Financial Inclusion in Africa

AERC Senior Policy Seminar XVIII,
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Seminar Report

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About African Economic Research Consortium (AERC)

African Economic Research Consortium, established in 1988, is a premier capacity building institution in the advancement of research and training to inform economic policies in sub-Saharan Africa. It is one of the most active Research and Capacity Building Institutions (RCBIs) in the world, with a focus on Africa. AERC's mission rests on two premises: First, that development is more likely to occur where there is sustained sound management of the economy. Second, that such management is more likely to happen where there is an active, well-informed cadre of locally-based professional economists to conduct policy-relevant research. AERC builds that cadre through a programme that has three primary components: research, training and policy outreach. The organization has now emerged as a premier capacity building network institution integrating high quality economic policy research, postgraduate training and policy outreach within a vast network of researchers, universities and policy makers across Africa and beyond. AERC has increasingly received global acclaim for its quality products and services and is ranked highly among global development think tanks.

Financial Inclusion in Africa – AERC Senior Policy Seminar XVIII
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Abbreviations

AERC	African Economic Research Consortium
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AU	Africa Union
ATPS	African Technology Policy Studies
COMESA	Common Market for Eastern and Southern Africa
CFTA	Continental Free Trade Area
EAC	East African Community
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IDRC	International Development Research Centre
IPAR	Institute of Policy Analysis and Research
KIPPRA	Kenya Institute for Public Policy Research and Analysis
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MPD	Ministère du Plan et du Développement
MFIs	Microfinance Institutions
NTB	Non-Tariff Barrier
OUP	Oxford University Press
PIDA	Programme for Infrastructure Development in Africa
REPOA	Research on Poverty Alleviation
RIDMP	Regional Infrastructure Development Master Plan
RAPI	Regional Action Programme on Investment
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WTO	World Trade Organization
UNFPA	United Nations Population Fund
SADC	Southern Africa Development Community
SMEs	Small and Medium Enterprises
SPS	Senior Policy Seminar
SQAM	Standardization, Quality Assurance, Accreditation and Metrology

Preface

It is now generally agreed that the financial sector is at the centre of economic growth and development in a decentralized economy (see for instance, Levine, 2005). A properly functioning financial system plays the important roles of collecting, analyzing and coordinating of information about resource availability and allocation at every level throughout the economy. Financial inclusion is defined as *access by enterprises and households to reasonably priced and appropriate formal financial services that meet the needs of enterprises and households.* There is growing evidence that financial inclusion has significant beneficial effects for individuals and firms, and thus for the economy. However, hundreds of millions of Africans still lack access to affordable financial services.

Given the high but less inclusive growth in Africa in the recent years, increasing attention is being paid to inclusivity of finance as a key driver of inclusive growth. While African financial systems have grown both in quantity and depth over the years, evidence suggests that finance has not been inclusive (see for instance, Beck et al., 2015). Thus, financial system development is necessary but not sufficient for financial inclusion, and this therefore calls for an entirely different attention to policies beyond those prescribed for formal finance.

Based on this realization, efforts have indeed been doubled to ensure inclusive finance and thus support inclusive growth. For instance, most African Central Banks now have financial inclusion as one of the key policy areas. International development partners have also strongly supported, if not led, efforts at financial sector deepening and inclusion. However, while there is in general low level of financial inclusion in Africa, there is remarkable heterogeneity within sub-regions of Africa, with East Africa, particularly Kenya, having done remarkably well on this front.

It is therefore important to take stock of the experiences, lessons learnt and the obtaining policy issues in order to strengthen the link between finance and financial inclusion and inclusive growth in Africa.

The African Economic Research Consortium (AERC) is grateful to all those who made the seminar a success, especially the Government of Kenya, and especially the Central Bank of Kenya, which co-hosted Senior Policy Seminar XVIII. I also thank the authors who produced very high-quality papers, and the participants for their active participation in producing the seminar's policy recommendations to be shared with other African policy makers who did not find time to take part in this event.

AERC appreciates the hard work of Dr. Charles Owino, Manager, Publications, for organizing the event and putting this publication together. Dr. Wilson Wasike, Research Manager, Juffali Kenzi, ICT Manager, Winston Wachanga, Programme and Information Resources Administrator, worked on promotional materials, while Sandra Mulluka, Bertha Chedeye, and Hellen Makimi assisted with logistics. To all of these and the many others who were involved, AERC extends its heartfelt gratitude..

Prof. Lemma Senbet
Executive Director
African Economic Research Consortium

Financial Inclusion in Africa

Introduction

Senior policy makers and advisors from across Africa congregated in Nairobi on March 22–23, 2016 to deliberate on one of the continent's most pressing issues. The two days of passionate discussions during the eighteenth Senior Policy Seminar (SPS XVIII) convened by the Nairobi-based African Economic Research Consortium (AERC) focused on *Financial Inclusion in Africa.*

The region-wide seminar brought together nearly 100 participants, primarily African policy-makers and advisors drawn from the highest levels of government representing 24 countries on the continent. The seminar was officially opened by Dr. Patrick Njoroge, Governor, Central Bank of Kenya. The cluster of senior government officials included one minister, one governor and five deputy governors of central banks, two Ambassadors, the International Monetary Fund resident representative, the president of the PTA Bank, former Vice President and Chief Economist of the African Development Bank, two special advisors, as well as parliamentarians. Other participants included senior scholars and directors of various ministries and research institutes.

Financial Inclusion in Africa

More than two billion people worldwide don't use formal financial services, and up to 50% of adults in the poorest households are unbanked (Global Findex, 2015). And yet, financial inclusion is a key enabler to reducing poverty and boosting prosperity. In Africa, less than a quarter of adults have an account with a formal financial institution, and many of these adults use informal methods to save and borrow. Similarly, most of small and medium enterprises in Africa are unbanked and access to finance is a major obstacle. Compared with other developing economies, high-growth small and medium enterprises in Africa are less likely to use formal financing, which suggests formal financial systems are not serving the needs of enterprises with growth opportunities.

The policy seminar was a timely opportunity to share the lessons emerging from financial inclusion initiatives in Africa and the rest of the world with relevant policy makers and private sector actors in the continent. Their contributions is bound to heighten the debate on the importance of financial inclusion as a catalyst for inclusive growth. The senior policy seminar provided a timely forum for dialogue between senior policy makers and thought leaders, and among policy makers themselves.

