



Africa Union for Housing Finance

FINANCING AFRICA: Key Issues for the Housing Finance Sector

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1

New heavy-hitting investors offer critical mass

China, India, Brazil;
private foundations

2

Regionalization is creating new large-scale markets

Intra-regional trade growing; new regional common markets (EAC)

3

Greater political and social stability makes Africa more attractive for investors

Democratic elections gaining ground; conflicts steadily declining

4

Spread and growth of ICT offer significant productivity gains

World's fastest mobile phone penetration

5

Climate change creates opportunities for a green economy

Renewed emphasis on agricultural development, crop prices



1

Landscaping Africa's Financial Systems

Size
Financial Depth
Breadth
Maturity
Cost

2

Expanding Access to Finance

Competition
Innovation and Regulation
Regional Integration

3

Lengthening Contracts

Contractual Savings
Private Equity Markets
Sovereign Wealth Funds

4

Safeguarding Financial Sector Stability

Supervisory frameworks
Non-bank financial institutions
Consumer protection

5

Conclusion

The politics of financial sector reforms



1

Landscaping Africa's Financial Systems

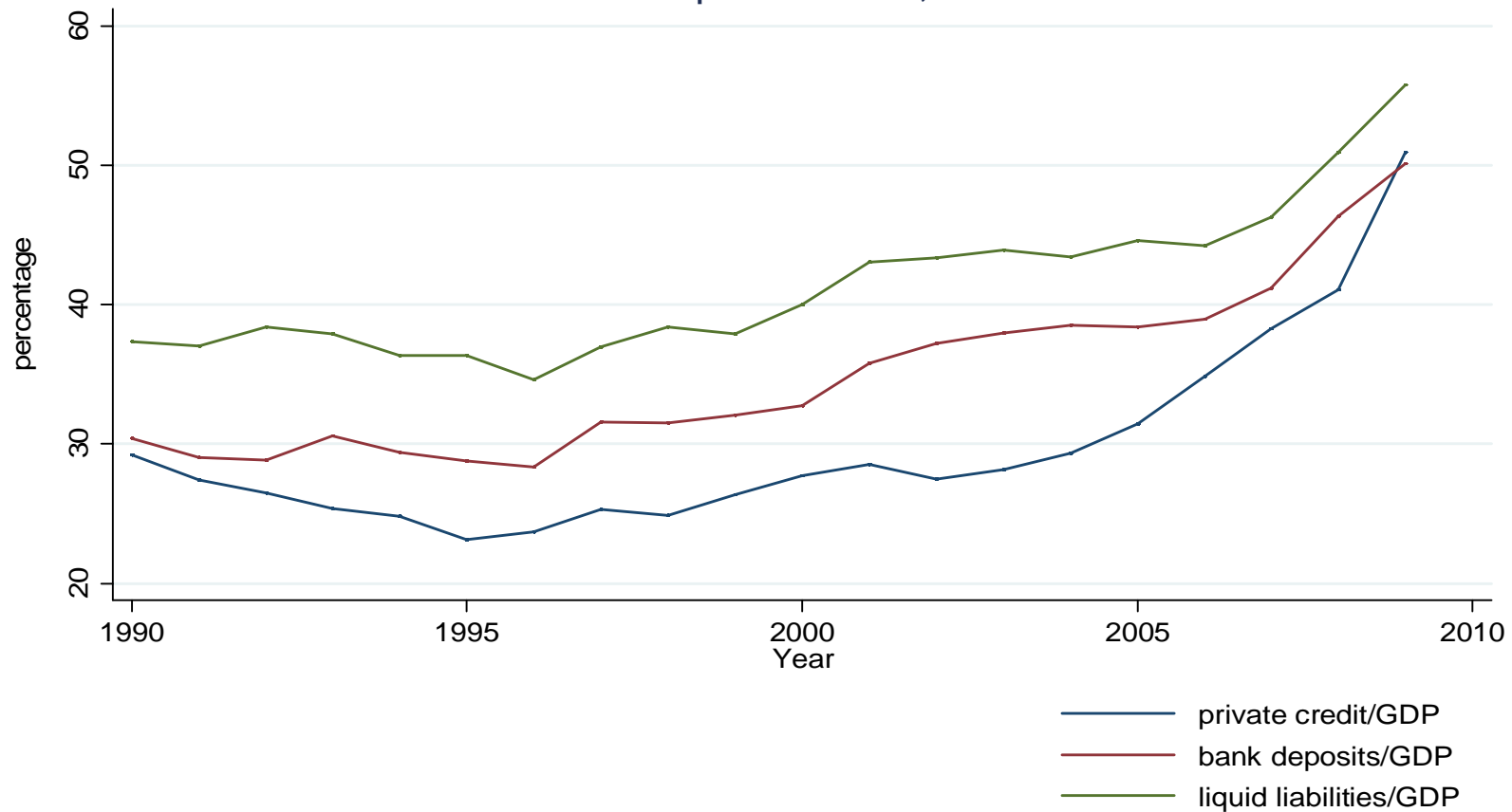
Size
Financial Depth
Breadth
Maturity
Cost





