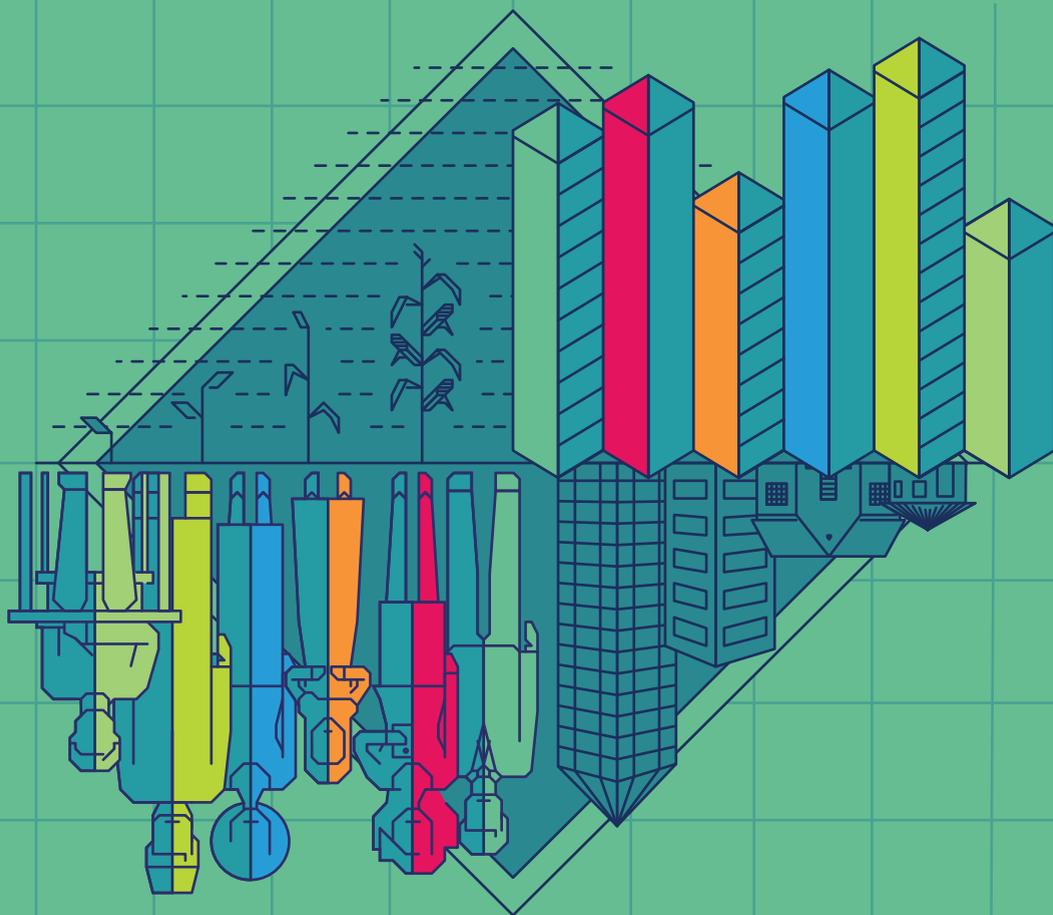


# Humanising data

The MAP toolbox for fine-tuning and calibrating national metrics and optimising consumer delivery



NOTE 2, 2017

# VOLUME 2

## The MAP Global Insights series - Volume 2

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders.

MAP was initiated by the United Nations Capital Development Fund (UNCDF) and is implemented in partnership with FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

The volumes in the MAP Global Insights series consolidate and synthesise the learnings from the MAP programme across the 18 MAP countries.

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### **About the cover:**

The concept behind the art direction for Volume 2 of the MAP Global Insight series is that data, when harnessed with the requisite level of skill, provides a beautifully clear lens with which to view the communities and countries with which development partners are working, and a focused picture of options for driving positive change.

High-quality data and the use of data analysis tools provide in-depth insights into consumer financial behaviour and needs, and serve as a key to unlocking government and stakeholder mobilisation around evidence-based projects to improve service delivery, thereby positively impacting the lives of the poor.

The cover for Note 2 follows the idea that beneath the charts we use to present the raw data we have collated, there are real scenarios playing out. The lows and highs of the graphs we present are the real, lived experiences of individuals and the impact we make greatly affects the trajectory of their livelihoods.

## MAP GLOBAL INSIGHTS SERIES VOLUME 1

The MAP Global Insights series Volume 1 consolidates and synthesises the learnings from MAP across the six MAP pilot countries. Volume 1 was the first of the MAP Global Insights products, and comprises five thematic cross-country notes, based on the initial round of findings from the country diagnostic studies, which were conducted in Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi.



**NOTE 1** unpacks the target market segmentation approach that is central to the MAP methodology of putting the client at the core of the analysis. Note 1 provides a window into the emerging cross-country segments, and the implications for providers, policymakers and donors in this regard.



**NOTE 2** explores the shift in financial inclusion measurement away from focusing solely on access to more closely match the realities of how adults live their financial lives and explores the policy implications of moving away from a linear, one-dimensional view of financial inclusion.



**NOTE 3** looks at the nature of informal financial services. It shows that it is the local nature of these financial services, rather than their informal nature, that makes them valuable for the majority of consumers in these countries.



**NOTE 4** considers the gap between ownership and usage of bank accounts. The note queries whether bank accounts are always the appropriate product for increasing customer welfare, and argues the need for a paradigm shift away from focusing on ownership to a focus on usage in the context of a wider, systems approach.

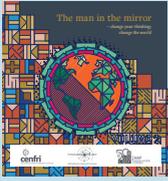


**NOTE 5** focuses on cash as a payment instrument to explore the largely undiminished popularity of cash. The different payment needs of consumers are introduced, analysed and compared with regard to the use of cash versus digital instruments.

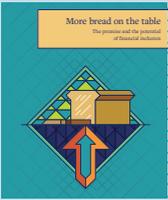


**NOTE 6** draws together the findings from this Global Insights series. It shows that the MAP evidence calls for a rethink of conventional financial inclusion assumptions, based on a consumer decision-making framework that emphasises economic incentives, cost and value.

## MAP GLOBAL INSIGHTS SERIES VOLUME 2



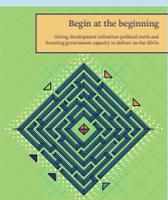
The MAP Global Insights series Volume 2 looks at the thinking, strategies and processes that have enabled national delivery in financial inclusion, and attempts to codify the operational approach taken in the 18 'MAP countries', including the 9 where the programme is working with governments to implement the national roadmap on financial inclusion. Key learnings using the country-specific consumer data drive the national implementation approach at country level.



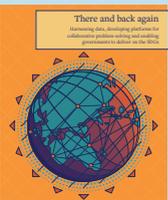
**NOTE 1: More bread on the table: The promise and the potential of financial inclusion.** In a changing and uncertain global order, financial inclusion – with its close linkage to the real economy – promises to become a means of supporting growth and contributing to poverty eradication. Using detailed consumer data, this note demonstrates the potential for financial inclusion to play a stronger role in lessening vulnerability to poverty, keeping up with shifting national demographics, nurturing small business growth and addressing food security challenges, among others.



**NOTE 2: Humanising data: The MAP toolbox for fine-tuning and calibrating national metrics and optimising consumer delivery.** Applying the MAP data analysis tools to the extensive consumer data gathered in-country enables accurate understanding of actual consumer behaviour and needs, both country-specific and in terms of patterns identifiable across developing countries. Findings from the use of the MAP tools have challenged a few of the conventional financial inclusion assumptions, in the process contributing to the global pool of financial inclusion metrics. The tools are central to supporting government and stakeholders in evidence-based decision-making towards smart, consumer-focused solutions.



**NOTE 3: 'Begin at the beginning': Giving development initiatives political teeth and boosting government capacity to deliver on the SDGs.** The single greatest challenge facing development is turning research and strategies into implementable solutions: improvement initiatives that deliver a positive impact. This note unpacks how the MAP programme is working with governments and development partners to boost countries' capacity for self-determination and delivery on the national financial inclusion roadmap vision and promises, in the process accelerating inclusive growth and making progress towards the UN 2030 Agenda for Sustainable Development.



**NOTE 4: There and back again: Harnessing data, developing collaborative platforms and enabling governments to deliver on the SDGs.** This concluding note pulls together the power of the consumer data, its role in driving improvement interventions at country level and the importance of the MAP platform in bringing together country governments and stakeholders in evidence-based decision-making. Picking up on the key findings from the consumer data in other notes in the current volume, this note also provides insight into the systematic operational approach of the global MAP programme and reiterates the efficacy of the MAP approach in working with governments to deliver on the SDGs.

## Humanising data, to deliver on national financial inclusion strategies

### **Convergence in the design of MAP: livelihoods and market development.**

UNCDF's MAP programme, in common with other development programmes, adopts a systems thinking approach. More specifically, the programme picks up on and extends two development approaches first adopted in the 1990s: the sustainable livelihoods approach, which focuses on helping the poor harness their own resourcefulness in alleviating poverty; and the making markets work for the poor (M4P) approach, which focuses on improving people's lives via market systems development (Albu 2008; De Ruijter de Wildt et al. 2006). The MAP approach, designed in 2011/12, integrates the strengths of these approaches, successfully linking them as part of a common goal of achieving the United Nations Sustainable Development Goals (SDGs) at national level; MAP places the consumer at the centre while working to improve the enabling institutional and political environment, in order to grow the market ecosystem.

Beyond that, though, MAP stands out for its use of consumer and other in-country *data and analytics* to anchor its initial diagnosis in country and to conduct ongoing monitoring and measuring; along with its provision of a platform for highly effective *stakeholder engagement* and *iterative testing and trialling of financial inclusion innovations* based on evidence and aimed at real-world improvement.

