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CENTRE FOR INCLUSIVE BANKING IN AFRICA

The Microfinance Review 2013

From Microfinance to Financial Inclusion

A review of the South African microfinance sector

Trends, successes, challenges, and policy issues

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LIST OF ACRONYMS

ABSIP	Association of Black Securities and Investment Professionals
AMFISA	Association for Pro Poor Micro Finance Institutions for South Africa
ASCA	Accumulating Savings and Credit Association
AMSA	Amalgamated Microlenders of South Africa
ATM	Automatic Deposit Terminals
B-BBEE	Broad-Based Black Economic Empowerment
BSM	Business Sophistication Measure
CASP	Comprehensive Agricultural Support Programme
CBA	Credit Bureau Association
CBDA	Co-operative Banks Development Agency
CDG	Care Dependency Grant
CFI	Co- operative Financial Institutions
CGAP	Consultative Group to Assist the Poor
CIBA	Centre for Inclusive Banking in Africa
CIPC	Companies and Intellectual Property Commission
CPI	Consumer Price Index
CPS	Cash Payment Services
CSG	Child Support Grant
CUBIS	Credit Union Banking Information Systems
DAFF	Department of Agriculture, Forestry and Fisheries

DBSA	Development Bank of Southern Africa
DFIs	Development Finance Institutions
DG	Disability Grant
DRDLR	Department of Rural Development and Land Reform
dti	The Department of Trade and Industry
EC	Eastern Cape
ECRFC	Eastern Cape Rural Finance Corporation
EDO	Early Debit Order
EFT	Electronic Funds Transfer
FCG	Foster Child Grant
FDI	Foreign Direct Investment
FICA	Financial Intelligence Centre Act
FLISP	Finance Linked Individual Subsidy Programme
FMT	FinMark Trust
FNB	First National Bank
FS	Free State
FSB	Financial Services Board
FSC	Financial Sector Charter
GDE	Gross Domestic Expenditure
GDP	Gross Domestic Product
GEP	Gauteng Enterprise Propeller
GIA	Grant-In Aid
GII	Gender Inequality Index
GNI	Gross National Income
GP	Gauteng
HDI	Human Development Index
HDR	Human Development Report
HMF	Housing Micro Finance
IDC	Industrial Development Corporation
IFC	International Finance Corporation
KYC	Know Your Customer
KZN	KwaZulu-Natal
LP	Limpopo
LREF	Land Reform Empowerment Facility
LSM	Living Standards Measure
MAFISA	Micro Agricultural Financial Institution
MDGs	Millennium Development Goals
MEF	Micro-Enterprise Finance
MEGA	Mpumalanga Economic Growth Agency
MFRC	Microfinance Regulatory Council
MFSA	Microfinance South Africa
MGK	Magalies Graan Koperasie
MP	Mpumalanga
MPI	Multidimensional Poverty Index
MSEs	Micro and Small Enterprises

NACFISA	National Association of CFIs of South Africa
NC	Northern Cape
NCA	National Credit Act
NCR	National Credit Regulator
NCT	National Consumer Tribunal
NDMA	National Debt Mediation Association
NEDLAC	National Economic Development and Labour Council
NEHAWU	National Employees Health and Allied Workers Union
NERPO	National Emergent Red Meat Producers' Organisation
NGP	New Growth Path
NHFC	National Housing Finance Corporation
NLR	National Loan Register
NW	North West
OAG	Old Age Grant
OSK	Orania Spaar and Kredit Ko-operative Bank
PDA	Payment Distribution Agent
POS	Point Of Sale
PPI	Progress out of Poverty Index
PPP	Purchasing Power Parity
RDE	Real Domestic Expenditure
RDP	Reconstruction and Development Programme
RFI	Retail Financial Intermediaries
RHLF	Rural Housing Loan Fund
ROE	Return on Equity
ROSCAs	Rotating Savings and Credit Associations
SAARF	South African Audience Research Foundation
SACCO	Savings and Credit Co-operative
SANT	South African National Treasury
SAPO	South African Post Office
SARB	South African Reserve Bank
SASA	South African Sugar Association
SASSA	South African Social Security Agency
SCGs	Savings and Credit Groups
SEDA	Small Enterprise Development Agency
SEF	Small Enterprise Foundation
SEFA	Small Enterprise Finance Agency
SMME	Small, Medium and Micro-sized Enterprises
UNDP	United Nations Development Programme
VAT	Value Added Tax
VSLAs	Village Savings and Loans Associations
WC	Western Cape
WDB	Women’s Development Business
WOCCU	World Council of Credit Unions
WVG	War Veteran Grant

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1. Definitions, report methodology and organisation

This Microfinance Review 2013 builds on the first Review which was compiled in 2009 and can be found on the website of the Centre for Inclusive Banking in Africa (www.microfinance.up.ac.za). The objective of this Review series is to systematically document the context, market size and characteristics, and suppliers of the microfinance sector in South Africa, and track salient changes over time. For the purposes of this report, we have applied the broadest definition of microfinance: "*the provision of formal financial services to low income households".* In this definition, the word "formal" refers to a formal registered institution as the supplier of the service.

The first Microfinance Review 2009 focused on three primary microfinance services: deposit services for the low income market, microloans to salaried individuals, and microenterprise loans. We also had two special focus areas on microinsurance and stokvels. In this Review, we once again cover the three primary products, but have also added sections on affordable housing finance, agricultural microfinance, and remittances.

For this Microfinance Review, we added a tagline, *from microfinance to financial inclusion,* as the trend nowadays is to refer to financial inclusion as an objective, implying that it is more than microfinance. The term microfinance in South Africa is largely associated with micro lending, or micro credit. Most also link this micro lending to consumer credit. Financial inclusion, on the other hand, considers access to four categories of financial services: credit, savings, transaction/payment services, and insurance.

The Centre for Financial Inclusion (CFI) at Accion defines full financial inclusion as:
"A state in which everyone who can use them has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity. Financial services are delivered by a range of providers, in a stable, competitive market to financially capable clients."[1]

As implied by this definition, the word financial inclusion goes beyond "access" to services to incorporate "usage" of services. This means that products supplied must be both appropriate and affordable for the target market, and delivered in a responsible manner, with a concern for development or improvement in the lives of those who use the services. CFI refers to the "double heart" of financial inclusion: Outreach (reaching more people) and Quality (what clients receive and how they receive them).

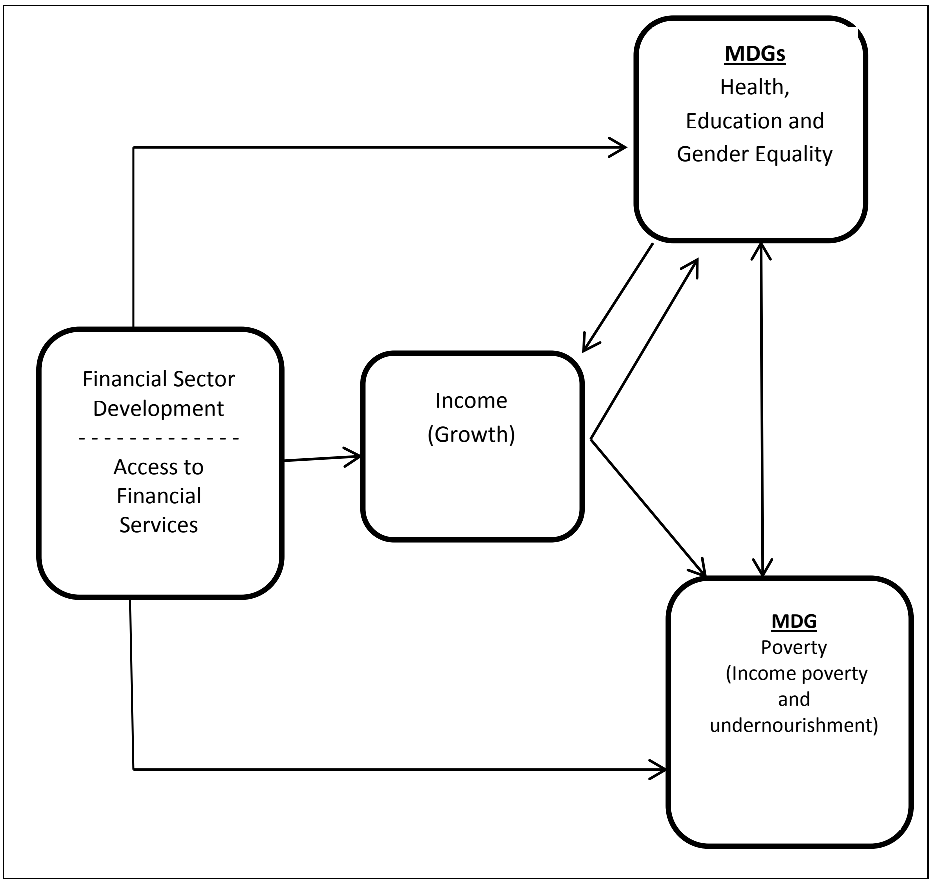
Worldwide approximately 2.5 billion people do not have a formal account at a financial institution. These include: 59% of adults in developing economies; 77% of adults earning less than $2 a day; and 11% of adults in high income economies. In all regions, with the exception of high income economies, borrowing from friends and family is the most commonly reported source of credit. Two-thirds of adults globally, without a banking account, cite a lack of money as the obstacle to use of formal financial services. One-third of adults also blame the cost of opening and maintaining an account or the banks being too far away.

[1] Website of CFI, www.centerforfinancialinclusion.org

Access to affordable financial services is linked to overcoming poverty, reducing income disparities and increasing economic growth. The World Bank's Global Findex (Demirguc-Kunt, Klapper, 2012) shows 75% of the world's poor do not have a bank account, not only because of poverty, but also due to costs, travel distance and paperwork involved.

According to the Consultative Group to Assist the Poor (CGAP) (2002), access to financial services underpins the ability of the poor to achieve the Millennium Development Goals (MDGs) on their own terms in a sustainable way, and enables the poor to:

- Increase and diversify incomes,
- Build human, social and economic assets, and
- Improve their lives in ways that reflect the multidimensional aspects of poverty



Millennium Development Goals

- Eliminate extreme hunger & poverty
- Achieve universal primary education
- Promote gender equality and empower women
- Reduce child mortality
- Improve Maternal health
- Combat HIV/Aids, malaria & other diseases
- Ensure environmental sustainability
- Form a global partnership for development

CGAP 2002

An effective inclusive financial system should operate at various levels:

- Micro level – retail financial service providers (ranging from formal to informal, public to private) that offer appropriate and responsible products and services, focussed on client needs and not on what is the best or lowest cost to the provider.
- Meso level – financial infrastructure, skills, ICT, ratings, payment systems (making things work!), and
- Macro level – appropriate legislative and policy framework.

Globally, policy makers have recognised the role of financial inclusion in both wealth creation and alleviation of poverty. At the Pittsburgh Summit of the G20 in September 2009, leaders committed to improving access to financial services for the poor. They formed a Financial Inclusion Experts Group, in collaboration with CGAP, the International Finance Corporation (IFC), and other organisations, which released in June 2010 a set of nine principles for governments to follow in their quest to create an enabling policy and regulatory environment for innovative financial inclusion.

1. Leadership: Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
2. Diversity: Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers
3. Innovation: Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses
4. Protection: Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers
5. Empowerment: Develop financial literacy and financial capability
6. Cooperation: Create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
7. Knowledge: Utilize improved data to make evidence based policy, measure progress, and consider an incremental "test and learn" approach acceptable to both regulator and service provider.
8. Proportionality: Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
9. Framework: Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

Further to this, in September 2013, the G20 Leaders endorsed a set of 24 Indicators, designed to assess the state of financial inclusion by measuring access to, usage of, and quality of financial services.

Table 1.1: The G20 Financial Inclusion Indicators

	Category	Indicators
	USAGE	
1	Formally banked adults	% of adults with an account at a formal financial institution Number of depositors per 1,000 adults OR number of deposit accounts per 1,000 adults
2	Adults with credit by regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution Number of borrowers per 1,000 adults OR number of outstanding loans per 1,000 adults
3	Adults with insurance	Number of insurance policy holders per 1,000 adults.

		Segregated by life and non-life insurance
4	Cashless Transactions	Number of retail cashless transactions per capita.
5	Mobile Transactions	% of adults that use their mobile device to make a payment
6	High frequency of account use	% of adults with high frequency use of formal account.
7	Saving propensity	% of adults who saved at a financial institution in the past year.
8	Remittances	% of adults receiving domestic and international remittances
9	Formally banked enterprises	% of SMEs with an account at a formal financial institution
10	Enterprises with outstanding loans at regulated institutions.	% of SMEs with an outstanding loan or line of credit Number of SMEs with outstanding loans/number of outstanding loans OR number of outstanding loans to SMEs/number of outstanding loans
	ACCESS	
11	Points of Service - branches	Number of branches per 100,000 adults
12	Points of Service - ATMs	Number of ATMs per 100,000 adults OR number of ATMs per 1000 sq. km.
13	Points of Service - POS	Number of POS terminals per 100,000 inhabitants
14	E Money Accounts	Number of e-money accounts for mobile payments
15	Interoperability of Points of Service	Combined index of Interoperability of ATMs and Interoperability of POS terminals
	QUALITY	
16	Financial Knowledge	Financial knowledge score. *Arithmetic score which sums up correct responses to questions about basic financial concepts, such as: (A) Inflation, (B) Interest rate, (C) Compound interest, (D) Money illusion, (E) Risk diversification, (F) Main purpose of insurance.*
17	Financial Behaviour	Source of emergency funding
18	Disclosure Requirements	Disclosure index combining existence of a variety of disclosure requirements
19	Dispute Resolution	Index reflecting the existence of formal internal and external dispute resolution mechanisms
20	Cost of Usage	Average cost of opening a basic current account.
21	Cost of Usage	Average cost of maintaining a basic bank current account (annual fees).
22	Cost of Usage	Average cost of credit transfers.
23	Credit Barriers	% of SMEs required to provide collateral on their last bank loan (reflects the tightness of credit conditions)
24	Credit Barriers	Getting credit: Distance to frontier *Measures the extent of informational barriers in credit markets*

Throughout this report, we indicate in which areas South Africa is making gains with financial inclusion and in which areas the country is possibly slipping backwards. Overall government can be commended in establishing a policy framework; indeed, South Africa holds a leading position in many aspects. The implementation of policy tends to be more challenging.

Section 2 – Executive Summary, highlights the primary findings and features of financial inclusion in South Africa and trends over the past four years.

Section 3 – Context, creates a profile of the external environment and factors which impact on microfinance providers in South Africa, particularly the economic and legislative environments and the trend towards "branchless banking". Further, this section shines a spotlight on three of the "meso" level suppliers of services to the microfinance providers: the credit bureau sector, debt counselling sector, and wholesale development finance institutions. Information for this section was gathered from secondary sources, such as annual reports and websites, as well as interviews with representatives from various organisations within the sector.

Section 4 – Market Demand, creates a profile of the range of users of microfinance services, drawing on data provided by the FinScope surveys, the NCR monitor, and Statistics South Africa.

Section 5 – Market Supply, provides a profile of the seven different types of organisation which supply microfinance services: developmental microenterprise lenders, cooperative financial institutions, salary-based microlenders, alternative banks, primary banks, housing microfinance institutions, and retailers.

In aggregate, these profiles uncover an expanding and dynamic sector with institutions catering to all levels of the micro market. The criteria for inclusion in the study are shown in the box below. For a salary-based microlender to be included, for example, they would need to meet the criterion of a minimum of 5,000 active loans outstanding. Micro loans are defined as those with initial disbursed values of less than R50,000.

To identify the qualifying suppliers, we first sought assistance from various industry associations or regulatory authorities. We then began compiling information from secondary data, which was sent to the organisation for verification and expansion. Topics covered by these surveys included: corporate history and structure; vision and mission; operating locations; products offered; banking systems utilised; and performance indicators.

Qualifying Service	Threshold
Unsecured salary-based loans with disbursed values less than or equal to R 50,000.	Over 5,000 active loans
Micro-enterprise loans (based on self-employment income) with disbursed values less than or equal to R 50,000	Over 100 active loans
Mzansi or other low income savings accounts	Over 1,000 active savers
For financial co-operatives	Over 200 members with a minimum of R100,000 in capital
For retailers	Over 10,000 active accounts
For low income housing lenders	Over 100 active loans

Section 6 – **Special Focus Areas,** includes four papers on agricultural microfinance, developments with the South African Social Security Agency (SASSA) grants payment system, growth of remittances, and a paper on the savings groups' model employed by SaveAct, South Africa.

2. Executive Summary

INTRODUCTION AND DEFINITION

Financial inclusion is concerned with the provision of a full suite of financial services (credit, savings, transactions, and insurance) to all those who can use them. Proponents of financial inclusion believe that access and usage of these services support poor households to build assets, diversify incomes, and withstand the challenges of low and variable incomes. Financial inclusion is also concerned with *how* these services are provided and the *impact* they have on the consumer. They should be appropriate to the target market, the poor, convenient and affordable, and delivered with respect and dignity. Furthermore, consumers should be empowered with information and knowledge to make informed decisions.

This section provides an overview of the state of financial inclusion in South Africa. For more information on any one of these topics, please refer to the corresponding section in the body of the report. Overall, South Africa has much to celebrate with regards to financial inclusion. At the end of this section, we provide a checklist of successes and areas requiring further efforts.

CONTEXT

Economic Factors*:* The economic environment in S.A. has remained a challenge during the period under review. High unemployment levels of 23% to 25% have been the Achilles heel of the SA economy, despite a stable level of inflation and interest rates since 2010 and year-on-year GDP growth of between 2.5% and 3.5%. The UNDPs Human Development Index 2012 ranked South Africa 121 out of 187 countries, with an index of 0.629, and below average for medium developed countries. The Multidimensional Poverty Index which looks at indicators of education, health, and overall standard of living, found that 13.4% of South Africans in 2008 lived in multi-dimensional poverty, while another 22.2% were vulnerable to multi-dimensional poverty. While some progress has been made in addressing poverty, much more still needs to be done.

Legislative Factors: The South African National Treasury (SANT) released a policy document in 2011, called "A safer financial sector to serve South Africa better" (commonly referred to as the 'Red Book' by virtue of the color of its cover), in which financial inclusion was first named explicitly as a national policy objective. The Red Book sets out SANT's four priority policy objectives: 1. Financial stability; 2. Consumer protection and market conduct; 3. Expanding access through financial inclusion; and 4. Combating financial crime.

South Africa has the second most sound financial sector globally, after Canada. This is an enviable achievement and should not be under-estimated in terms of attracting investment. For further policy reform in the aftermath of the global financial crisis, government has chosen to establish a "twin peaks" regulatory model, which will create one entity to govern "market conduct" (merging functions of the National Credit Regulator (NCR) and the Financial Services Board (FSB) for example) and another entity to assume responsibility for "prudential" regulation (likely all under the South African Reserve Bank). This, again, puts South Africa at the forefront of many emerging economies. At this stage, however, it is unclear how various regulatory entities will co-exist or integrate after formal adoption of the model.

The National Credit Act (NCA) Amendment Bill, 2013, was presented to parliament in October and, at the same time, the National Credit Regulator issued a new Code of Conduct and set of Affordability Assessment Guidelines. The Guidelines establish a minimum level of expenses per income range which must be included in affordability assessment worksheets. The Code is wide ranging, covering issues regarding consumer literacy, use of emolument attachment orders, and cost of and transparency regarding credit life insurance. Together, the Amendment Bill, the Code, and the Guidelines will tighten enforcement and further protect consumers against reckless lending, with an objective to reduce the proportion of credit consumers with impaired records.

The Department of Trade and Industry (dti) and banking sector has also finalised a new Financial Sector Code (to replace the Financial Sector Charter of 2004) which sets new targets for Broad-based Black Economic Empowerment, including increased access to financial services. Progress will be formally evaluated in 2017.

While the formal financial sector is stable and highly monopolized, the development finance sector appears to be stagnant if not declining. The period under review has seen the demise of three of the largest micro enterprise lenders. Although there has been some progress recently in the financial co-operative sector, overall outreach of the sector remains disappointing. South Africans remain largely deprived of a “middle tier” of institutions to serve the needs of a middle income country. Whilst Capitec Bank holds the mantle as the most innovative in the “mid-tier” banking space, more diversity of supply should be encouraged. The Dedicated Banks Bill upholds the promise of creating a breakthrough in this area, providing for the registration of new financial institutions offering a range of “core” banking products, including deposit services, for the lower income markets. The Bill has been on the backburner for almost a decade but is now expected to be put before parliament in 2014.

***Credit Bureaux*:** Unfortunately South Africa appears to be taking a step backwards in the credit bureau sector, with the proposed credit information amnesty. It was the intention that the NCA provide a once-off credit amnesty for a wide spectrum of borrowers who had various categories of adverse credit profiles recorded against their names. This rehabilitation was successfully completed in 2007. A second round of amnesty, however, has already been approved. While there is agreement that accuracy of information held by credit bureaux needs enhancement, significant progress is being made in this through other means. From 2009 to 2012, there was a 100% increase in the number of credit reports issued to consumers (from 76,000 to 151,400). Of the 16,368 disputes lodged in 2012, 80% were found in favour of the complainant, up from just 48% in 2009. The broad consensus amongst non-government stakeholders is that the 2013 credit information amnesty is not necessary to deal with information problems and that it will undermine the integrity of South Africa’s credit information sharing market to the overall detriment of the consumer.

***Debt Counselling*:** Of all the provisions introduced by the National Credit Act, those pertaining to debt counselling have been the most challenging to implement. At the end of March 2013, an estimated 9.5 million consumers appeared to be over-indebted, with arrears of three months or more on at least one credit account. This is the market for debt counsellors.

Formal debt counselling was introduced in June 2007 by the NCA as a channel to rehabilitate and educate over-indebted consumers. Debt counsellors are registered by the NCR and this requires counsellors to undergo formal training. Two business models are currently in operation: debt counsellors within a professional practice, and independent, start-up businesses, introduced to meet Black Economic Empowerment (BEE) requirements. Industry players note that there has been significant failure of the independent debt counselling businesses resulting from a general lack of legal knowledge and legal back up services. Professional practices of debt counsellors are mostly run by legal practitioners and accountants who have legal expertise and professional relationships with credit providers, affording them the opportunity to have a higher success rate of consumer rehabilitation.

To date, a total of 2,027 debt counsellors and 8 training institutions have been registered. Between 2008 and 2012, an estimated 296,544 applications were forwarded by consumers for debt counselling with only 105,413, or 35%, becoming active cases as at February 2012. Of the active cases, 66,882 consumers, or 63%, were already servicing their debts. A large percentage of consumers who have approached debt counsellors have left the process. Interviews with stakeholders reveal that a sizable percentage of cases were terminated from the process because consumers failed to stick to their rescheduled repayment commitments. Once this happens, creditors are permitted to take legal action against the consumer.

Concerns have been raised about the appropriateness of debt counsellors as a solution for the low income population. First, low income earners report the least number of cases of over-indebtedness, largely because they have fewer credit accounts than higher income earners. Secondly, the costs for debt counselling are proportionately higher for low income clients. The process attracts a flat fee of up to R6,000 per debt case, as well as after care fees and payment distribution fees. As a result, debt counsellors have been targeting higher income population segments.

Wholesale Development Finance Institutions (DFIs): The period of this review has seen a re-alignment of the development finance institutions, intended to bring enhanced performance and outreach. Today there are four DFIs which support the microfinance sector: the Small Enterprise Finance Agency (sefa), which provides finance to micro, survivalist, small, and medium enterprises, with a loan size limit of R5 million; the Micro Agricultural Finance Institution of South Africa (MAFISA), which provides finance for agriculture; the National Housing Finance Corporation (NHFC), which provides financing to support home ownership among lower income markets, and the Rural Housing Loan Fund (RHLF), which provides finance for rural and incremental housing. All of these DFIs provide wholesale finance to retail intermediaries who then on-lend to the target market. Sefa also provides finance directly, with loan sizes of R50,000 and higher, through the sefa direct offices in each province.

Sefa was launched in April 2012, a merger of the former Khula Enterprise Finance and South African Microfinance Apex Fund (Samaf). Sefa has also assumed primary responsibility for the provision of credit to the youth market, following termination of the credit programme of the National Youth Development Agency (NYDA). The other expected realignment of DFIs is a merger of the NHFC and RHLF, although it is not clear when this may occur.

DEMAND

Consumer Demographics: There has been a dramatic and encouraging shift of population distribution over the past eight years from the lowest Living Standards Measure (LSM) segments 1 to 3 into the higher LSM segments 4 to 10.[2] In 2004, LSM segments 1 to 3 made up 31% of the population; this figure dropped to 11% in 2012. LSM segments 4 to 6 grew from 43% to 53% over the same period and LSM segments 7 to 10 grew from 26% to 36% of the population. While economic growth supported the shift from 2004 to 2008, government's social efforts to build homes, expand access to services, and register all those eligible for social grants perhaps explains the shift from 2008 to 2012.

LSM segments 1 to 3 are dominated by the youth, aged 15 to 24, and the elderly aged 50 and over. They have average monthly incomes of 1,300 to 2,300 and live in traditional huts or squatter shacks. They have completed primary school and may have some high school. They do not own any durables except for a radio and perhaps a stove.

LSM Segments 4 to 6 tend to be more middle aged, with some high school, and 23% to 45% have matriculated. They have average monthly incomes of R3,100 to R6,300 and live in small urban or rural homes. In addition to a radio and stove, individuals in these segments also own a fridge, television set, and cellphone.

It is interesting that employment status per segment is consistent across LSM segments 1 to 6. In 2012, 30% to 40% were unemployed; 25% were formally employed either on a full time or part time basis; 10% to 20% were self-employed; 10% to 15% were retired; and 10% to 15% were students.

Deposit Services: At 67% in 2012, South Africa leads the continent and is well on its way to meeting government's formally banked population target of 70% by year end 2013. [3]

Table 2.1: Banked population rates in Africa

COUNTRY	BANKED %	NON-BANKED FORMAL %	INFORMAL ONLY %	FINANCIALLY EXCLUDED %
SOUTH AFRICA	67	6	8	19
NAMIBIA	62	3	4	31
SWAZILAND	44	6	13	37
BOTSWANA	41	18	8	33
LESOTHO	38	23	20	19
GHANA	34	7	15	44
NIGERIA	30	6	17	47
ZIMBABWE	24	14	22	40
KENYA	23	18	26	33
RWANDA	23	19	30	28
UGANDA	21	7	42	30
MALAWI	19	7	19	55
ZAMBIA	14	9	14	63
TANZANIA	12	4	28	56
MOZAMBIQUE	12	1	9	78

Source: FinMark Trust, 2013 (2012 data)

[2] The Living Standards Measure is a method of segmenting South African consumers based on their socio-economic status. This approach was developed and is being maintained by the South African Advertising Research Foundation (SAARF).
[3] The 2013 FinScope survey revealed a banked population of 76%. This can be questioned in terms of real inclusion, however, as half the increase is explained by an increase in SASSA accounts, which merely serves as a payment mechanism and does not necessarily imply usage.

There has been a slight decline in formal deposit usage in S.A., however, from 31.8% in 2010 to 30.0% in 2012, reflecting the worsening unemployment situation. This drop confirms that as much as access is important, it does not always translate into usage.

A “stretch” target of 90% by 2030 has also been proposed. It remains to be seen whether “formal banking access” is indeed an appropriate indicator for financial inclusion. Anecdotal evidence suggests many clients use bank accounts either to receive a salary or social grant with little other transactional activity being recorded. This aspect requires more detailed investigation, including the mandatory use of South African Social Security Agency (SASSA) cards by grant recipients. In our view, the functional capability of a SASSA card is a retrogressive step from the Mzansi account or the AllPay account offered by ABSA for social grant recipients.

While the LSM 1-6 segments may have a formal deposit account (40-60%), the low formal savings rates indicate that they use them sparingly. Household savings as a percentage of disposable income dropped from 2.7% in 1991 to -1.2% in 2008, and recovered slightly to 0% in 2012. A larger share of savers uses informal stokvels and community savings clubs. When looking at the reasons for saving, savings for an emergency was cited by 58% of respondents, followed by making a provision in the event of death at 47% and funeral costs at 41%.

Establishment of the Mzansi account in 2005 by the banking sector was meant to encourage savings and improve financial inclusion. Opening an Mzansi account did not require a proof of residence and there was no monthly fee. Account holders were allowed five free transactions per month. The scheme achieved strong growth amongst the lower income segments in the first five years and represented 15% of accounts by 2010. Over the past two years, the number of active Mzansi accounts has declined as customers migrate to other entry level accounts. Introduction of the SASSA payment cards may also have led to the closure of some Mzansi accounts. Clearly, however, Mzansi played an important role as a catalyst for financial inclusion.

Credit Services: The number of credit active South Africans has grown steadily over the period of this review, from 18.2 million in March 2010 to 20.1 million in March 2013. Formal sources such as bank and credit institutions make up 74% of the market while informal sources such as stokvels and friends and family remain significant at 26% of the market.

South Africa, along with Malaysia and the United Kingdom, enjoys a No 1 position in the World Bank’s global ranking of “Doing Business Access to Credit”. This is a double edged sword. On the one hand, it is a testament to South Africa’s rich repository of credit information and legal enforcement rights. On the other, the negative consequences of a consumption driven credit market has manifested itself in the ever increasing number of debt-stressed individuals. The proportion of consumers with impaired records (arrears of three months or more on at least one credit agreement) grew to 47.5% at March 2013.

South Africa has a R1.4 trillion personal credit market, of which approximately R140 billion (or 10%) can be attributed to low income households earning no more than R10,000 per month. For this review, we shall deem this market segment to represent the “microfinance” credit market. Productive credit (such as mortgages, secured credit and developmental credit) account for just 26% of this market, whilst consumption credit accounts for the balance of 74%.

Although the most dramatic growth in the unsecured credit market over the past three years has been at the higher income levels, the micro market also reflects strong growth except in the lowest income category. Growth in the number of unsecured credit agreements from 2009 to 2012 per monthly income category has been: 4% for incomes of up to R3,500; 57% for incomes of R3,501 to R5,500; 73% for incomes of R5,501 to R7,500; and 207% for incomes of R7,501 to R10,000.

Insurance Services*:* The use of insurance in South Africa has for a long time remained out of reach of the majority of the population, with the exception of funeral cover, which still remains popular. Within the micro markets of LSM 1 to 6, between 2% and 5% have insurance from a bank; 10% to 18% have insurance from another formal provider; and 16% to 26% have insurance through an informal mechanism (stokvel or funeral home). Between 50% and 70% claim to have no insurance cover at all.

For those who do have insurance, funeral cover represents 90% for those in LSM1 to 4, dropping to 65% for LSM 6. The second most common type is life cover, which represents 7% for those in LSM1 to 4, increasing to 20% for those in LSM 6. This is mostly sold together with consumer credit packages. Anecdotal evidence suggests that this is an important source of income for the consumer credit market, over and above the interest and fees allowed under the NCA. This is an area of concern which has attracted government scrutiny over the past few years, resulting in controls stipulated in the newly released Affordability Assessment Guidelines.

Remittances: Remittances continue to be utilised by South Africans in terms of sending money to or receiving money from family members. Foreign remittances in SA are a R27 billion industry, of which 58.6% constitute outflows and 41.4% inflows (World Bank, 2012). South Africa has always been a net “sender” of remittances.

In 2012, approximately 1 in 5 South Africans sent or received money from family members (FinScope, 2012). Domestic mobile money transfers within South Africa are growing rapidly, except for individuals in LSM 1-2. The most common channels by LSM group are mobile airtime, at 85% for LSM 3-4 and supermarket money transfer, at 60% for LSM 5-6. For those who use mobile money transfer services in banks, such as eWallet, CashSend, M-Pesa or instant money, ABSA has the largest market share at 25%, followed by FNB at 24%, and Standard Bank at 20%.

The widespread use of informal channels, however, such as via bus or taxi, poses a challenge in terms of quantifying actual usage. For segments LSM 1 to 6, close to half the transactions are still conducted through informal channels.

Microenterprise Market: The FinScope Small Business Survey 2010 determined that there are 5.6 million micro and small enterprises in South Africa, which it then categorised into eight distinct Business Sophistication Measure (BSM) segments. In a subsequent report, CIBA combined these eight segments into three clusters: the survivalist enterprises (BSM 1 to 3), representing 3.35 million or 60% of the total, the microenterprises (BSM 4 to 6), representing 1.68 million, or 30%, and the small businesses (BSM 7 to 8), representing 555,000, or 10%.

The survivalist cluster is comprised of the very smallest enterprises. Owners of these businesses have the following profile: 65% are females; 93% are black; just 20% have completed high school; and 17% are not South African citizens. These businesses are primarily operating from the residential premises of the owner, a home or garage (72%), but may also be found on a footpath or travelling door to door (22%). Survivalist businesses can be found in both rural (54%) and urban (46%) areas. A majority of these businesses have a monthly turnover of less than R4,000 (71%) even though most have been in existence for three years or more (67%). Virtually all (99%) businesses in this cluster are informal. The business is the sole source of household income for 64% of these business owners. Government grants are a source of income for 20% of the households, while 15% of households also benefit from a family member earning a salary or wage. Survivalist businesses do not create employment; 90% have no other employees and the weighted average number of employees is 0.1.

Just 20% of survivalist businesses have or use a bank account and just 3.7% claim to have ever borrowed for their business. For those who have borrowed, the primary source was family and friends (63%) followed by informal money lenders (13.5%). The required start-up capital was less than R1,000 for more than half (56%) while 21% required between R1,000 and R10,000.

Microenterprises are more established businesses. The owners of these businesses have the following profile: 50% are female; 83% are black; 43% have completed high school; and 19% are not South African citizens. These businesses are also primarily operating from the residential premises of the owner (78%), but may also be found on a footpath or travelling door to door (14%). Microenterprises are concentrated in urban areas (65%). A majority of these businesses have a monthly turnover of between R4,000 and R27,500 (57%), with 36% earning less than R4,000 and 7% earning above R27,500. A majority have been in existence for three years or more (73%). Microenterprises are also primarily informal (75%). For 72% of these business owners, the business is the sole source of household income. Government grants are a source of income for only 9% of the households, while 16% of households also benefit from a salary or wage. Microenterprises generate slightly higher employment than the survivalist enterprises; 40% have at least one employee and the weighted average number of employees for the whole sample is 1.0.

Usage of bank accounts for this cluster is much higher, at over 70%. Some also use fixed deposit accounts (8%) and credit cards (3%). Borrowing for business is not much higher for this group, with just 5% claiming to have borrowed. Once again, family and friends are the primary source (58%) followed by a bank (19%). The required start-up capital for this group is higher, with 18% needing more than R10,000 and 37.5% needing between R1,000 and R10,000.

SUPPLY

There are seven categories of supplier of primary microfinance services in South Africa: micro-enterprise lenders; salary-based microlenders; co-operative financial institutions, primary banks; alternative banks; affordable housing finance suppliers; and retailers. We have excluded development finance institutions from this list as the larger players have terminated their direct microcredit programmes (NYDA, Land Bank, and Ithala) and the remaining institutions have very small microcredit portfolios.

1. **Micro-enterprise lenders**

The microenterprise lending sector still remains under-developed. Fourteen MFIs employing approximately 700 staff and servicing just over 112,000 active loans is the disappointing picture after 30 years of activity. Outreach has actually dropped since our Review in 2009, when active loans reached 120,000. Considering also the marginal contribution from the financial co-operative sector, sobering questions need to be raised about the state of the “development finance” sector in South Africa.

Of the fourteen institutions operating today, seven employ a group based lending methodology and seven employ an individual based methodology. Only two institutions, both group lenders, have more than 5,000 active loans, with the Small Enterprise Foundation (SEF) at 96,000 and Phakamani Foundation at 8,000. All of the group lenders employ gender targeting, with over 90% of clients being female. Average annual loan loss rates are good, at below 5%. Several MFIs have demonstrated that group lending can achieve both scale and self-sufficiency in South Africa. The Small Enterprise Foundation is now operationally self-sufficient. Several smaller group lenders with less than 2,000 active loans also generate sufficient revenues to cover their operating expenses, but this is due to lower than market salaries, assistance from volunteers, and negligible investments in information technology. If these organisations choose to grow, they will need to access grants to support an increased level of investment.

None of the individual micro-enterprise lenders come close to scale or self-sufficiency, and most are still struggling to achieve an acceptable level of portfolio quality. This is due to a variety of factors, the most important being the lack of a supportive legislative environment in South Africa for taking non- traditional collateral. Two of the institutions offering individual micro-enterprise loans are primarily salary-based lenders, with a portion of their business going to self-employed individuals. This is perhaps the only way to offer individual micro-enterprise loans in a sustainable manner in South Africa, sharing infrastructure and head office costs with other divisions or products.

The year 2013 was a disappointing one for the microenterprise lending sector in the country, with the closure of three large micro-enterprise credit suppliers: Marang Financial Services, Women’s Development Business (WDB), and the ABSA Micro-enterprise Finance Division. An absence of strong governance and leadership, with individuals experienced in microenterprise finance, played a role in the collapse of both Marang and WDB. Lack of access to on-lending capital also contributed to the declining portfolio and sustainability of Marang. With appropriate interventions of capital and technical assistance and the appointment of new board members, both of these collapses could possibly have been averted.

ABSA bank must be commended for the significant investment it made in the microenterprise lending market, reaching 23 branches, 7,700 active loans, and a portfolio of R25 million by October 2011. Operating within the corporate structure of a commercial bank, however, resulted in overhead costs which were close to double those for a standalone microenterprise organisation. Furthermore, aspects of best practices and culture required for microenterprise lending were in conflict with the centralised approaches used in traditional banking. The division was officially closed in early 2013.

Despite the overall gloomy picture, there are signs of hope. SEF finally reached operational self-sufficiency in 2013 and Phakamani is growing steadily and emerging as a second significant player. The industry association, Association for Pro Poor Micro Finance Institutions for South Africa (AMFISA), has been re-launched with new members and resources and initiatives. And, finally, the newly merged government wholesale funding organisation, the Small Enterprise Finance Agency (sefa), is developing a new set of policies to provide stronger support to the sector.

As a middle income country, with an economy the size of which dwarfs many of its African neighbours (put together!), the increasing tendency is to relegate the development finance sector to "Cinderella" status; a convenient sector for politicians to score points. Yet, it should be seen as much more than that. South Africa's Gini co-efficient is amongst the highest in the world, meaning the income disparity between rich and poor has not been adequately dealt with. Microenterprise lending is one of the many tools to address this.

2. Co-operative Financial Institutions (CFIs)

In an effort to rationalise supervision and support for financial co-operatives, these functions were consolidated in 2012 under the Co-operative Banks Development Agency (CBDA) within the National Treasury. In order to register as a financial co-operative, CBDA requires an organisation to have 200 members and R100,000 or more in member capital contributions. All existing financial co-operatives were required to re-register with the CBDA. By September 2013, 18 institutions had been registered and another 18 had been identified which met the minimum requirements as listed above. From these 36 institutions, 18 also met the size requirements to register as Co-operative Banks under the Co-operative Banks Act of 2007, which requires R1 million or more in member deposits. Only two Co-operative Banks have managed to register to date; the others have not yet met all of the prudential requirements. Weaknesses include inadequate capital levels, weak governance structures, insufficient operational capacity, and poor management systems.

