

Making Finance Work for Africa

The Role and Vision of the World Bank
Africa Financial Sector Unit (AFTFS)
in a Changing World
Nigeria Financial Sector Strategy 2020
Washington, DC, December 18, 2006



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Presenter: Antony Thompson



Changing Priorities: A Renewed Interest in Shared Growth and the Role of Finance in the Development Process

- **Finance and Growth** – financing of productive investment and working capital, risk mitigation instruments (new momentum through *Growth Diagnostic* framework)
- **Finance and Empowerment** – microfinance, remittances, gender impact, equity (WDR 2006)
- **Finance and Service Delivery** – public sector payments, teachers' salaries
- **Finance and Macro-Stability** – financial sector stability, absorptive capacity
- **Finance and Governance** – robust management of local financial resources, proper oversight of public financial institutions, improved allocation of financial resources.



Changing International Environment and Expectations

- **Emphasis on**
 - Country ownership and Country-driven Development
 - Partnership – Harmonization and Aid Effectiveness
 - Results – Measurement, Monitoring and Evaluation
- **Paris Declaration – SWAPs, Use of Country Systems, Enhanced Partnerships**



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Our AFTFS Mission Statement

“To promote increased household and firm access to quality financial services, facilitate investment and efficient financial intermediation, and support financial stability and integrity in order to create the conditions for generating shared growth.”



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Fulfilling Our Mission:--

- **Driven by Indicators – a Focus on Measurable Results,**
- **Service Oriented – Supporting Country Ownership,**
- **Building Partnerships.**



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Mapping Ourselves on Three Dimensions

Public Policy

Private Investment



Relationships

Transactions

Strategic, Big Picture

Targeted, Micro

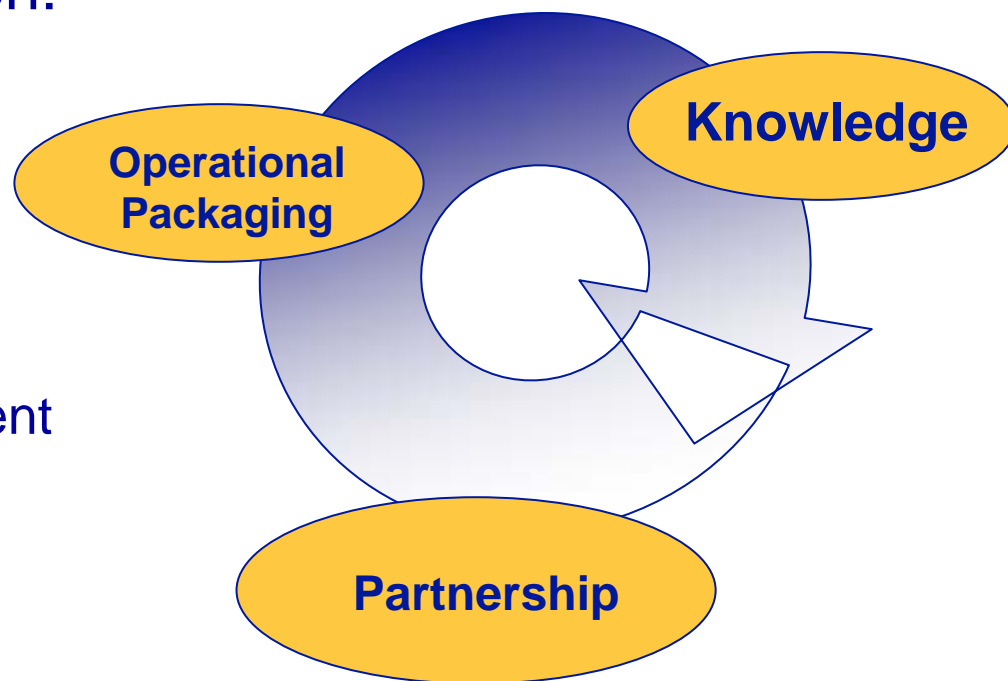


A simple characterization of AFTFS' Business Model

■ Business Model is build on:

- Technical **Knowledge**
- **Partnership** with clients and development partners
- **Operational Packaging** for implementation of development strategies and solutions

■ Elements reinforce and strengthen each other





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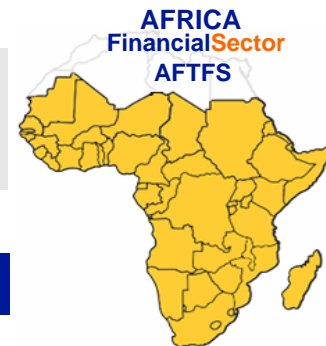
Our effectiveness increasingly determined by the quality of our relationships with...