AERC senior policy seminars are forums designed specifically to bring together senior policy makers from sub-Saharan African countries to exchange experiences and deliberate on topical issues pertaining to sustainable development of their economies. Participants in these seminars are drawn from the highest levels of government, including the presidency, ministers, governors of central banks, heads of civil services, permanent secretaries and heads of government agencies and parastatals.

"This senior policy seminar on financial inclusion in Africa will provide a timely forum for dialogue between senior policy makers and thought leaders, and among policy makers themselves. This debate will be conducted in the best of AERC traditions, guided by rigour and evidence. This is where research meets policy," says Professor Lemma W. Senbet, Executive Director of AERC.

Talented and well-known scholars shared their ideas with eminent senior policy makers in the African continent in various sessions. The first session was devoted to a presentation by Prof. Thorsten Beck of the *Cass Business School, London & CEPR,* titled "Financial Inclusion in Africa." The second session featured Prof. Mthuli Ncube, *University of Oxford & Former Chief Economist and Vice President of African Development Bank,* who presented a paper on "Digital Financial Services and Regulatory Policies in Africa". Dr. Liliana Rojas-Suarez, *Global Financial Inclusion Task Force Co-Chair and Senior Fellow, Center for Global Development* did the last presentation of the day on "Global Financial Inclusion". The first session of the second day was a presentation by Prof. Isaac Otchere, *Carleton University, Ottawa, Canada* on "Financial Inclusion and Development in Africa: Gaps, Challenges and Policy Recommendations" and the second session featured "Inclusive Finance: Pre-Launch of the ESRC-DFID Project" by Prof. Victor Murinde, *University of Birmingham.*

The lead discussants for these papers were, respectively, Judith Tyson, *Overseas Development Institute* (*ODI*); Mark Napier, Financial Sector Deepening (FSD) Africa; Dr. Kheswar Jankee, *Ambassador of Mauritius, Berlin; on leave from University of Mauritius;* and Dr. Caleb Fundanga, *Executive Director, MEFMI & Former Governor, Bank of Zambia.* There were floor discussions by participants after each presentation. The closing session of the conference was a policy roundtable on financial inclusion in Africa. This roundtable was chaired and moderated by Mr. Admassu Tadesse, *President & CEO, PTA Bank.*

The AERC Secretariat made significant effort to ensure that the seminar drew extensive media coverage, with the result that leading local newspapers, as well as television and FM radio stations allocated considerable space and time to enlighten Africans and the rest of the world on the event. The *Daily Nation, Citizen TV, Capital FM, Kass Media, Kenya News Agency (KNA), Radion Waumini, Sunday Weekly, Hot 98, AIG Radio, West TV, Xinhua, and Radio Salama* all covered the event. Television stations like Citizen TV also carried interviews with some of the seminar participants including Ms. Sheila M'Mbijjewe, Deputy Governor, Central Bank of Kenya and the AERC Executive Director; Prof. Lemma Senbet whose interviews were broadcast in various outlets. The interviews were apportioned substantive airplay of broadcast.

Financial Inclusion in Africa

Session chair:	**Njuguna Ndung'u,** *Former Governor, Central Bank of Kenya*
Presenter:	**Prof. Thorsten Beck,** *Cass Business School, London & CEPR*
Discussant:	**Judith Tyson,** *Overseas Development Institute (ODI)*

This paper has discussed the state of financial inclusion in Africa as well as the opportunities and challenges to expand it further. Both financial innovation, especially technology, and financial integration, offer good opportunities. Government has to play an important, though mostly supporting role in this context.

Introduction

Access to financial services still tops the financial sector agenda across the continent. Given that the majority of households and enterprises still do not have access to appropriate payment, savings, credit and insurance services, they cannot participate to the full extent in modern economies, hurting not only themselves but also the overall economy and society. Over the past decade, however, quite some progress has been made, driven both by policy reforms and substantial financial innovation, in the form of new institutions, new products and new delivery channels.

1. Financial inclusion – what does the recent literature tell us

While an extensive theoretical and empirical literature has discussed the benefits of an efficient financial system for economic growth, many of these benefits also apply to individuals and entrepreneurs. First, more efficient payment systems help individuals by allowing better integration into modern market economies. Not having to rely on cash, but rather using safer, less costly and swifter means of transferring payments allows more economic transactions across greater geographic distances. This can have a direct impact on income earning opportunities and thus incomes of the poor.

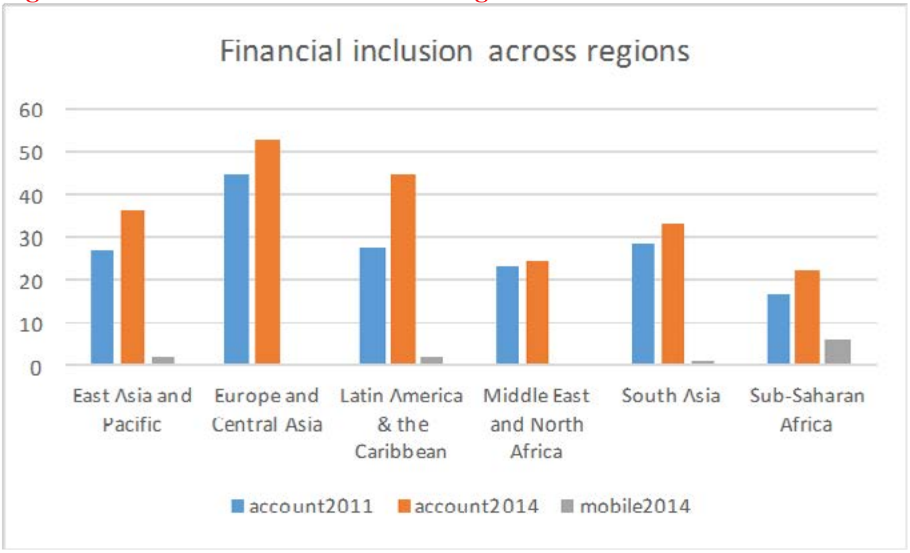
Second and related to the intermediation function of the financial system, gaining better access to savings and credit services enables the poor to pull themselves out of poverty by investing in human capital accumulation, thus reducing aggregate poverty. Similarly, gaining access to credit services allows the poor to invest in their micro-enterprises or finance other income enhancing opportunities such as migration or asset purchases, thus gaining broader income earning opportunities and ultimately higher incomes.

