



southern african  
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# ROLE OF DEVELOPMENT FINANCE INSTITUTIONS IN FINANCIAL INCLUSION – SME OBSERVATIONS

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## 1. BASIC PROPOSITIONS

- a. Economic development and growth, and the participation of various economic stakeholders therein, requires the active existence and functioning of a vibrant financial sector;
- b. In many developing countries, a significant section of the population, excluded from participation in the financial sector;
- c. This means that they do not participate in the economic mainstream, so their economic contribution is insignificant, or not accounted for;
- d. Indication of poor participation in the financial sector is given by low savings rates, limited borrowing access, inefficient payment processes, inadequate risk management practices, excessive regulation.

## 2. IMPACT OF FINANCIAL EXCLUSION

- a. Low levels of investment;
- b. Low economic productivity;
- c. Low production and economic growth;
- d. Weak financial sector and limited development;
- e. High levels of informality in both goods and financial markets;
- f. Inefficiency/ ineffectiveness of monetary/ financial policy.

### **3. IMPERATIVE OF FINANCIAL EXCLUSION**

As a consequence of this it is imperative that a deliberate and sustained policy is adopted by the authorities to draw more actors into the financial system through appropriate policy and institutional interventions.

## 4. POTENTIAL POLICY ACTIONS AND MEASURES

- a. Improved access to banking services to open bank accounts through institutional expansion, and facilitative regulatory framework;
- b. Improved access to lending services through expanded network of cost-effective provision;
- c. Enhanced education of potential service users (SMEs, consumers, etc);
- d. Strengthened payment systems to facilitate commerce and social contact;
- e. Improve information flow on FI.

## 5. CONSTRAINTS OF DFIs IN FINANCIAL INCLUSION

- a. Mandate of DFIs is to cater for unbanked/unbankable economic sectors on account of market failure. DFI activity therefore lies at the heart of financial inclusion policy, and plays a key role in economic and social development;
- b. Its necessary to enhance provision of affordable and accessible financial services;
- c. Ensure user-friendly services;
- d. Education training of borrowers on financial management;
- e. Strengthening of risk management systems of SMEs and similar businesses;
- f. Enhancing entrepreneurial and business planning skills of SMEs.

## 6. DFIS AND FINANCIAL INCLUSION

- a. Limited resources for lending;
- b. Limited network of facilities for outreach;
- c. Limited skills capacity for project;
- d. Limited information availability on market characteristics.

## 7. POSSIBLE REMEDIAL ACTIONS

- a. Expanded resource flows for DFIs at national and regional level (MSME fund, regional development fund, regional guarantee fund);
- b. Skills capacitation in development lending;
- c. Entrepreneurial and business skills development services;
- d. Mentoring and business development programmes for MSMEs;
- e. Partnership with private financial service providers, other state finance service providers, NGO finance FSP to reach micro/ remote clients;
- f. Improved regulation of financial sector to ease participation of potential clients in mainstream.



## 8. ROLE OF STAKEHOLDERS

### a. SADC

- i. Regional guidance to policy formulation;
- ii. Information sharing and policy coordination;
- iii. Funds mobilisation for national DFIs
  - 1. Regional guarantee/MSME fund;
  - 2. Regional guarantee facility;
  - 3. Facilitation of international borrowing

## 8. ROLE OF STAKEHOLDERS CONTINUES...

### b. NATIONAL GOVERNMENTS

- i. Enabling policy framework, and clearly articulated financial inclusion strategy and concurrence with other policy measures;
- ii. Strengthening DFI standards;
- iii. Sustainable DFI funding;
- iv. Improved regulation;
- v. Facilitation of partnerships between DFIs and other state actors;
- vi. Encouragement of partnerships between DFI and private FSPS;

## 8. ROLE OF STAKEHOLDERS CONTINUES...

### c. PRIVATE SECTOR

- i. Partnership with DFIs for lending;
- ii. Wholesale lending to DFIs (pension funds, etc);
- iii. DFI lending to microlenders.

## 8. ROLE OF STAKEHOLDERS CONTINUES...

### d. SADC DFI NETWORK

- i. Cross-pollination of ideas and sharing of experiences;
- ii. Policy advocacy;
- iii. Capacity building for DFIs and their clients
- iv. Monitoring and evaluation;
- v. Research into FI issues relevant to DFIs (need to ramp up research capacity DFRC to support DFI Network strategy to financial) .
- vi. Reporting regional DFI activity.