Hope ~~is~~ was maybe in the air...

Financial Depth in Africa, 1990–2008



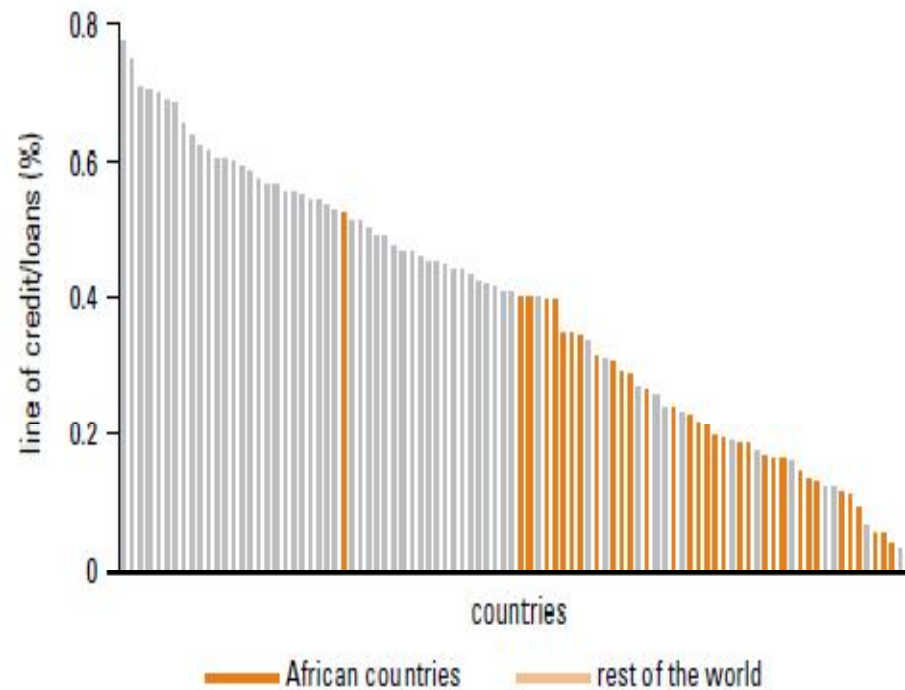
Sample size: 25 countries
 Time period: 1990-2009
 Source: World Bank's Financial Structure database 2009
 Note: number of countries above indicates those after balancing the dataset

African Financial Systems have limited outreach...

Do you have a bank account?

Country	Yes	No
South Africa	49	50
Kenya	29	70
Zimbabwe	28	72
Nigeria	23	75
Uganda	21	79
Ghana	19	81
Rwanda	16	84
Tanzania	16	84
Malawi	11	89
Zambia	9	91
Cameroon	8	92
Chad	7	93
Côte d'Ivoire	6	94
Senegal	6	94
Burundi	4	96
Mali	2	98
Congc, Dem. Rep.	1	97
Niger	1	99

Source: Gallup survey data.





