

ACCESS TO FORMAL BANKING SERVICES IN SADC (2000-2009)

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1. Introduction

The Southern African Development Community (SADC), comprising 15 member countries of which nearly 50 per cent are classified as low-income countries in 2009 (World Bank 2011), views the alleviation of poverty as its foremost priority in the economic integration process (SADC 2008). Access to basic financial services is today widely recognised as one possible means to achieve a better life for the poor (see for example empirical research by Caskey, Durán & Solo 2006, and Dupas & Robinson 2009). This is also the case in SADC where currently more than 50 per cent of its members claim to have a strategy document for the advancement of financial access (CGAP & World Bank 2010: Table 6).

One of SADC's member countries, South Africa, has in the previous decade succeeded in substantially increasing the use of formal banking services, especially by the poor. Between 2004 and 2008, the increase in use by the poor was in the order of 45 per cent and the main contributor was found to be support for the government incentivised Mzansi entry-level bank account offered by private banks and the government-owned Postbank (Schoombee 2009: 136).

The focus of this paper is on what transpired in the other SADC countries in regard to access to and use of formal banking products in the period 2000 to 2009, and specifically governments' policies to encourage this, in order to determine if similar successes were achieved elsewhere and what the role of policy was. Data on the levels of access to and use of formal banking services in the latter stages of the period of study will be presented, as well as changes thereto over the period. Unfortunately the availability of comparative data is a problem in many instances and precludes any definitive conclusions.¹ Nevertheless, the identification of the major barriers to access and use and consideration of the role and policies of SADC governments to lift these barriers will not only reveal where the focus of policy was, but should also provide pointers to where governments should concentrate their efforts in future.

2. Banking in SADC: access, use and barriers

The four SADC countries that are the most banked according to all three criteria measuring use in table 1 (Botswana, Mauritius, Namibia and South Africa), are also the countries with the greatest access to banking services. This is to be expected, and is also in line with the findings of a financial access survey of 142 economies that there is a positive correlation between branch penetration and deposit account penetration as well as branch penetration and loan account penetration (CGAP *et al* 2010: 7,10). These countries also represent four of the five higher-middle income members of SADC, the other being the Seychelles for which no data is available, and given their level of development would be expected to be the most banked.

¹ Access to data on the Seychelles was extremely limited and consequently it is excluded from most of the discussion.

Table 1

Measures of access to and use of banking services (2008, 2009)

Country	Year	Access			Use		
		ATMs per 1000km ²	ATMs per 100000 adults	Branches per 100000 adults	Deposit accounts per 1000 adults	Loan accounts per 1000 adults	At least one banking product (% of adult population)
Angola	2008			5.5			
Botswana	2009	0.5	21.5	8.0	479	212	41
DRC	2008			0.3	6		
Lesotho	2009	2.7	6.7	2.1	254	39	
Madagascar	2008			1.0	34	21	
Malawi	2009	2.2	2.7	2.2	163	17	19*
Mauritius	2009	187.7	39.1	20.1	2109	479	
Mozambique	2009	0.8	5.1	2.9	141		11.8
Namibia	2009	0.5	30.5	7.3	758	210	45.3**
South Africa	2009	14.6	52.4	8.0	839		60
Swaziland	2009	7.6	18.7	2.9	236	70	
Tanzania	2009	0.9	3.4	1.8			8.7
Zambia	2009	0.6	6.4	3.6	28	18	13.9
Zimbabwe	2009	1.5	7.8	6.3	144	21	

*2008

**2007

Sources: FinMark Trust, FinScope surveys of relevant SADC countries, various issues; CGAP *et al* 2009 & 2010.

Limited data is available to form an opinion on the change in access to and use of banking services in SADC over the past decade (see table 2). Nevertheless, for the seven countries with data on the number of ATMs (automated teller machines) per 1000km², increases of between 25 and 800 per cent were experienced, though mostly from a very low base. South Africa and Mauritius are the exceptions, the former recording 125 per cent growth from a moderate base and the latter 41 per cent growth from a high base. It is to be expected that these significant increases in the availability of ATMs will have had a positive impact on being banked (closer proximity of bank access points to customers lowers travelling and opportunity cost).

