An evaluation of the effectiveness of financial inclusion programs in the South African financial sector.

Name of candidate	Maude Korte
Student number	1797484
Telephone numbers	0788003335
Email address	maudek@nedbank.co.za
First year of registration	2018
Date of proposal submission	June 2020
Date of report submission	29 January 2021
Name of supervisor	Rukudzo Pamacheche

Maude Korte

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Abstract

Author: Maude Korte **Supervisor:** Rukudzo Pamacheche

Thesis title: An evaluation of the financial inclusion programs in the South African financial sector.

Empirical literature argues that FI has a positive bearing on socio-economic aspects for developing economies, evidence of this is found in Sarma and Paris (2011), Ramakrishna and Trivedi (2018) and World Bank (2020). Accepting the positive impact, the correlation between FI and expected social benefits one needs to understand in the context of the society in which it exists for benefit maximisation. Amidži et al.(2014) explain that understanding the correlation in its societal context is critically important, as these supply and demand-side factors have significant impacts on FI's efficacy.

The SA FI tactics to date have resulted in 80% of the population having access to bank accounts, however, dormancy on these accounts are estimated to be as high as 30% - 40% (FinMark, 2019). The central thought around a bank account led theory is that once a consumer has access to a bank account, the consumer is likely to use additional products and services (called secondary products in this context). How much of these secondary products and services have been taken up under the current tactic is unclear, as results are not published regularly. What is clear is that the shape of the FI landscape for SA has changed from many consumers being involuntary excluded (National Treasury Report, 2015) to many consumers volunteering exclusion. This can be seen in the dormancy ratio, a definitive indication of voluntary exclusion. Despite the landscape changes and the reported mismatch in supply and demand, SA FI strategy has remained unchanged since 2002. This paper interrogates the viability of the current FI strategy and argues for a new perspective of FI; it finds that SA will need to pivot from a supply-led focussed plan to a demand-led focussed plan achieve the last mile of FI.

Declaration

I, Maude Korte, declare that this research report entitled “An evaluation of the Financial Inclusion programs in the South African Financial Sector” is my unaided work. I have acknowledged, attributed, and referenced all ideas sourced elsewhere. I am hereby submitting it in partial fulfilment of the requirements of the degree of Master of Business Administration at the University of the Witwatersrand, Johannesburg. I have not submitted this report before for any other degree or examination to any other institution.

Maude Korte
Signed at Johannesburg on 23 January 2021.

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Definition of key terms and concepts

Financial Inclusion (FI)	In this paper's context, FI is defined as providing appropriate financial services to all members of society in the formal financial industry. At a minimum, these services should include the products prescribed by National Treasury as a) remittances, b) transacting capability, c) saving, d) borrowing, and e) insuring against loss, damage, illness or death (Treasury, 2015).
Financial Exclusion (FE)	Two types of financial exclusion are referenced in this paper. Voluntary exclusion is where members of society choose to be excluded instead of involuntary exclusion, which refers to society members excluded despite their preference for inclusion.
Last Mile of FI.	The South African objective is to achieve 90% FI (Government, 2019), which translates to 90% of all consumers having a bank account in the formal financial industry. If SA has reached the 80% FI mark (FinMark, 2019), then the context of this research of the "the last mile" of FI is: - the last 10% of the financially excluded South Africans that need to be brought into the formal financial industry through a bank account and, - consumers who might have acquired a bank account, but these accounts are dormant or underutilised, and these consumers are deemed voluntarily excluded.
Interoperability	Network interoperability exists when two payment schemes (such as Mastercard or Visa) negotiate an exchange agreement amongst themselves (Benson & Loftesness, 2013), thereby effectively opening payment between consumers in an open looped system. Opposed to a closed-loop system, using an example. FNB has a product called eWallet, only FNB clients can only use this product, and it a closed-looped payment (Fnb, 2020)

Informal Economy	The informal economy, in the context of this research, is part of the the economy that is neither taxed nor monitored by any sector of government and importantly exist in parallel with the formal economy.
Informal Financial Sector	In the context of this research, the informal financial sector is defined as informal finance, which is not regulated (Hussain et al., 1998) as researched by Aliber (2015).

List of Acronyms and Abbreviations

BBBEE	The Broad-Based Economic Empowerment Act (BBBEE) act (Act 53 of 2003) is legislation promoting viable economic empowerment for previously disadvantaged communities through diverse but integrated socio-economic strategies and action plans. One of these strategies is FI as set out in the Financial Service Charter 2020.
FinMark	FinMark Trust is an independent non-profit Trust, promoting FI for the poor by promoting financial integration perspectives including reporting and research.
FSB	Financial Services Board in South Africa's is the financial regulatory agency, responsible for the non-banking financial services industry.
FSC	Financial Sector Charter is a voluntary agreement by the National Economic Development and Labour Council (NEDLAC) promoting social and economic integration and FI access.
NDP	National Development Plan 2030 is the long-term planning for South Africa, it aims to eliminate poverty and reduce inequality by 2030 (Commission, 2010).
NEDLAC	The National Economic Development and Labour Council is the collaborative body where government, labour, business and community organisations collaborate on economic, labour and development issues.
NT	National Treasury manages national economic policy, prepares the South African government's annual budget and manages the government's finances.

NSASA	National Stokvel Association of South Africa, a self-regulatory organisation mandated to represent the interests of the Stokvel sector, as contemplated in Government Gazette 37903. In terms of the Banks Act 1990 (Act No. 94 of 1990), a Stokvel group is required to be a member of NSASA or a similar body approved by the Registrar of Banks.
OECD	The Organisation for Economic Co-operation and Development is an international organisation advocating policies to enhance prosperity, equality, an opportunity for all governments and consumers.
PASA	Payment Association of South Africa is responsible for the stability, efficiency and competitiveness of the payments system of South Africa. By design, PASA is responsible for ensuring that the Payment System is inclusive and effective for all its consumers.
SA	South Africa.
SARB	South African Reserve Bank is responsible for the stability, efficiency and competitiveness of the payments and financial systems of SA. The SARB functions include regulatory and operational roles of promoting FI.
SASI	South African Savings Institute is an independent, non-profit institute that works towards securing sustained growth in the national savings rate to enhance the financial health of South Africa.
SASSA	The South African Social Security Agency is a national agency of the SA government created in April 2005 to distribute social grants on behalf of the Department of Social Development

WB	World Bank is an international financial institution, providing loans and grants to the governments of low- and middle-income countries for capital projects.
WBGF	World Bank Global Findex is a comprehensive data set of interviews conducted for the World Bank, sponsored by the Bill and Melinda Gates Foundation. It researches on how adults in 140 countries save, make payments, borrow and manage risk.

1. Introduction to the research

Financial inclusion (FI) is a multifaceted and prevalent academic subject matter, frequently researched due to the association of macro-economic and social benefits of successful implementations. From a micro perspective, FI has been considered a cornerstone for poverty reduction for low-income households and individuals (World Bank, 2020). Large bodies of research exist to support these theories (Charkrabarty, 2013; Babajide, Adegboye & Omankhanlen, 2015; Abrahams, 2016) mainly from a supply-side perspective. However, notably less research exists on the demand-side of FI (Klapper & Singer, 2017).

In addition to case studies, policy perspectives and academic literature exist. Macro perspectives are frequently criticised for being idealistic and biased towards socio-economic benefits and, as argued by Charier (2017), it offers little consideration for financial implications and practicalities. Ozili (2017) reasons that literature is too theoretical and habitually focused on the relationship between FI, poverty and equality from a macro perspective. FI has long been recognised as a pro-development initiative, but FI lacks an underlying theory specifically routed in economics and finance (Ozili, 2020). Both policymakers and academics agree that when a developing country attains higher FI ratios, socio-economic benefits can be expected for the country concerned.

There is no particular blueprint for FI, but case studies promoting FI through the opening of bank account suggest that bank account led strategies could result in a springboard effect, as consumers take up more financial products after opening the bank account (Sarma & Paris, 2011). South Africa (SA) has adopted this approach, focusing on getting each consumer a bank account to cultivate socio-economic benefits associated with FI and enhancing the FI benefits for SA.

In 2018, it was widely reported that SA is close to reaching its FI targets, with 80% of its consumers having a bank account (BCG, 2017; FinMark, 2017; National Treasury, 2019). In the same year, a 30-40% dormancy ratio on the newly acquired bank accounts was highlighted by Klapper and Singer (2017) calling out the mismatch in supply and demand. The consequence of the high dormancy ratio is the post-box effect, where people use the account as a collection mechanism only (FinMark, 2019).

This is not unique to SA, the same results can be seen in other countries such as India, where dormancy has gone as high as 75% in 2016 (Kruger, 2016). This highlights the point that access to formal financial institutions is not enough as it “limit subjects to existing practices of money management” (Kruger, 2016, p. 3) and demonstrates a second significant finding for this research. The SA consumer base is going from being recently included to being willingly excluded from the formal financial industry when they do not use the products they have recently acquired.

Notwithstanding the social and market challenges SA faces, its intent regarding FI is clear: the National Development Plan 2030 (NDP2030) expects 90% of consumers to be included in the formal financial industry by 2030 (SAGov, 2013). Importantly, SA needs to address the post-box effect urgently to ensure the sustainability of the FI program. If left unchecked, high dormancy rates can undo all the efforts of inclusion to date. A strategic and theoretical pivot is recommended to create a sustainable FI result for SA. This study aims to make recommendations on achieving a pivot in the FI strategy for SA.

1.1. Context of and background to the study

Accepting the empirical literature arguing the positive bearing of FI on socio-economic aspects for developing economies (Sarma & Paris, 2011; Ramakrishna & Trivedi, 2018; World Bank, 2020), the expected correlation between FI and social benefits needs to be understood.

In practice, the correlation and quantification of FI's factors are multifaceted, as evidenced in Ozili' s (2020) research, which notes that the reason for the complexity in both the supply and demand-sides is that FI continually evolves as part of a complex system. Ikdal et, al. (2017) explain that supply-side provides products and services, distribution and channel costs, risk management and operations. All the factors that the supply-side must deal with directly impact service providers profitability and the cost of products in the industry.

Amidži et, al. (2014) found that the demand-side issues experienced relate to access to facilities and services, the suitability of products on offer, unemployment, financial literacy, cultural and social diversity and spatial divides. Consumer insights are critically important to address demand-side issues. Chibba (2009) further highlights that for the demand-side, the complexity lies in treating consumer segmentation as a collective in FI even though their needs are not homogeneous. Furthermore, Ozili (2020) confirms this, adding that identifying the needs from formal financial institutions without setting out to do consumer studies are nearly impossible. In SA, not enough research is done on the demand-side, which results in uncertainty on how to address the demand-side factors, unless the research is one by private funding (Klapper & Singer, 2017).

Adding to the formal financial industry's complexity is the informal financial sector's size and dominance, which is mainly undocumented and unregulated. Alcock (2018) argues that as a direct result of the formal financial industry ignoring the informal economy's needs, the informal economy becomes more self-reliant and innovative.
As the informal economy is left to its own devices, it grows and gets more prominence as its co-existence with the formal economy with both serving the same consumer.

A growing informal economy is not ideal. With its focus on socio-economic reforms, the government is driving FI to the formal financial industry at the informal economy's expense (Kruger, 2016).

In the industry's formal sector, one observes a monopolistic, mainly privately-owned sector (Ikdal et al., 2017). Private commercial businesses are focused on profit maximization and shareholder return on investments. Importantly, if FI's cost exceeds the benefit, the formal supply-side might be reluctant to participate in FI objectives (Ozili, 2020). Consequently, these unmet needs will stay in the informal sector.

Another complexity of FI is regulation and legislation (Ikdal et al., 2017). Without oversight, predatory lending could reduce the wealth share of the low-income households as credit debt increases. However, a lack of credit for small business means that small businesses cannot strive without working capital or start-up funding (von Fintel & Orthofer, 2020). This balancing act is critical in the financial services industry; hence supervision and regulation are imperative to protect consumers (FSB, 2020)

The last consideration is the beneficiaries of FI. SA approach to opening transactional bank accounts resulted in 80% of the consumers getting bank accounts (Demirguc-Kunt, 2017). This result implies that the shape FI has shifted from many consumers being involuntary excluded (National Treasury Report, 2015) to many consumers volunteering to be excluded from the formal financial market. The SA FI strategy's viability is interrogated by unpacking usage patterns and changes in the industry, including the factors mentioned in this chapter. An argument is made for a new perspective of FI objectives for SA, with that a pivot from a supply-led focussed plan to a demand-led focussed plan to achieve the last mile of FI.

1.2. Research conceptualisation

For a topic to be considered defensible and researchable, it must be relevant and meaningful. FI is topical for SA, as SA edges closer to achieving its target. It is meaningful as a contributor to pro-development objectives (Aliber, 2015). It provides consumers with the skills and tools to make informed decisions and manage scarce resources such as personal income and welfare (Banking Association of SA, 2019), which will result in socio-economic benefits for the country overall.

1.2.1. The research purpose statement

SA's continuous efforts to drive FI can be traced back to 2002 and remain a strategic objective for SA beyond 2020. The research problem focuses on defining what FI means for SA, in its current context by understanding the current trajectory towards the desired outcomes. If a theoretical change is needed to meet the NDP 2030 90% FI target, the purpose is to investigate demand-led theories available to SA.

This far, SA has achieved 80% of the desired 90% inclusion as reported in-country inclusion reports issued by the WB (World Bank (2018) and FinMark Trust (2018). However, FinMark Trust reports(2018) clarifies that products utilisation is lower than expected for transactional accounts and further reports low insurance and credit penetration. These findings are echoed by Boston Consulting Group (2017) and the National Tresurary (2015).

These reports indicate a dissatisfaction in the demand-side and need to be addressed, as it dilutes the benefits of sustainable FI results for SA (BSG, 2019. Should SA delay the FI strategy's pivot, the 80% FI gains could be eroded over time as the general population revert to cash-based methods. Exploring published academic FI theories will direct the pivot to propel SA to the 90% inclusion mark. Based on a practical gap analysis based on behaviours observed in the World Bank Global Findex Reports (WBGF) (2017) recommendation is made on issues that need to be addressed in the financial industry.

1.2.2. The research questions and propositions

To define FI, in its current South African context, the following concepts and questions were investigated:

a) What is the prevailing definition of FI for SA today (academic review)?

Elements and factors of FI in SA need to be identified by referencing academic papers, policy documents, and the WB's recommendation. Defining the elements of FI aids in understanding the strategy deployed in the industry and determines which FI elements need to be prioritised to maximise FI for SA.

b) Who are the stakeholders in the FI value chain (stakeholder mapping)?

Identifying the stakeholders in the value chain of FI is critical for strategic planning and equally important when a strategic pivot is required as stakeholders need to have the means and interest to drive FI to attain results.

c) SA landscape (value chain analysis)

FI is embedded in the financial industry value chain and has many participants, including the government and end-users. The value chain elements are an essential consideration as the availability and utilisation of products along the value chain are critical elements of FI.

d) What are SA's objectives for FI?

Assuming that the financial industry and the government are willing to achieve FI, one needs to understand the chosen strategic outcomes. The NDP objectives can be found in the National Treasury's targets in the NDP for SA by 2030 (Government, 2019).

e) How do current results reflect the gap in FI?

Understanding the results achieved since the strategic implementation of bank account-led strategy and how that has changed consumer behaviour indicates the FI strategies' success.

f) Which root causes and symptoms of financial exclusion in SA emerge?

Understanding the root causes and symptoms of financial exclusion in SA is essential for isolating and separating the root causes of the symptomatic issues and other FI barriers.

With the full understanding of what FI is, what SA aims to achieve and how it has tracked against the objectives this far, one can reference academic theory to understand potential models to pivot options.

1.2.3. Assumptions, Limitations and Delimitations

The following assumptions, limitations and delimitations are declared.

1.2.3.1. Assumptions

The first assumption relates to FI as a socio-economic objective for SA and that government is willing to achieve the 90% inclusion target as endorsed in the NDP 2030 (Government 2019). This assumption necessitates the evaluation of the FI programs to date to ensure that the target will be achieved - which is the purpose of this research.

The second assumption relates to the lack of empirical and theoretical underpinning in the SA government's FI programs. The absence of published theory results and lacking synergies between the academic and policy works for SA are likely due to the absence of a general theory. Therefore, FI theory was applied retrospectively to the actions taken to date to determine the way forward for SA.

The third assumption is around the reporting of FI results. Reporting is traditionally done by the Payment Association of South Africa (PASA) to complete the Financial Services Charter (FSC) scorecard. The scorecard is anchored in the Broad-Based Economic Empowerment Act (BBBEE) act (Act 53 of 2003) applicable to the financial industry. FI is one of seven key performance indicators (KPIs). In South Africa, FI is measured in terms of bank accounts to population ratios. (FSC, 2020). The banks primarily supplied this information and for this research, the reports supplied were noted and accepted as reliable.

1.2.3.2. Limitations of the study

Time was a limiting factor. Due to short deadlines, a longitudinal study could not be done. A Longitudinal study would provide a more robust empirical trend analysis for FI and how it has progressed over time. Difficulty in accessing panel data for SA was also a challenge. Thus, the study was limited to composite reports and datasets issued by Findex and FinMark, used in a cross-sectional analysis on FI for SA.

A theoretical limitation of the study was the absence of academic views and theoretical approaches to FI strategies, especially relating to SA. In this research, the academic theories are applied retrospectively to make sense of the industry and government's strategies.

1.2.3.3. Delimitation

For this research's benefit, the problem statement is restricted to the demand-side and supply-side of FI. Elements such as access, quality education and infrastructure are casually analysed only as part of the supply and demand analysis and not researched empirically or in-depth. This reason for this approach lies in the understanding that more than 80% of consumers now have access to bank accounts. This implies that more consumers have been included in the formal financial sector and that FI efforts are underway.

1.3. Preface to the research report

To this end, the report has six chapters. Following this introductory chapter, Chapter 2 provides a literature review covering the research problem analysis, including an academic and historical overview of FI, facets and factors of FI and how they relate to SA, the research gap analysis, a framework for interpreting the research frameworks and, lastly, a summary and conclusion. Chapter 3 provides an overview of the methodological research elements, including the strategy, design procedure and selection of literature, how the data was collected and processed, and the weaknesses of the research.

Chapter 4 presents the research results, explicitly focussing on SA's financial market landscape, market factors from both a supply and demand perspective, SA's approach to FI and its results. It closes the chapter with a description of what FI meant for SA in 2020. Chapter 5 summarises the findings, with a conclusion and recommendations for the pivot from supply-led strategies to a demand-led theory for FI for SA.

Supporting documentation, the actual dataset, collection instruments and ethics documentation are presented in the Appendix section at the end of the report.

2. Literature review

2.1. Introduction

In this chapter, the literature review has four objectives: to articulate the basis of the research by analysing the research problem, to identify the gap in FI in SA, and to review theoretical frameworks that relate to the development objective for the economy.

The framework for interpreting the research findings emerges from the twelve theories published by Ozili (2020) from the University of Essex. By applying the supply-side theories retrospectively to SA, one can determine if the current strategy for South Africa is the most beneficial, given the current landscape and national development intent, or if South Africa needs to pivot its approach to FI. If the conclusion is a pivot, only the three demand-led theories of FI will be analysed for a recommended approach.

For the literary review, the following topics were investigated from an academic, theoretical and practical perspective:

- How has FI evolved for SA?
- What needs to be done currently to drive FI towards the last mile, given today's social, economic and consumer behaviours?
- Who are the role players in the FI value chain? Given these role players, what vested interest do they have to drive financial inclusion?
- What is the difference between supply and demand lead approaches, which approach has SA used, and its shortcomings?
- What FI theories exist, and can any of them be used to drive the FI objectives forward to get SA from 80% inclusion to 90% inclusion?