There are indications that the 36 qualifying CFIs are getting stronger over time, both in scale and profitability. Total savings for these institutions grew at a compound annual rate of 11% from R161 million in 2011 to R198 million in 2013, and total loans grew at a compound annual rate of 16%, from R107 million to R129 million over the same period. Loan portfolio quality is good, with the current (up to date) book accounting for 93% of loans at February 2013. From a sample of eleven registered CFIs, the value of equity had risen substantially for a majority over the past two years and just one realised an operating loss in 2013.

Two primary challenges are now developmental priorities for the Co-operative Banks Development Agency. The first is the lack of an effective and affordable information technology banking platform. Many CFIs continue to operate with manual or excel-based systems, leading to in-efficiencies, exposing them to human error or fraud, and depriving them of essential reports, such as portfolio aging reports. The lack of a banking system also limits the range of services they can offer to members, such as electronic payment services.

The second challenge is a shortage of skills at all levels: members, board members, and staff. Given the principles of independence and self-reliance for a co-operative organisation, CFIs are very much dependent on the active participation and sensible decisions of members and their board representatives. Member education by staff and the sector at large is therefore an on-going requirement.

Assuming solutions are found for these two challenges, the financial co-operative sector can play an important role in financial inclusion. These organisations are developmental in nature. They focus on savings rather than credit. They draw on local knowledge and peer pressure to maintain member accountability. The rural CFIs serve geographical areas not reached by other institutions. And, the process of member and board participation supports the community in building managerial and leadership skills. While this sector may never come close to the volumes achieved by other suppliers of microfinance services, CFIs fill an important niche and their impact goes deeper than financial inclusion.

3. Salary-based Microlenders

Approximately 23 organisations in South Africa specialise in the provision of unsecured micro loans and meet our criterion of 5,000 or more active accounts. In the 2009 Review, we identified fifteen suppliers, just seven of which remain on the list for 2013. This shift is a reflection of the rapid growth and emerging challenges faced by the sector, leading to a consolidation and re-positioning of suppliers.

The first trend is the demise of some of the larger franchise operations which have either contracted or converted into company owned branch networks. With squeezed margins resulting from increased competition and the National Credit Act compliance requirements, it is no longer as affordable for franchisees to pay royalties. The more dynamic franchisee owners decide to go it alone, while the stronger franchisors strive for control and higher margins through buying out their franchise operators. The second trend is the decision by some of the larger players to exit the direct microlending business in South Africa and concentrate on other businesses, or other countries in Africa. The third trend is a merger of entities resulting in new larger organisations. A final trend is the emergence of new players affiliated with retail stores or backed by foreign investors.

Following introduction of the National Credit Act in 2007, which lifted the Usury Act limits on unsecured loans above R10,000, South Africa has experienced exponential growth in the unsecured credit market, based on much higher loan sizes (up to R250,000) and corresponding longer loan terms (up to 60 months). The over-indebtedness and impaired credit levels observed today are a result of six years of competition for these new higher balance loans, exacerbated by the global recession and continuing slow growth in the world economy.

Government is now reacting to this over-indebtedness by introducing measures to further protect consumers. The credit information amnesty is one of these measures. Another is a limitation on emolument attachment orders, making it more difficult for lenders to gain access to payroll deductions. A final measure is the introduction of new Affordability Assessment Guidelines.

Microlenders realise that “the party is over”. The challenge for policy makers now is how to: i) assist consumers to reduce debt levels without doing irreparable harm to an industry which still has a role to play in development, ii) how to shift consumers from consumption credit to productive credit, iii) how to shift consumers from a “debt cycle” to a “savings cycle”, iv) how to penalise unethical lenders without harming those which follow a code of conduct, v) how to encourage transformation in the microlending sector, and vi) how to reduce reckless lending without removing all accountability from the consumer?

In the absence of data, it is difficult to assess the progress of the microlending sector. Microfinance South Africa (MFSA) should consider publication of key (aggregate) data to make this sector more transparent. Although this sector is almost entirely playing in the domain of unsecured lending, the commercial banks also need to accept responsibility for the recent significant increase in unsecured lending. Traditional market territories enjoyed by specific suppliers are becoming increasingly blurred. Should the Dedicated Banks Bill come into effect, a few of the larger lenders in this sector could graduate into deposit-taking institutions, resulting in significant financial inclusion benefits.

4. Alternative Banks

This category refers to those banking institutions which are targeting the entry level or lower income markets. In this Review we concentrate on four banks: African Bank, Capitec Bank, Ubank, and Post Bank. Over the four year period since the last Review, African Bank assets have grown 268% from R17.3 billion to R63.7 billion, while Capitec Bank assets have grown more than 600%, from R5.0 billion to R38.3 billion. In 2009, African Bank was more than three times larger than Capitec. In 2013, African Bank is less than two times larger.

Capitec's exponential growth can be credited to its success in providing relevant and affordable deposit services to the lower income markets, and doing so in an efficient manner. Capitec also appears to be more conservative in its lending criteria when compared with African Bank, with an average loan size of R8,300 compared with R17,700 for African Bank, and an impairment ratio of 8.8% compared with 19.3% for African Bank.

Despite its name change a few years ago, U Bank appears to be struggling to diversify its client base away from the mining community. Growth in assets over the four year period has been just 16%, from R3.1 billion to R3.6 billion, and the numbers of offices and staff have dropped.

The Post Bank has also not yet realised its potential. While total deposit volumes have risen by 30% over the four year period, the number of outlets appears to have dropped. With passing of The South African Postbank Limited Act in December 2010, the organisation is now preparing to operate as a fully-fledged retail bank subsidiary of the South African Post Office. Once the application process is complete, and new professional banking executives have been hired, we may see more interesting developments from this organisation.

5. Primary Banks

All of the primary banks offer entry level accounts with low fees. They also offer unsecured personal loans, insurance, and money transfer services. While ABSA Bank and Standard Bank have both attempted more than one pilot in microenterprise lending over the past twenty years, not one of these pilots has lasted longer than about three to five years.

While Capitec's success was a wake-up call to the four large primary banks, challenging them to also extend operating hours and offer low fee entry level accounts, the primary banks are leading the way with mobile and branchless banking technologies which may, in the end, have the greatest impact on financial inclusion.

Already approximately 37% of South Africans use mobile (cell phone) banking, of which 18% use it to transfer money. Of all mobile transactions, 15% are payments and 79% are airtime purchases. This early experience with simple transactions will prepare the market for a wider range of mobile banking functions in future.

Two banks are making good progress with agent networks, partnering with standalone or clusters of merchants ranging from spaza shop owners to retail outlets with adequate turnovers to continuously honour cash withdrawals. It is especially cash withdrawals and airtime purchases that are the most popular transactions at these service points. Standard Bank has 7,000 of these Access Points and over 2 million transactions worth an estimated R14 million were concluded at these

Access Points for the first six months of 2013. ABSA call their similar service In-Store Banking and it is estimated that they have more than 1,100 of these outlets working through supermarket chains and other larger merchants. ABSA reported 135,000 transactions worth R45 million from January to September 2013. Most of the other banks also support cash back at point of sale terminals in large retailers and, although published numbers are not available, it is generally believed that this service is increasingly used by low-income and poor South Africans.

ABSA banks “Cash Send” platform, which allows customers to send money to anyone, even if they do not have a bank account, processed over R1 billion of remittances in 2012, a 73% increase from 2011. ABSA has also introduced remote account opening systems. Accounts can now be opened using a handheld device such as a mobile phone or a tablet. To date, more than 40,000 accounts have been opened and 40% of all loans are being approved through digital sales.

With eWallet, First National Bank (FNB) clients can instantly buy prepaid airtime or send money to another cell phone or withdraw money at a FNB ATM without a bank card or FNB account. By June 2012 there was a 98% growth in eWallet transactions and R2 billion had been sent to eWallets since October 2009.

2013 marked the launch of FNB’s money transfer service to Zimbabwe. Currently, an estimated 1.9 million Zimbabweans live in South Africa, remitting R6.7 billion to Zimbabwe each year. FNB’s money transfer service provides consumers with a cost effective way to send money home. Recipients need not register to use the service. The fee is only 4.5% of the remittance value. Another development in remittance products is the 2012 partnership between FNB and Money Gram, which enables customers to transfer funds across the globe.

Nedbank is serving the emerging market through retail banking in participating Boxer[4] stores. This service allows shoppers to undertake a variety of banking activities ranging from opening bank accounts and taking out personal loans to applying for home loans. Nedbank has made use of mobile technology to launch JustSave accounts and money transfer solutions through Vodacom m-pesa accounts.

Standard Bank has joined forces with social platform, Mxit. It is now possible for Mxit users to send money to other Mxit users for free, deposit and withdraw cash, purchase airtime and electricity. In 2012, mobile sales teams were able to open accounts within ten minutes, using mobile phones and tablets.

Standard Bank has also launched Muvo Bus cards in Durban. These are preloaded cards which can be loaded at any point of sale or Muvo mobile vans. This card is used to pay for bus fare and can be used at any store that accepts Master Card. ABSA has launched a similar programme in Cape Town with MyCiti and in Johannesburg with Reya Via. It is important to note that these cards make use of Near Field Communication technology, or the so-called Tap-and-Go technology, which merely requires the client to touch a pad with her card and the transaction is enacted; easier for clients and faster for suppliers of services.

[4] Part of the Pick n Pay group

Primary and alternative banks far exceed any other supplier category in reaching the mass of low-income individuals. Their financial muscle, operational systems, vast branch network and skilled human resources make it difficult for any other category to meaningfully compete at scale. That does, not, however, imply that banks have succeeded in all aspects. ABSA failed to take forward impressive gains in its microenterprise lending division while Standard Bank have concerns on low transactions despite establishing a vast "Access Point" network. Several challenges remain, such as a lack of infrastructure in rural areas, the associated costs of providing services in these areas and the cost to the client of doing business with a formal institution. A further problem is educating customers on the uses and benefits of various banking products. Numerous individuals may have a bank account but are not actively using them. In order for formal banks to succeed, the above mentioned challenges must be overcome. Banks should learn from successful relationships involving informal entrepreneurs and formal institutions such as community phone shops.

6. Affordable Housing Finance

Housing Microfinance (HMF) is concerned with providing credit for the purchase, building, expansion, or improvement of shelter. Housing has a number of components, including the purchase of land, accessing services or improving existing services, the construction of a complete dwelling or building incrementally, renovating, and maintenance.

Opportunities in SA's housing finance landscape can be found in a variety of market segments. The most urgent, and significant, is in the affordable market where demand far exceeds supply. Broadly, this market comprises those households earning less than about R16,000 per month who could afford housing finance up to R500,000. Already, some developers are beginning to work at the top end of this market segment, delivering houses in the region of R300,000 to R500,000. Here, there is room for a substantial increase in scale, with the indebtedness profile of the market as the primary limitation.

Other than the primary banks, there are twelve providers of affordable housing finance in South Africa, employing a range of lending methodologies. At one end, there are institutions which provide unsecured loans only, to be used for incremental building or improvements. These loans tend to have terms not longer than 24 months. The risk assessment is the same as for any unsecured loan, but the disbursement is generally made directly to a building supplies shop. At the other end, there are institutions which provide mortgages or pension backed secured loans for the purchase of a home or significant improvement or expansion.

The past two years have been difficult for the HMF community in South Africa, with a drop in the number of housing opportunities being financed. This is partly related to the indebtedness levels of consumers and also to lingering unemployment and the volatile labour situation in the mining and automotive industries. HMF is inherently more risky than other types of micro lending due to the higher loan sizes and longer loan terms. Government may need to introduce further incentives, subsidies, or guarantees in order to entice greater volumes in this market.

7. Retailers

The provision of entry level financial services by retailers in South Africa is growing year by year, ranging from store cards and personal and home loans, to insurance products and other value added services. Active participants include: the Edcon group, Ellerines, JD group, The Foschini

Group, Mr Price Money, RCS group, Woolworths Holdings limited, Clicks Group, Ackermans, Pep, Pick n Pay, Spar, and Checkers.

In the past few years, retailers have been entering into partnerships with the primary banks to extend their range of financial services, made possible by the new mobile technologies. We can expect ongoing innovation in this area for the foreseeable future.

How does South Africa rank overall in progress towards financial inclusion?

South African Financial Inclusion Scorecard	
Successes	**More to be Done**
Stability of financial sector	Impairment levels of credit consumers; enforcement of NCA and new Affordability Assessment Guidelines.
Red Book and recognition of the value of financial inclusion	Credit information amnesty was a step backwards; rebuild from here
Level of on-lending finance provided by DFIs	Continued debt counselling sector reform required
Advances in LSM distribution of population since 2004	Introduction of SASSA payment cards eliminated consumer choice regarding the bank account which works for them; need to reconsider.
Success of Mzansi account as a catalyst	Overall savings levels low; need for financial literacy education.
High level of “banked status” of population, over 70%	Re-introduce the Dedicated Banks Bill to create a “middle tier” of institution
Mature Credit Bureau sector	Stronger and more appropriate support required for the microenterprise lending sector.
High level of access to credit for employed individuals	Reform required regarding the legislative environment for non-traditional collateral.
Consumer protection provided by National Credit Act	Continued support for the financial co-operative sector.
Growing usage of remittances	
Progress in supervision and support to financial co-operative sector	
Rapid growth in branchless banking options for the lower income markets	

3. Context, the world we live in and which impacts on inclusion

3.1 Economic Context

Globally there is a consensus that economic growth can drive financial inclusion. According to the definition provided by the Centre for Financial Inclusion, financial inclusion is a state in which everyone who can use them has access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, with respect and dignity.

This section provides an overview of economic development in South Africa and the impact or potential impact on financial inclusion. The following economic indicators are examined: Gross Domestic Product (GDP) and Gross Domestic Expenditure (GDE) growth, human development and poverty, employment, inflation and interest rates. A trend analysis is employed for each indicator to assess the performance of the economy over the 2009-2013 period as well as the future outlook for the economy based on each indicator.

Economic Growth: For purposes of this report, economic performance was assessed using the Gross Domestic Product (GDP) indicator for South Africa for the 2009-2013 period. From Table 2.1, the South African economy can be regarded as under-performing. Figures released by the World Bank (2013) show that the economy grew by an estimated 2.5% in 2012, slowing from a 3.5% growth in 2011, resulting in deceleration of consumer spending, a subdued external demand environment, and continued domestic labour disputes, largely in the mining sector. This has shaken investor confidence and weakened the domestic investment climate.

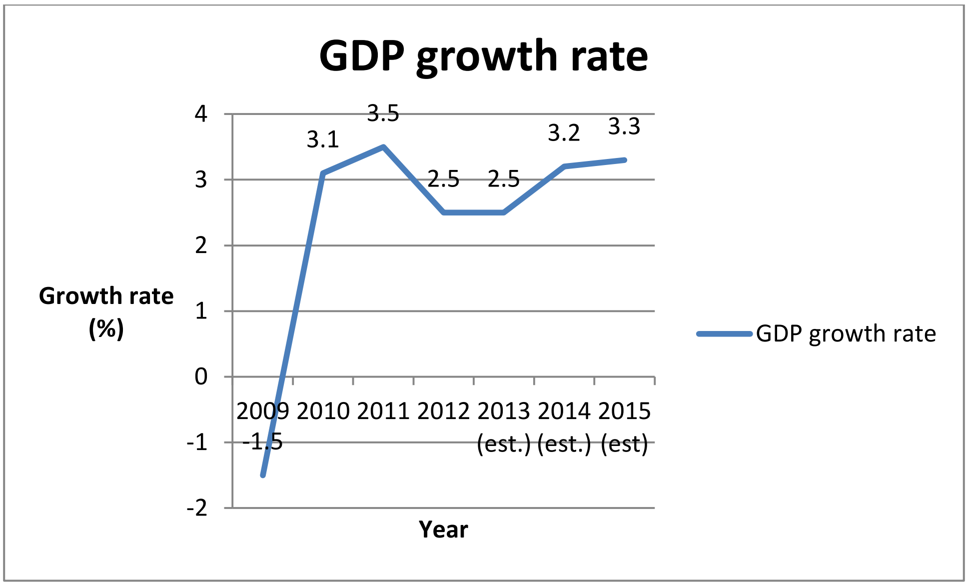


Figure 3.1: GDP growth annual percentage rate
Source: World Bank 2013

Economic decline was recorded in 8 of the 10 major sub-sectors of the economy, with the exception of the agriculture and manufacturing sectors. Both these sectors are expected to grow at 2.7% during 2013. Against this background, medium growth prospects have since been revised downwards, with the World Bank estimating the South African economy will record a 2.5% growth in 2013, 3.2% for 2014, and 3.3% for 2015. The National Treasury, however, maintains a more positive outlook for economic growth, projecting the economy to report a positive growth of 3.8% by 2015. Strong capital investment by the public sector, the addition of electricity-generating capacity, relatively stable inflation, and low interest rates are expected to support improved growth rates over the medium term.

The demand side also has an impact on economic performance contributing towards economic growth through consumer expenditures. This study used Real Domestic Expenditure (RDE) to assess demand side economic activities and the contribution towards financial inclusion through economic growth. Figures provided by Stats SA show that the demand side has witnessed a decline with Real Domestic Expenditure (RDE) shrinking by half a percentage point in 2012. Growth in real final consumption expenditure by households was reported to have slowed marginally from 2.4% in the fourth quarter of 2012 to 2.3% in the first quarter of 2013.

Human Development and Poverty Landscape: Despite the increased economic growth projections, South Africa continues to face development challenges as the benefits of growth in the economy fail to spread to all segments of the population, especially the low income segments. South Africa has a history of social and economic inequality that was inherited from the pre-democratic era. Today, nearly two decades later, the country is still faced with a development challenge as large segments of the population continue to live in poverty. Between 2008 and 2009, Stats SA conducted a study that analysed the poverty profile of South Africa (Living conditions survey, 2009). The study made use of three poverty lines namely: a food poverty line, lower and upper bound poverty lines, and US$1.25 and US$2.50 poverty lines. Results from the study showed that during the period of investigation (2008-2009) approximately 26.3% of the country's total population was living below the food poverty line (R305 per capita per month), while roughly 38.9% and 52.3% were living below the lower-bound poverty line (R416 per capita per month) and the upper-bound poverty line (R577 per capita per month) respectively. International poverty lines showed that an estimated 10.7% of the population was living below US$1.25 a day and 36.4% below US$2.50 a day poverty lines (Living conditions survey, 2009).

In a separate yet similar study, the United Nations Development Programme (UNDP) measured poverty levels in South Africa using its Human Development Index tool which is a summary measure for assessing long-term progress in three basic dimensions of human development: a long and healthy life, access to knowledge, and a decent standard of living. Access to knowledge is measured by: i) mean years of schooling for the adult population, which is the average number of years of education received in a life-time by people aged 25 years and older; and ii) expected years of schooling for children of school-entrance age, which is the total number of years of schooling a child of school-entrance age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life. Standard of living is measured by Gross National Income (GNI) per capita expressed as constant 2005 international dollars converted using Purchasing Power Parity (PPP) rates. UNDP's Human Development Report (HDR) (2013) ranks South Africa 121 out of 187 countries with a Human Development Index (HDI) of 0.629 for 2012. This HDI value was below the average of medium developed countries, at 0.64, but higher than that of Sub-Saharan countries, at 0.475. The HDI also measures the Gender Inequality Index (GII) which reflects gender-based inequalities in three dimensions – reproductive health, empowerment, and economic activity. South Africa reported a GII value of 0.462 ranking in 90 out of 142 economies in 2012. An approximate 41.1% of parliamentary seats in South Africa are held by women, and 68.9% of adult women have reached a secondary or higher level of education compared to 72.2% of their male counterparts. For every 100,000 live births, 300 women die from pregnancy related causes; and the adolescent fertility rate is 50.4 births per 1,000 live births. Female participation in the labour market is 44% compared to 60.8% for men (HDR, 2013).

The Multidimensional Poverty Index (MPI) is yet another development indicator under the HDI that identifies multiple deprivations in the same households in education, health and standard of living. A cut-off of 33.3%, which is the equivalent of one-third of the weighted indicators, is used to distinguish between the poor and non-poor. If the household deprivation score is 33.3% or greater, that household (and everyone in it) is poor on a multidimensional level. Households with a deprivation score greater than or equal to 20% but less than 33.3 % are vulnerable to or at risk of becoming poor at a multidimensional level. A recent survey conducted in 2008 to quantify South Africa's MPI, reports that 13.4% of South Africa's population lived in multidimensional poverty (the MPI 'head count') while an additional 22.2% were vulnerable to multiple deprivations. South Africa compares favourably to other countries on the continent as can be seen from Table 3.1 which compares poverty indicators of South Africa's MPI figures with those of Congo and Namibia. It can be observed from Table 3.1 that although South Africa has a significant population living in poverty it does compare favourably to Namibia and the Congo who have higher deprivation rates amongst their populations.

Table 3.1: MPI figures for South Africa relative to selected countries

		South Africa	Namibia	Congo
MPI value		0.057	0.187	0.208
Headcount		13.4%	39.6%	40.6%
Intensity of deprivation		42.3%	47.2%	51.2%
Population	Vulnerability to poverty	22.2%	23.6%	17.7%
	In severe poverty	2.4%	14.7%	22.9%
	Below income poverty line	13.8%	31.9%	54.1%
Contribution to overall poverty deprivations in	Health	50.5	31	45.6
	Education	7.5	15.1	10.4
	Living standards	42	53.9	44

Source: UNDP Human Development Report, SA 2013

Unemployment: Employment helps consumers to access income which can contribute towards increased economic growth driven by increased consumer expenditure. This increase in economic growth is expected to ultimately help drive financial inclusion within an economy. Based on this, therefore, we assessed the unemployment rate in South Africa over the four year period (2009-2013). Figure 3.2 illustrates the trends in South Africa's labour market as shown by the unemployment rate for the 2008-2013 period. It demonstrates that South Africa's unemployment rate is on an upward trend. Current estimates provided by Stats SA show that an approximate 25.2% of South Africa's working age population (15-64 years) is unemployed. While an estimated 2.2 million people joined the working age group population between 2008 and 2012, 267,000 jobs were lost over the same period. According to quarterly bulletins published by Stats SA, the total number of employed people is estimated at 13.6 million. Additional results from the labour market indicators show that over the period 2012q4 to 2013q1, the number of discouraged work seekers increased by 73,000 to 2.3 million, whereas the not economically active decreased by 106,000, resulting in a net decrease of 33,000 in the not economically active population. Youth unemployment remains high in South Africa, with 31.6 % of young people reportedly disengaged from any economic activities (employment, education, or training) that could support them in accumulating capital or making them employable.

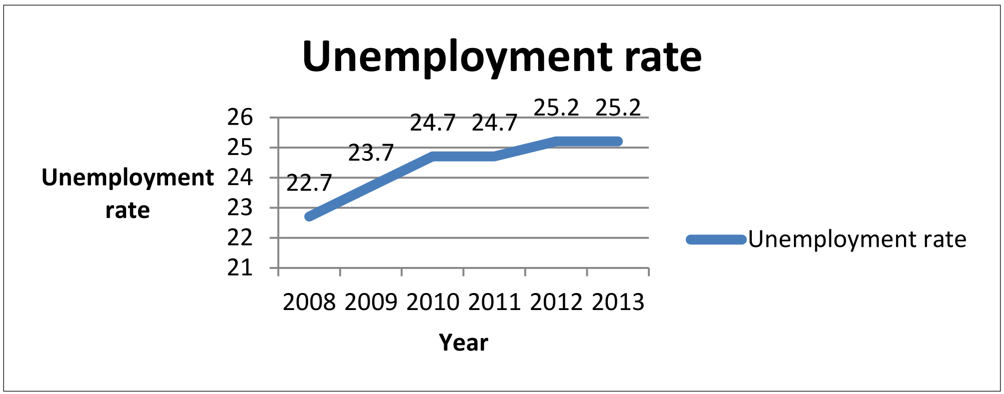


Figure 3.2: Unemployment rate trends (2008-2013)
Source: World Bank 2013

Given an increasing unemployment rate it can be inferred that economic growth and financial inclusion may face significant challenges stemming from reduced incomes and consumer expenditure.

Inflation: Inflation rates have an impact on the expenditure of consumers which ultimately has an impact on the overall performance of the economy. For the purposes of this study, it was hypothesised that high inflation rates erode consumer expenditure and will result in a decrease in economic growth which will create challenges for financial inclusion. The four year trend analysis was also employed to assess how inflation may impact economic growth as well as financial inclusion. Figure 3.3 shows the trends in the headline Consumer Price Index (CPI) of South Africa from 2009 to 2012 as well as the estimated outlook for 2013. For the past while, the South African Reserve Bank (SARB) has been adopting an inflation targeting policy within a range of 3% to 6%. Between 2009 and 2010 the inflation rate dropped significantly by an approximate 3 percentage points before it began to rise steadily from 2011. In its latest economic review the South African Reserve Bank reported that the CPI and PPI stood at 6.3% and 6.6% respectively as of July, 2013.

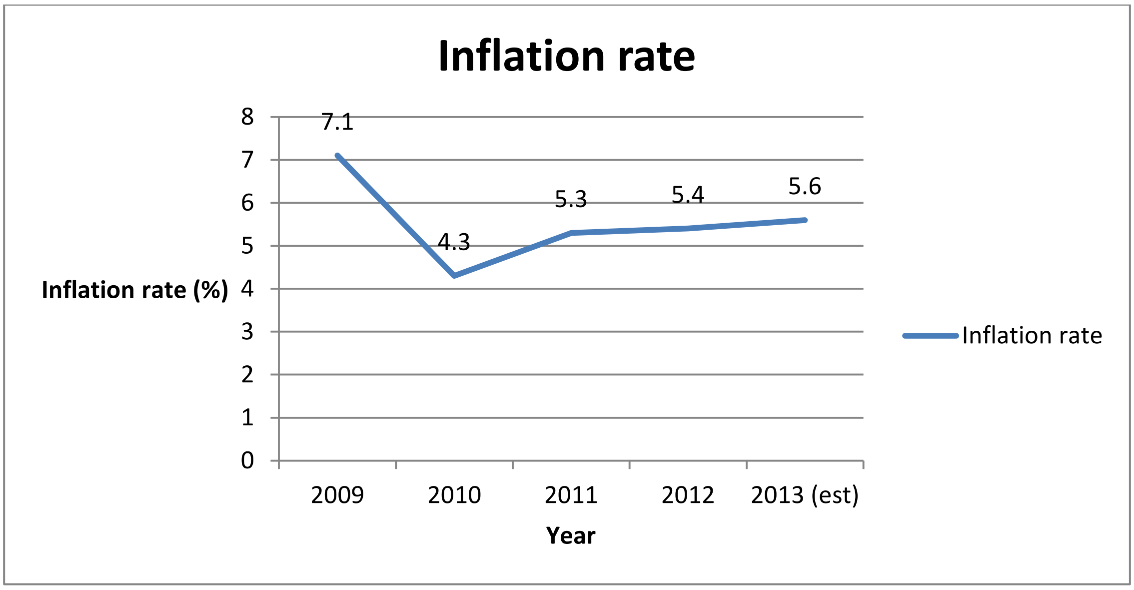


Figure 3.3: Inflation rate trends (2009-2013)
Source: World Bank 2013

As of May 2013 figures published by Stats SA indicate that food with non-alcoholic beverages, housing, and utilities and transport contributed about 56% of the annual change in the CPI whilst year-on-year core inflation (excluding food and non-alcoholic beverages, petrol, and energy) stood at 5.2 %.

Should such trends continue there is a probability that inflation will pose a challenge to financial inclusion in the country as it will erode the disposable incomes of consumers and the overall performance of the economy?

Interest rates: Lending rates have an impact on financial inclusion as they influence borrowing decisions of a consumer. For this economic indicator, high interest rates are hypothesised to be associated with low levels of financial inclusion as they increase the cost of borrowing and therefore reduce consumers' access to credit. Figure 3.4 shows the trends in the prime lending rates charged on credit products between 2009 and 2013. It can be observed from the illustration that the rates have generally been on a downward trend over the years - a move which can be viewed as positive in promoting access to credit as it reduces the direct costs of borrowing. The SARB reported that lending rates remained unchanged in 2013 with the repurchase interest rate remaining at 5% as at March 2013. The prime lending rate and predominant rate on mortgage loans also remained unchanged from July 2012 to March 2013, at 8.5%. Other lending and deposit rates offered by banks also remained fairly closely aligned with the unchanged policy rate.

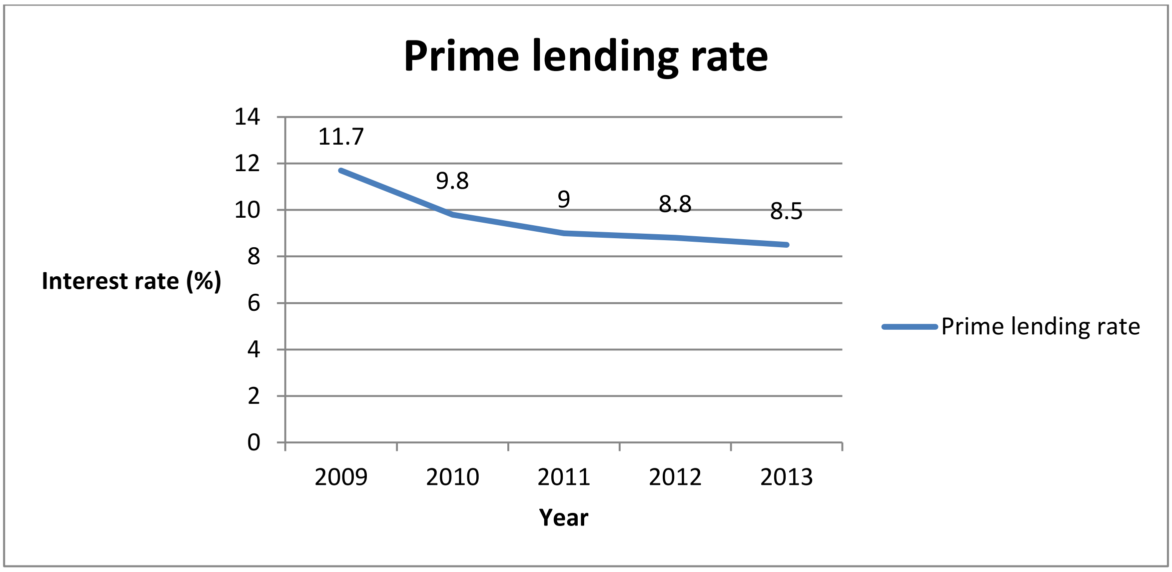


Figure 3.4: Prime lending rate (2009-2013)
Source: World Bank 2013

3.2 Legislative Environment

South Africa's Financial Inclusion Policy:

Although financial inclusion remains a priority for government, it has offered no explicit definition (see Box 3.1 below). Internationally, G20 leaders have recognised and endorsed financial inclusion as a pillar of global development. Financial regulators are now tasked with optimising linkages among four distinct policy objectives: financial inclusion (I), financial stability (S), financial integrity (I) and financial consumer protection (P)[5] (collectively, I-SIP).

How does South Africa perform against these objectives? A recent evaluation (I-SIP, 2012) concluded that there is reason to believe that, at the level of outcomes, I-SIP objectives are mutually reinforcing and interdependent: no long term stability without inclusion, for example, or vice versa. In practice, at the policy level, the linkages are less well known and policy makers face choices that are unnecessarily framed as tradeoffs.

5 Definitions of financial inclusion, financial stability, financial integrity and financial consumer protection receive more explicit treatment in I-SIP, 2012

South Africa's policy environment and I-SIP objectives

The South African National Treasury (SANT) is the Ministry responsible for the stability and health of South Africa's financial sector, as well as for its integrity and level of consumer protection. Financial inclusion was first named explicitly as a national policy objective in SANT's main policy document published in 2011, called "A safer financial sector to serve South Africa better" (commonly referred to in South Africa as the 'Red Book' by virtue of the color of its cover). The Red Book sets out SANT's four priority policy objectives 1. Financial stability 2. Consumer protection and market conduct 3. Expanding access through financial inclusion 4. Combating financial crime. These four objectives of SANT correspond directly to the I-SIP policy objectives. The Red Book also makes clear in its very first line that these policy objectives exist to support wider societal goals: "the financial services sector touches the life of each and every South African. It enables economic growth, job creation, the building of vital infrastructure and sustainable development for South Africa and her people." (p.1) The Red Book explicitly recognizes that the four objectives "interact with one another, often generating difficult decisions for the policy maker. In particular, there are multiple tradeoffs and competing objectives which must be managed." While the emphasis of the document is on managing tradeoffs, it also recognizes that there could be synergies, citing the example of how appropriate consumer protection standards prohibit excessive lending, which reinforces stability. Although the Red Book lists financial inclusion as a priority, it does not define the term explicitly, but rather characterizes financial inclusion as being "about ensuring that all South Africans have access to financial services that encourage them to manage their money, save for the future, obtain credit, and insure against unforeseen events."

Source: I-SIP, 2012

Policy interventions intended to promote financial inclusion tend to fall into several common categories. Table 3.2 below lists four of these categories and lists the risks that each category may present for the other I-SIP objectives. Clearly, whether those risks are in fact present in a particular case will depend on the context and the particular policy proposed; whether any such risks are material will depend on how they are managed through the implementation of a new policy. Table 3.2 presents the different types of specific intervention cases that are being considered from South Africa as outlined by I-SIP.

Table 3.2: The specific intervention cases considered from South Africa

Category	Intervention	Objectives and linkages expected at the time	Observed outcomes
'New product tiers	Change in KYC regulations to allow Mzansi basic bank account (2004)	Mzansi accounts were intended to advance financial inclusion; usage limitations were imposed on the accounts to address financial integrity concerns	Positive for inclusion and probably positive for integrity
'New tier of institutions	a. Cooperative Banks Act (2007); b. Microinsurance framework (2011)	'a. Intended primarily to advance financial inclusion b. Intended primarily to advance financial inclusion and consumer protection	a. Limited effect so far b. Not yet in force
'Social lending	Affordable housing lending under the Financial Sector Charter (2003)	Intended to advance financial inclusion; but could introduce stability risk	Positive for inclusion and early indications of possible positives for stability
'Innovations in payments and distribution methods	Payment methods for small value loans (1993-2006)	Intended to advance financial inclusion; no original anticipation of increased stability or consumer protection risk	Negative for systemic stability and consumer protection; payment innovation corrected the negative outcomes

Source: I-SIP 2012

I-SIP (2012) concludes that the South African examples demonstrate that tradeoffs among the I-SIP objectives are not inevitable. Indeed, some of the examples show that synergies *are* achievable between financial inclusion and the other three I-SIP policy objectives: stability, integrity, and consumer protection. This does not mean that tradeoffs are always avoidable. However, synergies are more likely to result when the approach taken focuses consciously on the potential to optimise linkages in the pursuit of all four I-SIP objectives, as well as the other broader policy objectives to which they contribute such as economic development, increased welfare, and increased efficiency. The South African examples also suggest that optimising I-SIP linkages is not an easy process, and is not likely to occur without explicit attention.

Specific legislative interventions:

This section considers developments in the legal and regulatory environment of South Africa within which the microfinance industry operates, with an emphasis on how the legislative environment is promoting an inclusive financial sector. Firstly, an update is provided of the progress South Africa has made with the pieces of legislation that were discussed in the 2010 Review. Secondly, a brief overview is given on selected and recent legislative developments that might impact on the microfinance sector and the broad objective of financial inclusion. Both promulgated and proposed legislation is address, including the National Credit Act (NCA), regulation of co-operative financial institutions, The Dedicated Banks Bill, The South African Post Bank Act, the Twin Peaks regulatory model, and The Financial Sector Code.

The National Credit Act, No 34 of 2005: The NCA was enacted in 2005 and came into effect from the 1st of June, 2006. The purpose of the NCA is to "….promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers…" Credit providers with over 100 active loans or an outstanding loan portfolio of more than R500,000 are compelled to register with the NCR and adhere to the regulations of the NCA.

The NCA supports financial inclusion through credit consumer protection, but also by paying particular attention to the promotion of developmental credit. Developmental credit includes any credit extended by co-operatives to their members, educational loans, loans to small businesses, and the acquisition, rehabilitation, building or expansion of low income housing. Furthermore, the NCA empowers the Minister (of Trade & Industry) to consider any other form of development credit **"**designed to promote the socio-economic development and welfare of persons". Under the NCA, the National Credit Regulator (NCR) was given the specific mandate to promote access to credit to previously disadvantaged population groups, low income persons, and remote, isolated or low density communities.

The NCR's primary task is to register credit providers, credit bureaus, and debt counsellors; and to monitor these three categories of registrants with regards to compliance with the Act.

Table 3.3: No. of NCR Registered Institutions

Type of Registrant	2009	2012
Credit Providers	3690	4971
Credit Bureaux	11	11
Debt Counsellors	834	2033

Source: NCR 2009, 2012 Annual reports

Credit providers include a wide range of organisations, from banks to money lenders, non-profit organisations, pawn brokers, universities, vehicle financiers etc.). There was a 34.7% and 143.7% increase in the number of new registered credit providers and debt counsellors respectively over the 2009 to 2012 period. Registered credit bureaus have however remained constant at 11. South Africa has one of the most developed credit bureau markets; eleven credit bureaus are deemed adequate for a mature personal credit market. There remains, however, much to be done in the area of small enterprise credit information where little progress has been made.

The NCA also makes provision for the establishment of the National Consumer Tribunal (NCT), with a mandate, in the case of enforcement action, to hear and decide on applications and referrals involving consumers, credit providers, debt counsellors, and credit bureaus.

A bill to update and close loopholes in the NCA was developed during 2013 and is expected to be passed in the first half of 2014. Objectives of the NCA Amendment Act, 2013 are listed as: To amend the National Credit Act, 2005:

1. by amending certain definitions;
2. to allow the CEO of the national credit regulator to delegate certain functions to other officials of the NCR;

3. to tighten measures relating to debt counsellors and the conduct of their practices as debt counsellors;
4. to allow debt counsellors to voluntarily cancel their registration (but need to communicate properly);
5. to empower the NCR to cancel registrations of credit providers or debt counsellors;
6. to empower the NCT to suspend certain reckless credit agreements;
7. to tighten the requirements that credit providers must adhere to in respect of marriages in community of property; and
8. to provide for the registration and accreditation of Alternative Dispute Resolution structures.

Perhaps the most substantive provisions are those to provide greater powers to the National Consumer Tribunal and to register and regulate Alternative Dispute Resolution structures, further strengthening protection of consumers.

Alongside these amendments, the NCR has proposed a new set of Affordability Assessment Guidelines and a Code of Conduct. The Guidelines are expected to have a significant impact on the number of consumers qualifying for credit and, hopefully, an eventual reduction in the proportion of consumers with impaired records.[6] These guidelines define a minimum level of "necessary expenses" per income group, including food, accommodation, and transport, which must be included in affordability assessment worksheets. Credit providers are still negotiating the exact terms of these guidelines. Research conducted by Micro Finance South Africa (MFSA) demonstrates that the income groups who would be most affected by the proposed guidelines are not the same as the income groups with the highest impairment levels.

The proposed Code of Conduct is also targeted at reducing over-indebtedness. The Code defines limitations on emolument attachment orders and establishes commitments to support financial literacy campaigns and report new information in a timely fashion to a credit bureau. The Code also includes a commitment to limit the cost of credit life insurance and reveal the cost of this insurance in a clear and transparent manner. Failure to adhere to the Guidelines and Code could lead to a credit provider being accused of reckless lending and possible de-registration.

The Amendment Act does not address the issue most critical and urgent for the microlending sector, an adjustment of the maximum initiation and service fees allowed under the regulations. The fees were set in 2007 and have not been adjusted since, despite an undertaking that they would be reviewed on a periodic basis. Smaller suppliers of credit are finding it increasingly difficult to make ends meet within the existing fee structure, which may ultimately have a negative impact on financial access.

