AFRICA SHARED VALUE LEADERSHIP eSUMMIT · 2020
Beyond Borders
02–05 06.2020
Virtual Summit
www.africasharedvaluesummit.com

Report on the Panel Discussion

Financial Inclusion After COVID-19

On the occasion of the Africa Shared Value Leadership eSummit 2020

02 – 05 June 2020

Discussants

Makeda Mahadeo, Anchor and Producer CNBC Africa (Moderator)
Sanda Ojiambo, Head of Sustainable Business and Social Impact, Safaricom
Amit Kapoor, Honorary Chairman, Institute for Competitiveness, India
Sazini Mojapelo, Managing Executive: Corporate Citizenship, Absa Group
Edith Jiya, Group Chief Executive Officer, Old Mutual Malawi
Clarence Nethengwe, Managing Director, Old Mutual

Report By

Rudi Ackerman, Economics Faculty for International Business & Trade – African Leadership University.

Introduction and Context

During this time of disruption, financial inclusion remains a powerful development tool to improve access to finance and to support vulnerable SMEs, individuals and households. The COVID-19 crisis has also highlighted the benefits of digital financial services in many different dimensions and its critical role in achieving the Sustainable Development Goals now and in the post-pandemic world.

This report is the result of a panel discussion that took place at the virtual Shared Value Africa Initiative summit held on 2 June 2020. The report summarises some of the main reasons why financial inclusion is seen as an important component of development, and what some of the main challenges are we face today in making financial inclusion more ubiquitous. Finally, the report provides a brief roadmap for business leaders and policy makers in Africa on how to approach financial inclusion post-pandemic, and how to achieve shared value in the pursuit thereof.

Why is Financial Inclusion important?

The term Financial Inclusion (FI) refers broadly to households (and individual) access to financial services. The Global Findex, compiled annually by the World Bank, uses a variety of indicators such as access to bank accounts, credit etc. to calculate a country's measure of financial inclusion (Demirgüç-Kunt & Klapper, 2012). This is often seen as part of the broader process of financial industry development, and has often been linked to higher rates of economic development and growth (King & Levine, 1993; Beck, Levine & Loayza, 2000; Klapper, Laeven & Rajan, 2006, Demirgüç-Kunt et al., 2017). In particular, the data compiled by the Worldbank (2017) shows on average 59% of sub-Saharan Africans remain unbanked.

Why then, is it important for larger groups of the population to have access to the financial industry?

It enables broader economic participation

De Soto (2000) has linked the lack of market access and consequent financial exclusion to high rates of poverty and even political instability. Amit Kapoor pointed out that the low levels of financial inclusion therefore represents, at least in part, the failure of capitalism in these economies to adequately provide basic necessities and access to markets – most importantly, access to the market for capital. Kapoor also supports the view that we need more than a few anecdotal examples of Shared Value - we need a fundamental refocusing of the economy towards a system that is more inclusive and (therefore) more sustainable.

The discussion around financial inclusion, therefore, transcends simply an objective on the strategic goals on the financial reports of a commercial bank. It becomes an important social imperative in economies where large portions of society are institutionally excluded from participation. As Sazini Mojapelo explained, in this age of connectivity, internet access is synonymous with market access, and has become increasingly synonymous with access to financial services. Therefore, Clarence Nethengwe proposed that financial inclusion is now more important than ever; it represents the potential to tie together all elements of the economy in a way that could sustainably address poverty.

Are we at a time where access to the internet should be a "human right"? From what Amit says, it sounds like it is a critical piece in being part of the economy. – Slido Comment from Anon (sic)

It provides financial resilience that make economies more resistant to shocks

An important source of economic resilience is the measure by which consumers' confidence is sustained through and after an economic shock. This confidence can be influenced by monetary policy that makes credit more accessible and cheaper (which has been a very popular policy tool employed during the COVID-19 pandemic). People who do not have access

to banks cannot benefit from such legislation. That leaves family loans and savings as the only source of emergency funds for the unbanked during a crisis. However, it turns out that having a bank account may even influence an individual's propensity to save. Demirgüç-Kunt et al. (2017) found in a large international study that about 27% of people with a bank account saved, while only 17% of those without a bank account saved. This means that those who were financially excluded were less likely to have a savings buffer in times of crisis.

Sanda Ojiambo suggests that when financial inclusion is combined with technological innovation, it could make an economy much less susceptible to economic shocks. This echoes the findings of Demirgüç-Kunt et al. (2017)'s study. In particular, Ojiambo refers to the way in which MPesa has been able to facilitate trade and industry during the pandemic throughout East Africa. Similar mobile financial solutions in other parts of Africa have also managed to attract large parts of the SME world and the Informal Economy, who may have had no other way to do business were it not for these innovative ways in which the economy is linked. When economies have greater internal linkages to local sources of capital, and a greater variety of ways in which to facilitate business and trade, we would be better able to weather such shocks.

