



Making Finance Work for Africa

What role for collateral reform?

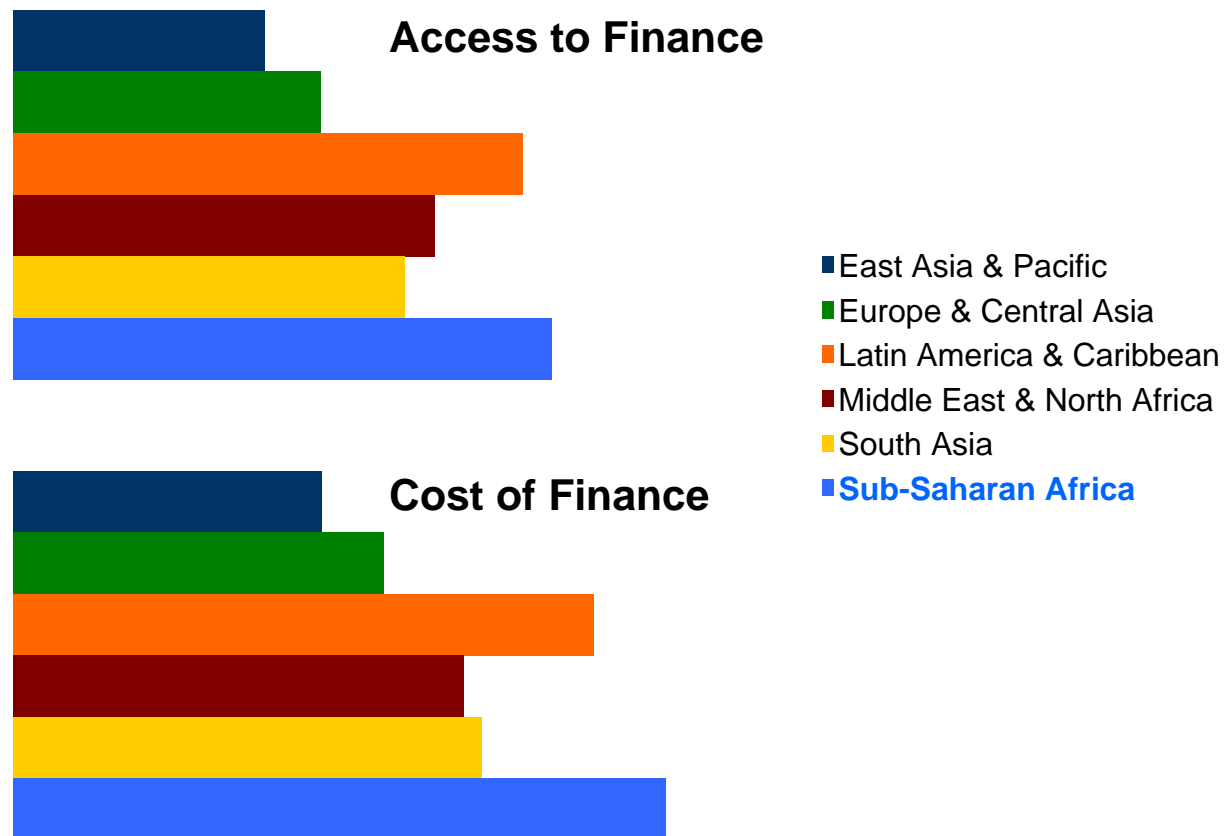
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FPD Forum, April 2007



