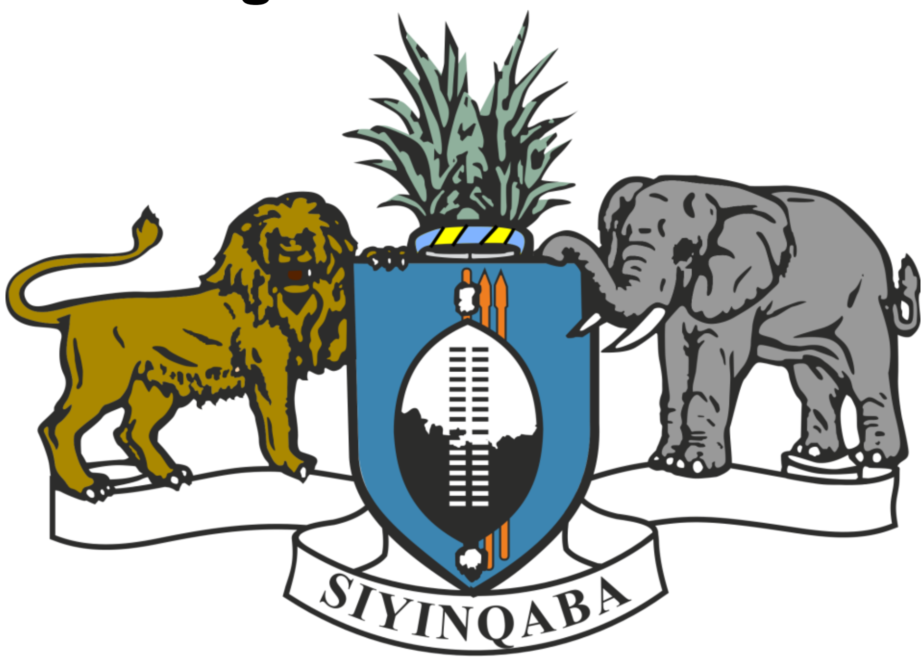
Kingdom of Swaziland



Financial Sector Development Implementation Plan

March 2017

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[1] The Financial Sector Reform and Strengthening Initiative, FIRST, is a multi-donor grant facility that provides short- to medium-term technical assistance (TA) to promote sounder, more efficient, and inclusive financial systems. (www.firstinitiative.org)

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List of Acronyms

AML	Anti-money Laundering
CBS	Central Bank of Swaziland
CFT	Counter Financings of Terrorism
CIS	Collective Investment Scheme
CMA	Common Monetary Area
CRS	Credit Reporting Service
CRSP	Credit Reporting Service Providers
DFI	Development Finance Institution
ECGS	Export Credit Guarantee Scheme
FIA	Financial Institutions Act
ELA	Emergency Liquidity Assistance
FINCORP	Swaziland Development Finance Corporation
FNB	First National Bank
FSDIP	Financial Sector Development Implementation Plan
FSRA	Financial Services Regulatory Authority
GDP	Gross Domestic Product
IMF	International Monetary Fund
KoS	Kingdom of Swaziland
KPI	Key Performance Indicator
LOLR	Lender of Last Resort
MFI	Microfinance Institution
MLFTP Act	Money Laundering and Financing of Terrorism (Prevention) Act
MNO	Mobile Network Operator
MoF	Ministry of Finance
MTO	Money Transfer Operator
MVA Fund	Motor Vehicle Accident Fund
NBFI	Non-bank Financial Institution
NPL	Non-performing Loan
NRA	National Risk Assessment
PCA	Prompt Corrective Action
PSPF	Public Service Pension Fund
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement System
SACCO	Savings and credit cooperative
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SAECH	Swaziland Automated Electronic Clearing House System
SARB	South African Reserve Bank
SMME	Small, Medium, and Micro Enterprises
SNPF	Swaziland National Provident Fund
SRA	Swaziland Revenue Authority
SRIC	Swaziland Royal Insurance Corporation
SSELGS	Small Scale Enterprise Loan Guarantee Scheme
SSX	Swaziland Stock Exchange

Financial Sector Development Implementation Plan 2017-2019

1. **To aid in the national development of the Kingdom of Swaziland (KoS) the Ministry of Finance, Central Bank of Swaziland (CBS) and Financial Services Regulatory Authority (FSRA) commit together, with support from the private sector, to this Financial Sector Development Implementation Plan.** The ultimate goal of this plan is to reduce poverty and promote economic growth in the KoS. This can best be accomplished by leveraging the combined power of civil society, private, non-profit and public sectors in identifying realistic targets for the financial sector and working together in a coordinated fashion to achieve them.

2. **The implementation plan provides the analytical underpinnings of the financial sector, upon which lay the vision, objectives, the gaps between objectives and the current state, policy recommendations, and key performance indicators**. The last section of this plan provides the governance framework for how the public and private sectors have committed to implement this plan together.

1. Setting the Context

3. **The KoS is a small, open, lower-middle income economy with 1,268,000 inhabitants.** Swaziland's economy is closely tied to that of South Africa, which consumes 60 percent of its exports and provides 90 percent of its imports.[2] Swaziland is a member of Southern Africa Development Community (SADC), the Common Monetary Area (CMA) and the Southern African Customs Union (SACU) and the Swazi Lilangeni is pegged to the South African Rand. Swaziland's economic performance remained moderate in 2014, with the real GDP growth estimated to have declined to 2.5 percent from 3.0 percent in 2013, as the country is vulnerable to external shocks, particularly from South Africa as well as persistent internal deficiencies. The decline mainly reflects the manufacturing sector, which accounts for about one third of GDP, and was significantly affected by shocks, with its growth performance decelerating to 1.3 percent from 2.5 percent in 2013. Other factors responsible for this decline include lack of competitiveness and low levels of private investment.[3]

4. **Over the past five years economic growth in Swaziland has hovered around 2.5 percent**.[4] This has been supported by growth in construction, sugar, and textile sectors along with strong revenues from the SACU which comprises over half of all fiscal revenues for the KoS. However, growth in Swaziland has been half that of the neighboring countries of Botswana, Lesotho, and Namibia. In addition, the KoS anticipates a 25 -30 percent reduction of SACU revenues in the near term, and its removal in January 2015 from the African Growth and Opportunity Act framework with the United States may also negatively impact textile exports which represent 3 percent of GDP.

[2] The World Factbook 2015.
[3] African Economic Outlook 2015.
[4] The World Bank 2015.

5. **After experiencing a fiscal crisis in 2010-11, mainly due to a significant decline of almost 25 percent in revenues from the SACU, the government has undertaken various fiscal reforms** and Swaziland's budgetary outturn has since improved. The 2014-15 budget estimates indicate an increase in total revenue to E 14.6 billon, of which E 7.5 billion (51 percent) is SACU revenue. This implies that 49 percent of the budget will be financed by non-SACU revenue compared to 45 percent in 2013-14. This outcome strongly signals the government efforts to reduce dependency on SACU revenue as the Swaziland Revenue Authority (SRA) is putting in place measures to strengthen and broaden the tax base in an effort to enhance domestic tax revenues.[5]

6. **According to the 2013 Labor Force Survey, the country is plagued by an unemployment rate as high as 28.1 percent of total employment**. Unlike in most low and middle-income countries, Small, Medium, and Micro Enterprises (SMMEs) currently absorb less than 5 percent of the reported employment. In addition to persistent unemployment, the labor market is challenged by one of the highest HIV infection rates (27 percent) globally and has an average life expectancy of only 51 years.[6] Together these issues are significant contributors to poverty, and 39 percent of the population lived on less than US$1.25 per day as of 2009 (most recent data available) which represents a much higher share than in other lower-middle income countries, where an average of 22 percent of the population lives on US$1.25 or less.[7]

2. Financial Sector Context[8]

7. **Unusually, in comparison to other countries of similar income, the non-bank financial sector in Swaziland (comprising insurance companies, retirement funds, collective investment schemes and savings and credit institutions) is considerably larger than the banking sector,** accounting for about 75 percent of the sector in terms of assets[9]**.** This distribution of assets has been fueled by rapid growth of retirement funds (including provident funds), which now dominate the financial system and have taken on systemic importance. Table 1 below provides a high-level overview of the share of assets in the financial sector and the importance and growth of the financial sector relative to the economy.

Table 1. Distribution of Financial Sector Assets and Share of GDP

Sector	% of Fin. Sector Assets	% of GDP	% of Fin. Sector Assets	% of GDP
		2013		2014
Commercial Banks	30.72	34.75	22.32	34.02
Savings & Credit Institutions	7.47	8.45	8.96	13.65
Insurance	5.79	6.54	5.54	8.44
Retirement Funds & Asset Managers	56.03	63.38	63.19	96.33
TOTAL	100.00	113.13	100.00	152.45

Source: Central Bank of Swaziland and FSRA 2015.

8. **Swaziland's banking sector is comprised of three private commercial banks, all of which are subsidiaries of large South African banks and one state-owned development bank.** The

[5] African Economic Outlook, Swaziland 2015.
[6] World Factbook 2015.
[7] World Development Indicators 2015.
[8] See Annexes 2 and 3 for a full diagnostic of the Swazi financial services sector and its legal and regulatory environment.
[9] IMF Article 4 Consultation in 2014.

South African subsidiary banks control approximately 86 percent of the market. Together with Fincorp, a development finance corporation and the largest consumer lender in Swaziland, the banks have 40 branches, 195 ATMs and approximately 800 POS terminals.

9. **Based on data from the 2014 FinScope in Swaziland, the level of financial inclusion in Swaziland continues to improve with 65 percent of the adult population using some type of formal financial product**. This is a substantial increase from 2011 when only 50 percent of adults used formal products. This increase was primarily driven by greater usage of formal savings in banks/savings and credit cooperatives (SACCOs) and formal remittances. These inclusion numbers rank Swaziland near the upper third of countries in Africa in terms of financial inclusion for those countries that have undergone a demand-side survey of financial services.

10. **Rural residents are twice as likely to be financially excluded (32 percent) as urban residents (16 percent).** This may be more of a function of lower incomes of rural residents as opposed to physical barriers which only 3 percent of persons cite as their reason for being unbanked. Despite broad socio-economic challenges the financial sector in Swaziland has been profitable, well capitalized and stable in recent years.

11. **Nearly all civil servants (99.5 percent) and formal company employees (95 percent) are financially included.** However, these groups represent less than a quarter (24 percent) of all individuals by income source. The self- employed (13 percent), informal workers (16 percent) and those depending on other family members (31 percent) are the majority of the economically active population.[10] As such, the financial inclusion challenge is how to bring the self-employed, informal workers and economically dependent individuals into the financial sector as a means to help them reduce income shocks through savings or insurance, invest for the future at low costs through affordable loans and/or reduce their expenses related to transfers and payments. The main drivers and barriers of financial inclusion in Swaziland are provided in Table 2 below.

Table 2. Drivers and Barriers to Financial Inclusion

54% of adults are banked	46% of adults are not banked
Banked people opened their bank accounts mainly to: • Keep money safe from theft (87%) • Receive salary/deposit money from an employer (68%) • Safe/easy way to receive money (65%)	Main barriers to banking are affordability: • Cannot maintain minimum balance (34%) • Do not need it (13%) • Bank charges too high (10%) • Do not have required documents (7%) • Do not understand how banks work (4%)

Source: FinScope Consumer Survey Swaziland 2014.

12. **Financial constraints are binding especially for SMMEs.** Access to finance is the main constraint to doing business, as identified by more than 20 percent of formal domestic firms (2014-15 Global Competitiveness Report, World Economic Forum). According to the 2012 UN Swaziland urban SMME survey, the majority of urban SMMEs use own funds (57 percent) or family savings (20 percent) rather than loans from commercial banks (8 percent) to start-up a business. Recent estimates suggest that overall only 4 percent of SMMEs finance themselves through formal financial service providers, while 70 percent are excluded from either formal or informal channels. Receiving finance from a formal institution appears less challenging once a firm is operating and a credit risk assessment

[10] FinScope Consumer Survey Swaziland 2014.

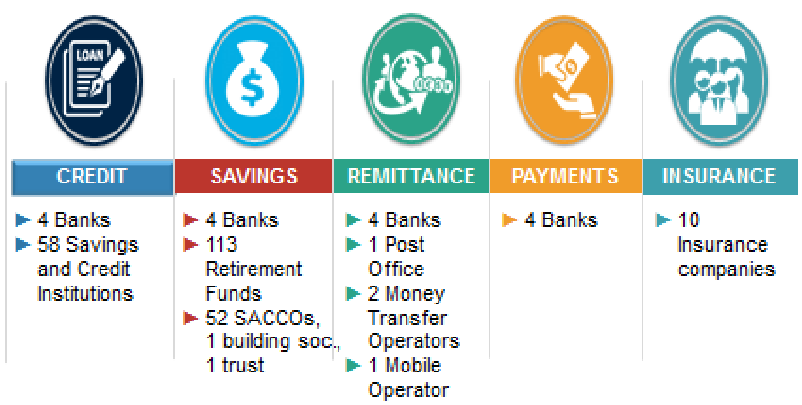
is less uncertain. The absence of audited accounts and strong financial practices in SMMEs adds to the difficulties in extending credit to these firms.

13. **Promoting job creation and growth in the private sector is at the core of the development agenda for Swaziland.** The 2013 "Revised National Policy of the Government of Swaziland on the Development of Small, Micro and Medium-sized Enterprises" highlights the crucial role played by the private sector in creating income, employment and growth. Micro, small and medium enterprises (referred to simply as SMMEs in this document) are considered the foundation of a solid and thriving private sector and the authorities are committed to enable their growth.

2.1 Banking Sector

14. **Total assets of the banking sector as of December 2014 stood at E 13.4 billion, or approximately 34 percent of GDP**. This allocation of assets and the heavy influence of the operations of the parent South African banks and performance of investments in South Africa on the ultimate health of Swaziland makes financial stability monitoring a broader task than just what is under CBS' or FSRA's direct supervision. There are a range of providers and products available in Swaziland as Figure 1 indicates:

Figure 1. Range of Providers and Financial Products in Swaziland



15. **Financial sector indicators reflect a generally adequately capitalized and profitable banking system, though performance varies among banks and asset quality is relatively weak.** All banks show strong profitability, with an average return on assets (ROA) of 2.5 percent in 2014, and return on equity (ROE) of 21.4 percent (see Table 3). Asset quality has been on a generally improving trend, with non-performing loans (NPLs) declining from 9.3 percent in 2010 to 6.9 percent in 2014. These averages, however, mask a wide disparity in levels of NPLs and provisioning coverage. Gross NPLs vary from 1 percent to 19.1 percent, and net NPLs from 0 to 7.6 percent. Two banks had loan-to-deposit ratios in excess of 100 percent. This high loan-to-deposit ratio represents a potential bottleneck to future credit expansion, and poses a risk to the system given the absence of an active inter-bank market. All banks are adequately capitalized with capital ratios between 16.5 percent and 42.7 percent as of year-end 2014. Stress tests performed by the International Monetary Fund in early 2015 indicate that even under the most stressed combined scenario the overall capitalization of the sector would be strongly impacted, with tier one capital reduced to 3.3 percent.

16. In 2011 the KoS passed the Money Laundering and Financing of Terrorism (Prevention) Act, 2011 (MLFTP Act). Although the Act came into force in 2012 regulations have not been issued to implement aspects of the Act. In addition, while the KoS has established an anti-money laundering (AML)/Counter Financings of Terrorism (CFT) Task Force for developing the national strategy, they have not yet initiated an AML/CFT national risk assessment (NRA) process. (See the Supply Side and Legal Technical Notes for more complete descriptions.

Table 3. Overview of Banking Sector Ratios

Year	2010	2011	2012	2013	2014
Capital to risk-weighted assets %	18.8	20.3	29.1	24.4	24.4
ROA%	2.4	2.4	3.7	3.1	2.5
ROE%	14.4	13.8	26.0	22.7	21.4
Loan-to-deposit ratio %	74.9	84.6	82.7	86.7	86.0
NPLs/Gross loans %	9.3	6.7	8.7	6.8	6.9

Source: Central Bank of Swaziland 2015.

2.2 Savings and Credit Institutions

17. **There are 59 active savings and credit institutions operating in Swaziland with approximately 220,000 clients/members.** A breakdown of these high-level numbers includes 51 *active* SACCOs (there are approximately 20 inactive SACCOs) with 71,000 members, 1 building society serving 100,000 clients and assets of E 1.1 billion, 2 microfinance institutions, 4 development finance firms and micro-lenders and one trust. These institutions serve clients at the lower-end of the income scale in both urban and rural settings. They offer a limited variety of secured and unsecured loans. With few exceptions, the operational systems in these institutions are weak and IT systems are lacking. These shortcomings are not entirely uncharacteristic of institutions catering to the low-income segment. However, a few of these institutions are operating at a loss and/or have inadequate capital levels. To begin to address these weaknesses savings and credit institutions are now prudentially regulated by the FSRA which has been receiving technical assistance from the International Monetary Fund to enhance its supervisory systems and capacity in overseeing such institutions.

18. **Between 2012 and 2013 assets among the 51 active SACCOs grew 9.7 percent to E 916 million for their 71,182 account holders.** The sector is concentrated with just five SACCOs representing two-thirds of all assets of SACCOs and holding 77 percent of the accounts of the sector. Like most financial institutions in Swaziland the SACCOs have sufficient liquidity and they hold 20 percent of their assets (E 187 million) on deposit with banks/building society/in the capital markets. SACCOs averaged 1.4 percent return on assets in 2013. While the sector as a whole appears strong (see Table 4) these averages mask a great degree of variety in the levels of financial health and professionalization among institutions.

Table 4. SACCO Summary Data

Ratio	As of June 2014
Loans/Savings	80%
Liquid Assets/Deposits	31%
Non-Performing Loan/Total Loans	5%
Core Capital/Assets	13%

Source: FSRA 2014.

19. **The vast majority of members of SACCOs, DFIs and the Building Society also have accounts at banks; as such, the current product offerings are doing little to expand the frontiers of financial inclusion.** Because of the lack of a sufficiently differentiated and multi-tier licensing system results in restrictions on SACCOs and the building society, as non-bank depository institutions, to hold demand deposits and directly access the payment system, few persons can rely solely on a SACCO or building society for banking services as the products do not meet modern needs for financial services.

20. **Microfinance institutions (MFIs) have little outreach with two not-for-profit MFIs that serve 19,500 clients and one government-owned development finance institution** serving 2,500 SMME clients and 11,000 clients for salary-based lending. The two not-for-profit MFIs have only E 21.5 million in assets and struggle for sustainability compared to E 790 million in the government-owned lender Fincorp, which was originally focused on SMMEs but has moved into salaried-based lending to support its operations.

2.3 Retirement Funds, Insurance & Capital Markets

21. **Insurance companies, retirement funds and collective investment schemes[11] account for about 68 percent of the financial sector in terms of assets[12].** Fueled by rapid growth, retirement funds (including provident funds) and insurance companies are systemically important because of their share of the financial system. In addition, these NBFIs are vulnerable in the event of a shock to the economy because there are no safety nets in place to protect their contributors/depositors/investors as NBFIs do not have access to the central bank's lender of last resort facility.

22. **Retirement funds and asset managers are the largest segment of financial sector (63 percent) and equal 96 percent of size of the annual GDP in Swaziland.** The assets of pension and retirement funds grew by 26 percent between 2013 and 2014 totaling E 23.1 billion. The retirement funds sector comprises 73 local retirement funds (with 10 being umbrella funds with 122 participating employers), 40 foreign retirement funds, 11 asset/investment fund managers, 5 fund administrators[13] and 2 beneficiary trust funds.

23. **The two largest retirement funds are the Public Service Pension Fund (PSPF)[14] and the Swaziland National Provident Fund (SNPF)[15].** Contributions to the PSPF in 2013 stood at E 777 million and contributions to SNPF for 2013 stood at E 250 million. Funding levels of the PSPF has improved to 84.4 percent in 2013 even though contributions amounting to E 774 million by the Government to PSPF relating to previous years have yet to be made. The authorities are considering

[11] While savings and credit institutions are a type of NBFI they are addressed separately given many of them accept deposits and their potential for growth, if strengthened.

[12] IMF Article 4 Consultation in 2014.

[13] Three life insurers have also been approved to act as fund administrators.

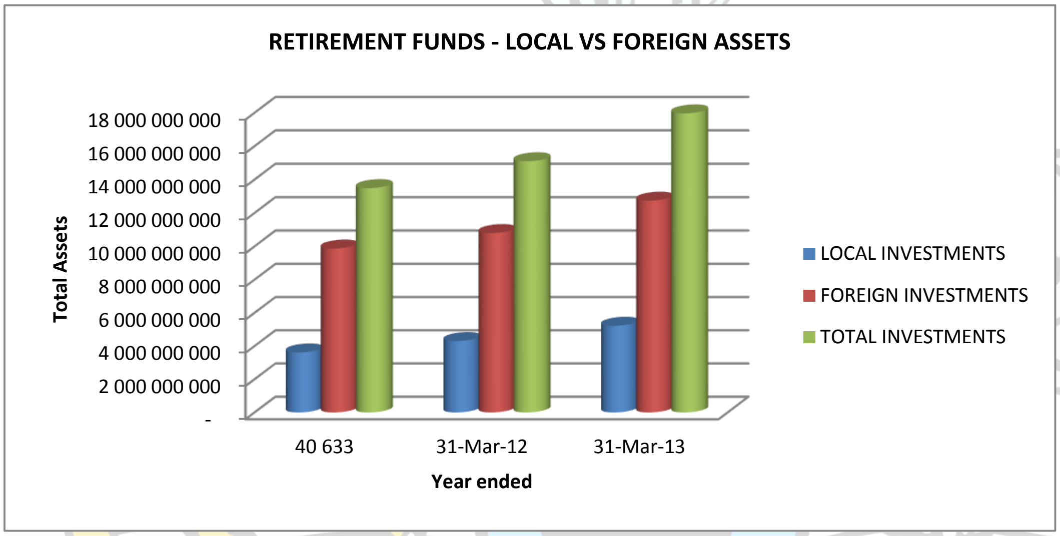
[14] The PSPF is a contributory defined benefit scheme in which members contribute 5 percent of pensionable salary whilst the participating employer contributes at a rate of 15 percent of pensionable salary. Participating employers are the Government of Swaziland and any parastatal bodies or services which the Minister may determine as "public service" under the Public Service Pensions Order 1993.

[15] The SNPF is a defined contributory scheme in which members contribute 5 percent of their salary whilst the employer contributes 5 percent. Participating employers are all private sector employers and some parastatal bodies subject to a ceiling of E 1,700.

changing the payout of SNPF from a lump sum withdrawal to an annuity payment once a contributor reaches retirement age.

24. **One pressing challenge in Swaziland is the lack of long-term domestic currency financial instruments appropriate for investments by insurance companies and retirement funds.** Figure 2 shows that as of 31 March 2013, retirement funds' assets grew 20 percent from 2012 with assets totaling E 18.3 billion (as compared to E 15.3 billion in 2012). Due to the robust stock market performance in South Africa, retirement funds have performed well in 2013. In this regard, the Retirement Funds legislation in Swaziland requires that 30 percent of assets must be invested in local assets in Swaziland. The figure shows that the industry is close to meeting this local investment requirement at 29 percent in 2013.

Figure 2. Investment Mix of Retirement Funds in 2012 & 2013



Source: FSRA Annual Report 2013.

25. **The capital market segment in Swaziland is small comprising of a limited number of institutions, relatively new starting in 2010 and an extremely low level of activity in the primary and secondary markets** – 13 investment advisors, 4 exempt dealers, 5 managers of collective investment schemes (CIS), 16 collective investment schemes, 2 dealers and 3 trustees. Of the 4 CISs, one controls about 61 percent of the total funds under management.[16] There are only seven listed shares[17] with only four trades in shares and a number of government bonds with maturities from 3, 5 and 7 years listed on SSX but there were no trades in bonds. The issuance program for government bonds has not been stable. In the past year, one new company was listed in the first quarter of 2014, but this was an introduction of existing shares rather than a capital-raising IPO. A first step would be an analysis of companies that might consider listing, and the quality of their accounting, auditing, and governance standards would be important. (See Annex 2 for a more complete discussion of accounting and auditing standards.)

26. **Insurance uptake continues to be slow with just 27 percent of adults having some form of insurance according to the FinScope 2014 survey.** However, this is up from 22 percent of adults having insurance in 2011. This is below the majority of SADC member countries. The primary driver

[16] African Alliance Swaziland.
[17] A company was listed on SSE in 2014.

of insurance update continues to be funeral insurance with 24 percent of Swazis having some type of formal or informal insurance. Given the short life expectancy and high prevalence of HIV it's surprising that 73 percent of Swazis do not have insurance. The main barriers to uptake are the lack of awareness and knowledge of insurance – that is, financial education.[18]

27. **The insurance industry is still in the early stage of development but has rapidly grown over the last three years.** As of 31 July 2014, the total number of insurers operating in Swaziland comprised 10 operational insurance companies 1 insurer offering composite insurance, 3 insurers offering property and casualty, and 6 insurers offering life insurance products. There are 26 insurance brokers, 28 corporate agents, 245 individual agents, 5 fund administrators and 11 asset/investment managers. Insurance brokers dominate the distribution of insurance products, accounting for 80 percent market share.

28. **Short-term insurance business accounts for almost 60 percent of total industry premiums.** A combined ratio (incurred expense ratio and incurred claims ratio) for short-term insurers in 2013 indicates some measure of profitability and efficiency in the underwriting market. The combined ratio has stayed between 79 percent and 73 percent in the last three years. The short and long-term insurance industries are fairly solvent (that is, 121 percent and 122 percent solvency ratios respectively) and liquid (that is, 1.4x and 2.4x liquidity respectively) with the trend showing that the industry is able to meet its future obligations and short-term liabilities.

29. **The insurance industry is still highly concentrated with Swaziland Royal Insurance Corporation (SRIC) being the only insurance company that is authorized to carry out both short and long term businesses[19].** While SRIC's market share in long-term business has been eroded compared to 2012, with Old Mutual being a close second, it still nonetheless dominates the short term business with 84 percent market share of gross premiums.

2.4 Credit Infrastructure

2.4.1 Credit Reporting

30. **The lack of credit information in Swaziland impedes access to credit and decision making by formal lenders.** For example, one impediment to formal sector borrowing is the time delay in approving loans compared to the informal sector which provides cash on the spot.[20] According to FinScope survey only 12 percent of individuals use credit products from formal sector lender compared to 31 percent of individuals borrowing from the informal sector.[21] Employment information is used to augment credit information in Swaziland as many lenders provide loans based primarily on salaries making it more difficult for informal and non-salaried workers to borrow.

31. **According to Doing Business 2015, Swaziland ranks 61 out of 189 countries on the *Getting Credit* indicator.** The main deficiencies in the credit market are the lack of a credit registry, the lack of a legal/regulatory framework which governs how credit bureaus operate and credit information is

[18] FinScope Survey 2014.
[19] The industry was liberalized with entry of several other insurance companies in both long term and short term insurance business.
[20] Based on the World Bank's interviews in 2014 with lenders in Swaziland.
[21] It should be noted that "multiple lending" is typically present and only evidenced when comprehensive data sharing through a CRS is in place. This is crucial towards monitoring of over-indebtedness.

used and shared, the availability of only negative information on borrowers, and the inability for other financial service providers to provide information to the private credit bureau.

32. **In Swaziland there is neither a credit registry nor a regulated private credit bureau, although Transunion of South Africa covers the Swaziland market.** Without a credit registry the financial sector regulators are limited in their ability to monitor weakness or potential threats in credit markets. At the same time lenders cannot see the current or past credit experience of borrowers. The lack of positive information on borrowers in a credit bureau prohibits lenders from taking full account of the repayment patterns of potential borrowers and can lead to a heavy reliance on collateral and current salary for loan decisions – both of which can be challenges for SMMEs and lower income borrowers. The passage of the Consumer Credit Bill of 2015 would aid in establishing rules for any credit information provider operating in the market.

33. **In Swaziland different types of creditors collect data in many different ways and not all of them are ready to start submitting data to a credit bureau.** According to FSRA there are 73 licensed micro lenders. In particular, the SACCOs are the least prepared to submit data. In contrast, utilities companies collect information on a systematic basis from all their clients. Information from telecommunication companies is also available and relevant for the credit reporting service (CRS). MTN, which is a large South African based mobile network company which has offices in southern and east Africa, is the largest provider of telecommunication services in Swaziland. They cover 900,000 clients and serve both post- paid and pre-paid customers. They supply information from their post-paid clients to Transunion credit bureau and hold information on identification of individuals and payment patterns.

34. **Credit information sharing in the KoS is incomplete and limited to negative data**. Although banks and other non-bank financial institutions, MFIs and some SACCOs, are currently submitting data to a credit bureau (Transunion Ltd), such information is limited to; (i) loan enquiries and (ii) "blacklist" of borrowers in default. In return participating entities receive a report with the following information: (i) previous enquiries, (ii) late payments, (iii) court judgments, (iv) employment record and (v) "tracing" mark. Some banks have an internal credit score for borrowers using data from credit bureaus operating in South Africa and their own data. Finally, there are some users of the credit bureau that enquire information from the credit bureau but do not submit any data.

35. **There is no systematic information collected by the CBS or FSRA to monitor consumer or firm over-indebtedness or for lenders to see a complete picture of a borrowers' credit history.** Despite banks providing credit to only 7 percent of the total population, and 31 percent the population accessing credit by informal lenders which are not reporting to the credit bureau, data from the World Bank's Doing Business Report 2015 indicates that 40 percent of Swazi adults are have records in the credit bureau. This is primarily the result of utility companies and retailers reporting data to the credit bureau.

36. **Whilst the FRSA is the supervisory authority in charge of the oversight and regulation of credit providers, the FRSA Act does not define the credit reporting activities.** The Consumer Credit Bill of 2015 which has been approved by cabinet, but has not yet been passed by Parliament, seeks to correct this deficiency.