There are some knowledge gaps in the current research, explained in section 2.3, most notably on FI's demand-side. A framework for interpreting the research data can be seen in 2.4, after which the conclusion can be seen in 2.5.

2.2. Research problem analysis

The research problem section is presented in 6 sections. First, a review of FI's academic definitions to clarify what FI means, then a more in-depth look into the general factors that influence FI's efficacy. Lastly, a review of the market factors that impact FI. The theoretical review contains a summary of the most influential research applicable to this report, the research gap before the recommended framework for interpretation is presented. Finally, the summary and conclusion close out this chapter.

2.2.1. Academic view of financial inclusion (FI)

The term financial exclusion was introduced in 1993, "when a team of geographers - noted the limited physical access to banking services due to an increase in bank branch closures" (European Commission, 2008, p. 2). Since then, several academic definitions have developed regarding FI as countries mobilised to include the previously excluded.

Contemporary definitions of FI vary, however, the most used describes it as "…the provision of access to financial services to all members of the population particularly the poor and the other excluded members of the population" (Ozili, 2020, p. 5). This definition is broad but does not specify the formal financial or informal financial sectors, which play a large role in providing financial services in any developing country (Alcock, 2018).

The narrowest definition is the one quoted by Abrahams (2016, p. 1) that refers to "banking made affordable." This definition implies that affordable banking will result in every person in the economy needing a bank account and using it in their daily lives. While most supply-led efforts focus on opening as many accounts as possible, relevant research noted by Amidži et al. (2014) details four forms of financial exclusion encased in voluntary and involuntary exclusions. With involuntary exclusion, people do not need FI services, and an example is a person who is not working or someone who is married and using their spouse's account. Another example is a person choosing not to be included due to cultural or religious reasons. People might be involuntarily excluded due to insufficient income, unacceptable risk, discrimination, or simply not finding suitable products or services in the formal financial sector. Amidzi et al. (2014) designed a complex composite model to determine the expected FI ratio for high, middle and low-income countries. While this model has a practical approach, it does not factor in suitable products for people in the informal economy, which many South Africans choose to use. These products are community savings products such as stokvels, which is still very popular and prevalent (FinMark, 2020).

Lastly, in its broadest sense, FI is explained as “FI is access and use of all formal financial services” (World Bank, 2020, para 1), including all services in the formal financial industry. Due to the discrepancies in these definitions, the definition for FI in this study combines the definitions in the literature to mean: the provision and utilisation of appropriate financial services to all members of society in the formal financial industry, at minimum, and includes the five services prescribed by the National Treasury Annual reports (2015, 2019).

2.2.2. Facets of FI

FI is a pervasive and complex subject matter, Ikdal et al. (2017) identified the following five facets of FI.

1) Access to FI, also referred to as the supply-side,
2) Appropriate products and services also referred to as the demand-side,
3) Consumer education, also referred to as financial literacy,
4) Regulation and policy by local government,
5) Infrastructure and physical delivery of the services and products.

Ozili (2020) refers to facets in the systems theory and points out that even though FI is a complex system with sub-systems such as economic, financial and social systems or structures, it cannot ignore that there is a direct relationship between financial inclusion outcomes and the systems on which it is reliant. To understand FI for SA in the context provided by Ikdal et al. (2017) and Ozili (2020), the five facets are explored in this study, specifically against the academic and historical views of financial inclusion for SA.

2.2.3. Market Factors of FI

While each market has complexities, there are universal factors on both the supply-side and demand-side of FI. The Inclusion Centre in the UK confirms that these factors need to be considered and addressed in each country's financial inclusion theory and strategies (Inclusion Centre UK, 2020). Table 1 below shows the universal factors of FI, and these factors will be assessed for SA to understand the impact each has on FI efforts for SA.

Table 1: Factors influencing effective FI (Inclusion Centre UK, 2020)

Distribution inefficiencies	Financial literacy
Ineffective competition	Trust and confidence
Oversupply or undersupply in the market	Low ability to plan
Complex products	Consumer behaviour
Inefficient regulation or public policy	Impact of external factors.
Economics of access	

These factors are explored in detail in chapter four.

2.2.4. FI Literature Review

Considering the definition, facets and market factors, it is necessary to deepen understanding of FI from academic and industry-based literature perspective. South Africa's FI implementation plans and case studies are periodical and mostly available in management reports, with little reference to academic theory. Therefor several international academic papers were used to draw a deeper understanding of FI.

2.2.4.1 Literatures on FI

Ozili (2020) provided FI theories as he observed in practices. This study is useful to the problem-solving process in the FI agenda, and it is applied retrospectively to South Africa. It provides theories to predict the possible outcomes for the strategic pivot for South Africa.

Table 2: Summary: Ozili' s (2020) Theories of FI

	Theory 1	Theory 2	Theory 3	Theory 4	Theory 5
FI focussed Delivery	Community Echelon Theory	Public Service Theory	Special Agent Theory	Collaborative Theory	Financial Literacy
FI Focussed Beneficiaries	Public Good Theory	Dissatisfaction Theory	Vulnerable Group Theory	Systems Theory of FI	
FI Focussed Funding	Private Money Theory	Public Money Theory	Intervention Fund Theory		

Abrahams's (2016) present a methodical review of FI's history in South Africa to assess the country's readiness to reach its 90% target. The research has a strong bias towards the narrow definition of FI for South Africa, as it does not speak to the other four listed products as set out by the NT (2015). Abrahams (2016) declared that 89% of the FI target was achieved in 2016; however, this was disputed by most local governmental and WB reports in the same period.

Charier (2017) provides an integrated framework for FI of vulnerable communities in SA focusses on regulatory system reform. Charier (2017) makes an argument for government grants to be paid into bank accounts. In the same year, SA started arrangements for paying grants from the South African Social Security Agency (SASSA) grants into Mastercard cards accounts (Mastercard, 2017). One of the key findings on this research was the insight that FI traditionally thought of as a social responsibility project, also holds commercial and revenue benefits for the project participants.

The Global Partnership for Financial Inclusion (GPFI, 2014) studied the use of FI data in South Africa, the Philippines, and Peru. It identified the need for supply-led research and strategies for FI programs. It clearly articulated how the listed countries used data-driven decisions to manage FI strategies. This paper highlighted that South Africa has been following the same strategy since the launch of the Mzansi account, despite the industry's changes, the mismatch in the supply and demand. The strategy remained mostly unchanged, leading to the insight that the supply-led might need to change.

Matsebula and Yu’s (2017) analytical study of FI are based on South Africa’s National Income Dynamic Study (NIDS) and analyses household access and the usage of financial services and products. It provided the only recent statistical analysis from an academic perspective; this report delivered insights into FI's demand-side and contained a realistic view of FI for SA. The research details the impact and upliftment potential where many people are included in FI, particularly from a socio-economic perspective. However, it was limited to the Western Cape and was used this research anecdotally.

Chibba (2019), through the European Journal for Developmental Research, provided insights into FI's supply and demand factors. This was helpful to identify the factors for South Africa that needed further investigation.

Several research papers on FI were available for Africa and some for South Africa, but most of the research was themed around FI's supply-side factors. There is a limited body of research on the demand-led research for South Africa. The following research papers where used:

Klapper and Singer (2017), for the WB, studied the role of demand-side data by measuring FI from the consumers' perspective. They introduced the surveys and qualitative research done by the WB every three years. Their research provides a decisive view of the demand-side at different timeframes. The research reports were used as distinct cross-sectional insights into FI's demand-side for SA over 2011, 2015 and 2017.

Von Fintel and Orthofer (2020) focus on FI, wealth and inequality. Basing their report on South African tax and survey records providing insights into the unintended consequences of poorly developed and implemented FI initiatives. The study explores the idea that the lower-income households can be worse off when offered excessive credit as this increases the indebtedness of the poorest of communities. Overall, the study provides useful insights into the demand-side of loans and savings.

Kruger’s (2016) studied the discourses of FI in South African townships. It offers a unique perspective on how FI has become synonymous with innovation in mainstream business and development. The discourses appear in innovation in financial services for the poor. The 2016 study highlights the same argument for a demand-led initiative being imperative for sustainable FI.

Ramakrishna and Trivedi (2018) conducted an empirical analysis of demand-side factors attempting to determine the success of Fl in India. This research provides an Indian perspective and insights into FI's demand-side factors using exploratory and confirmatory factor analysis techniques. Although it lacks a policy perspective and is restricted to India, it served to provide general insights into factors that may apply to South Africa in this study.

Ikdal et al. (2017) delivered an extensive FI model by critically assessing the role that the government, supplying firms and legislation play in the economy. The model focuses on supply-side elements and does not make demand-led research available. Although Ikdal et al. (2017) refer to demand-side research entitled *the face of financial exclusion*, they do not expound on detailed insights from the study. It is available for purchase only as it is a commercial report rather than academic research.

Demirguc-Kunt (2017) and the World Bank (2020) issued several non-academic reports, predominantly case studies to review recent empirical evidence on financial inclusion and inclusive growth. These have been referenced in this research for context and best practices.

Through the Journal of International Development, Sarma and Paris (2011) provide an Indian perspective of FI's demand-side. Although there are no direct references to South Africa, they offer relevant insight into the international trends in developing countries.

Chakrabarty (2013) provides a detailed overview and case study of India and its FI efforts to date. The similarities between South Africa and India's FI plans were noted; however, the results were vastly different for the two countries. Much the same can be said for the case study of Nigeria from Aboila (2015). The strategies also included access to formal institutions and the results achieved were anchored in savings products rather than transactional products.

Ifeanyi, Ravinder and Hein-Prinsloo (2019) provide a detailed overview of financial literacy and how South Africa has addressed literacy. This study supports their recommendation about a national and coordinated program. They did not recommend how the plan should be executed as their focus was motivating for the reinstatement of the centralised national plan.

Roberts, Struwig and Radebe (2018) provide the analysis on financial literacy results since 2012 to uncover insights into the literacy levels for South Africa. While their report was very detailed in terms of the results achieved, recommendations on addressing the stagnant results are not clear from the research.

Palagangwe (2018), through the researcher for South African Savings Institute (SASI), provides a detailed overview of insurance and exposes the lack of progress made towards FI in the insurance sector to date. More valuable insight into the savings culture and supply-side for South Africa is also documented by Mudzamiri (2020).

Wrigley (2019) provides a clear and concise report on microfinance in South Africa. It identified the attempt to close the gap between the formal and informal financial sectors with microfinance introduction in terms of loans and services. The report identified the new act's intention and the unintended consequence of over-indebtedness due to the new legislation.

Serrano (2020), a researcher for the Borgen Project, did a detailed report on businesses' needs in the informal community, the mismatch in the demand and supply of financial goods and services.

2.2.4.2. Surveys in FI literature

The WB is a leading authority on FI and has commissioned research on how adults save, borrow, make payments and manage risk since 2011. This research is called the World Bank Global Findex research (WBGF) and is conducted in 140 countries every three years. The last survey for SA was done in July 2017. These surveys were used to validate the implementation efforts of government and business. With an overlay of the chronological events driving FI, one understands how sustainable these changes are. In addition to the US authority, the Inclusion centre for the United Kingdom website was consulted as an authority on demand and supply factors for FI (Inclusion Centre UK, 2020).

2.2.4.3.. The informal economy

Regarding the informal economy, this research is based on a survey called Survey of the Employers and the Self Employed (2017 & 2019). It is a survey done by the local government will be used to understand:

i. size of the informal market
ii. general issues that they are experiencing
iii. the extent to which cash plays a role in their businesses.

While exceptionally insightful, no definitive conclusion is made on the size and the impact of the market, nor why it is still predominantly cash driven.

A secondary resource on the informal economy was the Mastercard Report (Mastercard, 2017, para 5), based on research in 2017 on the informal economy. It found that there are about "…1.5 mil informal enterprises with an estimated turnover of R75 billion per year". This sector "…absorbs 12% of the labour force" and that "96% of the trade is still done with cash" (Mastercard, 2017, para 5).

Banking services are monitored by the Banking Association of South Africa (Banking Association of SA, 2019), who argues that a regulated environment is better for consumers and the economy. There is also an argument to be made to the importance of the informal sector finance in promoting employment and informal business, as it has worked well in countries such as Uganda and India (Aliber, 2015). Both arguments hold merit as can be seen in the usage patterns of South Africans. Non-academic research from Alcock (2018) was beneficial in understanding the informal markets, how consumers behave in this market, and how informal financial suppliers meet consumer needs.

2.2.5. Research knowledge gap analysis

Since 2011, the WBGF (2011, 2015, 2017) enabled the measurement of FI's demand-side in most countries, including South Africa, and three surveys have been released to enable some measurement and insight into FI from a demand-side. This research is limited to the five products recommended by the NT Annual Report (2015) and predominantly focussed on banking. Although several academic and country reports attest to this, there has been little attempt to address the shortage of demand-side literature (Klapper & Singer, 2017).

Due to the limited body of academic knowledge of the demand-side of South Africa's FI inclusion, the topic is challenging to explore academically, but the hope is for this study to initiate research in this supply-side particularly relating to the Community Echelon Theory (2020) and the Dissatisfactory Theory of FI (2020)

Data collected on the supply-side comes mostly from 2 sources, the WB surveys and the SA government surveys done in the informal financial sector. This informs the supply-side of this research, while academic theory will be referenced for the best strategic pivot.

For SA, the following gaps form a research perspective have been identified:

- Limited and slightly dated supply-side research,
- Identifying the optimal level of financial inclusion for SA
- Risks of financial inclusion, most research are pro-financial inclusion, with little consideration for the risks that FI might introduce.
- The size and construct of the informal financial structure and the importance this sector plays in FI and financial literacy

2.2.6. Frameworks for Interpreting Research Findings

There are at least 12 theories for FI, Ozili (2020) from the University of Essex. The theories cover all aspects of the supply-side of FI, being delivery and funding. The beneficiary theories serve as guidance to identify the beneficiaries and provide some theoretical considerations for each theory's benefits and drawbacks. Table 2 below shows a summary of the FI theories, grouped in delivery (also known as supply, beneficiaries (also known as demand) and funding options.

Table 3: Summary: Ozili' s (2020) Theories of FI

	Theory 1	Theory 2	Theory 3	Theory 4	Theory 5
FI focussed Delivery	Community Echelon Theory	Public Service Theory	Special Agent Theory	Collaborative Theory	Financial Literacy
FI Focussed Beneficiaries	Public Good Theory	Dissatisfaction Theory	Vulnerable Group Theory	Systems Theory of FI	
FI Focussed Funding	Private Money Theory	Public Money Theory	Intervention Fund Theory		

Funding of FI is concerned with making financial resources available to deliver FI infrastructure or programs. When considering funding for FI, there are three distinct ways funding can be raised. First, it can be funded by the government, secondly by private funding or lastly with intervention funding.

2.2.6.1 Public Money Theory

Based on FI's public money theory (Ozili, 2020), FI is funded by government accounts, unless the government raises public funds. Most governments have an extensive list of priorities, and FI will compete with other social matters. In South Africa, there is not enough revenue to serve all the social interests, hence compromises often needs to be made around the most strategic or urgent social issues to be addressed.

Since 2008, South Africa has experienced large budget deficits (National Treasury, 2019). It is unlikely that South Africa will be able to invest in FI as a public good as even current economic spending programs seem unsustainable, according to Mr TT Mboweni (National Treasury, 2019). FI as a public good can be ruled out for SA in the foreseeable future, and the only real viable options are to use private or donor funding to drive FI.

2.2.6.2. The private money theory of FI (2020)

The theory of private money (2020) advocates the use of private funding for FI projects. There are several benefits, such as funders being directly involved through equity ownership in projects. Private ownership of projects could result in more appropriate skills for projects, innovation or ownership could also be more beneficial, but the cost of raising private funds to fund FI projects could be high and therefore difficult to get. Private money can drive the focus on private interests over the benefit of FI outcomes, and the risk of government control being lost is ever-present in this theory. SA has mostly relied on the formal financial industry to fund the FI objectives (Bouhill, 2015).

2.2.6.3. Intervention Fund Theory

Intervention fund theory for FI (2020) has a substantial benefit in that it by-passes the usual political bureaucracy associated with allocating public funds for public projects. Funds such as the Bill and Melinda Gates Foundation program "supports government and private-sector partners in a shared effort to establish financial services for the world's poorest to use to build more prosperous and secure lives for themselves, their families, and their communities" (Gates Foundation, 2020, para 1). Such funders "…can mobilize financial and human resources, both locally and internationally, to achieve the desired financial inclusion objectives" (Ozili, 2020, p. 3). However, these funds can be hard to come by as the funders decide which population to invest in, and the selection criteria are often not known.

According to Chibba (2019), FI's delivery is concerned with making available the infrastructure, knowledge, access, ITC, products, and services all relate to the supply-side. This study helped to identify FI factors for South Africa that needed further investigation (Ikdal et al., 2017). From a delivery perspective, FI can be delivered as a public service by the government, by an appointed agent from the government, through community leaders as a financial literacy program or collaboration with multiple private and public stakeholders (Ozili, 2020).

2.2.6.4. Public Service Theory

The public service theory of FI (Ozili, 2020) implies that the government takes full ownership of delivering FI as any other public good such as schooling or libraries. The government lends its credibility to FI's efforts as it drives the FI at micro and macro-level using existing economic, social and political systems to achieve its FI objectives. The problem with this model is that the private sector is excluded in solving for the FI. When financial sectors are privately owned, it would require either legislation or commercial agreements to make the commodities a public good. The second issue is that tax revenue is not infinite, and the benefits of FI need to be assessed with other public services that are needed. Deploying a public service strategy seems more viable if large numbers of consumers are involuntarily excluded (Ozili, 2020), as most South Africans now have access to bank accounts. This does not seem a viable option for South Africa.

2.2.6.5. Special Agent Theory

On the opposite side of delivery is the special agent theory, which implies that the government can appoint a specialised agency to manage FI (2020). This allows the government to bring in specialised skills needed and affords the government to focus on other pressing matters. There is a risk of the agency problem occurring as accountability and ownership is separated. Leading causes of the agency problems such as conflict of interest, risk adversity, and information mismanagement exist in this model and governance mechanisms will need to be deployed as it performs its oversight duties. The special agent theory has primarily been explored with Mastercard and SASSA when issuing the Grant recipients with a debit card (National Treasury, 2019). This agency theory had proven successful initially, the unintended consequence is the same as observed with the banked clients. Limited utilisation of these products moves consumers from excluded to included. However, later, it is observed that these clients are willingly removing themselves from the services and reverting to cash-based transactions. (Finmark, 2018). Agency theory for SA, particularly with regards to delivery, has already been deployed. It is doubtful that SA's strategy will be a prudent one going forward. SA as moved beyond agency theory as it has legislated FI in the BBBEE Act, which compels all financial service providers to comply, relying on a punitive approach for non-compliance.

2.2.6.6. Theory of Collaboration

Between the two extremes of government control and agency theories, there is a theory of collaboration for FI (2020). This theory capitalises on the intention and willingness of all identified stakeholders to achieve FI. The complexity of such a model is the constitution of the collaboration group. Getting the right people in is critical but only half the battle; selecting the most capable and willing stakeholders and keeping them engaged over time is the longer-term challenge of such a strategy. This model is based on goodwill, and goodwill can fade. South Africa has made significant progress in its delivery strategy, in large part due to the FSC, and the collaborative theory approach followed to date. This theory recognises the complexity of all the aspects of FI. It capitalises on the existing aspects such as financial systems, social systems, and infrastructures already available. Leveraging these sub-sections drives FI's macro perspectives, potentially delivering economic and social benefits for the country. The most common issue with this theory is that the operational and financial burden shifts to the private sector. The model does not factor in elements outside of the formal financial sector, such as unemployment, which is a significant factor in FI's demand-side, particularly in SA.

