CHAPTER 5

Financial Inclusion and Stability in Africa’s Middle-Income Countries

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The financial sector continues to deepen and broaden in many small middle-income countries (SMICs) in sub-Saharan Africa, with global regulatory reform providing input for national regulatory settings. Although the level of financial deepening is broadly on par with many developing countries, financial inclusion tends to lag behind in many SMICs in sub-Saharan Africa, especially when compared with emerging markets.

Financial stability has been central to the IMF’s work during the past few decades. In more recent years, issues related to financial inclusion or access to finance have increasingly gained prominence in the global discussion of financial sector issues. Financial stability and financial inclusion are often considered to have conflicting goals, just as fighting inflation and maximizing growth are viewed to be at odds in a central bank’s objective function. For example, financial stability focuses on asset quality. This means that credit institutions (including banks) need to be more selective about to whom they lend and provide financial services. In contrast, financial inclusion focuses on increasing quantity, such as size of assets and the number of customers (as a percentage of the population). This objective often means that credit institutions should lower their standards for lending and reduce the minimum balance requirement or fees associated with opening or maintaining a bank account. Natural issues to examine, therefore, are the interaction between financial inclusion and financial stability in MICs in sub-Saharan Africa and which types of financial inclusion enhance financial stability.

The current global regulatory reforms will likely encourage banks’ funding structures to shift toward greater holdings of equity and deposits, which raises the issue of whether a shift in funding structure will affect financial stability in MICs in sub-Saharan Africa.

In this chapter, we address each of the above issues by exploring the following questions: How has the financial landscape evolved in MICs in sub-Saharan Africa in recent years? How does financial stability and inclusion in MICs in sub-Saharan Africa compare with that in emerging markets? How do shifts in financial inclusion and the funding structures of financial institutions affect financial

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1 They include Botswana, Cabo Verde, Ghana, Lesotho, Mauritius, Namibia, Senegal, Seychelles, South Africa, Swaziland, and Zambia, which helps provide a larger sample size for the analysis.
stability? And what forms of government intervention to enhance financial inclusion are likely to be most effective in preserving financial stability?

Our findings suggest that financial stability and financial inclusion for households in MICs in sub-Saharan Africa are broadly comparable to a group of emerging markets although financial inclusion for small and medium enterprises (SMEs) lags behind that in emerging markets; aspects of financial inclusion that focus on expanding SMEs’ access to finance and individuals’ access to savings accounts enhance financial stability, whereas financial inclusion that focuses purely on expanding the percentage of individuals with credit undermines financial stability; and a more equity- and deposits-based funding structure enhances financial stability. Moreover, special programs to enhance financial inclusion could work if they are well designed and market conforming. Addressing the supply-side and demand-side constraints to lowering financial intermediation costs and better pooling risks is a more sustainable basis upon which to enhance financial inclusion in a stability- and growth-friendly manner.

LITERATURE REVIEW

The nexus between financial inclusion and stability remains largely unexplored. Much work has been done in the literature on financial sector stability, and a growing body of work is focusing on financial access as well. The literature review below provides a sense of the limited work available on the interaction between financial stability and access.

The literature on financial stability is vast and diverse, with most of it focused on measures and indicators for financial stability. Demirgüç-Kunt and Detragiache (1998), Kaminsky (1998), and Bordo and Schwartz (2000), among others, pioneered early warning indicators on macro-financial stability based on risk spreads and market liquidity. The primary financial stability indicators cover a few key banking areas: capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to market risks.

Work has also been done to look at predictors of banking crises. Demirgüç-Kunt and Detragiache (1997) use a multivariate logit estimation to identify determinants of banking crises in a panel of developing and industrial countries. They find that weak macroeconomic environments with low growth, high inflation, high real interest rates, explicit deposit insurance schemes, and weak law enforcement were particularly vulnerable to economy-wide banking crises. Demirgüç-Kunt and Detragiache (2005) survey the body of work on crisis prediction and identify two main methodologies underlying the cross-country empirical work in this field—the signals approach and the multivariate probability model.

Other strands of the literature on financial stability have looked at the central bank’s role in financial sector stability (Nier 2009) and bank competition and

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2 The definition of SMEs is the same across all countries given that the chapter uses the World Bank Enterprise Survey definition.
stability (Berger, Klapper, and Turk-Ariss 2009). Other work includes financial liberalization and crisis (Caprio and Summers 1993), external shocks and crisis (Eichengreen and Rose 1998), bank ownership and structure as related to crisis (La Porta, Lopez-de-Silanes, and Shleifer 2002), and the role of institutions and the political system in causing and preventing crises (Beck, Demirgüç-Kunt, and Levine 2006).

The literature on financial access focuses on the effects of individual access on income inequality, poverty, and GDP growth. The Global Financial Index (Findex) surveys on “how adults in 148 economies save, borrow, make payments, and manage risk” finds that high cost, physical distance, and lack of proper documentation are the most common barriers to household access to finance (World Bank 2012; Demirgüç-Kunt and Klapper 2012). Demirgüç-Kunt, Beck, and Honohan (2008) illustrate that financial access is quite limited around the world and identify barriers that may be preventing small firms and poor households from using financial services. Based on this research, the authors derive principles for effective government policy on broadening access. Beck, Demirgüç-Kunt, and Maksimovic (2003) explore the effects of firm-level financial access and find that financial constraints are strongest for small firms, and weakening these constraints disproportionately benefits smaller firms.

The literature is, however, limited on the interactions between financial stability and access. Beck and de la Torre (2006) suggest the concept of an access possibilities frontier, which is defined as the maximum share of potential clients that can be served by financial institutions prudently. Hannig and Jansen (2010) acknowledge that financial inclusion poses reputational and quality risks, but find that low-income savers and borrowers maintained “solid financial behaviour” through crises periods and that the presence of “vulnerable clients” in the financial system has negligible risks. They show various correlations such as a positive relationship between per capita GDP and inclusion, but stop short of establishing a causal quantitative relationship. Similarly, Khan (2011) provides a correlation showing the positive relationship between financial inclusion, as indicated by commercial bank branches per 100,000 adults and deposits per 1,000 adults, and development as measured by World Bank development levels (high income, low