Table 2**Changes in access to and use of banking services**

		Access	Use
Country	Year	ATMs per 1000km ²	At least one banking product (% of adult population)
Botswana	2003/4	0.3	
	2009	0.5	
Mauritius	2003/4	133.0	
	2009	187.7	
Namibia	2003/4	0.3	
	2009	0.5	
South Africa	2003/4	6.5	
	2004		45
	2009	14.6	60
Tanzania	2003/4	0.1	
	2006		7.2
	2009	0.9	8.7
Zambia	2003/4	0.1	
	2005		14.6
	2009	0.6	13.9
Zimbabwe	2003/4	1.2	
	2009	1.5	

Sources: FinMark Trust, FinScope surveys of relevant SADC countries, various issues; CGAP *et al* 2010; Beck *et al* 2007.

Data on changes in the use of banking services is only available for three member countries. In South Africa, the use of banking services increased by 33 per cent between 2004 and 2009 (but by 45 per cent for the poor between 2004 and 2008),² and in Tanzania by 21 per cent between 2006 and 2009. In the case of Zambia, the percentage of the adult population that was banked decreased by 5 per cent between 2005 and 2009. The cause of this decline is in all probability linked to the global recession in 2009, thus similar to South Africa's experience. If the global recession had a similar impact in Tanzania, and there is no reason to suspect otherwise, its underlying growth rate in bank usage could be a couple of percentage points above the reported 21 per cent. This would imply a substantial increase. Though not directly comparable to the growth experienced in South Africa, it was realised over a considerably shorter period of time, but from a far lower base.

An analysis of the barriers to banking access as expressed by the unbanked (see table 3) show that a lack of employment and lack of a regular income are without doubt, and as could reasonably be expected for any country in the world, the greatest barriers in all member countries. This also ties in with a cross-country analysis of 139 countries that reveals a positive correlation between per capita income and deposit account

² An annual increase was experienced until 2008, followed by a decrease in the use of banking services in 2009, but once again resuming its positive growth trend in 2010 to the extent that the percentage of the banked adult population in 2010 (63 per cent) reached the same level as before the once-off decrease. The decline in 2009 was attributed to the global recession that followed the global financial crisis of 2008/9 (FinMark Trust 2010: 10)

and loan account penetration respectively (CGAP & World Bank 2009). This cross-country analysis also points to other possible barriers to access, including too low population density, inadequate branch penetration, insufficient physical infrastructure,³ unsatisfactory legal environment (lack of legal rights including lack of property rights, lack of proper contract enforcement etc.), and inadequate competition. The latter barrier would also contribute to three of the barriers identified by the unbanked in table 3, i.e. fees are too high, the minimum amount required to open or maintain an account is too high, and the bank (an access point to the bank account) is too far. The importance of the lack of competition is illustrated by the fact that in five of the seven SADC countries for which data is available (Malawi, Mozambique, Namibia, Tanzania and Zambia, see table 3), one of the three barriers in question is the most significant of all the remaining barriers (thus excluding lack of employment/regular income), and by a significant extent.

Table 3
Barriers to access*

Country	Year	No Job	No regular income	Fees too high	Too high minimum amount	Bank too far	No ID/required documents	Financial illiteracy / Don't know how to open account	Don't qualify for account	Don't trust bank
		% of unbanked	% of unbanked	% of unbanked	% of unbanked	% of unbanked	% of unbanked	% of unbanked	% of unbanked	% of unbanked
Botswana	2009	63	31	2		0.5		2	4	1.5
Malawi	2008		54	<5	21	<10	<5	<10		<5
Mozambique	2009		78.7	0.6	3.9	15.2	1.6	7.9	5.3	0.6
Namibia	2007	22.9	15.8	1.6		8.6	5.1	7.4	3.5	
South Africa	2009	52	37	9				7	14	
Tanzania	2009		75.5	26.4			6.1		5.3	0.4
Zambia	2009		53.4	5.3	14.3	7.2	0.8	5.1		0.6

*% of unbanked who mentioned these reasons for not having a bank account

Sources: FinMark Trust, FinScope surveys of relevant SADC countries, various issues.

Tables 4 and 5 provide more detail on barriers to banking in six SADC economies, specifically in regard to consumer loan and deposit account access. Both these tables reflect that access barriers in South Africa are throughout the lowest or equal to the lowest in respect of consumer loans, and lowest or equal to the lowest in the majority of the barriers to cheque and savings account access respectively. As the most banked economy in SADC, this is to be expected, but it would also be presumed that this reflects a higher level of competition in South Africa than in the other countries. Using the bank concentration ratio in 2004 (the same year for the access barriers identified in tables 4 & 5) as an indication of the level of competitiveness in these six countries, it appears not to be the case. All the countries had bank concentration levels lower than South Africa's 0.94 (World Bank Financial Structure Database, 2009).

