

G:ENESIS



**Comparison of supply-side study and results
from FinScope 2003 for BLNS countries**

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FOREWORD

In 2002 FinMark Trust conducted a review of the financial landscape in Botswana, Namibia, Swaziland and Lesotho. The objectives were simply to:

- Document the financial infrastructure;
- Measure levels of access to financial services;
- Identify issues related to expanding access for low income and poor households to financial services; and
- Identify opportunities for FinMark Trust to making financial markets work for the poor in these countries.

The study is available at www.finmarktrust.org.za.

In this exercise, the consultants, G:ENESIS, used supply side information to calculate the adult population's access to four categories of financial services: transactions, credit, savings and insurance. G:enesis measured current usage of financial products and was able to plot adult population access to financial services along the FinMark Trust star of access.

One of the issues that came out of the discussion of the supply side study findings was that there is insufficient information on **demand** for financial services. Levels of access were low, yet policy makers and financial services providers had insufficient knowledge of levels and characteristics of demand for financial services. FinMark Trust decided to embark on an initiative to support the on-going collection of demand side information on financial access. More information on Finscope is available at www.finscope.co.za.

FinScope Botswana, Namibia, Lesotho and Swaziland, a quantitative survey profiling demand for financial services across the populations of those countries, was piloted in 2003. The data was subsequently used by G:ENESIS to compare results from the first supply-side study to re-draw the FinMark Trust star of access to transactions, savings, credit and insurance. The exercise, which is documented in the following study, yielded interesting results. . It has enriched our understanding of access to financial services, primarily, by capturing usage of informal services, which the supply side study did not. Secondly, it shows a broader range of product categories used, information that is not often recorded in available supply side reports. Thirdly, it gives a better understanding of client level **usage** as opposed to products supplied.

The authors illustrate the value inherent in quantifying the demand side. Although costly, demand side surveys could provide valuable market data for both policy makers and financial services providers in their attempt to extend financial services to the poor and low income households.

FinMark Trust
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EXECUTIVE SUMMARY

This document compares the findings on access to financial services in the original supply-side analysis conducted by Genesis (2002a-d) to the findings from the more recent FinScope Survey (2003). In general, the survey confirms much of what was found in the supply-side study. In addition, a more detailed analysis of access is facilitated through the information captured in the FinScope survey, much of which was not available in the market before.

Definitions. This analysis is based on a number of definitions, which needs to be clarified. There are three sets of definitions relevant to this analysis:

- The original definitions applied in the supply-side study (before the definitions were formalised);
- The current FinMark definitions, which have been developed over the last three years; and
- how the official definition translates into the FinScope definitions based on the products for which information is available.

Table 1 below provides a comparison of these definitions.

Aggregation of results and sources of information. The supply-side analysis did not have the benefit of a consolidated survey on financial services and the information had to be compiled from various industry sources of information. This created a number of complications:

- Firstly, information on some product categories was simply not available from industry sources.
- Secondly, the data was often only available as number of accounts/policies rather than number of clients. Where relevant and possible some adjustments were made to approximate the number of clients rather than the number of policies.
- Thirdly, it was difficult to control for double-counting. Unlike the case with the FinScope survey, it is not possible to select all those with "one or more" of a product. Information from different sources had to be combined and adjustments were made to control for double-counting. Where insufficient information was available to control for double-counting, certain product categories were not included in the category calculation (e.g. where it was not clear what the overlap of mortgage and current account use was, the highest figure of the two - usually mortgages - were used in the category calculation).

Category	Definition	FinScope definition based on available information	Initial supply-side definition
Savings	Total number of individuals that uses one or more of the following savings products (defined as any financial product used with the intention to accumulate savings): Savings book, post office savings account, fixed deposit account, stokvel membership, savings/transaction accounts, pension/provident funds, retirement products and endowment policies.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Post Office account, savings/transaction account from bank, current/cheque account, transaction/transmission account, fixed deposit account, call account with bank, membership of stokvel, loan/saving from NGO, loan/saving from savings and credit cooperative, member of savings club, retirement annuity/provident fund/pension fund membership, endowment/investment policy or education insurance cover.	With the available information at the time of the supply-side analysis, this translated into the total number of individuals with one or more of the following products: Number of savings accounts (or where available the number of account holders) for all government and commercial banks and NGO and cooperative savings institutions where considered. Number of account holders where approximated from number of accounts data and, where possible, adjustments were made to control for double-counting. Where this was not possible, some product categories had to be excluded (as it would have been inaccurate to add them together if substantial overlap is expected). In such cases, the highest usage product categories were taken. In practice this meant that formal government or commercial bank savings accounts were taken as basis and to that cooperative, NGO or informal savings (where available) were added (not considered to have substantial overlap with formal savings accounts). The situation and available information varied for the four countries and the specifics for each country will be discussed under each country. The exception was Namibia where the information was taken from the NAMPS survey. A correction was applied where industry (company specific) information was available indicated substantial undercounting (as was the case with NamPost Savings Bank).
Credit	Total number of individuals that uses one or more of the following financial products: Credit card, mortgage or home loan, personal loan from bank, loan from friend or family, loan from employer, loan from microlender, vehicle finance or store credit.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Mortgage bond or housing loan, current/cheque account (assuming that current accounts will have overdraft facility), Credit card, Transaction/transmission account (assuming that transmission accounts will have an overdraft facility), vehicle finance, loan from bank, personal overdraft with bank, business overdraft with bank, loan from registered or unregistered microlender, loan/saving from NGO, store account or loan/saving from savings and credit cooperative.	Covered commercial and government bank accounts that provided access to credit facility, NGO loans, microfinance (focusing mostly on cash loans as term loans are expected to overlap substantially with bank credit figure), cooperative membership that provides access to credit facility and other government credit schemes. Where possible corrections were applied to control for double-counting. This varied based on the information available for each country. More details are provided in the country sections.
Transaction	Total number of individuals that uses one or more of the following transaction (defined as any financial product that allows functionality to store cash and get cash, make payments via ATM, POS or electronic medium) products as the: Savings/transaction account with ATM card, debit card, credit card, cheque/current account or garage card.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Current/cheque account, debit card, credit card, garage card or transaction/transmission account.	The number of people with current/cheque/transmission accounts was estimated from number of accounts data. No data was available on other transaction mechanisms. The exception was Namibia where the information was taken from the NAMPS survey and included cheque/transmission accounts. More details are provided in the country sections.
Life Insurance	Total number of individuals that use one or more of the following life insurance products: Burial society membership, life insurance or funeral policies with big institutions.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Member of burial society, funeral policy or life insurance policy.	Industry aggregates of number of people with life policies (defined as any policy with life cover) was estimated from information reported by individual insurers. The exception was Namibia where insurance information was taken as reported in the NAMPS survey (reported use of whole life cover products). Where possible corrections were applied to control for double-counting. This varied based on the information available for each country. More details are provided in the country sections.

Table 1. Comparison of definitions

Formal vs informal. Another complication that arises is the classification of formal and informal activities. FinMark currently defines formal financial services as “financial services provided by a licensed/registered entity providing financial services, to include cooperatives and registered micro-lenders”. For the purposes of this analysis, however, burial societies and cooperatives were included under the informal category. There a number of reasons for this:

- Firstly, the supply-side analysis was done long before the formalisation of FinMark's view on this definition. The old definition was used in the more recent FinScope analysis to allow for comparability.
- Secondly, member-governed/cooperative societies are much closer in nature to informal operations (even where registered) and it will be misleading to include them in the formal figure when considering access. Two relationships need to be considered: That of the individual to the cooperatives/society and that of the cooperative/society to the legal/regulatory system. The former relationship is mostly informal as cooperatives/societies rarely have contractual relationships with their members. The relationship is based on trust and can, therefore, be considered to be informal. It is the opinion of this analysis that the relationship between member and cooperative is the defining relationship as that is what will affect access from the consumer's point of view. The FinMark definition, however, suggests that the relationship of the cooperative/society to the legal/regulatory system is the defining relationship.
- Thirdly, the FinScope survey did not ask respondents whether they were members of a registered or unregistered burial society/cooperative. It is, therefore, assumed that all cooperatives and burial societies are formally registered. While this may be the case for cooperatives in Swaziland, it is certainly not the case for the burial societies in Lesotho. This raises the question of how the FinMark definition should apply to the situation where a cooperative/society is defined in legislation and, therefore, required to be registered, but where many cooperatives/societies are not registered in practice. Our suggestion would be that any analysis should make a clear distinction between member-governed mutual or self help societies (such as cooperatives and burial societies) and those where commercial interests are introduced. We propose that these societies are closer to what can be considered informal but perhaps should be considered as a separate category (e.g. semi-formal).

Insurance. The more recent FinMark definition focuses on all categories of insurance and is, therefore, based on a combination of life and general insurance. Although the supply-side study covered both life and general insurance, only life insurance was used in aggregate figure. As it was impossible to control for overlap and get to a meaningful aggregate of life and general insurance, the approach in the supply-side analysis was to focus on the first (and primary) category of

insurance that would be accessed by lower-income households, which is life insurance. This was considered appropriate as the aim was to evaluate access and it, therefore, made sense to focus on the base product category that would be accessed first. In the subsequent analysis of FinScope data, the definition of the aggregate figure was kept on life insurance to allow for comparability but the details of usage of general insurance products were evaluated and discussed. With regards to the current FinMark definition, the question has to be asked what the interpretive value of a combined life and general usage figure would be. Perhaps these two areas should remain separated.

Summary of analysis. Access, of course, is a symptom of the interaction amongst a complex system of economic systems, processes and regulatory environments. Given the different circumstances and economic environment in each country, it is interesting to compare the FinScope results for each to see if systematic differences emerge. Figure 1 below illustrates the relative positions in terms of the four main categories of financial services.

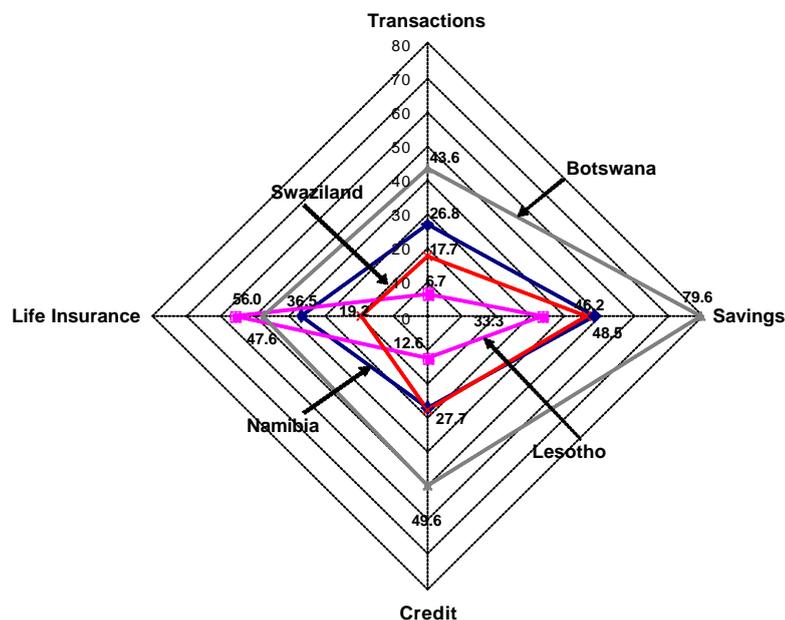


Figure 1: Comparing FinScope results for BLNS countries

Source: FinScope 2003

Figure 2 compares the findings of the supply-side analysis with the more recent FinScope survey for all four countries. The first thing to note (and that is not clear from the aggregate numbers provided in Figure 2) is that most of the supply-side

estimates of individual products compare well with the new FinScope figures. At the same time, the FinScope results for the category totals (savings, credit, life insurance and transaction services) have shown increases over the supply-side estimates across all of the main categories of financial products and across all countries. This was mostly due to the addition of data on categories of products that were not available during the supply-side analysis.

Overall, the above comparison (Figure 1) shows that Botswana is still ahead of the other countries but that the gap between Namibia and the remaining two countries is smaller than originally estimated. This is mainly due to the addition of informal market figures¹. In the absence of these, the figures for particularly Lesotho and Swaziland are much lower and the relative positions are also much closer to that originally shown in the supply-side study (see Figure 3 for the breakdown of formal and informal).

Although the informal (including cooperatives) market figure for Namibia is higher than previously estimated, it still indicates that the market is substantially smaller than for the other BLNS countries. The informal market figure for Swaziland and Lesotho contributed substantially to the supply-side estimates, but was increased even further based on the FinScope estimates placing Swaziland on par with Namibia in terms of use of credit and savings products. The largest change, however, was for life insurance products in Lesotho where new figures on burial society membership increased this beyond even that for Botswana. Lesotho showed the largest burial society membership of all the countries and without this, the figure reduced to a mere 1.8% (formal market only).

The biggest changes were seen in the categories of life insurance and credit (see Figure 2 below), where very limited information was available at the time of the supply-side estimates, particularly on the informal markets. This has resulted in a substantial upward revision of the earlier estimates. Although the credit figures were higher than the earlier estimates, this was mostly due to the addition of informal market and store credit figures. Due to the sensitivity of debt information, it is expected that FinScope actually underreported on most direct questions on credit usage. The figure here may, therefore, still underestimate actual credit usage. This is particularly true for the microlending component.

¹ This includes products provided by NGOs, burial societies, stokvels, savings clubs and savings and credit cooperatives/

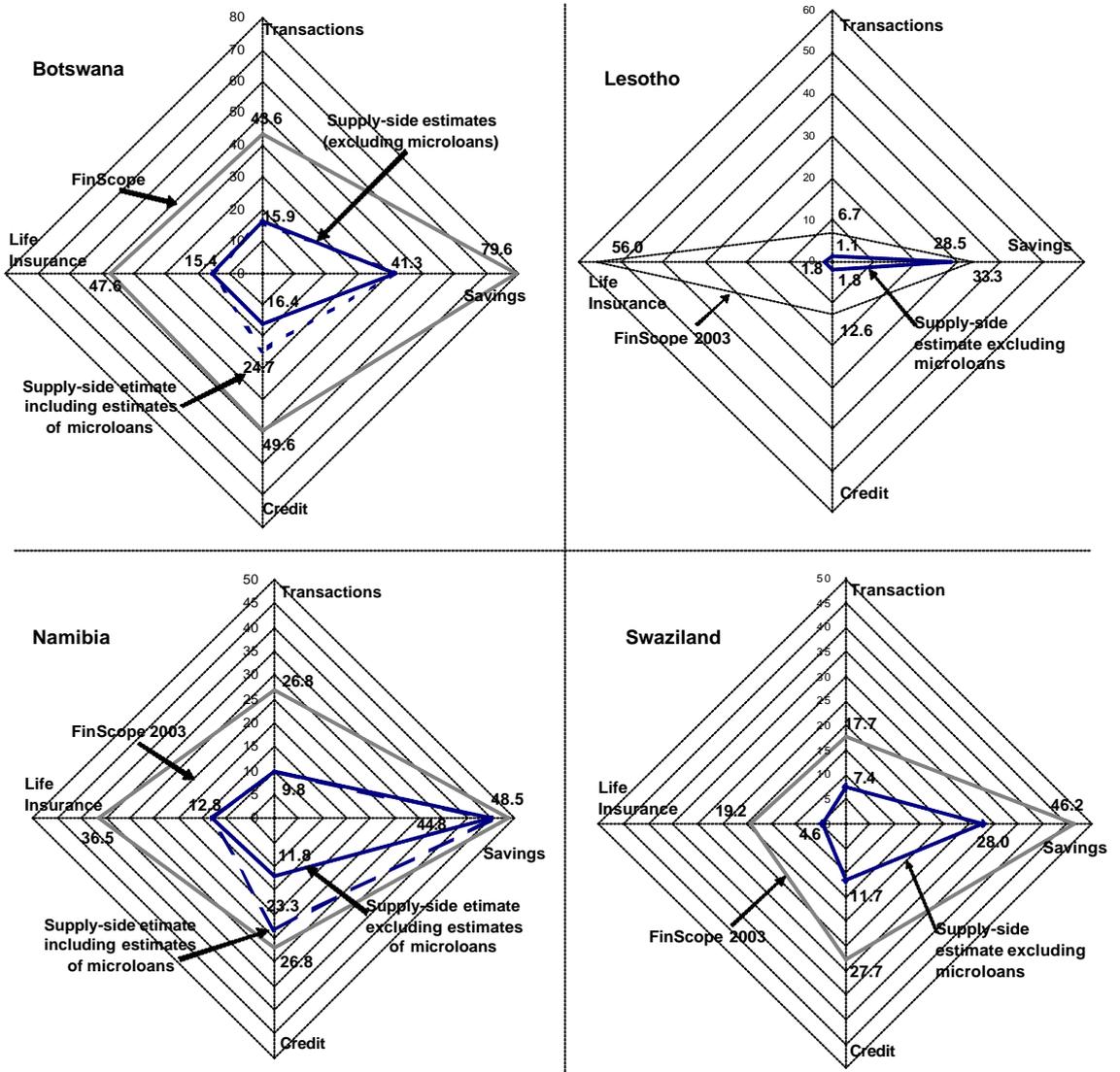


Figure 2: Comparing FinScope and supply-side estimates across BLNS countries

Source: FinScope 2003 and Genesis supply-side study

The supply-side study furthermore based life insurance figures on only estimates of the number of life policyholders at the time. In the FinScope survey, this has been expanded to also include funeral policies and burial society membership resulting in a substantial upward revision of figures for all countries.

Figure 2 shows major changes for Botswana on all categories. The overall estimate of use of savings products increased from 41.3% to 79.6%. Surprisingly, this was not mainly due to the addition of informal figures (see Figure 3) but because of savings products offered by insurers and the post office, which were not captured in the supply-side study. The accuracy of this figure would have to be confirmed by further research. In Swaziland, the addition of the formal insurance savings as well as informal savings both contributed to the increase in the overall figure for use of savings products from 28% to 46.2%.

The addition of store credit figures contributed substantially to increases in credit figures for all countries (although Lesotho was much lower than the rest and the increase there was mostly due to informal credit figures). Informal credit markets contributed substantially to this figure in Lesotho and Swaziland (see Figure 3). Informal providers also contribute significantly to insurance figures for these two countries. Burial society membership was substantially higher than expected in both. Lesotho showed the largest burial society membership (52%) pushing its insurance figure ahead of the other countries.

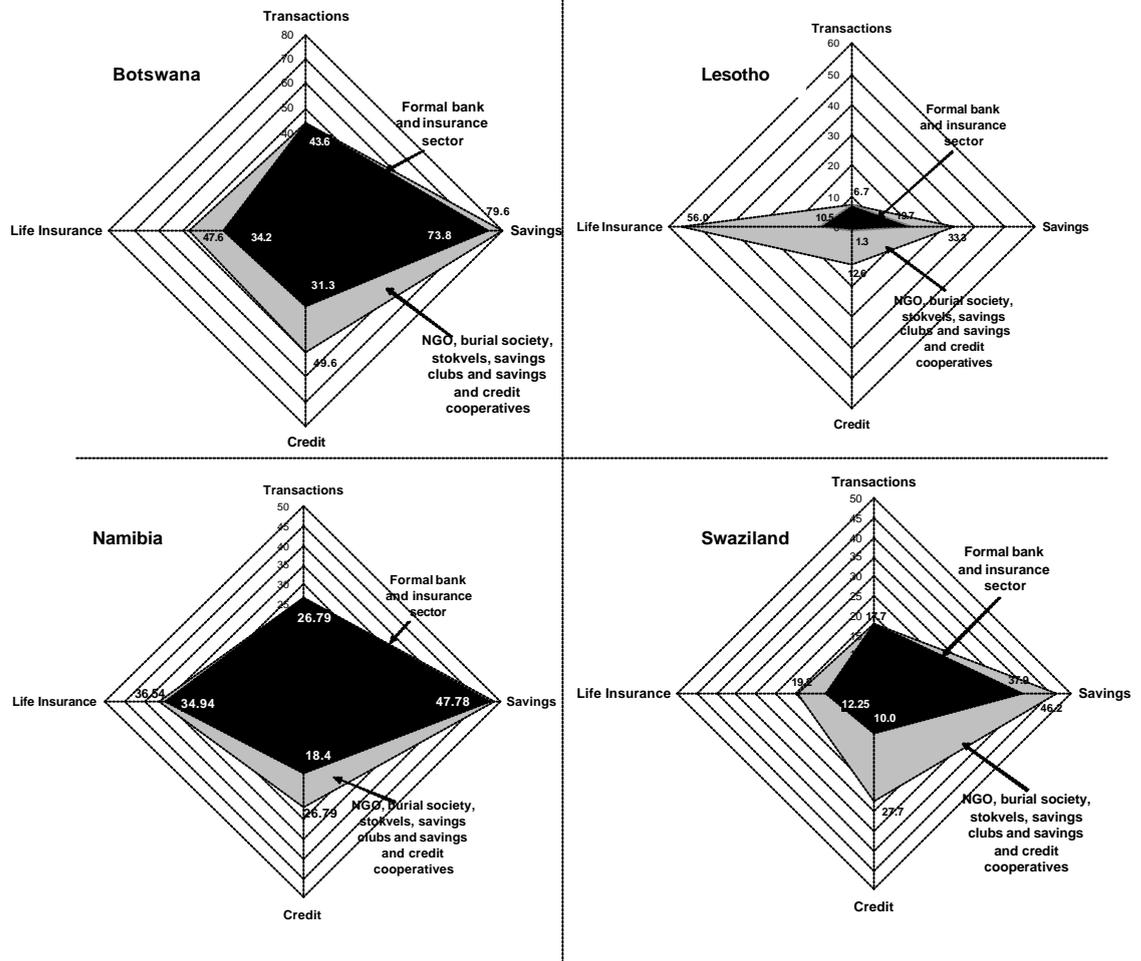


Figure 3: Comparing contribution of informal financial sector across BLNS countries
 Source: FinScope 2003

Figure 3 indicates the substantial position of informal financial markets (including cooperatives) in Lesotho and Swaziland. Lesotho furthermore showed very low linkages between formal and informal institutions.

Table 2 below shows the details of underlying product use making up the four main categories shown above. Interesting differences emerging are, for example, the high level of use of post office products in Botswana and Namibia and the absence in Lesotho and Swaziland. The table also shows very clearly the low level of formal product use in Lesotho. It is also interesting to note that retirement products showed substantial use in all countries except Lesotho. Store credit seems to be

significant in all countries except Lesotho and contributed substantially to the higher credit figures shown above. Informal markets are shown to be significant in all except Namibia. The informal market figures (including cooperatives) are substantially higher than originally estimated but still much lower than for the other countries (for example, membership of stokvels).

