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Microfinance in Rural and Urban Africa – Reality, Context and Challenges

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Thanks to:

- The organisers for inviting me and congratulations with the wonderful conference they have created
- You the audience, for supporting this conference, and ensuring that it will be a resounding success
- Roland Pearson, Chiara Chiumya and Jeremy Leach for early comments and ideas (and all those who listened graciously to my ideas)
- Sources used and people consulted– CGAP, FinMark Trust, UNCDF, ABSA
- In the end, these are my views…setting the scene for what is to come in the next few days

Outline

- Reality?
- Context?
- What do we have to react to?
- What should be the reaction by
  - the government?
  - the regulators?
  - the development partners?
  - the private sector?
- A proposal

What is the current reality in Africa?

- **“Private sector” enter the market in different ways**
  - Upscaling and transformation of institutions
  - Member based institutions
  - Value chain linked finance in agriculture
  - Investment funds
  - Barclays Bank and the Susu Collectors in Ghana*
  - Hollard and PEP: Cash Based Insurance in South Africa*
  - New index based insurance approaches
  - Opportunity International's Micro-Insurance Agency*
  - MISR’s microcredit business in Egypt*
  - Equity Bank in Kenya
  - National Microfinance Bank in Tanzania
  - Telecommunications and banking combinations (M-Pesa and others)
  - ABSA FBS: Taking banking to the people in South Africa*

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*Forthcoming FinMark supported publication

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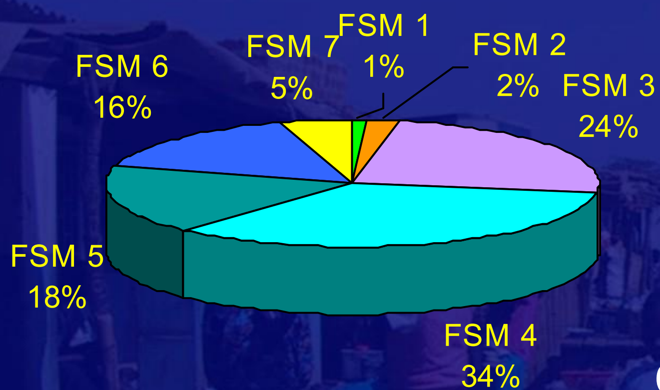
Core numbers – ABSA (4.6 of 8.5m clients)

Percentage of customers by FSM* (4.6m clients)



FSMs	Monthly income <$	% of population	% of ABSA customers
FSM 1 – 3	$100	48%	27%
FSM 1 – 5	$300	78%	79%
FSM 1 – 6	$600	88%	95%

Observations

- FSM 1-3 represents 27% and FSM 4 and 5 represents 52% of Absa's mass market customer base (~80% FSM 1-5)
- Positive financial results require volumes and a broad customer base
- It means profit and being a corporate citizen contributing to economic development, and impacting on the lives of poor people
- Customer Education and Training integral part of the approach
- Success due to good segmentation of the market, and focusing products and delivery
- Success gave confidence to add micro enterprise finance range of products

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Source: ABSA, 2007

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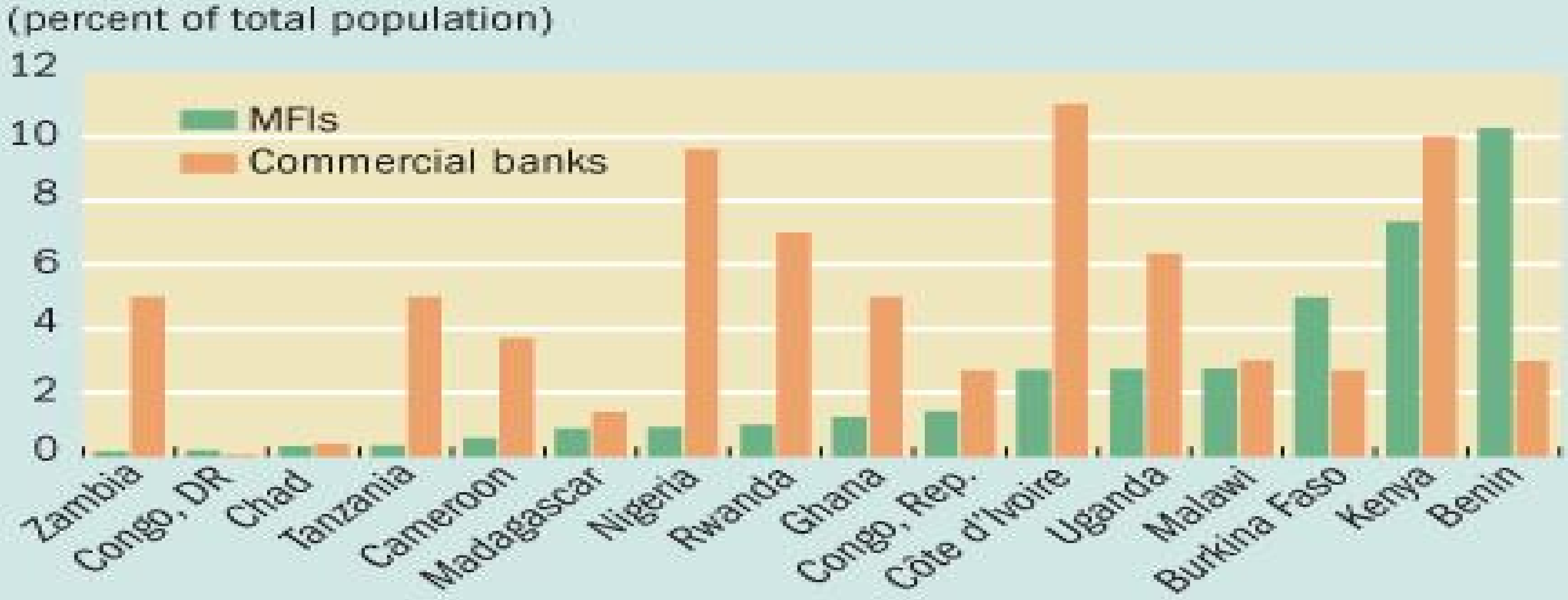
Private sector entry is pervasive…

