

Introduction

Launched in March 2006, the Africa Microfinance Action Forum (AMAF) is a voluntary advocacy group of African leaders committed to the advancement of microfinance in Africa. This article is based on a recent study undertaken by AMAF and Women's World Banking (WWB).

AMAF members indicated that although Africa has its share of problems and challenges, the general perception blurs some of the realities and success stories. Perceptions are fueled by a number of stereotypes regarding Africa, including stereotypes in regard to microfinance. The "Diagnostic to Action – Microfinance in Africa" does away with some of the stereotypes by shedding light on the major achievements, while diagnosing challenges inherent to operating in Africa, as well as those specific to microfinance. Trends are revealed that could signal the future and dimensions of action outlined to realize access to finance for all in Africa.

The Context

After a decade of decline (1975–1985) and another of stagnation (1985–1995), something decidedly new has been on the horizon in Africa since the mid-1990s. Many African economies appear to have turned the corner and are moving towards a path of faster and steadier economic growth (World Bank 2008). There are signs that the growth is due to more

than just improving terms of trade, and is more likely attributable to economic reforms and improved fundamentals. The continent continues to experience an average economic growth of over 5 percent with a projected growth of 5.9 percent for 2008 and 2009 (OECD/African Development Bank 2008). For the first time, several African governments and central banks have been able to build up reserves. As many as 28 of the 53 countries accelerated their growth in 2006, relative to 2005. Nigeria expects to be among the top 20 economies in the world by 2020 and others, such as Ghana, will have become middle-income countries. The ability to significantly improve governance and to support, sustain and diversify the sources of the growth will be critical to meeting the Millennium Development Goals (MDGs).

Despite this growth, Africa remains a challenging region for financial services. Population density is low, unlike in Eastern and Central Asia (ECA) and Latin America and Caribbean (LAC), making service delivery in rural areas costly. The GDP per capita is also low, which implies small transactions.

In many countries in Africa, only one in five households has an account with a financial institution.

Increasing access to financial services to low-income markets could contribute to reaching the first Millennium Development Goal of eradicating extreme poverty and hunger. Access to financial services increases and diversifies incomes, builds assets and

Table 1 Basic Regional Indicators

Region	GDP per Capita		GDP Growth		Population Density	
	1996	2006	1996	2006	1996	2006
Africa	1441	2158	5.2	5.9	26.9	34.2
E. Asia & Pacific	1906	4301	9	10	109	120
S. Asia	1207	2303	6.8	9.1	264	314
LAC	6063	8942	3.5	5.5	24	27.6
ECA	5355	10341	2.2	7.4	19.2	19.3

Source: World Bank, "WDI Online"

improves lives in a multidimensional way. Evidence shows that poor people choose to invest in a wide range of assets: better nutrition, improved health, access to schooling, a better roof on their homes, and expansion of their small businesses.¹

State of Microfinance in Africa

With low bank penetration and a very large informal sector, Africa is fertile ground for microfinance. This is reflected in the wide variety of financial service providers operating in lower income market segments on the continent, employing a broad range of lending methodologies. Amongst the various business models, some have emerged that are replicable at scale. For instance, the savings and lending methodology, developed over the years by CARE, is now being scaled up from just over 1 million customers in Africa alone to 30 million by 2015.

Africa, like Asia, now has some microfinance giants. Whereas the giants in Asia became large in an environment highly favorable to steady growth, with relatively low inflation and a notably higher population density than other regions, those MFIs on the rise in Africa are growing despite demanding macroeconomic contexts.

Table 2 outlines some of the largest financial service providers to low-income households in Africa, for which 2007 data was available.

The table demonstrates that various types of MFIs can be among the largest, as the list contains banks, post office savings banks (POSB) credit unions (CUs), non-banking financial institutions (NBFIs), and NGOs.

Financial Service Delivery Capacity

By 2006, 16 countries in Africa had a microfinance sector outreach of more than 500,000 customers. Among those, seven countries had achieved the milestone of having over one million low income customers -- Ethiopia, Ghana, Kenya, Morocco, Nigeria, South Africa and Uganda.² In the majority of countries, the outreach is largest in terms of savings services, because a savings culture is deeply engrained in most African cultures.

Financially self-sufficient MFIs appear to service the lion's share of the customers. The returns among this group are also healthy, which is important to note because the average of all African MFIs reporting to MIX Market is well below the averages reported for other regions and leaves a different impression.³ **Figure 1** presents key performance of top MFIs in Ethiopia, just one country of the many where MFIs in Africa show very healthy returns on assets. It evidences that the operational self-sufficiency (OSS) and return on assets (RoA) for a number of MFIs in this largely unknown market are above the world median.