2

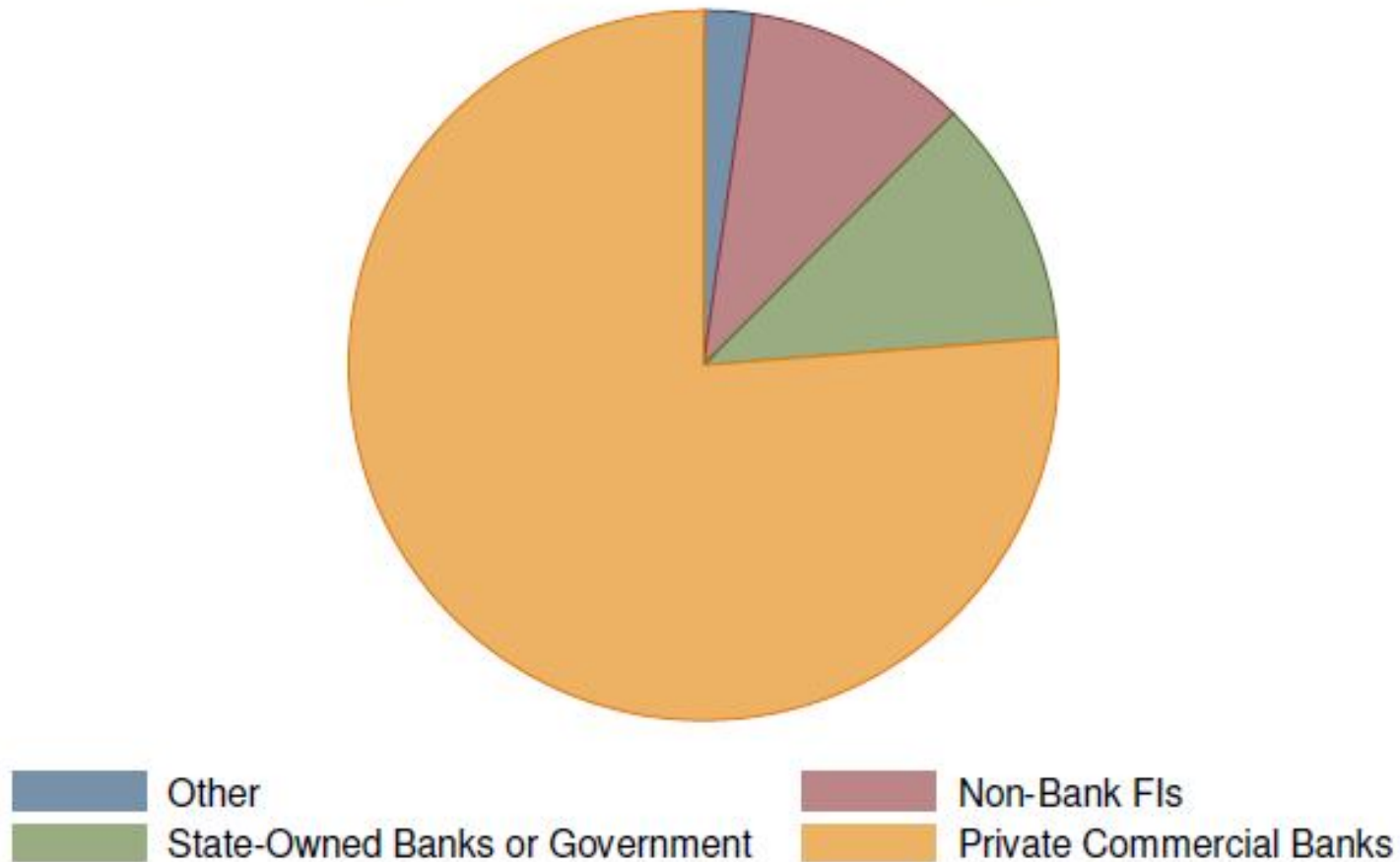
Expanding Access to Finance

Competition
Innovation and
Regulation
Regional Integration



Africa's finance is bank-based...

Institutions and Loans (Africa)





Competition is key to innovation

- Competition within the Banking Sector
- Look beyond the banking sector
- Look beyond the traditional financial services sector



Focus on Services; not institutions

- Innovation might come from unexpected quarters
- New products (leasing and factoring)
- New delivery channels



Areas of interest...