Third, access to efficient savings, credit and insurance services allows the poor more broadly to smoothen consumption when hit with income or expenditure shocks. The most obvious example is the need to keep children at home for work purposes rather to send them to school; being able to access efficient savings, credit and insurance services to smooth income or expenditure shocks reduces the need to do so. More generally, being able to access credit on short notice and/or to rely on the availability of savings or insurance payouts in the event of income or expenditure shocks improves the livelihood of the poor by stabilizing consumption over time and allowing longer-term planning.

1. Financial inclusion in Africa – where do we stand?

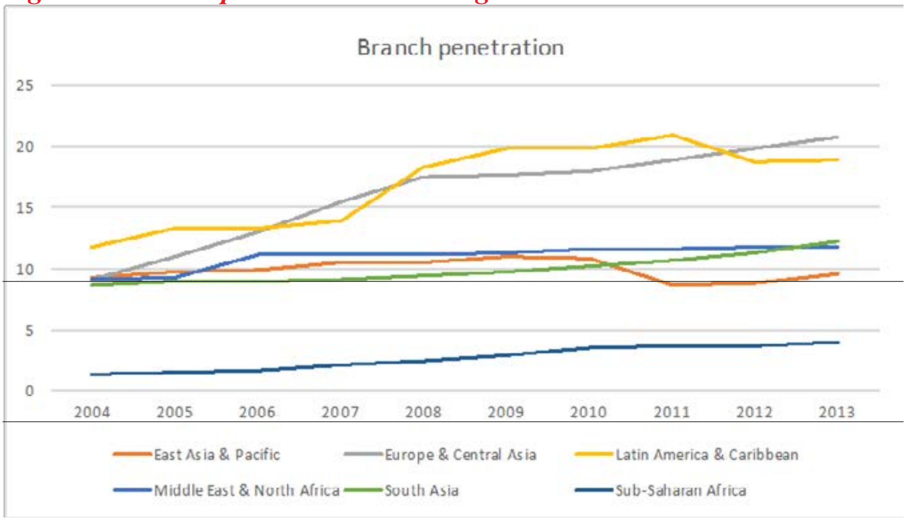
Many African financial systems have been changing and developing rapidly over the past decade. After disappointing results of financial liberalization in the 1980s and 90s for financial development and inclusion, African banking systems entered the 21st century more stable and better capitalized, though also over-liquid. The past ten years, however, have seen a persistent trend towards financial deepening across many African countries, even through the Global Financial Crisis. Financial innovation in the form of new financial service providers, new products and new delivery channels has helped expand the population with access to financial services in many countries. In this section, I will focus on the financial inclusion dimension of recent financial development trends across the region.

Figure 1: Financial inclusion across regions



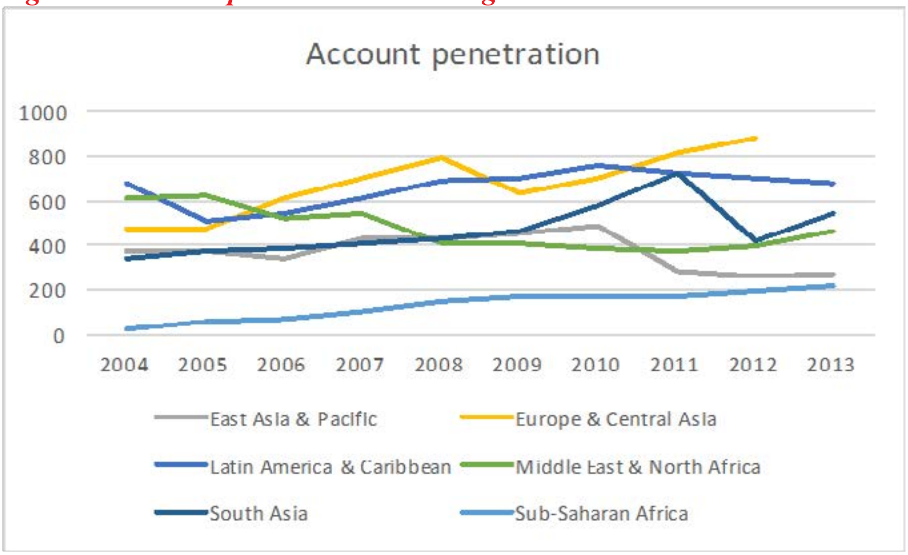
Source: Author's calculations based on Global Findex data. The median for each region is shown.

Figure 2: Branch penetration across regions



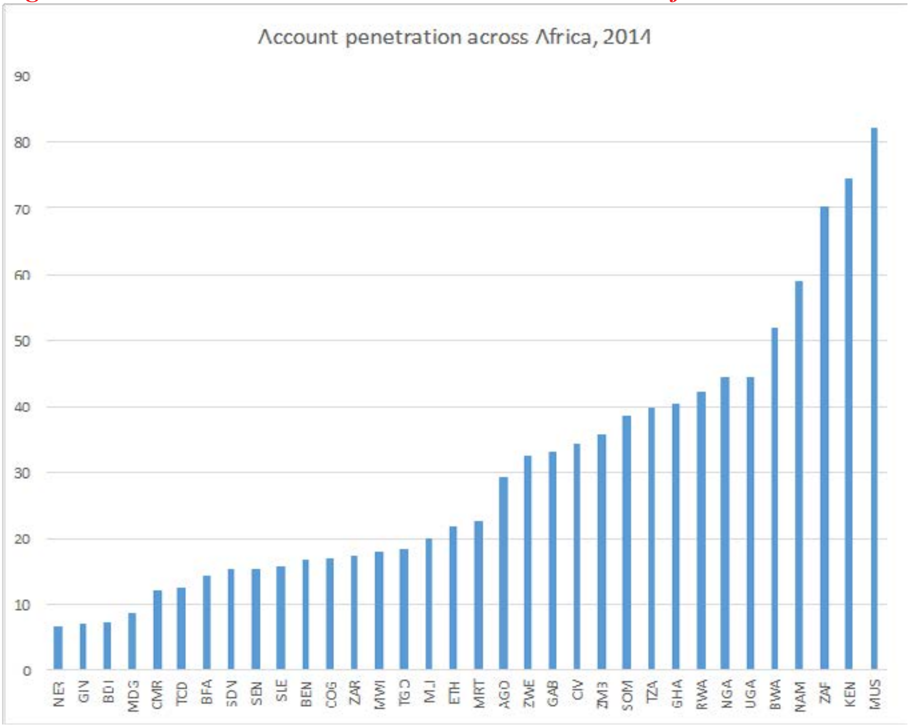
Source: Author's calculations based on Global Financial Development Data. Branch penetration is relative to 100,000 adults. The median for each region is shown/

Figure 3: Account penetration across regions



Source: Authors' calculations based on Global Financial Development Data. The median for each region is shown.

Figure 4: Financial inclusion across countries within Africa



Source: Authors' calculations based on Global Findex data

What explains variation in account penetration between 2011 and 2014?

	Difference in account penetration	… among female population	…among male population	…among poorest 40%	…among 60% richest
Mobile account penetration 2014	0.546 (6.48)**	0.518 (6.26)**	0.566 (5.46)**	0.522 (4.96)**	0.560 (5.55)**
Log GDP per capita 2014	4.030 (4.17)**	4.988 (5.26)**	2.832 (2.38)*	5.963 (4.93)**	2.630 (2.27)*
Log (Inflation)	6.761 (0.34)	22.362 (1.15)	-6.193 (0.25)	29.019 (1.17)	-8.365 (0.35)
Rule of Law	-2.377 (1.49)	-3.152 (2.01)*	-1.533 (0.78)	-3.222 (1.62)	-1.617 (0.85)
Constant	-29.711 (3.23)**	-39.614 (4.39)**	-17.868 (1.58)	-48.094 (4.19)**	-16.320 (1.48)
R^2	0.48	0.51	0.37	0.44	0.37
N	62	62	62	62	62

* p<0.05; ** p<0.01

Financial inclusion - Policy challenges

Prioritizing financial inclusion on the financial sector agenda has critical repercussions for the mix of policy reforms and institution building in an economy. First, however, is the question on how realistic is it to expect outreach of the financial system to 100% of the population? What are realistic benchmarks and targets when expanding access to financial services? Measuring access to financial services is a first important step. In order to develop policies and targets, however, benchmarks are needed and bottlenecks in expanding access have to be identified.

The role of government and competition

While the role of governments as retail providers of financial services has been discredited across Africa, governments continue to have an important role in helping expand access to financial services. On the one hand, there is the long-term agenda of institution building, including credit registries and contractual frameworks, which cannot be ignored. Beyond this long-term agenda, however, there are short-term solutions and policies that can help turn bankable into banked population and thus push the financial system closer to the frontier.

Regulatory policies

As institutions reaching out to the low end of the market expand both in outreach and in volume, the question on how to regulate them properly arises. Analysts have early on agreed on an important distinction between institutions that require prudential regulation, as they use deposit funding to lend to borrowers, and institutions that require "only" conduct regulation as they either do not on-lend their deposits or use non-deposit resources for lending.[1] Prudential regulation is aimed at the solvency and liquidity of the individual financial institution (and the overall financial system), partly with the aim of protecting small depositors and thus addressing the agency problem between depositors and financial institution. Conduct regulation is more concerned about problems between clients and the institutions and focuses on consumer protection. Looking beyond the inclusion agenda

While this paper has focused on access to and use of financial services by individuals, households and micro-enterprises, I would like to make a short remark on the broader literature of finance and poverty alleviation. In addition to direct benefits of access to financial services, there might also be important indirect effects from financial deepening. If financial deepening reduces the cost of credit and improves allocation of scarce capital across the economy, this can have an impact on the structure of economy.

2 Another exception are MFIs who partly rely on forced savings of their borrowers for funding. CGAP (2011) argues that they can basically go without prudential supervision

Digital Financial Services and Regulatory Policies in Africa

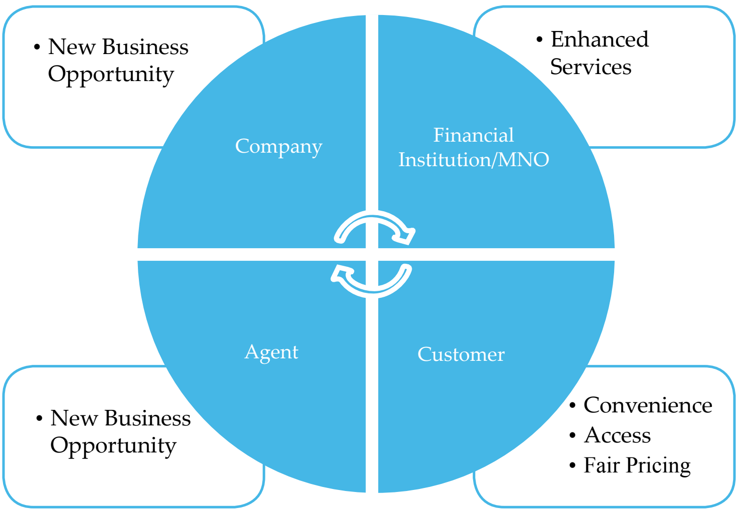
Session chair:	**Dr. Philemon Makhetha,** *Deputy, Governor, Central Bank of Lesotho*
Presenter:	**Prof. Mthuli Ncube,** *University of Oxford & Former Chief Economist AfDB*
Discussant:	**Mark Napier,** *Financial Sector Deepening (FSD) Africa*

Framework for Financial Sector Development, Digital Financial Services and Economic Development

Digital Financial Services (DFS) are fast growing market across the globe. DFS include mobile banking and all electronic means of proving financial services, including use of credit cards and debit cards. In 2013, for example, there were 203 million registered mobile money customers and 61 million active customers (customers with at least one transaction in the past 90 days), according to GSMA's State of the Industry 2013 report. To support these customers, there are 886,000 agents, of which 52 percent are active. The most popular transaction is airtime top-up, representing 75 percent of transactions.

Digital Financial Services Architecture

Successful development in DFS depends upon its ability to add value for all of the different parties in the 'partnership ecosystem.' Therefore, tangible value should be delivered to: customers, MNOs, banks, agents, financial institutions and often other companies, such as retailers or dealers.



State of DFS and Financial Inclusion in Africa

Africa has been at the forefront of digital financial services. In sub-Saharan Africa (SSA), 36 countries out of 54 have mobile banking services. These include, for example, Côte d'Ivoire, Ghana, Kenya, Madagascar, Mali, Nigeria, Niger, South Africa, Senegal, Tanzania, and Uganda. The December 2013 Global System for Mobile Communications Association (GSMA) data shows that there are 219 deployments globally of which 52% are in SSA. In addition, there were 47 planned deployments in the region, out of 113 planned worldwide. With roughly 2.5 billion people in lower to-middle income countries who have no access to banking services, the potential is clear. The estimates show that out of about one billion Africans, nearly 735 million (in 2012) are mobile phone subscribers, with Nigeria having the highest number of mobile phone subscriptions in Africa (16% of the continent's total mobile subscriptions).

Depth of Financial Inclusion and DFS

The depth of financial inclusion across Africa various quite markedly. Various constraints have been identified for this variegated situation. Table 1 below shows the state of financial inclusion for a selected number of countries.

Table 1: Financial Inclusion in selected countries in Africa

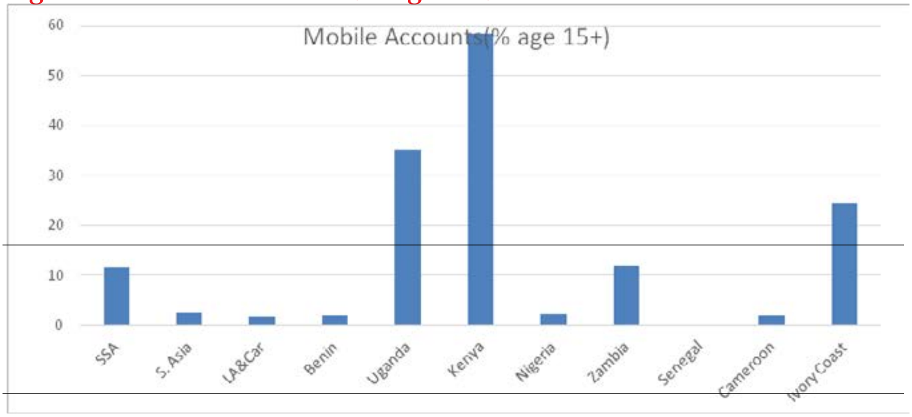
	Benin	Cameroon	Kenya	Mozambique	Nigeria	Senegal	Uganda	Zambia
Population	10.3	22.3	44.3	25.3	173.6	14.1%	37.6	14.5
HDI (out of 187)	165	152	147	178	152	163	164	141
GDP per capita (PPP US$)	1791	2711	2265	1045	5601	2269	1410	3181
Poverty rate (<$1.25 a day)	19%	28%	43%	61%	27%	11%	12%	42%
Literacy Rate	29%	71%	72%	51%	51%	50%	73%	61%
Financial Inclusion Rate	20%	47%	67%	13%	60%	20%	28%	23%

Sources: United Nations Development Programme, United Nations Educational, Scientific and Cultural Organization, World Bank (latest year available), European Investment Bank (2014)

In the selected group of countries, Kenya shows the highest level of financial inclusion at 67% rate and followed by Nigeria at 60%. Cameroon is at 47% inclusion rate, while the rest of the countries in the sample are all below 30% inclusion rate. The lowest rate is recorded in Mozambique ate 13% inclusion rate.

Kenya's high rate of financial inclusion is supported by having the highest percentage of adults over 15 years old, owning a mobile-banking account---at nearly 60%, as shown in figure 2 below. Figure 2 is drawn from table 2.

Figure 2: Mobile Accounts (% age 15+)



Uganda is second in of mobile accounts ownership at about 35%, Ivory Coast at about 25%. These levels of mobile accounts ownership are above the average for Sub-Saharan Africa at about 11%, and above South Asia (2.5%) and Latin America and Caribbean(1.7%).

When M-PESA was launched in Kenya in 2007 by Safaricom (a subsidiary of the British-owned Vodafone), the regulatory environment played a key role. The regulator offered Safaricom a 'no-objection' letter that allowed the company to innovate, to pilot test its service without the confines of strict regulation. The Central Bank of Kenya was flexible in its regulatory approach. Prior to M-PESA, there were limited means of transacting and conducting payments. Previous physical methods were unreliable, and using commercial banks was expensive and out of reach for the low-income market segment, and especially those in rural areas. It seems the political violence that struck Kenya in 2008, may have boosted the use of the M-PESA service. The violence led to the disruption of normal transportation, travel and access, and the shut-down of formal financial services, such as ATMs. The only way customers could send money was through M-PESA. To date, M-PESA has over 30 million mobile money subscribers and over 80,000 agents across Kenya, making it the most successful DFS environment globally.

Regulatory Issues

Barriers to DFS growth

A recent study shows that 50% of adults worldwide remain unbanked and at least 35% of them commonly reported barriers to financial inclusion as being: high cost, physical distance, and lack of proper documentation, which limit access to financial services in Africa.

These barriers stem particularly from inadequate supportive regulatory environment, deficient infrastructure, physical-geographical isolation or inaccessibility, and financial illiteracy. All these culminate into an exceedingly high cost of providing banking services and other financial services. Most of these barriers can be addressed by policy makers through financial sector reforms that would provide enabling regulations to promote financial inclusion. As noted above, this limited access to formal financial services has at the same time created a unique niche for MNOs to provide mobile money services and other technological innovations to develop, enabling a larger proportion of the population to access financial services.