2.2.6.7. Financial Literacy Approach

The last stakeholder in the delivery side is the consumer. Assuming they are willing to enter the formal financial institutions, they will need financial literacy to make the correct financial decisions. Ozili (2020, p. 8) advises that the financial literacy approach is cost-effective "…since it does not require much public funding". A drawback in this theory is that the consumers might be willing to participate, but do not have the means to participate, as they deal with external factors such as unemployment or poverty.

With an 80% inclusion ratio achieved, the country's FI objectives have progressed from delivery, and some extend funding discussions, as most consumers are already included in the formal financial sector. It would be more prudent for South Africa to focus on the beneficiaries to drive sustainability on the FI programs to ensure that the last mile is achieved by focussing on the demand-side of FI.

Theories relating to beneficiaries of FI is primarily focussed on all consumers or vulnerable groups. The vulnerable group theory deals with vulnerable groups of people exclusively and focuses only on removing the group's barriers. It stands to reason that this would be the most cost-effective as it is a smaller group than all consumers, but it does ignore all non-vulnerable people outside of this group. This theory can work for South Africa when solving for the 20% of excluded consumers. The dissatisfaction theory (Ozili, 2020) of FI is also a viable solution for South Africa. The dissatisfaction theory addresses part of the consumer base included but has voluntarily excluded themselves from the formal financial sector. This addresses the high dormancy ratio because the formal financial institutions get closer to the supply and demand mismatch. Once the issues of concern or dissatisfaction have been addressed, the likelihood of sustainable financial inclusion should improve.

2.3. Summary and conclusion

The academic review of FI provided many definitions of FI. It allowed this study to generate and adopt the following definition of FI: “the provision and utilisation of appropriate financial services to all members of society in the formal financial industry, at minimum, and includes the five services prescribed by the National Annual Treasury reports (2015). Several facets of FI were also identified as essential and relevant to FI: supply-side and demand-side aspects of FI, financial literacy, governmental regulation and policy, and the infrastructure for delivering FI.

South Africa’s FI plan has remained unchanged since 2004 and it started with the idea that a bank account will act as a springboard for secondary product usage. Despite the Mzanzi account's failure, South Africa has kept this course of action with commercial banks still providing basic bank accounts as the FI's entry point. Although South Africa has made positive strides in getting 80% of the population to bank accounts, the South African government has ambitions to achieve 90% FI by 2030.

Considering Ozili’ s (2020) recent contribution on FI theory descriptions, this literature review briefly compared the relevance of several FI theories, including the public money theory, special agent theory, theory of collaboration, the financial literacy approach and the dissatisfaction theory approach. What is evident in the body of academic and industry-based literature available on FI, is that South Africa’s FI strategy lacks underlying academic models and historical plans slanted towards the supply-side with seemingly little pro-active input from the demand-side.

This research suggests that South Africa’s current plan will not deliver the 90% inclusion target, as it lacks focus on the demand-side. Further to the pivot in strategy, the research also suggests that FI targets and measurements need to be specified to measure the industry (insurance, investment, banking and saving) in terms of suitability of the products and services through user metrics that indicate demand satisfaction for the efforts to be sustainable. The next chapter delves into the methodological aspects of the study.

3. Research Strategy, Design, Procedure and Methods

The research strategy speaks to the foundational planning, how it has shaped the research methodology throughout the planning and execution phases. In this chapter, an overview of the research's background elements, the detailed research strategy and design, and the research methods are described. The literature selection is detailed, considering the data handling and collections process and a summary of the research weakness. In the research foundation phase, the research topic and purpose were informed when considering the research questions in section 1.2.2.

The shape of exclusion and inclusion for SA has changed over the last decade; the strategy and theories need to be amended to reflect these changes for FI to stay relevant in the current market and account for the future changes. As late as September 2020, 12 theories were published by Ozili (2020), applying these theories to the FI objectives to SA. One can determine if the current strategy for South Africa is the most beneficial and which alternative theories are available for a strategic pivot to achieve the 90% inclusion target.

3.1. Background to elements of the research.

The primary elements used in this paper are documentation and text. A summary of the documents used:

Table 4: Summary of research elements

Element	References Used	Peer reviewed
Academic Research	29	Yes
Case Studies	5	No
Policy Perspectives	3	No
Inclusion Reports	6	No
Surveys	6	Yes

The benefits of using academic research, case studies, policy perspective and other printed sources is that the documented findings and concepts are:

a) Retrievable at any time as they are in the public domain and available digitally.
b) Fully referenced to give credit to the authors.

The weaknesses of using documentation are:

a) The possibility of reporting bias could be in the first-person report or the biases introduced by the author of the research.
b) That these electronic resources can be removed from the databases and impacts the validity of the foundational research.

3.2. Research strategy

For a subject matter such as FI, one could do qualitative research through interviews or observations, especially from a demand perspective. This was impossible in 2020, as the country was dealing with the Covid-19 national pandemic and strict lockdown procedures needed to be observed. Secondary data was used for most of the research. Fortunately, there was enough research (interviews, government reports, case studies, and academic papers) to initiate and conclude FI's study. For this research, the following strategy was followed:

1) Demand-side factors: Policy and social-economic perspectives where collected from academic papers, case studies and policy perspectives. From the South African government's perspective, the National Treasury published these reports, financial industry researchers such as FinMark Trust (2015, 2018 & 2020) and the World Bank (2011, 2015 & 2017) secondary research used from these reports. International expertise was used from the USA with the WB and the Inclusion Institute in the UK.
2) Supply-led factors: Secondary qualitative research reports for this study were collected from datasets made available by the WB. These are datasets compiled from surveys on South African respondents. As a leading authority in FI, the WB publishes its FI Survey results every three years. In referencing the South African results in all three WBGF surveys (2011, 2014, 2017), the WB makes a clear distinction regarding:

    i. the reasons why people are not using formal institutions
    ii. the general issues that consumers are experiencing
    iii. the extent to which consumers are using financial products.

Correlating the South African government's reports with the WB independent survey and data, one can understand the gaps from the demand-side that needs to be addressed.

Academic / Theoretical reviews: 12 theories for FI where reviewed and these theories are all discussed in the literature review chapter (section 2.2.6): Community Echelon Theory, Public Service Theory, Special Agent Theory, Collaborative Theory, Financial Literacy Theory, Public Good Theory, Dissatisfaction Theory, Vulnerable Group Theory, Systems Theory of FI, Private Money Theory, Public Money Theory Intervention Fund Theory to determine a strategic pivot for South Africa. Reviewing academic research and applying the newly documented theories as listed above, the strategy intends to find a demand-led theory for FI for South Africa.

3.3. Research design

Given the five generic research design options: cross-sectional, longitudinal, case study, comparative, and experimental (Brymans, 2012), this research followed a comparative design using the demand-side research done by the WB through the WBGF research (2011, 2015, 2017). South Africa through Stats SA (2015, 2017 and 2020). Allowing this research to build on previous research papers, research documents, case studies and reports on FI in South Africa.

The surveys used from the Word Bank Findex reports is secondary data applied retrospectively to the research. The surveys were done in 2011, 2015 and 2017. The respondents are randomised and different in each study, so could not be used to track usage for individual respondents' behaviour over time but did offer an opportunity to do retrospective cross-sectional analysis.

WBGF (2011, 2015 & 2017) interviews: Every three years, 1000 people participate an in the survey and the dataset is made publicly available by the WB, providing insights for the usage and demand patterns each year. Using the research published by the WB is justifiable since the organisation is acknowledged as a credible, trustworthy and independent reference point in financial reporting and publishing.

Stats SA (2017) interviews: The South African government researches a sample of 1000 employers in the informal economy. Using this data to triangulate themes is justifiable as it represents a decent sample of the informal economy population.

Correlating these two datasets aids in making the issues of FI much clearer in the research papers. Further to industry reports by Mastercard (2017) and the National Treasury (NT) (2015, 2019) all serve as critical insights into some of the failures of the current programs, and albeit a self-serving recommendation for next steps.

3.4. Research procedure and methods

3.4.1. Research data and information collection instrument(s)

Research data collection instruments refer to the instruments used to collect data (Bryman, 2012). It could take many forms such as a paper or digital questionnaire, case studies, interviews or observations.

This study used interview results and case studies from the WBGF (2011, 2015, 2017) and Stats SA (2017) conducted by the South African government. The WB interviews where fully structured and consistently used each time the survey is conducted. A standard structured interview guide can be f0ound in Annexure 1.1 of this research report. The case studies based on South Africa’s FI efforts and those of other countries served to measure each country's successful implementation and compare how FI was implemented in those countries.

Abrahams (2016) set out to question whether the FI improvement strategies in South Africa will adequately address the financial inclusion targets, as set out in the NDP. Using the WB data, he concluded that South Africa was well on track to meet the FI target. This design is prudent because it provides an independent view of the FI objectives and results. This report was helpful with the chronological sequencing of events, but the premise that a bank account will be a springboard for FI is questioned since 2017 has not been evidenced. Ikdal et al. (2017) and Demirguc-Kunt et al., 2017) use the same approach in their reports.

3.4.2. Selection of Literature for Structured Observation

Since South Africa has been surveyed three times since 2011, the datasets were used primarily to validate and measure FI. The survey is conducted independently and serves as the primary measure for FI in South Africa. Metadata is available in the public domain and accessed on the WB website and the most used FI dataset globally. This is the most frequently quoted and measured data source for FI in South Africa and worldwide.

The research population is the South African consumers, and they can be viewed as being:

a) involuntarily excluded or
b) voluntarily excluded.

Abrahams (2016) used a similar target population. This classification was reported by Amidži et al. (2014) and is a critical extension of understanding FI.

3.4.3. Sampling used in secondary research:

Secondary research reports were sampled from South Africa's Stats SA (2017) research report and WBGF Research (2011, 2015, 2017) research reports because they provided comprehensive datasets from which insights of South Africa's FI progress could be drawn. In the datasets, interviews were conducted on 1000 people using a random sampling procedure to select households. Within a household, interviewees were randomly selected. Most of the research available in South Africa is based on the WB surveys, as shown in Abrahams's (2016) example. The same reports and research are used by Kruger (2016) and Klapper and Singer (2017).

Access to the database and research findings are made available from the World Bank website. There are conditions of use for researchers such as citation requirements. Meta Data, research instruments, and the survey results are available after registration to the World Bank website.

3.5. Ethical considerations when collecting research data

The outcome of this study was informed, in large part, by the research conducted by the WB and SA government. The WB is a credible and ethical research authority and reliance can be placed on its conduct. The necessary ethics approvals were sought to ensure that all the subjects’ human rights and dignity were respected, and subjects provided consent for the research.

All interviews and data used in this research are referenced, and data used from the surveys are anonymised. The interviews were conducted by the WB and only the metadata and findings where shared.

Confidence is placed that necessary protocols followed by the WB and local government. Reliance can be placed on the WB's interviewers' validity and professionalism as per the declaration on the World Bank Website (World Bank, 2020) and the government’s reports (World Bank, 2015). Further to the above mentioned, the intent is not to diminish governments or WB reports, but to add to the body of knowledge to achieve higher FI. All protocols set out by Wits University research standards and ethics codes are confirmed in the Ethics Board's clearance certificate, which is available in Appendix 1.3 at the end of this report.

3.6. Research data and information collection process

For this research study, no new interviews were conducted, as metadata from WB where used; for SA, this research spans over ten years. The WBGF database measures FI in 140 economies. It surveys 1000 people in each country every three years. It is detailed in understanding how people access accounts, make payments, save, borrow, and manage risk. For this research, the qualitative results for South Africa in 2007, 2011 and 2017 have been utilised. The data reveal opportunities to expand access to financial services among the unbanked and promote more effective digital financial services among those who have an account (Demirguc-Kunt, 2017).

3.7. Research data and information processing and analysis

Data processing is the flow of events performed on a dataset to verify, organise and extract facts, detect patterns and develop explanations. Transcribing the interview data to show an aggregate view of all the responses and provides an opportunity to familiarise oneself with the data while investigating themes and patterns across different interviews.

The WB interviews were conducted (Global Findex Research 2011, 2015 & 2015) to understand if respondents have a bank account, which financial institutions they use, how they manage these products in terms of shopping, swiping a card, doing efts and other transactions. The responses are captured in a qualitative data set and involve non-statistical analysis and seek inductive inferences from the research themes. Content analysis is one of the most common methods to analyse qualitative data. For this research, content analysis and correlation will be used. The data collected is structured interviews. There are three sets of interviews spanning across ten years. The content review will look at the changes in the respondent's answers to determine trends, and correlation testing will determine relationships between FI and factors such as unemployment, education and location.

The research respondents were selected at random but needed to be:

1. living in South Africa at the time of the survey,
2. the target population is the entire civilian,
3. noninstitutionalized population age 15,
4. respondents are randomly selected within the selected households.

3.8. Research strengthens—reliability and validity measures applied.

The reliability measure references how consistent a measure is applied, while validity is the measure of accuracy. Both measures evaluate the quality of the research. This WB research reliability can be confirmed as the WB has conducted the data and research. The error margin is meagre as the data is calculated around a proportion at the 95 per cent confidence level. This research is widely accepted as the authoritative source of FI world-wide.

The data is semi-structured, which aids in the consistent understanding of the dataset and allows for deductive reasoning. Further to the WB's reliance, the following measures were taken for validity concerning the rest of the datasets.

- Credibility: Only credible sources where used, published work of prior researchers, official government reports and government-approved statistical info.
- Dependability: Both the WB and the Trade and Industry Department surveys are done every three years. Any additionally measured or changed to the survey is noted in the reports. The sample size remains constant and changes each time the survey is done. As financial inclusion is a crucial outcome for every citizen in SA, randomised sampling of 1000 people ensured dependability.
- Transferability: All work used in this research uses quotations to indicate the trustworthiness of the results. All results are referenced and available for further analysis. Where possible, triangulation is used with the different datasets to verify and confirm the findings.
- Conformability: Since the author did not do the interviews, conformity is achieved. There is no influence on the interviewees. As far as possible, the interview feedback is semi-structured with a series table to explain the context of the individual surveys and the country-specific information collected.

3.9. Research weaknesses — technical and administrative limitations

The research, although sound in the strategy, displays weaknesses in that the field work was slightly out-dated; the last submission is dated 2017. This is a smaller compromise as the view from 2009 to 2017 are most important for this research. The WB prescribes the method and technique of collecting the data, and the detail can be seen in Appendix 1.1.

4. Presentation of Research Results

4.1. Introduction

Development economics is traditional economics, but it must also deal with ”economic, social, political, and institutional mechanisms, both public and private, necessary to bring about rapid and extensive scale improvements in the levels of living of the people” (Todaro & Smith, 1998, p. 25). Considering Ozili’ s (2020, p. 5) broader objectives of FI being “the provision of access to financial services to all members of the population particularly the poor and the other excluded members of the population,” There is a reasonable linkage between FI and pro-development objectives from a socioeconomic perspective. The WB regards FI as a cornerstone for developing countries' socioeconomic development (World Bank, 2020).

Large bodies of evidence exist, such as in Nigeria's case, where FI positively impacted Nigeria's development objectives both from an economic and social aspects. Using correlation and regression testing, Babajide, Adegboye, and Omankhanlen (2015) identified the direct link between FI and economic development for Nigeria, evidencing that the higher the number of people included in the formal financial sector, the better the socio-economic benefits for the country (Babajide, Adegboye, & Omankhanlen, 2015).

FI as an element of development economics is a relatively new concept considering it was first introduced in 1993 when the impact of bank branch closures on small communities was observed by European geographers (European Commission, 2008). Since then, pro-development objectives have been calling for the financial industry to be more inclusive. Notably, Ozili (2020) argues that FI lacks underlying principles or theories in classic academic fields such as economics and finance, causing more uncertainty and challenges in contemporary economics. To address the limitation, Ozili (2020) released twelve common theories of FI, spanning across the topics of beneficiaries, delivery and funding of FI objectives and planning.

FI is not a new objective for South Africa, as can be seen in the efforts since 2004 from government and private institutions (Abrahams, 2016). It is widely accepted that SA has achieved an 80% inclusion (FinMark, 2019). However, with ambitions of 90% inclusion by 2030 (Government, 2019), there is still some work to be done.

The definition of inclusion for South Africa is mainly measured on consumer access to bank accounts in the formal financial industry (Abrahams, 2016). When comparing it to the objective of FI, which is for all consumers to be financially included, access to suitable financial products (Banking Association of SA, 2019) one notices the disconnect in the FI strategy and measurements. SA approached inclusion with a Bank account first led strategy in 2004 (FSC, 2004), the anchor of the strategy is that once consumers have a bank account, they will access more services and products – this is called the springboard effect (NT, 2015).

The WB has endorsed the springboard idea for several years (World Bank, 2018) and several other case studies can be seen such as India, who initially took the same approach with low-cost savings products (GPFI, 2014). Importantly SA has decided to make the anchor product a transactional account and this strategy has prevailed since 2004.

4.2. The South African financial market landscape

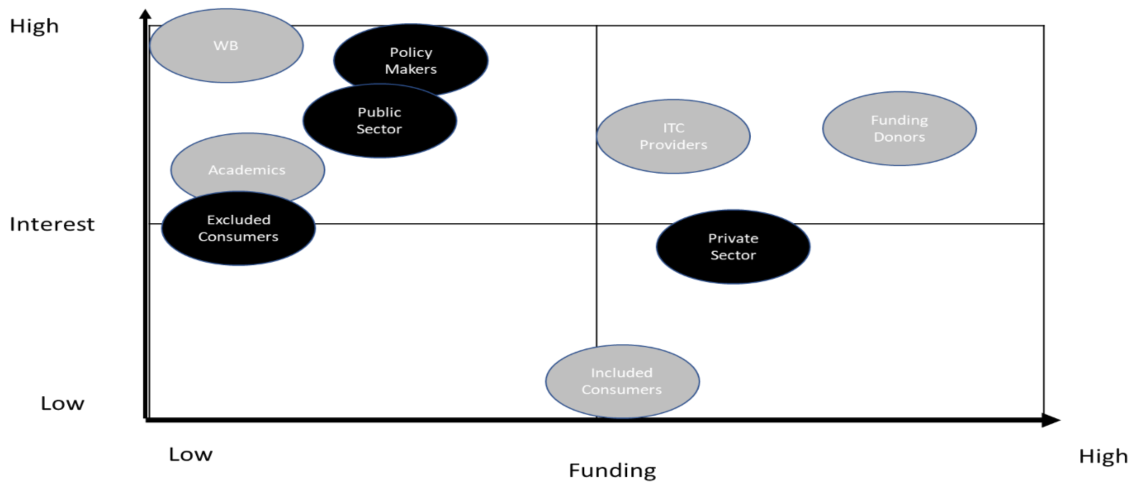
Smit (1976) first defined social and political issues in developing economies. Smit also defined the relationship between the product's price and people's willingness to either buy or sell the product. With this predisposition for this equilibrium to exist, the market was assumed perfectly competitive. Most developing countries do not benefit from the perfect supply and demand and intervention are needed to stimulate growth. Fast forward to 2020 and the problem is still prevalent in many industries and economies and South Africa is not and exception.

The nature of the oligopoly financial industry of South Africa, the political and social issues pre-democracy, amongst other things, contributed to an imperfect financial market. This market is skewed toward the middle- and upper-income segments of the country (Ifeanyi, Rena, & Hein-Prinsloo, 2019), thus the need for government to address the imperfections in the market, as one of the development strategies in FI strategies.

Several parties have an interest in FI in South Africa, both on the demand-side and the supply-side. Governmental policymakers and the public sector use FI to redress historical and social issues. The private sector predominantly plays the role of service providers in the financial services and ITC infrastructure. Other interested parties are academics and social interest groups that drive social development agendas for and on behalf of consumers.

The demand-side, the consumers, is divided mainly into the financially included and financially excluded groups. International interested parties focus on Global issues, like the WB, which is interested in FI worldwide. Funders such as the Bill and Melinda Gates foundation play a critical role in funding FI development initiatives and research. (Subramanian, 2014). Collectively they are all invested outcomes of FI, albeit for varied reasons. Figure 1 below shows a plot mapped with interested parties of FI for SA.