2.4.2 Secured Transactions and Movable Property

37. **While Swaziland ranked 61 out of the 189 economies under the ease of getting credit indicator, out of the 12 questions that measure the strength of legal rights, Swaziland performed poorly on eight of them**, attributable to the lack of: i) a unified secured transactions framework, and ii) an electronic notice-based collateral registry available to both incorporated and non-incorporated entities. Swaziland's framework also fails on the account of inadequate protection of lenders in case of the borrower's insolvency. On the micro level, access to credit is one of the top obstacles cited by Swazi businesses. In theory, having a framework in place that allows businesses and individuals to use their movable property as collateral for loans can lower the cost of credit, increase access to finance, and reduce risks for creditors.

38. **A 2013 World Bank study comparing access to bank finance pre- and post-collateral reforms in seven countries found that a collateral reform increases access to loans by 7 percent, reduces interest rates by an average of 3 percent and extends loan maturities by 6 months**.[22] Similarly, the Asian Development Bank assessed the impact of collateral reforms in the Pacific completed since 2006 and concluded that secured lending has expanded significantly.[23] However, Swaziland is not able to take advantage of the opportunities to lower costs, increase access to credit, and reduce risks, because the framework governing securing movable property as collateral is outdated, and inconsistent. This means that while banks can take movable property as collateral, there is very little value from securing this property as there are practically no ways to register the collateral, enforce against the collateral.

39. **Is there a cure for these deficiencies? Many countries around the world have recently completed collateral reforms modernizing their legal and registration infrastructures.** These reforms have had measurable positive impacts on the cost of credit, reducing interest rates, extending loan maturities and increasing the amount of secured credit available. Countries like Liberia have already completed these types of reforms and countries like Malawi are in the process of building their collateral registries. Despite its more developed, diverse and innovative financial system, Swaziland is lagging behind many countries in Africa; so there is a real chance to be grasped.

2.4.3 Mobile Financial Services and Payments[24]

40. **Digital financial services in the KoS take the form of either mobile money or e-wallet accounts.** The former was introduced in 2011 with the launch of MTN mobile money accounts and has been growing without competitive pressures and MTN is the only licensed mobile network operator in Swaziland. The latter are offered since 2013 to the customers of First National Bank (FNB) – one of the three large South African banks operating in Swaziland. Both products are compatible with the majority of mobile devices on the market.

[22] Inessa Love, María Soledad Martínez Pería & Sandeep Singh, Collateral Registries for Movable Assets, Does Their Introduction Spur Firms' Access to Bank Finance?, Policy Research Working Paper 6477, The World Bank, at 12-14 (June 2013).

[23] Asian Development Bank, Unlocking Finance for Growth, Secured Transactions Reform in Pacific Island Economies, 17 (2014).

[24] The information on mobile money services is based on the latest FinMark Trust initiatives, namely the 2014 Finscope and the 2015 development of an action plan and policy note for electronic money (e-money) in Swaziland.

41. **E-money is used mainly as an add-on mobile service, rather than a financial service.** While 36 percent of customers utilizing MTN's mobile money product in Swaziland use it to purchase air time, only 13 percent and 12 percent of customers respectively rely on e-money for incoming and outgoing remittances.

42. **Despite the fast-growing subscription rate of mobile financial services, payment innovations are slow to be adopted.** FinScope 2014 also documents a limited use of payment cards, despite the relatively high number of transaction accounts. Similarly FNB's e-wallet registers a high rate of dormancy (31 percent of overall subscription base or 20,000 customers). In contrast, MTN's mobile money customer base has averaged 100 percent annual growth since its introduction, from 50,714 in 2011 up to 256,197 customers in 2014; yet a high portion of customers (60 percent) have dormant accounts. Active users of mobile money are not exploiting the product to its fullest potential, and transaction volumes average well below the possible threshold. The mobile money numbers are even bleaker considering nearly all adults have a cellphone but just 21 percent are registered users of mobile money compared to 68 percent of mobile phone users in Kenya.[25]

43. **Low uptake of mobile financial services is explained by multiple factors, but mainly the lack of information and interest in e-money.** According to the 2014 FinScope, a lack of sufficient information about the service is the main reason for not using e-money services, as cited by almost 24 percent of respondents. "Not having thought about it" is the second most frequent reason (cited by 15 percent). Investing in education and promotion may pay dividends in terms of higher e-money uptake, but it is important to recognize that other substantial obstacles would remain. For instance, income constraints would still remain binding for the 14 percent of respondents that "do not have enough money to transact" or the 3 percent that "can't afford the cost".

44. **Progress in this area is constrained by several factors.** The following are among the elements that hinder the uptake of digital financial services: (i) digitalizing public payments[26] is unlikely to pay off in terms of growing the market, since most grants are already disbursed through bank accounts, cellphone penetration is lower among older recipients that typically prefer using cash; and (ii) the lack of competition as MTN is sole provider in the mobile telecom sector in Swaziland which reduces the incentives to put forward innovative and competitive products.

45. **The mobile money agent network has grown exponentially over the past few years, but remains limited.** MTN's mobile money network grew from 223 to 611 agents between 2011 and 2014. Despite the high (40 percent) growth rate, the number of agents per adult population remains well below that of other countries with an active e-money market. For instance, there is 1 agent per 870 adults in KoS while the ratio increases to 1 agent for every 321 adults in Kenya. The situation is likely worse in rural areas where only 41 percent of agents can be found. Interviews with MTN indicate that the company is well aware of the issues and is rolling out a plan to increase its agent network.

46. **Mobile money may offer a cost-effective solution, despite the fact that current pricing may be inflated by monopolist rents.** Not surprisingly, the cost of mobile money transfers is higher in KoS than other markets where competition exists. The maximum cost of sending money through a mobile phone in KoS is twice as much as in South Africa. Despite the unfavorable cross country

[25] Demirguc-Kunt and Klapper, 2012 "Measuring Financial Inclusion: The Global Findex Database", *World Bank Policy Research Working Paper* No. 6025, April.

comparison, mobile money remains a relatively affordable option given the alternative transaction means available.

47. **Neither the building society, remittance service providers, savings and credit institutions nor MTN has direct access to the real time gross settlement (RTGS) system or Swaziland Automated Electronic Clearing House System (SAECH)** despite their important roles in the financial sector. As the settlement agent that ensures finality and irrevocability in the settlement of transactions, the CBS owns, operates and oversees the Swaziland Interbank Payment and Settlements System (SWIPSS)-an automated interbank real time gross settlement system. It connects all 4 commercial banks to the central bank in order to settle interbank obligations. The card payments market is dominated by foreign branded cards (VISA and MasterCard) which have traditionally been accepted at all ATM and POS terminals of the three foreign banks.

3. Vision

48. **The Government of Swaziland has adopted a comprehensive and progressive vision for the financial sector that will underpin economic growth and poverty reduction.** A strong and diversified financial system efficiently mobilizes and deploys resources to those segments which have productive investment opportunities, and can generate returns. The availability of affordable credit and holding of liquid savings can lead to greater household and business income security, which can help increase consumer/business confidence. More importantly, poor and financially vulnerable families can benefit greatly from affordable and secure savings, payment and insurance services.[27] In support of the country's overall National Development Strategy for 2022 the vision for the financial sector in Swaziland is to have:

A stable, diversified, modern, and competitive financial system that provides quality, affordable and accessible financial services to all to support economic growth.

4. Objectives

49. To achieve the vision of a financial market place in the KoS where everyone who wants to use financial services has affordable access to quality products will require a series of four conditions or objectives to be in place. These objectives were identified through a detailed diagnostic of the supply of, demand for, and legal/regulatory environment of financial service in Swaziland and support the broader development goals of the country as defined in the National Development Strategy-Vision 2022. The diagnostic was conducted by the World Bank Group and other development partners in 2014-15 and the full findings from the diagnostic are found in Technical Notes which are in Annexes 2 and 3 of this document. The objectives of the FSDIP are:

Objective #1: Ensure the Stability of the Financial System

Having a stable and solid foundation in the financial sector is a prerequisite to further development of the sector and stability in the broader economy. This stability pre-requisite applies to both the banking and non-banking sectors, given the importance of the non-bank financial institutions in Swaziland.

[27] Global Financial Development Report: Financial Inclusion 2014. World Bank.

Objective #2: Diversify the Financial System and its Resources
The development of a sound financial sector can be best supported by a variety of institutions and corporate structures that serve a wide array of clients and sectors. Beyond a diverse set of institutions themselves, diversity in their sources of income, and markets served can also aid stability and availability of financial services.

Objective #3: Modernize the Financial Sector
It is important that the financial sector be aligned to support the changing demographic, technological and attitudinal landscape in the country. Advancement of the financial sector can aid consumers and businesses in meeting their own goals for investments, growth and security.

Objective #4: Broaden Financial Inclusion
A sound, diversified and modern financial system will be well positioned to expand the frontiers of the financial system either by reaching lower income segments and/or by introducing new products which bring the financially excluded into the system.

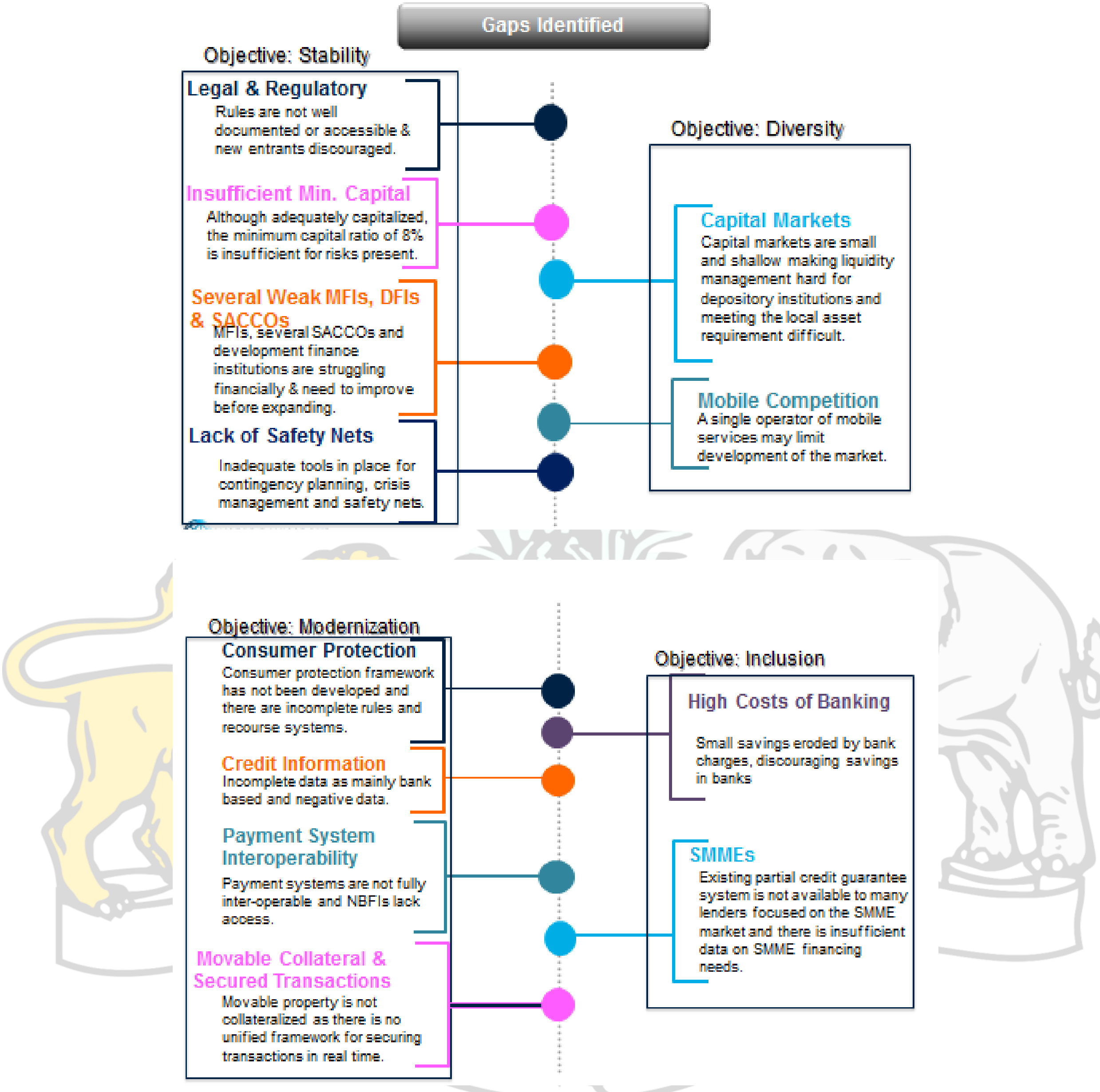
50. The expectation is that a more modern, diverse, inclusive and sounder financial system will provide more economic opportunities and decrease/mitigate risks. This, in turn, will aid economic growth and reduce poverty.

5. Gap Analysis between Objectives and Current State

51. The objectives of the FSDIP are to promote a stable, diverse, modern and inclusive financial sector. The banking sector has a critical role in reaching this objective, as it's central in providing payments, savings, and credit to both individuals and firms. Supply–side data, as well as the 2014 FinScope Survey indicate that Swaziland has made good progress in financial inclusion in recent years, but there remain a number of gaps that need to be addressed. Covered below and in Figure 3 are the most critical gaps that have been identified in the financial sector.[28]

[28] The Technical Note on the Supply Side Diagnostic, Gap Analysis and Recommendations in Annex 2 provides a broader set of 30 gaps identified beyond just these 12 "key" gaps presented below and provides additional rationale for all of the policy actions within the FSDIP.

Figure 3. Summary of Key Gaps Identified



5.1 Stability

52. The banking sector remained stable and well-capitalized throughout the 2008-09 international crisis as well as the more recent 2011 domestic fiscal crisis. However, the legal and regulatory framework for banks and non-banks is not sufficiently documented. Important prudential regulations that were issued prior to the enactment of the FIA need to be re-issued as by-laws in conformity with the FIA 2005, some sectors lack updated legislation (SACCOs, consumer credit and microfinance) or regulations (micro-insurance) which reflect the current laws and the regulatory structure (banking,

insurance and retirement funds). See the legal annex for a more complete discussion of the legal and regulatory framework.

Gap #1: Fragmented legal and regulatory framework with gaps, overlaps, and ambiguities. New entrants will be discouraged and existing entrants will struggle with compliance where the rules of the game are not well documented, clear and accessible. Moreover the regulatory framework is incomplete and dated, and could be subject to legal challenge.

Gap #2: While banks are currently adequately capitalized, the current minimum capital ratio of 8 percent is inadequate given the relatively high risk concentrations, particularly in the sugar sector. Existing NBFI capital adequacy frameworks are not risk based even though insurance companies and asset managers are adequately capitalized.
The current minimum capital ratio of 8 percent utilized in Basel I would be insufficient to protect against a sharp decline in capitalization resulting from combined stress test scenarios. The concentration in loans to the sugar sector among all banks and non-banks is leading to an elevated level of concentration risk. Furthermore, the current practice of off-balance sheet guarantees from parent banks for exposures in excess of the single obligor concentration limit presents more risk than cash collateralized or funded risk participation agreements would.

Gap #3: Several weak MFIs, development finance institutions and SACCOs
All MFIs and several SACCOs are struggling financially. Before they can significantly add to financial inclusion with new products, services and clients/members, it will be critical to improve the health and efficiency of these organizations.

Gap #4: The lack of safety nets, contingency plans for emergency liquidity assistance and lender of last resort puts the financial system at risk
The CBS's Emergency Liquidity Assistance and Lender of Last Resort (LOLR) frameworks are insufficiently developed to deal with a crisis, particularly one in which the South African parent banks are not in a position to provide capital or liquidity. While the CBS is working with banks to try to establish a more efficient inter-bank market, to help banks better manage their liquidity risks, it also needs a LOLR framework which would enable the central bank to provide funding that goes beyond overnight facilities, Moreover, NBFIs represent over 75 percent of the financial system and many NBFIs do not have a large foreign parent company backing them, there are risks as these firms cannot access the central bank's facilities for emergency liquidity assistance and lender of last resort. The lack of safety nets in place and relatively infrequent exams of banks and even less frequent exams of insurance and retirement funds (i.e., out of 244 insurance companies and foreign/local retirement funds there were only 3 on-site examinations of such entities in 2013) necessitates the need for more frequent on-site examinations.

5.2 Diversity

53. Closely tied to the objective of stability is the objective of building diversity within the financial sector to promote consumer choice and decrease risk. This diversification can take the form of institutions, legal structures, funding sources and markets served. Individuals with bank accounts typically utilize a variety of financial products and services, with only 6 percent relying exclusively on banks. Also, while 65 percent of the population saves, only 30 percent do so in commercial banks. Although 96 percent of Swazis have mobile phones, yet just 21 percent have used mobile money.

Gap #5: The capital markets are small and shallow making liquidity management hard for depository institutions and hard for retirement funds to meet the local asset requirement.

Both the government bond market and stock exchange are constrained by the presence of large and deep markets in South Africa. Investments there are facilitated by the pegged currency. There appears to be appetite for additional high quality local government bonds which are issued at anticipated tenures and timeframes so that money managers can plan liquidity positions.

Gap #6: The monopoly conditions in the mobile phone market may be stifling innovation and keeping prices high.

In many other markets reducing the churn of customers among MNOs has been the leading motivator for their development of mobile money. Despite Swaziland having other characteristics suggesting the market is fertile (e.g., underdeveloped financial services in rural areas and a large percentage of the population living outside urban centers) a single operator of mobile services may limit development of the market.

5.3 Modernization

54. Swaziland is closely linked to the South African financial markets, which are among the most advanced and sophisticated in the world. Given the very small size of the Swazi market, and the difficulty of achieving economies of scale, this linkage gives Swazi clients access to more modern and developed financial services than might otherwise be the case. First National Bank (FNB), for example, offers the advanced technology platform of its South African parent to Swazi customers. The widespread adoption of mobile telephony (by approximately 96 percent of the population according to FinScope 2014) is another positive factor, which is facilitating modernization of financial services. Mobile e-payments now represent 40 percent of all non-cash financial transactions in Swaziland.

55. On the other hand, Swaziland's financial infrastructure has not kept pace with international developments. The absence of fully inter-operable card and electronic payment systems, modern credit information, comprehensive consumer protections and recourse system and a modern framework for secured transactions all act as barriers to financial deepening.

Gap #7: The consumer protection framework is incomplete.

There are very limited protections in place for consumers of financial services, be they customers of banks, MFIs, SACCOs, insurance companies or pension funds. Furthermore, there are no mandatory or voluntary codes of conduct regarding the fair treatment of customers, and there are limited recourse mechanisms in place.

Gap #8: Credit information sharing in Swaziland is incomplete and limited to negative data.

The current credit bureau is predominately bank-based and only negative data and employment data is included in the system. This leaves the majority of consumers, and how they access credit, outside of the current credit information system. Even though there is some type of information exchange between banks and the credit bureau, a regulated framework to handle consumer complaints regarding inaccuracies in their information and clearly establishing protocols between data providers, credit bureau(s) and users is not present at this time.

Gap #9: The payment system is not fully interoperable and access is limited to banks
As non-bank financial institutions (the Building Society, SACCOs and MFIs) are not able to access the payment system and their ATMs/cards remain as closed loop systems. This prohibits such organizations from offering modern and well-priced payment solutions to more consumers.

Gap #10: A system to allow the use of movable property as collateral is missing.
There is not a modern, unified legal framework for secured transactions in Swaziland and there is no electronic registry to support banks and borrowers to be able to effect a security interest in for a loan in real time. In practice this means that the value of movable, and even immovable, property as a means to increase access to finance for SMMEs and others in Swaziland is not being exploited.

5.4 Inclusion

56. The banking sector has historically focused on the government, corporate, and middle-to-high end of the retail market. Financial inclusion has improved quite rapidly in recent years, with the percentage of the population that is banked increasing from 44 percent in 2011 to 54 percent just three years later. This places Swaziland in fourth place in SADC, behind only Mauritius (85 percent), South Africa (75 percent) and Namibia (62 percent). Banking is driven primarily by transactional services, and people's desire to keep their money safe. Those who are not banked cite their inability to maintain minimum balances as the major impediment.

Gap #11: Relatively costly and non-transparent pricing for banking services erode small savings and discourage savings in banks.
Improving the competition, diversity of corporate structures offering banking services and transparency of bank charges may decrease the overall cost of banking and help savers economize on charges.

Gap #12: Existing partial credit guarantee scheme is not available to many lenders that focus on SMMEs and little hard data exists on SMME finance needs.
The last national survey done on SMMEs was in 2010 and comparatively little information was included regarding the finance needs of SMMEs. In addition, there is insufficient census information on SMMEs to sufficiently understand and differentiate the needs of urban versus rural, micro versus medium and wholesale versus retail SMMEs to develop sufficient financing strategies.

6. Recommended Policy Actions to Support the KPIs

> "The essence of strategy is choosing what not to do."
> *- Michael Porter, Professor, Harvard Business School*

57. The following recommended policy actions in Table 5 are intended to close the identified gaps in the financial sector in due course. The actions will be jointly undertaken by the private and public sectors as described in the next section. Additional background on these recommendations is listed in Annex 2.

Table 5. Recommended Policy Actions - Sorted by Objective

Objective	Recommendations & Priority *(High, Medium or Low)*
1. Ensure the Stability of the Financial System	• Implement more frequent on-site risk-based examinations of banks and systemically important NBFIs. *(High)* • Implement Basel II and/or increase minimum capital adequacy ratios to reflect risk concentrations and implement a risk based capital frameworks for the NBFIs. *(High)* • Strengthen risk-sharing arrangements on large exposures with SA parent banks, Asset Managers and Insurers. *(High)* • Expand emergency lending assistance beyond intraday and overnight, and develop guidelines for lender of last resort facilities. *(High)* • Increase formal contact and coordination with SARB, the NCR and FSB on home/host supervision. *(High)* • Strengthen the supervision of the regulated entities and ensure that their governance is improved and also carry out more detailed and informative on-site inspection and analysis. • Strengthen contingency planning and crisis management (CBS, FSRA, MoF) *(High)* • Issue regulations supporting the FIA 2005 and FSRA 2010. *(High)* • Conduct an AML/CFT National Risk Assessment. *(High)* • Implement Regulations or Guidelines for the Money Laundering and Financing of Terrorism Prevention (MLFTP) Act. *(High)* • Conduct a review of auditing and accounting standards and implement recommendations. *(High)* • Develop and implement the Micro Finance Policy to initiate an institutional strengthening program for SACCOs & MFIs & Development Finance Institutions. *(High)* • Institute loan affordability standards for lenders. *(High)* • Enhance the operational framework, resources and independence of FSRA. *(High)* • Regularize the government's old age social grant system. *(Medium)*

Objective	Recommendations & Priority *(High, Medium or Low)*
2. Diversify the Financial System and its Resources	• Implement a multi-tiered licensing system that expands permissible activities for *healthy* MFIs, SACCOs and the building society to include the range of savings products, direct access to the payment system and crisis framework. *(High)* • Improve coordination and information sharing between FSRA and CBS to aid in clarity for the financial sector. *(High)* • Allow agent banking among banks and savings and credit institutions. *(High)* • Update and improve laws and regulations for insurance, retirement funds and capital markets *(High)* • To aid the development of a bond market, establish a legal framework for repurchase agreements. *(High)* • Revise existing partial credit guarantee schemes based on international best practice to improve effectiveness. *(High)* • Improve the range of insurance, micro-insurance, annuity and capital market products available. *(Medium)*

Objective	Recommendations & Priority *(High, Medium or Low)*
3. Modernize the Financial System	• Implement a comprehensive legal framework for credit reporting and comprehensive credit information (positive and negative) from all formal borrowers. *(High)* • A legal review of the framework for movable property to be undertaken, with recommendations on a new secured transactions law and design of a movable property registry. *(High)*

	• Establish a fully inter-operable card payment system that is national and/or regional in nature. *(High)* • Migrate all G2P and other bulk payments to digital platforms and establish a wide network of acceptance points for usage of electronic payments (mobile top-up, bill payment, retailers, e-commerce, P2G--taxes, fees, and so on), including in rural areas. *(High)* • Regularize the issuance of government bonds. *(High)* • Improve the cash management systems of government. *(High)* • Develop a coherent and comprehensive legal and regulatory framework for the financial sector. Make all relevant laws, rules and regulations available on government websites. *(High)* • Implement an independent ombudsman for the financial sector. *(High)* • Develop a policy document for credit reporting based on regional experiences and through a consultative process. *(Medium)* • Review opportunities for efficiencies by consolidating parastatal retirement funds and payout methods (i.e., lump sum vs. annuity). *(Medium)* • Improve Guidance Notes for SACCOs by delegating more powers for operational items from the AGMs to the boards, reducing reporting burdens for smaller SACCOs and simplify the capital adequacy requirement into a single ratio. *(Medium)* • Improve the efficiency of primary auction, clearing and depository systems for government bonds. *(Medium)* • Re-assess the mandatory listing of government bonds on SSX. *(Medium)* • Give independence to the SSX by separating it from FSRA. *(Medium)* • Conduct a market needs assessment for the securities market. *(Medium)* • Review the functioning of MVA and mandatory third party insurance and exercise prudential oversight over the activities of MVA. *(High)* • Consider whether data contributions to the CRS should be mandatory. *(Medium)*

Objective	**Recommendations & Priority *(High, Medium or Low)***
4. Broaden Financial Inclusion	• Promote full price transparency in banking and non-banking services. *(High)* • Reduce costs through increased use of alternative delivery channels (cell phones, retailers, slim-line ATMs, and so on). *(High)* • Map existing and planned SMME finance initiatives to identify synergies and overlaps. *(High)* • Allow international transfers and increase the limits to mobile money development. *(High)* • Consider introduction of a low-cost no-frills bank account with minimal balance requirements. *(High)* • Review regulatory barriers that preclude new payment providers in the market. *(High)* • Review and reform the impact of the community development funds to ensure they do not destroy the culture of repayment of loans. *(High)* • Improve market conduct supervision and regulation in line with international best practices. *(High)* • Develop a Financial Sector Consumer Protection Strategy and Financial Literacy Strategy. *(High)* • Implement micro insurance regulations. *(High)* • Develop a regulatory framework for the supervision of medical schemes. *(High)* • Undertake a base-line financial literacy survey to determine needs and potential interventions. *(Medium)* • Facilitate and disseminate research on aspects of financial inclusion that are working in line with the monitoring and evaluations framework. *(Medium)*

7. Key Performance Indicators (KPI)

58. Based on the above policy action recommendations the following key performance indicators (KPIs) have been identified to help focus attention of the private and public sectors on specific, measureable and high priority items. If accomplished, these four key indicators, which are closely tied to the four objectives, could transform the financial sector.

59. A snapshot of the FSDIP and the key performance indicators is provided below in Table 6.

Table 6. Summary Table of Financial Sector Implementation Plan

Vision	**A stable, diversified, modern, and competitive financial system that provides quality, affordable and accessible financial services to all to support economic growth.**			
Objectives	1) Ensure stability of the financial system. 2) Diversify the financial system and its resources. 3) Modernize the financial sector. 4) Broaden financial inclusion.			
Objectives	**Stability**	**Diversity**	**Modernization**	**Inclusion**
Gaps Identified	1) Incomplete Legal & Regulatory Framework 2) Insufficient Min. Capital Ratio for Risks Present 3) Several Weak MFIs, DFIs and SACCOs 4) Lack of Safety Nets and contingency planning	5) Shallow Capital Markets 6) Lack of Competition in Mobile Services	7) Insufficient Consumer Protection 8) Credit Information is Lacking 9) Payment System is not Interoperable 10) Lack of Effective Framework to Collateralize Movable Property	11) High Costs of Banking
Key Performance Indicators by 2018	Improve crisis management framework by: 1) implementing Basel II reforms and/or increasing the minimum capital ratio, and 2) developing guidelines for lender of last resort and emergency lending assistance.	Implement a strong and well-regulated multi-tiered licensing regime for financial institutions.	Grow coverage of a regulated credit bureau(s) from 40% to 60% of adults and implement a mechanism to correct inaccurate records.	Increase formal savings from 40% to 60% of adults through greater transparency, competition and use of technology and increase access to credit for the SMMEs.

7.1 KPIs and Mechanisms to Achieve Them

KPI #1: Improve crisis management framework by: 1) implementing Basel II reforms and/or, if a decision is taken not to move to Basel II at this time, increasing minimum

capital adequacy ratios to better reflect risks in the system, and 2) developing guidelines for lender of last resort and emergency lending assistance.

The Central Bank of Swaziland and the FSRA should work toward improving the soundness of the banking system and the crisis management framework for banks and non-bank financial institutions. This can be achieved by the Central Bank and FSRA implementing Basel II[29] and/or increasing the minimum capital ratios for depository financial institutions. In addition, the Central Bank and FSRA need to develop guidelines for who and how emergency liquidity assistance and lender of last resort facilities can be accessed keeping in mind that over 75 percent of the financial sector assets are with non-banks.

KPI #2: Implement a strong and well-regulated multi-tiered licensing regime for financial institutions.

In order to further diversify the financial system and promote greater inclusion, the Central Bank in consultation with the FSRA, Ministry of Finance, private sector and development partners will implement a multi-tiered and risk-based licensing system for healthy financial institutions. Such tiers could include: 1) a license for payment institutions that may initiate or receive payments, accept low-value deposits (where such deposits have full liquidity backing and institutions would be prohibited from granting credit or intermediating funds) and lower capital requirements; 2) a license for retail-oriented financial institutions that can offer credit, savings, payments, that would have access to emergency liquidity assistance and lender of last resort facilities but which are restricted from being primary dealers in the securities market and potentially lower loan concentration ratios. Strong prudential requirements, including liquidity and capital ratios would apply and only those organizations meeting the prudential requirements upon entry would be able avail of the new licensing options; and 3) the existing full commercial banking license. These three potential tiers could be privately-owned, publically-owned, and cooperatively-owned or not for profit, assuming the institution meets the prudential and market conduct rules.