Chart 2

Modest reach

Despite the growth of microfinance institutions, in most SSA countries commercial banks reach far more people.



Sources: Consultative Group to Assist the Poor database; Claessens (2005); and IMF staff calculations.

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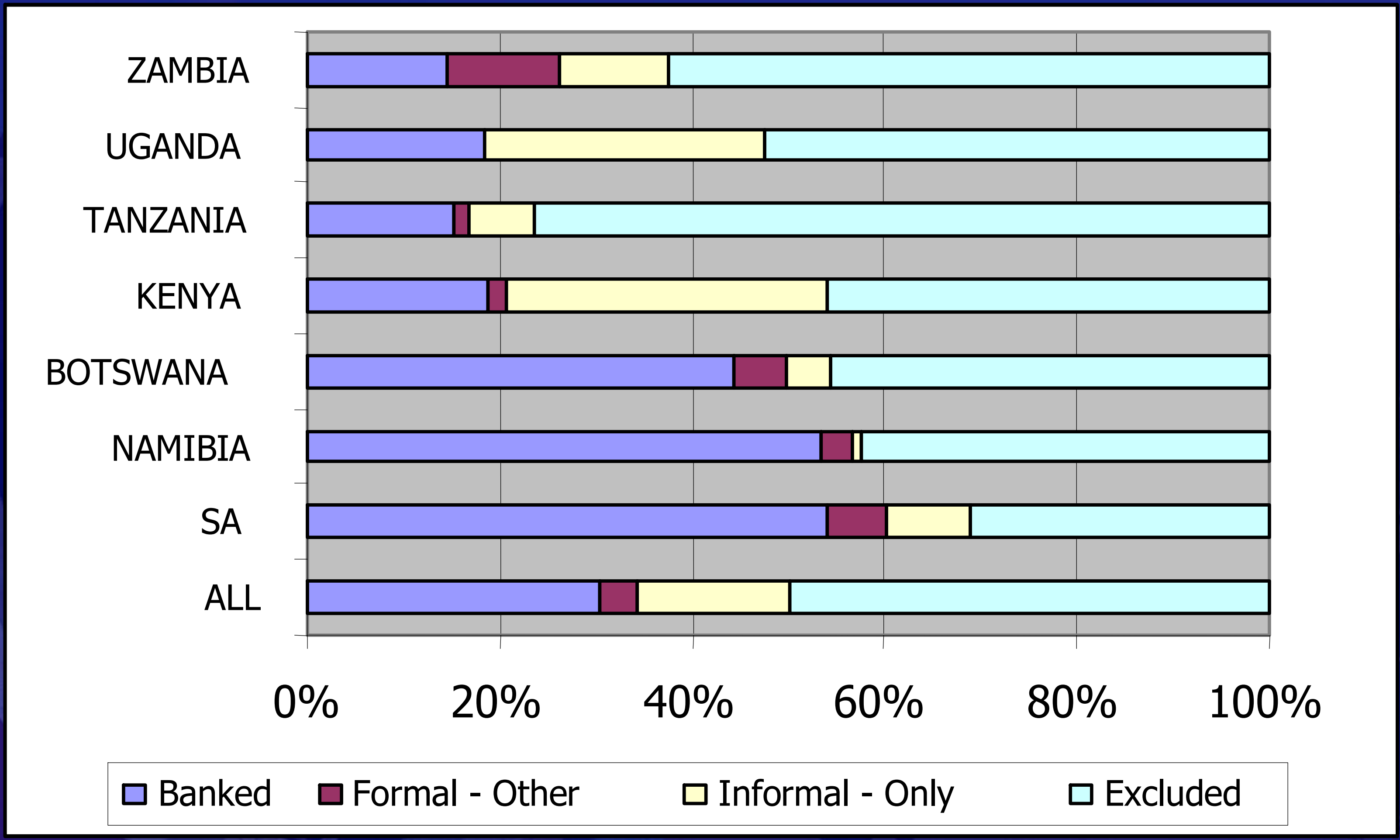
What is the current context?