- Country Counterparts – usually extensive longstanding relationships and continuous dialogue, fully embedded within WB-Country interface
- International Development Partners – building a track record of collaboration, convergence on priorities, mutual commitment to country ownership, challenges in co-financing arrangements
- “Knowledge partners” – bringing the latest thinking to the client regardless of origin, and
- Stakeholders – private sector, civil society, etc.

Critically important to invest in these relationships by behaving in ways that promote trust and facilitate collaboration.



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The impact of AFTFS business model on our view of the FSAP...

Traditional FSAP

Stability

Confidential

Arm's Length

Analysis

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Africa FSAP

Development

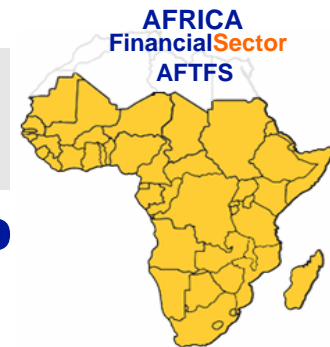
**Knowledge
Sharing**

**Partnership/
Ownership**

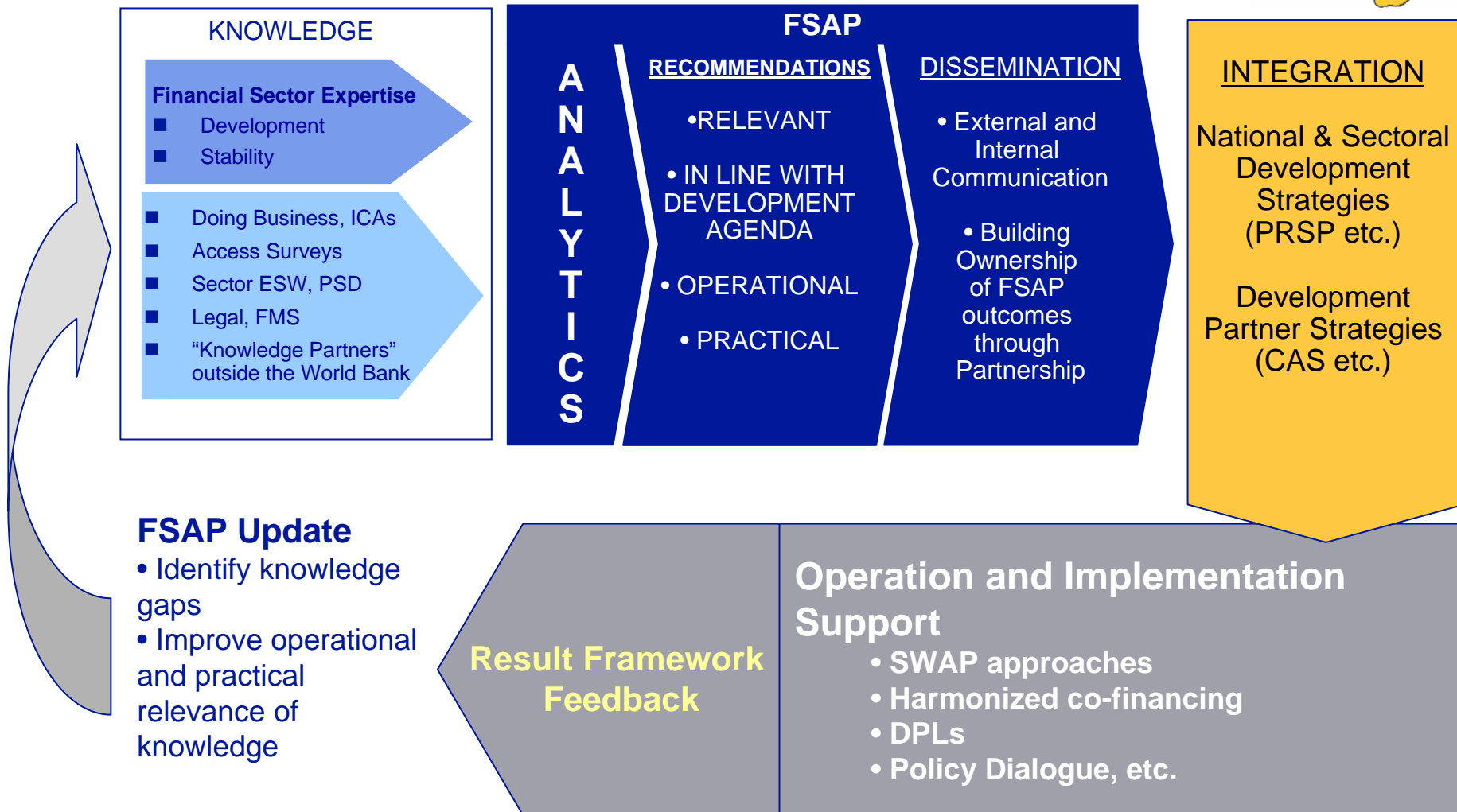
Implementation



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Knowledge to Implementation: e.g. FSAP





Results and Indicators (1)

- Convergence to a standardized set of core indicators across all 47 SSA countries:

1. World Bank Africa Action Plan Key Performance Indicators:

- Private Credit as % GDP (Size/Effectiveness)
- Net Interest Margin (Efficiency)
- Access to Finance* (Access)

2. Additional World Bank OPD “Headline” Financial Sector Indicators**:

- Stock Market Capitalization as % GDP (Cap. Markets - Size)
- Turnover in stock market (Cap. Market – Liquidity)
- Insurance Premium as % GDP (Non-Bank FI – Size)
- Number of Deposits per 1000 people (Access)*
- Number of Loans per 1000 people (Access)*
- Non-performing Loans (Stability)

- *Goal: Access to Finance Indicator based on “Access to formal financial service providers (as % of adult population)” measure provided by Finscope and World Bank access surveys. In the meantime, proxy solutions based on alternative survey indicators in each countries will be used to allow monitoring & evaluation of country programs over time.
- ** Excludes R2 indicator of stock market efficiency & Moody’s Bank Financial Strength Index due to lack of data



Results and Indicators (2)

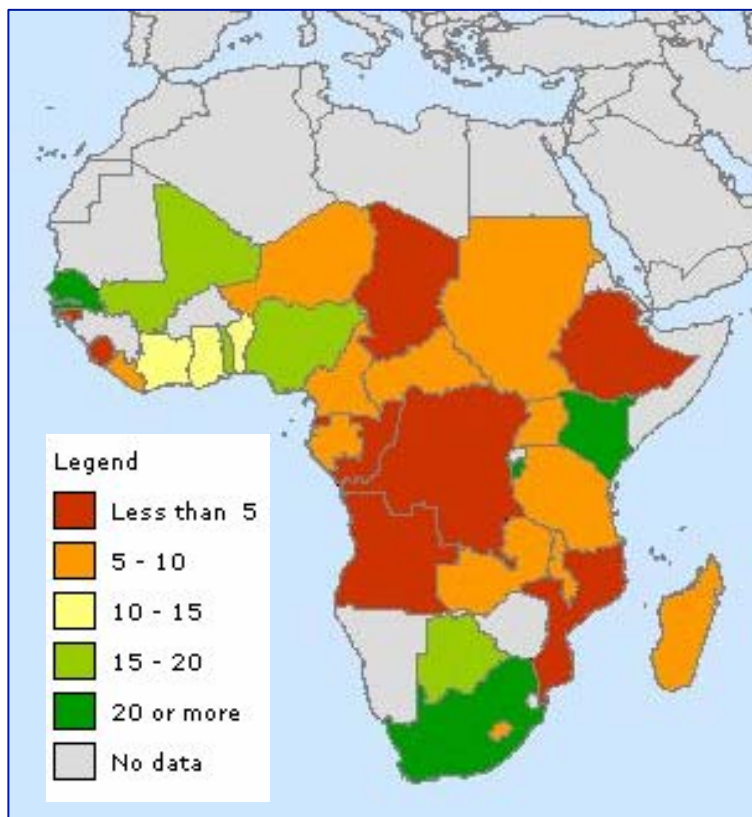
- Additional performance indicators
- Individual indicators developed for each operation, including Country SWAPs, PRSPs, etc..
- FSAP – non-standard indicators
- Doing Business, i.e.:
 - Getting Credit (legal rights index, credit information index, public registry coverage, private bureau coverage)
 - Protecting Investors (disclosure index, investor protection index, director liability index, shareholder suits index)
- Investment Climate Assessments Finance Indicators, i.e.:
 - internal finance for investment, supplier credit financing, leasing financing, informal financing, collateral needed for a loan