Figure 1: Plot of interested parties of FI



Mapping the primary strategic stakeholders for SA (shown in black) and the secondary stakeholders (shown in grey) immediately identifies the industry players' vastness. By plotting all the stakeholders of FI on the power and interest grid, it becomes clearer who the stakeholders are that have the means (funding and skills) to drive FI programs versus the interest parties. From this grid, a few conclusions can be drawn:

- FI as a development initiative can most effectively be influenced/legislated by government and policymakers at a national level as the private sector is competitive and are not primarily responsible for development objectives as an industry.
- Due to the government's many competing social objectives, limited funding can be made available to FI (Ozili, 2020). If paid for by government funding, it would be at the expense of another social development objective as developing countries have to make trade-offs, with limited funding available.
- The private sector might be more resourced than the government to drive FI programs, but they might need to be forced/coerced if the commercial interest is low.
- While private funding such as the Bill and Melinda Gates Foundation can help influence policy and provide some funding for the programs, but when the financial industry is mostly privately owned, it lacks the means to drive change outside of using reasoning and collaboration tactics.

- FI objectives the excluded consumers do not have the means to meaningfully contribute to FI, as they are involuntarily excluded and have no voice at the table unless involved in a social activity group.

These conclusions are also relevant to South Africa in that the financial market can broadly be categorized into banks, insurance, savings and investments companies, which are mostly privately owned (JSE, 2020).

From a governmental perspective, funding of such as FI programs, complete with other developing initiatives such as health or schooling as the government makes decisions regarding which public good and services to fund. For SA, as the public finances have seen large budget deficits since 2008 (National Treasury, 2019). It is unlikely that South Africa will invest in FI as a public good as even current economic spending programs seem unsustainable according to TT Mboweni (National Treasury, 2019).

With a mature private financial sector and limited government funding, South Africa took a collaboration FI theory approach (FSC, 2015). Driving FI to all its consumers with willing parties in the industry participating in a public program to provide rapid and extensive scale improvements in the financial industry (Charier, 2017). Given the market landscape, it would seem like the best option at the time because it allowed Government to collaborate and keep a watchful eye on the outcomes (at the expense of control) without having to spend the limited resources to either compensate the private firms or provide banking as a public service.

4.3. The South African approach to FI.

In early 2000, the lower end of the SA market was involuntarily excluded from banking systems due to political and socio-economic factors (Kruger, 2016). Financial exclusion in the context of the 2000s meant that consumers had no immediate access to bank accounts, restricted access to formal financial services and a significant dependency on cash (Bank, 2018). As part of the National Development intent, FI needed to be addressed to including all consumers in the formal finance industry. It was believed to bring about socio-economic benefits for SA (Abrahams, 2016).

Ozili (2020) explains that FI can be viewed from 3 critical lenses in FI theory. The first lens is the beneficiaries of FI, and the second is the delivery of the FI objectives and the delivery mechanism. There are 12 theories in total, and all of them have benefits and challenges. Often several of these theories will need to be deployed over time as the economy's landscape evolves (Ozili, 2020).

From a FI theory perspective, there are two groups identified by Ozili (2020), and the first group is the vulnerable group. The theory aims to include the financially excluded population into the formal financial sector. The second group is the dissatisfied consumer. The dissatisfaction theory speaks to the mismatch in supply and demand. The consumer in this group is not involuntarily excluded but chooses not to use the services available to them as they are dissatisfied with aspects of the products and services. For South Africa, the beneficiary perspective in the collaboration agreements and the FC Act focuses on reaching at least 90% of consumers to have access bank accounts set out in the National development plan for 2030 (Government, 2019).

The bank account strategy is thought to result in customer education via the commercial banks and access to secondary products such as savings, investments and insurance (Charier, 2017). There have been some conflicting reports on how well this plan has worked. A point in casein, 2016, Abrahams (2016, p. 1) reveals that SA "advanced financial inclusion and the country has experienced a noticeable increase in financial inclusion from 61% in 2004 to 89%" while Kruger (2016, p. 3) reports that "exclusion is still prevalent in the segregated locations" in the same period.

Regarding FI delivery, the WB strongly advocates that a strategic national financial inclusion plan is needed. All stakeholders such as regulators, telecommunications, competition and education ministries jointly drive the plan (World Bank, 2020). In theory, this strategy is referred to as the collaboration theory of financial inclusion (Ozili, 2020). The collaborative theory is a process whereby individuals work and learn from each other in solving a problem. It is rooted in the work of Lev Vygotsky’s (1934) social development theory, which emphasized the importance of communication and social interaction in group work. Although there is currently no widely accepted general theory of collaboration, theoretical approaches towards collaborative practices exist in a wide variety of disciplines, including FI. Ozili (2020) explains that the benefit of the collaboration theory is the variety of disciplines and skills are involved in the effort, improving the likelihood of success. The risk to such an approach is that the appropriate group's size is difficult to gauge, and at times, too many stakeholders could be unproductive. Having a higher number of collaborators does not guarantee a higher probability of achieving financial inclusion (Ozili, 2020).

From 2000-2012 SA worked on its large-scale inclusion plan by formulating the FSC (Banking Association of SA, 2019). The charter governed the collaboration between the private and public sectors, as participation was voluntary. The collective developed a strategy to drive FI's principles, centred around financial access, awareness, and literacy (FinMark Trust, 2005). This collaboration placed a great deal of reliance on the private sector's goodwill, particularly funding and delivery. Charier noted that the charter was more like a social responsibility project than a national development project (Charier, 2017). Charier further argues that FI is too important to be managed voluntarily and claims that FI efforts might have resulted in better outcomes in some sectors if positioned as a commercial opportunity.

In 2012 the charter was replaced with an act, the Financial Sector Code (FS Code). The act proactively commits firms to apply the BBBEE Act to address the socioeconomic consequences of financial exclusion in the industry amongst seven other equality objectives (Kruger, 2016). This promulgation of the BBBEE Act moved the industry from a collaborative initiative to a legal requirement with punitive and enforceable FI and financial literacy contributions.

From a funding perspective, funding has been provided by commercial banks and insurance companies since 2008 when businesses pledged to invest a minimum of 0.2% of post-tax operating profits in consumer education annually (Bouhill, 2015). With the FC Code's enactment, contribution increased to 0.4% for all companies with a turnover R5mil and more (Bouhill, 2015). The funding needs to be applied to financial literacy efforts focussing predominantly on low-income households from banking and insurance perspectives. The FC Code is silent about investment, collective investment schemes (CIS) and savings schemes specifically towards funding and literacy obligations (Bouhill, 2015).

4.4. Market factors

Ozili (2020) proposed that FI successes are determined mainly by market factors in which they operate as each market faces its unique combination of market factors. The Inclusion Centre has identified universal factors, which needs consideration when choosing or evaluating a FI approach (Inclusion Centre UK, 2020). The factors are summarised in Table 4.

Table 5 Factors influencing effective FI (Inclusion Centre UK, 2020)

Supply-side factors	Demand-side factors
Distribution inefficiencies	Financial literacy
Ineffective competition	Trust and confidence
Oversupply or undersupply in the market	Low ability to plan
Complex products	Consumer behaviour
Inefficient regulation or public policy	Impact of external factors.
Economics of access	

Some of these factors have been empirically tested in academic literature and one such study by Sarma and Paris (2011) examined the relationship between FI and country development. The study found that human development and FI do move closely together and are influenced by socio-economic, infrastructure-related factors, income, inequality, literacy, urbanisation, and physical infrastructure for connectivity and information for India's case (Sarma & Paris, 2011).

4.4.1. Supply-led Factors

Notwithstanding the social and market challenges South Africa faces, FI's intent is clear: The National Development Plan (NDP) 2030 expects 90% of consumers ought to be included by 2030 (SAGov, 2013). While most of the reporting is done at the bank account level (FSC, 2020), all the sectors (banking, insurance, savings and investments) have a role to play in FI. SA supply-side had the intention of including consumers into the formal financial industry through a bank account fist, and then the assumption was that secondary products such as savings, insurance, investments would be taken up in the formal sector, lessening the dependency on the informal financial market for South African consumers (NT, 2015). FI effectiveness must include access and usage of these formal secondary products in the industry (World Bank, 2020). It is against these objectives that the supply-side is accessed.

4.4.1.1. SA: Distribution inefficiencies

A significant aspect of FI is access to the right products. Matsebula and Yu (2017) explain that when consumers attain relevant financial services, they will experience growth in their personal financial life, previously denied. Charier (2017) further explains that when individuals and businesses have access to the financial system, they benefit from the system's important information. Well-informed economic participation tends to make better choices among financial products and services. Access to quality information is as essential as getting access to the products, as consumers are faced with an array of formal and informal options, particularly in SA, where the informal market is substantial (Alcock, 2018).

Including involuntary excluded consumers in the banking sector offers these consumers an opportunity to save, secondary access products, and introduce improved safety for the account holder as the need to carry cash is removed (World Bank, 2017). There is also the opportunity to earn interest of positive balances for the consumer (Volker, 2013). The benefit is that the bank can become more profitable for the bank by using a percentage of its deposits into the account to lend to other customers (Volker, 2013). Benefits of FI for the country are moving to electronic payments which have substantial benefits such as replacing cash in the market. Cash can more easily be stored, it offers more security, is more efficient and less expensive per unit of value. In addition, it cannot be lost or destroyed and is more convenient to store (Volker, 2013).

FinMark Trust (2018) reports that only 50% of the South African population had a bank account in 2004, but by 2018 that number grew to 80%. Recognising the commercial opportunity commercial banks introduced low-cost products from 2010, with the sole aim of getting as many consumers on their entry-level banking products as possible (Abrahams, 2016).

With the introduction of Capitec in 2001, the distribution inefficiencies in the lower-income brackets changed substantially (Kruger, 2016). Capitec offered low costs (pay as you use products) with simple access to banking, savings and loans in one account Since the launch in 2001, Capitec has acquired almost nine million clients, contributing to a more inclusive and efficient banking sector (Capitec, 2020).

Another strong contributor to FI results in 2018 was the digitisation of South African grant payments. Beneficiaries could elect to have their grants deposited into the Mastercard SASSA Grant Card (Finmark, 2018) or paid into the bank account of their choice. Effectively digitising the transaction's payment leg and introducing more efficiencies as more consumers started participating in the formal banking sector.

Notwithstanding the banking sector's success to include the involuntary excluded consumers, the demand for cash in over the same period grew faster than the GDP (Mastercard, 2017). FinMark first reported the post box effect in 2017. The term is used for the large number of consumers who withdraw their cash (salary, income or grant) as soon as it arrives in the bank account (Finmark, 2018) and continues their payments in cash. The disadvantages of cash include issues such the expense to print, expensive to manage and it is associated with risk issues such as counterfeiting, theft, getting lost and lastly it can get destroyed or become fragile over time (Volker, 2013). Due to these disadvantages, banking and electronic payments are imperative for FI and the economy alike. If removing the dependency on cash is a development objective for FI, this is a lost opportunity to digitise this payment (Deloitte, 2019).

This finding raises a fundamental question about distribution efficiencies. Having had access to a bank account, consumers voluntarily or involuntarily use cash to make purchases and payments. The WB advocates generic reasons such as literacy, restricted access to electronic payment options, ATM cost of withdrawing cash as reasons why people are not using bank account globally (World Bank, 2018). Furthermore, for South Africa, the WB does consumer surveys test the relevance of these reasons. These results show that while these reasons are certainly a factor (discussed in section 4.4.4.2.) The major contributor to cash dependency is the lack of interoperable payment facilities in South Africa, forcing consumers to revert to cash. This has been sighted by Visa (2019) and Mastercard (2017) as a blocker to digital payments. Ignoring the need for digital payments will have resulted in the post-box effect for South Africa (Finmark, 2018). Access to the formal financial sector, without meaningful usage, is detrimental to FI objectives for SA and is evidence of inefficient distribution of services in the banking sector.

Insurance is an essential tool in financial planning, especially for eventualities like deaths, illnesses and old age (Palagangwe, 2018). The importance of protecting assets is a second but essential element of wealth creation and FI. Palagangwe (2018) suggested that most low-income households and businesses are particularly vulnerable to risks, and even the smallest economic shocks. This is confirmed by Aliber (2018), who found that the South African population is under-insured despite the insurance industry's size. He estimated that fewer than 10% of private vehicles and less than 5% of commercial taxis are insured in South Africa. The most significant distribution change of insurance in SA can be seen in the digital value propositions available in the South African market, a departure from the past broker-led models. Insurance products now digitally available to the middle- and lower-income segments. Good examples of such services are the use case of Avbob (Avbob, 2020), making funeral services available on USSD dial-string. Another is OneLife selling life insurance and funeral cover online and on the telephone with no medical testing for underwriting purposes (OneLife, 2020). Although these are two good examples of improvements in distribution efficiencies for insurance more work needs to be done to bring simple insurance products to the market and lessen the medical underwriting criteria and making the terms of the insurance simple to understand, which is a deterrent for consumers (Aliber, 2018). Mahapa (2016) confirms that overall, the

Insurance industry is slow to embrace digital methodology and FI. This is validated Accenture: “As a result, “the sector is losing out on the opportunity estimated to reach R115.2 billion by 2020.” (Mahapa, 2016, Para 1).

President Cyril Ramaphosa said, “South Africa is not a country of savers**”** (Mudzamiri, 2020, para 1)**.** At face value, this seems to be true for the country and its consumers. Since 2015, South Africa has seen low growth and constant budget deficits, leading to low national savings and distribution inefficiencies (Mudzamiri, 2020). This view is substantiated by SARB in its Quarterly Bulletin numbers (2017) where household savings to disposable income ratio was at 0.2% per month. This general trend of not saving in SA might not be as wilful as it first appears. Considering SA poverty and unemployment, it is hardly surprising that people are living hand to mouth as confirmed by Kruger (2016).

Regarding distribution ineffectiveness of savings, it might be more accurate to conclude that the formal savings product in SA does not meet South Africans' needs. The National Stokvel Association of South Africa (NSASA) advises that it has over 800 000 registered stokvel groups, covering more than 40% of the population. They further advise that SA has nearly an R50billion saved in these accounts (Nsasa, 2020, Para 2) indicating that South Africans widely use these stokvels products. The FSC announced that 77% of South Africans now have access to the bank accounts, which they mostly save, as these accounts are primarily used for transacting (FSB, 2020, para 12). This is more evidence of the mismatch in supply and demand. Transactional bank account offers minimal interest in their transactional products, and consumers would be better advised to using savings vehicles to save (SASI, 2020). This clarifies that access to formal financial products without the underlying literacy on usage will result in poor decision-making (Bouhill, 2015).

To encourage the priority of long-term savings and effectively lessening the dependency on family members and government in the long term. The South African government introduced tax-free savings accounts in 2015 (Klaus Kessier, 2017). The benefit of these long terms savings is that “all proceeds, which includes interest income, capital gains and dividends from these accounts, are tax-free” (Mwandiambira, 2018). Unfortunately, as reported by the Mail and Guardian, the tax-free savings account performs well below expectations (Mwandiambira, 2018. The long-term benefit is often sacrificed for more short-term immediate needs (Klaus Kessier, 2017). Introducing tax-free savings plans is an excellent first step – but the education around these complex products needs to be made more accessible. Long term savings will not be likely for the large number of consumers who do not have the means to cover their short-term needs (Kruger, 2016).

Informal services and markets cannot be ignored, as the informal services play a significant stopgap in the industry. GG Alcock released two books on this subject entitled *KasiNomics* and its follow-up, *KasiNomics, The Revolution.* These books relate directly to the informal economy in which Alcock (2018) articulates the informal economy as being" in the township, a rural marketplace, at a taxi rank or on a pavement in the shadow of skyscrapers" (p. 11). This informal economy, running parallel to the formal economy, is estimated to be one-third of the formal economy in size (Mastercard, 2017). In the informal economy, one will find a mix of traders, small business owners, big business owners and subsistence living business owners. They have in common that, by enlarge, they are ignored by the formal financial institutions and Government (Alcock, 2018). Alcock explains that "South Africa, play[s] around with the formal economy as if it is the only economy, we have no concept of the rest of the economy and very few businesses have got it right in terms of getting involved in that economy" (Alcock, 2018).

The products and services are vastly different in the informal economy. Mashigo (2000), in an in-depth study on the product types, explains that community members have the benefit of a long-term relationship between borrowers and lenders therefore are less dependent on credit risk models that traditional service providers depend on. Mashigo (2020) notes that appeal of informal loans is found in benefits such as easy access, variable loan size, flexible, repayable schedule, personal atmosphere, low level of transaction costs and convenience and the brief period needed to obtain loans" (p. 2). These factors add to the appeal of informal products and act as a deterrent in the formal sector.

Community savings is appealing as people collectively save for funerals, investments, education and other objectives (FinMark, 2020). People who collectively run stokvels have full control of rules, regulations, contributions and even benefits (Mashigo, 2000), placing trust on the group and in the certainty of the rules they have collectively created. This is in clear contrast to the rules that are imposed on them by formal institutions. The informal economy plays a critical role for the people it serves – albeit at the formal economy's expense. With one-third of the resources excluded from the formal economy and the GDP (Deloitte, 2019), growth for the country is impaired from reaching its full potential.

4.4.1.2. Ineffective competition

Effective competition improves enterprise efficiency, creates a broader choice and range for consumers while reducing prices and improving quality and innovation (European Commission, 2019). Supply-side issues in the formal sectors of FI is found mostly in the competing products and services in the informal financial markets, despite the mature and developed formal economy.

Banking in South Africa includes 17 domestic, commercial banks, two mutual banks, two cooperative banks, 14 local branches of foreign banks, and three representative offices of 43 international banks with representation points all over South Africa. (Charier, 2017). Much of the market share is owned by the big 5 (Absa, Capitec, FNB, Standard Bank, Nedbank) collectively Absa, FNB, Standard Bank and Nedbank own 85% of the infrastructure, which consists of 5000 branches and 30 000 ATMs (Charier, 2017). Most of this infrastructure would be available in formal townships, however, as the last national census showed in 2011, this excludes 2700 informal settlements, with an estimated 1,3 million residents (Lehohla, 2011). No formal infrastructure has been set up and formal banking services are not locally available in the informal townships. Government issued three additional banking licenses in 2017 to Discovery Bank, Thyme Bank and Bank Zero (BusinessTech, 2017). As these are digitally led banks, it has not yet resulted in additional infrastructure. However, it does have the potential to level out the industry's oligopoly tendencies and improve its cost and innovation.

SAIA has 58 members, comprising of non-life insurers, including reinsurers (SAIA, 2020). Like banking, the market is dominated by a few big players: Old Mutual, Sanlam, Discovery, Liberty, Wesbank, Santam and Momentum (Statisa,2020). While nothing the lack of new entrants and innovative product in this sector, transformation and diversity in the insurance industry lack inclusion and new entrants. These aspects are encouraged by SAIA. After the new Insurance Act launched in 2017, some encouraging developments can be seen locally, especially in short-term insurance digitisation. In 2017 10% of registered cars were insured (Aliber, 2018) this moved to 65% in 2020 as reported by the Automobile Association of SA (AA, 2020). Removing the middleman reduces the product's cost and increases access as more people, which could mean more accessible products in the sector.

Stokvels are not recognised as one of the products for FI, but many consumers use stokvels to access savings. A stokvel is a group saving scheme, helping members with financial assistance when needed (FinMark, 2020). A group of friends sets up stokvels to help save or invest, to provide individual needs. This is an informal way of saving that has been around for decades. A trendy alternative to savings in the formal financial sector, as pointed about by Mashigo (2020), makes it possible for consumers to achieve a higher standard of living.