### **Crying need for robust diagnostics and a new stakeholder engagement process**

**A data emphasis.** In 2011/12, UNCDF acknowledged the dire need for robust diagnostic tools to help countries with the new generation of financial inclusion strategies. The MAP methodology was developed accordingly, with an emphasis on in-country diagnosis as a starting point based on the use of high-quality consumer data and sophisticated data analytics. The MAP in-country research, diagnostics and data analytics contribute a wealth of knowledge about the consumers, including the dynamics driving consumer financial behaviour and use of available products and services. The evidence provides a clear overview of that country's state of financial inclusion, including market realities, high-level policy objectives, and regulatory conditions.

However, accurate research and diagnosis of a country's problems, while crucially important, were not enough: they called for a means of supporting governments to forge strategic partnerships around solving their most pressing problems, in order to achieve their national ambitions.

MAP positions understanding the consumer at the core of its approach. It uses the quantitative FinScope Consumer Survey in combination with qualitative research approaches to gather a wealth of in-country consumer data, which is then subjected to a range of analytical tools to achieve diagnosis. Country-specific problems are identified based on insight into the country context, the supply environment and regulatory frameworks, and consumers' and households' needs, behaviour and preferences. By evaluating market trends in-country through the consumer decision-making lens, MAP generates new insights into how and why adult consumers in that country are using financial products and services (formal or informal), and where there are unfulfilled demands and potential markets. Among other things, the detailed evidence bases that MAP is able to generate by disaggregating the target population equips governments to focus interventions, while also demonstrating to investors market potential and weaknesses. These insights are critical to unlocking the true potential of financial inclusion in the post-2015 development world, supporting governments in implementing their mandates and achieving the SDGs.

**A stakeholder engagement emphasis.** In 2011/12, UNCDF thus also started considering how it could enable country governments and local stakeholders to take ownership of the problem-solving processes required to achieve financial inclusion. Taking lessons from its earlier work and research-driven partnerships, particularly in insurance, as well as from technology and business innovations and the

advent of new business models, UNCDF designed the MAP platform to make it easier for government to partner with local stakeholders to collaboratively develop smart and locally appropriate consumer-centred offerings. MAP's stakeholder engagement process recognises that financial inclusion cannot be confined to a discussion with the central bank and the ministry of finance but needs to include a wider range of players. This includes a much larger set of institutional actors at country level than has traditionally been the case: for example, the ministry of telecommunications (given developments in digital financial services); the ministry of social affairs (given the growing digitisation of social grant payments); and agricultural ministries (given increasing challenges of climate change and food security). In addition, the MAP stakeholder engagement process draws in the private sector in all its constantly evolving guises as a core player in the proposed solutions, and civil society representatives are also included. Many of these stakeholder groupings are not naturally in harmony and have competing interests, but are all necessary for a well-functioning and robust market and to ensure variation and responsiveness in the market place.

**Solving country problems from the bottom up.** In the interests of increased responsiveness to the needs and interests not only of consumers and the public at large but also those who are innovating

and have the potential to accelerate market development, governments and regulatory agencies need to collaborate closely with business and civil society, being more prepared to embrace a bottom-up, problem-driven approach (Schwab 2016).

## Setting national goals and aligning national aspirations

### Deciding on financial inclusion focus and projects

In supporting government and other in-country stakeholders to identify and pursue the project/s that will make a difference, MAP adopts a systematic and structured approach. An unwavering focus is kept on the consumer, while all appropriate institutions are leveraged to deliver the identified priorities; some institutions are inevitably prioritised as project partners based on pragmatic considerations, such as the likelihood of their delivering quicker impact, given their (current or potential) scale, incentive to go down market, available capital, and particular business model. At the same time, government - rather than a donor programme or the private sector alone - retains responsibility for delivery.

**Articulating a financial inclusion goal.** The financial access strand (see Tools 5 and 6) provides an initial

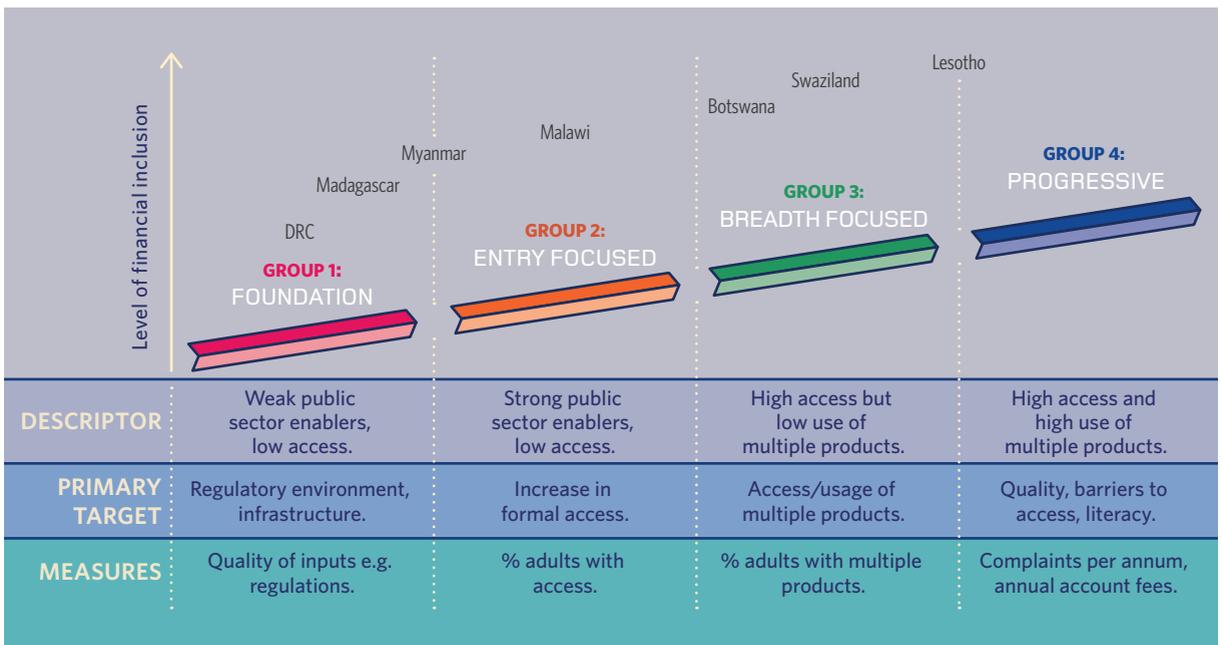


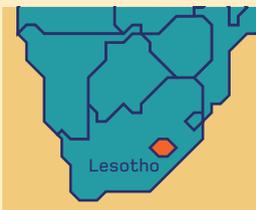
FIGURE 1: Framework for getting started on articulating a national financial inclusion goal | Source: GPMI (2011).

picture of financial inclusion in the country. The challenge for government and donors has been in terms of understanding how to use these numbers to translate into a workable programme for action. MAP plays a key role in mobilising and aligning stakeholders to work with the country's limitations and realities to articulate a national financial inclusion goal and in the process to identify where to focus to get maximum development benefits.

Usually the first step is to consider the country's Maya declaration (where one exists), as this

is relevant to the combined efforts of the stakeholders. However, in many cases MAP has had to facilitate a stakeholder process to set such a goal, particularly as many countries formulated their goals back in 2012, when insufficient data was available at national level, or where the goal tended to focus on microfinance rather than financial inclusion.

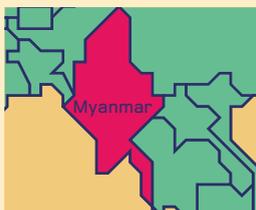
A key component of developing the national goal is recognising that countries are typically at different stages in their financial inclusion journeys.



Adult population: 1 million.

Source: FinScope 2011.

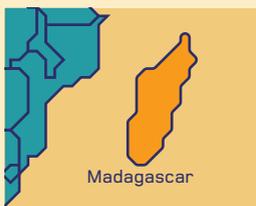
**In Lesotho:** The overall picture painted in Lesotho showed a high level of overall financial inclusion, with people being broadly served, and a crucial role being played by the informal sector in extending access to credit and insurance. These features of high access and high usage of multiple products dictated the focus areas of the national financial inclusion goal: quality of access and products, and customer literacy.



Adult population: 33 million.

Source: FinScope 2013.

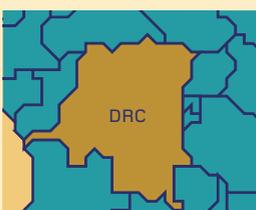
**In Myanmar and Madagascar:** The analysis in both Myanmar and Madagascar showed low-to-moderate levels of formal access, such access being very thin (only a small number of consumers having access to more than one product); in addition, even where available, frequently the formal product would not fully meet customer needs. The national financial inclusion goals were therefore focused on: eliminating the significant barriers in the market, particularly the regulatory environment; infrastructure; strengthening the meso-level institutions; and catalysing scalable and sustainable systems and business models (e.g. to eliminate paper-based banking and payment systems in the case of Myanmar). Other important short-term interventions aimed at ensuring that the market system develops in a sustainable and responsible fashion were: financial literacy and building trust in financial institutions and in formal institutions; skills development; and filling information and funding gaps for providers.



Adult population: 11 million.

Source: FinScope 2016.

**In the DRC:** Large portions of the country are completely cut off from the formal economy, with almost half of the total national population deemed 'economically inactive' from the perspective of efforts to increase financial inclusion through connecting citizens with formal providers. In the remaining 'economically active' population, only a third have access to financial services. The access frontier framework (developed by Porteous in 2004) was therefore applied in the DRC to help with mapping potential current and future reach of the market for financial services over time. The main focus of the national financial inclusion goal in the DRC varies by demarcated zone, from the **'Have now' zone** at one end of the continuum, to the **'Beyond the reach of the market' zone** at the other.



