

# I. Goal of this Report

The goal of this report is to help African countries develop deeper, broader and more affordable financial systems.

## Recommendations

Efforts should be focused on:

Increasing competition within and outside the banking sector to foster innovation	Financial services rather than institutions	Users of <b>financial services</b> and non-financial constraints
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Link between financial systems and economic development – Ch. 1, Pg. 9

**Note:** All financial policy is local. While challenges cut across countries, ways of addressing them depend on local circumstances. – Ch. 1, Pg. 3

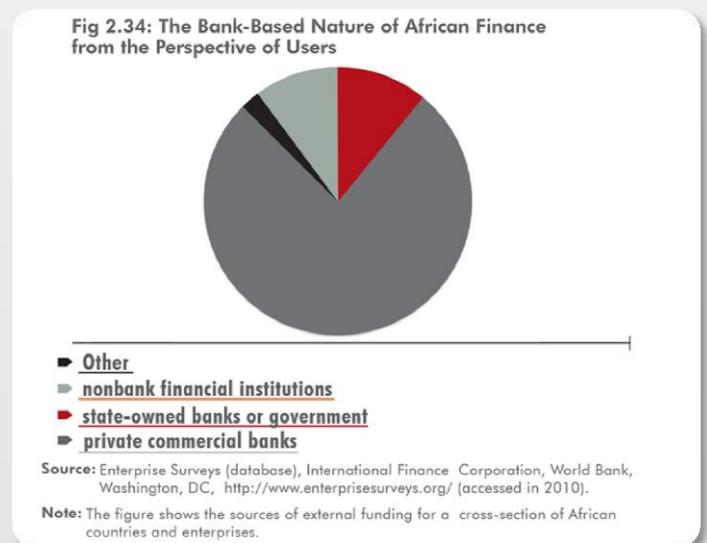
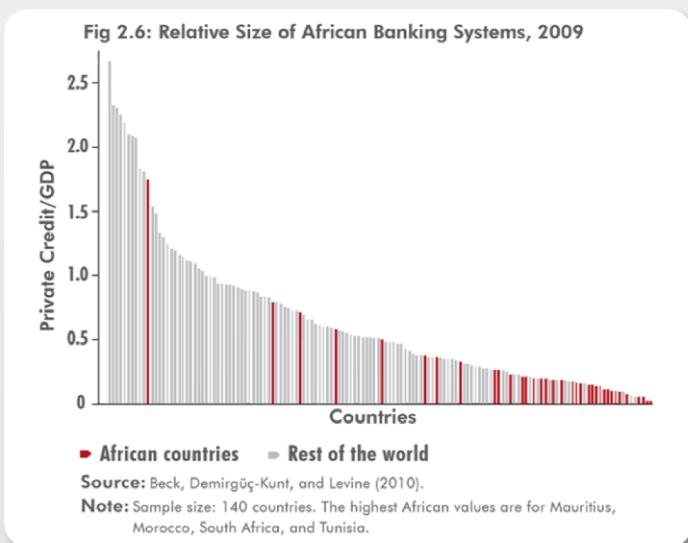
## Focus Areas

Access	Long-term Finance	Regulation	Local Circumstances
Turning the unbankable into bankable, and the bankable into the banked population	Transforming short-term claims into long-term assets to finance Africa's needs	Expanding the regulatory and supervisory perimeter to safeguard the financial sector	Translating broad recommendations into country-specific policies
Chapter 3	Chapter 4	Chapter 5	Chapter 6

# II. The State of Financial System in Africa

Most African financial systems have relatively small banking sectors

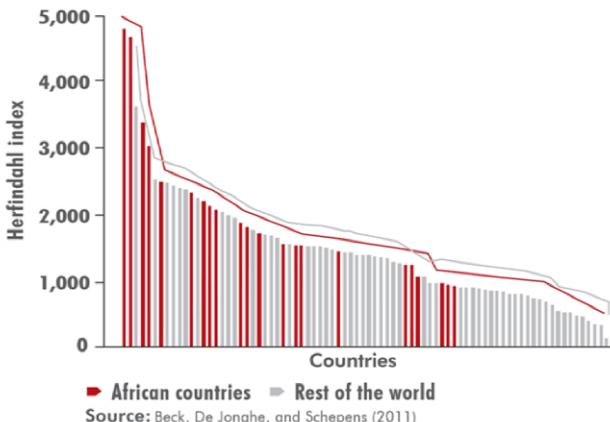
They are heavily dependent on Banks



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A few banks share the small universe of clients