While there have been some industry efforts from a competitive perspective, not enough changes can be seen in the formal financial industries, especially the investment and insurance sectors. While both the sectors express their commitment to FI, the lack of clear plans, especially for low-income households, both these sectors are rated ineffective (Ikdal et al., 2017)

4.4.1.3. Oversupply or undersupply in the market

In this context, formal credit providers refer to the commercial banks and credit suppliers such as retailers governed by the law and credit regulation in South Africa. They generally will provide loans to the banked population (Lauren, 2019). Microfinance Institutions (MFIs), also governed by law and credit regulation, principally focus on smaller loans (Lauren, 2019), mostly focussed on small-scale loans to low-income consumers who lack access to banking and related financial services. Informal financial service providers refer to the unregulated credit financial service providers, offer loans, unregulated and informally. They generally will provide service to banked and unban/ked consumers if the terms are accepted. In the year 2018, the credit bureau TransUnion CEO, Lee Naik, highlighted that almost “73 % of personal income in South Africa goes towards the servicing of debt” (Wrigley, 2019, p. 1). This could be attributed to access to credit from the formal and informal sector not being regulated enough. There are too many credit options available to South Africans. SA had a Gini coefficient of 0,65 in 2015. At the time, SA was placed in” the top 10% of the unequal countries in the world” (Stats SA, 2020). It would take a considerate effort to address the inequality and poverty, as 30 million in poverty against a population size of 60 million might seem like an insurmountable task. The continued oversupply of loans will keep SA in its current Gini ranking. Wrigley confirms this in the finding: ‘[c]redit made available to households in South Africa is anything but developmental. Many debtors are unable to afford to pay back loans at the end of the month, which results in repeated loans being taken out to finance the original loans, adding to the high costs of credit” (Wrigley, 2019, p. 7)

Funeral cover is big business in SA. The market's actual size is not readily available as a large part of the industry is informal, and operators must not register with industry organisations (Genlife, 2020). As published by GenLife.co.za the industry generates R10bn revenue per year from 5,6million risk policies (2017). There are over 15 000 funeral parlours, 70 000 undertakers and no less than 100 000 burial societies collecting R5bm in funeral premiums a year alone. FNB Life estimates that 35% of all FNB customers have more than one funeral plan to cover themselves and are thus effectively paying up to 30% more than necessary (Bromhof, 2017). Financial literacy and consumer protection are critical as having multiple funeral policies make the funeral cover more expensive as each insurer adds to the premium charged. If these products' oversupply is not reigned in, the effect on FI will be that people mistrust formal service providers. As a matter of urgency, many of these issues can be eliminated by introducing a financial literacy program, relating to these sectors.

4.4.1.4. Complex products and needs.

According to the WB (2018), townships contain about half of South Africa’s urban population and 38% of its working-age consumers but as much as 60% of its unemployed (World Bank, 2018). These communities were intentionally developed on the periphery of larger cities as the incumbents are searching for jobs and employment in the city but notably without the necessary infrastructure supply and support. This socioeconomic isolation resulted in an informal economic sector, with nearly an estimated 5 million businesses across the country (Stats SA, 2017). According to Alcock (2018), these informal businesses operate in six primary sectors: grocery stores, taverns, hair salons, educational centres, micro-manufacturing and motor and cellular repair services By their nature, these businesses trade-in cash and is mostly untaxed and unregulated (Alcock, 2018). Interestingly, in the informal employers and business owners survey indicated that most of their clients would like to use card payment. However, these options are not available to them – forcing them back to cash acceptance (Stats, SA 2017).

The recognition of the untapped opportunities in townships and the benefits of collaboration between “informal” and “formal” businesses is starting to turn (Serrano, 2020). Although the township economy presents an opportunity, financial institutions will need to precisely design products and services for these consumers' needs (Serrano,2020). At present business revenue like rental of back rooms, spaza’s and hairdressers are not recognised in the formal sector as regular business income. This will require innovation rethink (Alcock, 2018). Considering, that no insurance options for SMME’s or informal business mean that even small economic shocks could stunt or close the business, pushing the small business owner (and his family) back into poverty. It was found that savings and transactions are done in personal bank account (Stats SA, 2017), which means that these businesses are not creditworthy as no formal record exists of the cash flow or revenue in these accounts. To serve informal businesses, the formal sector will have to provide innovative solutions.

4.4.1.5. Inefficient Regulation

Von Fintel et al. (2020) make two poignant points. The first is that predatory practices will reduce the wealth share of the low-income households as credit debt increases. On the opposing side, without access to credit independence, a small business cannot strive (von Fintel & Orthofer, 2020). Credit is a necessary and vital part of financial upliftment, but the balancing act is critical, hence supervision and regulation.

In the informal financial sector, large quantities of cash are kept out of the financial system, and the extent of the exclusion is unknown. It has been speculated that there are 11,5 million people savings in stokvels, the value exceeding R50 billion (Business Insider, 2020). As this money is not accounted for in the national accounts or formal sector of SA, the national growth is consequently hampered. FI optimised will bring this money into the formal financial sector to work harder to grow national assets.

South Africa has several acts that govern the financial industry, most notably the Banking Act, Companies Act, Financial Markets Act, Financial Sector Regulation Act, and the National Credit Act. These acts are regulated by industry bodies like the South African Insurance Association (SAIA), Association for Savings and Investments (ASI), Banking Association (BASA), Institution of Retirement Funds (IRF), Johannesburg Stock Exchange (JSE), Financial Planning Institute (FPI), Financial Intermediates Association (FIA) and the Financial Sector Charter Council (FSCC) and overseen mostly by SA Government Department such as Trade and Industry, National Treasury and the Provincial Consumer Affairs Office Forums. Several Ombudsman offices independently manage disputes for the industry, and there is one for Credit, Banking, Short-term Insurance and Long-term Insurance.

While these regulation and governance oversight delivers a sound and stable financial market – it also imposes entry barriers for new firms and artificial costs on any new industry players (Serrano, 2020). Deregulating some of the financial market's formal elements results in fewer entry barriers and potentially bringing much-needed innovation in the segment, moving informal service providers to the formal economy (Serrano, 2020). The heavily regulated environment is especially noted by entrepreneurs living in a township with various infrastructure challenges that also need to contend with the exclusion in the formal economy (Serrano, 2020). For FI's benefit, stokvels who provide credit and investment opportunities are largely ignored in the reporting as they are not registered with the National Credit Regulator. Formalising this registration has been inefficient and full of red tape, making this nearly impossible (NSASA, 2019)

4.4.1.6. Economics of access.

SA's approach to FI is anchored in providing each citizen access to a bank account, which can be achieved by doing FI a public service, much like education or broadcasting. As detailed by Ozili (2020), this good public theory argues that the delivery of formal financial services, unlimited access to the entire population should be treated as a public good for the benefit of all consumers. This theory's beneficiaries would be every single consumer in the country, no one will be excluded, and everyone will enjoy essential financial services for free. Ozili further states that access to financial services to one individual will not reduce its availability to others, which means the entire consumer base is automatically financially included from a specific age group. All consumers will find the same essential value in being included. From a funding perspective, suppliers of the services could carry the transactions' cost as part of their operational costs, or the government can reimburse the private firms (Ozili, 2020).

If SA had taken this approach in 2004 – the whole country would have access to free banking, and there would have been no involuntary excluded consumers. The government would have taken full responsibility for promoting financial inclusion and would not have needed to collaborate with many stakeholders. Given the results achieved with the collaborative approach, clear evidence can be seen that some of the population willingly excluded themselves after they were given a free bank account (BCG, 2017) in the Mzanzi account closures in 2010 (Mail and Guardian, 2018) and the high dormancy rate (FinMark, 2018). Given the funding needed to make financial services a pubic good, and factoring in the competing strategic priorities, this course of action seems unlikely to have achieved better results than the current program funded by the Banks directly.

4.4.1.7. Conclusion Supply-side factors:

To date, distribution inefficiencies for the formal industry can be seen in most of the sectors. Access to banking products for most has been addressed, as the industry moved to form a 50% inclusion in 2004 to 80% in 2018 (Abrahams, 2016). However, residual issues of usage and the post box effect have not been arrested. The bank account-led strategy beneficiaries excluded themselves voluntarily, as bank account usage holds little benefit outside of the collection tool (FinMark, 2019). The need for cash in their everyday lives is still present, according to Visa and Mastercard, growing exponentially faster than interoperable payment systems that are being made available – especially to the 5million informal businesses found in SA (Stats SA, 2017).

The distribution of insurance, savings and investment services have not delivered large scale changes, primarily to the low-income household. The oversupply of funeral insurance destroys consumers' buying power as they are overpaying for these services as consumers take out multiple policies per person. Even more concerning the oversupply of credit, only 0,2% of consumer disposable income for South Africans is at an aggregate level.

Consumers continued to save, transact and invest in stokvels, both in the formal and informal market with NSASA advising that 40% of the population uses the services. An average, each consumer has three stokvels (Nsasa, 2020). The banking industry has formalised the exact product in formal banking (Nsasa,2020), but this has not lessened the informal sector's need for the product. The principles of community-saving and collectivism have been identified as needs unmet in the formal financial institutions, which is the needs that consumers advise they value the most. (Klapper et al., 2016).

Overall, the products and services delivered from 2004-2018 in all sectors have not significantly shifted FI across all industry sectors, despite the good-will and intentions by the industry sectors and government. With the growing informal sector, one could argue that the lack of suitable financial products in the formal sector for these businesses, has grown the demand for cash. Of concern on the supply-side is the following findings:

a) At least 30% dormancy overall on the newly acquired transactional bank accounts indicates that access to bank accounts is not enough for the spring-board effect to deliver FI inclusion as scale.
b) The lack of usage of the expected secondary products in the spring-board strategy is evident, as the miss-match of supply and demand in the insurance, savings and investment sectors is noted.
c) Lastly, the demand for cash has grown faster than inflation, despite access to bank accounts, resulting in the digitisations of payments.

These findings explain that while the supply-side strategy has resulted in positive results, the FI job is not done. It contradicts Abrahams' (2018) finding, who mentioned that SA has almost reached its 90% objectives. The inconsistency can explain the contradiction in the supply-side reporting in reporting and measurement. Financial inclusion is more than access to products and services. It must include usage for benefits of FI realise (FinMark 2019).

4.4.2. Demand-side factors

When access to services is available, but consumers are not using those services, FI is ineffective from the demand-side (Inclusion Centre UK, 2020). This effect can be seen in SA from 2004-2018. The factors influencing demand-side as listed by the inclusion centre are financial literacy, consumer trust and confidence, planning, consumer behaviours and other external factors. These factors are discussed in the following section as they relate to SA.

4.4.2.1. Low levels of consumer financial literacy

Financial literacy means the ability to understand the basic principles of business and finance (Cambridge Dictionary). When a country has high financial literacy, consumers can work towards various goals simultaneously such as expenses, savings, debt repayments and retirement while ultimately growing the economy and lessening the dependency on government, thus an essential element for FI and social development (Ifeanyi, Ravinder, & Hein-Prinsloo, 2019).

Noting the lack of micro-data on financial knowledge in SA, the FSC commissioned the Human Sciences Research Council (HSRC) to undertake a SA cross-national pilot study on the measurement of financial literacy. These reports have been available since 2011 and provide a trend analysis of literacy for SA (Roberts, Struwig, & Radebe, 2018). Ifeanyi et al. (2019) confirm that "financial literacy serves as a mechanism to enhance the ability of households to allocate better financial resources concerning savings and wealth creation over their lifetimes in a world of uncertainty and imperfect insurance" (Ifeanyi, Ravinder, & Hein-Prinsloo, 2019, pp. 1121-1134). At present, each organisation in their respective business drives its financial literacy programs. The overall results can be seen on the Organisation for Economic Co-operation and Development (OECD) results. Summarised in Table 5:

Table 6: Results from the 2017 (SASAS) retrieved from FSCA (mean scored 0-100 scale)

Domain	2011	2012	2013	2015	2017
Financial Control	58	61	61	63	62
Financial planning	53	50	48	48	47
Product choice	45	46	44	46	48
Financial Knowledge	56	55	56	58	55
Overall Financial Literacy	54	54	52	55	54

It is noted that some segments of the population received a benefit from the private and commercial programs. As reported by Roberts et al. (2018), groups with the highest financial literacy score are: (i) the tertiary educated, (ii) the wealthy, (iii) those in full-time employment and (iv) dwellers informal urban areas. (Roberts, Gordan, Struwig, & Radebe, 2018). Given the intent of educating vulnerable and marginalized consumers of SA, the commercially led programs' effectiveness is questioned.

The lack of growth since 2012 indicates that the current model is not progressing and as found by Roberts et al. (2018) the agency model where commercial institutions take charge of the literacy program has not moved the levels sufficiently (Roberts, Gordan, Struwig, & Radebe, 2018). This is confirmed in the Ifeanyi et al. (2019) study, calling for a practical national financial literacy program driven by policymakers to formulate more progressive knowledge delivery programs for South Africa. This study supports these findings that financial literacy needs to be controlled and managed by the government and community leaders. The consumers trust implicitly and have a better understanding of the socio-economic challenges that consumers face.

<u>4.4.2.2. Consumer trust and confidence</u>

In 2017 in the WBGF study, 27% indicated that they do not have a bank account because they do not trust formal financial institutions (World Bank, 2020). The persistence of mistrust towards formal financial institutions remain a blocker for FI, especially as past abuses such as the inappropriate marketing and selling of financial products, have shown that poor people are highly vulnerable to selfish commercial interests (Wrigley, 2019).

In SA, there have been several incidents that lend themselves to the mistrust for formal financial institutions. One such example was when the government digitised social grants by paying them directly into bank accounts. This new funding source prompted financial institutions to target grant recipients with products such as funeral policies and micro-loans. These premiums were deducted, often leaving grant recipients with very little to survive with, which caused dissatisfaction. Even as late as 2019, this is still evidenced as seen in the court case of Mr. Khanyile, when he took SASSA to the high court of KZN to get his grant money returned when unauthorized debit orders and fees where deducted from his account (WB Khanyile Vs SASSA, 2019).

Without an apparent value congruence for consumers and the service providers, the lack of trust will remain a barrier to FI. This might be best explained with a case study of a trust-based model such as Stokvel. According to the National Stokvel Association of South Africa, more than 40% of South African households use trust-based models such as stokvels (Nsasa, 2020).

Trust for in financial service and institutions are vital, as it relieves stress from the consumers when they can rely on the fact that their interest is taken care of (Ikdal, et al., 2010). Trusts will stimulate transactions and more products being taken up, deepening FI for the country.

4.4.2.3. The low ability to plan

A lack of planning results in over-indebtedness, little or no retirement savings and a general deposition of consumers living beyond their means (Bouhill, 2015). Planning for the future requires a level of financial literacy and the means to afford savings and insurance products. When individuals fail to plan, the consequence is added pressure on the Government to protect the vulnerable (Bouhill, 2015).

To understand savings, one needs to recognise the difference between inadequate saving due to a lack of means and poor savings habits. Many ordinary South Africans are victims of high unemployment levels (Kruger, 2016), which means they cannot save in the formal financial sector. Simultaneously, some consumers with a steady income have the burden of supporting extended family, leaving little or no room to save (Old Mutual, 2017)

In the WBGF survey (2017), 10% of consumers indicated that they do not use formal financial services due to religious reasons. That does not mean that they do not plan – maybe just not with the current mainstream planning products offered in the formal financial institutions (World Bank, 2020).

A much more relevant statistic in the WBGF (2017) is the question around emergency access to funds. Of the 1000 respondents who have a bank account, only 29% had access to emergency cash and 71% indicated that they could not come up with emergency cash from friends, family or formal institutions for the remainder.

Having the necessary proof of residence, identification and work permits could be a challenge for South Africans (Ikdal, et al., 2017). Considering the 5 million informal businesses – proof of income statements or payslips is required for small businesses owner to get accounts or credit, which these entrepreneurs and small business owners will not have. Not having the necessary paperwork to plan one's future will force consumers to plan outside of the formal financial sector, where they are welcomes with less administrative restrictions and burdens.

4.4.2.4. Consumer behaviours

Chibba (2009) states that one of FI's most significant complexities is consumer segmentation and the understanding of consumer behaviours. Ozili (2020) confirms this and explains that it is often difficult to determine who the excluded consumers are, what they need from formal financial institutions without setting out to do continued consumer studies (Ozili P, 2020). South African consumer research is limited, as not enough research is done on the demand-side (Klapper & Singer, 2017). With limited insights to consumer needs at a national level, it necessitates private institutions to do individual studies layering financial inclusion costs.

Due to the shortage of demand-side research, the WBGF database (2011, 2015, 2017) is the primary source of demand-led research for SA; it has been used in several bodies of research such as Aliber (2015), Babajide et al. (2015) and Abrahams (2016, 2017). The survey is limited to the five products prescribed by NT. It does not delve deeply into a) alternatives that consumers are using, b) why they are using them, and c) what they need from formal financial institutions.

Consumer behaviour and segmentation are continually evolving. For SA, the consumer side has moved from many consumers being involuntary excluded (National Treasury Report, 2015) to many consumers volunteering to be excluded, as seen in the high dormancy ratio’s (BCG, 2017). However, the strategic intent and FI's SA methods have remained mostly unchanged since 2000, despite the change in the beneficiary landscape. This indicates a lack of demand-side focus in the FI planning, and this research finds the lack of consumer input to the FI strategy, the most significant contributor to the mismatch in supply and demand which can be seen in the adoption of the products as prescribed by NT (Treasury, 2015)

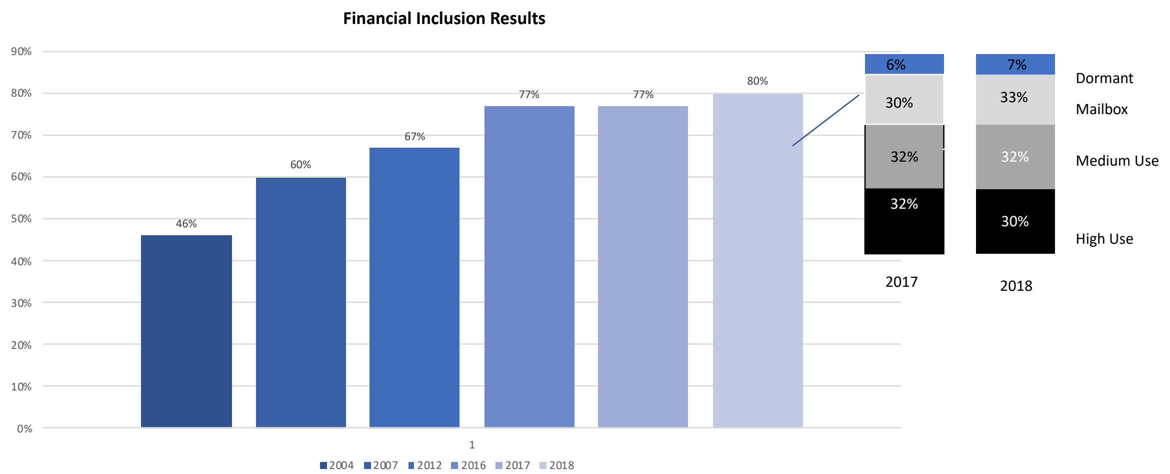
4.4.2.4.1. Adoption of the products prescribed by NT

To deal with the comprehensive needs of society, the National Treasury broadened the list of products to be made available to South Africans under the FI intent in 2012 to include: a) remittances, b) transacting capability (making and receiving money), c) saving, d) borrowing and e) insuring against loss, damage, illness, or death (Treasury, 2015) in the National development plan for 2020. These secondary products are not as widely reported on as the case of a bank account, but investigating usage is an important aspect to determine if the demand-side needs have been identified and met, given the assumption of the springboard effect. Referencing the WBGF the usage patterns of the products and services is a lead indicator of value congruence if consumers find value in the products.

a) Bank accounts:

According to FinMark, “46% of the SA adult population had a bank account in 2004”. With the introduction of the SASSA Mastercard in 2012, this number raised to 76%, by 2016. 100% of all SASSA recipients were banked, compared to the 76% of the population” (FinMark, 2020). The FSC proclaimed in 2020 that Financial inclusion had reached an all-time high in 2018, with close to 80% of the population having access to bank accounts. (FSC, 2020).