Adult population: 75 million.

Source: FinScope 2014.

A helpful framework has been presented by the Global Partnership for Financial Inclusion (GPFI) and attempts to describe:

- **The main stages of development:** foundation, entry focused, breadth focused, or progressive.
- **The primary target that stakeholders should work towards:** regulatory environment and infrastructure; increase in formal access; increase in access and usage of multiple products; or improved quality, removal of barriers to access, and improved literacy.
- **The typical measures to monitor progress:** e.g. regulations; percentage of adults with access; percentage of adults with multiple products; and complaints etc.

At the time of the MAP research, countries such as Myanmar, the DRC and Madagascar were in the early stages of their financial inclusion journeys, and thus needed a heavy focus on ensuring a sustainable regulatory environment and infrastructure. Others, such as Lesotho and Swaziland, were fairly advanced in their financial inclusion journeys and thus the focus needed to be on breadth and quality of financial inclusion (see Figure 1).

By using this knowledge and focus as the key point of departure, stakeholders have been able to debate and formulate relevant national strategies, upon which the rest of the interventions are then anchored. The activities are not mutually exclusive, and many countries in the foundational phase of development, for instance, have found great need for financial literacy as part of their need to expand the access frontier. But the central themes are useful in helping the countries to identify and synthesise in a concrete goal the main challenges they are facing in their vision of enhancing financial inclusion.

## Identifying projects and interventions – the MAP toolbox

### Unpacking the nifty MAP toolbox

MAP applies a standard set of tools in-country to the national consumer data. The resulting analysis of consumer behaviour and needs is central to supporting the stakeholders in the MAP process to identify the most viable interventions and projects – given the national goal, available resources, levels of interest and provider business models.



### MAP TOOL 1: Conducting consumer needs analysis

By virtue of their poverty and the struggle for survival, poor consumers lead complex economic lives. They use those financial products and services that are most convenient and cost-effective for them. Often their choices might seem counterintuitive, such as where consumers opt for informal/local services at a high price when seemingly more affordable formal services are available.

### What do customers really need?

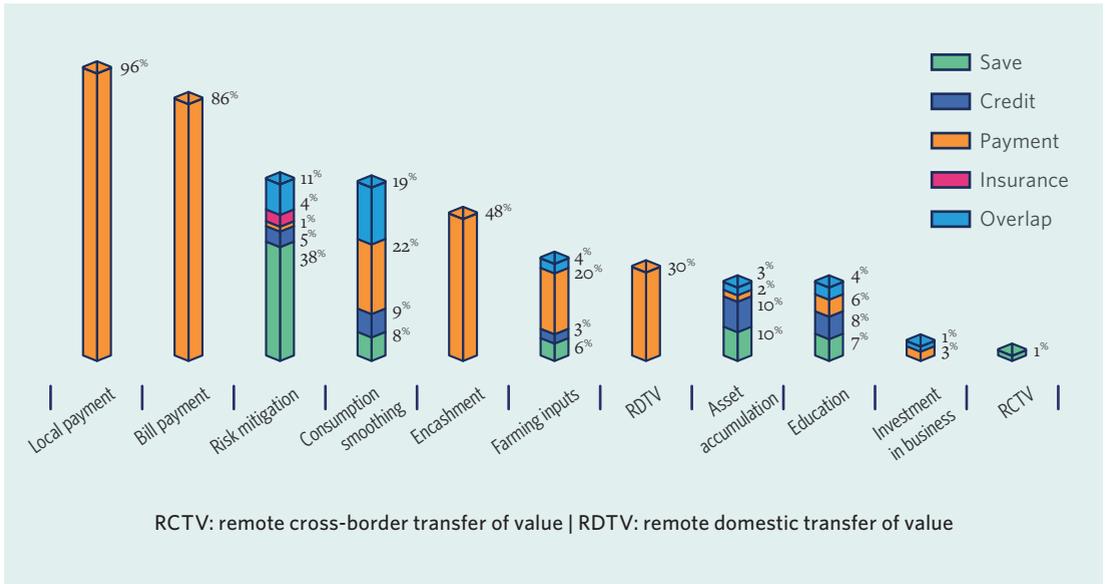
By using data mining, the MAP analysis demonstrates both how existing financial products/services are being used and how consumers are supplementing gaps in provision in order to meet their needs. Although the consumer financial needs on which the MAP research focuses must be susceptible to formal provision, they can be met through informal services, and this is often the case.

As evident in Figure 2, the analysis from FinScope Zimbabwe (2014) shows that consumers in that country have a typically wide range of needs, and that these needs can be satisfied by different types of products/services.

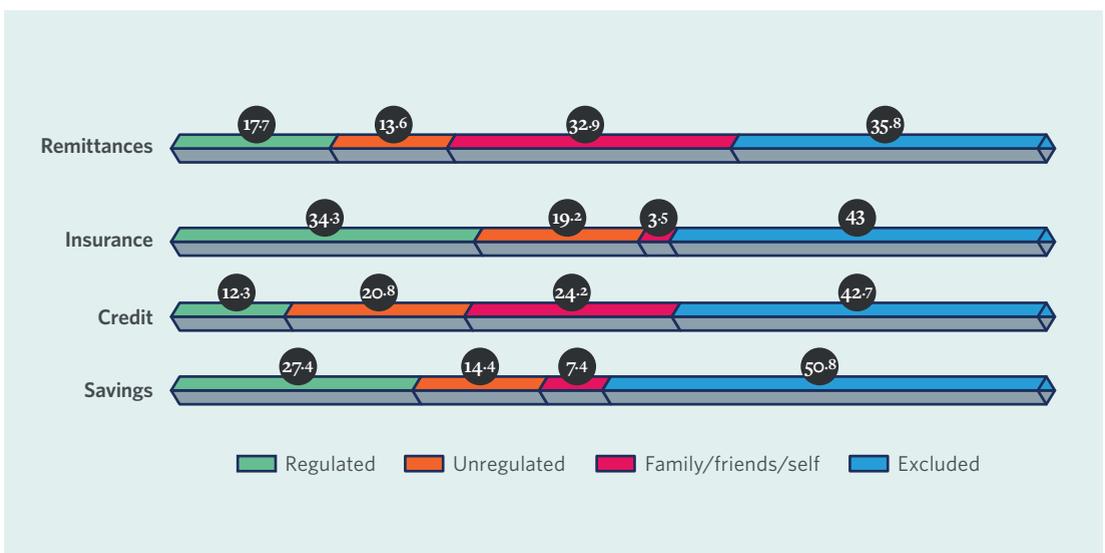
### MAP's target market segmentation expertise

The target market segmentation approach is central to the MAP methodology of putting consumers at the core of analysis. The different target market segments are initially identified based on their primary source of income, and then evaluated based on a number of key parameters that influence the nature of the segment's demand for financial products/services. Across the different countries, MAP has identified six main target market segments (and usually sub-segments unique to the country in question): salaried workers, self-employed, farmers, dependants, irregular earners and migrants. Each target market segment, having unique needs, merits differentiated policy approaches to enhance the provision of financial services. There are also often differences in financial needs and uptake within target market segments: for example, in MAP Nepal (2016), 75% of the farmers target market segment are subsistence farmers (almost 3.5 million farmers) while 25% are trading farmers (almost 1.2 million farmers); of the trading farmers, 24% (versus 18% of subsistence farmers) make use of formal credit.

**Research identifies economic activity and points to needs despite low income.** In Lesotho, about 30% of the population rely on remittances for their income (e.g. sent by a relative or friend either inside or outside the country). Because the FinScope survey does not cover citizens abroad, key demographic information regarding those working away from home as migrants is not available.



**FIGURE 2:** Example of findings using Map Tool 1: Consumer needs analysis (Zimbabwe)  
Source: FinScope Zimbabwe 2014.



**FIGURE 3:** Access strands for private dependants (Lesotho)  
Source: FinScope Lesotho 2011.

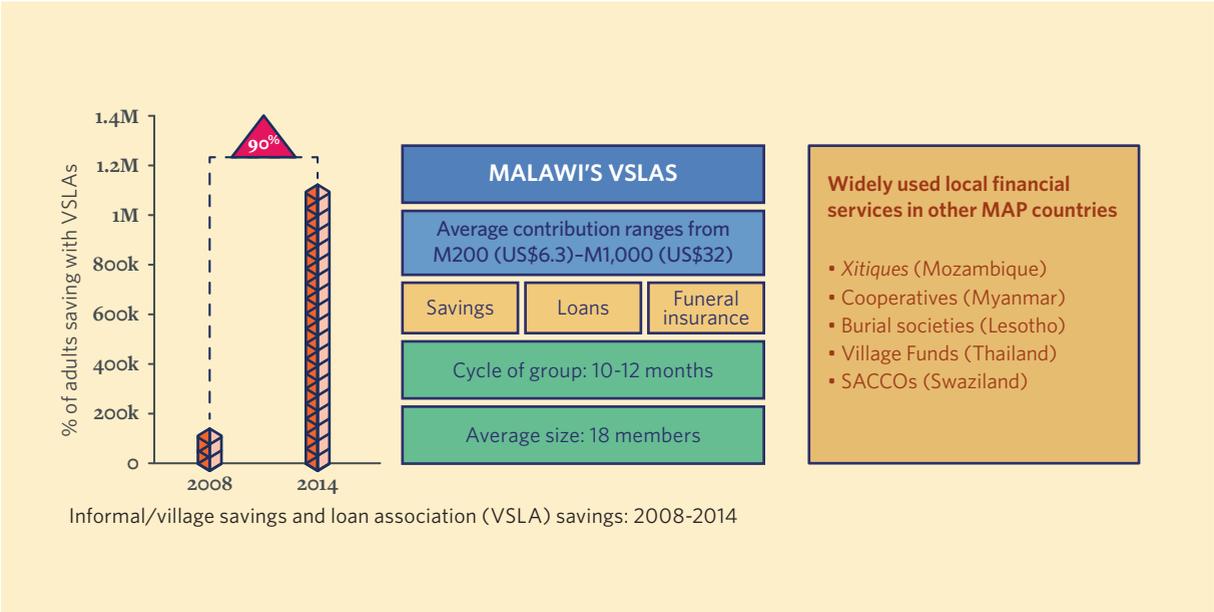
In terms of sending money back home, though, the research indicates that 17.5% remit via formal channels and about 10% use only informal channels (e.g. via a cross-border minibus taxi driver). The MAP data on dependants is extremely important in that it indicates a highly active economic group, despite their low average income, with a correspondingly wide range of financial service needs (MAP Lesotho 2014).

