

Developing the Financial Sector

Welcome to this month's edition of *Umntsholi News*. Today we introduce you to the Financial Sector Development Implementation Plan (FSDIP), a programme that the Central Bank is involved in, working in partnership with the Swaziland Government, the World Bank, the Financial Services Regulatory Authority and First Initiative.

What is FSDIP?

FSDIP is a three-year national strategy to guide the development of the Financial sector in the country. The strategy comprehensively addresses all the sub-sectors of the financial system in Swaziland. It speaks to matters relating to the banking, insurance, pension and retirement funds, capital markets, as well as national payment systems.

FSDIP Background

The strategy formulation started in 2014 and was completed at the end of 2016 by the Ministry of Finance in collaboration with the Central Bank of Swaziland (CBS) and the Financial Services Regulatory Authority (FSRA). FSDIP formulation was supported by the World Bank and the International Monetary Fund (IMF). The World Bank and IMF support was useful in ensuring that the strategy is premised on international best practice. This was achieved through the provision of experts in the various sectors of the financial system.

The private sector was highly involved in the strategy formulation process. Experts from the World Bank conducted a scoping exercise where key players in the financial sector were consulted for an understanding of the sector. The scoping exercise was able to identify the gaps in the financial system based on which recommendations were made on how the gaps can be addressed.

Why is FSDIP significant to Swaziland?

The strategy is in support of the country's overall National Development Strategy and vision 2022. The vision for the FSDIP is: ***“To develop a stable, diversified, modern, and competitive financial system that provides quality, affordable***

and accessible financial services to all to support economic growth and poverty reduction”.

Following a detailed study of the supply of, demand for, and legal/regulatory environment of financial services in Swaziland conducted by World Bank experts and support to the broader development goals of the country as defined in the National Development Strategy and Vision 2022, the FSDIP objectives were developed.

Objectives of FSDIP

The Strategy has four (4) main objectives, namely:

- To ensure the stability of the financial system.
- To diversify the financial system and its resources.
- To modernize the financial sector.
- To broaden financial inclusion.

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

What gaps will FSDIP close

The FSDIP strategy document outlines a number of gaps in the domestic financial system which were identified during the study of the domestic financial sector by the World Bank experts. These gaps include:

- The observation that the country has a fragmented legal and regulatory framework with gaps, overlaps, and ambiguities. New entrants are discouraged and existing players struggle with compliance where the rules of the game are not well documented or clear or accessible.
- While banks are currently adequately capitalized, the current minimum capital ratio of 8 per cent is inadequate given the relatively high risk concentrations, particularly in the sugar sector. Non-Bank Financial Institutions (NBFIs) capital adequacy frameworks are not risk based even though insurance companies and asset managers are adequately capitalized.

- The lack of safety nets, contingency plans for emergency liquidity assistance and lender of last resort puts the financial system at risk.
- 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.
- The consumer protection framework is incomplete.
- Credit information sharing in Swaziland is incomplete and limited to negative data.
- The payment system is not fully interoperable and access is limited to banks as non-bank financial institutions 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.

The main issue in the strategy is the implementation of the proposed policy actions over the next three-year life of the strategy. These policy actions address the identified gaps and try to achieve the strategic objectives.

The ultimate success of the FSDIP will depend on many organizations and stakeholders working together to implement the recommended policy actions. The regulators of the financial sector and private sector will lead the strategy implementation. A governance structure to guide the implementation has been developed in which the Ministry of Finance and the regulating agencies and private sector will strategically guide the implementation and private sector will be pivotal in the implementation process.

The Strategy has been presented to Cabinet for approval as a National document. Join us in celebration today, 13th April 2017 as we launch at the Royal Swazi Sun Convention Centre, after which full implementation will commence.

On behalf of the Central Bank of Swaziland, we wish our readers and the entire Swazi Nation happy and safe Easter Holidays!