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MAF003 FINANCIAL INCLUSION IN SOUTH AFRICA: A REVIEW OF THE LITERATURE

AUTHOR(S): Rayghana Abrahams Nelson Rayghana.abrahams@nmmu.ac.za
Mandela
University

ABSTRACT:

The research for this paper was guided by the question on whether the financial inclusion improvement strategies of the South African Government and the private sector adequately address the financial inclusion targets, as set out in the National Development Plan.

This descriptive non-empirical paper was conducted by means of a literature review. The secondary data used for the paper were collected from a number of sources, namely: (i) the 2015 and 2016 Brookings Financial and Digital Inclusion Project reports; (ii) the 2014 Global Findex survey; (iii) Financial Access surveys; (iv) various national FinScope surveys; and (v) a number of working papers of the World Bank related to financial inclusion.

The data revealed that South Africa, with its sophisticated financial sector, was early to adopt policies and initiatives to advance financial inclusion and the country has experienced a noticeable increase in financial inclusion from 61% in 2004 to 89% in 2016. South Africa is 1% away from its National Development Plan goal of 90% financial inclusion by 2030. This indicates that overall, the financial inclusion initiatives adopted by the public and private sectors in South Africa were successful.

Key words: Financial inclusion, financial exclusion, mobile banking, Global Findex, Brookings Financial and Digital Inclusion Project report

INTRODUCTION AND RESEARCH OBJECTIVE

Why has financial inclusion become a global concern in recent years? This concern emanates from a growing body of research which identifies financial exclusion as a global challenge with dire consequences for a country's economic growth, small and medium-sized enterprise (SME) development, transformation and the poor's ability to participate in the formal financial sector (Demirguc-Kunt & Klapper, 2012a). It is in this context that financial inclusion has been prioritised in the South African Government's National Development Plan (NDP). South Africa (SA) aims to increase financial inclusion in the country to 90% by 2030 (Banking Association of South Africa, 2015).

Agrawal (2008:1) acknowledges that early development theories concentrated on labour, capital and institutions as the main factors for growth and development while ignoring finance as a contributor to growth. The main reason for this oversight was due to initial finance theories such as the Modigliani Miller theorems which were based on the assumption that markets are free from imperfections and frictions (Agrawal, 2008:1). However, later research showed that there were imperfections in financial markets and that these imperfections were reduced by different financial entities (Agrawal, 2008:1). Since then, there has been a growing body of scholars analysing how financial systems contribute to the development of economies.

Ardic, Heimann and Mylenko (2011:2) as well as Mohieldin, Iqbal, Rostom and Fu (2011:2) note that there is a strong relationship between financial development and economic growth. However, Johnson and Nino-Zarazua (2011:475) caution that even though financial development is a leading contributor to economic growth, there is no substantial evidence to suggest that it correlates to poverty reduction. In this context, Mirakhor and Iqbal (2012:36) argue that, in addition to financial development and financial intermediation, countries should place greater emphasis on the expansion of access to finance – also referred to as financial inclusion – in order to eradicate poverty (Mirakhor & Iqbal, 2012:36). Along similar lines, Demirguc-Kunt and Klapper (2012a:1) recognise that a well-functioning, inclusive financial system benefits the poor; as it promotes entrepreneurship and creates greater opportunities for advancement. With deeper, more inclusive financial systems, countries would experience accelerated growth rates and reductions in income inequality and poverty (Beck & Demirguc-Kunt, 2008:1).

The 2015 Brookings Financial and Digital Inclusion Project (FDIP) report and the World Bank (2016) estimate that there are approximately two billion adults excluded from the financial sector worldwide (Villasenor, West & Lewis, 2015:2). The focus on financial inclusion has led governments and central banks in developing nations to shift their policy agenda for financial sector development, away from a period of emphasis on micro-finance towards the enhancement of financial inclusion (Johnson & Nino-Zarazua, 2011:475). The Maya Declaration is an example of the global commitment towards financial inclusion. The declaration was introduced in 2011 and adopted by 61 countries in a display of commitment to expand access to financial services for the poor (Villasenor *et al.*, 2015:3). The Maya Declaration is a pledge to recognise the importance of financial inclusion, to develop financial inclusion policy and to assert the importance of peer-to-peer information sharing.

Until quite recently, there has been a lack of systematic indicators that measure people's use of financial products across economies. In an effort to fill the gap in the financial inclusion data landscape, the World Bank established the Global Financial Inclusion Database (Global Findex) in 2011. Global Findex was the first database with systematic indicators to measure people's use of financial products across economies. Global Findex enables the measurement of how adults in 148 economies save, borrow, make payments and manage risk. These indicators are added to the Global Findex to enable researchers and policy-makers to identify population groups that are excluded from the formal financial sector and to understand the characteristics associated with particular financial behaviours (Demirguc-Kunt & Klapper, 2012a:1).

The recent introduction of mobile money and other digital financial services has led to an improvement in the depth of the financial systems in African countries (Demirguc-Kunt & Klapper, 2012b:3). The greatest success has been reported in Sub-Saharan Africa, where 16% of adults and 31% of those with a formal account make use of a mobile phone to pay their commitments (Demirguc-Kunt & Klapper, 2012a:2). Despite these positive developments, financial systems in many African countries remain under-developed when compared with other developing economies. Global Findex data show that less than half of the adult population in Africa own a bank account with a formal financial institution (Demirguc-Kunt, Klapper, Singer & Van Oudheusden, 2015).

African countries are taking progressive steps to enhance financial inclusion. Kenya, Uganda and SA, for example, have taken a number of steps to address financial exclusion, such as the introduction of laws to facilitate financial inclusion, the implementation of regulatory changes that grant different institutions involvement in the financial services sector and the granting of support to mobile and digital networks that facilitate service delivery (Villasenor *et al.*, 2015:3).

Since 2004, a number of legislative and commercial initiatives have been introduced in SA to accelerate financial development as the South African Government recognised financial inclusion as a potential tool to enhance inclusive economic growth and to decrease inequality. In context of the above, the research problem (question) is formulated as follows:

Do the financial inclusion improvement strategies of the South African Government and the private sector adequately address the financial inclusion targets, as set out in the National Development Plan?

To provide an answer to the research question, the research objective of this paper is to evaluate the effectiveness of the financial inclusion strategies and initiatives adopted by the South African Government and the private sector.

To give effect to the research question and objective of this non-empirical paper, an extended literature review was conducted to provide a theoretical foundation for the research objective. Secondary data were reviewed to determine the extent of financial inclusion in SA and to determine which financial inclusion strategies were adopted by the South African Government and the private sector. The remainder of the paper is structured as follows. First, the definition of financial inclusion is contextualised, the research method is explained and justified, where after the findings and recommendations are provided.