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3 Under the traditional “competition-fragility” view, more bank competition erodes market power, decreases profit margins, and results in reduced franchise value that encourages bank risk taking. Under the alternative “competition-stability” view, more market power in the loan market may result in greater bank risk because the higher interest rates charged to loan customers make it more difficult to repay loans and exacerbate moral hazard and adverse selection problems. But even if market power in the loan market results in riskier loan portfolios, the overall risks of banks need not increase if banks protect their franchise values by increasing their equity capital or engaging in other risk-mitigating techniques. Berger, Klapper, and Turk-Ariss (2009) test these theories by regressing measures of loan risk, bank risk, and bank equity capital on several measures of market power, as well as indicators of the business environment, using data for 8,235 banks in 23 developed nations. The results suggest that, consistent with the traditional “competition-fragility” view, banks with a greater degree of market power also have less overall risk exposure. The data also provide some support for one element of the “competition-stability” view—that market power increases loan portfolio risk. Berger, Klapper, and Turk-Ariss (2009) show that this risk may be offset in part by higher equity capital ratios.
income, and so forth). This relationship, however, does not provide a causal link or direction of causation. Aduda and Kalunda (2012) explore financial inclusion and stability with reference to Kenya and postulate that it is very probable that banking performance, and the likelihood of crises, may depend on the structure and degree of development of the financial system, which is one of the focal points of financial inclusion. However, that paper performs no quantitative analysis.

This chapter addresses a different question and provides quantitative evidence of the impact of financial inclusion and funding structure shifts on financial stability. Rather than focusing on a qualitative or descriptive assessment based on correlations, we attempt to establish quantitatively whether a causal link exists between financial inclusion, funding structure, and financial stability. We also look at which types of financial inclusion are stability friendly at the bank level.

DATA

The data set includes bank-level data for 227 banks in sub-Saharan Africa for the period 1998–2013. Eleven MICs in sub-Saharan Africa are covered: Botswana, Cabo Verde, Ghana, Lesotho, Mauritius, Namibia, Senegal, Seychelles, South Africa, Swaziland, and Zambia. Country-level financial-stability and access data for a group of emerging market countries are also included for 2011 for benchmarking purposes. The emerging markets included in our sample are Argentina, Brazil, Chile, China, Colombia, Hungary, India, Indonesia, Republic of Korea, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russian Federation, Thailand, Turkey, and Ukraine. The selection criteria for the emerging markets are based on the peer group of South Africa (IMF 2013b).

Our data sources include bank-level financial data from Bankscope; macroeconomic indicator data from the World Bank Indicators and Bloomberg, L.P.; and financial access data from the World Bank’s World Development Indicators and Enterprise Survey and the IMF Financial Access Survey.

ANALYTICAL FRAMEWORK

The framework centers around two econometric models of the determinants of financial stability. The first is a baseline probit model with the probability of bank distress being the dependent variable. The second is a standard ordinary least squares estimation with percentage deviation from bank insolvency as the dependent variable.

Baseline Probit Model

This section explores the effects of financial access on financial stability, particularly whether individual or SME financial access affects distress probability differently. Traditional measures of bank distress in the literature include the book-to-price ratio, analysts’ ratings, and the Z-score. We focus on the Z-score measure of bank distress

Bank insolvency is measured by the Z-score; the 10th percentile of the Z-score is used as the cut-off for insolvency. Other cut-offs were tested for robustness.
because it has become the most frequently used indicator, in addition to having greater data availability. The Z-score measure of bank stability equals the return on assets (ROA) plus the capital adequacy ratio of each bank divided by the banks' standard deviation of ROA. It proxies the risk of bank insolvency because it is the inverse of the probability that losses exceed equity, that is, a higher Z-score implies lower risk of insolvency (see Box 5.1 for details of its derivation).

The traditional factors affecting bank distress can be categorized by (1) funding structure (for example, Herfindahl funding diversity index, loans to customer deposits, short-term funding to assets, equity to assets, term deposits to assets), (2) profitability and asset quality (return on average assets, return on average equity, loan loss provisions to gross loans, net interest margin), (3) size (total assets, asset growth), and (4) macroeconomic factors (for example, inflation, output growth). Thus, in attempting to provide answers to our research question, we must control for the effects of these other factors.

We proceed by first estimating a probit model of probability of financial distress:

\[
P(Distress_{ijt} | X_{ijt-1}, W_{jt}) = F(X_{ijt-1} \beta_{ij} + W_{jt} \beta) \tag{5.1}
\]
in which \( P_i \) is the probability that bank \( i \) from country \( j \) will be in distress at time \( t \), conditional on bank-specific and country-level characteristics \( X_{ijt-1} \) and \( W_{jt} \). \( P_i \) is based on the Z-score and is a decreasing function of the Z-score given that higher levels of Z imply lower probabilities of distress. \( F() \) is the standard normal distribution function that transforms a linear combination of the explanatory variables into the \([0,1]\) interval. The estimations use lagged bank-level explanatory variables to reduce endogeneity concerns and report robust standard errors.

Distress is measured by bank-level Z-scores, with a commonly used threshold at the 10th percentile of Z-scores within the sample, which is equivalent to being above the 10th percentile in probability of default (Box 5.2). Bank-specific lagged explanatory variables, \( X_{ijt-1} \), are used primarily to reduce endogeneity concerns and report robust standard errors, but also to control for bank-level characteristics (size, for instance) that may make an individual bank particularly sensitive or insensitive to country-wide macroeconomic conditions. Finally, country-specific explanatory variables, \( W_{jt} \), must also be included to control for macroeconomic conditions that can obviously affect a given bank’s default probability.

**Baseline Logarithmic Model**

We look at the relationship in levels and ensure that our probit results are not sensitive to the choice of the binary cutoff threshold by examining the impact of the explanatory variables on the percentage change in Z-score, that is, \( \ln(Z\text{-score}) \). We estimate a standard linear regression of bank-level explanatory variables, \( X_{ijt-1} \), and macro-level stability variables, \( W_{jt} \), on \( \ln(Z\text{-score}) \):

\[
\ln(Z\text{-score}) = F(X_{ijt-1} \beta_j + W_{jt} \beta). \tag{5.2}
\]

To include observations corresponding to negative values of the Z-score, which cannot be log-transformed, we adjust additively relative to the minimum Z-score.
This technique uses \( \ln(Z\text{-score} + \min(Z\text{-score}) + 1) \) to keep all observations under the previous binary dependent variable estimation in this analysis as well. All other explanatory variables are kept the same. The estimation again uses lagged bank-level explanatory variables to reduce endogeneity concerns and report robust standard errors.