- Governments make rules impacting on “microfinance”, ranging from prudential to conduct rules (e.g. Uganda, South Africa, Tanzania, Zambia, Kenya)
- Microfinance policies are real or considered in many countries
- Credit registries are slowly considered, slowly spreading
- Capacity building is emphasised but still inadequate in quality and quantity
- Financial literacy is being regarded as important, slow progress with initiatives (e.g. Uganda, SA)
- Market research important and showed good results – also understand segmentation in markets

Access compared



Banked, plus Formal Other = Formally Served
Formally served, plus Informal Other = Financially Included

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Source: FinMark Trust and FinScope, 2007

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Status of financial inclusion by Middle and Low Income Countries

(millions)	*Total*	*MIC (3)*	*LIC (4)*
Banked	27.4	17.9	9.5
% of total	*30*	*54*	*16*
Formal – Other	3.3	2.0	1.3
"Formally served"	30.7	19.9	10.8
% of total	*34*	*60*	*19*
Informal Only	14.4	2.8	11.6
Excluded	44.5	10.6	33.9
Total adult population	91.3	33.3	57.9

Overall 34% banked, 2 out of 3 people thus "unbanked"

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Source: FinMark Trust, 2007

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Implications of the access analysis

- Where formal higher - informal lower and vice versa
- Majority of people without access cannot afford access
- If we half the cost of basic bank accounts a considerable number more people could afford it (see forthcoming FinMark work in this regard and consider theme on client cost and risk)
- Need infrastructure reach, technology use and innovative approaches

Source: FinMark Trust, 2007

What do we want to react to?

- Still large % excluded
- Best outreach through “private” sector
- What is quality of outreach?
- Poverty pervasive and we have new challenges (e.g. climate change)
- Challenges:
  - To improve inclusion
  - To leverage outreach infrastructure
  - To do it with appropriate products and delivery systems
  - To ensure financially literate clients
  - To impact on development objectives

What should be the reaction – Government?*

- Ensure understanding of the local financial market, the actors and the clients before acting, also think about wider impact on poor clients
- Supporting permanent, local financial institutions rather than direct engagement
- Support technologies, systems that help to provide range of products through relevant delivery systems
- Make sure that rules and regulations are relevant, take more than microfinance in consideration, and test the impact to see whether you get the envisaged results
- Ensure emphasis and implementation of consumer financial literacy, as it is the foundation of a healthy informed market
- Support information flow improvement, financial institution registration and reporting, credit registries and any market improvement effort

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*Adapted from UN advisors group on Inclusive Financial Sectors Reports, 2007

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What should be the reaction – Regulators?*

- Financial inclusion should be a major objective of regulation
- Regulators must be flexible in their approach within the "regulator's dilemma"
- Supervision should cover financial institutions and those that they work through, e.g. telecommunications companies
- Ensure enabling environment for all actors working towards improved inclusion

What should be the reaction – Development Partners?*

- Quality of support as important as quantity
- Focus on the bottleneck – shortage of strong institutions and managers
- Assistance should compliment, not compete or obstruct
- Need better information on development partners' performance, what is not measured cannot be managed
- The old elusive coordination of activities should be a non-negotiable, at country, regional level and continent level
  - **World Bank making financial markets work**
  - **UN focus on financial inclusion strategies at country level**
  - **DFID making financial markets work for the poor**
  - **German led European approach to financial market development in Africa**

What should be the reaction – Private Sector?*

- Providing services to the poor can be profitable while affordable for the client.
- Leveraging private sector infrastructure can play an important role in improving outreach and quality of outreach
- Private sector participants should thus be broader than just banks
- Private sector should be engaged in processes towards regulation
- Many roles exist for the private sector: provide capital; building infrastructure; developing new products, services and technologies; improving human and institutional capacity

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How do we keep the discussion going?

- Propose the African Microfinance Association
- An association of individuals
- Starting modestly, offering dissemination of information, and a meeting every two years
- Run in “cyberspace”, host already committed to supply an internet based registration and maintenance service (IOB)
- Not competing with networks, other institutional and interest groupings
- To test interest, submit business card throughout the conference at registration desk

Thank you, and enjoy the conference