Product/service ²	Botswana	Lesotho	Namibia	Swaziland
Savings (% of respondents with one or more of the below)	79.6	33.3	48.5	46.2
Post office savings account	35.5	0.6*	19.9	0.2*
Savings/transaction account from bank	47.0	17.0	28.4	35.3
Current/cheque account	17.7	0.9	8.3	4.1
Transaction/transmission account	7.9	0.0*	4.6	2.3
Fixed deposit account	11.5	2.6	9.3	3.6
Call account with bank	3.2	0.0*	2.2	0.3*
Membership of stokvel	25.7	11.1	0.9	19.5
Loan/saving from NGO	0.6*	0.4*	1.9	2.0
Loan/saving from saving and credit coop	1.5	0.4*	1.1	6.5
Member of a savings group ("yes-only myself")	10.9	3.0	3.6	6.1
Retirement annuity/provident fund/pension fund	22.3	4.1	22.5	17.2
Endowment/investment policy	8.5	1.3	8.0	2.5
Education insurance cover	2.6	1.5	8.9	1.2
Transaction (% of respondents with one or more of the below)	43.6	6.7	26.8	17.7
Savings/transaction accounts and ATM cards	36.8	6.2	22.1	14.2
Current/cheque account	2.3	0.9	8.3	4.1
Debit card	5.3	0.0*	2.7	0.2*
Credit card	12.5	0.4*	6.2	1.8
Garage card	0.4*	0.0*	0.9	0.5*
Transaction/transmission account	7.9	0.0*	4.6	2.3
Credit (% of respondents with one or more of the below)	49.6	12.6	26.8	27.7
Mortgage bond or housing loan from bank	2.3	0.0*	6.9	2.2
Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	17.7	0.9	8.3	4.1
Credit card	12.5	0.4*	6.2	1.8
Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit)	7.9	0.0*	4.6	2.3
Vehicle finance from bank	6.2	0.0*	2.0	0.7*
Loan from bank	11.7	0.0*	5.3	4.1
Personal overdraft with bank	1.1	0.2*	4.1	0.2*
Business overdraft with bank	0.2*	0.2*	1.2	0.0*
Loan from registered microlender	4.2	1.1	1.4	2.8
Loan from unregistered microlender	3.6	5.6	0.6	4.0
Loan/saving from NGO	0.6*	0.4*	1.9	2.0
Store account	29.1	6.0	15.2	16.1
Loan/savings from Savings and credit cooperative	1.5	0.4*	1.1	6.5
Insurance (% of respondents with one or more of the below)	47.6	56.0	36.5	19.2
Member of burial society	21.2	51.7	10.3	12.6
Funeral policy	20.9	10.3	30.6	9.4
Life insurance policy	26.0	2.4	19.6	6.3

Table 2: Overview of use of various financial products across BLNS countries

Source: FinScope 2003

² Care must be taken interpreting the low-end figures above. In some instances, this was based on fewer than 5 responses (indicated with *) which means that it is not statistically reliable.

Despite only being a pilot study and the given limitations, the FinScope estimates proved to be quite close to the expected figures based on the information gathered during the supply-side estimates. The upward revision of estimates were, in most cases, based on new information being available and not due to substantial changes to the supply-side estimates and certainly presents an improvement on the earlier figures.

1. INTRODUCTION

1.1. BACKGROUND

During 2002 Genesis conducted a scoping study for the FinMark Trust on access to financial services in Botswana, Lesotho, Namibia and Swaziland (BLNS). This study covered all categories of financial services and was aimed at documenting current levels of usage of various financial products, barriers that are blocking the expansion of access to these products, as well as private and public sector initiatives at overcoming these barriers.

One of the findings of that study was the absence of clear market information on which business decisions could be made. Financial institutions had very little information that could help to map the potential size or profitability of the lower-income market and, therefore, constrained their activities to the markets they are familiar with and which are within easy reach – the urban higher-income and commercial market. In order to address this information gap, FinMark subsequently initiated the FinScope survey and the first pilot surveys were conducted in 2003. The initial scoping study was also followed up by a second study at the end of 2003 focusing purely on the insurance market. This discussion in the next paragraphs will compare the results from the three different studies:

The first set is the FinMark scoping studies looking at the supply-side of financial services and the broader environment within which access is determined. This study was done between July and September 2002 for each of the BLNS countries. The information was gathered through desk research and brief visits to each of the capitals of Botswana, Lesotho, Namibia and Swaziland to interview industry players, regulators and other relevant government officials as well as relevant experts and academics. This analysis will only draw on the usage and broad environment information contained in those studies and the reader is referred to the original studies for more details on the interviews and research process as well as the details on the various components of the financial sector.

The second set of information is the *FinScope BLNS Insurance Scoping study*. This was conducted as a follow-up to the above study and focused purely on the insurance sectors. The research was conducted from August to December 2003 and included brief visits to Namibia and Botswana during which industry players and regulators were interviewed.

The third set of information is the *FinScope pilot surveys* focussing on the demand-side and providing a demographic profile of the population focusing in financial services, use of various financial products and some psychographics around the market's view of the providers of the various services. These surveys were

conducted between July and August 2003 for each of the BLNS countries. A more comprehensive survey was also conducted in South Africa, but this analysis will only focus on the BLNS information.

1.2. FINSCOPE METHODOLOGY

As pilot surveys, the samples were limited (Botswana – 500, Lesotho – 500, Namibia – 800 and Swaziland: 600) and due to problems that prevented the weighting of the samples, the findings are restricted in the level of generalisation that can be achieved. The surveys covered both urban and rural areas and used a three-step probability proportional-to-size (PPS) sampling method to select the households surveyed. In each case the head of the household was surveyed. The PPS method bases the probability of selection into the sample on the size of relevant units to which the household belongs (in this case geographical region). Due to insufficient census data on which to base the weighting procedure, it was not possible to calculate weights for the respondents selected. In addition, a number of biases are present that should be kept in mind. The data used in this analysis will, consequently, be used unweighted and this has a number of implications for the interpretation of the results:

- Household heads were interviewed implying that, even if weighted, the results can only be generalised to all household heads in the specific country. For the purposes of this study we shall be comparing the supply-side analysis information (expressed as number of users of a product/service as percentage of the adult population) with the FinScope sample (expressed as number of household heads using a service as a percentage of household heads interviewed). The sample of household heads may be systematically different to the population of adults in that it will be biased towards women and older adults. In terms of financial services, household heads may also have a systematically different usage profile than the whole adult population. Not enough information is available to map these systematic differences and it is, consequently, not possible to control for that.
- Household heads were initially defined using two criteria: (1) The person must be present in the household for a number of days over a specific period and (2) manage the day-to-day activities of the household. As it was found to be too difficult to apply both criteria, it was decided to use only the second. The result of this is that, firstly, migrant workers were excluded even where they fulfil the role of head-of-household and, secondly and related to the first, women are over-represented as they generally manage the day-to-day activities of the household (particularly where the husband is employed away from home).
- The census data used for the sampling was often outdated (i.e. projected figures from older surveys) resulting in inaccurate population numbers for the enumerator areas on which the sampling was based. If significant changes in

relative population distribution between areas have taken place and was not captured in the census data, this may distort the sampling process. Areas may, for example, have been classified as rural in the census where population numbers have actually increased to such an extent that it should be reclassified as urban. These changes may not be picked up by projected census data.

1.3. DEFINITIONS

This analysis is based on a number of definitions, which needs to be clarified. There are three sets of definitions relevant to this analysis:

- The original definitions applied in the supply-side study (before the definitions were formalised);
- The current FinMark definitions, which have been developed over the last three years; and
- how the official definition translates into the FinScope definitions based on the products for which information is available.

Table 1 below provides a comparison of these definitions.

Aggregation of results and sources of information. The supply-side analysis did not have the benefit of a consolidated survey on financial services and the information had to be compiled from various industry sources of information. This created a number of complications:

- Firstly, information on some product categories was simply not available from industry sources.
- Secondly, the data was often only available as number of accounts/policies rather than number of clients. Where relevant and possible some adjustments were made to approximate the number of clients rather than the number of policies.
- Thirdly, it was difficult to control for double-counting. Unlike the case with the FinScope survey, it is not possible to select all those with "one or more" of a product. Information from different sources had to be combined and adjustments were made to control for double-counting. Where insufficient information was available to control for double-counting, certain product categories were not included in the category calculation (e.g. where it was not clear what the overlap of mortgage and current account use was, the highest figure of the two - usually mortgages - were used in the category calculation).

Category	Definition	FinScope definition based on available information	Initial supply-side definition
Savings	Total number of individuals that uses one or more of the following savings products (defined as any financial product used with the intention to accumulate savings): Savings book, post office savings account, fixed deposit account, stokvel membership, savings/transaction accounts, pension/provident funds, retirement products and endowment policies.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Post Office account, savings/transaction account from bank, current/cheque account, transaction/transmission account, fixed deposit account, call account with bank, membership of stokvel, loan/saving from NGO, loan/saving from savings and credit cooperative, member of savings club, retirement annuity/provident fund/pension fund membership, endowment/investment policy or education insurance cover.	With the available information at the time of the supply-side analysis, this translated into the total number of individuals with one or more of the following products: Number of savings accounts (or where available the number of account holders) for all government and commercial banks and NGO and cooperative savings institutions where considered. Number of account holders where approximated from number of accounts data and, where possible, adjustments were made to control for double-counting. Where this was not possible, some product categories had to be excluded (as it would have been inaccurate to add them together if substantial overlap is expected). In such cases, the highest usage product categories were taken. In practice this meant that formal government or commercial bank savings accounts were taken as basis and to that cooperative, NGO or informal savings (where available) were added (not considered to have substantial overlap with formal savings accounts). The situation and available information varied for the four countries and the specifics for each country will be discussed under each country. The exception was Namibia where the information was taken from the NAMPS survey. A correction was applied where industry (company specific) information was available indicated substantial undercounting (as was the case with NamPost Savings Bank).
Credit	Total number of individuals that uses one or more of the following financial products: Credit card, mortgage or home loan, personal loan from bank, loan from friend or family, loan from employer, loan from microlender, vehicle finance or store credit.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Mortgage bond or housing loan, current/cheque account (assuming that current accounts will have overdraft facility), Credit card, Transaction/transmission account (assuming that transmission accounts will have an overdraft facility), vehicle finance, loan from bank, personal overdraft with bank, business overdraft with bank, loan from registered or unregistered microlender, loan/saving from NGO, store account or loan/saving from savings and credit cooperative.	Covered commercial and government bank accounts that provided access to credit facility, NGO loans, microfinance (focusing mostly on cash loans as term loans are expected to overlap substantially with bank credit figure), cooperative membership that provides access to credit facility and other government credit schemes. Where possible corrections were applied to control for double-counting. This varied based on the information available for each country. More details are provided in the country sections.
Transaction	Total number of individuals that uses one or more of the following transaction (defined as any financial product that allows functionality to store cash and get cash, make payments via ATM, POS or electronic medium) products as the: Savings/transaction account with ATM card, debit card, credit card, cheque/current account or garage card.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Current/cheque account, debit card, credit card, garage card or transaction/transmission account.	The number of people with current/cheque/transmission accounts was estimated from number of accounts data. No data was available on other transaction mechanisms. The exception was Namibia where the information was taken from the NAMPS survey and included cheque/transmission accounts. More details are provided in the country sections.
Life Insurance	Total number of individuals that use one or more of the following life insurance products: Burial society membership, life insurance or funeral policies with big institutions.	With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Member of burial society, funeral policy or life insurance policy.	Industry aggregates of number of people with life policies (defined as any policy with life cover) was estimated from information reported by individual insurers. The exception was Namibia where insurance information was taken as reported in the NAMPS survey (reported use of whole life cover products). Where possible corrections were applied to control for double-counting. This varied based on the information available for each country. More details are provided in the country sections.

Table 3. Comparison of definitions

Formal vs informal. Another complication that arises is the classification of formal and informal activities. FinMark currently defines formal financial services as “financial services provided by a licensed/registered entity providing financial services, to include cooperatives and registered micro-lenders”. For the purposes of this analysis, however, burial societies and cooperatives were included under the informal category. There are a number of reasons for this:

- Firstly, the supply-side analysis was done long before the formalisation of FinMark's view on this definition. The old definition was used in the more recent FinScope analysis to allow for comparability.
- Secondly, member-governed/cooperative societies are much closer in nature to informal operations (even where registered) and it will be misleading to include them in the formal figure when considering access. Two relationships need to be considered: That of the individual to the cooperatives/society and that of the cooperative/society to the legal/regulatory system. The former relationship is mostly informal as cooperatives/societies rarely have contractual relationships with their members. The relationship is based on trust and can, therefore, be considered to be informal. It is the opinion of this analysis that the relationship between member and cooperative is the defining relationship as that is what will affect access from the consumer's point of view. The FinMark definition, however, suggests that the relationship of the cooperative/society to the legal/regulatory system is the defining relationship.
- Thirdly, the FinScope survey did not ask respondents whether they were members of a registered or unregistered burial society/cooperative. It is, therefore, assumed that all cooperatives and burial societies are formally registered. While this may be the case for cooperatives in Swaziland, it is certainly not the case for the burial societies in Lesotho. This raises the question of how the FinMark definition should apply to the situation where a cooperative/society is defined in legislation and, therefore, required to be registered, but where many cooperatives/societies are not registered in practice. Our suggestion would be that any analysis should make a clear distinction between member-governed mutual or self help societies (such as cooperatives and burial societies) and those where commercial interests are introduced. We propose that these societies are closer to what can be considered informal but perhaps should be considered as a separate category (e.g. semi-formal).

Insurance. The more recent FinMark definition focuses on all categories of insurance and is, therefore, based on a combination of life and general insurance. Although the supply-side study covered both life and general insurance, only life insurance was used in aggregate figure. As it was impossible to control for overlap and get to a meaningful aggregate of life and general insurance, the approach in the supply-side analysis was to focus on the first (and primary) category of

insurance that would be accessed by lower-income households, which is life insurance. This was considered appropriate as the aim was to evaluate access and it, therefore, made sense to focus on the base product category that would be accessed first. In the subsequent analysis of FinScope data, the definition of the aggregate figure was kept on life insurance to allow for comparability but the details of usage of general insurance products were evaluated and discussed. With regards to the current FinMark definition, the question has to be asked what the interpretive value of a combined life and general usage figure would be. Perhaps these two areas should remain separated.

2. BOTSWANA

This section deals with access in Botswana and reviews the supply-side study conducted in 2002 with the data now available through the FinScope Botswana Survey 2003. This will allow a cross checking of results as well as creating a fuller picture of access through information that was previously not available.

The FinScope data confirmed most of the estimates from the supply-side study but added a number of data points on products for which non data was previously available. This significantly increased the overall estimate of use of the various categories of financial services. The insurance figure was revised to also include funeral policies and burial society membership, which increased the overall insurance figure from 15.4% to 47.6%³. The transaction figure increased from 15.9% to 43.6% due to the inclusion of transaction-enabled savings accounts⁴. The FinScope credit figure includes estimates of use of store and informal credit⁵ and increased the overall figure from 24.7% to 49.6%. This increase is predominantly due to a large number of individuals with store credit (who do not have any form of bank credit). A typical survey problem, however, is that credit figures in the FinScope survey seem to undercount credit usage (e.g. microlending). The original supply-side estimate of, for example, microlending was much higher than the FinScope estimate and suggests the true figure must be even higher than the estimated 49.6%. It is, unfortunately, not possible to adjust the figure using the supply-side estimate for microlending as it is not possible to control for double-counting where someone may have more than one credit product.

³ Including formal and informal (see section 1.3).

⁴ FinScope asked respondents whether they had a savings/transaction accounts, but it was not clear which proportion of these actually provide transaction functionality. As a proxy, those that have savings/transaction accounts and ATM cards were selected.

⁵ See definitions in section 1.3.

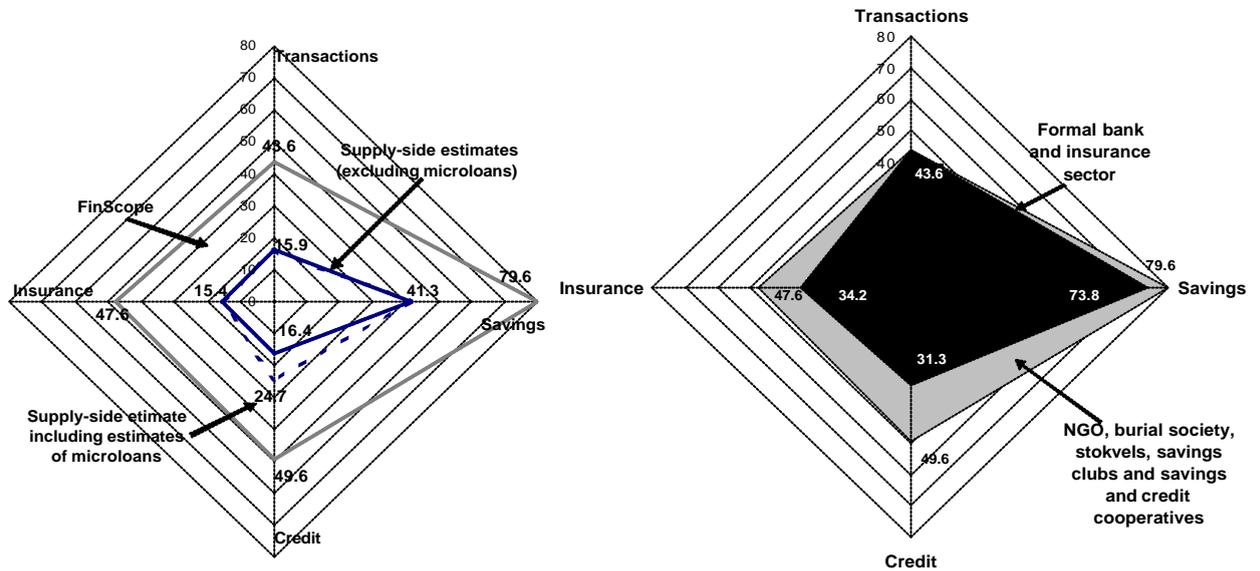


Figure 4. Use of financial services in Botswana⁶

Source: *Genesis supply-side analysis and FinScope Botswana 2003*

With regards to savings, the increase is due to significant numbers of informal savers that were not included in the supply-side analysis. In addition, the FinScope figure also includes savings through insurance products and pension funds. The insurance figure also increased significantly due to the inclusion of significant number of burial society members and funeral policyholder who are not included in the supply-side study.

Another interesting picture emerging from FinScope is the relative contribution of formal and informal products⁷ to overall usage (see Figure 4). In line with the findings of the supply-side study, the informal sector plays a much larger role in Swaziland and Lesotho than in Namibia and Botswana.

To provide the necessary context within which to interpret the access data, the first section will provide a brief overview of the salient features of the economy relevant to the access debate.

⁶ See Appendix A for definitions of the four product categories.

⁷ This includes products provided by NGOs, burial societies, stokvels, savings clubs and savings and credit cooperatives.

2.1. ENVIRONMENT

Botswana covers a geographical area about half of South Africa but their population is only about 4% of that of South Africa. The population is concentrated along the eastern border with South Africa with large sparsely populated and mostly desert terrain to the west. The low population density outside of the main urban centres makes it difficult to provide sufficient infrastructure and the result is that very limited infrastructure exist outside of main the towns.

The financial sector is relatively strong and developed. Unlike the other BLNS, the banking sector does not only consist of South African banks but also two UK banks (Standard Chartered and Barclays). The South African banks only entered the market in at the beginning of the 1990s and the two UK banks are still dominant. Botswana is the only BLNS country that is not part of the Common Monetary Area (CMA) and this has allowed it the freedom to intervene in the financial sector through, e.g., the capping of interest rates. The insurance sector is dominated by South African or majority South African owned firms.

A significant constraint on the development of the financial sector is the ineffective national payment system. Plans have been drawn to implement new payment system architecture, but implementation has not commenced. Without an effective payment system, it is very difficult to offer inter bank transaction functionality and the use of debit orders is constrained. This, of course, has fundamental implications for the insurance sector and the collection of premiums.

With regards to the general economy, one of the main concerns in Botswana is the continued reliance on diamonds as basis for the economy. Government's attempts at diversifying the economy have not succeeded to date. One of the main problems the government identified that is hindering this development is the low level of credit provision. Instead of opting to pressure the banks to provide this credit, the government has decided to intervene directly in the market by setting up a development agency to provide credit to entrepreneurs. This has been the general approach in Botswana resulting in a number of government owned financial institutions in the market. The outcome of this is that banks have been absent to a great extend in credit provision as government was providing this at subsidised levels with which the private sector could not compete. Government has since moved to privatise several of these institutions.

HIV/AIDS is a major problem and Botswana has been classified as having one of the highest prevalence rates in the world. In the last few years, government has initiated a campaign to address this, but it is not clear that this is achieving the necessary coverage and resistance to voluntary testing is a problem.

2.2. SAVINGS⁸

Several providers of savings products were documented in the supply-side analysis: Commercial banks, government banks, Bank of Botswana, the Post Office⁹ and NGOs. Data on the number of accounts held was only available for the commercial banks, NGOs and one of the government banks, Botswana Savings Bank. The account data for the commercial banks were provided by the Bank of Botswana, whereas the data for Botswana Savings Bank and NGOs were obtained through interviews with various market players. Information on the activities of the post office or other government banks were not available at the time. It was also noted that the Bank of Botswana was offering savings certificates to the public but no information was available on the extent of take-up. Although it was not possible to get data on cooperative membership, interviews with various role players during the supply-side analysis suggested that cooperatives do not play a major role as providers of savings services.

Table 4 below shows the number of accounts data for the commercial banks and the Botswana Savings Bank.

Number of Accounts by Product Type for All Commercial Banks						
Account Type	1997	1998	1999	2000	2001	Percentage of adult population
Number of Savings Accounts	173,997	187,688	190,303	229,775	228,437	23.9
Time Deposits Accounts	266	261	7,774	17,957	28,332	3.0
Call Accounts	5,681	5,395	6,634	9,641	12,557	1.3
Number of Current Accounts	na	na	114,994	144,064	151,625	15.9
Government banks:						
Botswana Savings Bank Accounts	na	na	na	na	163,131	17.1

Table 4. Number of bank accounts

Source: Bank of Botswana and interviews with various institutions

Commercial and government bank savings accounts: As an estimate of overall use of bank savings accounts in the supply-side study, the total number of savings accounts for commercial banks and the Botswana Savings Bank was taken, which equated to 41% of the estimated adult population (older than 16) at the time (23.9% had a commercial bank savings account and 17.1% had a Botswana Savings Bank account.). The two figures were added without controlling for duplication as it was assumed most people will not have two savings accounts and the risk of double-counting is, therefore, small. To derive the overall use of savings

⁸ See definitions in section 1.3.

⁹ These are actually the accounts of the Botswana Savings Bank that is administered through the post office network. They are in the process of rebranding these to Botswana Savings Bank accounts.

products, the NGO savings accounts (see discussion below) were added to this figure (once again overlap in client base should be minimal, if any).

In the FinScope survey respondents were asked whether they had a savings or transaction account with “a bank” and no distinction was made between commercial and government banks. 47% of respondents indicated that they had such a savings account and it was interpreted to include government and commercial institutions (see Table 5 below). Although the supply-side analysis did not provide full coverage of all the government institutions, the remaining institutions are expected to have relatively few savings accounts and the FinScope figure, therefore, seems to be in line with the original supply-side estimates.

In addition, the FinScope survey reported that 11.5% of respondents have a fixed deposit account and 3.2% have a call account with a bank. The supply-side study reported that only 3% of adults had a term deposit account and 1.3% had a call account with a commercial bank. The differences may be due to the absence of government institutions from the supply-side figures as well as the lack of details on other accounts of the Botswana Savings Bank, which offers a variety of term deposit accounts. These were not used in the calculation of the overall savings account figure as it is expected to overlap significantly. The discrepancies will, therefore, not affect this estimation.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have	Don't know	Not answered
An ATM card	41.9	4.5	40.9	11.5	0.9	0.2
A Post Office Savings Account ¹⁰	30.4	23.0	35.5	10.9	0.2	0.0
Savings/Transaction account from a bank	32.8	5.1	47.0	12.1	2.3	0.8
Mortgage bond or housing loan from a bank	87.2	3.2	2.3	1.5	5.5	0.4
Current or Cheque account	72.6	0.4	17.7	4.5	4.5	0.2
Debit card	85.5	1.3	5.3	1.3	6.4	0.2
Credit card – Visa/ Master/ American Express/ Diners Club	79.6	1.3	12.5	1.7	4.9	0.0
Garage card/ Petrol card	95.7	0.4	0.4	0.0	3.6	0.0
Transaction/ Transmission account	85.1	0.6	7.9	0.8	5.7	0.0
Fixed Deposit account	76.6	5.3	11.5	3.6	3.0	0.0
Vehicle finance from a bank	84.3	3.8	6.2	2.6	3.0	0.0
Loan from a bank	64.0	17.2	11.7	5.5	1.7	0.0
Call account with a bank	90.0	0.2	3.2	0.4	6.0	0.2
An overdraft at the bank – personal	84.9	8.9	1.1	1.5	3.6	0.0
An overdraft at the bank – for your business	93.4	2.1	0.2	0.8	3.2	0.4
Loan from a registered micro-lender	82.5	9.8	4.2	2.1	1.5	0.0
Loan from an unregistered money lender	90.4	3.4	3.6	0.4	2.3	0.0
Membership of a <i>stokvel</i> / motshelo or savings club	53.4	9.8	25.7	10.6	0.6	0.0
Loan and/or savings from a NGO	95.1	0.2	0.6	0.0	3.8	0.4
Account with a store	46.2	17.2	29.1	6.6	0.6	0.4
Loan and/or savings from Savings and Credit Co-operative	92.1	3.0	1.5	1.9	1.3	0.2

Table 5. Use of financial services by category (savings, transaction and credit)

Source: FinScope Botswana 2003 (Question 41)

Post Office Accounts: 35.5% of FinScope respondents indicated that they have a Post Office savings account. These are actually Botswana Savings Bank accounts that, in the past, were branded under and distributed through the post office. It is interesting to note that the Post Office is a significant provider (or intermediary) of savings services in Botswana and Namibia (19.9%) but not in Lesotho and Swaziland.