DEFINITION OF FINANCIAL INCLUSION

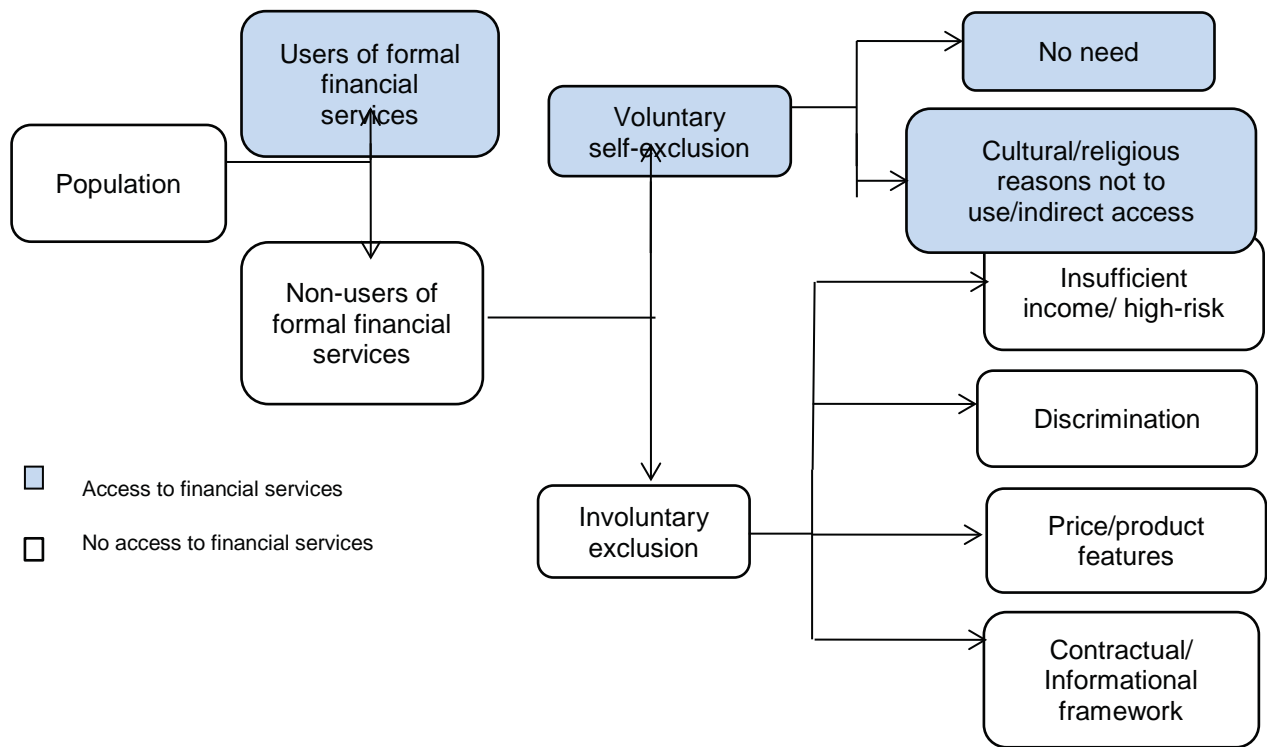
The initial concept of financial inclusion referred to the delivery of financial services to low-income segments of society at an affordable cost (Mohieldin *et al.*, 2011:3). Today, the concept of financial inclusion has broadened to include the use and access to a full suite of quality financial services, at affordable prices, in a convenient manner, delivered by a range of providers in a stable and competitive market to everyone who is financially capable (Financial inclusion 2020 progress report, 2015:1).

To enhance one's understanding of the concept of financial inclusion, a definition of financial exclusion is warranted. Warsame (2009:17) explains that financial exclusion can be defined in either a narrow sense or a broad sense. In the narrow sense, it is the exclusion of individuals from particular sources of credit and financial services, such as insurance, bill-payment services and accessible and appropriate deposit accounts (Warsame, 2009:17). In the wider sense, financial exclusion refers to the factors which effectively shut out the less fortunate of society from any access to the mainstream money services (Warsame, 2009:17).

The definition suggests that access to conventional financial services is especially a problem for impoverished members of society as they pose a high lending risk and, in the case of entrepreneurs, who do not have adequate security to qualify for conventional debt financing (Mirakhor & Iqbal, 2012:36; Beck & Demirguc-Kunt, 2008:4). These individuals are sometimes referred to as the "non-banked" or "unbanked" members of society (Mirakhor & Iqbal, 2012:36).

Mohieldin *et al.*, (2011:4) identifies two types of financial exclusion, namely: (i) voluntary financial exclusion; and (ii) involuntary financial exclusion. Figure 1 illustrates the difference between voluntary and involuntary financial exclusion. The non-users of the financial system either voluntarily exclude themselves – due to religious reasons, lack of trust in financial services, prior refusal from financial institutions, negative/biased marketing strategies; or they do so because they feel there is no need to be part of the financial system. The other group of non-users are involuntarily excluded from the financial system as they are considered un-bankable – due to their low income, thus posing a high lending risk to financial institutions. Financial institutions may also cause exclusion amongst this group by discriminating against certain populations and religious groups. This group may also be excluded since it is too costly for financial institutions to access certain population groups. Lastly, the cost of financial services may be too high or the products offered may be unsuitable for these individuals (Mohieldin *et al.*, 2011).

Figure 1: Types and reasons for financial exclusion



(Source: Mohieldin *et al.*, 2011:4)

DEVELOPMENTS IN FINANCIAL INCLUSION

An effort to enhance financial inclusion commenced in the 1970s, when Muhammad Yunus, the founder of the Grameen bank, adopted innovative approaches to micro-credit (Nhavira, 2015:80). These innovative approaches shifted lending from the individual to groups, employed credit agents and women, to provide credit to the impoverished (Nhavira, 2015:80). Despite the success of the Grameen model, the needs of the poor could not be comprehensively addressed solely by the provision of credit (Nhavira, 2015:80).

In the early 1980s, policy-makers looked for alternatives to advance financial inclusion (Nhavira, 2015:80). This led to the huge increase in bank branches and Automated Teller Machines (ATMs) in rural settlements in the 1990s to early 2000 (Nhavira, 2015:80). In Nigeria, for example, between 1977 and 1983, banks were mandated to open 466 branches nationwide (Nhavira, 2015:80). Between 2010 and 2013, South African banks were placing the majority of new ATMs in rural and previously disadvantaged communities (FinScope South Africa, 2014). However, the gains of these initiatives eroded as it became costly for banks to serve rural communities due to low customer volumes (David-West, 2016:256). This resulted in branch closures in poor areas as these traditional banking models were unsuitable for the customer and the service providers. Rural areas require an innovative approach to banking, suited to individuals with lower incomes (Ismail & Masinge, 2012:100). For this reason, many banks began experimenting with internet banking models in early 2000 (Telegraph, 2014). After embracing internet banking, banks and telecommunication companies worked towards the development of mobile banking models (Petrova, 2002:3).

Mobile Banking

Petrova (2002:2) defines mobile banking as the ability to conduct bank transactions via a mobile device, or more broadly to conduct financial transactions via a mobile terminal. Similarly, Firpo (2009) defines mobile banking as a connection between a mobile phone and a personal or business bank account that allows customers to use their mobile phone as a channel for their banking services.

Bara (2013:345) contends that the introduction of mobile money/banking is revolutionary, as it changed the manner in which banking is done and has contributed to an increase in financial inclusion in most developing countries. Mobile banking creates the potential for banks to expand their market penetration in previously unbanked/rural areas since the costs related to branch overheads are reduced (Lee, Lee & Kim, 2007).

From the demand side, mobile banking offers a potential solution to individuals in emerging markets that have access to a mobile phone, yet remain excluded from the financial system (Ismail & Masinge, 2012:99). Mobile banking minimises the time and distance to the nearest retail bank branch, making basic financial services more accessible (Ismail & Masinge, 2012:99). Mago and Chitokwindo (2014:223) investigated the impact of mobile banking on financial inclusion in Zimbabwe and they found that the poor were quick to adopt mobile banking due to the convenience of access, ease of use and soundness of mobile banking (Mago & Chitokwindo, 2014:223).

While the convergence of telecommunications and financial services has created opportunities for the emergence of mobile banking solutions, Bara (2013:345) emphasises that this fusion has implications on policy and regulatory frameworks. Policy and regulatory frameworks must not only accommodate the provision of these innovative financial services but should also enable better supervision and control of the providers of these services (Bara, 2015:345).

In SA, all large banks offer mobile phones, as an additional access channel to existing bank accounts (Bara, 2015:351). Two mobile banking models, WIZZIT and MTN Mobile Money, have emerged in SA (Bara, 2015:351). With these models, the bank account is fully integrated with the mobile phone. This integration allows the customer to use the mobile phone as an additional access channel as well as a payment instrument (Bara, 2015:351).

Agent Banking

Agent banking is another development in the banking industry that is recognised as a viable strategy for extending formal financial services into poor and rural areas (Alliance for Financial Inclusion, 2012:3). The Alliance for Financial Inclusion (2012:3) defines agent banking as a model, in which the banks provide financial services via non-bank agents, such as grocery stores, pharmacies, post offices, retail outlets or lottery outlets. Agent banking enables banks to expand their services into areas where they do not have sufficient incentive or capacity to establish a formal branch (Alliance for Financial Inclusion, 2012:3).

Tarazi and Breloff (2011:1) note the benefits of agent banking to all parties involved. While the bank saves on the cost of building a formal branch and the hiring of staff, the agent receives a transaction fee from the bank and the customer saves on transportation time and expenses. Tarazi and Breloff (2011:1) warn that this branchless banking system requires regulation in order to protect the consumers and the integrity of the financial institutions.

MEASURING FINANCIAL INCLUSION

Policy-makers are required to understand the factors that contribute to financial exclusion and to explore the mechanisms that could potentially tackle this phenomenon. For this reason, it is important to measure financial inclusion. Financial inclusion is traditionally measured by the proportion of the population able to access commercial bank branches and ATMs, as well as the size of bank deposits and loans made to low-income households and SMEs (Beck & Demirguc-Kunt, 2008). These metrics alone do not equate to financial inclusion as there may be individuals who voluntarily exclude themselves from financial services – for religious or cultural reasons, despite their ability to access and afford these services (Beck & Demirguc-Kunt, 2008). The sections that follow will discuss various indicators that measure financial inclusion.