Fig 2.14: Banking Sector Concentration across Countries, 2006

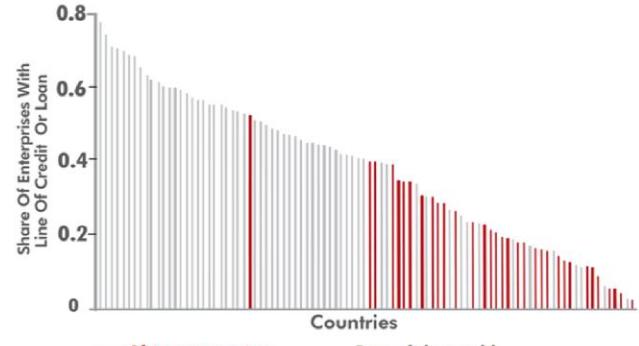


Source: Beck, De Jonghe, and Schepens (2011)

Note: Sample size: 80 countries. HHI index = the Hirschmann-Herfindahl Index of the concentration of total assets.

Less than one third of African enterprises have lines of credit

Fig 2.33: Access to Bank Loans across Countries, 2006–10



Source: Enterprise Surveys (database), International Finance Corporation, World Bank, Washington, DC,  
<http://www.enterprisesurveys.org/> (accessed in 2010).

Note: Sample size: 94 countries. The highest African values are for Benin, Cape Verde, Malawi, and Mauritius.

Formal financial services have limited outreach

Table 3.1: The Use of Formal Banking Services across 18 African Countries-2009  
percent of the respondents to the question "Do you have a bank account?"

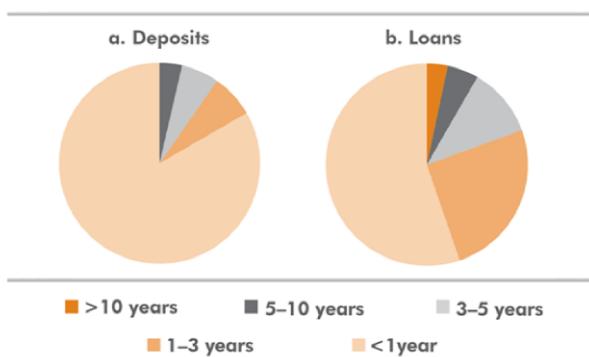
Country	Demographic profile		Yes	No
	Residence			
South Africa	49	50		
Kenya	29	70	28	71
Zimbabwe	28	72	15	84
Nigeria	23	75		
Uganda	21	79	11	89
Ghana	19	81	11	88
Rwanda	16	84	15	85
Tanzania	16	84	21	78
Zambia	9	91		
Cameroon	8	92	23	76
Chad	7	93	16	83
Côte d'Ivoire	6	94		
Senegal	6	94	15	85
Burundi	4	96	23	76
Mali	2	98	21	78
Congo, Dem. Rep.	1	97	20	79
Niger	1	99		

Source: Gallup survey data.

Note: The surveys were conducted in 18 Sub-Saharan African countries in 2009. The data are weighted using adult population estimates for 2008 developed by the World Bank.

African banking is mostly short term. Less than 2% of deposits have a maturity of more than 10 years

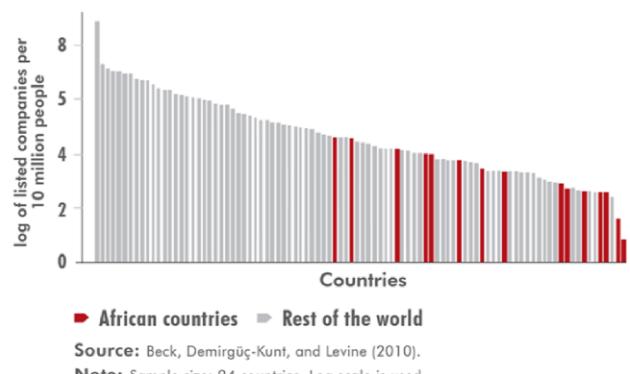
Fig 2.12: The Maturity Structure of Deposits and Loans across Africa, 2005–09



Source: Making Finance Work for Africa (database), Partnership Secretariat, African Development Bank, Tunis,  
<http://www.mfw4a.org/>.