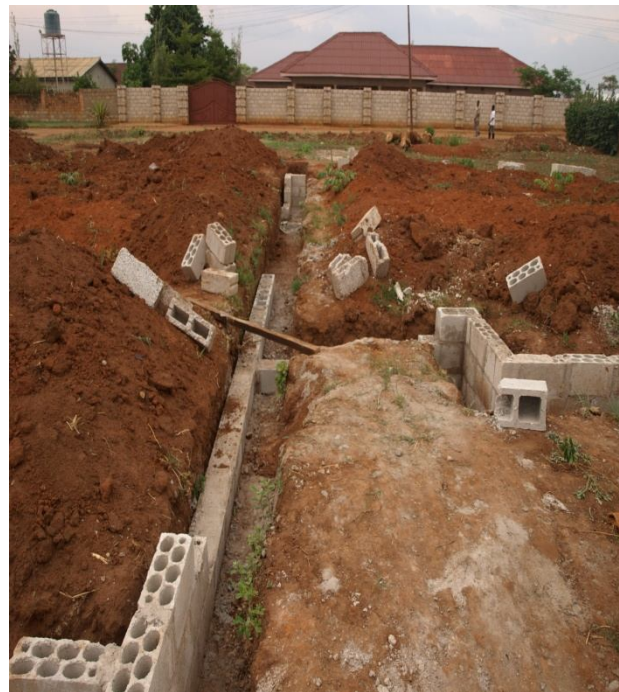
- Increased focus on demand-side constraints
- Financial literacy programs
 - Awareness
 - Capability
 - What works: targeted and tailor-made



3

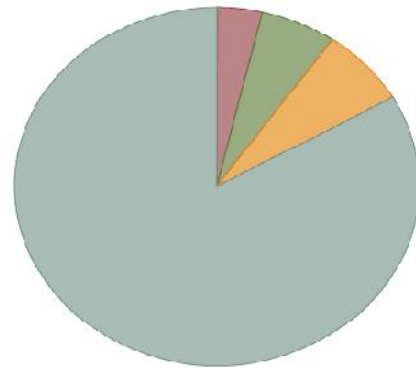
Lengthening Contracts

Contractual Savings
Private Equity Markets
Sovereign Wealth Funds



African finance is short-term..

Maturity Structure of Deposits (in %)

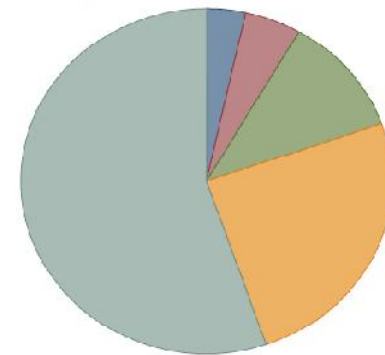


More than ten years
Three to five years
Less than one year
Five to ten years
One to three years

Time period: 2005-2009
Source: MFWA Financial Structure database 2009

STATA

Maturity Structure of Loans (in %)



More than ten years
Three to five years
Less than one year
Five to ten years
One to three years