Legislation for Co-operative Financial Institutions (CFIs): Since the last review in 2009, the regulatory framework for co-operative financial institutions has been consolidated and streamlined. In 2009, four different entities were charged with regulating financial co-operatives (MF Review 2009); this has now been reduced to two.

[6] NCR Affordability Assessment Guidelines for Credit Providers in terms of Section 82(2)(b) of the National Credit Act, No. 34 of 2005, September 2013.

Financial co-operatives which used to be regulated by either Samaf or SACCOL, are now required to register as a Co-operative Financial Institution (CFI) with the Co-operative Banks Development Agency (CBDA) once they reach 200 active members and a capital base of R100,000. The CBDA provides a minimum level of prudential oversight as well as capacity building support.

Once a CFI reaches savings deposits of R1 million or more, they are required to register as a Co-operative Bank under the Cooperative Banks Act No. 40 of 2007. This Act was gazetted in 2008 with the aim of improving access to financial services by providing a legislative framework, prudential regulations, and stronger supervision to ensure the viability of the sector. Initially the CBDA provided the regulatory function for Co-operative Banks. In 2012, under Part 10, Section 41 of the Financial Services Laws Amendment Bill, supervision and regulation of Co-operative Banks was moved from the CBDA and placed under the South African Reserve Bank (SARB). In addition, the Bill proposes that CBDA should consult SARB with regards to financial support to co-operative banks through loans or grants, liquidity support, or any rules it intends promulgating with regards to co-operative banks.

Although a total of 18 have reached the size threshold for registration, only two institutions have become Co-operative Banks to date: Ditsobotla Primary Savings and Credit Co-operative Bank and Orania Savings and Credit Cooperative. Between March 2012 and March 2013, six out of the eligible 18 CFIs submitted their applications to register as co-operative banks. On-site inspections were conducted at three of the six applicant CFIs. The supervisor is awaiting outstanding financial statements from two of the three and the third applicant application was denied due to the high loan delinquency rate of the CFI. The remaining institutions have not been able to meet the prudential requirements for capital adequacy or liquidity or in other areas.

The CBDA will focus on capacity building and supervision of the younger institutions, including promotion of apex and representative bodies which can strengthen their members, and the South African Reserve Bank will focus on the prudential supervision of the larger institutions.

The Dedicated Banks Bill: This been under discussion since 2004, and was put forward with the intention of relaxing requirements for new entrants into the banking sector. The main objective of the Bill is to improve access to basic banking services for low income and historical disadvantaged communities in the country through creating opportunities for companies such as large retail outlets, cellular phone companies, and others to expand basic banking services to these communities. Ultimately, the objective is to lower capital requirements for these entities to obtain a banking license, although the capital requirement has not yet been determined. The Bill makes provision for companies to provide banking services of limited scope by becoming Savings Banks or Savings and Loans Banks. The reduction of products and services offered assists to reduce risks associated with more sophisticated bank products. Services permissible for Savings Banks in accordance with the Bill include: accepting deposits from the public; making payments on behalf of its clients; and providing custody services to clients. Savings Banks are required to invest deposit money into liquid assets only. Services permissible for Savings and Loans Banks include all of those for a Savings Banks as well as the following services: opening a money-market deposit account in the name of a depositor; granting unsecured loans in a total amount not exceeding its qualifying capital and reserves; and granting secured loans for prescribed purposes to individual persons and to business-undertakings of such size as may be prescribed with reference to their annual turn-over or with reference to any other appropriate criterion. There is no clear indication from National Treasury when the Bill will be enacted, but there is an expectation that the bill may be presented to Parliament in 2014.

Although the Bill places a restriction on the range of products offered, it has significant scope to improve financial inclusion by promoting a new type of banking institution with a focus on the low income market.

The South African Post Bank Act of 2010 and development of the Post Bank: The South African Postbank previously operated in terms of an exemption under the Banks Act under which it was offering its clients basic financial services limited to savings, payments and remittances. Due to continued and expanded growth of its activities, however, which were perceived to carry significant risk, the bank is now required to be licensed as a fully-fledged banking institution. To allow for this development, The South African Postbank Limited Act was promulgated in December 2010 and commenced on 22 July 2011 with the objective of providing for the establishment of the Post Bank to operate as a retail bank subsidiary of the South African Post Office (SAPO). Under the supervision of the Act, Post Bank will receive a full banking license and operate through the infrastructure of the SAPO. To date, the bank has not yet received its full banking license. According to the SAPO, two reasons for the delay are due to a lack of adequate funding and amendments to the Post Bank legislation. Two amendments of the Post Bank legislation were passed at the end of July 2013, one to normalise the transfer of assets, resources and pension related rules from the Post Office to the Post Bank, and the other to amend provisions that may negatively affect the operational autonomy and independence of the Post Bank and to remove any inconsistencies with the Banks Act.

In light of this development, it can be expected that the formalisation of the Post Bank will contribute significantly to extending access to savings and payment services, particularly given its extensive footprint among the rural and low income areas. However, a long journey lies ahead with transforming a basic savings bank that relied heavily on the Post Office for operational and other support, to a fully-fledged independent bank.

Twin Peaks Regulation: South Africa's financial regulators enjoy global recognition. Indeed, SA ranks second only behind Canada in terms of global soundness and safety of its financial system. Continuing with its regulatory reform, government is proposing a move towards a "twin peaks" system of financial sector regulation (see Fig. 3.5); with one entity responsible for prudential regulation and another responsible for market conduct regulation. In February 2013, the SANT published a policy document on the Twin Peaks regulatory project.

A national supervisory structure can present different degrees of integration across regulatory objectives (prudential, consumer protection, systemic ability, competition) and types of businesses covered (banking, insurance, securities).

Fragmented Model	**Semi Integrated model**	**Twin Peaks model**	**Mega Agency Model**
A body for each business and each regulatory objective	Different supervisors for different businesses, no financial consumer protection agency (e.g. in most countries)	One prudential supervisor and one financial consumer protection supervisor (e.g. Australia, UK, Belgium)	One single agency for prudential and consumer protection supervision in all types of businesses (e.g. Sweden and Finland)

Figure 3.5: Consumer protection supervisory models

Adapted from: Carmichael et al. 2004

The government's Twin Peaks regulatory objective is aimed at maintaining and enhancing financial stability; improving consumer protection and market conduct; promoting financial inclusion; and combating financial crime. The Twin Peaks regulatory model proposes that the South African Reserve Bank (SARB) would take a leading role in promoting financial system stability and would therefore become the systemic regulator. The prudential regulatory function will be consolidated within the SARB, with a focus on maintaining the safety and soundness of regulated financial institutions specifically focused on deposit taking institutions. The market conduct regulatory function will be consolidated within a transformed Financial Services Board (FSB), with a focus on protecting consumers and promoting confidence in the South African financial system. Implementation of the Twin Peaks model will take a phased approach. The first phase, which is scheduled to take place during 2013/14, will involve the legislative processes to support the implementation of the regulatory framework, including the transfer of resources to the prudential and market conduct regulators. The second phase is expected to take place over a longer period, and involves harmonisation of the regulatory framework and the supervisory systems of the two peaks.

Given its focus on addressing issues related to consumer protection and enforcing sound market conduct within the financial sector, the Twin Peaks could possibly stifle greater financial inclusion by introducing a raft of new legislation. Thus far, there has been no mention of the possible unintended consequences of the Twin Peaks model from a financial inclusion point of view. We suspect that this will gain greater prominence once the new model unfolds.

Financial Sector Code: The Financial Sector Code was gazetted in November 2012 and launched in July 2013, with the aim of aligning the Financial Sector Charter of 2004 with the provisions of Section 9 of the Broad-Based Black Economic Empowerment (B-BBEE) Act of 2003. The Financial Sector Charter and Code are a product of the interaction between trade associations, labour, community, and government under the National Economic Development and Labour Council (NEDLAC) collaborative activities.

The Code follows on the original Financial Sector Charter that covered the period to 2014. The code is built on 7 Core Pillars of empowerment in which companies can score and be given credit, as outlined below. A Charter Council has been established as an independent body to oversee the implementation of the Code, approve annual audits and confirm ratings, issue guidance notes, and prepare and submit the annual review to the BEE Advisory Council.

Pillar	Commitments
1. Human Resource Development	Create a non-racial, non-sexist environment. Increase participation of black people in skilled, strategic, and operational leadership. 1.5% of payroll per annum to train black employees. 4.5% of total staff sourced through learnerships for black matriculants. Report on career paths and development for black employees. Appropriate mentorship programmes. Support diplomas and degrees in financial services.
2. Procurement	70% of total procurement through accredited BEE companies by 2014. Tendering support to SMEs Support to Proudly South Africa campaign
3. Enterprise Development	Fostering new and developing existing BEE accredited companies, through skills transfer, secondment of staff, infrastructure support, and providing financial, technical and administrative support.
4. Access to Financial Services	Provide affordable and sustainable access to banks, ATMs, and other delivery points within 20 kilometres for all individuals who fall with the SAARF categories of LSM 1 to 5. Provide first order retail financial services: - Basic and secure means of accessing and transferring cash for day to day purposes - Savings products for accumulating funds over time - Credit for low-income housing, financing agricultural development, or establishing, financing, or expanding a black SME, and - Insurance products and services for mitigation of risks
5. Empowerment Financing	Work in partnership with Government or DTI on risk sharing arrangements to provide resources for empowerment financing (targeted investment): low income housing; black SME; transformational infrastructure; and agriculture.
6. Equity Ownership and Control	Target of 25% black ownership at holding company level; 10% direct ownership and 15% indirect ownership; also applying to foreign banking groups. Target of 33% black directors (11% black women). Target of 25% black executive management (4% black executives).
7. Corporate Social Investment	Required 0.5% of post-tax operating profits to CSI projects aimed primarily at black groups, communities, or individuals.

3.3 Credit Bureau Sector

One of the primary contributors to South Africa's dynamic personal credit market is the presence of a competitive credit bureau sector which is over a hundred years old. Credit bureaux serve as the hub for creating consumer credit profiles based on credit information received from credit providers, courts, and utility service providers. Credit bureaux support financial inclusion mainly by facilitating expansion of credit through the reduction of information asymmetries in the market[7], and increasing transparency among all participants. Availability of this information benefits both lenders and borrowers by allowing lenders to assess the creditworthiness of borrowers and motivating clients to adopt good payment habits that translate into better access and service by establishing a good credit record. South Africa has a well-developed credit bureau sector currently consisting of four primary credit bureaux: TransUnion, Experian, CompuScan and XDS. There are a further seven "niche" bureaus. Together, these credit bureaux provide credit information to credit providers, which include banks, micro lenders, retail stores and any other organisation that provides loans or supplies goods and services on credit. The NCA sets the standards for the type of data collected.

A profile of credit active consumers: As at March 2013, the four major credit bureaus held credit information on 20.08 million credit active consumers. Of these, 10.55 million, or 52.5%, were classified as in good standing, whereas 9.53 million, or 47.5% were classified as having impaired records, with arrears of three months or greater. Table 3.4 provides an overview of the trends in the number of credit active consumers in South Africa. The total number of credit active consumers has been increasing year on year with the absolute number of consumers increasing from 18.07 million as of the last quarter of December 2009 to 20.08 million by the end of the first quarter in 2013. The number of credit active consumers with good standing as a percentage of the total credit active consumers remained fairly constant over the years, dropping by an overall two percentage points between 2009q4 and 2013q1 from 55% to 53% of total credit active consumers. This consisted of 38% current and 15% with 1-2 months in arrears as of March 2013. At the end of the first quarter in 2013 the 47% credit active consumers with impaired records consisted of 20% of consumers in three months or more in arrears, 13% of consumers with adverse listings, and 14% of consumers with judgments and administration orders.

Table 3.4: Credit standing of consumers

(#) Millions	Dec'09	Dec'12	Mar'13
Good standing (%)	55%	54%	53%
Current (%)	41%	39%	38%
1-2 months in arrears (%)	14%	15%	15%
Impaired records (%)	45%	46%	47%
3+ months in arrears (%)	17%	19%	20%
Adverse listings (%)	15%	13%	13%
Judgments and administration orders (%)	13%	14%	14%
Credit-active consumers (#)	18.07	19.97	20.08

Source: Various NCR Credit Bureau Monitor Reports

A profile of consumer accounts: As of March 2013 there were a total of 70.73 million active credit accounts in South Africa which was an overall increase of 10.6% from December 2009. This translates to every credit active consumer having an average of 3.5 accounts. Of these accounts, 74% were classified as good standing. Impaired accounts stood at 26% of the total number of

[7] Information asymmetries refer to the fact that the lender does not know whether or not the borrower intends to repay the loan.

consumer accounts consisting of 18% that had missed three or more instalments, 5% with adverse listings and 3% with judgments or administration orders.

Table 3.5: Credit standing of accounts

(#) Millions	Dec'09	Dec'10	Dec'11	Dec'12	Mar'13
Good standing (%)	74%	75%	75%	75%	74%
Current (%)	66%	66%	66%	65%	64%
1-2 months in arrears (%)	9%	9%	9%	9%	10%
Impaired records (%)	26%	25%	25%	25%	26%
3+ months in arrears (%)	16%	17%	17%	18%	18%
Adverse listings (%)	6%	5%	4%	4%	5%
Judgments and administration orders (%)	4%	4%	4%	3%	3%
Consumer accounts (#)	63.94	64.28	67.53	69.53	70.73

Source: NCR 2013

Credit Market Activity: The total number of consumer enquiries made to credit bureaus has increased significantly from 2009 to 2013. Enquiries made due to consumers seeking credit dropped as a proportion by three percentage points from the last quarter of 2009 (7%) to the first quarter of 2013 (4%). Enquiries made due to debt tracing and debt collection purposes dropped by seven percentage points from 2009q4 to 2013q1. The proportion of other enquiries increased from 81% in December 2009 to 92% in March 2013.

Table 3.6: Credit bureau enquiry trends

	Dec'09	Dec'10	Dec'11	Dec '12
Enquiries due to consumers seeking credit	7%	7%	5%	5%
Enquiries related to telecommunication services	1%	1%	0%	0%
Enquiries for tracing / debt collection purposes	11%	13%	7%	3%
All other enquiries	81%	80%	87%	92%
Total	146.88	176.65	285.95	339.20

Source: NCR 2013

Almost 340 million credit bureau enquiries were made in 2012, up by 131% from 147 million enquiries made in 2009. Across different sectors, banks made the most enquiries, accounting for 84% of all enquiries made in 2012. This was a significant increase from the 31% of total enquiries that were made by banks in 2009. Enquiries made by retailers saw a significant drop from 36% in December 2009 to 4% in March 2012.

Table 3.7: All enquiries - distribution according to sectors

Enquiries by sector	2009	2010	2011	2012
Banks and other financial institutions (%)	31%	54%	77%	84%
Retailers (%)	36%	15%	5%	4%
Telecommunication providers (%)	16%	15%	8%	7%
Debt collection agencies (%)	8%	7%	4%	1%
All other entities (%)	9%	9%	6%	4%
Total (in millions)	146.88	176.65	285.95	339.20

Source: NCR 2013

The demand for credit reports from consumers doubled between 2009 and 2012, with over 150,000 reports issued to consumers in 2012, of which 127,500 were issued free of charge. Despite the growth, these numbers remain disappointing given the NCA makes provision for every consumer to access his or her free credit report once a year. In 2012, less than 1% of consumers took advantage of this opportunity. Clearly, much more requires to be done by all stakeholders in this regard.

Table 3.8: Credit reports issued to consumers

	2009	2010	2011	2012
Without charge	86%	83%	82%	85%
With charge	14%	17%	18%	15%
Without charge/Total credit active consumers	0.36%	0.36%	0.44%	0.64%
Total issued	76,017	79,635	103,403	151,416

Source: NCR 2013; own calculations

Consumer disputes: The total number of consumer disputes that were lodged in respect of the accuracy of the information recorded on consumer credit records stood at 16,368 in 2012, an approximate 54% increase from the 10,573 disputes that were lodged in December 2009. In 2012, 80% of disputes were resolved in favour of complainants. This represents a considerable increase to the 2009 figure of 50%. Disputed data, especially those involving civil court action and debt counselling, is the likely contribution behind this upward trend.

Table 3.9: Credit Information Disputes lodges by consumers

	2009	2010	2011	2012
Disputes lodged	10,573	14,836	8,826	16,368
Disputes resolved in favour of complainants	5,038	6,086	6,761	13,198
Percentage of disputes found in favour of complainants	47.6%	41%	76.6%	80.6%
Disputes resolved where credit record remained unchanged	2,026	847	1,562	3,143

Source: Various NCR reports

The Department of Trade and Industry and Credit Information Amnesty: In an effort to promote access to credit through the removal of barriers, the NCA introduced the concept of a credit information amnesty. In accordance with Section 78 of the NCA, a credit information amnesty was proposed in 2006 which made provision for the removal of certain credit history information from the credit bureaus data. A second round of credit information amnesty has recently been approved by government which, again, seeks to remove certain categories of adverse data from credit bureau records. The primary purpose of the new proposed credit amnesty according to information provided by the Department of Trade and Industry include:

- Reducing credit impairment by addressing its causes
- Removing barriers to credit and assisting those consumers who can afford credit, to access credit.
- Embarking on "restorative justice"
- Achieving the goals of the National Credit Act
- Assisting consumers impacted by economic recession
- Redressing failure of credit providers to consider broader economic factors
- Removing barriers to employment
- Reducing over pricing
- Stimulating economic growth, and
- Broadening access to credit providers

Under the new proposed credit information amnesty three options have been put forward, each with a different impact and outcome. Table 3.10 compares the 2006 option to the 2013 preferred option highlighting the key differences between the two. The impact of the 2013 preferred option is also highlighted.

Table 3.10: 2006 Credit Information Amnesty vs. 2013 Proposed Amnesty

2006 AMNESTY	2013 PROPOSED AMNESTY
Deletions concluded in 2007	Medium risk (preferred option)
Default data below R500;	Removal of all adverse information listings irrespective of value and irrespective of non-payment;
Judgments less than R5,000 if incurred before September 2006;	Removal of all paid up adverse information listings on an on-going basis;
Judgments below R50,000 if settled before September 2006	Removal of all paid up judgments on an on-going basis.
Dormant accounts if older than 2 years by September 2006; and	The number of consumers possibly affected: 1,605,763
Judgments below R50,000 taken before September 2006 and settled before September 2007	

Source: Department of Trade and Industry 2013

Despite positive perceptions from the dti about the impact the credit information amnesty will have on consumers and the credit industry at large, the concept has created widespread alarm among industry stakeholders. There is an expectation that this credit information amnesty will further plunge consumers into over-indebtedness as it will encourage over-indebted consumers to continue borrowing and credit providers will no longer have information to judge the character of a borrower. Secondly, the amnesty may result in the contraction of credit as credit providers will adopt a more conservative approach when extending credit. According to a study conducted by the Credit Bureau Association (CBA), 64% of the consumers who benefited from the credit amnesty in 2007 went on to open new credit accounts, but most of those individuals fell once again into delinquency, with 74% of these consumers having subsequent adverse credit accounts (Figure 3.6).

South Africa has created one of the most comprehensive and effective credit bureau sectors in the world. Unfortunately the proposed new credit information amnesty could wipe out some of those gains.

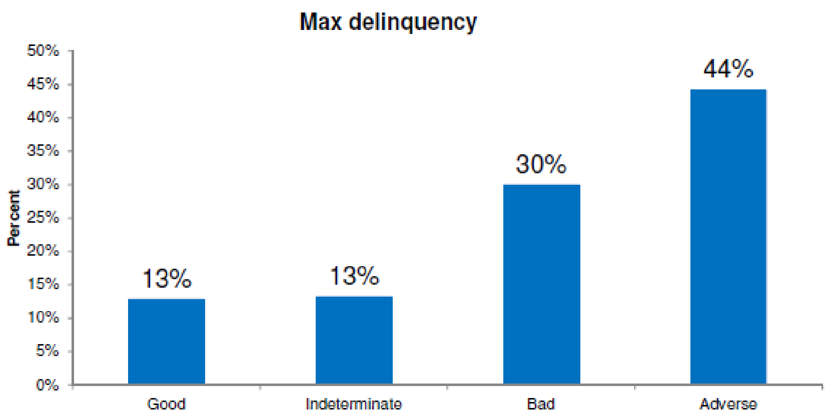


Figure 3.6: Credit performance of consumers post amnesty
Source: Credit Bureau Association

3.4 Debt Counselling

South Africa, along with Malaysia and the United Kingdom, is ranked first by the "Doing Business" World Bank (2012) report in "getting credit." This is an enviable achievement as it bears testament to the rich repository of credit information, and the strength of legal enforcement rights available to credit providers. Ease of obtaining credit, however, appears to be a double-edged sword, as an increasing amount of South Africans find themselves in debt-stress scenarios.

The NCA defines over-indebtedness as the inability of a consumer to meet all of his/her obligations under all his/her credit agreements in a timely manner. As reflected earlier, at the end of March 2013, an estimated 9.53 million consumers, or 47.5 % of the 20.08 million credit active consumers in South Africa, appear to be over-indebted, with arrears of three months or more on at least one credit account. Access to further credit for these consumers is now highly limited which necessitates a consolidation to take place as means of rectification.

Formal debt counselling was introduced in June 2007 by the NCA as a channel to rehabilitate and educate over-indebted consumers. Debt counsellors are registered by the NCR. This registration requires counsellors to undergo formal debt counselling training. Two debt counsellor business models are currently operating in the South African credit industry: debt counsellors within a professional practice, and independent, start-up businesses, which were introduced to meet BEE requirements. Industry players note that there has been significant failure of the independent debt counselling businesses resulting from a general lack of legal knowledge and legal back up services amongst a majority of counsellors. Professional practices of debt counsellors are mostly run by legal practitioners and accountants who, unlike their stand-alone counterparts, have the legal expertise and professional relationships with credit providers affording them the opportunity to have a higher success rate of consumer rehabilitation.

To date, a total of 2,027 debt counsellors and 8 training institutions have been registered in the debt counselling industry. Between 2008 and 2012, an estimated 296,544 applications were forwarded by consumers for debt counselling with only 105,413, or 35%, becoming active cases as at February 2012. Of the active cases, 66,882 consumers, or 63%, were already servicing their debts. Table 3.11 below summarises the number of debt counselling applications that were made between 2008 and 2012. Closer scrutiny reflects that a large percentage of consumers who have approached debt counsellors have left the process (either after termination or withdrawal). Interviews with stakeholders in the debt counselling industry reveal that nearly half of the cases were terminated from the process as consumers failed to stick to their rescheduled repayment commitments. Once this happens, creditors are permitted to take legal action against the consumer.

Table 3.11: Number of applications for debt counselling from March 2008 to February 2012

Number of new applications recorded for February 2012	1,774
Terminations, withdrawal, no longer over-indebted, rejected applications for February 2012	6,043
Number of applications for debt review since March 2008	296,544
Terminations, withdrawals, no longer over-indebted, rejected applications to date since March 2008	113,716
Net applications	182,828
Debt Help	50,244
Paying clients (Payment Distribution Agent (PDA) only)	66,882
Estimated active	117,126
Less double count (10%)	11,713
Possible active (best estimate)	105,413

Source: University of Pretoria Law Clinic 2012

Concerns have been raised about the appropriateness of debt counsellors as a solution for the low income population segments. Firstly, low income earners have been noted to report the least number of cases of over-indebtedness, largely due to the fact that they have fewer credit accounts compared to higher income earners. Secondly, the costs for debt counselling are proportionately higher for low income clients as the process attracts a flat fee of R6,000 per debt case. As a result, debt counsellors have been targeting higher income population segments.

Table 3.12: Fees and costs of debt counselling

Service	Cost
Upfront application fee	R50
Debt restructuring fee	Up to R 6,000
After care fee	5% of repayments up to maximum of R400 for the first 24 months, reducing to 3% with a maximum of R400 thereafter
Sheriffs fee	R120 per credit agreement (or provider if debt counselling has been centralized at provider)
Legal cost	On a case by case basis R2,500+
Payment Distribution Agent cost	R7.98 to R27, 50 depending on the amounts

In January 2011, the NCA proposed that an amendment be made to its debt counselling code by introducing the new *Credit Industry code of conduct to combat over indebtedness*, including a commitment to responsible lending and avoidance of over-indebtedness where possible.

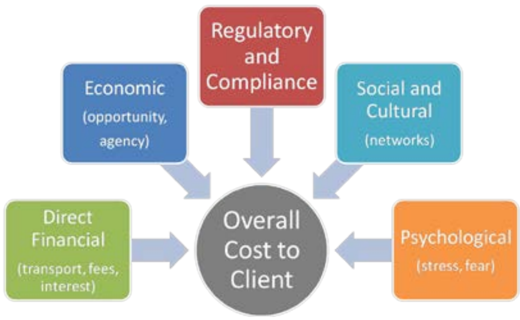
The National Debt Mediation Association (NDMA) – repositioning itself

One institution that has been instrumental in the field of debt counselling is the National Debt Mediation Association (NDMA), an initiative to combat over-indebtedness and assist consumers before they reach formal debt counselling. The NDMA was set up as a collaboration of credit providers, who facilitate engagements with all other stakeholders in the credit industry, as well as co-ordinate the implementation of rules, standards and processes.

The NDMA was established in 2008 with its members, at one stage, representing over 90% of personal credit advanced in South Africa. This included over 34 affiliations from various industries including the banking, clothing, retail, micro-lending, motor finance, and furniture sectors. Statistics offered by the NDMA show that between April 2009 and December 2010 the NDMA handled a total of 2,932 complaints and enquiries and was steadily increasing its capacity to handle increasing volumes. Until recently, the NDMA has been offering debt counselling services free of charge to consumers, an action which was perceived as a threat by private debt counsellors. Since the scrapping of industry codes by the NCR in early 2013, the NDMA has cut its ties with its credit provider stakeholder community and is now repositioning itself as a private not-for-profit organisation. It is still intent on offering the same debt relief services to consumers but at rates which fall within the requirements of the NCA.

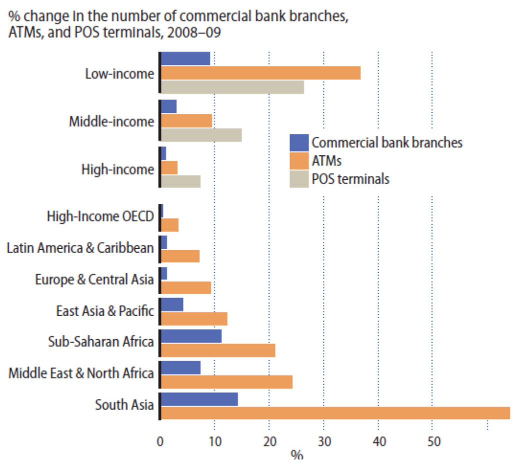
3.5 Branchless Banking

To understand branchless banking and its contribution it is important to start with the costs low-income and poor clients must incur to interact with formal financial institutions. Access on its own is not an adequate measure when assessing financial inclusion. Access may not translate into sustainable use and benefit for the consumer, largely due to the reality of poorly designed value propositions, based on a lack of client centric approaches. Based on early stage research work by the Centre for Inclusive Banking in Africa (2010), a "Cost-to Client" approach looks at five areas of cost contributors: i) direct financial costs such as transportation, fees and interest; ii) economic cost in terms of, for example, opportunity cost of time; iii) compliance and regulatory costs, such as the cost of documentation to adhere to Know-Your-Client requirements; iv) social and cultural costs, such as the cost of being part of a network to improve access (also considered as bonding costs in the agency cost literature) and, lastly, v) psychological costs, such as the stress of debt and over indebtedness.



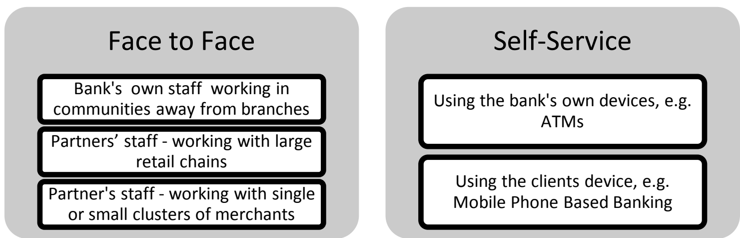
Change of emphasis in service delivery methodology: Until approximately a decade ago, the main way to reach clients was by opening branches or, more generally, physical points of presence. Due to the costly nature of branches, this resulted in an ebb and flow approach. Banks engaged in spurts of opening branches in underserved areas, and then closed branches again due to non-performance, or cost cutting measures (McKay and Pickens, 2010).

The cost of branches necessitated a hard look at alternative measures. The first countries which focused on using agents to provide banking services were Brazil, India, Mexico and, in the last decade Kenya, with many examples of branchless banking coming from these areas. Although some banks decided not to expand their branch infrastructure (Mwangi, 2010) overall expansion is still occurring in developing economies (see figure from CGAP, 2010) on percentage change in retail network components between 2008 and 2009. It is clear that retail networks grew fastest in low-income countries and in regions with limited retail network coverage. The reality is that a branch is still the best delivery method in areas with adequate numbers of clients and usage levels. They serve clients with the complete range of banking services, including the opening of accounts, transacting, maintenance of accounts, education, and ensuring face to face interaction within a relationship based approach. It follows that other methods of client interaction also need to cater for a full banking service over time if the branch based method is to be replaced. If not, it will lead to a loss of clients.



Branchless banking as an important strategy: A strategy growing in prominence internationally and especially on the African continent is branchless banking. Branchless banking is defined as "*new distribution channels that allow financial institutions and other commercial actors to offer financial services outside traditional bank premises*" (Lyman et al, 2006 as quoted in Dermish et al, 2011). Branchless banking is much more than mobile phone banking, as in many instances Point of Sale (POS) devices are used as transaction carriers. Branchless banking in its variety of applications allows a customer to open an account and transact using these accounts outside conventional branches. The use of agents is a prominent part of branchless banking and also the use of information and telecommunication platforms.

We differentiate between two pillars of branchless banking, face to face and self-service. In South Africa, face to face implies the use of a partnership approach to service clients; the bank plus a partner that interacts with the client (it can be on behalf of a bank, or a bank can be involved due to the legislative framework that only allows banks to take deposits).



The second pillar is self-service, which implies that client's access banking services without any face to face intervention, but using a self-service device. Once again, two options are possible: using the bank's device, such as an ATM, or using the client's own device, such as a mobile phone.

> **M-PESA (Kenya).** M-PESA is the iconic mobile banking service that led to copycat businesses around the globe. Launched in March 2007 by Safaricom (a MNO), M-PESA offers clients a mobile wallet with the functionality to transfer money and pay bills. Customers can also use M-PESA to transfer money in and out of accounts at 14 banks. M-PESA has more than 21,000 agents and 13 million registered customers (more than half the adult population).

Branchless banking removes a large portion of the costs for a client to interact with commercial banks or other financial service providers. It decreases transport cost, in many instances to nil, especially where agent networks become ubiquitous. It provides the service through an agent on a partnership basis resulting in a face to face service by a trusted member of the community. It also decreases the cost to serve for the financial institution as cash handling and client interaction is now done by the agent/partner (see box on M-Pesa as a good African example – Flaming et al, 2010). Even though the success of offerings such as M-Pesa is celebrated, until recently it was no more than a transactional service. The addition of the M-Kesho account in the partnership between Safaricom and Equity Bank created the opportunity for this combination of products to be much more than just transactional, but this did not lead to mass growth in uptake. The more recent expansion of M-Pesa to M-Shwari brought both savings accounts and loans to the M-Pesa member with good client uptake to date. This combination of accounts will be the responsibility of the banking partner.

The state of branchless banking in South Africa:

Self-service pillar: Several institutions provide self-service branchless banking services, ranging from the large commercial banks (FNB, ABSA, Standard Bank, and Nedbank) and newly established providers (for example TYME). It is difficult to estimate mobile phone penetration in any market, as there is always the possibility of more phones per person, or more users per phone which can confuse the numbers. Mobile penetration in South Africa, however, for those aged 16 and above is estimated at 100%. Mobile phone use and mobile banking are quite different and thus about 37% of South Africans use mobile banking of which 75% are between the ages of 19 and 40. Of the South Africans who use mobile banking services, 18% use mobile money services to transfer money and 15% of all mobile banking transactions are payments and 79% are airtime purchases. (http://www.tci-sa.co.za/brochures/mbcc_brochure_2013.pdf).

Face to face pillar: Two banks are making good progress with this approach, partnering with standalone or clusters of merchants ranging from spaza shop owners to retail outlets with adequate turnovers to continuously honour cash withdrawals. It is especially cash withdrawals and airtime purchases that are the most popular transactions at these service points. Standard Bank shared that they have 7,000 of these Access Points (Standard Bank Website on 3 September 2013 at 08:47) and in August 2013 it was reported that over 2 million transactions were concluded at these Access Points with an estimated R14m worth of transactions for the first six months of 2013. ABSA call their similar service In-Store Banking and it is estimated that they have more than 1,100 of these points in the market, working with larger merchants than spaza shops. Anecdotal evidence points to similar transaction numbers at ABSA, although from a lower number of points. Most of the other banks also support cash back at POS and, although detailed published numbers are not available, it is generally believed that this service is used more and more by low-income and poor South Africans.

The challenges of branchless banking:

Regulatory challenges are serious and differ between markets (Booz Allen/USAID, 2010). The ability of regulators to efficiently regulate is one challenge, complicated by differences in interpretation between Acts and guidance notes. Notwithstanding the reality that there is a whole range of publications on compliance and regulatory aspects of branchless banking and some are country specific (for example CGAP's (2010) updated research notes on regulating branchless banking in South Africa), very few compliance departments of large commercial financial institutions are aware of these because branchless banking is a new concept for these departments. Most of their time and effort is focused on managing what they know, which are largely branch based approaches. Banks may also situate branchless banking compliance within the branch based approach. It is extremely important that these departments are coached and incentivised to do their own research on branchless banking compliance issues.

It is clear that the process of understanding the risks posed to retail banking by branchless banking presents many challenges for regulators and compliance departments of financial institutions. The initial conclusion by Lyman et al (2008) and Alexandre et al (2011) (quoted in Dermish et al, 2011) is that most of the risks of branchless banking models are operational in nature and can be managed via prudent systems and controls applied to real-time transaction monitoring. One study by Collins (2010) (quoted in Dermish et al, 2011) which focused on consumer protection issues arising from various client access channels in Brazil, Kenya, and South Africa, concluded that third party agent channels have not resulted in higher reported incidents or claims compared to conventional distribution methods.

It is clear, however, that the regulatory and compliance aspects are, and will continue to be, one of the stumbling blocks in expanding these services in the near future. Firstly, compliance officers are mostly reactive in approach and the rules of personal liability of bank compliance officers in terms of regulatory fall out mitigates against any innovative and pro-active approach. Secondly, we know too little (short time period and limited research) of the real fall out and risks in these systems. Finally, due to this lack of knowledge, and the fact that branchless approaches are reaching scale in several settings, it is difficult not to be cautious in terms of systemic fall out potential.

Agent/Partner challenges are important in terms of recruiting and training, managing and maintaining partnerships. The legal definition of an agent in South Africa as espoused by the Banks Act also poses the danger of agents being described as a "bank branch" and thus with similar concomitant cost drivers. Further, partners like mobile network operators and retailers, are also working towards providing these services without making use of banking partners and any partnership is thus more on the basis of co-opetition rather than co-operation, which brings its own challenges in terms of what makes a good partnership and how to manage these relationships.

A large number of publications cover the concept of managing agents (the most recent being an Agent Management Toolkit by Flaming et al, 2011). The challenge of an agent network is mostly a question of logistics and also whether there is a business case at the agent level in terms of price and volume. The initial experience in the ABSA Bank In-Store Banking Pilot is that the challenge is to get a range of products on the system as well as products for which there is high demand from clients. The example of the ability to buy airtime at the agent is an important one where high transactional volumes were experienced in the ABSA pilot compared to deposit and withdrawal services.[8] It also makes sense to partner with institutions that present a bulk acquisition of agents. Equity Bank partnering with Safaricom in Kenya is one example. In South Africa, partnering with retailer chains can build volumes quickly (examples being ABSA and PEP with the provision of money transfer services; TYME and Pick and Pay; FNB with several retailers in-loading and withdrawing from their e-Wallet).

Client uptake poses another major challenge. The ABSA experience (ABSA, 2011) in the branchless banking arena is that of an initial slow uptake of their service, followed by an increased uptake, especially of the high value to client services like airtime purchases, cash withdrawals, and opening of accounts. The challenge is how to change client's behaviour, which is a function of information and trust. It links closely with knowing the client. It is also dependent on providing the client with a consistent experience. If a client approaches an agent to withdraw money and the service is off air or there is inadequate cash available to effect a withdrawal, the client will not trust the system, especially if this event repeats itself. The agent plays a big role in this process, providing information, marketing the services, creating a good client experience, and ensuring that transactions can take place.

Many actors underestimate the importance of focusing on client uptake due to the success of M-Pesa in Kenya, (could be seen as a halo effect). The truth is that a client cannot jump to electronic and mobile in one move and it must be seen as a journey, the arduous journey of behavioural change based on client financial education and product information. Consumer protection and education empowers clients to participate in a financial market with confidence and with access to recourse. Better informed customers contribute to a competitive market as they compare and shop around. However, the most important point would be to start with a good understanding of the reality of clients, their financial service needs and the different client contexts, and design value propositions that will be in demand by clients. These financial services must enhance the lives and livelihood strategies of clients, must be easily and conveniently accessible, and must be accompanied with clear product education so that clients understand the pricing and rules. Collins et al (2009) illustrated that low-income and poor clients have three core financial needs: first a method to manage day to day financial requirements (largely a transactional service); second a service where they can deposit money into a savings account to save for a rainy day or a specific event or item; and lastly, access to loan products where they can borrow for emergencies or for business purposes. Without understanding the reality, needs, and wants of clients at a granular level client uptake challenges will not be solved.

Operational issues: The final group of challenges are specific to banks providing branchless banking services, but are good learning points also for mobile network operators and retailers that want to enter the market. The first is that specific focused branchless banking operational support is needed as in most cases you cannot use the branch network for providing these services. The second challenge is to align branchless and branch based strategies. Branchless expansion and focus has a lot to do with branch roll out (placement, profile, functionality and focus) and should be aligned and pro-actively managed to benefit from the interaction between the two - branches as sales and service units propagating the branchless network, largely as a supporting transactional service provider.

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8 ABSA's In-Store Banking project pilot for in field testing of an agent based approach, from internal documents (2011)

The future of branchless banking in South Africa and policy challenges:

In the same way that mobile phone development leapfrogged the fixed line development of telephone access on the continent, branchless banking will leapfrog the necessity for conventional branches in many settings. In South Africa, branchless banking therefore has great potential to reach vast numbers of low-income, under-banked and unbanked people at affordable prices with a wide range of products to meet their complex financial needs. It therefore also has great potential as a core financial inclusion strategy.

The challenge still remains, however, to determine the best pathways to improve branchless banking, informed by good research, to help overcome the main challenges of partnerships, regulation, and client uptake. Of these areas, regulatory and compliance challenges still show that much work needs to be done in South Africa. Financial institutions will abandon this focus if regulatory and compliance costs force them to replicate the cost of branches. Branchless banking requires a policy environment that supports inclusion policies as a first objective, inclusive of polices on consumer protection. Financial inclusion also relies on other financial legislation to be in place. Legislation can help bring clarity on the role of agents and the relationship between banks and their clients, appropriate Know Your Customer (FICA) rules, and adjustments where necessary to reflect the reality of a setting or clientele.