³ In a recent study of bank access in 139 countries (Kendall, Mylenko & Ponce 2010) it was found that, controlling for income and population density, the level of development of physical infrastructure was the most important explanatory variable of deposit account, loan account and branch penetration.

Table 4
Barriers to consumer loan access in 2004/2005

Country	Locations to submit application (out of 5)	Minimum amount (% of GDP/capita)	Fees (% of GDP/capita)	Days to process applications
Madagascar	2.16	24.06	2.62	8.55
Malawi	2.12	222.36	1	1.72
Mozambique	2.15	30.71		8.66
South Africa	5	7.27	0.48	1.46
Zambia	2			
Zimbabwe	2.85	24.08	3.05	1.46

Sources: Beck *et al* 2007 & 2008.

Table 5
Barriers to deposit account access in 2004/2005

Country	Cheque account					Savings account				
	Minimum amount to open (% of GDP per capita)	Minimum amount to maintain (% of GDP per capita)	Annual fees (% of GDP per capita)	Locations to open (out of 3)	Number of documents to open (out of 5)	Minimum amount to open (% of GDP per capita)	Minimum amount to maintain (% of GDP per capita)	Annual fees (% of GDP per capita)	Locations to open (out of 3)	Number of documents to open (out of 5)
Madagascar	38.86	0	5.15	195	2.94	19.35	17.59	0	195	2.71
Malawi	0	0	2198	2	3.65	17.89	17.89	3.63	2	2.84
Mozambique	29.61	14.19		2	1	15.71	7.2	0.3	2	1
S Africa	0	0	2.13	2.27	3.45	1.06	0.28	0.91	2.27	3.07
Zambia	0	0		18	4.28	7.87	7.87	7.79	18	4
Zimbabwe						2.06	0.69	6.55	2	4.72

Sources: Beck *et al* 2007 & 2008.

3. Government policies to lift barriers to banking

The main barriers to access to and use of banking services as identified by the unbanked in SADC as well as by CGAP *et al* (2009) in their extensive cross-country analysis were considered in the previous section. The focus now shifts to the role SADC governments have played in attempting to lift these barriers.

Governments may view failure of access and use as inherent to the market, needing direct state intervention to rectify it. Various remedies in this regard have been experimented with internationally over the past half a century: directing credit to worthy causes/sectors by forcing compliance from private financial institutions or establishing government-owned institutions for this specific purpose, placing interest rate ceilings on loans to

ensure affordable access, etc. Though there is widespread consensus internationally that direct state intervention has generally been a failure (see for example Beck 2006, Beck & Brown 2011), there are SADC members that still boast some elements of this approach in their search for universal access to formal financial services. At least five SADC countries (Botswana, Malawi, Swaziland, Tanzania, Zambia) had government-owned commercial banks in the past decade and at least four had interest rate ceilings and/or banking fee limits determined by government (see table 8). Government-owned post offices are extensively used throughout the world to provide banking services, according to the 2009 financial access survey in more than 70 per cent of the 142 countries surveyed (CGAP *et al* 2009: 47). This is also the situation in Lesotho, Namibia and South Africa.⁴

The perspective that has gained considerable ground over the past forty years is that governments need only create an enabling environment and provide incentives for the financial sector to flourish. Governments' actions in this regard would include, for example, ensuring a stable macroeconomic environment, ensuring a competitive milieu, and incentivising financial institutions to undertake high cost business like lending to the poor by providing guarantees for possible loan default. Recent research, however, raises important questions in this regard. In a study of 29 transition economies, Beck *et al* (2011) have found that although governments' investment in financial infrastructure and their promotion of competition has as expected broadened access to banks, it did not necessarily assist the disadvantaged. More specifically, higher deposit insurance coverage, broader physical presence (more automated teller machines, points of sale terminals and branches), and access to credit information via credit bureaus or registries, do not chiefly benefit the poor. Furthermore, promoting competition in the banking sector (to lower costs to consumers and incentivise the development of services and products in demand by low income individuals) by encouraging foreign banks to enter domestic markets has been more advantageous to higher- than lower-income individuals. The conclusion reached by these authors is that market friendly policies to increase access to banking for the poor require re-examination as it is often not possible to sufficiently target such policies to the intended beneficiaries.

The applicability of this conclusion to the whole of the SADC region is questionable. While only 10 per cent of the transition economies in question are classified as low-income, the situation is markedly different in SADC with nearly 50 per cent of its members representing low-income countries. Whereas governments' policies to open up access to banking for the poor may chiefly benefit the non-poor in middle-income and high-income

⁴ In South Africa, the government-owned Postbank was the single most important participant in the successful Mzansi entry-level bank account initiative (Schoombee 2009: 150).

economies, as was found in the research referred to above, this is not expected to be the case in low-income countries where poverty is endemic and the majority of the population does not have access to formal banking.