Investment products provided by insurers: Information on these products were not available in the supply-side analysis but was included in the questions for FinScope. 22.3% of respondents indicated that they had a retirement annuity/provident or pension fund. 8.5% indicated that they had an endowment or

¹⁰ These are actually Botswana Savings Bank accounts that, in the past, have been branded under and distributed through the post office. They are in the process of rebranding these to Botswana Savings Bank accounts.

investment policy. This will be taken into account in the evaluation of overall access to savings products.

NGO savings accounts: Although small NGOs serve a market that are not served by government or commercial institutions. During the supply-side study a number of these institutions were interviewed and it was reported that they provide about 2,500 (about 0.3% of the adult population) savings accounts in total. A larger number of individuals received loans from NGOs (about 4,225 – 0.4% of adult population). FinScope asked respondents whether they had a loan and/or savings with an NGO to which 0.6% responded positively. It is not clear what the split between loans and savings is but the figures seem to be in line with the supply-side figures.

Informal savings institutions: FinScope asked about informal savings groups in three questions. The first included the name *stokvel* and the second referred more broadly to savings clubs. In all the other BLNS countries the response to the former figure was lower than the latter suggesting that the term '*stokvel*' may be interpreted as a specific type of savings club or perhaps had negative connotations. In Botswana, however, the responses were much closer. 25.7% of respondents indicated that they are members of a *stokvel* or savings club (see Table 5) and 24.7%¹¹ indicated that they were members of a savings club (see Table 6).

The third question asked whether the respondent had savings or loans with a savings and credit cooperative to which 1.5% responded positively. This is significantly lower than the response for the first two questions and could be due to the specific definition attached to 'savings and credit cooperative' and the fact that the question asked about loans and not membership. In addition, unlike Swaziland, Botswana does not have an active cooperative movement, which would also explain the low response rate. The usual survey problem of under-reporting of credit data also applies.

The responses to the first two questions indicate substantial informal membership numbers, which suggest that the supply-side analysis may have been correct in its deduction that cooperatives are not extensively used in Botswana but incorrect in assuming that this applies to the informal sector more broadly. The overall estimate of use of savings services will, therefore, be adjusted to incorporate the new information.

¹¹ This is the sum of two responses on the question of membership: "Yes – only myself" and "Yes – myself and other members of the household".

Belong to savings club?	%
Yes - only myself	18.7
Yes - myself and other members of the household	6
Yes - only other members of the household (not myself)	10.9
Do not belong to savings club	62.8
Don't know	1.5

Table 6. Percentage of respondents that belong to savings club

Source: FinScope Botswana 2003 (Question 55)

Although substantial, the links between informal and formal savings sector do not seem to be as evident in Botswana as, for example, in the other BLNS countries. This is confirmed by the fact that only 58.8%¹² of those reporting to be members of a savings club also reported that their savings club has an account with a bank (compared to 65% in Lesotho, 89% in Swaziland and 81.6 in Namibia).

Table 7 below provides some information on the extent of the cash economy in Botswana. It is clear that the level of bank intermediation (as measured by the proportion of salary and wage transactions that are kept within the banking system in contrast to those conducted in cash) is much higher in Botswana (49.9% in cash) than in Lesotho (79.3% in cash) and in line with Swaziland (59.3% in cash) and Namibia (53% in cash). This corresponds to the findings of the supply-side study and suggests that there is still a substantial proportion of the economy conducted on cash terms.

Activity	% of individuals receiving income in cash		
	Total	Urban	Rural
Salaries and or wages	49.9	41.5	54.4
Business activities, non farming	95.2	85.3	100
Pension	94.9	100	94.4

Table 7. Respondents receiving income in cash as percentage of those receiving money as income

Source: FinScope Botswana 2003 (Question 19d)

Counting all individuals with one or more of the above savings products from the FinScope survey shows that 48.5%¹³ of respondents used some form of savings product.

¹² Counting all respondents with a positive response to any of question 57 option 2 ("An account at the bank"), question 57 option 2 ("An account at the Post Bank/Office"), question 57 option 3 ("Club savings account with a bank") or question 57 option 5 ("Fixed deposit with a bank").

¹³ This includes formal and informal savings providers (See definitions in section 1.3).

2.3. TRANSACTION¹⁴

Usage of transaction services are generally more complicated to define as there several products offering different types of transactions. Current, cheque or transmission accounts allow debit orders, electronic payments and transfers and issuing checks as payment. Savings accounts, however, increasingly offer electronic transfer and payment functionality, some allow debit order facilities although this is only in limited cases and debit cards allows individuals to pay for products and services using funds in their savings account. In addition, credit card accounts does not allow debit orders, but allows electronic payments and transfers as well as payment out of the credit account.

In the original supply-side study, it was also impossible to control for overlap between different bank accounts with the information available and, therefore, only the number of current accounts was used. Bank of Botswana data (Table 4) shows that there were 151,625 (15.9% of adults) current accounts at the end of 2001. Although it is possible that an individual may have more than one current account, it is highly unlikely and not adjustment for double-counting was made.

The FinScope current account figure seems to be in line with the earlier estimate. The original estimate, however, may possibly not have included transmission accounts (assuming that this was not included under the Bank of Botswana's definition of current accounts) and, consequently, underestimated the number of people that have a transaction account.

FinScope data showed that 47% of respondents have a transaction/savings accounts. However, not all of these accounts will offer transaction functionality. 36.8% of respondents indicated that they have both a transaction/savings account and this was used as proxy of transaction-enabled savings accounts. Furthermore, 17.7% of respondents have a current or cheque account, 7.9% has a transmission or transaction account, 12.5% has a credit card and 5.3% has a debit card. The total would suggest that 43.6%¹⁵ of respondents use some form of account that allowed transaction functionality.

¹⁴ See definitions in section 1.3.

¹⁵ This figure is the total of those with current and transmission accounts, credit or debit cards, but controlling for where an individual have both.

2.4.

CREDIT¹⁶

Four categories of credit providers were considered in evaluating the use of credit in the supply-side analysis: Formal bank credit, registered and unregistered for-profit microlending, NGO credit and credit from informal group-based societies such as cooperatives. In addition, the FinScope survey also provides information on store credit, which will be included in this analysis.

The supply-side analysis estimated that 16.4% of adults used some kind of credit service (excluding microlending) and this increased to 24.7% if microlending was included.

Commercial bank credit: This figure was estimated at 15.9% in the supply-side study, which is based on the number of individuals with current accounts. This was used as individuals generally have to qualify for those products based on their income and if they qualified for these, they would probably also qualify for some form of credit from the bank. It can also be expected that an overdraft will be available on most of these accounts. No information was available on other credit products provided by the banking sector.

The FinScope study indicated that 24%¹⁷ of respondents had a current or transmission account. In addition, the survey reported on a number of other bank credit products for which no information was available in the supply-side study: 2.3% of respondents had a mortgage, 12.5% had a credit card, 11.7% had a loan from a bank and 1.1% had a personal overdraft. For the overall estimate of bank credit use, the number of people was calculated that had one or more of these products. This calculation suggests that 31.3% of respondents had access to some form of bank credit.

¹⁶ See definition in section 1.3

¹⁷ This figure is the total of those with current and transmission accounts, but controlling for where an individual have both.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have	Don't know	Not answered
Mortgage bond or housing loan from a bank	87.2	3.2	2.3	1.5	5.5	0.4
Current or Cheque account	72.6	0.4	17.7	4.5	4.5	0.2
Credit card – Visa/ Master/ American Express/ Diners Club	79.6	1.3	12.5	1.7	4.9	0.0
Transaction/ Transmission account	85.1	0.6	7.9	0.8	5.7	0.0
Vehicle finance from a bank	84.3	3.8	6.2	2.6	3.0	0.0
Loan from a bank	64.0	17.2	11.7	5.5	1.7	0.0
An overdraft at the bank – personal	84.9	8.9	1.1	1.5	3.6	0.0
An overdraft at the bank – for your business	93.4	2.1	0.2	0.8	3.2	0.4
Loan from a registered micro-lender	82.5	9.8	4.2	2.1	1.5	0.0
Loan from an unregistered money lender	90.4	3.4	3.6	0.4	2.3	0.0
Membership of a <i>stokvel</i> / motshelo or savings club	53.4	9.8	25.7	10.6	0.6	0.0
Loan and/or savings from a NGO	95.1	0.2	0.6	0.0	3.8	0.4
Account with a store	46.2	17.2	29.1	6.6	0.6	0.4
Loan and/or savings from Savings and Credit Co-operative	92.1	3.0	1.5	1.9	1.3	0.2

Table 8. Use of financial services (credit)

Source: FinScope Botswana 2003 (Question 41)

Microlending: Interviews with a number of the registered microlenders during the supply-side study provided enough information to calculate rough market figures. The study placed a conservative estimate of the number of individuals with cash and term loans on 100,000 (10.5% of adults) and 80,000 (8.4% of adults)¹⁸ respectively. As the term lending was expected to overlap significantly with the commercial bank credit figure, it was not included in the overall credit use figure.

The FinScope survey reported that 4.2% and 3.6% of respondents had loans from registered and unregistered microlenders respectively. Given the known problems of under-reporting of credit information in surveys, it is not unexpected that the FinScope figure is lower than the supply-side estimate. It is expected that the supply-side figure will be closer to the true number.

NGO credit: From interviews with the main credit providing NGOs during the supply-side analysis, it was possible to construct a picture of credit extension

¹⁸ See Genesis (2002a) for more details on this estimate.

through these institutions. In total, it is estimated that 4,225 individuals received credit through an NGO¹⁹. The FinScope survey asked whether the respondent had savings or loans with an NGO on which 0.6% of respondents answered positively. Although this figure seems to correspond closely with the earlier estimate, the estimate is based on only 3 respondents and is, therefore, not statistically valid.

Informal group-based credit: No information on the informal group-based credit market was available at the time of the supply-side study but interviews with various role players in the industry suggested that this market should be quite limited. 1.5% of respondents in the FinScope survey indicated that they had savings or loans from a savings and credit cooperative. It is not clear what the split is between savings and loans.

Store accounts: 29.1% of respondents in the FinScope survey indicated that they had an account with a store. This information was not previously available and will be included in the overall credit figure.

Extracting all the individuals with any of the above formal and informal credit products suggest that 49.7%²⁰ of respondents had some form of credit.

2.5. INSURANCE²¹

2.5.1. SHORT-TERM INSURANCE

Very little information was available on the number of short-term insurance policies at the time of the supply-side study. The only estimate available was for motor insurance. At the end of 2001 there were an estimated 170,000 vehicles with an outstanding loan amount of which approximately 50% were insured suggesting a total number of motor insurance policies of about 65,000. In most cases this was simply because banks require insurance on vehicles financed by them. This figure will include double-counting where individuals or households own more than one insured vehicle. It represents an upper bound (7% of adults) with the estimated number of policyholders falling somewhere below that

The FinScope asked respondents whether they have a household or vehicle insurance policy. 10.9% responded that they currently have such policy. Given the estimate of vehicle insurance policies above, it suggests that only about 4% of households have household insurance. This seems quite low but no industry information is available to check this.

¹⁹ This figure includes Women's Finance House: 3,500; Kgetsi Ya Tsie: 700; and Youth in Development: 25.

²⁰ This includes formal and informal credit providers (See definitions in section 1.3).

²¹ See definitions in section 1.3.

2.5.2.

LONG-TERM INSURANCE

Life policies: Two estimations of the number of life policyholders were provided in the supply-side study and were based on data from an industry player and the regulator respectively. Botswana life indicated that they have an estimated 150,000 insurance policies. Of these policies, 85% (127, 500) had some kind of life cover. Furthermore, they estimated that there is an overlap factor of about 1.5 suggesting a number of life policyholders of about 85,000. Metropolitan on the other hand had an estimated 40,000 endowment policyholders of which it is assumed that half have life cover. This suggests a market estimate of about 105,000 life policyholders (11% of adult population).

The second approximation was based on data provided by the regulator. At the end of December 2000, the regulator reports suggested that there were 229, 974 life policies in the market of which 95% were for Botswana citizens. Assuming that the number of policies grew by 30% during 2001 and if the same overlap factor is used as above, this translates into an estimated number of policyholders of 189,935 (19.8% of adults).

In the FinScope survey 26% of respondents reported to have a life policy, which, if the same growth rate is assumed for 2002, seems to be in line with the above figure.

Formal funeral policies: No information was available on the number of funeral policies in Botswana except that Botswana Life held the majority of these policies. 20.9% of respondents in FinScope indicated that they have a formal funeral insurance policy. Given that Botswana life had a total book of 150,000 (15.7% of adults assuming no overlap) policies (including life, funeral and endowment) at the end of December 2000, this figure seems too high.

Informal funeral insurance: No information existed on the extent of burial society membership in Botswana at the time of the supply-side study except views expressed by the market suggesting that it was not significant. The FinScope survey, however, reports that 21.3% of respondents indicated that they were members of a burial society. This is certainly more significant than expected and suggested by the market players.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have
Membership of a burial society	65.8	3.8	21.3	8.3
Funeral Policy	69.8	0.6	20.9	7
Life Insurance Policy - long-term	63	1.3	26	7.4
Retirement annuity/Provident Fund/Pension Fund	66.8	0.8	22.3	7.5
Endowment/Investment Policy	84.7	0.2	8.5	2.5
Household/car Insurance - short-term	81.7	0.4	10.9	3.4
Medical Aid	65.3	1.7	26	5.5
Hospital Plan	95.5	0	0.6	0.2
Disability Insurance	91.9	0.2	4.7	0.6
Education insurance cover	93.2	0.6	2.6	0.9

Table 9. Use of financial services (insurance and investment)

Source: *FinScope Botswana 2003 (Question 52)*

Counting all individuals that have one or more of the above insurance products with life cover suggest that 47.6%²² of respondents have some form of life insurance.

²² This includes formal and informal insurance providers (See definitions in section 1.3).

2.6. PERCEPTIONS OF THE FORMAL FINANCIAL SECTOR

FinScope asked respondents about the main disadvantages of dealing with formal financial institutions and the responses are reflected in Table 10 below. These provide a very direct indication of the accessibility or perceived accessibility of financial institutions and products.

Statement	Not a problem/ Not a problem at all	Neither/ nor	Is a problem/ Is a big problem	Does not apply	Not answered
Requirements					
I don't qualify for their services	15.8	15.8	57.2	11.1	0
They force me to keep a high minimum balance	13.6	13.8	52.3	20.2	0.2
I have to have credit references	35.4	17.9	25.8	20	0.8
I have to have a pay-slip	46.6	12.6	21	19.6	0.2
I have to fill in forms	59.6	12.8	14.9	12.1	0.6
I need a permanent address	69.6	14	6.2	10	0.2
I have to have an identity document	82.9	5.1	4	8.1	0
Physical access to the service					
I cannot get the money immediately if I need it	15.8	11.5	57.6	14.9	0.2
I have to stand in queues for service	18.3	17.4	52.7	11.3	0.4
Their technology can be difficult to work with	20.8	17	46.6	15.1	0.6
They are too far away for me and expensive to get to	6	12.5	45.6	16.6	0
Perceived value/benefit					
My money does not grow quickly	11.7	16.8	55.8	15.7	0
They only offer a good return over a period of years	9.2	20.4	53.2	17	0.2
The big institutions are not always safe	14.1	23	44.5	18.1	0.2
My money is taxed	22.3	13.2	42.7	21.7	0.2
Their ATM machines are not always safe	10.2	17.9	39.2	32.6	0
I have to pay to deal with them	34.5	14.2	34.2	17.2	0

Table 10. Disadvantages of dealing with formal financial institutions

Source: *FinScope Botswana 2003 (Question 42)*

It is firstly, interesting to note that the negative responses (i.e. respondents indicating an aspect to be a problem or big problem) in Botswana is significantly lower than in Lesotho, lower than in Swaziland, but higher than in Namibia. These responses were from all three broad categories of issues: requirements, physical access as well as the perceived benefit of dealing with a formal institution.

The main problems in terms of requirements seem to be that people do not qualify for bank services and are forced to maintain high minimum balances. The latter issue was also picked up in the supply-side study from which it was clear that minimum balance requirements were more common and onerous in Botswana than, for example, in Namibia. This is confirmed by the Namibian FinScope results

where responses in both these categories were significantly lower (see Table 21 on page 49).

In terms of physical access, 57.6% of respondents indicated that it is a problem to them that they cannot access their money immediately, which suggest potential problems with product design and appropriateness to the need of consumers. 45.6% of respondents indicated that it is a problem that banks are far away and expensive to get to. This is much lower than the response for Lesotho but in line with the response for Namibia and confirms the issue of insufficient branch networks in countries with large areas of low population density.

The responses regarding benefit derived from formal financial institutions confirm that banks are not providing the investment value that their clients would like. 55.8% of respondents indicated that it is a problem that their money does not grow quickly and 53.2% indicated that it is a problem that good returns are only offered over a period of years.

3. LESOTHO

This section deals with access in Lesotho and reviews the supply-side study conducted in 2002 with the data now available through the FinScope Lesotho Survey 2003. This will allow the cross checking of results as well as creating a fuller picture of access through information that was previously not available.

The FinScope data confirmed most of the estimates from the supply-side study but added a number of data points that were not previously available and significantly increased the overall estimate of use of the various categories of financial services. The first was the revision of insurance to also include funeral policies and burial society membership, which increased the overall insurance figure from 1.8% to 56%. The bulk of this figure comes from burial society membership. The FinScope credit figure includes estimates of use of store and informal credit and increased the overall figure from 1.8% to 12.6%. This increase is predominantly due to a substantial number of individuals with store credit (who do not have any form of bank credit) and microloans. The estimate of transaction services increased from 1.6% to 6.7% due to the inclusion of estimates of transaction-enabled savings accounts²³. A typical survey problem, however, is that credit figures in the FinScope survey seem to undercount credit usage (e.g. microlending) and this suggests the true figure must be even higher than the estimated 12.6%. What is interesting to note is that the savings figure remain the same despite including information on more products than the supply-side analysis.

²³ FinScope asked respondents whether they had a savings/transaction accounts, but it was not clear which proportion of these actually provide transaction functionality. As a proxy, those that have savings/transaction accounts and ATM cards were selected.

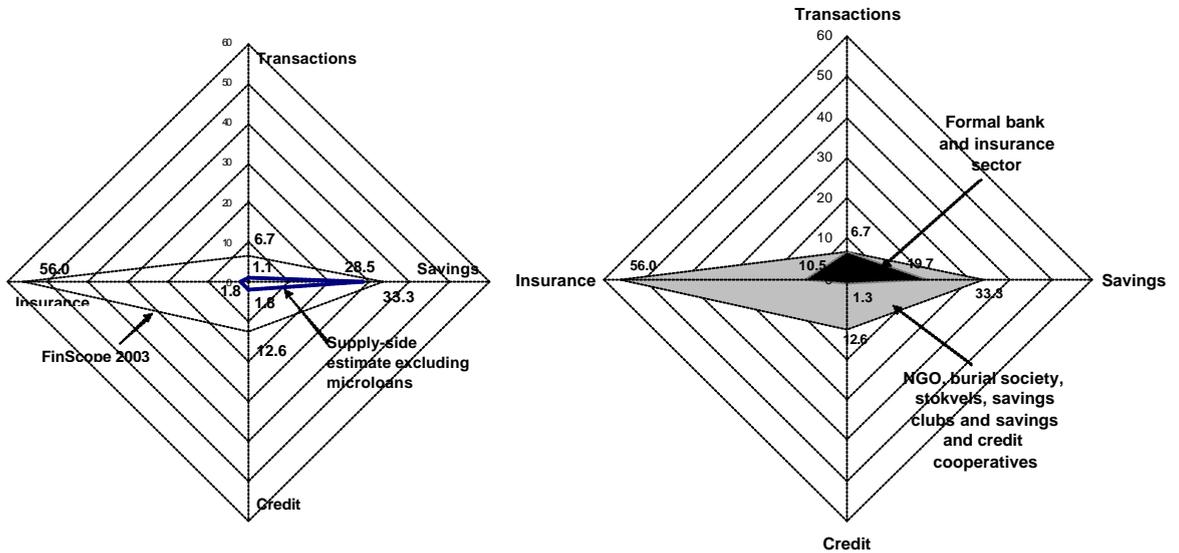


Figure 5. Use of financial services in Lesotho

Source: Genesis supply-side analysis and FinScope Lesotho 2003²⁴

Another interesting picture emerging from FinScope is the relative contribution of formal and informal²⁵ products to overall usage (see Figure 5). In line with the findings of the supply-side study, the informal sector plays a much larger role in Swaziland and Lesotho than in Namibia and Botswana.

To provide the necessary context within which to interpret the access data, the first section will provide a brief overview of the salient features of the economy relevant to the access debate.

3.1.

ENVIRONMENT

Lesotho is a small landlocked country much of which is mountainous terrain with very limited infrastructure such as roads, electricity and telecommunications extending beyond the major centres. Despite its small size, Lesotho has the highest population of the BLNS countries of which a large proportion lives outside of the main centres in areas that are difficult to access. The economy is very open with large reliance on South African in terms of imports and exports. Although consistently declining, a large number of Lesotho citizens are still employed on the South African mines and their incomes contribute significantly to the country's

²⁴ See Appendix A for definitions of the four product categories.

²⁵ This includes products provided by NGOs, burial societies, stokvels, savings clubs and savings and credit cooperatives.

GDP. These workers also have access to South African banking and financial products.

The judicial system in Lesotho is ineffective with long delays and difficulty in enforcing contracts. The absence of an effective and enforced national identification system makes the enforcement of contracts impossible. Banks are, therefore, reluctant to enter into contracts of significant value as they have little backing from the Lesotho Government for the enforcement of such contracts. Outside of the main centres, properties are not properly proclaimed and many buildings are on unnumbered sites in villages that do not have street names at all. This has made it impossible to use such property as collateral. In addition, generally inefficient government administration complicates matters where, for example, it is not unusual for a loan period to end before the security has been put in place. In order to address some of these problems for the financial sector, a commercial court was created in 2002 to speed up the processing of cases. Without dramatic improvements to the judicial framework within which these courts must operate, however, it will be of little use.

The banking sector is small with a limited branch network and has experienced several collapses over the last decade. The largest branch networks were held by Lesotho Bank and the Lesotho Agriculture Development Bank both of which have failed in the last 10 years. The cost of maintaining such a branch network in both cases contributed to the demise of the institution. Lesotho Bank was taken over by Standard Bank in 2001 and have since rationalised their distribution network in order to improve efficiency and reduce costs. An ineffective manual clearing system slows down the processing of interbank transactions and prevents domestic clients of own bank using the ATM infrastructure of the other. Ironically, those who hold South African bank accounts of the same institutions can access their money through either bank's ATMs as the transaction is processed through the South African payment system. All of this contributes to extremely limited infrastructure.

Just more than half of the working population is involved in subsistence farming and more than 70% of the population is dependent on subsistence farming for their livelihood. A large proportion of the population is, therefore, dependent on informal and largely erratic incomes obtained from subsistence farming making the fixed payment contractual environment completely inappropriate. Despite having one of the largest dams and hydro-electrical plants in Southern Africa, Lesotho has limited distribution of the electricity and water domestically. Consequently, most subsistence farmers are dependent on rainfall.