Figure 2 FinMark Overview of FI, results summarise from multiple reports.



By the narrowest definition (access to bank accounts), SA is close to its FI target. However, when delving a little deeper into the usage, subsequent reports by FinMark, the usage or dormancy ratio of the newly acquired accounts are called into question in response to the participation rates. As shown in figure two, almost 10% of the accounts became dormant in the same year, and 30% of the accounts were simply used to collect wages/grants or income. Implying that the cash was immediately withdrawn as soon as it was deposited – and the bank account owner resorted back to managing their everyday financial needs in cash. Mashigo (2002) investigated the role that informal sources of finance in informal or poor communities found that Informal stokvels had become popular in maintaining financial and have achieved significant scale and sustainability. Mashigo observed that stokvels act as proxies for savings, credit, capital generating clubs and funeral associations. It would stand to reason that while salaries and wages are collected in the bank account, the money is drawn out to invest in the stokvels – which could very well be in the informal economy

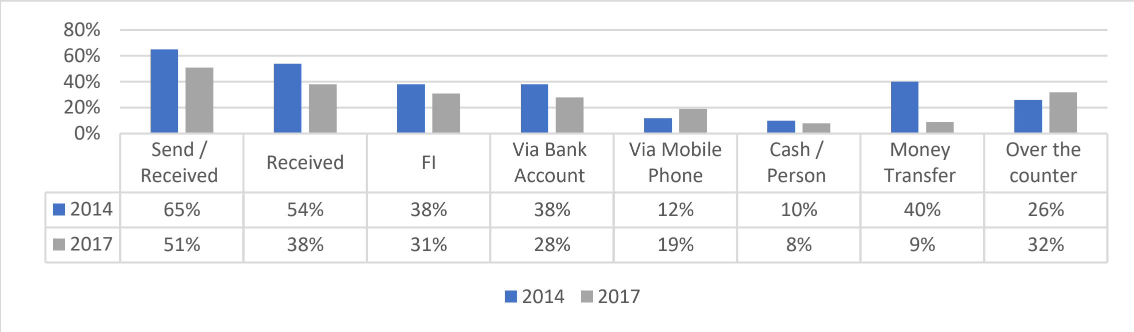
(FinMark, 2020). Importantly stokvels do not rely on formal collateral are formal banking rules and regulations. Stokvels provide consumers with a group to set up their own rules that govern banking, saving, and investment agreements. Significantly Stokvels are based on social collateral knowledge where participant's reputation and social networks are essential and replace traditional risk models, introducing flexibility and trust lacking in formal institutions (Mashigo, 2002).

These stokvels are more convenient to start, get access to, and given the formalities needed for a bank account, the appeal for stokvels is evident. The lack of trust of formal financial institutions can now be understood with some more insight. Savings with a group of trusted friends/family is perceived as less risky than an unknown entity such as a bank where the rules and fees are not agreed to but imposed on consumers with little room to negotiate (FinMark, 2020). The added benefits of the group benefiting from such an agreement, according to Mashigo, is essential to users of this product (Mashigo, 2002).

b) Remitting money

Remittances, be it a domestic or cross border, is the second product prescribed by NT and an essential product accessible to all South Africans (Treasury, 2015). Remittances have seen some changes in the last decade, particularly in the number of service providers that offer the service (Abrahams, 2016). Most banks and retailers in SA offer remittance services. Most either offer a cash pay-out through an access code and PIN (Visa for TechnoServe, 2016) where some offer a store of value, allowing the consumer to keep their money in a digital account until needed safely. While the payment leg is digitised and in the formal industry, most recipients draw the cash as soon as it is available and do not use the store of value options in the product. Cash-out remittances immediately" (Finmark Trust, 2017). In the WBGF reports (2014, 2017) most respondents indicated that they had used remittance by either sending or receiving.

Table 7: Remittances World Bank Global Findex 2017



	Send / Received	Received	FI	Via Bank Account	Via Mobile Phone	Cash / Person	Money Transfer	Over the counter
2014	65%	54%	38%	38%	12%	10%	40%	26%
2017	51%	38%	31%	28%	19%	8%	9%	32%

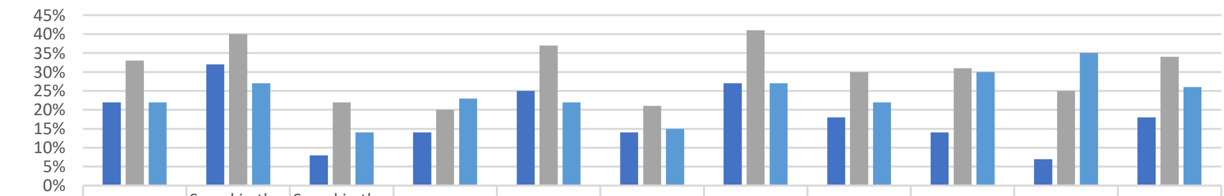
Looking at the spread between a formal and informal financial institution, one can see that respondents using formal institutions 38% and 31% of the time in 2014 and 2017, respectively. It is noteworthy that cash options (over the counter, Money Transfer and Cash) are still preferred. Virtually 40% of all remittances sent on the sample size are still cash, confirming the Visa and FinMark Trust findings that recipients withdraw the cash remittance as soon as it is received.

To understand the reason for cash remitting, Visa (2016) commissioned a field study unpacked the dominance of cash remittances both domestically and cross-border. The study estimated the market at 24,3 million users to the value of R150 billion for domestic and R30 billion for international remittances" (Visa for TechnoServe, 2016). The study concluded that the single most sighted reason for the high prevalence of cash in remittances is that transactions in formal financial institutions are simply too expensive (Finmark Trust, 2017). According to the WB, in 2016, remittances' global average cost was 7.43% of the amount sent by remitting customers. The average cost was 16.71%, more than double the global average for South Africa's remittances. For remittances to be adopted and play a more decisive role in FI, the formal financial industry's cost of remittances needs to be arrested. Usage needs to be considered; if remittances can be used to make payments (such as buy goods and services), there would be less of a need to cash them all out; the benefit of the store of value can then be harnessed for FI.

c) Savings

Due to the low utilisation of FI savings products, it is often said that SA does not have a culture. It might be more accurate to say the South African population save informally table 7 shows the savings behaviours found in the WBGF in 2011, 2015 and 2015.

Table 8: World Bank Global Findex Survey - Savings



	FI	Saved in the last year - Employed	Saved in the last year - unemployed	Primary Education	Secondary Education	40% Poorest	60% Richest	Rural	Savings Club	40% Poorest	60% Richest
2011	22%	32%	8%	14%	25%	14%	27%	18%	14%	7%	18%
2014	33%	40%	22%	20%	37%	21%	41%	30%	31%	25%	34%
2 017	22%	27%	14%	23%	22%	15%	27%	22%	30%	35%	26%

The WBGF results (2011, 2017) show that only 22% of the respondents use formal banking services in 2011 and 2017. Of those, only 27% of employed individuals saved in the year 2017. This confirmed the low savings observation from Ikdal et al. (2017) Of interest here is that savings clubs are used by roughly 30% of the sample (2017). However, only 22% use formal financial institutions. The informal savings groups' size is estimated at 11,5 million people investing up to R50 billion a year in Stokvels (Business Insider, 2020). Thus, the likely hood is strong that South Africans do save, just not in the traditional way in the formal financial services. Some groups appreciate the social elements as they desire to be part of groups and do things together (FinMark, 2020), while others might find benefit in the group motivation. (FinMark, 2020). In addition to savings, there also a real financial added benefit for members and non-members of the community where they can get access to loans at a lesser interest rate than most personal loans (FinMark, 2020). In this “two-way relationship, they support the group and are supported by the group” (FinMark, 2020). This confirms the findings of both Ikdal et al. (2017) and Mashigo (2002).

The group savings in the theory of community echelon of FI (Ozili, 2020) – by design, the group's trust makes the group saving a success, not so much the vehicle in which it is. Ozili states that credibility is extended to the financial objective. The community leaders (or in this case, savings leaders) exert influence over its members to make changes that improve their welfare and seem to be working for most community savings groups. Ozili warns of the risks in this theory has when the influence of communal leaders can rebound if communal leaders become self-serving and no longer acting in the best interest of its members. As with any agency theory, there is always the risk of agency problems such as nepotism, fraud and corruption. In a country where community-based savings, and the culture of Ubuntu (culture of collectivism), is prominent, the theory of community of echelon must not be underestimated.

In SA, there is a group of financially responsible people who do not save at all. According to the 2017 Old Mutual Savings and Investment Monitor, an “ever-growing sandwich generation” is not saving. This is the generation aged between 31 and 49 who are have the financial responsibility of their kids and their parents or extended family. Most of their disposable income is used to sustain the family, and savings are not a priority, not allowing a savings opportunity (Old Mutual, 2017)

To encourage the priority of long-term savings and effectively lessening the dependency on family members, the South African government introduced Tax-Free Savings Accounts in 2015. The benefit of these long terms savings is that “all proceeds, which includes interest income, capital gains and dividends from these accounts, are tax-free” (Mail and Guardian, 2018). It is also noteworthy that, unfortunately, the Tax-free savings account is performing well below expectations (Mail and Guardian, 2018). With more dedication to consumer education, this might change the cause of the next generation.

d) Borrowing

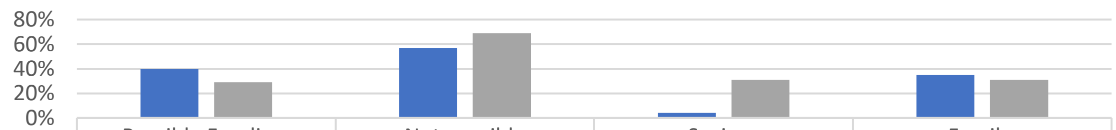
The prevalence for borrowing is visible in debt-to-income ratio, estimated at 78% (SA, 2019). This is a good indicator of South Africans attitude and propensity to acquire debt. Yet, according to Ikdal et al. (2017), formal institutions. Kessier (2017) confirms that SA is deemed modest borrowers of formal credit, but the consumers are overextended by informal credit (Klaus Kessier, 2017). Reasons for not using the FI products are that it takes too long to process and does not allow for short term such as weekly loans (Klaus Kessier, 2017).

The WBGF database confirms the prevalence of borrowing from friends and family and other sources. In 2017, of the 9% of the respondents who have a bank account, only 14% used their credit at the bank (or might have credit at the bank) even though 53% indicated they borrowed in the last year. Interestingly, the credit card and savings club's match indicate that even the banked respondents still used a savings club, mainly to borrow from the club. The interest rates on such loans can “range from 10% for members to 20-50% for external people,” while informal loans are “charging between 30 - 50% on loans” (FinMark, 2020, p. 9).

e) Insurance

Microinsurance is insurance specifically aimed at the mass market, but not many insurance products have been launched (Palagangwe, 2018). The National Treasury policy framework is intended to bring good-value insurance products to promote FI. It aims to formalise the informal insurance service providers by removing entry barriers and improving consumer protection in the value propositions (Palagangwe, 2018). Until these products come to market, individuals will need to rely on their ability to access emergency funding to observe any economic shocks.

Table 9: World Bank Global Findex: Access to emergency funding



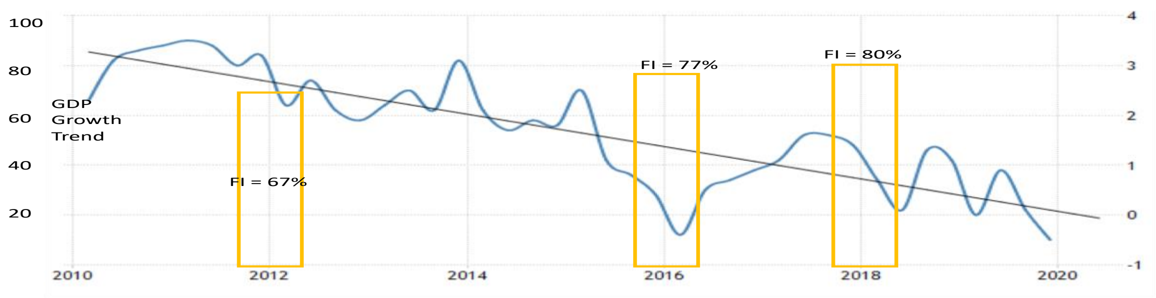
	Possible Funding	Not possible	Savings	Family
2014	40%	57%	4%	35%
2017	29%	69%	31%	31%

The respondents in 2014 advised that 40% of them would have possible access to emergency funding. A similar size group of people in 2017 indicated that only 29% of them would have access to emergency funding. Most of the respondents in both years indicated that they would have to borrow from family and friends. Interestingly in 2017, one can observe 31% savings that they will have access to savings. What is evident from these usage patterns and consumer behaviours is that despite the availability of the products, and access to bank accounts, adoption is not a given if they are not suitable to the market.

4.4.2.5 Impact of external factors

"Financial development is not simply a result of economic growth; it is also the driver of economic growth" (Babajide, Adegboye, & Omankhanlen, 2015). FI can stimulate job creation and poverty reduction if the strategy involves making available the appropriate products. In India, access to financial aid and microloans helped carve a livelihood as people created micro-businesses (Aliber, 2015).

Figure 3: Correlation between GDP Growth and FI, www.statsSa & www.FinMark



Combining the downward sloping SA growth trend (StatsSA, 2017) with the FI results indicated in the orange bars (FinMark, 2020), no positive correlation can be seen between growth and FI. Notably, the two most impactful contributor to the negative correlation is unemployment and poverty.

Income deficits and unemployment are persistent problems in the SA economy (Price Waterhouse Cooper, 2019). Unemployment at 29% and poverty with almost 30,4 million South Africans living in poverty in 2015 (Stats SA, 2017), while the SA Gini coefficient is at 0,65 (2015), placing SA in the top 10% of unequal countries in the world (Stats SA, 2020). Since 2015, the SA Government has increased its efforts to address poverty and inequality by increasing it spend on social grants to roughly 17million recipients a month (Stats SA, 2017). These grants, benefitting the poorest by providing a steady income. When these payments where digitised, the government pushed the strategic intent of getting consumers digitally included in the formal financial sector, but little evidence can be seen in the economic growth or social-economic upliftment of the poorest households. If any benefits were achieved with FI, the external factors eroded the benefits entirely.

4.4.2.6. Conclusion of Demand-led factors of FI

Consumers in SA face over-indebtedness, reduced retirement savings and a general deposition of consumers live beyond their means (Kruger, 2016). Planning for the future requires a level of financial literacy and the means to afford savings and insurance products available on the market. The stagnant financial literacy levels remain a concern for FI in SA. The current agency model of commercial firms leading their financial literacy programs does not improve lower-income households' literacy levels.

Without an apparent value congruence for consumers and the service providers, the lack of trust will remain a barrier to financial inclusion, and potentially deepen the role that the informal economy plays in SA.

The most concerning issue in the demand-side factors is the lack of the expected springboard effect. The assumption that consumers will adopt the products in the formal financial sector once included through a bank account, entrenching FI for the formal financial sector. The springboard effect is not evidenced across all the consumer segments in SA.

The shape of the SA FI landscape has gone from many consumers being involuntary excluded (National Treasury Report, 2015) to many consumers volunteering to be excluded, as seen in the high dormancy ratio’s (BCG, 2017). Not addressing the demand-side issues, could result in more consumer choosing to voluntarily exclude themselves from the formal financial sector.

4.4.2.7. FI Industry sustainability beyond 2019/2020.

Despite the changes in FI's supply and demand-side, the springboard effect's central idea has mainly remained unchallenged and unchanged since 2004. Sustainability of the FI efforts is investigated and validated against the research presented by BSG (2019). To understand gaps that need to be addressed for the future. The BSG finding finds that SA's efforts are not sustainable, as shown in figure 3 below.

Figure 4: Boston Consulting Group: FI Rating 2019

A summary of the BSG Report explains:

- That transactional accounts (banking) have been broadly adopted but lacks significant usage; therefore, this sector not sustainable for the long term.
- Credit products have seen medium adoption, with higher usage. A noted concern as raised at the rate that credit is extended in the informal markets, as the formal markets are noted as modest borrowers in this study.
- Insurance is rated as the medium as the industry has seen some additional services being made available (mostly the direct services with brokers' removal). No real significant usage is noted for the rating sustainable.
- Savings get a somewhat inclusive rating for usage, adoption in the formal sector's products lacks in favour of Stokvel accounts.

Some contradictory research findings to the BSG (2019) ratings are noted in Abrahams (2016) and Kruger (2016). Using the narrow definition of FI (access to product only), Abrahams claims that SA has almost researched its FI objectives, with 89% of the population now having a bank account (Abrahams, 2006). While Kruger (2016) using a broader definition (appropriate products for all consumers) concurs that SA inclusion strategy is at risk and not sustainable until consideration is given to the informal sector and informal townships of SA, Kruger (2016).

These contradictory reports and findings are symptomatic of the unclear financial objectives and definitions if FI for South Africa. It is also indicative that the measurements of success for SA are not clearly defined.

4.5. Summary of the overall success of FI.

The factors of supply-side and demand-side for FI has not adequately been addressed. This can be seen in the residual supply factors from 2004-2019, in assessing the sustainability ratings for the individual sectors and on the demand-side with the lack of usage in most products as prescribed by the National Treasury.

Assessing FI at in industry level results in a screwed FI result as these inclusion numbers only speak to access and not utilisation. The industry's different sectors are all plagued with adoption and or usage issues across banking, savings, insurance and credit sectors. When one unpacks each sector from a supply and demand perspective, it becomes clear that there is a mismatch in what is made available in the formal financial sector and how consumers are using it, as seen in the cashing out of remittances or collection mechanisms for bank accounts. There is also a noted tendency to revert to informal products (stokvel, borrowing from friends and family or the informal sector). Therefor it is necessary to assess each sector before claiming that SA has reached its FI target.

From a demand perspective, not all factors influencing FI have been addressed. This can be seen in the research done by WBGF with utilisation levels well below the reported 80% access is most cases. Failing to deliver the right solutions result in value incongruence (as can be seen with transactional accounts) and could exaggerate the miss-match in supply and demand. Importantly the cost of acquiring these accounts will not be offset by any revenue, as accounts go dormant, an unnecessary cost for the supply-side (Ozili, 2020)

Overall, the conclusion is that while the supply-side have provided products and services, the demand-side has not seen a sustainable change at scale.

5. Summary, findings, conclusions and recommendations

This chapter summarizes the research study, its findings, and conclusions and makes recommendations based on the previous chapter's results.

5.1. Summary of the research

As indicated in chapter 1, this research's focus was South Africa’s continuous efforts to drive FI as a development initiative. South Africa has ambitions to have 90% of its consumer has financially included by 2030. To this end, the research problem was focussed on clearly defining what FI means for SA in its current context, assessing if the current efforts. This paper provides recommendations on how SA can meet the 90% Inclusion target.

To understand the market factors of FI, the following questions where investigated:

1. How has FI evolved for SA?
2. Who are the role players in the FI value chain? Given these role players, what vested interest do they have to drive financial inclusion?
3. What is the difference between supply and demand-lead approaches, which approach has SA used, and its shortcomings?
4. What needs to be done currently to drive FI towards the last mile - given today's social, economic and consumer behaviours?
5. What FI theories exist, and can any of them be used to drive the FI objectives forward to get SA from 80% inclusion to 90% inclusion?