Given the barriers to banking identified in the previous section and also those highlighted by the IMF in their interaction with its members, SADC governments' policies to address these are explored below. Seven member countries (Lesotho, Namibia, Malawi, Mozambique, South Africa, Tanzania and Zambia) had explicit government initiatives to boost access to banking. Botswana, though requested by the IMF to prioritise access to financial services via the privatisation of and/or restructuring of government-owned financial institutions (IMF 2008a: 17), appears not to have heeded this call.

3.1 Physical infrastructure

Given the low level of development of SADC economies in general and thus to be expected physical infrastructure problems, especially in rural areas, it comes as no surprise that inadequate physical infrastructure was specifically identified as an impediment to banking access in Lesotho (IMF 2004: 33), Mozambique (IMF 2010b: 14), Tanzania (Khijjah 2004) and Zambia (MFNP 2004: 64). In Tanzania's case, infrastructure spending in rural areas in order to improve the rural population's access to financial services was already part of ongoing financial sector reforms in the early 2000s and identified by the MFNP (2004: 9) as a continuing focus for the rest of the decade. Notwithstanding, it was still identified as a barrier to entry for financial institutions in 2006 (FSDT 2006: 99).

3.2 Affordability of banking services

Affordability of banking services is a key determinant of the poor's use of such services and reflects on the poor's level of income as well as the cost of banking services. In the discussion above on the barriers to access, both lack of income and high cost (minimum amount to open and maintain account, fees and interest rates, and distance to bank) were emphasised by the unbanked. The poor will always have limited income irrespective of the level of success of governments in improving their plight. Therefore governments' focus in making banking affordable should be to keep the cost in check. Attempting to achieve the latter, governments can intervene directly (e.g. place ceilings on bank fees and/or lending rates, establish government-owned banks that provide services at reasonable cost to consumers), as was noted earlier to be the state of affairs in certain SADC members. It may also consider measures to lower its own impact on the high costs bank experience, provide a competitive environment and/or incentivise banks to price services at an affordable level for poor customers.

The high and interest free statutory reserve requirement for Zambian banks was identified by the Zambian Ministry of Finance and National Planning (2004: 64) as an important contributor to high banking costs and the Ministry recommended lowering it. No indication could be found that this recommendation was implemented.

The level of competition, as measured by the assets of the three largest banks as share of assets of all commercial banks (see table 6), leaves much to be desired in most SADC countries. In 2000, the average concentration ratio was a high 0.85 and this decreased to only 0.83 in 2009 (in each case excluding three members for which data is not available for the specific year). Whilst two members had a concentration ratio of one in 2000, this number increased to five members in 2009. In only five of the fourteen member countries was there a noticeable increase in the level of competition in the banking sector in the 2000 decade, though increased competitiveness was generally high on SADC governments' agendas to open up access to banking and/or identified by the IMF as important (see e.g. CBL 2004: 5; MFNP 2004: 67; IMF 2006: 23; IMF 2008d: 42; IMF 2010b: 14).

Table 6
Bank concentration¹

Country	2000	2009
Angola	1	0.65
Bostwana	0.94	0.7
Lesotho	1	1**
Madagascar	0.74	1
Malawi	0.9	1
Mauritius	0.84	0.75
Mozambique	0.75	1
Namibia	0.91*	1
Seychelles	0.93**	0.94***
South Africa	0.85	0.81
Swaziland	0.92	1
Tanzania	0.64*	0.47
Zambia	0.66	0.74
Zimbabwe	0.73	1***

¹ Assets of 3 largest banks as share of assets of all commercial banks

*2004; **2005; ***2006

Source: World Bank 2009.

