



**FinScope Africa**  
**Informal Information Exchange**  
**Uganda**  
**24 April 2006**





- Independent trust formed in April 2002
- Initial funding from UK's DFID
- Mission of "*Making Financial Markets Work for the Poor*"
- Facilitating and catalysing the next generation of development around access to financial services
- Transaction banking, insurance, housing finance - also savings, enterprise finance
- Research, facilitation, advocacy, innovation
- Mandate: SACU and Africa
- [www.finmarktrust.org.za](http://www.finmarktrust.org.za)





- Questions:
  - Is the growth sustainable?
  - How can increased aid support be better utilised and accelerate growth rates?
  - What role do financial markets play?
  - How can the poor contribute and benefit?



**Why are we talking talk about financial markets *in Africa?***



- New “scramble for Africa” by strong regional players (Nigerian, SA, Kenyan) and by Europeans
  - Nigerian investment in Ghana
  - 350 new investments by SA corporates in past 3 years – compared with 230 between 1996 and 2000
- Standard Bank – 8% of group profits from 17 non SA African countries
- Insurance – investments by African Life, Metropolitan etc.
- Is this evidence of “financial markets working”?
- If so, what does it mean for Africa’s poor?



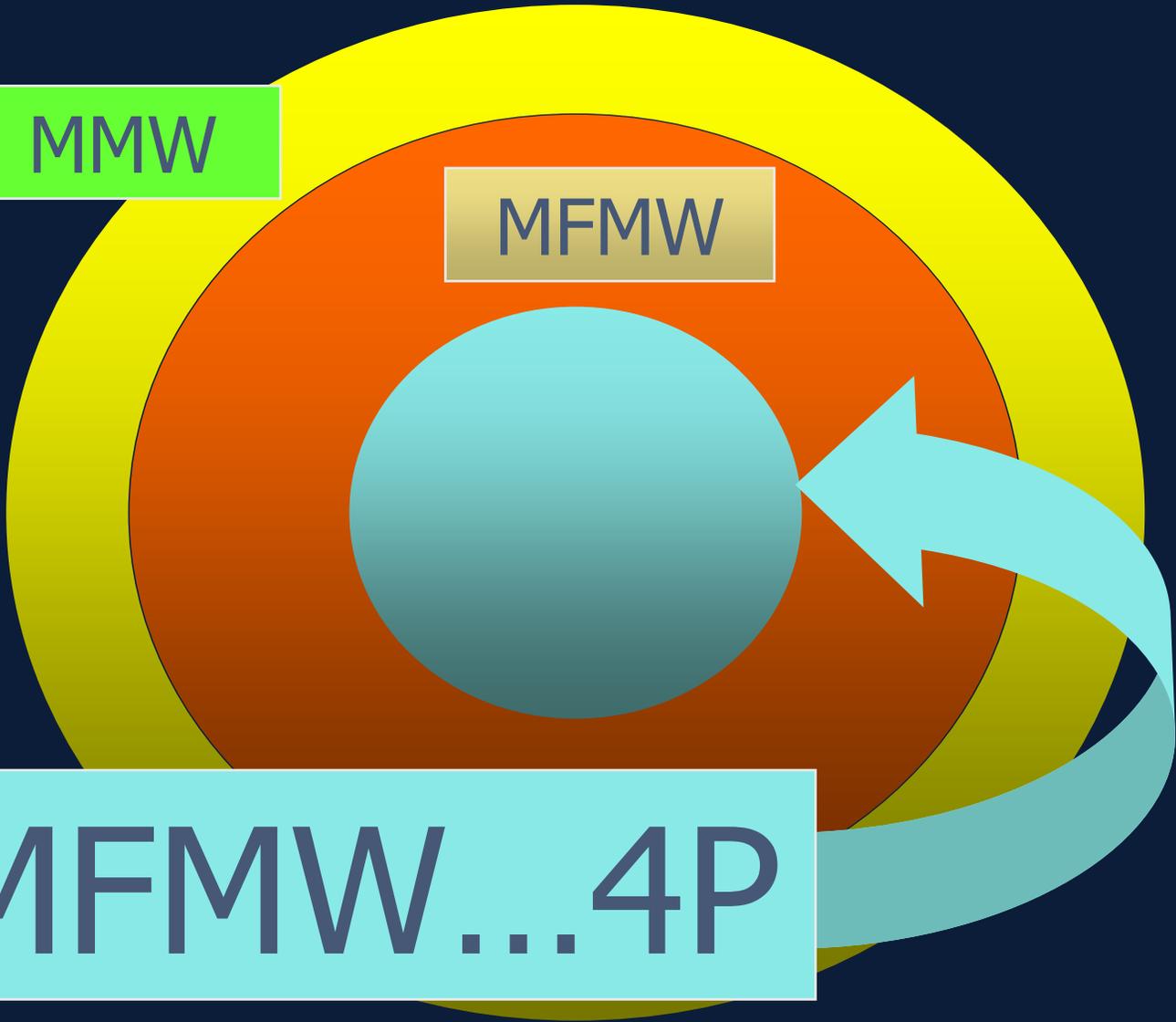
**Financial sector investment in Africa**



MMW

MFMW

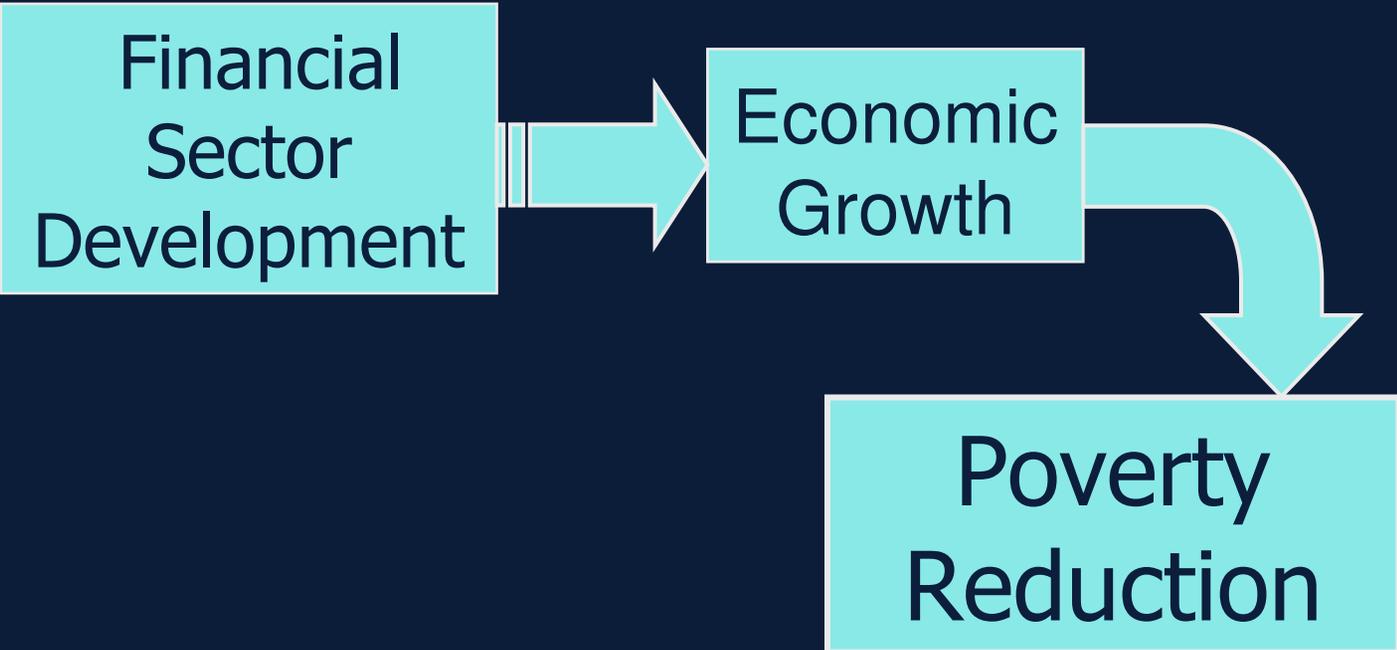
MFMW...4P





- If the premise is that a market is either not working or not achieving its potential
- Solution comes from *that particular* market, not from a blueprint imported from somewhere else
  - Information is the key to understanding
- Requires the involvement, and buy in, of the multiple stakeholders in that market
  - Governments, private sector, donors, NGOs
- “Making Markets Work for the Poor ” – Gibson, Scott and Ferrand, available from [www.commark.org](http://www.commark.org)