At M790 (US\$75) per month, the average income of private remittance receivers in Lesotho is low, but still higher than that of government dependants and those earning an income from piece work. The majority (79%) of remittance receivers are female. Of the private dependants, 39% are young (between 18 and 24 years old), 70% reside in rural areas, and the majority (62%) have either non-formal or only primary education. Their access profile across the product markets for products/services for remittances, insurance, credit and savings indicates a highly economically active target market segment (see Figure 3).

**Active financial services uptake.** The financial access profile of private dependants in Lesotho confirms that they are not economically marginalised; 53% of them are formally included (lower only than farmers and salaried workers), many are making use of informal financial products/services, plus relying on family and friends for the same, and only

Local financial services are prevalent in developing countries, where they also often happen to be *informal*. The otherwise accepted convention of defining providers in terms of degree of formality has often obscured some of the underlying drivers of financial service usage – in particular, the consumer perspective and what drives consumer decision-making. The widespread use of informal financial services in these countries has less to do with the fact that they are informal than with the value that clients derive from the local nature of such services (see Note 3 of the previous volume).

about 11% are fully financially excluded. The data thus suggests significant potential for government and providers to explore a range of unique and customised financial services to meet the needs of this target market segment, particularly to the extent that their needs dovetail with those of the migrants upon whom many are dependent.



**FIGURE 4:** Local financial services and their growing role  
Source: FinScope Mozambique 2014; MAP Malawi (2015); qualitative interviews (2014).



## MAP TOOL 2: Identifying consumer decision-making drivers

Understanding consumer decision-making patterns and what makes sense to the various target market segments is vital for government, providers and donors. An important emphasis in understanding how consumers decide on financial services is categorising consumer needs in terms of remote or local (see Figure 4), in order to unpack the need for access and proximity to services.

'Local' financial services means where the customer touchpoint and the decision to provide the service are close (e.g. walking distance) to the customer; 'remote' financial services (e.g. banks, mobile money operators) means that despite possibly having a touchpoint close to the customer, the decision to

provide the service takes place remotely, usually at a centralised head office or processing centre.

Comparing the main components of provider decision-making regarding whether to provide the service with the main components of the customer decision-making process regarding whether to take up the service gives insight into why, in the MAP countries, at least 75% of financial services used by low-income households in all product classes are local (see Table 1).

Thus, while government and development partners need to facilitate better provision of localised formal financial services, formal/remote providers need to find ways to mimic the characteristics and attractions of local services if they want to succeed in removing the barriers between them and consumers.

How providers and customers decide on financial services		
REMOTE PROVIDERS	CUSTOMERS	LOCAL PROVIDERS
<p><b>Eligibility</b> Restricted through the need for documentation (e.g. ID, proof of regular income), predetermined exclusion criteria (in the case of insurance policies), or failure to meet a predetermined credit score (including lack of/inadequate collateral).</p>	<p><b>Proximity and convenience</b> How close/convenient the service is in terms of access:</p> <ul style="list-style-type: none"> <li>Physical access</li> <li>Avoidance of bureaucracy and delays in processing a request for the service due to a lack of proof of identity, lack of proof of regular income or lack of sufficient collateral.</li> </ul>	<p><b>Eligibility</b> Fewer restrictions: the client is usually known, has some kind of track record/credibility or is recommended by a known individual.</p>
<p><b>Size of risk</b> Predetermined policies and scoring mechanisms.</p>	<p><b>Other perceived value of the service and the provider</b></p> <ul style="list-style-type: none"> <li>Flexibility of the service (including in the event of repayment needing to be renegotiated at some future point).</li> <li>Ability of the provider to handle small-value transactions.</li> <li>Simple pricing and repayments structures.</li> <li>Social capital to be gained (e.g. from membership of a successful savings group).</li> <li>Ease of recourse based on knowledge of the provider.</li> <li>Trust in the provider to have the customer's interests at heart.</li> </ul>	<p><b>Size of risk</b> Determined on an individual basis, usually based on first-hand knowledge of the customer or referral by another known individual.</p>
<p><b>Terms</b> Usually clearly stipulated and relatively inflexible.</p>		<p><b>Terms</b> Usually flexible (or there is a willingness to renegotiate in difficult personal circumstances).</p>
<p><b>Complaints settlement</b> A specific department separate from the rest of the institution and governed by strict protocols.</p>		<p><b>Complaints settlement</b> Personal, accessible and immediate.</p>

Table 1: Main components of financial service decision-making: providers vs customers



### MAP TOOL 3: Conducting cost-benefit analysis

A cost-benefit analysis is a systematic approach of determining the true cost/s incurred in order to reap the benefit/s proposed. MAP's use of this tool in each participating country has found that very often what are widely accepted (e.g. by government, providers and donors) as being the costs of a financial service or transaction hide the true cost to the consumer; and that without taking these less apparent costs into account, an accurate cost-benefit analysis is not possible and the findings can be misleading for purposes of measuring financial inclusion.

#### Transaction costs hide the true cost to consumers

Figure 5 uses the case of Malawi to demonstrate that where a bank user is not situated in proximity to banking and encashment infrastructure and must travel in order to use their bank account, the true cost incurred includes not only the additional money spent on transport but also the opportunity cost of time away from work/home.

**Convenience trumps bank charges.** In the countries in which MAP works, the cost to clients to physically access formal financial services is almost always much higher than simply the bank-cost component. This goes some way towards explaining why consumers will often choose to use informal/local services with higher interest rates than the banks charge.

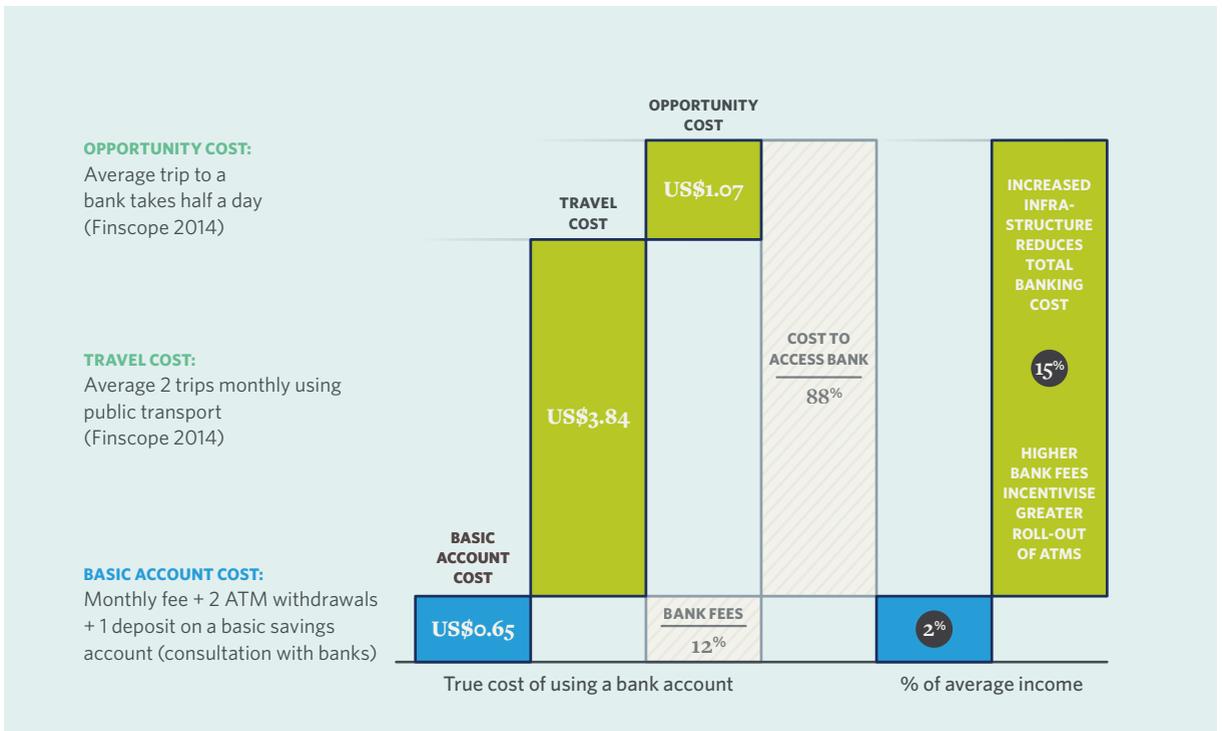
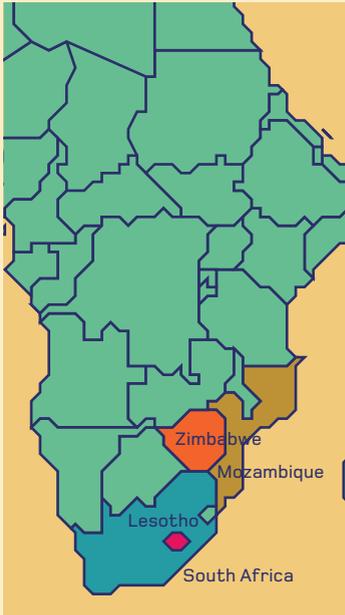


Figure 5: Cost-benefit analysis (Malawi)  
Source: FinScope Malawi 2014; Mystery shopping 2014.



