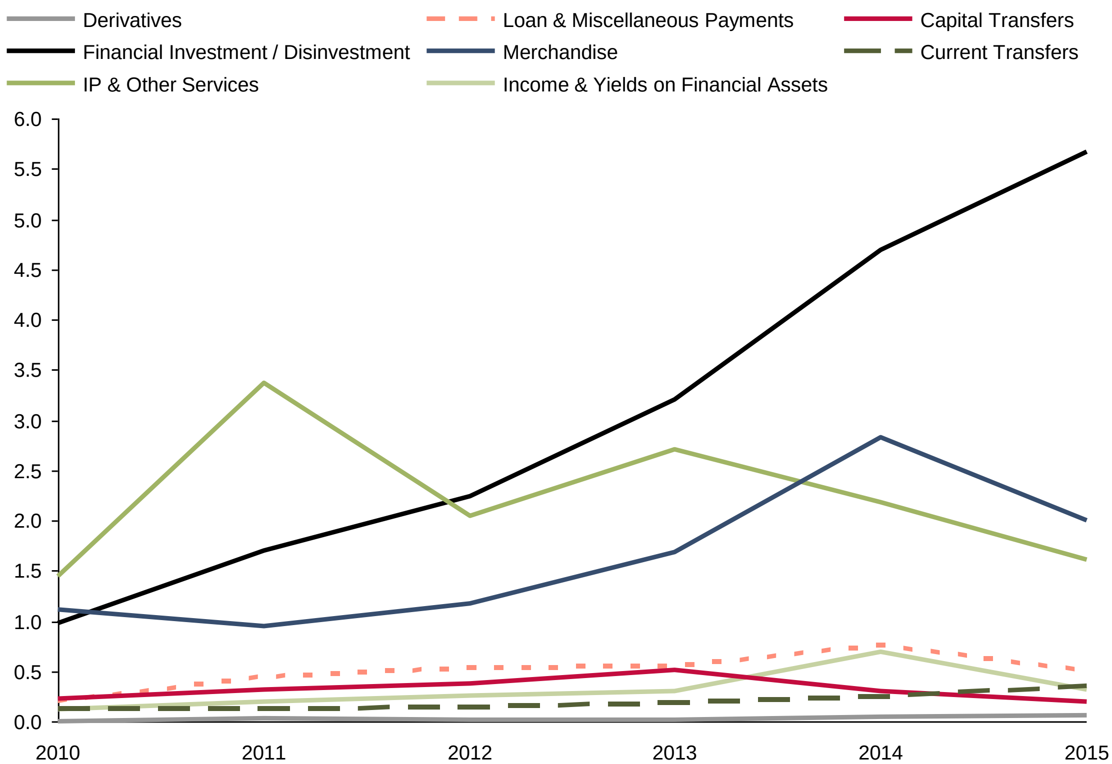
Figure 22: Value of trade imports and exports (USD billions, 2010 – 2014)



The major components of capital flows are financial investments, derivatives and intellectual property and other services as depicted below.

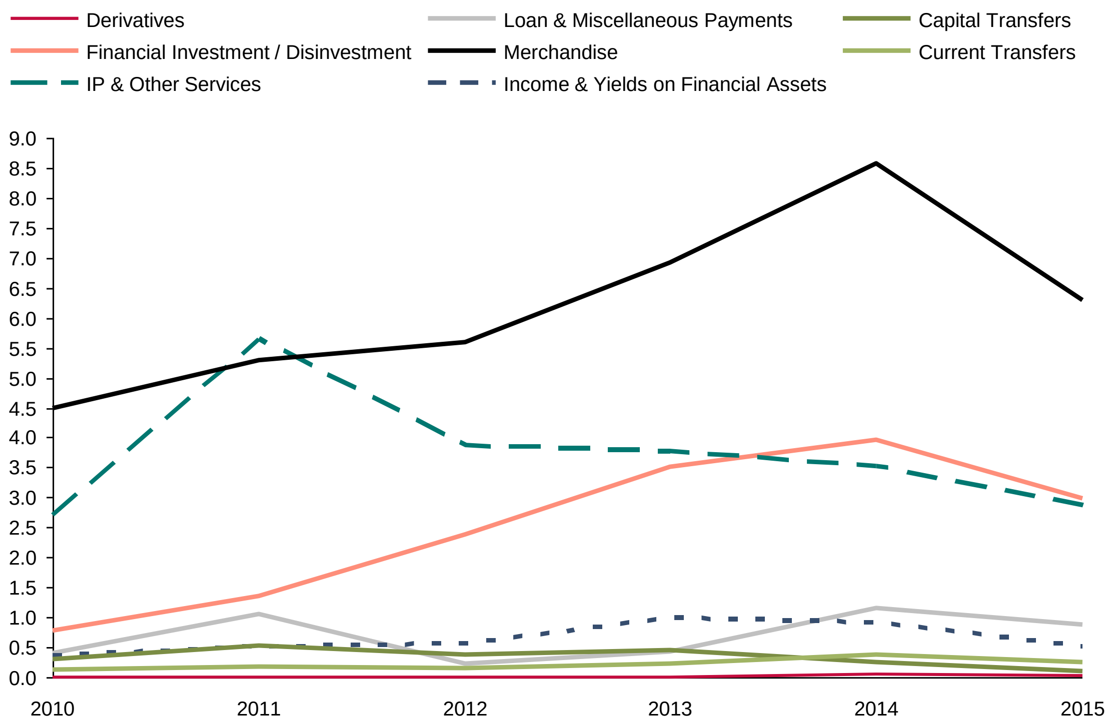
The data indicates that South Africa and Mauritius have a strong relationship when it comes to the flow of capital from one country to the other. In addition, South Africa appears to have integrated more closely with neighbouring countries than other countries. This may indicate that it is easier for countries to become more integrated with each other when geographical barriers are reduced.

Figure 23: Aggregate capital outflows from South Africa to the rest of SADC (USD billions, 2010 – 2015)



Source: South African Reserve Bank data, 2015

Figure 24: Aggregate capital inflows from the rest of SADC to South Africa (USD billions, 2010 – 2015)



Source: South African Reserve Bank data, 2015

With regards to the cross-border transfer of remittances, the following should be noted:

- The time series of available data differs between countries, although an effort has been made to conduct a useful trend analysis.
- The World Bank does not report remittance data for Zimbabwe.
- The World Bank does not report outward remittance data for Lesotho.

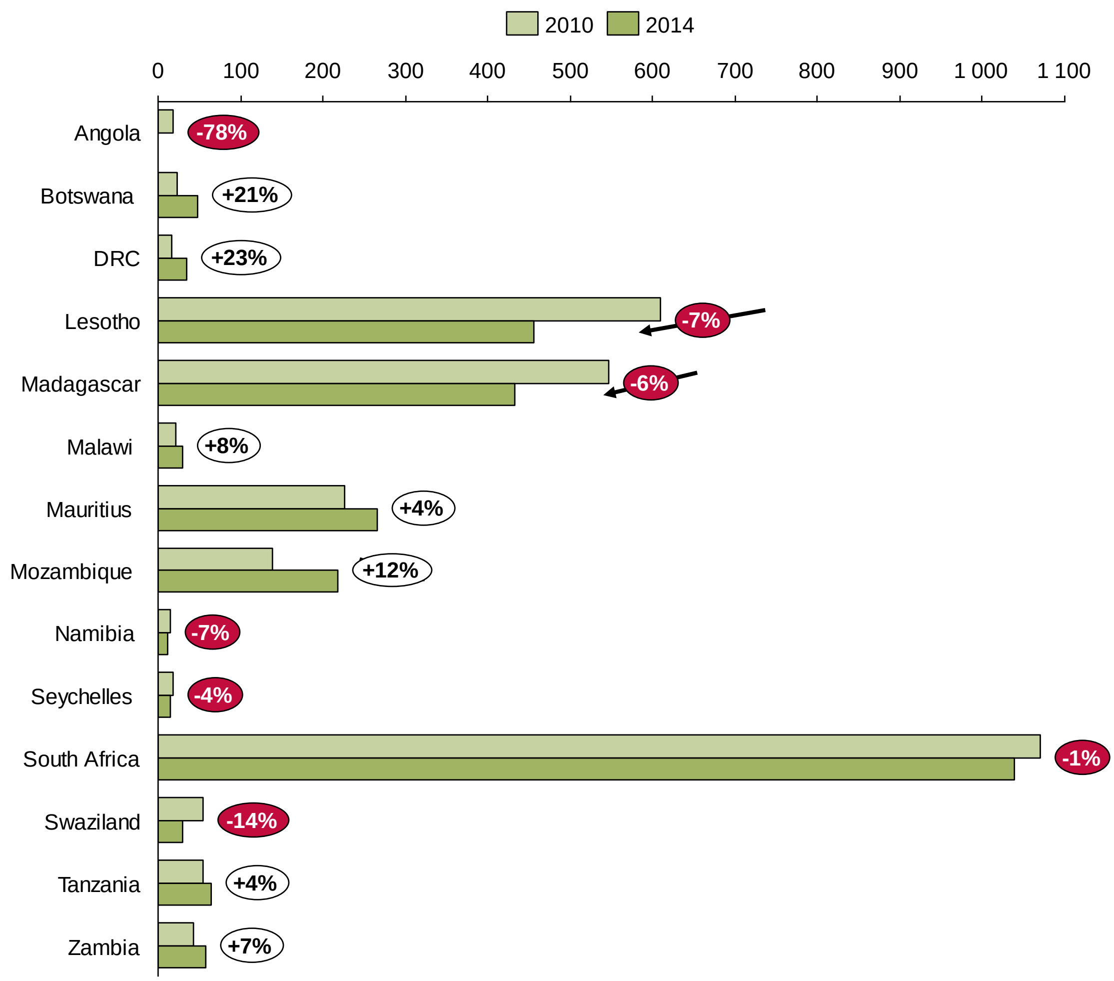
The following observations are clear from Figure 25, Source: World Bank database, 2015

Figure 26 and Table 8:

- Botswana, DRC and Mozambique have shown the greatest increase in remittance inflows while Angola and Swaziland have shown the greatest decrease.
- Madagascar, Mozambique, Seychelles, Tanzania have shown the greatest increase in remittance outflows while DRC, Namibia and Swaziland have shown the greatest decrease.
- Even though South Africa has not shown an increase in remittance flows, the country has the highest value of remittances inflows and outflows and is a favoured counterparty for receiving and sending remittances. In addition, Zambia is a popular remittance receiving country while Botswana, Mozambique and Tanzania are popular remittance-sending countries.
- Based on these findings, only South Africa and Mozambique appear to be increasingly active in remittances which may indicate that there are barriers to sending and receiving remittances easily in the other countries. Swaziland appears to be affected the most from these barriers.

These barriers may include strict regulatory requirements, lack of access to appropriate channels for sending and receiving remittances and mistrust of using formal channels for sending and receiving remittances. In addition, the figures represented above are based on formal remittances. It is likely that a large proportion of remittances is informal and as a result, cannot be tracked. The FinMark study on remittances[15] estimates that 68% of the total value of remittances are informally transferred which implies that the figures presented below represent the remaining 32% of total remittances.

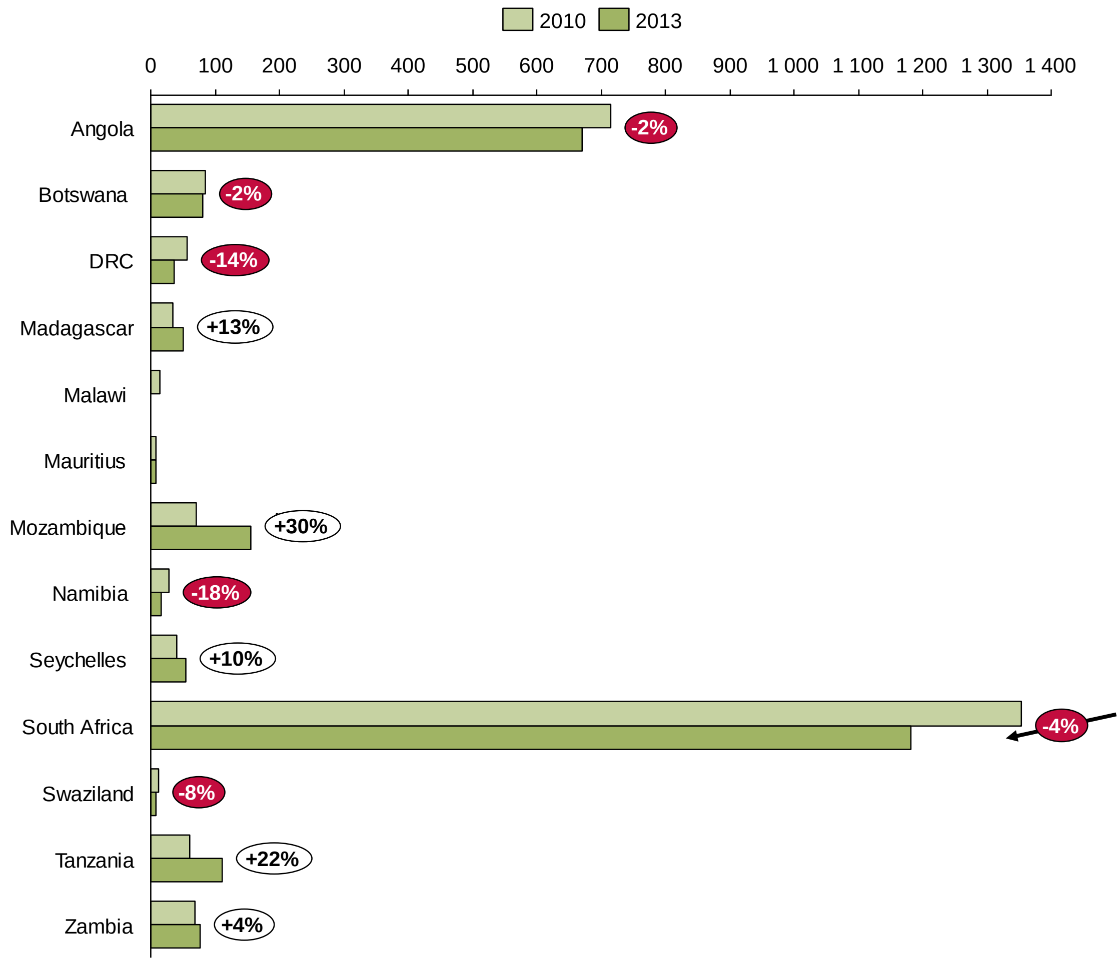
Figure 25: Intraregional remittances, total inflows from other SADC member states (USD millions, 2010 – 2014)



Source: World Bank database, 2015

[15] Fact Sheet: Remittances from South Africa to SADC, FinMark Trust

Figure 26: Intraregional remittances, total outflows to other SADC member states (USD millions, 2010 – 2014)



Source: World Bank database, 2015

Table 8: Major bilateral relationships for cross-border remittances (2014)

Recipient Sender	Angola	Botswana	DRC	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	SA	Swaziland	Tanzania	Zambia	Zimbabwe
Angola			X								X				
Botswana				X	X	X	X				X		X	X	X
DRC															
Lesotho											X				
Madagascar							X								
Malawi								X			X		X	X	
Mauritius					X						X				
Mozambique				X		X			X		X	X	X	X	
Namibia		X												X	
Seychelles					X		X								
South Africa		X	X	X	X	X	X	X	X	X		X	X	X	
Swaziland								X			X				
Tanzania			X	X		X	X	X	X	X	X			X	
Zambia	X					X									
Zimbabwe		X			X			X			X			X	

Indicator 6: Capital flows into SADC increase

Indicator 6 is a mirror image of Indicator 5, since it also measures the same composite measure of capital flows. The only difference is that Indicator 6 concerns international inflows of capital flows into SADC. This is an important indicator because SADC is a capital scarce region. Therefore, it is important that capital is attracted into SADC in order to further economic development and to ensure that the volume of capital available for intraregional investment and cross-border transactions increases. International capital inflows are a strong indicator of RFI because as barriers are removed, and the investment climate improves, capital should flow more freely into SADC.

Unfortunately, and as was experienced in the previous study, this data is problematic for similar reasons as the challenges documented for Indicator 5; namely:

- Member states seldom measure the full composite definition of capital flows.
- Member states only track the bilateral flows for a few countries, usually those with whom they enjoy a strong investment relationship. This makes it difficult to extract non-SADC international capital inflows.
- Where data was not available, in-country visits were necessary to obtain this information from stakeholders.

The data found for this indicator is as follows:

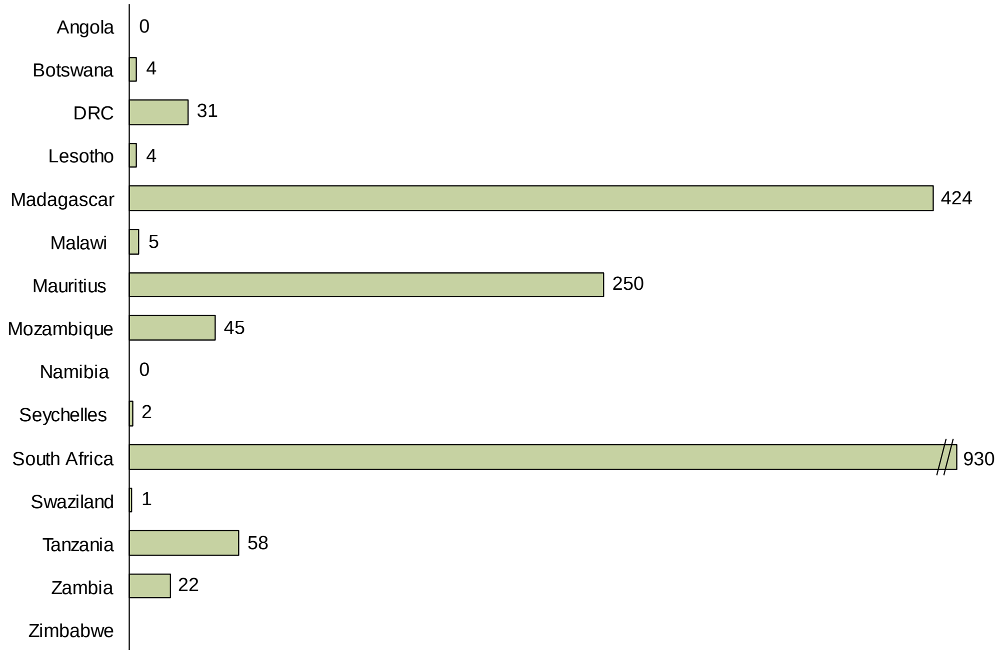
- Net FDI and net portfolio investment: These indicators do not provide an indication of non-SADC international inflows, and is only two components of total capital flows. The trends visible from this indicator are interesting, as they provide an indication of the relative investment attractiveness of different SADC countries and how this might have progressed over time. Therefore, this indicator is presented under Section 1.1. Net FDI and net portfolio investment does not, however, tell us enough about the state of RFI in SADC.
- Major non-SADC remittance sending countries: As with Indicator 5, remittance volumes are a useful proxy for international capital inflows and have been included here, since the information reported by the World Bank is disaggregated by country so non-SADC remittance inflows can be extracted. Non-SADC remittance inflows are not available for Zimbabwe.