**MFMW – strong link between FS development and growth**



- Role of financial intermediaries
  - Savings mobilisation
  - Risk management
  - Assessment of investment opportunities
  - Monitoring borrowers
  - Facilitating exchange of goods and services
    - ✓ £100ms in remittances from the UK to Nigeria, Ghana, Kenya
    - ✓ SA residents remit R6bn to other African countries
- *Efficiency* of intermediation more important than the type of intermediation



**MFMW – robust evidence that “finance causes growth”**



- Better developed financial markets lead to more equal income distribution
  - High inequality associated with lower growth
- Availability of finance helps to distribute opportunities more fairly
- Access to finance by SMEs removes constraints on their growth leading to greater efficiencies  
NB a healthy SME sector symptomatic of a positive overall business environment



**MFMW and poverty reduction**

- Primary role is to facilitate the exchange of goods and services
  - Financial sector heavily regulated
  - Governments must make informed decisions about what needs to be regulated, then regulate effectively
- World Development Report 2005:
  - Ensure macroeconomic stability
  - Foster competition
  - Secure rights of borrowers, creditors and shareholders
  - Facilitate flow of information
  - Ensure banks do not take excessive risks



- Financial markets help the poor through:
  - *Indirect* benefits flowing from improved national prosperity
    - ✓ NB dominant role of “mainstream” FSD including capital markets
  - *Direct* benefits associated with access to financial services
    - ✓ Access to financial services allows people to contribute to, participate in and benefit from economic growth

Of themselves, working financial markets are not intentionally pro-poor; MFMW4TP requires that the poor have access to financial services



**MFMW...4P – requires pro-growth, pro-access policy focus**



- Ability of poorer households to protect themselves against shocks
  - Savings at least as relevant as insurance
- Access to credit allows people to acquire productive capital and enhance income
- Permits the transfer of payments, safely and cheaply
- Indirect benefits
  - Access to credit acts a substitute for child labour – long term income benefit
  - Individual empowerment leads to enhanced risk taking



**Access to finance – relevance for individuals**



- Private sector
  - How can we deliver services profitably to the poor?
  - What products are appropriate for them?
  - Where are the new markets segments?
- Governments
  - What incentives can be offered to private sector?
  - Change the regulatory regime to-
    - (i) remove market obstacles
    - (ii) encourage competition
  - Should Govern. supply the services?



**MFMW4P – demands responses from private sector, governments (and donors)**

- Primarily an enabling role
  - Have a vision of how financial markets must be shaped to fit current and future needs
    - ✓ Universal access may not be the goal
  - Regulatory reform – competition and diversity at heart of MFMW4P
  - Information on financial markets
  - Infrastructure improvements and reform
- Consider *appropriate* forms of direct intervention – but the track record is poor

Political commitment required to bring about improvement in access – outside SA, it is not clear which African states regard this as a priority



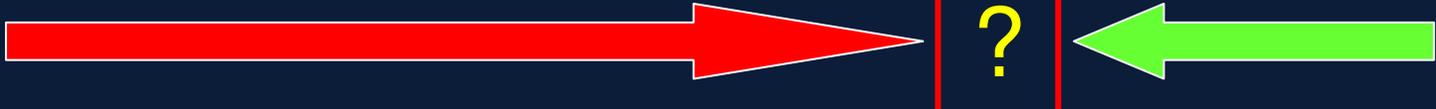
**Government role in improving access to  
finance**



**MARKET PROVISION**

**STATE PROVISION**

- TRANSACTION BANKING
- HOUSING FINANCE
- INSURANCE
- ENTERPRISE FINANCE
- CREDIT
- SAVINGS



**The market's access frontier**



**Slide 15**

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**m1**

markn, 6/5/2005



- The Prahalad view – a fortune at the bottom of the pyramid?
  - If it is there, it may not be obvious at first – the ICICI experience
- A source of incremental profit where traditional markets are mature
- Where the low unit cost: high volume economics can be made to work
- Where the cost of the R&D has already taken place – leveraging/replicating know-how
- Where infrastructure improvements bring a market within reach
- Where the long term reward is sufficiently exciting to merit sub-optimal profits in the short term – Mzansi?



**Is pro-poor bad for business?**



- Penetration of formal sector in African countries often very limited
- Poverty impact of microfinance is not clear BUT....
  - (CGAP) >750m users of “alternative financial institutions” globally (50% postal banks, only ¼ of the 750m linked to credit)
  - Kenyan PO Savings Bank – 471 outlets, commercial banks *in total* have 512
  - Benin: 2x as many PO savers as in banks
- “Both microfinance and mainstream financial development are needed and should be complementary” – Honohan (World Bank Working Paper)



## Mainstream or microfinance?



- Access not the same as usage – usage is the best proxy
- Necessary for governments to know:
  - What the state of access is
  - How policy initiatives are improving access over time
  - How they are doing compared to other countries
- Private sector wants to know:
  - Who is using a particular product
  - Where they are (or aren't)
  - What their propensity to buy a particular product might be in future



## Information *asymmetry* at the heart of poorly functioning markets

- In financial markets, must take into account:
  - Physical access
  - Appropriateness of products
  - Affordability
- Informal as important as formal – therefore demand-side measurement is key
- Should take into account the context in which financial decisions are made
- Spatial mapping completes the picture



**Measuring access to finance**



- FinScope is a survey tool that catalyses and supports **processes of change** in financial markets that lead to a substantial improvement in access to financial services for individuals and small businesses
- FinScope Africa is a continental resource for the design and management of FinScope surveys that develops comprehensive data and insights into the **financial behaviour** of consumers and small businesses in Africa
- FinScope information provides the basis of:
  - **policy interventions** to improve access
  - **innovative product design** and approaches to distribution
  - **consumer awareness** and action



**FinScope Africa - vision**

- FinScope in Africa and globally–
  - ✓ RSA, Botswana, Namibia, Zambia, Tanzania, Kenya, Ghana, Pakistan!
  - ✓ Pilots – Lesotho and Swaziland

**Over 25 000 interviews to date!**

- Alignment with the World Bank on core questions to measure financial assess globally
- Establishing a management structure and securing global donor funding to support and facilitate in-country capacity building and programme implementation

Recognises that information is central to the sound functioning of financial markets, relevant to policymakers and profit-oriented service providers alike