### Lesotho, Mozambique and Zimbabwe - making ends meet from afar

In Zimbabwe, Mozambique and Lesotho, MAP has identified a common financial service need among consumers across all three countries: large numbers of the adults in those populations work as remittance-sending migrants in South Africa. While the cost of sending money back home via informal providers was high, consumers showed they were prepared to absorb this cost due to the perceived benefits delivered.

#### The needs and the challenges? **Reliable, affordable and convenient sending of cash remittances**

South Africa has 3.3 million migrants, with 85% originating from 3 countries - Zimbabwe, Mozambique and Lesotho - and 80% of migrants sending cash remittances at least once every 3 months. The average value remitted per transaction from South Africa is US\$55. Of all remittances, 60%-70% were estimated to be sent through informal means (usually taxis or informal payment brokers) (MAP Lesotho 2014).

#### Adult populations:

Zimbabwe: 7 million.  
Source: FinScope 2014.

Mozambique: 14 million.  
Source: FinScope 2014.

Lesotho: 1 million.  
Source: FinScope 2011.

South Africa: 39 million.  
Source: FinScope 2017.

- **Formal was expensive.** The actual average-value remittance figure (US\$55) contrasts with World Bank estimates (World Bank Remittance Prices Worldwide database cited in FMT Remittances Corridor 2016), which were US\$200 and US\$500 respectively. This meant that the formal provider transaction pricing structure, being based on flawed estimates, was unrealistically expensive.
- **Formal was not transparent.** Lack of pricing transparency was widespread: across all formal providers, the basis for determining the transaction fees was not transparent and comparisons across different providers were difficult. Consumers found this off-putting.
- **Formal was constrained by regulations.** Cross-border remittances from South Africa (the sending country) via formal providers were subject to FICA/KYC/AML/BoP restrictions, whereas informal providers side-stepped such restrictions.
- **Formal was not well supported in terms of receiving-country infrastructure.** The mobile money agent networks and liquidity/encashment infrastructure within the receiving countries were not well developed, whereas informal providers carried cash to remit.
- **Informal was seen to offer more value.** Informal remittance-sending products/services, though often expensive and unreliable (e.g. due to the risk of the person absconding with the money, meeting with an accident or falling victim to theft), were favoured by virtue of the personal and effective nature of the transaction, because the funds were more likely to reach the remittance receiver at their doorstep, and because formal services were also expensive and perceived to offer less value.

Among formal providers, local pricing structures for remittance-sending products/services were based on inadequate understanding

of the markets. In this instance, the biggest need was for enhanced access to low-cost, convenient remittance options for small-value remittances, domestic as well as cross-border. Achieving this objective would represent a direct welfare gain for all in the target market segments – senders and receivers alike.

Key among the challenges to be addressed included the official restrictions on cross-border remittances from the sending country, and the undeveloped state of provider infrastructure in the receiving country.

### **The solution? Facilitating affordable, reliable remittance and payment options**

Based on the MAP research in Lesotho (2014), MAP in conjunction with the SADC MAP implementing partner, FinMark Trust, identified the need for a product focused specifically on the customers (migrants from Lesotho) sending money home from South Africa. A retail partner was brought on board to undertake the extensive work of conceptualising and delivering the product, which entailed product development, business model development, marketing, sales and distribution.

Importantly, too, the existing policy and regulatory restrictions pertaining to these customers were identified, and modifications were effected by the central banks of both countries. In order to do so, special regulatory concessions were required as follows:

- A new licence category was created: authorised dealers in foreign exchange with limited authority (ADLAs), as opposed to a bank or a mobile money provider.
- FICA exemption was obtained in order to lower access barriers, lower costs, and enable increased competition. The 2015 FICA exemption for cross-border transfers opens the door to reach more foreign nationals or temporary residents seeking to send money to their families across the Southern African Development Community (SADC) region.
- Previously, cross-border financial transfers were only offered by banks or through partnerships with banks. The creation of the ADLAs licence category encourages new entrants and increased competition, thus serving to spur market development. ADLAs offer competitive pricing for low-value remittances; while there are exceptions,

overall ADLAs offer the lowest total cost for sending lower-value remittances.

### **The impact? Increased financial inclusion**

At an institutional level, policy change enabled market competition and cheaper pricing through lowering the regulatory requirements for small-value remittances, thus increasing financial inclusion by improving service to remittance-sending and receiving consumers:

- From 2009 Q1–2015 Q2, there was a 24% decrease in the average cost of US\$200 remittance.
- There has been increased focus from other providers on this market segment: i.e. newer and better products are being developed and offered.
- Additional MAP research demonstrated that, among the SADC countries, it was most expensive to send and receive a remittance from the DRC and Malawi. The initiative undertaken in Lesotho is serving as a proof-of-concept project that is facilitating the roll-out of the model to other regions, offering economies in terms of the project-conceptualisation and R&D costs while delivering increased financial inclusion to consumers.



**MAP TOOL 4:  
Identifying and removing  
barriers between providers  
and consumers**

The fourth tool in the MAP toolbox evaluates consumer needs against available providers and service offerings (see Figure 6). Considering financial inclusion from a consumer rather than a provider perspective highlights that traditional bank products are meeting very few needs, while consumers tend to rely on ‘other formal’ financial products, and family and friends, to meet a large proportion of their needs. In many instances – e.g. credit, which is the main product class analysed in this sub-section – informal financial providers also play a significant role. While the details differ from country to country, they illustrate the importance of taking consumer needs seriously in terms of their potential for various elements of market development and potential new business cases and as indicators of where focus and investment are likely to result in some payback.

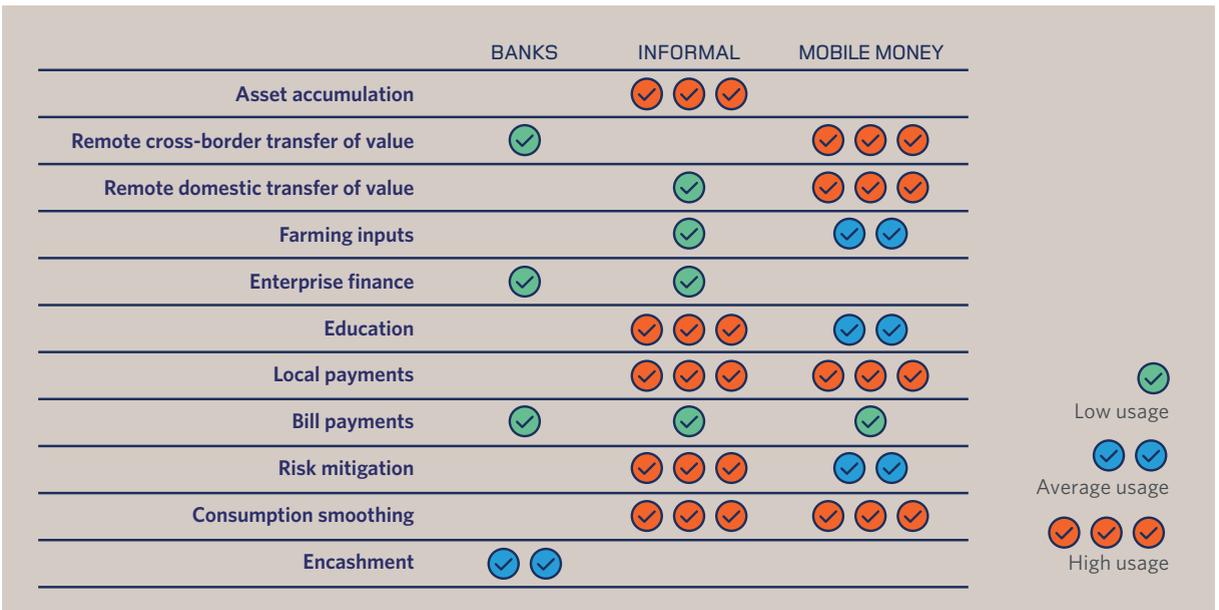
**Creating and strengthening a market-based institutional environment**

This tool gives providers and policymakers a fine-grained understanding of how to grow the market to serve consumer needs, as it offers a sharper focus on the markets within which provision and competition are already happening rather than a

blanket focus on the entire market system. Providers are able to improve their understanding of how clients choose, and policymakers have a clear identification of priorities and what to focus on.

**A comprehensive view of the market.** The effective allocation of capital for productive purposes is a fundamental goal of the financial system. Credit is a product of this intermediation process and can contribute to productivity through spurring economic growth, employment and improved welfare if used for purposes such as building businesses, funding education, funding investment in larger assets and preventing people from falling into poverty after a shock. However, it can also trap people in a cycle of debt that causes severe hardship. Getting the balance right between improved access to credit and protection against over-indebtedness is difficult and requires a comprehensive view of the market from the consumer and provider perspectives.