Table 2 Largest MFIs in Africa (2007)

Country	Name	Type	Outreach
Kenya	KUSCCO	CU	2,891,000
Kenya	Equity Bank	Bank	1,840,000 savers
Kenya	KPOSB	POSB	1,280,000 savers
South Africa	Capitec	Bank	783,000 savers
Rwanda	UBPR	CU	656,000 savers
Ethiopia	ACSI	NBFI	597,000 borrowers
Uganda	Centenary	Bank	559,000 savers
Burkina Faso	RCPB	CU	513,000 savers
Morocco	Al Amana	NGO	481,000 borrowers
Morocco	Zakoura	NGO	473,000 borrowers

Source: interviews, MIX Market, WOCCU

¹ World Bank (2002), "Microfinance and the Millennium Development Goals", CGAP Donor Brief No. 9.

² This is excluding post office savings banks that tend to have low minimum required balances, making them accessible to low income groups, though the percentage is not known.

³ The average is low partly because the profitability is low in some countries but also because a lot of young MFIs have been encouraged to report early on to the MIX and because many MFIs in Africa are member based and as such seek to be profitable but don't aim for profit maximization.

Figure 1: Performance Indicators for Top MFIs in Ethiopia

Name of MFI	OSS	RoA	PaR 30	Write-off ratio
ACSI	224%	7.9%	1.5%	0.1%
DECSI	193%	4.3%	2.9%	0.4%
OCSSCO	182%	5.9%	1.2%	0.2%
Eshet	160%	7.3%	0.6%	0.0%
OMO	140%	3.1%	9.8%	-0.1%
ADSCI	135%	1.7%	3.9%	0.6%
Wisdom	129%	5.2%	5.5%	2.2%
World median⁴	115%	0.9%	2.8%	2.9%

Source: AMAF,WWB (2008), *Diagnostic to Action: Micro-finance in Africa, Volume II: Case Studies*, New York, USA

In some markets MFIs have shaken up banking sectors that in Africa typically served a small group of large corporate clients. In Kenya, Equity Bank managed to transform from building society into a bank and now ranks among the top banks in terms of market share and profits. Importantly, major banks are now also expanding their branch networks; for instance Barclays Bank is rolling out seven branches on the continent in a period of one year, Co-operative Bank is opening 20 branches and KCB, 30 branches.

There is no one sector development trajectory; just as the financial market contexts vary widely in Africa, so do sectors tend to develop differently. Some years ago there was a belief that microfinance develops through an evolution of NGOs that transformed into regulated

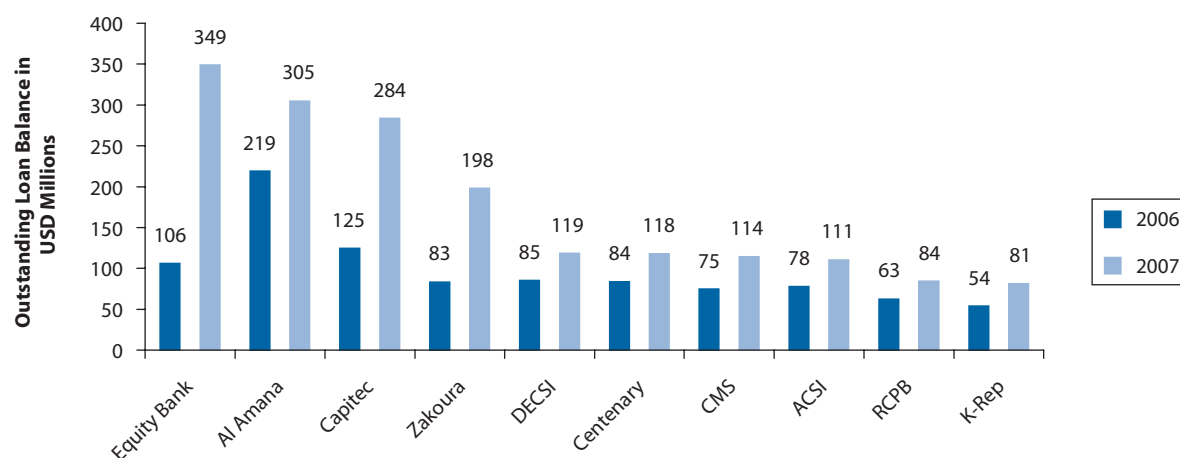
institutions. This is the case in many countries, but in other countries, the drive towards financial inclusion has come from banks that found ways to downscale their operations.