An informal financial system exists in the form of burial societies and various forms of savings cooperatives. These societies have a chequered history with most

initiatives around the mobilisation of credit for the rural population failing. Government has invested significant energy in establishing a network of Rural Savings and Credit Groups, a form of savings and credit cooperative, in an attempt to improve the provision of savings and credit services in the rural areas. As yet, no information is available illustrating whether this has been successful or on the extent of operations. In addition to the informal sector, there is a growing microlending sector that has until recently been mostly unregulated. The Central Bank has gone to great trouble to start regulating this sector in an attempt to harness its potential whilst still protecting consumers. Little information exists on the number of institutions or the extent of the market. Regulation in general is still very limited with the banking regulation being the most advanced. Regulatory reporting is limited with insurance regulation mostly based on annual reports. Under these circumstances there is limited capacity to consider access to financial services and certainly no information to base decisions on.

HIV/AIDS prevalence rates are lower than the other BLNS countries but still problematic and there is little government intervention. A number of companies have resorted to setting up their own wellness programmes for employers but due to the cost of such programmes this is only limited to the largest operations.

The next sections will compare the results from the supply-side analysis and the FinScope surveys for the main components of access.

3.2.

SAVINGS²⁶

In this section four providers of savings services are evaluated: commercial banks, the post office, insurers and savings clubs and cooperatives.

Commercial bank savings accounts: There are currently only two banks in Lesotho, Standard Bank and Nedbank²⁷. Until recently there was also a third government owned bank, Lesotho Bank, which was sold to Standard Bank in 2001 when it ran into problems. Before its demise Lesotho Bank dominated the market with 55% of total banking assets, 58% of deposits and 70% of loans and advances (as at December 1996). Purchasing Lesotho Bank, therefore, gave Standard bank a significant client base as shown in Table 11.

²⁶ See definition in section 1.3

²⁷ At the time of this study First National Bank was in the process of entering Lesotho.

Number of Accounts by Product Category				
Product	Standard & Lesotho Bank	Nedbank	Total	% of Adults
Savings Accounts	300,000	17,051	317,051	27.85
Current Accounts (Credit Balances)	10,000	2,519	12,519	1.10
Other Deposits	1,000	10,216	11,216	0.99
Mortgages	318	na	318	0.03
Personal Loans	na	576	576	0.05
Adult population ²⁸			1,138,346	

Table 11. Number of bank accounts

Source: Genesis supply-side analysis

Table 11 shows the number of bank savings accounts for the two banks by category of account. These figures were provided during interviews conducted for the supply-side study in 2002 and suggested that 28% of adults in Lesotho have a savings account at one of the domestic banks. In contrast, FinScope estimates that only 17% of respondents currently have a bank savings or transaction account. Although this may be due to undercounting by FinScope, it could also partly be due to rationalisation by Standard Bank following its takeover of Lesotho Bank in 2001. At the time of the supply-side study the process of integration had not been completed and it can be expected that Standard may have subsequently re-evaluated the accounts gained through the take-over and cleaned out dormant or unprofitable accounts.

Furthermore, the supply-side figures only reflect savings accounts with domestic banks and do not include accounts with South African banks. In contrast, the survey data will include accounts with both domestic and South African banks. A significant number of Lesotho citizens are employed on the South African mines (although this had declined significantly over the last decade) and is expected to have accounts with South African banks. This is confirmed by the FinScope results in which 6% of respondents indicated that someone in the household had a bank account in South Africa. Although this seems quite low, it is in line with the available data on Basotho mineworkers employed in South Africa.

²⁸ Estimated that about 85% of the total economically active population is in Lesotho and that the population grew by 2.5% per annum for 2000 and 2001.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have	Don't know	Not answered
An ATM card	76.0	0.9	9.7	5.8	7.3	0.2
A Post Office Savings Account	94.4	1.3	0.6	0.2	3.6	0.0
Savings/Transaction account from a bank	54.5	19.9	17.0	7.5	0.9	0.2
Mortgage bond or housing loan from a bank	80.7	0.6	0.0	0.0	18.5	0.2
Current or Cheque account	73.8	0.4	0.9	0.9	23.8	0.2
Debit card	69.7	0.2	0.0	0.4	29.4	0.4
Credit card – Visa/ Master/ American Express/ Diners Club	64.4	0.6	0.4	0.6	34.1	0.0
Garage card/ Petrol card	65.0	0.2	0.0	0.0	34.6	0.2
Transaction/ Transmission account	66.5	0.2	0.0	0.4	32.8	0.2
Fixed Deposit account	81.5	4.3	2.6	1.1	10.5	0.0
Vehicle finance from a bank	82.8	0.2	0.0	0.4	16.7	0.0
Loan from a bank	89.7	1.5	0.0	0.0	8.8	0.0
Call account with a bank	75.3	0.7	0.0	0.0	24.0	0.0
An overdraft at the bank – personal	80.3	0.7	0.2	0.0	18.7	0.0
An overdraft at the bank – for your business	80.5	0.6	0.2	0.0	18.7	0.0
Loan from a registered micro-lender	93.3	3.7	1.1	0.0	1.9	0.0
Loan from an unregistered money lender	72.8	19.9	5.6	0.7	0.9	0.0
Membership of a <i>stokvel</i> / motshelo or savings club	62.9	23.4	11.0	1.5	0.9	0.2
Loan and/or savings from a NGO	86.7	0.7	0.4	0.0	12.2	0.0
Account with a store	65.4	27.0	6.0	1.1	0.6	0.0
Loan and/or savings from Savings and Credit Co-operative	94.2	0.7	0.4	0.2	4.5	0.0

Table 12. Use of financial services by category (saving, transaction and credit)

Source: FinScope Lesotho 2003 (Question 41)

Post office savings accounts: In addition to commercial bank accounts, savings can also be held with the post office. No information on this was collected in the supply-side study. FinScope results indicate that less than 1% of respondents²⁹ saved with the post office.

Investment products provided by insurers: Information on these products were not available in the supply-side analysis but was included in the questions for FinScope. 4.1% of respondents indicated that they had a retirement annuity/provident or pension fund. 1.3% indicated that they had an endowment or

²⁹ This figure is based on only 3 respondents and may, therefore, be statistically unreliable. 504 respondents, however, indicated that they have never had a savings account with the post office, which confirms that the post office is an insignificant provider of savings services.

investment policy. This will be taken into account in the evaluation of overall access to savings products.

Savings clubs and cooperatives: The supply-side study reported that there are several types of informal financial institutions operating in Lesotho. The most prominent of these are the so-called Rural Savings and Credit Groups (RSCGs) that is a specific type of informal society promoted by the Central Bank in an attempt to expand financial services to the rural areas. At the time it was estimated that there were 700 of these institutions and with an average membership assumed to be between 10 and 20 per group³⁰, it suggested a membership figure of between 7,000 and 14,000. In addition, it was mentioned that a large number of stokvels and burial societies existed but no information was available on the number of societies or their membership.

Belong to savings club?	%
Yes - only myself	13.7
Yes - myself and other members of the household	14.4
Yes - only other members of the household (not myself)	3
Do not belong to savings club	68.7
Don't know	0
Not answered	0.2

Table 13. Percentage of respondents that belong to savings club

Source: FinScope Lesotho (Question 55)

The FinScope survey did not distinguish between RSCGs and other informal savings institutions (burial society membership was captured separately but questions did not explore whether burial societies also collect savings other than for funeral cover). 11% of respondents indicated that they are members of a stokvel or savings club. In a later question (see Table 13 above) 28.1%³¹ of respondents indicated that they are part of a “savings group”. The discrepancy may be due to the term ‘stokvel’ that was used in the first question and may elicit negative perceptions. A third question asked whether respondents had savings or loans with a savings and credit cooperative to which 0.4% responded positively. Responses to the first two questions are significantly higher than the supply-side study estimate for RSCG membership only. The lower response to savings and credit cooperatives may be because the name has a more specific definition in Lesotho.

³⁰ One of the factors distinguishing RSCGs from other informal societies is that membership was expected to be limited to between 10 and 20 (Genesis, 2002b). In the initial access calculations, the lower figure of 10 per group was used for the overall estimate of use of savings accounts. The assumption of 10 members per group is, therefore, conservative but even if this doubles, estimated membership is only 14,000.

³¹ This is the sum of two responses on the question of membership: “Yes – only myself” and “Yes – myself and other members of the household”.

Although substantial, the link between the formal and informal sectors seems less developed than in Swaziland or Namibia. This is confirmed by the fact that 65%³² of those reporting to be members of a savings club also reported that their savings club has an account with a bank (compared to 58.8% in Botswana, 89% in Swaziland and 81.6% in Namibia).

Activity	% of individuals receiving income in cash		
	Total	Urban	Rural
Salaries and or wages	79.3	67.1	84.8
Business activities, non farming	100	100	100
Pension	41.7	25	50

Table 14. Individuals receiving income in cash as percentage of those receiving money as income

Source: FinScope Lesotho 2003 (Question 19d)

Table 14 below provides further information on the extent of the cash economy in Lesotho. It is clear that the level of bank intermediation (as measured by the proportion of salary and wage transactions that are kept within the banking system in contrast to those conducted in cash) is much lower in Lesotho (79.3% in cash) than in Botswana (49.9% in cash), Swaziland (59.3% in cash) and Namibia (53% in cash). The supply-side study found that one of the main reasons for this is that the Lesotho government does not use the banking system to pay salaries of its employees directly into their accounts.

The FinScope survey suggests that 33.3%³³ of respondents currently have one or more of the above products.

3.3.

TRANSACTION³⁴

Usage of transaction services are generally more complicated to define as there several products offering different kinds of transaction functionality. Current, cheque or transmission accounts allow debit orders, electronic payments and transfers and issuing checks as payment. Savings accounts, however, increasingly offer electronic transfer and payment functionality, some allow debit order facilities although this is only in limited cases and debit cards allows individuals to pay for products and services using funds in their savings account. In addition, credit card accounts does not allow debit orders, but allows electronic payments and transfers as well as payment out of the credit account.

³² Counting all respondents with a positive response to any of question 57 option 2 ("An account at the bank"), question 57 option 2 ("An account at the Post Bank/Office"), question 57 option 3 ("Club savings account with a bank") or question 57 option 5 ("Fixed deposit with a bank").

³³ This includes formal and informal savings providers (See definitions in section 1.3).

³⁴ See definition in section 1.3

In Lesotho, however, little of the above applies. Functionality on savings accounts is restricted to cash deposits and withdrawals over the counter or at an ATM. It does not allow for any electronic payments or debit orders. The only way in which non-cash payment can be made out of a savings account is to draw a bank cheque. Current accounts are, therefore, the only accounts providing full transaction functionality. Based on interviews with the banks during the supply-side analysis, Table 11 reports that 12,519 individuals had current accounts in 2002. This is equivalent to 1.1% of the estimated adult population at the time.

The FinScope survey asked individuals whether they had a savings/transaction account to which 17% responded positively. 6.2% indicated that they have a savings/transaction account and an ATM card. An ATM card will allow the account holder to access funds through the ATM network (considered 'transaction functionality' in this analysis). FinScope further reports that 0.9% of respondents indicated that they had a current or cheque account, which is in line with the industry figures. None of the respondents reported to have a debit card, garage card or transmission account. 0.4% reported to have a credit card. Counting all the individuals with one or more of these products (to prevent double-counting) suggests that 6.7% of respondents used some form of transaction product.

In terms of access and price affordability it was revealed in the interviews during the supply-side analysis that banks only offer current accounts to individuals that earn more than M3,000 per month. The income distribution provided by the FinScope survey, suggests that only 2.4% of households earned more than M3,000 per month. Banks, however, probably evaluate individual income rather than household income. This will be lower than 2.4% and may, therefore, suggest a figure that is quite close to the current usage figure.

3.4.

CREDIT³⁵

Four categories of credit providers are considered in evaluating the use of credit: Formal bank credit, registered and unregistered for-profit microlenders, credit from informal group-based societies such as cooperatives and store credit.

The supply-side analysis suggested a credit usage figure of 1.9% of adults. This included estimates of bank credit, cooperative membership and a number of government loans that were provided through BEDCO. No information was available on the size of the microlending market. In addition, the informal credit figure is based on limited information available at the time and will underestimate total informal credit provision significantly.

³⁵ See definition in section 1.3

The *commercial bank credit* component was estimated at 1.1% (12,519 individuals), which is based on the number of individuals with current or cheque accounts. This was used as individuals generally have to qualify for those products based on their income and if they qualified for these, they would probably also qualify for some form of credit from the bank. It can also be expected that an overdraft will be available on many of these accounts. Other figures such as credit-card holders were not included as it was not possible to control for the overlap between the various accounts and few people will have a credit card without having a current account as well. The interviews with the banks furthermore revealed that only 348 people had mortgages and 576 had other personal loans with the banks.

The FinScope survey reports on various kinds of credit for which no information was available during the supply-side analysis. It is, however, expected that questions regarding credit will suffer from the classical problem that respondents are hesitant to disclose information about their debt status. It is, therefore, expected that FinScope will undercount credit use.

In general, the FinScope survey confirms the low levels of formal credit use indicated in the supply-side analysis. In terms of current account use, 0.9% of respondents indicated that they have such an account, which is in line with supply-side study figures. No respondents reported having vehicle finance, a mortgage bond or a loan from a bank. This is due to the very low level of usage (as reported in the supply-side study) which means that users of these products can easily be missed in the sampling process. 0.2% of respondents indicated that they had a personal overdraft from the bank.

The *informal credit figure* of 0.6% (7,000 individuals) was based on estimated membership of RSCGs only as this was the only information available. It is known that there are many other informal credit societies operating in Lesotho and this figure will, therefore, underestimate the use of credit through such societies significantly. In addition, *Government credit* was provided in the form of 800 loans to individuals through BEDCO.

11% of FinScope respondents reported to be members of a stokvel or savings club. Some of these societies provide credit to members based on their savings but it is not clear to what extent it is true in Lesotho. The survey also indicated that only 0.4% of respondents had a loan from a savings and credit cooperative. This seems to suggest that not all savings groups provide credits, but it may also be due to underreporting of credit issues. An additional 0.4% of respondents indicated that they have a loan and/or savings from an NGO. It is not clear what proportion of these actually had loans.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have	Don't know	Not answered
Mortgage bond or housing loan from a bank	80.7	0.6	0.0	0.0	18.5	0.2
Current or Cheque account	73.8	0.4	0.9	0.9	23.8	0.2
Credit card – Visa/ Master/ American Express/ Diners Club	64.4	0.6	0.4	0.6	34.1	0.0
Transaction/ Transmission account	66.5	0.2	0.0	0.4	32.8	0.2
Vehicle finance from a bank	82.8	0.2	0.0	0.4	16.7	0.0
Loan from a bank	89.7	1.5	0.0	0.0	8.8	0.0
An overdraft at the bank – personal	80.3	0.7	0.2	0.0	18.7	0.0
An overdraft at the bank – for your business	80.5	0.6	0.2	0.0	18.7	0.0
Loan from a registered micro-lender	93.3	3.7	1.1	0.0	1.9	0.0
Loan from an unregistered money lender	72.8	19.9	5.6	0.7	0.9	0.0
Membership of a <i>stokvel</i> / motshelo or savings club	62.9	23.4	11.0	1.5	0.9	0.2
Loan and/or savings from a NGO	86.7	0.7	0.4	0.0	12.2	0.0
Account with a store	65.4	27.0	6.0	1.1	0.6	0.0
Loan and/or savings from Savings and Credit Co-operative	94.2	0.7	0.4	0.2	4.5	0.0

Table 15. Lesotho: Use of financial products (credit)

Source: FinScope Lesotho 2003 (Question 41)

Microlending: 1.1% and 5.6% of respondents indicated that they had loans from registered and unregistered microlenders respectively. No information was available on microlending at the time of the supply-side analysis but the FinScope figure seems reasonable if somewhat conservative.

Store credit: Very interestingly, the FinScope survey reports that 6% respondents had a store account, which indicates that the store credit component of the microlending industry has taken off in Lesotho as well. This information was not previously available and will be included in the overall credit figure.

Counting all individuals with one or more of the above products suggest that 12.6% of respondents used some form of credit³⁶.

With regards to accessibility of bank credit it is known that banks generally do not offer credit or current accounts to individuals earning less than M3,000 per month. Based on the income distribution provided by the FinScope survey, this would suggest that only 2.4% of households will qualify.

³⁶ This includes formal and informal savings providers (See definitions in section 1.3).

3.5. INSURANCE³⁷

3.5.1. SHORT-TERM INSURANCE

Interviews with the market players revealed that Lesotho General Insurance Company (LNIC) had about 4,620 short-term insurance policies at the end of 2002. This included all types of policies as well as corporate and retail. Of these, 1253 were private vehicle policies. These figures reflect the number of policies and not the number of policyholders and their may be double-counting where one policyholder may have more than one policy.

The only other insurer offering general insurance, Alliance, indicated that they had about 3,500 private vehicle policies at the same time. These two figures suggest a total number of vehicle insurance policies of 4,753, which can be assumed to be the same or close to the number of policyholders as double-counting within this one category of insurance should be limited. This suggests that 0.4% of the estimated adult population has a vehicle insurance policy.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have
Membership of a burial society	27.5	12.5	51.7	7.7
Funeral Policy	82	3.7	10.3	3.4
Life Insurance Policy - long-term	90.4	0.6	2.4	1.7
Retirement annuity/Provident Fund/Pension Fund	73.4	3.6	4.1	4.5
Endowment/Investment Policy	76.2	0.6	1.3	0.7
Household/car Insurance - short-term	78.1	0.2	0.6	0.4
Medical Aid	79.2	1.1	1.3	1.7
Hospital Plan	79	0.9	0.2	1.1
Disability Insurance	78.7	1.1	1.3	2.6
Education insurance cover	81.5	0.7	1.5	0.4

Table 16. Lesotho: Use of financial services (insurance and investment)

Source: FinScope Lesotho 2003 (Question 52)

The FinScope results shown in Table 16 is quite close to the supply-side results provide above (particularly given the time period between the two studies) indicating that 0.6% of respondents had a short-term insurance (both household and vehicle insurance) policy.

³⁷ See definition in section 1.3

3.5.2. LONG-TERM INSURANCE

Life policies: No industry data was available on the number of life insurance policies at the time of the supply-side analysis. Sources close to the industry, however, estimated that there were about 20,000 individuals (1% of adult population) with some form of life insurance policy. This only referred to policies of domestic insurers. Even though regulations require insurance to be registered locally to sell policies, South African insurers are offering products to Lesotho citizens and this figure may, therefore, underestimate the total number of people with life insurance.

FinScope reports that 2.4% of respondents had a life insurance policy (Table 16), which seems to be in line with the industry estimate (particularly given the time difference between the studies).

Formal funeral policies: No industry information was available to provide estimates of the number of funeral insurance policies in the supply-side analysis. FinScope reported that 10.3% of respondents had a funeral insurance policy.

Informal funeral insurance: No information was available on the extent of burial society membership at the time of the supply-side analysis. Interviews with market players, however, suggested that burial societies are common and that membership is expected to be extensive. FinScope reported that 51.7% of respondents were members of a burial society, which is significantly higher than the other BLNS countries (Botswana: 21.3%; Namibia: 10.2%; and Swaziland: 12.6%). Although no other information is available to verify this figure, it seems in line with comments about the prevalence of burial society in the rural areas (“at least one per village”).

Counting all individuals with one or more of the above insurance products with life cover suggests that 56% of respondents have some life insurance³⁸. The bulk of this is made up of burial society members.

³⁸ This includes formal and informal savings providers (See definitions in section 1.3).

3.6.

PERCEPTIONS OF THE FORMAL FINANCIAL SECTOR

FinScope also asked respondents to comment on the main disadvantages of dealing with formal financial institutions. These are reflected in Table 17 below and reflect the difficulties in getting access to these services:

Statement	Not a problem/Not a problem at all	Neither/nor	Is a problem/ Is a big problem	Does not apply
Requirements:				
They force me to keep a high minimum balance	10.9	10.9	76.6	1.7
I don't qualify for their services	12.4	23.4	57.7	6.6
I have to have a pay-slip	33.9	6.2	56.9	2.8
I have to have credit references	32.6	15.5	47.2	4.7
I have to fill in forms	58.2	2.1	39.5	0.2
I have to have an identity document	77.5	4.1	18.2	0.2
I need a permanent address	72.8	13.7	12.7	0.7
Physical access to the service:				
I cannot get the money immediately if I need it	7.5	2.8	88.8	0.9
They are too far away for me and expensive to get to	21.1	0.6	77.6	0.7
I have to stand in queues for service	23.4	1.9	74.4	0.4
Their technology can be difficult to work with	17.8	11.6	68.6	1.3
Perceived value/benefit:				
My money does not grow quickly	9.2	2.2	87.4	1.1
Their ATM machines are not always safe	4.3	7.9	84.6	3.2
The big institutions are not always safe	6	8.1	84.6	1.3
My money is taxed	8.4	7.1	81.4	2.8
They only offer a good return over a period of years	11.5	10.5	77.1	0.9
I have to pay to deal with them	27.5	4.3	66.7	1.5

Table 17. Disadvantages of dealing with formal financial institution

Source: FinScope Lesotho 2003 (Question 42)

It is interesting to note that the responses indicating issues being a problem or big problem were much higher than for the other countries. This would suggest a problem with product design and matching this with the needs of consumers.

From Table 17 it seems that problems around physical access and the perceived value of having a bank account were the major concern for respondents. With regards to physical access, 88.8% of respondents indicated that it was a problem to them that they could not access their money immediately if they needed to. 77.6% indicated that it was a problem that the banks are too far away and expensive to get to. 80.5% of respondents indicated that they had to use public transport to get to a bank or ATM and 38.6% of these had to travel more than an hour (11-30mins: 19.1%; 31-60mins: 38.1%; >1 hour: 38.6%). 22.3% of these had to pay more than M20 for the trip (<M10: 37.1%; M11-M20: 40.3%; >M20: 22.3%).

This is in line with the discussion in the Environment section where poor infrastructure and inadequate bank networks were highlighted as problems particular to Lesotho. 35.4%³⁹ of respondents indicated that branch location is a major factor in choosing a bank. In addition 74.4% and 68.6% indicated that it was also a problem to them that they had to stand in queues and that the technology was difficult to work with.

In terms of perceived value or benefit of dealing with formal institutions, it is interesting to note the perception that big institutions are not safe. This is significantly higher than the other BLNS countries and may reflect the number of collapses and buy-outs that have been experienced in the banking sector over the last few years⁴⁰. The issues of safety of ATMs were also a problem for 84.6% of respondents. This is significantly higher than for the other countries (Botswana: 39.2%; Namibia: 40.1%; Swaziland: 38.5%) and could indicate higher crime rates or an inherent distrust of ATMs by respondents. The latter seems more probable and was also mentioned interviews during the supply-side analysis and could present a significant barrier to access. It was also a clear problem that respondents perceived their money to grow slowly and that they had to pay to deal with the banks.

According to Table 17, the major disadvantage in terms of requirements was that you are forced to keep high minimum balances and 76.6% of respondents indicated that this was either a problem or a big problem to them. 57.7% indicated that it is a problem that they do not qualify for the services offered by the banks. A further 56.9% and 47.2% indicated that it was a problem to them that they required payslips and credit references respectively. The fairly high response for the latter could suggest that many people have approached banks for credit but were turned down.

³⁹ FinScope question 48.

⁴⁰ Standard Bank and Nedbank respectively bought the operations of Barclays Bank and Standard Chartered Bank in 1995. Lesotho Bank collapsed in 1998 and Lesotho Agricultural Development Bank was finally liquidated in 2000.

4. NAMIBIA

This section deals with access in Namibia and reviews the supply-side study conducted in 2002 with the data now available through the FinScope Namibia Survey 2003. This will allow the cross checking of results as well as creating a fuller picture of access through information that was previously not available.