To increase competition, member governments attempted a number of strategies. Lesotho, Namibia, Mozambique, South Africa and Zambia explored the possibility to entice new institutions to enter the banking sphere. Lesotho adapted its banking regulations to allow branches of foreign banks (CBL 2004). Unfortunately

this only had the result of expanding the choice of services for urban clients as these branches did not locate in the rural areas where the poor are concentrated (CBL 2007: 2). Research on foreign bank entry in Namibia found that it had not necessarily resulted in more efficient or competitive financial markets (Okeahalam 2008: 960). The five member countries in question all investigated the development of second tier banks to focus on the unbanked market (CBL 2007: 3; BoN 2005; Schoombee 2009: 153-155; MFNP 2004). These banks typically have lower capital and prudential requirements than traditional first tier commercial banks, thus creating the opportunity for new entities to enter the market and provide their services at competitive prices. The Bank of Namibia's research concluded that second tier banks were not the answer to more competition and increased access for the poor, but nevertheless decided to draft legislation to allow second tier (microfinance) banks (BoN 2010: 163) and granted the first microfinance oriented bank licence in 2009 (BoN 2009: 157). In Mozambique, 6.2 per cent of the banked in 2009 had a bank account with microfinance (second tier) banks (FinMark Trust 2009b: 42). Lesotho, South Africa and Zambia made little or no progress in this regard. By 2009, none of these countries had issued licences for second tier banks.

Increased transparency is a further strategy to contribute to a competitive banking environment. In SADC, a total of ten members had disclosure requirements in respect of effective interest rates and/or fees, and seven members a 'plain language' requirement for financial products and/or contracts (see table 8). The latter requirement is crucial in an environment of low financial literacy, generally the situation in SADC countries.⁵ Transparency was proposed by the IMF to enhance competition in banking in Malawi (IMF 2007), Mozambique (IMF 2010: 18) and Namibia (IMF 2006: 23). In the Malawi government's 2008 letter of intent (IMF 2008e) in response to the IMF's financial system stability assessment, it was reported that information disclosure clauses had been introduced in the lending contracts of banks. In the case of Mozambique, the IMF's 2009 Financial Sector Assessment Programme update identified the publishing of fee information as an important measure to solve some of the problems that inhibited progress in access to banking. Likewise, the IMF also recommended this approach to the Namibian government, but in 2010 the Bank of Namibia noted that bank fees were still complicated and that transparency was only then to become a key focus of the Bank (BoN 2010: 165). Transparency was also the method suggested in the Zambian government's Financial Sector Development Plan for 2004-2009 (MFNP 2004) to protect customers from excessive bank charges that were partly a result of the difficulty customers experienced in comparing such charges. The Bank of Zambia reported in 2008 that this proposal had been implemented and that bank charges were published on a quarterly basis in the daily newspapers (Kalyalya 2008: 9).

⁵ In Mozambique, for example, 49 per cent of rural adults do not know what a bank is (FinMark Trust 2009b: 32).

The distance to travel to a bank branch has cost implications, namely transportation cost and opportunity cost (travelling time) and therefore impacts on the affordability of banking services. A competitive environment is expected to contribute to decreasing the distance to bank access points. Governments' branching regulations (see table 7), though, may impede banks from opening new branches: formal approval from the supervisor of banks is required for each new branch in ten SADC members, and in six member countries the minimum number of days per week a branch has to operate is prescribed. Exemption from branching regulations may of course encourage new branches. One such an exemption applies, but in only three SADC countries (see table 7), namely from strict security requirements for branches in poor areas. The central bank of Namibia, in a 2004 occasional paper, proposed that the Banking Institutions Act be amended as follows to encourage the opening of branches in unbanked rural areas (Kaagunga *et al* 2004: 2): require a new rural branch when banks are given permission to shut-down non-profitable branches with no strings attached in over banked areas, or when a new branch is established in an urban area. This proposal fortunately did not come to fruition. A similar proposal was considered in Tanzania, but the IMF (2003: 32) strongly advised against this.

Table 7
Government policies and regulations regarding bank access points (2009)

Country	Supervisor approval needed to open new branch	Branch to operate minimum number of days/week	Exemptions from requirements of bank security for poor areas	Mobile branches and/or branchless banking	Banks may provide services at post offices	Banks can formally contract companies as banking agents
Angola						
Botswana	x	x		x		
DRC						
Lesotho	x			x		x
Madagascar				x		x
Malawi	x		x	x	x	
Mauritius	x	x		x	x	x
Mozambique	x			x		
Namibia	x	x	x			
South Africa				x		x
Swaziland	x				x	
Tanzania	x	x		x		x
Zambia	x	x		x		
Zimbabwe	x	x	x	x		

Sources: CGAP *et al* 2009 & 2010.

Allowing mobile branches and/or branchless banking (e.g. ATMs) create the opportunity for banks to deliver services cost-effectively in sparsely populated rural areas and also limit the client's cost associated with having to travel far to gain access to a bank. Banking regulations in ten SADC countries permit this (see table 7), a

positive development. Contracting companies as banking agents serves the same purpose, but to protect the consumer, their services need to be regulated and are usually restricted to payment-related functions (CGAP *et al* 2009: 43). Only five SADC members allow banking agents (see table 7). Utilising post offices as banking agents has enormous potential as their numbers are double that of bank branches in the developing world (CGAP *et al* 2009: 47). Regrettably, only three SADC countries permit this (see table 7).