Global Findex Database

The Global Financial Inclusion (Global Findex) database was launched by the World Bank in 2011 and for the first time, it became possible to measure financial inclusion in a systematic and comparable manner (Demirguc-Kunt *et al.*, 2015:3). The first edition of the Global Findex

database provided more than 60 indicators for 148 economies on how individuals around the world save, borrow, make payments and manage risk (Demirguc-Kunt *et al.*, 2015:3). The main indicators related to the use of formal credit and formal accounts are collected annually. While a full set of indicators is collected every three years.

In 2011, the Global Findex database measured financial inclusion as having an account that can store money and receive payments (Demirguc-Kunt *et al.*, 2015:3). To reflect the developments in the financial sector since 2011, the second edition of the Global Findex database (2014) also includes those adults with mobile money accounts, when measuring financial inclusion (Demirguc-Kunt *et al.*, 2015:14). The second edition provides more than 100 indicators for 143 economies.

The Brookings Financial and Digital Inclusion Project Report

The Brookings FDIP report presents a relative assessment of the extent of financial inclusion across 21 countries. To measure financial inclusion, the FDIP report uses a scorecard with 33 indicators, which span across four dimensions. The four dimensions include: (i) country commitment; (ii) mobile capacity; (iii) regulatory environment; and (iv) adoption (Villasenor *et al.*, 2015:10). Every indicator is scored on a scale of 1 (low) to 3 (high), resulting in a maximum potential score of 99 (Villasenor *et al.*, 2015:10). Refer to Appendix 1 for a list of the 33 indicators.

BARRIERS TO FINANCIAL INCLUSION

Financial inclusion has progressed from 2011 to 2014 with a decrease in the number of financially excluded individuals from 2.5 billion to 2 billion reported by Global Findex. Despite the progress in financial inclusion, there are still a number of barriers hindering financial inclusion. These barriers are complex and varied and they are often interconnected, affecting individual consumers and groups of consumers differently (Financial Inclusion Centre, 2015). Johnson and Nino-Zarazua (2010:476) and Warsame (2009:18) recognise that the determinants of non-use are complex and that there is no one particular reason for financial exclusion. Instead, there are several factors, which enable this phenomenon, such as higher charges for services required by the underprivileged, restriction of access to banks due to closures in underprivileged areas, inappropriate products and biased marketing strategies (Warsame, 2009:20).

Self-reported Barriers

Allen, Demirguc-Kunt, Klapper and Peria (2016:10) refer to the 2014 Global Findex survey to provide insights into the self-reported barriers to financial inclusion. The 2014 Global Findex survey revealed that globally, the most-cited reason for not having a bank account is the lack of sufficient funds to use one (Allen *et al.*, 2016:10). This reason was reported by 66% of adults without a formal account, of whom 30% reported insufficient funds, as the only reason (Allen *et al.*, 2016:10). The respondents were permitted to cite more than one reason. Allen *et al.*, (2016:10) regard these adults as voluntarily excluded from the formal financial system, as well as individuals who chose not to have an account for cultural or religious reasons

(cited by 5% of adults); or because another family member has an existing account (cited by 23% of adults).

The second most-cited reason for not owning an account is that banks are too expensive (Allen *et al.*, 2016:10). Other reasons reported by individuals, who do not own a bank account, by order of importance are: (i) banks are too far; (ii) lack of required documentation; and (iii) lack of trust in banks (Allen *et al.*, 2016:10). These reasons are associated with involuntary exclusion (Fungacova & Weill, 2014:199). Allen *et al.*, (2016:10) caution that although the self-reported barriers cannot support causal statements, they allow researchers and policy-makers to understand the reasons for non-use, and to prioritise and design policy interventions accordingly.

Profile of the Financially Excluded

Allen *et al.*, (2016:33) describe the profile of individuals who report the above-mentioned reasons as barriers to financial inclusion. The poor, less educated, unemployed or rural residents are more likely to report cost as a barrier to account ownership (Allen *et al.*, 2016:33). Rural residents, less-educated individuals, married or poor adults, who may find it more costly and difficult to travel long distances, are more likely to cite distance as a barrier (Allen *et al.*, 2016:33). Lack of the required documentation is also more likely to be cited as a barrier by the less-educated or rural residents, including younger or single adults, who may lack residency documents, due to relocation for work or other reasons (Allen *et al.*, 2016:33).

Underprivileged or unemployed adults are more likely to report insufficient funds, as a barrier to account ownership (Allen *et al.*, 2016:33). Lack of trust in banks is more likely to be cited, as a barrier, by men and wealthier adults (Allen *et al.*, 2016:33). Individuals who cite not having enough money as being the only barrier, are more likely to be poor, older, urban or unemployed adults (Allen *et al.*, 2016:33).

RESEARCH METHOD

Scientific research can be conducted by using primary and/or secondary data (Babbie & Mouton, 2015). In the context of the research question and research objective the published literature was found to be sufficient.

This descriptive paper collected and reviewed secondary data from a number of sources, namely: (i) the 2015 and 2016 Brookings Financial and Digital Inclusion Project (FDIP) reports; (ii) the 2014 Global Findex survey; (iii) Financial Access surveys; (iv) various national FinScope surveys; and (v) a number of working papers of the World Bank related to financial inclusion.

To substantiate the secondary data used for this paper, the research processes and methodologies of the 2015 Brookings FDIP report, the 2014 Global Findex survey, and the 2015 FinScope South Africa surveys are briefly discussed next.

The Brookings FDIP Report

The Brookings FDIP report presents a holistic picture of the financial inclusion landscape in 21 different countries (Villasenor *et al.*, 2015:10). To assess financial inclusion across the country, the FDIP team targeted government representatives in each of the subject countries, in order to obtain feedback on their respective draft country profiles (Villasenor *et al.*, 2015:130). To obtain a complete picture of the financial inclusion environment in each country, non-government representatives were also contacted and through high levels of engagement, a more accurate description of the financial inclusion environment was obtained (Villasenor *et al.*, 2015:130).

To assess the financial inclusion environment in each country, the report uses a scorecard with 33 indicators. The indicators span across four dimensions, namely: (i) country commitment; (ii) mobile capacity; (iii) regulatory environment; and (iv) adoption (Villasenor *et al.*, 2015:10). Each indicator is scored on a scale of 1 (low) to 3 (high), resulting in a maximum potential score of 99 (Villasenor *et al.*, 2015:10).

A number of indicators were dichotomous, and could be awarded a score of 1 or 3. Other indicators were trichotomous and could be awarded a score of 1, 2 or 3 (Villasenor *et al.*, 2015:12). To compute the overall scores, all the indicators were weighted equally (Villasenor *et al.*, 2015:12).

The 2014 Global Findex Survey

The 2014 Global Findex survey included more than 100 indicators for 143 economies on how individuals around the world save, borrow, make payments and manage risk (Demirguc-Kunt *et al.*, 2015:4).

Indicators are drawn from survey data that cover almost 150 000 people across 143 economies. The survey was conducted by Gallup Inc., and it represents more than 97% of the world's population. The target population is the entire civilian, non-institutionalised population aged 15 years and above (Demirguc-Kunt *et al.*, 2015:73).

In economies where less than 80% of the population have telephone coverage, the surveys were conducted on a face-to-face basis. The fieldwork in most economies was completed in two to four weeks. The first stage of sampling was the identification of primary sampling units, which were then stratified according to population size, geography, or both. One or more stages of sampling were completed, in order to achieve clustering (Demirguc-Kunt *et al.*, 2015:73). The interviewers made up to three attempts to survey the sampled households – unless there was an outright refusal from the household (Demirguc-Kunt *et al.*, 2015:73).

In economies where telephone interviewing was common, random-digit dialling, or a nationally representative list of telephone numbers was used. In economies where there is high mobile phone-penetration rates, a dual-sampling frame was used (Demirguc-Kunt *et al.*, 2015:73). A minimum of three attempts were made to contact a person in each household, on different days and times of day (Demirguc-Kunt *et al.*, 2015:73). To achieve a nationally representative sample for each economy, data weighting was used. The final weights

comprised the post-stratification weights. This corrected the unequal probability of selection, based on household size (Demirguc-Kunt *et al.*, 2015:73).