As argued earlier and illustrated by McKay and Pickens (2010), the challenge is to expand the products and services of branchless banking beyond payments. The kind of products required could range from the opening of bank accounts outside bank branches, the provision of loans, insurance services, and account maintenance services. Especially the latter, account maintenance services, is still a problem.

Dermish et al (2011) argues that the branchless banking phenomena has a short history and limited research to date is available on several aspects, such as what drives uptake, what is the impact on clients and client perception, and what are the real risks of branchless banking when it reaches scale and can impact systemically. There are a range of publications on several aspects of M-Pesa in terms of uptake, client impact and more, but there is little research available on these aspects outside Kenya. Even within Kenya, there is little research on systemic risks. The potential of branchless banking to expand financial inclusion should not be under-estimated, but we do need more information and a cautious approach.

3.6 Wholesale Development Finance Institutions (DFIs)

The South African government has shown a commitment to pushing the economic development agenda of the country through the New Growth Path (NGP), the implementation of which will require greater leverage of key financial and regulatory institutions and agencies of the state, including development finance institutions. It is important that DFIs remain relevant to the evolving financing needs of an economy. DFIs in South Africa have expanded their financial products to support agricultural finance, housing loans, and Small, Medium and Micro Enterprise (SMME) finance. These wholesale DFIs support financial inclusion through the provision of finance to underserved economic sectors and supplementing efforts of regular capital funding institutions such as banks, financial co-operatives, leasing, and factoring companies. DFIs generally provide wholesale funds for on-lending and equity participation, as well as grants for institutional strengthening.

Publicly Owned DFIs:

The table below provides an overview of development finance institutions and their primary mandate.

Table 3.13: Publicly owned DFIs

Institution	Focus	Finance Range
Small Enterprise Finance Agency Ltd (SEFA)	SMMEs	Retail: R50,000 – R5m Wholesale: Up to R 100m
Industrial Development Corporation (IDC).	Industrial Development	Minimum: R1m
National Empowerment Fund (NEF)	Broad Based Black Economic Empowerment	Minimum: R250,000
Land Bank	Agricultural Finance	Maximum Unsecured Facilities: R25,000
National Youth Development Agency (NYDA)	Youth Development Programmes	R1,000 – R10m
Development Bank South Africa (DBSA)	Infrastructure Development	Minimum: R10m (average)
Micro Agricultural Financial Institution (MAFISA)	Agricultural Finance	Minimum: R100,000; Maximum: R10 million

The table below shows specific agencies, in particular, have been established to carry out this function for the microfinance sector**:**

Table 3.14: Wholesale DFIs Supporting the Microfinance Sector

Name and Mandate
Small Enterprise Finance Agency Ltd (sefa) Micro, Small, and Medium enterprises
Established to support sustainable Survivalist, Micro, Small, and Medium enterprises through the provision of finance.
Micro Agriculture Finance Institution of South Africa (MAFISA), Agricultural Finance
Developed as a micro and retail agricultural financial scheme for economically active poor people.
National Housing Finance Corporation (NHFC), Housing Finance
To ensure that every South African with a regular source of income is able to gain access to finance to acquire or improve a self-owned home.
Rural Housing Loan Fund (RHLF), Rural Housing
Provision of rural housing loans, through intermediaries, to low-income households for incremental housing purposes and local ingenuity to build and improve their shelter over time.

Sources: SEFA 2012, RHLF 2012, NHFC 2012, MAFISA, 2012 Annual Reports

In 2011, the government embarked on a sector reform programme aimed at streamlining the operations of wholesale DFIs in the country. This reform will see the consolidation of five agencies into three by 2014: one for small business, one for low income housing, and one for agricultural finance. Below is a table showing a summary of the future DFI landscape.

Table 3.15: Changing landscape of wholesale DFIs, 2009 – 2013/4

2009	2013/4
Khula	Merged into SEFA
South Africa Micro Apex Fund (Samaf)	Merged into SEFA
Rural Housing Loan Fund (RHLF)	To merge with NHFC into one agency by 2014
National Housing Finance Corporation (NHFC)	NHFC
MAFISA	MAFISA

For these activities to be effective and sustainable there is a need to identify key performance indicators for DFIs. These measures should go beyond the usual standard financial measurements to equally encompass quantitative and qualitative non-financial indicators which evaluate the economic and social contribution of each organisation.

National Housing Finance Corporation (NHFC):

The National Housing Finance Corporation (NHFC) is a development finance institution that was established in 1996 by the South African government. Its mandate is to fund and facilitate the development of affordable housing. The NHFC aims to broaden and deepen access to affordable housing finance and development among the poor and the low- to middle income individuals.

Strategic objectives:

- Expand housing finance activities, through the effective provision of housing finance solutions, thus enabling low-to-middle income households to have choice of renting or owning or incrementally building, to meet their housing needs.
- Facilitate increased and sustained lending by financial institutions to the affordable housing market.
- Mobilize funding into the human settlement space, on a sustainable basis, in partnership with the broadest range of institutions.
- Conduct the business activities of the NHFC in a manner that ensures the continued economic sustainability of the NHFC whilst promoting lasting social, ethical and environmental development.
- Provide robust, timely and relevant market research.

Products and services: The NHFC offers three main core products which are wholesale lending, mortgage insurance, and a subsidy provision program. Under the wholesale lending the corporation focuses on the following products: rental (social housing and private rental), integrated development, incremental housing, home ownership, and strategic investments. The corporation has added two more products being mortgage insurance and a subsidy program. The table below shows a description of wholesale products offered by the NHFC.

Table 3.16: Product offerings and services by NHFC

Product	Household Income	Financing Needs	Funding Threshold
Rental Project	R 3,500 – R 15,000	Subsides & debt funding	10% of shareholder interest
Social housing			
Private Rental		Equity & debt funding	
Integrated development			
Incremental Housing			
Home Ownership			
Strategic investment		Equity/ Mezzanine debt	
NEW PRODUCTS			
MDI: Mortgage Insurance	R 7,500 - R 17,600	Mortgage Funding	Income up to R176,000
FLISP: Subsidy	R 3,500 – R 15,000	Mortgage Funding	Maximum R 300,000

Source: NHFC 2013

Developmental impact of NHFC: Table 3.17 below highlights the developmental impact of the NHFC over the last five years (2008-2012). Disbursements increased by 165% from R250 million to R664 million, whereas housing opportunities increased by only 15.8% over the same period. This disproportionate increase can be attributed to the rising cost of housing units, from an average of R200,000 to R250,000 in mid- 2000, now reaching a price range of R320,000 to R370,000. The NHFC has also recently invested into mega projects where funding has been utilised to prepare the infrastructure for these projects. It is expected that 25,000 units will be delivered over the next 8-10 years using the proceeds of the sales as the projects progress.

Table 3.17: Developmental impact of NHFC

Year	Annual Disbursements	Cumulative housing opportunities	Annual housing opportunities	Investment per housing opportunity
2009	R 514m	293,000	15,000	R 34,267
2010	R 670m	304,000	11,000	R 60,909
2011	R 501m	312,000	8,000	R 62,625
2012	R 664m	322,000	10,000	R 66,400

Source: NHFC 2013

Table 3.18: Key Financial Indicators of NHFC at December 2012

	2010	2011	2012
Profit before tax (R'000)	58,823	65,348	31,790
Return on equity (%)	2.06	2.26	1.0
Cost to income ratio (%)	40.58	61.68	62.36
Credit loss ratio (%)	4.76	0.25	1.52
Provision for impairments (%)	8.67	7.76	8.14

Source: NHFC, 2012

From 2011 to 2012, profit before tax and return on equity dropped, while the cost to income jumped considerably in 2011. These increases were the result of the NHFC being requested to expand its services into retail finance by its government shareholder. A "Home Front" unit was thus piloted at one of the mining houses. Later, however, government reversed its decision claiming the NHFC had no mandate to enter the retail lending arena. Costs and resources thus had to be absorbed into other NHFC operations. The corporation has also diverted resources into the Mortgage Default Insurance Programme which it undertook to implement as a response to the guarantee of R1bn announced by the President. Finally, NHFC revenues are directly related to market interest rates and the drop in the repurchase rate over the last few years has seen a corresponding erosion in its income.

Rural Housing Loan Fund (RHLF):

The Rural Housing Loan Fund (RHLF) came into existence in 1996 as a Section 21 not-for-profit company. The Fund was established to address the housing needs of the rural poor and enhance development of the financial sector in rural areas through housing financing. The mandate of this DFI is to provide affordable housing credit to low income rural households and to contribute to the Integrated Sustainable Rural Development Program.

Objectives:

RHLF seeks to realise its vision by strategically undertaking the following

- Broadening and deepening the reach of rural housing finance
- Building lending capacity
- Preservation of real value of capital

The table below shows the total number of loans disbursed per year. The RHLF is on target (86%) to achieve over 180,000 loans by 2014.

Table 3.19: Performance Indictors on RHLF

Financial Year	Number of loans disbursed
2009/10	33,112
2010/11	40,289
2011/12	47,043
2012/13	35,775
Total to March 2013	156,219
2014 Target	181,811
Performance	86%

Source: RHLF 2013

Wholesale products: The table below shows a description of wholesale products offered by the Rural Housing Loan Fund.

Table 3.20: Product offerings and services by RHLF

Product	Description
Structured Loans	Structured loans are provided to intermediaries to establish, support or develop a housing loan operation addressing the need of individual households. The minimum loan size is R1 million,
Pilot Loans	A Pilot loan is a venture-capital investment instrument to support retail lenders to explore new markets (such as informal earners or low-income households in unserved rural areas) and/or new products (like alternative loan products with appropriate collection). To enable an institution to test new ideas, the RHLF will provide loans up to a maximum amount of R 2 million.
Equity Investments	These are investments to help build-up operational capacity of retailers, especially those owned and managed by historically disadvantaged entrepreneurs. The objective with this funding is to assist the institutions to develop sustainable new capacity to strengthen their balance sheets such that they may be able to access finance from sources other than the RHLF for investment in the RHLF's defined target market.

Source: RHLF 2013

Rural Housing Loan Fund development impact: The table below shows a flat performance in new loans over the past three years. There has been a decline in new house and extension by 5% and 6% respectively, whereas improvement to housing facilities has increased from 50% in 2009 to 71 % in 2012.

Table 3.21: Rural Housing Loan Fund development impact

Housing impact	2009	2010	2011	2012	2013
Number of new loans	40,537	33,112	40,289	47,043	44,812
Loan usage					
New House	8%	3%	4%	4%	3%
Extension	17%	8%	10%	12%	11%
Improvement	50%	71%	68%	71%	76%
Services	3%	2%	3%	3%	2%
Other (Mainly education)	22%	16%	15%	10%	8%
Total	100%	100%	100%	100%	100%

Source: RHLF 2013

The table below shows a compressed financial statement of RHLF as of 31 March, 2013. RHLF total assets have increased by 40.9% between 2010 and 2012 whereas total net assets grew by 41.29%. The Fund has recorded profit in the last three years with a cumulative growth of 63%.

Table 3.22: Compressed Financial Statement of RHLF

	2010	2013	Growth
Total Assets	329,343,939	507,879,811	54.2%
Total Net Assets	187,873,980	365,115,681	94.3%
Operating surplus	22,018,095	20,326,653	-7.7%
Surplus before taxation	13,728,056	18,731,136	36.4%
Surplus for the year	11,164,180	12,571,586	12.6%

Source: RHLF 2013

Small Enterprise Finance Agency Ltd (sefa):

The Small Enterprise Finance Agency (sefa) commenced operations in April 2012, a result of the merger of Khula Enterprise Finance Ltd, the South African Micro Apex Fund (Samaf), and the small business activities of the Industrial Development Corporation (IDC). The aim of the agency is to ensure that it fosters the establishment, survival and growth of SMMEs in a bid to contribute to job creation and poverty alleviation.

Strategic Objectives

- Increased access to and provision of finance to small businesses.
- Develop and implement a national footprint for effective product and service delivery
- Build an effective and efficient sefa that is a sustainable performance driven organisation
- Build a learning organisation
- Build a sefa that meets all legislative, regulatory and good governance requirements.
- Build a strong and effective sefa brand emphasizing accessibility to SMMEs

The tables below summarise key performance targets for SEFA for the five year period 2013 –2017, as well as performance during sefa's first full year of operation.

Table 3.23: Key performance targets Small Enterprise Finance Agency (sefa)

	SME Finance Wholesale loans to intermediaries	Micro Finance Wholesale loans to intermediaries	SME Retail –Small	SME Retail –Medium	Credit Indemnity through bank s
Approvals	R 600 million	R 1 billion	R 1.2 billion	R 1.1 billion	R 360 million
Number of New loans directly	-	-	5,000	350	
Average SMME loan	-	R 4,500	R 250,000	R 3 million	R 300,000
Number of SMMEs financed through intermediaries	3,000	180,000			1,200

Table 3.24: sefa Performance against Targets, 2013

	Target	Actuals	% Achieved	Explanation for under-achievements
Loan Approvals	R 560 million	R 440 million	78.5%	Work towards embedding merger
Loan Disbursements	R450 million	R 198 million	44.0%	Applicants not meeting conditions precedent
No. SMMEs financed	11,812	28,362	240.0%	
Disbursements to Youth owned SMMEs	30%	16.5%	54.8%	Limited viable business propositions
Disbursements to women-owned SMMEs	40%	39.8%	99.5%	
Disbursements to priority rural provinces	45%	45.4%	100.9%	
Disbursements to black-owned SMMEs	70%	78.1%	111.6%	
Disbursements of loans R250,000 or less	40%	45.4%	113.5%	

Micro Agricultural Financial Institution of South Africa (MAFISA):

The Micro Agricultural Financial Institution of South Africa (MAFISA) was established in 2004 by the Department of Agriculture, Forestry and Fisheries (DAFF). The main purpose is to facilitate the provision of equitable and large-scale access to financial services by economically active rural poor communities and smallholder farmers on an affordable, diversified and sustainable basis. To date the institution has disbursed R320 million worth of loans to 22,000 beneficiaries through retail financial institutions.

MAFISA aims to effectively contribute to poverty reduction and job creation through the provision of credit facilities to smallholder farmers.

Strategic Objectives

- Facilitate balanced geographic distribution of rural finance capacity and flow according to demand distribution.
- Increase outreach by stimulating expansion of existing retail lending entities or creation of new retail lending capacity in rural areas through appropriate support.
- Provide efficient and effective agency services to government for the management of government initiated programmes.

Clients and Accredited Members to MAFISA: The MAFISA program is meant to benefit the following groups: farm workers, small land holders, co-operatives, small agribusinesses, and land reform and agrarian beneficiaries. MAFISA distributes its finance through co-operatives, provincial development finance institutions, and commodity organisations. To date the project is being implemented by nine financial intermediaries namely, National Emergent Red Meat Producers' Organisation (NERPO), Mpumalanga Economic Growth Agency (MEGA), Gauteng Enterprise Propeller (GEP), Eastern Cape Rural Finance Corporation (ECRFC), Magalies Graan Koperasie (MGK), Kaap-Agri, South African Sugar Association (SASA), Peulwana Financial Services, Hlanganani Farming Finance and Land and Development Bank of Southern Africa (DBSA).

Product and services: MAFISA funds the following activities: production inputs (e.g. fertilizers, seeds, pesticides); livestock; and small-scale irrigation systems. MAFISA provides short to medium term production loans, savings mobilization plans, capital loans, and banking facilities at approved accredited financial institutions. The program also offers full capacity building and training for its member-based financial institutions to enhance agricultural, forestry, and fisheries activities. MAFISA is in the process of adding micro-enterprise insurance to its existing product mix. The table below shows the different financial intermediaries funded by MAFISA and their focus area.

Table 3.25: MAFISA financial intermediaries

Institution	Approved	Transferred	Area	Focus
NERPO	R 50m	R 50m	All provinces	Livestock
MEGA	R100m	R50m	Mpumalanga	Various Enterprise
GEP	R 30m	R 10m	Gauteng	Various Enterprise
ECRFC	R 130m	R 80m	Eastern Cape	Various Enterprise
MGK	R 50m	R 50m	North West	Grain Crops
SASA	R 50m	R 20m	KZN & Mpumalanga	Various Enterprise
KAAP-AGRI	R 50m	R20m	Western Cape	Various Enterprises
HFF	R20m	R20m	Limpopo	Poultry & Vegetable
PLN	R20m	R20m	Gauteng, KZN North West	Sugar cane Vegetables, Poultry
TOTAL	R500m	R320m		

Source: MAFISA 2013

Table 3.26: Disbursement Trends Loans

	2010 R	2011 R	2012 R	TOTAL R
NERPO	17, 565, 829	21, 668, 973	11, 620, 690	50,855,492
MEGA	242,178	4,166,899	10,068,380	14,417,457
GEP	70,000	487,000	2,674,163	3,231,163
ECRFC	7,236,829	24,536,367	14,334,075	46,107,271
MGK	11,642,966	21,008,817	25,483,240	58,135,023
Kaap-AgrI	1,599,025	2,614,811	4,722,774	8,936,610
SAASA	0	2,382,367	4,929,451	7,311,818
PFS	8,109,100	9,834,191	7,060,784	25,004,075
HFF	10,186,943	9,765,061	118,171	20,070,175

Source: MAFISA 2013

4. Market Demand, understanding the market

4.1 Consumer demographics

This section aims to quantify and assess the demographic features of individuals who represent the microfinance consumers in South Africa. This will help to create a picture of the potential demand and potential increase in demand for formally supplied financial products and services. The indicators based on data availability and relevance includes: population by age group; household income and sources; types of employment; and bank product usage based on the Living Standards Measure (LSM).

Defining Living Standards Measure: The Living Standards Measure approach is a method of segmenting South African consumers based on their socio-economic status. This approach was developed and is being maintained by the South African Audience Research Foundation (SAARF). SAARF segments consumers based on various assets and amenities which they may have at their disposal, instead of relying solely on income segmentation. While the LSM methodology uses ten segments in total, the microfinance market is covered under the first six segments.

Table 4.1: A snapshot of LSM 1-6

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6
Percentage of population	2.1	5.7	6.5	13.1	16.9	21.0
Demographics						
Gender dominance	Male and Female	Female	Female	Male and Female	Male	Male
Age Group	15-24 50+	15-24 50+	15-24 50+	15-24 50+	15-49	25-49
Education	Primary Completed	Some High School	Some High School	Some High School	Some High School	Matric and Higher
Housing	Small Urban/ Rural Traditional Hut	Small Urban/ Rural Squatter Hut Shack, Matchbox and Traditional Hut	Small Urban/ Rural Squatter Hut Shack, Matchbox and Traditional Hut	Small Urban/ Rural Squatter Hut Shack, Matchbox and Traditional Hut	Small urban/ rural	Large Urban
Average Monthly HH Income:	R1,363	R 1,929	R2,258	R3,138	R4,165	R6,322
General						
Access to Services	Minimal	Communal Access to water	Access to electricity and water on plot or communal	Access electricity, water on plot or communal, non-flush toilet	Electricity, water, flush toilet outside or communal	Electricity, water in home, flush toilet in home
Ownership of Assets	Minimal ownership of durables, except radio sets	Minimal ownership of durables except radio sets and stoves	Minimal ownership of durables, except radio sets and stoves	TV sets, electric hotplates	TV sets, hi-fi/radio set, stove, fridge	Ownership of a number of durables plus cell phone
Banking Product Usage	Mzansi bank account	Mzansi bank account	Mzansi bank account	Mzansi bank account	Mzansi accounts	Savings and Mzansi accounts

Source: SAARF 2012

LSM trends: Urbanisation has played an important role in the trend of rising incomes in South Africa. Between 2005 and 2010, average annual income per household rose in real terms across all income groups except for the lowest LSM segment. In their case, real purchasing power fell by approximately 24% (BFAP, 2013). The South African consumer market has been characterised by consumers moving to higher LSM groups. This trend has been driven by economic growth as well as socio-economic policies of government. From 2004 to 2012 the share of South African adults within LSM segments 1 to 3 declined dramatically from 30.9% to 10.9%. This was accompanied by a concomitant increase in the share of the adult population classified within LSM segments 4 to 10 (BFAP, 2013).

Table 4.2: Population Distribution by LSM

	2004	%	2008	%	2012	%
Population Age 15+	**30.9**	**100**	**31.5**	**100**	**37.2**	**100**
LSM 1	1.9	6.1	1.1	3.5	0.5	1.4
LSM 2	3.8	12.2	2.3	7.3	1.4	3.6
LSM 3	3.9	12.6	2.5	7.8	2.2	5.9
Sub-total		**30.9**		**18.6**		**10.9**
LSM 4	4.6	14.9	4.5	14.2	4.4	11.7
LSM 5	4.2	13.5	4.8	15.2	6.3	16.9
LSM 6	4.5	14.4	6.1	19.5	8.9	23.8
Sub-total		**42.8**		**48.8**		**52.5**
LSM 7	2.4	7.8	3.2	10.2	4.5	12.0
LSM 8	1.8	5.7	2.4	7.6	3.2	8.6
LSM 9	2.1	6.7	2.7	8.5	3.7	9.8
LSM 10	1.9	6.0	2.0	6.3	2.3	6.1
Sub-total		**26.3**		**32.5**		**36.6**

Source: SAARF 2012

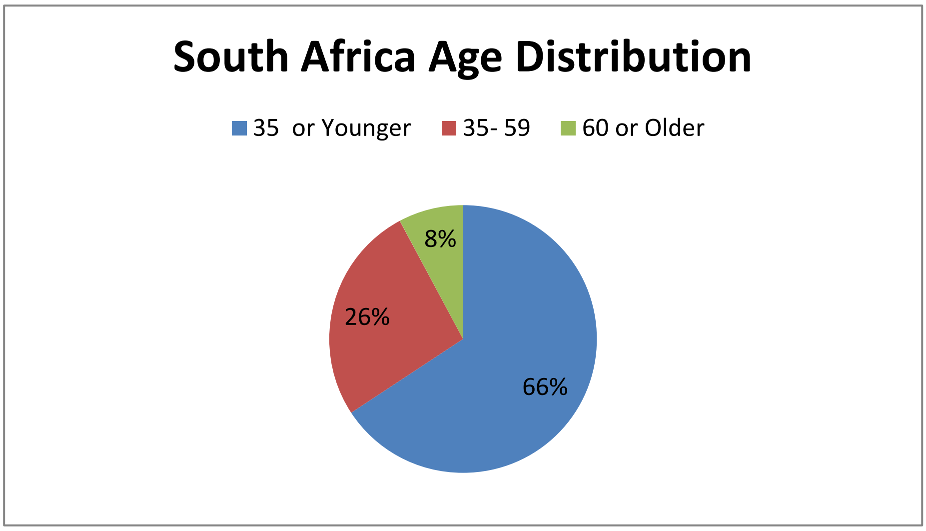
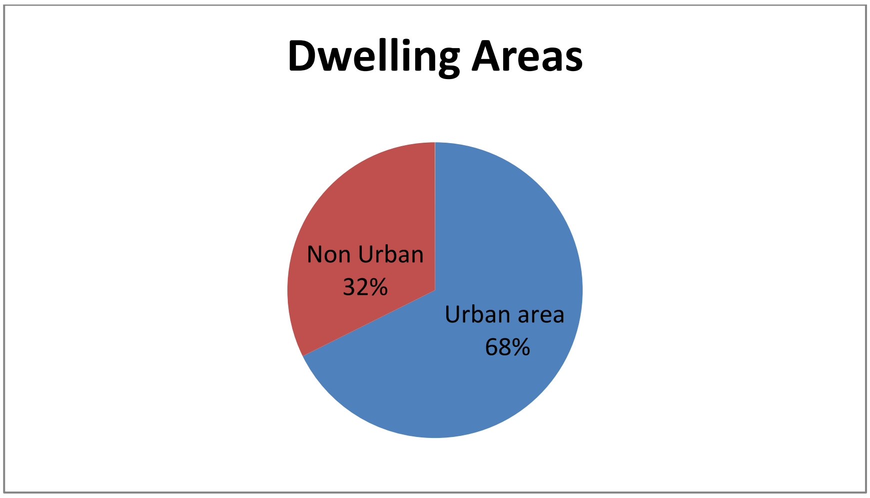


Figure 4.1: Population by Age Group
Source: StatsSA, 2013

Age and Location Distribution: This figure highlights that the population of South Africa is dominated by the "youth", with 66% of the population under 35 years of age. The bankable population (over 15 years) totals 38 million. Only 4 million, or 8%, of the population are pension earners at 60 years of age and older.



Source; StatsSA, 2011

In terms of microcredit products, the 35-60 years old segment is regarded as less risky than the 20-34 years age group, based on lifestyle differences. Someone who is married, with dependents, or in a secure job, is likely to make better financial decisions than someone who is younger. The distribution of population, therefore, could have a negative implication for financial inclusion since those below 35 years old make up a sizeable percentage of the population. A further 32% of the population live in non- urban areas and might be excluded from certain financial products.

Table 4.3: Education Level by LSM %

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6
No schooling	18.7	10.5	9.7	3.2	2.7	1.6
Some Primary school	42.0	39.5	30.7	18.3	13.6	7.2
Some high school	35.7	40.6	43.6	54.2	49.0	40.3
Matric	3.6	9.2	15.0	23.0	31.4	45.2
Apprenticeship	0	0.9	0	0.5	0.9	1.6
Diploma	0	0	1.0	0.4	1.7	3.3
University degree	0	0	0	0.5	0.4	0.5
Other	0	0	0	0	0.2	0.3
	100	100	100	100	100	100

Source: SAARF 2012

A majority of individuals comprising LSM groups one to six have completed some level of high school, but less than 30% on average have matriculated and very few have earned a diploma or degree.

Income Sources:

Grants: The disbursement of social grants is an important source of income for many South Africans due to the skewed income distribution that characterises the country. Social grants play an important role in helping households to achieve minimum living standards. These grants further promote local economic development in the areas where grant recipients reside (SPII, 2012). Currently 16 million South African receive grants each month. Of the 16 million grant recipients in South Africa, child support and old age grants account for 70% and 18% respectively. When comparing monthly social grant disbursements since 2006 there is an upward trend in the number of beneficiaries receiving old age, grant in aid, foster care and child support grants. At the same time the number of war veteran and disability grant recipients have declined).

Table 4.4: Distribution of social grants

Grant type	Amount per month	No. of Recipients	%	Total Monthly (R Milllion)	%
Child Support	R290/month	11,299,573	70.0	R3,276.9	36
Care Dependency	R1260/month	115,667	0.7	R145.7	2
Foster Care	R800/month	551,697	3.4	R441.4	5
Disability	R1260/month	1,136,566	7.0	R1,432.1	16
Old Age	R1260/month	2,881,379	18.0	R3,630.5	40
War-Veteran	R1280/month	547	0.03	R7.2	0
Grant in Aid	R290/ month	66,272	0.4	R192.2	2
Total		16,051 701		R9,126	

Source: Adapted from SASSA 2013

Overviews of the income characteristics indicate that LSM groups one to six receive most of their income from salaries or wages from working for someone else or a company. The largest portion of persons living in LSM groups one to six earn between R1,000 and R1,999 per month (24%) the income range with the second largest number of participants earn between R1 and R 999 per month (15%). The majority of people living in LSM group one to six works either full time or seasonally for an individual or company for 30 hours a week. Only 4% of people living in LSM groups one to six are self–employed while casual labour on average only accounts for 7% of employment in these LSM groups. From the table below it is clear that 27% of LSM groups one to six are retired, this emphasis the importance on social grants in South Africa as a source of income.

Table 4.5: Types of working contracts by LSM%

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6
Formally employed 30+ hours per week	12.3	15.2	12.5	9.5	13.8	15.3
Formally employed <30 hours per week	31.2	12.7	10.0	15.2	11.3	9.4
Self-employed 30+ hours per week	0	0.8	4.2	2.7	6.6	11.1
Self-employed <30 hours per week	15.3	7.7	10.0	7.0	7.6	6.6
Student or learner	0	10.7	14.6	11.8	11.0	13.0
Housewife or house husband	3.8	2.3	3.3	5.9	3.6	3.5
Pensioner or retired	14.9	16	12.1	7.8	8.5	10.8
Unemployed and looking for a job	13.2	26.8	30.6	34.4	32.9	25.0
Unemployed and not looking for a job	0	6.6	1.8	4.4	3.9	4.1
Other	9.2	1.3	0.8	1.4	0.8	1.1
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: FinScope 2013

Table 4.6: Income Ranges by LSM%

	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6
R1 – R999	28.8	35.4	20.3	18.8	10.3	1.7
R1,000 – R1,999	32.1	35.2	39.4	39	25.5	12.7
R2,000 – R2,999	16.3	23.4	30.3	23.7	29.6	17.7
R3,000 – R5,999	22.8	4.8	8.0	11.6	25.4	30.0
R6,000 – R7,999	0	1.1	2.1	6.6	6.3	16.1
R8,000 – R16,999	0	0	0	0.4	2.2	17.9
R17,000 and over	0	0	0	0	0.6	3.9
TOTAL	100	100	100	100	100	100

Source: FinScope 2013

Banked status per LSM segment:

Table 4.7: Banking status by LSM

LSM	Banking status		
	Currently banked (%)	Previously banked (%)	Never banked (%)
LSM 1	40.4	42.5	17.2
LSM 2	51.0	1.6	47.5
LSM 3	50.5	8.1	41.4
LSM 4	44.2	5.6	50.2
LSM 5	55.0	7.1	37.9
LSM 6	74.3	4.4	21.3
LSM 7	81.9	4.5	13.6
LSM 8	89.6	1.6	8.7
LSM 9	91.2	2.7	6.1
LSM 10	95.1	0.9	4.0

Source: FinScope 2012

From Table 4.7 it can be observed that 40% to 50% of those in LSM 1 to 5 are "currently banked", leaving an unbanked market of 50% to 60% within these segments. Furthermore, consumers in LSM segments 1-6 use their own bank accounts and do not rely on someone else's account. One explanation for the high figures reflected in these charts, even for LSM segments 1 to 3, is introduction of the SASSA payment cards, which automatically allocates a bank account and card to every grant recipient. The figures are somewhat misleading, however, if the recipient immediately draws all the funds in cash through an ATM, POS, or other pay point. In this case, the card and account simply become a cash payment mechanism.

Table 4.8: Bank account ownership by LSM

LSM	Banking account holder	
	Uses own account (%)	Uses someone's account (%)
LSM 1	40.4	0
LSM 2	46.5	0
LSM 3	47.5	0
LSM 4	38.5	3.0
LSM 5	49.5	2.5
LSM 6	70.1	2.1
LSM 7	79.0	3.4
LSM 8	89.0	0.5
LSM 9	90.4	0.9
LSM 10	94.8	0.1

Source: FinScope 2012

4.2 Deposit product usage

Savings mechanisms and reasons for saving:

An Overview of Savings in South Africa: Savings refers to the ability of a person to spend less in a period than they earn. According to formal statistics and most reports, South Africans have a poor saving culture. Most of the data on household and individual savings, however, seem to disregard the informal mechanisms of saving. Formal statistics exhibit a fall in gross savings over the years with a slight improvement in household savings from 2008 to 2012. The statistics indicate that either the average South African is no longer saving or they could be resorting to informal methods of saving which are not captured by formal statistics.

From the table below, year-on-year gross savings per GDP has been on a general decline as shown by the fall from 18.6% in 1991 to 13.2% in 2012. The general downward trend is also true for household savings per disposable income which fell from a high of 2.7% in 1991 to no savings at all in 2012 while even exhibiting negative figures from year 2008 to 2011.

Table 4.9: Selected South African Savings Determinant Indicators

Period	Gross Savings/GDP (%)	Household Savings/Disposable Income (%)
1991	18.6	2.7
1994	16.8	2.7
2001	15.3	0.4
2007	14.3	1.2
2008	15.5	-1.2
2009	15.5	-0.8
2010	16.4	-0.5
2011	16.1	-0.2
2012	13.2	0

Sources: The South African Reserve Bank - Quarterly Bulletin June 2013 and
Quarterly Employment Statistics (QES) survey by Statistics South Africa, (Stats SA), 2013

SA Savings Status: According to FinScope (2012) consumer survey for South Africa, approximately 67% of South Africa's population do not use any formal savings mechanism. The report also showed that the proportion of people that do not save has been increasing, recording an increase of 2 percentage points from 2010 (65%) to 2012 (67%).

Table 4.10: Savings Mechanisms 2010-2012

	2010	2011	2012
Formal bank	10%	11%	11%
Formal non-bank	14%	13%	11%
Informal	6%	4%	6%
Save at home	5%	6%	5%
Not served	65%	66%	67%

Source: FinScope 2010 – 2012

Analysis of the usage of formal saving products over the years reveals that the use of formal bank products has remained somewhat constant recording a 1% increase from 2010 to 2012 whereas the use of formal non-bank products has been decreasing, dropping from 14% in 2010 to 11% in 2012. Usage of informal saving mechanisms (informal and home based savings) remained unchanged at 6% and 5% respectively over the 2010-2012 period and continued to have a smaller share of saving mechanisms. It can be argued, however, that the contribution of the informal sector to savings has been undermined in these FinScope studies. Informal mechanisms of saving such as stokvels, livestock, or improvements to a building seem to play a big role in the South African financial sector.

The informal savings sector: Africa Response (2011) reports that, according to SAARF (2011), 40% of the South African population belong to a stokvel which is in contrast to the FinScope (2012) representation of the informal savings market. Stokvels present an informal way of saving in the form of funeral policies, savings stokvels, groceries, investment and birthdays. According to a nationwide survey undertaken by African Response (2011), there are 811,830 stokvels in the country which save a total estimated value of R44 billion annually. The study further reveals that the average South African stokvel is made up of 27 members with each member contributing an average of R210 a month. Contrary to the belief that South Africans are not saving, these figures could be representing missing values of the total savings market.

Table 4.11: Type and Estimated Value Contribution of Stokvels

Type of Stokvel	Composition in the Market (%)	Estimated Contributions R billion/annum
Savings	43	25.41
Burial	22	8.20
Groceries	16	4.65
Investment	5	2.47
Birthday	9	2.16
Other	6	1.72
Total	100	44.61

Source: African Response 2011

From the table above it can be deduced that the most popular type of stokvel are the savings stokvels (43%) followed by the burial societies (22%). Stokvels for other purposes such as for investment (5%) and groceries club (16%) occur at a lower level. Due to having the largest proportion of members, the same trend is also followed with savings stokvels and burial societies contributing the largest value of annual contributions.

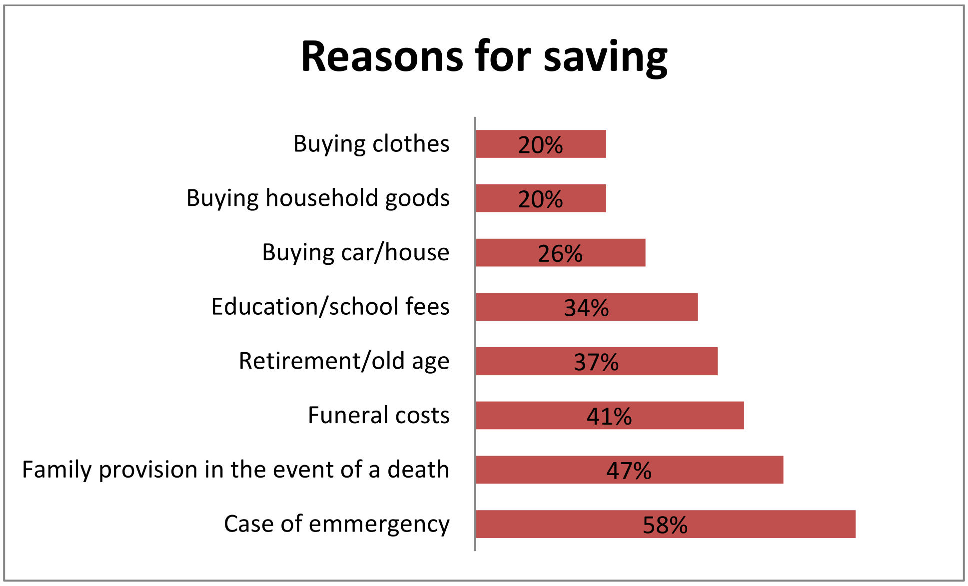


Figure 4.2: Drivers of savings
Source: FinScope 2012

In an effort to establish the various reasons behind the dynamics of savings, the FinScope (2012) survey revealed that the main reason for savings (58%) was to cater for emergencies. The other drivers of savings that were captured are death related (family provision and funeral costs) and preparation for retirement.

Saving activities by Livings Standards Measure (LSM): Savings activities and the usage of savings instruments also vary significantly across different income levels. Table 4.12 gives an illustration of the different savings patterns adopted by people across different LSM segments.

Table 4.12: Savings according to LSM (%)

LSM	Banked	Formally served savings	Informally served savings	Savings with others at home	Not served
1-2	0	5	6	2	87
3-4	4	3	4	5	84
5-6	7	6	8	6	73
7-8	19	21	3	5	52
9-10	34	33	1	5	27

Source: FinScope 2012

From Table 4.12 above it can be observed that moving from the lower to higher income market segments, the use of formal savings (both formal bank and formal non-bank) increases. There is 0% banked savings in LSM 1-2 as compared to 34% banked savings in LSM 9-10. The largest proportion of the population that do not save are in LSM 1-2 (87%) and it declines as we move to higher income market segment as shown by only 27% in LSM 9-10 who do not save.

Mzansi Account:

The Mzansi account scheme was introduced by commercial banks with the aim to improve financial inclusion and improve savings particularly for the unbanked and the lower income population. The account started off as a low cost affordable scheme, which did not require a proof of residence, and thus became hugely popular in the early stages. Banks no longer advertise these accounts, however, and have since stopped keeping statistics of Mzansi account holders.

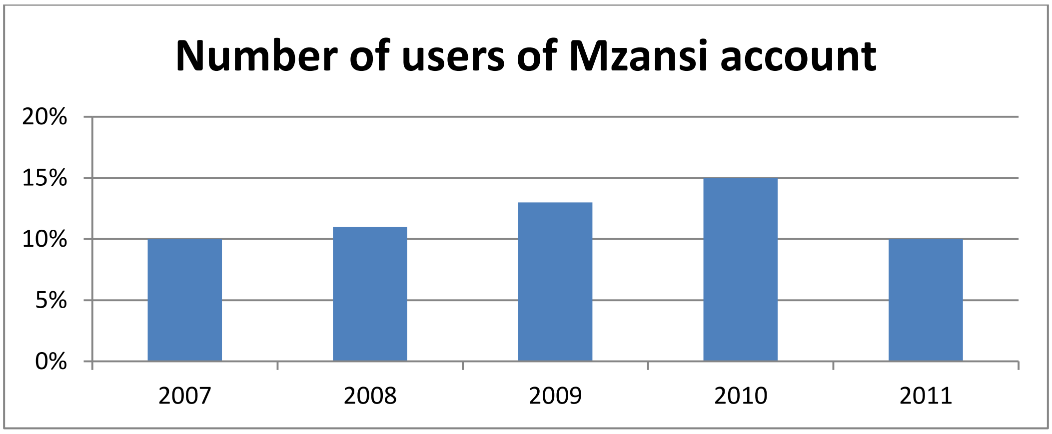


Figure 4.3: Usage of the Mzansi Account (2009 to 2011)
Source: FinScope 2011

From inception until 2010, the Mzansi account recorded a positive growth (Figure 4.3). According to FinScope, the drop in the usage of Mzansi accounts was primarily due to product migration, while some accounts simply became dormant as account holders stopped using them. Introduction of the new SASSA payment system in 2012 could also have been the cause of Mzansi account closures. Despite this fall, however, Mzansi is still an alternative for the potential first time bank users and has also provided a platform for clients to convert to other bank accounts and vice versa. Having served its initial purpose, anecdotal evidence suggests that banks have stopped actively marketing this product.