Based on the graphs below as well as Table 9, the following observations can be made:

- Madagascar, Mauritius and South Africa receive the most remittances from non-SADC countries.
- Most SADC countries receive remittances from Australia, Canada, the UK and the USA.
- DRC, Madagascar, Mauritius, South Africa and Tanzania have the highest number of non-SADC remittance counterparties. It is unclear what might be driving this result; however, it might be indicative of migrants that have left these countries and remit funds.
- Half of the countries we have data for receive remittances from less than four non-SADC countries.

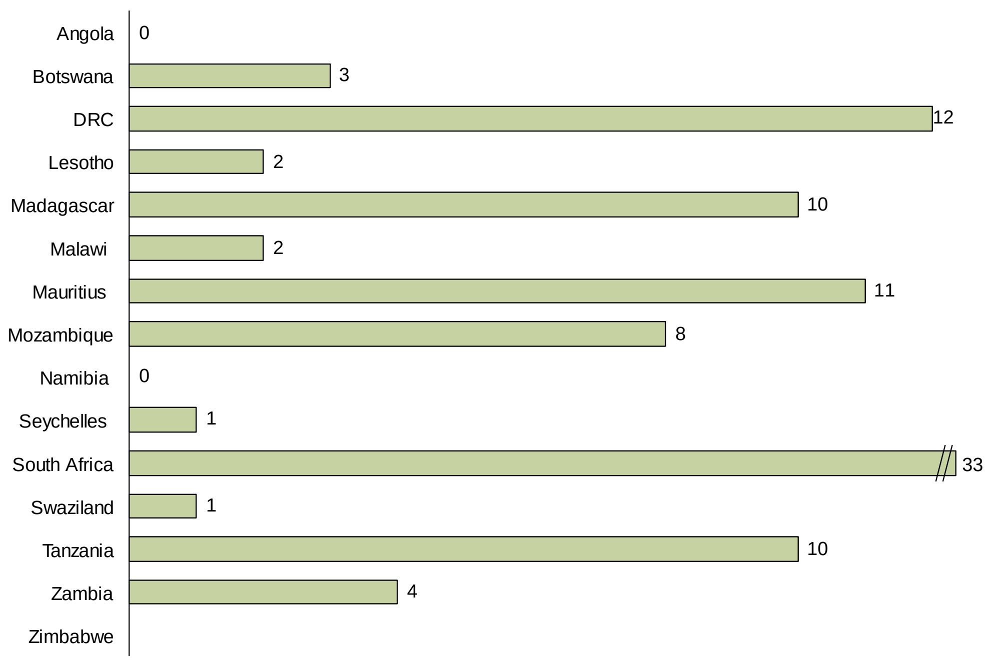
It is difficult to draw a strong conclusion under this indicator as there is a lack of sound underlying data to support any finding on the flow of capital from non-SADC countries to SADC countries. While remittances data is presented above, remittances are only one form of capital flows. Two large components of capital flows that are missing are FDI inflows and portfolio investment from the rest of the world into SADC. Therefore, even though we are able to draw conclusions on the flow of remittances between countries, we do not have strong data to draw a conclusion on composite capital flows.

Figure 27: Non-SADC international remittance inflows (USD millions, 2014)



Source: World Bank database, 2015

Figure 28: Number of major international non-SADC remittance sources (2014)



Source: World Bank database, 2015

Table 9: Major non-SADC remittance-sending countries (2014)

Recipient / Sender	Angola	Botswana	DRC	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Seychelles	SA	Swaziland	Tanzania	Zambia
Australia		X			X		X	X		X		X	X
Austria										X			
Belgium			X				X			X			
Brazil								X		X			
Burundi			X									X	
Canada			X		X		X	X		X		X	X
Chile										X			
China							X			X			
Comoros					X								
Cyprus										X			
Czech Republic										X			
Denmark										X			
Finland										X			
France			X		X		X	X		X			
Germany			X		X					X		X	
Greece										X	X		
Ireland							X			X			
Isle of Man										X			
Israel										X			

Recipient / Sender	Angola	Botswana	DRC	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Seychelles	SA	Swaziland	Tanzania	Zambia
Italy					X		X			X			
Kenya		X								X		X	
Libya										X			
Malaysia				X						X			
Netherlands					X		X			X		X	
New Zealand										X			
Norway					X					X			
Portugal								X		X			
Republic of Congo			X										
Republic of Korea										X			
Rwanda			X									X	
Spain			X							X			
Sweden										X			
Switzerland			X		X		X	X		X			
Thailand										X			
Turkey										X			
Uganda			X									X	
UK						X	X	X		X		X	X
USA		X	X	X	X	X	X	X	X	X		X	X

Indicator 7: Cross-border transfer of funds become more efficient and cheaper

The previous study reported the average cost of a USD 200 remittance from South Africa to seven other SADC countries. This analysis is repeated in this study and updated with data for 2015. In this study, we also expand the data collection to measure the financial and non-financial costs of transferring USD1 and USD10 from and to South Africa from specific SADC countries. These countries were selected based on the presence of a FinMark Trust associate consultant.

The cost of remittance is a strong indicator of RFI because as regulation becomes more similar and as payments systems become integrated, the cost of sending money across borders should fall. Additionally, harmonisation should make it easier and quicker to conduct cross-border fund transfers.

The table that follows contains data from the World Bank Remittance Prices Worldwide database. Information is only available for one direction – South Africa to other countries in SADC. However, the World Bank reports data on the main money transfer agents operating in SADC on a quarterly basis, so this is a relatively rich data source.

The average cost of a $200 remittance was $25.01 in the second quarter of 2015 across the corridors presented in the table below. This cost remains high at approximately 12.5% of the funds transferred. It should be noted that the World Bank includes both the exchange rate margin and the fee in the total cost of a remittance.[16]

[16] The exchange rate margin is the cost resulting from the fact that the money transfer agent applies an exchange rate different to the interbank rate. The margin is the percentage difference between the interbank exchange rate and the exchange rate actually applied to the transaction.

Table 10: Cost of a $200 remittance (USD, Q1 2009 - Q2 2015)

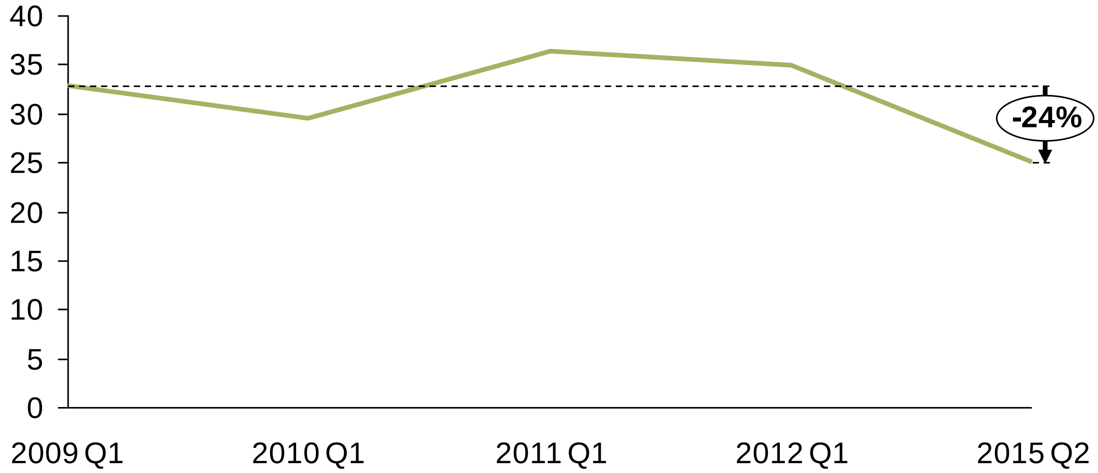
		Cost of $200 remittance				
Corridor	Money transfer agent	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2015 Q2
South Africa to Angola	Moneygram Western Union	28.79	29.51	36.27	36.82	28.11
South Africa to Botswana	Moneygram Western Union	37.99	29.51	36.27	36.29	28.11
South Africa to Lesotho	Moneygram Western Union South Africa Post Office	24.46	29.51	36.27	29.76	20.11
South Africa to Malawi	Moneygram Western Union Mukuru	Not previously available				25.41
South Africa to Mozambique	Moneygram Western Union	39.76	29.51	38.73	37.08	28.11
South Africa to Swaziland	Moneygram Western Union South Africa Post Office	23.61	29.51	36.27	29.76	20.11
South Africa to Zambia	Moneygram Western Union Mukuru	49.81	29.51	36.27	43.43	27.08
South Africa to Zimbabwe	Moneygram Western Union Mukuru Mama Money	25.62	29.51	36.27	31.25	23.02

The figure that follows presents the downward trend in the average cost of a $200 remittance along the eight SADC corridors listed in the table above. From the first quarter of 2009, there has been a 24% decline in the average cost of a $200 remittance. There might be several reasons driving this:

- Entrance of new money transfer agents into the remittance market might have increased competition, driving down the cost of remittance.
- Improved payment systems might make it easier and less costly to transfer funds across borders.
- Improved integration of payments systems might further drive down costs; however, this effect might not be as strong if money transfer agents must have funds cleared through a bank (authorised dealers registered with the SARB).

- Exchange rate margins might decrease with increased competition.

Figure 29: Average cost of a $200 remittance along eight SADC corridors (USD, Q1 2009 - Q2 2015)



Source: World Bank data, 2015

In addition to the data presented above, the mystery shopping exercise was completed with FinMark consultants and data was received for the following countries: Botswana, DRC, Lesotho, Malawi, Namibia, Swaziland and Zimbabwe. The following points are important to note:

- According to their website, Western Union does not have a presence in Namibia and Seychelles. However, the FinMark Trust consultant reported that Western Union does not transfer funds from Malawi to any other country.
- According to their website, Moneygram has a presence in all SADC countries. However, the FinMark Trust consultant reported that Moneygram does not transfer funds from Zimbabwe to any other country.
- The CMA countries (Lesotho, Swaziland and Namibia) can only send money to South Africa using the Post Office

Table 11: Cost of sending USD1 or USD10 from member state to South Africa (USD, 2015)[17]

	Mama Money	Moneygram	Mukuru	Post Office	Shoprite	Western Union
Botswana	N/A	3.48	N/A	N/A	N/A	3.66
DRC	N/A	13	N/A	N/A	N/A	8.62
Lesotho	N/A	N/A	N/A	1.60	0.6	N/A
Malawi	N/A	7.27	N/A	N/A	N/A	N/A
Namibia	N/A	N/A	N/A	4.45	N/A	N/A
Swaziland	N/A	N/A	N/A	Cannot send less than USD4 Cost of sending USD10 = 1.37	N/A	N/A
Zimbabwe	Cost of sending USD1 = USD 0.05 Cost of sending USD10 = USD 0.5	N/A	Cost of sending USD1 = USD 0.1 Cost of sending USD10 = USD1	N/A	N/A	0.04

Based on the above table, the cost of sending money to South Africa is independent of the amount that is sent (with the exception of Swaziland). In the case of transferring USD1, the cost of doing so outweighed the value of the transfer by more than three times in most countries. Sending low amounts of money will lead to a higher cost in comparison to the value being sent and the decision to transfer USD1 ad USD10 in this mystery shopping exercise does not represent the average amount being transferred across borders. In addition, it is more expensive to send money from the DRC and Malawi as compared to countries that are geographically closer to South Africa even though the service provider is the same. Overall, it is cheapest to send money from Zimbabwe to South Africa which is likely a result of the popularity of this corridor (high volumes might drive economies of scale and contribute towards cost reductions) or the number of competitor money transfer agents servicing this corridor.

[17] The cheapest service provider per corridor is highlighted

Table 12: Cost of sending USD1 or USD10 from South Africa to member state (USD, 2015)

	Moneygram	Western Union	Post Office
Botswana	15.42	10.95	N/A
DRC	15.78	15.81	N/A
Lesotho	N/A	N/A	1.39
Madagascar	15.43	15.24	N/A
Malawi	15.43	10.95	N/A
Namibia	N/A	N/A	9.57
Swaziland	N/A	N/A	4.94
Zambia	15.44	10.95	N/A
Zimbabwe	15.42	7.73	N/A

According to Table 12, the cost of sending money from South Africa to member states is roughly the same (USD15) if using Moneygram. The cost of doing so varies when Western Union is selected as the service provider, however the highest cost doesn't exceed USD15. Within the CMA countries, the cost of sending money differs substantially across the countries. It is more expensive to send money to Namibia than it is to send money to Lesotho and Swaziland. Similar to the case of sending money to South Africa, the cost of sending money from South Africa is independent of the amount that is sent. In this case, the cost of sending both USD1 and USD10 was higher than the value that was being sent in most cases.

Investigating the non-financial cost of sending money across the border, all counterparties stated that it took less than 10 minutes to conduct the transaction (filling out of forms). In addition, the money is available for the counterparty to receive it almost instantaneously. In all three countries proof of ID is required to conduct the transactions. In South Africa, proof of ID and proof of residence is required to send money across the border.

The non-financial cost of sending money across the border therefore appears to be low in all of the countries we have data for. This is indeed aided by having the same service provider present in multiple countries as the same technology is leveraged across countries. This is a positive indication of RFI; however the burdensome financial cost remains a barrier to RFI as it is still very expensive to send money across the border.

Emerging insights

The following views were shared during interviews:

- Based on our interview with Mukuru, the South Africa-Zimbabwe corridor offers the most potential for money transfer agencies to expand their businesses into. There is a large demand for the service and a large target market that can be served. Other corridors that have been explored are the South Africa – Mozambique corridor however there are a number of regulatory barriers in Mozambique that are preventing this development. In addition, the language barrier poses a challenge.

- Some of the successes in cross-border capital flows:
  - The SIRESS system is seen to be advancing RFI in the area of cross-border capital investments. The system operates in real-time which limits the risk that investors would typically face with cross-border investments. Based on our interview with the South Africa Reserve Bank, the system is currently very expensive for banks to make use of which is a deterrence however, it is expected that as the system is taken up by more banks the cost of using the system will decrease.
  - There are a lot of new entrants in the money transfer market: Mukuru opened in 2009 and charges customers a flat fee of 10% of the value of the transaction, Shoprite has also entered into the market by offering cross-border money transfers between South Africa and Lesotho and has captured the market by charging a fixed fee of R9.99 per transaction. Mama Money allows Zimbabweans living in South Africa to send money home through their cellphones at a rate of just under 5% of the total value of the transaction. Pick 'n Pay together with MTN recently launched a mobile money transfer service to South Africans and there is expectation that the service will be expanded to cross-border transfers. The recent influx of non-traditional entrants into the money transfer market implies that prices will eventually begin to decrease and that the market will in fact be captured by the non-traditional market players as opposed to banks who will unlikely decrease their prices
- Some of the challenges in cross-border capital flows:
  - SIRESS currently only operates in ZAR which limits its use for many countries outside of the CMA. While there are banks from five non-CMA countries participating in the SIRESS system already, these banks have to first convert the funds into ZAR through a foreign exchange transaction. This creates a barrier to its use in countries where the Rand is not easily convertible into the domestic currency, for example due to liquidity issues. Operations in ZAR also cause additional costs if double conversion is required. There is a likelihood that the system will be expanded to operate in USD as well which will assist in overcoming this issue.
  - The data we present on SIRESS shows that the volume of transactions on the system has increased; however, less is known about the impact of SIRESS on increasing the volume of transactions across borders in general. Further, the costs and benefits of the system need to be explored and documented, as a means of 1) addressing banks' concerns (real and perceived) and 2) encouraging non-participating banks to participate.
  - SIRESS holds potential as a means of improving settlements in SADC stock exchanges too. This functionality has been added to the system; however, no stock exchange has yet joined. The reasons behind this lag in participation need to be understood to encourage greater participation amongst SADC stock exchanges.
  - Since many SADC stock exchanges face liquidity issues, it is also important that USD operations are enabled to prevent further exacerbating these liquidity constraints.
  - There are three components to a cross-border money transfer cost: paying cost (getting money from your customer – handling cash), switching component (remittance part) and the payout cost (handling). Cash handling is still a big component of the total cost which poses a challenge.

- The SIRESS system is expected to play a bigger role in RFI in future once the system is able to operate in USD, in addition to ZAR . This will influence more countries and banks to make use of the system which will help to drive down the cost
- Overall, there appears to be strong capital flows between South Africa and its neighbouring countries implying that integration has increased in this domain. However, formal remittance activity within the SADC region seems to be limited, as the data counter intuitively indicates that South Africa and Mozambique have the strongest remittance relationship in the market. The lack of remittance data for Zimbabwe poses a problem, as it is very likely that there is a large value of remittances being transferred to and from Zimbabwe. There may also be some barriers to formal remittances, given that activity is low between South Africa and other countries in the region outside of the CMA and it may be that informal remittances occupy a large share of the market. Interestingly, most SADC countries remit more money to and from other SADC countries than they do with non-SADC countries. Alternatively both the aforementioned findings may be a function of the pattern of migration and settlement dynamics.
- There is potential for the remittance market to be captured by non-traditional financial sector players such as retailers. It remains to be seen but interviewees discussed their view that banks and formal remittance agents might not be able to compete with retailers on the basis of price. However, retailers are not authorised dealers of foreign exchange and therefore must still settle through a partner bank. These arrangements might dampen the decrease in prices that could result from retailers' expansion into the rest of SADC.

4.3 Theme 3: Financial products and access to finance

Rationale

Within independent financial markets an analysis of the financial institutions, their products and the level of access to finance, can provide an indication of the extent to which regional financial integration is taking place. Financial institutions, through their presence and the range of their market offerings, indicate the attractiveness of the market and the ease at which they are allowed to enter it. The number of SADC-owned deposit-taking retail banks operating in other SADC member states is both an indicator and driver of RFI. A greater number of banks operating in the region should lead to increased competition and, theoretically, the convergence of banking prices.

The pricing strategies of these institutions, in turn, reflect the dynamics of the market they are in and the level of competition that exists. The SIRESS system is an enabler of RFI in SADC and an assessment of the levels of participation in this system indicate how RFI is being promoted in the region and the extent to which financial institutions are aligning themselves with it. As RFI occurs it is expected that the cost of financial services will fall which will lead to an increase in the access to financial services. It is for this reason that this indicator is considered.

Indicators and supplementary data

This theme consists of three main indicators; namely:

1. Indicator 8: The number of SADC financial service providers offering retail services in other member states
2. Indicator 9: Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product and savings product)
3. Indicator 10: Increased access to formal financial services (% financially included)

The following table presents supplementary data collected and the source of information for each indicator.