Time period: 2005-2009
Source: MFWA Financial Structure database 2009

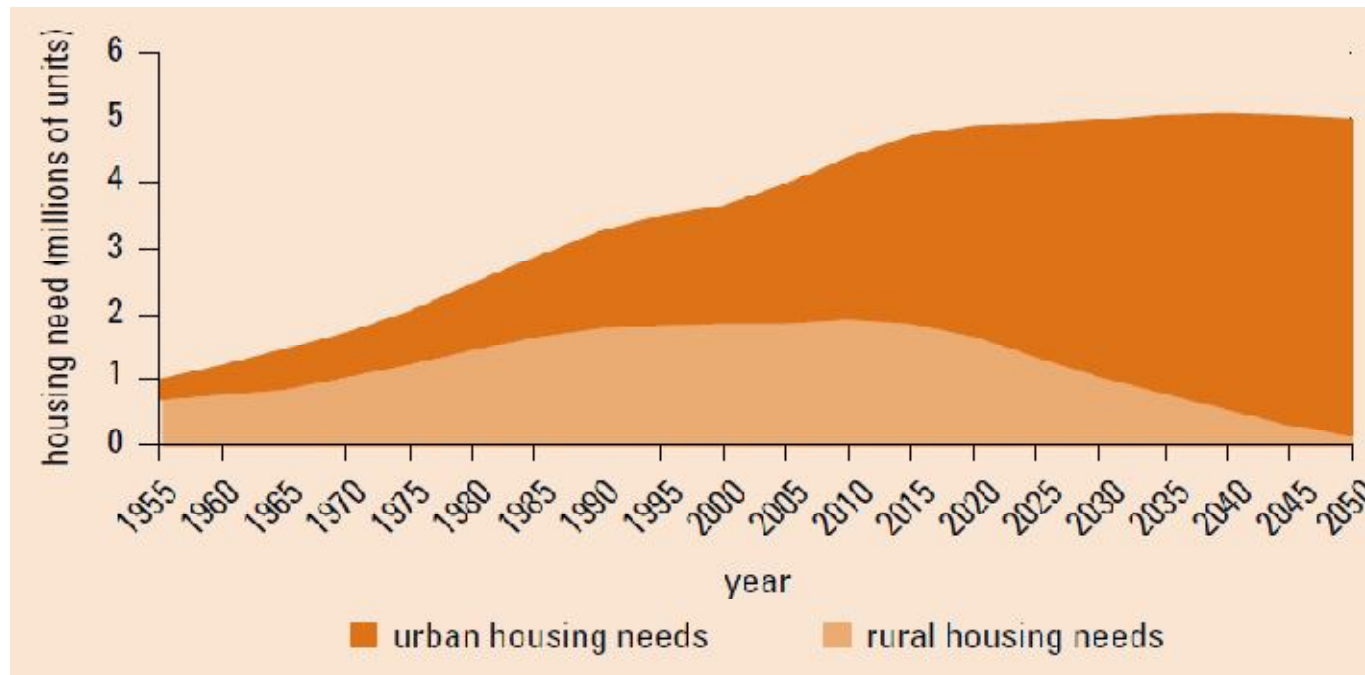
STATA



Lengthening contracts

Indicator	Africa	Non-African developing countries
Road density, kilometers per 100 square kilometers of arable land	7.22	127.11
Electricity production, megawatts per million population	398.00	2,475.00
Share of population with access to water, %	66.95	85.33
Share of population with access to improved sanitation facilities, %	34.67	70.14

Source: World Development Indicators Database, World Bank, Washington, DC, <http://data.worldbank.org/data-catalog/world-development-indicators/>.





New Sources

- Pension Funds
- Sovereign Wealth Funds
- International Markets

New Instruments

- Corporate Bond Markets
- Partial Credit Guarantees
- Diaspora Bonds

New Intermediaries

- Private Equity Funds
- Insurance Firms



#2: Lengthening Financial Contracts



Areas of interest...

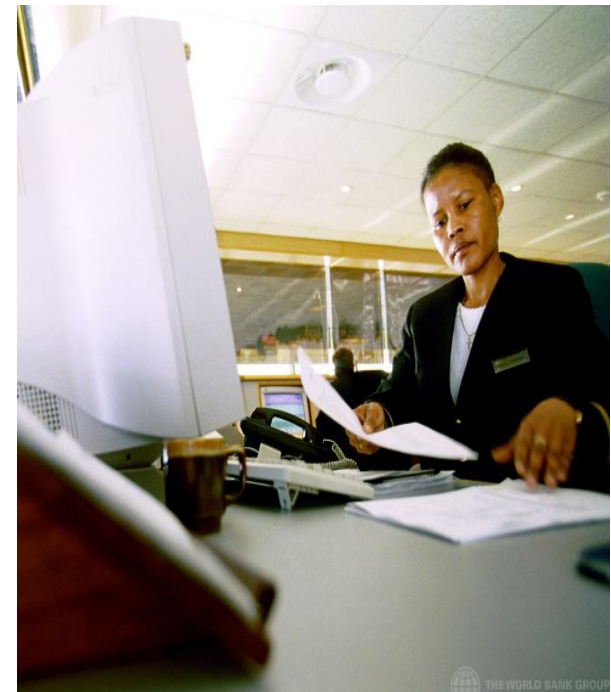
- Increasing role of BRIC
- Private equity funds
 - Limited role, potential in filling equity gap for ML firms
- Sovereign wealth funds
 - Governance challenges in African SWF
 - How to attract more non-African SWF into Africa?
Governance, governance, governance
- Diaspora bonds (?)