3.3 *Financial literacy*

It has been mentioned above that financial illiteracy is generally a problem in all SADC countries (also refer to table 3). Six member countries planned to specifically address this issue towards the end of the period of study (see table 8). In Namibia it was identified by the central bank as a major stumbling block in achieving financial inclusion, a strategic objective of the Bank of Namibia (BoN 2010: 163-164). Evidence of the importance accorded to financial literacy is the establishment in 2009 of The Namibia Financial Literacy Working Group. The government, Bank of Namibia, Namibia Competition Commission and Namibia Consumer Trust were some of the members and the intention was to broaden the membership to also include industry. A policy framework and plan of action was drawn up. In Tanzania, their central bank, with the support of the Minister of Finance, took the lead in developing a national financial literacy strategy. The first workshop to this end was held in June 2009 (FSDT 2009). And in Zambia, the Financial Sector Development Plan for 2004-2009 recommended that bank clients ought to be educated to enable switching between banks in search of reduced costs (MFNP 2004: 67). This apparently did not materialise, as evidenced by their central bank's expressed intent in 2009 to develop and implement a strategy to increase the level of financial literacy (FinMark Trust 2009d).

3.4 *Legal infrastructure*

An inadequate legal infrastructure, specifically in regard to land ownership and land transfer rights as well as contract enforcement procedures, creates serious barriers to access bank credit. Problems with land ownership and land transfer rights limit the availability of suitable collateral and ineffective contract enforcement procedures deter banks from providing credit. This barrier appears to be of vital importance in a number of SADC economies judging from the attention it has received both from the governments in question and the IMF.

Table 8

Government policies and regulations impacting on bank access and use (2009)

Country	Maximum rate &/or fee limits	Effective interest rate &/or fees disclosed	Plain language requirement	Financial literacy reforms	Basic bank account: a requirement or reforms to introduce	Government transfers to deposit accounts: encouraged or reforms to encourage
Angola						x
Botswana		x	x	x		x
DRC		x				
Lesotho				x		x
Madagascar						x
Malawi				x		
Mauritius		x	x			
Mozambique		x	x		x	
Namibia	x	x	x	x	x	x
South Africa	x	x	x		x*	
Swaziland	x	x				x
Tanzania		x		x		x
Zambia		x	x	x		
Zimbabwe	x	x	x		x	x

*Moral suasion

Sources: CGAP *et al* 2009 & 2010; BoN 2010; FinMark Trust 2009d; FSDT 2009.

In a 2004 country report on Lesotho, the IMF (2004: 32-40) reviewed the then current poor financial intermediation situation and the measures that had previously been taken by the Lesotho government to boost financial intermediation. The weak legal infrastructure was highlighted and specific reference made to ill-defined property rights that virtually precluded the use of land as collateral, contract enforcement problems due to an inefficient and sluggish judicial system, and the disqualification from access to credit for women without their husband's written consent. Although legislation was adapted in 2006 to address the equality of both spouses to contract legally and permit the use of land as collateral, steps taken to simplify the process of issuing titles for land, and procedures expedited to transfer property rights (see also CBL 2007: 2), the IMF still identified the lack of collateralisation of land as problematic in 2008 (IMF 2010a: 14). This conclusion is supported by the Central Bank of Lesotho's own survey on demand and supply of bank credit that found that lack of adequate collateral was the most important grounds banks had for rejecting a loan application (CBL 2009: 22).

The IMF's 2003 Financial Sector Assessment program (FSAP) of Mozambique identified a number of obstacles in the bank lending environment, including problems in the legal framework, and recommended certain steps to rectify it. The majority of these recommendations were fully or partially implemented by 2009, including the modernisation of the Notary Office and the Public Commercial Registry, and the establishment of a specialised

commercial court (IMF 2010b: 7). Nevertheless, obstacles remained in the legal framework that contributed to the unsatisfactory situation of the majority of the population still lacking access to financial services, and consequently these barriers were addressed and included in the key recommendations of the IMF's 2009 FSAP update (IMF 2010b: 8). The barriers in question included slow and expensive contract enforcement procedures inhibiting the debt recovery process, and a poorly functioning property registry with less than thirty per cent of properties registered (IMF 2010b: 14).