The 2015 FinScope South Africa Survey

The research process adopted by the 2015 FinScope South Africa survey is used for this paper as the 2016 FinScope South Africa survey research process and comprehensive findings were not available at the time of publication. The sample for the 2015 survey was a nationally representative sample of South Africans aged 16 years and older, with the sample drawn systematically by using the Probability Proportional to Size sampling method. The Enumerator Area (EA) comprised 834 and 6 interviews were conducted per EA (FinScope, 2015). To identify the respondents, two further levels of random sampling were conducted, namely: (i) households randomly selected within each EA; and (ii) individual respondents randomly selected from sample households by using the Kish grid (FinScope, 2015). The fieldwork was conducted from the 14th July 2015 to 2nd September 2015. A total of 5 000 interviews were held (compared to 3 900 in previous years), using Computer Aided Personal Interviews and the questionnaire was translated into isiXhosa, isiZulu, Sesotho, Setswana, Sepedi and Afrikaans as these are the most-spoken languages in SA (FinScope, 2015).

FINDINGS

South Africa is an upper-middle income economy, with a Gross National Income (GNI) per capita of \$12 700 (World Bank, 2016). Despite this status, the country remains a dual economy, with one of the highest inequality rates in the world (World Bank, 2016). The top decile of the population accounts for 58% of the country's income, while the bottom-decile accounts for only 0.5% (World Bank, 2016).

According to the 2015 FinScope South Africa survey, the unemployment rate in SA is 26% and 11.1 million people are supported by social grants. The World Bank (2016) projects real GDP growth for 2016/2017 at 0.8%, and cautions that this weak growth will exacerbate the already high unemployment and inequality rates.

Banking Landscape in South Africa

The Financial Access Survey (2013) indicates that there were approximately ten commercial bank branches per 100 000 adults, and approximately three commercial bank branches per 1 000 km² in SA in 2013. According to Global Findex (2014), approximately 70% of adults (ages 15 years and older) and 70% of women had an account at a bank in 2014, compared with 58% of those in the bottom 40% income bracket. According to the FinScope South Africa survey (2014), SA has more formally banked women than men, which is unique in Africa. The survey shows that 79% of the women are banked compared with 70% of the men (FinScope South Africa, 2014).

Mobile Ecosystem in South Africa

According to the World Development Indicators (2014), mobile subscription levels in SA are high, with approximately 150 subscriptions per 100 people. Villasenor *et al.*, (2015:110) note that 90% of South African adults used a mobile phone in 2014 and approximately 24% of adults made use of mobile banking. Fifty-seven percent of adults in SA had smartphones in 2014 and approximately 43% of adults actively used smartphones in 2014.

According to the Financial Access Survey (2013), there were approximately three active agent outlets per 1 000 km² and 11 active agent outlets per 100 000 adults in 2013. For every 1 000 adults, there were approximately seven active mobile money accounts, and approximately 76 registered mobile money accounts in 2013 (Financial Access Survey, 2013).

Global Findex (2014) revealed that there were approximately 14% of adults (aged 15 years and older) with a mobile money account in 2014 and since mid-2015, there were six mobile money deployments in the country (GSMA Mobile Money for the Unbanked Deployment Tracker, 2015). M-Pesa was re-launched in SA in 2014, as the initial launch in 2010 was not as successful as envisaged. As of May 2014, M-Pesa had more than 8 000 agents at informal outlets and retailers (Villasenor *et al.*, 2015:110).

South Africa was ranked second in the 2015 Brookings FDIP project report, with an overall score of 80%. South Africa's score was 9% lower than that of the number-one ranked country, Kenya. South Africa scored an impressive 100% in the mobile capacity dimension, and a competitive 89% in the country commitment dimension. The adoption dimension received the lowest score of the four dimensions (69%).

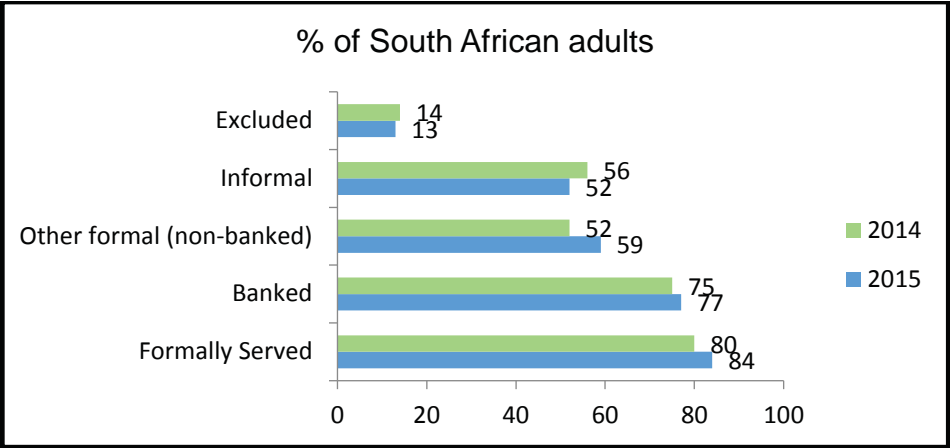
The 2016 Brookings report shows a decline in dimension scores for SA compared to 2015. South Africa was ranked third, along with Brazil in the 2016 Brookings FDIP report. South Africa scored 94% in the mobile capacity dimension, 83% in the country commitment dimension, 67% in the regulatory environment dimension and 72% in the adoption dimension. The top two ranked countries for the 2016 Brookings FDIP report were Kenya (overall score 84%) and Colombia with an overall score of 79% (Villasenor, West & Lewis, 2016:6).

The 2015 Finscope South Africa Survey

The 2015 FinScope South Africa survey indicated an increase in the number of financially included adults (aged 16 years and older), from 17.7 million in 2004 to 32.5 million adults in 2015. Despite an increase in financial inclusion over the past 11 years, the 2015 survey showed that the level of financial inclusion has remained stable at 87%, compared with 86% in 2014 and 84% in 2013.

As previously mentioned the comprehensive results for the 2016 FinScope South Africa survey were not available at the time of publication. Available results from the 2016 FinScope South Africa survey indicate a level of 89% financial inclusion (38.2 million adults) while approximately 11% of the adult population (4.3 million adults) are financially excluded.

Figure 2: FinScope South Africa key results: 2014 and 2015



(Source: Adapted from FinScope South Africa Survey, 2015:18)

As illustrated in Figure 2, the percentages of formally served adults increased from 80% in 2014 to 84% in 2015, while the percentage of banked individuals increased by 2% to 77% over the same time period. From 2014 to 2015, there was a 1% decrease of excluded individuals, and a 4% decrease in the number of adults who are informally served.

According to the survey, a higher proportion of LSMs, 1 - 2 are excluded. However, exclusion decreased across LSM 3 - 6 and LSM 9 - 10. LSM is the acronym for living standards measure, which is a widely used index of social welfare in SA. A high LSM indicates a high standard of living while a low LSM indicates a low living standard (AFI & GPFI, 2014:3).

The financially excluded in SA are not only individuals residing in difficult to reach environments – there is a concerning number in urban areas (FinScope South Africa, 2015:20). Table 1 highlights in bold the percentage of financially excluded adults in urban areas. The majority of the excluded resided in urban areas in 2014 and 2015. Tribal/traditional locations also host a noticeable percentage of the excluded, while the farm locations host the lowest percentage of excluded individuals in 2014 and 2015.

