



DDC
Bern, December 2nd, 2008

**Key roles for donors in facilitating the
"Access to Finance" in Sub-Saharan Africa**

Konrad Ellsäßer, FIDES AG

DDC Workshop on Access to Finance in Sub-Saharan Africa and Social Performance mainstreaming in microfinance

Content

- Key challenges
- Current Donor activity in the African Microfinance sector
- Conclusion and outlook
- Discussion

Example as a starting point: Conditions for microfinance in Bangladesh and Mali

	Bangladesh	Mali
Population density (inhabitants per km ²)	1 100	11
Average amount of a micro loan	200 USD	200 USD
Cost of a microfinance specialist (Master level, per month)	140 USD	1 000 USD

Key challenges resulting from this comparison:

- Importance of rural areas with low population density and high transaction costs
- Human resource development as a key
- Role of infrastructures and technologies, need for innovation
- Supervision and protection of savings



Other key challenges

Only 20% of the African households have access to formal financial services - in rural areas less than 10%

- Small size of MFIs - Difficulty to supervise and support hundreds of small MFIs and to protect their savings
- Good governance, mainly cooperative systems
- Need for innovation
- Need for sector approach and private sector involvement

Donor Involvement in the Access to Finance in Africa

A recent CGAP survey has shown that donors continue to enthusiastically support access to finance as a strategy to contribute to improving the lives of Africa's poor

- 1/3 of the international aid targeting improvement of access to financial services goes to Africa (USD 2,5 billion)
- 13% of all microfinance clients are living in Africa
- 6 countries (Ghana, Kenya, Madagascar, Mali, Tanzania, Uganda) are concentrating 40% of the donor contributions
- 20 countries receive less than 2% of donor aid. There are 'forgotten countries' like Algeria and Chad

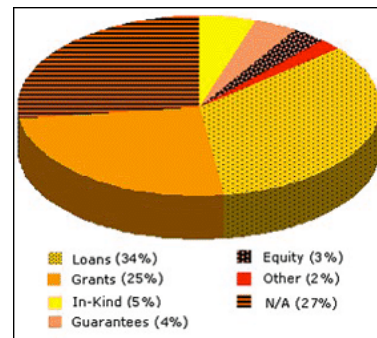
Donor Involvement in the Access to Finance in Africa per sector

- 60% of donor support is targeting individual MFIs with equity contributions, technical assistance, training
- 24% are targeting the improvement of financial infrastructure (Payment systems, audit, professional associations...)
- 13% is spent for the improvement of the political environment: development of legal regulatory frameworks, strengthening of supervision...

Donor Involvement in the Access to Finance in Africa: funding instruments

- Grants are the most important instruments
- 1/3 of donor contributions are loans while local refinancing sources are often available
- Equity is only a marginal donor contribution: this instrument is often desperately missing even though it allows influencing the governance of the institution, including political coverage

Funding instruments (in % of amount invested in 2006, Source: CGAP):



Donor Involvement in the Access to Finance in Africa: key challenges for the future 1

1/3 of international donor funding goes to Africa, whereas only 3% of the investments of Microfinance Investment Vehicles go to the continent

- Donors should help MFIs becoming eligible to commercial funding (condition for outreach), enabling commercialization without mission drift
- Stronger MIV involvement through equity investment would allow to strengthen governance and orientation towards sustainability

Donor Involvement in the Access to Finance in Africa: key challenges for the future 2

The introduction of technological innovations will be instrumental for outreach and transparency

- Telephone banking and service point technology will allow to decrease transaction costs and to reach out to the rural poor
- Better Management Information Systems are a precondition for improved financial transparency and new services (money transfers...)

Donor Involvement in the Access to Finance in Africa: key challenges for the future 3

Africa is the only continent with a growing rural population and rural areas are largely underserved

- Specific approaches required
- Important covariant risks (drought, insect pests, riots...)
- Probably the most important leverage in terms of poverty alleviation

Donor Involvement in the Access to Finance in Africa: key challenges for the future 4

A large amount of innovations (technical, organizational) need to be developed

New products and delivery mechanism in savings and credit:

- Microinsurance
- Monitoring instruments

Research and pilot operations developing and testing these innovations cannot be financed by most of the MFIs

Donor Involvement in the Access to Finance in Africa: Conclusion

Considerable financial resources are provided by donors. In the future it should help to further strengthen the role of the other players:

- Finance research and innovation for the MFIs
- Strengthen supervision agencies in order to protect savings of poor people
- Lower the entrance barriers for private investment through better transparency, capacity building and accompanying measures
- Help the Governments to build sector development strategies



Thank you!