Constraints

A main constraint to the provision of financial services to all in Africa is the high cost operating environment. Throughout Africa, low population densities, weak and/or expensive infrastructure, and high labor and provisioning costs all contribute to high operating expenses, especially in rural areas. This results in the need for economies of scale for MFIs to remain competitive and responsive to client needs. The largest MFIs in Africa have been able to continuously refine their lending methodologies, and have become among the most productive in terms of both borrowers and savers per staff member. The smaller MFIs, however, continue to struggle to cover costs and diversify their products.

Another significant constraint is the scarcity of skilled manpower at all levels: loan officer, middle management, and leadership. Senior MFI and bank managers need both the vision and the managerial capacity to find a business model that can create efficiencies, plan for its execution, know the risks, chart a path that overcomes the major challenges and stay the course. Corporate governance to ensure high quality management and oversee management's capacity to continue to lead ever-more complex financial institutions is also a constraint in a number

Figure 2: Growth in Portfolio of 10 Large MFIs



Source: MIX Market (www.mixmarket.org).

⁴ MicroBanking Bulletin, Issue 15, Autumn 2007.

of countries. At the middle-management and loan officer levels, staffing is a perennial and worsening risk for most MFIs in Africa. The growth in competition, poaching of staff, insufficient training and rising salaries make human resources one of the most intractable problems in the sector. Responses from all major sub-regions told a similar tale of staff shortages holding back growth and service improvements.

Lack of funding has also been typical for African MFIs, and creates a delay in MFIs achieving scale to break-even. With African MFI loan portfolios increasing by over a billion dollars a year (see **Figure 2**), the provision of enough funding to the institutions offering the services is a major challenge. A growing amount of commercial funding, such as bank lending and private equity, is supplementing the amounts contributed by donors to MFIs around the world. However, more sophisticated financing forms like issuing bonds are still expensive. As to international microfinance investment vehicles, less than 10 percent of all funding from these funds goes to MFIs in Africa. In this connection, the issue of information and transparency has emerged as a critical element in this industry. Those institutions able to produce accurate and timely reports are more likely to mobilize funds.

Though many countries are benefiting from better macro-economic and financial sector policies, in a number of other countries, the macro-economic and legal and regulatory environments form an underlying constraint to large-scale financial service delivery. The supervisory capacity of central banks, bearing the ultimate responsibility for the financial health and stability of the financial sector, is falling behind in many countries.

Moreover, the meso level forms a key gap, in the middle between the growing retail capacity and improving macro-level issues. Some donors now combine support at the micro level with support in the area of legal and regulatory framework, but often the meso level is still overlooked.

Trends that Signal the Future

Growth has been rapid over the last five years (see **Figure 3**). The time for countries to reach the two million mark for clients will be significantly shorter than it was for them to reach the first million.

Moreover, growth has been especially rapid during 2007 (see **Figure 2**). Recent growth trends exhibit unprecedented rates of acceleration, particularly in Egypt, Ethiopia, Kenya, Morocco, Senegal and South

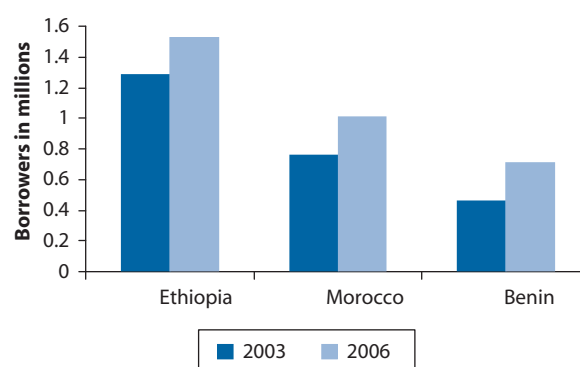
Africa. We are also seeing growth rates increase rapidly in Burkina Faso, Cameroon, Ghana, Nigeria, Rwanda, Tanzania, Togo and Uganda.

Though there are still close to a dozen monopolistic markets in Africa that are in urgent need of more competition to stimulate innovation, in other markets, fierce competition among MFIs is an increasing risk.

Improvements in products, including their distribution channels, are being driven by new technology, such as (mini) cash machines, mobile banking and mobile phone banking, Personal Digital Assistants (PDAs), cards and point of sale devices, and biometric recognition. The wide variety of MFIs in Africa is conducive to innovation as it creates space for partnerships with different types of 'agents' and partners that add significant value in piloting new technology applications.