Table 1: Number of financially excluded South Africans by environment

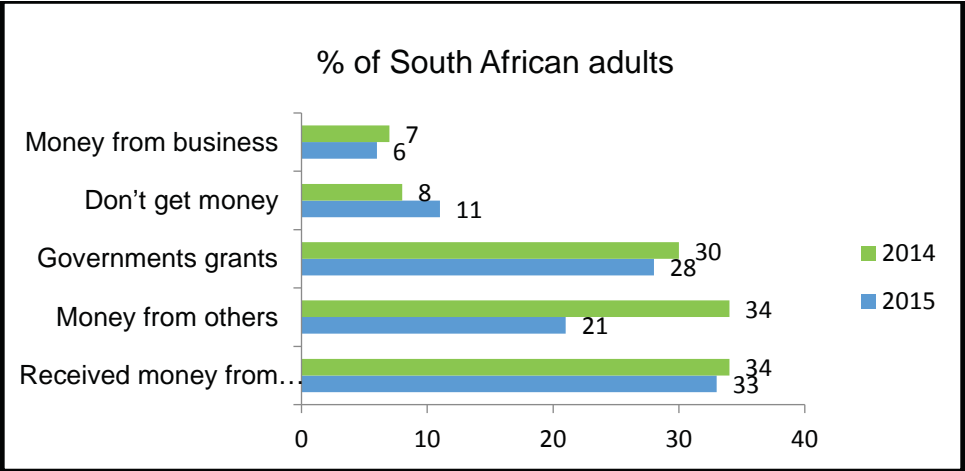
| Number of financially excluded adults | | |
|---------------------------------------|------------------------|------------------------|
| Environment | 2014 | 2015 |
| Total | 14% (5,358,463) | 13% (4,850,520) |
| Urban | 51% (2,743,221) | 52% (2,533,153) |
| Farms | 6% (340,752) | 9% (437,627) |
| Tribal/Traditional | 42% (2,274,489) | 39% (1,879,741) |

(Source: FinScope South Africa survey, 2015:20)

Of those excluded in urban areas, 59% are males, 48% are aged 18 – 29, while 78% are in LSM 1 – 6 and 50% have no income at all. The survey also reported that South Africans are

struggling to stretch their money, with 10 million adults unemployed, households have fewer income earners and less people are being financially assisted by family and friends (FinScope South Africa, 2015:8). Figure 3 illustrates the sources of income for South African adults.

Figure 3: Sources of income for South African adults: 2014 and 2015



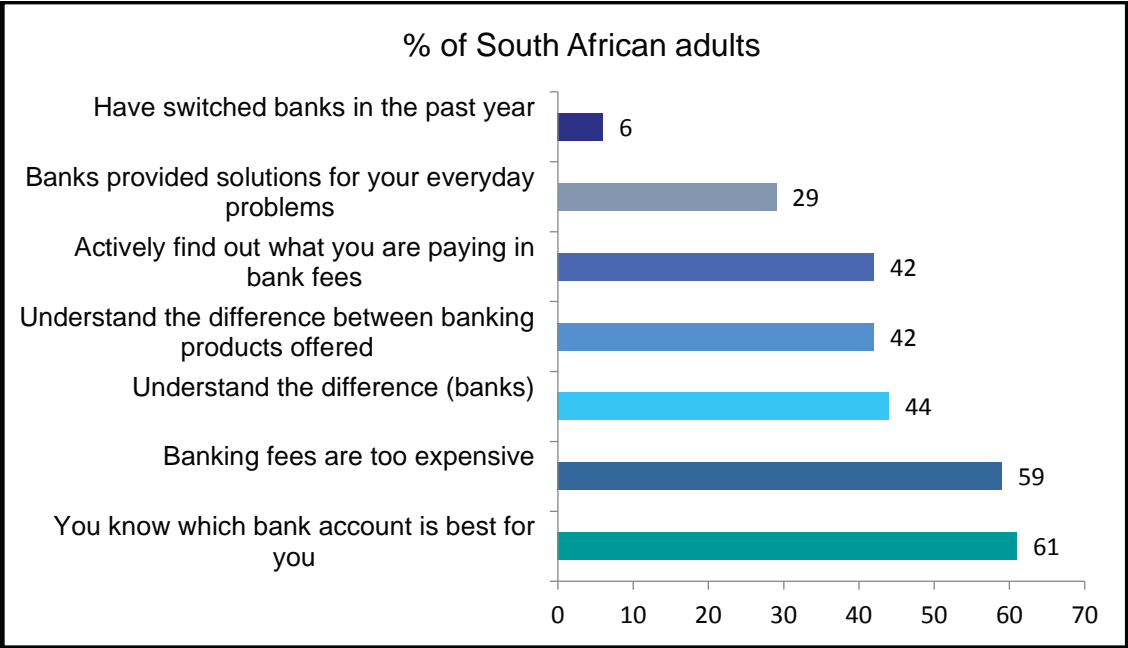
(Source: FinScope South Africa survey, 2015:8)

As illustrated in Figure 3, 33% of adults received money from a salary/wage in 2015, compared to 34% in 2014, 28% of adults received money from a government grant in 2015, compared to 30% in 2014. About 21% of adults received money from other individuals in 2015, 11% had no source of income, while 6% received money from a business. The comparative figures for 2014 were 34%, 8% and 7%, respectively.

Bank sentiment in South Africa

As illustrated in Figure 4, only 61% of the South African population knew which bank account would best suit their needs, while 59% felt that banking fees are too expensive (FinScope South Africa, 2015). The survey revealed that 44% of the population understood the differences between banks, while 42% understood the differences between banking products that are on offer and actively found out how much they were paying for banking fees.

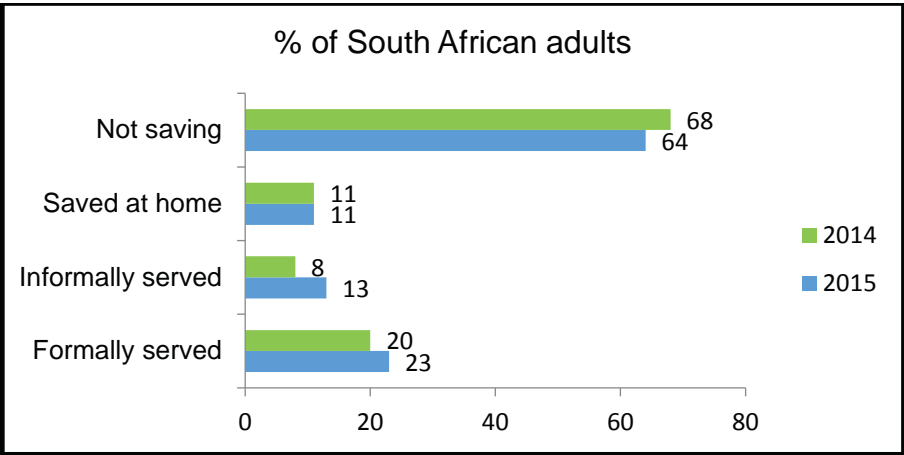
Figure 4: Bank sentiment among South African adults



(Source: FinScope South Africa survey, 2015:45)

Savings in South Africa

Figure 5: Types of saving among South African adults: 2014 and 2015



(Source: FinScope South Africa, 2015:39)

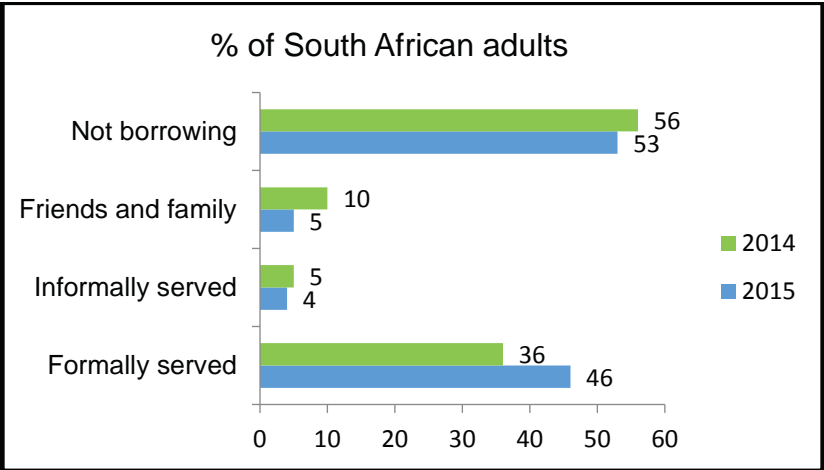
The South African government’s push on tax-free savings has resulted in an increase in short-and medium-term savings. As depicted in Figure 5, there was a 3% increase in formal savings from 2014 to 2015, and a 5% increase in informal saving. There was a 4% decrease

in the number of individuals, who do not save – while the percentage of individuals who save at home remained constant.

Credit and Borrowing in South Africa

According to the FinScope South Africa survey (2015), more people are tapping into unsecured credit via formal products. Figure 6 highlights a 10% increase in formal credit, a 1% decrease in informal credit, and a 5% decline in credit from family and friends. Individuals are using credit to satisfy their short-term immediate needs, such as food (26%), emergencies (26%), transport costs (12%), bills (10%) and clothing (10%). Regions that are particularly accessing credit are KwaZulu Natal (12%), followed by the Free State (11%) and the Western Cape (10%).