KPI #3: Grow coverage of a regulated credit bureau(s) from 40 percent to 60 percent of adults and implement a mechanism to correct inaccurate records.[30]

Today 40 percent of adults have record in the unregulated credit bureau. Approximately 5 percent of adults obtain credit from NBFIs (that is, SACCOs, MFIs) that are not reporting credit data on their existing clients. By NBFIs providing reports to the credit bureau(s) coverage could grow 5 percent. The additional 15 percent of new "unanticipated" growth required to meet is target expected to come from the benefits and consumer protections derived from the Consumer Credit Bill and additional formalization of the financial sector as new tiers of licensing become available.

KPI #4: Increase formal savings from 40 percent to 60 percent of adults through greater transparency, competition and use of technology and increase access to credit for the SMMEs.

In addition to the 30 percent of adults that save at banks and 10 percent that save at non-banks, consumers are saving in their home (12 percent) and informally (13 percent). However some of the key challenges to formal savings are the high cost of banking services and minimum balance requirements. By improving the transparency in banking and among NBFIs, growing mobile money as a vehicle for storing funds, introducing no frills and low cost savings accounts and

[29] The South African subsidiary banks, representing 86 percent of the sector, already apply Basel II criteria in line with parent bank policies.

[30] As part of the 2015 Doing Business Survey Transunion credit bureau indicated it had data on 306,000 Swazi nationals to 40 percent of the adult population at year end 2014..

improving competition as new licensing tiers are implemented, it is anticipated that additional people that are already saving at home or informally will be included in the formal financial system. Revamping the partial credit guarantee fund, implementing a movable collateral registry and improving the credit bureau will all aid in improving SMME access to credit.

8. Implementation, Monitoring & Evaluation

8.1 Implementation

60. The ultimate success of this plan will depend on many organizations and stakeholders working together to *implement* what is laid out here. To aid in this implementation, a governance structure and monitoring framework is needed. Below is the governance structure and make-up of the various groups that will support the implementation of this plan.

The Financial Sector Development Council membership is as follows:

Minister of Finance – Chairman
Governor CBS - Deputy Chairman
Attorney General - ex officio
CEO FSRA - Member
Chairman of the Bankers Association-Permanent Invitee
Chairman of the Capital Markets Association- Permanent Invitee
Chairman of the SASCCOs- Permanent Invitee
CEO Communication Authority – Permanent Invitee
Representatives for the Insurance Industry, Retirement Funds Industry

Financial Sector Development Technical Committee membership is as follows:

FSRA – Chairperson
Micro Finance Unit - Member
Financial Sector Representative – Co-Chairperson
FIU – Member
CBS – Member
Ministry of Finance – Member
Private Sector representatives - Members

Financial Sector Development Implementation Plan- Secretariat

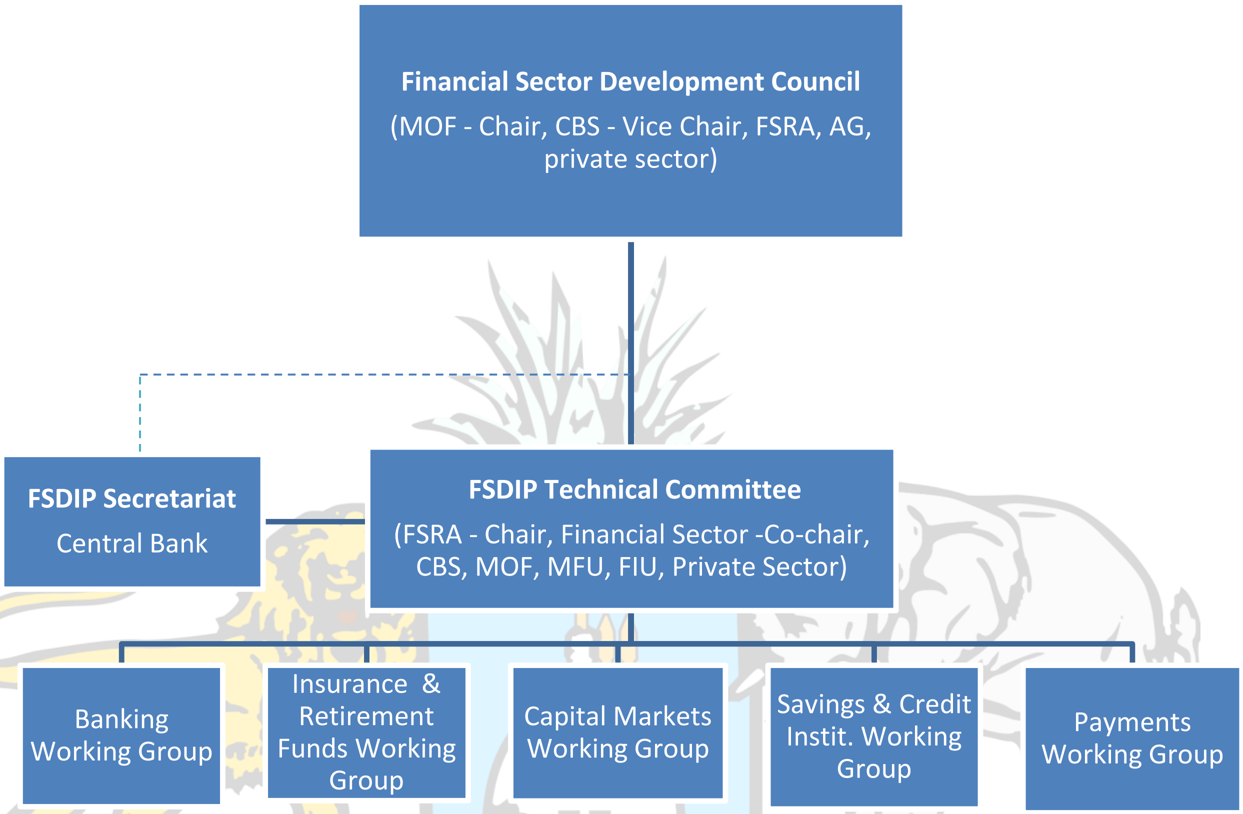
Central Bank

8.2 Working Groups

61. There will be five working groups co-chaired by representatives from the public and private sectors. The working groups will be on banking, insurance and retirement funds, capital markets, payments/information technology and savings and credit institutions. The composition of the working groups will be established by the FSDIP Technical Committee. The respective associations will be involved in selecting the private sector co-chairs. While the working groups will serve as an avenue for consultation and review, some policy actions may require one organization acting unilaterally to implement regulations/directives, etc. With the approval of the Financial Sector Development Council, the Technical Committee may create and/or disband the ad hoc working

groups and determine the composition of them from the private and public sectors as needs dictate. Figure 4 shows the governance structure for the FSDIP.

Figure 4. Governance Framework for the FSDIP



8.3 Monitoring and Evaluation

62. **The Secretariat and the Technical Committee will be responsible for the oversight, coordination and implementation of the FSDIP.** Much of the work will require the active participation of private and public sectors, financial institutions as well as other public and private non-financial entities. These institutions will be an essential part of the thematic working groups responsible for implementing the plan.

63. **A strong measurement and evaluation system is needed to track progress relative to the objectives and KPIs of this strategy.** To facilitate progress, each working group should report its progress quarterly to the FSDIP Secretariat. On an annual basis the Financial Sector Development Council will prepare a report on its activities and progress towards the KPIs and other pertinent indicators. Tracking progress on an ongoing basis will aid in the identification of successful programs that can be replicated, obstacles that need to be removed, unintended consequences that result and/or tactical re-adjustments required.

64. **Conducting a full demand-side financial inclusion survey every three years to measure progress against the 2014 base-line survey will be key to this measurement and evaluation framework.** The Technical Committee will explore options for how best to conduct the survey using existing resources or new resources. While good data exists on the banks, better information on the size, scale and impact of non-bank financial institutions including retirement funds, cooperatives, MFIs, and less formal consumer lenders is needed. In future demand-side surveys attention will be given to the uptake and usage of products to aid in assessing the impact of these activities.

9. The Action Plan - How do we get there?

65. The four high-level objectives of (1) Ensuring Stability of the Financial System, (2) Diversifying the Financial System and its Resources, (3) Modernizing the Financial System, and 4) Broadening Financial Inclusion, will be achieved through a multi-stakeholder action plan that will be coordinated by the FSDIP Secretariat. The action plan incorporates key performance indicators that have been informed by a gap analysis of the demand-side, supply-side, and legal/regulatory reviews. The action plan is prioritized, identifies the timeframe for actions specifies which working group will be assigned to the task and the approximate cost of the initiative. Although there are several initiatives, especially in the areas of financial infrastructure (that is, credit information, payments, consumer protection, and so on), that may affect multiple sectors/working groups, a single workgroup has been designated the lead each activity.

66. For ease of reference a consolidated list of all policy actions are listed in Annex 1.

Annex 1: Consolidated List of Recommended Policy Actions

No.	Policy Action	Priority	Working Group	Target Completion Date*	Cost Range (High, Medium, Low)**
1	Develop a coherent and comprehensive legal and regulatory framework for the financial sector. Make all relevant laws, rules and regulations available on easy to use government websites.	High	Banking (*Modernization*)	June 2018	Medium
2	Implement more frequent on-site risk-based examinations of banks and systemically important NBFIs.	High	Banking (*Stability*)	December 2017	Low
3	Implement Basel II and/or increase minimum capital adequacy ratios to better reflect risk concentrations and implement a risk based capital frameworks for the NBFIs.	High	Banking (*Stability*)	December 2018	High
4	Strengthen risk-sharing arrangements on large exposures with SA parent banks, asset managers and insurers.	High	Banking (*Stability*)	December 2018	Low
5	Expand emergency lending assistance beyond intraday and overnight, and develop guidelines for lender of last resort facilities.	High	Banking (*Stability*)	June 2017	Low
6	Increase formal contact and coordination with SARB, the NCR and FSB on home/host supervision. *(High)*	High	Banking (*Stability*)	September 2017	Low
7	Strengthen contingency planning and crisis management (CBS, FSRA, MoF) *(High)*	High	Banking (*Stability*)	December 2017	Low
8	Issue regulations supporting the FIA 2005 and FRSA 2010.	High	Banking (*Stability*)	June 2018	Low
9	Implement a comprehensive legal framework for credit reporting and comprehensive credit information (positive and negative) from all formal borrowers.	High	Banking (*Modernization*)	June 2017	Low
10	Reduce costs through increased use of low-cost delivery channels (mobile phones, retailers, slim-line ATMs, and so on).	High	Banking (*Inclusion*)	December 2019	Medium

No.	Policy Action	Priority	Working Group	Target Completion Date*	Cost Range (High, Medium, Low)**
11	Consider introduction of a low-cost no-frills bank account with minimal balance requirements.	High	Banking (*Inclusion*)	December 2018	Medium
12	Facilitate and disseminate research on aspects of financial inclusion that are working in line with the monitoring and evaluations framework. *(Medium)*	High	Banking (*Inclusion*)	December 2018	Medium
13	Conduct an AML/CFT National Risk Assessment	High	Banking (*Stability*)	September 2017	Low
14	Implementing regulations or guidelines for the Money Laundering and Financing of Terrorism Prevention (MLFTP) Act	High	Banking (*Stability*)	December 2017	Low
15	Map existing and planned SMME finance initiatives to identify synergies and overlaps.	High	Banking (*Inclusion*)	March 2018	Low
16	Conduct a review of accounting and auditing practices and implement recommendations.	High	Banking (*Stability*)	June 2018	Low
17	Promote full price transparency in banking services and non-banking services.	High	Banking (*Inclusion*)	December 2018	Medium
18	Revise existing partial credit guarantee schemes to improve effectiveness and re-capitalization	High	Banking (*Diversity*)	March 2018	Medium
19	A legal review of the framework for movable property to be undertaken, with recommendations on a new secured transactions law and design of a movable property registry.	High	Banking (*Modernization*)	March 2019	Medium
20	Develop a policy document and share such vision with the potential CRS participants.	Medium	Banking (*Modernization*)	March 2019	Low
21	Develop and implement the Micro Finance Policy to initiate an institutional strengthening program for SACCOs & MFIs & Development Finance Institutions.	High	Saving & Credit Institutions (*Stability*)	September 2017	High

No.	Policy Action	Priority	Working Group	Target Completion Date*	Cost Range (High, Medium, Low)**
22	Improve coordination and information sharing between FSRA and CBS to aid in clarity for the financial sector.	High	Banking - Saving & Credit Institutions (*Diversity*)	June 2017	Low
23	Allow agent banking services by banks and savings and credit institutions.	High	Banking - Saving & Credit Institutions (*Diversity*)	September 2018	Low
24	Expand permissible activities for *healthy* MFIs, SACCOs and the building society via a community banking or tiered licensing structure to include the range of savings products, direct access to the payment system and crisis frameworks.	High	Banking - Saving & Credit Institutions (*Diversity*)	March 2019	Medium
25	Institute loan affordability standards for lenders.	High	Saving & Credit Institutions (*Stability*)	September 2018	Low
26	Implement an independent ombudsman for the financial sector.	High	Saving & Credit Institutions (*Modernization)*	June 2019	Medium
27	Improve market conduct supervision and regulation in line with international best practices.	High	Saving & Credit Institutions (*Inclusion)*	September 2018	Medium
28	Review and reform the impact of the community development funds to ensure they do not destroy the culture of repayment of loans.	High	Saving & Credit Institutions (*Inclusion)*	September 2018	Low
29	Develop a Financial Sector Consumer Protection Strategy and Financial Literacy Strategy.	High	Saving & Credit Institutions (*Inclusion)*	September 2018	Medium
30	Improve Guidance Notes for SACCOs by delegating more powers for operational items from AGM to the Boards, reducing reporting burdens for smaller SACCOs and simplify capital adequacy into a single ratio.	Medium	Saving & Credit Institutions (*Modernization*)	March 2018	Low
31	Consider whether data contributions to the CRS should be mandatory.	Medium	Saving & Credit Institutions (*Modernization*)	March 2019	Low

No.	Policy Action	Priority	Working Group	Target Completion Date*	Cost Range (High, Medium, Low)**
32	Undertake a base-line financial literacy survey to determine needs and potential interventions.	Medium	Saving & Credit Institutions (*Inclusion)*	September 2018	Low
33	Establish a fully inter-operable card payment system that is national and/or regional in nature.	High	Payments (*Modernization*)	September 2018	Medium
34	Migrate all G2P and other bulk payments to digital platforms, and establish a wide network of acceptance points for usage of electronic payments (mobile top-up, bill payment, retailers, e-commerce, P2G--taxes, fees, and so on), including in rural areas.	High	Payments (*Modernization*)	December 2018	Medium
35	Review regulatory barriers that preclude new payment providers from entering the market.	High	Payments (*Inclusion*)	September 2017	Low
36	Allow international transfers via mobile money and increase the limits to spur mobile money development.	High	Payments (*Inclusion*)	September 2017	Low
37	Aid the development of a bond market and establish a legal framework for repurchase agreements.	High	Capital Markets (*Diversity*)	June 2019	Low
38	Regularize the issuance of government bonds.	High	Capital Markets (*Modernization*)	December 2017	Low
39	Give independence to the SSX by separating it from FSRA.	High	Capital Markets (*Modernization*)	June 2018	Low
40	Conduct a market needs assessment for a securities market.	High	Capital Markets (*Modernization*)	March 2018	Low
41	Improve the efficiency of the primary auction, clearing and depository systems for government bonds	Medium	Capital Markets (*Modernization*)	June 2019	Low
42	Re-assess the mandatory listing of government bonds on SSX	Medium	Capital Markets (*Modernization*)	March 2019	Low
43	Update and improved laws and regulations for insurance, retirement funds and capital markets.	High	Capital Markets - Insurance and Retirement Funds (*Diversity*)	March 2018	Medium
44	Enhanced the operational framework, resources and independence of FSRA.	High	Capital Markets, Insurance and Retirement Funds (*Stability*)	December 2017	Medium

No.	Policy Action	Priority	Working Group	Target Completion Date*	Cost Range (High, Medium, Low)**
45	Improve the cash management systems of government	High	Capital Markets, Insurance and Retirement Funds (*Modernization*)	September 2019	Medium
46	Improve the range of insurance, micro-insurance, annuity and capital market products available.	Medium	Capital Markets, Insurance and Retirement Funds (*Diversity)*	June 2018	Low
47	Review opportunities for efficiencies by consolidating parastatal retirement funds and payout methods (i.e., lump sum vs. annuity).	High	Insurance and Retirement Funds (*Modernization)*	September 2018	Low
48	Regularize the government's old age social grant scheme.	Medium	Insurance and Retirement Funds (*Stability)*	September 2019	Medium
49	Implement micro insurance regulations.	High	Insurance and Retirement Funds *(Inclusion)*	September 2018	Medium
50	Develop a regulatory framework for the supervision of medical schemes	High	Insurance and Retirement Funds *(Inclusion)*	September 2018	Medium
51	Review the functioning of MVA and mandatory third party insurance and exercise prudential oversight over the activities of MVA.	High	Insurance and Retirement Funds (*Modernization)*	September 2019	Low

* The expected starting date of implementing each policy action to set the target completion date is 1st January, 2017.
**High cost items will cost more than E 50 million Emalangeni to implement, medium cost items will costs between E 5 million and E 50 million and low cost items will cost less than E 5 million to implement.

Annex 2: A Technical Note on the Supply-Side of Financial Services, Gap Analysis and Recommendations for Swaziland

Introduction

67. As part of a process to develop a multi-year and all-encompassing strategy for the financial sector, the Central Bank of Swaziland and the Ministry of Finance requested support from the World Bank. A team of seven international experts from the World Bank with expertise in banking, capital markets, insurance, payments, credit reporting, SACCO/MFIs, digital financial inclusion and small and medium enterprises worked together with financial authorities and the private sector to analyze the current supply side structure and legal/regulatory environment of the financial sector in Swaziland.

68. In the absence of a recent Financial Sector Stability Assessment for Swaziland, this Technical Note on the Supply-Side of Financial Services in Swaziland together with a Technical Note on the Legal and Regulatory Environment and the demand-side FinScope Consumer Survey of 2014 provide a strong analytical framework to underpin the Government of Swaziland's Financial Sector Development Implementation Plan for 2016-2018.

Banking Sector

69. **Swaziland's banking sector is comprised of three private commercial banks, all of which are subsidiaries of large South African banks.** Together they control approximately 86 percent of the market and there is one state-owned development bank. Swaziland Development and Savings Bank (SDSB, or Swazibank) is a statutory body established under the King's Order in Council no. 49 of 1973, which sets out the mandate of the bank, but is also subject to the terms of the FIA 2005. Fincorp, a non-bank government-owned development finance institution that does not accept any savings, together with the four banks, have 40 branches, 195 ATMs and approximately 800 POS terminals.

70. **Total assets of the banking sector as of June, 2014 stood at E 12.695 billion, or approximately 33.7 percent of GDP.** Contrary to the situation which prevails in most developing countries, the banking sector is relatively small in comparison to the non-bank financial sector, representing approximately one-quarter of total financial sector assets. This allocation of assets and the heavy influence of the operations of the parent South African Banks on the ultimate health of Swaziland subsidiaries makes financial stability monitoring a broader task just what is under CBS direct prudential supervision.

71. **Financial sector indicators reflect a well-capitalized and highly profitable banking system.** All banks show strong profitability, with an average ROA of 4 percent, and ROE of 27.7 percent in 2014 (see Table 2.1), and average returns of 3.7 percent and 26.7 percent respectively over the past 5 years. The capital adequacy ratio (CAR) for the sector has exceeded 20 percent throughout the 5-years in spite of a fiscal crisis during the period. While all banks exceed the minimum regulatory CAR of 8 percent, there is a wide divergence among banks, with tier one capital ranging from 16 percent for one of the South African subsidiary banks to 33 percent for Swazi Bank.

72. **Asset quality has been improving, but varies considerably across banks.** In the aftermath of the 2011 crisis, average NPLs reached 10.7 percent, but have since declined to 6.9 percent. These

averages, however, mask a wide disparity in levels of NPLs and provisioning coverage. Gross NPLs vary from 1 percent to 19.1 percent, and net NPLs from 0 to 7.6 percent. The highest NPL is due largely to a single borrower, highlighting the risks of high concentrations in bank portfolios. The other three banks have provisioning ratios (provisions/ (substandard +doubtful+ loss) which exceed 100 percent. Net non-performing loans represented 18 percent of bank capital in 2014.

73. **While banks are currently liquid, liquidity has generally tightened in recent years, notwithstanding the spike in liquidity in the final quarter of 2014.** The loan-to-deposit ratio stood at a relatively high 87 percent in June 2014, but again this figure masks a wide disparity among banks. Two banks had loan-to-deposit ratios in excess of 100 percent. This high loan-to-deposit ratio represents a potential bottleneck to future credit expansion, and poses a risk to the system given the absence of an active inter-bank market, and deficiencies in CBS's Emergency Liquidity Assistance (ELA) and Lend of Last Resort (LOLR) frameworks, which currently are limited to intraday and overnight facilities collateralized by government securities.

Table 2.1. Financial Soundness Indicators, 2010–14[1]

	2010	2011	2012	2013	2014
Banking indicators					
Capital adequacy					
Capital to assets	12.3	12.2	12.5	11.9	12.6
Regulatory capital to risk-weighted assets	23.0	20.6	21.1	22.2	24.9
Regulatory tier 1 capital to risk-weighted assets	20.4	17.8	18.2	19.3	21.3
Nonperforming loans net of provisions to capital	18.9	5.9	35.3	20.9	18.1
Asset quality					
Large exposure to capital	92.1	105.8	89.2	55.2	180.9
Nonperforming loans to total gross loans	7.8	3.5	10.7	6.8	6.9
Sectoral distribution of loans to total loans					
Agriculture	16.7	18.1	12.9	18.2	14.9
Mining and quarrying	0.0	1.8	2.0	2.2	2.0
Manufacturing	14.9	21.6	20.1	19.1	21.9
Construction	10.7	7.6	7.0	8.7	9.2
Distribution and tourism	12.4	10.6	11.9	9.5	12.3
Transport and communication	8.5	6.8	9.6	8.8	9.1
Community, social and personal services	4.4	4.8	5.5	5.8	7.0
Other	32.3	28.7	31.1	27.7	23.7
Earnings and profitability					
Trading income to total income	0.9	0.9	1.2	2.9	1.7
Return on assets	3.4	3.5	4.0	3.1	4.0
Return on equity	28.7	26.3	28.7	22.7	27.7

Interest margin to gross income	49.7	50.6	47.5	47.9	47.3
Noninterest expenses to gross income	57.1	63.4	60.1	60.0	54.3
Personal expenses to noninterest expenses	53.7	58.1	52.3	55.4	48.3
Liquidity					
Liquid assets to total assets	12.0	9.8	9.0	8.0	33.9
Liquid assets to short-term liabilities	18.0	15.5	12.7	12.1	49.6
Customer deposits to total (non-interbank) loans	142.5	108.6	122.9	115.4	111.7
Exposure to foreign exchange risk					
Net open position in foreign exchange to capital	34.9	44.0	30.6	34.7	36.0
Foreign-currency-denominated liabilities to total liabilities	2.5	6.0	4.2	0.1	6.0
Financial system structure					
Banks					
Private commercial	0	0	0	0	0
State-owned	1	1	1	1	1
Foreign-owned subsidiaries	3	3	3	3	3
Branches of foreign banks	28	28	38	39	39
Deposits					
Banks	7506	7451	8119	9448	10050
State-owned	972	989	1011	1126	1210
Foreign-owned subsidiaries	6534	6472	7108	8322	8840

Sources: Central Bank of Swaziland; and IMF staff estimates.

74. **Interest rates are largely determined by rates prevailing in South Africa, as Swaziland is part of a Common Monetary Area with South Africa.** Swazi 91-day T-bills currently yield approximately 6.01 percent, (Feb. 2015) which represents a very slight risk premium vis-à-vis South African T-bills of comparable maturity (5.9 percent). Inflation was estimated at 6.2 percent as of January 2015.

75. **Recent growth in private sector credit has outpaced economic growth.** Banking assets have grown over 10 percent per annum on average since 2010, while credit has increased by 14 percent per annum during the same period. All banks serve both the corporate and retail markets. The corporate market accounts for approximately two-thirds of deposits, and over 70 percent of loans. A little over half of retail lending is for housing, with the balance for vehicle finance and personal loans. Banks' retail business is targeted at urban, salaried workers. Many Swazis have accounts at both SACCOs and with more than one commercial bank.

76. **The sectoral breakdown of commercial credit reflects the relatively narrow economic base, and there is a concentration of risk in the sugar sector (both manufacturing and agriculture).** The significant credit requirement of the sugar industry—notably of the Swazi Sugar Association--cannot be satisfied by the domestic banking sector, as the single borrower limit of 25 percent of the capital of the system would be breached. Excess demand is satisfied via risk sharing agreements with South African parent banks, and, to a lesser extent by contractual savings institutions in Swaziland. NBFIs have started lending directly to the private sector, though this still represents a relatively marginal share of their assets (1 percent in 2013).

Table 2.2. Composition of Banking System Loans in 2014: Q3

Institutions	Loans	Total Loans	GDP
	(thousand E)	(In percent)	
Households	**4,464**	**42**	**11**
Housing	2,575	24	7
Motor Vehicles	1,030	10	3
Other	859	8	2
Non-Financial Corporations	**5,677**	**54**	**15**
Sugar sector [1/]	1,292	12	3
Construction	521	5	1
Tourism	698	7	2
Transport and communications	514	5	1
Social services	395	4	1
Real estate	894	8	2
Other	1,364	13	3
Other	**439**	**4**	**1**
Total	**10,580**	**100**	**27**

Sources: CBS and IMF estimates.
Note: Due to data availability, this table includes information for the building society which is not a bank.
[1/] Comprises agricultural and manufacturing activities.

Banking Supervision, Contingency Planning and Crisis Preparedness

77. **The Central Bank of Swaziland has taken steps in recent years to strengthen supervision, but there is scope for further improvement.** It has replaced the previous on and off-site supervision model with a "total supervision model", which makes officers of the Banking Supervision Division (BSD) responsible for both functions. It has further introduced a Risk-Based Supervisory (RBS) Framework and begun implementing RBS. Three of the four banks have undergone inspections under the RBS approach, with the fourth bank scheduled for 2015. Challenges include, among others:[31]

- CBS's legal position and independence may potentially be compromised by the involvement of the Ministry of Finance in appointing CBS board directors, promulgating regulations, granting and revoking bank licenses, and hearing appeals against supervisory decisions;
- On-site examinations need to be more frequent, focused, and timely;

[31] These challenges were identified by an Afritac South TA mission in 2013, and an IMF MCM mission on financial stability conducted in February 2015.

- There are gaps in the prudential framework, including on outsourcing, corporate governance and enforcement;
- While the CBS has continued to apply the prudential regulations and circulars that were issued prior to enactment of the FIA, these need to be re-issued as by-laws in order to be legally enforceable;
- The CBS is given considerable authority under the FIA, however, internal guidelines are needed on enforcement tools and the conditions for their use.

78. **The CBS has a number of powers at its disposal to minimize or deal with potential crises, and has used these powers successfully in the past.** These include i) a limited emergency lending assistance (ELA) and the legal power for a lender of last resort (LOLR); ii) intervention and liquidation powers; iii) an MOU allowing it to share information with the SARB. It has used these powers to resolve or restructure problem banks three times in the past 25 years. That said, there is a need to further develop contingency planning and preparedness in the following areas to deal with potential crises:

- **Liquidity support**: The CBS has powers to lend to banks for periods up to one year on such terms and conditions as it may determine. However, to date CBS has only developed intraday and overnight "Lombard" facilities While South African subsidiaries may rely on their parent banks for liquidity support in normal times, a liquidity crisis could be caused by regional stresses that may preclude such support. The CBS should therefore strengthen its liquidity support tools by expanding and extending the overnight facility to provide ELA during a liquidity crisis, and define the terms and acceptable collateral of a LOLR facility;
- **Prompt Corrective Action (PCA)**: While the CBS has at its disposal the usual tools for managing banks and minimizing risks (examinations, cease and desist orders, the ability to appoint advisors and curators, license revocation and liquidation), none of the tools are mandatory. Mandatory PCA can help ensure timely intervention in a deteriorating banks, and can minimize legal challenges and political interference by requiring CBS action;
- **Institutional Arrangement**s: There are currently no arrangements in place among the CBS, FSRA and Ministry of Finance MOF) for joint action in the case of a financial crisis, and no deposit insurance scheme is in place.

Risks to Stability

79. **While the banking system is currently sound and liquid, it is subject to both structural and external risks, including the following:**

- South African Customs Union (SACU) revenues account for approximately half of government revenues, and these receipts are expected to drop from 15.5 percent of GDP in 2015/16 to 13 percent in 2016/17. This in turn will impact growth and consumer confidence and is likely to lead to a drawdown of international reserves and a rise in NPLs. In the past, a decline in SACU customs revenues has resulted in government arrears to suppliers, which in turn has led to higher NPLs in the banking system.
- Large exposures to key companies in Swaziland, particularly in the sugar sector, expose banks to concentration risk. In some cases, these exposures exceed the 25 percent regulatory cap (and may exceed 100 percent of capital), although the excess exposure is generally covered by off-balance sheet guarantees from parent banks.

- A fall in the price of sugar would have a negative impact on NPLs, international reserves and consumer confidence, and might also result in the default of one or more large exposures.
- Tighter liquidity and a high degree of term transformation by banks could lead to liquidity problems, particularly as wholesale deposits represent approximately two-thirds of the deposit base.