Besides increasing access, people in low-income market segments in countries across Africa are now also able to access an increasing range of financial products — savings, micro-insurance, transfers, leasing and loans for business, school fees, emergency, home improvement, etc. There are even promising business opportunities for lending for household water supply and energy services to offset the high upfront costs. Some MFIs have also partnered with clean water providers bringing a potentially high-impact product within reach of low-income households. Increasing product diversity is also driven by the mission of many microfinance providers to continually, and better, reach the financially disadvantaged. MFIs which have been able to innovate in product delivery and product offering have seen rapid growth in client numbers over the past few years. Whether East or West, North or South or Central Africa, innovations are occurring in mature as well as young markets.

Figure 3: Growth in Number of Borrowers



Source: In-country interviews

Impact

In most countries MFIs show increasing average Outstanding Loan Balance (OLB) per borrower, growing either with their clients or with their shareholders (the latter representing mission drift). Egypt is an exception to this, as MFIs manage to keep on serving a low market segment and their average balances decreased with the introduction of group lending (see **Figure 4**).

With more demand driven products and broader product menus described above, the impact becomes more multifaceted. Access to a simple solar lantern can extend business hours into the evening while at the same time, enabling children to work longer on their homework. Households switching from open fire cooking to an LPG burner save time, improve health and reduce household energy expenditures.

The good news is that the borders between traditional microfinance and the larger financial system have started to blur and although progress is uneven, we are seeing the beginnings of microfinance being integrated into larger financial systems in Africa.

From Diagnostic to Action: Finance for All in Africa

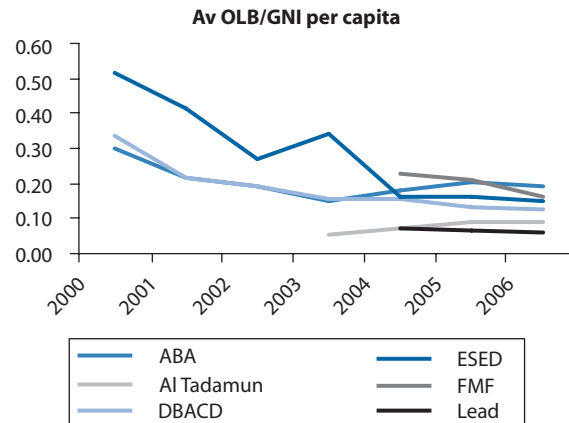
To achieve the goal of access to finance for all in Africa, actions need to be undertaken at the following levels: micro (this includes the client and MFI level), meso, macro and regional. Hitherto, attention has focused at the MFI and macro-level. To date, the regional level has been largely overlooked. To advance the work at the various levels, AMAF has started a number of campaigns (see **Figure 5**).

Clients

While MFIs need to continuously improve their capacity to listen to clients, it is becoming increasingly important for clients to be better informed through financial education and consumer protection. More generally, the business environment, while improving in many countries in Africa, still has a long way to go and needs to extend to the many areas affecting micro- and small enterprises to enable Africa's private sector to become competitive and small enterprises to thrive.

AMAF seeks to contribute to the acceleration of progress at the client level through its campaign: "How to listen better and reach out more".