The FinScope data confirmed most of the estimates from the supply-side study but added a number of data points that was not previously available and that changes the overall usage figures. The first was the revision of insurance to also include funeral policies and burial society membership, which increased the overall insurance figure from 12.8% to 36.5%. The FinScope credit figure includes estimates of use of store and informal credit and increased the overall figure from 23.3% to 26.8%. Transaction services increased from 9.8% to 26.8% due to the inclusion of estimates of transaction-enabled savings accounts⁴¹. A typical survey problem, however, is that credit figures in the FinScope survey seem to undercount credit usage (e.g. microlending). The original supply-side estimate of, for example, microlending was much higher than the FinScope estimate and suggests the true figure must be even higher than the estimated 26.8%. It is, unfortunately, not possible to adjust the figure using the supply-side estimate for microlending as it is not possible to control for double-counting where someone may have more than one credit product.

⁴¹ FinScope asked respondents whether they had a savings/transaction accounts, but it was not clear which proportion of these actually provide transaction functionality. As a proxy, those that have savings/transaction accounts and ATM cards were selected.

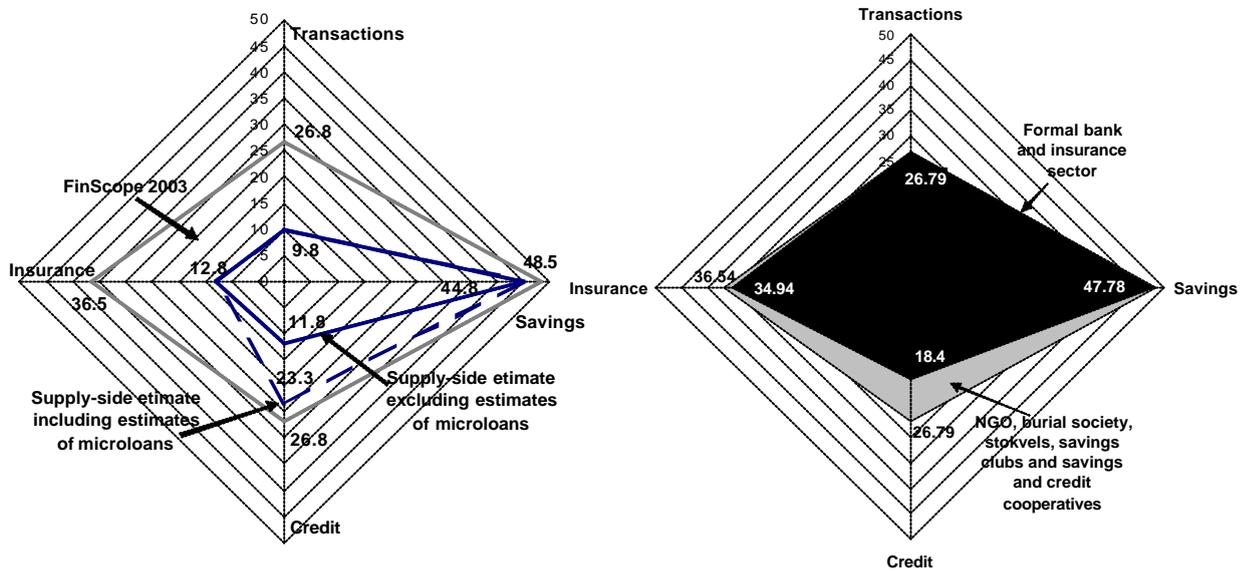


Figure 6. Namibia: Use of financial services⁴²

Source: Genesis supply-side analysis and FinScope Namibia 2003

An interesting picture emerging from FinScope is the relative contribution of formal and informal products⁴³ to overall usage (see Figure 6). In line with the findings of the supply-side study, the informal sector plays a much larger role in Swaziland and Lesotho than in Namibia and Botswana. The use of informal services in Namibia is small. The reasons for this are not clear. The cooperative movement is still underdeveloped and attempts at NGO microfinance has met with many failures. This may also be related to the fact that (relative to the other countries) a larger proportion of FinScope respondents see dealing with financial institutions as not so problematic.

To provide the necessary context within which to interpret the access data, the first section will provide a brief overview of the salient features of the economy relevant to the access debate.

⁴² See Appendix A for definitions of the four product categories.

⁴³ This includes products provided by NGOs, burial societies, stokvels, savings clubs and savings and credit cooperatives.

4.1. ENVIRONMENT

Namibia covers a large geographic area much of which consists of desert and semi-desert terrain. It has a small population of about 1.8 million which results in vast areas that are sparsely populated with the main concentrations of populations around Windhoek (Komas Highland region), the coastal strip around Walvisbay (Erongo region) and the area around Oshakati at northern border with Angola (Oshana/ Oshikoto regions). As can be expected, telecommunications, basic road and other infrastructure follows the main concentrations of economic activity with limited infrastructure beyond this. In addition, financial institutions have few branches outside the main areas of economic activity. Although the population per branch figure seems reasonable, this is primarily driven by the above-mentioned regions and the situation outside of these are significantly worse.

Namibia achieved independence in 1990 and with that embarked on a process of establishing its own legislative and government system, which until then was driven from South Africa. The first to be localised was the bank supervision regulator and the legislation governing banks. In 2001 this was followed by the establishment of an independent non-bank financial services regulator, Namibia Financial Institutions Supervisory Authority (NAMFISA). Until then these institutions were regulated by the Ministry of Finance. Over the last decade a number of Acts were passed to localise the regulation of the non-bank financial sector. As the regulator is quite new, it is still in the process of establishing the appropriate systems to allow for effective regulation. The immediate priorities were to establish the regulatory system to ensure monitoring of the institutions to ensure stability. It can be expected that issues such as access, although very much relevant and on the priority list, will be subject to first establishing and enforcing the basic regulatory framework.

As with the other BLNS countries the financial sector in Namibia is dominated by foreign (in Namibia's case mostly South African) institutions. This has increasingly been the case and the last local bank and one of the last local insurers has recently been acquired by FNB Namibia through its takeover of SWABOU Holdings limited (which owned SWABOU Bank and SWABOU Life Insurance Limited). This transaction has brought to end an area of local institutions that have seen the failure of City Savings and Investment Bank, the take-over of management control at NamLife⁴⁴ and the complete acquisition of SWABOU holdings. All the financial institutions operating in the retail environment are now either wholly owned subsidiaries of foreign institutions or have substantial foreign ownership.

⁴⁴ Management control was taken over through African Life through its group member, Botswana Life. This may be reversed as African Life is in the process of withdrawing from this investment and management.

Although the usage of bank accounts seems fair compared to the other BLNS countries, transaction functionality was until recently still quite limited on most savings accounts. The result of this is that, for example, insurers cannot get easy access to debit orders to collect their premiums. This has resulted in the development of a collection system that largely relies on payroll deductions negotiated with government and other major employers. This, of course, is mainly limited to the larger employers, with resultant difficult access by individuals employed by smaller employers or self-employed.

Where in South Africa, telephone and cell phone, sales have managed to extend reach to more remote areas, the volumes available to such operations in Namibia is insufficient (due to restricted access to these services). In addition, the above-mentioned limitations on bank infrastructure and accounts in these areas present a serious barrier. The limited telecommunications infrastructure also presents barriers to technology such as cellular payment systems which have been successful in other countries such as Zambia that faces some of the same constraints as Namibia.

In the other BLNS countries faced with similar restricted formal financial networks and access, informal financial institutions emerged to fulfil some of the needs of the lower-income population. In Namibia this has not been the case and it is partly ascribed to legislation that prohibited public gatherings in the period prior to and leading up to independence. The exception is microlending. In recent years a vibrant microlending sector has emerged with the same concerns about abuse and costs expressed elsewhere in SACU. NAMFISA has made regulation of this industry an early priority and microlenders are required to register and report to the regulator and comply with a number of regulations regarding the interaction with the client and limitations of interest charges.

Unemployment levels are quite high at 19.5% (narrow definition) and 35.4% (broad definition) and a large proportion of the country derives its income from subsistence farming and informal employment. Both of these provide fairly erratic income with significant risk of loss of income due to, for example, droughts. In addition, Namibia is experiencing high HIV/AIDS prevalence rates with unofficial figures placing prevalence in some regions as high as 60%. High prevalence rates also coincide with areas of economic activity which is problematic for future growth and development. The government has been slow to implement its proposed treatment programmes which has to date not been implemented to significant scale.

The next sections will compare the results from the supply-side analysis and the FinScope surveys for the main components of access.

4.2. SAVINGS⁴⁵

Sufficient information on the actual number of bank accounts was not available for Namibia at the time and the supply-side analysis was, therefore, based on the Namibia All Media Products Survey 2001 (NAMPS 2001), the only other available source of information.

The comparison provided here would, therefore, not be between industry data and the new survey but rather between two surveys. It must also be noted that concerns were raised about the accuracy of the NAMPS data as it seems to have undercounted the number of insurance policyholders significantly. Although this is not clear, the same problem may apply to the number of bank accounts recorded. It may, however, also be that financial institutions underestimate the extent to which individuals hold accounts/policies from multiple institutions or even multiple accounts/policies from the same institution. The data available to the banks and insurers is on a policy/account level and not the number of policy or account holders. Due to the fact that individuals may hold more than one account, the number of bank accounts will, therefore, invariably exceed the number of account holders. Surveys provide an estimate of the number of account holders whereas industry estimates provide the number of accounts. The new survey data may, therefore, provide an indication of whether the NAMPS data was inaccurate or whether the discrepancies are due to the above discrepancies.

Type of Account	Number	% of Adult Population	Number of accounts by institution							
			Bank Windhoek	City Savings and Investment Bank	Commercial Bank of Namibia	First National Bank	NamPost Savings Bank	Standard Bank Namibia	SWA Building Society	Other
Population 16+	1,051,000	100	101,000	4,000	17,000	140,000	46,000	91,000	16,000	4,000
Cheque Account	92,000	8.8	23,000	1,000	10,000	40,000	-	22,000	-	-
Transmission Account	11,000	1.0	3,000	-	1,000	4,000	3,000	1,000	-	-
Saving Account	313,000	29.8	83,000	3,000	10,000	111,000	42,000	77,000	13,000	1,000
Investments/Sub/Paid up Shares	6,000	0.6	1,000	-	1,000	1,000	-	2,000	1,000	1,000
Credit Card	20,000	1.9	4,000	-	3,000	9,000	-	4,000	-	1,000
Petrol/Garage Card	12,000	1.1	2,000	-	2,000	5,000	-	3,000	-	-
ATM Card	225,000	21.4	69,000	1,000	9,000	96,000	4,000	59,000	3,000	-
Personal Loan	6,000	0.6	2,000	-	1,000	2,000	-	1,000	-	1,000
Mortgage/Loan/Bond	9,000	0.9	1,000	-	2,000	3,000	-	2,000	1,000	-
Hire Purchase (HP)	5,000	0.5	1,000	-	-	2,000	-	1,000	-	1,000
None of these	687,000	65.4								

Table 18. NAMPS 2001: Number of bank accounts by category

Source: NAMPS 2001

⁴⁵ See definition in section 1.3

Commercial bank and post office savings accounts: Table 18 based on the NAMPS survey suggests that about 30% of adults in Namibia have a savings account. Genesis research has, however, shown that this significantly underestimates the number of NamPost savings accounts. The figure reported by NamPost is about 200,000 compared to the 42,000 reported by NAMPS. Adjusting the total figure accordingly, increases the total percentage of adults who have a savings account to about 45% (26% commercial bank accounts and 19% have NamPost savings accounts). None of the other banks were willing to disclose their number of accounts data and it is, therefore, not possible to verify on bank specific level.

Financial product	I have it now	Never had	Used to have	I don't have but others in household have	Don't know	Not answered
An ATM card	32.8	48.1	4.1	12.5	2.3	0.1
A Post Office Savings Account	19.9	57.9	7.4	9.9	4.1	0.9
Savings/Transaction account from a bank	28.4	50.6	2.8	8.5	8.0	1.6
Mortgage bond or housing loan from a bank	6.9	75.7	1.9	1.6	12.6	1.4
Current or Cheque account	8.3	72.6	0.7	4.0	13.5	1.0
Debit card	2.7	81.1	0.4	1.7	12.2	1.9
Credit card – Visa/ Master/ American Express/ Diners Club	6.2	75.1	1.1	3.5	13.2	1.0
Garage card/ Petrol card	0.9	83.1	0.4	0.6	13.5	1.6
Transaction/ Transmission account	4.6	74.3	1.0	3.0	15.4	1.7
Fixed Deposit account	9.3	69.8	3.7	3.8	12.6	0.9
Vehicle finance from a bank	2.0	82.5	0.9	0.7	12.1	1.9
Loan from a bank	5.3	79.0	2.3	2.6	9.1	1.6
Call account with a bank	2.2	82.0	0.9	1.0	12.1	1.9
An overdraft at the bank – personal	4.1	78.1	1.5	2.6	12.0	1.7
An overdraft at the bank – for your business	1.2	83.5	0.9	0.4	12.3	1.7
Loan from a registered micro-lender	1.4	82.3	0.9	1.0	12.7	1.7
Loan from an unregistered money lender	0.6	83.2	0.6	1.4	12.2	2.0
Membership of a <i>stokvel</i> /motshelo or savings club	0.9	83.0	0.1	1.1	12.7	2.2
Loan and/or savings from a NGO	1.9	84.8	0.6	0.7	9.8	2.2
Account with a store	15.2	65.8	3.1	5.8	8.6	1.5
Loan and/or savings from Savings and Credit Co-operative	1.1	83.3	0.7	0.9	12.1	1.9
Other	0.4	2.2	0.2	0.1	0.9	96.2

Table 19: FinScope 2003: Use of financial services by category (saving, transaction and credit)

Source: FinScope Namibia 2003 (Question 42)

Comparing the above figures to the findings of the more recent FinScope survey confirms many of the earlier findings. As mentioned in Section 1.2, the absolute numbers produced by the FinScope survey cannot be interpreted as nationally representative figures. Due to the large sample size, the relative proportions should, however remain intact. Consequently, the FinScope findings were expressed as a percentage of all respondents. The survey was applied to head of households. The assumption here is that the head of household sample will, to a large extent, correspond to the adult population used as base in the NAMPS survey thus making the relative percentages comparable. This is, however, not strictly correct as it can be expected that a number of the households may, for example, be headed by individuals younger than 16 years (the definition used for adult in NAMPS sample). This may become more prevalent due to the impact that HIV/AIDS have on household structures. Household heads may also have a systematically different use of financial products than other adults in the household.

Comparing the data for savings accounts reveals the following:

- Bank savings accounts (excluding NamPost): FinScope 28.4%; NAMPS 25.8%
- NamPost: FinScope 19.9%; NAMPS 4%. We know, however, that NAMPS undercounted the NamPost savings accounts significantly. Data from NamPost places the number of savings accounts at the beginning of 2003 at around 200,000 (19% of adult population). This confirms the estimate found in FinScope 2003.

Investment products provided by insurers: Information on these products were not available in the supply-side analysis but was included in the questions for FinScope. 22.5% of respondents indicated that they had a retirement annuity/provident or pension fund. Recent Genesis research (Genesis, 2003a) reported estimates of pension fund membership to be between 130,000 (12.4%) and 150,000 (14.3%). This did not include the number of individuals with retirement annuities and the FinScope figure may, therefore be in the right range. 8% FinScope respondents also indicated that they had an endowment or investment policy. These figures will be taken into account in the evaluation of overall access to savings products.

Informal savings accounts: Table 21 shows the percentage of individuals receiving income from various activities that received that income in cash (in contrast to cheque or direct into account). 53% of respondents receiving a salary or wage received that in cash. This is quite high and suggests an economy that is still very much cash-based. Receiving income in cash does not mean that the individual does not have a bank account, but what it does suggest is that the banking sector is not an effective intermediary in the financial system. Under such circumstances

it may be logical to expect that the informal financial sector may play an important role. Table 20 below, however, suggests otherwise.

Belong to a savings club?	%
Yes - only myself	3.6
Yes - myself and other members of the household	2.5
Yes - only other members of the household (not myself)	0.7
Do not belong to savings club	81.7
Don't know	10.1
Not answered	1.4

Table 20: Percentage of respondents that belong to savings club⁴⁶

Source: FinMark Namibia 2003 (Question 55)

Unlike the other Lesotho, Swaziland and South Africa, Namibia does not have a well developed informal sector. The supply-side analysis revealed that the cooperative sector in Namibia is still very new and underdeveloped. At the time only 40 cooperatives were registered as savings and credit cooperatives with the Cooperative Development Division (CDD) of the Ministry of Agriculture of which only 12 were considered to be active. Data provided by the Cooperative Development Division (CDD) placed the total membership of savings and credit cooperatives at a mere 300. The FinScope survey found that 0.9% of adults are members of stokvels or savings clubs. 6.1%⁴⁷ of respondents, however, responded positively to a later question on whether the respondent is member of a "savings club". The discrepancy may be due to the term 'stokvel' that was used in the first question and which may elicit negative perceptions. A third question asked whether the respondent had loans or savings with a savings and credit cooperative to which 1.1% of respondents answered positively. This is a significant difference but it still suggests that the informal financial sector is small. The difference from the CDD figures suggests that there may be several savings cooperatives that are not currently registered with them.

Table 21 below provides some information on the extent of the cash economy in Botswana. It is clear that the level of bank intermediation (as measured by the proportion of salary and wage transactions that are kept within the banking system in contrast to those conducted in cash) is much higher in Botswana (49.9% in cash) than in Lesotho (79.3% in cash) and in line with Swaziland (59.3% in cash) and Namibia (53% in cash). This corresponds to the findings of the supply-side study and suggests that there is still a substantial proportion of the economy conducted on cash terms.

⁴⁶ This is based on question 55 where 6.1% of respondents indicated that they are members of such a club. In an earlier question asking about stokvels or savings clubs only 1% indicated that they were members.

⁴⁷ This is the sum of two responses on the question of membership: "Yes – only myself" and "Yes – myself and other members of the household".

Income earning activity	% of individuals receiving income in cash		
	Total	Urban	Rural
Salaries and wages	53	46.5	64.4
Business activities, non farming	98.1	94.7	100
Pension	90.5	74.3	94.7

Table 21: Individuals receiving income in cash as percentage of those receiving money as income

Source: FinScope Namibia 2003 (Question 19d)

The above comparison suggests that the NAMPS estimates may not be that inaccurate for bank savings accounts as it compares well with the findings of the more recent FinScope survey. Furthermore, the FinScope survey has produced results that correlate with figures available, for example, the estimate of the number of NamPost savings accounts, which have been undercounted in the NAMPS survey. As a whole the FinScope survey seems to suggest a slightly higher level of usage of savings products of 49%⁴⁸ of respondents (compared to 44.8% estimated in the supply-side study).

Affordability: The above analysis only measures usage and not access. We do, however, have the information to evaluate at least one aspect of access: price affordability. In terms of price affordability, FinMark has suggested that 2% of household income is a possible benchmark for affordability. The supply-side analysis also included an evaluation of the average monthly cost for a typical profile of banking transactions. In the Namibian case, this amounted to about N\$50. Applying the 2% affordability measure this translates into a monthly household income level of about N\$2,500. That is, at an average cost of N\$50 per month, this will not be affordable to households that earn less than N\$2,500 per month. Comparing this to the Namibian income distribution reveals that 70.1% of the economically active population came from households that earned less than this amount. In terms of price affordability, this measure would suggest that 29.9% of economically active individuals have access to a bank account. This figure correlates closely with the current usage of commercial bank accounts.

⁴⁸ This includes formal and informal savings providers (See definitions in section 1.3).

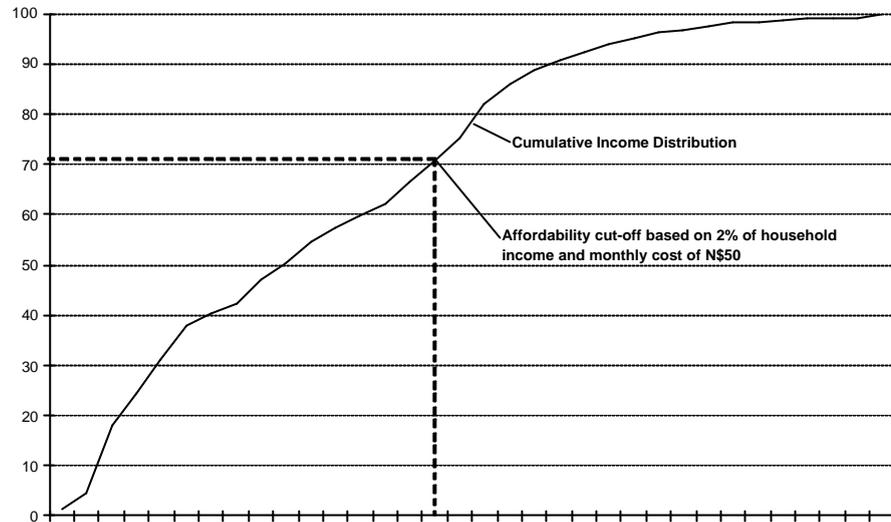


Figure 7: Cumulative income distribution and implied affordability cut-off based on 2% measure

Source: Genesis calculations based NAMPS 2001

4.3.

TRANSACTION⁴⁹

Usage of transaction services are more complicated to define as there several products offering different types of transactions. Current, cheque or transmission accounts allow debit orders, electronic payments and transfers and issuing checks as payment. Savings accounts, however, increasingly offer electronic transfer and payment functionality, some allow debit order facilities although this is only in limited cases and debit cards allows individuals to pay for products and services using funds in their savings account. In addition, credit card accounts does not allow debit orders, but allows electronic payments and transfers as well as payment out of the credit account.

Generally information on the number of credit card and debit card holders is considered competitive information and not made public. The only information possibly available, therefore, is the number of savings and current accounts and in many cases even this is not made public. At the time of the supply-side study, none of this information was made available by the banking sector and the estimates provided by the NAMPS survey was used instead. Table 18 shows the estimated number of cheque and transmission accounts at 92,000 and 11,000 respectively (total of 103,000 equal to 9.8% of the adult population).

⁴⁹ See definition in section 1.3

The FinScope survey complicated this issue by asking respondents whether they have a savings/transaction account and later asking them whether they have a transaction/transmission account. 28.4% of respondents indicated that they have a savings/transaction account. 22.1% indicated that they have both a savings/transaction account and an ATM card. The latter figure is used as a proxy of transaction-enabled savings accounts. 4.6% and 8.3% of respondents indicated that they have transaction/transmission and current/cheque accounts respectively. Combining these two equates to 10.7%⁵⁰ of respondents, which is in line with the NAMPS estimate. The FinScope survey indicates that 2.7% and 8.3% of respondents have debit and credit cards respectively. By extracting the number of respondents who have one or more of the above products (thereby preventing double-counting where the same individuals have more than one account), it is possible to estimate total use of all transaction products (this was not possible with NAMPS). The result of this query suggests that 26.8% of respondents have one or more of the above products.

4.4.

CREDIT⁵¹

Four categories of credit providers are considered in evaluating the use of credit: Formal bank credit (including government banks), registered and unregistered for-profit microlenders, credit from informal group-based organisations such as cooperatives and store credit.

The supply-side analysis estimated overall percentage of adults that use credit products as 11.8% (excluding microfinance) or 23.3% if estimated use of microfinance is included. This estimate included several components: commercial bank credit, cooperative credit, credit through NHE and Agribank.

The *commercial bank credit* component of this figure was estimated at 9.8%, which was simply based on the number of individuals with current or transmission accounts. This was used as individuals generally have to qualify for those products based on their income and if they qualified for these, they would probably also qualify for some form of credit from the bank. It can also be expected that an overdraft will be available on many of these accounts. Other figures such as credit-card holders were not included as it was not possible to control for the overlap between the various accounts without access to the underlying NAMPS dataset. The number of individuals accessing credit through the NHE and Agribank was provided by the two institutions (estimated 21,242 individuals had loans from the two institutions) and was added to the bank credit. No correction for double-

⁵⁰ This figure is the total of those with current and transmission accounts, but controlling for where an individual have both.

⁵¹ See definition in section 1.3

counting was made as the client base of the two institutions was very different from the commercial banks and the overlap was considered to be negligible.