Figure 6: Sources of credit for South African adults: 2014 and 2015



(Source: FinScope South Africa survey, 2015:34)

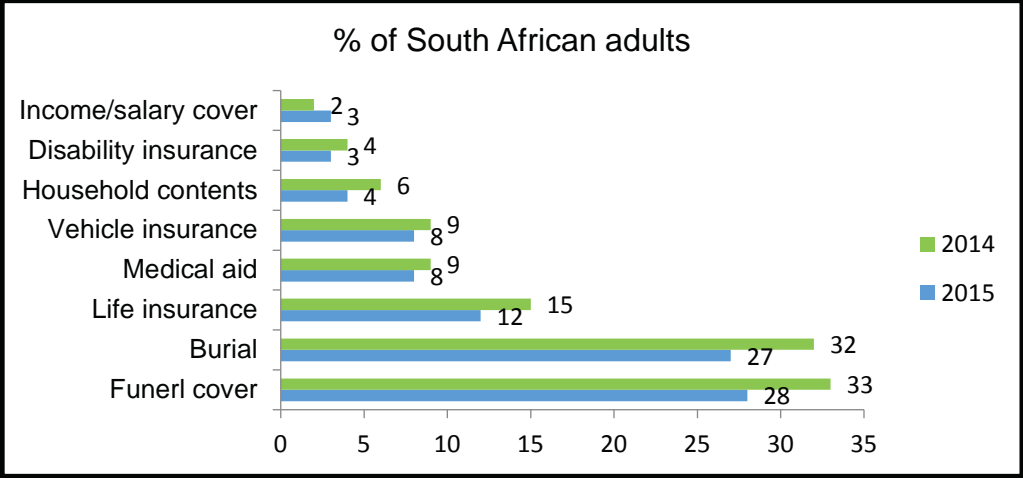
Insurance in South Africa

Of the 18.5 million South Africans that are insured, only 6.6 million have non-funeral insurance (FinScope South Africa, 2015). There has been a decline in formal (4%) and informal (8%) insurance. While the number of uninsured individuals has increased by 10%.

Figure 7 compares the percentage of South African adults insured in 2014 to 2015. There has been a decrease in the percentage of adults insured for all types of insurance, with the exception of income/salary cover, which increased by 1%.

The FinScope South Africa (2015) survey reported a decline in life insurance among the 18 – 29 year-old category, and also among individuals earning between R 1 000 – R 2 999 per month.

Figure 7: Percentage of South African adults insured by insurance type: 2014 and 2015



(Source: FinScope South Africa survey, 2015:29)

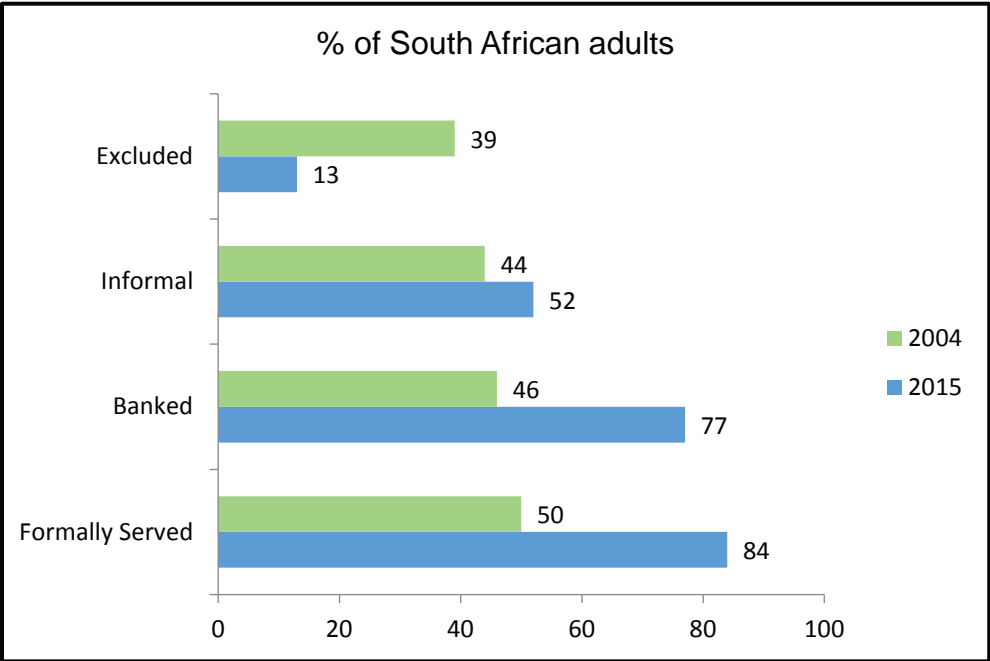
Digital Payments in South Africa

Approximately 37% of the South African adult population make use of digital-payment mechanisms on a monthly basis (FinScope South Africa, 2015). Despite the increase in smartphone penetration among South African adults, only 40% of the adult population use smartphone applications, while 31% of adults manage their finances via a mobile phone (FinScope South Africa, 2015).

Financial Inclusion Overview in South Africa: 2004 and 2015

FinScope surveys have been conducted in South Africa since 2002 and one of the survey’s objectives is to measure levels of financial inclusion in South Africa (FinScope South Africa, 2014:2). Figure 8 below illustrates by means of key financial inclusion results, how financial inclusion has changed in South Africa from 2004 to 2015. The percentage of financially excluded adults decreased from 39% to 13% while the percentage of formally served adults increased from 50% in 2004 to 84% in 2015. The percentage of banked individuals increased from 46% in 2004 to 77% in 2015, while the percentage of informally served adults increased from 44% to 52% over the same time period.

Figure 8: FinScope South Africa key results: 11-year perspective



(Source: Adapted from FinScope South Africa survey, 2004 and 2015)

SOUTH AFRICAN FINANCIAL INCLUSION STRATEGIES AND INITIATIVES

The National Treasury, under the portfolio of the Minister of Finance, is the entity responsible for enhancing financial inclusion in SA. Together with the South African Reserve Bank, both entities are members of the Alliance for Financial Inclusion (AFI, 2016a). The National Treasury represents SA in the G20 Global Partnership for Financial Inclusion and the World Bank (2013) notes that as the only G20 member in Africa and as one of the BRICS countries, SA plays an influential global role in financial inclusion.

South Africa’s financial inclusion journey began in 2004 (Banking Association of South Africa, 2013). Although SA does not have an explicit financial inclusion strategy (Villasenor *et al.*, 2016:92) the South African Government and the private sector have been adopting financial inclusion strategies and initiatives since 2004. These initiatives are discussed in the sections to follow.

Financial Sector Charter

The realisation that financial inclusion is a key component of economic transformation led the South African Government to formalise the Financial Sector Charter (FSC) in 2004 (GPFI, 2014:4). The FSC was a pact between government and the financial services sector to transform the sector, to increase the usage of and access to financial services, as well as to commit to ongoing financial literacy efforts (GPFI, 2014:5). However, this was a voluntary agreement, with no legal requirement for financial institutions to abide by the FSC. The FSC was designed for the provision of developmental finance, such as the financing of

infrastructural developments and rural development and despite an increase in credit extension as a result of the FSC – a gap in financial intermediation still exists among the poor, black populace (Kostov, Arun, Annim & Adjasi, 2015:279).

The FSC operated from 2004 to 2008 and financial inclusion in SA increased noticeably during this period, from 61% in 2004 to 76% in 2008 (FinScope South Africa, 2014).

The FSC was replaced by the Financial Sector Code in 2012, which now places a legal requirement on financial institutions to comply with the code (GPFI, 2014:9). The Financial Sector Code seeks to align the FSC with the Codes of Good Practice for black economic empowerment (Kostov *et al.*, 2015:281).

Mzansi Account

One of SA's initiatives to advance financial inclusion among the impoverished was the introduction of the Mzansi account in 2004 (GPFI, 2014:5; Villasenor *et al.*, 2015:111). South Africa's four major banks, namely: (i) ABSA; (ii) FNB; (iii) Standard Bank; and (iv) Nedbank teamed up with Postbank (a State-owned financial institution) to launch a banking product aimed at low-end consumers without any previous access to banking (Kostov *et al.*, 2015:279).