Table 13: Theme 3 indicators and supplementary data

Indicator	Indicator of RFI	Specific data	Source of information
Indicator 8	The number of SADC financial service providers offering retail services in other member states	The number of major Financial Service Providers(FSPs) that operate in multiple SADC countries The number of participating banks in SIRESS The number of banks that hold overnight balances in SIRESS (indicative of frequency of activity)	Consultations with key informants in SARB, SIRESS and commercial banks Visiting commercial and central banks' websites Visiting SIRESS websites
Indicator 9	Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product)	Price of a 'typical entry-level " current product Price of a 'typical entry-level ' savings product Price of a mobile money transaction	Consultations with Key informants in commercial banks in South Africa. Visiting commercial banks' websites Visiting Mobile Network Operators' websites
Indicator 10	Increased access to formal financial services (% financially included)	Proportion of the population financially included Most common type of transaction/account held by financially included Proportion of SMEs financially included	Finscope Consumer and SME surveys Visiting CGAP website

What have we learned since the last study?

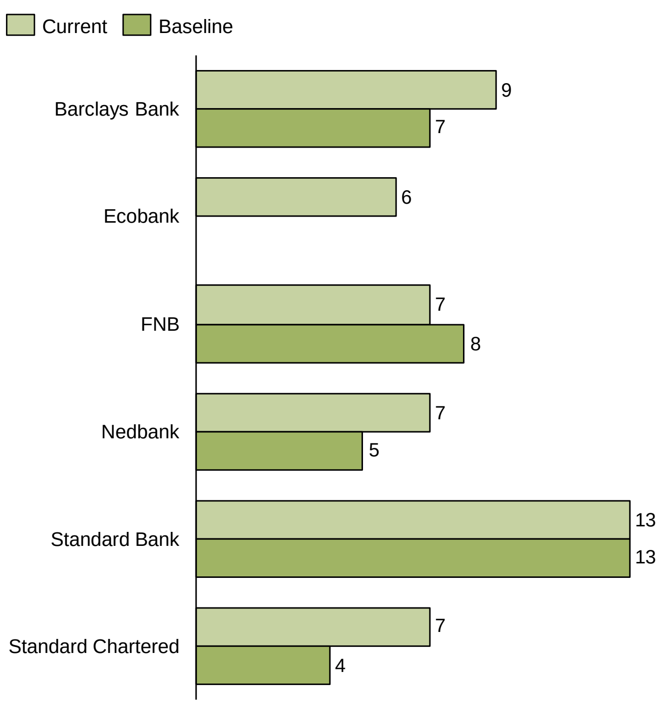
- In the previous study, Indicator 8 considered the number of SADC banks offering retail services in other SADC countries. We have completed a second data point from this baseline.
- We attempted to explore the footprint of the other FSPs, specifically insurers. However, this information proved to be limited from online sources.
- We also consider the current state of operations of the SIRESS system, given that this system was launched since the previous study.
- As in the previous study, Indicator 9 considers the costs associated with entry-level current and savings accounts as implemented by commercial banks across SADC.
- As a result of the growing influence of mobile technology within SADC and its applications for banking, this study considers the costs associated with mobile money services in SADC.
- This study continues the consideration of financial access as an important end objective of RFI. Additionally, this study seeks to determine the most common financial products used by the financially included.

Indicator 8: Number of SADC financial service providers offering retail services in other member states

This indicator explores the extent to which major financial institutions (banks, insurance providers, mobile money service providers and money transfer agencies) are expanding within SADC region. This is both an indicator and driver of RFI. A greater number of financial service institutions operating in the region can result in increased competition and, theoretically, the convergence of financial offerings and product prices.

The following graph illustrates the most prominent multinational banks operating across SADC in terms of the number of countries in which they have a presence. The figures are based on the most recent data accessed through the official websites of these financial institutions. and are compared with the 2011 data captured in the previous RFI study (baseline)The banks presented in the following figure represent the retail banks which have a presence in at least five countries in the SADC region. The number of multinational banks operating within the SADC region has increased. However, of those multinational banks that have increased their operating footprint, only Nedbank can be classified as a SADC-headquartered bank. The rate of expansion by these banks is modest, which does not tell a compelling story of increased RFI. However, the size and depth of the presence of these banks is not measured, which could provide a different perspective on RFI as it relates to retail banking in SADC.

Figure 30: Number of Multinational banks operating in SADC (2015)[18]

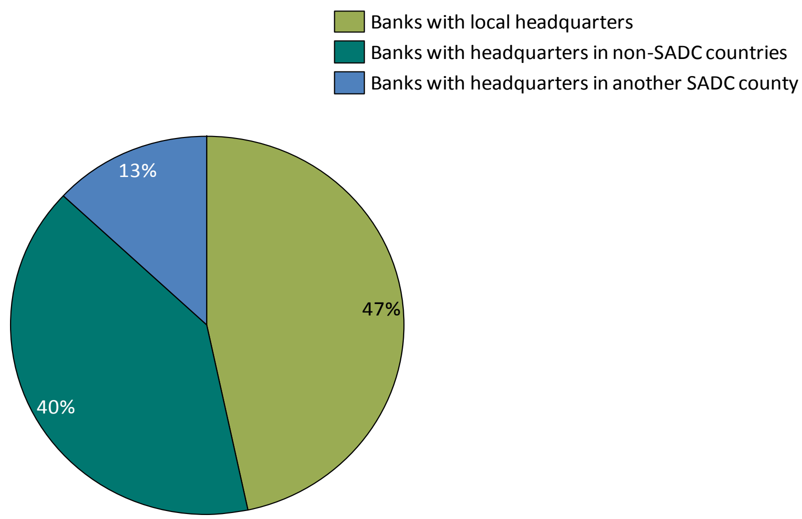


Source: Bank websites, 2015

[18] Ecobank was not considered in the baseline study

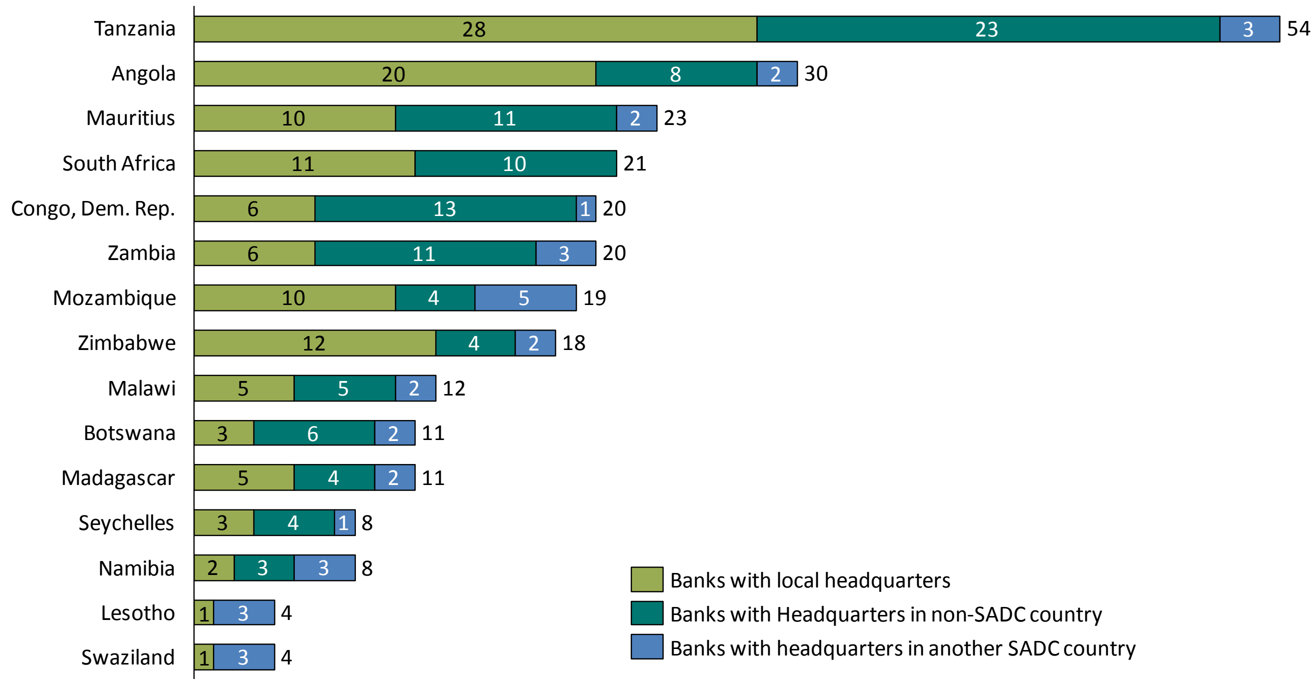
The following graphs present the number and proportion of retail banks operating in each SADC member state in 2015. The graphs consider the extent to which cross-border banking in SADC is growing by illustrating how banks are distributed within the region. The data collected through central banks and retail bank websites provides an indication of which banks are operating within the SADC region and the specific countries in which these banks have a presence. The current dataset indicates the proportion of retail banks that are headquartered outside of the SADC region is much larger than the proportion of banks that have a presence in SADC and are headquartered in a SADC member country. This is supported by Figure 31 which shows only 12.5% of retail banks operating in SADC are headquartered in another SADC country while 40% of the banks are headquartered in non-SADC countries and 47% are headquartered locally.

Figure 31: The proportion of retail banks operating in each SADC country



Source: Bank websites, 2015

Figure 32: The number of retail banks operating in SADC



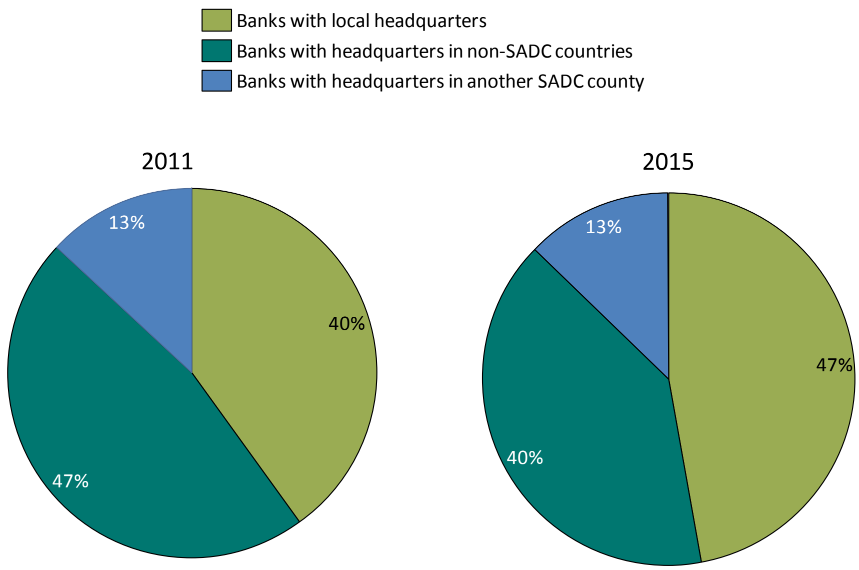
Source: Bank websites, 2015

Figure 33 offers a direct comparison between baseline figures and data from the present study regarding changes in the distribution of banks across SADC.

Comparisons drawn between the current study and the baseline study indicates the proportion of banks with SADC-based headquarters has increased by approximately 7% since the baseline study, while the proportion of Banks with headquarters in non-SADC countries has decreased by 7% over the same period.

This shift could indicate the lack of real improvement regarding the reduction of barriers to entry, both market and regulatory, since the baseline study in 2011, which has led to member states promoting the development of their banking sectors internally to cater for local demand needs. While this may be prudent in terms of local economic development, the implications for RFI means the interaction between financial markets in SADC would not be occurring at the levels expected in order to facilitate significant RFI. More information is needed before this conclusion is reached; however, it is an interesting area for further exploration.

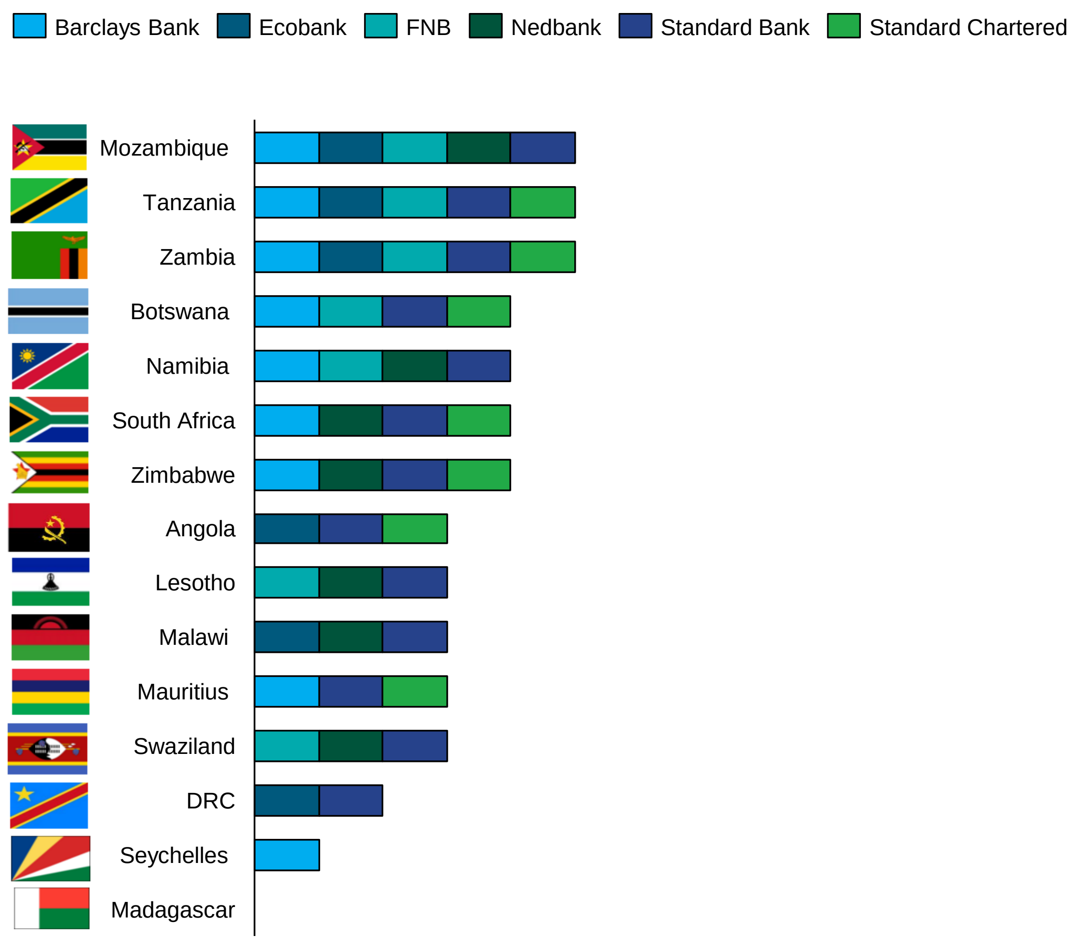
Figure 33: Proportion of banks operating in each SADC country (2011 and 2015)



Source: Bank websites, 2015

In addition, the below graphs represent the geographical footprint of the largest financial service providers that operate within the SADC region. For the purposes of this study, only FSPs that have a presence in at least five SADC countries have been considered.

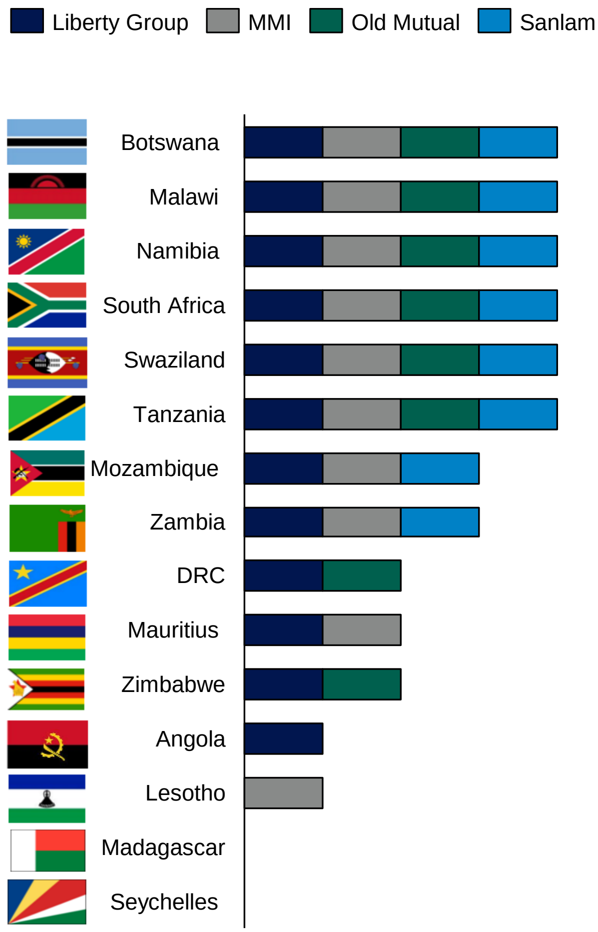
Figure 34: Geographical footprint of largest banks



Source: Bank websites, 2015

Of the six banks represented above, five of them have a presence in Mozambique, Tanzania and Zambia (with Barclays, Ecobank, FNB and Standard Bank having a presence in all three countries). Standard Bank has a presence in all SADC countries with the exception of Madagascar and Seychelles.

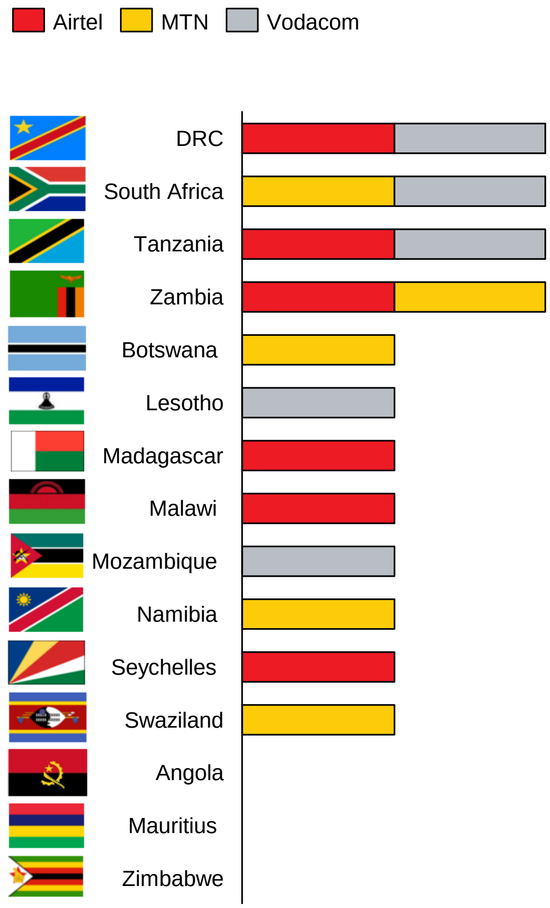
Figure 35: Geographical footprint of largest insurance providers



Source: Insurance provider websites, 2015

All four of the insurance providers represented above have a presence in Botswana, Malawi, Namibia, South Africa, Swaziland and Tanzania. None of these insurance providers have a presence in Madagascar and Seychelles.