80. **Stress tests indicate that severe shocks would leave the banking system undercapitalized, but with wide variations among banks**. A recent IMF mission undertook stress tests to test banks' resilience to credit, liquidity, interest rate, and foreign exchange risks. A significant increase in NPLs, which could stem from a slow-down in SACU revenues or other shocks, would materially impact capital ratios, and one bank would fall below the regulatory minimum. If the failure of the banks' largest exposure is added, that bank's capital would turn negative. Direct FX and interest rate risks are contained, but simultaneous shocks (NPLs, large exposure, interest and FX risk) would leave the system as a whole with tier 1 capital of 3.3 percent, with individual banks having ratios which vary from minus 6.4 percent to 22 percent.

81. A 30-day liquidity stress test indicate that banks would not be able to meet large deposit withdrawals by running down cash reserves and liquidating or pledging assets to raise liquidity, and would have to turn to parent banks or the Central Bank for liquidity support. This would be complicated by the fact that CBS does not have an ELA facility where non-standard collateral can be pledged. Furthermore, the risk of capital flight and the amount of international reserves limits the amount of liquidity support that can be provided by CBS without jeopardizing the fixed exchange rate.

82. **Ultimately, the resilience of Swazi banks to severe shocks may depend on the ability and willingness of parent banks in South Africa to provide capital and liquidity support in the event of need.** The parent banks are all currently strong, as evidenced by stress tests conducted during the recent South African FSAP, and the South African Reserve Bank (SARB) exercises effective consolidated supervision. Furthermore, SARB has recently initiated supervisory colleges and started cross-border working groups for their internationally active banks, Swaziland participates in these groups for the parent banks of their South African subsidiaries. Nevertheless, distress in one or more of these banks cannot be ruled out in future. CBS might wish to consider requiring banks to syndicate loans or provide cash collateral rather than relying on off-balance sheet guarantees from parent banks, which would exacerbate contagion risks in the case of bank distress in South Africa.

Savings and Credit Institutions

83. **There are 59 active savings and credit institutions operating in Swaziland with approximately 220,000 clients/members.** A breakdown of these high-level numbers includes 51 *active* SACCOs with 71,000 members, 1 building society with 100,000 clients, 3 microfinance institutions, 3 micro-lenders and one trust. These institutions serve clients at the lower-end of the income scale in both urban and rural settings. They offer a limited variety of secured and unsecured loans. With few exceptions, the operational systems in these institutions are weak and IT systems are lacking. These shortcomings are not entirely uncharacteristic of institutions catering to the low-income segment. However, more concerning is that several (not all) of them are operating at losses and/or have inadequate capital levels.

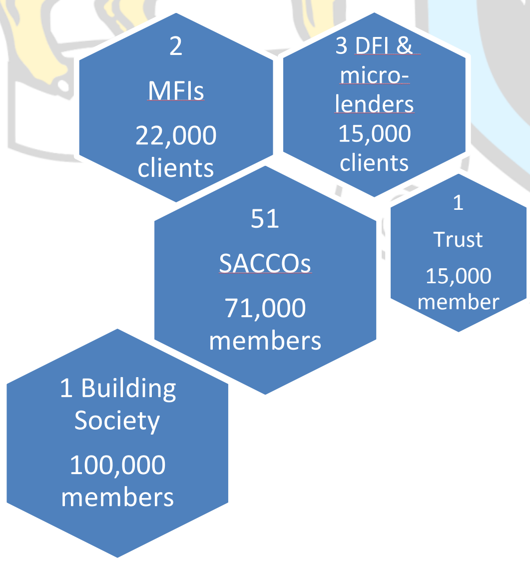
84. **Between 2012 and 2013 assets among the 71 SACCOs grew 9.7 percent to E 916 million for their 71,182 account holders.** The sector is concentrated with just five SACCOs represent two-thirds of all assets of SACCOs and hold 77 percent of the accounts of the sector. Like most financial institutions in Swaziland the SACCOs have sufficient liquid and they hold 20 percent of their assets (E 187 million) on deposit with banks/building society. SACCOs averaged 1.4 percent return on assets in 2013. However, these averages mask a great degree of variety in the levels of financial health and professionalization within the sector.

85. **Larger employer-based institutions have salary deduction systems in place to facilitate loan repayment and have relatively low levels of delinquency but there are 9 SACCOs, most of them very small, which have negative capital.** SACCOs in general provide services to many blue collar salary workers and persons with irregular incomes.

86. **As such the vast majority of members of SACCOs also have accounts at banks thus doing little to expand the frontier of financial inclusion.** Because of the inability of SACCOs to hold demand deposits for their members few persons can rely solely on a SACCO for banking services. As is the case in Kenya, South Africa, UK, Paraguay, and so on, there are opportunities to introduce a two-tier licensing system in Swaziland for the SACCOs which would provide an avenue for expanding financial inclusion levels.

87. **Microfinance institutions (MFIs) have little outreach with two not-for-profit MFIs that serve 19,500 clients and one government-owned development finance institution serving 2,500 SMME clients and 11,000 clients for salary-based lending.** The two not-for-profit MFIs have only E 21.5 million in assets and struggle for sustainability compared to E 790 million in the government-owned lender Fincorp, which has moved into salaried-based lending. There are efforts underway to improve the IT systems of these lenders.

Figure 2.1 Overview of Saving & Credit Institutions



88. Finding an appropriate pricing point to cover the operational costs and credit risks appears to be a consistent problem for many in the sector. Yet a limited number of other micro-lenders charge prices that may make repayment a challenge. If fact, there is evidence from the FinScope Survey that lenders are becoming more liberal in granting credit, consumers are borrowing more and potentially saving less.

89. Well-run mutual or cooperatively owned financial institutions have been shown to have lower fees and better rates of interest on loans and savings thus benefiting consumers and adding competitive pressures on exiting participants to moderate fees.

Table 2.3. SACCO Summary Data

Ratio	As of June 2014
Loans/Savings	80%
Liquid Assets/Deposits	31%
Non-Performing Loan/Total Loans	5%
Core Capital/Assets	13%

Small Medium and Microenterprises (SMMEs)

90. **The financing of Swazi SMMEs is a story of market segmentation, weak government programs, and limited appetite by banks to lend to SMMEs outside of the sugar sector because of high risks and information asymmetries.** There is also very limited information regarding both the demand and supply of SMME financing. The most recent demand-side survey was in 2011, and there is no balance sheet information on to what extent private and public banks are financing these firms.

91. **The SMME market is segmented between micro and very small firms.** The Swaziland Development Finance Corporation (FINCORP) and Inhlanyelo Fund are the two NBFIs operating in Swaziland with an explicit mandate to serve the financial needs of SMMEs. The Community Poverty Reduction Fund, Rural Development Fund (RDF) and Youth Empowerment Fund are government-sponsored initiatives which are also operational. FINCORP and, to a lesser extent, Swazi Bank stand out for their efforts to serve the lower segment of the SMMEs.

92. **A table summarizing government programs and other lending institutions serving the SMME market is below.** Each financial institution tends to adopt an idiosyncratic definition of SMMEs and categorized its lending portfolio accordingly. For this reason, each financial institution and its relative SMME lending portfolio is presented separately.

93. The relative size of operations and market share of the four banks is shown in Table 2.4 below.

Table 2.4. Size of Operations and Market Share of Four Banks

Bank	Total Assets	Market Share (%)	Loans	Market Share (%)	Deposits	Market Share
SBSL[32]	4176.5	32.6	2,522.8	31.3	3464.2	35.4
FNBSL[33]	3816.6	29.8	2,026.8	25.1	3017.6	30.9
NSL[34]	2869.8	23.21	2,257.8	28.0	2221.9	22.7
Swazibank	1831.9	14.3	1,253.3	15.5	1069.6	10.9
TOTAL	12,694.8	100	8,060.7	100	9773.4	100
As % of GDP	33.7		21.1		25.6	

Note: All figures are as of June 2014.

94. **Government-funded initiatives that specifically focus on supporting SMME's access to finance:**

- ***Community Poverty Reduction Fund:*** It is distributed through the 55 administrative subdivisions in the country which are smaller than districts and referred to as Tinkhundlas. Loans' decisions are made by a steering committee including the regional Tinkhundla officer, selected local chieftains and headmen and the local members of parliament decide on the loan application submitted with business plan proposal. Loan sizes range between E 1,000 and E 100,000, with a maximum maturity of 60 months and a flat interest rate of 7.5 percent. Out of the initial capital injection of E 20 million in 2009, only E 4 million is still available, as repayment rates have been low.
- The Government is not only injecting liquidity in the financial system through funding of the Development Funds, but is also offering products to limit portfolio risk for bank loans. In the early 1990s, it set up two partial credit guarantee programs, the Export Credit Guarantee Scheme (ECGS) and the Small Scale Enterprise Loan Guarantee Scheme (SSELGS). The schemes were placed at the Central Bank of Swaziland for administrative purposes. Commercial banks are currently the only participating financial institutions qualified to apply, and guarantees cost 1 percent and 0.53 to 2.33 percent of the guaranteed portion of the loan under SSELGS and ECGS respectively.
- The *ECGS* was originally designed to finance working capital and other production costs of exporters, and facilitate standard trade-finance support. The total cumulative value of loans covered by the scheme is above E 211 million, with a total cumulative default of E 10 million. The scheme can leverage a fund of E 5.4 million as of June 30th, 2014. Yet, the last application was received in 2009. Without an official explanation, the lack of interest in the scheme could be explained by the small size of loans covered, entailing administrative costs for commercial banks and thus not providing a cost effective solution.
- The *SSELGS* was set up to promote access to credit for Swazi nationals operating small-scale enterprises with a turnover below E 8 million per annum. Originally the guarantee covered 75 percent of the loan, and the borrower had to provide 25 percent additional collateral whilst the loan size was capped at E 150,000. These limits were raised in 2010, after a tripartite review involving the Central Bank, the Government and commercial banks.

95. Currently the loan size cannot exceed E 500,000 and the guarantee cover is 85 percent for existing SMMEs and 95 percent for start-up businesses. Entrepreneurs are thus required to collateralize the

[32] Standard Bank of Swaziland, Limited
[33] First National Bank of Swaziland, Limited
[34] Nedbank Swaziland Limited

remaining 15 percent or 5 percent. The loan interest rate charged varies between prime plus 2 percent and prime plus 5 percent, depending on project risk. Loans covered under the SSELGS usually mature in 36 months. The scheme mainly funds working capital in the retail sector, where 58 percent of the overall value of guarantees is concentrated. The guarantees to the services, transportation, and manufacturing sectors combined amount to less than 34 percent.

96. Since inception, 1,036 loans have been covered, totaling more than E 70 million, with E 31 million of outstanding loans. Outstanding guarantees are E 26 million. Cumulative default rates are reported to be to 6.7 percent (or 2 percent since 2010), although this figure does not include loans which have been rescheduled over as long as 10 years. A transfer of E 5 million was channeled from ECGS to SSELGS fund in 2013, in order to improve the sustainability of the latter scheme.

97. The following institutions stand out in their financing of SMEs:

- ***FINCORP***: is a SMME financing institution created with the objectives of (i) providing access to credit, (ii) promoting job creation, (iii) facilitating assistance to SMMEs, and (iv) alleviating poverty. It was set up in 1996 with a capital injection of E 44 million, and is currently owned by the Government (80 percent) and the royal-owned company Tibiyo TakaNgwane (20 percent). Over the years, FINCORP has provided financial and non-financial support to more than 80,000 clients for a total amount above E 2.4 billion. FINCORP operates across all sectors of the Swazi economy, offering working-capital and trade finance products. Portfolio growth has averaged at 20 percent per annum, with a return on investment of 5 percent. Total loan portfolio in 2013 amounts to E 611.3 million, of which E 3.9 million are lent to more than 2,200 micro-entrepreneurs. Over the past 5 years, FINCORP has disbursed loans for almost E 800 million to about 8,800 SMMEs. Loans were originally not collateralized, but in an effort to curb risk, FINCORP has moved to offering also collateralized loans. Yet the requirement can be waived in exchange for 5 percent of future profits or in presence of proof of dealing with a clear and secured market.

  Fulfilling its corporate mandate exposes FINCORP to high-risk segments of the lending market. SMME loans account for more than 21.7 percent of total disbursed loans. Micro-enterprise loans whose size ranges between E 500 and E 10,000 are targeted to market vendors, while the size of small and medium enterprise loans is capped at E 100,000 and E 500,000 respectively. A wide range of products is available for SMMEs, with repayment period of 6 to 60 months and loan amount varying between E 500 and E 200,000. About 15 percent of overall loans (E 93.6 million) are in the agribusiness sector. Sugar financing accounts for 74 percent of agribusiness loans, and lending to forestry companies is increasing. The portfolio at risk is 40 percent, but the write-off ratio is 0.6 percent, after time-intensive engagement with customers.

  In order to improve its financial stability and diversify risk, FINCORP set up First Finance in 2010 to offer personal loans to salaried employees. The subsidiary currently serves 8,974 clients and has a loan portfolio of E 364 million, 67 percent higher than last year. Entering this market has substantially improved FINCORP's performance: profit margins are 12 percent at the Group level, but only -1 percent at the company level.

- ***Inhlanyelo Fund***: it presents itself as a "seed capital fund" focusing on the lower segment of the population and leveraging the subsidized funds from the Swazi group and the Kirsh

Foundation. The Fund offers small-size uncollateralized loans in the amount of E 1000 to E 25000 and with maturity of up to 24 months. It has about 10,000 customers. Interest rates are flat at 15 percent per annum and assessment fees vary between E 50 and E 1000. Repayment schedule are flexible, customized on the cash flows of the borrowers. Portfolio performance is not closely monitored, as indicated by the fact that there is no official data on non-performing loan ratios.

98. **Turning to banks serving SMMEs the following programs are noteworthy:**

- ***Swazi Bank***: is a government-owned Bank and, thanks to its developmental mandate, is one of the most business-friendly banks for SMMEs. In 2013, it extended 157 SMME loans for an overall amount of E 25.3 million. The bulk (61 percent) of the loans were issued as overdraft facilities, with bridging finance (16 percent), business loans covered (13 percent) and not covered (10 percent) under the Small Scale Enterprise Loan Guarantee Scheme (see below for details on the scheme). Business finance accounts for almost 22 percent of credit risk, but for less than 20 percent of total loans, indicating SMMEs' riskiness vis-à-vis other Swazi borrowers.

- ***Ned Bank:*** In 2012, it entered in a public private partnership (PPP) with the government-funded apex training institution, Small Enterprises Development Company Limited (SEDCO). As part of this agreement, SEDCO is in charge of preliminarily screening and training SMMEs to develop a business plan. However, the portfolio of loans to SMMES has yet to grow, and the vast majority of SMMEs working with SEDCO have not passed the risk assessment process required to obtain credit at Ned Bank.

- ***Standard Bank:*** In 2010, it piloted an innovative product, Quick Loan, in order to extend credit to SMMEs lacking sufficient collateral.[35] The viability of potential clients was assessed through a psychometric algorithm developed at Harvard University. The loan size ranged between about E 2,400 and E 2.4 million, with an average size of E 80,000. Poor performance at the group level led to abandonment of the product despite NPLs in Swaziland still being low at the time. Currently client risk assessment is based on more traditional screening methods and SMME lending accounts for a limited fraction of the lending portfolio.

- ***First National Bank***: FNB markets itself as the technology bank and has limited and low-risk products designed for business clients, such as asset-based credit and property finance. The bank has limited and outdated experience with the public partial credit guarantee schemes, due to the high payout collection costs.

Credit Reporting System

99. **Credit reporting systems address a fundamental problem of credit markets: asymmetric information between borrowers and lenders, and between lenders and authorities which may lead to adverse selection, credit rationing, and moral hazard problems.** Regulators and financial market participants are therefore increasingly recognizing the value of credit reporting systems for

[35] Quick Loan was initially piloted and launched in Kenya, Ghana, Nigeria and Tanzania; and subsequently introduced in nine other countries: Zambia, Uganda, Malawi, Botswana, Swaziland, Lesotho, Namibia, Mozambique and Zimbabwe.

improved credit risk and overall credit portfolio management, to enhance financial supervision and financial sector stability, and as a tool to enhance access to credit.

100. **The credit growth, increased levels of non-performing loans and the current volume of population not accessing credit through formal institutions coupled with difficulties faced by SMMEs to access any type of credit suggests that there is a need to support the development of credit reporting systems in Swaziland.** However the existence of a CRS does not necessarily ensure the achievement of such objectives. At a minimum, authorities should ensure that any existing CRS in a given country is safe, efficient and reliable. In order to meet such objectives, the General Principles for Credit Reporting, (World Bank, 2011) serve as guidance with regards to; i) data quality, ii) security and efficiency of data and networks, iii) governance and risk management, iv) legal and regulatory frameworks, including consumer protection, v) cross- border data flows, and vi) oversight of the CRS activities.

101. **Credit information sharing in the Kingdom of Swaziland (KoS) is incomplete and limited to negative data.** There is currently a credit reporting service provider (CRSP), – that is, credit bureau, partially serving the market with some information. Information currently available through the CRSP Transunion Ltd. (TU) is limited to negative information and loan enquiries In addition an employment record is available also and some information obtained from the courts including data on existing monetary claims against the borrower.

102. **The services rendered by the CRSP are provided out of the premises in South Africa, making use of the economies of scale and efficiency in terms of infrastructure supporting the information network.** In South Africa there are several CRSs operating with a hub in South Africa and serving more than one country in the region including Swaziland[36]. These CRSPs are licensed by the South African Credit Regulator and subject to the existing law on consumer credit, namely National Credit Act issued in 2005. Transunion (TU) has a dedicated office in Manzini, Swaziland although the current legal framework existing in the country does not require any specific license or impose them any regulatory requirement.

103. **TU is a credit bureau based in South Africa, including information from approximately 800 data providers.** TU serves consumers and businesses through several operating divisions: Credit Bureau, Analytics & Decision Services, Cheque Guarantee Services and Auto Information Solutions. TU provides local service and operates throughout South Africa in Botswana, Namibia, Swaziland and Zimbabwe, and Zambia, where they bought the local credit bureau. In South Africa TU maintains a database of more than 18 million consumers and supports 500,000 credit active businesses. The information provided in Swaziland includes all 5 commercial banks and besides the negative information provided in the credit reports the credit bureau also serves the banks with a credit score using bureau data from South Africa[37]. In addition, information is collected from one development bank and 3 micro-lenders. Currently no information is being collected from SACCOs, pay-day lenders, or pawn brokers. Other credit bureaus also provide decision analytics services to Swazi banks and employment or tracing information to retailers and other creditors from South Africa.

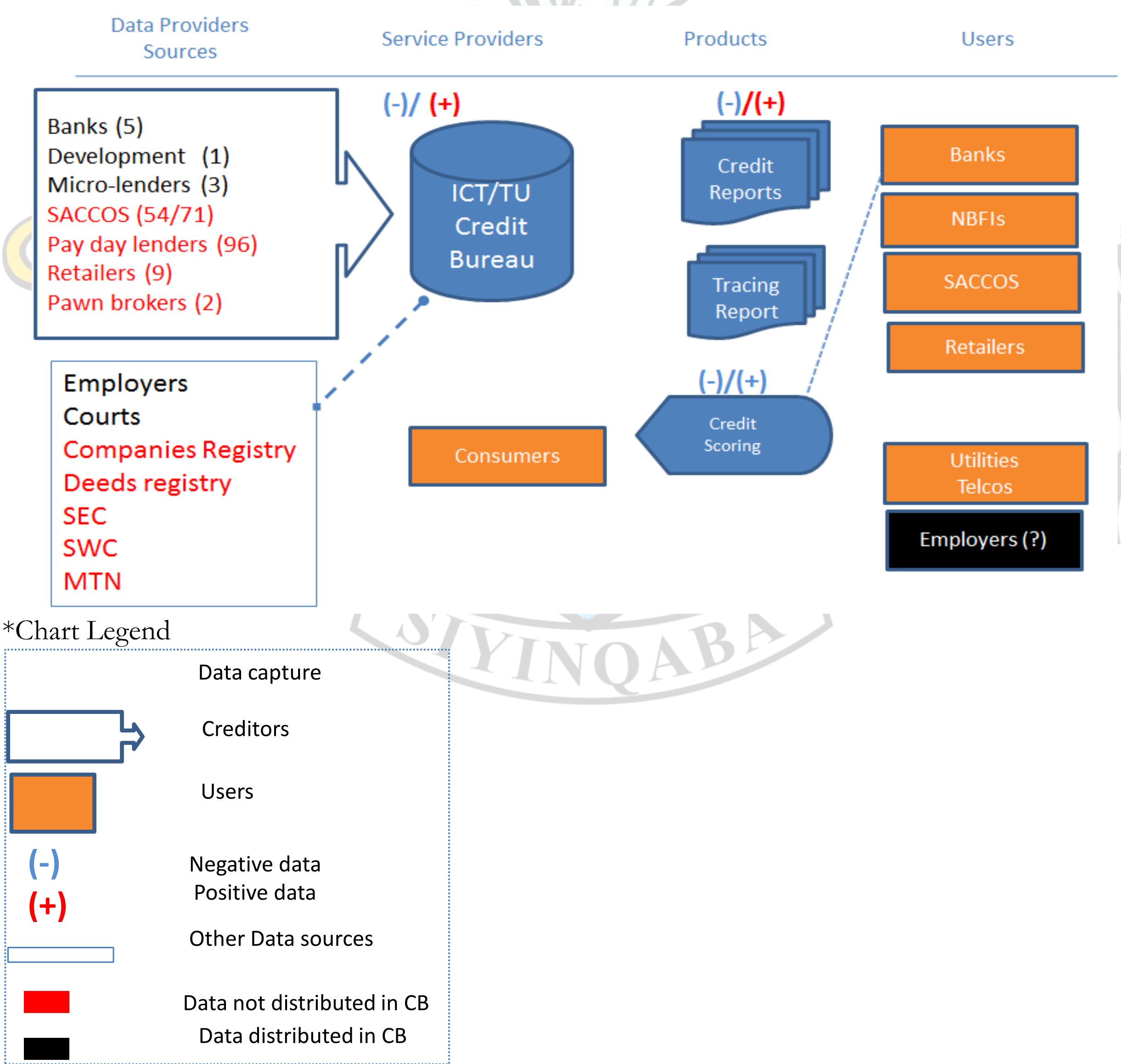
[36] Information provided by National Credit Regulator of South Africa during the mission in December 2014.

[37] It should be noted that Swaziland has a regionally integrated economy, closely linked to neighboring South Africa; 70 percent of its imports are from South Africa and 79 percent of its exports are to South Africa. Also Swaziland is a member of SADC, the Common Monetary Area (CMA) and the Southern African Customs Union (SACU).

104. **Credit information sharing in Kingdom of Swaziland (KoS) is incomplete and limited to negative data.** Although banks and other non-bank financial institutions, MFIs and some SACCOS are currently submitting data to a credit bureau (Trans Union Ltd), such information is limited to; (i) loan enquiries and (ii) "blacklist" of borrowers in default. In return participating entities receive a report with the following information: (i) previous enquiries, (ii) late payments, (iii) court judgments, (iv) employment record and (v) "tracing" mark. The graph below depicts the current credit information sharing environment. In addition there are some banks that also develop an internal score using bureau data from bureaus operating in South Africa and own data to develop their internal score. Finally there are some users that enquire information from the bureau without submitting any data.

105. **The CB database shows credit and loan agreements with retailers based in South Africa not in Swaziland.** For cooperatives and so forth they only report negative data not positive data as shown in the graph. Figure 2.2 below illustrates the current credit information flows in Swaziland.

Figure 2.2. Current Credit Information Flows*



106. **There is no systematic information collected by the CBS or FSRA to monitor consumer or firm over-indebtedness or for lenders to see a complete picture of a borrowers' credit history.** Despite banks providing credit to only 7 percent of the total population and 31 percent the population accessing credit by informal lenders, which are not reporting to the credit bureau, data from the World Bank's Doing Business Report 2015 indicates that 40 percent of Swazi adults are have records in the credit bureau. This is primarily because utility companies and retailers are reporting data to the bureau.

107. **The World Bank's General Principle 1 for Credit Reporting establishes that *Credit reporting systems should have relevant, accurate, timely and sufficient data—including positive—collected on a systematic basis from all reliable, appropriate and available sources, and should retain this information for a sufficient amount of time.*** In this context, there are several entities in Swaziland that hold relevant data to supply credit information to the CRS. Currently the only data providers to the credit bureau are banks (only 4 percent of the total population access credit from banks) while 31 percent of the total credit is provided by informal lenders. In addition 59 percent of the population has no access to credit; although approximately 28 percent of the population has access to water and electricity – a source of repayment data. Therefore current credit information collection practices do not capture sufficient information. In addition, the information collected is limited to certain data items mostly focused on default data and additional information on employment. In the particular context of Swaziland, banks require employment confirmation prior to approving a loan although only 18 percent of the adult population is formally employed.

108. **In the absence of a specific legal framework governing the activities of credit reporting together with the existence of bank secrecy, the industry has not developed effective rules for data collection and data submission that would allow accuracy and completeness of the common database.** None of the informal credit providers or non-traditional data suppliers such as water, electricity and cellphone service suppliers currently provide any type of information to the credit bureau. All of them have incentives and interest in providing such information although such discussions between the CRSP and data providers have not taken place yet.

109. **The current CRS is not currently meeting the demand from creditors and the market at large that would enable borrowers' to access credit under better terms and conditions.** The current CRSPs operate outside Swaziland which involves additional risks that should be taken into consideration. Such risks range from governance structure related aspects which could affect priorities in performing certain actions for the enhancement of the CRS in Swaziland to jurisdictional risks as regards to legal compliance and finally risks related to the operation of the system itself and ensuring business continuity and adequate consumer protection.

Payment Systems and Digital Financial Services[38]

110. The Central Bank of Swaziland (CBS) is at the apex of the financial sector and is responsible for the oversight of payment system in accordance with specific provisions stipulated in the Central Bank

[38] The information on mobile money services is based on the latest FinMark Trust initiatives, namely the 2014 Finscope and the 2015 development of an action plan and policy note for electronic money (e-money) in Swaziland.

of Swaziland Order, 1974 (as amended) and the National Clearing and Settlement Systems Act (NCSSA) of 2011.

111. As the settlement agent that ensures finality and irrevocability in the settlement of transactions in central bank money, the CBS owns, operates and oversees the Swaziland Interbank Payment and Settlements System (SWIPSS)-an automated interbank real time gross settlement system that connects all 4 commercial banks to the central bank in order to settle their interbank obligations. The SWIPSS which was implemented in 2007 constitutes the main system for settling large value payments and obligations from the retail payment streams.

112. The Swaziland Automated Electronic Clearing House (SAECH) operates a cheque clearing system and an electronic funds transfer (EFT) system both of which constitute important infrastructures supporting interbank activities as intermediaries. The SAECH is owned by the commercial banks and the CBS in equal proportions. Both systems (RTGS and SAECH), whose main users are the 4 commercial banks and the central bank, have been designated as systemically important; hence they are regulated in accordance with the applicable international standards in this area, namely the CPSS –IOSCO Principles for Financial Market Infrastructures to which the CBS subscribes.

113. Notwithstanding the role played by the building society, remittance service providers and savings and credit institutions in the provision of financial services, they have no direct access to the RTGS and SAECH systems. Direct access is limited to the 4 commercial banks that are registered by the CBS in terms of the Financial Institutions Act 2005.

114. The card payments market is dominated by foreign branded cards (VISA and MasterCard) which have traditionally been accepted at all ATM and POS terminals of the three foreign banks, FNB, Standard Bank, Nedbank and more recently Swazi bank, with the latter's introduction of the MasterCard branded card. The transactions of the foreign branded cards are switched in South Africa with settlement taking place through the parent banks (in the case of the 3 foreign banks). The Swaziland Building Society also issues cards and owns ATMs. However these are under a closed loop arrangement. Hence full interoperability of the card payment stream by all card issuing institutions in Swaziland is yet to be achieved

115. There are plans to establish a local switch as a collaborative effort within the banking industry. However discussions appear to have been deferred in light of the ongoing SADC retail payments initiative under the SIRESS Project. Given the importance of its trading partners in the SADC area for Swaziland, improving the efficiency of retail payments in the area could aid growth.

116. Mobile payment services are slowly finding their way into the market and are seen as providing a good opportunity for enhancing access to financial services and attaining the social and economic goals in line with its objectives as a member of the Alliance for Financial Inclusion (AFI).

117. A central securities depository (CSD) for holding government securities in electronic form is being implemented. The CSD will replace the Book Entry System (BES that has served the CBS well for years, even though it did not conform to international standards). As a stand-alone system, the BES system is not electronically linked to the RTGS system to facilitate the dynamic management of collateral within RTGS in line with best practice as well as ensure the delivery of securities against irrevocable payment in securities settlement (DVP). The system is therefore exposed to risks such as operational, settlement, legal and custody risk. The introduction of the CSD is a positive development

which will help the efficient administration of government debt instruments and the mitigation of risks mentioned above.

118. The remittances services are mainly provided by banks through the normal banking channels. Remittance services provided by non-banks have generally remained unregulated for years. The Swaziland Posts and Telecommunications Corporation through the Post Office network has been providing domestic and cross border remittance services for years without any regulatory or compliance requirements. It is a member of the Universal Postal Union (UPU), an entity that has the largest distribution network in the world and owns a platform for allowing clearing and settlement of payments amongst participating postal institutions worldwide. The Post Office also issues money orders payable to both domestic and external beneficiaries; however the volumes and values of these transactions are not large. As a member of the Southern Africa Postal Operators Association, the Post office also participates in the SADC region postal related initiatives. A foreign exchange bureau has recently expressed interest in providing remittance services through the Western Union money transfer system.