## 8. ROLE OF STAKEHOLDERS CONTINUES...

### e. FINMARK

- i. Provision of research and information to national DFIs and DFI network on relevant indicators of financial inclusion;
- ii. Monitoring and evaluation;
- iii. Policy advocacy and advice.

## 8. ROLE OF STAKEHOLDERS CONTINUES...

### f. CONCLUSION

This paper recognises the importance of a functioning financial system, with participative economic agents.

It also takes cognisance of the fact that in many developing countries, the level of participation of economic agents is very low (or the great majority are excluded).

This has an adverse impact on economic growth and development.

a deliberate and concerted effort requires to be undertaken to reverse this lopsidedness in the economic system.

Development finance institutions are seen as important agents of this process of transformation by stimulating the growth of financial and capital markets through their lending services and other ancillary

## 8. ROLE OF STAKEHOLDERS CONTINUES...

Services to economic actors who are excluded from the economic system.

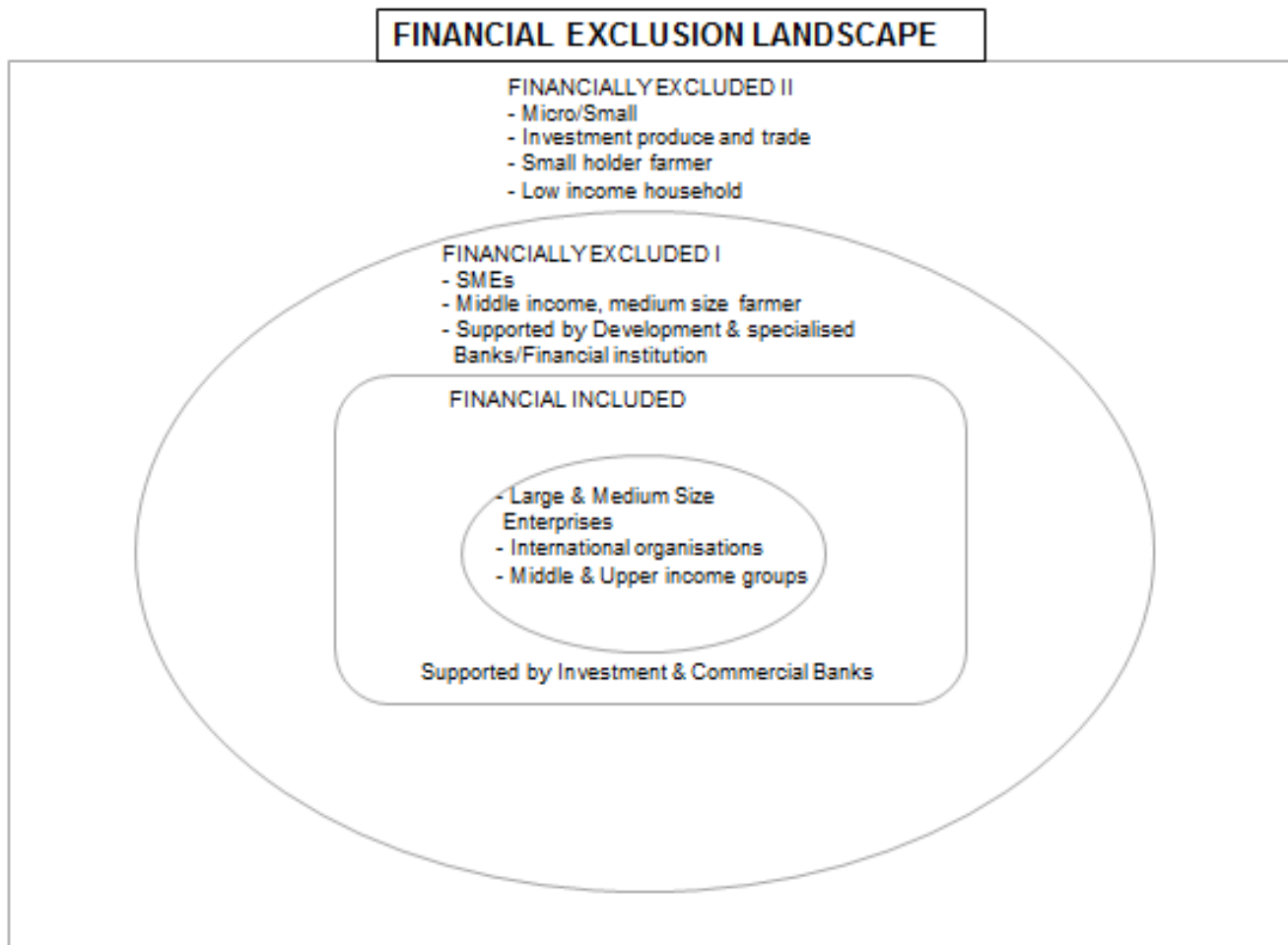
Strategically therefore, we situate the DFI within the context of a financial exclusion strategy. In other words, the test of a DFI's success should be assessed from the standpoint of its impact on financial exclusion/inclusion.