The literature review is contained in chapter 2 and was done with three broad objectives in mind: articulating the basis of the research by analysing the research problem, to identify the knowledge gap in FI in South Africa, and to review theoretical frameworks that relate to the development objective for the economy. This research study had a dual purpose: the first objective was to interrogate and understand how sustainable the 80% FI achievement is. The second objective was to understand how weaknesses could be addressed to reach the 90% FI target for South Africa, using Ozili’ s (2020) theories to interpret the research possibilities for a strategic pivot.

Chapter 3 outlined the research strategy, design, method and procedure of the study. This research used a secondary research approach to analyse FI of South Africa based on interview results from two research reports from the WB Global Findex (WBGF) and South Africa’s Stats SA. The content was analysed retrospectively as cross-sectional for this study.

Interviews used from the WBGF are conducted with 1000 respondents using a prepared, structured pre-tested interview schedule. The interview schedule was coded for easy analysis and analysed using the SPSS computer program. The findings were presented and discussed in chapter 4 by using frequency tables, bar and pie graphs.

The findings noted that the respondents were selected of random route procedure was used to select sampled households. Within a household, interviewees where randomly selected. This survey helps understand how people access accounts, make payments, save, borrow, and manage risk.

Overall, the findings are noted as:

- A small statistical difference in age groups in the consumer age group 15-24 63% had a bank account, and in the age group, 25 and older 72% where financially included.
- No real discrimination on gender. In the sample group, 68% of the males had a bank account, and 70% of the females had access to a bank account.
- Even rural residents, 69% had a bank account, showing no real discrimination for consumers in rural communities.
- Respondents with only a primary education 64%, while secondary or more education, 71% where included.
- Employed respondents, 75% had bank accounts, while 59% of the unemployed had bank accounts. This research does not explicitly grant accounts. This could be the difference in the reported 80% inclusion.
- Overall, the seems to be very little evidence in the respondent’s feedback across all three surveys of any obvious exclusions of discriminations or involuntary exclusion.

- For SA, FI has been focussed on getting consumers to access a bank account. It is assumed that once consumers are included, they will have less of a need to use services in the informal financial sector as their needs will be met (World Bank, 2018). This is not evidenced in the research. The trend for SA is that SA consumers are continuing the use of cash and informal services while using the bank account as a collection for payments and services.
- What was evident was that access to formal financial products and usage of these products showed a remarkable statistical difference. Especially in credit, insurance, and savings instances, the research finds that having a bank account does not mean consumers use secondary products and services exclusively in the formal financial sector.

5.2. Summarised findings for the research questions.

Factoring in the management reports from the WB, NT, FinMark Trust and academic research, the following findings are noted to the research questions.

5.2.1 Question 1: How has FI evolved for SA?

From as early 2004, the FI plan for SA was anchored in bringing excluded consumers into the formal financial industry through a transactional bank account. The central idea around giving consumers a bank account is anchored in the belief that once consumers have access to the bank account, they will use other secondary products and services (NT, 2015). Governments and banks collaborated to make free bank accounts available to every consumer through a Financial Service Charter launched in 2002 to drive FI efforts (FSC, 2015).

The bank account-led strategy for South Africa has remained unchanged since 2004. The first free bank account (Mzanzi account) saw a great take up, but usage dwindled as consumer stopped using the account by 2010 (Mail & Guardian, 2017). Despite the Mzanzi account's failure, the SA commercial banks continued with the Bank account-led strategy (Charier, 2017), seemingly also seeing the benefit in the springboard effect once the customer signed up for a bank account start using more products.

In 2012 the collaboration was formalised in the Financial Charter Act (Kruger, 2016). This act applies to all sectors in the formal financial industry of South Africa. Notably, the scope of products included the listing of the secondary products. In addition to the transactional account, SA consumers also needed access to remittance products, savings products, credit products and insurance products (FSC, 2020).

Having achieved 80% FI in banking ((FinMark Trust, 2018), the missing 20% need to be accounted for to migrate 10% to meet the NDP 2030 target. Kruger argues that the 20% fall mostly in the involuntarily excluded segment and can be found in the informal townships of SA (Kruger, 2016). This cannot be validated, as there is no national database of the unbanked in SA but there is a strong probability that this is the case as seen by validation by several researchers (Charier, 2017; Alcock, 2018; Klapper &

Singer, 2018). While Government efforts to include the most vulnerable consumers through a Sassa Grant card and digital payments into nominated bank accounts noted, the unbanked 20% is not found in this consumer base, as they are still excluded.

As much as this segment's identity is unclear, so is their financial needs, making it very hard to service them from a supply perspective. It is unlikely that the current supply-led strategies will reach these customers, considering that the current plans have been in market form 2012, with no little success in meeting these consumers' needs. Indeed, if these clients even require formal financial products.

In the case of SA, at least 40% of clients have voluntarily excluded themselves from the recently acquired bank account (Klapper & Singer, 2017), a lead indicator for value incongruence. Should the miss-match in the needs and supply not be addressed the 90% inclusion target is at risk as these dissatisfied customers are unlikely to use the products in the future. Importantly more clients might fall out of the system; as can be seen in India's case, these dissatisfied customers reached 75% (Kruger, 2016). Addressing the demand-led problem with and appropriate demand-led theory might inform that industry of the shortcomings, which will address the miss-match of demand to the products supplied.

In addition to this result, there are no national results published for remittances, insurance, investments, or savings products, resulting in uncertainty in how successful the FI efforts are in the secondary products.

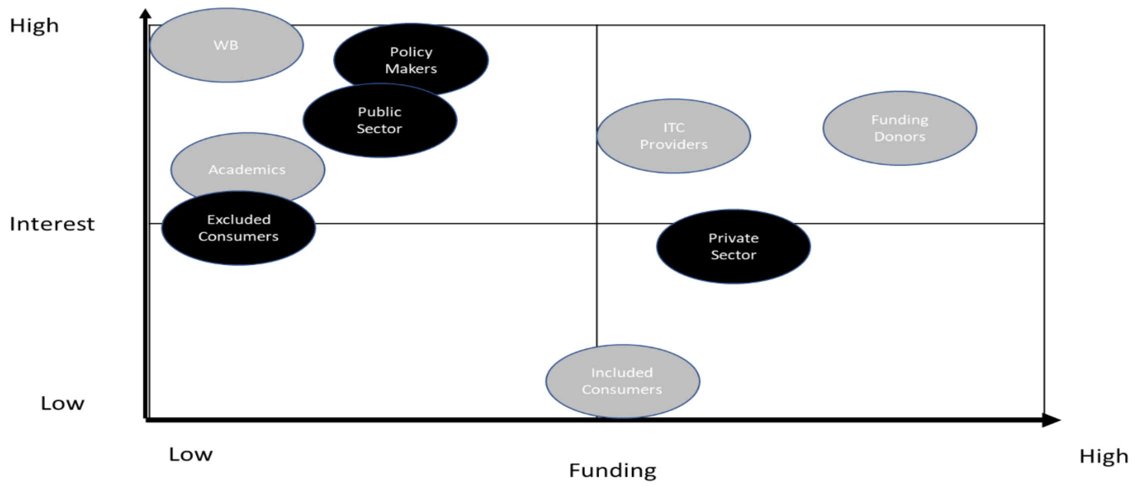
In summary, the only aspect of FI that has evolved for SA is the delivery FI moved from a voluntary commitment by the industry to a regulated industry requirement. The bank account is still the primary access point into the formal financial sector, with the springboard effect resulting in the secondary product sales.

5.2.2. <u>Question 2: Who are the role players in the SA FI value chain? Given these role players, what vested interest do they have to drive financial inclusion?</u>

Several parties are interested in FI is South Africa, both on the demand-side and the supply-side. To South Africa, the financial market can broadly be categorized into banks, insurance, savings, and investments companies, mostly privately owned (JSE, 2020).

By plotting all the stakeholders of FI on the power and interest grid, it becomes clearer who stakeholders are that have the means (funding and skills) to drive FI as can be seen in figure 6:

Figure 5: South African FI role players



FI is a cornerstone of socio-economic development, and as a development initiative Government used it to drive social change. Government role in FI has been to can effectively influence the large-scale changes needed. However, since 2008 (National Treasury, 2019, SA could not deliver FI as a public good or service due to large budget deficits. Hence, SA approached the FI through a collaboration agreement with the private sector in the industry.

The private sector, mostly competitive and privately owned, is not primarily responsible for development objectives as an industry but is better resourced than the government to drive FI programs. As much as the FI program started as a social responsibility project, the commercial banks soon realised the commercial benefits in banking the South African consumer, growing their market share as they acquired the previously excluded consumer. Service providers such as banks and insurance cover stand to benefit because large numbers of consumers are included as clients. Charier (2016) summarises these commercial benefits as increased revenue associated with more prominent clients base. Ozili points out that the benefit of scale will reduce service costs (Ozili, 2020).

While private funding such as the Bill and Melinda Gates Foundation can help influence policy and provide some funding for the programs, it lacks the means to drive change outside of using reasoning and collaboration tactics. South Africa has benefitted from this foundation through policy recommendations, research and financial support.

The excluded consumers do not have the means to contribute to FI meaningfully. They are involuntarily excluded and have no voice at the table unless involved in a social activity group. Consumers benefit from successful FI in that they become more financially literate, and they can make more informed financial decisions and benefit from progress towards wealth creation (WB, 2020).

Although each actor in the value chain has a different role and different motivations for higher FI results, evidence in case studies (such as India) is that improved FI can deliver socio-benefits for the country concerned.

5.2.3. Question 3: What is the difference between supply and demand lead approaches, which approach has South Africa used, and the shortcomings in the approach?

Ikdal et al. (2017) explain that supply-side provides products and services, distribution and channel costs, risk management and operations. All the factors that the supply-side must deal with directly impact service providers profitability and the cost of products in the industry.

Amidži et al. (2014) found that the demand-side issues experienced relate to access to facilities and services, the suitability of products on offer, unemployment, financial literacy, cultural and social diversity and spatial divides. Consumer insights are critically important to address demand-side issues

South Africa has had a supply-led strategic approach for FI in that the main objective is getting access to bank accounts to 90% of all consumers and focus on the delivery and funding of FI. There have been some conflicting reports on how well this plan has worked. In 2016, Abrahams reveals that South Africa "…advanced financial inclusion and the country has experienced a noticeable increase in financial inclusion from 61% in 2004 to 89%" (Abrahams, 2016, p. 1), while Kruger (2016) reports that "…exclusion is still prevalent in the segregated locations" (p. 3).

These reports and the supply-led strategy of SA, only factor in access and not usage. When considering the sustainability, or the continued usage of the newly acquired products, the overall sustainability for South Africa, Ikdal et al. (2017) rated the supply led efforts unsustainable. The industry's different sectors are all plagued with adaption and or usage issues across savings, insurance and credit sectors. When one unpacks each sector from a supply and demand perspective, a noted miss-match in supply and demand is noted, especially in the lower-income brackets. A pertinent example of this will be 40% of consumers who use their bank account only as a "post-box" to collect cash (FinMark Trust, 2018) and then live their everyday lives in cash.

This research concludes that the biggest shortcoming of the supply-led approach is that it has not evolved to factor in the demand changes, market changes as the shape of FI has changed in SA. Once consumers where included, they needed to receive financial literacy to aid in better financial decision and reasoning. This has not been forthcoming as consumer literacy levels have remained stagnant since 2012, contributing. The springboard strategy has not resulted in a significant shift in the consumption of secondary products. One can only conclude that consumers who are excluding themselves voluntarily from the formal financial sector, must be returning to the informal sector?

5.2.4. Question 4: What needs to be done currently to drive FI towards the last mile - given the social, economic and consumer factors and behaviours observed today?

Factoring in the changes in the markets, it is prudent to look at FI's facets for SA first. A summary of the findings relating to the facets:

5.2.4.1. Banking

Findings show that banking is mostly inclusive from an access perspective, but there are real challenges regarding usage. The competitive banking sector is growing, with three more banking licenses issued in 2017. The supply-side strategy resulted 30% - 40% voluntary exclusion. Another significant indicator of voluntary exclusion is the, growing demand for cash. This paper agrees with the Visa and Mastercard research that the need for cash is related to consumers' buying patterns, necessitated as most of the everyday transactions needed by South Africans are still made in cash. Examples of these types of payments are transport payments, shopping at spaza shops, making digital payments to people – clear evidence that until person-to-person payments (including payments to small businesses) are made possible in an interoperable payments system, consumers are forced to trade in cash.

5.2.4.2. Secondary products

Insurance & investments are found to be somewhat competitive in the middle- and higher-income groups, but the general finding is that the distribution inefficiencies for low-income consumers have not been resolved. Unplanned economic shocks and the lack of access to emergency funding are a significant deterrent for FI. The undersupply of access and usage of insurance and investment products to low-income groups is noted. In contrast, the oversupply of funeral insurance has the potential to distort consumer planning capability.

The benefit of consumer inclusion and literacy is the ability to work on several financial planning objectives simultaneously. This is not evidenced for SA now. South Africans are overindebted. The oversupply of credit seen by a cost to income ratio of 72% for SA is of grave concern because this implies that only 28% of the consumer's income is available for living expenses and financial planning for the future. This hampers savings and investment opportunities for South Africa. The Insurance sector is well established with many service providers but has underperformed in delivering access and usage in the financial inclusion objectives.

Although CIP is not regarded as formal financial products or recognised by the FC Code, the products and services' ongoing usage is a clear indication of consumer preference. The prevalence of informal products and services needs to be recognised as FI. The benefits of stokvel can be enhanced if used for FI and literacy.

5.2.4.3. Financial literacy

Financial literacy can improve consumer decision-making abilities, but for South Africa, the literacy program is outsourced to each financial service provider. Each service provider (with profit above R5mil a year) dedicated 0.4% of its revenue to financial literacy. However, the lack of coordination at a national level and the fragmented approach is why SA financial literacy levels have become stagnant. Financial literacy and simplifying the product and services are needed to encourage more participation in the formal insurance and investment sectors; otherwise, the fast-growing informal financial sector will continue to fill the gap for consumers.

5.2.4.4. Informal products and financial sector:

With over 5 million businesses in the informal sector of South Africa, the formal financial sector needs to become a financial enabler for these businesses. Ignoring the informal economy is not beneficial for the South African economy, and neither is it beneficial for the growing business and consumers who operate in the informal economy. The financial and socioeconomic isolation resulted in cash trading businesses, largely unsupported and unregulated. The formal financial sector needs to reconsider the informal economy's demand as it can contribute to the overall economy and has the potential to uplift communities.

5.2.2.5. Beneficiaries

From a beneficiary perspective, South Africa can claim that nearly all consumers have been included in the formal financial banking sector. However, consumers still have a significant dependency on cash for everyday transactions and payments. The springboard effect of secondary products has seen less success than banking inclusion. This paper finds a mismatch in supply and demand, most especially for low-income households and users (suppliers and users) who use the informal industry.

It is unlikely that the current supply-led strategies will reach the remaining 10% of the customers form an access perspective, considering that the current plans have been in market form 2012, with little success in meeting these consumers' needs. Indeed, if these clients even require formal financial products. For involuntary excluded consumers, a demand-led strategy might be best placed to understand and support these customers.

In the case of SA, at least 40% of clients have voluntarily excluded themselves from the recently acquired bank account (Klapper & Singer, 2017), a lead indicator for value incongruence. Should the miss-match in the needs and supply not be addressed the 90% inclusion target is at risk as these dissatisfied customers are unlikely to use the products in the future. Importantly more clients might fall out of the system, as can be seen in the case of India, these dissatisfied customers reached 75% (Kruger, 2016).

Lastly, the FI objective and measurements are lacking. Outside of banking targets, no clear targets exist for secondary products and services. Including FI in the BBEEE act seems like a logical place if amendments are made for real transformation from a supply and demand perspective. Supply without usage is not an indication of sustainable financial inclusion. However, it does indicate that there is a problem with the demand-side that needs to be addressed.

This research recommends that the current supply lead FI focus pivot to a demand-led focussed plan. This plan needs to cater to specific segments rather than all South Africans. Importantly, FI targets and measurements need to specify to measure the industry sectors (Insurance, Investment, Banking and Saving) in terms of suitability of the products and services through user metrics that indicate demand satisfaction for sustainable efforts.

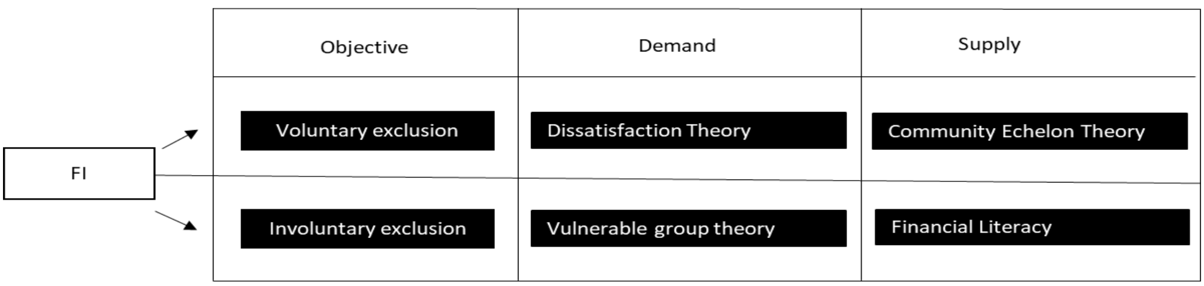
5.2.5. Question 5: What FI theories exist, and can any of them be used to drive the FI objectives forward to get South Africa from 80% inclusion to 90% inclusion?

Moving to a demand-led strategy will require segmentation to select and drive the correct strategy. Demand-side theories will require segmentation of customers. At its most basic, segmentation is the separation of a group of customers with different needs and characteristics into subgroups of customers with similar needs and characteristics, which serves as a starting point for inclusion planning. Echoed in Amidži et al. (2014), the research defines the financially excluded consumers into two primary segments. The first segment is clients who have voluntarily excluded themselves from the formal financial sector.

An example might be a person who is not working and does not need a transactional account or a married person sharing an account with their spouse. A second example includes people who once where in the formal financial sector but have left due to dissatisfaction with the service or product (Amidži et al., 2014). In the second segment people are involuntarily excluded. They might be excluded due to insufficient income, unacceptable risk, discrimination, or simply because they could not find suitable products services they need in the formal financial (Amidži et al., 2014). The financially excluded in SA can be segmented in this way.

Referencing available theories on the demand-side, an important distinction is made when considering the beneficiaries or demand-side theories. As shown in figure 7, FI needs to be separated for SA into first-time entrants and beneficiaries who have already been included but have not found suitable products or services. Having a homogeneous strategy will not result in the sustainable result needed for SA.

Figure 6: Theories for FI, Ozili 2020



Ozili (2020) presented that FI's dissatisfaction theory deals explicitly with the consumers included but choose to exclude themselves partially or wholly from the formal financial sector. This theory is a suitable theory for South Africa to deploy, as it will create sustainability in the FI achievements to date by addressing the post box effect. In conjunction, the vulnerable group theory can still be explored for the involuntarily excluded, a marginal group of the South Africa population

Several residual demand-side factors need to be addressed. These The most pressing demand-side effects are consumer trust and confidence, the low ability to plan, unique consumer behaviours, and external factors as seen in this research.

This research proposes that trust for formal financial institutions is lacking as it is too impersonal and formal and will only be improved with the build of credibility over time or if endorsed by the government or a trusted individual, as prescribed in the dissatisfaction theory of FI. The group savings are anchored in this community echelon theory (Ozili, 2020) and exist in the South African culture of Ubuntu (culture of collectivism). The theory of the community of echelon might be a perfect fit to cultivate trust for the formal financial sector if a trusted member of the community lends its credibility to the program or industry.

When individuals fail to plan, the consequence is added pressure on its government as the government needs to protect the vulnerable. Very little evidence is noted in the ability or the resources for South Africans to plan for their financial future in the formal financial industry. South Africans might be planning in the informal financial sectors through small businesses or sustenance farming, but these actions do not translate into formal financial (World Bank, 2020). If one does trust formal financial institutions, who does one go-to for planning and advice? The theory of community echelon for FI offers a trusted community member to the consumers for financial advice and literacy. This model has been used extensively in the USA and India with successful outcomes explicitly relating to (Aboila, 2015; Sarma & Paris, 2011).

