

DIRECTIONS IN DEVELOPMENT  
**Finance**

# Financial Sector Development in Africa

*Opportunities and Challenges*

Thorsten Beck and  
Samuel Munzele Maimbo,  
Editors

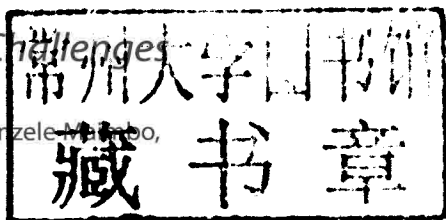


THE WORLD BANK

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## Foreword

The environment for African financial systems has changed considerably over the past years. Notwithstanding the recent global crisis that has impacted our perceptions of financial sector development generally, Africa retains a strong sense of optimism for the future. I am among many who feel that Africa has an unprecedented opportunity for sustained economic growth and poverty reduction. African financial sectors have a key role in leveraging that opportunity.

The challenge of our time remains, however, translating this optimism into jobs for millions of Africans who enter the workforce every year. To create jobs and increase competitiveness, the private sector in Africa needs a dynamic and robust domestic financial sector that mobilizes savings, finances firms' and households' investments into productive capacity, and provides them with the payment and other financial services they need to expand their business activity and reach new markets.

It is for this reason that I particularly welcome the papers contained in this edited volume. Each systematically addresses many of the areas in which specific challenges need to be addressed and opportunities captured if we are to accomplish Africa's jobs agenda. By taking a fresh look at microfinance, mobile banking, housing finance, agricultural finance, and the regulatory and supervisory agenda in Africa, this publication sets us on the right path.

In their own way, each paper points to the need to address Africa's financial sector challenges with domestic solutions. *Financing Africa: Through the Crisis and Beyond*, published in 2011—for which the papers in this volume were commissioned as background papers—rightly adopted the mantra “best fit” rather than “best practice.” The papers in this publication reinforce this position. For example, when I speak with investors and bankers in Africa, many of them emphasize that banks are highly liquid, both from resources within and outside Africa. Remittances sent back by the African diaspora have become an important element of these resources. Our collective challenge is to pay attention to the growth of Africa's domestic funding base—that is, better mobilizing domestic savings, especially from the informal sectors, and improving the intermediation capacity of formal finance to ensure that Africa's growth is sustainably funded over the long term. Hence, a focus on strengthening the local financial sector and deepening local financial markets is central.

By digging deeper into some of the critical themes presented in *Financing Africa*, this current book will help policy makers concentrate on the critical issue of the effectiveness and efficiency of the financial intermediation function, in the midst of the unique political economy environment present in Africa, with realism and pragmatism. As the last paper reminds us, sustainable reforms require a willingness to work with second-best policies. Some political environments, for example, may make it difficult to rely on efficient courts to promote financial inclusion. In such countries a focus on the low-hanging fruit, such as encouraging relationship-lending schemes or social entrepreneurship, might offer limited progress but also a more promising way forward.

I, therefore, look forward to the debate that this book will foster on the selected topics it covers. Each is exciting for Africa in its own right. I thank the editors and contributors for their work as it not only makes a critical contribution to our research and thinking about financial sector development in Africa, but also highlights areas where we do not yet know enough and need more thinking. I am hopeful that *Financial Sector Development in Africa: Opportunities and Challenges* will help us all in better implementing and supporting the financial sector agenda in Africa.

Gaiv Tata  
Director

Africa Region and Financial Inclusion Global Practice  
Financial and Private Sector Development  
The World Bank

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The edited volume was published under the overall guidance of Shantayanan Deverajan (Chief Economist, Africa Region, World Bank) and Gaiv Tata, (Director, Africa Region & Financial Inclusion Global Practice, World Bank). It also benefited from the support and guidance from management: Irina Astrakhan (Sector Manager), Paul Nomba Um (Sector Manager), and Michael Fuchs (Advisor), all members of the Finance and Private Sector Development, Africa Region. This publication benefited additionally from the partnership the authors continue to enjoy with the Secretariat of the Making Finance Work for Africa Partnership

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# Editors and Contributors

## Editors

**Thorsten Beck**, Professor of Economics and Chairman of the European Banking Center: Before joining Tilburg University and the Center, he worked at the Development Research Group of the World Bank. His research and policy work has focused on two main questions: What is the effect of financial sector development on economic growth and poverty alleviation? and What are the determinants of a sound and effective financial sector? Recently his research has focused on access to financial services by small and medium enterprises and households. Thorsten has a PhD in Economics from the University of Virginia (1999) and a Diploma (MA) from Universität Tübingen (1995).

**Samuel Munzele Maimbo**, Lead Financial Sector Specialist, Europe and Central Asia (ECA) Finance and Private Sector Department, World Bank: Prior to joining the ECA Department, Samuel was lead financial sector specialist in the Africa region for five years. Before joining the World Bank, he was a Senior Bank Inspector at the Bank of Zambia and an auditor at Price Waterhouse. A Rhodes Scholar, Samuel obtained a PhD in Public Administration from the University of Manchester, England (2001); an MBA from the University of Nottingham, England (1998); and a Bachelor



of Accountancy from the Copperbelt University, Zambia (1994). He is also a Fellow of the Association of Chartered Certified Accountants, United Kingdom, and a Fellow of the Zambia Institute of Certified Accountants.

## Contributors

**Mike Coates**, Director of GBRW Consulting: GBRW is a London-based consulting firm focused on the banking sector in emerging markets. He is a former professional banker with extensive international experience in both financial services and the consulting environment. Mike specializes in strategy and planning, strategic marketing, and risk management for commercial banks. He has developed and delivered successful financial sector assignments in markets including the Arab Republic of Egypt, Azerbaijan, Ethiopia, Ghana, Kenya, Russia, Saudi Arabia, Syria, Tajikistan, and Vietnam. He has a BSc in Financial Services awarded by the University of Manchester and is an Associate of the Chartered Institute of Bankers.

**Florence Dafe**, Researcher, World Economy and Development Finance Department, German Development Institute, Bonn: Florence is a political economist and researcher at the World Economy and Development Finance Department of the German Development Institute in Bonn. She holds an MSc in Development Studies with a specialization in Development Economics and an MA in Communications, Politics and Economics from the University of Munich.

**Michael Fuchs**, Advisor, Finance and Private Sector Department, Africa Region, World Bank: Michael has worked in the Africa Region since 2003, focusing on financial sector development issues across a broad spectrum of countries. He worked for eight years in the Bank's ECA Region, five of which were focused on Russia in the wake of the financial collapse in 1998. He has a PhD and an MA from the University of Copenhagen and a BA from the University of York (UK).

**Robin Hofmeister**, Financial Sector Specialist, World Bank, Nigeria, and GIZ's Pro-Poor Growth and Promotion of Employment Program: Before being seconded to the World Bank, he worked in GIZ's program Promoting Financial Sector Dialogue in Africa: Making Finance Work for Africa, where he led the multidonor working group on agricultural finance.

Robin studied at the Universities of Münster, Germany, and Stellenbosch, South Africa, where he received his MSc in Business Management.

**Alexandra Jarotschkin**, Consultant, Development Economics Research Group, Macroeconomics and Growth Team (DECMG), World Bank: Prior to joining DECMG, Alexandra was a Mercator Fellow, working in the Africa Finance and Private Sector Development Department in Washington, DC, as well as in the International Monetary Fund's Resident Representative Office in Tanzania. A German National Academic Foundation and Friedrich Ebert Stiftung Scholar, Alexandra holds an MA in International Economics, Finance, and Development from the School of Advanced International Studies, Johns Hopkins University, and a BA from the Free University of Berlin.

**Thomas Losse-Mueller**, Financial Sector Specialist, World Bank: Thomas joined the World Bank in 2004, where he has worked on financial and private sector development projects in a variety of African and Eastern European countries. From 2008 to 2010, he led work on behalf of the German government in supporting the establishment of the Partnership for Making Finance Work for Africa. Prior to joining the World Bank, he worked in risk management for an international investment bank. He holds degrees in Economics from the School of Oriental and African Studies and the University of Cologne.