According to the FinScope survey (see Table 22 below) 8.3% of respondents had a cheque or current account and 4.6% had a transaction or transmission account (10.7% have one or both of these). This is quite close to the estimate provided in the supply-side study. In addition 6.2% reported to have a credit card, 2% have vehicle financing, 5.3% have a loan from a bank (other than overdrafts or mortgages) and 4.2% had personal overdraft. Information on these products was not available at the time of the supply-side study. 18.4% of respondents have one or more of these bank credit products.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have
Current or Cheque account	72.6	0.7	8.3	4.0
Transaction/ Transmission account	74.3	1.0	4.6	3.0
Mortgage bond or housing loan from a bank	75.7	1.9	6.9	1.6
Credit card – Visa/ Master/ American Express/ Diners Club	75.1	1.1	6.2	3.5
Vehicle finance from a bank	82.5	0.9	2.0	0.7
Loan from a bank	79.0	2.3	5.3	2.6
An overdraft at the bank – personal	78.1	1.5	4.1	2.6
An overdraft at the bank – for your business	83.5	0.9	1.2	0.4
Loan from a registered micro-lender	82.3	0.9	1.4	1.0
Loan from an unregistered money lender	83.2	0.6	0.6	1.4
Loan and/or savings from a NGO	84.8	0.6	1.9	0.7
Account with a store	65.8	3.1	15.2	5.8
Loan and/or savings from Savings and Credit Co-operative	83.3	0.7	1.1	0.9

Table 22: Use of financial products (credit)

Source: FinScope Namibia 2003 (Question 41)

Microlending: The supply-side study estimated the number of individuals with microloans based on figures reported by Okeahalm and Adams (2000) and estimates available of the client base of some of the commercial banks⁵² microlending arms roughly assuming that the informal microlending market was about equal to the formal lending market. The combination suggested a conservative estimate of 120,000 (11.4%) microlending clients. This is conservative as the informal and unregistered microlending market may be

⁵² Standard Bank through microlender: 33,000; Bank Windhoek: 2,000 and assuming that the FNB tied microlender would be equivalent to the Standard Bank operation.

significantly larger than the bank-tied microlending market. No information was available to verify this.

In the above table only 1.5% of FinScope respondents indicated that they had a microloan from a registered or unregistered microlender. In light of the available figures from the industry, this is clearly not accurate and can be ascribed to the normal unwillingness of respondents to provide information about their credit use. It is expected, therefore, that the overall credit figure from the FinScope survey will undercount credit access.

Informal credit: The supply-side study estimate of cooperative credit was based on estimated membership of cooperatives as provided by the CDD (estimated 300 members) (less than 0.1% of adults). No information on other informal credit providers was available. The results from FinScope, however, suggest that this may underestimate informal credit. 1.1% of respondents reported to have a loan from a cooperative.

Store accounts: 15.19% of respondents in the FinScope survey indicated that they had an account with a store. This information was not previously available and will be included in the overall credit figure.

Counting all individuals with one or more of the above credit products (as reported by FinScope) suggest that 26.8%⁵³ of respondents currently use some form of credit.

⁵³ This includes formal and informal savings providers (See definitions in section 1.3).

4.5. INSURANCE⁵⁴

4.5.1. SHORT-TERM INSURANCE

Genesis research estimated that at the end of 2002 there were about 70,000 (6.6% of adult population) short-term policyholders⁵⁵ in the general insurance market (consisting of the clients of Mutual & Federal, SANTAM, Inskon, SWABOU and Lloyds) (Genesis, 2003b). This includes corporate and retail clients and may double-count policy holders where individuals hold policies with more than one institution. The majority of these policyholders can, however, be expected to be retail mostly consisting of household and vehicle insurance policies. In addition, Legal Shield (a niche legal insurance provider at the time) had a client base of about 50,000 (4.75% of adult population). These were expected to be mostly lower-income policy holders.

Financial product	I have it now	Used to have	I don't have but others in household have	Never had
Membership of a burial society	10.2	2	2.8	74.7
Funeral Policy	30.6	1.7	6.8	55.2
Life Insurance Policy - long-term	19.6	1.7	6	60.9
Retirement annuity/Provident Fund/Pension Fund	22.5	2.7	9	56.5
Endowment/Investment Policy	8	1	2.1	73.6
Household/car Insurance - short-term	7.8	0.7	0.7	77.2
Medical Aid	19.1	1.7	6.9	64.2
Hospital Plan	10	2.6	2.3	74.6
Disability Insurance	9.5	0.9	3.2	75.6
Education insurance cover	8.9	1	2.2	77.7

Table 23: Use of financial services (insurance and investment)⁵⁶

Source: FinScope Namibia 2003 (Question 52)

Table 23 illustrates the reported use of non-bank financial services such as insurance and investment products as reported by the FinScope survey. In this survey 7.8% of respondents indicated that they currently have household or car insurance, which seems to be in line with the estimate based on industry data.

⁵⁴ See definition in section 1.3

⁵⁵ Please note that this is the estimated number of policyholders (corporate and retail) and not the number of policies as some of these individuals may hold more than one policy. This aggregate is based on the individual estimates of the various insurers and may include some double-counting where the same policyholder has policies with more than one short-term insurer.

⁵⁶ Question 52.

4.5.2.

LONG-TERM INSURANCE

Life policies: Table 24 below suggests that 12.8% of the adult population in Namibia has an insurance or investment policy with life cover. This figure was contested by the industry claiming that significantly undercounts the number of clients.

Number of people that have:	'000	% of Adult Population
Any Insurance/Investment Policy	181	17.2
Whole Life Policy	73	6.9
Investment Policy with Life Cover	62	5.9
Investment Policy without Life Cover	29	2.8
Retirement Annuity	56	5.3
Personal Pension	30	2.9
Funeral Policy	91	8.7
Medical Insurance	53	5.0
Unit Trusts	8	0.8

Table 24: Number of people with insurance or investment policies

Source: NAMPS 2001

A slightly different question in the FinScope survey asking whether the respondent had a life insurance policy (i.e. it may exclude investment policies with life cover depending on the respondent's understanding of the question) received a positive answer from 19.6% of respondents (see Table 23). This is higher than the NAMPS estimate, but not to the extent that the industry suggested.

Formal funeral policies: NAMPS estimated that 8.7% of the adult population (81,000 individuals) had a funeral policy in 2001. It is not clear whether enumerators clearly distinguished between formal and informal funeral insurance and this figure may, therefore, include informal funeral policies.

FinScope enquired about both formal and informal funeral insurance and found that 30.6% of respondents had a formal funeral insurance policy whereas 10.2% were members of a burial society. This is significantly higher than NAMPS. As a check, NamLife reported to have 21,000 policyholders in 2001. Furthermore it is known that they have increased their market share in terms of gross premium income from 1% in 2001 to 1.5% in 2002. Given that funeral policies generally have lower premiums than other life policies, the fact that they have managed to increase their premium market share suggests that the increase in terms of number of policies must have been even higher. 21,000 policyholders would have given them 6.5% of funeral policyholders in 2003. Given that they have grown their business since 2001 it would suggest an actual market share (in terms of number of policyholders) in 2003 of at least 15% but probably closer to 20%. This seems to in line with their

perceived market position suggesting that the total market estimate may be roughly correct.

Informal funeral insurance: Based on interviews with NAMFISA and other industry players, the supply-side and more recent insurance scoping study reported very low presence of burial societies in Namibia. It is quite surprising, therefore, to see 10.2% of respondents to FinScope indicating that they are currently members of such a society. It is, however, possible that the regulator and the formal financial sector are simply not aware of the activities of this sector. Burial societies are not actively regulated by NAMFISA and to date no information existed on the use and extend of such societies in Namibia. The FinScope results raises questions on the true extent of the informal financial services sector in Namibia, which will require further research to establish the true situation.

FinScope reports that 36.5% of respondents have one or more of the above life insurance products.

4.6.

PERCEPTIONS OF THE FORMAL FINANCIAL SECTOR

FinScope asked respondents to comment on the main disadvantages of dealing with formal financial institutions. These are reflected in Table 4 below and provide an idea of the difficulties in getting access to these services:

Statement	Not a problem/ Not a problem at all	Neither/ nor	Is a problem/ Is a big problem	Does not apply	Not answered
Requirements:					
I don't qualify for their services	12.8	10.5	40.4	34.2	2.1
They force me to keep a high minimum balance	11.6	5.9	37.5	42.6	2.3
I have to have credit references	19	10.5	24.3	43.7	2.5
I need a permanent address	44	8.9	13.6	31.2	2.3
I have to have a pay-slip	38.9	11.6	11.6	36	1.9
I have to fill in forms	51.3	11.9	10.3	24.8	1.7
I have to have an identity document	63.7	6.3	8.1	20	1.9
Physical access to the service:					
I cannot get the money immediately if I need it	12.7	5.1	52.7	26.8	2.7
They are too far away for me and expensive to get to	11.1	6.3	48.4	31.9	2.3
I have to stand in queues for service	22	12.6	37.4	26.3	1.7
Their technology can be difficult to work with	8.3	14.1	23.8	39.6	2.3
Perceived value/benefit:					
My money does not grow quickly	12.1	8.9	47.9	28.9	2.2
Their ATM machines are not always safe	9.4	11.5	40.1	36.7	2.3
My money is taxed	15.7	12.6	40	30.1	1.6
The big institutions are not always safe	8.4	11.7	37.3	40.5	2.1
They only offer a good return over a period of years	20.3	14.8	20.6	42.2	2.1
I have to pay to deal with them	32.3	11.1	23.3	31	2.2

Table 25: Disadvantages of dealing with formal financial institution

Source: FinScope Namibia 2003 (Question 42)

It is interesting to note that the responses indicating problems are substantially lower than for Swaziland and Lesotho and also lower than Botswana. The biggest problems seem to be around accessibility. 52.7% of respondents indicated that it is a problem that they cannot access their money immediately when they need it. 48.4% also indicate that these institutions are far away and expensive to get to. 41.5% respondents indicated that they have to make use of public transport to get to a bank or ATM and 29.5% of those indicated that it takes them more than an hour to get to the bank⁵⁷. 24.2% of these respondents had to pay more than N\$20 for the trip⁵⁸. This is confirmed in a later question where 43%⁵⁹ of respondents that location of bank branches plays a major role in their choice of bank.

⁵⁷ 11-30mins: 30.4%; 31-60mins: 21.4%; >1hr: 29.5%.

⁵⁸ <N\$10: 27.5%; N\$11-N\$20: 35.8%; >=N\$20: 24.2%.

5. SWAZILAND

This section deals with access in Swaziland and reviews the supply-side study conducted in 2002 with the data now available through the FinScope Swaziland Survey 2003. This will allow the cross checking of results as well as creating a fuller picture of access through information that was previously not available.

The FinScope data confirmed most of the estimates from the supply-side study but added a number of data points that were not previously available and significantly increased the overall estimate of use of the various categories of financial services. The first was the revision of insurance to also include funeral policies and burial society membership, which increased the overall insurance figure from 4.6% to 19.2%. The bulk of this figure comes from burial society membership. The FinScope credit figure includes estimates of use of store and informal credit and increased the overall figure from 11.7% to 27.7%. This increase is predominantly due to a substantial number of individuals with store credit (who do not have any form of bank credit) and microloans. A typical survey problem, however, is that credit figures in the FinScope survey seem to undercount credit usage (e.g. microlending) and this suggests the true figure must be even higher than the estimated 27.7%. The savings figure increased from 28% to 46.2% mainly due to FinScope figures on stokvel membership (i.e. informal savings that extend beyond cooperatives). The transaction figure increased from 7.4 to 17.4 based on the inclusion of transaction-enabled savings accounts⁶⁰.

⁵⁹ Question 48.

⁶⁰ FinScope asked respondents whether they had a savings/transaction accounts, but it was not clear which proportion of these actually provide transaction functionality. As a proxy, those that have savings/transaction accounts and ATM cards were selected.

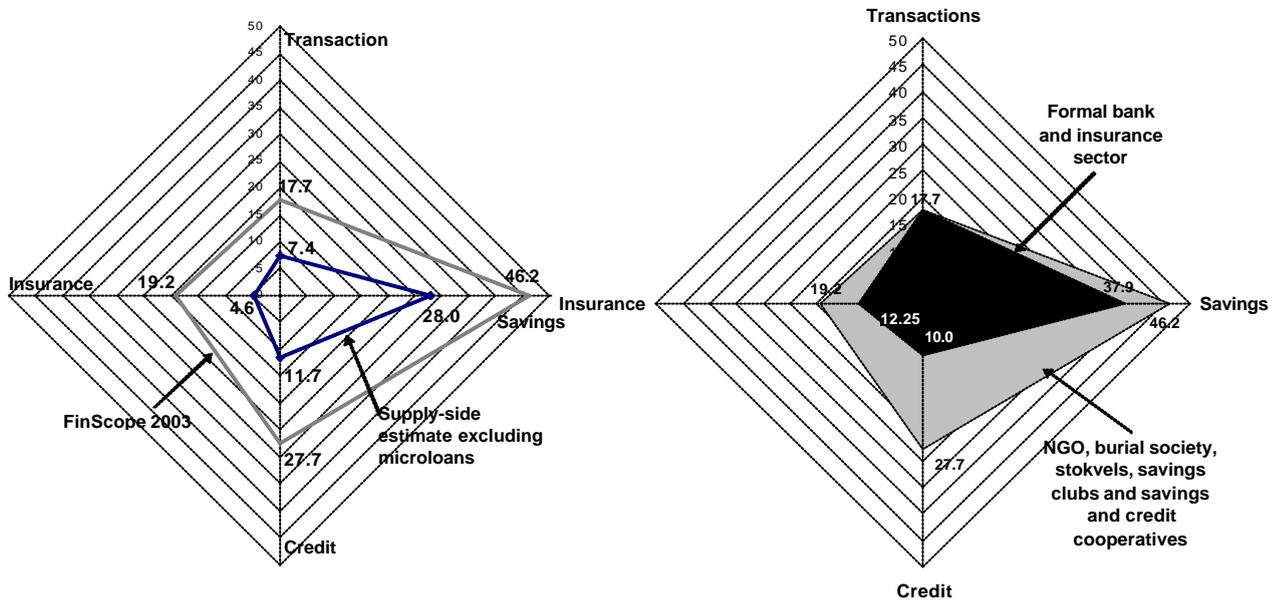


Figure 8: Use of financial services in Swaziland⁶¹

Source: Genesis supply-side analysis and FinScope Swaziland 2003

Another interesting picture emerging from FinScope is the relative contribution of formal and informal products⁶² to overall usage (see Figure 8). In line with the findings of the supply-side study, the informal sector plays a much larger role in Swaziland and Lesotho than in Namibia and Botswana.

To provide the necessary context within which to interpret the access data, the first section will provide a brief overview of the salient features of the economy relevant to the access debate.

5.1.

ENVIRONMENT

Swaziland is a small landlocked country that has built an economy around being the gateway to South Africa in the era of sanctions. Sanctions are now long gone, but Swaziland still has not succeeded in creating economic sectors that can serve as engine of growth. The population is still largely dependent on subsistence farming which mostly takes place on land they cannot own as it belongs to the king. Asset building and household formation is hindered by the inability to build up capital through property or housing. The absence of substantial assets and, thereby, collateral prevent credit extension by the private sector.

⁶¹ See Appendix A for definitions of the four product categories.

⁶² This includes products provided by NGOs, burial societies, stokvels, savings clubs and savings and credit cooperatives.

The government sector is characterised by poor administration and high levels of nepotism. The legal system is unique in that it is a combination of traditional and western law. Women are treated as minors by the law and require the consent of a husband, father or brother in order to enter into contracts. For example, Swazi National Land can not be awarded to a woman and, if a man falls away, his land goes to his brother and not his wife.

The banking sector is dominated by three South African banks but there are also a local bank and building society in operation. The latter two have limited electronic and technological infrastructure and neither, for example, make use of automatic teller machines (ATMs) as point of access with clients. Banking is concentrated in the main centres and on the highest income levels with very little banking penetration beyond the main towns. The three foreign banks have a very limited view of what they consider to be the bankable market and do not consider a significant expansion of the client base as a feasible option. The domestic banks have a broader view on the market, clearly understand their client base and have, therefore, been quite innovative in trying to provide products that meet their needs. Examples of this are systems for using cattle as collateral and ways of using Swazi National Land as collateral. These initiatives, although laudable, have been hampered by generally poor administration and too much focus on credit.

In the absence of formal providers, a large and vibrant cooperative sector has emerged that has built up a substantial asset and member base and are even considering starting a formal cooperative bank. The exact extent of this movement has only recently become known to the Central Bank who is now taking a much closer look at regulating this sector which has, until now, been self regulated. Banking sector regulation by the central bank is rudimentary but enforced to a reasonable level and the most effective regulation in the country.

The insurance industry is still a *de jure* monopoly but in practice several South African insurers are selling insurance policies to Swazi citizens⁶³. Legislation has been in development for the last decade to unbundled the monopoly but has still not been passed. Insurance regulation falls under the jurisdiction of the Ministry of Finance and is practically unregulated. Microfinance is currently unregulated although there are plans to change this. Political involvement in this industry is slowing the implementation of regulation down.

⁶³ Foreign companies are allowed to sell policies only if the policy is not available from Swazi Royal Insurance and then only with the explicit approval of the Ministry of Finance. Interviews with market players suggest that foreign provision may extend beyond this allowance.

5.2. SAVINGS⁶⁴

In this section three providers of savings services are evaluated: commercial and government banks, insurers and informal/cooperative savings institutions.

Commercial and government bank savings accounts: Central Bank data obtained during the supply-side analysis provided the number of accounts (not account holders) for both loans and savings products and is shown in Table 26. Assuming that the number of accounts will be close to the number of account holders (as individuals will rarely have more than one savings account), it was estimated that 23.4% of adults have a savings account. In addition another 1.2% of adults are estimated to have a longer term savings account. Due to the potential overlap, the longer-term savings accounts were not included in estimates of use of bank savings products and, therefore, the overall supply-side estimate of use of savings products.

Savings	Nr Accounts	% of adult population
Current Account	39,436	6.4
Savings Account	143,239	23.4
Short-term savings	3,857	0.6
Medium-term savings	3,289	0.5
Long-term savings	550	0.1
Loans & Advances	Nr Accounts	% of adult population
Loans	23,140	3.8
Mortgages	3,044	0.5
Overdrafts	6,112	1.0
HP & Leases	5,187	0.8

Table 26: Number of bank accounts

Source: Central Bank of Swaziland

The FinScope survey reported that 35.3% of respondents currently have a bank savings account. Another 3.6% of respondents reported to have a fixed deposit account with a bank. This is substantially higher than the supply-side estimates and the fact that potential double-counting was ignored in the supply-side estimates, the difference is even bigger. It is not clear what could have resulted in the change as it unlikely that the banks would have grown their client base to this extent.

⁶⁴ See definition in section 1.3

Financial product	Never had	Used to have	I have it now	I don't have but others in household have	Don't know	Not answered
An ATM card	66.9	4.3	16.1	7.8	5.0	0.0
A Post Office Savings Account	88.6	0.5	0.2	0.2	10.6	0.0
Savings/Transaction account from a bank	33.9	16.2	35.3	12.4	2.2	0.0
Mortgage bond or housing loan from a bank	88.1	1.3	2.2	0.5	7.9	0.0
Current or Cheque account	86.3	1.3	4.1	1.7	6.5	0.2
Debit card	84.8	0.0	0.2	0.0	15.1	0.0
Credit card – Visa/ Master/ American Express/ Diners Club	84.1	0.2	1.8	0.3	13.6	0.0
Garage card/ Petrol card	89.4	0.0	0.5	0.0	10.1	0.0
Transaction/ Transmission account	83.4	1.2	2.3	0.8	12.3	0.0
Fixed Deposit account	87.3	2.6	3.6	2.3	4.1	0.0
Vehicle finance from a bank	90.2	1.0	0.7	1.2	7.0	0.0
Loan from a bank	88.6	5.0	4.1	0.8	1.5	0.0
Call account with a bank	92.9	0.3	0.3	0.3	6.0	0.2
An overdraft at the bank – personal	90.2	0.3	0.2	0.2	9.1	0.0
An overdraft at the bank – for your business	90.4	0.3	0.0	0.2	9.1	0.0
Loan from a registered micro-lender	92.9	3.6	2.8	0.3	0.3	0.0
Loan from an unregistered money lender	83.3	11.6	4.0	0.8	0.3	0.0
Membership of a <i>stokvel</i> // motshelo or savings club	71.4	4.6	19.5	3.6	0.8	0.0
Loan and/or savings from a NGO	93.0	1.2	2.0	0.2	3.3	0.3
Account with a store	61.4	16.9	16.1	5.3	0.3	0.0
Loan and/or savings from Savings and Credit Co-operative	87.4	2.5	6.5	2.2	1.5	0.0

Table 27: Use of financial services (saving, transaction and credit)

Source: FinScope Swaziland 2003 (Question 41)

Cooperative and informal savings accounts: The cooperative movement in Swaziland is large and well developed. Total membership was estimated⁶⁵ to be around 24,000 (3.9% of the adult population) in the supply-side study. FinScope asked three questions related to membership of informal savings societies and cooperatives. The first asked respondents whether the respondent is a member of a “stokvel or savings group”, the second question asked whether the respondent is part of a “savings club”. 19.5% of respondents indicated that they were members of a stokvel or savings group (see Table 27) and 25.1% indicated that they were members of savings club (see Table 28). As for the other countries, the difference between the two questions is ascribed to a stokvel having a more specific definition

⁶⁵ Estimate provided by Swaziland Association of Savings and Credit Cooperatives.

and may also elicit negative perceptions. Both these estimates are substantially higher than the supply-side estimate. The third question asked whether the respondent had a loan or savings with a savings and credit cooperative to which 6.5% of adults responded positively. This figure is lower than the responses to the first two questions and seems to be in line with the earlier estimate. Due to the developed and prominent role that savings and credit cooperatives play in Swaziland, respondents are likely to distinguish between SACCOs and other savings clubs. The higher figures on the first two questions may, therefore, suggest that there is a significant informal savings network extending beyond the cooperatives.

Belong to savings club?	%	Urban	Rural
Yes - only myself	20.5	26.9	18.3
Yes - myself and other members of the household	4.6	3.8	4.9
Yes - only other members of the household (not myself)	6.1	5.1	6.5
Do not belong to savings club	68.2	63.5	69.9
Don't know	0.5	0.6	0.4

Table 28: Percentage of respondents that belong to savings clubs

Source: FinScope Swaziland 2003 (Question 55)

Substantial informal financial networks often coincide with a cash economy as they may not have access to the formal financial sector and payment systems. In Swaziland, the cooperative movement is closely linked into the banking system and it is, therefore, not unexpected that the level of cash transactions (as illustrated in Table 29) are lower than in, for example, Lesotho where the link with the formal sector is less developed. This is confirmed by the fact that 89% of those reporting to be members of a savings club also reported that their savings club has an account with a bank (compared to 65% in Lesotho).

Activity	% of individuals receiving income in cash		
	Total	Urban	Rural
Salaries and or wages	59.3	45.9	66.5
Business activities, non farming	98.4	93.3	99.6
Pension	26.5	11.1	32

Table 29: Respondents receiving income in cash as percentage of those receiving money as income
Source: FinScope Swaziland 2003 (Question 19d)

Investment products provided by insurers: Other savings products such as those offered by insurers were not accounted for in the supply-side estimates of overall use of savings products. This information is available through the FinScope survey and can, therefore, be included. Table 31 shows that 17.2% and 2.5% of respondents had a retirement annuity/provident fund/pension fund or endowment/investment policy respectively. 1.2% indicated that they have an education insurance policy.

Using the FinScope survey to count all the individuals that had one or more of the above savings products suggest that 46.19%⁶⁶ of respondents used some kind of savings product.

5.3.