AAP Key Performance Indicators (1)

Domestic Credit to Private Sector, % GDP

Private Credit as % GDP, 2004



Source: World Bank DDP

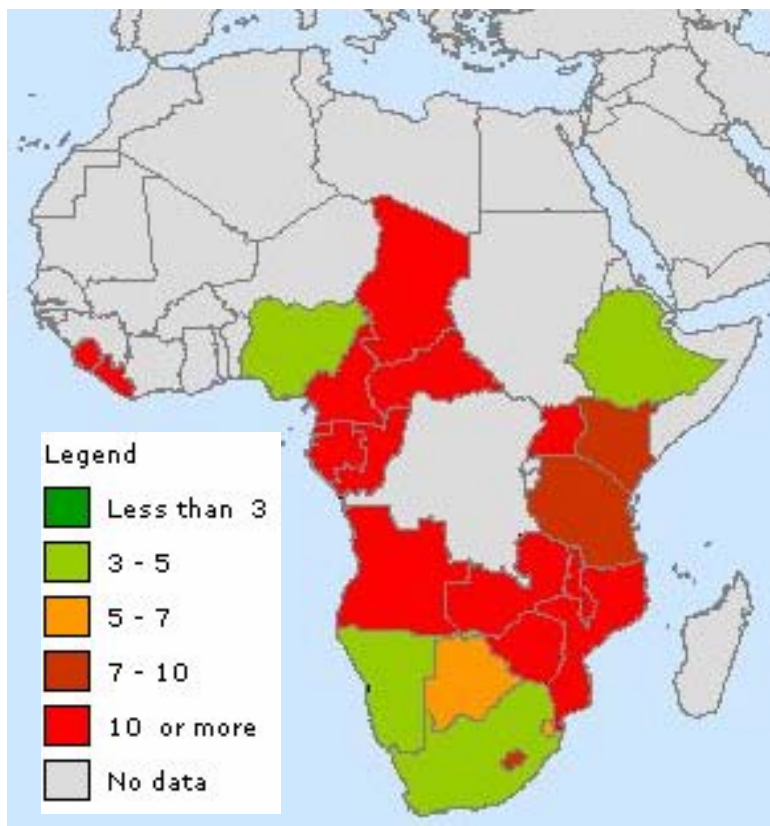
- Private sector credit is low across Sub-Saharan Africa (excl. South Africa)
- Financial Sector Programs are focused on middle segment (10 – 20 % GDP).
- Develop business model for:
 - Post-Conflict countries
 - Middle-Income countries



AAP Key Performance Indicators (2)

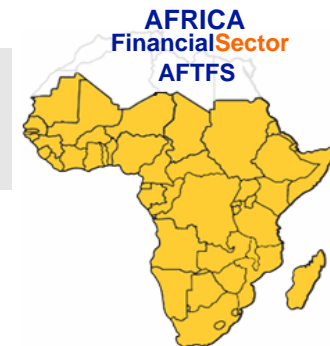
Interest Rate Spread (Lending – Deposit Rate)

Interest Rate Spread in %, 2004



Source: World Bank DDP

- Overall high inefficiencies in African financial sectors
- High number of countries with lending spreads above 10%
- Roll-out of systematic spread analysis to focus financial sector strategy



AAP Key Performance Indicators (3)

Access to Finance

Demographic Branch Penetration
(per 100K people)

Mauritius	11.9
South Africa	6.0
Namibia	4.5
Botswana	3.8
Zimbabwe	3.3
Nigeria	1.6
Ghana	1.6
Zambia	1.5
Kenya	1.4
Madagascar	0.7
Tanzania	0.6
Uganda	0.5

Source: Beck et al, Access Survey (2004)

■ Variety of country-specific indicators available, i.e.:

- Finscope “Access to formal financial service providers”: Namibia 53%, Botswana 52%, South Africa 63%
- Rwanda 40% of adult population have an account in bank or savings coop.
- Demographic and geographic branch/ATM penetration (see table)
- Accounts/Loans as % of adult population

■ Finscope, World Bank and DFID will roll out standardized access survey



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Thank You!