Accordingly appropriate measures must be developed to test this, and must be linked to national development goals and the DFI's strategic plans. Supportive measures must also be put in place to ensure accurate, meaningful and timely assessment of financial inclusion indicators.

f.

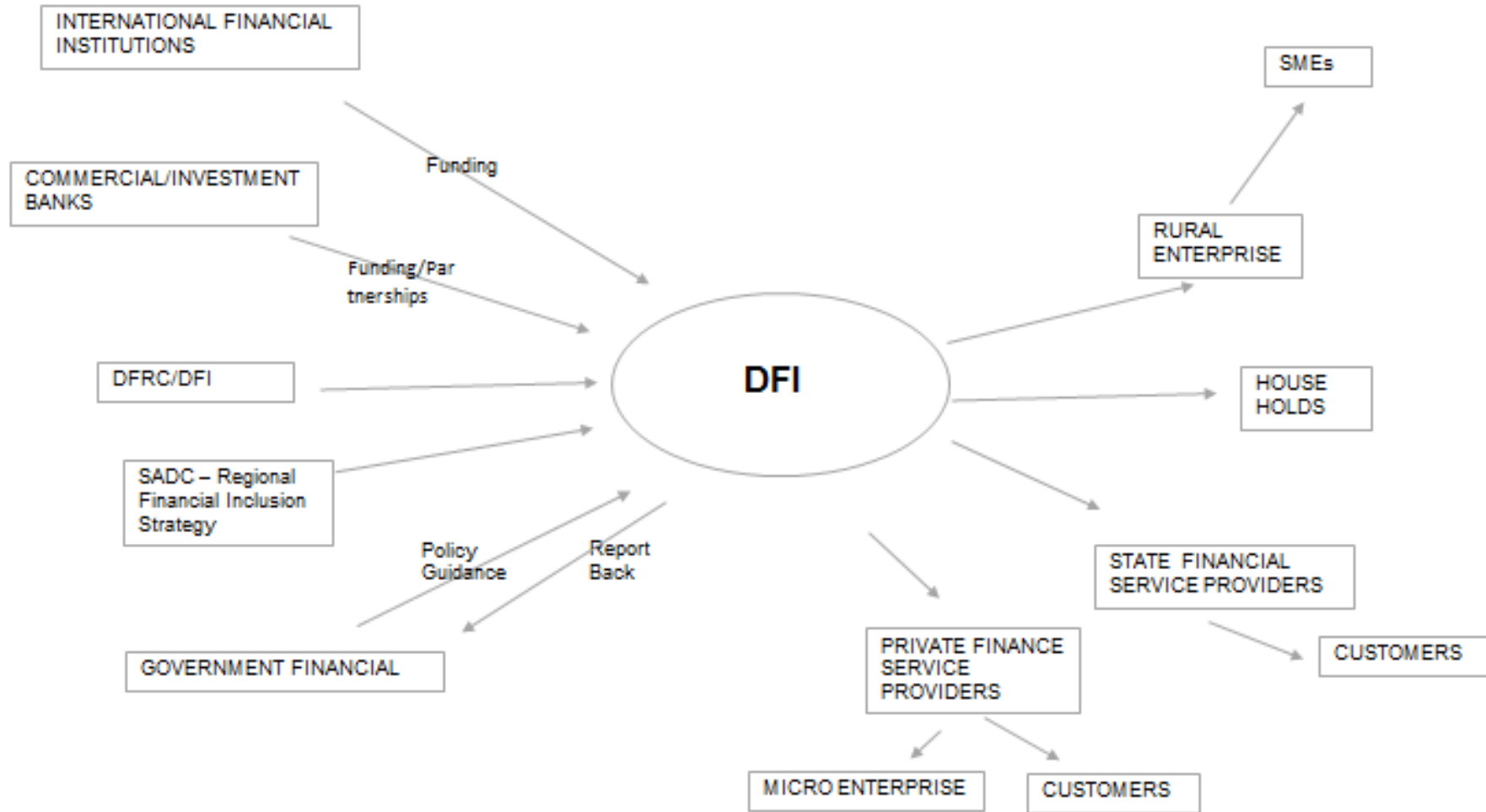