Transactional Usage of Mzansi Accounts

Table 4.13: Transactions conducted at least once a month by Mzansi account holders

Transaction	Frequency of transacting (%)
Cash withdrawals	79
Buy airtime	65
Buy prepaid electricity	47
Pay utilities	29
Request balance	27
Request statement	19
Pay store accounts	18
Cash deposits	16
Debit card purchase	11
Obtain cash at store till	6
Pay cellphone/telephone bill	5
Electronic bank transfers	3
Other	7

Source: FinScope 2011

According to the table above, the highest use of Mzansi accounts had been for withdrawing cash (79%) followed by purchasing airtime (65%) and settling electricity bills (47%) respectively. Other various uses consisted of depositing cash (16%) and paying store accounts (18%).

The Mzansi Account Usage by LSM: Although the Mzansi account was designed to capture low income markets into mainstream banking, an analysis of account usage across demographics seems to paint a different picture.

Table 4.14: Mzansi Account usage by LSM

LSM	Number of users(%)
1-2	2
3-4	22
5-6	44
7-8	17
9-10	14

Source: Finscope 2011

From Table 4.14 it can be observed that the majority of Mzansi account users are concentrated amongst the middle income market LSM 5-6. It is interesting that 14% of Mzansi account holders are in the highest income brackets.

Table 4.15: Mzansi Account: Brand Penetration by LSM

LSM	1-4	5-6	7-8	All
Standard Bank	24%	24%	20%	24%
Post Bank	31%	21%	24%	24%
Nedbank	10%	13%	13%	13%
FNB	10%	16%	16%	13%
ABSA	25%	28%	28%	27%

Source: SAARF 2010B in Analytix Business Intelligence Report 2011)
Sample Size: 665 (total Mzansi account users) (LSM 9-10 were excluded due to low sample sizes)
Note: All figures based on unweighted numbers.

For LSM 1 to 6 (considered to be the microfinance space), Post Bank had the highest brand penetration within LSM 1-4 (31%) while ABSA dominated in LSM 5-6 at 28%. The highest brand penetration among Mzansi account users with a 27% share across all LSM segments was held by ABSA with a close follow up by Standard Bank and Post Bank, both with a 24% share.

4.3 Credit product usage

Quantifying micro finance:

Unlike under the regime of the (now defunct) Exemption to the Usury Act, no ready estimation of the microcredit market exists. For the purposes of this review, however, we have used individuals earning no more than R10,000 per month as a proxy for a those comprising the micro market.

From the table below it is clear that the major growth in this market has been in the category "unsecured credit[9]" where a year-on-year increase of 24% has been recorded. Although a much smaller market in absolute terms, there was also an annual increase of 22% of short term credit. Mortgages experienced a significant drop of almost 50% from the previous year. This may indicate financial / affordability stress by individuals to accumulate long term fixed assets with a preference to take up short term, unsecured, consumption-driven debt (e.g. credit cards, overdrafts).

Table 4.16: Estimated Gross Debtors Book for the Micro Market (R billions)

	Dec 2011	Dec 2012
Mortgages	15.0	7.7
Secured Credit	29.5	27.7
Credit Facilities	43.1	43.9
Unsecured Credit	47.3	62.2
Short term Credit	0.5	0.6
Development Credit	not reported	1.9
Total	135.3	144.0

Source: NCR Consumer Credit Market Report, 2012; own calculations

Overall, the R144 billion micro finance market equates to approximately 10% of total personal credit extended. Of note, development credit only makes up 0.7% of the entire micro finance loan book.

Total credit granted and gross debtors book trends: In 2012, South Africa's personal credit market stood at R1.44 trillion, up by 22% from R1.18 trillion two years previously. Mortgages, although up by 6% in rand value over the two year period, saw its contribution to the total credit market fall by 8%. The largest spike came in the form of "Unsecured credit"[10] which rose by 116% from R73.8 billion in 2010 to R159.2 billion in 2012. For the first time in 2012, the NCR reported "Development Credit" which stood at R21.18 billion, just under 1.5% of the total personal credit market.

Table 4.17: Gross debtors book by Credit Type

Type of Agreements	Dec 2010 R 000	%	Dec 2011 R 000	%	Dec 2012 R 000	%
Mortgages	760,679,133	63.99	791,109,455	61.03	809,135,730	56.07
Secured Credit	221,175,121	18.65	250,004,674,	19.29	286,559,482	19.87
Credit facilities	131,855,932	11.09	141,256,197	10.90	165,857,623	11.49
Unsecured	73,797,286	6.21	112,988,666	8.72	159,254,492	11.04
Short–term credit	728,570	0.06	927,367	0.07	1,135,923	0.08
Developmental Credit					21,188,021	1.47
Total	1,188,776,042	100	1,296,286,359	100	1,443,131,721	100.00

Source: NCR various reports

This large spike in unsecured credit has raised concern among stakeholders such as the NCR.

[9] Full definitions of these NCA credit categories are provided at the conclusion of this section.
[10] Full definitions of these NCA credit categories are provided at the conclusion of this report.

Credit Standing of Consumers: From Table 4.18, it is evident that the number of credit active South Africans continues on an upward trend, having reached 20.8 million in March, 2013. Out of a population of 35.7 million adults, 58 out of 100 are credit active. At the same time, the number of impaired loans has been on the increase over the three year period, reaching 9.53 million loans in March 2013.

Table 4.18: Credit Standing of Consumers

	March 2010	March 2011	March 2012	March 2013
Number of credit active consumers (Millions)	18.21	18.60	19.49	20.08
Good standing (millions)	9.84	9.97	10.44	10.55
Good standing %	54.0%	53.6%	53.6%	52.5%
Current	39.5%	39.1%	38.6%	37.2%
1-2 months in arrears	14.5%	14.5%	15.0%	15.4%
Impaired records (Millions)	8.37	8.63	9.05	9.53
Impaired records %	46.0%	46.4%	46.4%	47.5%
3+ months in arrears	17.2%	17.7%	19.9%	20.5%
Adverse listing	15.0%	14.4%	12.3%	13.5%
Judgement & Administration	13.7%	14.3%	14.2%	13.5%

Source: Various NCR Credit Bureau Monitor Reports

Figure 4.4 indicates the growth in consumer credit accounts with impaired records across the payment profile database of South Africa's largest credit bureau, TransUnion. Impaired records are up 13% year on year, recording the highest growth since the first quarter of 2007. By comparison, growth in impaired accounts in 2011 and 2012 averaged only 3% year on year. This puts credit providers at increased risk of more non-performing loans than planned for. Thus, of the 58 credit active individuals, approximately 28 have impaired records. In short, South African's are experiencing increasing difficulty in paying their accounts on time.

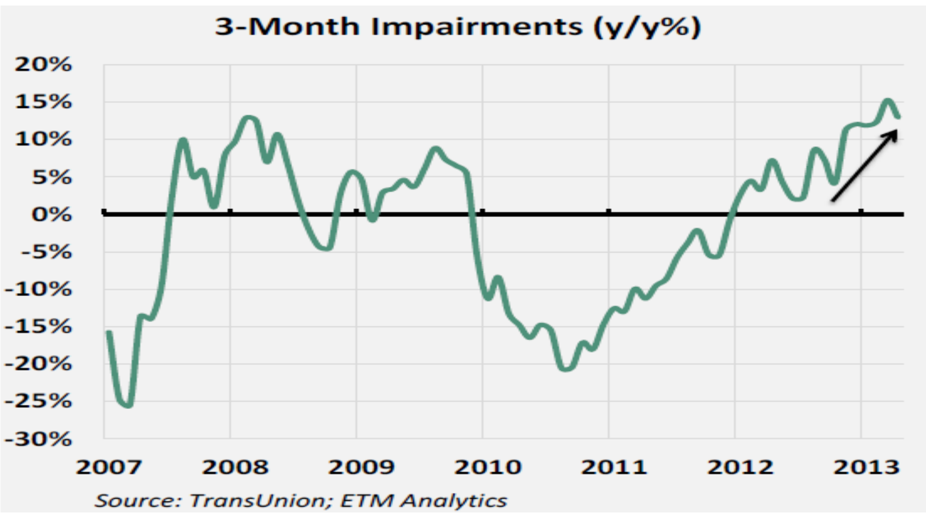
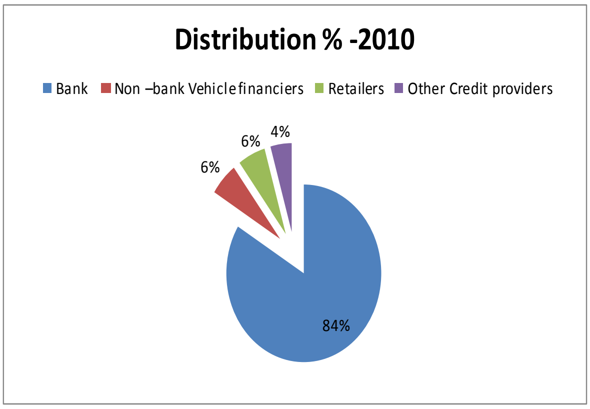


Figure 4.4: Three Month Impairments (y/y %)

The figure below shows the distribution of credit granted by industry for 2010 and 2012 respectively. Overall, banks continue to dominate total credit granted with an increase of 37% in terms of disbursements while its market share has reduced by 4.8% over the same period. Retailers and non-bank vehicle financiers saw the largest contraction (16.7%) in their respective market shares. By contrast "other credit providers" saw a 150% increase in their market share of total disbursement over the two year period, accounting for an overall 10% market share in 2012.



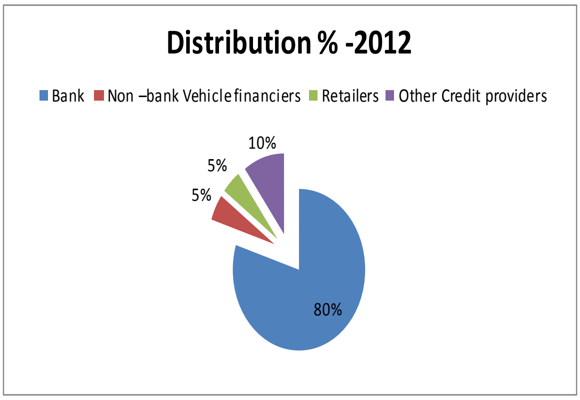


Figure 4.5: Credit granted by industry
Source: National Credit Regulator Data

Unsecured credit: Table 4.19 below reflects unsecured credit granted by income category over the four year period from 2009 to 2012. The largest of the increases is evident in the highest income category of R15,000 plus, which recorded a 300% increase in agreements concluded. Adding all the micro segments below R10,000 in income, three year growth was just 48%.

Table 4.19: Number of Unsecured credit agreements granted by Income category

Income	2009	2010	2011	2012	% Increase
R 0-R 3,500	1,211,926	1,028,558	1,363,983	1,265,818	4%
R 3,501-R5,500	438,316	519,546	647,071	689,621	57%
R5,501-R7,500	300,562	467,746	659,193	519,253	73%
R7,501-R10,000	262,146	391,963	556,401	803,596	207%
R10,001-R15,000	342,622	564,090	804,034	890,720	160%
>R 15,000	319,237	624,204	1,029,742	1,278,070	300%

Source: NCR

Credit usage: This section makes use of both the National Credit Regulator data and the FinScope data to assess the usage of credit in South Africa, paying particular attention to the micro market.

Table 4.20: Credit strand usage

Credit strand	2010	2011	2012
Bank products	12%	14%	13%
Formal non -bank products	12%	10%	13%
Informal mechanisms	2%	4%	3%
Borrowing from family and friends	6%	11%	6%
Not served	67%	61%	65%

Source FinScope 2012

Table 4.21 reflects that just over a quarter of people accessing credit facilities obtain them through formal means, either through banks or non-banks. The next largest category is "family and friends" which accounts for 6% as a borrowing source. Overall, about two-thirds of respondents' claim that they either do not wish to borrow or are unable to obtain credit through any means.

Credit Landscape across LSM segments

Table 4.21: Credit Landscape across LSM Segments

LSM	Banked borrowing (%)	Formally served borrowing (%)	Informally served borrowing (%)	Family /friends borrowing (%)	Not served borrowing (%)
1-2	4.7	0.8	2	6	86.0
3-4	1.3	5.0	2.5	6.9	84.0
5-6	4.9	13.4	3.9	8.3	69.5
7-8	22.9	23.0	2	4.5	47.6
9-10	55.0	17.2	0.8	2.4	24.6

Source: Finscope 2012

Table 4.21 provides an insight of the credit landscape across LSM segments in 2012. The degree of borrowing increases with movements up from the bottom of the LSM pyramid, from 14% in LSM 1-2 to 75.4% in LSM 9-10. Some general consistency in increase in credit from informal and friends is exhibited from LSM 1-2 to LSM 5-6.

Credit and Loan Products – Formal Products: Overall, as reflected in Table 4.22, there has been little movement in credit product types for the period 2009 to 2012. Formal loan products, store cards and credit cards remain the predominant product types.

Table 4.22: Credit and Loan Products – Formal Products

Product	2009	2010	2011	2012
Credit and loan Product held-Formal	24%	24%	24%	25%
Store Card or Account	19%	10%	17%	18%
Credit Card	8%	7%	6%	8%
Home loan	5%	5%	5%	6%
Personal loan from big bank	3%	5%	5%	3%
Overdraft facility	3%	3%	3%	3%
Personal loan from smaller bank	1%	1%	1%	-
Personal loan from retail store	1%	1%	1%	3%

Source: NCR 2012

Credit and Loan Products – Informal Products: The table below show the trends in borrowing from four main types of informal lenders. The distribution has remained relatively stable over the four year period, with an unexplained drop in borrowing from family and friends in 2010.

Table 4.23: Credit and Loan Products – Informal Products

Source	2009	2010	2011	2012
Informal Product	14%	8%	15%	15%
Friends or Family	12%	9%	18%	12%
Local Spaza	1%	2%	2%	1%
Mashonisa	2%	1%	1%	1%
Stokvels /saving group	1%	1%	1%	3%

Source NCR 2012

Table 4.24: Product Uptake by LSM – formal Product

LSM	Store Card	Credit Card	Car loan	Loan from Bank	Overdraft Facility	Personal loan from retail store
1-5	6%	0%	0%	1%	0%	0%
6-10	28%	14%	7%	5%	5%	1%

Source NCR 2012

The table above highlights the fact that most formal borrowing is done by the higher income segments and not the micro market.

Table 4.25: Product Uptake by LSM – Informal Products

LSM	Friends or Family	Local Spaza	Mashonisa	Employer	Colleagues	Savings Club
1-5	13%	1%	1%	1%	2%	3%
6-10	10%	1%	1%	1%	0%	2%

Source: NCR 2012

The table above shows that the largest source of credit in the informal sector is friends or family, amounting to 13% for LSM 1-5. From the tables above it is evident that there are differences in access to credit/loan products across LSM groups. Approximately 6% of people in LSM 1–5 have a store card/account compared to 28% of adults in LSM 6 –10. No credit card is recorded in LSM 1 –5 while LSM 6 – 10 report 14% credit card product usage.

Table 4.26: Product uptake by Income

Income Group	Friends/ Family	Stokvels or Burial	Formal loan	Store Card	Credit Card
No Income	0%	0%	0%	6%	0%
R1- R999	13%	3%	0%	3%	0%
R1,000-R2,999	13%	1%	2%	13%	0%
R3,000-R7,999	14%	5%	5%	41%	2%
R8,000 +	17%	7%	20%	63%	45%

Source NCR 2012

As illustrated in the above table, product uptake, in particular store cards, credit cards, and formal loans, increase with income. It is also evident that access to loans from family does not lower their propensity to seek out formal credit as reasons for borrowing vary considerably between sources. Store and credit cards are largely used by high income groups as shown above roughly about 63% and 45% respectively are used by the R8,000 income group .driving formal borrowing.

Table 4.27: Products uptake by location – Formal Products

Product	Metro	Non-Metro
Store Card	27%	12%
Credit Card	14%	4%
Car loan	8%	2%
Loan from bank	6%	2%
Overdraft facility	6%	1%
Personal loan	1%	0%

Source: NCR 2012

Table 4.28: Products uptake by location –Informal Products

Product	Metro	Non-Metro
Friend or family	13%	10%
Burial, Stokvel /savings	3%	3%
Employer	2%	1%
Colleagues	2%	1%
Mashonisa/loan shark	1%	1%
Local spaza	1%	1%

Source NCR 2012

NCA Definitions

Terms	Definition
Gross debtor's book	The outstanding balances as at the end of the period including fees and interest that have been earned and capitalized to the debtors book
Mortgage agreements	An agreement that is secured by a pledge of immovable property
Secured credit transactions	Credit transactions that do not fall within the other named categories in the NCA. This category includes pension-backed loans, insurance-backed loans, retail furniture accounts and motor vehicle accounts.
Short-term credit transactions	This includes amounts not exceeding R8,000 and repayable within 6 months
Unsecured credit transactions	Where the loan or credit is not secured by any pledge or personal security.
Development Credit	Credit provided to fund SMEs for development purposes mainly through DFIs

Source: NCR Credit Bureaux Report

4.3 Insurance product usage

Insurance usage in South Africa has for a long time been out of reach of the majority of the low-income population. According to recent figures released by FinScope (2012) 53% of the total population in South Africa do not use any form of insurance, whether formal or informal.

Table 4.29: Insurance Usage Trends

	2010	2011	2012
Bank products	13%	10%	8%
Formal non-bank products	27%	24%	22%
Use of informal mechanisms	10%	9%	**17%**
Not served	50%	57%	53%

Source: FinScope 2012

The number of people that do not have any form of insurance product has increased from 50% to 53% of the total adult population between 2010 and 2012, possibly due to the slow economic environment. For the year 2012, of those that used insurance products, the majority were the formal non-bank product users (22%). However, the number of people using bank and formal non-bank insurance products has consistently shown a steady decline from 27% (2010) to 22% (2012). Meanwhile, the use of informal mechanisms such as burial societies has increased in 2012 at 17% as compared to 10% in 2010.

Table 4.30: Insurance Usage by LSM

LSM	Banked	Formally served	Informally served	Not served
1-2	2%	10%	26%	62%
3-4	2%	11%	16%	71%
5-6	5%	18%	22%	55%
7-8	17%	34%	10%	39%
9-10	22%	51%	2%	25%

Source: FinScope 2012

Most insurance products are provided by banks and formal institutions and usage rises for higher LSM segments. As the standard of living increases more and more people rely on banks and financial institutions for insurance.

Table 4.31: Insurance product penetration according to LSM (%)

LSM	1-4	5	6	7	8	9	10	All
Medical insurance	1	1	3	7	9	10	11	7
Funeral Insurance	90	81	65	49	38	31	20	48
Retirement Annuity	1	2	6	10	11	12	13	9
Endowment/Savings-No Life Cover		1	1	1	2	2	3	2
Endowment/Savings	1	1	3	3	5	5	6	4
Short Term Insurance			2	4	10	14	20	9
Life Cover Policy	7	13	20	26	26	26	26	22

Source: SAARF 2012A (Adults 15+ years) in Analytix Business Intelligence Report 2012

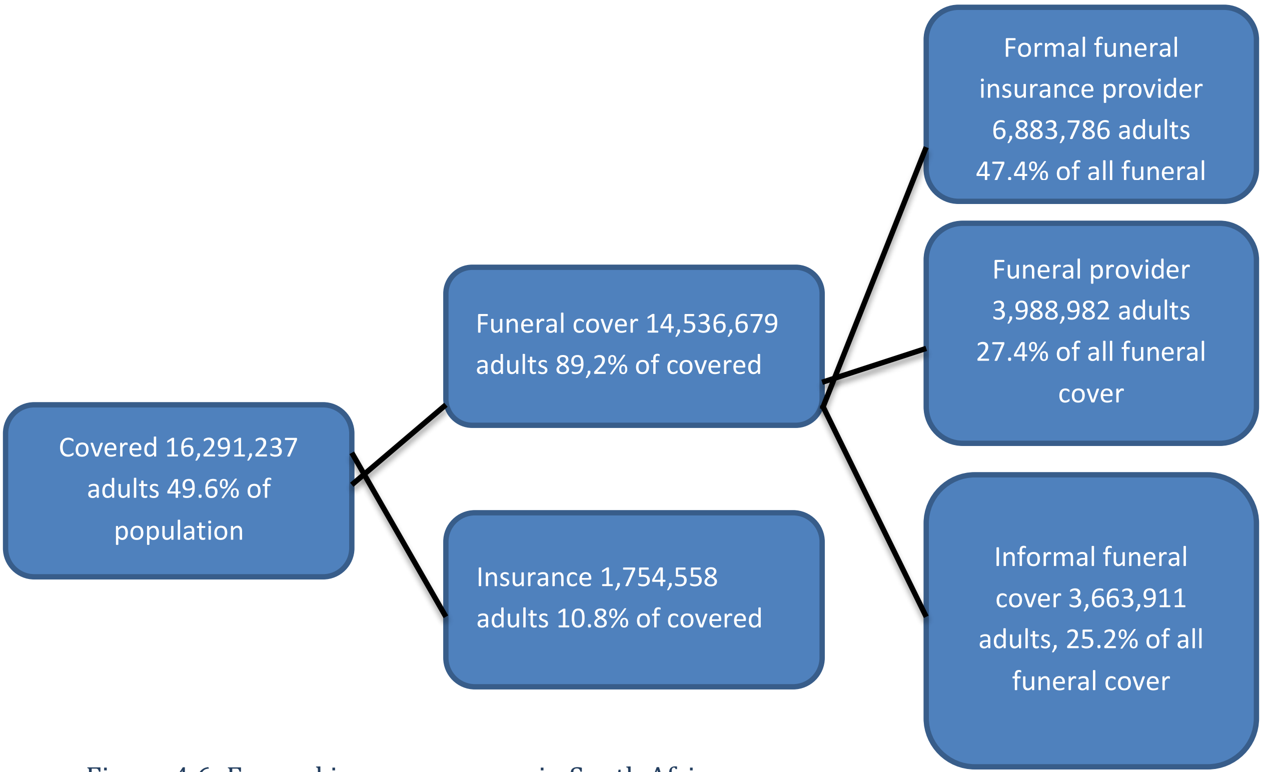


Figure 4.6: Funeral insurance usage in South Africa
Source: FinMark Trust 2012 in CENFRI 2013

Across all population segments of South Africa, funeral expense is seen as the main threat to the family income or livelihood; 48% of insurance is devoted to funeral cover as compared to the second most popular insurance product, life cover, at 22% across all LSM segments. Funeral cover and life cover are also the most popular insurance among the lower income market at 90% and 7% in LSM 1-4 respectively.

According to FinScope 2010 (49.6%) and SAARF 2010 (48%), approximately half of the South African adult population have funeral insurance cover. As shown in Figure 4.6 above, 89.2% of those covered use funeral cover while 10.8% use formal insurance products. The informal source is mainly centred around burial societies and stokvels which play a significant role for the lower income groups with low or limited sources of income.

4.5 Remittance product usage

Remittances in SA are a R27 billion industry, of which 58.6% constitute outflows and 41.4% inflows (World Bank, 2012). South Africa has always been a net "sender" of remittances. In 2012, approximately 1 in 5 South Africans sent or received money from family members (FinScope, 2012). Table 4.32 shows the percentage of remittance activity among adult South Africans over the last four years.

Table 4.32: Remittance activity among adult population in South Africa

Year	Remittance Incidence
2009	12%
2010	24%
2011	26%
2012	18%

Source: FinScope 2012

Remittance landscape of access Across LSM Segments: Table 4.33 shows the incidence of remittances across different LSM segments. It is evident that, of the "banked segment", only LSM 5, 8, 9 and 10 remit funds; and then only a very small percentage. The percentage of remittances from "formally served individuals" generally increases as the LSM segments increase, while that of the "informally served" decreases as LSM segments increase.

Table 4.34 shows the usage percentage of different remittance channels across different Living Standard Measure (LSM) segments. "Mobile – Air Time" is highly used among LSM 3-4 accounting for 85%, while the LSM 9-10 segment send through use of banking facilities. The use of informal channels such as via a paid taxi or bus is more prominent within LSM segments 1-6.

Table 4.33: Incidence of Remittances across LSM

	Banked	Formally Served	Informally Served	Family /Friends	Not Served	Total
LSM1	0%	0%	0%	**7.21%**	92.90%	100%
LSM2	0%	9.20%	0%	9.80%	80.90%	100%
LSM3	0%	9.52%	1.30%	4.87%	84.30%	100%
LSM4	0.00%	9.52%	1.30%	4.87%	84.30%	100%
LSM5	1%	7.76%	0.87%	9.14%	81.60%	100%
LSM6	0%	13.65%	0.27%	6.39%	79.69%	100%
LSM7	0%	13.21%	0%	7.48%	79.37%	100%
LSM8	0.12%	14.41%	0%	2.72%	82.73%	100%
LSM9	0.56%	9.88%	0%	4.12%	85.44%	100%
LSM10	1.71%	15.71%	0%	1.68%	80.90%	100%
Total	0.23%	10.89%	0.33%	7.18%	81.36%	100%

Source: FinScope 2012

Table 4.34: Remittance Mechanisms within South Africa

Living Standards Measure (LSM)	Mobile – Air Time	Bank or ATM	Supermarket Money Transfer	Cash with relative or friend	Via Bus, a paid Taxi Bus
LSM 1-2	0%	5%	0%	5%	0%
LSM 3-4	85%	11%	16%	16%	44%
LSM 5-6	4%	35%	60%	63%	56%
LSM 7-8	12%	11%	16%	13%	0%
LSM 9-10	0%	25%	9%	4%	0%

Source: FinScope 2012

Table 4.34 shows the usage of remittance mobile products across LSM Segments as of 2012. The usage of money transfer services such as e-wallet, cash send m-pesa or instant, by different living standard measures is relatively low amongst individuals in the first four segments. LSMs 1-4, who earn R1,000 to R3,000 monthly income, accounts for 21% usage, while those that are in LSM 5-6 (and earn R4,000 to R5,000 monthly income) recorded the highest usage at 52%. From the table it is evident that there is a higher usage of money transfer mechanisms, such as cash send, among LSM 5-8. Hence it can be deduced that individuals within higher LSM have higher usage of mobile money services.

Table 4.35: Usage of Remittance mobile across LSM Segments 1 to 6

LSM	%
LSM 1	0.16
LSM 2	9
LSM 3	3
LSM 4	12
LSM 5	17
LSM 6	27

Source: SAARF 2012

Usage of Mobile Transfers among bank Clients: Table 4.36 demonstrates the percentage of clients that use money transfer services such as e-wallet, cash send, m-pesa or instant money in banks. Amongst banks, ABSA has the highest percentage at 25.5% of clients that use money transfer services whereas Ubank/Teba bank is the lowest at 0.2%. Altogether, the “Big 4” banks account for approximately 85% of mobile money transfers.

Table 4.36: Usage of Mobile Transfers among bank Clients

Bank	Mobile Transfers across banking Clients
Ubank /Teba Bank	0.2%
WesBank	0.4%
African Bank	0.7%
Post Bank	7.6%
Nedbank	9.4%
Standard Bank	20.0%
First National Bank (FNB)	24.4%
ABSA	25.5%

Source: SAARF 2012

4.6 Small business market

In the MF Review 2009, our understanding of the demand for financial services from micro and small enterprises was derived from the FinScope Small Business Survey, 2006, which was conducted in the province of Gauteng. In this Review, we are fortunate to have access to results of the national FinScope Small Business Survey of 2010. The overall purpose of the study was to provide data and analysis to inform policymakers and businesses who wish to support or serve the small business sector.

The survey included 5,676 interviews from 1,075 enumerator areas. To qualify, a household had to include one or more self-defined small business owners, who were 16 years of age or older and owned a business with up to 200 employees. This data was then extrapolated and weighted to produce a description of the small business sector for the country as a whole.

This Section is an abridged version of the report: A Profile of BSM Segments, a Lenders Perspective, CIBA, September 2011. Those interested in the full report can find it on the CIBA website: www.microfinance.up.ac.za.

Profile of the small business sector

The FinScope Small Business Survey categorised all small businesses into eight Business Sophistication Measure (BSM) segments. In a subsequent report CIBA combined these eight segments into three clusters: the survivalist enterprises (BSM 1 to 3), representing 3.35 million or 60%, the microenterprises (BSM 4 to 6), representing 1.68 million, or 30%, and the small businesses (BSM 7 to 8), representing 555,000, or 10%.

Table 4.37: Number of Businesses per Cluster

Survivalist	3,348,964	60.0%
Microenterprises	1,676,052	30.1%
Small	554,751	9.9%
Total	5,579,767	100.0%

Source: Finscope Small Business Survey 2010

The survivalist cluster is comprised of the very smallest enterprises. The owners of these businesses have the following profile: 65% are females; 93% are black; just 20% have completed high school; and 17% are not South African citizens. These businesses are primarily operating from the residential premises of the owner, a home or garage (72%), but may also be found on a footpath or travelling door to door (22%). Survivalist businesses can be found in both rural (54%) and urban (46%) areas. A majority of these businesses have a monthly turnover of less than R4,000 (71%) even though most have been in existence for three years or more (67%).

Virtually all (99%) businesses in this cluster are informal. A majority (53%) buy and sell in the same form, without adding any value. The next three most common business types each have a 12% share: to grow or rear and sell; skilled service (mechanic or hair dresser), and to buy, add value, and sell. While 24% of this cluster maintains some sort of manual business records, and 45% own a cell phone, there is virtually no use of technology in the business (no computers or internet or credit card machines). For 64% of these business owners, the business is the sole source of household income. Government grants are a source of income for 20% of the households, while 15% of households also benefit from a family member earning a salary or wage. Survivalist businesses do not create employment; 90% have no other employees and the weighted average number of employees is 0.1.

The microenterprises are more established businesses. The owners of these businesses have the following profile: 50% are female; 83% are black; 43% have completed high school; and 19% are not South African citizens. These businesses are also primarily operating from the residential premises of the owner (78%), but may also be found on a footpath or travelling door to door (14%). Microenterprises are concentrated in urban areas (65%). A majority of these businesses have a monthly turnover of between R4,000 and R27,500 (57%), with 36% earning less than R4,000 and 7% earning above R27,500. A majority have been in existence for three years or more (73%).

Microenterprises are also primarily informal (75%). As for the survivalist cluster, a majority (50%) buy and sell in the same form. The next three most common business types are also the same as for the survivalist cluster: to grow or rear and sell (13.5%); skilled service (12.1%), and to buy, add value, and sell (10.1%). A majority of this cluster (74%) maintain manual business records. Although a higher proportion owns a cell phone (76%), there is still virtually no use of technology in the business. For 72% of these business owners, the business is the sole source of household income. Government grants are a source of income for only 9% of the households, while 16% of households also benefit from a salary or wage. Microenterprises generate slightly higher employment than the survivalist enterprises; 40% have at least one employee and the weighted average number of employees for the whole sample is 1.0.

The small business cluster represents just over half a million individuals, 48% of whom are based in Gauteng and another 15% are based in the Western Cape. The remaining 37% are spread between the seven other provinces. This cluster presents a significantly different profile than the other two clusters, with a higher level of education, a higher use of technology, and higher job creation potential. The owners of these businesses have the following profile: 49% are female; 52% are white while 31% are black; 83% have completed high school; and 14% are not South African citizens. It is interesting that these businesses also primarily operate from the residential premises of the owner (69%), but may also be found at a formal business premise; a factory, shop, or office (21%). These businesses are overwhelmingly found in a formal urban area (87%). While 74% of these businesses have a monthly turnover of over R10,000, 47% have turnovers of over R27,500 and 85% have been in business for three years or more.

Most small businesses are formally registered (76%). Skilled service is the business category with the largest share (25%), followed by buying and selling in the same form (21%), un-skilled service (12%) and professional service (11%). While 62% maintain manual records, 60% also maintain computerised records. Use of technology is much more prevalent among this cluster: 54% have a landline; 88% have a cell phone; 57% use computers in their business; 37% use the internet; 16% have a website; 36% have a printer; 40% have a fax machine; and 7% have a credit card machine. For 69% of these business owners, the business is the sole source of household income, with 23% also benefitting from a salary. Very few (3%) receive a government grant. This cluster creates many more jobs than the others, with 66% employing one or more employees and the weighted average number of employees at 4.2.

Savings / Deposit Behaviour

Table 4.38: Usage of Bank Accounts and Payment Mechanisms

	Survivalist %	Microenterprises %	Small businesses %
Use Personal Account for Business	19.3	64.3	39.0
Use Business Account for Business	0.5	13.2	56.8
Savings account	17.6	73.1	65.9
ATM Card	18.8	71.8	75.3
Current Account	0.1	5.4	65.9
Overdraft	0.0	0.3	16.1
Credit Card	0.0	3.3	40.4
Fixed Deposit	0.4	8.1	21.6
Internet Banking	0.0	0.1	26.6

Source: Finscope Small Business Survey 2010

A majority of small businesses have either a savings or current account in the name of the company (57%). Just 20% of survivalist businesses have a bank account and ATM card, and these are personal accounts, reflecting the informal nature of these businesses. For the microenterprises, over 70% have a savings account, but they also tend to be in the name of the owner rather than in the business name. These accounts are not used actively, either due to the perceived high level of fees or in order to avoid attention from tax authorities. A financial inclusion challenge, therefore, is to raise usage of transaction and savings accounts among microenterprises and reduce the dominance of cash among this sector.

Borrowing Behaviour

Approximately 1 in 5 businesses did not provide a figure for start-up capital. Of those who did, a large majority (76%) of survivalist enterprises required less than R1,000 to start their businesses. For microenterprises, 45% required less than R1 000 and another 37% required between R1,000 and R10,000, leaving just 18% requiring more than R10,000. A majority of small businesses (57.6%) required more than R10,000 to start their business.

Table 4.39: Required Start-up Capital

	Survivalist %	Microenterprises %	Small businesses %
Don't Know /Refused	18.4	16.8	29.0
None	20.6	20.5	16.6
R 100 to R 1,000	55.7	23.9	5.0
R 1,001 to R 10,000	20.6	37.5	20.9
R 10,001 to R 50,000	2.7	14.0	32.9
R 50,000 to R 100,000	0.3	2.9	13.0
R 100,001 and over	0.1	1.2	11.7
	100.0	100.0	100.0

Source: Finscope Small Business Survey 2010

Table 4.40: Source of Start-up Capital

	Survivalist %	Microenterprises %	Small businesses %
Salary	4.2	6.2	6.9
Government grant	6.7	1.6	0.7
Money from another business	2.5	3.6	3.5
Savings / deferred spending	21.2	23.5	30.8
Friends and family	17.0	13.9	7.8
Spouse	6.3	7.4	6.1
Business partner	0.5	2.2	3.1
Inheritance	0.5	2.1	3.4
Sold assets – Stokvel pay-out-Church	2.4	4.7	2.6
Retrenchment-Pension-Retirement Policy	4.1	9.2	12.4
Personal loan	0.4	0.4	4.2
Business loan	0.2	0.5	5.6
Loan on house	0.1	0.2	0.9
Credit Card	0.0	0.1	0.1

Source: Finscope Small Business Survey 2010

For all segments, the biggest source of start-up capital has been personal savings. For survivalist and microenterprises, the second biggest source has been family and friends. For the small enterprises, the second biggest source has been retrenchment or pension pay-outs or retirement policies. Loans have played almost no role in funding business start-ups, except for small enterprises for which loans are the third biggest source.

Table 4.41: Borrowing Behaviour

	Survivalist %	Microenterprises %	Small businesses %
Borrowed for business past 12 months	2.1	3.5	5.5
Borrowed for business previously	1.6	1.6	8.6
Sub-Total	3.7	5.1	14.1
Largest Source of Borrowing:			
From Bank	2.6	19.3	72.4
From MFI or Microlender or NGO	4.6	2.9	0.9
From Government	7.7	0.6	0.4
From Stokvel/ Burial Society	4.7	6.9	0.1
From Informal Moneylender	13.5	8.5	0.4
From Friends & Family	62.5	57.9	19.6
From Employer	1.3	0.0	0.9
Buy on Credit from Supplier	2.9	3.8	5.2

Source: Finscope Small Business Survey 2010

Businesses report a very low rate of borrowing, which highlights the financing gap and indicates a massive market waiting to be served. No more than 5% of survivalist and microenterprises have ever borrowed for their business. Of those who have, friends and family are the largest source of loans, followed by the informal moneylenders for the survivalist cluster and banks for the microenterprise cluster[11]. For small enterprises, banks are reported as the largest source, followed by friends and family.

Table 4.42 below indicates that the survivalist microenterprises have three primary criteria for choosing a lender: speed, convenience and trust. For the middle level microenterprise sector, trust and affordability are the two primary criteria, indicating that this sector is more sensitive to rates and fees than the smallest enterprises. For the small business sector, five criteria receive equal rating: speed, convenience, trust, affordability, and flexibility.

11 This may be due to the ABSA Micro Enterprise Finance operation which has now ceased operations.

Table 4.42: Reasons for Choosing Source of Current Loans

	Survivalist %		Microenterprises %		Small businesses %	
Get money quickest	37.7	1	29.1	3	30.8	2
Convenient	37.3	2	24.0	5	28.5	4
Trust	36.1	3	40.5	1	30.9	1
Affordable, cheapest, instalments	19.7	4	39.3	2	30.6	3
No proof of employment required	17.1	5	22.3		7.9	
Familiarity	16.5		25.3	4	24.0	
Lowest interest rates	13.5		5.9		21.4	
No credit checking	6.6		14.9		6.7	
Flexible repayment rates	5.8		2.1		28.1	5
Best service	3.7		2.0		21.5	

Source: Finscope Small Business Survey 2010

Table 4.43: Reasons for Borrowing

	Survivalist %	Microenterprises %	Small businesses %
Growing business	28.2	57.9	42.6
Day to day business needs	46.0	28.4	21.9
To finance stock	27.4	22.1	21.7
To buy property	0.0	0.5	21.9
To upgrade business facilities	1.1	16.7	27.5
to buy technology	0.0	0.0	10.3
to buy machinery	1.7	2.3	10.7
New equipment	3.2	7.2	26.7
to pay debts	0.0	3.4	4.3
Finance a tender/contract	0.2	0.0	6.2
Personal reasons	13.8	10.4	9.4

Source: Finscope Small Business Survey 2010

The survivalist microenterprises require primarily working capital loans, to fund day to day business needs and purchases of stock, as well as consumption loans for personal reasons. Microenterprises have similar requirements, but a significant number also require longer term loans to upgrade premises (16.7%) or purchase machinery or equipment (9.5%). Small businesses borrow for a wide range of purposes, including working capital as well as purchases of fixed assets and property and facilities upgrades.

5. Market Supply, the reality of providers

5.1 Microenterprise Lenders

In the 2009 Review, we surveyed microenterprise lenders with 1,000 or more active loans. Due to the small and shrinking size of the sector, for this review we decided to include all microenterprise lenders with 100 or more active loans. With assistance from the Small Enterprise Finance Agency (sefa) and the Association for Pro-Poor Micro Finance Institutions of South Africa (AMFISA), 14 institutions were identified to participate in the survey. From this group, CIBA received eight responses, as indicated by an asterisk in the table below.