**Variables**

*Probit.* \( P[Z<10\text{th percentile}] \) is a binary dependent variable representing the probability that a bank’s Z-score is below the 10th percentile of Z-scores of regional banks, putting it at risk of default relative to other banks in the sample. Because the Z-score represents the adequacy of a bank’s capital to cover potential equity losses and thus is directly and inversely related to the probability of default, higher values of the Z-score correspond to greater solvency. Thus, positive coefficients on explanatory variables would indicate a negative contribution of that variable to bank-level instability (distress or insolvency). The 10th percentile is chosen as a measure in line with the convention in the related literature (IMF 2013a); other nearby cutoffs had very similar results for robustness.

*\( \ln(Z\text{-score}) \).* The measure \( \ln(Z\text{-score}) \) is a continuous dependent variable representing the percentage increase relative to the lowest bank Z-score present in the sample. Under this dependent variable, positive coefficients of explanatory variables correspond to greater solvency and a decreased probability of bank default. This variable is secondary in our analysis because the true relationship between explanatory variables and bank stability is likely piece-wise linear. Thus, beyond a certain point of high Z-scores, observed explanatory variables may have increasingly weak marginal impacts on stability, and unobserved variables may carry more weight. This can appear in an estimate as a weakening of the causal link between independent variables (summarized in Table 5.1) and stability.

**TABLE 5.1**

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Country-Level Variables, ( W_t )</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank-Level Variables, ( X_{ijt} )</strong></td>
<td><strong>Access and financial inclusion</strong></td>
</tr>
<tr>
<td>Funding structure</td>
<td>Adults saving to total adults</td>
</tr>
<tr>
<td>Herfindahl index of funding diversity</td>
<td>Adults borrowing to adults</td>
</tr>
<tr>
<td>Loans-to-customer-deposits ratio</td>
<td>Percent of small and medium enterprises identifying access to finance as a major constraint</td>
</tr>
<tr>
<td>Short-term-funding-to-assets ratio</td>
<td>Percent of small firms with a credit line</td>
</tr>
<tr>
<td>Equity-to-assets ratio</td>
<td></td>
</tr>
<tr>
<td>Term-deposits-to-assets ratio</td>
<td></td>
</tr>
<tr>
<td><strong>Profitability and asset quality</strong></td>
<td><strong>GDP per capita</strong></td>
</tr>
<tr>
<td>Return on average assets</td>
<td><strong>GDP growth</strong></td>
</tr>
<tr>
<td>Return on average equity</td>
<td><strong>GDP growth–bank size interaction</strong></td>
</tr>
<tr>
<td>Loan loss provisions to gross loans</td>
<td><strong>Interest rate spread</strong></td>
</tr>
<tr>
<td>Net interest margin</td>
<td><strong>Inflation, GDP deflator</strong></td>
</tr>
<tr>
<td><strong>Size</strong></td>
<td><strong>Volatility of stock price index, 360-day standard deviation</strong></td>
</tr>
<tr>
<td>Total assets</td>
<td><strong>Human development indicator</strong></td>
</tr>
<tr>
<td>Asset growth</td>
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</tbody>
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EMPIRICAL FINDINGS

Tables 5.2 and 5.3 present the key results of the estimates. All estimates distinguish between household financial savings versus borrowing as indicators for household financial access. Table 5.2 gives the probit estimation results using the SME Access Constraint as self-reported by SMEs within each country in the World Bank Enterprise Survey. Table 5.3 gives probit results using the percentage of small firms with a credit line among total small firms as the measure of SME financial access. Our analysis also provides marginal effects on the respective probit estimations. We provide estimation results using \( \ln(Z\text{-score}) \) as the dependent variable as a robustness check on whether our results are sensitive to the thresholds chosen for our probit analysis. However, this has limited utility because marginal differences in Z-score for already very high Z-score levels are unlikely to be significantly affected by changes in explanatory variables.

The probit estimation results under either measure of SME access are broadly similar. Under the SME Access Constraint as reported in the World Bank Enterprise Survey, individual bank size, term deposits to assets, equity to assets, country legal index, and both individual access and SME access variables are

**TABLE 5.2**

| Marginal Effects: Adult Saving versus SME Access Constraint |
|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  | (1)             | (2)             | (3)             |
| \( P(z < 10\text{th percentile}) \) | \( dy/dx \)   | \( dy/dx \)   | \( dy/dx \)   |
| Ln(Herfindahl index) | 0.00000*       | 0.00000*       | 0.00000*     |
| Ln(ratio of loans to customer deposits) | 0.00063***   | 0.00076***   | 0.00063***   |
| Ln(ratio of equity to assets) | -1.38650*** | -1.55519*** | -1.40164*** |
| Ln(ratio of term deposits to assets) | -0.0001       | -0.00008      | -0.00013**   |
| Ln(return on equity) | -0.18761*         | -0.03969     | -0.19978**   |
| Adults saving (percent) | -0.26690**     | -0.26299**   | -0.27211**   |
| Adults borrowing (percent) | 0.40460**       | 0.39869**   | 0.44858**    |
| SME Access Constraint | 0.02655**       | 0.02601**   | 0.03713*     |

Note: SME = small and medium enterprise.
* p<0.10, ** p<0.05, *** p<0.01

**TABLE 5.3**

| Individual Access versus SME Access |
|-----------------|-----------------|-----------------|-----------------|-----------------|
|                  | (1)             | (2)             | (3)             | (4)             |
| \( \ln(Z\text{-score}) \) | \( \beta/(se) \) | \( \beta/(se) \) | \( \beta/(se) \) | \( \beta/(se) \) |
| Ln(ratio of loans to customer deposits) | -0.00025       | -0.00025       | -0.00001       | -0.00003       |
| Ln(ratio of equity to assets) | 0.70761**       | 0.70787**       | 0.63757**       | 0.46658*       |
| Ln(ratio of term deposits to assets) | 0.00055***     | 0.00055***     | 0.00031**     | 0.00031**       |
| Ln(return on equity) | 0.33063**       | 0.33023**       | 0.28048***     | 0.10772       |
| Adults saving (percent) | 0.07722***     | 0.07735***     | 0.04165**     | 0.04127**       |
| Adults negative saving (percent) | -0.04223*       | -0.04237*       | -0.06211**     | -0.06245**       |
| SME Access Constraint (percent) | -0.05992***      | -0.06000***     | 0.01814**      | 0.01873**       |
| Small firm credit (percent) | 0.01814**       | 0.01873**       |

Note: SME = small and medium enterprise.
* p<0.10, ** p<0.05, *** p<0.01
significant determinants of bank-level financial stability. The signs of these coefficients give a sense of their contribution to financial stability. Note that in the probit analysis (Table 5.3), our dependent variable is a measure of the likelihood of bank distress, that is, the inverse of financial stability. The proportion of assets that are term deposits increases financial stability significantly.