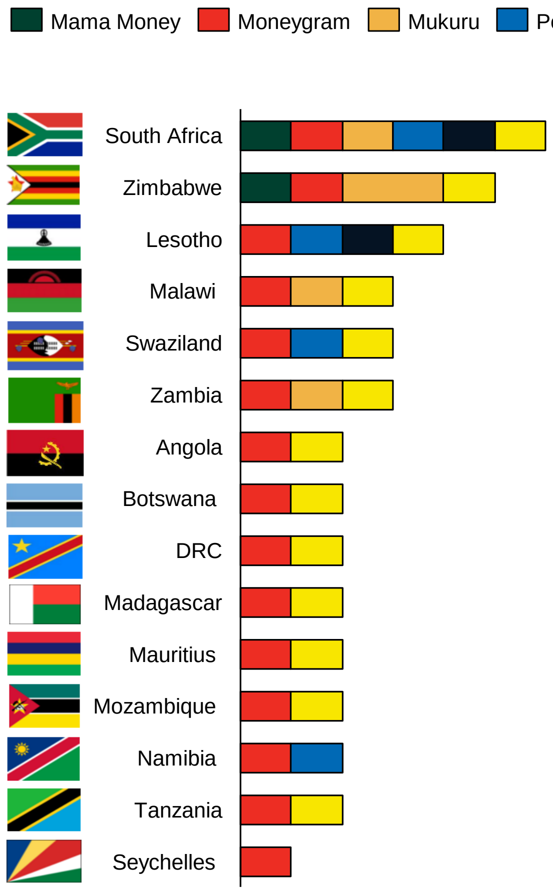
Figure 36: Geographical footprint of largest mobile money service providers



Source: MNO websites, 2015

In all of the countries, there are at most two of the largest MNOs present. Airtel has the largest presence in the region, having a presence in six SADC countries. None of the MNOs represented above have a presence in Angola, Mauritius and Zimbabwe.

Figure 37: Geographical footprint of largest mobile money service providers



Source: Money transfer agencies websites, 2015

According to the diagram above, Moneygram has a presence in all of the SADC countries. All of the money transfer agencies represented above have a presence in South Africa.

The Southern African Development Community (SADC) Integrated Regional Electronic Settlement System (SIRESS) is an electronic payment system developed by SADC member states to settle regional transactions among banks within the SADC countries on a gross basis and in real time. It is intended to replace paper-based instruments such as bank drafts and cheques and facilitate electronic transfers within SADC member states.

SIRESS was implemented in July 2013 as part of an overarching process envisioned by the Committee of Central Bank Governors (CCBG) in the SADC region to achieve the objectives of the SADC Finance and Investment Protocol (FIP) which states that, inter alia, SADC countries should cooperate on payment, clearing and settlement systems in order to facilitate trade integration. Currently the SIRESS system caters to 73 participating banks from 9 countries across the SADC region.

Consultation with key informants revealed several successes of the SIRESS system:

- The SIRESS platform should enable a significant increase in both the number of transactions settled between SADC countries, as well as the monetary value of these transactions given that it providers a harmonious, real-time payment system across the region which simplifies cross-border flows.

- The use of the Rand as the settlement currency with banks across the CMA has enabled a more rapid, and less expensive, settlement of transactions as there is only one currency conversion meaning banks settle with each other directly though SIRESS.
- This only applies to CMA countries however, implying that non-SADC countries seeking to join SIRESS would still incur the cost of having to convert twice to process a transaction, either to Rands or Dollars.
- The SIRESS system requires that each participating bank hold at least two settlement accounts for use of the system: These settlement accounts are the Continuous Processing Line (CPL) and the Real Time Line (RTL). The advantage of CPL over the RTL is that the former allows accounts to be continuously funded either from the Real Time Line (RTL) – the main settlement account – or from inter-bank loans or lending facilities through its domestic central bank. This feature improves the efficiency with which cross-border transactions take place, directly improving the circulation of goods and services and the pace of economic expansion in the region. At present, the volume and value of CPL settlements significantly exceeds that of RTL settlements which would suggest this account is preferred by participating banks

Analysis of the number and value of settlements processed by the SIRESS system, levels of SADC bank participation within the system and the value of overnight balances held by SIRESS provide an indication of the growth the system has undergone since its inception, and the extent to which it has succeeded in achieving its purpose of facilitating easier cross-border transactions in the region.

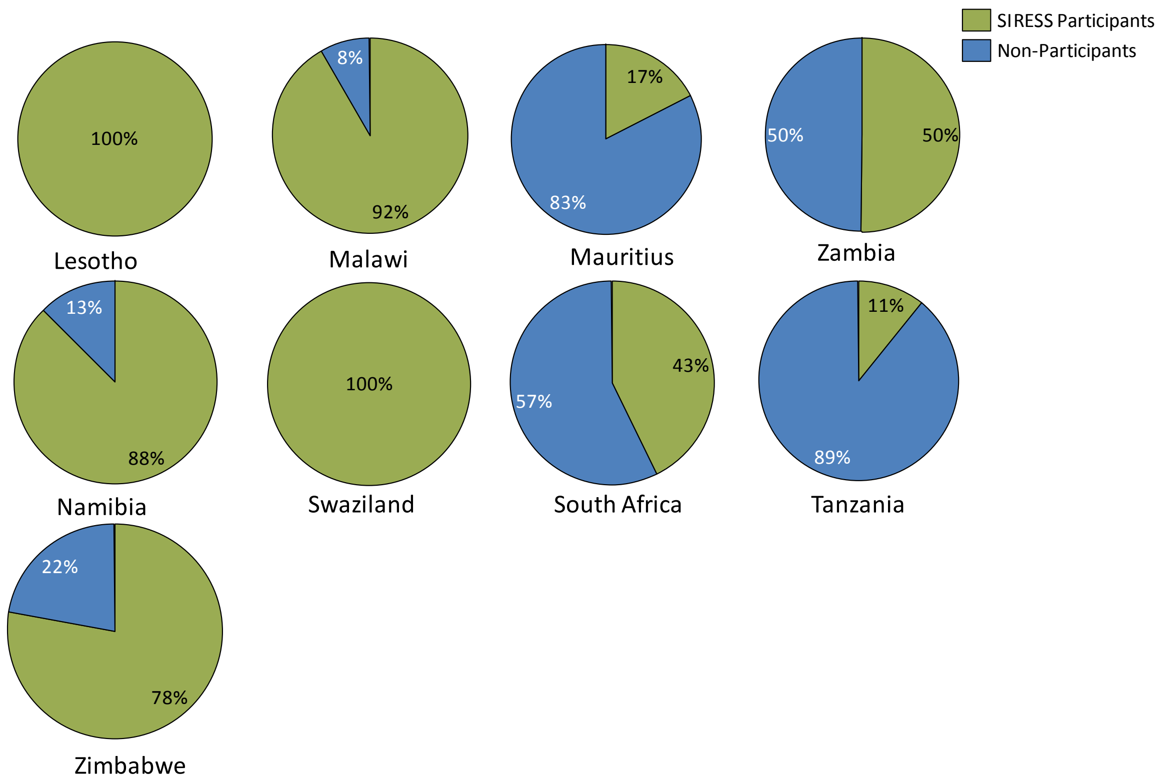
The following graphs highlight the extent to which retail banks within several SADC member states are being integrated into SIRESS. The majority of banks (central and reserve banks and commercial banks) within Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe currently participate in SIRESS. On average, 64% of the retail banks in countries where there is SIRESS participation, are integrated into the SIRESS system. An increase in the number of retail banks who opt to become a part of the SIRESS system would indicate the development of the system and the extent to which facilitation services are actively promoting RFI.

Since its inception in 2013 the value of transactions that are settled through SIRESS has increased by 90% as at September 2015. This correlates with the observed 3,713% increase in the number of transactions settled through SIRESS over the same period. Note that these impressive increases are to be expected given that the system is new so the increase is off quite a low base. It will be important to track the value and number of transactions on SIRESS going forward.

We were unable to access data on cross border transfers that are not settled through SIRESS and as a result, we are unable to comment on the total value of cross border transfers.

The figure below presents the proportion of participating retail banks per SADC member country.

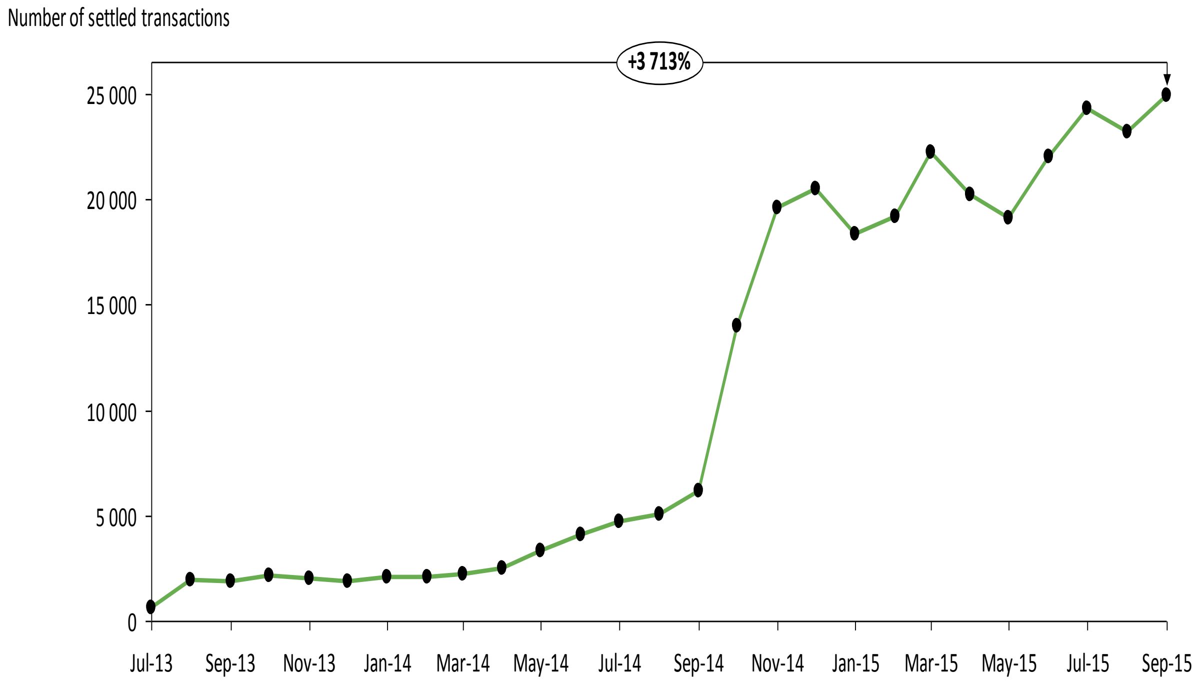
Figure 38: The proportion of SADC retail bank participation in the SIRESS system (%, 2015)



Source: South African Reserve Bank data, 2015

Figure 39 illustrates the number of transactions successfully settled by SIRESS per month from July 2013 to September 2015. The graph captures the percentage increase in the number of transactions settled by SIRESS from its inception in July 2013 to September 2015.

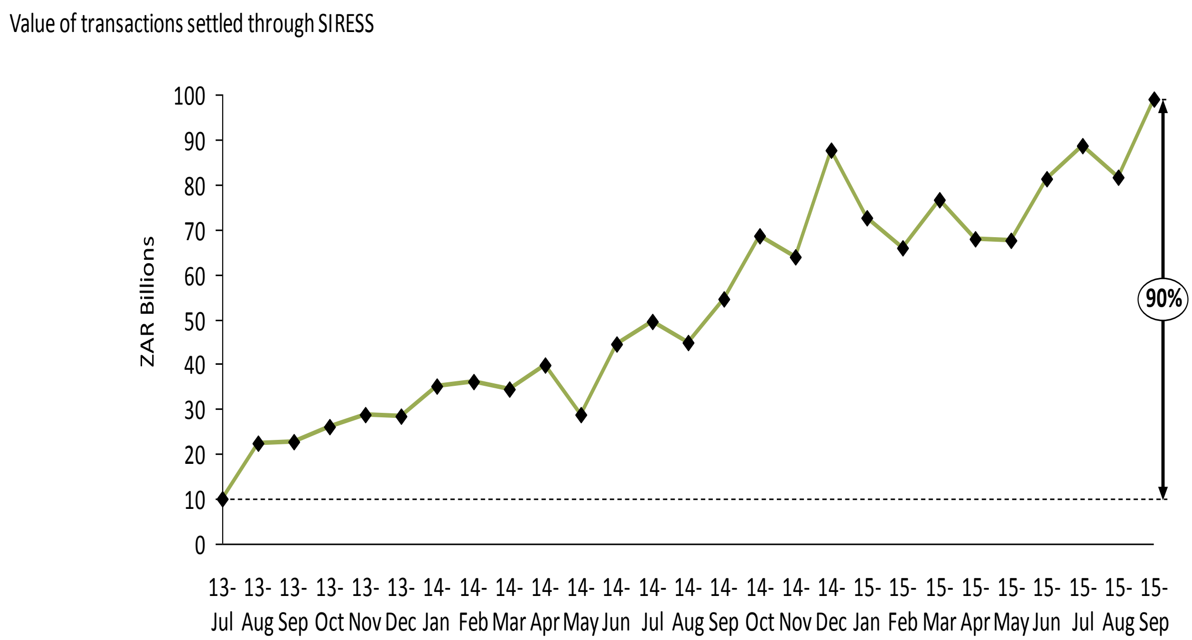
Figure 39: Number of transactions settled by SIRESS (Units, 2015)



Source: South African Reserve Bank data, 2015

Figure 40 presents the value of transactions settled through the SIRESS system from July 2013 to September 2015 on a monthly basis. The value of the transactions is depicted in Billions of Rands and captures the growth in the value of transactions processed since the inception of SIRESS in July 2013.

Figure 40: Value of transactions settled through SIRESS (ZAR billions, 2015)



Source: South African Reserve Bank data, 2015

- The uptake of SIRESS in terms of volume, value and participation rate all display a positive trend since its inception. Should these positive trends continue, it is likely that SIRESS will assist in enabling RFI.
- SIRESS continues to expand its reach across SADC, with a well-placed interviewee expressing that an additional 5 countries have indicated that they will join the system by March 2016. The continued uptake of new countries and new banks into the system can be viewed as a positive step for RFI in SADC.
- One of the determining factors for bank participation on SIRESS will be the extent to which banks offer cross-border payments will influence whether they decide to participate in SIRESS or not.
- We were unable to locate data pertaining to SIRESS transactions, balances and settlements per individual banks which would have offered insight into the scale of each bank's activity on SIRESS and the degree of integration at the country-level.

Indicator 9: Prices of financial services and products across SADC begin to converge

This indicator considers the costs associated with entry-level transactions and savings accounts offered by banks operating in SADC, as well the costs associated with mobile money services across SADC. An outcome of de jure RFI is standardised regulation of financial markets and institutions in the SADC region. This should make it easier for banks to expand to new markets, increasing the number of banks that operate across borders. As a result, financial markets will see an increase in the level of competition between banks, which will encourage the development of new products and the convergence of prices for comparable banking services and products across SADC member states. This theory applies to both the banking industry and mobile network operators (MNOs).

- The previous study sought to measure the cost of an entry level current account and savings account products offered by a local retail bank and a foreign retail bank in each SADC country. The current study measures the same indicator as an indication of the level of RFI.
- In addition, this study considers the cost of mobile money transactions in SADC. The increase in access to mobile money services as well as the range of products being offered within the SADC region means that mobile money is a key indicator to measure.
- Effort was made to use the same banks included in the previous study to aid comparison; however, since information was collected in-country in the first study, there are some data gaps.
- In terms of mobile money, Airtel, MTN and Vodacom were the MNOs that were considered given their strong presence in the SADC region
- The main difficulties experienced relate to data availability and product offerings in the context of the banking product costs. In the case of several banks the data available was either incomplete or the types of accounts on offer from a particular bank. With regard to the costs related to mobile money services, in the countries where MTN and Vodacom do not have as strong a presence, there was a lack of data available pertaining to the cost of mobile money services.

Table 14 illustrates the challenges encountered in the data collection process for Indicator 9.