In the DRC, only 8% of the population are currently credit active, with 4% borrowing from friends and family. Yet, despite widespread economic hardship, 57% of the population are actively saving. Large parts of the population are all but cut off from the formal financial services infrastructure; formal financial providers reach just one in every three of the sample population (FinScope DRC 2014). While formal payments and savings accounts have made some inroads into the market, retail credit



**FIGURE 6:** Providers, the services they supply, and consumer usage (Zimbabwe)  
*Source: MAP Zimbabwe (2016).*

and insurance markets are virtually non-existent. However, this does not mean that people do not have real financial service needs. Indeed, the economic hardships they face reinforce ordinary people’s need for financial products and services to help them manage their financial lives. This is borne out by the fact that a host of informal provider mechanisms – from moneylenders to savings clubs and innovative risk-pooling groups – have sprung up to ‘reinvent’ financial inclusion from the bottom up in the DRC.

Generally in the MAP countries there is both a need for credit (evident in existing borrowing patterns) on the part of consumers and a failure to meet this need on the part of formal providers (see Figure 7).

**Money is first and foremost a social phenomenon.**

In addition to a nascent credit market that is unable to meet consumer needs and build a healthy and functioning credit system for them, the use of credit can be tied to historical-cultural practices, beliefs and prejudices that complicate the process of linking providers and consumers and meeting people’s needs. The case of Nepal (MAP 2016), for instance, illustrates deeply embedded cultural practices that have an impact on both market development and customer behaviour:

**Caste system and access to financial services**

**The nature and format of financial services can be impacted on by social strata.** The impact of social

strata on financial services usage can be seen in a number of areas. For example:

- The village moneylenders are generally people belonging to higher castes as an outcome of their higher financial endowments. Lower-caste members are often forced to rely on these providers due to a lack of sufficient financial resources or collateral to qualify for formal financial services. Interest rates on credit obtained from moneylenders are very high.
- The MAP qualitative survey (2015) showed that there is a social stigma and fear among the lower-caste people that moneylenders will cease giving credit if borrowers are found to be accessing formal financial channels.
- Where group mechanisms are used for financial services provision, adoption of this mechanism can be influenced by social stratification, in that prospective members are likely to join and stay in the group if other members are from the same social strata (MAP supply-side survey 2015).

**Informal providers are favoured**

In the MAP countries, reliance on informal credit providers is high.

**In Nepal:** Of the adult population, 28% access credit informally and most who do so are not

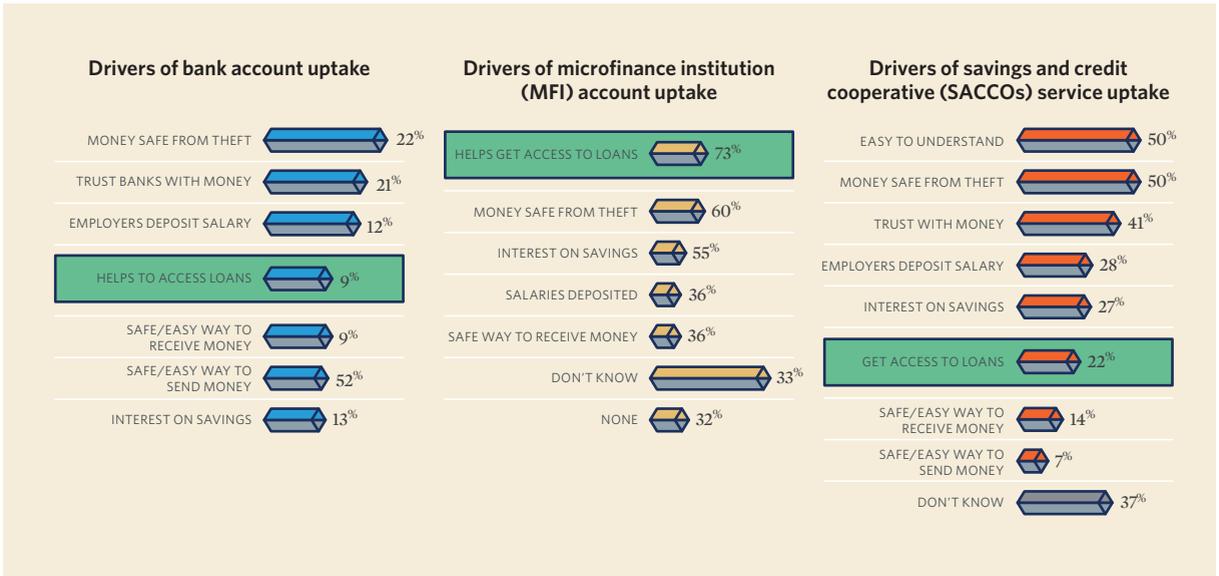
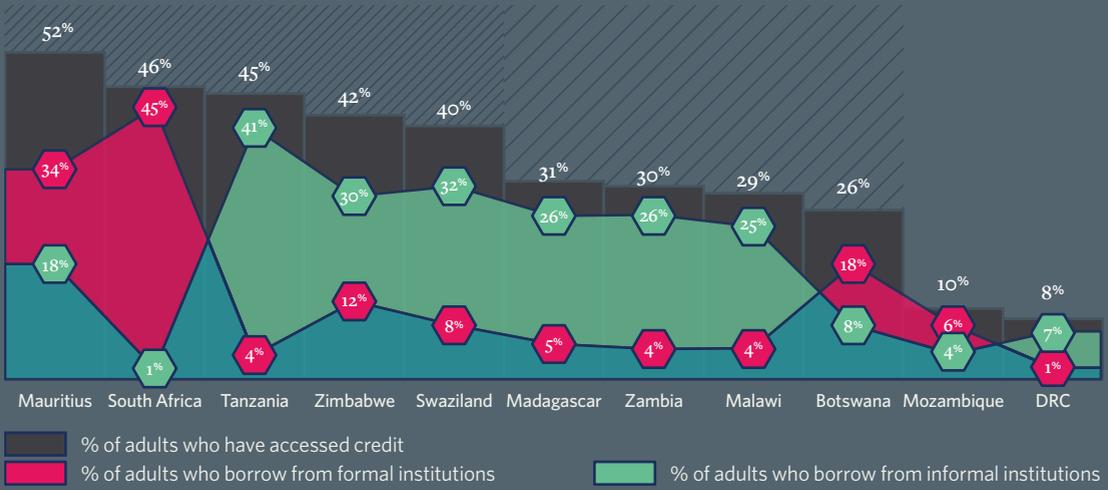


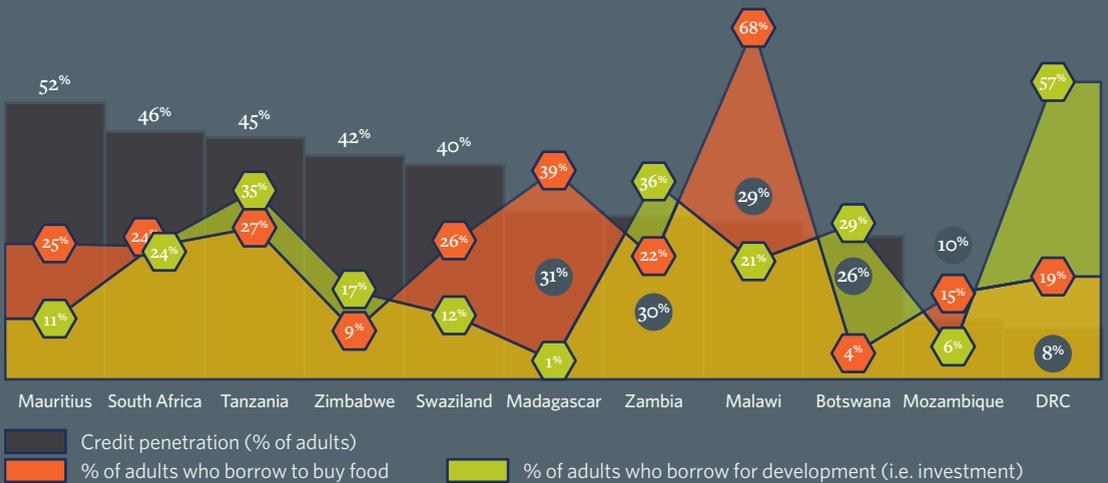
FIGURE 7: Reasons for consumer account uptake: banks, MFIs and SACCOs (DRC)

Source: FinScope DRC 2014.



**FIGURE 8:** Formal credit, informal credit and overall credit penetration: 11 SADC countries

Sources: FinScope Consumer Surveys: Mauritius 2014, South Africa 2016, Tanzania 2016, Zimbabwe 2014, Swaziland 2011, Madagascar 2016, Zambia 2016, Malawi 2014, Botswana 2014, Mozambique 2014, DRC 2014.



**FIGURE 9:** Credit penetration and reasons for borrowing (development vs food): 11 SADC countries

Sources: FinScope Consumer Surveys: Mauritius 2014, South Africa 2016, Tanzania 2016, Zimbabwe 2014, Swaziland 2011, Madagascar 2016, Zambia 2016, Malawi 2014, Botswana 2014, Mozambique 2014, DRC 2014.

eligible to borrow from formal providers or need instant access to loans. Around 18% of adults (2.9 million) take up credit through formal providers, and there is only a marginal difference between their sources of credit from banks and 'other formal' channels. Other formal channels are becoming popular because their loan application/approval process is easier and more lenient than that of banks (MAP Nepal 2016).

**Across the SADC region:** Access to formal credit remains low in most countries, while access to informal credit is high. Figure 8 illustrates the intersection of formal and informal credit in SADC countries.

