The Foreign Policy Centre

Ideas for a fairer world

ROUNDTABLE DISCUSSION SUMMARY NOTE

This roundtable discussion took place on Wednesday 26th February 2014.

ENTERPRISING AFRICA: WHAT ROLE CAN FINANCIAL INCLUSION PLAY IN DRIVING EMPLOYMENT-LED GROWTH?

'Why financial inclusion matters in Africa: Making the case for employment creation,' was the first in a series of three FPC roundtable discussions supported by Barclays. This opening event aimed to set the scene and provide a broad overview exploring the opportunities and challenges associated with what impact financial inclusion might have on generating employment across Africa.

SUMMARY OF ISSUES EXPLORED

The exchange identified and explored nine principal themes:

1. The need to develop **robust evidence** clearly mapping out the relationship between financial inclusion and employment growth across Africa.
2. The possibility that financial inclusion could provide a bridge for employment to **transition from the informal to the formal sector**.
3. The role that **greater financial integration** plays in supporting job creation.
4. **The nature and needs of 'aspirant' microenterprise and SMEs (MSMEs)** which drive employment expansion.
5. Ways in which financial inclusion **enhanced qualitative employment effects** through **providing social and welfare protection.**
6. The sustainability of **job creation generated by the provision of financial services and products**.
7. How **financial capabilities and financial education** prepared people with skills and training essential for **improving employability.**
8. The constraints limiting the **impact of female enterprise on employment generation**.
9. Looking **beyond employment impacts** of access to finance, to comparing the **value added by different economic sectors**.

MARSHALLING THE EVIDENCE

There is limited robust evidence which clearly maps out the relationship between financial inclusion and employment growth in Africa. Therefore greater links need to be forged - across the public and private sector – in order to develop and improve research examining the direct and indirect links associated with deepening and broadening financial access (and distribution), and how all this might support job creation across Africa. This approach should then be integrated into wider interventions which support business development and growth.

THE TRANSITION FROM THE INFORMAL TO THE FORMAL SECTOR

Understanding the real nature and characteristics of jobs and employment markets in the African context is important. Most jobs are found in micro, small and medium sized enterprises (MSMEs) based predominantly in the informal sector. 70-80% growth in jobs is required by 2020 to meet employment demand (International Finance Corporation-IFC- data). Much of this demand will be concentrated in rural areas. Financial inclusion, particularly improving access to finance for MSMEs may play an important role in building a platform for employment to gradually transition from the informal to the formal sector. National government regulation needs to be pragmatic and responsive by supporting this transformation.

FINANCIAL INTEGRATION

Greater financial integration through efficiently mobilising savings for investment, developing functioning credit markets, establishing credit rating agencies as well as developing reliable payment networks and systems can all support formal employment expansion. In Nigeria, the national government, in partnership with MasterCard is tackling financial integration through national ID smart cards which double up as payment cards and will eventually be linked to bank accounts. While there are concerns about the overall cost and impact of this approach (potentially a limited number of provider in the Nigeria payment's system), it is too early to assess the wider effects of this state-led deployment, as the scheme is in its infancy.

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The fledgling nature of the financial sector across Africa means that there are several bottlenecks. Addressing these obstacles requires a vast range of financial intermediaries intervening at different levels. Regulation at a local and an international level - while being prudent, innovative and responsive (eg. the Kenya M-Pesa mobile money scheme) - also needs to ensure it does not inadvertently produce countervailing forces on financial inclusion outcomes. Examples locally might include the excessive 'know-your-customer' identity requirements demanded of customers trying to access basic financial services. Internationally, this might include the Basel regulatory capital measures which increase the costs of finance for MSMEs.