TRANSACTION⁶⁷

Usage of transaction services are generally more complicated to define as there several products offering different types of transactions. Current, cheque or transmission accounts allow debit orders, electronic payments and transfers and issuing checks as payment. Savings accounts, however, increasingly offer electronic transfer and payment functionality, some allow debit order facilities although this is only in limited cases and debit cards allows individuals to pay for products and services using funds in their savings account. In addition, credit card accounts does not allow debit orders, but allows electronic payments and transfers as well as payment out of the credit account.

Not all savings accounts offer transaction functionality. 35.3% of respondents indicated that they have a savings/transaction account. 14.2% indicated that they have a savings/transaction account and an ATM card. The latter figure was used as a proxy of transaction-enabled savings accounts as it was found that savings accounts with ATM cards offered transaction functionality.

⁶⁶ This includes formal and informal savings providers (See definitions in section 1.3).

⁶⁷ See definition in section 1.3

Information provided by the Central Bank during the supply-side analysis reported that there 39,436 current accounts at the end of 2002 indicating that 6.4% of the adult population had such an account. FinScope, in turn, reported that 4.1% of respondents had a current or cheque account and 2.3% had a transaction or transmission account. The total of current, cheque or transmission accounts (6%⁶⁸), therefore, seems to be in line with the earlier estimate.

FinScope also reported information on other transaction accounts not previously available and that should be included in the overall estimate of use of transaction services: 0.2% reported to have a debit card, 1.8% reported to have a credit card and 0.5% reported to have a garage card.

FinScope reports that 17.7% of respondents use any of the above-mentioned transaction services.

5.4.

CREDIT⁶⁹

Five categories of credit providers are considered in evaluating the use of credit: Formal bank credit, registered and unregistered for-profit microlenders, NGO credit, credit from informal group-based societies such as cooperatives and store credit.

The supply-side analysis suggested a credit usage figure of 11.7% of adults. This included formal bank, cooperative/informal and NGO credit but no information was available to evaluate the extent of the microlending market.

Commercial bank credit: The commercial bank credit component of this figure was estimated at 6.4% of adults, which was simply based on the number of individuals with current or cheque accounts (39,436) as reported by the Central Bank. This was used as individuals generally have to qualify for those products based on their income and if they qualified for these, they would probably also qualify for some form of credit from the bank. It can also be expected that an overdraft will be available on many of these accounts. In addition, the Central Bank also reported that at the end of 2002 there were:

- 23,140 loans (3.8% of adults);
- 3,044 mortgages (0.5% of adults);
- 6,112 overdrafts (1.0% of adults); and
- 5,187 hire purchases and leases (0.8% of adults).

⁶⁸ This is the number of individuals that had one or both of these accounts (a small number had both) and, therefore, controls for double-counting.

⁶⁹ See definition in section 1.3

These figures were not included in the overall estimate as it was not possible to control for the overlap between accounts.

FinScope in turn reported that:

- 4.1% of respondents have a current or cheque account;
- 2.3% have a transaction or transmission;
- 1.8% have a credit card;
- 2.2% have a mortgage or housing loan;
- 0.5% have a garage or petrol card;
- 0.7% have vehicle financing;
- 4.1% have a bank loan; and
- 0.2% have a personal overdraft.

Although the figures differ slightly from the supply-side estimate, it seems to be in the same range. The overall estimate of use of bank credit counted the number of individuals with one or more of the above products. This estimated bank credit use at 10% of respondents.

Cooperative/informal credit: The supply-side study reported cooperative membership of about 24,000 (3.9% of adults), who were all assumed to be able to access credit through their cooperative. It did not include any other informal credit as no information was available at the time. The FinScope survey indicated that 6.5% of respondents had loans or savings from a savings and credit cooperative.

NGO credit: One of the NGO's in Swaziland, Imbita, reported to make loans available to its members. All members qualify for a loan and 8,200 women (1.3% of adults), therefore, have access to credit through them (of which 1,500 had loans at the time). 2% of respondents in the FinScope survey indicated that they have a loan from an NGO. This seems in line with the supply-side estimate.

Store accounts: 16.1% of respondents in the FinScope survey indicated that they had an account with a store. This information was not previously available and will be included in the overall credit figure.

Microlending: No information on microlending was available in the supply-side study. FinScope reported that 2.8% of respondents have a loan from a registered microlender and 4% have a loan from an unregistered microlender.

Financial product	Never had	Used to have	I have it now	I don't have but others in household have	Don't know	Not answered
Mortgage bond or housing loan from a bank	88.1	1.3	2.2	0.5	7.9	0.0
Current or Cheque account	86.3	1.3	4.1	1.7	6.5	0.2
Credit card – Visa/ Master/ American Express/ Diners Club	84.1	0.2	1.8	0.3	13.6	0.0
Transaction/ Transmission account	83.4	1.2	2.3	0.8	12.3	0.0
Vehicle finance from a bank	90.2	1.0	0.7	1.2	7.0	0.0
Loan from a bank	88.6	5.0	4.1	0.8	1.5	0.0
An overdraft at the bank – personal	90.2	0.3	0.2	0.2	9.1	0.0
An overdraft at the bank – for your business	90.4	0.3	0.0	0.2	9.1	0.0
Loan from a registered micro-lender	92.9	3.6	2.8	0.3	0.3	0.0
Loan from an unregistered money lender	83.3	11.6	4.0	0.8	0.3	0.0
Membership of a <i>stokvel</i> / motshelo or savings club	71.4	4.6	19.5	3.6	0.8	0.0
Loan and/or savings from a NGO	93.0	1.2	2.0	0.2	3.3	0.3
Account with a store	61.4	16.9	16.1	5.3	0.3	0.0
Loan and/or savings from Savings and Credit Co-operative	87.4	2.5	6.5	2.2	1.5	0.0

Table 30: Use of financial services (credit)

Source: *FinScope Swaziland 2003 (Question 41)*

In terms of the overall estimate of credit use, all respondents reporting use in one or more of the above products were counted. This provided an estimate of 27.65% of respondents⁷⁰.

⁷⁰ This includes formal and informal savings providers (See definitions in section 1.3).

5.5. INSURANCE⁷¹

5.5.1. SHORT-TERM INSURANCE

SRIC has an official monopoly on both short-term and long-term insurance. No information was available on the number of short-term insurance policies at the time of the supply-side analysis. FinScope reported that 3% of respondents had a household or vehicle insurance policy.

5.5.2. LONG-TERM INSURANCE

SRIC has an official monopoly on both short-term and long-term insurance. Interviews in the recent FinMark Insurance Scoping study (Genesis, 2004) indicated that despite the monopoly about 90% of total long-term premium flows may actually be going to South African insurers. The 10% controlled by SRIC is estimated to be in the middle to lower-income bracket. As the FinScope survey did not distinguish between local and foreign providers of insurance products, the estimates provided will be the total for domestic and foreign providers.

Life policies: The supply-side study reported that at the end of 2000, SRIC had 28,184 life policyholders (4.6% of adults) with about 36,000 life policies on its books. FinScope reported that 6.3% of respondents had a formal life insurance policy (see Table 31 below). This seems to be in line with the SRIC estimate but does not reflect the expected number of policies with foreign insurers. It could suggest that the extent of foreign operations in Swaziland is overestimated. It is, of course, in SRIC's favour to indicate the other insurers already compete and they would, therefore, be biased in their reporting of market figures.

Formal funeral insurance: The supply-side study reported that at the end of 2000, SRIC had 15,863 funeral policies on its books. As these are provided by one insurer, the probability of one person having more than one policy is expected to be small. If it is assumed that the number of policies reflect the number of policyholders this suggest that 2.6% of adults had a funeral insurance policy. FinScope reported a much higher figure of 9.4% of respondents that have a formal funeral insurance policy (see Table 31 below). The supply-side study did, however, report that funeral and credit life policies were provided by SASCCO to its 24,000 members as part of their 'Risk Management' programme. At the time it was suggested that this is not underwritten by SRIC and, therefore, illegal. It may, however explain the difference between the supply-side and FinScope estimates as the former only reported SRIC policies. SASCCO policies to members will add an additional 3.9% of adults to the original supply-side estimate of 2.6% bringing

⁷¹ See definition in section 1.3

this within the range of the FinScope estimate (allowing for growth over last three years).

Informal funeral insurance: The supply-side study did not provide any estimates of informal burial society membership as no data was available at the time and it was expected to be small in light of the dominant cooperative movement. 12.6% of respondents in the FinScope survey (see Table 31 below), however, reported to be members of a burial society. This is not only significant, but also higher than the number of respondents indicating that they are members of a savings and credit cooperative. The FinScope survey did, however, report a much higher presence of informal societies that extends beyond cooperatives. It is possible, therefore, that the same could apply to burial societies

Financial product	Never had	Used to have	I have it now	I don't have but others in household have
Membership of a burial society	78.6	5.5	12.6	2.6
Funeral Policy	81.6	1.2	9.4	2
Life Insurance Policy - long-term	83.3	2	6.3	1.7
Retirement annuity/Provident Fund/Pension Fund	62.7	7.9	17.2	9.4
Endowment/Investment Policy	86.3	0	2.5	0.3
Household/car Insurance - short-term	87.6	0.3	3	1.5
Medical Aid	92.7	1	3.5	1
Hospital Plan	89.2	0.2	0.3	0
Disability Insurance	90.9	0.2	1	0
Education insurance cover	91.6	0	1.2	0.3

Table 31: Use of financial services (insurance and investment)

Source: FinScope Swaziland 2003 (Question 52)

The overall figure for insurance was calculated by counting all respondents that have one or more of the above policies with life cover. The estimate calculated from FinScope that 19.2% of respondents had some kind of life cover⁷².

⁷² This includes formal and informal savings providers (See definitions in section 1.3).

5.6. PERCEPTIONS OF THE FORMAL FINANCIAL SECTOR

FinScope asked respondents about the main disadvantages of dealing with a formal financial institution. The responses are reflected in Table 32 below:

Statement	Not a problem/ Not a problem at all	Neither/ nor	Is a problem/ Is a big problem	Does not apply	Not answered
Requirements:					
They force me to keep a high minimum balance	16.1	12.9	63.6	7.5	0
I don't qualify for their services	15.9	25.3	51.8	7	0
I have to have credit references	38.5	20.9	32.5	8.3	0
I have to have a pay-slip	38.3	14.6	32.4	14.7	0
I have to fill in forms	59.1	8.6	27	5.3	0
I have to have an identity document	76.5	8.3	10.1	5.1	0
I need a permanent address	76.2	12.3	8.1	3.5	0
Physical access to the service:					
I cannot get the money immediately if I need it	18.4	10.3	63.9	7.5	0
They are too far away for me and expensive to get to	30.3	8.1	57.2	4.5	0
I have to stand in queues for service	30.7	9.6	55.9	3.8	0
Their technology can be difficult to work with	7.1	26.3	38.4	5.3	0
Perceived value/benefit:					
My money is taxed	13.8	14.7	63.3	8.3	0
My money does not grow quickly	17.7	11.9	63.1	7.3	0
They only offer a good return over a period of years	20.2	13.6	59.1	7.1	0
I have to pay to deal with them	38.2	14.9	41.6	5.3	0
Their ATM machines are not always safe	20.7	29.5	38.5	11.3	0
The big institutions are not always safe	27.5	37.1	30	5.5	0

Table 32: Disadvantages of dealing with formal financial institutions

Source: FinScope Swaziland 2003 (Question 42)

For this analysis, the responses were grouped into categories relating to requirements, physical access and perceived value or benefit.

As with the other BLNS countries, the main problems with regards to requirements are that banks force minimum account balances (63.6%) and that respondents felt that they did not qualify for the services (51.8%). With regards to physical access, the main problems are also similar to the other BLNS countries: 63.9% felt that it was a problem that they could not get access to their money immediately, 57.2% indicated that it is problem that banks are too far away and expensive to get to and 55.9% indicated that it is a problem that they have to stand in long queues for service.

With regards to travel cost and time to get to ATM, it is interesting to note that several respondents reported substantial travel times, but that the cost of travel

seems quite low compared to the other countries. 28.4% had to travel more than an hour, but 95.2% indicated that the trip costs less than E10 (see Table 33 below).

Average travel time	% of respondents
<10 min	10.5
11-30 min	27.4
31-60min	32.1
>60min	28.4
Don't know	1.6
Not answered	0
Average cost per trip	% of respondents
<E10	95.2
E10- E20	4.9
>E20	0.4

Table 33: Average travel time and cost to get to ATM

Source: FinScope Swaziland 2003 (Question 43)

With regards to perceived value, 63.3% of respondents indicated that it was a problem that their money was taxed. It is interesting to note that Swaziland is the only country where the fact that money is taxed is rated as a problem by a substantial number (63.3%) of respondents. 63.1% and 59.1% of respondents indicated that it was a problem that their money did not grow quickly and that a good return is only offered over a period of years respectively.

6. COUNTRY COMPARISON AND IMPLICATIONS FOR ACCESS

Given the different circumstances and economic environment in each country, it is interesting to compare the FinScope results for each to see if systematic differences emerge. Figure 9 below illustrates the relative positions in terms of the four main categories of financial services.

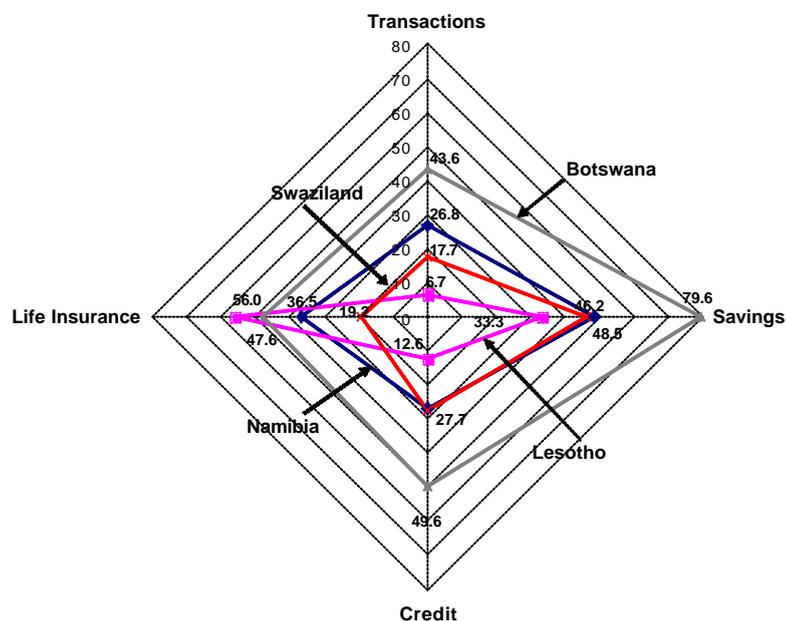


Figure 9: Comparing FinScope results for BLNS countries

Source: FinScope 2003

The first thing to note from the preceding country discussions is that most of the supply-side estimates of individual products compare well with the new FinScope figures. At the same time, the FinScope results for the category totals (savings, credit, life insurance and transaction services) have shown increases over the supply-side estimates across all of the main categories of financial products and across all countries. This was mostly due to the addition of data on categories of products that were not available during the supply-side analysis.

This illustrates the value of demand-side (survey-based) information, which allows a single, coherent picture of product use across households, prevents double-counting and also allows analysis of the perceptions of products and services, which would not be available from the supply-side. The supply-side study had

great difficulty in obtaining the information from all the individual players, which were often reluctant to release competitive information. The information was furthermore on a product/account level and, in most cases, the financial institutions themselves could not match several products to the same user in their database or extract information across products on a client basis.

Overall, the above comparison (Figure 9) shows that Botswana is still ahead of the other countries but that the gap between Namibia and the remaining two countries is smaller than originally estimated. This is mainly due to the addition of informal market figures⁷³. In the absence of these, the figures for particularly Lesotho and Swaziland are much lower. The relative positions are also much closer to that originally shown in the supply-side study.

Although the informal (including cooperatives) market figure for Namibia was higher than previously estimated, it still indicated that the market was substantially smaller than for the other BLNS countries. The informal market figure contributed substantially to the supply-side estimates, but was increased even further based on the FinScope estimates placing Swaziland on par with Namibia in terms of use of credit and savings products. The largest change, however, was for life insurance products in Lesotho where new figures on burial society membership increased this beyond even that for Botswana. Lesotho showed the largest burial society membership of all the countries and without this, the figure reduced to a mere 1.8% (formal market only).

The biggest changes were seen in the categories of life insurance and credit (see Figure 10 below), where very limited information was available at the time of the supply-side estimates, particularly on the informal markets. This has resulted in a substantial upward revision of the earlier estimates. Although the credit figures were higher than the earlier estimates, this was mostly due to the addition of informal market and store credit figures. Due to the sensitivity of debt information, it is expected that FinScope actually underreported on most direct questions on credit usage. The figure here may, therefore, still underestimate actual credit usage. This is particularly true for the microlending component.

⁷³ This includes products provided by NGOs, burial societies, stokvels, savings clubs and savings and credit cooperatives/

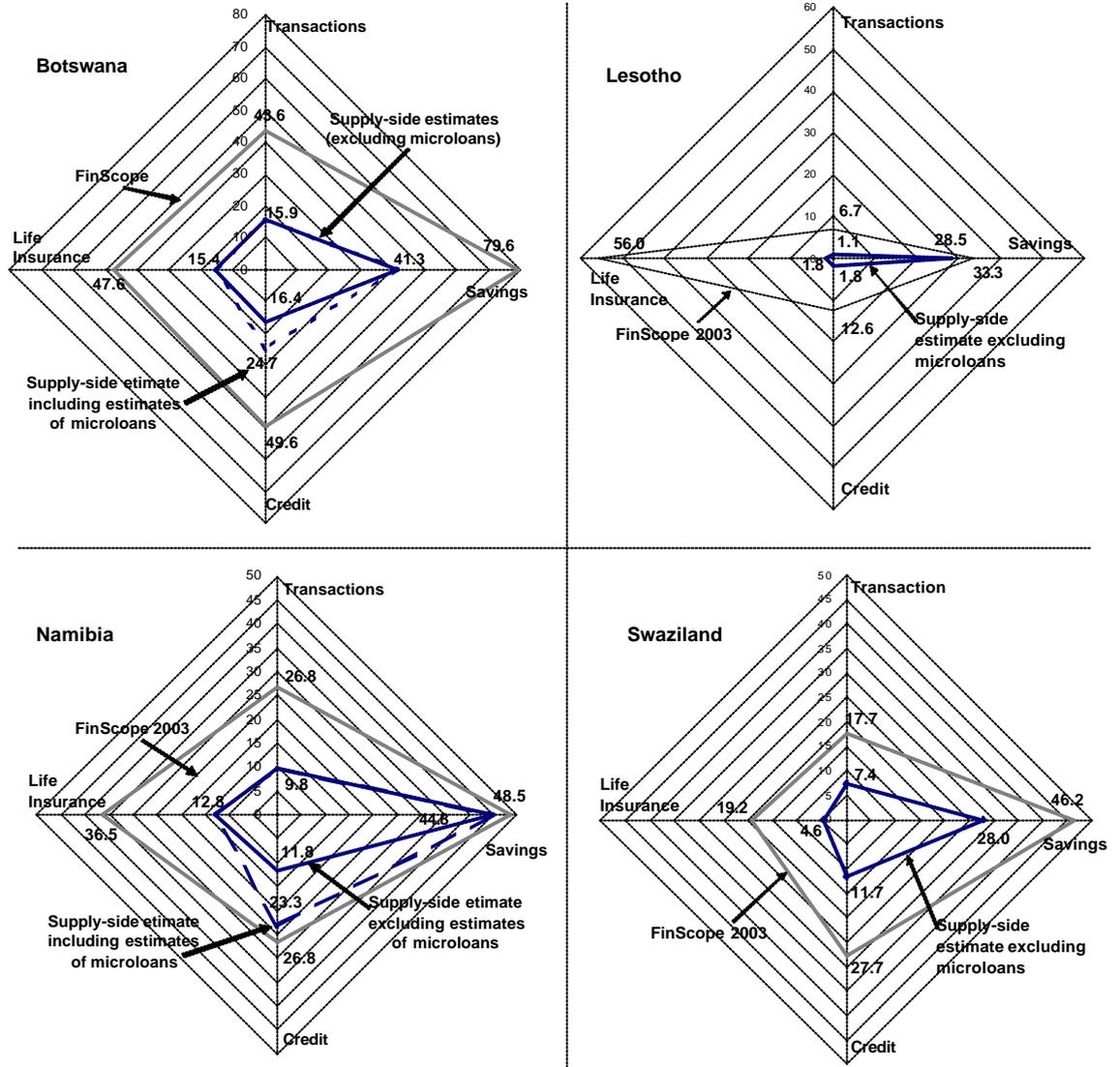


Figure 10: Comparing FinScope and supply-side estimates across BLNS countries

Source: FinScope 2003 and Genesis supply-side study

The supply-side study furthermore based life insurance figures on only estimates of the number of life policyholders at the time. In the FinScope survey, this has been expanded to also include funeral policies and burial society membership resulting in a substantial upward revision of figures for all countries.

Figure 10 shows major changes for Botswana on all categories. The overall estimate of use of savings products increased from 41.3% to 79.6%. Surprisingly, this was not mainly due to the addition of informal figures (see Figure 11) but because of savings products offered by insurer, which were not captured in the supply-side study. The accuracy of this figure would have to be confirmed by further research. In Swaziland, the addition of the formal insurance savings as well as informal savings both contributed to the increase in the overall figure for use of savings products from 28% to 46.2%.

The addition of store credit figures contributed substantially to increases in credit figures for all countries (although Lesotho was much lower than the rest and the increase there was mostly due to informal credit figures). Informal credit markets contributed substantially to this figure in Lesotho and Swaziland (see Figure 11). Informal providers also contribute significantly to insurance figures for these two countries. Burial society membership was substantially higher than expected in both. Lesotho showed the largest burial society membership (52%) pushing its insurance figure ahead of the other countries.

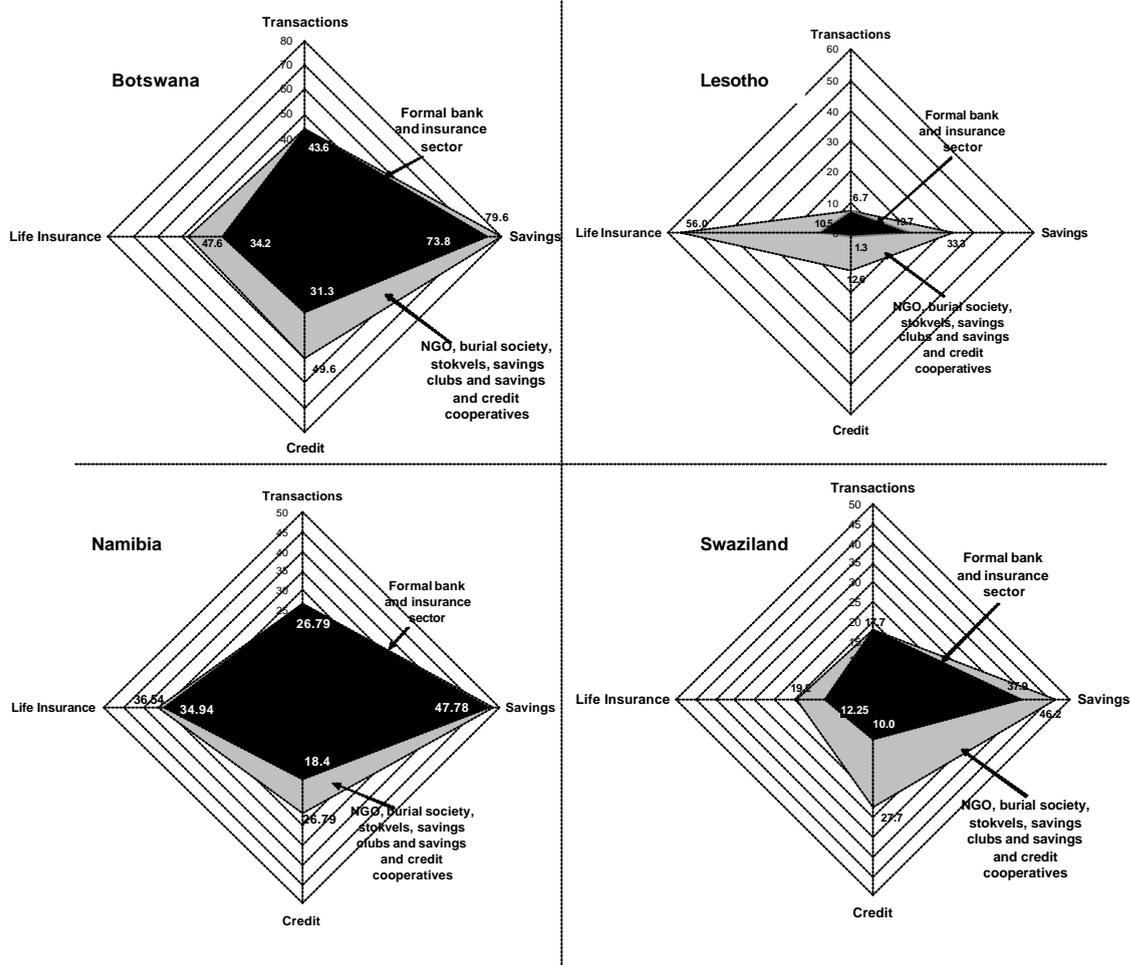


Figure 11: Comparing contribution of informal financial sector⁷⁴ across BLNS countries

Source: FinScope 2003

Figure 11 indicates the substantial position of informal financial markets (including cooperatives) in Lesotho and Swaziland. Lesotho furthermore showed very low linkages between formal and informal institutions.