Our results give the directional impact of each explanatory variable on bank distress, and the statistical significance. Negative coefficients indicate that the variable is associated with greater bank stability whereas positive coefficients indicate that the variable is associated with greater bank distress. In general, we find that a higher equity-to-assets ratio, term-deposits-to-assets ratio, and percentage of adults saving lead to an increase in financial stability. We also find that higher ratios of loans to customer deposits, percentage of adults borrowing, and percentage of SMEs facing financial access constraints and less diverse funding sources lead to increased probability of banking sector distress.

The lagged equity-to-assets ratio and ROE are used in the main empirical analysis to address potential endogeneity issues. However, our analysis also provides robustness checks to test the validity of our findings by taking out the equity-to-equity assets ratio and ROE. All previous results are substantively unaffected.

Note that the signs of the probit estimation coefficients give the direction of the effects, but the coefficients themselves do not give a sense of the magnitude of the effect because the coefficient magnitudes are in units of standard errors. For a sense of true magnitude, we separately calculate the average marginal effects for the explanatory variables to obtain the discrete change in the probability of bank distress, averaging across the sample values of the other predictor variables. For example, to calculate the average predicted probability of distress for a given percentage of adults saving, the predicted probability was calculated for each bank-year, using the value of that bank's explanatory variables for that year, and the average was taken across all these predicted probabilities.

The marginal effect on the households saving percentage tells us that the derivative of the mean expected probability of bank distress with respect to adults saving is –0.267. This result suggests that if we had four banks and increased the percentage of adults saving by 1 percent, one bank would switch from being likely to default to being unlikely to default. The 0.02655 coefficient on SME Access Constraint suggests that if we had 38 banks and lowered the SME Access Constraint by 1 percent, one bank would switch from being likely to default to being unlikely to default. The 0.4046 coefficient on percentage of adults borrowing suggests that, of just 2.5 high-default-probability banks, one would become more solvent and unlikely to default if adult borrowing decreased by 1 percent.

The analysis using the percentage of small firms with a credit line as a measure of SME financial access shows the same directional effects on all variables, but the magnitudes of the effects differ. Here, the marginal effect of the households saving percentage and small firm credit line percentage on the probability of bank distress are both equal to –0.039. This suggests that if we had 26 banks and either increased the percentage of adults saving or increased the percentage of small firms with a credit line by 1 percent, one bank would switch from being likely to default
to being unlikely to default. The 0.046 coefficient on adults borrowing suggests that, of the 21 high-default-probability banks, one would become more solvent and unlikely to default if adult borrowing decreased by 1 percent. The −0.0376 coefficient on percentage of small firms with a credit line suggests that a 1 percent increase in the percentage of small firms with a credit line leads to a 0.038 percent decrease in probability of distress. Our analysis also shows the results obtained using the dependent variable ln(Z-score), renormalized so that negative Z-score observations are also reflected. The first two columns of Table 5.3 represent the estimation using the SME Access Constraint of firm-level financial access, while the last two columns use the percentage of small firms with a credit line measure. The interpretation of these coefficients support the probit estimation results in both the directional effect and the magnitude effect of variables.

We find that a 1 percentage point increase in the percentage of households saving increases the Z-score, and thus improves bank-level stability by 0.0772 percent. A 1 percent increase in adults borrowing reduces the Z-score by 0.0422 percent, and a 1 percent increase in the SME Access Constraint is associated with a 0.0599 percent reduction in the Z-score measure of stability. Using the small firms with a credit line measure of SME financial access, we find consistent results. A 1 percent increase in the percentage of adults saving is associated with a 0.0416 percent increase in Z-score-measured bank stability; a 1 percent increase in small firms with a credit line leads to a 0.018 percent increase in the Z-score; and a 1 percent increase in the percentage of adults borrowing leads to a 0.0621 percent decrease in stability. As expected, and consistent with the probit analysis, term deposits to assets, equity to assets, and return on average equity all have positive and significant causal effects on bank stability, whereas banks’ total asset growth has a negative impact on stability.

**MAIN FINDINGS AND POLICY IMPLICATIONS**

The results of the empirical analysis in this chapter suggest the following broad findings for selected MICs in sub-Saharan Africa.

First, the financial services provided in MICs in sub-Saharan Africa improved in the past few decades, as reflected in the increasing share of the stock of private credit to GDP and deposits as a ratio of GDP. Furthermore, banks’ ROE has stabilized closer to the level of a group of emerging markets, reflecting a more mature financial sector in MICs in sub-Saharan Africa.

Second, in many MICs in sub-Saharan Africa, one reason for the low level of financial inclusion is SMEs’ lack of access to finance. Our study shows that SME access to finance has a positive and significant impact on financial stability. Financial usage can have stabilizing effects on the financial sector by helping to increase financial sector depth. If borrowing tends to be used for investment or to finance purchases of assets that generate returns, the financial sector and the economy in general will benefit. Thus, financial inclusion focusing on enhancing SME access to finance tends to enhance financial stability, as observed by policymakers (Annex 5.1). Both the Mauritius and Namibia country case studies show that promoting SME access to finance would enhance financial stability and benefit financial sector development ( Annexes 5.2 and 5.3 and Box 5.3).
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BOX 5.3

**Mauritius: Promoting Small and Medium Enterprise Development**

Recognizing the challenges that lay ahead because the country was recording below-average growth rates, the government of Mauritius presented its 2012 budget entitled “Growth for the greater good” in November 2011. This budget tried to steer the country safely through the global economic crisis. Among other actions, it (1) provided the basis for taking the country a stride closer to full democratization of the economy, (2) recognized the need to facilitate the rising trend of women seeking employment and to break the vicious cycle of youth unemployment, and (3) went to the roots of poverty to deal with its painful manifestations.

The government explicitly paid tribute to the micro and small and medium enterprise (SME) sector, which makes an exceptional contribution to the economy. SMEs produce about 37 percent of GDP, that is, some US$4 billion worth of output. They employ and provide a living to 250,000 men and women. And this is where the culture of entrepreneurship takes root, grows, and democratizes the economy. The SME scheme under the 2012 budget addresses both access to and cost of finance. It both covers new operations and benefits existing clients at renewal. In addition, it covers both investment and working capital for SMEs.