The last critical element for demand-led initiatives is the factor of consumer behaviours; academics acknowledge that these behaviour and attitudes are difficult to pin down as they are varied by regions, groups and cultures (Ozili, 2020). Even if one could determine whom the excluded consumers are, finding out what they need without setting out to do a consumer study is a best guess (Ozili, 2020). Not nearly enough research is done on the demand-side, as found and confirmed by Klapper and Singer as early as 2017 (Klapper & Singer, 2017). More information is needed on a) alternatives that consumers are using, b) why they are using it, and c) what they need from formal financial institutions.

The future of FI efforts, need to pivot to demand-led initiatives such as the community echelon theory of FI (2020) or the vulnerable group theory (2020) to address the last mile of financial inclusion. The supply-side of the industry has made financial products accessible to most of the clients in SA. These products might be suitable for most consumers. However, there is an unmet need in the voluntary and involuntary excluded population that will require segmentation and demand-led strategies to bring SA closer to the 90% inclusion target and ensure that changing demand-side factors are addressed continuously.

5.3. Recommendations

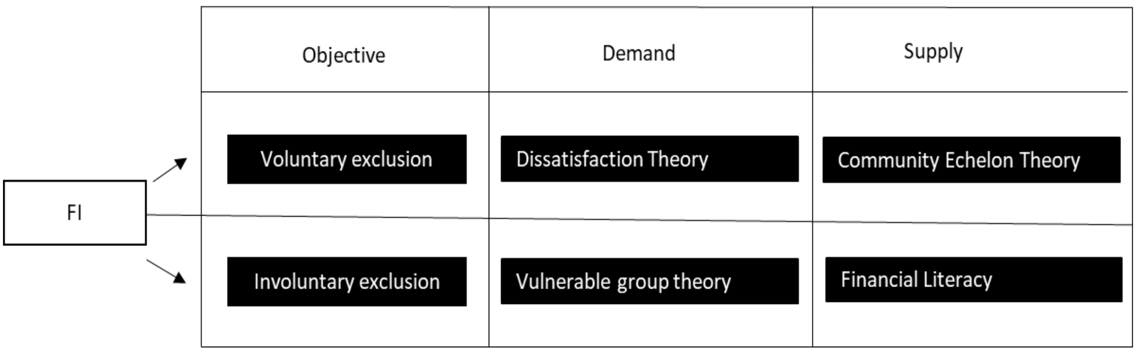
All theories relating to supply are ignored in table 9 (recap of table 2). The recommendation theories relating to demand (or beneficiaries in table 9) are considered to pivot South Africa into a more sustainable solution.

Table 9: Recap: Summary of Ozili' s (2020) Theories of FI

	Theory 1	Theory 2	Theory 3	Theory 4	Theory 5
FI focussed Delivery	Community Echelon Theory	Public Service Theory	Special Agent Theory	Collaborative Theory	Financial Literacy
FI Focussed Beneficiaries	Public Good Theory	Dissatisfaction Theory	Vulnerable Group Theory	Systems Theory of FI	
FI Focussed Funding	Private Money Theory	Public Money Theory	Intervention Fund Theory		

Referencing available theories on the demand-side, an important distinction is made when one considers the beneficiaries. As shown in figure 7, FI needs to be separated for South Africa into first-time entrants and beneficiaries who have already been included but have not found suitable products or services as their needs are different. Having a homogeneous strategy will not result in the sustainable result needed for South Africa.

Figure 7: Theories for FI, Ozili 2020



Ozili (2020) presented that the dissatisfaction theory of FI deals explicitly with the consumers who have been included but no choice to exclude themselves partially or wholly. This theory is a unified theory for South Africa to deploy as it will create sustainability in the FI achievements to date. In conjunction, the vulnerable group theory can still be explored for the involuntarily excluded, a marginal group of the SA population.

South Africa must adopt a more deliberate national FI plan focused on FI's demand side's residual factors. Arresting the dormancy ratio is of critical importance, and demand-led strategies need to be considered as the supply strategies have, to a greater extent, deliver access of bank accounts to most South Africa consumers.

The probability that 90% of the population can be included from an access perspective is reasonably good, given South Africans' propensity to use bank accounts as collection methods for income. However, it is unlikely that the post box effect and usage will improve under the current supply-led tactics. The expected springboard result is questionable as reporting on access and usage in the secondary sectors is not forthcoming. It is imperative that these sectors commit to a target and report against this target for the benefits of FI will only be realised if consumers can plan, manage their risk and sustain financial shocks in their everyday lives.

The South African government needs to work with all formal economy sectors to actively drive the FI objectives and outcomes in each sector. These plans should be overseen and managed in a cohesive national plan for FI and literacy. The current fragmented approach places too much reliance on individual plans in the sectors. A national plan could drive economies of scale, and national benefits as resources and funding are pooled.

This study recommends that failure to achieve the secondary sectors' planning or results should carry a punitive measure. One way of introducing this punitive measure could be a more significant financial contribution to the national FI and literacy plan. At present, 0.4% of profits are contributed by specific sectors and, if found lacking in FI's efforts, noncompliance should pay an additional contribution to the national program.

5.3.1. Supply-side recommendation

The prescribed product set needs to be replaced with needs-based products and services in the formal financial sector. To drive the springboard effect, a critical assessment of payments needs to be done about what value a bank account has for people. By working closely with the demand-side, the supply-side could design more suitable products to deliver clients on a large scale. This will also deliver the large and rapid scale required at an industry level. The most pressing supply-side issues were identified as:

5.3.1.1. Investment in the informal economy

Investment in the informal economy is required; growing and support the estimated 5 million businesses in the informal economy should be a focus for the country. Without cash flow, small loans, education and development options, these business needs reply on their resources. Ultimately, without the informal businesses and economy in the formal economy, the South African economy will limp along at two-thirds of its potential.

5.3.1.2. Interoperable Payments

Access to a bank account has not driven sustainable FI. For the transactional accounts led strategy to be effective, consumers need to receive money in the account from multiple sources and make real-time payments to multiple sources. A closed-loop account limits user to where they can use the account and who can fund the account, by its very nature, is not inclusive. Payment acceptance and infrastructure is insufficient, particularly for person to person payments.

To drive the use of formal products, service providers need to allow connections between remittance products and other financial services such as ATM access, pay for food, and utilities in retail making person to person payments. Person to person payments needs to be completely interoperable with parity in the benefits of cash - without which cash will always be needed in the formal and informal economy.

These recommendations should be delivered as part of the demand-led FI focus of SA as they can be included in the new focussed demand-side strategy.

5.3.1. Demand-side recommendations

Factors that need to be addressed in the demand-side of FI for SA today:

5.3.1.3. Factor 1: Consumer trust and confidence:

The most pressing demand-side effects are consumer trust and confidence, the low ability to plan, unique consumer behaviours and the impact of external factors as seen in this research. The group savings anchored in the theory of community echelon of FI (Ozili, 2020). Ubuntu (culture of collectivism), is prominent the theory of community of echelon can be capitalised for SA.

5.3.1.4. Factor 2: Consumer behaviour and research

The last critical element for demand-led initiatives is the factor of consumer behaviours; academics acknowledge that these behaviour and attitudes are difficult to pin down as they are varied by regions, groups and cultures (Ozili, 2020). Even if one could determine whom the excluded consumers are, finding out what they need without setting out to do a consumer study is a best guess (Ozili, 2020).

5.3.1.5. Factor 3: External factors influencing FI

The impact of external factors can be attributed mainly to two factors being unemployment and poverty. These grants, benefitting the poorest by providing a steady income. When these payments were digitised, the government pushed the strategic intent of getting consumers digitally included in the formal financial sector. These external factors could be addressed in FI objectives if demand-led initiatives are rolled out. In economies where the GDP is mostly formal and, most importantly, growing, FI can positively contribute to its further growth. These benefits are mostly seen as excess resources are redirected from supply to demand – stimulating the economy and creating jobs in the process. In the South African context, FI has not materially contributed to the growth in the economy. At the very least, one does not observe a correlation between FI and economic growth. For South Africa, the overall economic decline in the economy, the problem with unemployment and housing and cash flow eroded any financial gain that FI could have contributed to its growth.

5.4. Potential theoretical solution for the lack of insights into consumer behaviour and research: community echelon for FI

Two demand-side theories could work for South Africa, community echelon for FI. The dissatisfaction theory of FI and the community echelon for FI. Both these Theories relate to the demand-side if FI.

Advantages of this theory will deal with the voluntary financial exclusion problem that South Africa is facing in all its sectors. For South Africa, a starting point in identifying the financially excluded consumers, as they have dormant accounts with the Banking sector. The intent is to work with the identified groups to understand their needs better. This would not need significant government investment, but the private sector would need to set up the surveys and research mechanisms collectively. If done by each sector, the research will duplicate cost and leave South Africa in the same position today with fragmented and layered research costs. Disadvantages are that these efforts will not include all consumers but ignored the poor and involuntary excluded and would not bring SA closer to the 90% inclusion from that perspective.

Here are at least two groups of beneficiaries, the smaller but still significant involuntarily excluded group and the voluntary excluded group. The community echelon for FI is a better option. Financial inclusion and literacy must be a life long pursuit, not a once-off effort as enabling consumers at all stages of their financial life and economic- positions. (Sarma & Paris, 2011). Should South Africa have moved from a supply-led focus to the recommended community echelon theory approach of FI, all three the demand-side factors can be addressed to some extent.

The first demand-side factor relates to consumer trust and confidence. For consumers, the community echelon theory approach will address mistrust in formal financial institutions. Klapper and Singer (2017) noted that the formal financial sector's impersonal experience could be addressed by personal advice and assistance by a respected and trusted person in the community. Considering that 30% of the respondents in the 2017 WBGF indicated mistrust for the formal financial institution, a substantial benefit of the community echelon theory is the extension of credibility. The community leader's trust can be leveraged to build trust for the formal financial industry as they receive advice and education. There is also an added benefit of government endorsement, which will lend even more credibility to the leader and the community echelon theory approach. This model has been used extensively in the USA and India with successful outcomes explicitly relating to advice and education (Aboila, 2015; Sarma & Paris, 2011).

Turning to the second issue of consumer behaviour and research. Not enough research is done on the supply-side, as found and confirmed by Klapper and Singer (2017). The cost and complexity have been explained by Ozili (2020) in this paper. More information is needed on a) alternatives that consumers are using, b) why they are using it, and c) what they need from formal financial institutions. The benefits of community echelon theory for the supply-side are quite compelling as the community leader understands the community's socioeconomic and cultural issues and can provide the research and feedback to the supply-side to use products and services in the formal financial sector. This research can be done regularly to address the issue of the lack of demand-led research. Further testing and innovation research can be done with relevant ease from the supply-side. Community leaders will have a network of consumers whom he can recommend for input and research.

The model can also serve to bring additional revenue and job opportunities for the local community. The research and insights could create employment and income for the respondents to sell and serve other community members and participate in the program. Considering the South African informal market's (Business Insider, 2020), leaders in good-standing driving products such as stokvels and informal businesses in their local communities are already in the market. Capitalising on these relationships will transfer the leader's trust in the formal financial industry, especially of the products improve. Consumers are getting the financial advice and literacy needed to improve their lives.

When FI moves beyond access to literacy and usage, FI results relating to the expected socio-economic benefits can be expected in South Africa, as it has materialised in India (Indian Financial Inclusion, 2015). Given that South Africans face a high unemployment rate, poverty and inequality, community development, and enabling micro business should be a core measure for FI in South Africa. If the community leader can advise and make recommendations around working capital and start-up funding for micro-business or subsistence living, the whole economy will benefit.

As recommended by Ozili 2020, the community echelon theory is a favourable theory for FI in South Africa. The theory is anchored in a partnership-based approach, where a communal leader can influence community members to make changes that improve their financial wellbeing and literacy. For South Africa, it might be possible to create a community echelon plan due to the strong community-based savings culture and underlying collectivism culture.

In educational development research, McQuaid found that problems such community regeneration or exclusions are complex and multi-dimensional and require several inputs from consumers and other stakeholders involved in delivering on social, economic and physical development (McQuaid, 2010). Borrowing from the theory of organisational partnerships (McQuaid, 2010), the community echelon theory approach could break down the mismatch in supply and demand by getting input and collaboration from the leaders and indirectly the community who will be using the products.

Ozili (2020) describes the community echelon's risks or drawbacks to be mostly focused on the leader's character. He explains that there could be a negative consequence if the communal leader is self-serving or corrupt, or abrupt decision making can happen that is not in the community's interest, such as in which he/she serves. Lastly, there is the risk of agency problems such as nepotism, fraud and or corruption that could take place. The government needs to work with the private sector to drive the demand-led approach at a national level for the approach to work.

Government has a vested interest in this as financial literacy in its current shape is not delivering any growth and getting good financial advice should be accessible in every community. The community echelon models of FI have successfully been deployed in developing countries such as India and developed countries alike, as seen in individual states in the USA. Where these community leaders, with an effective partnership with government and private firms, have resulted in information sharing, improved communication, a better understanding of what each stakeholder can offer; the avoidance of duplication and inefficiencies; and the identification of opportunities for effective sharing of resources (McQuaid, 2010). Importantly gaining community knowledge through community-level stakeholders' involvement can contribute to developing approaches that can engage disadvantaged communities and address specific, localised problems such as unemployment, small business enablement, and poverty. Using local leadership and demand-led initiatives to help develop policies, there can be a more remarkable ability to reach the dissatisfied client group and the involuntarily excluded (McQuaid, 1999).

It has already been established that SA does not have the financial means to make FI a public good and that there is limited funding available, so funding is more likely in the private sector. With the 0,4% contribution of profit from the private sector, the money for the community echelon approach is already available – it needs to be considered that these funds need to be pooled into a national program for a better economy of scale benefits.

5.5. Conclusions

Abrahams (2016) found that FI objectives for South Africa are sitting at 89% and almost researched its FI objectives. It needs to be noted that Abrahams considers the narrowest definition for FI, being of access to a bank account – he does not factor in dormancy or usage. Kruger (2016) brings a different perspective as this research factors in the informal townships and businesses – which Ikdal et al. (2017) and Abrahams (2016) largely ignore. Kruger concurs that inclusion strategy and results for SA but a different reason, mostly due to excluding the informal markets and townships. These conflicting reports can be attributed to the lack of FI's exact measure for South Africa. These measures need to be corrected urgently.

While efforts on the supply-side are noted, this research concludes that the results of 80% inclusion (Abrahams, 2016) are only related to access and not usage. The FinMark report declaring the 30-40% dormancy in 2018 means that the FI results are not sustainable for the banking sector. As concluded by Ikdal et al. the secondary efforts and product inclusion for insurance, investment, access to credit and saving efforts will not sustain over time as issues can be seen with adoption and usage in these sectors (Ikdal et al., 2017). These results change FI's beneficiary landscape for SA as the country has moved away from many beneficiaries being involuntary excluded (National Treasury Report, 2015) to many consumers volunteering exclusion, as can be seen in the dormancy ratio. Despite the changes in the landscape and the reported mismatch in supply and demand, South Africa’s intent and methods relating to FI have remained unchanged since 2002.

Further to the beneficiary landscape changes, the changes in the supply-side have not moved drastically. South Africa had a collaborative approach to FI from 2004-2012 through the Financial Services Charter. The result was a 20% growth in FI at that time. In 2012 the method changed. The objective was rapid large-scale development through legislation, as the FSC was replaced with a Financial Services Act, the results are not forthcoming. The included number grew by only 13% in FI through legislation.

FI must be focussed on access and usage for socioeconomic benefits to be achieved (World Bank, 2020). What is evident in this research is that bank account led initiative did not work in the first iteration governed of the Financial Sector Charter (2002-2012), as the Mzanzi account failed when the dormancy ratios reached 42% in 2010. Disappointedly, the industry legislation in the BBBEE act carries on this bank account led strategy, with the 2018 dormancy number again reaching levels if 30-40%. Evidence of the lack of usage nullifying the access efforts can also be seen in India, where dormancy rations, where dormancy ratios reached 75% (Kruger, 2016). This miss-match in consumers' needs and supply of products can be seen in the demand for cash in a country. South Africa's demand for cash grows exponentially more aggressively, despite the high access to a bank account (Visa for TechnoServe, 2016). If the necessity for cash payments is not, the FI efforts to date will be undone as more consumers exclude themselves from the formal financial industry.

The South African FI lacks a clear FI plan, underpinned by FI theories and transparent measurement. Although measurement for financial literacy is transparent and clear, SA is experiencing stagnation in literacy levels. The symbiotic relationship between financial literacy and financial inclusion is too essential to be ignored, and it is essential to be a strategic imperative for SA development objectives. The lack of a national plan is evident as some sectors do not make enough progress in either inclusion or literacy with seemingly no consequences to the lack of participation.

5.6. Summary of this chapter

This chapter summarised the contents of the research from all chapters that form part of this report. Findings have been summarised concerning the research questions that were asked in chapter 1, and numerous recommendations have been made pertaining to the supply-side of FI, factors that need further consideration as well as a potential theoretical solution. Among the recommendations and given the content analysis relating to FI for South Africa, this research study recommends academics to consider using anchoring further research in the community echelon theory. This is because it highlights the complexity and diversity of the issues in FI's demand-side, which still needs to be addressed to understand the country's stance on FI more comprehensively. While this theory might have some challenges in its implementation, it is necessary to pivot its strategy from the current bank account led strategy. Other demand-led theories are available and should be considered as FI evolves in South Africa. Nonetheless, the community echelon theory should be considered a first step, while further research continues for suitable demand-led strategies for South Africa.

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7. Appendices

Appendix 1.1. World Bank Data Collection instrument: World Bank

Appendix 1.2. SA Results from World Bank Survey 2011-2017

Appendix 1.3. Ethics Document

Appendix 1.1: World bank data collection instrument: questionnaire for interview

“Global Findex data are used to track progress toward the World Bank goal of Universal Financial Access by 2020 and the United Nations Sustainable Development Goals” (World Bank, 2020). The survey instrument and along with the survey methodology available at:

https://microdata.worldbank.org/index.php/catalog/3243/download/44354

Appendix 1.2: SA Dataset

The Microdata for SA can be found at:

https://microdata.worldbank.org/index.php/catalog/3243/data-dictionary

The survey ID number is: ZAF_2017_FINDEX_v02_M

Tiled: Global Financial Inclusion (Global Findex) Database 2017

Appendix 2.2: Ethics Documentation

UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

SCHOOL OF GRADUATE SCHOOL OF BUSINESS ADMINISTRATION ETHICS COMMITTEE
CONSTITUTED UNDER THE UNIVERSITY HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)

CLEARANCE CERTIFICATE **PROTOCOL NUMBER: WWBS/BA1797484/525**

PROJECT TITLE An evaluation of the effectiveness of financial inclusion programmes in the South African financial sector

INVESTIGATOR Mrs Maud Korte

SCHOOL/DEPARTMENT OF INVESTIGATOR MBA (Research Article)

DATE CONSIDERED 12 June 2020

DECISION OF THE COMMITTEE Approved unconditionally

RISK LEVEL LOW RISK

EXPIRY DATE 28 FEBRUARY 2021

ISSUE DATE OF CERTIFICATE 24 June 2020 **CHAIRPERSON** ____________________
(Dr MDJ Matshabaphala)

cc: Supervisor: Ms Rukudzo Pamacheche

DECLARATION OF INVESTIGATOR

To be completed in duplicate and **ONE COPY** returned to the Chairperson of the School/Department ethics committee.

I fully understand the conditions under which I am are authorized to carry out the abovementioned research and I guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee.

____
Signature

Date 30/06/20

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES