

The future of inclusive finance in Africa

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Keynote Address
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Outline

- ❑ Where do we come from?
- ❑ The future of inclusive finance in Africa
 - Problems and potential
 - Inclusion challenges
 - Branchless banking?
 - Policy and implementation
- ❑ The elephant in the room
- ❑ Initial observations
- ❑ Last words



Where do we come from?

- ❑ The AMC Series
 - I. 2003 – Innovation in microfinance in Africa
 - II. 2005 – Integrating microfinance into formal financial markets
 - III. 2007 – New options for rural and urban Africa
 - IV. 2009 – Affordable access for low-income African entrepreneurs
 - V. 2011 – The future of inclusive finance in Africa?**
 - VI. 2013 – Theme and location?
- ❑ Evolving story, echoes challenges we do and will face
- ❑ Access still major challenge, any progress since 2003?
- ❑ From microfinance to inclusive finance
- ❑ From stand alone to integrated
- ❑ How do we learn from each other?
- ❑ Is this conference a contribution or just an event?



Households with deposit accounts (2009)	
Africa	12%
South-Asia	22%
Latin America	40%

Problems and potential

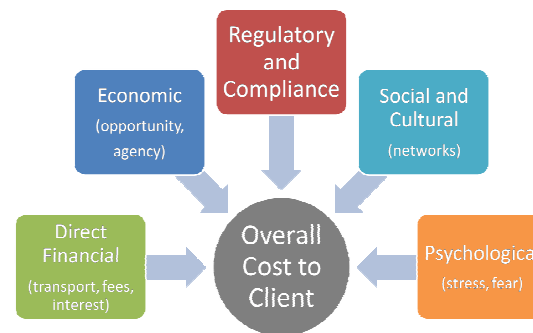
- ❑ 12% of households with deposit accounts
- ❑ Unbanked one challenge, under-banked another
- ❑ Still high poverty, especially rural
- ❑ State of enabling environment
 - supportive legislation
 - investment in education
 - investment in consumer financial literacy
 - investment in infrastructure
- ❑ 37% mobile phone subscribers
- ❑ Positive trends in investments ('03 to '10 CAGR – 21%)
- ❑ Creates demand and enable economic activities
- ❑ Access and use contribute to economic development



Inclusion challenges

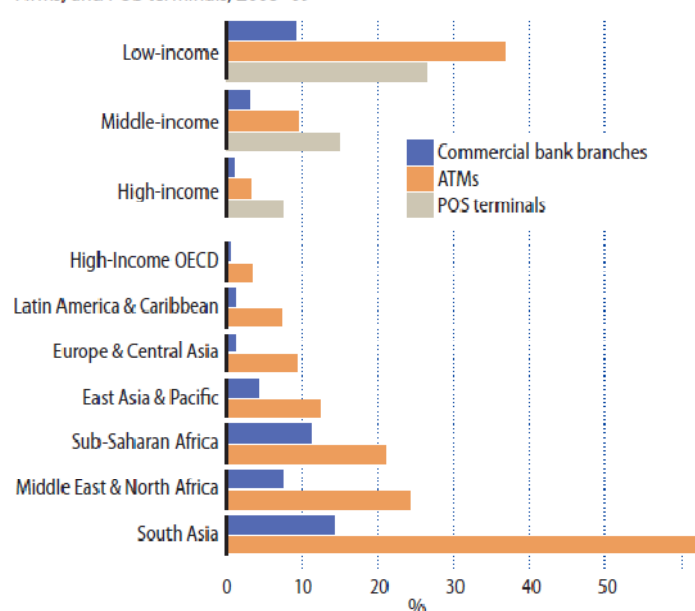
(mostly from Owolade et al, 2010 and Coetzee, 2011)

- ❑ Cost to client and responsible finance
- ❑ Branch based approaches (cost to serve)
- ❑ Information and education



	No of branches per 1,000 sq km	No of branches per 100,000 people	No of ATMs per 1,000 sq km	No of ATMs per 100,000 people
The bottom 5 th percentile	0.18	1.24	0.26	0.58
Example	Bolivia, Kazakhstan	Ethiopia, Honduras	Tanzania, Nepal	Bangladesh, Nepal
The top 5 th percentile	119.65	49.74	253.12	101.46
Example	Bahrain, Belgium, Malta	Austria, Belgium	Korea, Malta, Japan	Canada, USA, Spain
Median	4.80	8.42	10.07	16.63
Example	Estonia, Sweden	Turkey, Poland	Sri Lanka, Costa Rica	Mexico, Thailand

% change in the number of commercial bank branches, ATMs, and POS terminals, 2008–09

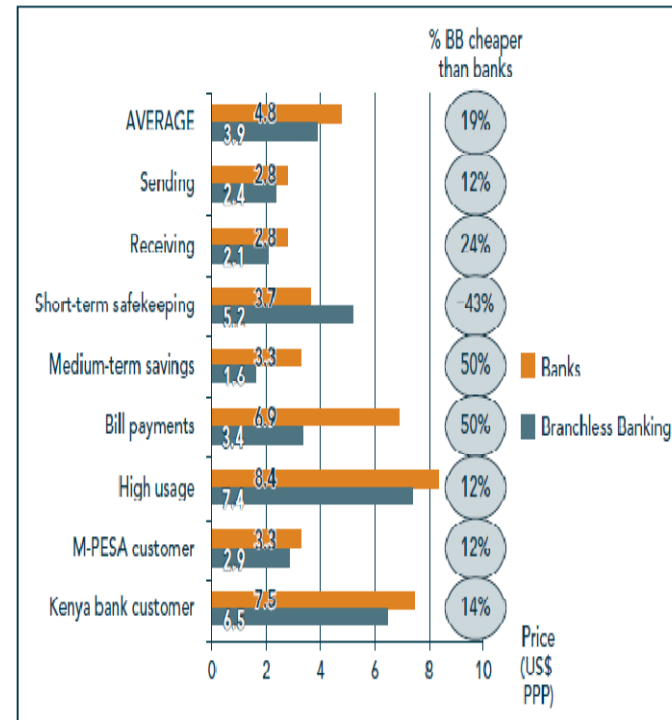


Branchless Banking?