Implementation of this scheme was channeled through the domestic banking sector, and the government proposed that the banking sector would extend credit facilities to SMEs amounting to 3 billion Mauritian rupees (Rs) (about US$100 million) over the next three years (from 2012 to 2014) at 3 percentage points above the prevailing key repo rate (which was 8.5 percent per year and is the central bank’s policy interest rate). This measure addressed the prohibitively high cost of credit faced by the SME sector, which was stifling the drive of entrepreneurs and was threatening the growth, profitability, and competitiveness of the sector.

The main features of the scheme were the following: (1) new overdrafts and bank loans as well as renewal of existing facilities were made at an interest rate of 11.5 percent, (2) all processing costs and related charges were waived, (3) the Equity Fund provided a guarantee instrument to offer risk cover amounting to 35 percent of every loan and overdraft, and (4) banks were allowed to deduct SME bad debts from taxes without going to court.

New loans to SMEs at the Development Bank of Mauritius were also capped at the repo rate plus 3 percent, that is, 8.5 percent. To further support SMEs as well as other borrowers, the government abolished the inscription fee leviable on registered loans and removed the registration duty on loans not exceeding 1 million rupees. In this respect, the government removed the micro constraints facing this sector to carry out business.

This scheme was spearheaded by the central bank and implemented in December 2011, that is, one month after its announcement. Coordination between the government and the central bank was the cornerstone for the success of the scheme. The bank provided the framework through which finance could be extended on favorable terms and conditions through 14 participating commercial banks and closely monitored the scheme.

Over the period December 2011 to February 2014, funds of nearly Rs 3.0 billion had been approved and the amount outstanding under this facility stood at Rs 1.3 billion. More than 2,300 applications were received during this period, with a success ratio of about 94.5 percent.

Contributed by Jitendra Bissessur from Mauritius.
Third, relatively poor households do not have access to bank accounts for various reasons, such as the minimum balance requirement, fees for opening an account or maintaining a bank account with a low balance, or low presence of financial institutions in lower-income communities. Therefore, financial inclusion focusing on improving households’ access to bank accounts will likely enhance financial stability. Specifically, policy measures such as reducing or eliminating the minimum balance requirement or fees for opening or maintaining bank accounts with lower balances, as done in Namibia, should enhance financial inclusion. Alternatively, using new technologies such as e-banking or mobile banking (particularly aimed at the poor) would facilitate the population’s access to finance. Examples of new technologies that facilitate financial inclusion include mobile banking in Mauritius and e-money in Namibia.

Moreover, financial inclusion that lowers lending standards, thus encouraging low-quality creditors to take out unaffordable loans or mortgages, can be destabilizing. In the short term, these policies may mechanically increase financial inclusion, but in the long term, they will likely jeopardize financial stability, which will ultimately undermine financial inclusion. In concurrence with this finding, policymakers in SMICs generally hold the belief that programs to increase access to credit through public sector institutions have so far generally been costly with little sustainable impact.

Finally, the primary components of global regulatory reform will likely steer banks’ funding structures further toward deposits and equity with less reliance on short-term wholesale funding. This funding structure will likely have a positive impact on financial stability.

**CONCLUSION**

The key policy messages from this chapter are as follows:

First, policies promoting SME sector development should, overall, enhance financial stability. Second, reforms that facilitate households’ access to savings accounts will also likely promote financial stability. However, mechanically expanding the number of households with credit may lead to overindebtedness and thus pose risks to financial stability. In a number of countries, the authorities tend to overpromote loans to households in pursuit of greater financial inclusion, which is not sustainable and eventually leads to an increase in the number of debt-distressed households in the economy.

However, our results and messages should be interpreted with some caution. There is no one-size-fits-all approach to striking an appropriate balance between financial inclusion and financial stability. Policies that enhance financial inclusion while preserving financial stability have to be tailored to country-specific
circumstances, which also highlights the need for country-specific research in this rapidly expanding area.

ANNEX 5.1. POLICYMAKERS’ VIEWS

At the margin of the 2014 Spring Meetings of the IMF and the World Bank, the African Department of the IMF organized a peer-learning-oriented seminar for SMICs in the region. Countries welcomed the opportunity to discuss financial stability and financial inclusion—and possible tensions between the two goals. Participants felt that financial inclusion is essential for economic transformation and inclusive growth, and it should therefore be part and parcel of a country’s development strategy. Key takeaways from the seminar are as follows:

**Policy questions.** The seminar participants asked how best to promote financial inclusion in a “stability-friendly” manner. Questions were raised about the key constraints to financial inclusion from both the supply side and the demand side, as well from the standpoint of public policy and the regulatory system. With many SMICs now beginning to support financial inclusion through special programs, there was a fundamental discussion about whether there are indeed market failures. Although the majority saw a need for intervention, many sought insights into the potential threats to financial stability that could come from ill-designed programs. Even where policies are justified and well designed, exit strategies remain an important concern.

**Country experiences and policy recommendations.** Policymakers argued that public policy must take into account the trade-offs and complementarities between financial development goals and the management of systemic risk. Several specific recommendations emerged:

Financial sector strategies should not only include central banks and other financial sector stakeholders, but should also be coordinated with ministries of finance and a wider group of stakeholders, such as telecommunications regulators (mobile banking) and central banks from similar countries (to tap into their experience and avoid reinvention of the wheel). Namibia is one example where the involvement of many stakeholders has started reaping rewards.

SMICs’ small market size and capacity constraints make it hard to increase competition through new entrants, giving additional weight to adequate oversight of fees and charges. However, small markets imply high intermediation costs, and any regulation of fees and charges needs to take that fact into account. Ministers and governors noted that SMIC banking systems tend to be “concentrated but saturated,” and ultimately only sufficient financial deepening would bring much-needed competition.

Although special programs to enhance financial inclusion could work if well designed, the majority view was that programs to increase access to credit through public sector institutions have so far generally been costly with little sustained impact.

More cross-border collaborative regulation is needed to guard against money laundering and illicit flows that could arise from special programs designed to
enhance financial inclusion. Some stressed the role of cross-border cooperation and of pan-African institutions in understanding their operations and how best to supervise them.

Technology, most notably mobile phone banking, is a clear example of the potential for success of well-targeted policy programs to ease supply constraints. Financial literacy and education could be one tool to help address the demand-side constraints to financial inclusion, including in avoiding Ponzi schemes.