119. The CBS subscribes to international standards and is aware of the importance of the payment system oversight function in contributing to financial stability and improving the quality of services to end-users. Following the financial crisis of 2008, new standards and provisions[39] emerged in the financial markets infrastructure area, requiring greater attention by regulators to the payment system and its inherent risk, including the oversight aspect. CBS has made considerable efforts in outlining the oversight areas of focus, based on these standards. The adequacy of payment systems oversight capacity in both numbers and skills within CBS will be critical in order to adequately respond to the demands of the new standards and the added responsibility brought about by new payment channels such as remittances and innovative payment mechanisms, including mobile payment services.

120. Currently, payments by Government are made through the RTGS system for payments of SZL 500,000 and above while cash, cheques and EFTs are used for payments below SZL 500, 000. There is a lot of paper work currently being employed in some of these payments. Regardless of a country's stage of development, government payments constitute a very significant proportion of a country's GDP. The establishment of e-Government as part of the process of attaining economic growth is identified as one of the main priorities identified in the Government of the Kingdom of Swaziland National Development Strategy-Vision 2022. The creation of a government portal that will place the needs of business and citizens at the centre of e-government processes is seen as the ultimate goal. Achieving the goals of safety and efficiency in the payments system will yield benefits in the collection of revenue and disbursement of payments by Government and will go a long way towards achieving the Government's goals outlined in the National Development Strategy 2022. An opportunity therefore exists for government to reengineer processes to enhance efficiency and help in bringing unbanked beneficiaries into the formal financial system by channeling G2B and G2P social transfers directly into accounts, thereby encouraging savings. The evolution of payments in Swaziland is demonstrated in the tables below.

[39] Examples of published international standards and new provisions include the Principles for Financial Market Infrastructures (PFMIs) by CPSS-IOSCO in 2012; the Dodd-Frank Act of 2010 (USA); the Banking Act of 2009 (UK).

Table 2.5. ATMs and POS Terminals as at 31st December 2014

Item	2011	2012	2013	2014
Number of ATMs	149	172	195	204
Number of POS terminals	601	629	793	1,313
Number of debit cards	n.a.	79,005	187,556	333,278

Source: CBS 2015.

Table 2.6. SWIPSS and SAECH as at 31st December 2014

Item	2011	2012	2013	2014
SWIPSS				
Volume	24,116	25,961	29,636	28,361
Values (E, thousands)	89,884,954	88,927,093	113,923,482	117,780,590
Item	**2011**	**2012**	**2013**	**2014**
SAECH				
Volume	734,820	687,185	669,370	617,538
Values (E, thousands)	10,917,918	10,128,558	10,312,123	9,878,908

Source: CBS 2015.

121. As a member of the Southern Africa Development Community (SADC), Swaziland is actively participating in the SADC Payment Systems Project, which aims to establish a regional approach to payment system development, and create a common platform for cross border payments.

122. The discussions on the possibility of establishing a local switch as a collaborative effort among banks appears to have been deferred in light of the ongoing SADC retail payments initiative under the SIRESS Project. As the lead participant in the regional initiative, CBS should step-up efforts to explore how this regional project can be leveraged to achieve full interoperability of the card payments stream in Swaziland. Participation of all card issuing institutions and innovative payments service providers in this regional initiative is imperative. Hence, consideration should be given to establishing a collaborative platform for engaging with both bank and non-bank service providers. The SIRESS Project also provides an opportunity to reduce the cost of sending money within the SADC region. In this regard the CBS and the banks participating in SIRESS should continue to work closely in order to raise awareness on the system and increase remittance flows through regulated channels.

123. **Digital financial services in the KoS take the form of either mobile money or e-wallet accounts.** The former was introduced in 2011 with the launch of MTN mobile money accounts. The latter are offered since 2013 to the customers of FNB, the "technology-oriented" commercial bank in KoS. Both products are compatible with the majority of mobile devices on the market.

124. **Digital financial services rely on similar diffusion model that leverages a company's own network and technology.** Specifically, the penetration of MTN mobile money depends on cellphone coverage and MTN network of agents who are in charge of delivering services and providing assistance to potential customers. On top of smartphone coverage, the promotion of FNB e-wallet relies on the largest network of ATMs among commercial banks operating in KoS, given its presence in 38 locations across the country.

125. **The KoS appears as a fertile market for further development of digital financial services.** These key factors are encouraging for the growth of the business: (i) traditional financial infrastructures appear to be underdeveloped in rural areas; (ii) a sizeable (67 percent) share of the

population lives outside of urban centers; (iii) untapped opportunity such as payment of utility bills or DStv and school fees could be channeled through digital services, boosting uptake and usage of these financial services.

126. **Yet progress in this area is mitigated by several factors.** The following are among the elements that hinder the uptake of digital financial services: (i) the relatively high level of financial inclusion, measured as the percentage of adult population with an account at a formal financial institution[40]; (ii) digitalizing public payments[41] is unlikely to pay off in terms of growing the market, since most grants are already disbursed through bank accounts, cellphone penetration is lower among older recipients that typically prefer using cash; and (iii) the lack of competition in the MNO industry that reduces the incentives to put forward innovative and competitive products.

127. **Exploiting synergies with conventional banking services pays large dividends for the development of mobile financial services.** In Kenya, the collaboration between the Commercial Bank of Africa and Safaricom led to the launch of M-Shwari, a credit product linked to M-Pesa. Replicating the large success of M-Shwari in KoS would entail (i) investment in the design of credit product specific to Swazi needs, and (ii) development of risk-management capabilities in order to ensure sustainable growth. Commercial banks are better positioned to tackle these issues, while MNOs have deeper expertise in the development and management of the related technological platform. Joint collaboration would allow leveraging the respective comparative advantages to achieve mutual benefits. Addressing interoperability between bank and MNO accounts will be one of the key challenges for the success of this partnership.

128. **Digitalizing cross-border payments could largely grow this market.** International remittances are a potentially highly profitable business, for their frequency and volume of transactions. At the moment, they are typically transferred through informal channels, such as taxi drivers. E-money solutions are completely absent in the market, but MTN could establish an online card that could allow South African card holders to transfer funds to Swazi recipients (FinMark 2015). Both public and private sector would need to act for this to happen. Specifically, (i) the regulatory framework would have to be amended to allow for digital international remittances; (ii) MNO in KoS in collaboration with their South African counterparts would need to develop the specific product and address operability issues that may arise; and (iii) public and private sector will need to develop a risk management framework at each respective level in order to mitigate stability and transparency problems related to international capital flows.

129. **Mobile money agent network has grown exponentially over the past few years, but remains limited.** MTN mobile money network grew from 223 to 611 agents between 2011 and 2014. Despite the high (40 percent) growth rate, the number of agents per adult population remains well below that of other countries with a florid e-money market. For instance, there is 1 agent per 870 adults in KoS while the ratio increases to 1 agent for every 321 adults in Kenya. The situation is likely worse in rural areas where only 41 percent of agents can be found. Besides, recent research points to

[40] In KoS 54 percent of adults have an account at a formal financial institution. This mirrors the situation in Kenya (54 percent account ownership) it was only 26 percent in 2006 at the time of the launch of M-Pesa (Finscope 2011) and demonstrated part of the market need.

dormancy rates as high as 40 percent (FinMark 2015). Interviews with MTN indicate that the company is well aware of the issues and is about to roll out a plan of action to address them.

Table 2.7. MTN Mobile Money: Pricing Comparison

Panel A		
Country	**Maximum cost of sending money (US$)**	**Proportion of cost of per capita GDP (%)**
MTN Swaziland	0.43	0.012
MTN South Africa	0.00	0.000
Vodacom South Africa	0.21	0.003
Vodacom Lesotho	0.65	0.051
Econet Lesotho	1.29	0.100
Safaricom Kenya	0.35	0.024
Vodacom Mozambique	0.71	0.114

Panel B			
	Swaziland	**South Africa**	**Swazi MTN mobile money**
Monthly service fee	12.9	3.0	0
Debit orders	19.0	3.7	n.a.
Debit order bounce	314.1	10.3	n.a.
ATM withdrawals (R100 each)	4.7	5.0	3.0
Statements requested – ATM	4.2	3.7	n.a.
Statements requested – Counter	11.2	11.2	n.a.
Deposit (R500) – counter	21.2	12.5	n.a.
Estimated monthly cost	*59.2*	*31.7*	*n.a.*

Source: FinMark 2015.
Note: Estimates are based on 1 monthly service fee, 1 debit order, 3.1 ATM withdrawals, 1.2 statements requested at ATM, 0.11 statements requested at counter, and 0.31 deposits at counter.

130. **Mobile money may offer a cost-effective solution, despite the fact that current pricing may be inflated by monopolist rents.** MTN operates as a monopoly in KoS, being the only Mobile Network Operator (MNO) allowed in the country. Not surprisingly, then, the cost of mobile money transfers is higher in KoS than other more competitive markets. The maximum cost of sending money through a mobile phone in KoS is twice as much as in South Africa. Despite the unfavorable cross country comparison, mobile money remains a relatively affordable option given the alternative transaction means available.

Capital Markets, Insurance, Retirement Funds/Pensions

131. **The NBFI sector (comprising insurance companies, retirement funds, collective investment schemes and savings and credit institutions) accounts for about 75 percent of the financial sector in terms of assets[42].** Fueled by rapid growth of retirement funds (including provident funds) is resulting in them becoming systemically important because they dominate the financial system. These firms can be vulnerable in the event of a shock to the economy because there are no safety nets in place to protect contributors/depositors/investors since NBFIs and do not have access to the central bank as lender of last resort.

132. **The insurance industry is still in early stage of development but rapidly growing over the last three years.** Key growth driver of the insurance sector is the non-life business. As of 31 July

[42] IMF Article 4 Consultation in 2014.

2014, total number of insurers operating in Swaziland comprises 10 operational insurance companies offering composite insurance, property and casualty, and life insurance products, 30 insurance brokers, 27 corporate agents, 245 individual agents, 5 fund administrators and 11 asset/investment managers. Insurance brokers dominate the distribution of insurance products, accounting for 80 percent of market share.

133. **Long term insurers have performed better in 2013 as compared to 2012 as shown by key industry ratios for long term insurance, namely ratios measuring profitability, industry growth and financial prudence.** In terms of industry growth, the level of premium growth has been somewhat volatile since 2009 even though the trend from 2013 onwards is positive. The insurance industry is fairly solvent and liquid with the trend in both the Solvency Ratio and Liquidity Ratio showing that the industry is able to meet its future obligations and short term liabilities more than 2 times on average respectively.

Table 2.8. Key Performance Ratios for Short- and Long-Term Insurance

Short Term Insurance	**2013**	**2012**	**2011**	**2010**
Combined Ratio = Incurred Expense Ratio/ Incurred Claims Ratio	75%	73%	79%	87%
Return on Equity	29%	19%	31%	34%
Solvency Ratio	121%	143%	156%	133%
Liquidity Ratio	1.4x	1.6x	2.1x	3.1x
Long Term Insurance	**2013**	**2012**	**2011**	**2010**
Combined Ratio = Incurred Expense Ratio/ Incurred Claims Ratio	75%	74%	75%	98%
Return on Equity	22%	14%	4%	13%
Solvency Ratio	122%	124%	125%	128%
Liquidity Ratio	2.4x	2.4x	2.8x	2.3x

Source: FSRA Annual Report 2013.

Table 2.9. Long-Term Insurance – Key Performance Ratios

LONG-TERM INSURANCE – KEY PERFORMANCE RATIOS					
	2013	**2012**	**2011**	**2010**	**2009**
PROFITABILITY RATIOS:					
1. **Incurred expense ratio** = Incurred Expenses/Earned(net) Premiums	30%	27%	29%	33%	43%
2. **Incurred Claims ratio =** Incurred Claims / Earned (net) Premiums	45%	47%	46%	65%	55%
3. **Combined ratio =** Incurred Expenses ratio + Incurred Claim ratio	75%	74%	75%	98%	98%
4. **Net Income ratio =** Net Income / Earned (net) premium	21%	13%	3%	13%	-25%
5. **Return on equity =** Net Income / Equity	22%	14%	4%	15%	-78%
INDUSTRY GROWTH RATIO:					
6. **Premium growth ratio** = percentage change in earned premiums between current year and previous year	27%	2%	18%	60%	–
FINANCIAL PRUDENCE RATIOS:					
7. Solvency Ratio = Admitted Assets / Total Liabilities	122%	124%	125%	128%	106%
8. Liquidity Ratio = Available cash / short term payables	2.4x	2.4x	2.8x	2.3x	1.9x

134. **In terms of investments made by long term insurers, close to 80 percent of their investments are made in foreign assets as shown in the table below despite the local investment rule of 30 percent that are applicable to them.** The foreign assets invested are largely in capital market instruments in South Africa in both equity and listed bonds.

Table 2.10. Investment Mix of Long Term Insurers

LONG TERM INVESTMENTS - LOCAL Vs FOREIGN ASSETS					
	31-Mar-	**31-Mar-**	**31-Mar-**	**31-Mar-**	**31-Mar-**
Total local investments	345 543	289 914 869	284 863 972	200 787	121 355
Total foreign investments	1 352 477	997 659 861	769 002 304	620 296	498 828
Total Investments (E)	**1 698 020**	**1 287 574**	**1 053 866**	**821 084**	**620 184**
% Local investments to total	**20**	**23**	**27**	**24**	**20**
% Foreign investments to total	**80**	**77**	**73**	**76**	**80**
Total Investments (%)	**100**	**100**	**100**	**100**	**100**

135. **Short-term business accounts for almost 60 percent of total industry premiums.** Table 5 below shows that the combined ratios of incurred expense ratio and incurred claims ratio for short term insurers for the year 2013 shows that they were less than 100 percent of earned premiums. This indicates some measure of profitability and efficiency in the underwriting market. The combined ratio has stayed between 79 percent and 73 percent in the last three years.

Table 2.11. Short-term Insurance – Key Performance Ratios

	2013	**2012**	**2011**	**2010**	**2009**
PROFITABILITY RATIOS:					
1. Incurred expense ratio = Incurred Expenses/Earned (net) Premiums	34%	31%	27%	28%	25%
2. Incurred Claims ratio = Incurred Claims / Earned (net) Premiums	41%	42%	52%	59%	60%
3. Combined ratio = Incurred Expenses ratio + Incurred Claim ratio	75%	73%	79%	87%	85%
4. Net Income ratio = Net Income / Earned (net) premium	34%	28%	43%	41%	9%
5. Return on equity = Net Income / Equity	29%	19%	31%	34%	9%
INDUSTRY GROWTH RATIO:					
6. Premium growth ratio = percentage change in earned premiums between current year and previous year	6%	7%	5%	7%	–
FINANCIAL PRUDENCE RATIOS:					
7. Solvency Ratio = Admitted Assets / Total Liabilities	121%	143%	156%	133%	117%
8. Liquidity Ratio = Available cash / short term payables	1.4x	1.6x	2.1x	3.1x	3.3x

136. **The insurance industry is still highly concentrated with Swaziland Royal Insurance Company (SRIC) being the only insurance company that is authorized to carry on both short and long term businesses[43].** While SRIC's market share in long term business has been eroded when compared to 2012 with Old Mutual being a close second, it still nonetheless dominates the short term business with 84 percent of market share of gross premiums.

[43] The industry was liberalized with entry of several other insurance companies in both long term and short term insurance business.

Table 2.12. Market Share of Insurers for Short Term Insurers

SHORT-TERM INSURANCE - PREMIUM MARKET SHARE					
ENTITY	**% MARKET SHARE**		**GROSS PREMIUMS**		**% CHANGE**
	31-Mar-13	**31-Mar-12**	**31-Mar-13**	**31-Mar-12**	
SRIC	85	91	321 093 678	324 969 066	(1)
LIDWALA INSURANCE	11	7	42 070 371	24 983 878	68
ORCHARD INSURANCE	4	2	12 729 584	5 967 376	113
GETMED	–	–	–	–	–
TOTAL INDUSTRY PREMIUM	**100**	**100**	**375 893 633**	**355 920 320**	**6**

Table 2.13. Market Share of Insurers for Long Term Insurance

LONG-TERM INSURANCE - PREMIUM MARKET SHARE					
ENTITY	**% MARKET SHARE**		**GROSS PREMIUMS**		**% CHANGE**
	31-Mar-13	**31-Mar-12**	**31-Mar-13**	**31-Mar-12**	
SRIC	36	48	132 742 064	140 829 216	-6
Metropolitan	12	6	44 251 000	19 055 000	132
Liberty Life	12	12	45 405 000	35 812 000	27
Old Mutual	29	24	105 287 778	70 859 385	49
Momentum	10	10	35 743 000	29 279 000	22
SAFRICAN	1	0	2 387 911	52 792	4423
TOTAL INDUSTRY PREMIUM	**100**	**100**	**365 816 753**	**295 887 393**	**23**

137. **The insurance industry is characterized by its narrow suite of products.** According to the 2014 Swaziland FinScope survey, 27 percent of the adult population is estimated to have some form of formal insurance, so the majority of the population remains unserved. This may be due to lack of appropriate distribution channels suitable for low income household. The small size and limited capacity of the local insurance industry to take on risk means that a high proportion of risks are reinsured. This is particularly the case for large commercial risks, which are almost entirely reinsured with foreign reinsurers.

138. **Total pension assets are the largest segment of financial sector equal 96 percent of GDP**. The assets of pension and retirement funds grew by 26 percent between 2013 and 2014 totaling E 23.1 billion. The retirement funds sector comprised 73 local retirement funds (with 10 being umbrella funds with 122 participating employers), 40 foreign retirement funds, 11 asset/investment fund managers, 5 fund administrators[44] and 2 beneficiary trust funds. The assets of pension and retirement funds grew by 17 percent between 2012 and 2013 totaling E 20.4 billion.

[44] Three life insurers have also been approved to act as fund administrators.

139. **The two largest retirement funds are the Public Service Pension Fund (PSPF)[45] and the Swaziland National Provident Fund (SNPF)[46].** Contributions to the PSPF in 2013 stood at E 777 million and contributions to SNPF for 2013 stood at E 250 million. Funding levels of the PSPF has improved to 84.4 percent in 2013 even though contributions amounting to E 774 million by the Government to PSPF relating to previous years have yet to be made. The authorities are considering changing the payout of SNPF from a lump sum withdrawal to an annuity payment once a contributor reaches retirement age.

Table 2.14. Retirement Funds & Select Performance Indicators

S/NO.	ITEM DESCRIPTION	2013	2012
1	Number of local retirement Funds	73	70
2	Number of foreign retirement funds	40	36
3	Number of Fund Administrators	5	5
4	Number of Provident Funds	42	42
5	Number of Defined Benefit Funds	8	8
6	Number of Defined Contributions Funds	31	28
7	Retirement Funds Total Contributions (US$)	$131 567 527	$146 580 517
8	Retirement Funds Total Investment Income (US$)	$282 958 807	$172 603 061
9	Retirement Funds Total Benefits Paid (US$)	$98 111 295	$76 873 723
10	Retirement Funds Total Other Expenses (US$)	$14 861 649	$77 507 033
11	Retirement Funds Total Assets (US$)	$1 989 623 445	$2 009 486 847
12	Retirement Funds - Locally Invested Assets	$565 893 711	$560 054 562
13	Retirement Funds - Foreign Invested Assets	$1 380 156 941	$1 405 890 858

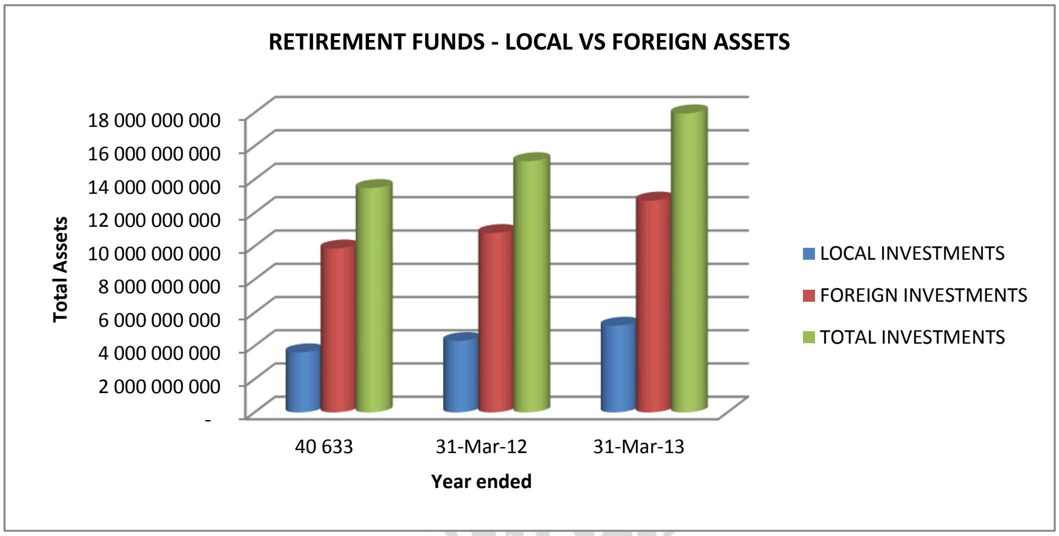
Source: FSRA Annual Report 2013.

140. **One pressing challenge in Swaziland is the lack of long term domestic currency financial instruments appropriate for investments by insurance companies and retirement funds.** Figure 2.3 shows that as at 31 March 2013, retirement funds' assets grew 20 percent from 2012 with assets totaling E 18.3 billion (as compared to E 15.3 billion in 2012). Due to the robust stock market performance in South Africa, retirement funds have performed well in 2013. In this regard, the Retirement Funds legislation in Swaziland requires that 30 percent of assets must be invested in local assets in Swaziland. The figure below shows that the industry is close to meeting this requirement at 29 percent in 2013.

[45] The PSPF is a contributory defined benefit scheme in which members contributed 5 percent of pensionable salary whilst the participating employer contributes at a rate of 15 percent of pensionable salary. Participating employers are the Government of Swaziland and any parastatal bodies or services which the Minister may determine as 'public service" under the Public Service Pensions Order 1993.

[46] The SNPF a defined contributory scheme in which a member contributes 5 percent of their salary whilst the employer contributes 5 percent. Participating employers are all private sector employers and some parastatal bodies subject to a ceiling of E 1,700.

Figure 2.3. Investment Mix of Retirement Funds in 2012 & 2013



Source: FSRA Annual Report 2013.

141. **A unique Motor Vehicle Accident Fund (MV Fund) was established in 1998 pursuant to the Motor Vehicle Accidents Act 1991 as the instrument by which the KoS compensates road accident victims who has suffered bodily injuries or loss of support following the death of breadwinners.** Before that, compensation to road victims was operated by the insurance industry under third party premiums but due to very high and escalating accidents rate, the premiums were increased and the KOS was concerned about the unaffordability of third party cover and hence the establishment of the MVA Fund as a fuel levy fund. The mandate of the MVA Fund is to "provide for compensation for certain loss or damage caused unlawfully by means of motor vehicles and for matters incidental thereto". The MVA Fund had turnaround since 2008 following drastic reform measures to check fraud, unlimited claims and mismanagement through a combination of legal, institutional and operational reforms especially in the area of risk management.

142. **The capital markets in Swaziland is small comprising a limited number of institutions and an extremely low activity in the primary and secondary markets** - 2 dealers, 5 managers of collective investment schemes (CIS) and 9 investment advisers which take custody of assets and 4 exempt dealers. Of the 4 CIS, one controls about 61 percent of the total funds under management[47]. There are only seven listed shares[48] with only four trades in shares and a number of government bonds with maturities from 3, 5 and 7 years listed on SSX but there were no trades in bonds. In the past year, one new company was listed in the first quarter of 2014, but this was an introduction of existing shares rather than a capital-raising IPO.

[47] African Alliance Swaziland.
[48] A company was listed on SSE in 2014.

Table 2.15. Market Capitalization of Companies Listed on SSX

Firm	Share Price Dec 11	Share Price Mar 13	(%) Gains	Market Capitalization (SZL) – 31 Mar 13
Firm 1	500	590	18.00	140,780,537
Firm 2	1225	1290	5.31	1,242,867,528
Firm 3	2055	2100	2.19	388,500,000
Firm 4	320	540	68.75	125,550,000
Firm 5	830	600	-27.71	41,966,964
Firm 6	130	135	3.85	114,750,000
TOTAL				**2,054,415,029**

143. **The government bond market only started in 2010 with the KOS started to issue local currency bonds to fund its deficits but its issuance program has not been stable.** Hence, the Swaziland Treasury Bills and Government Stocks Act 1994 were amended to allow the KOS to raise debt in the domestic market to a maximum of 25 percent of GDP. The Issuance Program was originally estimated to run for a period of 3 years. However, even though there was initially strong investor interest in the 3-year and 5-year bonds, the E 2 billion program was indefinitely suspended in June 2011 due to lack of investor interest and under subscription. As market confidence improved, the Issuance Program was resuscitated in August 2013 with fairly strong levels of subscriptions largely due to the local investment rule that was imposed on all financial sector institutions. Currently, total domestic debt (Treasury Bills and Bonds) outstanding as at end of September 2014 reflected E 2.72 billion, an equivalent of 7.4 percent of GDP. In October 2014, on behalf of the Government of Swaziland, the Central Bank announced the listing of a New Government Note Program to the value of E 2 billion on the Swaziland Stock Exchange.

Table 2.16. Government Bonds Issued as at 31 March 2013

Bond	Tenor	Coupon (%)	Redemption Date	Nominal Value (SZL)
SG008	3 years	8.00	31 – Aug – 2013	250, 000, 000
SG009	5 years	7.00	30 - Nov – 2015	219, 384, 000
SG011	7 years	8.25	31 – Jan – 2018	146, 330, 000
SG012	3 years	8.25	31 – Mar – 2014	169, 000, 000
SG013	5 years	8.50	20 – Jun – 2016	78, 855, 000
SG014	3 years	8.50	25 – Nov – 2014	50, 000,000
			Total	**913, 569, 000**

Table 2.17. Public Domestic Debt Outstanding By Holder as at September 30, 2014 (E'000)

Holder	Government Bonds	Treasury Bills	Total	Share of Holdings (%)
CBS	–	1,100	1,100	0.04
Commercial Banks	308,822	992,412	1,301,234	47.80
NBFIs	518,944	527,798	1,046,742	38.45

Other	286,914	86,470	373,384	13.71
Total	**1,114,680**	**1,607,780**	**2,722,460**	**100**

Gap Analysis Based on Supply and Demand Side Analysis

144. Building off the supply side information, demand side FinScope Survey of 2014 and Legal and Regulatory Technical Note the following gap analysis is conducted. The existing gaps are identified relative to the FSDIP objectives of stability, diversity, modernization and inclusion. The 12 gaps that most pronounced or "key" and will drive financial sector reforms, are included above within the main body of the FSDIP:

Banking Sector Gaps

Gap #1: Only 30 percent of adults save with banks.
145. This not only hinders the level of depth of credit markets but also impacts consumers' ability to smooth consumption and weather financial shocks.

Gap #2: With no national switch in place ATMs, POS, and other card payment systems are not fully inter-operable.
146. This makes banking less convenient and more costly for consumers which is one of the cited reasons among the unbanked for not having an account with financial institutions.

Gap #3: Most payments are still done in cash. Lack of convenient outlets for financial services in rural areas.
147. The reliance on cash makes the distribution of consumer and government payments more costly, less secure and slower. Large processors of payments such as utilities and retirement funds stand to benefit the most from greater use of electronic channels.

Gap #4: Relatively costly and non-transparent pricing for banking services erode small savings and discourage savings in banks.
148. Improving the competition, diversity of corporate structures offering banking services and transparency of bank charges may decrease the overall cost of banking and help savers economize on charges.

Gap #5: Existing partial credit guarantee scheme is not available to many lenders that focus on SMMEs and little hard data exists on SMME finance needs.
149. The last national survey done on SMMEs was in 2010 and comparatively little information was included regarding the finance needs of SMMEs. In addition, there is insufficient census information on SMMEs to sufficiently understand and differentiate the needs of urban versus rural, micro versus medium and wholesale versus retail SMMEs to develop sufficient financing strategies.

Gap #6: While banks are currently adequately capitalized, the current minimum capital ratio of 8 percent is inadequate given the relatively high risk concentrations, particularly in the sugar sector.
150. The current minimum capital ratio of 8 percent utilized in Basel I would be insufficient to protect against a sharp decline in capitalization resulting from combined stress test scenarios. The concentration among all banks and non-banks which are lending to the sugar sector the financial

sector at an elevated level of concentration risk. Furthermore, the current practice of off-balance sheet guarantees from parent banks for exposures in excess of the Single Obligor presents more risk than cash collateralized or funded risk participation agreements.

Gap #7: A stable banking sector, but one which has not been closely regulated or supervised.
151. While currently stable, any banking sector needs to be constantly monitored for emerging risks from within and outside the country. The risks around the sugar sector need particular monitoring as all parts of the banking and non-banking sector are exposed. Practices regarding risk sharing on large exposures with South African parent banks need to be strengthened, as do minimum capital adequacy requirements. Information sharing arrangements with South African bank supervisors have recently been formalized and need to be fully implemented.

Gap #8 Need to strengthen contingency planning, and liquidity support mechanisms
152. The CBS has only developed intraday and overnight "Lombard" facilities It should therefore strengthen its liquidity support tools by expanding and extending the overnight facility to be able to provide ELA during a liquidity crisis, and define the terms and acceptable collateral of a LOLR facility. Furthermore, there are currently no arrangements in place among the CBS, FSRA and Ministry of Finance MOF) for joint action in the case of a financial crisis

Gap #9: Fragmented legal and regulatory framework with gaps, overlaps, and ambiguities
153. New entrants will be discouraged and existing entrants will struggle with compliance where the rules of the game are not well documented, clear and accessible. Moreover the regulatory framework is incomplete and dated, and could be subject to legal challenge.

SACCOs/MFIs & Financial Inclusion Gaps

154. An analysis of the microfinance sector and financial inclusion data brings to light several gaps. The primary challenge is balancing the objectives of a stable financial system and diverse financial system while at the same time making it more inclusive.