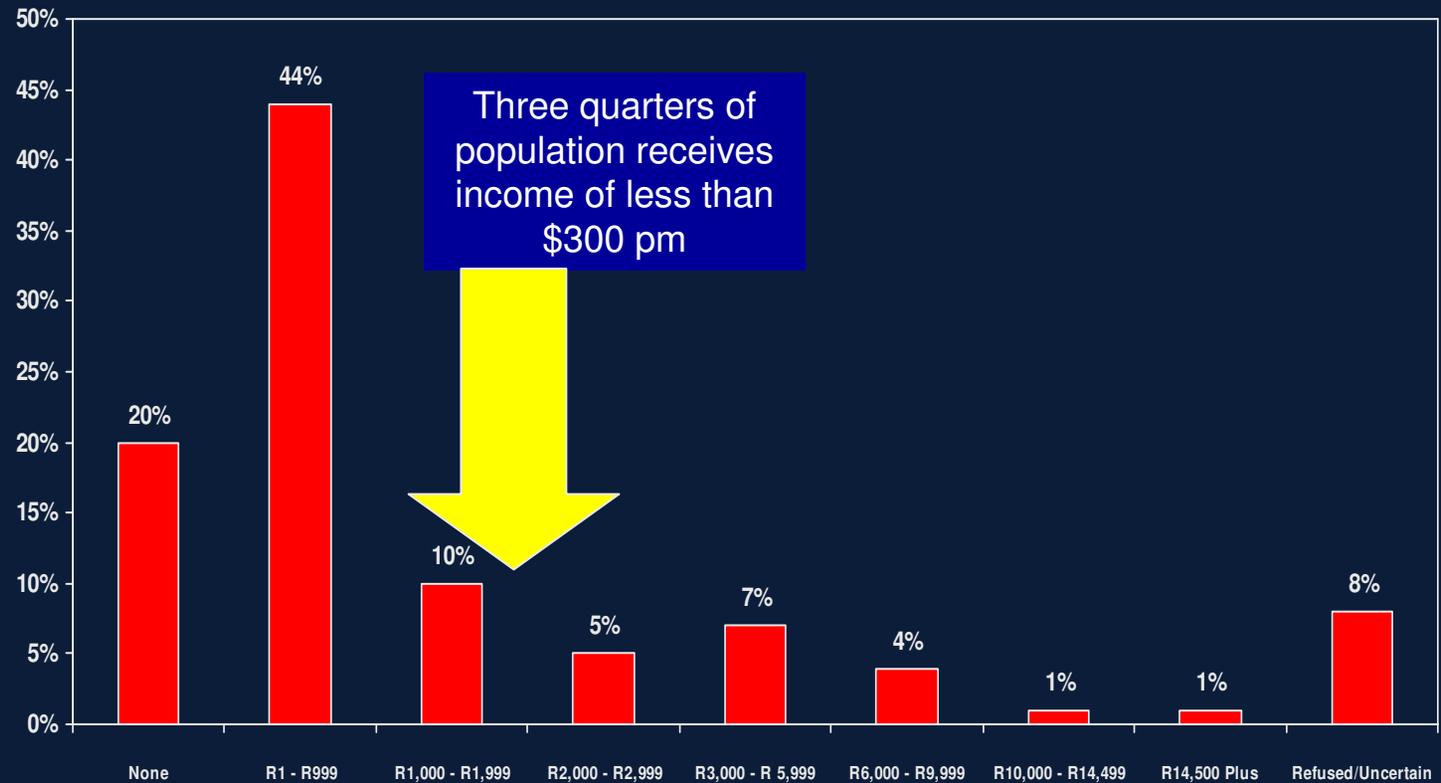
**FinMark Trust's contribution**

# Challenges to extending the access frontier

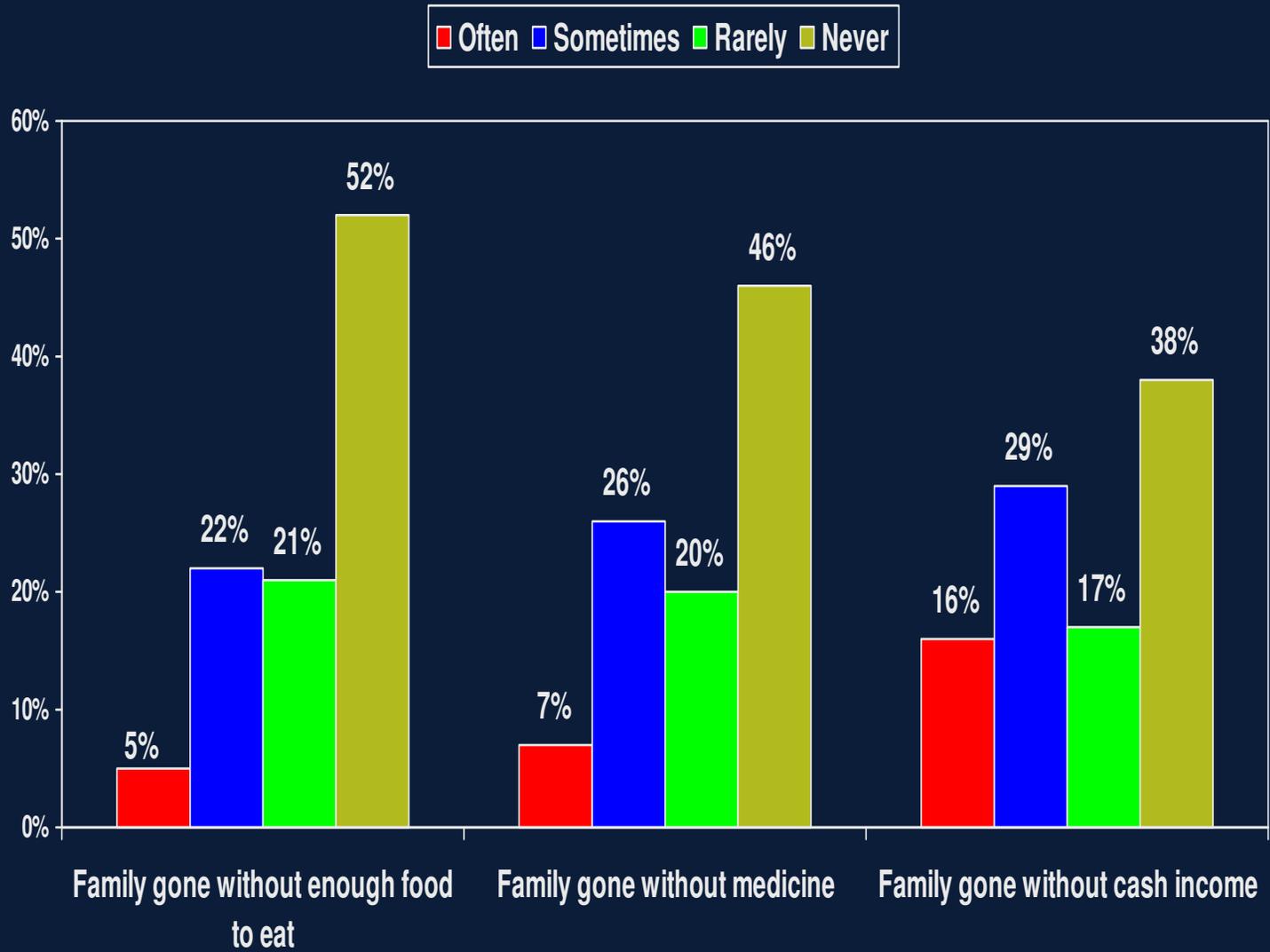
- Poverty
- Income
- Physical access
- Financial literacy
- Negative perceptions