Table 5.1: Microenterprise lenders in South Africa (with more than 100 loans)

	Province	Organisation	Methodology	Active Loans
1	Limpopo	Small Enterprise Foundation*	Group Lending	95,825
2	Limpopo	Akanani Financial Services*	Group Lending	1,100
3	Limpopo	Get Ready Finance*	Group Lending	1,530
4	Limpopo	Tiisha Finance Enterprise*	Group Lending	1,536
5	Limpopo	G50 Women	Contract Financing	Less than 300
6	Mpumalanga	Phakamani Financial Services*	Group Lending	8,000
7	North West	Ikusassa	Individual Lending	Less than 300
8	Gauteng	Aloga	Individual Lending	Less than 300
9	Gauteng	Mazwe*	Salary-based guarantees	1,900
10	Gauteng	Ndiza Finance*	Contract Financing	307
11	KZN	Opportunity Finance*	Individual Lending	210
12	KZN	Sakthi	Individual Lending	Less than 300
13	Eastern Cape	Extra Credit Trading	Group Lending	Less than 2,000
14	Western Cape	Tetla Financial Services	Group Lending	2,000 to 3,000

The microenterprise lending sector still remains underdeveloped and three of the larger organisations closed their doors in the first half of 2013, Marang Financial Services, Women's Development Business (WDB), and ABSA Micro Enterprise Finance, following a process of decline during 2011-12. Proven methodologies for microenterprise lending tend to be labour intensive. The up-front investment required to establish an institution and reach scale, excluding the on-lending capital, can be as high as R30 million or more over a five to eight year period. Failure to raise this level of patient capital, together with restricted access to on-lending capital and a serious shortage of experienced and capable executives and policy makers in the sector, explains why a majority of providers are reaching less than 2,000 active loans with portfolios of less than R10 million.

The fourteen MFIs employ approximately 650 staff serving approximately 116,000 clients through 100 branch offices nationwide. The Small Enterprise Foundation accounts for 96,000, or 83% of this outreach, with the remaining 13 MFIs jointly serving just 20,000 active clients.

Table 5.2: Key Indicators for Microenterprise Lenders using a Group-based Lending Methodology

	SEF	Phakamani	Tiisha	Get Ready	Akanani	Total
Total Assets (R000)	216,407	15,413	4,087	2,799	2,062	240,768
Gross Portfolio (R000)	191,674	6,256	2,397	1,143	1,300	203,245
Active Loans	95,825	8,000	1,536	1,530	1,100	108,673
% Female	99%	100%	99%	98%	94%	
Impairment for Losses (R000)	2,366 1.2%	312 5.0%	48 2.0%	17 1.5%	34 2.3%	
Portfolio at Risk > 30 days	0.9%	N/A	9.3%	1%	15%	
Arrears Rate > 30 days	0.4%	4.7%	7%	1%	8%	
Operational Self-sufficiency	100%	58%	116%	100%	105%	
No. Offices	53	11	2	1	1	68
No. Staff	479	77	12	9	7	584
Total loan officers	334	61	7	6	5	113
Debtor Management System	SEG workflow and in-house	Smartfin Enterprise	Pastel and Excel	MLAS	Pastel Partner	

Two group lending organisations are demonstrating that this methodology can work at scale in South Africa. The Small Enterprise Foundation (SEF) began lending in 1992 and has now reached close to 100,000 active loans and operational self-sufficiency. Based in Tzaneen, Limpopo, SEF now operates also in Mpumalanga, the North West, and the Eastern Cape provinces. SEF uses an adapted version of the Grameen Bank centre group lending methodology. SEF is a dedicated "poverty lender", targeting households with incomes below the poverty line and measuring progress from loan to loan with the Progress out of Poverty Index (PPI). The Phakamani Foundation began operating in 2008 and has now reached 8,000 active loans in Mpumalanga and Limpopo. Phakamani is also a "poverty lender", following closely the methodology developed by SEF.

Tiisha and Akanani were both launched as Khula Start Partners in 1998. They followed the group lending methodology promoted by this programme. While borrowers also meet in Centres, the focus is not as strongly on households living below the poverty line; the primary target market for these organisations is microenterprise owners with a minimum of six months operating experience. Tiisha, Get Ready, and Akanani all operate in Limpopo. Some believe this province has a culture conducive to high repayment performance.

All of the group lending organisations who responded to the survey have a strong focus on serving women, with over 90% of borrowers being female. A majority of the group lenders offer loans of between R500 and R10,000 per group member, with a few offering as high as R15,000. All group lenders utilise graduated steps for the loan sizes which, together with the group guarantees, replace the need for detailed affordability assessments. Group lenders offer terms of 4, 6, 8 and 10 months, with monthly instalments. SEF requires first and second loans to be repaid in fortnightly amounts.

Table 5.3: Key Indicators for Microenterprise Lenders using an Individual Lending Methodology

	Mazwe	Opportunity Finance	Ndiza	Total
Total Assets (000)	146,942	55,226	8,619	213,014
Gross Portfolio (000)	15,673	3,200	4,892	31,319
Total Active Loans	7,400	3,200	307	
Micro and Small Enterprise Loans	1,900	210	307	2,647
Average Outstanding Loan	8,250	15,238	15,935	
% Female	41%	44%	54%	
Impairment for Losses (000)	1,665 10.6%	4,900 14.0%	483 9.9%	
Portfolio at Risk > 30 days	2%	12%	10%	
Arrears Rate > 30 days	1%	5%	6%	
Operational Self-sufficiency	156%	52%	59%	
No. Offices	4	5	2	12
No. Staff	36	52	7	101
Total loan officers / agents	12	23	3	41
Debtor Management System	Xirius	African Cash	Reward and Acquire	

Source: Questionnaire

Three of the individual lending micro-enterprise lenders responded to the survey. Two of them, Mazwe and Ndiza, have located their head offices in Gauteng. Mazwe has two branches and 16 agents in Gauteng, but also has one office and two agents in the Free State and one office and five agents in KZN. Ndiza has one office and two agents in Gauteng and one office and three agents in Limpopo. Opportunity Finance is based in Pietermaritzburg and has five branches and 23 agents in KwaZulu Natal.

The individual lending organisations serve the upper end of the microenterprise market. Generally these lenders require two years or more experience in running a business as well as a permanent structure for operating the business. At this level of the market, gender targeting is no longer employed; the proportion of female clients is 40% to 50% for the sample organisations.

A majority of the individual lending credit providers offer loans of between R1 000 and R50 000, with Opportunity Finance providing as high as R150,000. Ndiza Enterprise Finance offers both term loans and contract finance with maximum loan amounts of R15,000 and R50,000 respectively. Loan terms tend to be longer than for group loans, with Mazwe offering terms of up to 60 months and Opportunity Finance up to 36 months.

It is interesting that the core business of both Mazwe and Opportunity Finance is developmental salary-based lending, with micro-enterprise lending co-existing as one product or division. Given the high cost ratios for individual microenterprise lending, this strategy of sharing the overhead costs may be a key success factor for serving this market.

Mazwe does not lend to a microenterprise directly, but rather lends to an individual with a salary who then invests the funds into a business. The credit risk is that of the salary earner and is assessed in the same manner as for any other consumer credit assessment.

Performance: The group lenders tend to achieve a higher portfolio quality, with impairment ratios of 1% to 5% compared with 10% to 14% for the individual lenders. Four of the group lenders are showing 100% operational self-sufficiency, reflecting that financial revenues generated are sufficient to cover all expenses. The Small Enterprise Foundation has just achieved this milestone in the past year, while the smaller group lenders have been at this level for five years or more. The smaller organisations achieved this status through solid portfolio quality management and the maintenance of modest salaries and low levels of fixed asset investments. In order to grow, however, these organisations will need to increase their investment in personnel and technology, which will reduce their self-sufficiency levels for a period of time. Mazwe Financial Services is highly profitable due to its solid base of payroll deduction loans. The microenterprise loan book accounts for just 25% of total loans.

Debtor Management Systems: A variety of debtor management systems are being employed by the microenterprise lenders. The smallest organisations are using a combination of excel and pastel, which requires a high level of manual intervention and is not appropriate beyond approximately 1,500 loans. Other small lenders are using a system called MLAS, which has been serving group lenders in S.A. for 15 years. Once an MFI exceeds 2,000 borrowers, however, management tends to look for a more advanced system. The Small Enterprise Foundation utilised a data management system developed in-house until three years ago, when they purchased a system from SEG Workflow. African Cash used by Opportunity Finance is also an in-house system. The three lenders who are using externally developed systems all appear to be satisfied with their functionality: Mazwe with Xirius, Phakamani with Smartfin Enterprise, and Ndiza with Reward and Acquire.

Challenges and Future Outlook: The table on the following page highlights the overall disappointing performance for the five credit providers who responded to our survey in 2009. Of these five only one, the Small Enterprise Foundation, has continued to grow and thrive. Two of the larger entities, Marang Financial Services and Women's Development Business, ceased operations early this year. The remaining two, Tiisha Finance Enterprise and Akanani Finance Company, have survived but have not grown.

Of the other three larger entities operating in 2009, Tetla Financial Services has remained approximately the same size over the past four years, with between 2,000 and 3,000 active loans, while Vengro Capital and ABSA Micro Enterprise Finance have ceased operations.

Table 5.4: Market Supply Shifts 2009 to 2013

<table>
<tr><td rowspan="3">Small Enterprise Foundation</td><td></td><td>2009</td><td>2013</td></tr>
<tr><td>Active Loans</td><td>57,425</td><td>95,825</td></tr>
<tr><td>Portfolio R mlns</td><td>91.2</td><td>191.7</td></tr>
<tr><td colspan="4">SEF has demonstrated a steady growth pattern over the past four years, adding just under 10 000 active loans per year. Portfolio quality remains excellent. Self-sufficiency has risen from 86% in 2009 to 100% in 2013.</td></tr>
<tr><td rowspan="3">Marang Financial Services</td><td></td><td>2009</td><td>2013</td></tr>
<tr><td>Active Loans</td><td>24,522</td><td>0</td></tr>
<tr><td>Portfolio R mlns</td><td>28.5</td><td>0</td></tr>
<tr><td colspan="4">Marang entered into liquidation in February 2013, ending a twenty six year history of lending to microenterprises in South Africa.[12] Recent challenges faced by Marang included lack of access to on-lending capital, over-investment in a banking system, SAPS, which did not provide the necessary portfolio reports, and inadequate governance and leadership. With appropriate interventions from the former apex organisations, Khula and Samaf, the demise of Marang could most likely have been prevented. Hopefully the lessons from this story will be documented and considered when setting policies for the future.</td></tr>
<tr><td rowspan="3">Women's Development Business</td><td></td><td>2009</td><td>2013</td></tr>
<tr><td>Active Loans</td><td>32,078</td><td>0</td></tr>
<tr><td>Portfolio R mlns</td><td>23.2</td><td>0</td></tr>
<tr><td colspan="4">The board of Women's Development Business made the decision to close the organisation in the first quarter of 2013. Once again, the demise of this organisation could possibly have been prevented with appropriate governance and interventions. In the 2009 Microfinance Review, we reported the dramatic growth of WDB, from 2,230 active loans in February 2007 to 32,078 in February 2009. It is commonly accepted wisdom in the microfinance sector that, unless tightly controlled, this level of growth can lead to poorly trained branch staff, weak operational controls, and fraud. Perhaps one reason the WDB board allowed the growth to continue was their confidence in the newly appointed chief executive who had a good track record as an executive level manager at the Small Enterprise Foundation. Unfortunately the delinquency problems began to show up in 2010 and, by early 2011, the board brought in a new head to consolidate and manage a turnaround. It appears, however, that adoption of this strategy was too late; by early 2013, the board decided that the company could not be salvaged.</td></tr>
<tr><td rowspan="3">Tiisha Finance Enterprise</td><td></td><td>2009</td><td>2013</td></tr>
<tr><td>Active Loans</td><td>2,136</td><td>1,536</td></tr>
<tr><td>Portfolio R mlns</td><td>2.1</td><td>2.4</td></tr>
<tr><td colspan="4">Tiisha and Akanani are the two surviving microenterprise lending organisations initiated by Khula Enterprise Finance as part of its Khula Start Programme in 1998 – 2002. This programme provided initial funding and a policy and procedures manual for group lending, as well as training for staff and board members. While the basic lending methodology was sound, the weakness in the Khula Start design was the small size of organisation it fostered and a built-in dependence on Khula to operate as a "head office". Approximately 20 of these organisations were launched nationwide but just two are currently operating. Both Tiisha and Akanani have maintained tight control on expenses and have operated at a self-sufficient level for the past ten years. Neither, however, have accessed resources to expand. Tiisha has grown its loan book slightly since 2009, but the number of businesses served has dropped as the average loan size has grown.</td></tr>
<tr><td rowspan="3">Akanani Finance Company</td><td></td><td>2009</td><td>2013</td></tr>
<tr><td>Active Loans</td><td>1,782</td><td>1,100</td></tr>
<tr><td>Portfolio R mlns</td><td>1.4</td><td>1.3</td></tr>
<tr><td colspan="4">As discussed above, Akanani has been operating since 1998, maintaining a sustainable level of portfolio quality and tight cost control. Both Tiisha and Akanani are currently approaching sefa for funding support to begin expansion, taking advantage of the market opportunity left by the closure of WDB and Marang.</td></tr>
</table>

12 Marang's predecessor company, Get Ahead Financial Services, began operations in 1987, the first group lender in Southern Africa.

In the table above we provide some explanations for the mediocre performance. An absence of strong governance and leadership, with individuals experienced in microenterprise finance, played a role in the collapse of both Marang and WDB. Lack of access to on-lending capital also contributed to the declining portfolio and sustainability of Marang. With appropriate interventions of capital and technical assistance and the appointment of new board members, both of these collapses could possibly have been averted.

ABSA bank must be commended for the significant investment and effort it made in the microenterprise lending market. The ABSA Microenterprise Finance Division was launched in November 2007. By December 2009 it had opened 7 branches dedicated to group lending and 16 branches dedicated to individual lending, with a total of 64 loan officers and 124 staff. Total active loans grew to a high of 7,700 and R25 million by October 2011.[13] Operating within the corporate structure of a commercial bank, however, resulted in overhead costs which were close to double those for a standalone microenterprise organisation. The IT systems had to be fully integrated with other sys*tems used by ABSA, benefit packages had to be consistent with those for similar positions within* the bank, and branding standards had to be met by the branches. Another contributor to the high costs and challenges was the collection methodology normally followed in ABSA which was not appropriate for the microenterprise finance loans. Commercial banks have become highly centralised institutions, which conflicts with the best practice decentralised approach used microenterprise finance. The high overhead costs put pressure on the division to generate stronger revenues. In an effort to grow more quickly, certain aspects of the individual lending methodology were abandoned, leading to a deterioration of portfolio quality. This process became a vicious cycle until, eventually, the bank decided to close the Division. Once again, we ask the question if this situation could have been avoided. Why did ABSA not follow the globally accepted model for a bank to operate through a separate marketing or service company? This model has been refined and adopted in many countries as a successful approach for traditional commercial banks to operate in the microenterprise lending space. It must also be mentioned that ABSA went through a number of reorganisations in the retail group and there was inadequate leadership attention paid to the unit over the last two years of its existence, as well as management not familiar with the microfinance model continuously forcing the bank’s centralised (or known) model onto the unit, with detrimental results as indicated.

Despite the overall gloomy picture, there are signs of hope. The Small Enterprise Foundation has finally reached a level of operational self-sufficiency in which its revenues cover its basic operating costs. Phakamani Foundation is growing steadily and emerging as a second significant player. The industry association, AMFISA, has been re-launched with new members and resources and initiatives. And, finally, the newly merged government wholesale funding organisation, the Small Enterprise Finance Agency (sefa), is developing a new set of policies to provide stronger support to the sector. These policies include a consolidation of smaller organisations and a higher level of grant or equity funding for the most promising institutions, more flexible on-lending capital conditions, a focus on improved governance and technical assistance, and support to the “meso” level organisations such as representative bodies, information technology companies, and training institutions.

[13] ABSA Microenterprise finance disbursed over 50 000 loans and R35 million during its five year period of operation

5.2 Co-operative Financial Institutions (CFIS)

Beginning in 2012, a financial co-operative can only be registered if it can present 200 members and R100,000 or more in capital deposits. An organisation first needs to apply to the Co-operative Banks Development Agency (CBDA), which was established under the Co-operative Banks Act of 2007 (Act 40) with a mandate to support, promote, and develop co-operative banks. Once the CBDA is satisfied that the organisation meets the requirements, the CBDA will pass the application to the Registrar of Co-operatives within the Companies and Intellectual Property Commission (CIPC) for issuance of a license to operate as a financial co-operative.

As discussed under Section I, Legislative Context, once a CFI reaches R1,000,000 or more in member deposits, they must register as a Co-operative Bank under the Act, with the regulation and supervision at this point moving to the South African Reserve Bank (SARB).

Table 5.5: Registration Requirements

Milestones	Registration Requirement	Number at September 2013
Entities with 200 members and R100,000 in Member Share Capital	Register with CBDA as a Co-operative Financial Institution and with CIPC as a financial service co-operative.	18 Registered 8 more pending 20 applications rejected 9 initially insolvent
Co-operative Financial Institutions with 200 members and R1 million in Member Deposits	Register with SARB as a Co-operative Bank.	2 Registered 18 more eligible according to milestones

Source: CBDA 2012 and 2013 and the South African Reserve Bank 2013; (Table own)

There were 163 financial co-operatives registered with CIPC prior to introduction of the new requirements[14], all of whom had to re-apply for a license through the CBDA. As of September 2013, the CBDA had received registration applications from 57 financial co-operatives, 20 of which were unsuccessful as they did not meet the minimum milestone requirements. These applicants were advised to register with NASASA as stokvels.

From the remaining 37, 18 were registered as Co-operative Financial Institutions (CFIs) and two were registered as co-operative banks (Ditsobotla Primary Credit and Savings Co-operative Bank and Orania Spaar and Kredit Ko-operative Bank). Currently the registration process for eight CFIs is pending due to outstanding documentation. A further nine CFIs were insolvent on the date of application. Some were able to raise additional capital, while others were unable to provide a rehabilitation plan and applications were declined. Guidelines from the World Council of Credit Unions (WOCCU) are followed to calculate solvency ratios, the extent to which a CFI's assets cover member savings and shares in the event of a liquidation or windup. The CBDA Supervisor's minimum acceptable solvency threshold is 100% for registration purposes (SARB, 2012).

The 18 CFIs which are eligible to register as co-operative banks (with member savings exceeding R1 million) have not been approved as they are not yet meeting all of the prudential requirements and need to address weaknesses identified by the CBDA supervisors. These weaknesses include

[14] Including Stokvel Financial Co-operatives which had been registered by Samaf with just 20 members

inadequate capital levels, weak governance structures, insufficient operational capacity, and poor management systems (CBDA 2012).

Table 5.6: Size of Financial Co-operative Sector (36 CFIs meeting the Milestones)

	2011	2012	2013	2 Year Compound Growth
Members	28,034	31,481	31,899	6.7%
Savings	160,996,000	187,949,000	198,304,491	11.0%
Loans	107,261,100	128,733,822	143,710,108	15.8%
Assets	175,897,017	201,823,000	215,195,749	10.6%

Source: CBDA 2012 and 2013

Despite these challenges, the table above reveals a solid improvement in performance for the largest 20 financial co-operatives over the past two years, with savings and assets growing by 10-11% and loans growing by 15.8% on a compound annual basis. Average savings balance per member has grown from R5,743 in 2011 to R6,217 in 2013.

Table 5.7: A Profile of the Two Registered Co-operative Banks

Name and Province	Branches	No. of Members/Equity	Savings Value	Loan Book Value	Total Assets Feb 28
Ditsobotla Primary Savings and Credit Co-operative Bank (North West)	1	1 119 R7.1 million	R7.1 million	R7.0 million	R9.1 million
Orania Spaar and Kredit Co-operative Bank (Northern Cape)	1	775 R 242,000	R60 million	R45 million	R58.6 million

Thus far only two co-operative banks have been registered in South Africa; Ditsobotla Primary Savings and Credit Co-operative Bank (Ditsobotla) and Orania Spaar and Kredit Ko-operative Bank (OSK).

Ditsobotla is a merger of three worker-based SACCOs in the North West Province, namely Itereleng SACCO, Ikageng SACCO and Aganang SACCO. The common bond is anyone who lives in the greater Ditsobotla Municipality and the employees of Lafarge Cement. According to figures provided by the organisation, total assets have grown 42%, from 6.4 million in 2011 to 9.1 million in 2013, with a net income after tax of R369,000 in the year ending February 2013.

Orania Spaar and Kredit Ko-operative Bank (OSK)

Orania is a small community situated between Hopetown and Petrusville in the Northern Cape. The Department of Water Affairs established the town in 1963, with the construction of the Van der Kloof dam. The town, then known as Vluytjieskraal, provided accommodation for employees of the Van der Kloof dam building project. In 1990, the town was bought from the Department of Water Affairs by the Orania Bestuursdienste (OBD). The town of Orania was officially opened in April 1991.

There are no formal financial institutions in Orania; the closest branch is 40 kilometers away. For a period of time, ABSA sent a mobile branch to the area weekly, but then discontinued this service. Residents and workers in Orania had to incur significant costs to transact using formal banking services. The owner of the petrol station in Orania realized that residents had a need to deposit cheques and draw money. Consequently he started to cash cheques for residents and charged a fee of R5. This fee was saved to build reserves. As time progressed, he offered the option to either withdraw the full amount of the cheque or save a portion with him. In 1999, this service evolved into the Orania savings club. Residents started to save with and take loans from the club. Within no time, the club had savings to the value of R1 million.

This savings club was the only source of finance for new residents arriving in Orania. The community is run as a "share block" scheme in which residents purchase a block of shares which gives them a right to the permanent and exclusive use of parts of the property.[15] Since commercial banks do not provide funding for share block schemes, new residents either had to pay in cash or had to take a loan from the savings club. In 2001, the savings club registered as Orania Savings and Credit Cooperative (OSK). By 2004, OSK assets exceeded R10 million. With introduction of the Co-operative Banks Act in 2007, OSK was required to register as a Co-operative Bank with the SARB as their assets exceeded R20 million.

Orania Savings and Credit Cooperative was registered as OSK Co-operative Bank with the Supervisor of South African Reserve Bank (SARB) in 2011. Membership is obtained through the purchase of 300 shares at R1.00 each. OSK's common bond is defined as "all persons residing in the district of Orania". Today OSK Co-operative Bank has 775 members with deposits worth R60 million.

OSK offers various savings products to their members, including normal savings, special savings and fixed deposits. Fixed deposits have varying time horizons, ranging between 3 months and 5 years. Interest earned on savings varies according to their investment horizons. Currently they pay 9% per annum on the 5 year fixed deposit. Credit products offered by Orania include overdraft facilities, financing for the purchase of residential and business properties within Orania, business loans, agricultural financing, and personal loans. At 2013, overdrafts are worth R45 million.

In the future OSK would like to issue debit and credit cards and provide members with insurance products. An extra service they would like to offer is estate settlement as they currently help members draw up wills.
OSK is a true success story and demonstrates what can be achieved through co-operative banking. The success of OSK lies in the well-defined common bond, the emphasis they have placed on the training of staff and members, and the fact that they have truly embraced the principles of the co-operative model (National Treasury 2013).

The table on the following page provides a profile of the 18 currently registered CFIs. Of these, 7 have assets of below R1 million, 5 have assets of over R3 million, and 6 are mid-sized with assets of between R1 million and R3 million.

15 Although all immovable property is owned by the company

Table 5.8: A profile of the 18 Registered CFIs

	Name and Province	Branches	No. of Members/ Equity (Rands)	Savings Value (Rands)	Loan Book Value (Rands)	Total Assets (Rands) Feb 28
1	Bakenberg FSC Limited, LP	1	1,006 107,200	376,757	299,281	732,898
2	Boikago SACCO North West	1	740 192,550	1,964,787	285,332	1,460,830
3	Cebisa FSC Pietermaritzburg, KZN		242			1,764,962
4	Inzuzo FSC Bloemfontein, FS		209			New CFI
5	Kuvhanganyani FSC LTD, LP	1	362 102,293	430,257	440,497	901,178
6	KwaMachi CFI KZN	1	1,011 306,600	100,867	231,096	1,071,122
7	Kwazulu- Natal Ladies Empowerment, KZN	1	692 183,900	1,657,234	1,584,221	2,122,160
8	Lothakane FSC, NW	1	443 164,356	1,912,077	92,061	2,452,403
9	Mankotsana FSC LP		355			349,262
10	Mathabatha FSC, LP	1	2,434 132,910	1,741,897	739,109	1,700,801
11	Mutapa FSC LP		318 178,000			New CFI
12	NEHAWU SACCO Gauteng (2012)	9	4,443 1,300,000	7,145,962	4,739,731	7,004,159
13	Nnathele FSC Limited, FS	1	269			120,000
14	Sebenza (formerly Flash) Western Cape	1	6,502 1,121,080	283,907	403,154	4,727,540
15	Sibanye Cape SACCO Western Cape	2	2,995 1,044,654	3,663,499	6,342,516	7,750,079
16	Ubambiswano FSC Highflats, KZN		207			New CFI
17	Webbers Employees SACCO Limited (1)	7	756 2,174,423	2,100,016	2,300,000	4,839,225
18	Ziphakamise SACCO KwaZulu-Natal	1	567 376,150	2,497,358	1,701,620	3,763,617
	Total		**23,551** **5,750,996**	**23,873,618**	**17,698,139**	**40,760,236**

Source: National Department of Treasury 2013 and own survey

(1) Webbers operates in 7 of the 9 provinces, excluding Northern and Western Cape

Most of the CFIs operate from just one branch but a few of them have multiple branches: Webbers, NEHAWU SACCO, and Sibanye Cape. Webbers and NEHAWU have national representation whereas Sibanye Cape covers Cape Town, Khayelitsha, and Gugulethu. While a few of the CFIs go back as far as 1990, a majority were established between 2004 and 2010.

Deposit Products: A primary goal of financial co-operatives is to encourage a culture of savings among their members. Most of these co-operatives provide regular or basic savings products to members along with special purpose contractual savings products such as Christmas or educational accounts. For the contractual accounts, a member agrees to deposit a fixed amount each month and then withdraws all the funds at a specified date. Most of the smaller co-operatives indicated that they would like to expand their savings products to include fixed deposit or more special purpose savings products. The larger co-operatives feel threatened by the commercial banks and would like to broaden services offered to their members to include more transactions services, such as debit cards, debit orders, and internet banking, as well as funeral and other insurance products.

Credit Products: A majority of co-operatives provide credit to members with salaries or pensions, with the loan size related to the level of savings of the member and a high level of security required in the form of savings deposits. Credit terms generally range from 3 to 36 months. A few co-operatives also lend to self-employed individuals. There is only one co-operative, Sibanye, which has provided group based microenterprise credit, but this programme has not performed as expected. Credit disbursed tends to be slow in the first years of operation of a CFI, but grows as the institution becomes more confident and generates sufficient revenues to hire specialised lending staff.

The number of active clients and loan portfolios have grown steadily over the past two years. The table below indicates the risk classification of loans. There has been a decline in loans that are delinquent between 1 and 12 months and a slight increase in the number of loans that are delinquent for more than 12 months (CBDA, 2012 & 2013). This performance is good when compared with the general unsecured lending market in South Africa.

Table 5.9: Risk classification of loans for the co-operative sector

	29 February 2012		28 February 2013	
	Amount	Percentage	Amount	Percentage
Non-delinquent loans	38,347,947	91,5%	44,877,490	92.7%
Delinquent loans 1 to 6 months	11,668,540	4,0%	1,160,388	2.4%
Delinquent loans 6 to 12 months	1,168,845	2,8%	1,295,588	2.7%
Delinquent loans >12 months	712,367	1,7%	1,082,656	2.2%
Total loans	41,897,699	100%	48,416,122	100%

Source: CBDA and SARB 2013

Table 5.10: Sample of Eleven CFIs

Year ending February (SAR)		2011	2012	2013
Backenberg FSC, LP				
Total Assets		617,373	733,726	732,898
Total Equity; Members Shares		37,900	100,500	107,200
Net Income after Tax		38,134	144,376	115,142
Boikago SACCO, NW				
Total Assets		1,251,649	1,353,280	2,157,337
Total Equity; Members Shares		98,150	116,900	192,550
Net Income after Tax		293,856	(173,802)	624,787
Lothakane FSC, NW		2010/11	2011/12	2012/13
Total Assets		1,923,127	2,311,521	2,474,799
Total Equity; Members Shares		30,380	31,000	32,840
Net Income after Tax		n/a	n/a	n/a
Kuvhanganyani FSC, LP				
Total Assets		299,571	754,084	1,536,615
Total Equity; Members Shares		30,188	36,474	102,293
Net Income after Tax		2,920	(15,025)	12,300
Kwa Machi CFI, KZN				
Total Assets		n/a	823,045	1,071,122
Total Equity; Members Shares		n/a	n/a	n/a
Net Income after Tax		n/a	(56,477)	199,770
KwaZulu Natal Ladies Empowerment, KZN				
Total Assets		541,184	1,363,633	2,710,599
Total Equity; Members Shares		25,300	65,600	183,900
Net Income after Tax		29,736	38,066	203,223
Mathabatha FSC, LP				
Total Assets		n/a	n/a	1,700,801
Total Equity; Members Shares		58,710	77,610	132,910
Net Income after Tax		21,783	17,878	[29,762]
Sebenza CFI, WC				
Total Assets		5,069,196	4,675,992	5,844,966
Total Equity; Members Shares		670,346	784,278	1,121, 080
Net Income after Tax		(9,696)	31,321	679,365
Sibanye Cape, WC				
Total Assets		6 149 051	6,546,528	7,750,079
Total Equity; Members Shares		R787 807	R1,010,486	R1,044,654
Net Income after Tax		R504 570	-R129,727	R503,768
Webbers Employees, National				
Total Assets		4,330,053	4,514,786	5,599,489
Total Equity; Members Shares		2,144,530	2,144,530	2,174,423
Net Income after Tax		178,506	163,545	75,223
Ziphakamise, KZN				
Total Assets		3,513,303	3,763,616	3,424,339
Total Equity; Members Shares		90,183	175,840	376,150
Net Income after Tax		(43,761)	75,857	149,110

CFI Performance: From the table above, it appears that initiatives of the CBDA to enhance performance of CFIs are beginning to pay off. The value of equity has risen for most of the CFIs and net income after tax has improved over the three year period for seven of the eleven sample organisations.

Challenges Faced by Co-operatives: The challenge most often cited by the 13 co-operatives which completed the surveys was the lack of an effective debtor management system. Just one co-operative mentioned that regulatory policies were a challenge, but a few mentioned that meeting regulatory compliance standards with manual systems was a challenge and that computer based accounting and operating systems would make a significant difference. Co-operatives currently using the CUBIS banking software stated that it did not meet their needs.

Lack of capital to implement planned products and services was cited as a problem for many co-operatives, along with lack of access to a physical building from which they could operate. The lack of capital could be related to members not fully understanding the principles of building a sustainable institution, along with the difficulty in acquiring new members or setting high enough member share requirements if the co-operative is working in areas with high poverty levels. Institutional strengthening grants from government bodies go a long way in supporting investments in assets and strengthening board and management.

From the surveys that were conducted, a majority of co-operatives felt that they lacked the necessary skills to operate effectively. The skills shortage did not only relate to management and board members but also to the members at large. Many co-operatives felt that their members did not fully understand the benefits of being a co-operative member and they need to learn the benefits of savings and being committed to the institution. The survey further revealed that co-operatives often felt that their board members were not equipped with the necessary skills.

The CBDA is currently investing heavily in training and education programs for co-operatives and their members; these initiatives are beginning to bear fruit in the sector.

- Working with BANKSETA to capacitate managers in the sector through the Certificate Course in Co-operative Financial Institution Management at the University of Pretoria.
- Supporting a range of other accredited training programmes.
- Providing technical assistance with the preparation of financial statements and audit reports.
- Providing mentors in general management and policy development.
- Promoting and supporting the emergence of Secondary Co-operatives and Representative Organisations such as the National Association of CFIs of South Africa (NACFISA).
- Developing a comprehensive information technology solution.
- The rolling out of a study circle programme, which will allow small groups of members to meet voluntarily and discuss study material provided by the CBDA.

Providing training to members is a starting point to address the skills shortage faced by CFIs. The question that must be raised, however, is 'Do these members feel empowered to apply what they have learnt from the training?' Only when members can apply the lessons from workshops and circle groups will they be able to participate effectively in the governance of a CFI.

Importance of Membership: When doing a comparison between larger co-operatives with over R7 million in deposits and those with less than R200,000 in deposits it becomes clear that having a well-defined common bond is imperative. This can further be illustrated by the success of Orania Spaar and Kredit Ko-operative Bank (OSK). Growing membership is an important source of capital for co-operatives, enabling the implementation of new strategies and service offerings. NEHAWU SACCO is an excellent example of an organisation with a well-developed strategy for membership growth. This strategy includes workplace representative programs, incentivized referral schemes for existing members, and recruitment campaigns.

Although membership growth is important, co-operatives must also ensure that membership fees and annual subscriptions are fully paid up and they need convenient ways to enforce this. NEHAWU has implemented salary deductions for membership fees, as well as for monthly savings and loan repayments.

The sector holds the potential to drive financial inclusion in isolated communities. The growth in savings portfolios and loan books with declining delinquency rates is proof of this. For these organisations to remain sustainable and increase their footprint, however, it is imperative that efficient and enforceable strategies are implemented. This can be achieved through training, a well-defined common bond, and an understanding of the co-operative principles. Training should not be a once off occurrence; continuous workshops or support groups will provide members with the tools to deal with a changing environment. Once members feel empowered to apply the skills they have learnt, they will be able to change procedures and strategies within their co-operatives to facilitate growth.

Salient features of Co-operative, Mutual, and Commercial Banks

Co-operative banks	Mutual Banks	Commercial Banks
Min 200 members	Min 7 members (founders)	No requirement (CIPC – Companies Act)
R100 000 share capital R1 million deposits	R10 million share capital	R250 million share capital
Constitution	Articles of Association	Articles of Association
Common bond	No common bond	No common bond
Members only	Members and clients	Shareholders and clients

Source: CBDA, the Connection Newsletter, August 2013, Mafanya, N

Co-operative Bank versus Mutual Bank - What's the difference?

The Co-operative Banks Act 2007 is often compared to the Mutual Banks Act 1993 (the Mutual Banks Act). Some clarity on the difference between the two is provided below.

The history behind the establishment of Mutual Banks lends itself to the characteristic of building societies. Building societies originated in England in 1781, and were founded for the purpose of building and buying houses, by the members of the society. In South Africa, building societies were first established in 1858, and it was not a requirement for clients of building societies to become members or shareholders.

Building societies that had not converted to a traditional bank, as we know it, were required to convert to mutual banks, when the Mutual Banks Act was enacted in 1993. With this, mutual banks that had existed as permanent building societies were required to have a minimum share capital of R1 million; while the requirement currently stands at R10 million for new applicants, with a minimum of seven founding members. Capital for a mutual bank can be provided for by juristic persons (other companies/trusts), as opposed to primary co-operative banks, where members (natural persons) capitalise the bank through the purchase of shares.

Mutual banks are regulated by the South African Reserve Bank Supervision Department, with the regulation thereof similar to that of the commercial banks. A board of directors in a mutual bank is appointed in the same manner as a traditional bank, where the Registrar of Banks approves any appointments, prior to the nominee serving on the board.

Co-operative banks, on the other hand, are required to have a minimum of R1 million deposits with 200 members. The requirements also include registration with the Companies and Intellectual Properties Commission (CIPC) as co-operatives and a co-operative bank is governed by a constitution. In the case of co-operative banks, in order to become a "client", you have to be a member/ shareholder of the co-operative bank. The board of directors are nominated at a general meeting by the members.

Last but not least, a co-operative bank is required to have a common bond; this is what brings the members together and the drive to form a co-operative bank. This is seen as the glue that holds the members together, thus ensures the co-operative bank is a success.

The Connection Newsletter, No. 5, August 2013, pg. 7 (CBDA Mafanya)

5.3 Salary-based Microlenders

The criterion for inclusion in this document as a dedicated salary-based microlender was a minimum of 5,000 active borrowers in South Africa with disbursed values of R50,000 or less. In 2009, with assistance from Micro Finance South Africa (MFSA), we identified fifteen organisations which met this criterion. For the 2013 Review, twenty three organisations were identified which likely meet this threshold. Since a majority of microlenders are privately owned, they do not readily share their figures. The larger players were identified through a proxy of the number of branches or outlets associated with their organisation.

Table 5.11: Larger Salary-based Microlenders with 5,000 or more active loans

	Organisation		Organisation
1	Atlas Finance	2	Bayport Financial
3	BCF Micro Finance (Pty) Ltd	4	Bella Beleggings
5	Bridge Credit	6	Cash for Cash
7	CapFin (PEP group)	8	Credicor
9	Early Worx	10	Elite Group
11	ETM Quick Cash	12	IEMAS
13	Kopano Kwik Cash	14	Letsatsi Finance
15	Mazwe Financial Services	16	Metrofin
17	Moneystar	18	PNP Finance
19	Royal Finance	20	Surecard
21	Thuthukani Financial Services	22	Twiga Fin Services
23	Wonga		

Microloans to salaried individuals have grown dramatically since introduction of the Usury Act Exemption in 1992, which waived the interest cap for loans of no more than R 6,000 and for a period of no more than 36 months. In 1999, the exemption ceiling was lifted to R10,000 and the Micro Finance Regulatory Council (MFRC) was created.

Success in this market allowed two of the leading institutions, African Bank and Capitec, to register and operate as commercial banks. Opportunities in the unsecured personal loans market have also been recognised by the larger commercial banks, which have implemented business plans in the past five years to seek market share in this sector.

When comparing the list of larger microlenders from the Microfinance Review 2009 with the list for 2013, certain industry trends are revealed. There are seven players which appear on both lists and continue to be a stable source of consumer credit in the country: Atlas Finance, Bayport Financial, BCF Microfinance (Pty), Credicor, Elite Group, Metrofin, and Surecard/Surebank.

The first trend is the demise of some of the larger franchise operations, such as Amalgamated Microlenders of South Africa (AMSA), which have either contracted or converted into company owned branch networks. With squeezed margins resulting from increased competition and the National Credit Act compliance requirements, it is no longer as affordable for franchisees to pay royalties. The more dynamic franchisee owners decide to go it alone, while the stronger franchisors strive for control and higher margins through buying out their franchise operators.

The second trend is the decision by some of the larger players to exit the direct microlending business in South Africa and concentrate on other businesses, or other countries. This explains the absence of Blue Financial Services, Real People, and Maravedi from the list in 2013. South African consumer credit companies have a large and growing presence in Kenya, Uganda, Ghana, and elsewhere on the continent.[16]

The third trend is a merger of entities resulting in new larger organisations. Mafori was combined with other operations, for example, resulting in the emergence of Moneystar, and Bridge Credit evolved from Onecor and SAML.

Two new larger providers of microloans are initiatives of retailers (PNP Finance and Cap Fin, a unit of the Pep group), and two are emerging with the support of international funders (Letsatsi Finance and Wonga South Africa).

In the 2009 Microfinance Review, we identified a range of challenges facing the sector. The challenges today, four years later, are very much the same. Profit margins are being squeezed by increasing competition, compliance requirements of the NCA, and rising unemployment in South Africa.

