



African Banks Discover Small Is Profitable

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What if wealthy Africans decided to invest their earnings in Africa instead of overseas? What if the 80 per cent of Africans who don't have bank accounts were able to use financial services? And, what if African governments were able to invest their money in ways that will produce more goods and services? These are the kind of questions that more and more African

economists, finance ministers and businessmen and women are asking as the Northern financial crisis deepens and perhaps threatens to reduce the amount of overseas aid and investment available for Africa.

The answer, says Samuel Gayi, a senior economist on Africa at the Geneva-based United Nations

Conference on Trade and Development (UNCTAD) is that "rates of savings [would] go up significantly and Africa could perhaps meet more of its own needs." Turning Africa's hidden homegrown wealth into profitable investments, however, will require new thinking and innovative policies by bankers and government officials alike.

Waiting To Be Tapped

In Africa, many economic activities take place in the informal sector. While many households have significant savings, "The problem is that these are held in non-financial forms," Mr. Gayi told *Africa Renewal*. They are not available for investing in ways that create more wealth.

Many Africans still keep most of their savings in livestock, stockpiles of goods for trading, grain, jewellery and other concrete assets. Data are limited but some experts think that as much as 80 per cent of all household wealth in rural Africa is in non-financial form.

To tap into such assets, it is necessary to "introduce new financial products or instruments that respond to the saving needs of households," says Mr. Gayi. Savings products that "permit easy accessibility" and allow for "small transactions at frequent intervals" would encourage households to shift to the formal system, turning their savings into cash and making them available for development, he says.

In Uganda, according to a survey reported by the UN Capital Development Fund (UNCDF),

people with access to formal bank accounts saved three times more in the 12 months studied than those who held their assets in the "semi- and informal sectors."

The UNCDF noted in its 2004 report that in Rwanda about half a million savings passbook accounts, with an average account size of \$57, added up to almost \$40 mn in 2001. "Although this may not appear significant," the study found, "proper circulation of these funds into credit products could have a significant multiplier effect in the Rwandan economy."

Banking On Innovation

In many African countries, governments and banks are changing the way they do business. In Nigeria, banking-sector reforms begun in 2004 limited government ownership in banks and brought about greater competition. Bigger banks bought out smaller ones; others merged. The banks that survived had to find new ways to attract customers and work harder

to keep them. Overall, the number of banks fell but those that remained had more money, and the number of branches increased by over 600. As they grew stronger, Nigerian banks started expanding into other countries in the region and introducing new products and services.

After the government of Ghana "liberalized" the banking sector, the Standard Trust Bank branch in Ghana, now United Bank of Africa, introduced a "zero-deposit" account, allowing people to open accounts without first putting in any money, thereby increasing the number of its customers. In 2006, Barclays Bank, Ghana, started working with traditional

moneylenders known as susu agents, who deposit the collective savings of their customers into a bank. Customers pay the susu agents a fee and, through them are able to apply for loans from the bank.

Susu is the oldest savings system in Ghana. Typically, people regularly pay a fixed sum into a pool held by a susu collector. Each member of the group gets a turn to receive the entire sum at the end of a given cycle, for investment and other needs. Many market women would rather save their money with a susu

New Technology Helps

Recent improvements in mobile phone technology are also helping to expand financial access for the poor. Though few Africans have bank accounts, nearly 80 million have cell phones, according to the International Telecommunication Union. In countries as different as South Africa, the Democratic Republic of the Congo, Zambia and Kenya, mobile phone banking is increasingly popular -- taking services to remote areas where there are no conventional banks or

collector than leave their wares unwatched to make a trip to a bank. Unlike conventional bankers, susu collectors usually pass by each customer's stall or home to collect contributions. There is almost no paperwork involved for the customer. Collecting agents rely on personal relationships, trust and various forms of collateral to reach savings that are beyond the reach of formal banks. There are an estimated 5,000 susu collectors in Ghana with more than 2 million customers. Barclays Bank is currently working with 100 agents and hopes to work with more.

their services are too expensive. Subscribers can now open accounts, check their balances, pay their bills or transfer money from their homes by phone

UNCTAD's Mr. Gayi calls for even more creative financial services thinking. "Resources could be pooled from a wide array of financial-sector operators with large cash reserves, such as insurance companies, private banks or

Following financial-sector reform in Benin in the 1990s, the government introduced rural savings and loan institutions that aimed to better serve the poor. In 2004, the UN found that Benin's "economy grew at an annual rate of 5 per cent during the last five years as a result of these interventions." With financial and banking services tailored for ordinary people, economists say, savings rates improve and economies grow faster through increased domestic investment.

pension funds. Big or small, formal or informal, he concluded, "policies that help African countries mobilize more of their domestic resources could be beneficial for the economy in general." Other experts have pointed out that if African countries were to set up long-term investment funds, African businesses could help implement the New Partnership for Africa's development (NEPAD), the African Union's long-term development plan.

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