African stock exchanges are dominated by few stocks

Fig 2.22: Listed Firms across Countries, 2009

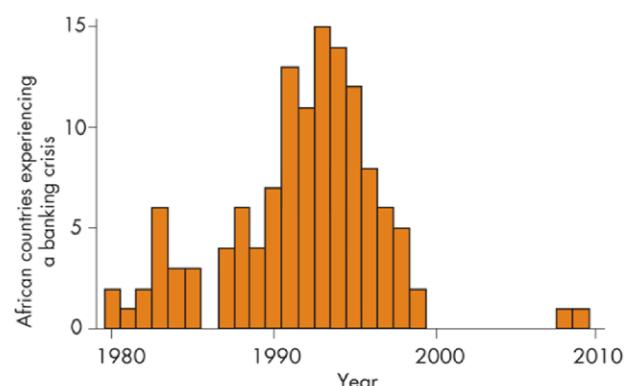


Source: Beck, Demirguc-Kunt, and Levine (2010).

Note: Sample size: 94 countries. Log scale is used.  
The highest African values are for Botswana, South Africa, Swaziland, and Zimbabwe.

African financial systems are stable. Between 2000 and 2007, there were no systemic crisis in Africa

Fig 5.1: Systemic Banking Crises in Africa, 1980–2009



Source: Laeven and Valencia (2008).

## Financial Situation

Challenges	Opportunities
<p>Small scale <b>Informality</b> Volatility <b>Governance</b></p>	<p>Rule of Law Over Time in Africa, 1996 - 2009</p> <p><b>Fig 2.32 Rule of Law over Time in Africa, 1996-2009</b></p> <p>Source: Kaufman, Kraay, and Mastruzzi (2009). Note: Sample size: 53 countries.</p>
<p>Globalization <b>Regional Integration</b> Technology</p> <p>Globalization, regional integration, and technology offer new opportunities, but also represent challenges. There will be more space for private service providers to deepen and broaden financial systems, while the public sector has to redefine its role and face new challenges in regulation and supervision.</p>	

## III. Focus Areas

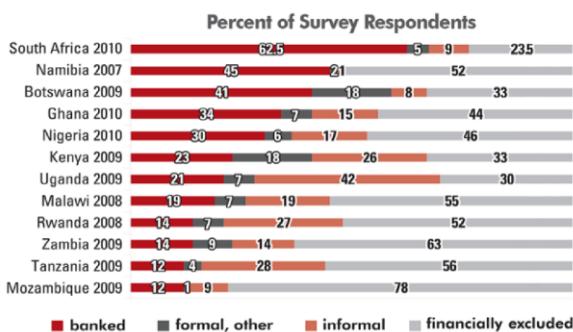
### A. Access to Resources

– Chapter 3

Elements to turn the unbankable into bankable, and the bankable into the banked population.

#### Landscape

Figure 3.1: Access to financial services varies across countries



How realistic is reaching 100% of the population? For a framework that outlines the possibilities see: "Broadening Finance, a reality check" - Ch. 3, Pg. 85

Non-bank and non-financial companies are moving into banking, who are they serving? Learn more - Table 3.2: Total Borrowers, Depositors, and Penetration Rates, 2008

Learn more about the level of access to financial services in Africa looking at available aggregated data: - Ch. 3, Pg. 78

While 62.5% of South Africans use formal banking services, only 12% of Tanzanians do