There is a need to mitigate risks by providing financial access entry points for aspirant enterprise - which are not yet sufficiently developed to be serviced by formal financial institutions. Beyond loans and other forms of credit, support should develop an integrated approach of interventions through business and enterprise training which may help MSMEs integrate into the broader supply/value chains of larger businesses (eg. the Coca-Cola manual supply chain). More innovatively, the advent of new technologies has led to new ways in which to finance enterprise such as crowd-funding. These new ways of funding companies may challenge the operations of traditional financial intermediaries. In addition, it is worth noting that, while economic transformation can be ignited through the dynamism of small enterprise in order to compete globally and secure important economies of scale, developing large businesses is an important driver of economic development and growth through employment.

HOW SIGNIFICANT ARE SMEs IN DRIVING EMPLOYMENT CREATION?

SMEs employing approximately 20 workers provided the highest share of employment particularly in low income countries (IFC). They have the fastest rate of jobs growth but their failure rates are high compared to larger enterprises. Information constraints represent a major obstacle to increasing SMEs access to finance. Credit ratings bureaux, mobile payment services (which make it easier to establish credit histories), supply chain credit, mobile collateral, lease financing and equity based funding (there are risks to minority owners however) might all go some way to tackling this information gap. In essence, supporting SMEs to articulate their financial access requirements allows financial intermediaries to better shape their products and services.

In Nigeria, a lack of employment, irregular incomes and the distance from financial providers were all obstacles to financial access precluding MSMEs from expanding employment.

There does however, need to be a distinction drawn between the types of financial access which provide the greatest employment effects. Evidence suggests that the jobs impact of microfinance was limited where entrepreneurship was driven by 'desperation' as opposed to 'aspiration'. In this case, the welfare impacts of using microcredit to tackle imbalances created by irregular incomes and broader household needs (eg housing, health etc.) were far greater. Beyond access to finance, other important limitations holding SMEs back included excessive regulation, prohibitive taxes and inadequate and unreliable infrastructure, insufficient access to entrepreneurial skills development and business training (budgeting, money management, book-keeping etc.), all of which creates a challenging investment climate for aspirant entrepreneurs to navigate.

ENHANCING EMPLOYMENT EFFECTS THROUGH PROTECTION

There is evidence to suggest that financial inclusion could enhance employment impacts through supporting protective effects which alleviate poverty (International Labour Organisation-ILO). Essentially, supporting employees and entrepreneurs (aspirant or desperate) to better manage the risks they might encounter - caused by household emergencies, health and safety issues at work, illness and death. The protective effects improve the qualitative impact of employment through social protection and welfare support to build resilience. Examples might include insurance provision, pension schemes, savings products and emergency loans for unforeseen circumstances. This layer of protection might allow entrepreneurs to make greater investments which may ultimately improve the quality of existing employments as well as create additional jobs.

JOB CREATION THROUGH PROVIDING FINANCIAL GOODS AND SERVICES

Servicing households and MSMEs with a host of financial products and services requires a skilled work force. For example, worldwide, the number of mobile money agents currently stands at approximately 860,000 (this doubled in 2013 alone). Another example is Mozambique, which has experienced a considerable expansion in the micro-insurance sector. However, how sustainable are these jobs and what might their long term impacts be?

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BUILDING FINANCIAL CAPABILITIES AND FINANCIAL EDUCATION

Financial services may well play a role in preparing Africa's active population with the skills needed to take up employment (across the continent or overseas) in growing employment sectors such as healthcare and education, particularly as other employment sectors are in decline, due to the advent of technology. How can the training and literacy which develops financial capability and financial education be provided affordably as well as replicated and scaled up appropriately? How best can development agencies use their subsidy to support this? Can schooling systems intervene (eg. support provided by DFID in Zambia)? Might financial institutions regard this function as part of their core business offering? Is there a role which might be played by civil society? One example is 'Banking on Change' a community-led savings model established in 2009 by Barclays, Care International and Plan International. The scheme aims to link informal savings groups (often unbanked) to formal (demand driven) financial services and products. This includes supporting the development of financial skills ranging from money management to setting up small enterprises. Such a financial access model allows capital to be locally managed but provides the security of a trusted brand recognised by consumers. 'Banking on Change' has developed a 'savings charter' allowing this emergent initiative to more widely share and exchange insights and learning allowing formal financial institutions to respond to the financial access demands of unbanked communities.