**David Porteous**, Managing Director, Bankable Frontier Associates: David has been involved in development finance internationally for the past two decades. He has had executive roles in public and private financial institutions in Africa, and is the founder and managing director of Bankable Frontier Associates, a consulting firm based in Boston. The firm specializes in advising on policy and strategy that promote financial inclusion, serving financial regulators and policy makers, private financial providers, bilateral and multilateral donors, and private foundations around the world. The firm seeks to optimize the return on its triple bottom lines of financial return, a positive social impact on end-clients, and the building of the knowledge base in the sector.

**Simon Walley**, Housing Finance Program Coordinator, Financial and Private Sector Development, World Bank: Simon joined the World Bank in 2006, working on a range of countries from Central Asia, Eastern Europe, the Middle East, and Sub-Saharan Africa. In particular he has worked on the

development of secondary mortgage markets through the creation of liquidity facilities, mortgage subsidy schemes, market analyses, and covered bond legislation. Prior to his move to Washington, DC, Simon worked in housing finance for almost 10 years with the European Mortgage Federation and the Nationwide Building Society, and served as a regulator for the Financial Services Authority in the United Kingdom.

**Makaio Witte**, Junior Professional Associate, Africa Finance and Private Sector Development Department, World Bank: Makaio is a Junior Professional Associate in the Africa region of the World Bank. In his current position, he focuses on banking regulation and supervision in Africa and the impact of the European debt crisis on African financial sectors. Before joining the World Bank, Makaio worked as a research associate at Re-Define, an international think tank, on postcrisis financial market reforms and at GIZ in the program Making Finance Work for Africa. Makaio obtained a Master of Public Policy at the Hertie School of Governance in Berlin, and a BA in International Relations at the TU Dresden, Germany.

## Abbreviations

ABCDE	World Bank Annual Bank Conference of Development Economics
AFI	Alliance for Financial Inclusion
AML/CFT	Anti Money Laundering/Combating the Financing of Terrorism
API	application programming interface
ATMs	automated teller machines
BCBS	Basel Committee on Banking Supervision
BCPs	Basel Core Principles for Effective Banking Supervision
BDS	business development services
BOG	Bank of Ghana
CBK	Central Bank of Kenya
CBN	Central Bank of Nigeria
CFT	Combating the Financing of Terrorism
CGAP	Consultative Group to Assist the Poor
CDD	customer due diligence
DDR	Disarm, Demobilize and Reintegrate
EMFN	Egyptian Micro-Finance Network
EMV	Europay-Mastercard-Visa
FAI	Financial Access Initiative
FOGAPE	Fondo de Garantía para Pequeños Empresarios

FSB	Financial Stability Board
FSD	Financial Sector Deepening
FSDT	Financial Sector Deepening Trust
FSI	Financial Stability Institute
GhIPSS	Ghana Interbank Payment and Settlement Systems
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
GPFI	Global Partnership on Financial Inclusion
GSM	global system for mobile communications
KCB	Kenyan Commercial Bank
KWFT	Kenya Women's Finance Trust
KYC	know-your-customer
IFIs	international financial institutions
IFS	International Financial Statistics
IPO	initial public offering
IRB	internal ratings-based approach
IT	information technology
ITU	International Telecommunication Union
MFI	microfinance institution
MIX	Microfinance Information Exchange
MNO	mobile network operator
MRFC	Malawi Rural Finance Corporation
NGO	nongovernmental organization
NIBSS	Nigeria Inter-Bank Settlement System
OIBM	Opportunity International Bank Malawi
PAR	portfolio at risk
POS	point of sale
RIM	Research in Motion
RTGS	real-time gross settlement system
SMEP	Small and Micro Enterprise Programme
SME	small and medium enterprise
SMS	short message service
SACCOs	savings and credit cooperatives
SOE	state-owned enterprise
UCB	Uganda Commercial Bank
USSD	unstructured supplementary service data

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