## CONCLUSION

### 8. SCHEMATIC PRESENTATIONS OF FINANCIAL EXCLUSION, FINANCIAL INCLUSION AND MONITORING AND EVALUATION

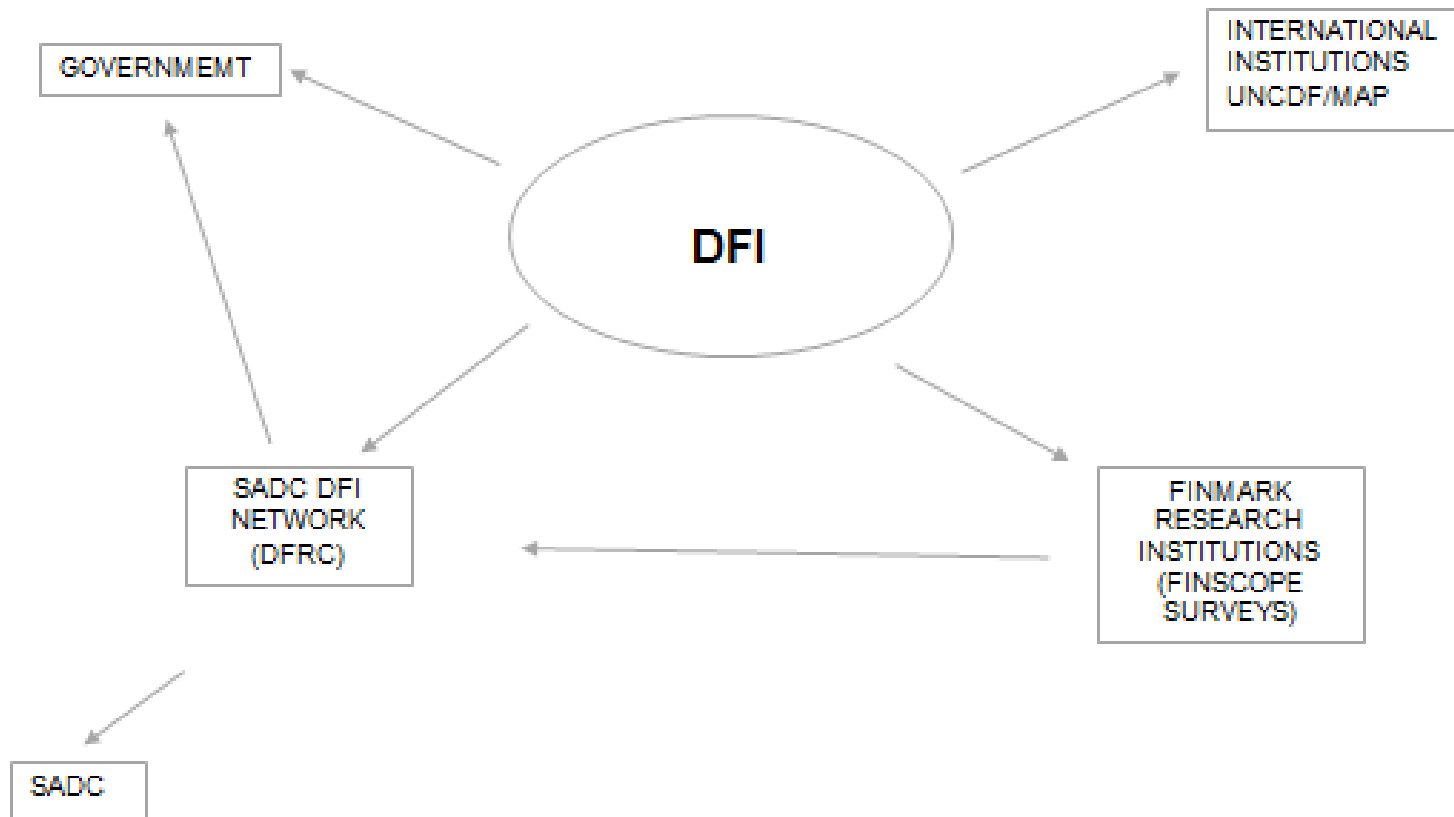




**IMPLEMENTATION OF FINANCIAL INCLUSION  
DFI Perspective**



MONITORING & EVALUATION OF FINANCIAL INCLUSION



**THANK YOU**

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