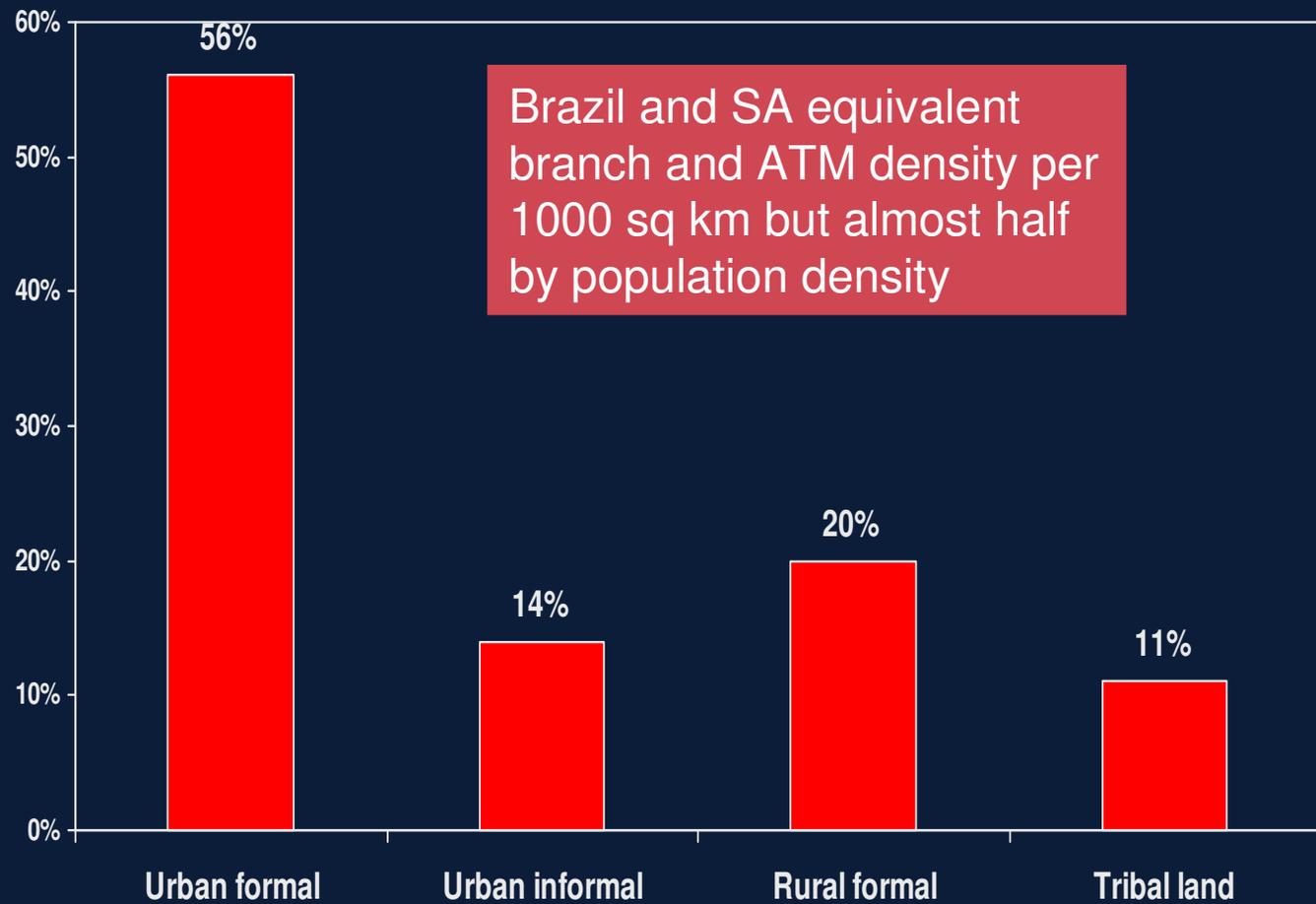
- Average household size of 4 – suggests \$2.50 a day per head



## Income Profile South Africa



# Poverty Gone without basics



- Physical access to banking tracks the formal/informal divide
- Takes twice as long (37mins) for people in tribal land to get to a bank
- Costs of banking have to take this into account
- Insurance: 22% say “nowhere close to make payments/buy service”



**Physical access**  
**Have access to a bank “nearby”**



	Never heard of	Heard but doesn't mean anything	Heard and know what it means
Savings account	9	13	78
Debit card	34	22	44
Cellphone banking	42	28	30
Burial society	9	12	79
Insurance	13	21	66
Interest rate payable	37	23	40

- Low awareness of terms such as “debit card”, “insurance” and “interest rate payable”
- Personal visit by financial services company (48%) is preferred medium of communication
- A third of population want to learn how to be able to save more
- Thirst for knowledge is great
- Face-to-face money advice



## Financial literacy



- Banking
  - service fees (61%)
  - long queues (68%)
  - lack of respect (49%)
- Insurance
  - cannot get money quickly (25%)
  - lack of respect (89%)
- Micro lenders
  - don't understand how they work (30%)
  - not understanding when payments can't be made (20%)
  - too much credit and service fees too high (17%)





- Backdrop
  - death or serious illness of main wage earner “likely” (14%)
  - 20% have lost a family member in the household, 40% outside the household
  - job loss of main wage earner also “likely” for 14%
  - 78% have no medical cover
  - perceptions of precariousness
  
- Perceptions not all negative
  - 17% don’t use but would like to
  - Trust in life companies as preferred source of advice





- 69% say they can't afford it
  - "Skipping" premiums to make up the difference later not an option for a quarter of people
- Low levels of understanding
  - One third do not understand how life insurance companies work
  - 43% would want to be sold insurance by a broker or a company representative
  - Affordability concerns suggest need for trust
- Consequences
  - More affordable products
  - Product innovation to meet needs (eg job loss)
  - Distribution needs to retain some personal contact