Table 34 below shows the details of underlying product use making up the four main categories shown above. Interesting differences emerging are, for example, the high level of use of post office products in Botswana and Namibia and the absence in Lesotho and Swaziland. The table also shows very clearly the low level of formal product use in Lesotho. It is also interesting to note that retirement

⁷⁴ See definitions in section 1.3.

products showed substantial use in all countries except Lesotho. Store credit seems to be significant in all countries except Lesotho and contributed substantially to the higher credit figures shown above. Informal markets are shown to be significant in all except Namibia. The informal market figures (including cooperatives) are substantially higher than originally estimated but still much lower than for the other countries (for example, membership of stokvels).

Product/service ⁷⁵	Botswana	Lesotho	Namibia	Swaziland
Savings (% of respondents with one or more of the below)	79.6	33.3	48.5	46.2
Post office savings account	35.5 ⁷⁶	0.6*	19.9	0.2*
Savings/transaction account from bank	47.0	17.0	28.4	35.3
Current/cheque account	17.7	0.9	8.3	4.1
Transaction/transmission account	7.9	0.0*	4.6	2.3
Fixed deposit account	11.5	2.6	9.3	3.6
Call account with bank	3.2	0.0*	2.2	0.3*
Membership of stokvel	25.7	11.1	0.9	19.5
Loan/saving from NGO	0.6*	0.4*	1.9	2.0
Loan/saving from saving and credit coop	1.5	0.4*	1.1	6.5
Member of a savings group ("yes-only my self")	10.9	3.0	3.6	6.1
Retirement annuity/provident fund/pension fund	22.3	4.1	22.5	17.2
Endowment/investment policy	8.5	1.3	8.0	2.5
Education insurance cover	2.6	1.5	8.9	1.2
Transaction (% of respondents with one or more of the below)	43.6	6.7	26.8	17.7
Savings/transaction account with ATM card	36.8	6.2	22.1	14.2
Current/cheque account	2.3	0.9	8.3	4.1
Debit card	5.3	0.0*	2.7	0.2*
Credit card	12.5	0.4*	6.2	1.8
Garage card	0.4*	0.0*	0.9	0.5*
Transaction/transmission account	7.9	0.0*	4.6	2.3
Credit (% of respondents with one or more of the below)	49.6	12.6	26.8	27.7
Mortgage bond or housing loan from bank	2.3	0.0*	6.9	2.2
Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	17.7	0.9	8.3	4.1
Credit card	12.5	0.4*	6.2	1.8
Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit)	7.9	0.0*	4.6	2.3
Vehicle finance from bank	6.2	0.0*	2.0	0.7*
Loan from bank	11.7	0.0*	5.3	4.1
Personal overdraft with bank	1.1	0.2*	4.1	0.2*
Business overdraft with bank	0.2*	0.2*	1.2	0.0*
Loan from registered microlender	4.2	1.1	1.4	2.8
Loan from unregistered microlender	3.6	5.6	0.6	4.0
Loan/saving from NGO	0.6*	0.4*	1.9	2.0
Store account	29.1	6.0	15.2	16.1
Loan/savings from Savings and credit cooperative	1.5	0.4*	1.1	6.5
Insurance (% of respondents with one or more of the below)	47.6	56.0	36.5	19.2
Member of burial society	21.2	51.7	10.3	12.6
Funeral policy	20.9	10.3	30.6	9.4
Life insurance policy	26.0	2.4	19.6	6.3

Table 34: Overview of use of various financial products across BLNS countries

Source: FinScope 2003

⁷⁵ Care must be taken interpreting the low-end figures above. In some instances, this was based on fewer than 5 responses (indicated with *) which means that it is not statistically reliable.

⁷⁶ These accounts are actually Botswana Savings Bank accounts that, in the past, were branded under and administered through the post office. They are in the process of rebranding these to Bank of Botswana Savings account.

FinScope asked respondents about the main problems they experience with formal financial institutions, which provides an interesting picture of barriers to access (or perceived barriers) in these countries.

Statement	Botswana	Lesotho	Namibia	Swaziland
Requirements				
They force me to keep a high minimum balance	52.3	76.6	37.5	63.6
I don't qualify for their services	57.2	57.7	40.4	51.8
I have to have credit references	25.8	47.2	24.3	32.5
I have to have a pay-slip	21	56.9	11.6	32.4
I have to fill in forms	14.9	39.5	10.3	27
I need a permanent address	6.2	12.7	13.6	8.1
I have to have an identity document	4	18.2	8.1	10.1
Access to the service				
I cannot get the money immediately if I need it	57.6	88.8	52.7	63.9
They are too far away for me and expensive to get to	45.6	77.6	48.4	57.2
I have to stand in queues for service	52.7	74.4	37.4	55.9
Their technology can be difficult to work with	46.6	68.6	23.8	38.4
Perceived value/benefit				
My money does not grow quickly	55.8	87.4	47.9	63.1
My money is taxed	42.7	81.4	40	63.3
They only offer a good return over a period of years	53.2	77.1	20.6	59.1
Their ATM machines are not always safe	39.2	84.6	40.1	38.5
The big institutions are not always safe	44.5	84.6	37.3	30
I have to pay to deal with them	34.2	66.7	23.3	41.6

Table 35: Comparison of main problems experienced with formal financial institutions across BLNS countries

Source: *FinScope 2003*

The first thing to note is that the level of problem reporting differs substantially between the countries. Lesotho shows significantly higher reporting of issues being a problem than the other and Namibia shows the lowest reporting. This may be due to cultural differences, but the strong correlation with the usage figures shown above suggests that it may reflect the relative levels of frustration experienced with formal financial sectors. The different levels shown in Table 35 correspond to the general picture of access formed during the supply-side analysis.

The second thing to note is that the relative order of issues (ranked in terms of response rates) seems closely correlated for all four countries. The major exception being that qualifying for services was a bigger problem than minimum balances in Botswana and Namibia and the other way around in Lesotho and Swaziland. This, however, corresponds to the differences in the general level of financial development reported in the supply-side study and confirmed by the usage figures above. The only other exception is that the safety of ATMs in Lesotho was reported to be a larger problem than for the other countries and

ranked above the fact that it takes years to earn a good return on savings. This may reflect low levels of financial literacy and general distrust of ATMs, which correspondents to comments made during interviews in Lesotho.

The major problems reported across all four countries were that:

- Financial institutions force them to keep high minimum balances;
- they did not qualify for their services;
- they could not get access to their money immediately if needed;
- the institutions are far away and expensive to get to; and
- money saved or invested does not grow quickly.

The relative differences between the countries on these issues corresponded with findings in the supply-side study. For example, minimum balances in Botswana were higher in Botswana than in Namibia and this was confirmed by that only 38% of respondents in Namibia raised this as a problem compared with 52% in Botswana.

The above table confirms that product requirements and issues around physical access are barriers to access in all four countries. The limited product offering and low returns offered in these countries are also confirmed by the problems around the value of having financial products.

Despite only being a pilot study and the limitations reported in Section 1.2, the FinScope estimates proved to be quite close to the expected figures based on the information gathered during the supply-side estimates. The upward revision of estimates were, in most cases, based on new information being available and not due to substantial changes to the supply-side estimates and certainly presents an improvement on the earlier figures.

7. RECOMMENDATIONS

It is clear that even as a pilot study, FinScope provides a wealth of information not previously available and that will not be available otherwise. It extends beyond the mere factual documentation of usage by documenting financial perceptions, history of usage, psychographics, risks faced by households and provides some insight into the manner that households combine the financial services at their disposable to meet their needs. This source of information is imperative to progress the matter of access and the general development of the financial sector. At the same time, these markets are small and may not have the budget for annual surveys of this kind. In such cases, even bi-annual surveys would be a good second-best.

Below we summarise our recommendations on improving the information provided by FinScope. This is in three broad categories, (i) data structure issues, (ii) additional information to be gathered (which may be obvious already, but we wanted to capture it here as well) and (iii) suggestions on changes in the format in which the information is captured in order to facilitate analysis.

Data structure issues:

- **Weighting:** The absence of weighting in the pilot study limits the power of analysis substantially and also the usability by financial institutions for market analysis. We understand that the main problem is that accurate census data is not available for weighting, but alternative means should be sought to obtain this.
- **Rural/urban:** The rural/urban dynamic in the use of financial services is an interesting and important one. Not being able to separate these accurately may confound trends in the analysis. This stems from the same problem that census data was used for the classification and, once again, we would suggest that alternative means be sought to make sure that FinScope achieves an accurate classification.
- **Definition of various categories of informal providers.** There are currently several questions relating to informal savings clubs, savings and credit cooperatives, stokvels, burial societies, etc. However, in analysis it is not clear what to make of different responses to the different questions. The hypothesis is that people are quite sensitive to the name attached to the institution and, therefore, it is important to get the questions right (in the local vernacular) when probing this issue (e.g. stokvels may have a negative connotation as a savings institution and the name 'savings and credit cooperatives' may not be commonly used). For this a clear framework (including definitions of each category) is necessary of the various kinds of institutions and the names attached to each.

- **Credit:** Responses to the questions on credit is problematic. It may be worthwhile revisiting this to see whether there are indirect ways of getting to a more accurate answer.
- **Income categories** should be captured in more detail and standardised across the countries. Currently the categorisation in some of the countries results in more than 70% of the population falling in the lowest category and now way of analysing this category in more detail.
- Separate responses on **savings and transaction accounts** (and provide interviewers with a full list of products to allow them to make the correct classification). The separation of these two products is essential for the accurate measuring of the axii of access (question 41).
- Separate the responses on **loans or savings with savings and credit cooperatives or NGOs** (question 41).
- Separate **household** (possibly even structure and content) **and vehicle insurance** (question 52). The questions should also cover short-term insurance on specific products (e.g. furniture) provided by the retailer.
- Separate **store account** (may be similar to a charge card or even just a loyalty card) from store credit (where credit is provided - possibly over a longer period than a charge card).

Additional information:

- **Institutions:** It is important that all institutions be covered where questions related to perceptions of or use of products provided by specific institutions (currently only some are listed). This provides fascinating information on the dynamics of interaction with financial institution. We understand that only syndicate partners may have detailed questions on its own product offering and our recommendation refers to the questions on perceptions and usage on a more general level (e.g. Question 46). Identifying specific institutions will allow us to cross-check this with information provided by the institutions.
- **Products:** A careful look should be taken at the products listed under the banking and insurance questions to make sure that all the relevant products are covered and the way responses are classified. It may be a good idea to capture the name of the product mentioned by the respondent as this will allow us to place it in its appropriate category (e.g. savings vs transaction products) rather than rely on the respondent to understand the definition of each category. The interviewer could, for example, be provided with a sheet of all possible products in the market with their classification. In addition, in the case of the insurance products, for example, insurance products offered by retailers (short-term and life products) are not clear. Loans offered by insurers against policies are also not covered. It will be very useful if these products can also

be linked to a financial institution but we understand that there are constraints in the amount of time that can be spent on any particular area.

- **Travelling:** It will be useful to add in a question on travel distance and also to find out how frequently respondents travel to town to interact with a financial institution. If possible, it will also be helpful to get an idea of whether respondents travel to town just to transact or whether it is combined with other activities such as buying groceries. The hypothesis is that these activities are usually combined but it will be useful to test this in the BLNS environment.
- **Informal institutions:** It will be useful to explore this category further. The responses seem to indicate that the informal sector is larger than expected, but we do not have a clear understanding of the nature of the institutions referred to. The matrix suggested above, should help with this. In addition, questions like the frequency of meetings, nature of governance and the level of contribution (and benefit, if relevant) may be very useful.
- **Intermediation:** In light of the possible implementation of regulation similar to FAIS in countries such as Namibia, it will be useful to gather information on the way in which the products are sold (information provided, complexity of products, etc).

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APPENDIX A: DEFINITION OF FINSCOPE PRODUCT CATEGORIES

There are three sets of definitions relevant to this analysis. The original definitions applied in the supply-side study, the current FinMark definitions and how the official definition translates into the FinScope definitions in the current analysis based on the available information. This section sets out the details of product definitions used in the analysis of the FinScope data.

Savings: Defined as the total number of individuals that uses one or more of the following savings products (defined as any financial product used with the intention to accumulate savings): Savings book, post office savings account, fixed deposit account, stokvel membership, savings/transaction accounts, pension/provident funds, retirement products and endowment policies. With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Post Office account, savings/transaction account from bank, current/cheque account⁷⁷, transaction/transmission account, fixed deposit account, call account with bank, membership of stokvel, loan/saving from NGO, loan/saving from savings and credit cooperative, member of savings club, retirement annuity/provident fund/pension fund membership, endowment/investment policy or education insurance cover.

Credit: Defined as the total number of individuals that uses one or more of the following financial products: Credit card, mortgage or home loan, personal loan from bank, loan from friend or family, loan from employer, loan from microlender, vehicle finance or store credit. With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Mortgage bond or housing loan, current/cheque account (assuming that current accounts will have overdraft facility), Credit card, Transaction/transmission account (assuming that transmission accounts will have an overdraft facility), vehicle finance, loan from bank, personal overdraft with bank, business overdraft with bank, loan from registered or unregistered microlender, loan/saving from NGO, store account or loan/saving from savings and credit cooperative.

Transaction services: Defined as the total number of individuals that uses one or more of the following transaction (defined as any financial product that allows functionality to store cash and get cash, make payments via ATM, POS or

⁷⁷ Current/cheque accounts are transaction, credit and savings mechanisms and were included under savings as it is often used to store of money. People that qualify for a current/cheque account may not maintain a separate bank savings account for saving (due to the additional bank charges and inconvenience to do so). If the information was available one would ideally only include current/cheque accounts with (on average) positive balances.

electronic medium) products as the: Savings/transaction account with ATM card, debit card, credit card, cheque/current account or garage card. With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Current/cheque account, debit card, credit card, garage card or transaction/transmission account.

Life insurance: Defined as the total number of individuals that use one or more of the following life insurance products: Burial society membership, life insurance or funeral policies with big institutions. With the available information in the FinScope BLNS surveys, this translated into the total number of individuals with one or more of the following products: Member of burial society, funeral policy or life insurance policy.

The more recent FinMark definition focuses on all categories of insurance and is based on a combination of life and general insurance. This could not be applied (and was not defined as such) in the original supply-side analysis. As it was impossible to control for overlap and get to a meaningful aggregate of life and general insurance, our approach in the supply-side analysis was to focus on the first category of insurance that would be accessed by lower-income households, which is life. This was considered as the aim was to evaluate access and it, therefore, made sense to focus on the base product category that would be accessed first. In the analysis of FinScope data, the focus was kept on life insurance to allow for comparability.

APPENDIX B: DEFINITION OF VARIABLES

The tables below show the composition of the estimates of the main categories of financial services for the four countries. The figures for the sub-components will not add up to the totals provided as it will double-count use where one individual has more than one of the sub-products. The totals were calculated by counting individuals using one or more of the sub-products to prevent double-counting.

Botswana

Transactions:

Transaction (one or more of the below)	43.58
Q41_01: ATM card and Q41_03: Savings/transaction account	36.79
q41_05: current/cheque account;	17.74
q41_06: Debit card;	5.28
q41_07: Credit card;	12.45
q41_08: Garage card;	0.38
q41_09: transaction/transmission account;	7.92

Savings:

Savings (one or more of the below)	79.62
q41_02: post office savings account;	35.47
q41_03: savings/transaction account from bank;	46.98
q41_05: current/cheque account;	17.74
q41_09: transaction/transmission account;	7.92
q41_10: fixed deposit account;	11.51
q41_13: call account with bank;	3.21
q41_18: membership of stokvel;	25.66
q41_19: loan/saving from NGO;	0.57
q41_21: loan/saving from saving and credit coop;	1.51
question 55: "yes-only myself"	10.94
question 52_04: "retirement annuity/provident fund/pension fund" "currently have" coded as 3;	22.26
question 52_05: "endowment/investment policy" "currently have" coded as 3;	8.49
question 52_10: "education insurance cover" "currently have" coded as 3;	2.64

Credit:

Credit (one or more of the below)	49.62
Q41_04: Mortgage bond or housing loan from bank	2.26
Q41_05: Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	17.74
Q41_07: Credit card	12.45
Q41_09: Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit)	7.92
Q41_11: Vehicle finance from bank	6.23
Q41_12: Loan from bank	11.7
Q41_14: Personal overdraft with bank	1.13
Q41_15: Business overdraft with bank	0.19
Q41_16: Loan from registered microlender	4.15
Q41_17: Loan from unregistered microlender	3.58
Q41_19: Loan/saving from NGO	0.57
Q41_20: Store account	29.06
Q41_21: Loan/savings from Savings and credit cooperative	1.51

Insurance:

Insurance (one or more of the below)	47.55
q52_01: Member of burial society	21.23
q52_02: Funeral policy	20.94
q52_03: Life insurance policy	26.04

Lesotho

Transactions:

Transaction (one or more of the below)	6.74
q41_01: ATM card and Q41_03: Savings/transaction account	6.18
q41_05: current/cheque account;	0.94
q41_06: Debit card;	0
q41_07: Credit card;	0.37
q41_08: Garage card;	0
q41_09: transaction/transmission account;	0

Savings:

Savings (one or more of the below)	33.33
q41_02: post office savings account;	0.56
q41_03: savings/transaction account from bank;	17.04
q41_05: current/cheque account;	0.94
q41_09: transaction/transmission account;	0
q41_10: fixed deposit account;	2.62
q41_13: call account with bank;	0
q41_18: membership of stokvel;	11.05
q41_19: loan/saving from NGO;	0.37
q41_21: loan/saving from saving and credit coop;	0.37
question 55: "yes-only myself"	3
question 52_04: "retirement annuity/provident fund/pension fund" "currently have" coded as 3;	4.12
question 52_05: "endowment/investment policy" "currently have" coded as 3;	1.31
question 52_10: "education insurance cover" "currently have" coded as 3;	1.5

Credit:

Credit (one or more of the below)	12.55
Q41_04: Mortgage bond or housing loan from bank	0
Q41_05: Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	0.94
Q41_07: Credit card	0.37
Q41_09: Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit)	0
Q41_11: Vehicle finance from bank	0
Q41_12: Loan from bank	0
Q41_14: Personal overdraft with bank	0.19
Q41_15: Business overdraft with bank	0.19
Q41_16: Loan from registered microlender	1.12
Q41_17: Loan from unregistered microlender	5.62
Q41_19: Loan/saving from NGO	0.37
Q41_20: Store account	5.99
Q41_21: Loan/savings from Savings and credit cooperative	0.37

Insurance:

Insurance (one or more of the below)	55.99
q52_01: Member of burial society	51.69
q52_02: Funeral policy	10.3
q52_03: Life insurance policy	2.43

Namibia

Transactions:

Transaction (one or more of the below)	26.79
q41_01: ATM card and Q41_03: Savings/transaction account	22.1
q41_05: current/cheque account	8.27
q41_06: Debit card	2.72
q41_07: Credit card	6.17
q41_08: Garage card	0.86
q41_09: transaction/transmission account	4.57

Savings:

Savings (one or more of the below)	48.5
q41_02: post office savings account	19.88
q41_03: savings/transaction account from bank	28.4
q41_05: current/cheque account	8.27
q41_09: transaction/transmission account	4.57
q41_10: fixed deposit account	9.26
q41_13: call account with bank	2.22
q41_18: membership of stokvel	0.86
q41_19: loan/saving from NGO	1.85
q41_21: loan/saving from saving and credit coop	1.11
question 55: "yes-only myself"	3.58
question 52_04: "retirement annuity/provident fund/pension fund" "currently have" coded as 3	22.47
question 52_05: "endowment/investment policy" "currently have" coded as 3	8.02
question 52_10: "education insurance cover" "currently have" coded as 3	8.89

Credit:

Credit (one or more of the below)	26.79
Q41_04: Mortgage bond or housing loan from bank	6.91
Q41_05: Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	8.27
Q41_07: Credit card	6.17
Q41_09: Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit)	4.57
Q41_11: Vehicle finance from bank	1.98
Q41_12: Loan from bank	5.31
Q41_14: Personal overdraft with bank	4.07
Q41_15: Business overdraft with bank	1.23
Q41_16: Loan from registered microlender	1.36
Q41_17: Loan from unregistered microlender	0.62
Q41_19: Loan/saving from NGO	1.85
Q41_20: Store account	15.19
Q41_21: Loan/savings from Savings and credit cooperative	1.11

Insurance:

Insurance (one or more of the below)	36.54
q52_01: Member of burial society	10.25
q52_02: Funeral policy	30.62
q52_03: Life insurance policy	19.63

Swaziland

Transactions:

Transaction (one or more of the below)	17.72
q41_01: ATM card and Q41_03: Savings/transaction account	14.24
q41_05: current/cheque account;	4.14
q41_06: Debit card;	0.17
q41_07: Credit card;	1.82
q41_08: Garage card;	0.5
q41_09: transaction/transmission account;	2.32

Savings:

Savings (one or more of the below)	46.19
q41_02: post office savings account;	0.17
q41_03: savings/transaction account from bank;	35.26
q41_05: current/cheque account;	4.14
q41_09: transaction/transmission account;	2.32
q41_10: fixed deposit account;	3.64
q41_13: call account with bank;	0.33
q41_18: membership of stokvel;	19.54
q41_19: loan/saving from NGO;	1.99
q41_21: loan/saving from saving and credit coop;	6.46
question 55: "yes-only myself"	6.13
question 52_04: "retirement annuity/provident fund/pension fund" "currently have" coded as 3;	17.22
question 52_05: "endowment/investment policy" "currently have" coded as 3;	2.48
question 52_10: "education insurance cover" "currently have" coded as 3;	1.16

Credit:

Credit (one or more of the below)	27.65
Q41_04: Mortgage bond or housing loan from bank	2.15
Q41_05: Current or cheque account (assuming that individuals that qualify for this will also qualify for credit)	4.14
Q41_07: Credit card	1.82
Q41_09: Transaction/transmission account (assuming that individuals that qualify for this will also qualify for credit)	2.32
Q41_11: Vehicle finance from bank	0.66
Q41_12: Loan from bank	4.14
Q41_14: Personal overdraft with bank	0.17
Q41_15: Business overdraft with bank	0
Q41_16: Loan from registered microlender	2.81
Q41_17: Loan from unregistered microlender	3.97
Q41_19: Loan/saving from NGO	1.99
Q41_20: Store account	16.06
Q41_21: Loan/savings from Savings and credit cooperative	6.46

Insurance:

Insurance (one or more of the below)	19.21
q52_01: Member of burial society	12.58
q52_02: Funeral policy	9.44
q52_03: Life insurance policy	6.29