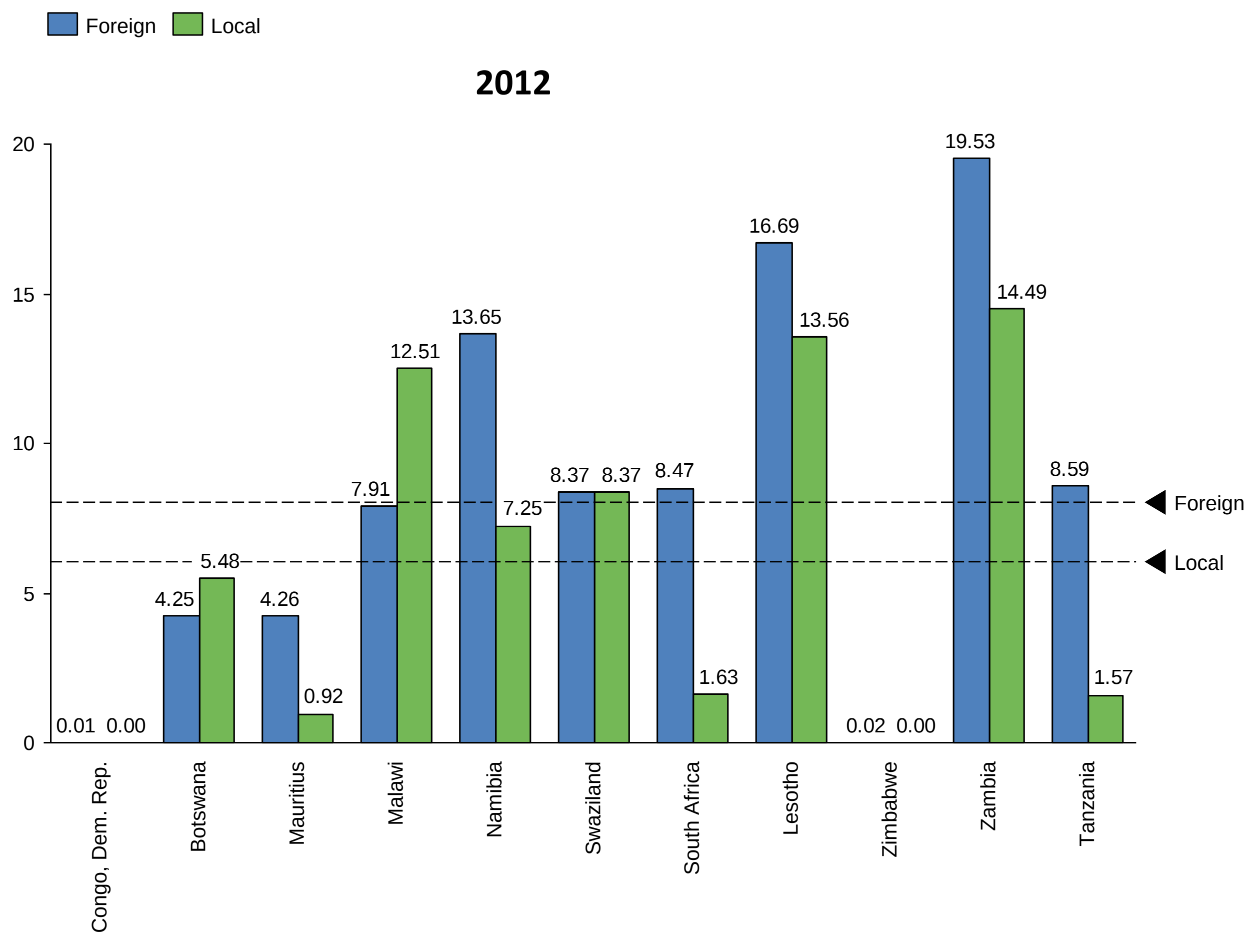
Table 14: Indicator 9: Data gaps

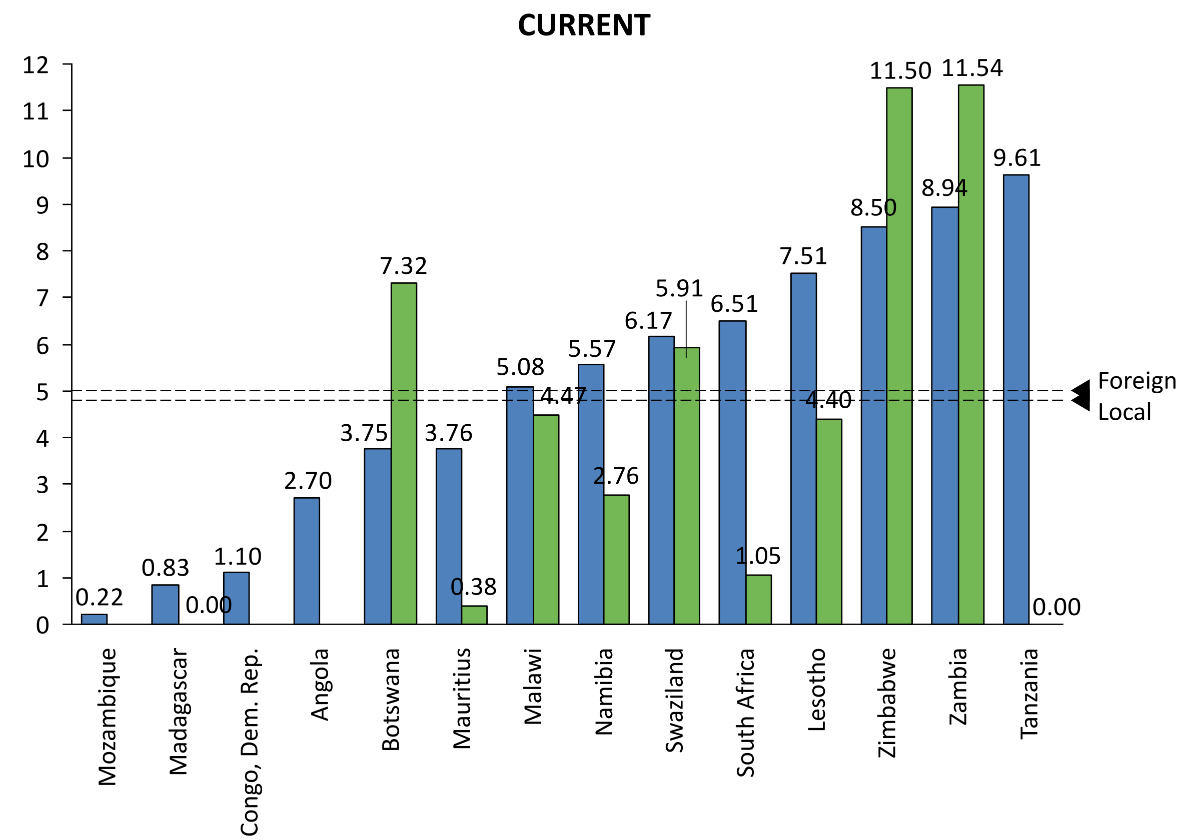
Indicator	Observation	Unavailable Data
Prices of financial services and products across SADC begin to converge	Lack of data available on the costs charged by Standard Bank/Stanbic for entry-level accounts	Savings account data for Angola
		Savings account data for Mauritius Incomplete Current account data available for Mauritius
		Savings account data was unavailable for Mozambique
		Savings account data was unavailable for Seychelles Current account data was unavailable for Seychelles
		Savings account data was unavailable for Zambia
		Savings account data was unavailable for Zimbabwe
	Lack of data available on the costs charged by indigenous banks for entry-level accounts	Savings account data was unavailable for Banco Economico in Angola Current account data was unavailable for Banco Economico in Angola
		Savings account data was unavailable for Commercial bank of Congo, DRC Current account data was unavailable for Commercial bank of Congo, DRC
		Savings account data was unavailable for Commercial Investment Bank- Fomento, Mozambique Current account data was unavailable for Commercial Investment Bank- Fomento, Mozambique
		Savings account data was unavailable for Mauritius Commercial bank, Seychelles Current account data was unavailable for Mauritius Commercial bank, Seychelles
	Lack of data available on the costs charged by Airtel, MTN and Vodacom for mobile money services	Data on the cost of mobile money services was unavailable in countries where MTN and Vodacom did not have a presence, namely DRC, Madagascar, Malawi, Mauritius, Seychelles and Zimbabwe

The following figure presents the costs of an entry-level current account as charged by a foreign bank (Standard Bank) and an indigenous bank in each SADC member country.

- The average costs of holding an entry-level current and savings accounts were derived by considering several cost proxies which the holder of an entry-level account would typically incur; these include a monthly service fee, branch deposit fee, branch withdrawal fee, ATM statement fee and ATM withdrawal fee. The average cost of these accounts represents the minimum amount charged by the bank in order for the consumer to use the services offered through the account.
- Under the South African context, Standard Bank was considered as the foreign bank in order to ensure consistency with as many other countries as possible. The local bank considered was Capitec as it fits the profile of a local bank in South Africa
- Available data indicates the average minimum costs associated with an entry-level current account are $5.01 and $4.89 charged by foreign and local banks respectively.
- The previous study determined the average minimum cost of a foreign bank current account to be 35.25% higher than that of a local current account. Within the current study this differential has decreased to 2.51%.
- Caveats to be noted for these findings are the omission of Seychelles due to the lack of data available. Local current account banking data for Mozambique, DRC and Angola could also not be obtained.
- In the instances where banks did not offer certain services or did not have a presence in the SADC countries under consideration, these were omitted.
- The results suggest the costs charged by foreign banks, specifically Standard Bank in these studies, have decreased relative to local bank costs for both a current and a savings account. However, this may not be a result of increased RFI within the region but instead reflecting the domestic competition environment and/or internal efficiency of banks.
- It is also important to highlight that even though the same foreign bank was used in the cross-country comparison, the cost differed significantly between countries. This may be a result of local country contexts and circumstances or varying rules on balance sheet holdings.

Figure 41: Cost of an entry-level current account (US Dollars, 2012, current prices



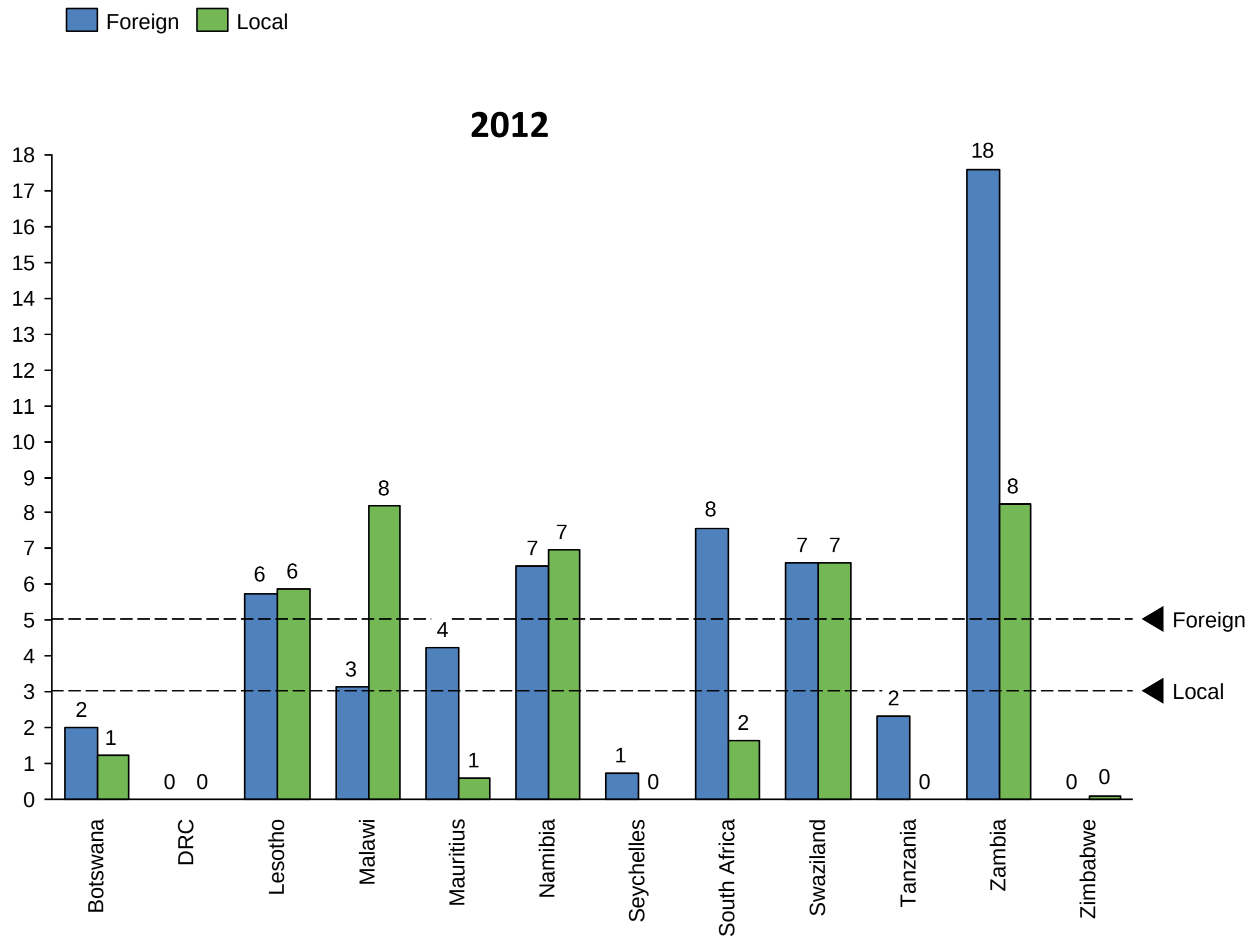


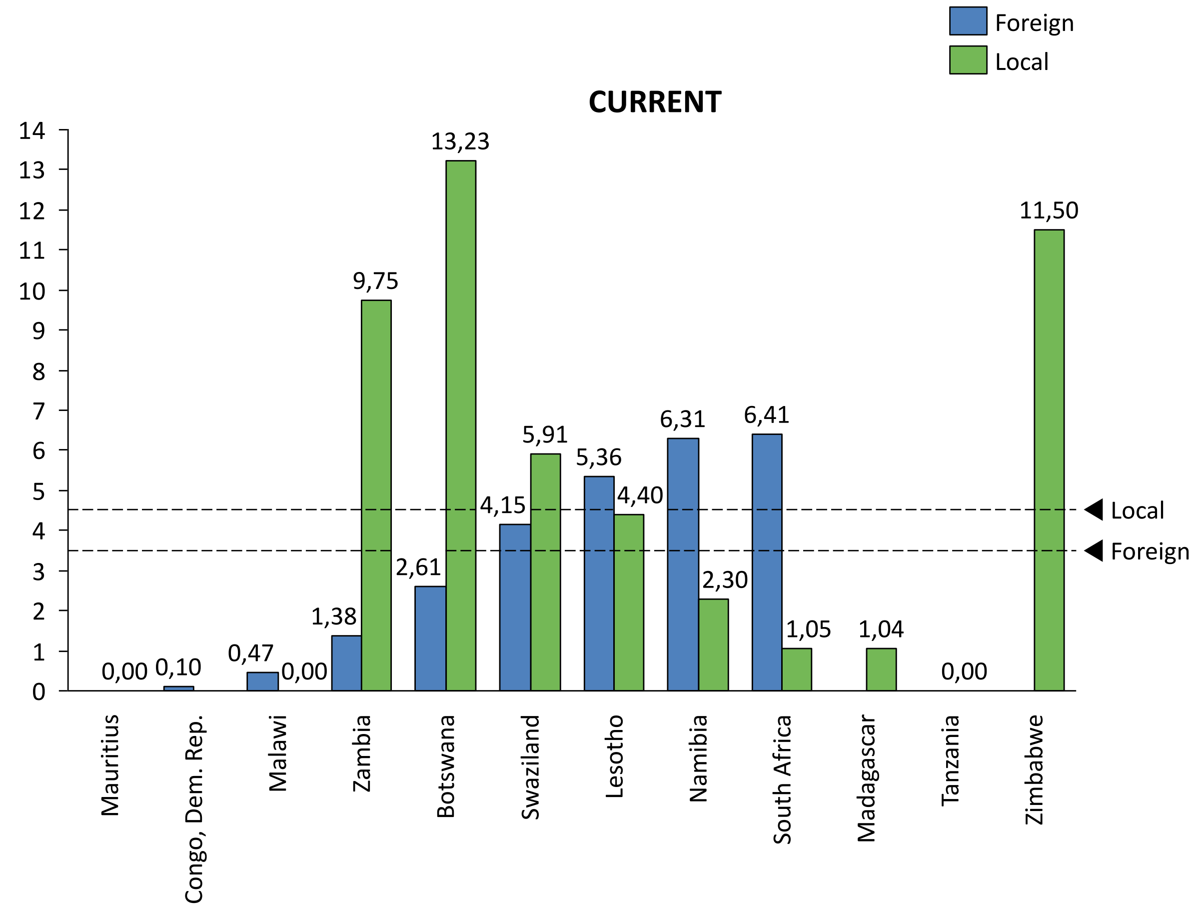
Source: Official bank websites; Mystery shopping exercise through in-country consultants; Stakeholder interviews, 2015

Figure 42 presents the costs of an entry-level savings account as charged by a foreign bank (Standard Bank) and an indigenous bank in each SADC country.

- The average minimum costs of an entry-level savings account are $3.34 and $4.47 charged by foreign and local banks respectively.
- In the instances where banks did not offer certain services or did not have a presence in the SADC countries under consideration, these were omitted.
- The original study found the average minimum cost of a savings account from a foreign bank to be 43.27% higher than that of a local bank. The current study indicates that there has been a significant shift regarding the costs associated with savings accounts as a local bank will now charge 33.51% more than a foreign bank.
- It is important to note that even though the differential has decreased, the cost of a local savings account has increased while the cost of a foreign bank account has decreased with a local savings account now being more expensive than a foreign savings account.
- It is also important to highlight that even though the same foreign bank was used in the cross-country comparison, the cost differed significantly between countries. This may be a result of local country contexts and circumstances or varying rules on balance sheet holdings
- Caveats to be noted for these findings are the lack of foreign bank savings account data for Mauritius, Madagascar, Tanzania and Zimbabwe, while there is a lack of local bank savings account data for DRC.

Figure 42: Cost of an entry-level savings account (USD Dollars, 2012, current prices)



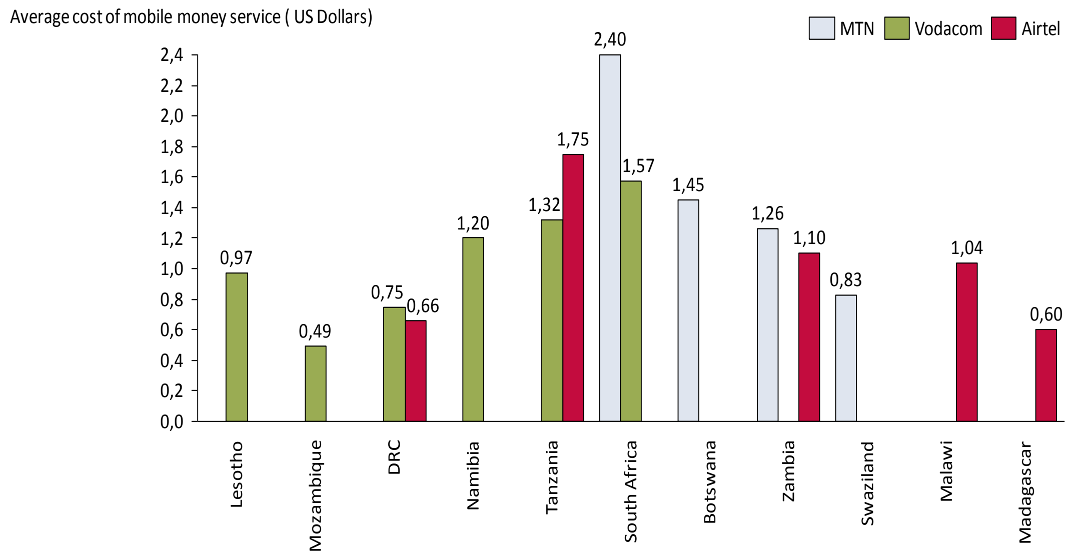


Source: Official bank websites; Mystery shopping exercise through in-country consultants; Stakeholder interviews, 2015

Figure 43 presents data on the average cost of mobile money services through Airtel, MTN and Vodacom. This indicator considers a standard basket of services that is offered by the operators and the costs associated with each of these services. The cost of each service is measured as the fee incurred to complete a transaction of a USD1 and USD10 equivalent amount within each SADC country. The transaction costs are calculated based on a bracket system which assigns a certain cost to the transaction value depending on which bracket range it falls in.

Mobile money costs show large variation and would need to be observed over a number of years to generate a strong conclusion.

Figure 43: Average cost of mobile money services (USD, 2015)



Source: Vodacom, MTN and Airtel official websites, 2015

Indicator 10: Number of people with access to financial services

Indicator 10 explores the extent to which a proportion of the national population per SADC member country has access to formal financial services. This indicator is relevant to this study because as RFI progresses, there will be a reduction of barriers to entry into financial markets, an increase in the level of competition between financial institutions and a broader range of products and services on offer, resulting in a rise in access to financial services.

- In the previous study this indicator looked specifically at the level of access that SMEs and population groups within SADC had to financial services. The current study builds on this analysis but also includes the uptake of formal financial product and the rate of saving and borrowing from formal financial institutions.
- An important first step in improving measurement of access would be to expand the survey to all 15 member states.
- Access to financial services differs greatly from state to state.
- Knowing which financial products and services are most in demand and by which consumer segment in terms of the extent of access they have to financial services, will assist financial institutions in developing targeted strategies and offerings that will promote a greater uptake of consumers and increase the level of financial inclusion in the region, thus contributing to the level of RFI.