### Credit for consumption vs development

Further unpacking the SADC data uncovers an overlap in credit usage between consumption and development (i.e. investment), particularly in the poorer countries; in countries such as Madagascar, Malawi and Swaziland, large percentages of the population are borrowing to buy food (see Figure 9). Meeting the needs of such consumers, who

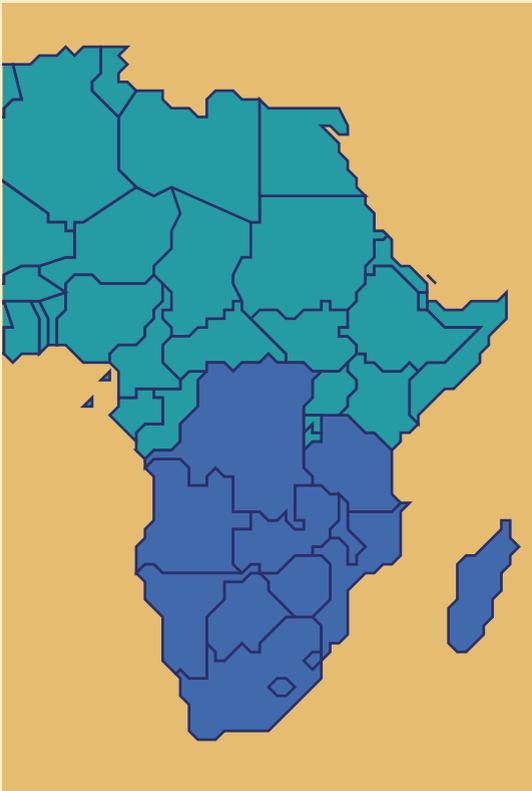
have possibly been adversely affected by some kind of shock/risk and lacked the financial resilience to cope, will be fundamentally different from serving those that require credit to buy property, start a business or fund education. The former requires a developmental approach while the latter requires the market to develop, functioning better to accommodate their needs.



### MAP TOOL 5: Measuring usage rather than access/ownership

Globally the focus of financial inclusion surveys has tended to be on access (usually to a single financial service from a formal financial institution). It has become increasingly common to use the financial access strand, as is evident across numerous demand-side survey instruments.

Figure 10 demonstrates how a focus on the access strand indicates increased financial inclusion, in this case in Zimbabwe, with an increase in formal bank account ownership and a decrease in levels of financial exclusion.

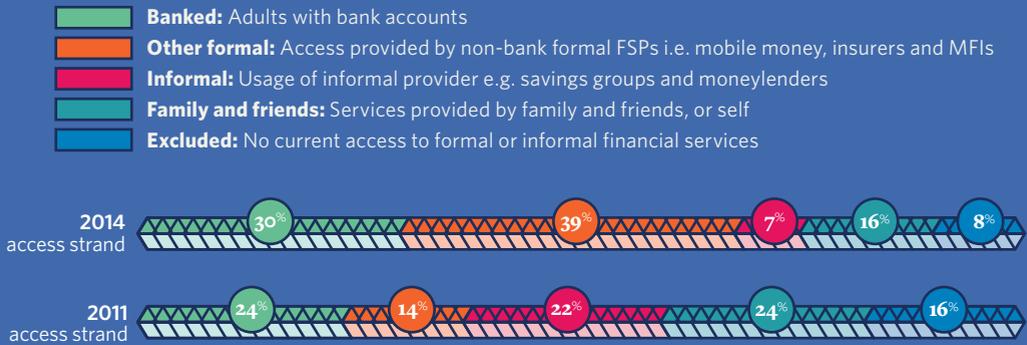


### SADC region - improving formal credit provider service to consumers

With consumer over-indebtedness and duplicate borrowing a significant problem in the countries of the SADC region, the challenge becomes how to overcome the lack of information and facilitate more accurate evaluation of the risk of each customer, in order to serve the need both for customer support and market growth. How to bring providers closer to consumers in order to meet consumer needs?

#### The needs and the challenges? A huge need for credit – yet formal credit providers are risk-averse

- The countries of the SADC region are characterised by high levels of over-indebtedness among the population, mainly stemming from informal borrowing for basic necessities (i.e. food).
- Consumers also often seek multiple lines of credit (possibly taking out one loan to pay off another).
- While credit bureaus exist in most countries, they do not function adequately; they lack the appropriate data, and details of small-value borrowers are not captured.



**FIGURE 10:** Growth in financial inclusion based on access strand: 2011 vs 2014 (Zimbabwe)  
Source: FinScope Zimbabwe 2011, 2014.

- The lack of good-quality information on would-be borrowers means that providers are not able to accurately evaluate customer risk and so err on the side of being conservative and denying customer needs for credit.
- Formal providers have inadequate understanding of why consumers seek credit and hence there is an inability to provide credit for developmental purposes.

**The solution? An open credit database and policy/institutional regulatory change**

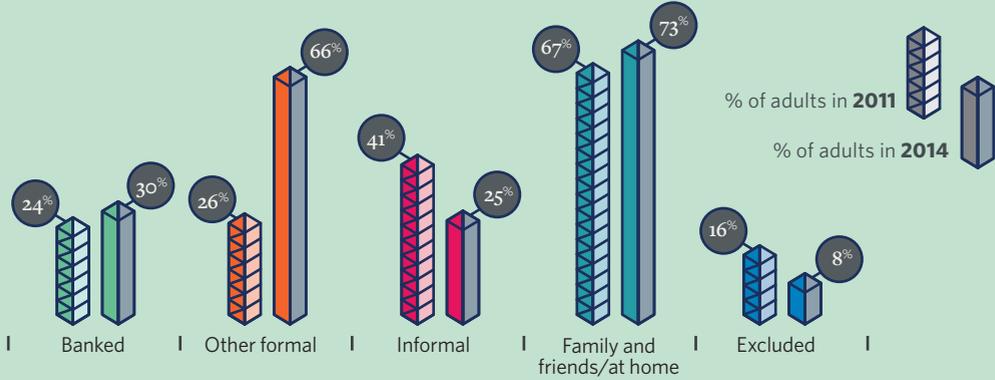
In the SADC countries, MAP and the SADC MAP implementing partner, FinMark Trust, are targeting improved information-sharing along with adjustments to the regulations as a strategy for helping credit providers - retailers, banks, MFIs, mobile providers and utilities - better meet consumer demand for credit:

- The private sector is leading a project to share credit data and information, with the intention of encouraging an open credit database that is shared among providers.

- Where this has been implemented it has resulted in transparency in terms of credit market practices, which supports improved choice on the part of consumers.
- MAP and FinMark Trust are also focusing the project on improving provider and government understanding of consumer needs, which will make it possible for providers to move closer to consumers.
- Improvements are being made to the regulatory environment to ensure responsible provision of credit and to manage over-indebtedness.

**The impact? Improved financial inclusion**

Better-functioning credit markets with more detailed involvement of the private sector in terms of what works for their business are evolving better service to low-income customers. As in South Africa, in the other SADC countries the flip side of increasing access to credit is providing consumer education and empowerment, in the interests of avoiding over-indebtedness.



**FIGURE 11:** Consumer behaviour: comparison of financial service actual usage – 2011 vs 2014 (Zimbabwe)  
Source: FinScope Zimbabwe 2011, 2014.

**Focusing solely on access can distort the picture.**

However, as is evident in Figure 11, the access strand overestimates 'banked'. When a comparison is done of financial service ownership versus actual usage in Zimbabwe, a different picture emerges. Actual usage of formal bank accounts increased marginally between 2011 and 2014 in Zimbabwe, while actual usage of other formal services showed much greater growth. At the same time, rather than diminishing in popularity, actual reliance on family and friends or saving at home increased.

**A transaction focus is more accurate.** The MAP research across countries has confirmed that account access/ownership does not necessarily translate into usage and development impact. A transaction measure yields completely different results and more accurate data for decision-making. As Note 2 of the previous volume argues, a traditional access-strand focus encourages misguided policy prescriptions, while the traditional focus on bank account ownership has both led to limited development impact and hindered the focus of where the energy of market development interventions should lie. This 'one-dimensional view' can seriously distort the picture

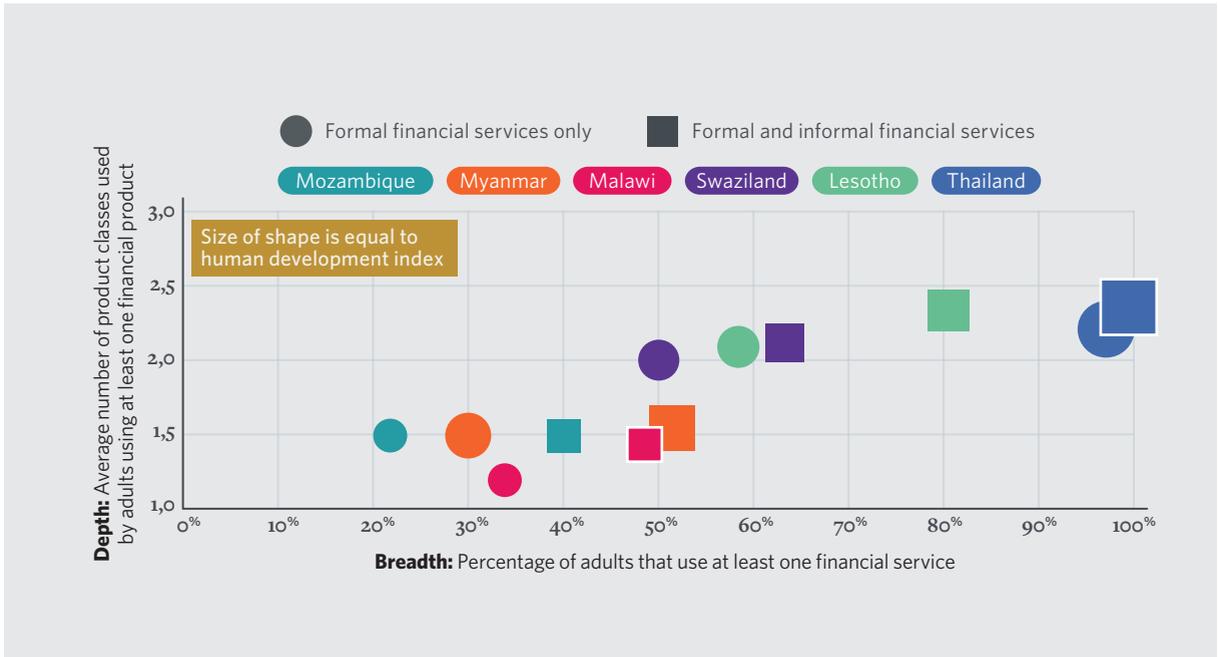
of financial inclusion in a given country (making it seem rosier than it is), thus skewing policy targets.