ANNEX 5.2. MAURITIUS: HOW FINANCIAL INCLUSION POLICIES HAVE SUPPORTED DEVELOPMENT

Financial inclusion is not only an important developmental goal but is itself a key enabler of development. Financial inclusion policies work on both demand- and supply-side factors. On the demand side, financial exclusion results from lack of information and low financial literacy; on the supply side, financial inclusion is constrained by the lack of institutions geared toward meeting the specific financial needs of the population. Improved financial inclusion generates new business activities such that the private sector increasingly innovates in the financial arena. Reduced inequality resulting from financial inclusion is likely to foster social and political stability, which could further enhance financial stability.

Financial inclusion is not only about access to finance, but also about access to financial products and services that can better protect the financially excluded group and facilitate SME business transactions, putting new tools at their disposal for them to save, invest, and grow. Although concerns about the potential impact of financial inclusion on financial stability are valid, the message from the growing literature and country experiences is clear: there are more synergies between financial inclusion and financial stability than conflicts, and both are essential prerequisites of a well-functioning financial system. With regard to policy goals, more synergy between financial inclusion and financial stability is increasingly desirable although more thought needs to go into policy design, in particular, in complementing market initiatives.

The economic success of Mauritius has resulted from, among other factors, financial inclusion policies, starting even before independence, and the creation of essential institutions in the country over the years. Financial inclusion policies in Mauritius have been progressively adapted to changing economic and market conditions.

Significant Contributions to Financial Inclusion from Institutions

• The Development Bank of Mauritius Ltd (DBM) was originally established in 1936 as the Mauritius Agricultural Bank. Agriculture was the country’s main economic sector, and the bank’s purpose was to provide medium- and

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6 This annex was prepared by the country contributors from Mauritius.
long-term finance for agriculture to potential farmers and entrepreneurs who had no access to finance. During the industrialization phase, the bank enlarged its spectrum of activities by granting credit for industrial purposes and creating several industrial zones. It was instrumental in the expansion of manufacturing enterprises. In 1988, a new focus on SMEs was imparted to the DBM. Over the years, the DBM has implemented several programs to meet the development needs of the country. However, the DBM model has lost its effectiveness and the institution is currently being reformed.

- The *Mauritius Housing Company Ltd* (MHC) has had an impressive track record in increasing house ownership in Mauritius and inculcating a savings culture among the low-income population. Established in 1963, MHC took over the housing loan business from the Mauritius Agricultural Bank. To encourage saving for the construction of homes, MHC introduced the Exceptional Savings Scheme in 1972, which was replaced by the *Plan Épargne Logement* (PEL) in 1988. The PEL savings scheme remains popular among all income groups. As of 2009, the Junior PEL Saver Scheme was offered to those under age 18 as a long-term saving product. As part of its social responsibility undertakings, MHC has been offering government-sponsored loans to lower-income groups since 1986. After five decades of operation, MHC has become a total solution provider in respect of housing finance requirements.

- The government also created the *State Insurance Company of Mauritius* and the *State Bank of Mauritius* to provide an alternative to the existing insurance companies and banks of the time and infuse some competition into the market. These two companies have made banking and financial services more accessible.

- *Post-Office Savings accounts* increased outreach when automated teller machines did not exist or were not as widespread as they are today and the number of bank branches was limited.

- The *National Pension Fund* and *National Savings Fund* were created to help the population better manage its life-cycle income. This concept is not well understood, but through these mandated contributions, the working population has gained a better grasp of the need to save for retirement. These schemes prove to be of even greater use to those with low incomes since they generally cannot afford private pension schemes.

These institutions have improved financial inclusion in the country and positively affected the development of the country and the lessons from the case are relevant for other SMICs in sub-Saharan Africa.

**Supportive Policies to Improve Financial Inclusion**

Over the years, policies supporting financial inclusion were introduced through various budgets to encourage the population to save and invest. For instance, interest paid on home loans and life insurance premiums were tax deductible. But
policies need to be continuously reviewed since their features have to be adapted to changing circumstances, and inefficiencies that emerge in the course of their application must be removed. For example, the tax deduction for interest paid on home loans led to speculative activities such as the purchase of second and third houses, and the interest paid on the house loans was used for tax exemptions. Today, loan interest on only the first house is tax deductible. Insurance agents were using the deductibility of life insurance premiums as a marketing mechanism rather than educating customers on the benefits of life insurance products. Life insurance premiums are no longer deductible and insurance agents now take more care in offering insurance better suited to cover their clients. The important point about financial inclusion policies is that people begin to gain experience in using financial products. Without such experience, demand is often absent. Subsidizing financial inclusion in the initial years then gradually removing subsidies in later years could be pro-growth and pro-development and thus have long-term benefits that outweigh short-term costs.

**Formalizing the Informal Sector**

Financial inclusion helps formalize the informal sector and reduce the extent of shadow banking. It thus provides an improved framework for monitoring and supervision of financial transactions and, in turn, shields the customer from malpractice and the financial system from unwarranted shocks. Hannig and Jansen (2010) argue that the potential costs of financial inclusion are compensated for by important dynamic benefits that enhance financial stability over time through a deeper and more diversified financial system. In this context, it is interesting to note the learning curve impact of using financial products on the financially excluded such that several welfare gains can be reaped, in particular, with the multiplier effect on financial literacy and the financial intermediation process. Nonbank financial intermediaries are able to thrive despite the overwhelming presence of banks in the financial landscape because nonbank financial intermediaries add to product differentiation in the market and are able to develop their own niche markets. Promoting financial inclusion offers much scope for empowering the financially excluded as well as for the development of new financial service delivery and business models. The Bank of Mauritius in August 2014 endorsed a supportive approach to credit unions coming under its purview to professionalize them and help them better take advantage of existing risk management tools.

**Role of the Central Bank**

Since its establishment, the Bank of Mauritius (BoM) has been instrumental in the progress of financial inclusion in the country. Along with its traditional role as the country’s central bank, the BoM has run tailor-made programs to improve financial inclusion; these programs have also contributed to improving the financial intermediation process. In 1995, the BoM made available a special line of credit of 500 million Mauritian rupees to approved leasing companies at a preferential interest rate of 8 percent per year in support of the development of leasing companies. To
smooth out the impact of reforms in the sugar sector, particularly on small planters, the BoM provides a special line of credit to banks for onlending to the Mauritius Sugar Syndicate. These schemes promote financial inclusion by making credit available to those who would have been left out owing to the market’s shortcomings. In such circumstances, the central bank has to step in to mitigate the shock to the economy or act as a market maker. However, these exceptional measures are meant to be temporary to avoid market distortions and suboptimal outcomes.