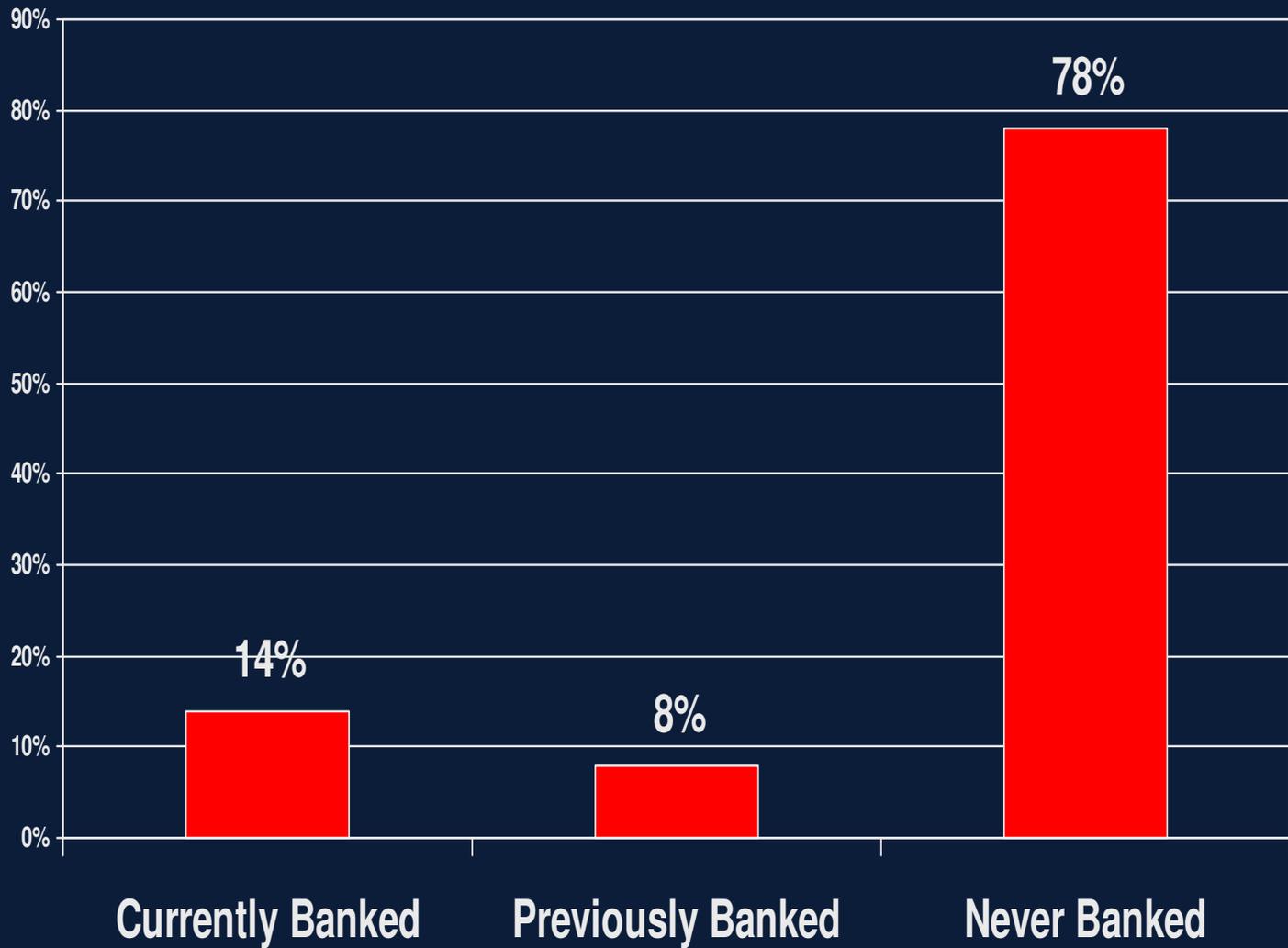
# Life insurance



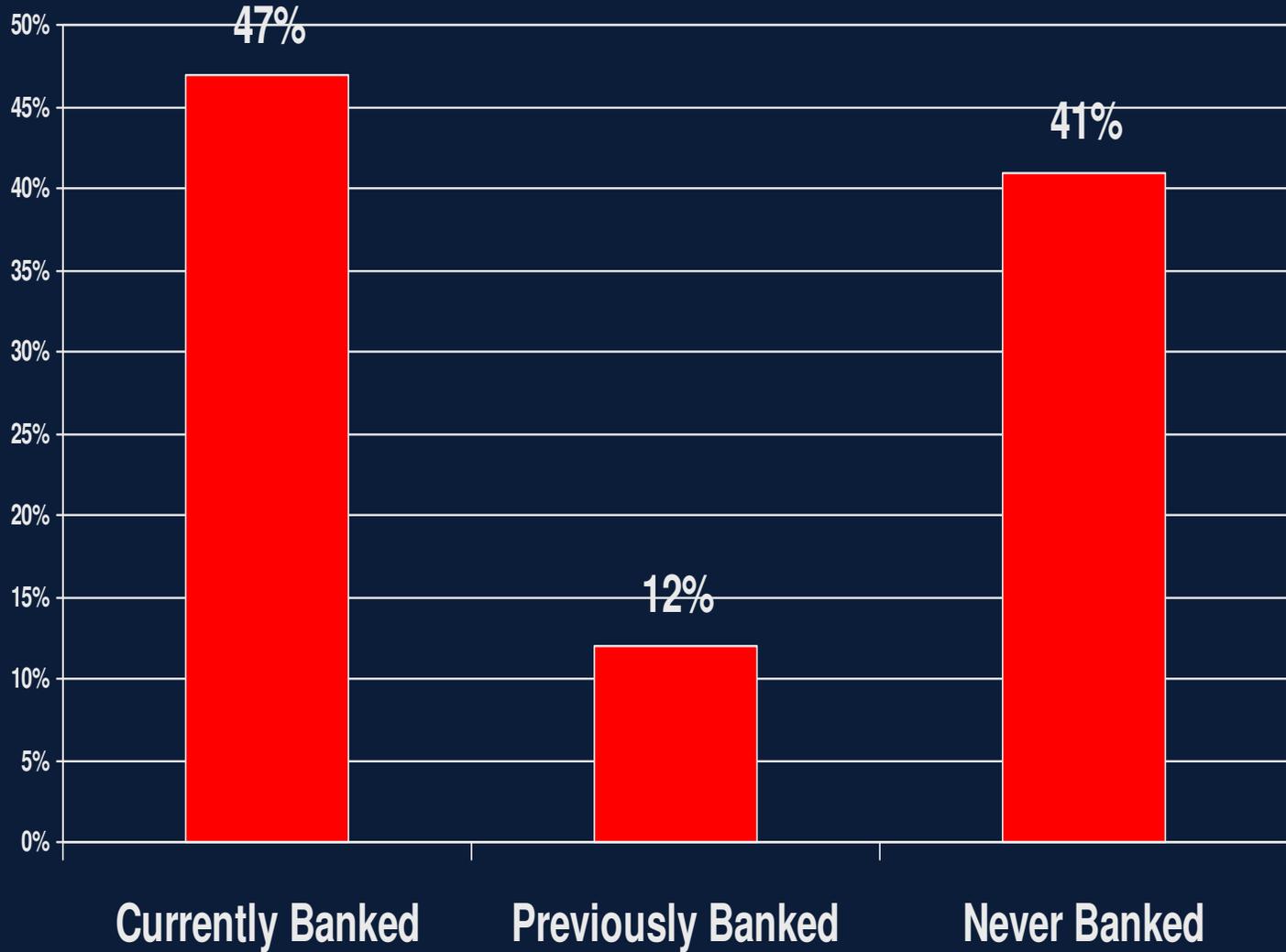
- Low penetration
  - 92% have never had car insurance
  - only 6% have household contents
  - short term insurance virtually non-existent in the poorer population
  - even 90% banked, full time formally employed – 3% usage
- Reasons for not insuring
  - affordability (46%)
  - don't need it (30%)/nothing to insure (5%)
  - 31% say they don't understand how it works