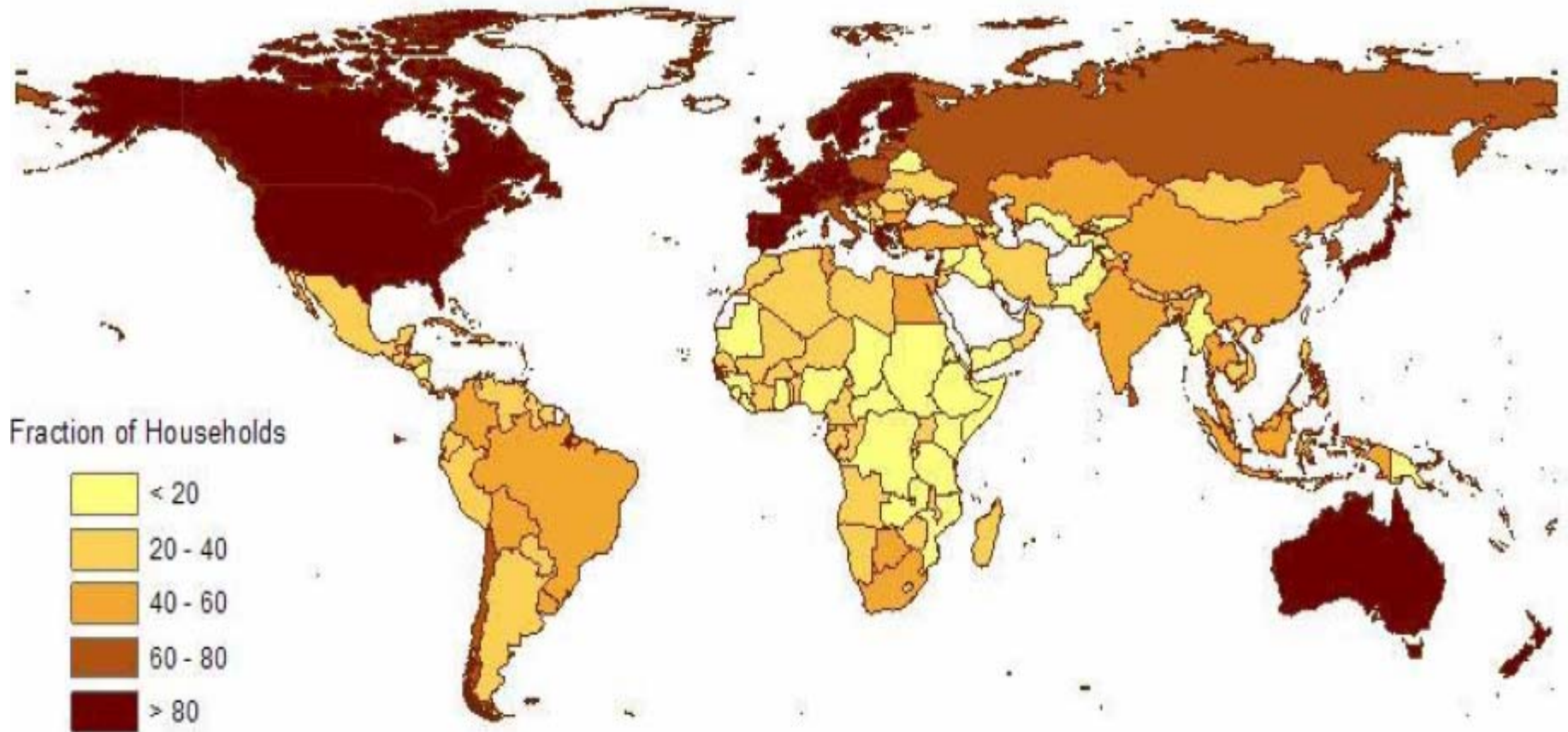
Demand by Firms: Finance is a priority



(Average rating by surveyed firms of each item as an obstacle to business operation and growth)