In 2012 the BoM set up the Task Force on Unfair Terms and Conditions in Banking Contracts to examine the reasonableness of bank charges and banking contracts. In 2015 the task force came up with 100 recommendations, including the provision of a simple standard summary of loan contracts, the abolition of 19 different charges, and the promotion of charge-free basic banking services. The findings of the report clearly indicate the dangers of the development of banking cartels in small countries and certain other areas of market malfunction that need to be addressed by the regulator. The role of the central bank, however, has to remain contained within the territory of market-conforming policies. The central bank should focus on facilitating, promoting, and securing financial inclusion. The financial inclusion agenda ahead is large and the central bank cannot address all of the issues alone. The central bank will need to partner with several stakeholders in the economy to effectively and efficiently improve financial inclusion.

Technological Advances

Technological advances today make financial inclusion policies less costly and simpler to implement. Mobile phones, for example, have radically changed banking in many parts of Africa. Farmers located in remote areas are able to make money transfers, get market information, and better manage their trading through mobile phones. The fact that these transactions can be registered means that a transactions history can be built for the user that can, in turn, be used to develop the user’s risk profile, thereby breaking the asymmetry of information in credit markets and improving credit allocation. In the absence of collateral, which the financially excluded generally do not have, the transactions history can be a basis for decisions on loans. Mobile banking is helping resolve the problem of outreach in remote parts of sub-Saharan Africa. Consequently, a number of market failures in the credit market are addressed by extending the payment and safe-keeping services of the financial provider. Innovative financial inclusion tools have positive externalities on the financial intermediation process and thus on the financial system.

Moving Forward on Financial Inclusion

In contrast to financial inclusion policies in the past, when financial inclusion objectives were being imposed on market operators or institutions were being created for the purpose, the new approach to financial inclusion in Mauritius is to enlist the market as an important ally. Policymakers contribute more to correcting market failures and building sustainable models for delivering financial services to the poor. Recent experience suggests that the financially excluded group offers
viable business opportunities that creative entrepreneurs can tap. Some of the innovations have, indeed, come from the market without much policymaker involvement. Now regulators need to complete the market by putting in place the requisite framework and safeguards to protect customers from potential misuse or abuse.

We have found in Mauritius that financial inclusion supports financial intermediation and stimulates economic growth as well as social and market development. In small island states, financial inclusion also helps counter oligopolistic tendencies in financial markets and trade in general. Financial inclusion can thus be considered an essential policy tool in overcoming the flaws in market structure and in promoting social and economic development of otherwise excluded segments of the population.

**ANNEX 5.3. FINANCIAL INCLUSION AND FINANCIAL STABILITY IN NAMIBIA**

Many countries around the globe have either adopted and implemented financial inclusion policies or have been engaging in efforts geared toward the promotion of financial inclusion. Financial inclusion gained prominence in the early 2000s because of the findings that it would assist in reducing poverty (World Bank 2012). Namibia recently decided to pursue the financial inclusion agenda seriously and vigorously as part of the country’s overall financial and economic development strategy. In particular, Namibia envisages that financial inclusion will address the socioeconomic challenges facing the country, including the high level of financial exclusion (31 percent), high poverty rate (28.7 percent), and high unemployment (27.4 percent).

In August 2012, the Namibia Financial Sector Strategy (NFSS) 2011–2021 was launched as a long-term (10-year) development strategy for the financial sector. Financial inclusion remains one of the key reform areas and goals of this development strategy. The financial inclusion agenda was developed through a concerted effort after extensive consultation with relevant stakeholders. The agenda outlines the goals and an action plan for implementation during the period 2011–21. A governance structure is also in place to guide and monitor the implementation process. This structure comprises a Financial Inclusion Council chaired by the prime minister, an Advisory Body to the Council chaired by the governor of the Bank of Namibia, and a Secretariat at the Bank of Namibia.

**Namibia’s Financial Inclusion Goals**

Namibia’s financial inclusion agenda is premised on two overarching goals:

- To reduce the lack of access to financial services and products to 26 percent of economically active Namibians from the initial baseline of 51.7 percent in 2007

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1 Prepared by Emma Haiyambo, Deputy Director: Financial Sector Development, Bank of Namibia.
2 As of 2011, the proportion of Namibians without financial access had been reduced to 31 percent.
• To create effective institutions that can provide sufficient support to SMEs to increase their access to finance and enable them to grow.

The achievement of these two goals can contribute significantly to employment creation and economic development in the country. Some specific activities and projects have been identified and implemented, while others are in the process of being developed.

Achievements to Date in Implementation of the Financial Inclusion Agenda

Since the launch of the NFSS some notable progress has been made, including the following.

The introduction of a basic bank account by the banking industry and the setting of standards for cash deposit fees by the regulator in consultation with the industry was an important step. The basic bank account is intended for individuals earning 2,000 Namibian dollars (N$) (about US$173) per month or less, with no monthly fees charged by banks on these accounts. The standards target low-income earners and small businesses by eliminating cash deposit fees charged by banking institutions. As of July 31, 2013, no cash deposit fees are charged for the first N$2,000 deposited per month on all savings and investment accounts held by individuals. The same applies for the first N$10,000 deposited per month by all businesses with an annual turnover of N$1 million or less since October 31, 2013. The intention was to eliminate all cash deposit fees by March 2015. Both of these initiatives are aimed at increasing access to financial services and products for the low-income population and thereby facilitating the participation of more people in the financial sector.

In addition, a directive has been issued to guide the issuers and users of electronic money (e-money). A number of e-money issuers have already entered the market. This financial service should help mitigate the unavailability of brick-and-mortar bank branches, especially in the remote rural areas of the country. For example, with the introduction of e-money services, working people residing in urban areas (including low-income people) are able to transfer money to their relatives in rural areas, though the availability of agents in rural areas that can cash or use the funds in that same format is still a challenge.

In addition, an SME Bank was created in 2012 to help address the problem of SMEs’ access to finance. The full impact of the bank’s operations has yet to be determined, given that it only became operational in 2013. Nevertheless, the SME Bank is expected to help address the numerous challenges that hamper SMEs’ access to finance (such as lack of collateral required by most lending institutions) and hence facilitate financial inclusion.