The Mzansi account was developed to provide an entry-level account to the poorest segment of the South African population (Ismail & Masinge, 2012:105). The Mzansi initiative enabled the banking sector to offer financial services to the previously unbanked (Kostov *et al.*, 2015:279). The Mzansi initiative thus increased the level of financial intermediation as about six million South Africans had opened an Mzansi account by December 2008 (Kostov *et al.*, 2015:279).

Despite the success of the Mzansi initiative, a report by the World Bank (2013) shows that only three and a half million of the six million accounts were actively used. Kostov *et al.*, (2015:281) are of the opinion that this trend could be due to the perception among South Africans that banks charge high fees for transactions. Nonetheless, Kostov *et al.*, (2015:281) and GPFI (2014:7) assert that the Mzansi account was a major contributor to the extension of financial services to the unbanked and it resulted in improved financial inclusion in SA.

Capitec Bank

The banking sector in SA is dominated by the four major banks that account for 84% of the banking sector assets, indicating the presence of a monopsonistic structure (Kostov *et al.*, 2015:280; World Bank, 2013:23). SA has a rigid regulatory environment with no special dispensation for non-banks and e-money providers. This requires mobile money providers in SA to be subject to the full regulatory compliance requirements of banks (World Bank, 2013:23). Rwanda's regulatory environment for example, enables bank and non-bank entities to offer mobile financial products, while in SA, companies offering mobile banking services are required to be in possession of a banking licence (Ismail & Masinge, 2012:105). Villasenor *et al.*, (2015:106) recognises Rwanda's relaxed regulatory environment as one of the main contributors to increased financial inclusion rates in the country. According to a

FinScope (2012) survey conducted in Rwanda, financial exclusion rates have dropped from 52% in 2008 to 28% in 2012.

Community savings and credit co-operatives (SACCOs) have also contributed to the increased financial inclusion rates in Rwanda, especially among the underserved communities (Villasenor *et al.*, 2015:106). Currently, more than 90% of Rwandans are located within a five-kilometre radius of a SACCO, thus eliminating the distance barrier (Villasenor *et al.*, 2015:106). In SA, the co-operative banking sector, which aims to provide banking services at lower fees, remains insignificant (World Bank, 2013:28). Despite the introduction of the Co-operative Banks Act in 2007 – which requires that all financial co-operatives in SA with more than R1 million in deposits and 200 members, be regulated by the Act, there were only two registered co-operatives and 19 eligible for registration at the end of 2012 (World Bank, 2013:28).

Consequently, a large number of weakly regulated operators have emerged to cater to the needs of the less-developed economy. Examples of these operators are: informal stokvels (rotating savings and credit associations), financial co-operatives, which are smaller than other financial institutions, and non-bank credit providers (World Bank, 2013:24). There are no institutions in SA to leverage relationships and links to these informal enterprises, resulting in high opportunity costs in restricting market entry to banks alone (World Bank, 2013:28).

However, since the entry of new players, such as Capitec Bank in 2001, the banking structure in South Africa has gradually shifted towards a competitive structure (Kostov *et al.*, 2015:280; World Bank, 2013:23).

The Capitec Bank business model aims to promote the economic welfare of the communities in which it operates through client engagement, financial literacy programs, interventions at schools and corporate social investment (Capitec, 2016:17). The Capitec Bank business model does not apply demographic segmentation by income level. However, it targets all clients, regardless of their income level (Capitec, 2016:23).

Capitec Bank offers a unique and functional banking solution to all its clients, called Global One (Capitec, 2016:21). Global One offers each client a transaction account, four savings accounts, access to credit, mobile phone banking and internet banking for a monthly fee of R5.25 (Capitec, 2016:21).

The World Bank (2013:24) notes that Capitec Bank has taken an increasing market share from the bigger banks in SA. According to the Capitec Bank Annual Integrated Report (2016:22), approximately 100 000 new clients join Capitec Bank per month and by the end of February 2016, the bank had a customer base of 7.3 million, approximately 20.6% of the South African banking market. The number of Capitec Bank branches in SA, increased by 52 to 720 from 2015 to 2016 (Capitec, 2016:22). While the number of ATMs increased by 287 to 3 705 over the same period (Capitec, 2016:22).

The entry of new players into the banking sector has had a positive impact on financial inclusion as the increase in competition can lead to product innovation and reduced customer costs (World Bank, 2013:23). Since the arrival of Capitec Bank in SA, the four

major banks have rolled out low-cost branches and introduced low-cost and attractive transactional banking products (World Bank, 2013:24).

National Credit Act

Prior to the introduction of the National Credit Act No. 34 of 2005 (NCA), many South Africans were excluded from the credit market as credit was predominantly made available on a secure basis (Capitec, 2016:25). The NCA was introduced into SA, with the aim of ensuring broader access to credit for consumers previously excluded from the financial credit market (Capitec, 2016:25). This goal was achieved by enabling credit providers to grant larger loans over a longer period to these new clients (Kostov *et al.*, 2015:281; Capitec, 2016:25).

The NCA was intended to improve opportunities for asset accumulation for previously disadvantaged South Africans by: (i) improving access to finance; (ii) reducing the cost of finance; and (iii) increasing consumer protection (Kostov *et al.*, 2015:281). However, consumers were using the increased access to unsecured credit as life-improvement finance, which led to slow growth in mortgage markets and a peak in unsecured credit in 2012 (Capitec, 2016:25). This unintended consequence of the NCA led to recent regulatory developments to reduce the market supply of unsecured debt. These regulations include: (i) the NCA Affordability Regulations, which became effective in September 2015; (ii) the Review of Limitations on Fees and Interest Rates, which became effective in November 2015; and (iii) the proposed Credit Life Insurance Regulations (Government Gazette, 2013).

South African Social Security Agency Grant Program

Another program relevant to financial inclusion in SA is the South African Social Security Agency's (SASSA's) grant program. SASSA's purpose is to alleviate poverty, social exclusion and inequality through a comprehensive social protection system, which consists of seven types of grants (Department of Social Development, 2016).

In March 2012, SASSA in conjunction with MasterCard, introduced a biometric grant-payment-disbursement system (South African Government, 2013). This new system was introduced to reduce fraudulent grant applications and collections, as well as to reduce grant administration costs by distributing all grant payments electronically (South African Government, 2013).

Grant recipients have a bank account opened for them, with no monthly fees attached, to save and transfer money. The SASSA MasterCard card can be used at any outlet that accepts MasterCard cards (SASSA, 2013). The grant recipients can make purchases, check account balances and withdraw cash at till points, incurring no costs, at selected South African retailers (SASSA, 2013).

By moving away from the cash-payment system to the MasterCard system, approximately one fifth of the South African population now enjoy the benefits of a formal banking product (South African Government, 2013). As noted by the FinScope South Africa (2014) survey, 34% of the banked population in South Africa owned a SASSA MasterCard card. However, approximately 18% of holders are not utilising their cards to withdraw cash, make payments

or check their accounts (FinScope South Africa, 2014). This limited use could be attributed to holders being unaware that these accounts can be utilised for saving and other purposes. There is a misconception that the accrual of money in these accounts results in the holder becoming ineligible to receive future benefits; and the confusion relating to fees also limits the use of the SASSA MasterCard card (World Bank, 2013:33 This paper does not elaborate on the current SASSA debacle where the Constitutional Court declared the R10 billion contract with Cash Paymaster Services (CPS) as invalid.

Shoprite and Pick n Pay Money Transfer

Shoprite and Pick n Pay have a money transfer solution which enables individuals to securely send or receive money at any Shoprite and Pick n Pay store around SA (Shoprite, 2016; Pick n Pay, 2010). Involved parties are not required to have a bank account and must be in possession of a valid South African identity document to use this service. The only cost involved is an affordable transfer fee paid by the individual who does the money transfer, while there are no costs incurred by the individual who receives the money (Shoprite, 2016; Pick n Pay, 2010).

Mobile Banking

As discussed earlier, mobile banking has a great potential to advance financial inclusion. In SA, companies that are offering mobile banking services are required to be in possession of a banking licence (Ismail & Masinge, 2012:105). All the major banks, including Capitec Bank, provide mobile banking services (South Africa Info, 2016). The main mobile banking initiatives in South Africa are outlined below.

M-Pesa Money Transfer

In 2010, Vodacom collaborated with Nedbank to launch the M-Pesa money transfer in SA (Ismail & Masinge, 2012:105). This initial launch was not as successful as envisaged, which led to the re-launch in 2014 (Villasenor *et al.*, 2015:110). M-Pesa makes use of Unstructured Supplementary Service Data (USSD) technology and it is available to South African Vodacom subscribers (Ismail & Masinge, 2012:105; Vodacom, 2016). As an M-Pesa user, individuals do not need to have a bank account and there are no monthly fees or minimum balance requirements (Ismail & Masinge, 2012:105; Vodacom, 2016).