In 2012, Micro Finance South Africa identified ten factors which are increasing operational expenses for the sector:

1. Issues relating to debt counselling implementation.
2. Protraction of delinquent loan collection.
3. Codification of the in duplum rule.
4. The costs of participation in EDO (early debit order) and lower strike rate in EDO collections.
5. Under-disclosure of living costs.
6. Under-disclosure of consumer expenses relating to affordability (i.e. municipal services).
7. Higher operational risks due to crime.
8. Inaccurate credit data on lower income consumers.
9. Visible growth in the number of non-compliant/underground operators.
10. Value added tax application to loan fees.

New challenges emerged during 2013, as discussed in other sections of this report: The National Credit Act Amendment Bill; the Credit Information Amnesty; the new Code of Conduct, including limitations on emolument attachment orders and credit life insurance; and the new Affordability Assessment Guidelines.

As a result of these factors, the MFSA asserts that the smaller credit providers, and particularly those operating in rural areas, are finding it difficult to make ends meet. The MFSA argues that the maximum monthly service fees and initiation fees as stipulated in Chapter 5 of the NCA Regulations should be adjusted each year with inflation. Instead, the maximum fees have remained static for six

[16] Some are targeting civil servants and are employing repayment tactics long abolished in South Africa, such as card and pin. We hope we are not exporting the seedier side of our salary-based lending market!

years, since 2007. Smaller lenders are either being forced out of the market or they are going "underground", to operate in an unregulated manner. Larger companies continue to consolidate and look for ways to differentiate, including the introduction of insurance products and developmental credit, such as affordable housing and microenterprise loans.

5.4 Alternative Banks

We use the label "alternative bank" to refer to those banking institutions which are targeting the entry level or lower income markets, including African Bank, Capitec Bank, Ubank, WIZZIT Bank and Post Bank. Material for most of this section was derived from secondary sources.

Table 5.12: Key Indicators for four Alternative Banking Institutions

	African Bank Group	Capitec Bank	Ubank (Teba)	Post bank
Date	**September 2012**	**February 2013**	**February 2012**	**February 2012**
Total Assets (R blns)	R63.7	R38.3	R3.6	R10.3
No. Offices	637	560	91	1,572
No. Staff	5,182	8,308	750	14,435
Total Deposits (R blns)	N/A	R28.86	R2.9	R4.3
Total clients	2.6 million	4.7 million	n/a	
No. of Active Loans	2.6 million	3.7 million	84,530	n/a
Gross Portfolio (R blns)	R46.0	R30.7	R1.02	n/a
Average Loan size	R17,700	R8,300	R12,000	n/a
Impairment for doubtful debts to Gross loans	19.3%	8.8%	17.1%	n/a
Return on Equity	20%	27%	(10.2%)	5.9%

Source : Annual Reports

Origins and Profiles: Before 1998, African Bank had operated for 24 years as a small commercial bank focused on the historically disadvantaged market, offering loan finance, deposit taking, and transaction banking activities. A new African Bank was formed after the 1998 acquisition by the Theta Group (the holding company, later named African Bank Investments Limited) and subsequent merger of African Bank, King Finance, Unity Financial, and Alternative Finance. The new entity focused on loan activities, phasing out the original African Bank's deposit taking and transaction banking facilities (ABIL, 2008: 2). In 2002, African Bank acquired and integrated the personal loan book of Saambou Bank, worth R2.8 billion, significantly higher than the R1.7 billion Boland book acquired in 1998. In 2008, ABIL acquired Ellerines, a retail furniture and appliance group (ABIL, 2008: 3). Unlike other banks, African Bank has chosen not to operate a deposit-taking service but to fund its loans from wholesale capital markets.

Capitec Bank is a domestic retail bank focusing on providing affordable and accessible financial services, originally to lower-income segments. It was established in March 2001 through an amalgamation of a number of short-term cash lenders. Since February 2002, Capitec Bank has been listed on the Johannesburg Securities Exchange and has experienced exponential growth in its savings base becoming a model of success for entry level banking, challenging the conventional approach of the primary banks and "shaking up the industry". The reasons for Capitec's success include: an introduction of longer opening hours; aggressive marketing; design of a low cost savings product, the Global One Account, which includes different savings "pockets", interest rates above inflation, and relatively low fees, including free debit card swipes.

Ubank, formerly Teba Bank, had been operating under an exemption to the Banks Act since 1976, until Teba Bank acquired a full banking license in 2000. The bank is wholly owned by a trust managed by the National Union of Mineworkers and the Chamber of Mines. It is the ninth largest bank by assets. Teba initially provided basic financial services, such as the facilitation of remittances from miners and their families. Today, the bank offers payroll solutions for gold and platinum mines, savings accounts for miners and their spouses, fixed deposits, microloans, home loans, ATM cards and funeral insurance. Micro lending was launched in 2000. In October 2010, the name of the Bank was changed to Ubank and re-launched to the public. Since the birth of the new brand and strategy, various initiatives to improve and expand the business have been delivered.

The WIZZIT Bank concept was created in 2004 with WIZZIT Payments Limited established in March 2005. WIZZIT has an alliance banking relationship with The South African Bank of Athens Limited, utilising their banking license to support thousands of cell phone-based savings accounts. A sister company, R Qubed Consultants (now merged with WIZZIT Payments), developed the EVEREST Mobile Commerce Solution ("EVEREST") which is a fully functional mobile commerce and cell phone banking platform. WIZZIT has received funding from social investment funds such as: the AfriCap Fund, Oiko Credit, and the International Finance Corporation. WIZZIT was the first entity in South Africa to offer cellphone banking.

Postbank is a savings institution which has been operating as a division of the South African Post Office since 1991. It aims to provide banking facilities for the people of South Africa who previously had very limited access to financial services. It offers its products and services through the Post Office branch network. Postbank is expected to become a separate company within the SA Post Office group in the next three years. All the financial functions and payment products will be aligned under this division to provide more financial services to all South Africans (Annual Report, 2012). Postbank's preparations for corporatization as a separate legal entity as well as for the submission of the application to form a bank commenced in earnest during 2013.

Savings Products: Capitec appears to be the leader in savings services for the low income market. With Capitec's Global One account, up to four separate savings pockets can be opened, either fully liquid or with fixed terms, and can be labeled to indicate its purpose (school fees or wedding for example). As mentioned above, the Global One account offers free debit card purchases. All fees are among the lowest in the industry, but Capitec still manages to pay interest rates at or above the inflation rate, calculated on average daily balances.

Ubank and Postbank both offer deposit services including a transaction account with a debit card, and a savings account which offers higher interest rates and fixed term deposits for balances of R10,000 and more. Ubank fixed deposits have terms of between one month and twenty four months, a 32 days' notice with minimum balance of R100, and Grow with Us and Save Together both with minimum balance of R40. Postbank's minimum fixed term deposit is R1,000 with terms of between one to twelve months and up to twenty four months

WIZZIT has focused on financial access through cellphone technology. While their original target market was the unbanked low income market, a majority of deposit clients who use the accounts actively are from the middle income segments of South Africa. One possible reason for this is the greater familiarity and comfort this group has with technology.

Loan Products: Each of the five alternative banks offer the standard range of unsecured personal loans but with slightly different amounts and terms as reflected below.

	African Bank	Capitec Bank	Ubank Personal loan	Ubank Home Loan
Maximum Loan Size	R180,000	R230,000	R50,000	R350,000
Maximum Term	84 months	84 months	36 months	120 months

African bank also offers two credit cards, a blue card with credit limit of R8,000 and a gold card with credit limit of R20,000. Ubank offers home loans of up to R350,000 over a maximum period of 10 years. This loan can be used to purchase or extend a house and is secured by pension or provident funds. None one of the larger alternative banks has ventured into microenterprise lending. WIZZIT did launch a microenterprise lending operation in 2010, but closed it two years later due to insufficient volumes and operational losses.

5.5 Primary Banks

This section provides a comparison of products offered to the low-income market by the four major banks: ABSA, First National Bank (FNB), Nedbank, and Standard Bank. The increased use of technology to serve clients in a more cost and time efficient manner, along with the promotion of remittance products, is the underlying trend for new services launched over the past three years.

A summary of entry level products offered by the four major banks

ABSA

- Prepaid debit card: Functions the same as a debit card. Cardholders are able to top up using an ATM, a branch, or through cellphone banking. Regardless of the top up method used to deposit funds onto the card, a standard rate of 2.5% is levied. All withdrawals are free.
- Flexi Account: A transactional account with a minimum balance of R50. Value added services covered by the monthly fee of R11.00 include funeral cover, health and legal advice.

First National Bank

- Smart Accounts: A range of savings accounts with a choice of monthly fees and transaction fees; the higher the monthly fee, the lower the transaction fees. For a monthly fee of R49.00, most other fees are waived.

Nedbank

- Ke Yona: An entry level bank account with very low monthly fee of R2 or R5. Till point withdrawals are limited to Boxer and Pick n Pay stores. Free value added services such as R2 000 funeral cover is available provided that monthly R5 maintenance fee is paid.
- Transactor Plus: A "pay as you use" account. Value added services include R2,000 funeral cover

provided the monthly fee of R59 is paid.

Standard Bank

- E-plan: a transaction account with a low monthly fee of R9.00
- Access Account: A comprehensive transactional account. Banking channels available to access account holders include internet access, ATM's, and Access Points.

A "mystery shopper" exercise was conducted to identify products aimed at low-income clients, with two or three deposit accounts profiled for each bank. ABSA's Prepaid Debit Card and Flexi-Account; FNB's range of Smart Accounts; Nedbank's Transactor Plus and Ke Yona accounts; and Standard Banks Access Account and e-Plan accounts.

ABSA and First National Bank were the first two banks to introduce their Flexi Accounts, Prepaid debit card and Smart accounts in mid-2009, with Standard Bank and Nedbank introducing their entry- level accounts in early 2010. From the chart of comparative features, it appears that FNB is offering the best deals to the entry level market, following Capitec's example of low fees and free debit card swipes.

Out of the four banks, FNB and Nedbank are the only two banks with no account opening fees. ABSA and Standard Bank both charge a fee of R50 to open an account. All four banks are comparable in terms of minimum and maximum account balances. Across the bank spectrum, the maximum account balance depends on whether the client complied with FICA regulations at the time of opening the account.[17] The only exception is ABSA's Flexi account that requires a minimum balance of R50.

The fee structure for a majority of these products consist of a monthly fee that provides a bundle of free monthly transactions or a "pay as you use" option where the account holder pays no monthly fee but pays a higher fee per transaction when compared to out of bundle transactions rates applicable to accounts with monthly fees.

[17] Financial Intelligence Centre Act (FICA) is the latest and most comprehensive legislation detailing money laundering controls. FICA provides for the establishment of an anti-money laundering regulatory body and introduces mechanisms aimed at preventing money laundering. All accountable institution as defined by FICA, must comply and adhere to certain stringent requirements, which include: identifying all customers, verifying all information gathered in the identification process and keeping records of all this information and documentation. Exemption 17 provides a solution to the challenges faced by financial institutions to verify customers who are unable to provide a proof of residential address. The exemption stipulates the client may not hold more than one savings account or transfer, withdraw or pay more than R5,000 per day or R25,000 per month. A further requirement is that the account balance may not exceed R25,000 at any time.

	ABSA Bank		First National Bank			Nedbank		Standard Bank	
	Prepaid Debit Cards	**Flexi-Account**	**Smart Account - Zero**	**Smart Account - PAYU**	**Smart Account - Unlimited**	**Transactor Plus**	**Ke-Yona**	**Access Account**	**E-plan**
General									
Account opening	R 50.00	R 50.00	Nil	Nil	Nil	Nil	Nil	Nil	R 50.00
Monthly fee	Nil	R 11.00	Nil	R 11.50	R 49.00	R 59.00	R 5 or R 2	R 30.00	R 9.00
Max Balance	R 15,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Primary Transactions									
EFT deposits	2.5%	Nil	Nil	Nil	Nil	R 4.00	Nil	R 25.00	Nil
Own ATM withdrawals	Nil	3.95+1.15/R100				R2.20+ R1.25/R100	R5.50	R4.00	R2.70+ 1.1%
POS Purchases	Nil	R2.65	Nil	Nil	Nil	R 3.00	R 1.00	R 2.00	R 2.30
POS Cashback	Nil	R 3.95	Nil	Nil	Nil	Nil	Nil	R 4.00	R 5.20
Internal D.O.	n/a	Nil	R 4.20	R 3.50	Nil	R 4.50	R 3.00	R 4.00	R 6.10
External D.O.	n/a	R 7.15	R 15.00	R 9.35	Nil	R 7.00	R 5.00	R 4.00	R 6.10
Airtime Purchases									
Cellphone	Nil	R 1.00	R 1.00	R 1.00	Nil	Nil	n/a	Nil	Nil
ATM	Nil	R 1.00	R 1.00	R 1.00	Nil	Nil	n/a	Nil	Nil
Account Payments									
Cellphone	n/a	R 7.15	R 1.00	R 1.00	Nil	R6.00	R 4.00		R 6.10
ATM	n/a	R 7.15	R 10.00	R 7.00	Nil	R6.00	R 4.00		R 6.10
Statements									
Cellphone	Nil	R 11.00	Nil	Nil	Nil	1 free; then 5.00	R 4.00	R 25.00	Nil
ATM	Nil	R 2.00	2.80	2.80	2.80	1 free; then 5.00	R 4.00	R 8.00	1 free;then 3.80

Bank charges levied on transactions vary across the accounts. Most of the accounts allow clients to deposit money free using electronic account transfers. Bank charges are incurred, however, with any transaction that makes use of an ATM or a bank branch. Customers are able to access value added services such as balance enquiries, prepaid electricity, and airtime purchases using their mobile phones or an ATM. For all product offerings, balance enquiries using mobile phones are free of charge, but a service fee is levied when an ATM is used and when balance enquires are printed. Airtime purchases are free on all the account options excluding ABSA's Flexi Account, where a service fee of R1 is charged.

Clients of any of the four banks are able to make use of Point-of-Sale (POS) technology to deposit and withdraw cash at large retail chains at significantly lower costs when compared to service fees charged on traditional service channels such as ATMs or bank branches. This illustrates how technology has enabled customers to have more convenient and cheaper access to bank products. Technology will continue to play an important role in the future to decrease the cost of banking.

Technology plays a crucial role in serving unbanked clients and reaching remote areas in a cost effective manner. This is demonstrated through the use of handheld devices by a majority of banks to open accounts in remote areas. Technology holds the potential to provide formal banking products to currently unbanked customers. Statistics from FNB and ABSA indicate that they had 4.0 million and 3.9 million registered mobile banking customers respectively in 2012. Strategies that focus on moving away from traditional channels towards low cost electronic channels have the potential to change the delivery of banking products. Successful relationships must be fostered with leading mobile networks (where the bank does not hold Electronic Communications services and electronic computer network licenses) that are trusted by customers to increase product uptake. Consumer literacy on the functionality of such products will be vital to the success of the product.

Two of the four banks no longer offer Mzansi accounts to new customers. The two banks who still offer the Mzansi accounts to new customers, namely ABSA and FNB, charge R20 and R10 respectively to open the accounts. Mzansi account holders incur no monthly fees at any of the four banks. Account holders receive a bundle of free transactions each month. The number of transactions varies from bank to bank but typically includes five free transactions. Out of bundle fees also vary from bank to bank. Account holders are able to deposit funds free of charge when using electronic account transfers. The account holder will be charged out of bundle rates for all other deposits and withdrawals when using a branch, ATM or point of sales device. Mzansi account holders receive value added services that include free cellphone banking, cellphone balance enquiries, and airtime purchases.

Entry level product variants adopted by primary banks

ABSA: It is estimated that 50% of all remittance product users remit money once a month. ABSA's "Cash Send" platform, which allows customers to send money to anyone, even if they do not have a bank account, has processed over R1 billion of remittances in 2012, a 73% increase from 2011.

ABSA launched its in-store banking facilities in 2011, which allow customers to draw and deposit money from their accounts, purchase airtime, and obtain mini statements on their accounts.

Participating merchants include Shoprite, Checkers, Pick n Pay, and others. Between January and September 2013, more than 135,000 in-store transactions took place, valued at R45 million. By October, over 20,000 transactions were taking place each month.

A further initiative to reach customers is ABSA's '1234' branches. These branches provide a limited number of products that are focused on the entry level segment of the market. Their branches grew from the loan centre concept that was previously developed by ABSA. Although these '1234' branches only account for 8% of ABSA outlets, they are responsible for 32% of total lending sales (Maritz, 2011). To promote financial literacy, ABSA has touch screen devices in these branches that educate clients on how various banking products work.

The table below shows the growth ABSA has experienced in the number of entry level clients from 2009 to 2011.

Table 5.13: ABSA's entry-level banking customers/products

	2011	2010	2009
Number of entry-level and inclusive banking customers in ABSA	7.4 million	7.2 million	6.9 million
Number of entry-level accounts in Barclays Africa	640,407	751,860	661,895
Number of Mzansi accounts	840,783	837,124	839,706
Number of micro-enterprise finance loans approved	6,420	4,574	2,984

Source: Barclays 2011

ABSA is committed to providing financial services to the emerging market and has made use of technology to reduce the costs associated with traditional banking branches. ABSA has introduced remote account opening systems. Accounts can now be opened using a handheld device such as a mobile phone or a tablet. To date, more than 40,000 accounts have been opened and 40% of all loans are being approved through digital sales. ABSA has further made use of technology to service small businesses through the introduction of their procurement portal and the mobile point of sale device. The procurement portal enables blue chip clients to view the supplier details of small businesses on the portal. 60 million active credit and debit cards combined with 10 million smart phones in South Africa make the mobile point of sale device an ideal way of including small businesses in the formal market.

First National Bank (FNB): Over the last few years, FNB has focused on servicing emerging consumers, with a strong focus on innovative and low cost transactional banking products.

EasyPlan is a transactional banking platform that was launched by FNB Smart Solutions. This platform makes use of low cost channels for lending, saving, insurance cover and transactional products and services such as cellphone banking and Automatic Deposit Terminals (ATMs where customers can deposit cash and pay bills). EasyPlan products target consumers who earn less than R24,000 per annum and who previously did not have access to formal credit. Through EasyPlan these customers can take out a small loan, from as little as R250. This enables these customers to build a credit record that will enable them to qualify for larger loans in the future. These microloans can be approved within 10 minutes.

The focus of Smart Solutions is exclusively on customers who earn between zero and R 100,000 annually. Smart Solutions provide financial services to people who earn less than R10 a day. Smart Solutions' and Mzansi accounts offer banking services to these clients. SmartBond and SmartHousing plans offer qualifying clients with 100% home loans.

Currently there are 150 EasyPlan branches in seven provinces which serve 130,000 clients. These branches have extended operating hours and are positioned in mass market activity hot spots such as transport hubs and retail stores. EasyPlan's full transactional service bank account costs R4.20 per month.

SmartSpend Loans have grown by 46% between June 2011 and June 2012, with disbursements valued at R3.1 billion, while SmartBond disbursements have grown to R2.9 billion for the same time period. This translates to a year-on-year growth of 15% (FNB, 2012).

With eWallet, FNB clients can instantly buy prepaid airtime or send money to another cellphone or withdraw money at a FNB ATM without a bank card or FNB account. By June 2012 there was a 98% growth in eWallet transactions and R2 billion had been sent to eWallets since October 2009.

2013 marked the launch of FNB's money transfer service to Zimbabwe. Currently, an estimated 1.9 million Zimbabweans live in South Africa, remitting R6.7 billion to Zimbabwe each year. FNB's money transfer service provides consumers with a cost effective way to send money home. Recipients need not register to use the service. The fee is only 4.5% of the remittance value. Another development in remittance products is the 2012 partnership between FNB and Money Gram, which enables customers to transfer funds across the globe.

By June 2012, FNB had financed 400,000 affordable homes (FNB, 2012). They have built seven prototype affordable houses that are built from recycled materials and hope to build more over time. FNB provides support to Small and Medium Sized Enterprises (SMEs) through the creation of Vumela, a fund which has committed R63 million to high growth SMEs who struggle to gain access to capital.

In the future FNB seeks to achieve growth in existing markets and markets that are currently under-represented. They aim to achieve this with innovation and their financial literacy plan. This plan currently involves face-to-face sessions which reached more than 100,000 people in 2012. The plan also includes radio based financial literacy programs and SMS messaging systems that detect inappropriate behavior by customers and sends the customer an automated message with relevant advice.

FNB has embraced the growth and uptake of social media, making it possible to transact via Facebook. They have also introduced a "Cashies Card" that will replace store cash payouts for payday advance customers. This card is linked with various other services that enable Cashies and eWallet cardholders to pay accounts, buy airtime, data and electricity and send money via cellphone and internet banking.

Nedbank: Nedbank is serving the emerging market through retail banking in participating Boxer[18] stores. This service allows shoppers to undertake a variety of banking activities ranging from opening bank accounts and taking out personal loans to applying for home loans. Nedbank has made use of mobile technology to launch JustSave accounts and money transfer solutions through Vodacom m-pesa accounts. These accounts allow customers to transact, borrow, save and insure. JustSave accounts can be opened with a minimum balance of R50. For a monthly fee, JustSave clients gain access to funeral cover. Clients who earn a minimum of R1,200 per month can access personal loans to the value of R1,000.

Standard Bank: Standard bank introduced AccessAccounts in 2013, replacing previous low cost products such as the EPlan account, Mzansi account, and Mobile Bank account. AccessAccounts can be opened with no more than a valid identity document and allow customers to perform all basic banking activities such as depositing and withdrawing money and making payments and money transfers. Access Account fees are structured in one of two ways; customers can pay a flat monthly fee of R30 or pay per transaction where transaction fees range between R2 and R4 (Standard Bank, 2013). As of December 2012, just under 1 million new AccessAccounts had been opened. Getting customers to transact, however, has been a challenge. Of the 1 million new low income accounts which had been opened by December 2012, only 50% were active.

Standard Bank makes use of mobile technology to open accounts on the streets and outside traditional branches. The bank introduced 9,700 AccessPoints across the country during 2011, with 1,200 full service outlets and 8,500 value added outlets. Once again, ensuring usage has been a challenge, with the total number of points dropping by 30% to 6,800 during 2012.

Standard bank is investing R120 million in inclusive banking products to develop savings, loans and credit products that can be attached to AccessAccounts. “AccessSave”, a 7 day fixed deposit account, had R84 million in savings and 303,486 customers by December 2012. At the same date, there were 450,724 “AccessLoan” short term loan accounts with a loan book of approximately R3.3 billion. Standard banks’ FuneralPlan suite now includes pay as you go insurance products. At December 2012, Funeral Protection and Debt Protection Plans had grown by 2.4% and 5% respectively, from the prior year.

Standard Bank has also launched a product that enables users to transfer money to Zimbabwe, and estimates that 70% of product users are repeat users. Currently, clients can only transfer remittances via internet banking, but aims to expand the services to ATMs and other AccessPoints.

Standard Bank has further joined forces with social platform, Mxit. It is now possible for Mxit users to send money to other Mxit users for free, deposit and withdraw cash, purchase airtime and electricity. In 2012, mobile sales teams were able to open accounts within ten minutes, using mobile phones and tablets. Standard Bank has also launched Muvo Bus cards in Durban. These are preloaded cards which can be loaded at any point of sale or Muvo mobile vans. This card is used to pay for bus fare and can be used at any store that accepts Master Card. Muvo cardholders need not have an existing bank account to use this service; a step towards increased financial inclusion.

[18] Part of the Pick n Pay group

Standard bank has further streamlined their SME loan application process and have introduced new products such as contract finance. During 2012, R540 million loans were provided to SMEs. The table below reflects inclusive client trends within the bank:

Table 5.14: Standard Bank's Inclusive banking customer base

	2012	2011	2010
Number of inclusive banking customers	6,213,049	5,365,974	4,808,605
% of inclusive banking customers (as part of personal banking customer base)	71	59	-
Number of new to bank transacting customers	1,695,959	1,356,636	938,052
Number of active customers	4,942,263	4,300,000	-

Source: Standard Bank 2012

ABSA bank's inclusive banking journey

Increasing financial inclusion in South Africa is associated with various challenges. According to a study conducted by FinScope, high unemployment rates and irregular incomes explain why individuals choose not to hold a bank account. Micro and Small Enterprises (MSEs) play an important role in the South African economy, but nearly six million MSEs struggle to gain access to credit, with only 8% of MSEs ever having borrowed money from formal financial institutions.

The evolution of ABSA as a bank for low-income customers has its roots in a decision in 2000 to change to a customer-centric organizational structure, and began with FlexiSave, a basic savings product. At this time, the bank made significant investments to understand the needs and behaviors of its low income clients.

Despite being designed for lower income households, the Flexi Banking account tended to exclude the lowest end of the market, due to requirements such as proof of income or residence. Furthermore, ABSA did not understand the credit risk within this sector and lacked the capability to offer distinct value to multiple customers. After further investigation, ABSA launched a transactional product for the entry level market.

Although ABSA accounted for more than 30% of the low income bank account market by 2005, no credit products were offered. The bank started to offer unsecured microloans of between R3,000 to R15,000, personal loans of between R15,000 and R150,000, and micro-enterprise loans for amounts of between R1,000 and R15,000. These loans were offered through a network of specialized loan centres. ABSA's success in these products did not reflect, however, in adjacent financial service categories; they were unable to take advantage of cost synergies by cross selling between products, an important strategy when serving sectors with low profitability. A further constraint was that ABSA's legacy systems made it expensive to provide loans of under R3 000 or for terms shorter than one year.

By this time, various other banks had entered the market and ABSA had to develop a new low-income business model to improve customer retention, increase cross selling, and decrease service costs. They had strong brand awareness within the mass market and had an extensive branch footprint across the country that enabled customers to access their products conveniently. Their new model included engaging in partnerships, such as the Mzansi accounts, and the launch of new products such as Cellphone Banking, Cash Send, and Remote Branchless Banking. Revamped branches also introduced a focus on consumer education.

The provision of finance to MSEs was seen to have major growth potential. At least three non-commercial group-lending micro-enterprise finance institutions were extending loans below R10,000. None of these institutions, however, had become self-sufficient/profitable. Various providers had tried to use traditional individual lending models but had been unable to overcome the challenges of debt repayment, fraud, high operating costs, risk mitigation, collections and small loan sizes. Aware of these challenges, ABSA created a dedicated unit to service this market.

The Micro-Enterprise Finance unit (MEF) took six months to advance from concept to deployment. Initially offering two products through micro-enterprise service centers, they were faced with small average loan sizes, high default rates, adverse credit policy, inappropriate IT systems and difficulty in managing community network agents. Based on this experience, ABSA later focused on one product and concentrated on finding ways to decrease the costs associated with the model. By 2010, ABSA had disbursed 50,000 micro-enterprise finance loans with a portfolio, at that time, covering 6,000 active customers with an average loan size of R5,000. [19]

ABSA's overall success in serving the low income market can be attributed to their dedication to market research and developing a thorough understanding of their target customers. They further mitigated some of the risks inherent in serving the low income market by diversifying the client base within that market. ABSA's strong brand awareness and investment in brand reputation allowed them to overcome hurdles associated in trust when serving the base of the pyramid. Their extensive channel footprint further made it convenient for customers to access their products.

Learning from ABSA's involvement in the low-income market, the following issues should be addressed in order to improve the scale and commercial viability of serving markets with thin and volatile margins. Large commercial institutions, such as ABSA, have a limited degree of freedom due to existing legacy systems and processes. Working within these frameworks is often cumbersome as business models must undergo radical change to successfully serve low income markets. Although an extensive channel footprint is an advantage, the cost of managing these branches is significant. This contributes to the difficulty large institutions face in reducing costs and prices in the provision of formal financial products to low-income markets. Finally, top management must be committed and understand that investing and targeting this market involves long payoff periods and difficult trade-offs.

Standard Bank's Inclusive Banking Strategy: Will it succeed?

Encouraged by the opportunities at the lower end of the market, and the success of branchless banking solutions and mobile phone technology in other emerging markets, Standard Bank has actively pursued an inclusive banking strategy over the past five years, aimed at providing affordable banking solutions to people with low incomes in a commercially viable manner. This has led the Bank to innovate not only at product level, in the form of a low-cost transactional account, but also at distribution level, by entering into partnerships with thousands of retailers in low income

[19] As discussed under the Section on Microenterprise Lenders, the high overhead costs associated with offering this product within the bank eventually led to the decision by the bank to exit the business.

communities across South Africa's peri-urban and rural areas to provide easily accessible points of access. These "AccessPoints" function almost like no-frills branches, where account holders can carry out a number of transactions, including cash services (called cash-in and cash-out transactions), purchasing prepaid airtime (mobile phone credits) and electricity, and, in future, paying for goods and services. Since launching its inclusive banking strategy in 2007, the Bank has built a network of 9,700 AccessPoints across all of South Africa's 9 provinces. Approximately 900,000 low-cost accounts have been opened thus far, and 90,000 new account openings per month were expected by the end of 2011. Most of these customers have never used banking services before.

The business case for the Bank's inclusive banking strategy is, however, not guaranteed. Success will partly depend on Standard Bank's ability to overcome a number of challenges, including encouraging customers to actually transact on their accounts, and to ensure a sustainable skills transfer to the owners of AccessPoints, as well as to the sales agents who help the bank obtain new customers. If these challenges can be overcome, however, inclusive banking could become a major revenue stream for the bank within the next four years, while significantly improving the extent of financial inclusion of South Africans living at the base of the economic pyramid.

"We have not yet reached financial inclusion", Leon Barnard (Director: Inclusive Banking) cautions: "Full financial inclusion requires us to link people to markets through a bank account, to offer savings, insurance and lending, and most powerful of all, to develop financial literacy". Perhaps the most visible and remarkable achievement of Standard Bank's inclusive banking strategy so far has been to make banking more physically accessible to people with low income. Its network of AccessPoints is currently unmatched by any other bank in South Africa, and places the bank in a strong position to overcome the next big challenge, namely getting customers in low income communities to transact on their accounts.

Source: Coetzer & Pascarel, 2012

5.6 Affordable Housing Finance

South Africa's housing supply sector is predominated by government subsidised delivery. Approximately 750,000 housing opportunities, which include houses, rental units, and serviced sites, have been delivered in the period 2009 – 2012 (Department of Human Settlements, 2013). Furthermore, it is estimated that 75% of all delivery in 2010 was in the subsidised market. It is equally impressive to note that 58% of all properties on the deeds registry are in the so-called 'affordable' category, trading at a value of less than R500,000. To date, there are an estimated total of 1.44 million subsidised properties, of which 345,600 properties are formally registered.

Despite noteworthy gains achieved under the government subsidised program, the housing backlog persists and is growing. The backlog is officially estimated as 2.1 million units which will house an estimated 8 to 10 million people. Of this, 1.1 million households live in informal settlements in South Africa. Table 5.15 below reflects trends of informal settlements in the country.

Table 5.15: Trends in Informal Settlements

Year	Number of informal settlements
1994	300
2001	1,066
2010	2,628

Source: Centre for Affordable Housing Finance, Year Book 2013

Property market: South Africa has a well-established property market and a world-class land tenure system that offers procedural protection for buyers, sellers, and financiers. This is an enabling factor for a marketable and sustainable sector. Currently, SA is ranked 79th out of 185 countries on a global index that measures the ease of property registration. On average, it takes approximately three weeks (23 days) to successfully go through the six procedures required. Associated costs amount to 5.9% of the property value (World Bank, 2013).

Pricing: The housing sector has had an overall lacklustre performance in the past four years (2009-2013). There are indications, however, that this market is gaining momentum after the global recession. Housing prices have become relatively attractive over the same period. During 2012, the house price index for medium-sized houses rose by 9.53% (3.57% in real terms), the highest year-on-year increase since February 2008. House prices increased by 2.93% (1.63% in real terms) during the second quarter of 2013. A low interest rate regime will continue to support the property market and affordability of mortgage finance (ABSA, 2013). Housing analysts' predict that, although nominal house prices will rise in 2013, these increases will remain in single digits in view of the slowing economy, with real house price growth remaining under pressure given continuing increases in inflation. Residential building plans approved dropped by 5.8% to 49,775 units in 2012. On the other hand, residential buildings completed rose 6.2% to 43,031 units.

Table 5.16: Average Housing Prices

Size	R-value
Small homes (80-140 sq. m)	789,400
Medium-sized homes (141-220 sq. m)	1,077,700
Large homes (221-400 sq. m)	1,592,800

Source: ABSA 2013

Investing Opportunities in Housing Sector: Brand & Cohen (2013) reflect that only 15% of South Africa's 14.45 million households earn enough to secure a mortgage, while 60% earn less than R3,500 a month and can qualify for state housing. The remaining 25%, including most teachers, nurses, police officers and soldiers, have had access to neither.

Opportunities in SA's housing finance landscape can be found in a variety of market segments. The most urgent, and significant, is in the affordable market where demand far exceeds supply. Broadly, this market comprises those households earning less than about R16,000 per month who could afford housing finance up to R500,000. Already, some developers are beginning to work at the top end of this market segment, delivering houses in the region of R300,000 to R500,000. Here, there is room for a substantial increase in scale. The only caveat is the indebtedness profile of the market, which has not been sufficiently studied from the perspective of housing affordability (CAHF, 2013).

Dawood (2013) comments further: “With so many households unable to secure a mortgage for housing, there is clearly a need to utilise some other lending mechanism to access and secure adequate housing. The new policy coming into place in September, which calls for upgrading of informal settlement, I think, will further increase the demand for housing microfinance as these properties will now be assets that can be used as collateral to access loans and improve homes. This will create an even larger opportunity for micro lenders to expand their portfolios and enter into the housing sector in South Africa…”

Housing Microfinance: Housing Microfinance (HMF), considered a sub-sector of microfinance, is concerned with providing credit for the purchase, building, expansion, or improvement of shelter. Housing has a number of components, including the purchase of land, accessing services or improving existing services, the construction of a complete dwelling or building incrementally, renovating, and maintenance.

Ferguson (2008) identifies two primary reasons why HMF is gaining increasing importance. First, HMF has the potential to serve most low and moderate-income households. These families neither want nor can afford a large long-term traditional mortgage to purchase a developer-built complete unit. Instead, these households build progressively by acquiring and upgrading title to a lot, building a makeshift shelter, replacing this makeshift shelter with permanent materials and expanding it, and lobbying government for services. A series of small short-term loans can fund the steps in this progressive housing process with payments affordable to the household.

A second reason that HMF has become a developmental “hit” involves its fit with the microfinance industry. Small home improvement credit offers a useful product that microfinance institutions can add to their core businesses of microlending or microenterprise lending. MFIs can successfully apply their existing loan methods and installations to small home improvement loans with little or no modification.

South Africa’s housing and finance policies have paid explicit attention to housing affordability since 1994. Understanding that most of the population could not afford housing, and facing an estimated housing backlog of about three million units, the 1994 government implemented an ambitious national housing subsidy programme. This Reconstruction and Development Programme (RDP) entitled all households earning less than R3,500 a month, and satisfying a range of other criteria, to apply for a fully subsidised house. In terms of the RDP programme, subsidy beneficiaries get freehold title to a 250 m^2 serviced stand with a $40m^2$ top structure, entirely for free. The programme persists today, with a few modifications, and has delivered an estimated 3 million housing units.[20]

[20] Centre for Affordable Housing Finance in Africa, 2012 Year Book

Effective from 1 April 2012, a new Finance Linked Individual Subsidy Programme (FLISP) has been introduced for households earning between R3,501 and R15,000 per month. Accessible only when linked with mortgage finance and used to purchase a new house costing less than R300,000, the subsidy offers beneficiaries a once-off capital contribution of between R10,000 to R87,000, depending on household income. Implementation has been very slow and so the FLISP is not yet having the expected impact.

At the lower income range, the R87,000 subsidy is a valuable contribution to the household earning R3,550 per month. Whilst individuals will not be able to purchase a new house, the subsidy will cover a deposit in the resale market and could be used to stimulate trade of existing housing, creating the housing ladder that has been lacking for so long.

With the assistance of NHFC and RHLF, CIBA identified a total of 12 providers of affordable housing finance in South Africa, from which four organizations shared their data and experiences with CIBA as indicated by an asterisk. The primary banks also provide personal loans for incremental housing purposes, but we were unable to obtain specific data on these services.

Table 5.17: Providers of Housing Microfinance in South Africa

Bayport Financial Services	Lendcor
Blue Financial Services	Mazwe Financial Services *
Elite Group	Norufin Housing
Iemas Financial Services Co-operative Limited *	Pulse Property Holdings
Izwe Loans	Real People Holdings *
Kuyasa Fund	Thuthukani Housing Finance *

Table 5.18: Key Indicators per selected Housing Microfinance Institutions

	Thuthukani[21]	Iemas[22]	Real People[23]
Origin	2012	1996	2001
Total Assets (R 000)	15,358	4,164,595	4,305
Gross Portfolio (R 000)	13,329	4,706,831	n/a
Active Loans	1,090	107,774	764,376
Average Loan size disbursed	14,852	n/a	n/a
Number Loans Disbursed	877	n/a	n/a
% Female	43%	n/a	39%
Provision/Impairment for Losses (R000)	1,837	50,000	n/a
Portfolio at Risk more than 30 days[24]	16 %[25]	n/a	n/a

[21] Thuthukani took over the Indlu Housing Finance book in April 2012. They are undertaking collection activities for Indlu but all new loans are disbursed under the Thuthukani name.
[22] The housing loans are a small portion of this total portfolio.
[23] The housing loans are a small portion of this total portfolio.
[24] The Portfolio at Risk over 30 days = Total outstanding value of loans in arrears more than 30 days/total principal value outstanding of total portfolio

Arrears Rate more than 30 days[26]	5%	14.4%	42%
No. offices	1	32	66
No. Staff	8	507	2,107
Total agents/ brokers/Loan officers	4	154	322
Debtor Management System	MLAS	Unix Maxi loan system and MLAS	n/a

Thuthukani Financial Services is a mid-sized salary-based microlender with 40 branches across several provinces. Recognising the saturation and rising challenges within its core business, Thuthukani took the opportunity to venture into developmental lending, with housing microfinance as a first step, when Indlu Financial Services came up for sale. Indlu, now called Thuthukani Housing, is based in Mashishing and serves the surrounding areas of Mpumalanga. Agents based in building supply shops refer potential clients to Thuthukani staff, who then conduct the credit risk assessment and either approve or decline the loan. Funds are disbursed directly to the suppliers. Thuthukani Housing provides unsecured incremental housing loans of between R2,000 and R30,000 with terms of between 4 and 24 months. Funding for home improvements is the largest component (60%), followed by extensions (35%), and services (5%).

Iemas started as a staff loan facility within Iscor (1937) and has grown to become the largest non-profit trade co-operative in the country, providing financing and insurance products. Iemas privatised from Iscor in 1996 and today has agreements with approximately 600 South African companies to provide a salary deduction facility to assist their employees with financial services. The maximum loan size is dependent on pension fund rules (the session amount available). Terms go up to 240 months, depending on the pensionable age of the borrower and the size of the loan. Iemas also offers short term insurance and financial wellness training.

According to all survey respondents, the primary challenge for affordable housing finance is the recent growth in unsecured lending volumes and resulting over-indebtedness of applicants. This trend is exacerbated by the slowing economy and stagnant employment levels (see Sections 3.1 and 4.4), which raises the risk profile of lower income applicants.

Iemas cited the low margins that they are able to achieve as a challenge, with low yields on their pension backed loans funded by relatively expensive wholesale borrowings. Thuthukani mentioned that the primary banks have exclusive deals with some of the larger building supply companies, thus squeezing them out of the market. High expense levels in serving a rural market is also a challenge. Real People also identified the slow and poor quality delivery of new housing supply as a challenge.