## Short term insurance

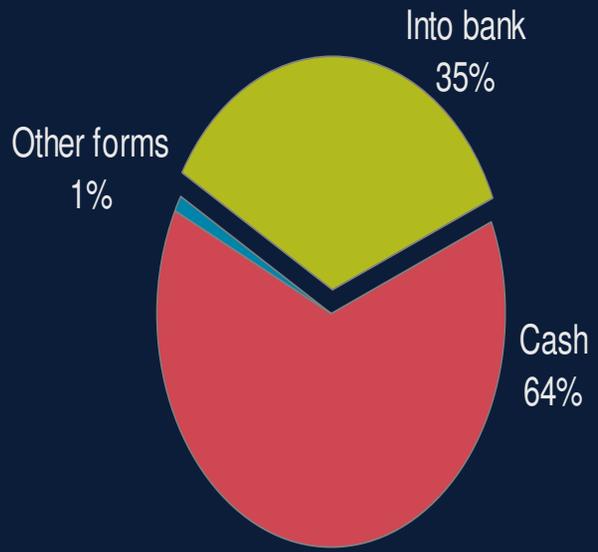


# Bank Status Zambia



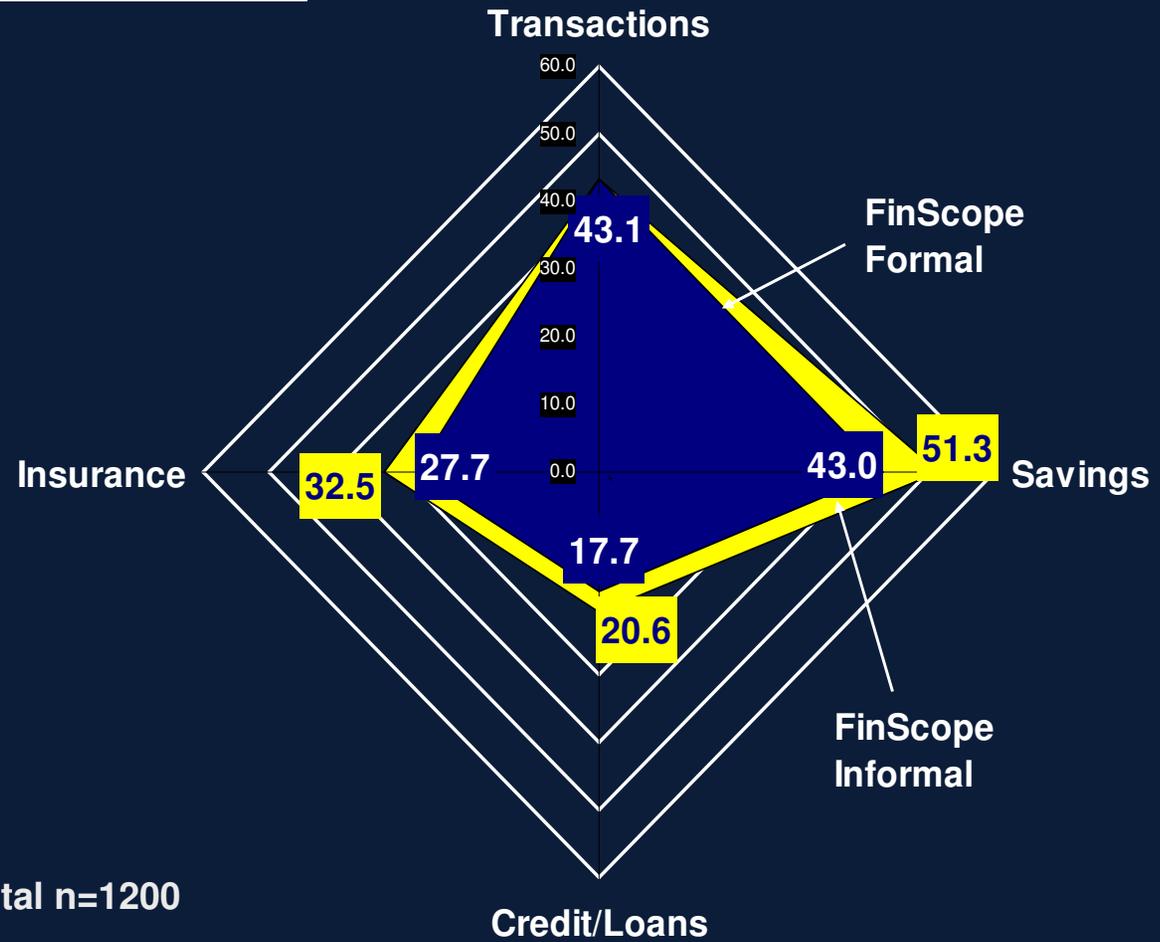
## Banking Status South Africa

- Cash is bypassing the banks
- 25% of banked - 3.6m - withdraw all of salary as soon as paid