Indeed, it is intuitive that MSMEs with low levels of access to traditional financial services would have been able to continue operations at a time where they were unable to accept cash payments. Since card payment and EFT options remain restricted to businesses with bank accounts, mobile payment options were in most cases the only lifeline to business survival. Financial inclusion and innovation, therefore, also play a critical part in any MSME development policy.

It is the vehicle by which financial education can permeate society

It is well established in literature that financial education remains a key priority in sustainably addressing poverty and underdevelopment (Levine & King, 1993; de Soto, 2000). Larger financial inclusion incentivizes the population to become more financially literate, but could also, with proper legislation, use the financial services industry as a vehicle by which to educate its customer base. As pointed out earlier, people with bank accounts are more likely to save and invest (Demirgüç-Kunt et al., 2017).

Why are we struggling with Financial Inclusion?

Despite the evident advantages of financial inclusion within the economy, why then is it still something that many nations struggle with? What are the main reasons why we see only sporadic and anecdotal evidence of change?

Banks (and shareholders) prioritise short-term income

Many panelists believed that short termism within the financial industry is one of the biggest reasons behind the slow trends. Nethengwe called for shareholder patience instead of expecting short term ROI. Mojapelo advocated for blended solutions that could attract investors with different objectives than simply profit, such as NGOs and government departments. The way in which solidarity funds and social support structures for affected businesses during this crisis emerged in such great numbers, explained Mojapelo, gives a blueprint for similar partnerships between public and private entities to become commonplace.

Interestingly, the evidence for financial inclusion as a revenue driver for financial service providers is clear. The cluster which Clarence Nethengwe heads up for Old Mutual, Mass & Foundation is the largest contributor (39%) to RFO (an indicator for Adjusted Headline Earnings used by Old Mutual). Similarly, the story of how M-Pesa transformed the Kenyan economy, boosted Safaricom's market share to an unchallenged dominance, and made the company one of the largest contributors to national GDP is well known (Safaricom, 2019). While many traditional banks were scrambling to make transactions happen during the pandemic, Safaricom and other mobile financial solutions have seen an explosion in transaction volumes during the crisis. Kapoor also mentioned possible opportunities for insurance among the rural poor in India, and how this is a largely unexplored market opportunity in most parts of Africa.

Ojiambo explained how these benefits listed above are very clear mid-term benefits, but the longer term benefits associated with a more affluent and productive customer base – well connected to the markets for capital – remain the most compelling reason to invest ahead of others, as Safaricom keeps doing.

Financial solutions remain outside of the reach of most

Another important consideration is the exclusionary cost of financial solutions offered in most African markets. As Edith Jiya explained, very few of the solutions are fit-for-purpose – often financial products are simply copied from Western parent-banking groups or international best-practice. This often means that the solutions are not as cost-conscious as the target market, and are therefore not taken up easily (Demirgüç-Kunt et al., 2017). In order to meet the needs of local markets, we need more locally grown solutions. In most cases, banking is simply too expensive.

Here, Mojapelo suggests, we could benefit from greater cooperation with local innovative tech and NGOs. Jiya also believes that policy changes should enable not only cheaper products (by removing superfluous red-tape) but Nethengwe adds that it might spur competition in the industry by reducing the barriers to entry. Indeed, the emergence of Capitec Bank in the South African financial market continues to put a downward pressure on South African bank fees - something that has enabled more people to be included in the otherwise price-prohibitive industry (Solidarity, 2019).

It is heartening to see that multinational companies on the continent, especially within the financial services industry, are increasingly appointing a diverse set of local leaders. This remains critical in developing relevant, appropriate and innovative financial solutions to markets, instead of simply copy-and-pasting things that worked elsewhere.

Policies are restrictive and archaic, not innovative and supportive

As pointed out by several panelists, the so-called march towards greater financial inclusion has been a long-time coming. Nethengwe pointed out that there is very little legislation and government support of tech innovation - particularly when it comes to cyber security. Kapoor believes that since cyber theft remains a large source of mistrust towards fintech on the continent, there is a need for governments to better regulate biometric security measures and other forms of cyber security.

Apart from the lack of regulation surrounding fintech, Nethengwe decries the over-regulation in other spheres that simply protect incumbents instead of fostering innovation. An example of this apparent paradox is the archaic way in which banks are often still required to list a physical house address before opening an account – something that excludes large portions of people who do not have a traditional house address in rural or informal settlements.