(mostly from McKay and Pickens, 2010)

- ❑ One strategy, now popular
 - One of many?
- ❑ Does it reach large numbers of low income and poor clients?
 - Yes, improved inclusion, up to 37% in select settings
- ❑ Are prices lower?
 - Yes, on average 19%
- ❑ What other services?
 - Still a challenge – loans, insurance services
- ❑ Can it replace branch based banking?
 - Relationships? Maintenance?
- ❑ Potential to decrease cost to client and cost to serve?
 - Yes, my view at least!

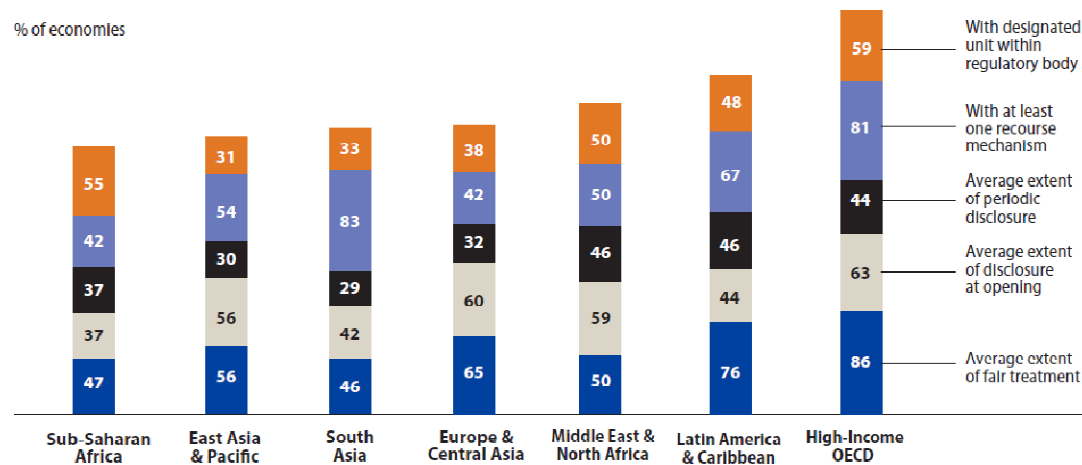
Figure 3: Prices for banks and branchless banking across eight use cases



Policy & implementation challenges

(mostly from CGAP, 2010)

- ❑ 45% surveyed globally had a policy on IF - objectives, guidelines, monitoring, but not known for Africa
- ❑ Consumer protection and education - weakest
- ❑ Partnerships and the lure of profit
- ❑ Regulatory challenges
- ❑ Infrastructure (e.g. cell coverage – little information)



The elephant in the room

(based on publications by Bateman, 2010; Odell, 2010; Duvendack et al, 2011)

- ❑ *‘Rigorous quantitative evidence on the nature, magnitude and balance of microfinance impact is still scarce and inconclusive....almost all impact evaluations of microfinance suffer from weak methodologies and inadequate data’ (Duvendack et al, 2011)*
- ❑ *‘Evidence from a number of studies (using a variety of methodologies over a number of settings) suggesting that microfinance is good for micro-businesses...the overall effect on the income and poverty rates of microfinance clients is less clear’ (Odell, 2010)*
- ❑ Microfinance – solution or problem, why “basic microfinance” is bad (Bateman, 2010)?
 - Ignore scale economies (Dichter’s Microcredit Paradox)
 - ‘Africa trapped as a bazaar economy’
 - Impacts agricultural sector especially badly
 - It extends informality, destroys social capital
 - ‘Commercialisation’ final nail in coffin
 - ‘Kicking away the ladder’ – ignores success of experience elsewhere
- ❑ Does this mean that access to financial services is bad for the poor and low-income, or that the method of access is?



Initial observations

- ❑ FI has a long road ahead in Africa, potential recognised – initial results positive, G20 efforts and principles confirm
- ❑ But need to overcome major challenges
 - Infrastructure
 - Regulatory issues
 - Good understanding of clients
 - Win-win partnerships
 - Full banking service through branchless approaches
- ❑ Cost-to-client and cost-to-serve
- ❑ From MF to FI, do not ignore questions and question the “now popular” (institutions, methodology, approaches)
- ❑ Caution
 - Short experience, little research
 - Can relationships be automated?
 - Payments are important but banking requires more!
 - There is only one Kenya, and one M-Pesa!



Last words

- ❑ The next conference theme and where?
- ❑ We should not hesitate to engage
- ❑ We should ask the difficult questions
- ❑ Vote of thanks:
 - Organising committee
 - Sponsors
 - Speakers
 - Participants
- ❑ This conference is what we all make of it
- ❑ This conference is for those not here and for the future of our continent