Gap #10: Several Weak MFIs, Development Finance Institutions and SACCOs
155. All MFIs and several SACCOs are struggling financially. Before they can significantly add to financial inclusion with new products, services and clients/members it will be critical to improve the health and efficiency of these organizations.

Gap #11: MFIs, SACCOs and to a lesser degree the Building Society cannot offer modern transactional products desired by consumers.
156. The most important areas for growth, and desired financial services among consumers, are transactional banking products. However, MFIs, SACCOs and the building society are prohibited from offering current accounts and/or directly accessing the payment system. This significantly impedes the relevance of these domestically owned institutions to be substitutes for the big banks.

Gap #12: The costs for consumers to open and maintain a savings account are beyond the means of many consumers.
157. Swaziland is a highly profitable banking market averaging ROA of 2.8 percent over the past 5 years. It's dominated by three large South African banks and one government owned bank. Opportunities exist to allow existing market players (that is, Building Society, FINCORP) or new entities provide competition to existing providers to diversify the offerings, improve competition and

potentially lower the financial costs of banking which is the primary barrier to broadening financial inclusion.

Gap #14: Financial shocks are a primary cause of keeping people in poverty and too few people utilize mechanisms outside of debt to guard against such shocks.
158. The level of consumer borrowing increased 11 percent in the past three years and much of this borrowing is from family and friends who are not registered in credit information systems. The lack of awareness of insurance products/benefits and not having enough information about mobile money and ways to use it to save are opportunities to improve consumers financial security.

Credit Reporting Gaps

159. Effective credit information systems can not only aid credit decisions and reduce loan losses for lenders but also ensure that firms/individuals which previously were not receiving sufficient credit can access it. While initiatives have been underway for some time to reform the credit markets, the current gaps in the market include:

Gap #15: Credit information sharing in Swaziland is incomplete and limited to negative data.
160. The current credit bureau is predominately bank-based and only negative data and employment data is included in the system. This leaves the majority of consumers, and how they access credit, outside of the current credit information system. Even though there is some type of information exchange between banks and the credit information provider, a regulated framework to handle consumer complaints regarding inaccuracies in their information and clearly establishing protocols between data providers, credit information provider and users is not present at this time.

Gap #16: Few credit providers are positioned to submit relevant and accurate data to a CRS.
161. Many SACCOs and micro-lenders do not have in place information systems linking their loan application, monitoring and collection data to a CRS in an efficient manner. Data from utility companies in the CRS has gaps.

Gap #17: The consumer protection framework is incomplete.
162. There are very limited protections in place for consumers of financial services, be they customers of banks, MFIs, SACCOs, insurance companies or pension funds. Furthermore, there are no mandatory or voluntary codes of conduct regarding the fair treatment of customers, and there are limited recourse mechanisms in place.

Gap #18: Little hard data exists on SMME finance and the current CRS reform project does not consider the unique credit and collateral sources and needs of SMMEs.
163. The last survey done on SMMEs was in 2010 and comparatively little information was included regarding the finance needs of SMMEs. In addition, there is insufficient census information on SMMEs to sufficiently understand and differentiate the needs of urban versus rural, micro versus medium and wholesale versus retail SMMEs to develop sufficient financing strategies.

164. ***Gap #19: There is limited ability for lenders to leverage moveable or immoveable property***
For both borrowers seeking to leverage the assets they do have (that is, autos, inventories, receivables) and lenders that are seeking to protect their lending positions, efficiently checking and registering movable and immovable collateral can open up credit markets.

Gap #20: A system to allow the use of movable property as collateral is missing.
165. There is not a modern unified legal framework for secured transactions in Swaziland, and there is no electronic registry to support banks and borrowers to be able to effect a security interest for a loan in real time. In practice this means that the value of movable, and even immovable, property as a means to increase access to finance for SMMEs and others in Swaziland is not being exploited.

Gap #21: Regulators do not have the information needed to monitor the entirety of the credit market and its risks.
166. Credit registries do not exist at the CBS or FSRA which allow them to monitor the financial sectors' practices as regards lending, level of NPLs, portfolio deterioration, risks in the sugar industry (which span many financial institutions) and classification of loans according to debt classification rules. The absence of such a system also limits supervisors in conducting effective off-site micro-prudential supervision and monitoring the quality of information provided to and offered by credit providers and the CRS.

Payment Systems and Digital Financial Services Gaps

Gap #22: The payment system is not fully interoperable and access is limited to banks
167. As non-bank financial institutions (the Building Society, SACCOs and MFIs) are not able to access the payment system and their ATMs/cards remain as closed loop systems. This prohibits such organizations from offering modern and well-priced payment solutions to more consumers.

Gap #23: The absence of a regulatory framework to govern the operations and oversight of money transfer operators (MTOs) poses risks to the financial system and to consumers.
168. Although foreign personal remittances into Swaziland are only less than 1 percent of GDP, a revised framework for the regulation of the remittances market is needed.

Gap #24: The NCSSA 2011 is inadequate regarding defining finality and settlement, CBS powers, cheque truncation, non-bank depository institutions' direct access to the payment system and facilitation of new electronic systems.
169. New channel uptake of both ATMs and mobile money has been a key driver in expanding financial inclusion. As such, it's critical that the legal and regulatory framework for payment, clearing and settlement systems are continuously assessed to balance access, efficiency and stability.

Gap #25: The monopoly conditions in the mobile phone market may be stifling innovation and keeping prices high.
170. In many other markets reducing the churn of customers among MNOs has been the leading motivator for their development of mobile money. Despite Swaziland having other characteristics suggesting the market is fertile (e.g., underdeveloped financial services in rural areas and a large percentage of the population living outside urban centers) a single operator of mobile services may limit development of the market.

Gap #26: International remittance transfers via mobile money are banned at this time.
171. The regulatory approval provided to MTN does not allow for the transfer of funds across borders. Given the presence of MTN in South Africa, the SADC region, and the Swazi diaspora in these same markets, there is significant scope of easing international remittances and reducing costs via mobile money.

Capital Markets, Retirement Funds and Insurance Gaps

Gap #27: NBFIs are vulnerable as there are no safety nets in place to protect contributors/depositors/investors and NBFIs do not have access to the central bank as a lender of last resort.

172. Although NBFIs represent two-thirds of the financial system and some do not have a large foreign parent company backing them, as with many of the banks, there is not a guarantee scheme should such funds fail. In addition, out of the 244 insurance companies and foreign/local retirement funds there were only 3 on-site examinations of such entities in 2013. FSRA has also had problems getting these firms to file returns on time and receiving their annual audits.

Gap #28: Funding of the Public Service Pension Fund (PSPF) is at only 84 percent of liabilities and payment is made via a lump sum distribution upon retirement.

173. From both a solvency perspective and ability of recipients to effectively manage their funds upon receipt, there are important changes that need to be made to the PSPF.

Gap #29: The insurance market is small serving 22 percent of the adult population and concentrated.

174. While insurance coverage has increased 5 percentage points in the past 3 years, the lack of awareness of insurance, especially outside of funeral coverage, continues to remain a barrier to uptake.

Gap #30: The capital markets are small and shallow making liquidity management hard for depository institutions and hard for retirement funds to meet the local asset requirement.

175. Both the government bond market and stock exchange are constrained by the presence of large and deep markets in South Africa. Investments there are facilitated by the pegged currency. There appears to be appetite for additional high quality local government bonds which are issued at anticipated tenures and timeframes so that money managers can plan liquidity positions.

176. Introduction of government bonds for specified projects should be fast tracked, as there seems to be a readily available market for such. FSRA and SSX should work in tandem with other government agencies to avail information on on-going investment opportunities in the country. This will call for increased relations with agencies such as SIPA, FSECC, Micro Finance Unit, as well as Tinkhundla structures and municipalities around the country. In essence, funders should be easily matched with those requiring funding. SSX is in the process of creating an alternative exchange board of SMMEs, this board will allow SMMEs to raise capital and introduce more local asset to acquire. The alternative board is another step that FSRA is taking to making SSX autonomous.

Descriptions for Recommended Policy Actions

177. This section provides additional descriptions and rationale to support the recommended policy actions within the FSDIP.

Banking

i) Expanding the outreach of the banking sector through alternative distribution channels:

178. Countries throughout the world are discovering the power of agency banking and the use of new technologies to reach individuals who are costly and difficult to serve through conventional bricks and

mortar branch banking. While Swaziland does not have the problem of very remote areas that exist in many larger emerging economies, it nonetheless has 46 percent of its population unbanked, with large disparities between urban and rural populations and between lower and middle-to-upper income groups. Excluded populations may go without financial services because costs are too high, minimum balance requirements are too high, or products and the distribution system do not meet their needs. From banks' perspective, the perception is that low income equates to high risk for credit and low profitability for deposits. A key to increasing financial inclusion will be to find appropriate low-cost distribution systems for low value, high volume transactions. Mobile phones, which have a penetration of approximately 96 percent in Swaziland, present such an opportunity, though the current monopoly of a single provider is unlikely to stimulate the type of competition that will lead to innovative solutions and low costs. In addition to considering the entry of new players in mobile telephony, the following measures would help stimulate wider access to low-cost financial services:

- Convenience and proximity for all can be achieved through a widespread and interoperable distribution network that can include, for example, bank branches, ATMs (interoperable), POS (interoperable), post offices, and retail agents, such as those selling cellular airtime, supermarkets, gas stations, and so on. For such agent networks to fully develop, there should be an appropriate legal and regulatory framework for agent banking.

- Review and refine KYC and AML requirements on a risk-based basis once a national risk assessment has been conducted.

- To promote financial inclusion while improving government efficiency, all G2P and G2B payments should be made electronically to bank accounts or digital payment accounts by a target date. Private sector companies will also be encouraged to migrate all payments to electronic channels.

- To promote savings and financial inclusion of those who have low and/or irregular incomes, it would be desirable to reduce or eliminate minimum balance requirements, and to do away with account maintenance and deposit fees, which discourage small deposits and erode savings. The CBS and banking community need to explore options such as zero-to-low cost "no-frills" accounts that still cover their costs for the providers. Improvements in retail payments systems and low-cost, digital distribution channels will be critical to lowering costs and making such accounts viable to the banking community.

ii) Improving and diversifying access to credit

179. **Secured transactions: A legal review of the framework for movable property to be undertaken, with recommendations on a new secured transactions law and design of a movable property registry.** What should a collateral reform for Swaziland look like? The existing patchwork of security devices should be completely overhauled and replaced with a single statute providing the basis for the establishment of a single electronic and nationwide registry capable of registering the hundreds of thousands of secured transactions that currently remain unregistered. The collateral reform should not stop at the enactment of a law and establishment of a registry but should also tackle the reduction of unnecessary costs, such as stamp duties and related fees. Only a comprehensive overhaul of the current framework would create an environment in which lenders are confident to lend to a diverse businesses (large, medium and other start-ups) that characterize

Swaziland's private sector landscape, borrowing costs are reduced and new credit products are introduced.

180. Swaziland should undertake a comprehensive overhaul of its entire secured transactions framework, including the existing statutes, such as the Chattel Transfer Act, but also common law devices, such as assignments of book debts. Simply modernizing and automating the existing registries will not be sufficient to make credit more widely available at a reduced cost. A modern secured transactions law that reflects the best international standards while being sensitive to the local practices and needs may be drafted for the Government. Thereafter, the Government and Parliament processes may take the time required to enact the new law. A new framework, including a unified electronic registry may be operationalized within a few months after passage and enactment of the necessary law.

181. The absence of a modern secured transaction framework, including an electronic collateral registry, contributes to the exclusion of firms from credit markets, particularly SMMEs, and adds to banks' costs and credit risks for loans they do make. A modern secured transaction framework and collateral registry would reduce costs such as those incurred in conducting due diligence and risks such as those of pre-existing security interest over assets. The lack of a well-designed secured transactions framework places a burden on lenders, who either pass the costs entailed in structuring secured loans to their borrowers or refuse to provide such loans at all. It is therefore recommended that a modern secured transactions law and collateral registry be established. Not only would this result in safer lending and facilitate recoveries, but it would expand the universe of creditworthy firms, and could lead to the development of new credit products such as specialized lines of credit for agricultural producers.

iii) Improving the legal and regulatory framework:

182. While the FIA 2005 provides a sound legislative basis for banking, there are a number of gaps in the regulatory framework which need to be addressed. As a first step, it is recommended that a detailed assessment of compliance with the Basle Core Principles for Effective Banking Supervision be undertaken to identify all of the areas where compliance needs to be strengthened. This will help in drafting the regulations which are needed to complete and complement the FIA 2005. Among the regulations that would need to be issued and gazetted are those governing important matters such as insider lending, minimum liquid assets, the computation of risk assets, outsourcing, and the transfer of controlling interest in financial institutions. The Central Bank should also make available on its website a compendium of all existing legislation, regulations, guidelines, legal notices and so on, governing the financial sector that are currently in effect, and updating this as required. Among the gaps that need to be addressed are the following:

- **Independence and legal protections of the supervisor:** The independence of banking supervision could be strengthened. Under the BCP, the registrar is the Governor, who is appointed by the King, in consultation with the Prime Minister for a term of office of 5 years, renewable. However, both the Governor and Deputy Governor may be removed from office by the King in consultation with the Prime Minister. Reasons for removal of the Governor/Registrar are not specified in the Order. Furthermore, the involvement of the Ministry of Finance in issuing regulations, appointing CBS board members, and the power of the MoF to overturn licensing or supervisory actions have the potential to undermine the independence of banking supervision. Importantly there are no apparent legal protections in place for supervisors acting in good faith.

- **Gaps in licensing**: While the CBS has in practice followed a very restrictive policy as regards the licensing of new banks, there are a few gaps in CBS's written licensing requirements which need to be remedied, notably: 1) information on shareholders, 2) including financial projections as part of business plans, and 3) fit and proper criteria for directors and management.

- **Related Parties:** There is no clear definition of related parties spelled out in the law or regulations in force.

- **Alternate Delivery Channels**. There is no legislation or regulations in place covering alternate delivery channels, such as mobile phones or agents, to allow expansion of coverage and promote greater financial inclusion. While it may have been appropriate to allow these channels to start operating without detailed regulations in the initial phase, as they have grown to represent a sizable share of the payments market, it will be important to provide some legal and regulatory clarity to existing and potential providers and users.

- **Fines:** Many fines are enumerated in Emalangeni in the law. These amounts become eroded over time by inflation and cannot be increased without a cumbersome change in the law. In some cases the fines represent minimums, but in others they are maximums. It would be better to have such amounts stipulated in rules or regulations if legally permissible.

- **Financial Literacy and Consumer Protection:** The CBS needs to issue appropriate rules and regulations governing market conduct of banks and ensuring consumer protection**.** If required, the FIA 2005 should be amended to give the CBS the authority to regulate market conduct and consumer protection. While some aspects may be covered by the draft Consumer Credit Bill**,** this would be restricted to credit only, and below a specific threshold, while consumer protection should apply to other areas such as payments, savings and to all credit. The areas that require attention are: 1) transparency of pricing information, 2) effective and speedy alternative dispute resolution mechanisms, 3) financial literacy to strengthen consumer awareness and protections.

iv) Anti-Money Laundering and Combating the Financing of Terrorism Rules

183. Given the lack of implementing regulations or guidelines for the Money Laundering and Financing of Terrorism Prevention (MLFTP) Act, and the relative recent inclusion of some of these Designated Non-Financial Business Professions (DNFBPs) in the AML/CFT framework, more work needs to be done to identify the DNFBPs at the highest risk for money laundering and/or terrorist financing, and devoting resources to training of the supervisor and awareness raising of the obligations to those sectors. This includes:

- **Implementing Regulations or Guidelines for the MLFTP Act.** Even though the MLFTP Act was passed in to law in September 2011, and came in to force in March 2012, there are still no implementing regulations or guidelines for institutions to better understand their obligations and bring the Act in greater compliance with the international standard. Issuance of these regulations or guidelines will be high priority.

- **Conducting an AML/CFT National Risk Assessment.** The international standard now requires countries to identify, assess, and understand the money laundering and terrorist financing (ML/TF) risks within their jurisdiction and take actions and apply resources to mitigate such risk, based on a risk-based approach. The updated standard allows for a great deal of flexibility in application of AML/CFT measures if a country can prove certain sectors, products, or clients are low risk from an AML/CFT perspective. A country is only allowed to take advantage of this flexibility if a credible risk assessment is provided as evidence.

- **DNFBP Risk Prioritization, Training, and Awareness Raising.** While the MLFTP Act includes all categories of DNFBPs as required by the international standard, more work should be done to identify the DNFBPs at the highest risk for ML/FT, and devoting resources to training of the supervisor and awareness raising of the obligations to those sectors.

Saving and Credit Institutions

184. To improve upon the identified gaps in the marketplace for MFIs, SACCOs and microlenders the following changes are needed in the financial sector:

- **Develop and implement the Micro Finance Policy to support an institutional strengthening program for SACCOs & MFIs.** Given the high costs of banking services, these organizations if strengthened could serve more people and compete with banks in the retail market.

- **Allow agent banking among banks and savings and credit institutions.** Transaction costs could be reduced and convenience increased if financial institutions can leverage existing footprints of banking agents.

- **Study the impact of community development funds.** Several lenders are concerned the community development funds could be inadvertently destroying a culture of repayment of loans by giving soft "loans" that do not need to be repaid and crowding out the private sector by lending to people that are not in dire need. The actual affects need to be further researched.

- **Revise the FSRAA 2010 to clarify SACCO's licensing protocol and how MFIs and consumer lenders are defined and subject to FSRA rules and oversight.** In addition, as the SACCO specific legislation, separate from other types of cooperatives is issued, MFIs can be incorporated in this legislation.

- **Improve the existing Guidance Notes for SACCOs.** The initial Notes could improve the operations of SACCOs by delegating more power to the board from the AGM, reducing reporting burdens for the smaller SACCOs and simplifying the capital adequacy requirements from three into a single ratio.

- **Institute capacity to repay and loan analysis guidelines for lenders.** As additional credit providers enter the market and competition increases, unsavory practices and debt burdens for consumers could grow. Expanding the scope of the credit bureau and implementing a credit registry can help the private sector and regulators view consumers' debt burden after the debt has been take on. Ensuring that lenders have policies to assess a borrower's capacity to repay can also help borrowers and lenders up front.

- **Aid the development of a competitive banking environment by implementing a community banking license.** The intention of such license would be to improve competition by expanding permissible activities such as the range of savings products, direct access to the payment system and safety net systems for MFIs, SACCOs and the building society via a community banking or tiered licensing structure.

    - To aid financial stability, inclusion and diversity of the banking system, authorities may introduce a community banking licensing framework. The new licensing framework could be structured to address 1) large cooperatives and mutuals, 2) MFIs needing to access funding, and 3) the potential for mobile money. Depending on the powers and activities allowed, strong prudential standards (e.g., 10 percent capital to total assets, 15 percent liquidity), would be required and better prudential oversight. There are examples from other jurisdictions (e.g., Mexico, Colombia) of niche or community banking licenses that allow new entrants to innovate via lower initial startup capital requirements while not jeopardizing stability as capital adequacy ratios and prudential oversight are maintained.

      In addition, as is the case in Kenya, South Africa, UK, Paraguay, and so on, there are opportunities to introduce a two-tier licensing system in Swaziland for the healthy SACCOs, MFIs, and building society to provide an avenue for expanding financial inclusion levels and competing with banks. In other markets well-run mutual or cooperatively-owned financial institutions have been shown to add diversity to the financial system, have lower fees and better rates of interest on loans and savings thus benefiting consumers and adding competitive pressures on exiting participants to moderate fees.

      In exchange, SACCOs, building societies and MFIs could offer demand deposits, current accounts, emoney, unsecured lending, usage of the credit bureau, direct access to the payment system, access to central bank lending, and so on. However, regulatory arbitrage between this license and a traditional banking license would be muted by a moderately higher capital ratio given the limited access to outside capital and market focus, a prohibition from being a primary dealer in the securities market and/or a lower limit to the largest obligor to reduce large borrower exposure. Under the license an entity may be either a cooperative, mutual, not for profit, private or publically traded company. Proportional compliance and supervision would be a key aspect of the license. Examples of this could be in AML/CFT (subject to a national risk assessment), and prudential reporting.

    - The first part of the framework would affect the building society and larger SACCOs that should be required to be licensed under the top tier license. Better managed SACCOs would be allowed to opt in.[49] Organizations in this top tier should have the regulatory authority to offer modernized financial products but they should not be forced to offer them. While deposit insurance is not being recommended as part of these reforms because of the need to first strengthen SACCO supervision, it could be a logical next step.

[49] As pre-requisite, those SACCOs that are insolvent or weak need to be strengthened, merged or liquidated prior to being licensed under any new framework.

- Secondly, this community banking license would create regulatory space for community-oriented financial institutions such as, MFIs to aid them in attracting less expensive retail deposits which will aid the growth of MFIs and expand financial access. This recommendation is largely in-line with the Ministry of Finance policy paper from August 2014.[50]

- The third and final part of the revised licensing regime is to provide for a specialized electronic money provider license. This would formalize the existing e-money framework which prohibits such organizations from intermediating funds, requires a 1 to 1 liquidity backing, and the liquidity must be held in CBS supervised banks or KOS securities. However, such firms would be allowed to mobilize electronic deposits up to a maximum (e.g., E 15,000), pay interest on such deposits, and be eligible for deposit insurance once it becomes available.

SMME

185. Closely linked to the activities of savings and credit activities is the potential to improve financial services to SMMEs. Below are the recommendations for SMME finance.

- **Streamline government support of SMME market to avoid costly duplication of efforts**. The Government is investing in at least four different SMME credit providers as well as support services via SEDCO, Swaziland Investment Promotion Authority (SIPA), SMME Unit at the Ministry of Commerce, Industry and Trade, Swaziland Tourism Authority (STA), and local University. Sixteen out of 17 Ministries are involved in at least one SMME-related initiative. Fragmented contributions result in investments below E 20 million, and small, potentially undercapitalized, credit providers. Coordination in loan administration, collection and funding activities would improve efficiency and free additional resources for SMME funds. As a starting point a mapping of SMME initiatives should be completed.

- **Revise existing partial credit guarantee schemes along the lines of international best practices and broaden which institutions can access them (that is, MFIs, SACCOs and development finance institutions in addition to banks).** For instance, allowing non-bank financial institutions to participate in the scheme would enable access to these schemes for the main SMMEs credit provider. Besides, simplified application and payout procedures may revive interest in the programs. Financial institutions as well as organizations representative of the private sector shall be involved in the revision process to ensure that the products developed better match the needs of the market. As part of the revision process there will be any analysis of how funds in the schemes can be re-allocated, new funds brought in to increase the size of the schemes and ensuring an enabling legal framework for such a fund. Effectively designed partial credit guarantee schemes such as the ones in Chile are associated with a 14 percent higher probability for small firms to get a loan.

[50] The title of the paper is "Making Microfinance Work in the Kingdom of Swaziland". One significant area of variance is that we are not recommend the establishment of a Microfinance Funding Agency as these functions are duplicative to what private sector can provide and focus of on external funding of MFIs will limit savings mobilization.

Credit Reporting

186. If financial institutions are unable to assess the riskiness of potential borrowers, which is often the case for SMMEs which have weak records and accounting, no degree of partial risk coverage, training, and so on, is sufficient to expand a loan portfolio to the new area. Below are recommendations for credit reporting:

- **The Consumer Credit Bill in Swaziland needs to be designed for the future.** This includes: i) designing the framework to the different size, diversification of credit products and informational needs in Swaziland vis-a-vis South Africa, ii) capturing relevant information to the credit market in Swaziland, iii) mandatory provision to contribute data might affect the natural development of the industry, iv) a clearer and broader role for the registrar of credit, v) free annual access to data by consumers, and vi) a stronger consumer protection environment.

- **Address informational needs in the SMME space to further development of SMME financing.**[51] Additional data from non-financial institutions should include, where applicable: i) SMMEs business suppliers providing trade credit[52], ii) Customers providing prepayments, and iii) Other institutions involved in the external financing of SMMEs including trade credit insurers, credit rating agencies and credit reporting service providers (CRSPs). Such entities do not provide the financing themselves, but the services they provide (e.g. information, guarantees) serve as an input for those parties that do provide financing.

- **Develop a vision document and share such vision with the potential CRS participants.** In developing a vision document authorities should take into consideration the scope of CRS including participants and potential authorities involved to clearly define the role of the authorities and the role of the data providers and CRSPs in the development of CRs in Swaziland. The document should look not only into aspects that would lead to a broader financial inclusion in a responsible manner but also look into aspects that contribute to financial stability as it is the smooth flow of credit information also to supervisors, mainly CBS and FSRA but also involves all relevant authorities.

- **Development of CRS should take into consideration the following:**

    - Role of authorities (development, oversight and data users);
    - Scope of data not limited to consumer lending but also SMME;
    - Seek ways to ensure participation of all relevant data providers;
    - Consumer protection framework; and
    - Establish a clear, predictable non-discriminatory legal and regulatory framework.

[51] When commercial credit reporting works properly, creditors can rely less on relationship lending and soft information, and more on facts and fact-based analyses. These arms-length lending technologies open the possibility to all types of non-niche creditors to also engage in SMME lending. This not only expands the menu of potential funding options for SMMEs, but may also bring a greater diversity of financing products, repayment schedules and other relevant elements.

[52] This way of financing is provided by supplying the merchandise/services in advance of requiring payment. It typically consists of an open line of credit and is normally unsecured. Repayment period varies widely depending on the type and size of the firms involved, although rarely does it extend to more than a few (2-3) months.

- **Conduct research on the implications of mandatory data contribution;** CRSPs might face certain challenges in enforcing a mandatory provision to collect data from different creditors. Mandatory data contributions need to be supported legislation/regulation and are most often association with credit registries which are utilized by public authorities to monitor the health of the financial sector and institutions. In contrast, voluntary data contributions are most often associated with credit bureaus; however, there can be blend situations where usage of credit bureau information is mandatory or highly punitive for not using it. The analysis should take into consideration the potential effect on; i) data quality, ii) conflict of laws between consent clauses and mandatory provision of data submission, iii) competition in the CRS and iv) compliance enforcement by the overseer on non-regulated institutions.

- **Organize a discussion forum with other countries in the region to learn about their experiences in developing a CRS**. Given the nature of integration of the region, the existence of South African banks financial institutions and even CRSP operating in Swaziland, exchanging ideas between authorities could lead to designing a suitable framework for the country.

Payment Systems and Digital Financial Services

187. Despite notable advances that have been made in modernizing the payment system in Swaziland, additional work is still needed to improve the payment system. Recommendations for the payment system and digital financial services include:

- **Improve the settlement of securities and management of collateral in the RTGS system.** As prerequisite of improving the depth of capital markets, systems that support the collateral management and settlement of securities are needed.

- **Establishing a disaster recovery site to ensure adequate business continuity for the critical systems for both CBS and Government**. Mission critical services of the CBS and for the national economy, such as the operation of the payment system, need to have fully-fledged disaster recovery plans and sites that are frequently tested.

- **Revised the access criteria and governance structure of payment systems.** The current payments infrastructure is limited to commercial banks and re-enforces their market dominate position and pricing of retail banking services. Expanding access and governance opportunities to other non-banks financial intuitions can aid in promoting competition.

- **Review the legal and regulatory framework for payments.** The NCSSA should be reviewed/revised to ensure adequacy in the oversight powers of the CBS for payments, definition of both netting and moment of finality for payments, support for full cheque truncation, and the development of the legal and regulatory framework to facilitate innovative payment mechanisms including who can access the payment system, e-money, mobile payment services, agency banking, and their oversight.

- **The lack of full interoperability in the ATM and POS networks will continue to delay the achievement of efficiency and ease of access in the card payments channel.** As the lead participant in the SADC Payment Systems Project, the CBS should step up efforts in exploring how this regional project can be leveraged to achieve full interoperability of the card payments stream in Swaziland. Participation of all card issuing institutions and innovative payments service providers in this regional initiative would be a prerequisite. Hence, consideration should be given to establishing a collaborative platform for engaging with both bank and non-bank service providers.

- **CBS should take the lead in setting the direction for interoperability of payments and in collaborating with a range of financial institutions on the possibility of establishing a national switch. .** There is scope for widening the collaborative platform for retail payments development in general, given the entry of non-bank players in the retail innovative payments space.

- **Strengthen the regulatory framework governing the operations and oversight of money transfer operators (MTOs) to mitigate potential risks to the financial system and to consumers.** A framework for the regulation of remittances needs to be developed in accordance with the applicable standards in this area, namely the CPSS-World Bank General Principles for International Remittance Services which are designed to raise awareness on consumer protection issues; create proportionate legal and regulatory framework; establish competitive market conditions and governance/ risk management practices. Given some of the negative market practices associated with this market such as exclusivity clauses and the fee structures, knowledge enhancement workshops for the regulatory authorities will be essential in understanding the market activities and in developing an appropriate regulatory framework.

- **Move to full electronic delivery of payments for new pensioners and attempt to migrate existing pensioners to reduce the risk of transporting cash and the cost of services in rural areas.** While the planned introduction of new systems within Government will address some of these challenges, it will be important for Government to ensure that all business processes are reengineered before they are automated in order to achieve efficiency. The General Guidelines for the Development of Government Payment Programs may offer help in this regard.

- **Implement the SIRESS to improve efficiencies and reduce transactions costs for cross border payment among SADC countries.** Seven of 15 SADC member countries have implemented the system which has the potential to support the scaling up of cross-border P2P payments. With the right volume of traffic (from high value, credit and debit payments) and the full participation all member countries significant efficiencies can be gained.

- **Promote competition in the mobile money by allowing additional MNOs to enter the market.** By having only one MNO in the market there is little incentive for it to be as efficient and innovative as it otherwise might be.