Role of Technology	Demand-side Constraints	Role of Government
Africa is at the forefront of mobile financial services. Technology can help push out the access possibilities frontier.	<p><b>Constraints:</b> Surveys provide a picture of key barriers to access to financial services in Africa.</p> <p>For more see Fig 3.8 "Asking Potential Users in Kenya about the Barriers to Access".</p>	<p>The government's role goes beyond institution-building and macroeconomic stability towards:</p> <ul style="list-style-type: none"> <li>⇒ Encouraging competition</li> <li>⇒ Fostering innovation</li> <li>⇒ Avoiding regulatory bias</li> <li>⇒ Facilitate regional solutions</li> </ul>
See examples of technology-based financial products. – Ch. 3, Pg. 110, Box 3.3	See the specifics of demand-side constraints. – Ch. 3, Pg. 102	More about the role of the government and donors in expanding access. – Ch. 3, Pg 111

## Important Conclusion

Our analysis on ways to expand access in Africa leads us to stress two things:

- ⇒ The benefits of competition and its impact on innovation.
- ⇒ The need to look beyond existing institutions and models.

This implies looking beyond the credit-led approach towards an approach based more on payment services.

## B. Financing Long-Term Needs – Chapter 4

Long-term finance is crucial for economic development, but remains a challenge in most of Africa.

### Current State

Infrastructure	Housing	Firm Finance
<b>\$93 Billion</b> Estimated cost of addressing Africa's physical infrastructure needs. (Equivalent to 15% Africa's GDP)	<b>50%</b> Percentage of the urban population that live in slums. Demand for housing is increasing, yet the ratio of outstanding mortgage debt to GDP at 1% remains low.	<b>95%</b> Percentage of loans with maturity of 5 years or less in Cameroun, Côte d'Ivoire, Ghana, Kenya, Nigeria, and Senegal. Long-term finance for firms is limited across Africa.

See full description of Africa's long-term financial needs in these three areas. – Ch. 4. Pg. 142  
 An increase in entry of new institutions, instruments and products signal that Africa may be about to turn the corner on this challenge. See a summary of the new trends that may expand long-term finance in Africa. – Ch. 4. Pg. 145.

## How to address Africa's long-term financial needs?

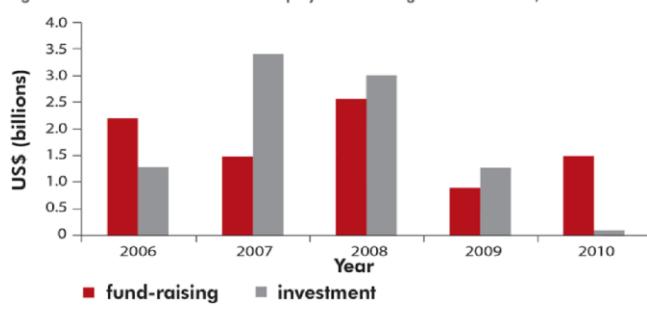
Innovations with great potential include:

<b>Private equity funds:</b> Although the 2008 financial crisis dented the market, there are signs of recovery.  Read about the experience with private equity funds in Africa. – Box 4.6, Pg. 166	<b>Sovereign Wealth Funds (SWFs):</b> SWFs with strategic interests in Africa include China, India and Middle Eastern countries.  Learn some basic facts about SWFs in Africa. – Box 4.7, Pg. 175	<b>Pension and insurance funds:</b> There is interest in unlocking these funds to use them in long-term investments.  Learn more about contractual savings in Africa. – Ch. 4, Pg. 155
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What about Diaspora Bonds? While we see the possibilities for raising funds with this instrument, we remain skeptical. See why. (Box 4.8)

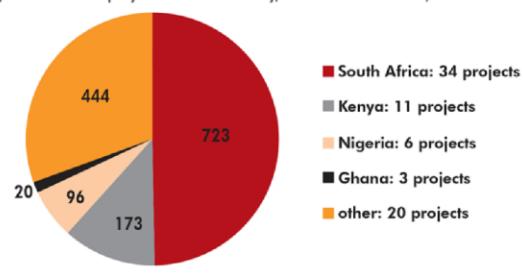
Fund-raising efforts are not being met with pipeline of transactions

