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:

<table>
<thead>
<tr>
<th>Focus Areas</th>
<th>Access</th>
<th>Long-term Finance</th>
<th>Regulation</th>
<th>Local Circumstances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing competition within and without the banking sector to foster innovation</td>
<td>Turning the unbankable into bankable, and the bankable into the banked population</td>
<td>Transforming short-term claims into long-term assets to finance Africa’s needs</td>
<td>Expanding the regulatory and supervisory perimeter to safeguard the financial sector</td>
<td>Translating broad recommendations into country-specific policies</td>
</tr>
<tr>
<td>Financial services rather than institutions</td>
<td>Chapter 3</td>
<td>Chapter 4</td>
<td>Chapter 5</td>
<td>Chapter 6</td>
</tr>
<tr>
<td>Users of financial services and non-financial constraints</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

II. The State of Financial System in Africa

Most African financial systems have relatively small banking sectors

They are heavily dependent on Banks

For this and other report summaries visit: http://AfricaKnowledgeLab
A few banks share the small universe of clients

Formal financial services have limited outreach

Table 3.1: The Use of Formal Banking Services across 18 African Countries--2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Yes</th>
<th>No</th>
<th>Demographic profile</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>49</td>
<td>50</td>
<td>Residence</td>
<td>28</td>
<td>71</td>
</tr>
<tr>
<td>Kenya</td>
<td>29</td>
<td>70</td>
<td>Urban</td>
<td>28</td>
<td>71</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>28</td>
<td>72</td>
<td>Rural</td>
<td>15</td>
<td>84</td>
</tr>
<tr>
<td>Nigeria</td>
<td>23</td>
<td>75</td>
<td>Quintile</td>
<td>11</td>
<td>89</td>
</tr>
<tr>
<td>Uganda</td>
<td>21</td>
<td>79</td>
<td>Poor</td>
<td>11</td>
<td>89</td>
</tr>
<tr>
<td>Ghana</td>
<td>19</td>
<td>81</td>
<td>Second</td>
<td>11</td>
<td>88</td>
</tr>
<tr>
<td>Rwanda</td>
<td>16</td>
<td>84</td>
<td>Middle</td>
<td>15</td>
<td>85</td>
</tr>
<tr>
<td>Tanzania</td>
<td>16</td>
<td>84</td>
<td>Fourth</td>
<td>21</td>
<td>78</td>
</tr>
<tr>
<td>Zambia</td>
<td>9</td>
<td>91</td>
<td>Gender</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cameroon</td>
<td>8</td>
<td>92</td>
<td>Men</td>
<td>23</td>
<td>76</td>
</tr>
<tr>
<td>Chad</td>
<td>7</td>
<td>93</td>
<td>Women</td>
<td>16</td>
<td>83</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>6</td>
<td>94</td>
<td>Age-group</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senegal</td>
<td>6</td>
<td>94</td>
<td>15–24 years</td>
<td>15</td>
<td>85</td>
</tr>
<tr>
<td>Burundi</td>
<td>4</td>
<td>96</td>
<td>25–39 years</td>
<td>23</td>
<td>76</td>
</tr>
<tr>
<td>Mali</td>
<td>2</td>
<td>98</td>
<td>40–54 years</td>
<td>21</td>
<td>78</td>
</tr>
<tr>
<td>Cong. Dem. Rep.</td>
<td>1</td>
<td>97</td>
<td>55+ years</td>
<td>20</td>
<td>79</td>
</tr>
<tr>
<td>Niger</td>
<td>1</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 stock exchanges are dominated by few stocks

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

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

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small scale Informality Volatility Governance</td>
<td>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.</td>
</tr>
<tr>
<td>Rule of Law Over Time in Africa, 1996 - 2009</td>
<td>Learn the specifics about the challenges and opportunities facing African financial systems: “Time for New Solutions to Old Problems” – Ch. 1, Pg. 16</td>
</tr>
</tbody>
</table>

### 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

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

### Role of Technology

Africa is at the forefront of mobile financial services. Technology can help push out the access possibilities frontier.

See examples of technology-based financial products. – Ch. 3, Pg. 110, Box 3.3

### Demand-side Constraints

**Constraints:**

Surveys provide a picture of key barriers to access to financial services in Africa.

For more see Fig 3.8 “Asking Potential Users in Kenya about the Barriers to Access”.

See the specifics of demand-side constraints. – Ch. 3, Pg. 102

### Role of Government

The government’s role goes beyond institution-building and macroeconomic stability towards:

- Encouraging competition
- Fostering innovation
- Avoiding regulatory bias
- Facilitate regional solutions

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**

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

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:

- **Private equity funds:** Although the 2008 financial crisis dented the market, there are signs of recovery.
- **Sovereign Wealth Funds (SWFs):** SWFs with strategic interests in Africa include China, India and Middle Eastern countries.
- **Pension and insurance funds:** There is interest in unlocking these funds to use them in long-term investments.

Read about the experience with private equity funds in Africa. – Box 4.6, Pg. 166

Learn some basic facts about SWFs in Africa. – Box 4.7, Pg. 175

Learn more about contractual savings in Africa. – Ch. 4, Pg. 155

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

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

![Figure 4.5: Sub-Saharan Africa: Private Equity Fund-Raising and Investment, 2006–10](image)

![Figure 4.6: Private Equity Investment Activity, Sub-Saharan Africa, 2009–10](image)
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)

C. Finance Safeguarding – Chapter 5

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

New Challenges

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

- More Innovation & Interconnectivity Require Improved Governance & Supervisory Upgrades
- In this new context, quality of supervision is key

Competition per se is not detrimental to stability, the key is adjust regulations and supervision to changing market structures. – Box 5.1, Pg. 203
## Recommendations

<table>
<thead>
<tr>
<th>In the Banking Sector</th>
<th>Looking Beyond Banks</th>
<th>Consumer Protection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengthen the regulatory framework specially in:</strong></td>
<td><strong>Adopt flexible regulatory approaches where appropriate, i.e:</strong></td>
<td><strong>Encourage responsible provision and use of financial services. Focus on:</strong></td>
</tr>
<tr>
<td>Independence of supervisors</td>
<td>To allow non-bank and non-financial actors to provide financial services</td>
<td></td>
</tr>
<tr>
<td>Risk management</td>
<td>To enable financial institutions use of non-traditional bank networks</td>
<td></td>
</tr>
<tr>
<td>Effective resolution systems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross-border supervision</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

#### Modernist Agenda

**Assumption:** "Modernization is equivalent to the best practice of advanced-market economies."

#### Activist Approach

**Assumption:** "Modernization is not enough. National context should guide to build the foundation of effective financial systems, and stakeholders have specific roles in addressing market failures."

---

### 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:

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

### 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