- **Resolve lack of clarity and certainty in terms of regulation to give new impetus to the development of the market for mobile money.** Regulatory uncertainty is reported to be at the root of low promotion of mobile money accounts as low-cost alternatives to conventional bank accounts (FinMark 2015). To address this issue, the CBS in concert with MNOs and other relevant stakeholders could develop and formalize guidelines and policies to clarify (i) the range of admissible use for mobile money, as well as (ii) the requirements associated with the promotion of each different digital financial service, in order to ensure an inclusive but also stable financial system.

Capital Markets, Insurance and Retirement Funds

188. One critical challenge in Swaziland is that there is currently an inadequate supply of long term investment opportunities—insurance and retirement funds would hold more Government bonds if available, and also have a keen interest in high quality local corporate debt or equities. Intermediate indicators need to be used to track progress, detailing how it is to be measured and the responsible institutions to collect the required information.

- **Update and improve laws and regulations for insurance, retirement funds and capital markets.** Even though the FSRA is mandated to supervise the NBFIs under the FSRA Act, the relevant legislation for the NBFI sector still vest the authority to the Registrars (insurance, SECCOs, retirement schemes and capital markets) instead of the FSRA. Proposed amendments to the Insurance Act 2005 (IA), Retirement Funds Act 2005 (TFA) and the many new rules in relation to the IA, TFA and Securities Act need to go through the legislative processes through the MOF and appears to be excessively slow[53]. With the rapid growth of the insurance and pensions sectors and their systemic nature, it is critical that these amendments and rules are submitted to Parliament for approval to ensure a sound legal basis for the prudential and market conduct regulation of these sectors.

- **FSRA operational independence can be further strengthened by ensuring it has sufficient financial resources and flexibility in recruiting and managing human resources**. While levies are currently collected from insurance and retirement funds to supplement the subvention by the Government (which is determined on an annual basis), the funding of operations for capital markets and SACCOs has yet to be finalized. According to the FSRA Annual Report 2013, there is still a funding gap for the full range of its operations. Without sufficient financial resources, FSRA would not be able to build the pool of expertise and knowledge that is critical for effective supervision of the NBFI sector.

- **With FSRA's multiple mandates which bring together legacy institutions, there is the risk that processes and procedures are not unified across the various departments and information gaps can occur**. Hence, consistent procedures and processes should be developed in relation to supervisory and regulatory decisions across the board. At the same time, with a broad enforcement mandate, it would be useful in interest of transparency that criteria for FSRA's enforcement program be developed to ensure consistency and effectiveness.

- **FSRA as the integrated regulator for the non**-bank financial sector would need to build capacity to monitor systemic risks. This would include the need to develop capacity to identify,

[53] Besides the necessary amendments to the IA and RFA, there is a long list of new regulations that need to be introduced such as fit and proper criteria, capital adequacy requirements, investment limits, regulation of medical schemes, risk assessment of regulated entities, commission limits, governance, prudential standards for retirement fund administrators.

measure, and analyze potential systemic risks including oversight of credit rating agencies and other types of independent evaluators.

- **Clarify the Insurance Act 2005 so as not to place barriers in the way of micro-insurance product and service providers** such as use of mobile phones as a delivery channel and payment mechanisms that are suitable to needs, risk and budgets of low income households. The current regulatory framework only allows brokers and agents to intermediate insurance. Though the "agent" category is defined very broadly in the law, there is need for more explicit accommodation of third-party client "aggregators" such as retailers, cooperatives and funeral parlors. In this regard, product and service innovation is needed in respect of:

    - Developing new types of products that are suited to the risk needs and budgets of low-income households;
    - Developing bundled insurance products, such as combining other forms of insurance with funeral cover;
    - Finding means of keeping expenses low (so that risk premiums are not overwhelmed by overhead costs);
    - Using partnerships and low-cost channels for collection of premiums, such as mobile money transfers and agent networks.

- **There is the challenge of the need to ensuring accumulated benefits is properly preserved to provide pensions on retirement, and that the payment of pensions and pension annuities is adequately provided in the context of local investment requirement of 30 percent**. In this regard, the policy approach for retirement fund managers would need to carefully balance the interests of pension fund members – and their legitimate interests in maximizing their pensions – and the interests of the economy**.** In a small economy it is likely that an investment strategy that best serves the interests of the pension fund members will have a relatively small proportion of funds invested domestically – simply because of the limited range of investment opportunities available and the need for diversification.

- **While the supply of high-quality local debt and equities will grow over time, it is important not to compromise the interests of pension fund members and annuity owners, who are best served by diversified portfolios**. Hence, asset management strategy for pension funds should follow a number of basic principles (prudent management principle) to secure an acceptable combination of return and risk. Local asset requirements should be carefully considered in the context of assets available in the domestic market and not compromising the interests of savers. It would be useful therefore to clarify in the regulatory framework the responsibility for investment policy through introduction of a "prudent person" requirement with regard to the discharge of investment management functions.

- **The cooperative and information arrangements between the FSRA, CBS and other relevant agencies** can be further clarified and enhanced to ensure that the monitoring of macro-prudential risks and financial stability by the CBS are effectual. Examples of information that would be important for macro-prudential monitoring purposes are reports on the performance of financial services providers, reports of credit institutions, lending to securities firms, sharing of information on violations and prompt corrective actions as on-site inspection is a concern. Capacity building is of critical importance as the lack of technical skills and the limited staff size at the FSRA hinder the quality of regulation and supervision of the NBFI sector in Swaziland.

- **Consider consolidating pension schemes of all para-statal entities to take advantage of economies of scale and maintain cost efficiency**.

- **Consider the introduction of mandatory motor vehicle insurance**.

- **Hiving off of SSX from FSRA.** Efforts should be taken to transition the SSX out of the FSRA into an autonomous entity as FSRA as the supervisor should not own nor manage the SSX to ensure independence and objectivity.

- **Improve the functioning of the government bond market.** Debt markets develop first, and may be followed by equity markets. The government bond market provides an important foundation for the establishment and growth of the corporate bond market, providing a yield curve which is central to the pricing and trading of other debt securities, and a regular flow of issues to support development of underwriters and market-makers. In this regard, a measured and analytical approach are required for development of government bond market where some key pre-conditions/pillars need to be developed in parallel:

    - Develop an efficient government cash management system that can accurately predict government funding needs.
    - Improve on providing reliable forecasts of aggregate liquidity in the banking system and data on money market activity, price and trading on daily basis.
    - Develop, document and communicate debt management strategy.
    - Continue to publish issuance calendar and maintain active communication with market participants.
    - Review the policy of listing government bonds on the SSX.
    - Develop and strengthen the short end of the benchmark yield curve.
    - Implement primary and secondary market architecture that provides appropriate level of transparency.
    - Medium term objective to move away from funding from a captive market and develop a diversified investor base
    - Improve depositary and settlement system for government bonds.
    - Develop legal framework for Repos.

- **Conduct a market needs assessment for a domestic securities market.** Development of the domestic equities market in Swaziland should take into account the inherent problems for small markets because a central feature of the equities market is economies of scale. A first step would be an analysis of companies that might consider listing, and the quality of their accounting, auditing, and governance. A structured needs assessment to be conducted in the first phase would help to determine the demand for the stock market and guide the authorities on the pace of development.

- **Enhanced financial consumer protection environment** and education of consumers. Financial education and awareness-raising of investments in the insurance/ retirement funds/securities markets are necessary to provide the basis for public understanding of savings/investment. It is unlikely that ordinary citizens, who have not yet become accustomed to using banks, will be likely to invest in more complex insurance products and capital markets. Hence, the financial awareness program for Swaziland should therefore be integrated and long term.

- **Develop a robust financial reporting and audit framework as necessary foundation for capital market development.** There are weaknesses and deficiencies that were highlighted in the ROSC for Accounting and Auditing undertaken by the World Bank in 2012, which must be addressed. Some of them are discussed below:

    - Private companies that may be public interest entities in terms of size and various qualitative measures may elect not to appoint an auditor. Most legislation and regulations governing financial reporting in Swaziland require financial statements to be audited. The legislation and regulations governing financial institutions, insurance companies, and retirement funds require auditors of such entities to be approved by respective regulators. The Companies Act exempts a private company, which does not exceed five shareholders and share capital of E 50,000.22 (estimate US$6,700), from appointing an auditor. This exemption creates a financial reporting weakness since it limits accountability to the entity's stakeholders. The financial statements of private companies are not readily available to the public.

    - There are weak monitoring and enforcement mechanisms for compliance with accounting and auditing standards. The regulators — Central Bank of Swaziland and FSRA are required to monitor and enforce compliance in the preparation of financial statements and application of International Financial Reporting Standards (IFRS) by regulated entities under their regulatory purview. However, these regulators do not have in-house IFRS (International Financial Reporting Standards) expertise and rely on external auditors for checking compliance with IFRS. However, these regulators do not have expertise to review IFRS compliance. They normally rely on the reviews done by external auditors. On the other hand, Swaziland Institute of Accountants does not have responsibility for monitoring IFRS compliance even for public interest entities. Therefore, due to weak monitoring, sanctions — stipulated in different legislation and regulations — have never been imposed on companies that do not comply with IFRS application. Lack of monitoring by regulators increases systemic risks of noncompliance, resulting in poor-quality financial reporting. Overall, this limitation negatively impacts on the quality of financial reporting.

    - The Retirement Funds Act 2005, Insurance Act 2005 and Securities Act 2010 do not require entities falling under these laws to prepare and issue a half-yearly reviewed financial statement. The requirement of half-yearly reviewed financial statements is a widely accepted practice aimed at enhancing accountability. External auditors should review the interim financial statements of such entities before they are issued. Hence, legislation and regulations relating to financial institutions, insurance companies, retirement funds and capital market intermediaries should be revised to require issuance of reviewed interim financial statements and to ensure there are no contradictions among the various legal stipulations. To enhance accountability, financial institutions, insurance companies, retirement funds and capital market intermediaries should be required to issue interim financial statements that are reviewed by external auditors.

Annex 3: Technical Note on the Legal & Regulatory Environment for Financial Services in Swaziland

Introduction to Legal & Regulatory Framework

189. As part of a process to develop a multi-year and all-encompassing strategy for the financial sector, the Central Bank of Swaziland and the Ministry of Finance requested support from the World Bank. A team of seven international experts (inclusive of several people with legal backgrounds) from the World Bank with expertise in banking, capital markets, insurance, payments, credit reporting, SACCO/MFIs, digital financial inclusion and small and medium enterprises worked together with financial authorities and the private sector to analyze the current legal/regulatory environment and supply of the financial sector in Swaziland.

190. In the absence of a recent Financial Sector Stability Assessment for Swaziland, this Technical Note on the Legal and Regulatory Environment together with a Technical Note on the supply-side and demand-side FinScope Consumer Survey 2014 provide a strong analytical framework to underpin the Government of Swaziland's Financial Sector Development Implementation Plan for 2015-2018.

Banking Sector

191. The mission statement of the Ministry of Finance has as one of its primary objectives "to provide a sound regulatory framework for the country's financial sector." Moreover, the Financial Regulation Department of the Central Bank of Swaziland has among its objectives "promote competition, efficiency, public confidence, safety, stability, prudence and integrity in the financial sector". The key relevant laws which govern the banking sector are:

- The Central Bank of Swaziland Order, 1974 (as amended) (CBSO)
- The Financial Institutions Act, 2005 (FIA)
- The Money Laundering and Financing of Terrorism (Prevention) Act, 2011 (MLFTA)
- The King's Order in Council no. 49 of 1973, which establishes and governs certain aspects of the Swaziland Development and Savings Bank (SDSB, or Swazibank)
- The National Clearing and Settlement Systems Act (NCSSA), 2011;
- The Building Societies Act, 1962

192. In addition, there are a number of By-laws, Regulations, and Legal Notices which govern the banking sector. Many of these legal notices and circulars were issued prior to the enactment of the FIA 2005. While CBS continues to monitor compliance with these regulations and circulars (and banks continue to comply), they could be subject to legal challenge, and need to be re-issued as by-laws under the FIA in order to be legally enforceable[54]. These regulations cover important matters such as insider lending, lending limits, and so on. There is, moreover, a lack of clarity in the market with respect to the jurisdiction of the CBS or FSRA for certain credit institutions and the Swazi Building Society. More generally, it appears that the legislative and regulatory framework was not fully reviewed and updated in the light of the Financial Institutions Act 2005, the Financial Services Regulatory Authority Act 2010 and the Companies Act 2009, and it is important that the KoS undertake a

[54] Some instances, old circulars and legal notices have been amended subsequent to enactment of the FIA, and are considered to be legally enforceable

complete review of existing primary and secondary legislation with a view to ensuring consistency and comprehensiveness.

193. By-laws, Regulations and Legal Notices issued and gazetted include the following:

- Legal Notice on the Prescription of Reserves, 2002;
- The Computation of Risk Assets (Amendment) Notice 1996, which prescribes risk asset weightings for different classes of bank assets;
- The Prescription of Minimum Liquid Assets Notice, 2003, which prescribes minimum liquid assets of 10 percent for Savings and Development Banks, and 13 percent for all other banks;
- The Prescription of Reserves Notice 2003, which prescribes minimum reserves of 2.5 percent of total liabilities to the public;
- Notices regarding the Approval of Liquid Assets (1996; 2002; 2003);
- The Deposit Taking Business Regulations Notice, 2008, which defines deposit-taking businesses, and require persons engaged in deposit taking to apply for authorization from the CBS;
- The Lending Limit, Aggregation and Attribution Regulations, 2001 which caps aggregate exposure (as defined) to 25 percent of the unimpaired paid-up capital and reserves, with certain customary defined exceptions (such as loans legally collateralized by cash or government securities);
- The Limitations on Transactions with Insiders Notice, 2001 (see above), which defines insiders, requires Board approval of all insider loans which exceed 5 percent of unimpaired capital and reserves, and places an absolute cap of 25 percent of unimpaired capital (or E 50,000 to directors or related parties; and requires that all such loans be made on an arms-length basis. The regulations also place overall ceilings on all loans to insiders (100 percent of capital for benefits or compensation and 200 percent in aggregate to all insiders);
- Foreign Exchange Exposure Limitations Regulations, 2001, which limits open positions in a single currency to 10 percent of unimpaired capital and reserves, with a cap of 25 percent overall for all foreign exchange positions. The regulation requires boards to adopt written policies and ensure accounting and internal control policies regarding such exposures.

Licensing and Supervisory Authority

194. Under the Central Bank of Swaziland (CBS) Order, 1974 (CBSO), the Central Bank of Swaziland has, among its Principle Objects, to "supervise banks, credit institutions, and other financial institutions to the end of promoting a sound financial structure". The Governor of the CBS serves as Registrar of Financial Institutions, and may appoint a deputy registrar. More specifically, under this Order, the Bank is authorized to, among other things:

- Set reserve requirements for banks;
- Set and regulate maximum and minimum interest rates on deposits and credit, fees and commissions, set credit ceilings, and determine means of calculation and disclosure of interest rates;
- Establish an ombudsman within CBS to govern disputes between financial institutions and their customers;
- Organize and supervise clearing houses for payments;

- Impose fines and levies on financial institutions which fail to comply with provisions of the Order or notices issued under the terms thereof.

195. The terms, conditions, and procedures for applying for a license as a financial institution are spelled out in the FIA 2005.[55] The FIA 2005 specifically prohibits local and foreign financial institutions from conducting banking business in Swaziland without a license granted by the CBS. Applicants must submit an application, accompanied by documentation, including Articles of Association, a 3-year business plan, names and particulars of the chairperson, directors, partners and CEO. A foreign bank must provide evidence that it is subject to comprehensive supervision on a consolidated basis by the home supervisor, who must provide written consent for the establishment of the Swaziland affiliate. The CBS is authorized to conduct whatever investigations it deems necessary on the history and financial status of the applicant, the character and experience of its managers, its capital adequacy, and so on. The licensee must be a company registered in Swaziland under the Companies Act of 2009. The FIA 2005 imposes a liability for all damages sustained by financial institutions on directors, CEOs, managers or other officers of financial institutions who knowingly violate any laws, regulations or By-laws or commits gross negligence or intentional wrongs in the course of their duties.

196. The CBS has the authority to impose additional conditions on the licensee, including designating places where business may be conducted, and prescribing or restricting activities that may be carried out. Any person acting as an agent of a financial institution not licensed in Swaziland, must obtain a license from the CBS. No person other than a licensed financial institution may use the word “bank” or any of its derivatives in the name or description of the business.

Permissible Activities

197. Under the FIA 2005, “banking business” is defined as the business of receiving funds from the public (demand or time deposits, placement of bonds, certificates, and so on) and the use of the funds in whole or in part for loans, advances, investments, or any other operation authorized by law or customary banking practice at the risk of the person doing such business; or any other activity recognized by the Central Bank of Swaziland as customary banking practice which may be authorized by the CBS. The Minister of Finance, in consultation with the CBS, may define “deposit-taking business”, and no person shall, without the prior written authorization of the CBS, carry on deposit–taking activities in Swaziland.

198. The FIA 2005 contains a number of prohibitions on the activities of licensed financial institutions. The following may not be done without prior written approval of the CBS:

- Acquire more than 20 percent of the voting share of the capital;
- Enter into a merger or consolidation;
- Open a new place of business in or outside of Swaziland or change existing place/s of business;
- Increase or reduce its authorized share capital, or reduce its paid-up capital; foreign financial institutions may not reduce their assigned capital, or transfer the whole or any part of its assets in Swaziland;
- Alter its name or change its articles of association;

[55] The FIA 2005 does not apply to Building Societies, Co-operative societies, or insurers. It applies to the Swaziland Savings and Development Bank (SWDB) to the extent that it is not inconsistent with any law regulating the SWDB.

- Form or participate in a conglomerate, as defined; (if authorization is granted, the CBS may impose any number of restrictions on control, exposures, related party transactions, and so on).

Supervisory Powers, Resources and Capacity

199. The FIA 2005 authorizes the CBS to conduct regular on-site examinations of the operations of a licensed financial institution to determine if: i) it is in a sound financial condition; ii) the provisions of the FIA 2005 are being complied with; and iii) its business is being operated in a prudent and sound manner. CBS is also authorized to examine any affiliate of the financial institution. In addition, the CBS shall examine any bank or financial institution on application by 20 percent of its depositors, or depositors holding at least one-third of total deposits. Financial institutions must produce all books, minutes, accounts, documents, and so on, reasonably required by the examiners.

200. Bank examiners are subject to confidentiality of information gained through their work. However, the CBS may publish or disclose information gathered under the FIA 2005, provided that it might not publish information pertaining to an individual financial institution or customer without consent of the concerned party. The CBS is also authorized to share information with international regulators. An MOU has been signed with the South African Reserve Bank which allows the two regulators to share information, and the SARB has started to hold supervisory colleges for the large, internationally active South African banks, which include the parent banks of the three Swazi subsidiaries. Information is shared with SARB on a quarterly basis. In a recent FSAP conducted in South Africa, the SARB was assessed as fully compliant on Consolidated Supervision in the BCP assessment.

201. The Central Bank of Swaziland Bank Supervision Department (BSD) has taken steps in recent years to strengthen banking supervision, but there is scope for further improvement. It would appear to have adequate human and financial resources to perform its functions. However, the recent secondment of staff to the FSRA may have negatively impacted the CBS's capacity. On-site inspections of banks have been infrequent in recent years. The BSD has replaced the previous on and off-site supervision model with a "total supervision model", which makes officers of the BSD responsible for both functions. It has further introduced a Risk-Based Supervisory (RBS) Framework and begun implementing RBS. Three of the four banks have undergone inspections under the RBS approach, with the fourth bank scheduled for 2015. Challenges include, among others:

- CBS's legal position and independence may potentially be compromised by the involvement of the Ministry of Finance in appointing CBS board directors, promulgating regulations, granting and revoking bank licenses, and hearing appeals against supervisory decisions;
- On-site examinations need to be more frequent, focused, and timely;
- There are gaps in the prudential framework, including on outsourcing, corporate governance and enforcement;
- Important prudential regulations that were issued prior to the enactment of the FIA need to be re-issued as by-laws in conformity with the FIA 2005;
- While the CBS is given considerable authority under the FIA, internal guidelines are needed on enforcement tools and the conditions for their use.

202. The CBS has a number of remedial enforcement measures at its disposal if it finds that the financial institution or any of its directors, officers, employees, or shareholders has engaged in unsound practices or violated provisions of the FIA 2005, regulations, by-laws or agreements to which it is subject. These include powers to:

- Issue a written warning;
- Conclude a written agreement for a program of remedial actions, which may be extended or made permanent;
- Impose administrative fines of a maximum of E 25,000 per day;
- Issue a cease and desist order;
- Issue an order to suspend employees engaging in violations for 30 days;
- Revoke the banking license.
- Provide emergency liquidity to commercial banks and act as a lender of last resort.

203. The CBS has used its intervention and liquidation powers successfully to restructure or resolve three distressed banks in the past 25 years. That said, there is a need to further develop contingency planning and preparedness to deal with potential crises in the following areas:

- **Liquidity support**: The CBS has powers to lend to banks for periods up to one year on such terms and conditions as it may determine. However, to date CBS has only developed intraday and overnight "Lombard" facilities backed by standard and pre-determined collateral (government securities) While South African subsidiaries may rely on their parent banks for liquidity support in normal times, a liquidity crisis could be caused by regional stresses that may preclude such support. The CBS should therefore strengthen its liquidity support tools by expanding and extending the overnight facility to provide emergency liquidity assistance during a liquidity crisis, and define the terms and acceptable collateral of a lender of last resort facility;

- **Prompt Corrective Action (PCA)**: While the CBS has at its disposal the usual tools for managing banks and minimizing risks (examinations, cease and desist orders, the ability to appoint advisors and curators, license revocation and liquidation), none of the tools are mandatory. Mandatory PCA can help ensure timely intervention in deteriorating banks, and can minimize legal challenges and political interference by requiring CBS action;

- **Institutional Arrangements**: There are currently no arrangements in place among the CBS, FSRA and Ministry of Finance for joint action in the case of a financial crisis, and no deposit insurance scheme is in place.

Prudential Norms

204. The CBS is authorized to make By-laws on the following:

- Minimum capital requirements and computation of risk-weighted assets;
- Classes of financial institutions;
- Minimum liquid assets, and the distribution among different types of liquid assets;
- Prudential rules for the aggregation and distribution of loans;

- Loan classification and minimum provisioning requirements for non-performing loans (NPLs);
- Reporting formats and content;
- Prudential rules for acquisition of real property;
- Minimum shareholding by Swazi nationals and time limits for localization of senior management.

205. CBS also has the power to make By-laws to ensure prudential rules, reporting and requirements of each member of a conglomerate, or the conglomerate as a whole.

206. The FIA 2005 prescribes minimum capital requirements for banks, which cannot be less than the greater of minimum capital as prescribed by By-laws, 5 percent of liabilities, or 8 percent of risk-weighted assets. CBS can increase these percentages through the issuance of By-laws. The FIA 2005 also requires financial institutions to maintain an adequate reserve for losses due to negligence or dishonesty.

207. The FIA 2005 also specifies limitations on risk concentrations and exposures, including the following:

- Single borrower exposures are limited to 25 percent of unimpaired capital and reserves (unless guaranteed by the KoS, other governments approved by the CBS, or cash collateral);
- No loans shall be made which are secured by shares of the bank or other licensed financial institutions;
- Loans to directors or related parties in excess of E 50,000 are prohibited;
- Loans to staff in excess of one year's salary are not permitted;
- Banks may not hold shares in any financial, commercial, agricultural, industrial or other enterprise except as acquired in satisfaction of debts due.
- Banks must report exposures in excess of 10 percent of their paid-up capital on a quarterly basis. The total of all such exposures cannot exceed 800 percent of capital.

Corporate Governance

The FIA 2005 contains basic corporate governance requirements. The Boards of licensed financial institutions shall consist of between five and fifteen members, 50 percent of whom (including the chairman) must be Swazi citizens. The CEO must be a member of the Board, but cannot be Chairman. Those who are in default on obligations or who have been convicted of a criminal offense are not eligible to serve on boards without the prior written consent of the CBS. If a licensed financial institution's shareholders fail to appoint a board within 61 days of its annual meeting or there is a vacancy for that period which brings the board to below the requisite number, the CBS may appoint a curator who will nominate board member/s. The Board is required to meet at least quarterly. Transactions with directors, shareholders or officers are subject to approval (recorded in minutes) of a majority of independent directors or prior approval by CBS, and must be on an arms-length basis.

Market Conduct

208. There are few provisions related to market conduct in the FIA 2005, and the CBS is not explicitly granted authority to regulate and oversee market conduct of regulated entities, except in the following areas:

- Anti-competitive agreements are barred, and those engaging in such activity are subject to specified fines and/or imprisonment;
- Banks are not authorized to enter into tying arrangements without the prior written consent of the CBS.
- The CBS may regulate interest rates, fees and commissions, and may prescribe disclosure requirements related to interest and fees.
- Under the terms of the FIA 2005, the CBS has established an ombudsman within CBS to govern disputes between financial institutions and their customers.
- If a loan secured by hypothec is made, it must include a statement that the bank or its agent has explained the effect of such hypothecation to the borrower and that the borrower understands the explanation.

209. The FIA 2005 also includes various clauses pertaining to lending secured by movable collateral (loans and advances secured by hypothec), including registration of deeds of hypothecation, the rights and responsibilities of borrowers and lenders, and foreclosure procedures, which allow for summary judgment and seizure.

210. The Consumer Credit Bill of 2015 would remedy many of the lacunae in regulation and oversight of market conduct in the banking system, but only as they pertain to consumer credit under a threshold to be notified from time to time by the Minister. The Registrar of Credit, appointed by the Minister (on the recommendation of the FSRA), would regulate credit providers, credit bureaus, and debt counselors. The bill provides for consumer protection and education, promotes fair & transparent credit markets, and licensing requirements and is tasked with monitoring the credit market. The Registrar is under the FSRA and reports to the Minister.

211. Among other things, the draft bill contains the following provisions:

- It prohibits credit provision, debt counseling, pawn broking, and credit bureau business without a license and prohibits certain credit practices;
- It establishes the Office of Credit Registrar, and outlines the appointment, functions and reporting requirements of the Office;
- It sets forth requirements regarding credit agreements and disputes;
- It regulates charges and interest and the provision of information to customers;
- It establishes licensing requirements, consumer credit information, restrictions on over-indebtedness, outlines required procedures of debt enforcement by repossession, and bans harassment and deceptive advertising;

AML/CFT

212. The AML/CFT system of the Kingdom of Swaziland was most recently assessed by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in 2010. While the KoS

criminalized money laundering in 2001, corruption in 2006, and terrorism financing in 2008, the report found many deficiencies versus the international standard for AML/CFT as established by the Financial Action Task Force (FATF). In light of the recommendations in ESAAMLG report, the country amended the legal framework in September 2011 through the passage of the Money Laundering and Financing of Terrorism (Prevention) Act, 2011 (MLFTP Act), which came into force in March 2012.

213. While the MLFTP Act addresses a number of the deficiencies identified in the ESAAMLG assessment, there are no associated implementing regulations of guidelines for the Act to provide greater detail to accountable institutions of their obligations under the law. The drafting of the implementing regulations should be addressed as a matter of priority to bring the legal framework into greater compliance with the international standard and to ensure that accountable institutions understand their obligations.

214. Furthermore, the FATF Recommendations and Methodology for Assessment have since been updated, and there is a new requirement that countries identify, assess, and understand the money laundering and terrorist financing risks within their jurisdiction and take actions to mitigate such risk, based on a risk-based approach. While the KoS has established an AML/CFT Task Force for developing the national strategy, they have not yet initiated an AML/CFT national risk assessment (NRA) process. This should be a priority for the country to complete, as a there are a number of benefits to conducting this assessment. The updated standard allows for a great deal of flexibility in application of AML/CFT measures which can help further financial inclusion if a country can prove certain sectors, products, or clients are low risk from an AML/CFT perspective. A country is only allowed to take advantage of this flexibility if a credible risk assessment is provided as evidence. The recommendation that Swaziland review and refine customer due diligence (CDD) requirements for branchless banking and mobile money is intrinsically tied to the issue of conducting an NRA given that CDD requirements may only be relaxed in situations where there is proven low risk for AML/CFT.

SACCOs/MFIs & Financial Inclusion

215. **The FSRA is making headway in registering and collecting data on savings and credit institutions**. It has issued guidelines for SACCOs and credit providers and FSRA has begun off-site examination of SACCOs with on-site exams to begin shortly. However, there are several weaknesses and inconsistencies in the current legislative and regulatory framework for savings and credit institutions. This includes:

- There is no legislation for MFIs or clear connection between their trading name and licensed structure, however, this is being reviewed and policy document has been drafted;
- The legislation and regulatory directions for SACCOs is confusing;
- There is a need for a SACCO specific piece of legislation to appropriately
- Permissible activities are not defined in the FSRA's Act 2010 and from a legislative/regulatory perspective it's not clear what services savings and credit institutions can and cannot offer;
- The FSRA is the Registrar of Building Societies but they are not listed as a supervised institution by FSRA;
- In October 2013 the FSRA issued Guidance Notes for SACCOs. In general these norms

meet international best practice but there are several areas for improvement. These include:

- Delegating more power to the board from the AGM;
- Given the size and level of sophistication of most SACCOs a single simple capital ratio is recommended as institutional capital to total assets instead of the current mix of capital ratios. The ratio of core capital to savings and deposits does not correspond to the principal credit and investment risks in SACCOs;
- The statements of income, financial positions and capital adequacy could be improved by reporting of year-to-date ratios instead of the current quarter data which would give a limited picture of health.

216. As part of this review the Financial Services Regulatory Authority Act (FSRAA) of 2010, SACCO Licensing and Reporting Guidance Notes of October 2013, Credit Providers Guidance Notes of February 2014 and the Consumer Credit Bill of 2015 were reviewed. Neither the current Cooperative Societies Act of 2003, Building Societies Act 1962 nor the Pawnbrokers Act of 1894 was available for review and there is currently no legislation for microfinance institutions or consumer lenders.