Table 15 identifies the countries for which there is incomplete data on the number of people with access to financial services in the SADC region.

Table 15: Indicator 10 data gaps

Indicator	Observation	Country	Resource referenced
Number of people with access to financial services	There were data gaps within the Finscope consumer survey on financial inclusion	Data on the proportion of the population with access to financial services was unavailable for Angola, Madagascar, Seychelles and Tanzania	Finscope Consumer Surveys
	There were data gaps within the Finscope MSME surveys on financial inclusion	Data on the proportion of MSMEs with access to financial services was unavailable for Angola, Botswana, DRC, Lesotho, Madagascar, Mauritius, Seychelles, Swaziland, Tanzania and Zambia	Finscope MSME surveys
	There were time-series data gaps within the Finscope MSME surveys on financial inclusion	Data on the proportion of MSMEs with access to financial services was available for 2010 results for South Africa and 2012 results for Mozambique, Zimbabwe and Malawi. However, more recent data was unavailable.	
	Time-series data gaps existed in the Global Findex Database for Financial inclusion indicators used, namely formal borrowing; formal saving and the holding of an account at a formal financial institution	Time-series data gaps existed for Namibia. Data available for 2011 but not available for 2014	Global Findex Database 2014
		Time-series data gaps existed for Swaziland. Data available for 2011 but not available for 2014	
		Time-series data gaps existed for Lesotho. Data available for 2011 but not available for 2014	

Indicator	Observation	Country	Resource referenced
	The Global Findex Database did not provide data for Financial inclusion indicators used, namely formal borrowing; formal saving and the holding of an account at a formal financial institution	Data was not provided by Global Findex Database for Mozambique and Seychelles	

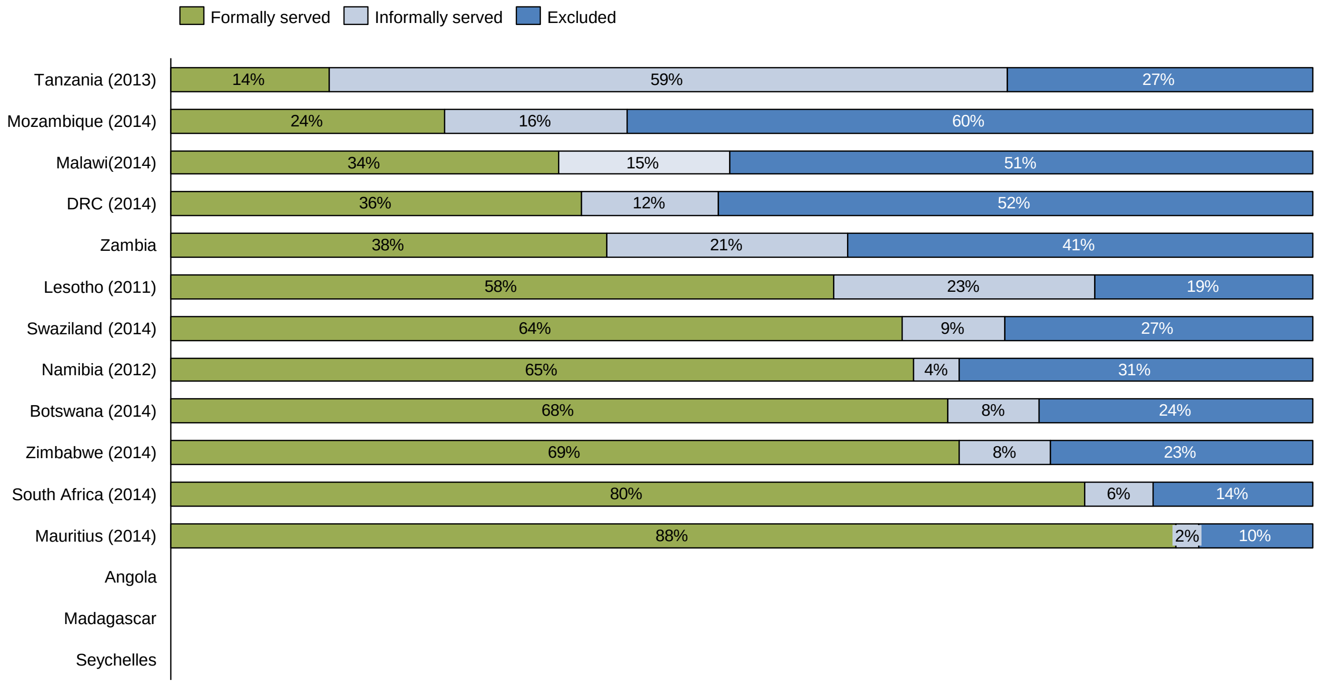
Figure 44 and Figure 45 show the proportion of the population per SADC member country that has access to financial services, for the current study and baseline study respectively.

The rate of access to financial services has increased as the proportion of the population that are now served, both formally and informally, has increased since the previous study for the countries in which current data is available. Exceptions are:

- Namibia, which has stayed constant at 65% formal financial inclusion, which might be because the two data points collected were only a year apart.
- Lesotho does not have a second data point available so a conclusion cannot be reached on financial inclusion progress.

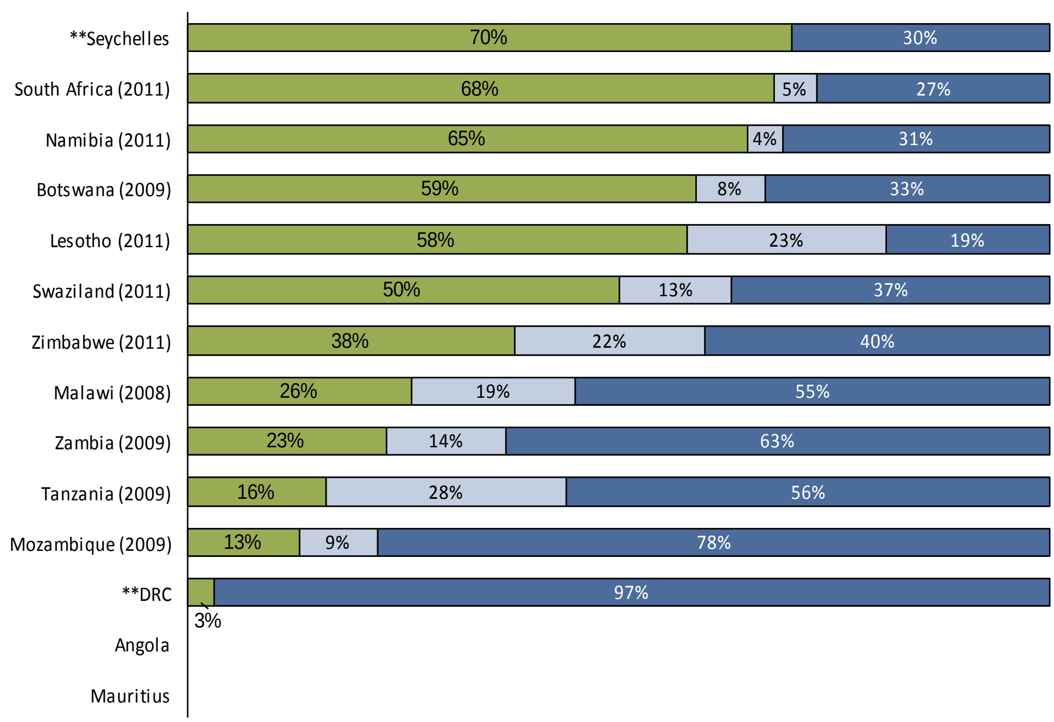
The rate of progress in the DRC from 3% to 36% should be interpreted with care, given that the 2012 data point was reported by the DRC government and not collected through Finscope; therefore, different measurement approaches might have been applied. In order for these increases in financial inclusion to be attributed to RFI, there will be corresponding progress in the other indicators of RFI as well.

Figure 44: Proportion of population with access to financial services (%, 2015)



Source: FinScope Consumer surveys

Figure 45: Proportion of population with access to financial services (%, 2012)



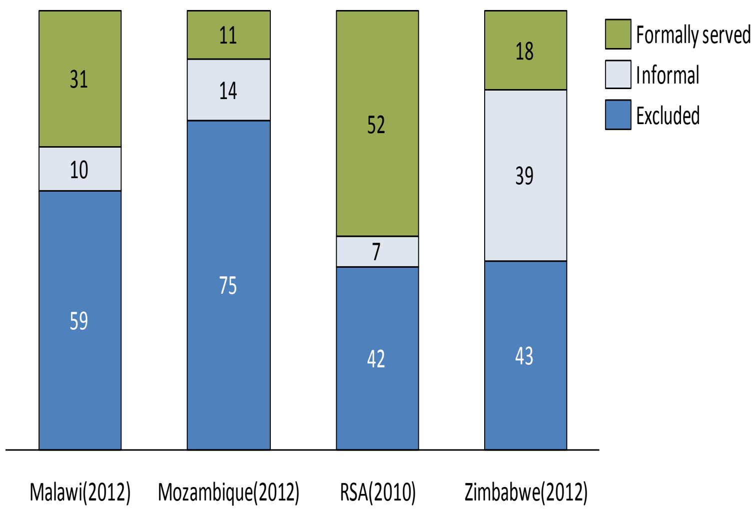
Source: FinScope Consumer surveys

***Information for DRC and Seychelles was collected from in-country sources and not through Finscope.*

Figure 46Figure 46 represents the proportion of Micro, Small and Medium Enterprises (MSMEs) with access to finance per SADC member country.

SME data has remained unchanged since the previous study. The most recent data collected is that for Zimbabwe. More data will need to be collected more regularly in order to draw any conclusions, especially since SME access to finance is an important consideration for SADC's emerging focus on industrialisation and supporting SMEs.

Figure 46: MSMEs with access to finance (%, 2015)

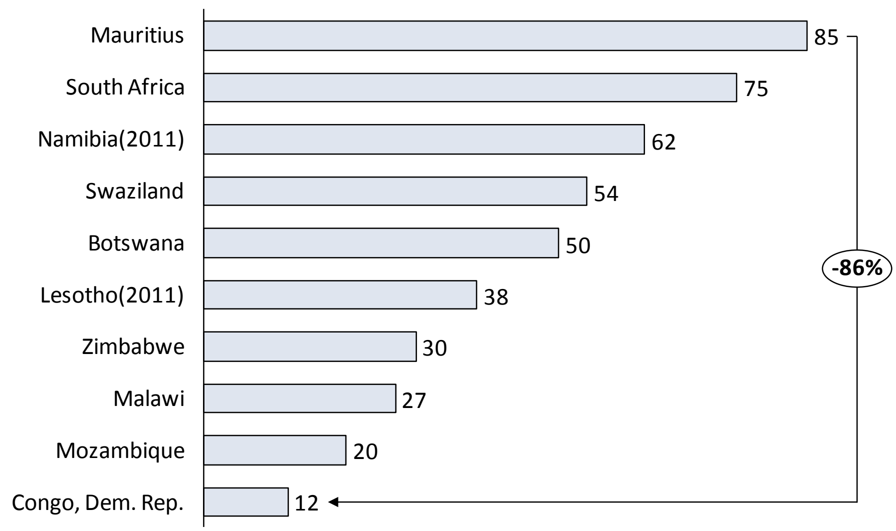


Source: FinScope MSME surveys

Figure 47, Figure 48 and Figure 49 represent the rate of change of three key indicators of financial inclusion in SADC member countries between 2011 and 2014, namely: The possession of an account at a financial institution; formal savings and formal borrowing respectively.

There has been a 2.3% increase in the proportion of people who have an account at a financial institution in SADC between 2011 and 2014. This increase is a function of the substantial increase in the number of account holders at financial institutions in DRC, Zambia, South Africa and Botswana where the number of account holders has increased by at least 7% between 2011 and 2014. This is an indication of greater levels of access to financial services (note: not necessarily usage) in these countries, as well as in the SADC region, which could be attributed to an increase in RFI over this period.

Figure 47: Proportion of the population (age 18+) that holds a bank account (%, 2014)



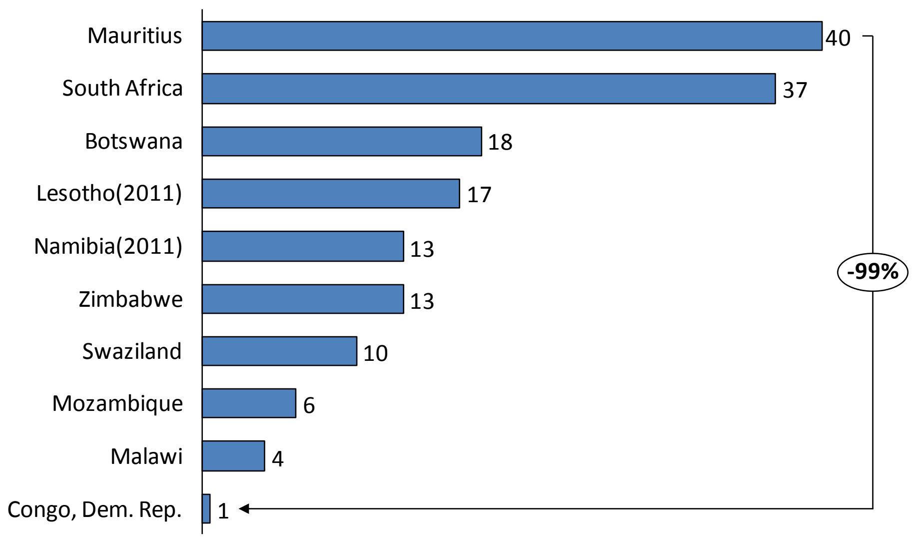
Source: Finscope Consumer surveys

Figure 48Figure 48 indicates the rate of borrowing from formal financial institutions has remained unchanged between 2011 and 2014 in the SADC region. This could be an indication of barriers to formal financial inclusion such as elevated interest rates or unattractive repayment schemes. The price of capital differs for each SADC member country due to the difference in the availability and risk attached to capital in different countries.

RFI theory dictates that as countries become more integrated, increased capital flows will occur between member states and this will drive down interest rates until they converge around an average interest rate that is most reflective of economic fundamentals in the whole region. This would result in an increase in access to financial services as well as greater alignment of financial behaviour such as borrowing from formal financial institutions.

At present, there is no evidence to support this theory, given the substantial differential between the rates of borrowing in Botswana where there was a 7% increase from 2011-2014, while Angola experienced a 5% decrease in the proportion of people who borrowed through formal institutions over the same period.

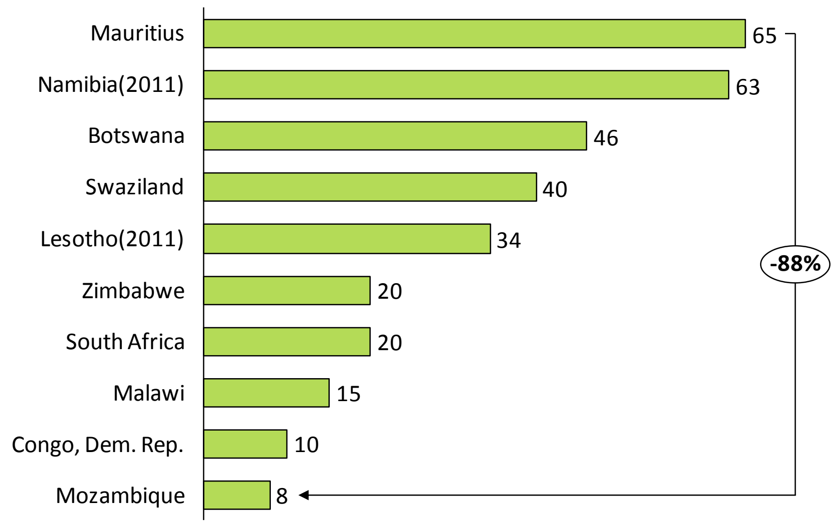
Figure 48: Proportion of the population (age 18+) who borrowed from a formal financial institution (%, 2014)



Source: Finscope Consumer surveys

As per Figure 49 the proportion of people with access to a formal savings account has increased by 2% for the region between 2011 and 2014. This is a positive development for the region as savings can offer a stable springboard from which to begin the path to formal financial inclusion; however, it is clear that a faster rate of progress on this indicator is desirable. Therefore, the importance of finding policy solutions to enable greater linkage between the untapped potential of informal savings groups with formal financial institutions could help begin to close the gap that exists between the formal and informal sectors as well as increase the levels of financial inclusion in SADC.

Figure 49: Proportion of the population (age 18+) who saved at a formal financial institution (%, 2014)



Source: Finscope Consumer surveys

Emerging insights

- The proportion of SADC-headquartered banks that operate in other SADC countries has shown an increase over the period 2011-2015 (with the exception of Standard Bank and FNB) and accounts for approximately 13% of the total retail banks operating in SADC. This is a positive indication that the region is becoming integrated as it implies that there is a reduction in the barriers to entry into neighbouring markets meaning SADC-headquartered banks are able to move more freely into new markets and cater to a wider consumer base.
- Key stakeholders involved in the management of SIRESS have suggested the following:
    - The expectation that the SIRESS system could be a single platform operating through a single currency is not expected to materialize in the short term. Given that not all currencies in SADC are convertible, it is more likely that a US Dollar-based platform be launched to work alongside the existing system. These dual platforms would cover approximately 90% of trade volume in the SADC region, thereby offering greater levels of facilitation of RFI.
    - The cost of the SIRESS settlement leg remains a barrier to banking institutions in SADC. Many banks find it cheaper to keep correspondent bank accounts with each other rather than have accounts with SIRESS. Mauritius is currently one of the countries faced with this type of challenge.
    - Lack of political will remains a barrier to RFI. Active engagement by heads of state to drive regional integration could be improved through engagements with regulators and governments in those countries faced with significant costs for using the SIRESS platform. In addition, ongoing improvement of the SIRESS system is necessary for costs to reflect the lower risk, efficiency and convenience that it could provide banking

institutions and as a result, encourage greater participation of banks in the SADC region.