Despite the success of M-Pesa in Kenya, it has not proven to be successful in SA, even after its re-launch in 2014. Vodacom has decided to discontinue the M-Pesa service by the end of June 2016, as the service has not yielded the desired results (Vodacom, 2016). Shop and Mall (2013) warned that M-Pesa might never be a success in SA. Unlike other African economies, SA has been a cashless economy for a number of years, with all the banks offering some type of cashless product, such as credit and debit cards and electronic fund transfers (Shop and Mall, 2013). With a cashless system already in place, Shop and Mall (2013) were of the opinion that the introduction of another cashless system in SA would be unnecessary and ineffective. Arthur Goldstuck, the managing director at the technology research firm, World Wide Worx, attributes the failure of M-Pesa to the more competitive mobile market and the larger banked population in SA compared with other African countries (ZDnet, 2012).

WIZZIT Banking Initiative

WIZZIT Payments (Pty) Limited is a provider of basic banking services for the unbanked and under-banked in SA and it was launched in 2004 by the WIZZIT Bank, a division of the South African Bank of Athens. WIZZIT services are based on a mobile phone banking system, which uses the “pay-as-you-go” model, where users pay per transaction (WIZZIT, 2004). There are no monthly fees attached to the WIZZIT product and it is available on the MTN and Vodacom networks (Ismail & Masinge, 2012:105).

Mobile Money

Mobile money is a safe and inexpensive way to bank and it is accessible to South African customers (aged 16 and older) on all mobile networks. Each mobile money customer may only open one mobile money account, which is subject to successful fraud-and-risk control checks (MTN, 2013). Individuals with a mobile money account can send money instantly to any South African mobile phone number; deposit and withdraw cash at a participating retail store or mobile money agent; receive and make payments into a mobile money account through an electronic fund transfer as well as withdraw cash at any ATM using a Mobile Money Visa Card.

Despite SA’s sophisticated banking infrastructure, Robb (2015) warns that mobile money could be less successful in SA compared with other African countries. While mobile money has revolutionised financial services in Kenya and Tanzania, this may not be the case in SA – due to the country’s rigid regulatory framework (Robb, 2015).

Unlike SA, Tanzania gradually adopted mobile money, by providing a platform for innovative and modern products and services to emerge while it was developing policies relevant to the changing financial landscape (Robb, 2015; Villasenor *et al.*, 2015:116). In 2014, the major mobile money providers in Tanzania reached an agreement to allow their platforms to interoperate, making Tanzania the first African country to have mobile money platform interoperability in place (Robb, 2015). The regulations in East Africa are not as stringent as those of SA (Donnelly, 2015). Payment providers in SA are subject to the full regulatory compliance requirements of banks as there is no special dispensation for non-banks and e-money providers (Robb, 2015; Donnelly, 2015).

SA is in the process of implementing interoperability across payment platforms, which could aid further advancement of financial inclusion in the country as well as providing consumers with a much bigger payment network (Robb, 2015; Villasenor *et al.*, 2015:112).

CONCLUSIONS AND RECOMMENDATIONS

The research objective of this paper was to evaluate the effectiveness of the financial inclusion strategies and initiatives adopted by the South African Government and the private sector. The research paper highlights the importance of financial inclusion and creates awareness of the financial inclusion initiatives adopted by the South African Government and the private sector since 2004.

SA has a sophisticated financial sector that was early to commit to policies for financial inclusion compared to other developing countries. Despite the sophisticated level of the banking system in SA, the 2015 FinScope South Africa survey noted a concerning number of urban individuals from LSMs 1 - 2 who are financially excluded. This reveals that there are gaps in the level of access to banking and banking products in SA. South Africa's big four banks are capable of servicing the advanced economy but they are limited in servicing the less-developed economy (World Bank, 2013:34). For example, it is mostly banks that can provide payment services and collect deposits in SA (World Bank, 2013:34).

Consequently, a large number of weakly regulated operators have emerged to cater to the needs of the less-developed economy. Examples of these operators are: informal stokvels (rotating savings and credit associations), financial co-operatives, which are smaller than other financial institutions, and non-bank credit providers (World Bank, 2013:24). There are no institutions in SA to leverage relationships and links to these informal enterprises, resulting in high opportunity costs in restricting market entry to banks alone (World Bank, 2013:28). In an attempt to address the potential exploitation of the poor, the World Bank (2013:28) and the Brookings FDIP report (2015:112) suggest that the South African Government introduce a tiered-licensing system that opens the market to informal institutions that can tailor services to unbanked individuals. Furthermore, SA should take lessons from its African counterparts such as Rwanda, Kenya and Tanzania, where mobile money has had a positive influence on financial inclusion, largely due to the less stringent regulatory environments in these countries.

SA should hasten with the implementation of interoperability across payment platforms, as this could advance financial inclusion in the country as well as provide consumers with a much bigger payment network.

The 2015 FinScope South Africa survey noted an increase in the level of unsecured lending to satisfy short-term needs. Should this trend persist, the financial leaders in SA should assess the risk of over-indebtedness which could result in more individuals relying on informal credit. These unregulated informal credit providers may fail to consider the financial stability of lenders, thus exposing lenders to the risk of defaulting on their credit commitments.

Despite an increase in the level of smartphone usage as indicated by the 2015 FinScope South Africa, the level of optimisation of digital financial services remains limited. Improved digital product design and awareness-building are important to promote full digital financial inclusion.

While 34% of the banked population in SA own a SASSA MasterCard card, about 18% of holders are not utilising SASSA accounts optimally (FinScope South Africa, 2014). This limited use could be attributed to holders being unaware that these accounts can be utilised for saving and other purposes. There is a misconception that the accrual of money in these accounts results in the holder becoming ineligible to receive future benefits; and the confusion relating to fees also limits the use of the SASSA MasterCard card (World Bank, 2013:33). SASSA should consider a holistic approach to increase the use of the SASSA MasterCard card that includes improved communication on product features and pricing, as well as broader financial education to correct the misconceptions related to saving.

South Africa has experienced a noticeable increase in financial inclusion over the past 12 years from 61% in 2004 to 89% in 2016. This indicates that overall, the financial inclusion strategies and initiatives adopted by the South African Government were successful, as SA is 1% away from its NDP goal of 90% financial inclusion by 2030.

South Africa’s next step should be to finalise its national financial inclusion strategy and to ensure that the strategy is effectively implemented through the designation of dedicated financial inclusion champions (Villasenor *et al.*, 2016:93).

Appendix 1: The Brookings FDIP’s indicators to assess financial inclusion

| Scoring Dimensions | Indicators |
|------------------------|--|
| Country commitment | <ul style="list-style-type: none"> • National-level participation in international financial inclusion-orientated networks • Existence of specific digital financial services commitments by a government entity • Existence of a national financial inclusion strategy • Existence of quantifiable financial inclusion targets • Existence of a recent demand-side financial services survey conducted or supported by a government entity • Existence of a dedicated financial inclusion body within the public sector |
| Mobile capacity | <ul style="list-style-type: none"> • percentage of unique mobile subscribers • percentage of the population covered by a 3G mobile cellular network • Number of mobile money service deployments • Availability of person-to-person domestic transfers via mobile money services • Availability of bill payment via mobile money services • Availability of international remittances via mobile money services |
| Regulatory environment | <ul style="list-style-type: none"> • Agent banking • Mobile network operator-led mobile financial service deployments • E-money regulations • Mobile money platform interoperability |

| | |
|----------|---|
| | <ul style="list-style-type: none"> • Proportionate know-your-customer processes • Cash-in/Cash-out at agent locations |
| Adoption | <ul style="list-style-type: none"> • Traditional account penetration • Traditional account penetration among rural adults • Traditional account penetration among lower-income adults • Traditional account penetration among women • Borrowing from a financial institution • Saving at a financial institution • Debit card use • Credit card use • percentage of adults utilizing online bill payment and purchases • Mobile money account penetration • Mobile money account penetration among adults from rural areas • Mobile money account penetration among lower-income adults • Mobile money account penetration among women • Mobile phone used to receive salary or wages • Mobile phone used to make utility payments |

(Source: Villasenor *et al.*, 2015:130)

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