The situation in Tanzania was analogous to that experienced in Lesotho and Mozambique and had already been alluded to by the IMF in 2003 (IMF 2003). Similarly, in an address at their central bank conference on the future of rural finance in Tanzania, its Ministry of Finance (Khijjah 2004: 3,5) acknowledged the problems related to land titling and indicated that the government had already begun to implement a programme to formalise property rights. The government also undertook to improve the legal framework in order to boost the poor credit repayment culture (Khijjah 2004: 9). The IMF reported in 2007 and 2008 that reforms in both these areas were ongoing (IMF 2007a: 47, IMF 2008c: 33-34) and in 2010 still indicated that poor creditor rights inhibited access to credit (IMF 2010c: 11).

In Zambia, their government's Financial Sector Development Plan 2004-2009 alludes to the general perception of a lack of intent to take legal action against financial crimes, the latter including the deliberate decision not to repay loans. This Plan consequently recommended increasing the capacity of the commercial courts to enable the speedy prosecution of financial crimes (MFNP 2004: 64,67). There were apparently also problems with the valuation of property to be lodged as collateral. The recommendation in this regard was that all surveyors of property pledged as collateral should be approved by the central bank of Zambia (MFNP 2004: 67). Though the registration of title deeds of land was not identified as a problem in this Plan, the 2009 FinScope survey found that it in fact appears to be. In the region of 87 per cent of those who stated that they owned a house did not have the title deeds (FinMark Trust 2009d).

In Swaziland, private ownership of land was severely restricted and had been identified by the IMF (2008b: 40) as a key constraint to access bank credit (unavailability as collateral).

3.5 *Credit history*

When considering loan applications, banks need access to the applicant's credit history. A lack of such history poses a serious constraint on banks in their decision-making process and substantially increases the screening costs, would often lead to a negative result or high cost for the borrower and consequently acts as a barrier for

the potential customer to access bank credit. A credit bureau typically provides the required information and if there is no such institution it is problematic, as experienced in a number of SADC countries.

The IMF already mentioned the lack of credit history in 2004 as one reason for the low access to banking in Lesotho (IMF 2004). Apparently the Central Bank of Lesotho wanted to commence with the establishment of a credit bureau in 2003, but due to the private sector's negative response, it decided to rather launch a credit information register for the banks within the central bank (CBL 2005: 30). This was found to be too expensive and it subsequently elected to back the government's initiative to launch a public national credit bureau (CBL 2006: 27). In 2009, the process of creating such a credit bureau was still ongoing (CBL 2009: 20).

The Malawi government, as part of a plan to support financial intermediation in their country, agreed to improve creditor rights as well as the accessibility of information in credit markets (IMF 2007b: 20). A year later they reported in their Letter of Intent to the IMF (2008e: 5) that they had progressed in this regard, having commenced the process to launch credit bureaus.

Mozambique, in contrast to Lesotho and Malawi, already had a credit bureau in the 2000s. But it was situated within the central bank and hence used more as a monitoring device for prudential purposes. With this narrow focus, it was decided in 2009 to look into the legality of establishing private credit bureaus that would collect a broader range of information suitable for screening loan applicants (IMF 2010b: 14).

It was reported in 2003 that Tanzania did not have a credit bureau and necessitated the central bank to take the initiative and create an obligatory credit reporting system to which all licensed lenders would have to belong (IMF 2003: 30). By 2005 a credit rating agency had been established and by March 2007 a new credit information system planned by the central bank was presented to government for its endorsement (IMF 2007a: 14,46). Following its approval, the process to launch the credit information databank got underway but did not meet the end-June 2008 deadline (IMF 2008c: 34).

In Zambia, the absence of a credit bureau was noted in their Financial Sector Development Plan 2004-2009 as the cause of a weak credit culture: defaulting on a loan had no impact on the borrower's credit standing at a different institution and thus discouraged a sound repayment ethic (MFNP 2004: 63). In the same Plan the government mentioned that they were in the process of founding a credit bureau and it subsequently came to fruition with the launch in January 2007. Two years later the central bank was not yet pleased with the functioning of the credit bureau (BoZ 2008: 54). The supply of data to the bureau and the level of use by

financial institutions were still low, indicating that the mere existence of such an institution does not spell success.