Issues for further consideration

Going forward, some issues still require our further consideration. These issues include:

- Cross-Border remittances, and AT and AML riles impediments
- Macroeconomic implications of Cross-Border remittances, such as exchange controls, and capital controls
- KYC and privacy –protection of information
- Financial literacy drive and role of players in the DFS architecture and ecosystem
- Evolution of DFS model, from bank to telecoms, and telecoms to bank
- Deposit insurance and legal framework and Trust laws and use of escrow accounts in Civil Law jurisdictions
- DFS evolution into investment and portfolio management, and insurance markets.
- Analysis of the potential and impact of 'Bitcoin and 'block-chain' technologies in digital financial services

Financial Inclusion and Development in Africa: Gaps, Challenges and Policy Recommendations

Session chair:	**Dr. Bwalya Ng'andu,** Deputy Governor, Bank of Zambia
Presenter:	**Prof. Isaac Otchere,** Carleton University, Ottawa, Canada
Discussant:	**Dr. Kheswar Jankee**, Ambassador of Mauritius, Berlin; on leave from University of Mauritius

Financial inclusion has attracted increased attention in the development and policy circles in recent years. This policy initiative aims at drawing the "unbanked" population into the formal financial system, thus ensuring that the financially excluded can access financial services ranging from savings, payments, and transfers to credit and insurance. Its prominence in the development and policy circles is due in part to its poverty alleviating feature, which ultimately can contribute significantly to achieving social cohesion and sustainable economic growth.

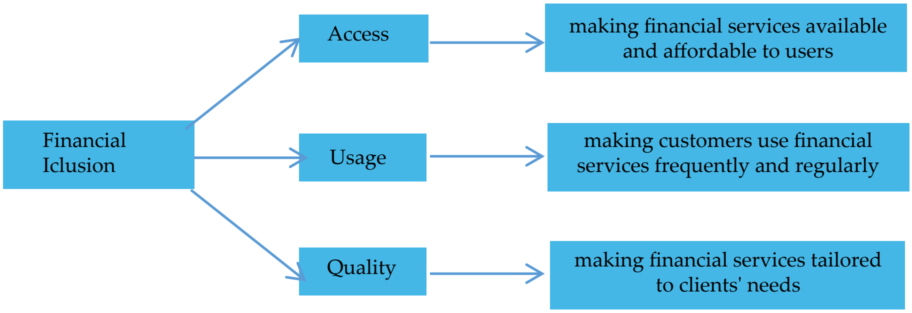
Financial inclusion

Financial inclusion can be described as the delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups (Leeladhar, 2006). It is the process through which accessibility, availability and affordability of the formal financial system is ensured to all members of the economy. The overarching goal of financial inclusion as a policy initiative is to draw the "unbanked" population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance at affordable cost. Development finance and microfinance institutions have played an important role in this process.

Financial inclusion is a multidimensional concept that goes beyond access to finance to encompass usage and quality. The Alliance for Financial Inclusion (AFI) describes these financial inclusion concepts as making financial services available and affordable to users (access), making customers use financial services frequently and regularly (usage) and making financial services tailored to clients' needs (quality).

As figure 1 illustrates, a comprehensive understanding of financial inclusion should consider the availability and accessibility of services, frequency of use, and suitability and quality of financial options for all income levels. Policies to encourage increased access for the previously unbanked must take into consideration all three aspects.

Figure 1: Components of financial inclusion



The relationship between financial inclusion, poverty reduction and economic growth

Financial inclusion aims at drawing the "unbanked" population into the formal financial system so that they have the opportunity to access financial services at affordable cost. Thus financial inclusion can make a substantial positive difference in improving poor people's lives and consequently help reduce poverty and promote economic growth. Through affordable cost, financial inclusion enables the poor to participate in investment activities in both physical and human capital and hence increase the productivity of the poor community. Specifically, it can enable the poor to accumulate savings and/or borrow to invest in income-enhancing assets and start micro-enterprises, which ultimately generates employment, increases incomes and reduces poverty and foster social and political cohesion, all of which will contribute to achieving sustainable economic growth.

The current state of financial inclusion in Africa: The transformative role of technology

There is no gainsaying that financial inclusion helps alleviate poverty. As a result, financial inclusion has become an explicit policy objective in many developing countries. Governments in the developing world have made concerted efforts to promote inclusive growth and reduce the level of poverty. Despite these efforts, about half of the world's population is still without access to savings accounts, insurance, and other financial services, and about 95 percent of the unbanked are in developing countries (Hannig and Jansen, 2010). Africa faces substantially larger challenges than most of the developing world due in part to a much higher incidence of poverty (Makanjee, 2009). Demirgüç-Kunt and Klapper (2012) show that less than a quarter of adults in Africa have an account with a formal financial institution, and many adults in Africa use informal methods to save, and they also borrow from friends, family, and informal private lenders.

Figure 1

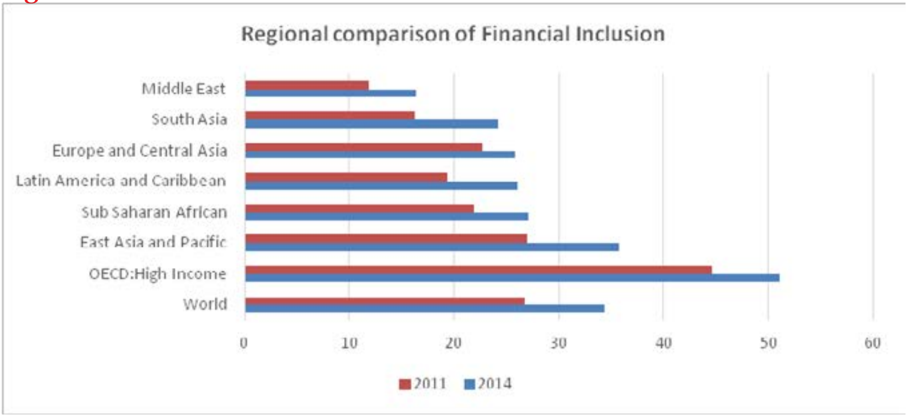
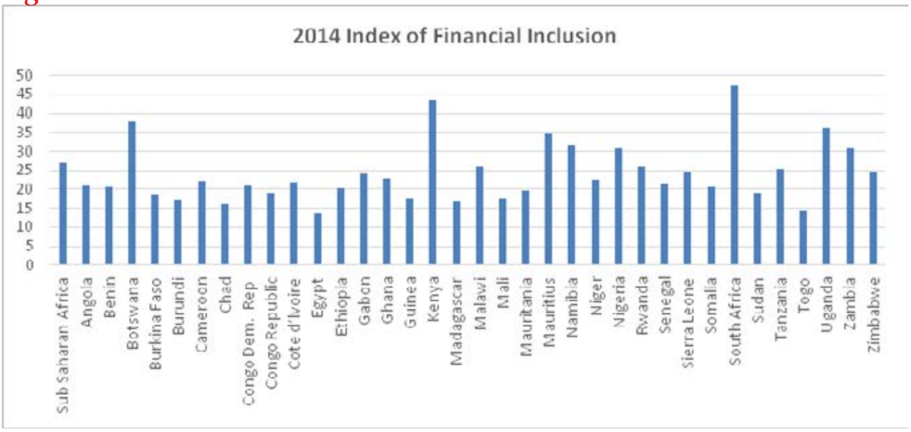