- Effective monitoring of banks' usage of the SIRESS system over the coming years and how it compares to correspondence arrangements for cross border flows will provide a good indication of how RFI is progressing in SADC.
- Stakeholders consulted who are involved in the South African banking sector suggest the development of cost structures for entry-level financial products within the SADC region, such as current and savings accounts, are dependent on the functionality the products provide, current market conditions, the regulatory environment, existing financial offerings and the value proposition banks aim to deliver.
- This would suggest that the costs of products and services offered are determined within the context of the local commercial and regulatory environment of the country of operation. While financial product prices have shown convergence, the convergence is at a higher cost to consumers. Therefore, it is clear that variation in market regulations, infrastructure, business strategies and so forth still play a stronger role in price determination than RFI.
- The role of mobile money services has potential to promote RFI in SADC. Mobile money services have the potential to increase access to the financial systems for formerly excluded population segments and in doing so improve the capacity of the population to take part in financial transactions within the economy.
- In particular, the further development of cross-border mobile money capabilities within developing regions such as SADC offers a practical solution for cross-border transactions and remittances. This would likely promote RFI in the region and as a result increase the levels of financial inclusion for SADC residents.
    - Mobile Network Operators such as Econet, have been granted permission by the South African Reserve Bank (SARB), in partnership with Western Union and Mastercard, to implement a micro-remittance platform which will allow for the transfer of smaller amounts from South Africa back to Zimbabwe in a way that is easier and less time consuming.
    - A service of this nature will likely alter the pattern of remittances which today is characterised by large, lump sum transfers of around R1 000 being sent monthly or every several months.
    - Engagements between mobile network operators and banks, financial institutions, regulators, government authorities are imperative to enable further progress in this regard.
    - Evidence of the benefits that such collaborations can produce can be seen in East Africa where customers of MTN Mobile Money and Vodacom M-Pesa will be able to transfer money to each other following an agreement to interconnect their mobile money services.
    - The agreement will allow for cross-border mobile payments between M-Pesa customers in Kenya, Tanzania, the Democratic Republic of Congo, and Mozambique; and MTN Mobile Money customers in Uganda, Rwanda and Zambia.
- Countries such as Botswana, Malawi, Mozambique, South Africa, Swaziland and Zimbabwe provide sufficient data to compare changes in the rate of inclusion from the previous study to 2014. Data on these countries indicates that the average level of financial inclusion has increased by approximately 25% over the period of 2008-2014. Based on this evidence, a greater proportion of the SADC-based population now has some form of access to financial

services within their home country. This result should be interpreted with caution as varying data points make direct comparison difficult in addition to a limited sample of countries considered.

- Data on SME financial inclusion will be an increasingly important indicator to track as SME support is an important component of the SADC industrialisation strategy.

4.4 Theme 4: Trade finance

Rationale

Trade finance is a key constraint to realizing SADCs vision of increasing regional trade. The availability of similar trade finance products across SADC, with similar terms and conditions, implies that access to trade finance is limited more by operational and commercial factors than distinct regulatory factors[19].This indicates that the provision of trade finance is not directly constrained by financial market fragmentation. Where markets for trade finance exist, domestic, regional and international bank and non-bank Financial Institutions (FIs) are growing their regional presence and supplying a greater variety of financial products.

In view of trade finance data constraints, the focus of this body of work is restricted to the availability and accessibility of formal trade finance with particular attention paid to access for SMEs.

Indicators and supplementary data

The theme consists of four main indicators, namely:

1. Indicator 11: The severity of access to trade finance as a constraint to trade and the variation in country experience.
2. Indicator 12: The availability of Letters of Credit throughout SADC.
3. Indicator 13: The Terms and Conditions for Letters of Credit throughout SADC.
4. Indicator 14: The cross border supply of trade finance in SADC.

The following table presents supplementary data and the source of information for each indicator.

[19] Interviews with Financial Institutions (FIs) and Private Sector Clients

Table 16: Theme 4 indicators and supplementary data

Indicator	Indicator of RFI	Specific data	Source of information
Indicator 11	The severity of access to trade finance as a constraint to trade and the variation in country experience	Ranking of SADC Countries' access to Trade Finance Positive changes to trends in instrument use towards trade finance instruments	World Economic Forum Global Enabling Trade Report AfDB Trade Finance Report Interviews with selected Export Associations and exporting Business Clubs Interviews with Financial Institutions
Indicator 12	The availability of Letters of Credit throughout SADC	Availability of Letters of Credit in each SADC country Availability of alternative trade finance instruments in each SADC country Thresholds for letters of credit	Interviews with Financial Institutions Financial Institution Websites
Indicator 13	The Terms and Conditions for Letters of Credit throughout SADC	Average cost of letters of credit Average collateral necessary for letters of credit Accessibility of letters of credit	Interviews with Financial Institutions Interviews with selected Export Associations and exporting Business Clubs
Indicator 14	The cross border supply of trade finance in SADC	Exchange controls in SADC countries Rigid credit checking mechanisms in each SADC country	Interviews with Financial Institutions

What we have learned since the last study?

This is a new area of study and was not included in the previous RFI study undertaken by Genesis. Trade finance is also not included within the disciplines of the Finance and Investment Protocol. The reason for its inclusion is the importance of trade finance to increasing trade in SADC and promoting industrialisation.

Contextualizing trade finance

Given the seminal nature of this study, trade finance in the SADC region and its importance to the updated RFI Dashboard are introduced and explained below.

What is trade finance?

The term "trade finance" is specifically used to refer to products or instruments offered by Financial Institutions (FIs) that underwrite international imports and exports. Trade finance instruments serve two primary functions: firstly, they avail credit to a customer to finance purchases or sales, including on occasion the costs of logistics, customs fees, or other trade-related expenses; secondly, they fulfil a risk-mitigation role for the exporter/importer to ensure that they are paid, even if their customer fails to pay them. Instruments fall within two broad categories: "vanilla" and "structured" trade finance.

Vanilla trade finance refers to single cut-and-dry instruments where the bank supplies a single instrument to a customer, such as a letter of credit (LC), documentary collection, or open account. Structured trade finance is a specialised mechanism, often derived from a collection of instruments tailored to the client's individual needs. These mechanisms are intended as turn-key solutions to trade financing that can cater for various elements of the customer's supply chain. Structured deals also allow banks to move some of the credit to off-balance sheet instruments, alleviating balance sheet constraints. To hedge risk, banks may also look to retain ownership of the goods for a period of time post shipment. This approach towards risk mitigation is especially common in commodity trade deals.

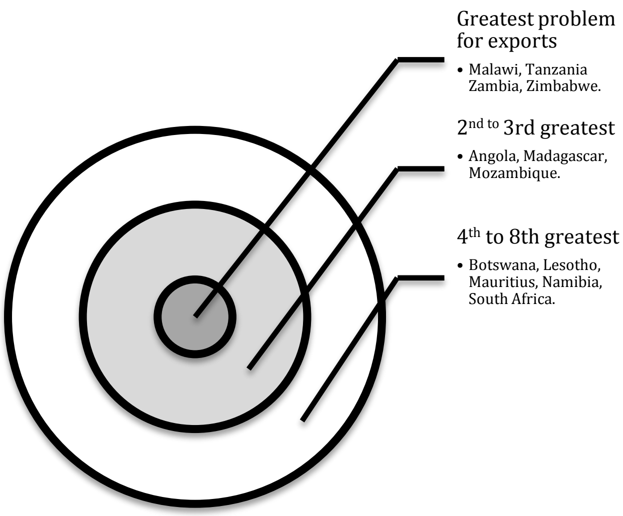
Why is trade finance important in SADC?

The use of trade finance increases where trade involves longer distances, where there is poor contract enforcement in the destination (for exports) or the origin (for imports) markets, and where new trading relationships are still in early stages of being established. Trade finance is also prominently used to relieve pressures on smaller firms who finance trade with working capital, thus allowing them to scale operations with greater short-term security. In the case of SADC, these factors are of particular importance. The region is continuously working to diversify its export base, and to encourage firms to participate in trade more proactively.

Indicator 11: The severity of access to trade finance as a constraint to trade and the variation in countries experiences

According to the World Economic Forum's (WEF) latest Global Enabling Trade Index, "Access to Trade Finance" is a key impediment hindering trade in SADC. The report asks a sample of exporters to identify the greatest problem they face when they export. As illustrated in Figure 50 below, trade finance was the most widely cited constraint by exporters in Malawi, Tanzania, Zambia and Zimbabwe, and was found to be highly significant for exporters in Angola, Madagascar and Mozambique.

Figure 50: The problem of access to trade finance for exporters in SADC

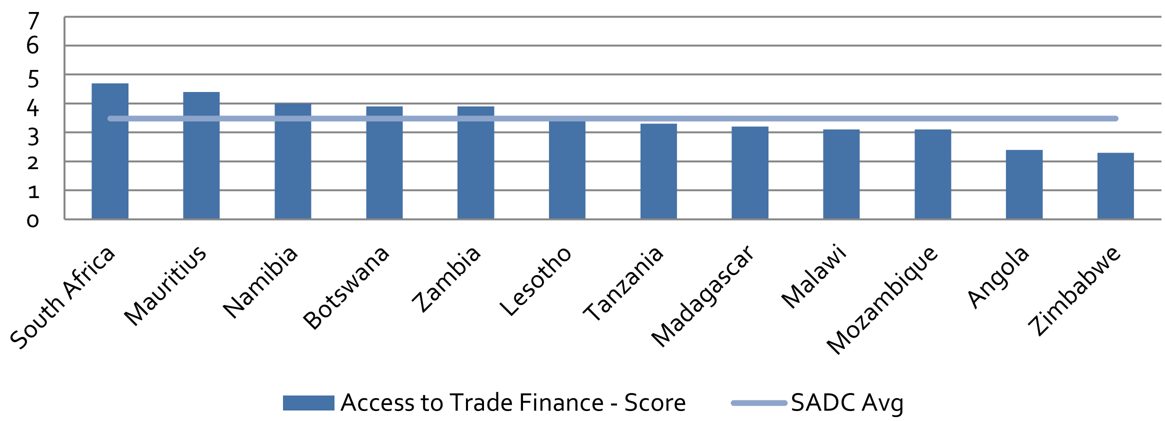


Source: World Economic Forum, Global Enabling Trade Indicators 2014.

In the WEF ranking of access to trade finance, several SADC countries feature towards the lower end of the tables. For example, Angola and Zimbabwe are ranked 136 and 137 out of 138 countries that are surveyed in this category. However, access to trade finance is less of a barrier to trade for countries such as South Africa and Mauritius, with overall rankings of 24 and 32 respectively.

The WEF scoring on access to trade finance provides a range from 1 to 7, where 7 is the best outcome. Comparing these scores, set out in the figure below, provides a picture of the extent to which the challenge of access to finance varies within SADC.

Figure 51: WEF Global Enabling Trade Index - Access to Trade Finance (higher scores indicate better access)



Source: WEF * Scoring measured on a 1-to-7 scale, where 7 indicates best outcome.

This variance provides initial support for the conclusion of AfDB's Trade Finance Report of 2014[20] of a fragmented market, which they hold to be evidenced by the large volume of rejected trade finance applications. Interviews with FIs and exporting firms also showed that some countries offer highly competitive and sophisticated trade finance products, whilst some provide access amongst the worst of those surveyed.

As trade financing is administratively burdensome, some FIs are consolidating their trade finance functions into a single geographic location to function as Trade Finance Hubs[21]. This indicates a positive trend towards greater regional financial integration. Through this consolidation, FIs are able to offer their trade finance instruments through affiliated banks in countries with lower demand or smaller markets, thus benefiting from economies of scale by supplying across the entire region from a single office.

Indicator 2: The availability of Letters of Credit throughout SADC

Despite the recent growth of alternative trade finance instruments in the SADC region, LCs remain the most prominent and widely offered instrument by FIs. Of the financial institutions interviewed, LCs are offered in all SADC countries except Angola and Madagascar; Receivables Financing is not provided in Angola, DRC, Lesotho, Malawi, or Seychelles. For both LCs and alternative instruments such as Receivables Financing, their availability in SADC countries is driven more by commercial and operational aspects than regulatory ones. Suppliers indicated that the maturity and size of the trade financing market was a definitive factor in making these instruments available in-country. The availability of instruments in SADC is set out in the table below, as organised by country and FI.

[20] AfDB Access to Finance Report (2014) and "Trade Finance: Addressing structural access issues in Africa" Presentation by AfDB (2012)
[21] Interviews with FIs

Table 17: Availability of Letters of Credit and Receivables Financing from selected interviewed banks[22][23]

	Availability of Trade Finance Instruments from Selected Interviewed Financial Institutions[24]														
	Ang	Bots	DRC	Les	Mad	Mal	Mau	Moz	Nam	Sey	SA	Swa	Tan	Zam	Zim
FI B & FI G[25]		✓				✓		✓						✓	
Letters of Credit		✓				✓		✓						✓	
Receivables Financing															
FI C		✓					✓	✓	✓	✓	✓		✓	✓	
Letters of Credit		✓					✓	✓	¬	✓	✓		✓	✓	
Receivables Financing									¬		✓			✓	
FI F	✓	✓	✓	✓	X[26]	✓	✓	✓	✓		✓	✓	✓	✓	✓
Letters of Credit	¬	✓	✓	✓	X[27]	✓	✓	✓	✓		✓	✓	✓	✓	✓
Receivables Financing		✓					✓		✓		✓	✓	✓	✓	✓

Source: Interviews

[22] Financial institutions (FIs) are not specifically named.
[23] ¬: Information not available or supplied by interviewed bank.
[24] Information acquired from interviews and FI websites.
[25] FI B and FI G are affiliated banks
[26] Represented by Mauritius Commercial Bank
[27] Available through Representative Offices of Mauritius Commercial Bank

Indicator 3: The Terms and Conditions for Letters of Credit throughout SADC

The terms and conditions stipulated by FIs to access LCs are relatively similar between FIs operating within the SADC region. They are set out in the table below.

Where differences do exist, these are state-specific, and are found to pertain to exchange controls and payment mechanisms. For example, an interviewed bank with a presence in Botswana said they were unable to avail trade finance directly to clients in Mozambique due to exchange controls and payment mechanisms. To circumvent this hurdle, they worked through an affiliated bank in-country to broker engagement with Mozambican customers. This type of operation is standard practice for FIs throughout SADC, albeit not always due to regulatory concerns or constrains. Often it is easier for the in-country bank to maintain the relationship with the client, and reduces the administrative burdens of initial due-diligence on the FI supplying finance through the affiliate.

Table 18: Terms and Conditions for LCs from Interviewed Banks

	FI A	FI B	FI C	FI D	FI E	FI F	FI G
LC Fee	0.5% – 2.0%	0.5% - 2.0%	0.5% - 2.5%	0.5% - 2.0%	0.5% - 2.0 %	0.5% - 2.0%	0.75% - 1.5%
LC Entry Threshold[28]	US$50,000	US$40,000	US$50,000	US$50,000	US$20,000	US$50,000	US$10,000
Average LC Value[29]	US$150,000	¬	US$150,000	US$100,000	¬	¬	US$150,000
Average Collateral	¬	<75% - 100%<	¬	>110%<	>100%<	<70% - 90%[30]<	<100%<

Source: Interviews

The key difference in LCs relate first and foremost to client characteristics rather than location. LCs are regularly used by Multi-National Corporations (MNCs) to finance large value purchases in order to maintain healthy cash-flow. Access to these instruments are barrier-free for most MNCs, as they can more easily comply with the collateral requirements, and have significantly better credit ratings and larger administrative departments to engage with FIs. Where barriers do exist, they are more related to the ability of the bank to house larger deals[31]. Conversely, SMEs do not use as many LCs as MNCs do. In

[28] Even though some LCs may be of a smaller value, this is the general entry-threshold these banks prefer in order justify the administrative effort.
[29] Not including Corporate TF Accounts
[30] For Vanilla Financing. Structured financing reduced collateral needs to an average of >65%<
¬ Information not available or supplied by interviewed bank
[31] Interviews with Financial Institutions.

fact, SMEs regularly finance their trade operations through a combination of traditional *non-trade finance* credit instruments, such as overdrafts and short-term loans, and working capital. This is due to a number of factors, most prominent of which is an inability to comply with the collateral requirements from FIs, and the long turnaround times for approval[32].

The substitution of trade finance instruments for traditional non-trade finance instruments by SMEs indicates the existence of a substantial gap. There is suggestion that this gap is receiving growing attention from the FI sector, however, progress has been slow and the core structural issues remain. This gap is driven by market dynamics and the financial viability of offering trade finance to smaller firms in-country. In some instances, this gap is being explored by a number of regional and international firms non-bank FIs offering "alternative" instruments to SMEs. This gap has also seen the emergence of more international financial technology (FinTech) companies to service SMEs that cannot comply with traditional trade finance terms and conditions.

Indicator 4: The cross border supply of trade finance in SADC

All interviewed FIs indicated that if approached by a foreign firm for trade finance, they would prefer working through a corresponding bank in the firm's domestic market wherever possible. This was generally because the corresponding bank held the relationship with the customer, so it could better assess their credit worthiness and were more in touch with the firm's trade cycles.

That said, one bank in particular, with a presence in Mauritius, indicated that they were proactively positioning their Mauritian operations as the "Trade Hub" for their African operations. This is partly due to the free exchange controls in the country, but also because of the highly developed nature of the Mauritian financial services sector, making better skills available to them in the trade financing field. Many of their Africa operations are already diverting trade finance deals towards them. The in-country affiliates and branches would maintain the relationships with the customer and conduct the necessary credit-checking. This, and the finding that numerous other bank FIs prefer working through in-country affiliates, would suggest not too concerned about creating a single market for trade finance and gladly work through their affiliates, subsidiaries, or corresponding banks.

Another case where the foreign market regularly extends credit is related to the EXIM banks of India, China, and the USA. In SADC, Exim India currently has 39 operative LCs, amounting to US$ 1007mn, covering most member states[33]. The China Exim Bank is also very active, and had by 2008 financed over 300 projects, 80% of which were infrastructure projects. Both of these examples indicate that destination market Exim banks show greater interest towards larger deals that increase SADC imports of their national products, increase SADC exports such as commodities, and actively promote the Exim banks' national trade agendas.

An African Exim Bank (Afreximbank) has also been established, and all SADC nations are shareholders of the bank[34]. The bank has a number of customs facilities that promote inter- and intra-regional trade between African states, regions, and international trading partners. The existence of this bank has increased the availability and accessibility of trade finance for African firms, offering a broad range of

[32] Interviews with Exporters Club of the Western Cape.
[33] Exim-India Research Brief: Southern African Development Community (SADC):
A Study of India's Trade and Investment Potential (2012)
[34] South Africa and Mozambique are both shareholders, but not yet fully participating states.

instruments to commodity exporters, manufacturers, corporate clients, and other firms seeking to access trade finance.

Emerging insights

This theme was motivated firstly by the evidence of the central importance of access to trade finance as barriers to exporters in many SADC countries; and secondly by the prima facie evidence of a fragmented regional market in trade finance – this is indicated by the wide variation in the severity of the constraint in access to smaller firms across the region, and by the preliminary work of inter alia the AfDB.

Given the limited availability of data, the research has been driven by interviews with financial institutions (bank and non-bank) with a regional presence, and a limited number of private sector organisations. The interviews were aimed at assessing the extent to which the market for trade finance in SADC is fragmented.

The findings have confirmed that the high collateral and informational requirements (to deal with business risk and Basel III - AML and KYC - regulation) are significant barriers to access to trade finance, in particular for SMEs and young companies[35].

There is also a 'location bias' in the provision of trade finance, with a preference for the lending bank and the borrowing trader to be in the same country. However, this preference is to manage risk and reduce administrative costs. It is not the result of regulatory restrictions on cross border provisions of trade finance. This is evidenced by the relative homogeneity in availability and terms and conditions for trade finance across the region, and the fact that large companies/ large volume transactions are able to get trade finance across borders relatively easily.