3.6 *Financial inclusion policies*⁶

While the above policies were all addressed to bridge specific barriers the poor experienced to access and use of formal banking services, there were also policies that aimed to directly result in financial inclusion. In eight SADC members their governments in 2009 either encouraged or had reforms in progress to encourage the recipients of government transfers (pension payments, child allowances, unemployment insurance etc.) to open bank accounts (see table 8). Likewise, in four SADC countries either banks were required to offer basic bank accounts in 2009, low cost being the attraction for the customer, or reforms were in progress to require the offering of such accounts.⁷ Such inclusion policies, however, will only be successful in the SADC region “... if participating financial institutions see them as a viable business proposition and if they address a binding constraint, be it cost or distance” (CGAP *et al* 2009: 2). Recipients of government transfers will only open bank accounts if it is easily accessible and costs are low. Basic bank accounts (typically featuring a combination of no or low fees, no or low minimum amount requirement, and limited free ATM transactions) will only be supported by the poor if they are financially literate, it is easily accessible and provide the combination of banking services the poor require. Banks will only willingly provide basic accounts if it makes commercial sense. This does not necessarily imply that the basic bank product must in itself be profitable, which is expected to often not be the case, but it should create the opportunity for the bank to in time draw basic bank customers into higher yielding banking products.

As was indicated earlier, the considerable success achieved in increasing the use of banking services in South Africa can be directly attributed to the take-up of the Mzansi basic bank account offered by the four major commercial banks and the government-owned Postbank. Although the commercial banks ‘willingly’ created this product, the moral suasion by government had been instrumental in their decision. The banks realised that the Mzansi product in itself would most probably not be profitable and bargained on Mzansi account holders to in time migrate to more lucrative products. This apparently had not yet materialised to the desired extent (Schoombee 2009: 153). In addition to the moral suasion, CGAP *et al* (2009: 20) also mentioned two other characteristics that explain the high take up of Mzansi accounts, namely the existence of a well developed

⁶ In their research of bank access in 139 countries, Kendall *et al* (2010) found that policies specifically focused on financial inclusion did not have a significant impact on deposit and loan account penetration. They noted, however, that this “... does not imply that these policies are ineffective, but rather an indicator of the large variations (in) the countries pursuing them” (Kendall *et al* 2010: 4).

⁷ This includes South Africa, where basic bank accounts were not a formal requirement, but offered by banks because of moral suasion by government.

banking infrastructure boasting an abundance of access points, and a significant potential demand for basic banking products if available at low cost.

4. Conclusion

With the limited availability of comparative data, only tentative conclusions are possible regarding the gains made in increasing the access to and use of formal banking services in SADC in the period 2000-2009, as well as to the policies that made a significant impact on achieving greater access and use. As could be expected, the four most banked SADC economies similarly have the greatest access to banking and also represent four of the five most developed (higher-middle income) countries in this grouping. The increase in access as measured by ATMs per 1000km² was significant in all seven SADC countries for which this data is available, the median growth rate being 67 per cent over the period 2003/4 to 2009. This was a very encouraging development and is expected to have had a considerable positive impact on the use of banking services. In the two countries (of only three for which data is available) that had experienced significant growth in bank usage, South Africa with 33 per cent and Tanzania with 21 per cent, their increase in access was considerably higher than the median of 67 per cent, South Africa with 125 per cent and Tanzania with 800 per cent.

Affordability appears to have been the major impediment to greater use of banking services. Given the low level of development of most SADC economies, it was not surprising that lack of income was identified by the unbanked as the most significant access barrier. Government policies to attain a higher level of development in their countries would thus also impact positively on affordability and access to banking, but given the general nature of such policies, were not addressed in this research. The focus was rather on those policies that attempted to lower the high cost of banking services to make banking more affordable.

Most SADC members highlighted the lack of competition in the banking sector as key to the high cost customers had to face when transacting with banks. Various policies were considered and/or implemented to enhance competition, including allowing second tier banks, requiring increased transparency in banks' dealings with their customers, and policies to encourage banks to bring banking closer to their clients/potential clients (e.g. mobile banking, branchless banking). Using the bank concentration ratio as an indication of competitiveness, little if any progress was made in SADC as a whole, though a small number of individual countries had advanced in this regard.

No firm conclusions are possible in regard to the success of the range of policies employed by SADC governments to increase access to and use of formal banking services in their respective countries. In principle,

all policies aimed at lifting the barriers to banking, either from the potential customer's perspective (lower cost, financial literacy etc.) or from the bank themselves (adequate legal infrastructure, access to a credit bureau etc.) should have had a positive impact. The basic bank (Mzansi) account initiative in South Africa, as reported previously, was very successful in reaching the poor with banking services. On the evidence available, no other successes of this scale was achieved in the rest of SADC.

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