Ideas for enhancing the market overall included:

- NHFC and RHLF to consider providing more attractive on-lending rates and offering institutional strengthening grants to support research and development for higher risk markets;
- NHFC to relax and stabilise their lending criteria and terms and conditions;

[25] These figures for new book only (excluding Indlu book)

[26] The Arrears Rate over 30 days = Total instalments which had come due but were not paid over 30 days /total principal value outstanding

- Market consolidation;
- Finding a solution to improve individual's financial well-being;
- Support for the growth of the finance linked subsidy scheme.

5.7 Retailers

Retailers in South Africa provide a variety of financial services to their clients, ranging from store cards and personal and home loans, to insurance products and value added service. The market can be divided into two: retailers providing credit and insurance products only and retailers who also include various value added services. The retailers who provide predominantly credit and insurance products include the Edcon group, Ellerines, JD group, The Foschini Group, Mr Price Money, RCS group, Woolworths Holdings limited, Clicks group and Ackermans. The retailers who focus on the provision of value added financial services include Pick n Pay, Spar, Checkers and Pep. The table below provides a broad overview of the products offered by retailers. A full overview of the products offered by retailers can be found in the background papers for this report.

Table 5.19: Financial products offered by retailers as at 3 September 2013

Retailer	Credit Card	Store Card	Money Transfers	Insurance Products	Value Added Services **
PEP	No	No	Yes	Yes	Yes
Ackermans	No	Yes	No	Yes	Yes
Mr Price	No	Yes	No	Yes	Yes
Jet	No	Yes	No	Yes	Yes
Edgars	No	Yes	No	Yes	Yes
Foschini	No	Yes	No	Yes	Yes
Truworths	No	Yes	No	Yes	Yes
Clicks	Yes	No	No	Yes	Yes
Pick n Pay	No	No	Yes	No	Yes
Checkers	No	No	Yes	Yes	Yes
Spar	No	No	Yes	No	Yes
Woolworths	Yes	Yes	No	Yes	Yes
Electric Express	No	No	No	Yes	Yes
Bears	No	No	No	Yes	Yes

The majority of retailers offer store credit to consumers and provide personal loans to existing store card holders. A majority of retailers also offer insurance products to these clients who actively use their cards. There are a few retailers who provide "pay as you go" insurance products with monthly fees ranging between R25 and R100 per month. Several retailers have introduced money transfer products, which enable customers to remit and receive funds within the Republic. Currently PEP is the only retailer that enables customers to send money outside SA. The cost of money transfers ranges between R9 and R9.99 per transaction. In order to make use of these value added services, customers must present proof of identification or be a registered user.

Although most retailers offer a variety of financial products, few cater for lower income earners or customers without proof of residence and a bank account. Store credit at the stage of application at clothing stores requires proof of identity. Should the client wish to apply for a personal loan, however, proof of income also becomes a requirement.

Pep, Shoprite and Checkers offer prepaid insurance products to their customers, reducing the need for form filling and other administrative burdens. A random 'mystery shopping' exercise revealed that although various financial products are available at most retailers, staff are often uninformed of the financial service product offerings or exactly how these products work. This product ignorance and the associated costs of using the products and accessing the products (long queues and waiting time in stores) may make customers reluctant to try in-store products. Furthermore, these products do not necessarily serve the lower end of the market if the requirement of proof of income and residence is made obligatory. These issues should be addressed if the objective is financial inclusion.

6. Special Focus Areas

6.1 Financial services for low-income farmers and rural communities

Since the institution of democratic government in 1994, much emphasis has been given by the state to creating a more racially representative agricultural sector, led by its policy of land reform. The 'land restitution' and 'land redistribution' thrusts of this policy have established a class of land reform beneficiaries in the former 'white rural areas' who, in most cases, are attempting to engage in large scale commercial farming. State grants for land, fixed improvements and machinery have not been matched by the farms' ability to raise working capital, which has been seriously hamstrung by tenure restrictions which do not allow beneficiaries to use their physical assets as collateral for loans. Most such farms – which number at most only a few thousand - are no longer functional. The current 'recapitalization' programme, driven mainly by the Department of Rural Development and Land Reform (DRDLR), is aimed at rectifying this situation.

By contrast, there are 2,5 - 3,5 million households in the (black) 'traditional tenure' farming areas engaged in small scale agriculture for their own consumption (referred to here as 'subsistence' farmers) and an estimated 350,000 – 700,000 who produce some part of their output for the market (referred to as 'emergent farmers'). With very few exceptions, these farmers are also unable to use the land that they farm for collateral, as the state owns almost all land in these areas. This not only makes borrowing more difficult, but also obstructs land rental, thereby hindering the development of economies of scale for those who would like to farm commercially. The number of small to medium scale farmers who are more or less fully commercial (referred to as 'small scale commercial farmers'), spread between the former 'white' and 'black traditional' farming areas, can be estimated at between 11,000 and 15,000.

Demand:

FinMark Trust's annual FinScope Consumer and biennial Small Business Surveys for South Africa indicate that almost half of rural adults (aged 16+) made use of some form of bank service in 2010, against nearly 70% in urban areas. At 38%, women were significantly less 'banked' than men (61%). In 2011, just on 30% used some form of formal non-bank financial service (insurance, supplier credit, etc.), with much the same percentage making use of an informal financial service. A similar percentage of rural adults did not use any kind of financial service in 2010, against 21% in urban areas. There was a strong correlation between being poor and not having access to financial services.

More than one in every two (2-2,5 million of the total of 3-4 million) rural households were involved in small or micro-enterprise activity in 2010. Nationally, as many as 13,5% of MSE owners reported undertaking some form of agriculturally-related activity. Sixty percent of rural MSE operators were women and rather more than a third used a banking service. In respect of the four main financial services – savings, transmission/transactions, credit and insurance – again just more than a third used formal savings and transmission services, but only about 10% formal insurance services and less than 4% formal credit (2,5% from a bank). Membership of informal Savings and Credit Groups

(SCGs) is significant among rural SME owners: 15% reported saving through this medium and 10% borrowing – 4 times the percentage borrowing from banks.

Following FinScope's 2010 Small Business Survey, 'small farmers' are defined to include only the roughly 700 000 who derived some degree of cash income from agriculture, i.e. 'emergent' and 'small commercial' farmers. 'Subsistence' farming households were taken into account as 'rural households'. On this definition, a surprisingly high 46% of small farmers – almost equal proportions of whom are male and female – are to be found in formal or informal urban areas. As with many other countries in Africa, earning income from small scale agriculture is a significant component of many urban residents' livelihood strategies. More than a half of urban small farmers use banks' services (53,4%), as against 38,4% of their rural counterparts, suggesting that ease of physical access is an important determinant of formal financial inclusion. Nearly half of small farmers used formal savings and/or transmission services and about 30% formal insurance services, but, as with MSEs, only a small percentage used formal credit services (5,6%), just 2,5% from a bank. In common with MSEs, family and friends were the most frequently tapped source of credit. Informal SCGs more often serve as a vehicle for saving the funds required for annual agricultural inputs than as a source of loans for this purpose.

With the private sector generally catering adequately for land reform beneficiaries' and small farmers' savings, transmission and insurance needs, state policy to assist small farmers has focused on capital provision in the form of grants for once-off fixed and movable asset acquisition and loans for recurrent working capital needs. State grants for land totalled R13,6 billion between 2008 and 2012 and R3,4 billion for fixed improvements and movable equipment between 2004 and 2012. The state appears to have been the largest lender of working capital, through the Department of Agriculture, Forestry and Fisheries' (DAFF) Micro-Agricultural Finance Initiative of South Africa (MAFISA) programme, managed by the Land Bank. However, the annual value of these loans has only averaged about R900 million in recent years. The total value of annual lending to land reform beneficiaries and small farmers by other parastatal Development Finance Institutions (DFIs) and commercial banks is unknown, but is probably of the order of half of the value of MAFISA loans.

The acute shortage of working capital experienced by these farmers can best be appreciated by comparison to commercial farmers (across all farming activities), who, on average, borrow around 40% of the combined value of their farms' land, fixed improvements and movable equipment for their annual inputs. Relative to the R18 billion that the state has spent on acquiring land, fixed and moveable assets for historically disadvantaged farmers (and ignoring the value of assets acquired through other channels), the value of annual working capital loans that they currently manage to raise - about R1,5 billion - amounts to less than 10%.

Supply:

At the macro level, there are no specific laws or regulations on agricultural finance, other than those governing the operation of the Land Bank (more correctly a micro level feature). No comprehensive statements of policy on agricultural finance appear to have been made by DAFF, although the Department is known to have drafted and re-drafted a Development Finance Policy Framework on a number of occasions. The 'Kampala Principles' for agricultural financial inclusion in

Africa, agreed by a wide range of stakeholders from across the continent in 2011, could serve as a foundation for such a policy framework.

De facto, the main mechanisms for financing agricultural asset purchase for land reform beneficiaries and small farmers have been the successive forms of land acquisition grants offered by the DRDLR since the middle 1990s and, for movable equipment and some types of fixed improvement, DAFF's Comprehensive Agricultural Support Programme (CASP) grants, since 2005. For working capital, the main public sector mechanism has, since 2006, been the MAFISA programme.

At the meso level, there are again few agriculture/rural-specific institutions – only the Agriculture Sector Education and Training Authority, AgriSETA, DRDLR's Land Reform Empowerment Facility (LREF), DAFF's MAFISA programme and the Rural Housing Loan Facility. Through financial intermediaries, such as commercial banks and other parastatal Development Finance Institutions (DFIs), the LREF provides mortgage-based loans to entrepreneurs and farm workers to invest in agriculture, agro-processing and eco-tourism. The LREF also offers an equity share finance facility for farm workers. MAFISA's activities have already been described. By 2010, it was reported by DAFF to have assisted about 11,000 small farmers and land reform beneficiaries, but to have created only 560 permanent and 7,500 seasonal jobs. There is little evidence that any of these institutions have successfully reached large numbers of targeted clients.

In recent years, the 'big four' commercial banks have all launched initiatives, mostly in branchless banking and micro-enterprise finance, to increase inclusivity. The results have been mixed. Profitable large scale outreach to low-income rural areas by banks is still a challenge, but noteworthy successes are now being achieved, driven significantly by the state's drive to maximize the number of social grants paid electronically (see below). Most commercial banks are reluctant to disclose details of their lending to small farmers and land reform beneficiaries. However, ABSA reports a portfolio to the value of R360 million (advanced to about 1,000 farmers), mainly funding value chain off-take agreements with large processors and retailers for on-lending to such farmers, while FNB refers to a facility of R50-R100 million for on-lending by similar intermediaries, where acceptable collateral is lacking. Other such off-take-based lending is funded independently by processors and retailers. It appears that the importance of this source of capital for small farmers and land reform beneficiaries – and the technical assistance that it often also entails – may be growing.

Amongst parastatals, a number of national and provincial DFIs have an interest in rural development. Of these, much the most significant in an agricultural context is the Land Bank, which is mandated to provide financial services to the agricultural sector. Though much the largest part of its loan book by value is in large scale commercial farming, about a third of its roughly 21,000 retail clients – to whom standard collateralized short, medium and long term loans are advanced – are black farmers. Loans to the latter stood at a total of R876 million (or an average of a little more than R100,000 per farmer) in March 2012. The performance of many of these loans is problematic. More innovatively, through its Retail Emerging Markets division, the bank also lends on a short or medium term basis to small farmers who are unable to offer land-based collateral. Such loans are usually either secured by crop lien and/or are advanced on a wholesale basis through intermediaries, mostly the agricultural cooperatives and former cooperatives, commodity associations, farmers associations and microfinance institutions which are the bank's MAFISA sub-agents. The total value of such loans is not known, but the amount disbursed by MAFISA on-lenders by 2012 was R179 million.

The Industrial Development Corporation's Agro-Industries Division focuses on investments and large-end loans to agro-processing (food and non-food), beverages (alcoholic and non-alcoholic) and aquaculture. Although 'empowerment' projects to assist historically disadvantaged groups are emphasized, it does not fund primary agricultural projects or land-based transactions/acquisitions. Most of its investments are in large scale fruit and wine projects. The National Empowerment Fund also has rurally-focused division, which made loans averaging R2 million to 480 rural entrepreneurs, some in agricultural production or processing, in 2011/12.

At the micro-end of the market, much the most important parastatal player – though in no way agriculture-specific – is the PostBank, which offers mainly savings and transmission facilities through its wide network of rural branches, but has now also entered the credit market, through its social grants-based debit card initiative. It plays an essential support role to microenterprise lenders who require group members to make repayments at a local bank.

Among South Africa's formal microfinance services, micro-deposit-taking and salary-based micro-lending are well established, though micro-enterprise lending is in its infancy. However, while many registered micro finance institutions operate in rural towns and a few are known to be keen to support rural development, very little is known about their rural clientele.

Informal microfinance institutions are widespread, both in urban and in rural communities. These include at least 11 000 'stokvels' – popular Rotating Savings and Credit Associations (ROSCAs) – Village Savings and Loans Associations (VSLAs) and burial societies. Some stokvels extend credit to members, some invest in assets that can generate income for the members, while some are used only to save funds towards a particular event such as the beginning of the school year. VSLAs, modelled along Accumulating Savings and Credit Association (ASCA) lines, are now playing an increasingly important role. The Savings and Credit Groups (SCGs) promoted by SaveAct in Kwa-Zulu Natal and the Eastern Cape are good examples. Typically about two thirds of the savings of these groups is mobilized into loans at any moment. They are a particularly important source of capital for subsistence farmers: in many instances SCGs time the annual distribution of savings and interest to coincide with the beginning of the summer crop planting season, thereby providing the funds necessary to purchase seed and fertilizer, without having to borrow for this high-risk purpose and without needing to generate a flow of cash income to service and repay a loan. (See also coverage of SaveAct elsewhere in this Review.)

About 30% of small farm enterprise owners have some form of formal insurance. Most policies relate to funeral or life assurance. Agricultural insurance is not widely used in the South African emerging agriculture sector given the high transactions cost and exposure to moral hazard. Market penetration in the small farmer sector is estimated to be less than 1%. About 6 million South Africans are thought to belong to informal burial societies.

Enablers and disablers of demand and supply; implications for policy and practice

High political priority has been given by successive African National Congress administrations to rural development. While this ought to be an unqualified enabler, stimulating both the demand for and the supply of financial services in rural areas, rhetoric has not been matched by the performance of the two main implementing departments, DRDLR and DAFF, or by their ability to coordinate.

The state's land transfer – and fixed improvement and machinery/equipment – grants have been a major enabling factor in terms of public financial service delivery. However, in terms of their impact on the demand for financial services, it has often been more to increase the size of potential demand than of effective demand, given the restrictions placed on using assets transferred as collateral for loans. The de-racialization of state social grants and the introduction or extension of some categories of grant has hugely benefitted rural areas. By 2012, no fewer than 65% of social grant recipients in rural areas were being paid their grants electronically, which helps account for as many as 48% of adults aged 16+ living in South Africa's rural areas ('formal' and 'tribal') being 'banked' in 2010. There is evidence that state social grants have fuelled both informal savings and credit activity and agricultural production/income in some low-income rural communities. This, in turn, has helped fuel the savings flowing into SCGs, thereby setting up a virtuous circle of development. However, it is sometimes argued that the grants have a disincentive effect on recipients' willingness to engage in economic activity, though solid evidence to support this and to assess the impact on labour force participation is hard to find.

South Africa has financial infrastructure, regulation and banking systems that compare favourably with most developed economies. Macroeconomic performance has generally been sound since 1994. There are few financial policies that cause financial market distortions, in particular, relating to interest rate ceilings. However, some state/province-owned DFIs display negative symptoms similar to those of many of their counterparts abroad. To date, subsidies on credit to small farmers and land reform beneficiaries provided by the state and parastatal institutions have been modest and have done little to crowd out private sector/NGO lenders.

However, probably the most import deficiency in the country's agricultural financial infrastructure is the absence of a single champion and coordinating body for agricultural finance, the need for which is emphasized by Kampala Principle 1. The undermining of DAFF's MAFISA programme by DRDLR's recapitalization programme provides an instructive example of the importance of such a body: few small farmers presently wish to take up MAFISA's concessionary loans when they can get a recapitalization grant for the same purpose. Instead of such loans (for annual inputs) being used to complement DRDLR's grants – which should be confined to asset acquisition and specifically exclude annual input purchases to minimize grant dependency – the two schemes operate at cross-purposes, because the two departments make policy and strategy independently.

Farmers in the 'traditional' black rural areas have experienced many of the disabilities that have beset their counterparts in most other African countries: typically, distance from markets, poor infrastructure (affecting transport, water, energy and communications), poor services (for inputs supply, marketing, extension, finance, health, education, among others) and poor local government/municipal service delivery. Much progress has been made since 1994 in overcoming the major infrastructural backlog in 'traditional' black rural areas. The aspect of infrastructure in which the fastest growth has occurred, is communications, where the greatest part of investment has been undertaken by cell phone companies. Cell phone-based finance technologies offer rural residents ready access to transmission/transactions services. 'Branchless banking' through retail chains is now spreading rapidly, accompanied by significant reductions in transactions costs. Even more than cell phones, this is the broadening the uptake of formal financial services, given that it is not confined to transactions/transmission services and needs neither a cell phone nor the literacy to use it for financial purposes.

South Africa also has a wide range of rural finance and non-financial support institutions, but it does not seem that small farmers make extensive use of these services. DAFF has struggled to improve the poor quality of extension services provided to black farmers, and, perhaps even more to the detriment of agricultural development, 'land tenure reform' – the third major thrust of DRDLR's land reform programme – has simply not materialized. In practice, there has been little change to the tenure systems that applied under apartheid.

From a tenure perspective – and also for purposes of lending – what would help greatly would be the evolution of existing tenure systems to allow more readily for the rental of un- or under-utilised land for agricultural usage. This would open up the possibility for those wishing to enter or expand commercial production to acquire the use of sufficient land to generate an income which competes well with earnings from other sources and to realize economies of scale. The inability of both small farmers in 'traditional' black rural areas and land reform beneficiaries to use the land that they farm as collateral for bank loans makes lending more difficult. Progress is now being been made in finding alternative bases for lending, mainly through value chain finance on-lent by processors and retailers. However, this is limited to the very small group of farmers who are firmly integrated into value chains. A major challenge is to broaden the size of this group.

When the costs of formal financial transactions are taken into account on a comprehensive basis, many low-income rural clients prefer to use local informal financial institutions, for which the transport and opportunity are low, regulatory and compliance requirements and prerequisites are absent and the social/cultural and psychological costs are generally known and manageable.

Levels of financial literacy in low-income communities, measured conventionally, remain a challenge. Familiarity with formal financial products is limited, as is awareness of formal sources of help. However, it is also evident that many poor rural clients are adept at managing day-to-day cash flows, are able to service and repay informal SCG loans which they use to capitalize their enterprises, and manage to mobilize substantial combined savings capital for loans, with attractive rates of return and low default rates. Awareness of the risks of agriculture leads most such clients to use annual savings and interest pay-outs to finance farming, rather than borrowing for this purpose. This defies the notion that low-income rural households, SME owners and small farmers are financially illiterate.

For formal financial institutions to make headway into this major under-banked section of the market, they will need to market their products better in this community, to make them competitive with informal products and to find ways to complement the services that their informal competitors offer. It will also be critical for them to increase their understanding of small scale agriculture. To this end, it would be helpful to establish specialized in-country staff training courses focusing on small scale farming in South Africa and to engage more actively in Africa-wide processes to increase agricultural financial inclusion.

Key findings

- Probably the most import deficiency in the country's agricultural financial infrastructure is the absence of a single champion and coordinating body for agricultural finance. Agricultural finance policy as it affects low-income enterprises is presently poorly coordinated and sometimes contradictory.
- Relative to the R18 billion that the state has spent on acquiring land, fixed and moveable assets for historically disadvantaged farmers, the value of annual working capital loans that they currently manage to raise from all sources - about R1,5 billion - amounts to only about one quarter of what they need to employ their assets optimally. Their inability to access adequate volumes of short-term credit is substantially due to inadequacies in tenure systems.
- Nearly half of small farmers used formal savings and/or transmission services and about 30% formal insurance services, but only 5,6% formal credit services, just 2,5% from a bank. Family and friends were the most frequently tapped source of credit. Informal savings and credit groups more often serve as a vehicle for saving the funds required for annual agricultural inputs than as a source of loans for this purpose.
- Almost half of rural adults (aged 16+) made use of some form of bank service in 2010/11; just on 30% used some form of formal non-bank financial service (insurance, supplier credit, etc.), with much the same percentage making use of an informal financial service.
- Profitable large scale outreach to low-income rural areas by banks is still a challenge. The most significant formal sector lender in a low-income agricultural context is the land bank.
- Progress is now being been made in finding alternatives to land-based collateral for lending, for example, through value chain finance on-lent by processors and retailers. 'branchless banking' through retail chains is now spreading rapidly, accompanied by significant reductions in transactions costs. Even more than cell phones, this is the broadening the uptake of formal financial services – mainly for transmission – in rural communities.

However, for formal financial institutions to make more headway into the low-income rural/agricultural markets, they will need to market their products better in this community, to make them competitive with informal products and to find ways to complement the services that their informal competitors offer. It will also be critical for them to increase their understanding of small scale agriculture.

6.2 Social grants and financial inclusion: Are we going backwards?

Social assistance is the government's primary expenditure aimed at alleviating poverty in South Africa. The number of social grants has increased significantly over the years, in particular the old age and child support grants. According to the Department of Social Development, the increase in the number of grant beneficiaries is a result of awareness programmes and proactive registration.

Within the Department, the South African Social Security Agency (SASSA) is responsible for the administration of social assistance payments. It must maintain the integrity of the social security system and create a fraud-free mechanism.

Social assistance is provided through seven types of grant: a child support grant, care dependency grant, foster child grant, disability grant, older person's grant, war veteran's grant, and grant-in aid. Established in 2006, SASSA currently provides grants to approximately 16 million beneficiaries on a monthly basis.

One of the government's priorities is "the creation of decent work and sustainable livelihoods" which helped SASSA's plans to go forward. This was particularly visible in the financial year 2011/12, when SASSA focused more on improvement of social assistance as well as the quality of service delivery to its existing and potential beneficiaries. Its key priority was a "customer care-centred benefits, administration and management system", which saw an improvement of conditions at pay points, a new payment solution, and implementation of social assistance policies (SASSA, 2012).

Social grants trends

Table 6.1 shows the percentage growth and the number of grant beneficiaries over a period of five years in different types of grants.

Table 6.1: Percentage Growth and number of grant beneficiaries by grant type (2006 – 2012)

Grant type	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Old age	2,195 018	2,229,550	2,390,543	2,546,657	2,678,554	2,750,857
War-veteran	2,340	1,924	1,500	1,216	958	753
Disability	1,422,808	1,408,456	1,286,883	1,264,477	1,200,898	1,198,131
Grant in aid	31,918	37,343	46,069	53,237	58,413	66,493
Foster Child	400,503	454,199	474,754	510,760	512,874	536,747
Care dependency	98,631	102,292	107,065	110,731	112,185	114,993
Child Support	7,863,841	8,189,975	8,765,354	9,570,287	10,371,950	10,927,731
Total	12,015,059	12,423,739	13,072,173	14,057,365	14,935,832	15,595,705
Annual Growth		3.40%	5.20%	7.50%	6.20%	4.42%

Source: SASSA Annual Report 2011/12

The number of Child Support Grant (CSG) beneficiaries has significantly increased over this period. Since 2006/07, the number of CSG beneficiaries increased from 7.8 million to 10.9 million in 2012, a 28% increase. There has also been an increase in the Old Age Grant (OAG) beneficiaries; it has increased by 20% from 2006/07 to 2011/12. The number of beneficiaries of Care Dependency Grant, Foster Child Grant (FCG) and Grant-in-Aid has also increased over the years.

Table 6.2: Social Grants Disbursed Monthly

Grant type	Amount per month	No. of Recipients	%	Total Monthly (R Million)	%
Child Support	R290/month	11,299,573	70	R3,276.9	36
Care Dependency	R1,260/month	115,667	0.72	R145.7	2
Foster Care	R800/month	551,697	3.43	R441.4	5
Disability	R1,260/month	1,136,566	7	R1,432.1	16
Old Age	R1,260/month	2,881,379	18	R3,630.5	40
War-Veteran	R1,280/month	547	0.003	R7.2	0
Grant in Aid	R290/ month	66,272	0.4	R192.2	2
Total		16,051,701		R9,126	

Source: Adapted from SASSA 2013

Table 6.2 shows that a total amount of R9.1 billion is paid monthly to over 16 million beneficiaries. At almost R110 billion per annum, social grants constitute approximately 10% of South Africa's R1 trillion plus annual budget. KwaZulu Natal has the highest total number of social grant beneficiaries, followed by the Eastern Cape and Gauteng. Northern Cape has the lowest total number of grants. Child Support Grants account for the highest number of grant benefits in all regions.

A New Payment Solution - SASSA cards

In the financial period 2011/12, SASSA established a new payment solution intended to 'improve' services to beneficiaries and address payment challenges. SASSA contracted a new service provider, Cash Payment Service (Pty) Ltd (CPS), to implement the new solution in three phases. The first phase was implemented in March 2012, covering all new applicants in all nine provinces. Phase two, in April and May 2012, required that all cash beneficiaries exchange their old cards for new SASSA cards. Phase three of the project was implemented from June 2012 to April 2013, during which all existing beneficiaries were required to re-enrol and obtain new SASSA cards. CPS took over all payments from 1 April 2013 and the previous contracts (All Pay, Postbank, & Empilweni) were cancelled. In previous years SASSA paid grants to its beneficiaries through cash at a specific pay point on a particular day, or through an electronic deposit into a beneficiary's account or to an institution which act as the administrator of the grant e.g. a welfare organisation.

According to the Department of Social Development, the establishment of this new electronic payment programme is aimed at improving efficiencies, preventing fraud, and helping grant beneficiaries to save money. It also claimed to open a world of financial inclusion to millions of South Africans who had not been able to access traditional financial services.

The SASSA Debit MasterCard can be used anywhere MasterCard is accepted. Grant recipients can make purchases, check their account balances and withdraw cash at till points without incurring transaction charges at selected South African retailers. Recipients can also withdraw cash at any ATM. This does, however, attract transaction charges.

Benefits of the new SASSA cards

- Has assisted to eliminate corruption and fraud which was endemic in the system. As at July 2013, there had been a cancellation of more than 150,000 grants which were fraudulent.
- The card has an embedded chip that has biometric information of the beneficiaries and procurator. This technology encompasses "proof of life" certification which confirms that the beneficiary is indeed alive when the grant is activated.
- The new payment system allows grant beneficiaries of the same family to have one card which will hold multiple grants.
- There is no geographical limitation. Grants are available anywhere, unlike the old system where cash payment recipients had to receive grants only at local pay points.
- Grant beneficiaries have access to grants within the first seven calendar days of the month, whereas the former system compelled cash beneficiaries to receive grants only on specific dates and at specific pay points.
- The average time a beneficiary spends to access funds at a pay point has been decreased to around 30 seconds; long queues have been reduced.
- Reduced SASSA operating costs. In the old system it used to cost SASSA between R26 and R35 per grant to pay beneficiaries. The new system costs just R16.50 per grant beneficiary.

Social grants and financial inclusion

As part of the SASSA re-registration process, each recipient had a bank account opened for them, which is offered free of monthly charges by Grindrod Bank. The SASSA Debit MasterCard can be used anywhere MasterCard is accepted, and grant recipients can make purchases, check their account balances and withdraw cash at till points without incurring transaction charges at selected South African retailers (particularly the large supermarket chains). Recipients can also withdraw cash at any ATM, although this does attract transaction charges.

According to FinScope, SASSA cards were cited as the main contributing factor to the growth in SA's banked population from 63% in 2011 to 67% in 2012 and over 70% in 2013. As at August 2013, 10 million SASSA cards were issued to grant beneficiaries. According to FinScope, grants are mainly used to buy food, pay for water and electricity, and pay for school costs, transport and accommodation. Only a few recipients felt that social grants helped them to obtain a loan.

The SASSA card, however, cannot replace normal transaction account facilities.[27] Debit orders and third party payments cannot be made from a SASSA account, nor can cash be deposited into the account. Recipients can deposit funds into their bank account via Electronic Funds Transfer (EFT), although this process is not widely understood or utilised. Family members cannot easily deposit into the accounts.

[27] It is problematic to gain exact details on what functionalities are available on a SASSA account/card. No specific marketing material appears to be available. Randomly interviewed recipients interpret SASSA card functionality in different ways; many could not describe a SASSA card as being either a "card" and/or an "account", but all agreed that they needed a separate bank account if they wished to undertake varied transactions. Grindrod Bank call centre staff are also not certain about all the SASSA account features.

A portion of the grant must be drawn before a certain date every month, else the full grant is returned to SASSA. One funeral policy deduction not exceeding 10% of the monthly grant is allowed. Full bank statements are only obtainable through a call centre which is then sent via a fax or email. The SASSA card thus does not offer the full bouquet of functionality expected from a normal transaction account.

A SASSA card comparison with the use of Mzansi accounts (see Section 4.2 Market Demand) is relevant here. It appears that grant recipients are expected to have another "standard" bank account should they wish to undertake various transactions. There is no encouragement for grant recipients to save on a SASSA account. In short, SASSA cards can be regarded as a limited payments product that falls short of a full transaction account.

It appears that the SASSA card was introduced primarily for its anti-fraud capability and efficient distribution mechanism, without regard for financial inclusion. We suggest that these same benefits could have been achieved had SASSA recipients been required to open an entry level bank account of their choice, with SASSA payments deposited electronically into these accounts, and biometric identification being retained for grant activation or renewal.

6.3 Remittances

Special products Foreign Remittances

The volume of remittances flowing to developing countries has grown substantially in recent years, resulting in remittances becoming the second largest source of external funding in Africa after Foreign Direct Investment (FDI) (Maphosa, 2007). Remittances contribute to the development of financial markets in recipient countries. Remittance markets in Africa, however, remain less developed than other regions.

Remittances to households also have a favourable impact on poverty reduction and job creation. According to Sam *et al* (2003) the impact of remittances on poverty depends on the nature of remittances, whether they are internal or international. In Ghana, remittances have been known to be effective in enhancing the development of financial markets which has led to the improvement of financial and transfer services and modernization of credit markets. Adams (2006) notes that remittance markets in Africa still remain relatively undeveloped as compared to the first world countries, despite the introduction of new technologies. Mobile money transfers, in particular, and branchless banking in South Africa's remittance market is relatively developed compared to other neighbouring Southern African countries. South Africa is the largest economy in Africa, accounting for roughly a quarter of the continents gross domestic product in terms of purchasing power parity, and is ranked as an upper-middle income economy (World Bank, 2012). The country's remittance market annually records in excess of R11.2 billion to Southern African countries. A strong feature of this market is that of Zimbabwean migrants working in South Africa, who send substantial amounts of money back home through formal and informal channels (FinMark Trust, 2012).

Within South Africa, remittance usage is more prominent among the black community, but not much is known about other racial groups (Treiman, 2011). A large proportion of these remittances are through informal channels accounting for about 39% of total remittances. Altruism[28] and self-interest motives are the two forwarded reasons why migrants remit money home (Finscope, 2012). South Africa has, historically, witnessed the movement of people from rural to urban areas. This has allowed them to participate in the labour market and has formed an integral part of their household livelihood strategy. Much of this migration occurred under specific institutional conditions that made permanent urban settlement impossible for most migrants, and that led to a high prevalence of temporary or circular individual (labour) migration. Although restrictions on the movement and settlement of people within South Africa were lifted two decades ago, the 2011 Census indicates that patterns of temporary migration have persisted, and that significant proportions of rural "homeland" households remain reliant on remittances sent by local migrants who are employed in mines, factories, and farms. Recent statistics have indicated a significant increase in remittances by migrants residing in South Africa (FinMark Trust, 2012).

According to the World Bank (2012), South Africa's economy dwarfs that of its neighbours, and has been the focus of regional economic activity for over a century. This has led to an economic migration into the country dating back as far as the mid 1800's. The table below shows the migrants and remittance outflows from South Africa to the SADC region.

Table 6.3: Migrants and Total Remittances from SADC Region

Country of origin	Total Migrants in South Africa	% Distribution	Total Remittances Rand (in million)	% Distribution	Informal remittances
Angola	10,202	0.31%	24.7	0.22%	0.12%
Botswana	52,533	1.62%	182.7	1.63%	2.09%
Dem. Rep. of Congo	81,533	2.50%	125.4	1.12%	1.06%
Lesotho	397,070	12.2%	1,754.30	15.74%	18.56%
Malawi	71,693	2.20%	124.2	1.11%	1.616%
Mauritius	37,460	1.15%	82.9	0.74%	1.079%
Mozambique	486,839	14.92%	1,588.6	14.24%	10.57%
Namibia	21,582	0.66%	52.2	0.475	0.68%
Swaziland	117,552	3.61%	391.2	3.50%	4.53%
Tanzania	5,267	0.16%	10.1	0.15%	0.132%
Zambia	64,727	1.99%	124.6	1.86%	1.62%
Zimbabwe	1,909,081	58.64%	6,693,700	60.00%	57.91%
Total	3,255,406	100%	11,154,600	100%	100%

Source: FinMark Trust 2012

From Table 6.4, remittance behaviour can be segmented into formal and informal channels. Formal methods include channels such as bank transfers, money transfer agencies (MoneyGram and

[28] Altruism refers to assistance offered to the family so that they can meet basic family needs, while self-interest motives are those that seek returns by taking advantage of investment opportunities

Western Union), and the Post Office. The main informal remittance channels found were sending goods or money with friends and family or with cross border taxi and bus drivers. According to FinMark Trust (2012), the mid-point analysis of remitting patterns suggested that the average remitting migrant sends between R6,500 and R4,500 home per year. The total estimated remittance market size of South Africa-SADC remittance channel stands at R11.2 billion of which around R6.7 billion (60% of total remittances) flows to Zimbabwe alone. An estimated R7.6 billion (68% of total remittances) is remitted informal channels.

Trends in Remittances

Table 6.4: Total South Africa Remittances outflows and inflows

Year	Outflow (US $ million)	Inflow (US$ million)	Net
2008	1,133	823	-310
2009	1,158	902	-256
2010	1,372	1,119	-253
2011	1,443	1,212	-231
2012	1,586	1,115	-471

Source: World Bank 2013

Over the period 2008 and 2012, there was an average year-on-year 8% increase in remittance outflows from South Africa. Remittance inflows, by comparison, experienced an average year-on-year increase of 7% over the past 5 years. South Africa, however, remains a net "sender" of remittances. In 2012, this gap between outflows and inflows stood at R4,7 billion ($471 million).

6.4 SaveAct

A Savings Revolution in Microfinance and Rural Development Takes Root in South Africa

SaveAct, a Pietermaritzburg based NPO, has pioneered a quiet savings revolution in poor rural communities in South Africa. The model has enabled 25,000 members of savings groups to reduce debt and build their enterprises. Members quickly move to a point where they can manage their own finances, save money, make loans to each other while earning high returns to build their capital. All this is achieved without the intervention of formal financial institutions or loans from microfinance institutions. The impressive performance of SaveAct spurred FinMark Trust (FMT) to commission research (Delany & Storchi, 2012) that uncovered the far-reaching impact of these groups on people's lives.

Are the poor not too poor to save?

A misconception is that the poor cannot afford to save. SaveAct's work shows that this is not true. The poor, more than any other group, *have* to save in order to survive. And the demand for safe, accessible and low-cost places to save is high.

In 2008 SaveAct trained about 600 members. By 2011 the figure had grown to 10,000. This year numbers swelled to over 25,000. This growth is entirely demand-driven. SaveActs' savings model mirrors the stokvel - which is a widespread indigenous, informal method of saving. This means that participants readily identify with the approach. SaveAct has however removed much of the risk and lack of rigour that often characterises stokvel groups. Thus members prefer the saving model to the stokvel because of the transparency of transactions and control that it brings to their money. Savings groups offer annual pay-outs with high returns at low risk. Loans are more readily available. As a result, SaveAct is struggling to keep up with the demand.

SaveAct savings group members in groups are amongst the highest savers in Africa. The combined capital mobilised annually is approximately R70 million and repayment rates on loans within the groups exceed 99%. Members earn an average of 30% interest on their investments and group membership retention rates are 99%.

How do the groups work?

Members of savings group choose whom they want to be in a group with. That group is then introduced to rigorous and transparent systems and procedures. Members of the group save in shares on a monthly basis (e.g. R50 to R100 per share), allowing for flexibility in the amounts saved. They may borrow from their group according to agreed terms. Loans and a charged interest are repaid into the capital fund and in this way their shares earn interest which they use to increase their investment. Capital and returns are shared out annually in proportion to the number of shares bought. As groups mature they tend to schedule their share-outs to capitalise on economic opportunities such as buying agricultural inputs. Groups are conflict-free and function effectively. This is because they have a transparent and simple system that they understand and have confidence in. The two or three month period prior to the share out exposes savings group members to excess liquidity risk. At this time it would be advantageous for the groups to make use of formal financial facilities for storage of excess cash. Yet accesses to such facilities are generally poor and costly to reach, since most groups are located in remote areas.

The groups are proving sustainable. Almost without exception savings groups continue, once they have graduated from SaveAct's training, into new cycles of self-sustained activity. They are supported by community-based promoters selected from established savings groups. These promoters mentor the groups to maturity while responding to requests from others who want to form new groups. Their services are sustained through payment of a small fee by group members. However, one of the challenges that have arisen is that groups fail to apply their constitutions effectively that often results in poor lending decisions. The availability of post- graduation support from SaveAct promoters is an aspect that should be addressed to assist groups with challenges that may arise post -graduation.

What are the effects of saving on people's lives?

Research shows that savings groups assist people with HIV/AIDS to manage their household economy and in turn their illness better. They enable members to reduce debt and develop more sustainable Virtuous circles: pooled savings provides capital that is invested in enterprises. More than one in two households operates an enterprise." *Members borrow money to improve their businesses and they know that they can borrow money from the group if anything in their business is* *lacking*. *It is a two way process because [when] I have sold things, I take the profit and save it to the saving scheme."* (Community-based promoter, FMT research, 2012). Savings groups strengthen relationships. A 37 year old female indicated, *"We now care what happens to one another as members. If you see something that you think will benefit your neighbour then you tell them"* while a 56 year old spaza shop owner summed up the benefits as *"Interacting with other people, getting advice from SaveAct…lots of things, [like] learning from the elders and being able to 'de-stress' with other members."*

Current State of Savings Groups

The SaveAct model is currently only operational in the Eastern Cape and KwaZulu Natal provinces. SaveAct has a total of 15,545 and 9,786 members in these provinces respectively. On average 91% of the SaveAct members are female. SaveAct's outreach has been larger in KwaZulu Natal in terms of loans outstanding and savings portfolio size. At present there is a total of R13.1 million of loans outstanding in KwaZulu Natal and R10.9 million in the Eastern Cape. The value of savings in these two provinces is R13.5 million and R11.3 million respectively.

Currently, savings groups stand to benefit from using formal financial institution for the two or three months prior to the cash out cycle. As excess liquidity within the groups is high during this time, members are exposed to the risks of their savings being stolen. In the future, the availability of a full array of financial services, including longer term savings products, should be developed to complement existing services offered by SaveAct.

SaveAct has witnessed people taking control over their money and their lives. Members gain hope and confidence in their ability to climb out of poverty. If there is no silver bullet to eradicate rural poverty, self-sustaining savings groups come about as close to it as one can get.

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