The reforms have also paved the way for promulgation of credit bureau regulations. These regulations, which were finalized and gazetted in 2014, compel lending institutions to provide credit performance information to registered credit bureaus. The regulations are expected to create a platform that will make such information accessible by credit providers to enable them to better assess the creditworthiness of potential borrowers.
Other projects are ongoing and some are at an advanced stage. These include a review of the 1997 SME policy and the SME financing strategy for Namibia. The SME financing strategy includes an investigation into the viability of setting up a credit guarantee scheme for the country as well as a venture capital fund and an appropriate training and mentoring program for SMEs. Once implemented, these facilities are expected to complement other efforts aimed at addressing SME access to finance.

**Balancing the Goals of Financial Inclusion and Financial Stability**

Striking the balance between financial inclusion and financial stability is particularly important in Namibia. Regulators, including those in Namibia, have traditionally focused their efforts on ensuring stable and sound financial systems, and this role has been amplified since the global financial crisis. At the same time, Namibia suffers from one of the most uneven distributions of income in the world, as measured by a Gini coefficient of 0.60. In this regard, the country continues to struggle with fighting poverty and raising the economic welfare of its citizens, where the poor are among the unbanked and often have no access to financial services. The question then is whether and how financial inclusion will affect financial stability. The nature of financial inclusion is such that it may pose risks to the financial system that may ultimately lead to financial instability, especially in the following situations:

- An attempt to increase the number of borrowers results in a reduction in lending standards
- Unsustainable levels of credit are extended by credit providers
- Credit is allocated to the private sector for unproductive purposes.\(^9\)

Namibia continues the delicate balancing act between financial inclusion and financial stability. Financial inclusion should not come at the expense of financial stability. In this regard, an effective financial regulatory framework can play an important role in ensuring the stability of the financial system by mitigating some of the risks that financial inclusion may pose. Namibia has thus put in place a number of regulatory measures to ensure financial stability, such as those requiring banking institutions to conduct regular stress testing of the impact of possible shocks on performance. In addition, the country has been producing financial stability reports since 2008, which have progressively grown from an analysis focused on financial soundness indicators to a more comprehensive and holistic approach to financial stability. Along with these financial soundness indicators, the 2014 report also includes an assessment of additional systemic risks to the financial sector, covering the activities of both banks and nonbank financial intermediaries.

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\(^9\) In Namibia, the allocation of credit to the SME sector is encouraged and is viewed as productive because it normally leads to increased economic activity, employment creation, and income generation.
Other Elements Necessary to Ensure the Balance between Financial Inclusion and Financial Stability

A regulatory mechanism that ensures that financial inclusion leads to financial stability would include regulation biased toward financial integrity, financial literacy, and consumer protection (Chiwira, Tadu, and Muyambiri 2013). These three elements form an integral part of the financial inclusion agenda for Namibia. The remainder of this annex provides an account of the progress made in ensuring these three elements in Namibia.

Financial Integrity

Although financial inclusion is important, it is also important to note that with financial inclusion efforts, access is sought for a wider customer base, which creates new or expands existing markets and possibly creates new service providers. As a result, new risks to the stability of the financial system are created, which requires supervision to ensure that access is made possible without compromising financial stability.

In Namibia, it is acknowledged that the facilitation of access to financial services could also be affected by the anti-money-laundering measures introduced in recent years. Following this realization of the inherent conflict between financial integrity and access to finance and that it could affect access to financial services, Namibia repealed the Financial Intelligence Act, 2007 (Act No. 3 of 2007) by enacting the Financial Intelligence Act, 2012 (Act No. 13 of 2012) in December 2012. The old act required accountable institutions such as banks to obtain and verify some mandatory information from their clients before either establishing a business relationship with a prospective client or continuing a business relationship with an existing client, irrespective of the level of risk inherent in such a relationship. This indiscriminatory approach was considered not to be conducive to the promotion of financial inclusion. The new act promotes a risk-based approach requiring enhanced customer due diligence on identified high-risk clients, products, and services, while allowing simplified customer due diligence measures for low-risk clients. Consideration was thus given to reducing requirements for low-risk customers (who in most cases are low-income customers) so that access to finance is made possible without compromising the stability of the financial system. The intention is to guard against the inherent conflict between financial integrity and financial access and ensure a good balance.

Financial Literacy

Recognizing that a low level of financial literacy may hamper financial inclusion, the NFSS 2011–2021 envisages increasing the country’s financial literacy rate. A lack of awareness of different types of financial products and poor knowledge of how products work can be barriers to financial inclusion because of a lack of confidence on the part of potential users who may shy away from taking up the products on offer. Financial stability can also be threatened as consumers deal
with unfamiliar products with a possibility of defaulting on loans. Financial literacy thus empowers consumers to make informed decisions about products and services and also protects them from being exploited by predatory lending and unfair marketing practices.

With the above background in mind, Namibia launched a program called the Financial Literacy Initiative in 2012 and has a financial literacy strategy in place. The strategy was developed by stakeholders from the public, private, and civil society sectors and thus has the buy-in of all relevant stakeholders. The country has further established a dedicated unit under the ministry of finance that coordinates implementation of the strategy (that is, financial literacy activities and campaigns). So far, the financial literacy baseline survey conducted in 2013 yielded an average financial literacy rate of 42.8 percent of adults age 16 and older, which is considered very low, but is useful as a benchmark for measuring progress.

**Consumer Protection**

Consumer protection is an integral part of Namibia’s financial inclusion agenda. In this regard, the country through the NFSS envisages creating a comprehensive consumer protection legal framework that would ensure transparency and disclosure. It will also help create a platform for consumer complaints and redress mechanisms.

Although the comprehensive consumer protection framework for Namibia is still being worked on, the country (through the central bank) has put in place Consumer Protection Guidelines for lodging customer complaints against practices of banking institutions. The guidelines complement the Bankers Association of Namibia’s Code of Banking Practice, which is aimed at fair relations between consumers and banking institutions. The code and the guidelines for lodging complaints were jointly launched in 2013. Furthermore, the nonbank financial regulator also has consumer protection guidelines in place that clients of nonbank financial institutions follow to lodge complaints against the practices of these institutions.

**Conclusion**

Namibia has made notable progress in its implementation of the financial inclusion agenda, as evidenced by the creation of the enabling environment through proper regulations as well as the institutional setup to support the financial inclusion agenda. Despite the good progress made so far, challenges remain, and the journey to a financially inclusive society is still long and bumpy.

**REFERENCES**