Fig 4.5: Sub-Saharan Africa: Private Equity Fund-Raising and Investment, 2006–10

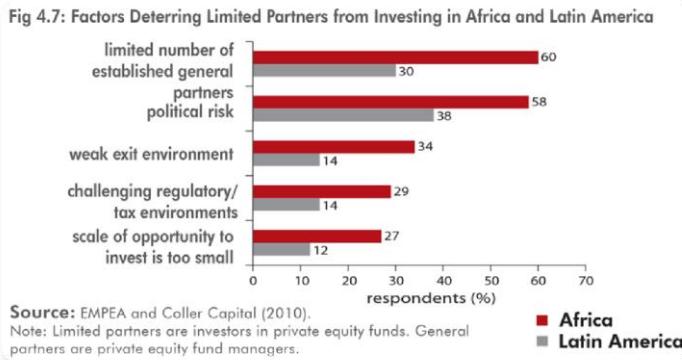


Most funds operating in Sub-Saharan Africa have a pan-regional focus

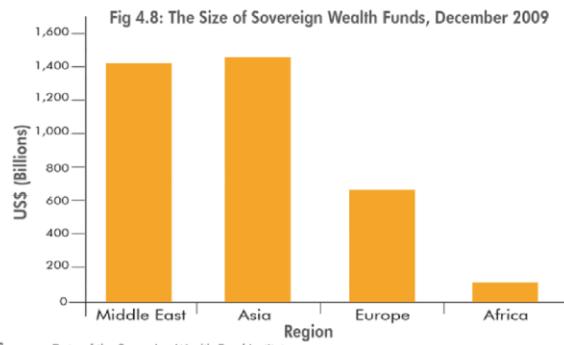
Fig 4.6: Private Equity Investment Activity, Sub-Saharan Africa, 2009–10



## Factors Deterring Limited Partners from Investing in Africa and Latin America



In 2009, African SWFs had US\$114.3 billion in assets under management, compared with US\$1.4 trillion of Middle Eastern SWFs



## Recommendations

Lengthening financial contracts requires policymakers address the structural bottlenecks that inhibit the issuance of longer-term contracts, by:

**Scaling up** current initiatives that are showing promise

**Tapping into** long-term funding sources (especially domestic)

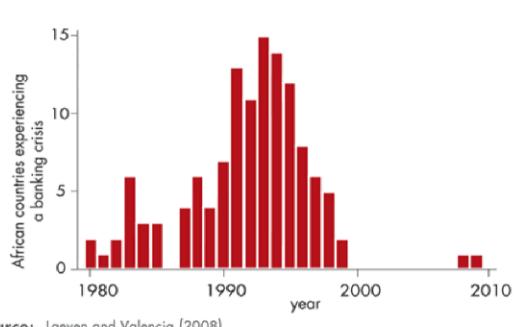
**Working on** the well-understood constraints (macroeconomic stability and weak institutions)

Learn about these recommendations in detail. – Ch. 4, Pg. 180

## C. Finance Safeguarding – Chapter 5

There has been progress in bank regulation in Africa, resulting in more stable banking systems.

Figure 5.1: Systemic Banking Crises in Africa, 1980 - 2009



Between 2000 - 2009 there were no systemic crises in Africa

Large parts of African pension fund investments are in real estate

Table 4.2: Pension Fund Portfolios (Percent)

Country	Cash and deposits	Fixed income	Shares	Land and buildings	Other
Egypt, Arab Rep. (2008)	26.82	69.28	2.07	0.39	1.44
South Africa (2006)	5.01%	8.70%	23.32%	0.49%	62.48%
	<b>Fixed income</b>	<b>Equity</b>		<b>Real estate</b>	
Ghana (2008)	46.00%	42.60%		11.40%	
	<b>Government Debt</b>	<b>Listed Equities</b>	<b>Government Equities</b>	<b>Real estate</b>	<b>TPS</b>
Kenya (2009)	13.00	50.00	1.00	29.00	5.00
	<b>Fixed income</b>	<b>Equity</b>		<b>Real estate</b>	
Uganda (2009)	70.00%	10.00%		20.00%	