THE CHALLENGE FOR WOMEN

Current evidence suggests that the employment impact of female entrepreneurs was limited beyond the realm of self-employment. For women, financial education and financial literacy might provide a bridge between being 'desperate' entrepreneurs and 'aspirant' entrepreneurs. Women are a chronically underserved market having to navigate cultural and social barriers impeding their financial access. In light of this fact, financial inclusion interventions need to be applied at different levels through a variety of channels.

ARE JOBS THE PRINCIPAL OBJECTIVE?

Beyond the need to expand employment, the strategic priorities of financial inclusion for national governments may have competing priorities including increasing household incomes and raising tax receipts. Research by Standard Chartered on the impact of its operations with respect to the economic value added and employment support, demonstrated that while lending to agriculture and manufacturing created a large number of jobs, the value added created from lending to the extractive sector was far larger.

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CONTRIBUTORS

Kofi Addo, the Minister-Counsellor for Trade and Investment at the High Commission of Ghana
Dorothea Arndt, Head of Communications, Hand in Hand International (HiH)
Hennie Bester, specialises in the analysis of markets for financial inclusion purposes and designs policy and regulation to advance financial inclusion, FinMark Trust and Cenfri (Centre for Financial Regulation and Inclusion)
Chukwu-Emeka Chikezie, Founder of Up!-Africa - a specialist private sector development and African diaspora development consultant
Yulanda Chung, Head of sustainable finance and environment at Standard Chartered
Craig Churchill, Head of the International Labour Organisation's (ILO) Social Finance Programme and Chair of the Microinsurance Network and on the Faculty of the Boulder Institute of Microfinance
Elizabeth Cobbett, Lecturer in international relations and international political economy at the University of East Anglia (UEA)
Paulette Cohen, Vice President and Head of Global Programmes at Barclays
Lara Gilman, Manager for the Mobile Money for the Unbanked (MMU) Programme at the GSM Association.
Claire Innes, Private Sector Development Adviser in the Investment and Finance Team at the Department for International Development's Private Sector Department.
Sandeep Kaur, the Access to Capital Programme Coordinator for the Cherie Blair Foundation for Women
Modupe Ladipo, founding Executive Director and CEO of Enhancing Financial Innovation and Access (EfInA), Nigeria
Jeremy Lefroy MP (CHAIR), Conservative Member of Parliament for Stafford in the West Midlands, Member of the International Development UK parliamentary Select Committee and Chairman of the worldwide Parliamentary Network on the World Bank and International Monetary Fund
Alberto Lemma, private sector development researcher at the London based Overseas Development Institute (ODI)
Alessandra Lustrati, Senior Private Sector Advisor (Africa) with the Private Sector Engagement team of CARE International UK
Joy Malala, currently completing her PhD thesis focused on *'The Regulation of Mobile Financial Services in Kenya and the on Consumer'* at Warwick Law School under the supervision of Dr Dalvinder Singh
Roland Michelitsch, Head of Let's Work, a global partnership to create more and better private sector jobs, the International Finance Corporation's (IFC), a member of the World Bank Group
Stella Opoku-Owuso, manages the African Foundation for Development's (AFFORD) Africa-UK initiative, funded by DFID and Comic Relief under the Common Ground Initiative (CGI)
Peter Taylor, the Minister-Counsellor for Political and Economic Affairs at the High Commission of Ghana

OBSERVERS
Hege Aschim, Mobile Money for the Unbanked (MMU), GSM Association
Vicky McAllister, Barclays

NOTE TAKERS
Josephine Osikena, Foreign Policy Centre
Anna Owen, Foreign Policy Centre
Deniz Ugur, Foreign Policy Centre

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