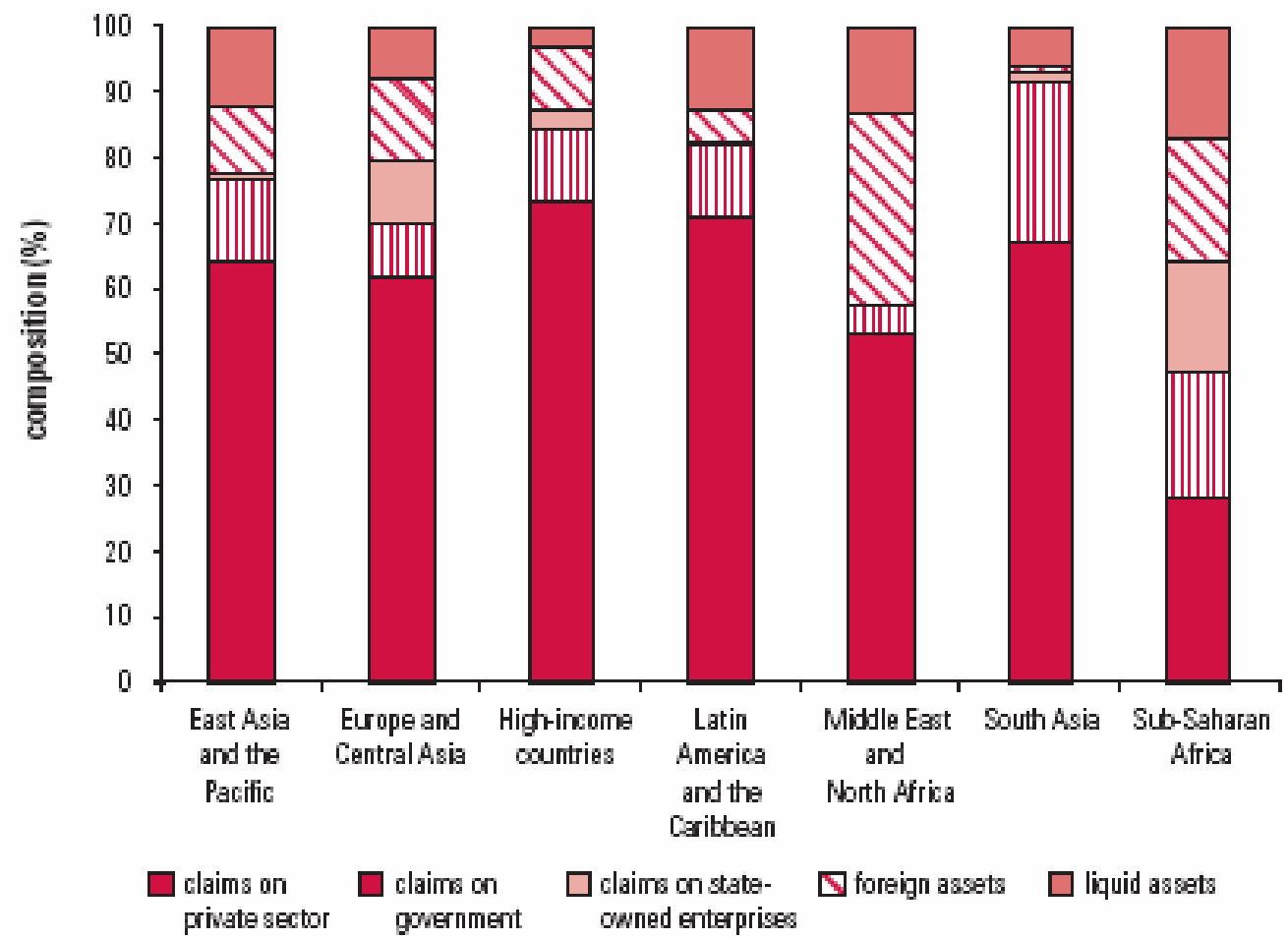


World Map of Access to Finance



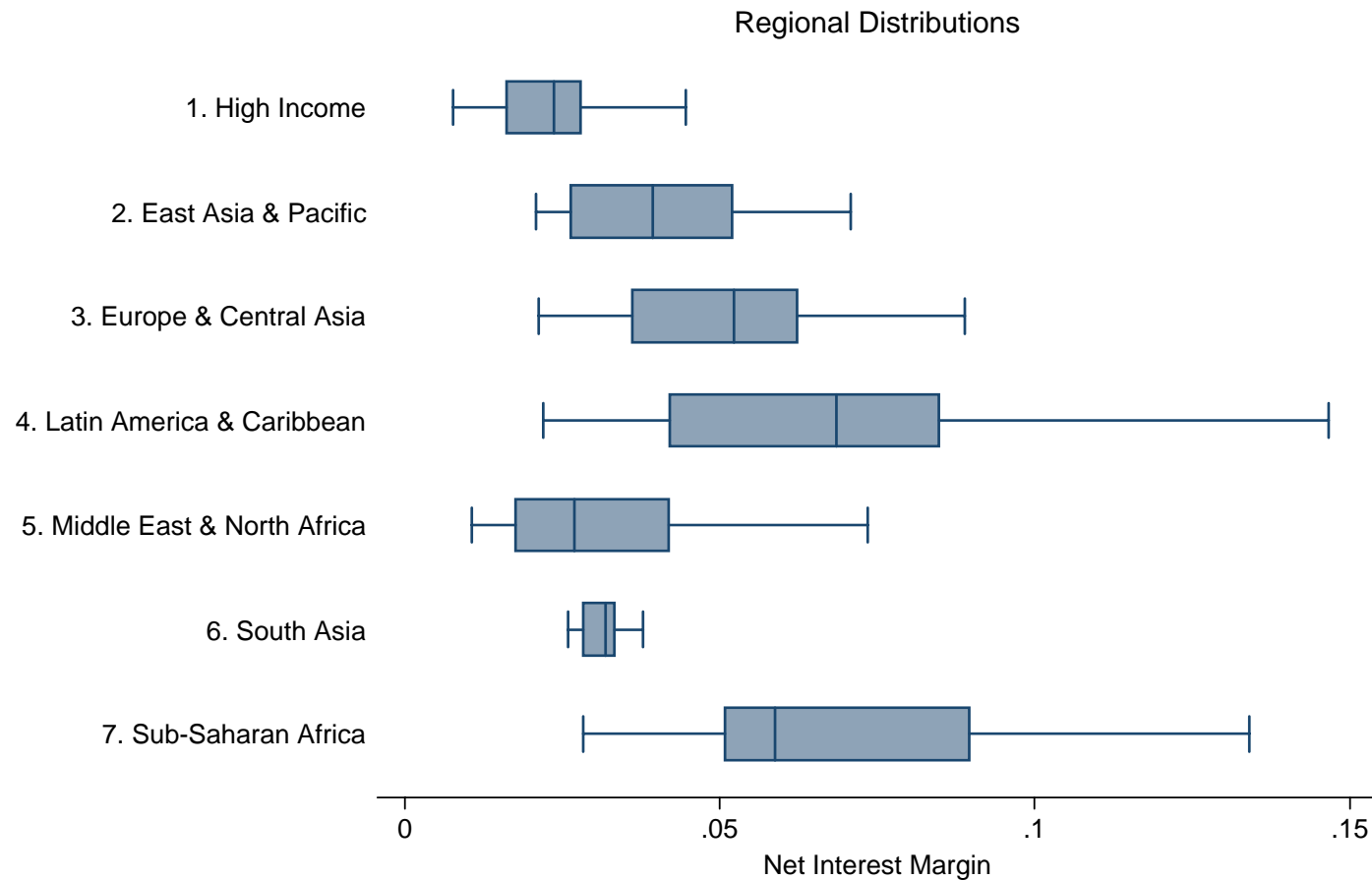


Low share of local private sector lending





African banking is expensive: net interest margins

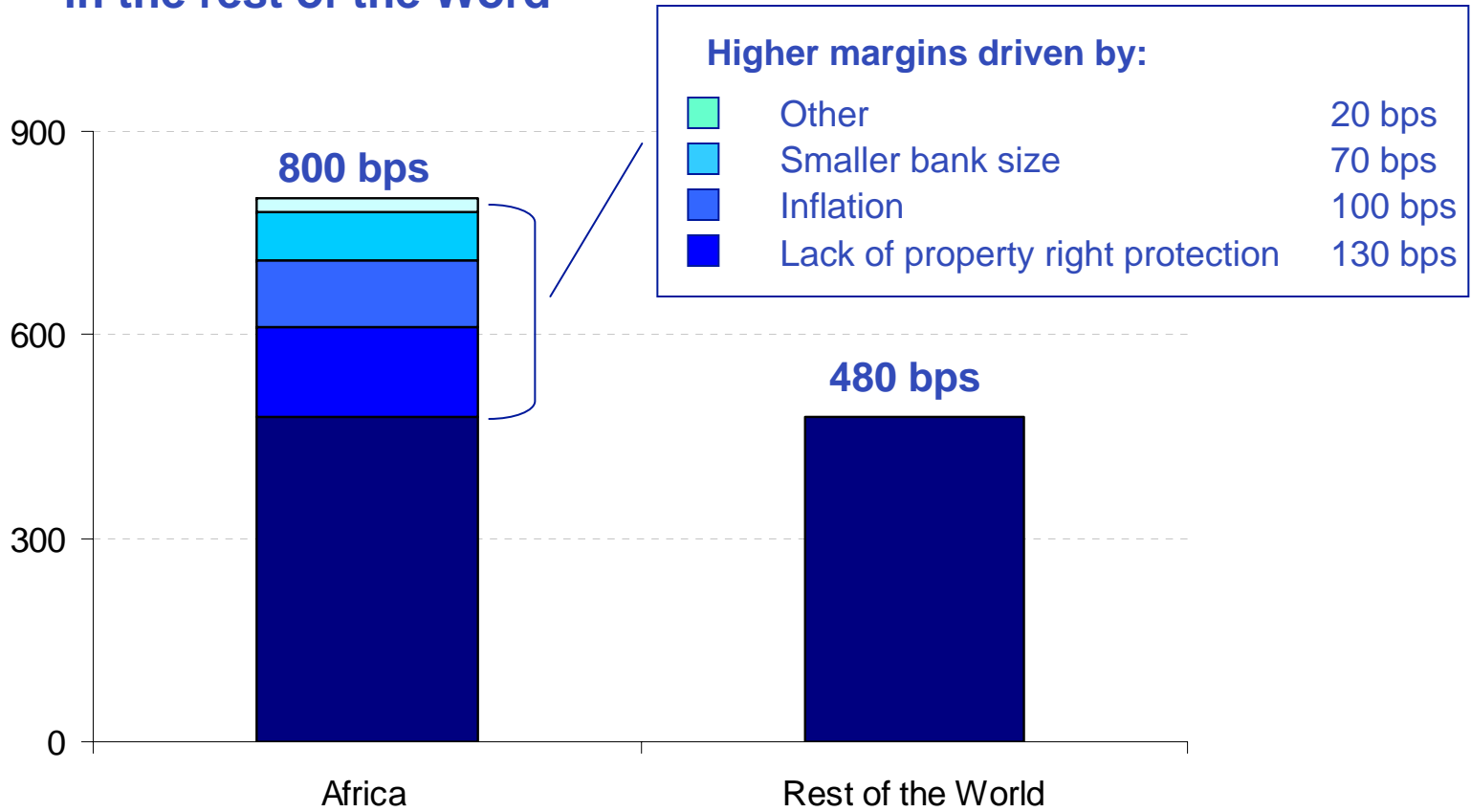


Sample size: 142 countries
Time period: 2004
Source: Financial Structure Database, 2006 (The World Bank)



Weak property rights are increasing costs:

Net Interest Margins in Africa higher than for banks in the rest of the World





Seize Opportunities

- Liquidity available in African financial systems provides the potential for significant levels of local investment finance
- **ICT and mobile phone technology** provide new possibilities for the provision of financial services
- Emergence of **innovative financial operators and strong regional banks** changes the landscape of African banking
- **Regionally integrating financial markets** facilitate economies of scale across the region
- **More transparent and efficient financial markets** will promote equity and governance
- Facilitating Environment for **innovative products** (financial information infrastructure, secured lending etc.)



Priorities and Implementation

- African bankers are unanimous on the two main factors that discourage lending:
 - Difficulty of obtaining the information about potential clients that they need to assess those clients' creditworthiness.
 - Difficulty of enforcing creditor rights.
- For SSA countries credit information is more important than legal and judicial reform.
 - Reforming legal protections is likely to be a long and drawn-out process in poor countries, at least when it comes to protecting the creditor rights of banks against politically protected borrowers.
 - Information (accounting, credit reference bureaus, auditing) tends to have more immediate impact



Important, but how?

■ Information Infrastructure

- Accounting and Auditing
- Credit Bureaus
- Collateral Registries

■ Legal Framework

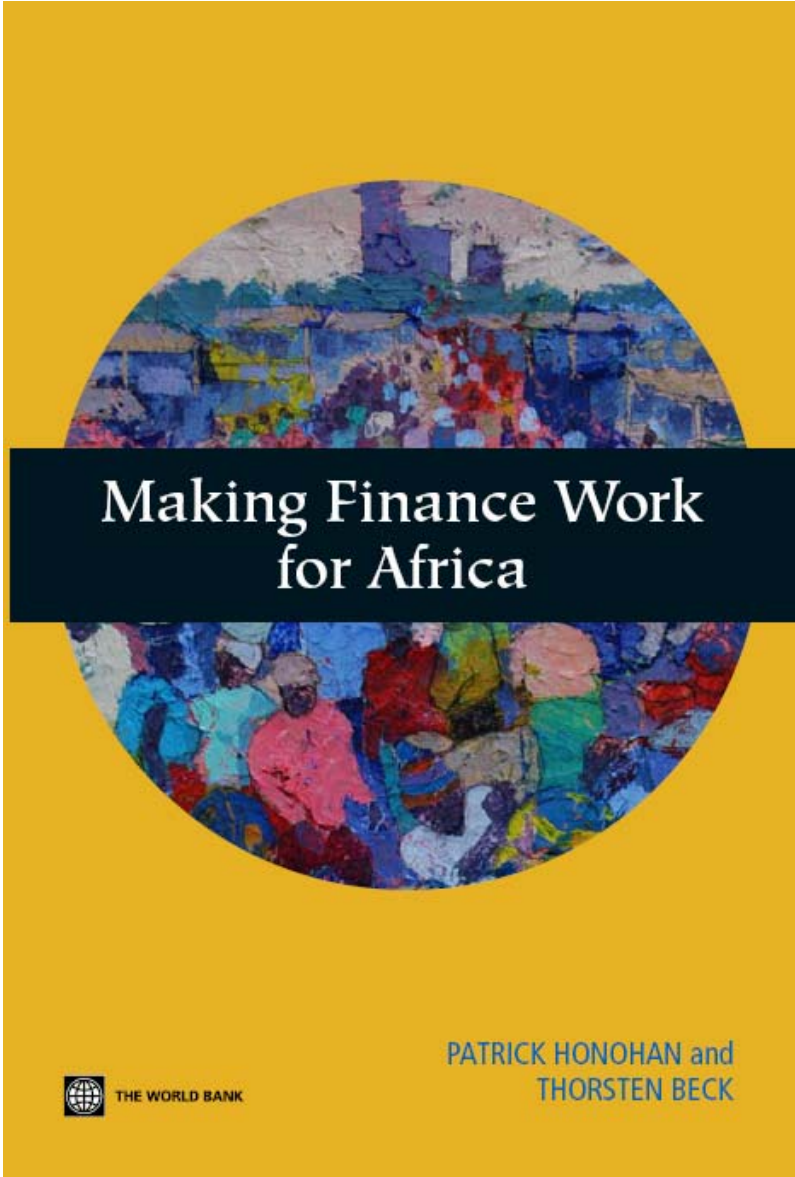
- Clarify laws and tax rules
- Improve formal creditor rights / Alternative Dispute Resolution Mechanisms
- Collateral Laws, Leasing, Factoring etc.

■ Judicial Reform / Contract Enforcement

- Legislative changes to reduce the complexity
- Reduce cost of unnecessary court procedures, through training and selection of judges and an effective system of sanctions for judicial corruption, or through efficient mechanisms for enforcing judgments
- Commercial courts



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 THE WORLD BANK