Thus, national goals and implementation strategies need to move away from pure account ownership strategies. The focus has to be much more nuanced, with government and stakeholders considering broader market development interventions that balance national goals, current consumer needs and demonstrated behaviour, and provider capabilities (existing and potential).



**MAP TOOL 6:  
Measuring breadth and depth of usage**

With the traditional focus in financial inclusion measurement being on access, when usage has been measured the emphasis has been on breadth of usage: that is, how many people are using any type of formal financial service. When Note 2 of the previous volume presented a new measurement framework – an increased focus on measuring usage as opposed to access – it also offered the new measurement indicator 'depth' of usage, which measures the number of different product classes



**FIGURE 12:** Depth vs breadth of financial service usage

Sources: FinScope Consumer Surveys: Mozambique 2014, Myanmar 2013, Malawi 2014, Swaziland 2011, Lesotho 2011, Thailand 2013.

used by those adult consumers using at least one financial product class. Including depth of usage enables more accurate measurement of how consumers are actually using financial services and provides a sense of how well or thinly people are being served by formal financial services.

### A portfolio view of financial services usage

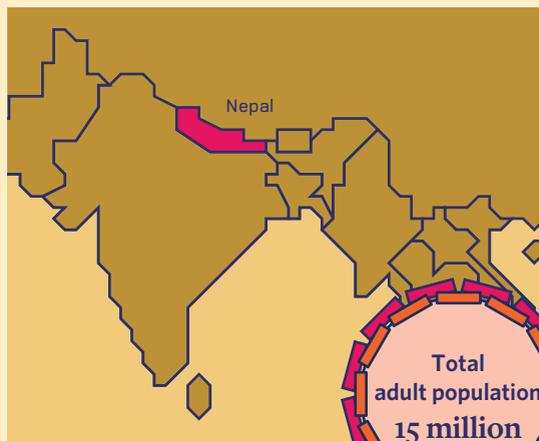
**Including informal is important.** Measurement of depth of usage is usually in relation to formal products and services. But it is important to include informal product/service measurement when ascertaining depth of usage, as again this provides a more accurate picture of financial inclusion in a country.

While figures for formal usage in the MAP countries are generally quite low, in fact people are often relying on a veritable *portfolio* of financial services/products – sometimes quite a large portfolio but mostly informal (e.g. saving ‘under the mattress’, receiving remittances sent by a family migrant member by taxi, and belonging to a village savings group that also allows borrowing when there is an emergency). Because informal products are more

likely complementary to formal products than substitutes for them, it is helpful to include informal usage in measurement of consumer usage patterns; this gives valuable data on how the consumers in the different target market segments in a country are finding ways to meet their actual needs.

Figure 12 shows that in MAP countries consumers rarely use financial services from more than two product classes. This suggests that depth of usage only comes once a minimum formal breadth of usage has been achieved; and that policymakers and financial services providers need to focus on increasing breadth of usage in the first instance until a minimum formal breadth has been achieved. Where there is still room to expand breadth of usage, the focus would be on improving distribution of existing services. Where the need for increased depth of usage is indicated, the focus would be on targeting existing customers with an improved portfolio of products/services.

Finally, and crucially, the measurement of need and demand must also go beyond access and breadth and depth of usage, to measuring the *value* that consumers derive from financial products and services.



Source: FinScope 2016.

### Nepal – a huge demand for accessible, affordable and safe savings products

The MAP research in Nepal identified that, while there is a huge demand for savings products and while formal providers (banks) have high credibility among consumers, people rather rely on a wide portfolio of other formal and informal products. Formal providers have hitherto been unable to tap into this extensive market.

#### The needs and the challenges? A significant customer base with the need for improved savings offerings

The majority of the population sit at low income levels, and yet the country has a strong and firmly entrenched culture of saving, across all target market segments (including those with extremely low incomes). The top four reasons that Nepali consumers save are: consumption smoothing; risk mitigation (medical and other); education; and providing for old age and retirement (FinScope Nepal 2014).

When FinScope surveyed consumer opinions of the trustworthiness of savings product/service providers, 72% cited banks as being most trustworthy, while only 7% cited savings groups. Yet, savings groups are the dominant savings providers: 31% of adult customers access savings through these institutions. Of the various formats a savings group can take, the village savings group (local and informal) was noted as the most popular; of those accessing savings groups, 91% favour the village savings group.

Banks were found to have better credibility among consumers, based on being officially registered and

subject to regulation by the country's central bank, as well as having official client-facing elements such as office buildings and computerised branches. Yet consumers still take the risk to save with 'less trusted' providers. Why?

- Proximity is a key barrier to formal bank usage.
- 47% of Nepali adults do not see the need for having a bank account.
- Consumers lack understanding of how banks function (e.g. there is lack of consumer awareness of the wide availability of zero-balance accounts).
- Partly due to regulatory restrictions on banks, their savings products offer extremely low rates of return, sometimes actually yielding negative real returns.
- Bank savings products are homogeneous and do not offer products designed for low-value saving.

Many local cooperatives and village savings groups are collecting very low daily savings amounts of NPR10–20 (US\$00.10–00.20) from their customers (MAP qualitative survey 2015).

While savings groups also have some drawbacks and risks (e.g. the chance of theft of member savings, and offering only limited, short-term savings options), they offer additional perceived value:

- Familiarity with their customers means they are able to be more flexible in their services.
- They make it possible for their customers to be fiscally disciplined and save at regular intervals.
- They unlock additional financial services: access to credit and insurance offerings. These are often available without the strict eligibility requirements of other providers.
- In the Nepal society, there is social prestige attached to being a member of a financially sound savings group.

#### The solution? Improving distribution – or forging links between banks and informal institutions

MAP Nepal (2016) indicates that linking informal savings groups to formal financial service providers potentially offers huge opportunities for increasing financial inclusion. These findings suggest the viability of some kind of proof-of-concept project in Nepal aimed at linking the informal and the formal. Stakeholders agree that finding appropriate instruments to accommodate small-value, irregular savings should be the policy focus, in order to allow people to better manage their own futures.

## Time for a platform approach to financial inclusion?

### **The value of evidence-based decision-making.**

Making progress on addressing society's most pressing problems requires governments to harness the power of data and data analytics and to work collaboratively and strategically with other sectors to meet their citizens' needs. Evidence-based decision-making offers many benefits: it shifts the emphasis from starting with a theoretical solution and attempting to apply it, to identifying and prioritising the real, knotty problems to be solved; it encourages objective assessment of policy and options; it allows more rational and rigorous public debate between government and a wider range of stakeholders on contentious issues; and it increases accountability in implementation and delivery. Good measurement through data and analytics in turn feeds into the integrity and perceived credibility of the evidence base. In these ways, evidence-based decision-making creates real value, both financial and non-financial, for citizens.

The MAP in-country research, diagnostics and data analytics contribute a wealth of knowledge about the consumers, including the dynamics driving consumer financial behaviour and use of available products and services. The evidence provides a clear overview of that country's state of financial inclusion, including market realities, high-level policy objectives, and regulatory conditions.

But these findings do not tell the entire story.

The numbers explain how and why consumers are using products. But they do not explain why financial services providers are not offering products better suited to their clients via a business model that makes sense for both themselves and the consumers. The findings do not tell governments how to harness the research to implement their national ambitions. For this to happen, an entirely different set of skills and a different operational model is required. The model needs to take into consideration partnership on a common platform that enables different stakeholders to contribute to and drive delivery. (See Note 3 of the current volume for more on how MAP helps countries to build capacity and improve delivery.)

### **Connecting on a common platform**

While the MAP programme acknowledges that its primary partnership is with the country government,

the emphasis is on using the MAP platform to support government to grow multi-partner initiatives. This is because it takes multiple partners – from formal providers to smaller consumer associations, regulatory bodies and national policy players – to grow a healthy market ecosystem.

The MAP platform facilitates the use of the in-country consumer data to allow the building of new models for meeting consumer needs and demands. It adds value by supporting government and local stakeholders to articulate a national financial inclusion goal, and facilitating the management and coordination of the related initiatives and projects towards the achievement of this goal. By supporting stakeholders to each do what they know best, the platform is encouraging smart and pragmatic solutions that are fit for purpose, produced in a culture of ongoing improvement.

**Built-in learning.** MAP has purposely built experimentation and sharing of learning into the way it engages stakeholders, in the interests of strengthening the evidence base for financial inclusion. Exploring different options – varying the intensity of the intervention, trying different routes to delivery, or randomising the roll-out across the country – is enabling the programme both to test impact and to change course if the necessary improvement is not achieved. Notes 3 and 4 of the current volume provide more detail on the MAP approach to prioritising and implementing in-country improvement projects. Through the combined power of its data, data analytical tools and platform for stakeholder engagement, MAP is proving able to facilitate projects that, though modest in size, are demonstrating big potential for addressing real-world problems and achieving improved levels of consumer well-being.

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## About UNCDF

UNCDF is the UN's capital investment agency for the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded.

UNCDF's financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localised investments – through fiscal decentralisation, innovative municipal finance, and structured project

finance – can drive public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.



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## Unlocking Public and Private Finance for the Poor

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