Figure 2



Policy implication

Given the banking infrastructure problems, it is recommended that commercial banks should consider promoting agent banking and DSF which have proven to be effective for inclusion. Also, given the high inactivity levels both at subscriber and agent level, there is a need for concerted efforts by stakeholders to build robust agent network and increase user base in rural areas. The government needs to continue promoting infrastructure development. It is recommended that the Bank of Malawi should expedite the process of enacting the required legislation to back digital financial services. There is also a need for collaboration amongst various stakeholders, designating clear lead institutions in financial inclusion related activities such as financial literacy program to educate the rural population about the use of digital financial services.

Financial inclusion gaps in Africa

Though there is ample evidence that shows a strong linkage between financial development and economic development, yet as the data presented in figures 2 and

3 indicate, the levels of financial inclusion remain low in Africa compared to other parts of the world. In an interesting article, Allen et al., (2014) attempt to establish the counterfactual by determining what the level of financial development and financial inclusion in Africa would be if the same relationships that exist in the rest of the developing world also held in Africa. Using other developing countries as benchmarks, they find that for 32 of 40 African countries the actual levels of financial development and financial inclusion fall short of predicted values. In contrast to low- and lower-middle income African countries, upper-middle-income African countries such as Mauritius, Namibia, and South Africa tend to have levels of financial development and financial inclusion that are higher than (or similar to) expected levels, thus suggesting significant gaps in the financial development–financial inclusion nexus for Africa.

Challenges to financial inclusion in Africa and policy prescriptions

Financial inclusion has become an explicit policy objective in many African countries. The increasing involvement of governments in financial inclusion poses new challenges to African central banks. Historically, the banks' role has been to ensure the stability of the financial system through the regulation and supervision of financial institutions. Central banks are now increasingly playing an active role in promoting financial inclusion, particularly in the areas of microfinance, consumer protection, rural finance and SME access (CGAP, 2010). Playing a promotional role in expanding financial inclusion may potentially give rise to tension with the traditional objective of financial stability. The subprime crisis is a good reminder of the risks to systemic stability stemming from policies and practices aimed at increasing access to finance.

Challenges to the development of technology-based financial services

Technological development, in particular mobile money, has emerged as a facilitator of financial inclusion in Africa, yet various obstacles have been preventing the development of technology-based financial services on a large scale. For financial inclusion to be expanded through technological development regulation, market uptake is critical. Passing enabling regulation does not guarantee increased access if the users don't understand the product and services. One challenge facing policy makers is the low levels of financial literacy and income: Africa holds one of the lowest literacy rates in the world. As a result, the population's ability to understand technology-based financial services may be hampered. Hence, financial literacy programs are needed to inform customers and show them how digital financial services (DFS) work, the risks involved and how they can protect themselves. The recent financial crisis has underscored the importance of financial literacy and consumer protection, all of which are important components of a good financial inclusion program. Financial education initiatives should be high on the government agenda and should be incorporated into high school and university curricula.

Data and measurement challenge

Tracking progress and measuring outcomes of financial inclusion policy reforms are important parts of any financial inclusion initiative. To track progress in achieving more inclusive financial systems and gauge their impact, reliable and comprehensive data that capture various dimensions of financial inclusion is a critical condition for evidence-based policymaking. Rigorous, well-tailored data is instrumental in identifying policy gaps, understanding both served and underserved populations, and defining priorities for action. This resource may not only set a clear direction for policymaking but may also allow tracking progress of financial inclusion initiatives. Despite these benefits, there is paucity of data describing financial inclusion in most African countries. While data availability is increasing (and the World Bank and other international organizations have been at the forefront of compiling relevant data), more can be done by each country to increase the coverage and scope of financial inclusion data on the continent. It is important for governments of African countries to implement nationally-led surveys of financial inclusion on a larger scale. In this regard, there is a need for strong political will to implement surveys and to gather data on outcomes.

Other Policy Recommendations

Given the experience of Kenya and other countries in the developing world (e.g. the Latin America and Caribbean region), the following lessons could be drawn towards achieving greater financial inclusion in Africa. Government commitment and involvement is paramount in achieving substantial gains. Governments from Kenya, Brazil, Colombia, and Mexico, which have set financial inclusion as a policy priority, have been able to expand financial access at the country level. These governments have adopted regulations (e.g., agent banking) and simplified accounts that foster innovation by the private sector and these initiatives have contributed to the expansion of financial products and services within their respective countries.

Policy Roundtable

Moderator: ***Admassu Tadesse,*** *President & CEO, PTA Bank*

Panellists:

- ***Caleb Fundanga,*** *Executive Director, MEFMI & Former Governor, Bank of Zambia*
- ***Gabriel Negatu****, Regional Director, Eastern Africa, African Development Bank*
- ***Kheswar Jankee,*** *Ambassador of Mauritius, Berlin; on leave from University of Mauritius*
- ***Linda Kwamboka,*** *Mfarm Limited, Kenya*
- ***Mthuli Ncube****, University of Oxford & Former Chief Economist and VP African Development Bank*
- ***Sheila M'Mbijjewe,*** *Deputy Governor, Central Bank of Kenya*

Purpose of the policy panel

Generally, the purpose of this policy round table is to:

- Provide an opportunity for deeper appreciation of the importance of financial inclusion for growth and development in Africa.
- Provide a forum for exchange of views between policy makers, private sector players and non-state actors on the challenges and opportunities faced by policy makers, private sector and non-state actors in their attempts to facilitate and foster financial inclusion.
- Provide a platform to enable sharing of best practices on addressing the challenge of financial inclusion, and to facilitate exploration of areas of mutual interest among the various policy actors in confronting the challenges (and exploiting the opportunities) presented by financial inclusion or lack thereof.