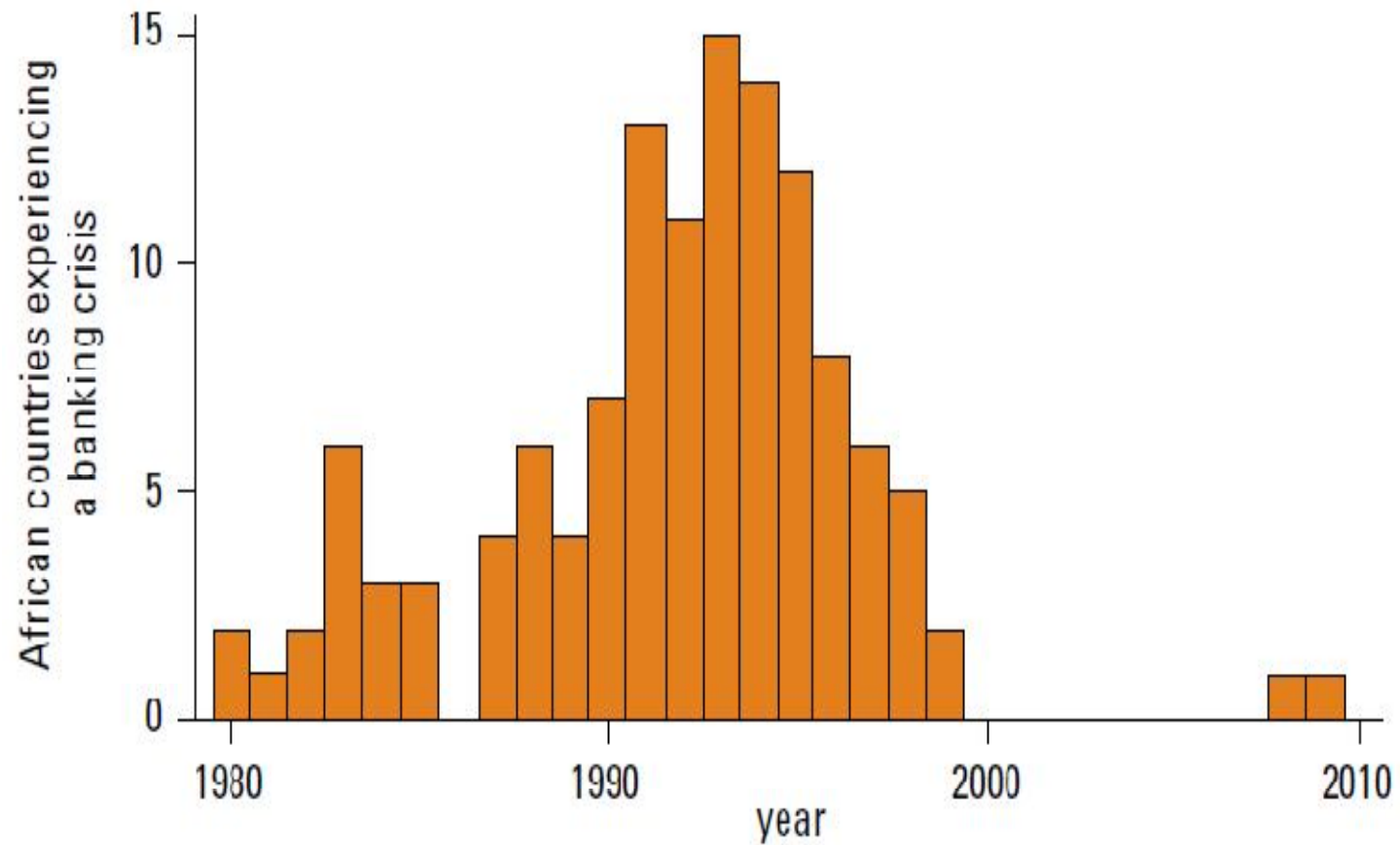
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Safeguarding Financial Sector Stability