The challenge for enhancing the provision of traditional trade finance appears to relate to available information and credit history of potential clients, relating to business risk (and hence collateral requirements) and regulatory compliance for Basel III. In order for this to be addressed, smaller deals should become more financially viable for FIs to finance, and FIs should increasingly work with export associations and other business clubs to avail trade finance through these group structures.

Additional challenges in increasing the availability of "alternative" trade finance instruments[36] relate to market dynamics, such as the maturity of the finance sector and the size of the market in order to justify the investments made to offer these products in-country. This challenge is therefore rooted in the more systemic challenges of the financial sector, and the size and maturity of the exporting SME market, of SADC as a whole.

Further areas of research in the area of trade finance would include a further assessment of export credit guarantees and factoring as alternatives to highly collateralised LCs.

[35] Interviews with FIs and Private Sector Clients

[36] "Alternative" Trade Finance Instruments are often working capital instruments such as receivables financing, warehouse receipts or even open accounts. These are not directly Trade Finance instruments, but regularly used to free working capital in order to finance trade.

5 CONCLUSION

This section presents summary findings and conclusions from this study. Our focus is on insights into the state of RFI in SADC and recommendations on how FinMark can potentially replicate measurement of the RFI Dashboard in future.

5.1 Summary findings

The table that follows presents the main conclusion that can be drawn from the information that has been presented in *Section 4: Findings*. It is, however, important to note that progress in one indicator or a small group of indicators is not compelling evidence of increased RFI. The results of this study should be viewed holistically and the RFI Dashboard should be considered as a whole in order to measure whether RFI is indeed progressing.

In the table we apply the following categorisation of findings:

Table 19: Key for interpreting summary findings table

Category of finding	Colour code
Finding supports progressing RFI in SADC.	
Finding does not support progressing RFI in SADC.	
Finding is inconclusive, and implication for RFI is uncertain.	

Table 20: Summary of key findings

Theme	#	Indicator	Findings	Implication for the state of RFI
Theme 1: Cross-border investment in other capital markets	1	*Main indicator*: Size of capital market (Stock market capitalisation as a % of GDP)	A ratio of above 50% generally indicates a stock market that is more sophisticated. Only the Mauritius Stock Exchange is in this position, with a ratio of 59.6% in 2014. Namibia, Seychelles and Zimbabwe stock exchanges are an insignificant proportion of GDP.	Cross-border investment within SADC is only likely to grow if capital markets present a good investment opportunity. This requires that SADC stock exchanges become more competitive over time, since stock exchanges that are less sophisticated are unlikely to attract institutional investment. Diversity in the level of development of stock exchanges in the region suggests a need to converge on similar systems, standards and levels of competitiveness in order to drive cross-border investment.
		Supplementary data: Number of SADC countries that have a stock exchange Number of SADC-headquartered companies listed on the local stock exchange Total number of stock exchange listings	Angola, Lesotho, DRC and Madagascar do not currently have stock exchanges. There are only a few cross-border listings. Namibia and South Africa have the highest number of SADC-headquartered countries listed on their stock exchanges.	Unclear what drives limited cross-border listings There is insufficient information to conclude whether RFI is progressing. However, cross-border listing presents an opportunity to raise capital beyond the immediate capital market, which is important for RFI, industrialisation and economic development. This could relate to the cost of listing or the burden of listing requirements and warrants further investigation.
Theme 1: Cross-border investment in other capital markets	2	*Main indicator:* The proportion of intra-SADC institutional investment increases	Institutional investment into Africa represents a growing proportion of total funds under management (as compared to retail assets). Africa is an increasingly important investment destination for South African institutional investors.	Given that the data found relates only to aggregate African investment, the implications for RFI in SADC are uncertain.

Theme	#	Indicator	Findings	Implication for the state of RFI
		Supplementary data: The number of SADC-headquartered institutional investors (e.g. pension funds) investing across borders in other SADC countries	Allan Gray currently has 27% invested elsewhere in SADC, with the majority of this investment (23%) focused on Zimbabwe. Coronation shows a similar trend, and currently has 20% invested elsewhere in SADC, with the majority of investment (10%) focused on Zimbabwe.	These case studies are a positive indication of institutional investors' appetite to invest across borders.
Theme 1: Cross-border investment in other capital markets	3	*Main indicator:* Prime lending rates across SADC member states start to converge	A sufficiently long time series on prime lending rates was not found so the analysis focused on average lending rates instead. The standard deviation of SADC countries' average lending rates in 2010 was 14.71. This decreased to a five year low in 2011 of 13.03, increasing again to 14.88 in 2014.	The analysis suggests that average lending rates in SADC have not converged (the standard deviation has increased between 2011 and 2014), which does not suggest that RFI is progressing.
		Supplementary data: Average interest rate charged on debt by commercial banks. Average interest rate charged on deposits by commercial banks	There are three groups when interests are compared: Single digit interest rates: Botswana, Mauritius, Namibia, South Africa and Swaziland. Interest rates between 10% and 20%: Angola, DRC, Lesotho, Mozambique, Seychelles, Tanzania and Zambia. Interest rates above 20%: Madagascar, Malawi and Zimbabwe	Interest rates in the region are divergent, indicating the diversity amongst the economies present in the region. Key to measuring progress with RFI is whether the three groups become more similar over time.
Theme 2: Cross-border capital flows	4	*Main indicator:* Investment flows into and within SADC increase in volume	This information is unavailable.	None

Theme	#	Indicator	Findings	Implication for the state of RFI
		Supplementary data: Transfers of a capital nature between South Africa and each SADC member state (inflows) Transfers of a capital nature between South Africa and each SADC member states (outflows	The total volume of transfers of a capital nature between South Africa and the rest of SADC has decreased between 2012 and 2014. Largest volume of investment inflows and outflows: South Africa and Mauritius. South Africa's most important investment destination: Botswana, Mauritius, Mozambique, Namibia and Zambia. South Africa's most important investors are: Angola, Botswana, Mauritius and Namibia.	If the data on transfers of a capital nature is a good proxy, it appears that intraregional capital flows are declining where South Africa is counterparty, which is contrary to what one would expect with progressing RFI. This indicator should continue to be tracked since a longer time series will provide more conclusive findings on whether the decline in capital flows is a result of limited progress in RFI.
Theme 2: Cross-border capital flows	5	*Main indicator:* Capital flows within SADC increase	Data measuring inflows and outflows of capital between South Africa and all other SADC states was used for this indicator. There was an increase in the total annual inflows and outflows of capital between South Africa and all other SADC states. The largest components of capitals flows are financial investments, derivatives, and intellectual property and other services. South Africa's most important partners are Mauritius and all immediate neighbours.	This should be a good proxy of RFI; however, mapping these flows for the entire region would have been ideal. The increase in total annual inflows and outflows is a positive finding, supporting increased integration between South Africa and the rest of SADC.

Theme	#	Indicator	Findings	Implication for the state of RFI
		Supplementary data: Remittance inflows between SADC countries Remittance outflows between SADC countries Major recipient countries and sender countries along SADC-to-SADC remittance corridors	Trends in formal remittance inflows and outflows are varied between countries. Botswana, DRC and Mozambique have shown the greatest increase in formal remittance inflows while Angola and Swaziland have shown the greatest decrease. Madagascar, Mozambique, Seychelles, Tanzania have shown the greatest increase in formal remittance outflows while DRC, Namibia and Swaziland have shown the greatest decrease. South Africa has the highest volume of formal remittance inflows and outflows.	Given the diverging trends between countries, the implication for RFI is unclear.
Theme 2: Cross-border capital flows	6	*Main indicator:* Capital flows into SADC increase	This information is unavailable.	None
		Supplementary data: Remittances inflows between SADC countries and non-SADC countries Remittance outflows between SADC countries and non-SADC countries Major recipient countries and sender countries along SADC-to-non-SADC remittance corridors	The findings on this indicator are mixed. Madagascar, Mauritius and South Africa receive the largest volume of remittances from non-SADC countries. Most SADC countries receive remittances from Australia, Canada, the UK and the USA. DRC, Madagascar, Mauritius, South Africa and Tanzania have the highest number of non-SADC remittance counterparties. Half of the countries we have data for receive remittances from less than four non-SADC countries.	The diversity of relationships present along SADC-non-SADC corridors makes it difficult to interpret the findings and extract an implication for RFI. This indicator should continue to be monitored.

Theme	#	Indicator	Findings	Implication for the state of RFI
Theme 2: Cross-border capital flows	7	*Main indicator:* Cross border transfer of funds becomes more efficient and cheaper (Average cost of $200 remittance)	24% decrease in the average cost of $200 remittance since 2009 Q1 to 2015 Q2. There is also evidence of emerging money transfer agents who are pricing below the average cost.	The decrease in the average cost of $200 remittance is a positive signal of RFI.
		Supplementary data: Cost of $200 remittance along seven SADC corridors Number of money transfer agencies in operation in each SADC country Number of money transfer agencies that operate in multiple SADC countries Findings of mystery shopping exercise	The mystery shopping exercise showed that it was most expensive to send and receive a remittance from the DRC and Malawi. Zimbabwe-South Africa is the cheapest remittance corridor. It took less than 10 minutes to fill in the forms at both money transfer agents. The transfer was received almost instantaneously. Other SADC countries required just an ID for the transfer; however, South Africa requires an ID and proof of residence.	The difference in documentation requirements between South Africa and the other SADC countries suggests that more can be done to reach regulatory harmonisation.
Theme 3: Financial products and access to finance	8	*Main indicator:* Number of SADC financial service providers offering retail services in other member states	Increase in the number of multinational banks operating across SADC since the baseline. Evidence of increased movement of SADC-headquartered banks moving into new SADC markets, since there has been a 7% increase in the proportion of SADC-headquartered banks that operate in more than one SADC country.	This is a positive result for RFI since increased movement of banks across borders should result in increased competition in domestic economies, which should help to facilitate the convergence of product prices – an important indicator of RFI.

Theme	#	Indicator	Findings	Implication for the state of RFI
		Supplementary data: Major financial service providers that operate in multiple SADC countries Number of participating banks in SIRESS Number of banks that hold overnight balances in SIRESS (indicative of frequency of activity) Volumes of transactions cleared over SIRESS	73 participating banks and 9 participating countries. On average, 64% of retail banks per participating country have joined SIRESS. There has been a 90% increase in the value of transactions settled on SIRESS and a 3713% increase in the number of transactions settled on SIRESS.	Increasing participation is positive, especially the outlook for more countries to join by April 2016, however it is important that usage is driven. Increase in settled transactions is positive, but should be interpreted with care, given that the increase was off a low base. This indicator should continue to be monitored into the future.
Theme 3: Financial products and access to finance	9	*Main indicator:* Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product)	SADC's average differential between the cost of a foreign bank's current account and a local bank's current account is 4.49% which has decreased from 35.2% in the previous study. In both studies it was found that a foreign bank current account was relatively more expensive than a local bank current account.	The decline in the average differential is positive; however, the composition of banks monitored has changed between the two studies so the two differentials are not directly comparable, especially given the data available for local banks online.

Theme	#	Indicator	Findings	Implication for the state of RFI
		Supplementary data: Cost of an entry-level savings product Cost of a mobile money transaction	SADC's average differential between the cost of a savings account at a local bank and the cost of a savings account at a foreign bank has increased, as follows: • 2015: local bank savings account is 50.2% more expensive than a foreign bank savings account (on average) • 2012: foreign bank savings account is 43.27% more expensive than a local bank savings account (on average. There is variation in the cost of mobile money transactions across SADC member states. Information on two MNOs is only available for South Africa, and while there is an observed difference in cost between these two MNOs, it is unclear whether MNOs price differently in the same market in general.	The result on the savings account should be interpreted with caution since the composition of local banks included in the study has changed since the 2012 study, given the availability of data online. The information on mobile money is inconclusive, and should continue to be monitored to assess the implication for RFI.
Theme 3: Financial products and access to finance	10	*Main indicator:* Increased access to formal financial services (% financially included)	There is evidence of increasing access to formal financial services across SADC (with the exception of Namibia and those countries or which a second data point was not available.	This indicator on its own is not an indicator of RFI, but rather an indicator of the positive change that can be achieved through advancing RFI. Nonetheless the improvements in financial inclusion are positive.
		Supplementary data: Most common type of transaction/account held by financially included	There has been an average 8% increase in proportion of people with accounts at a financial institution between 2011 and 2014. DRC, Zambia and Tanzania have lower levels of formal financial inclusion when measured on the main indicator, so the fact that these countries have experienced at least an average increase of 14% in proportion of people with accounts is positive.	This indicator on its own is not an indicator of RFI, but rather an indicator of the positive change that can be achieved through advancing RFI. Nonetheless the improvements in financial inclusion are positive.

Theme	#	Indicator	Findings	Implication for the state of RFI
Theme 4: Trade finance	11	*Main indicator:* The severity of access to trade finance as a constraint to trade and the variation in country experience *Supplementary data:* Ranking of SADC Countries' access to Trade Finance Positive changes to trends in instrument use towards trade finance instruments	Data collected through interviews supports the findings of the World Economic Forum which highlight that access to trade finance is a key impediment hindering trade in SADC. This provides evidence of a fragmented market as stated in the AfDB's Trade Finance Report of 2014, which they hold to be evidenced by the large volume of rejected trade finance applications.	The limited access to trade finance in the region is a negative indicator of RFI. This in turn limits the extent to which trade can occur within the region.
Theme 4: Trade finance	12	*Main indicator:* The availability of Letters of Credit throughout SADC *Supplementary data:* Availability of letters of credit in each SADC country Availability of alternative trade finance instruments in each SADC country Thresholds for letters of credit	Letters of Credit are offered in all SADC countries with the exception of Angola and Madagascar; Receivables financing is not provided in Angola, DRC, Lesotho, Malawi, or Seychelles.	The availability of LCs and receivables financing in most countries in the region implies that countries are on a positive path to improving access to trade finance in the region. This is a positive indication of RFI.
Theme 4: Trade finance	13	*Main indicator:* The Terms and Conditions for Letters of Credit throughout SADC	The terms and conditions to access LCs are relatively universal throughout all SADC operations of Financial Institutions, with no significant divergence from their standard operations. Where	Given that the terms and conditions to access LCs are universal, this implies that there is regulatory harmonisation across countries in respect of LCs. This is a positive indication of RFI.

Theme	#	Indicator	Findings	Implication for the state of RFI
		Supplementary data: Average cost of letters of credit Average collateral necessary for letters of credit	differences do exist between member states, they are found to be pertaining to exchange controls and payment mechanisms.	
Theme 4: Trade finance	14	*Main indicator:* The cross border supply of trade finance in SADC Exchange controls in SADC countries Rigid credit checking mechanisms in each SADC country	There exists a 'location bias' in the provision of trade finance, with a preference for the lending bank and the borrowing trader to be in the same country. However, this preference is to manage risk and reduce administrative costs. It is not the result of regulatory restrictions on cross border provisions of trade finance. Large companies/ large volume transactions are able to get trade finance across borders relatively easily.	While there are no regulatory barriers to the provision of cross border trade finance, the lending bank's preference to either be in the same country as the borrowing trader or to liaise with the trader's domestic bank poses barriers to RFI.

5.2 Recommendations for future measurement of RFI

The table below presents our recommendations for future studies:

Table 21: Recommendations for future measurement of RFI

Theme	#	Indicator	Recommendation
Theme 1: Cross-border investment in other capital markets	1	Size of capital market (Stock market capitalisation as a % of GDP)	This information is easily obtained online and should continue to be measured over time.
Theme 1: Cross-border investment in other capital markets	2	The proportion of intra-SADC institutional investment increases	SADC institutional investors and regulators should be urged to collect data similar to that reported by the SARB in order to reach firm conclusions in future studies.
Theme 1: Cross-border investment in other capital markets	3	Prime lending rates across SADC member states start to converge	Average lending rates are easily available online however it is preferable to use prime lending rates. This information should be available from central and reserve banks in the region, and could be added to the indicators that the CCBG Macroeconomic Convergence subcommittee measures (if it is not measured currently).
Theme 2: Cross-border capital flows	4	Investment flows into and within SADC increase in volume	Investment Cooperation subcommittee should urge member investment promotion agencies and ministries of finance to collect and report information on bilateral FDI and portfolio investment flows consistently with SADC partners.
Theme 2: Cross-border capital flows	5	Capital flows within SADC increase	The SARB Balance of Payments system yields all information required to adequately measure this indicator. Central and reserve banks in the region should be consulted to ascertain whether they have something similar / if similar data can be compiled.
Theme 2: Cross-border capital flows	6	Capital flows into SADC increase	The SARB Balance of Payments system yields all information required to adequately measure this indicator. Central and reserve banks in the region should be consulted to ascertain whether they have something similar / if similar data can be compiled.

Theme	#	Indicator	Recommendation
Theme 2: Cross-border capital flows	7	Cross border transfer of funds becomes more efficient and cheaper (Average cost of $200 remittance)	This information is available online; however, not all corridors in SADC are included and South Africa is used as the base country. This means that the analysis is only partial. The online data should be continued to be tracked but effort should be made to fill in country-level gaps. CISNA's relationships in the region could be leveraged to have this data reported by regulators.
Theme 3: Financial products and access to finance	8	Number of SADC financial service providers offering retail services in other member states	This information is available online; however, it is a considerable collation effort to collect this data each year. SADC Banking Association should be encouraged to collect and collate this information.
Theme 3: Financial products and access to finance	9	Cost of financial service products across SADC begin to converge (i.e. an entry-level transactional product)	The information on foreign banks is available if collected from the banks in question; however, information on local banks is scarcer. SADC Banking Association should be encouraged to collect and collate this information from member state banking associations.
Theme 3: Financial products and access to finance	10	Increased access to formal financial services (% financially included)	Finscope provides information on formal financial inclusion, and Findex has information on the proportion of people with access to transactional accounts, savings accounts and who access debt. However, there are countries that excluded. Finscope and Findex should be extended to these countries. Additionally, the data reported is not for consistent years across countries, which makes it difficult to draw strong conclusions.
Theme 4: Trade finance	11	The severity of access to trade finance as a constraint to trade and the variation in country experience	The World Economic Forum publishes the Global Enabling Trade Index which contains rankings on Access to Trade Finance. The report is published every two years and is a reliable data source which should be consulted in future for updated rankings.
Theme 4: Trade finance	12	The availability of Letters of Credit throughout SADC	Online data for this indicator is limited to what individual financial institutions provide on their websites. As a result, we recommend that local trade associations as well as the SADC Protocol on Trade can play a role in facilitating access to this information given that it has a significant impact on the extent to which trade can occur within the region.
Theme 4: Trade finance	13	The Terms and Conditions for Letters of Credit throughout SADC	This data is not available online, however it is expected that the terms and conditions in countries where we managed to collect data will likely remain in its current state going forward, given that it is harmonised across those countries. In countries where we do not have data, it is recommended that the local regulator for trade can provide relevant information in future.

Theme	#	Indicator	Recommendation
Theme 4: Trade finance	14	The cross border supply of trade finance in SADC	This data is not available online. It is recommended that local trade associations and the SADC Protocol on Trade should be encouraged to collect this data given its impact on the extent to which trade can take place within the region.