Issues to be addressed (but not limited to)

- Why should policy makers and other role players across Africa concern themselves with financial inclusion? In other words, how does financial inclusion, or lack thereof, interface with growth and development in Africa?

- What are the various role players doing to foster financial inclusion in their respective spaces? That is, what are government, private sector and non-state actors doing to advance financial inclusion, and is there commonality of purpose in the way the various role players are approaching this issue?
    - What has worked, what hasn't and why?
- How can the various role players synergize their interventions to enable meaningful financial inclusion across Africa? In particular, what can/should government do to support private sector initiatives on, and innovations for financial inclusion?
- What are the regulatory challenges that come with financial innovations such as mobile money, etc.? How can these challenges be mitigated/minimized without unnecessarily constraining innovation thereby perpetuating financial exclusion?
- What lessons can Africa draw from other regions of the world on financial inclusion and its impact on development? What has been the role of technology and innovation in these examples?
- From the viewpoint of policy makers, private sector, and non-state actors, what are the key research issues that could/should be addressed by the AERC network to support the efforts to effect and entrench financial inclusion in Africa?
- Where do we go from here?

Key Policy Issues and Recommendations

- Policy makers reaffirmed that financial inclusion in the broadest sense possible is pro-inclusive growth.
- They recognized the important role of infrastructure development for financial inclusion including mobile telephony, physical and electronic connectivity, network of paved roads, and internet usage
- They also recognized the vital role of a functional, supportive and innovative regulatory framework for financial inclusion and stability, and that such regulation be context specific, fosters a level playing field and competition.
- Commended the Governments across Africa for increasing attention to financial inclusion, while recognizing the important gaps that remain.
- They are also mindful of that the needs of women and youth require special attention in financial inclusion agenda.
- They are also mindful of fact that financial products be appropriately designed for financial inclusion.
- Acknowledged the at financial inclusion fosters social inclusion.
- Affirmed that poor households, smallholder farmers, and small enterprises lie at the centre of the financial inclusion agenda, but also at the broader financial development and stability agenda, and that Central Banks can play a critical role in furthering financial inclusion.
- Commended the critical role of African Economic Research Consortium (AERC) in capacity building for promoting evidence-based policies on financial inclusion and stability, urging it to continue to work with partners including governments, private sector, and civil society to develop a practical, but cutting-edge research and development agenda to address policy and challenges relating to financial inclusion.
- Committed to undertake policy dialogue and consultations within our own governments and private sector institutions to achieve financial inclusion where all segments of society, including youth, smallholder farmers; small enterprises are beneficiaries of accessibility, availability, and affordability of a financial system.

Annex A

List of Participants

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Annex B

Seminar Programme

Monday, 21 March 2016	
16:00–18.30:00 Hrs	**Registration**
Tuesday, 22 March 2016	
08.30 – 08.55	**Registration**
09:00 –10:30	**Official Opening**
Dr. Patrick Njoroge	Governor, Central Bank of Kenya
Gov. John Rwangombwa	Governor, National Bank of Rwanda
Mr. Admassu Tadesse	President & CEO, PTA Bank
Prof. Lemma Senbet	Executive Director, AERC
10:30 –11.00	*Tea/Coffee Break*
11:00 –12:30	
Session 1:	**Financial Inclusion in Africa**
Session chair:	**Njuguna Ndung'u,** Former Governor, Central Bank of Kenya
Presenter:	**Prof. Thorsten Beck,** Cass Business School, London & CEPR
Discussant:	**Judith Tyson,** Overseas Development Institute (ODI)
Floor Discussion	
12:30 –14:00	Lunch Break
14:00 –15:30	
Session 2:	**Digital Financial Services and Regulatory Policies in Africa**
Session chair:	**Dr. Philemon Makhetha,** Deputy, Governor, Central Bank of Lesotho
Presenter:	**Prof. Mthuli Ncube,** University of Oxford & Former Chief Economist and Vice President of African Development Bank
Discussant:	**Mark Napier,** Financial Sector Deepening (FSD) Africa

Floor Discussion

15:30 – 16:45

Session 3: **Global Financial Inclusion Task Force (Dissemination and Discussion)**

Moderator: **Prof. Lemma W. Senbet,** Task Force Member

Presenter: **Dr. Liliana Rojas-Suarez,** Task Force Co-Chair; **Senior Fellow,** Center for Global Development
Prof. Thorsten Beck, Task Force Member
Prof. Mthuli Ncube, Task Force Member

Floor Discussion

16:45 –17:15	*Tea/Coffee Break*
19:00 – 20:00	*Cocktail Reception*

Wednesday, 23 March 2016

08:30 –10:00

Session 4: **Financial Inclusion and Development in Africa: Gaps, Challenges and Policy Recommendations**

Session chair: **Dr. Bwalya Ng'andu,** Deputy Governor, Bank of Zambia

Presenter: **Prof. Isaac Otchere,** Carleton University, Ottawa, Canada

Discussant: **Dr. Kheswar Jankee,** Ambassador of Mauritius, Berlin; on leave from University of Mauritius

10:00 –10.30	*Tea/Coffee Break*

10:30 –12: 00

Session 5: **Inclusive Finance: Pre-Launch of the ESRC-DFID project**

Session chair: **Charity Dhilwayo,** Deputy Governor, Reserve Bank of Zimbabwe

Presenter: **Prof. Victor Murinde,** University of Birmingham

Discussant: **Dr. Caleb Fundanga,** Executive Director, MEFMI & Former Governor, Bank of Zambia

12:00 –13:15

Sessions 6: **Policy Roundtable**

Moderator: **Admassu Tadesse,** President & CEO, PTA Bank

Panellists:

- **Caleb Fundanga,** Executive Director, MEFMI & Former Governor, Bank of Zambia
- **Gabriel Negatu,** Regional Director, Eastern Africa, African Development Bank
- **Kheswar Jankee,** Ambassador of Mauritius, Berlin; on leave from University of Mauritius
- **Linda Kwamboka,** Mfarm Limited, Kenya
- **Mthuli Ncube,** University of Oxford & Former Chief Economist and VP African Development Bank
- **Sheila M'Mbijjewe,** Deputy Governor, Central Bank of Kenya

13:15 – 13:25
Vote of Thanks **Director of Research,** AERC