Supervisory frameworks
Non-bank financial
institutions
Consumer protection

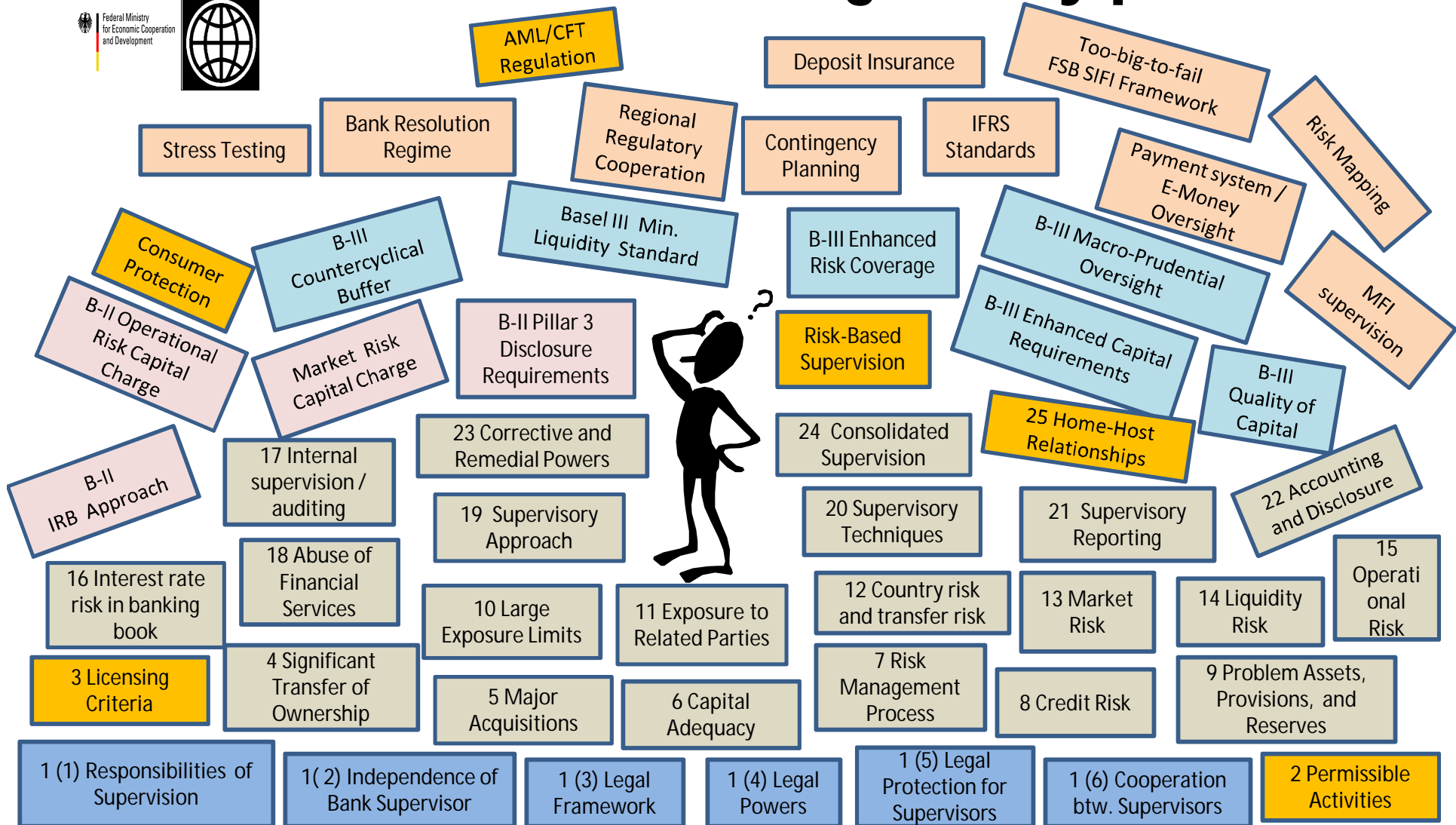


African financial systems are stable





...in the midst of regulatory pressure





5

Conclusion

All Financial Sector Policy
is Local



The role of government

A mix of modernist and activist policies

- Competition
 - Enable entry, domestic and foreign
 - Might have to force providers to share infrastructure
- Move from retail to wholesale role
- Looking beyond institution building
 - Space for activist policy a function of governance, size etc.
- How to nurture innovation?



All financial sector policy is local

- Problem not in lack of solutions and policies, but in implementation
- Choose “best-fit” instead of “best-practice”
 - Incremental, politically feasible reforms
 - Focus on optimal reform design
 - Strengthen institutions and implementation capacity
- Financial reform agenda links to three messages:
 - Financial broadening and deepening will lead to more competition and contestability throughout the economy
 - Moving beyond existing institutions will undermine incumbents’ rents
 - Financial broadening will create a constituency for further reforms
 - Important role of media



Conclusion: ‘All Finance is Local’

Financial Sector Development Policy	Expanding access	Lengthening contracts	Safeguarding finance
Competition	Expect Innovation from unexpected quarters	Encourage new institutions and products	Mitigate risks of competition
Looking beyond institutions	Services matter, not who provides them	Look beyond traditional providers	Supervise according to risk, not name
Demand-side constraints	Facilitate Financial literacy Programs	Business development, general business environment constraints	Consumer protection



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