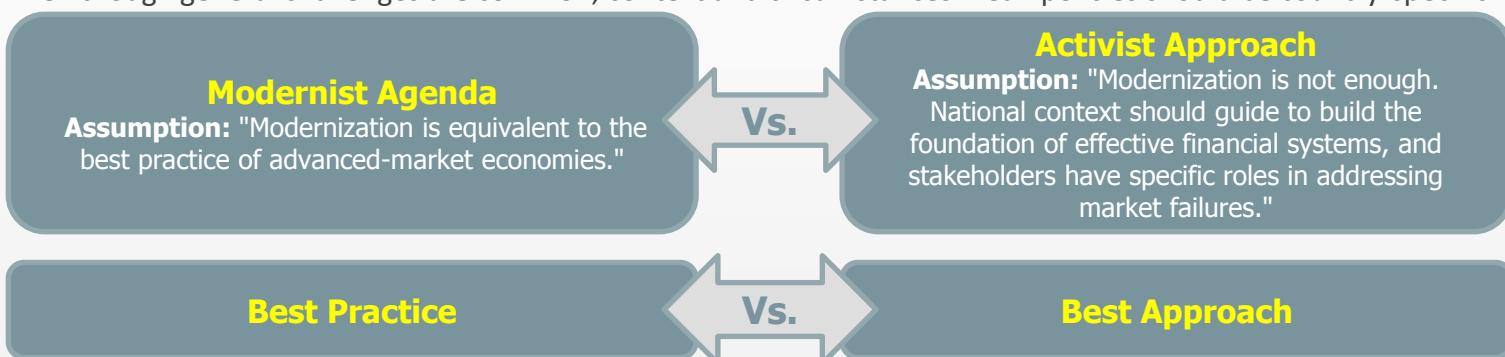
**Sources:** For Egypt, South Africa, and Zambia: data of the International Organization of pension Supervisors; for Ghana: data of the Social Security and National Insurance Trust; for Kenya : data of the Retirement Benefit Authority; for Uganda: World bank (2009b).

## ✓ Recommendations

In the Banking Sector	Looking Beyond Banks	Consumer Protection
<p>Strengthen the regulatory framework specially in:</p> <ul style="list-style-type: none"> <li>→ Independence of supervisors</li> <li>→ Risk management</li> <li>→ Effective resolution systems</li> <li>→ Cross-border supervision</li> </ul>	<p>Adopt flexible regulatory approaches where appropriate, i.e:</p> <ul style="list-style-type: none"> <li>→ To allow non-bank and non-financial actors to provide financial services</li> <li>→ To enable financial institutions use of non-traditional bank networks</li> </ul>	<p>Encourage responsible provision and use of financial services. Focus on:</p> <ul style="list-style-type: none"> <li>→ Clear disclosure</li> <li>→ Prohibition of unfair, abusive or deceptive business practices</li> <li>→ Effective recourse mechanisms</li> <li>→ Financial education</li> </ul>
See the new challenges to bank regulation and supervision. – Ch. 5, Pg. 197	See how to regulate segments of the financial system beyond banks. – Ch. 5, Pg. 213	Learn more about consumer protection and how it helps competition, and ultimately, outreach. – Ch. 5, Pg. 218

## D. Financial Policy is Local – Chapter 6

Even though general challenges are common, context and circumstances mean policies should be country-specific.



See a description of modernist reform policies. – Ch. 6, Pg. 227. See a description of the activist reform agenda. – Ch. 6, Pg. 229

## One size does not fit all in Africa



## ✓ Recommendations

Lengthening financial contracts requires policymakers address the structural bottlenecks that inhibit the issuance of longer-term contracts, by:

Redefinition of roles of <b>private sector, public sector and donors</b> that recognize that all financial policy is local.	Creation of constituencies for <b>financial reform</b> .
See how to redefine the role of government with necessary safeguards. – Pg. 245	Read about the politics of financial reform. (Pg. 234) and the role that different stakeholders play (Pg. 240)

## Innovations with great potential include:

- ⇒ Redefinition of roles of private sector, public sector and donors that recognize that all financial policy is local. See how to redefine the role of government with necessary safeguards. – Pg. 245
  - ⇒ Creation of constituencies for financial reform. See how to redefine the role of government with necessary safeguards. – Pg. 245
- What to do with state financial institutions? See the options for state financial institutions when the government moves away from market-replacing activities. – Box 6.3, Pg. 248