47% of money received does not end up in a bank



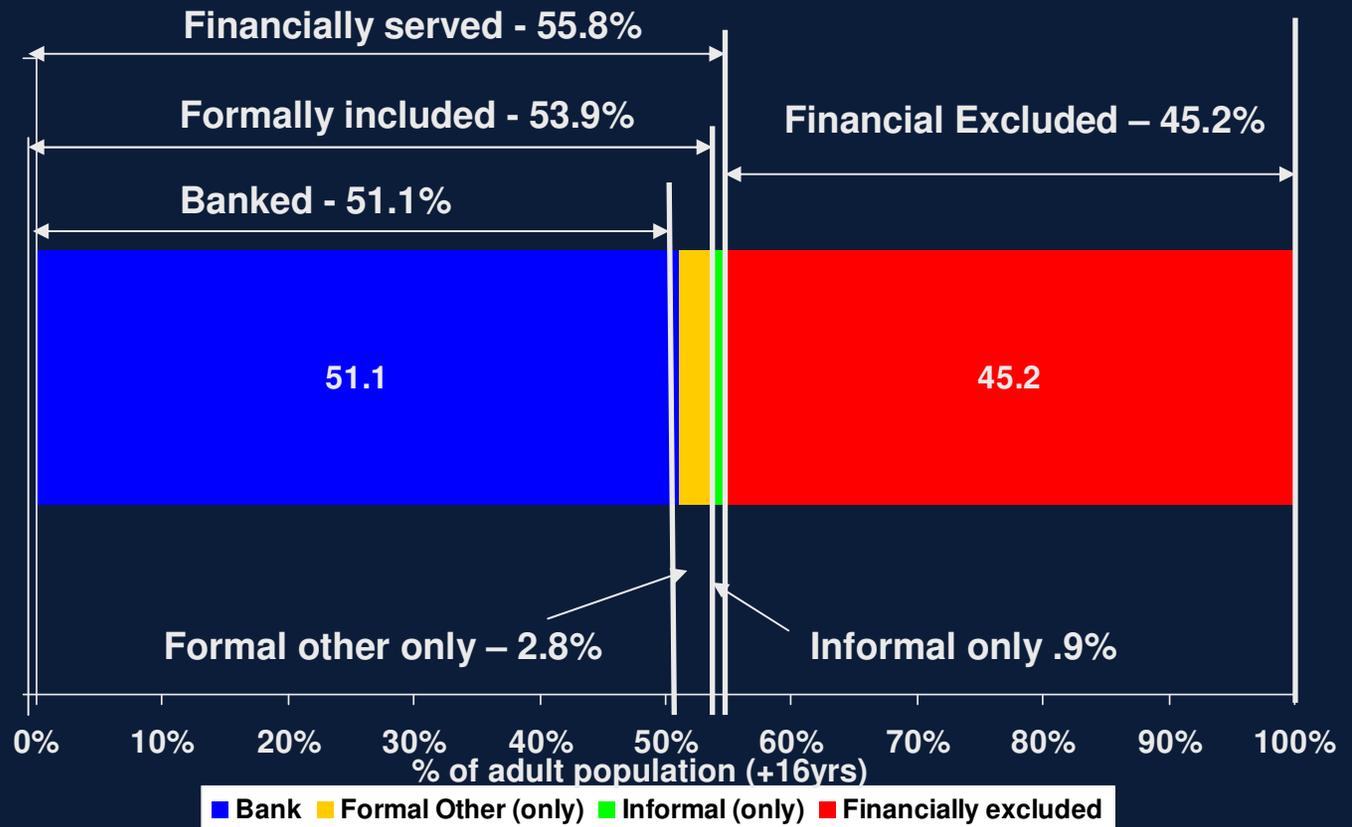


Base: Total n=1200



# The access landscape of access – Botswana 2004

## Namibia - Financial Access Strand



Source: FinScope Namibia 2004



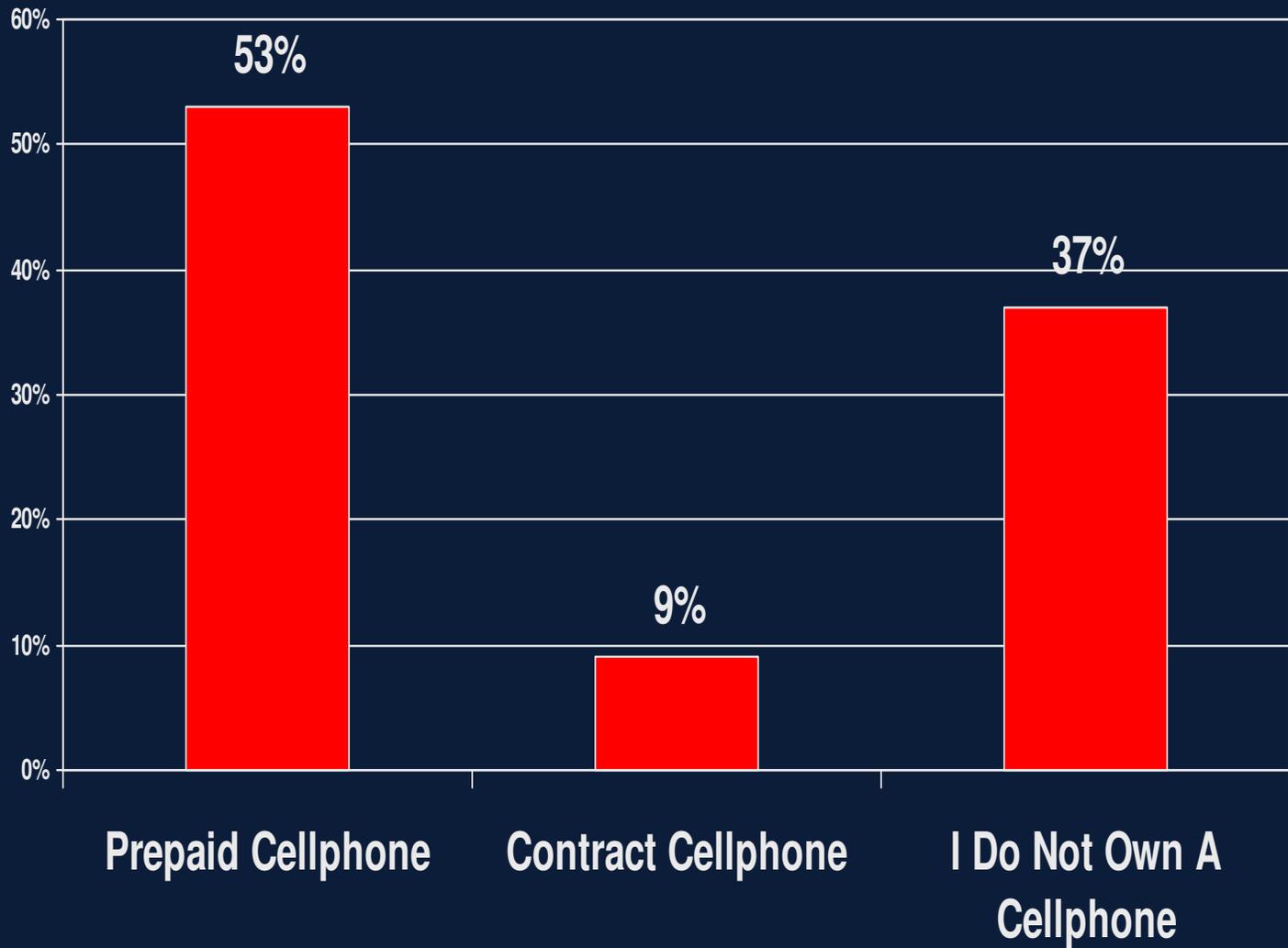
# Headline indicators of access



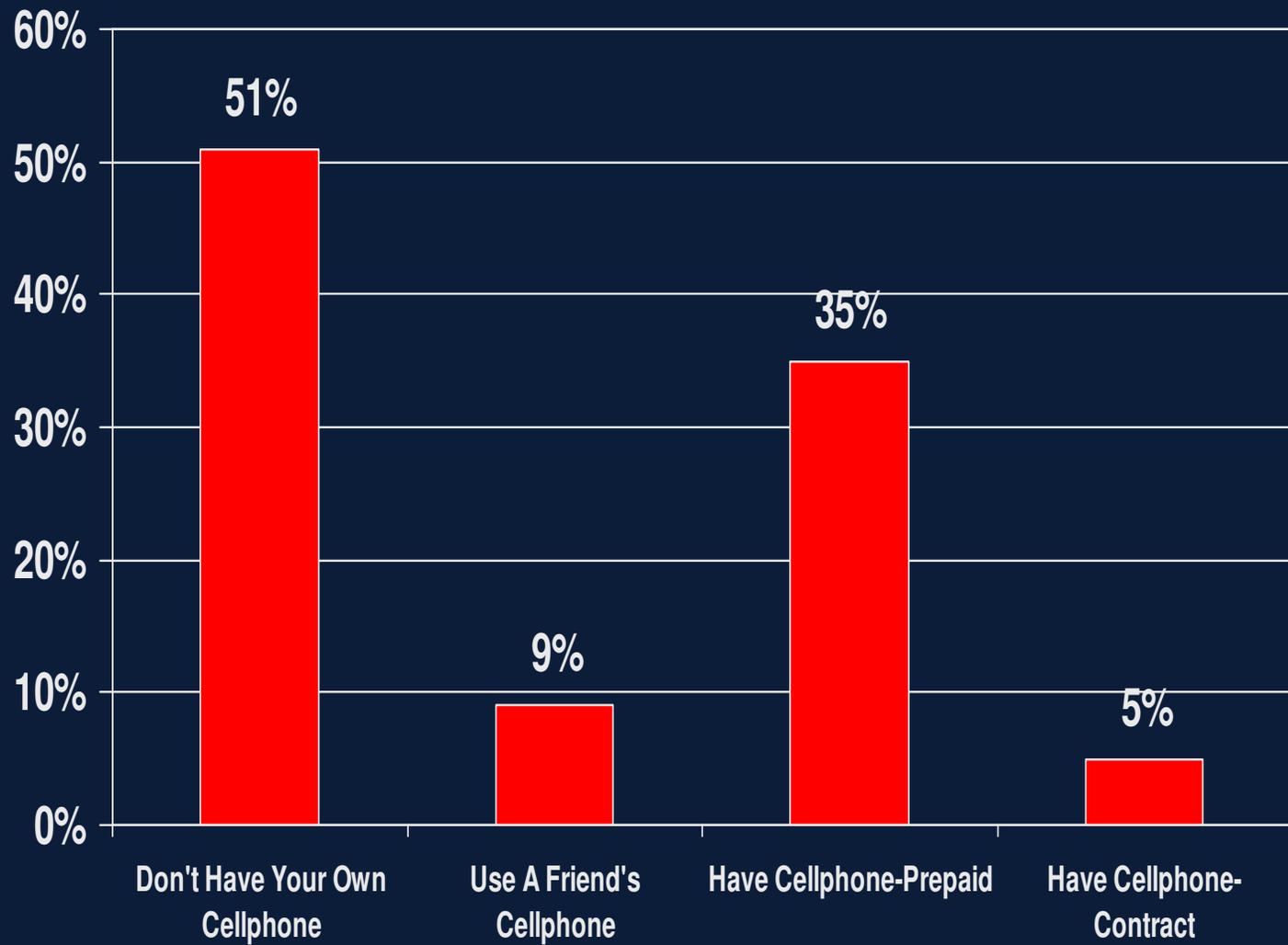
# Mobile Banking



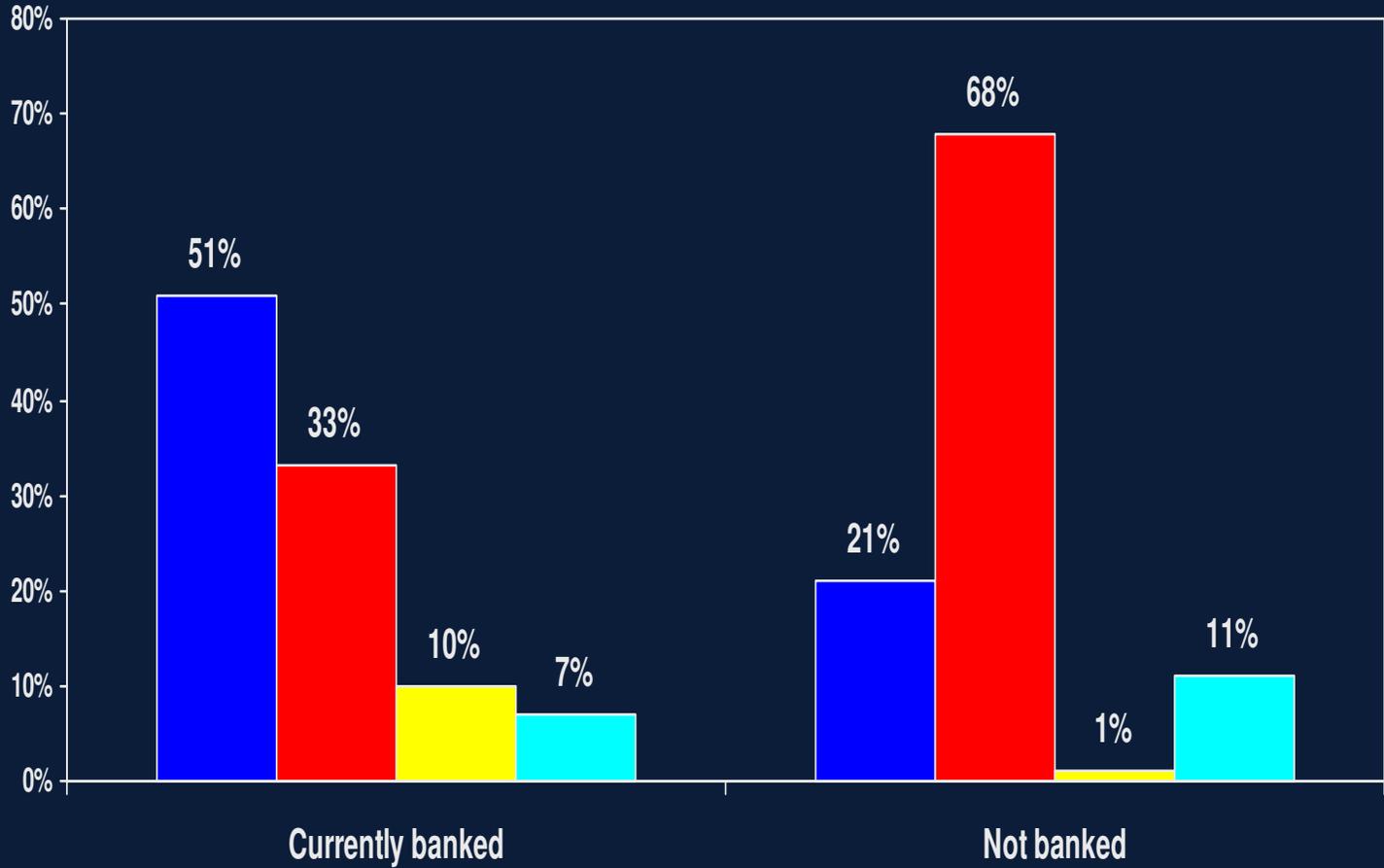
**New Frontiers**



# Mobile Phones Zambia



# Mobile Phones South Africa



# Answering the Challenges to extending the access frontier

- Poverty
  - Income
  - Physical access
  - Financial literacy
  - Negative perceptions
- Consumer Understanding
  - Unpacking the barriers
  - Appetite for technology
  - Gaps in knowledge and application
  - On-going process of learning





- ABSA SA (Barclays)