In order for financial inclusion to become a reality, it is essential that governments not only legislate effectively, but also to be more supportive towards SMEs. Mojapelo highlights the opportunities for greater government, NGO and financial service cooperation in order to provide SMEs with financial literacy support, increase their viability and funding options and improve their access to markets. We need to create an economy where development is not the sole purview of government (as under socialism), nor the sole responsibility of markets (as under capitalism), but a joint societal imperative. In the words of Nethengwe: “If anything, we have seen [during the pandemic] the failure of all ‘isms’; because none of them have been able to solve the pragmatic problems we face today.”

Conclusion and Policy Recommendations
From the discussions and research above, three clear imperatives towards greater financial inclusion stand out. These recommendations are presented to business leaders and governments on the continent as guiding principles by which to expand financial inclusion and realise the benefits associated with it.

Support infrastructure that improves the accessibility of technology
In the time of COVID-19 and the “new-normal” that would follow, access to technological infrastructure is increasingly becoming a basic right. In our highly connected economies, it represents the ability to access most markets – not least of which is the market for capital and financial services. It is therefore imperative that governments not only expand access to such infrastructure in the form of network connections and better regulation of network industries (in particular by addressing some of the most destructive oligopolies in this sector), but it is also important for all parts of private enterprise to partner with governments in this expansion. Safaricom’s expansion and the enabling government legislation in the telecommunication

industry is a great example of this. Another is the speed with which billionaires donated to solidarity funds in South Africa to support small business owners by partnering with government agencies and commercial banks. These billionaires know that their success is only possible if the whole economic ecosystem works well. Gone are the days where the installation of a new mobile tower benefits only cell phone operators - it is a vital new market for all sectors in the economy. Business leaders who position themselves at the forefront of that expansion to access would stand to benefit most from the growth in that ecosystem – which emphasises the Shared Value narrative.

Embrace technology in all our operations

The transformative power of technology to solve our current problems is now clearer than ever before. We need to use this crisis as a springboard to position and expand existing trends towards greater use of technology in everything we do. Not only does this present opportunities for growth in business, but also posits exciting ways in which to solve old social problems like poverty, healthcare and education.

The rate of change and disruption in our time is so rapid, that deciding to not invest in technology and innovation would soon leave a company behind its competitors. The question is not whether a business should adopt tech or not - the question is whether they will lead in the adoption, or follow behind in the dust of necessity.

Spread financial literacy and education

Few concepts articulate the Shared Value principles as well as the need for spreading financial literacy in all tiers of society. A financially literate person not only knows how to manage her own wealth better, but is able to accrue wealth and avoid poor financial investment decisions. This is a key way in which poverty reduction initiatives can be sustainably implemented, yet at the same time presents new opportunities for the financial industry in the form of a market for mutually-beneficial financial products. Absa's Ready to Work initiative is a step in the right direction, but it needs to go further towards educating not just the youth about financial products. Financial education should be industry standard in all economies.

“The pandemic has raised the awareness of our shared humanity. It has made clear that lives matter before profit. That's the fundamental shift capitalism needs” – Slido comment from Anon (sic)

Bibliography

Beck, T., R. Levine, and N. Loayza. 2000. “Finance and the Sources of Growth.” Journal of Financial Economics 58 (1): 261–300.

Demirgüç-Kunt, A., and L. Klapper. 2012. Measuring Financial Inclusion: The Global Findex Database. Policy Research Working Paper 6025, World Bank, Washington, DC.

Demirgüç-Kunt, A. et al. 2017. Measuring financial inclusion and the Fintech revolution, The Global Findex Database. doi: 10.1596/978-1-4648-1259-0.

Demirgüç-Kunt, A., and R. Levine. 2009. Finance and Inequality: Theory and Evidence. Annual Review of Financial Economics 1: 287–318.

de Soto, Hernando. 2000. The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else. New York: Random House.

Klapper, L., L. Laeven, and R. Rajan. 2006. Entry Regulation as a Barrier to Entrepreneurship. Journal of Financial Economics 82: 591–629.

Levine, R. and King, R. G. (1993) ‘Finance, entrepreneurship and growth.’, Journal of Monetary economics, 32(3), pp. 513-542.

Safaricom (2019) Safaricom Annual Report and Financial Statements. Nairobi. Available at: https://www.safaricom.co.ke/investor-relation/financials/ reports/annual-reports

Solidarity (2019) Solidarity Bank Charges Report. Johannesburg. Available at https://solidariteit.co.za/wp-content/uploads/2019/12/Bank-charges-report-2019_finale.pdf

supported by