Figure 4: Egypt's Poverty Outreach Over Time



Source: MIX Market

MFIs

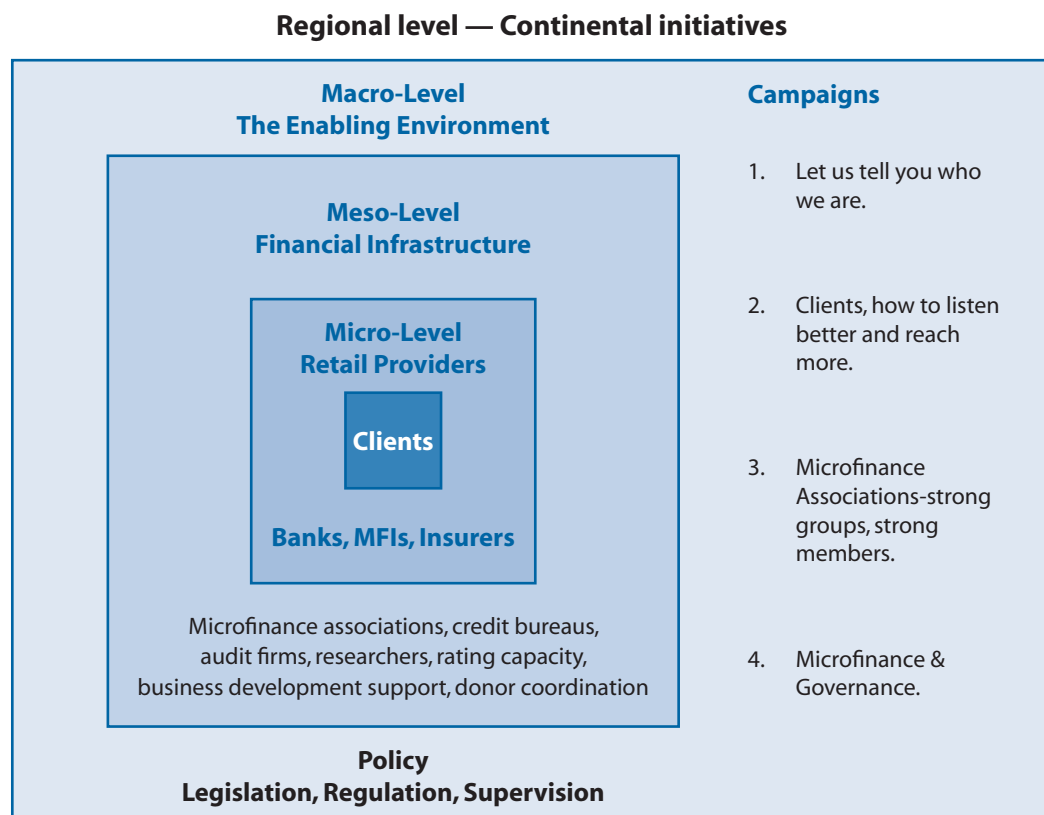
In order to achieve the goal of access to finance for all in Africa, the bottom line remains that the retail capacity to deliver these services efficiently needs to be enlarged. MFIs need to get the basics right with strategies that address the high cost environments, by diversifying and increasing the volume of funding to fuel growth, recruiting skilled manpower and establishing affordable in-house training methods to manage the rapid growth. A strong focus on governance and leadership development and training is indispensable.

Successful microfinance providers demonstrate an organizational culture which embraces change and is conducive to continuous improvements in service delivery.

New products lines, such as life, health, crop and weather insurance, may significantly increase sector impact by mitigating areas that dramatically reduce the coping capacities of people in Africa, especially as the continent remains more volatile and its people more vulnerable than others regions of the developing world.

Meso-Level Measures

Industry infrastructure is important for nascent, growing as well as mature industries. Critical meso-level building blocks that are still largely missing are strong microfinance associations operating lasting business models, local and regional microfinance training capacity at the necessary scale, local research and development capacity, knowledge management and information dissemination, rating

Figure 5: Levels of Action for Finance for All

and technology service providers, credit bureaus, a viable business development services industry and donor coordination.

AMAF seeks to contribute to the acceleration of progress at the meso level through its campaign: "Microfinance Associations – strong groups, strong members".

Macro-Level Support

Successes such as Ethiopia and Morocco, which managed to build a sizeable microfinance industry with large, profitable retailers within a decade, can be replicated if stakeholders jointly analyze the key constraints and strategize on how to overcome obstacles with clear, quantitative target-setting incorporated into their national microfinance strategies or financial sector charters.

Some countries also need to continue to improve microfinance policy frameworks and adapt their legal and regulatory systems in line with rapidly changing financial sectors. Equally important are issues of strategy, budget and support plans for the expanded

supervisory capacity costs that come with supervision of MFIs. The broader issues of efficient judicial systems, including property rights, court system and collateral registries remain pertinent issues to address in most countries in Africa.

The Dakar Declaration on Building Inclusive Financial Sectors in Africa of 2006 paved the way for high level commitment and best practice policy making to take root in each and every country in Africa.

AMAF seeks to contribute to the acceleration of progress at the macro level through its campaign: "Governance and Microfinance".

Regional Initiatives

Throughout the continent, the frontier of finance is moving towards underserved markets—poorer, rural and more remote segments of the population—but lessons learned are not widely disseminated and knowledge building in one country is usually not capitalized upon in others. The continent has many unknown success stories, and many specific solutions, some of which can be replicated in other countries.

Moreover, at a strategic level, specific insights have been and can continue to be gained from a number of country groupings—sub-regional, small and large countries, and thematically grouped countries like oil-rich or post-conflict—and stakeholders are encouraged to work together with countries similar in region, size or contexts.

Moreover, access to finance for all can be realized faster if more operations are managed regionally. There already has been an expansion of regional financial institutions with affiliates in many African countries to address the issue of scale and share in research and development costs

AMAF seeks to accelerate progress at the continental level through its campaign: "Let us tell you who we are."

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