  - \$5m for “low end” product development
  - Communication Strategy changed
  - Staff Training
  - Credit policy
- Bank Namibia – most successful product launch
- First National Bank SA – Mobile ATM Strategy development
- Department of Finance – Policy formulation
- MFSA – member organization development



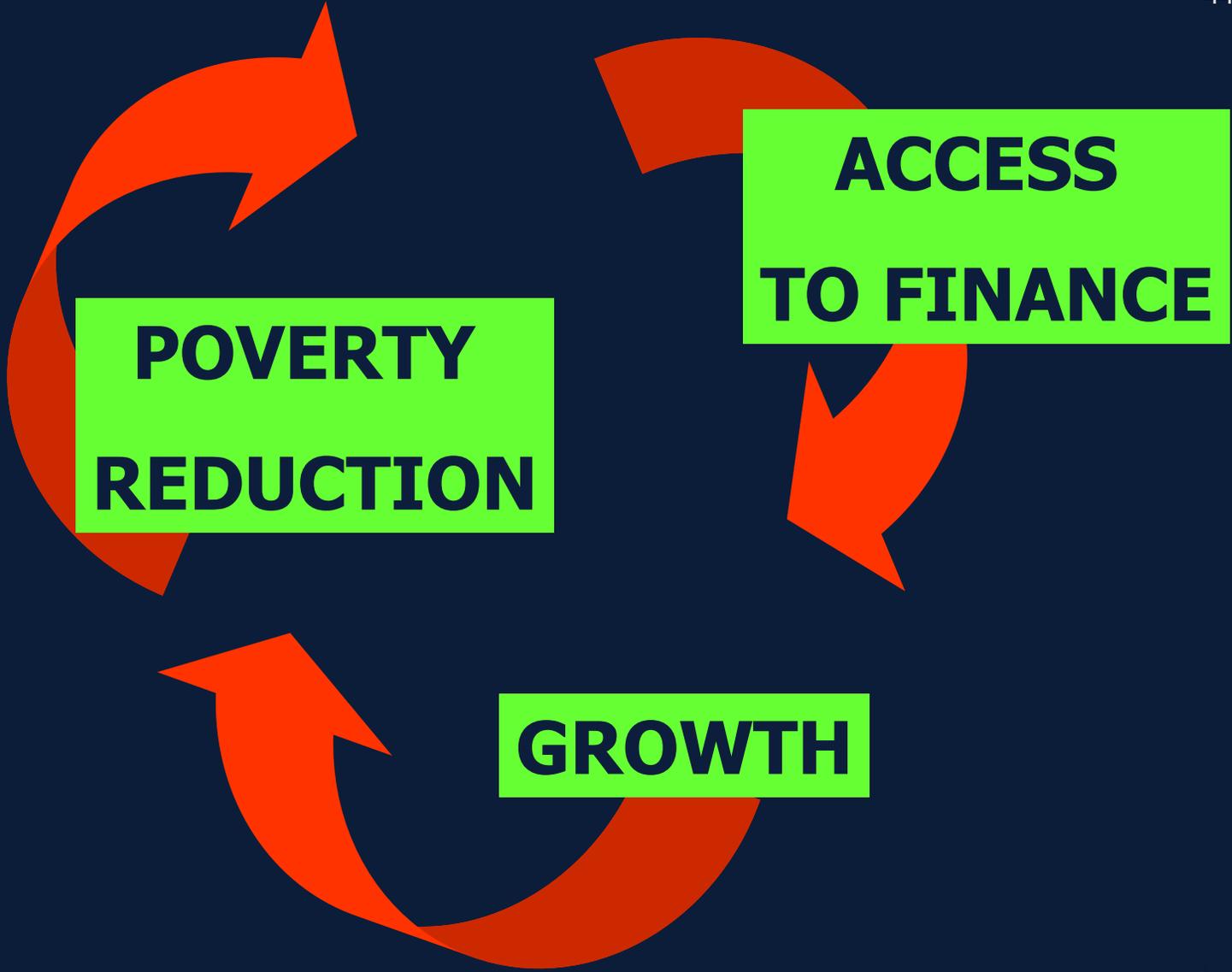
**Thank You**





- Information for the development of financial markets across Africa would underpin its attractions as an investment destination
- MMW approach calls for practical, relevant solutions – a contrast to the ideological approaches that have served Africa poorly
- FSD provides an unusually compelling reason for cooperation between private sector, governments and donors
- FSD and access to finance should be parallel processes
- Regionalization will support this





**Thank you!**