1. *Licensing and Supervisory Authority*

217. Section 83 of the FSRAA 2010 indicates that the FSRA has licensing and supervisory authority for the SACCO, Building Societies, Insurance, and Retirement Funds and other non-bank financial institutions. However the FSRAA 2010 does not define the types of licenses that it grants and the powers and responsibilities associated with a license. For example, the FSRAA 2010 makes no reference to deposit-taking services.

218. It's unclear if authorized finance services providers are to derive their powers and permissible activities from subsidiary legislation. From Section 83 of FSRAA 2010 this appears to be the case for Building Societies, Insurance and Retirement Funds but not the case for SACCOs.

219. The extent to which the Cooperative Societies Act 2003 currently has any applications to SACCOs is unclear as section 83 appears to sever any link. However, section 37(1)(d) of FSRAA 2010 defines one type of organization that could apply for a license as a "cooperative society registered under the Cooperative Societies Act 2003" thus suggesting a SACCO must be registered under the Cooperative Societies Act 2003 before it can receive a license to offer finance services, but what exactly the license permits a SACCO to do/offer is unclear. The introduction of the SACCO Guidance Note indicates that a SACCO specific bill and regulations will be forthcoming and where hopefully it will be clarified.

220. Schedule 2 of the FSRAA 2010 sets out the types of institutions that are non-banks financial services providers and which fall within the purview of the FSRA. MFIs and consumer lenders are omitted in this list and should be included.

2. *Permissible Activities*

221. Nowhere are the permissible activities defined for "authorized finance services providers" under the FSRAA 2010 since source legislation for insurance, retirement funds, building societies and SACCOs should define permissible activities. However, for SACCOs the FSRAA 2010 specifically indicates the Cooperative Societies Act 2003 is not applicable which leaves the permissible activities

for SACCOs in limbo since are undefined in the FSRAA 2010 and the Cooperative Societies Act 2003 is not applicable. In addition, there is no underlying source legislation for MFIs, consumer lenders or pawnshops to define their permissible activities despite the market acting as if previous restrictions are in place.

222. The Consumer Credit Bill 2015 envisions the following permissible activities of any holders of a credit provider license:

(a) supply goods or services under a discount transaction, consumption
(b) credit agreement hire purchase agreement;
(c) advance money or credit under a pawn transaction;
(d) extend credit under a credit facility;
(e) be a mortgagee under a mortgage agreement;
(f) lend money under a secured or unsecured credit agreement;
(g) accept an assurance or promise made under a credit guarantee; or
(h) advance money or credit to another under any other credit agreement.

223. Primary legislation for Building Societies, SACCOs was not available for review and none exists for MFIs, but we understand that in both cases there are legislative limitations on their ability to offer convenient and attractive deposit products. Likewise, the building society is considering demutualizing to become a commercial bank (yet reference is made in the Consumer Credit Bill 2015 of a mutual bank). As a building society they are not allowed to:

- Hold a reserve account with the central bank,
- Have direct access to the payment system,
- Offer unsecured lending,
- Offer current accounts,
- Offer foreign exchange,
- Borrow from the central bank – this is significant and no other overnight liquidity market exists.

3. Supervisory Powers

224. The FSRAA 2010 lays out a broad set of powers for the FSRA to oversee, issue regulations and take corrective action where needed. While section 70 of the FSRAA 2010 clearly identifies that the FSRA can remove officers of an authorized financial services provider the term "officer" is not defined and it's unclear if "officer" refers to staff, board members or both.

4. Prudential Norms

225. In October 2013 the FSRA issued Guidance Notes for SACCOs. In general these norms meet international best practice. For example, monthly (liquidity) or quarterly (financial statements, capital adequacy, NPLs, investments, loan loss provisioning) reports are required. The key prudential norms in the Guidance Note for SACCOs are:

(a) core capital of not less than E 5,000 (five thousand Emalangeni);
(b) core capital of not less than 10 percent of total assets;

(c) core capital of not less than 8 percent of total savings and deposits; and
(d) Institutional capital of not less than 8 percent of total assets.
(e) at least 15 percent of members' total savings deposits and short-term liabilities in liquid assets

226. SACCO shall assess and provide for loan loss provision for delinquent loans as follows:

(a) 1 percent for a loan classified as performing;
(b) 5 percent for a loan classified as watch (that is, 1-30 days or 1 installment is late)
(c) 25 percent for a loan classified as substandard (that is, 31-81 days or 2-6 installments late);
(d) 50 percent for a loan classified as doubtful (that is, 81 – 360 days or 7-12 installments late); and
(e) 100 percent for a loan classified as loss (that is, over 360 days or 12 installments late).
(f) a restructured loan may be reclassified if a sustained record of performance is maintained for six months or six installments have been made from the date of the restructuring provided no loan shall be restructured more than once in its life cycle.

A SACCO should not invest in non-earning assets or property and equipment in excess of
227. 10 percent of total assets, of which land and buildings shall not exceed 5 percent unless a waiver to that effect has been obtained from the FSRA.

5. Market Conduct & Consumer Protection

228. The FSRAA 2010 has extensive provisions around market conduct which will be augmented by the Consumer Credit Bill of 2015, if enacted. However, despite the FSRAA 2010 being nearly five years old there is no evidence that the Ombudsman role envisioned has been implement and that the current ombudsman role within the FSRA has expanded to beyond its historical role in the insurance sector.

229. The Consumer Credit Bill of 2015 lays out many strong provisions for consumers but negates many of the provisions for SACCOs, the building society and banks should they be able to obtain a supplementary license as a development credit provider. In addition, two of the large credit providers are totally exempt (Fincorp and Swazi Bank) as they are government-owned.

230. Lastly, the Bill does not directly indicate if banks would be subject to the Act or not.

6. Supervisory Resources and Capacity

231. The FSRA is still in its early stages of development. Data on the SACCO sector has only recently become available and still does not include all SACCOs (but does include all of the large SACCOs), data on MFIs is not available and on-site inspection have not commenced. All of this needs to begin as soon as possible while at the same time addressing several insolvent and significantly undercapitalized SACCOs including many of the large ones.

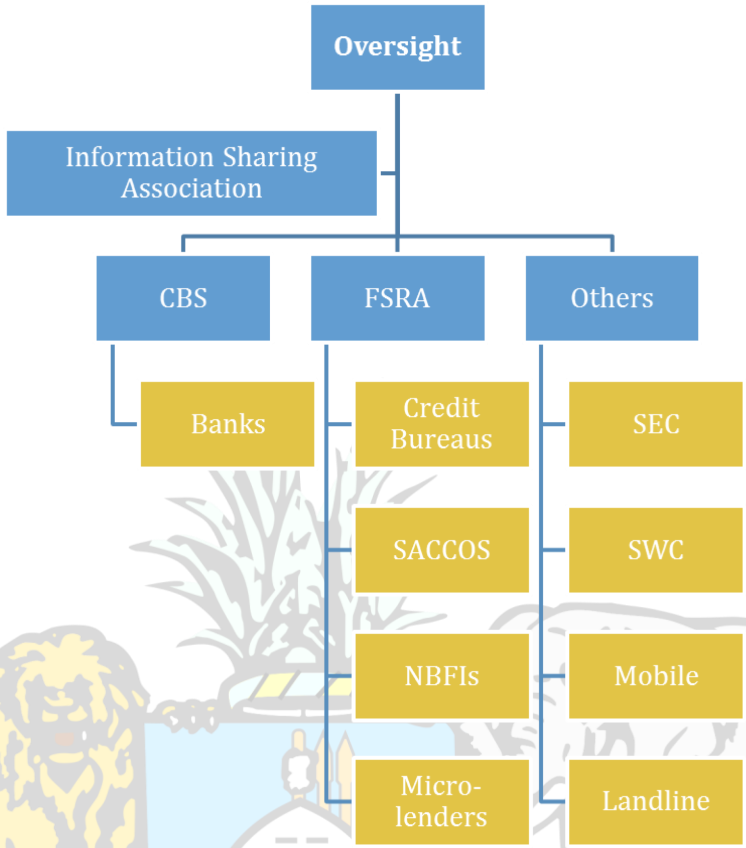
Credit Information[56]

232. **There is no comprehensive legal and regulatory framework covering all relevant aspects of credit reporting.** The Constitution recognizes the right to privacy under section 14[57]. Some provisions on existing laws affect the sharing of credit information between banks and other creditors and between regulators and third parties such as section 20 of the Central Bank of Swaziland Order Nov. of 1974, or section 43 of FIA 2005 which recognizes the duty of secrecy regarding information on individual's financial affairs. There are no laws governing the operational aspects of credit bureaus, limits to access to information, security measures, oversight framework or consumers' rights. The Consumer Protection Bill includes some provisions on credit information sharing and has been submitted to Parliament.

233. **There is currently no supervisory authority in charge of the oversight and regulation of the credit reporting activities.** The only existing service provider in the country is subject to the regulation of the South African National Credit Regulator. In addition the Bank Supervision Division of the CBS carries the responsibility of licensing, regulating and supervising banks and other financial institutions in Swaziland. The Financial Institutions Act 2005 (FIA), provides a legal framework for the regulation and supervision of banks and other financial institutions. The FIA 2005 empowers the Central Bank with the authority to license these institutions. Two kinds of licenses are granted under the provisions of the FIA 2005; these are the banking license and a credit institutions license. In addition the Financial Services Regulatory Authority (FSRA) office of the Credit Registrar, is charged with the supervision of non- banks financial institutions, credit providers, pawn brokers, debt counsellors and credit bureaus[58]. In addition to the Credit Registrar, the CCB establishes the creation of a Credit Bureau registrar and a credit providers association (information sharing association). Figure 3.1 below illustrates the oversight framework based on the current Consumer Credit Bill 2015 and applicable laws in Swaziland.

[56] A full review of the Consumer Credit Bill 2015 is provided in Annex 1.
[57] There is a draft Bill on Data Protection currently under discussion which might further develop this constitutional right in the electronic space.
[58] See section 15 of the Consumer Credit Bill 2015.

Figure 3.1. Oversight of Financial Market as Envisioned in CCB of 2015



234. **At this time there is a Memorandum of Understanding between CBS and FRSA and are seeking additional areas of interest for both institutions to collaborate through the MoU.** Once the Consumer Credit Bill 2015 is passed they will review the MoU and include additional areas that might require collaboration between the two institutions. In such process arrangements regarding cooperation in credit reporting related activities should be taken into consideration. Other authorities such as SERA the regulator for National Resources and Energy Authority regulating SEC and Swaziland Water Services should also participate to the oversight discussions on CRS.

235. **The current legal framework recognizes the duty of secrecy regarding borrowers' information held by creditors regulated by the CBS**. Section 20 of the Central Bank of Swaziland Order Nº 6 1974 and Sections 43 and 44 of Financial Services Act (FIA), 2005 establishes the duty of secrecy which impedes the sharing of information between different institutions including a CRSP.

236. **The main impediment to share credit information, in particular positive information stems from the current laws on confidentiality of consumer information**. Section 43 of the Financial Institutions Act (FIA), 2005 establishes that (1)*Nothing in this Act shall authorize the Minister or the Bank <u>to inquire or cause an inquiry</u> to be made into the affairs of any individual customer of a financial institution.(2) Except for the purpose of the performance of his duties or the exercise of his functions or when lawfully required to do so by any court under any law, no person appointed under Section 39 to examine the affairs of a financial institution or under Section 42 to advise a financial institution, shall disclose to any person any information relating to the affairs of any financial institution or other person, including any customer of a financial institution, which he has acquired in the performance of his duties or the exercise of his functions*. In addition article 44 of the FIA 2005 establishes that

disclosure of consumers' confidential information requires the prior consent of the consumer. Section 44 reads as follows; *Provided that no information or data shall be published which might disclose the particular affairs of a financial institution or of a customer of a financial institution unless the consent of the financial institution or customer, as the case may be, has been obtained*. Finally under Section 62 the Minister may issue regulations as regards to bank secrecy. The existence of bank secrecy in Swaziland is clear and requires further consideration as regards to CRS.

237. **The mandatory request of a credit history by all credit providers established under section 25 of the CCB is not consistent with FIA 2005 provisions on bank secrecy.** The CCB does not explicitly establish the need to obtain prior consumer's consent to collect credit information and other related data from consumers. The CCB does not either establish clearly any provision regarding the collection of data by credit bureaus. In practice most banks have a consumer consent form in their credit applications and inform consumers that such information would be submitted to the credit bureaus[59]. On the contrary most of pawn brokers, SACCOs payday lenders and some retailers do not have consent clauses in place and if they have they are not standardized across the industry.

238. **There is a draft bill on consumer credit (CCB) currently submitted to the Parliament.** The law includes some of the aspects covering the activities of credit information sharing among others. While the law intends to organize the credit reporting activities, the bill itself is restricted to consumer credit which presents an inevitable gap as regards to credit information related to SMMEs and commercial lending. In addition other aspects of the CCB that require further consideration include;

i) <u>Limitation of data access</u>; The current draft allows for the collection of credit information and other related data but does not establish any limits as regards to the users. In order to further protect confidentiality of credit information there is a need to define users of credit information on a regular basis (typically include data providers and banking and financial supervisors) and others that might need to access under specific circumstances (e.g. judges with a court order). Depending on the context and informational needs in a given country the users are also defined including mostly creditors (e.g. banks and non- bank financial institutions but also others that supply any form of credit or service involving deferred payment), landlords, credit insurers, insurance companies, and consumers to their own data).

ii) <u>Definition of permissible purposes</u>; The definition of permissible purposes for the use of credit information is intimately linked to the permissible purposes established for the collection of data. Both of them should be compatible. A clear example of use not compatible with the collection is the use of credit information for marketing campaigns offering consumers targeted credit products when data was collected to evaluate their creditworthiness.

iii) <u>Definition of retention periods</u> (storage and distribution). Information collected and further distributed through a CRS is subject to certain rules regarding duration of time data should be stored in the system and the duration of time that data should be distributed among the different participants. In addition calculation of such periods is a relevant aspect that authorities should bear in mind when preparing regulations including provisions on data retention.

[59] Please note that this practice results of the existing legacy of South African banks.

iv) Cross- Border data flows; the CCB fails to include provisions related to cross border data flows which given the linked credit markets, data inflows from South Africa and the fact that all credit reporting service providers operate out of South Africa, consideration should be given to the pre-conditions for cross border data flows and requirements for such cross border flow.

v) Governance of CRSPS; Section 66 establishes the process for .licensing credit bureaus but does not include any specific provision related to the governance or risk management of CRSPs.

vi) Exit criteria to CRSPs; Credit information when developed and used by the creditors becomes a relevant source of data for creditors to make credit decisions therefore it is critical to ensure continuity of the service even if circumstances call for the exit of the market by the CRSP. At the minimum there should be criteria to allow further use and operations of the database, ownership of the database as a whole and rules for the transition period.

239. **The current draft shows lack of clarity regarding some terminology used and also signs of inconsistency with domestic laws.** For example definition of credit information includes data that is beyond credit information (e.g. employment history, financial statements, identification information and geo-demographic data). Other provisions are inconsistent which might result of the review of the different versions but calls for a review before enacting the bill. Finally there are many areas that would require further development in the regulation. Those areas in the context of credit reporting include; i) licensing process, ii) solution to the current conflict of credit information sharing and bank secrecy provisions, iii) consumer protection framework, and iv)use of credit information.

240. **There are certain provisions included in the CCB that are relevant to the credit market in South Africa but not so relevant to the existing system in Swaziland**. For example in Swaziland the debt counsellors practices in South Africa which led to unintended consequences that negatively impacted consumers should be taken into consideration. In this regard, the requirement of obtaining a certificate from a counsellor in order to update data in a CRS should not be replicated. This practice led to a number of credit information left in the bureaus that was inaccurate and did not represent the situation of the borrower, however there were negative incentives embedded in the process to not update this information (e.g. finalization of debt counselling process which payment was based on length of the process and additional payment from the consumer for the certificate itself).

241. **The activities related to CRS are misrepresented in the Bill**. Section 67 establishes that the credit bureau shall engage in activities related to:

(a) receiving reports of, or investigating- (i) credit applications; (ii) credit agreements; (iii) payment history or patterns; or (iv) consumer credit information, relating to consumers or prospective consumers, other than reports of court orders or reasons for judgment or similar information that is in the public domain;
(b) compiling and maintaining data from reports contemplated in subparagraph (i); and
(c) issuing reports concerning consumers or persons based on information or data referred to in this paragraph;

Credit bureaus do not receive reports from credit applications, agreements or consumer credit information but rather they collect raw data from the different creditors based on a pre-agreed/established format which includes data on i) identification of consumers (both individuals and firms), data on credit re-payment or payment pattern of services or goods and other related data which might be relevant to a specific credit market. In this sense the bill should be more abstract and include a provision related to the activities of credit bureaus. As an example the following wording is provided, "A credit bureau licensed under this Act has the right to collect, process and distribute relevant credit information and other related data to the CRs users".

242. **There are additional aspects of CRS that should be included in the legal and regulatory framework developed for CRS**. Acknowledging the fact that the current bill is already discussed at the Parliament, many of these aspects should be addressed through regulation and other regulatory instruments. Table 3.1 shows a list of key aspects that should be included in a legal framework covering credit reporting activities;

Table 3.1. Key Aspects to be Included in Legal Framework Covering Credit Reporting Activities

Definitions	Interpretation of certain terms related to credit reporting
Entry requirements	Criteria to provide the service such as licensing, registering technological capacity, staff skills and reputation or similar requirements to establish a credit bureau
Exit requirements	Continuity plan in case the service provider exits the market
Conditions of data collection and processing	Lawful and fairness, accuracy, up to date and completeness of data: a) Mandatory or voluntary basis b) Obsolescence
Limits to data collection	Scope of the data (negative or positive information, information from public records, sensitive information)
Limits to data use	Use is subject to pre-defined purposes according to the collection purposes
Data security	Safeguards regarding the maintenance and access of information
Cross border data flows	Restrictions or criteria regarding the flow of data between two different jurisdictions
Non-discrimination	Characteristics not related to credit to be used as screening variables
Confidentiality	Provide criteria to use information according to the terms of the law
Governance of the service providers	Criteria to operate the system: a) Duties and obligations to participants b) Risk management
Obligations of the data providers	Criteria to provide accurate and timely information to the credit bureau
Consumer rights	Information, access, rectification, deletion and objection
Consent/Notification	Authorization of the consumer to collect process and disseminate his/her data
Enforcement	Elements to ensure compliance of the law and regulation
Dispute mechanisms	Scope of mechanisms in case of dispute whether judicial or extrajudicial. It might include also a limitation of liability in the sense of libel actions
Oversight role	Attribution of this role to a specific capable authority and definition of such role

Capital Markets, Insurance and Pensions

243. **The legal and regulatory framework for the capital markets, insurance and pensions sectors comprise primary statutes, regulations, legal notices, circulars and guidelines issued by the FSRA.** The primary statutes are as follows:

- Financial Services Regulatory Authority Act 2010 (FSRA Act);
- Retirement Funds Act 2005;
- Insurance Act 2005;
- Securities Act 2010;
- King's Order-in-Council No. 23 of 1974 for Establishment of Swazi National Provident Fund;
- Motor Vehicle Accidents(Amendment) Act 2011;
- Companies Act 2009; and

244. The legislation relating to retirement funds, insurance and securities have all been assessed to be deficient particularly from sound supervision perspective. Hence, amendments to the Retirement Funds Act 2005 and Insurance Act 2005 have been prepared with technical assistance from IMF and submitted to MOF to initiate the legislative process. For example, aamendments to the Insurance Act 2005 include the following:

- Increase in minimum share capital for insurers;
- Licensing and regulation of micro-insurers and their intermediaries;
- Supervision of conglomerates, supplemental insurance providers such as loss adjusters;
- Personal liability of key functionaries; and
- Enhanced provisions on the imposition of administrative penalties.

245. **Rules are required to be vetted by the Ministry of Finance who is responsible for onward submission to the Parliament for approval. The following regulations are in force today:**

- Retirement Funds Regulations 2008;
- Insurance Regulations 2008;
- Retirement Fund Directives 2008; and
- Insurance Directives 2008.

246. In addition, the following guidelines/circulars have been either been issued or being finalised:

- Fit and Proper Guidelines;
- Governance Guidelines;
- Commission Guidelines;
- Policyholder Protection Rules;
- Disclosure Rules;
- Circular on Prohibition on the application of Vesting Scales on Retirement Fund Benefits;
- Circular on Paying of Commission in advance of an Undesirable Practice; and
- AML/CFT Enforcement of Compliance Guidelines 2013.

247. The following are rules that have been prepared and completed by the Capital Markets Department of FSRA:

- Collective Investment Scheme (CIS) Rules;
- CIS Investment and Borrowing Powers Rules;
- CIS Prospectus Requirements Rules;
- Conduct of Business Rules;
- Capital Adequacy Standard Rules;
- Securities Exchanges Regulations;
- Licensing Rules for Dealers, Investment Advisors and Exempt Dealers;
- Guidelines on fit and proper test for Licensed Entities; and
- Central Securities Depository Rules.

248. **The FSRA as the integrated regulator for the non-bank financial sector is vested with powers under the FSRAA 2010 and the respective sectoral laws.** While the FSRAA 2010 appears to be much in line with international standards in terms of providing strong mandate and supervisory and enforcement powers on the supervisor, the sectoral laws (Insurance and Retirement Funds laws in particular) are deficient in many areas.

249. **The FSRA with technical assistance from IMF has reviewed the legal and regulatory framework for supervising the insurance and retirement funds by finalizing the changes to the Insurance Act of 2005 and the Retirement Funds Act of 2005 and making them consistent with the new FSRAA 2010 as well as issuing prudential regulations consistent with the Act.** These amendments to the laws have been prepared together with implementing rules and guidelines on a broad range of matters including fit and proper tests, governance, protection of policy holders, and so on. The supervision of the retirement funds and insurance sector has much improved since 2012 with new prudential and market conduct rules and guidelines either being drafted or in the process of being implemented. FSRA supervision has also been enhanced in the strengthening of the operational framework for supervision by making the move to a risk-based supervisory (RBS) approach and ongoing technical assistance from IMF in these areas would assist in the building of capacity and technical know-how.

250. **For the securities market, the regulatory framework for the supervision of capital market intermediaries (CMIs) is inadequate due to lack of appropriate legislation and guidelines and capacity constraint at the FSRA in both in technical skills.** Currently, the Capital Markets Development Department of the FSRA maintains the responsibility for regulation and supervision of these institutions. However, the guidelines that have been issued thus far (previously issued by CBS) are not adequate and do not reflect current international standards and practices. Specifically, key prudential norms, involving solvency guidelines, accounting standards and uniform reporting formats, have not been established. There are also significant limitations and gaps in the current data reporting system by the CMIs, which limit the scope for effective analysis and timely reporting on the performance of the sector and, therefore, have to be filled. Lack of technical skills and the limited staff size at the CMD of the FSRA also hinder the quality of analysis, and hence, the effective supervision of the CMIs sector in Swaziland.

Payment Systems

251. With the current legal and regulatory framework, there is the risk that the CBS may fail to adequately oversee payment services provision by non-financial institutions, such as mobile network operators. In addition to the NCSSA 2011, the payment system's legal basis is derived from the CBS Order, the FIA 2005, the Bills of Exchange Act, and the Securities Act 2010. The relevant provisions in these statutes are supported by rules, regulations, guidelines, directives issued by the CBS from time to time in line with the mandate granted to it as the oversight regulatory authority.

252. **In order to further strengthen the legal framework, there is need to extend payment system oversight to cover not just systems but also payment service providers**. The tools for oversight also need to be better articulated. In this regard, consideration should be given to reviewing the following provisions as contained in the current legislation to ensure consistency across various pieces of legislation and in line with best practice: (i) better articulation of the CBS oversight mandate in the payment system to include relevant activities, such as regulation of service providers and on-site inspections; (ii) legal definition of netting and proper definition of the moment of finality; (iii) adequate support for full cheque truncation, taking into account the NCSSA 2011 provisions for imaging; (iv) rules and regulations on the provision of payment services and issuance of payment instruments by non-bank financial institutions such as mobile network operators; (v) development of the legal and regulatory framework to facilitate innovative payment mechanisms including e-money, mobile payment services, agency banking, and their oversight.

253. **There is no comprehensive legal and regulatory framework covering all relevant aspects of credit reporting.** The Constitution recognizes the right to privacy under section 14[60]. Some provisions on existing laws affect the sharing of credit information between banks and other creditors and between regulators and third parties such as section 20 of the Central Bank of Swaziland Order No.6 of 1974, or section 43 of FIA 2005 which recognizes the duty of secrecy regarding information on individual's financial affairs. There are no laws governing the operational aspects of credit bureaus, limits to access to information, security measures, oversight framework or consumers' rights. The Consumer Credit Bill 2015 includes some provisions on credit information sharing and has been submitted to Cabinet.

SMMEs

254. Under the 2010 Financial Services Regulatory Authority Act, all non-bank credit providers need to adhere to the requirements of the FSRA Act. The 2014 credit-provider guidance note establishes the operational standards. At the moment, only FINCORP and its subsidiary (consumer-lending-focused) Finance First are licensed as credit provider at the FSRA.

255. Credit agreements for the development of small businesses will be regulated under the soon-to-be-approved Consumer Credit Bill. The Bill is then expected to repeal the 1991 Money Lending and Credit Financing Act 3 that currently sets the maximum annual interest rates chargeable for money-lending or credit transaction.[61] Explicit interest rates cap are not included in the Bill. Sections 38 to 44

[60] There is a draft Bill on Data Protection currently under discussion which might further develop this constitutional right in the electronic space.

[61] Specifically, interest rates could not exceed 10 percent (8 percent) above the repo rate for money-lending or credit transaction below (above) E 500. The Act however was mute on applicable finance charges. As a result, these otherwise

regulate liability, interest, charges and fees. Section 41 specifies that the Minister of Finance after consulting with the FSRA may prescribe a *method* for calculating the maximum interest rate and the maximum fees related to the extension of credit. The operationalization of the norm will have large implications for the development of the SMME finance market. This is well exemplified by the recent experience of other SADC country where a significant decline in SMME finance followed the introduction of interest rate caps. Unable to price risk premium, financial institutions adopted a more conservative lending approach and consequently reduced lending to SMMEs.

256. The "Revised National Policy of the Government of Swaziland on the Development of Small, Micro and Medium-sized Enterprises" emphasizes the importance the developmental role of SMMEs and identifies important elements that need to be addressed in order to promote growth in this segment of the economy. Specifically, the policy advocates for formal revision of the law to the effect that women married in the Civil Code under community of property will no longer be considered minors in law. The change could have profound effect as it would automatically expand the otherwise very limited contractual capacity. Regarding improving access to finance for SMMEs, the policy recommends two separate measures (i) the creation of a micro-bank to finance SMME activities, and (ii) the relocation of the credit guarantee schemes from the Central Bank to a newly structured Small Business Guarantee Trust. These activities as well as improvements to the credit market via the Consumer Credit Bill will reduce information asymmetry for lenders. Digital Financial Services

257. **Digital financial services are subject to limited formal regulation.** An explicit policy is not in place. The extent of formalization is confined to the definition of upper bound (E 4000) that can be stored on MTN account, a limit agreed upon through a letter of understanding. Consistently with the experience in other countries such as Kenya, the Central Bank has opted to limit interventions in the sector, without imposing strong regulation or legislation biased towards banks.

low annual interest rate ceilings are not binding, since money lenders can adjust the total cost of financing by charging higher fees.

Annex 4: Mapping of Financial Sector Initiatives

258. During the process of developing the Financial Sector Development Implementation Plan (FSDIP) the following on-going or anticipated initiatives have been identified. While this list may not be exhaustive, it is representative of the key activities that the Central Bank, FSRA and Ministry of Finance are aware of regarding projects and reforms in the financial sector. A brief description, timeframe and lead organization is listed for each initiative.

1. **Initiative:** FinScope Consumer Survey – A national demand side survey of consumer financial services usage, attitudes and behaviors.
   When: Completed February 2015
   Who: Finmark Trust & Cenfri

2. **Initiative:** Developing mobile money guidelines for bank and non-bank providers of such services.
   When: 2015
   Who: Central Bank of Swaziland, National Payment System Division and Finmark Trust

3. **Initiative:** Utilized the Common Market for Eastern and Southern Africa (COMESA) framework to conduct a financial stability assessment.
   When: 2015
   Who: Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and Central Bank of Swaziland

4. **Initiative:** Conduct and Basel Core Principle partial assessment.
   When: To be determined.
   Who: Africa Regional Technical Assistance Centre (AFRITAC)

5. **Initiative:** Passage of the Consumer Credit Bill of 2015. The Bill pertains to credit under a yet to be determined threshold. The Bill establishes a Registrar of Credit, appointed by the Minister (on the recommendation of the FSRA), that would regulate credit providers, credit bureaus, and debt counselors. The Bill provides for consumer protection and education, promotes fair & transparent credit markets, licensing requirements and is tasked with monitoring the credit market.
   When: Was approved by Cabinet in 2015 and is being forwarded to Parliament.
   Who: Ministry of Finance, Microfinance Unit

6. **Initiative:** Non-Bank Supervision Technical Assistance for FSRA
   When: 2014-2015
   Who: IMF & FSRA

7. **Initiative:** Risk-Based Supervision Technical Assistance
   When: 2015
   Who: IMF & Central Bank of Swaziland

8. **Initiative:** Developed a Financial Inclusion Strategy with a focus on development of the microfinance sector.

When: 2014-early 2015
Who: Finmark Trust and MOF, Microfinance Unit

9. **Initiative:** Conduct a competition for the best business plan as an avenue to help entrepreneurs develop their plans and obtain funding.
   When: To be determined.
   Who: Technoserve

10. **Initiative:** Provide loan funds for microenterprise development
    When: To be determined.
    Who: International Fund for Agriculture Development (IFAD)