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Promoting Financial Inclusion for Inclusive Growth in Africa

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African perspectives. Global insights.

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ABSTRACT

Financial inclusion is central to economic empowerment in rural communities, as it forms the foundation for the sustainable economic development of the less privileged in society. By engaging in economic activities where goods and services are traded for cash, people become part of economic clusters. The amalgamation of economic clusters has an impact on the growth of local economic systems, resulting in sustained development. Thus, in order for sustained socio-economic development to occur, people should be encouraged to engage in more economic activities where financial transactions take place. To do this, people often need to have bank accounts at formal financial institutions. However, studies have shown that there are numerous barriers preventing especially the rural poor from entering the formal financial system. Some of these barriers include strict 'Know Your Customer' regulations, the cumbersome paperwork associated with opening banking accounts, mandatory deposits, bank charges and the distance from villages to towns, where most formal financial institutions are normally located. Considering this, many rural people may opt to use informal financial institutions, which are risky and mostly unregulated.

This paper aims to highlight the importance of financial inclusion for development in rural African communities. An overview is given of financial inclusion in Africa and of the methods through which the financially excluded 'bank' their money and obtain credit. The paper also looks at selected informal remittance mechanisms used by the rural poor to transfer and receive money. In addition, the concept of financial inclusion is presented in context, looking at financial literacy as the element needed to sustain the economic effects of reducing financial exclusion in Africa. Important initiatives to increase financial literacy are highlighted and the challenges faced in increasing financial inclusion in Africa are examined. The paper concludes with policy recommendations to promote financial inclusion.

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ABBREVIATIONS AND ACRONYMS

CBA	Commercial Bank of Africa
CBK	Central Bank of Kenya
DRC	Democratic Republic of the Congo
KYC	Know Your Customer
MFI	microfinance institution
MNO	mobile network operator
SME	small and medium enterprise

INTRODUCTION

In recent years the concept of financial inclusion has become increasingly important. It has evolved from the notion that financial institutions need to expand infrastructure to cater to mostly rural people into a holistic concept with practical and quantifiable gains for countries, with an impact on processes linked to socio-economic development and mostly resulting in economic growth. All African countries have a high proportion of financially excluded people, which reflects a lack of access to and use of formal financial resources. According to the World Bank, the low penetration of banking services indicates the high proportion of financially excluded people in Africa. In 2011, 54% of the South African population had accounts at formal financial institutions, while the statistics for Kenya, Nigeria, Egypt and the Democratic Republic of the Congo (DRC) were 42%, 30%, 10% and 4% respectively.[1]

Finance development experts explain that financial exclusion can lead to extreme poverty. For many Africans who are financially excluded, the habit of saving represents the difference between the accumulation of capital that can generate wealth and the lack thereof. However, the channels through which people save are of critical importance. Many unbanked Africans save their money at home, resulting in a direct loss of income in the form of the interest that could have been generated by depositing money in an account at a formal financial institution. Increased deposits would also enable local financial institutions to provide surrounding communities with credit targeted at promoting viable economic initiatives, ultimately stimulating the local economy. Consequently, higher rates of financial inclusion are necessary to alleviate poverty and increase development.

This paper aims to highlight the importance of financial inclusion for inclusive growth in Africa. It also proposes policy options that can help African governments tackle the challenges of financial exclusion and its impact on local economic development. The paper begins with a description of the state of financial inclusion in Africa and highlights the need to increase activities that promote financial inclusion. Financial inclusion is examined as a critical development concept in relation to possible impacts and benefits in African countries. In order to appraise the efforts to increase financial inclusion in Africa, financial inclusion initiatives are highlighted and attention is drawn to critical success factors in selected initiatives. The paper concludes with policy recommendations to governments.

OVERVIEW OF FINANCIAL INCLUSION IN AFRICA

The level of financial inclusion in African countries is generally very low. In poorer rural communities, which comprise the bulk of the financially excluded, financial exclusion is mainly due to income-related issues and barriers to accessing formal financial institutions. In a survey conducted by FinAccess in Kenya in 2009, income-related issues such as a lack of income, irregular income and the inability to pay for formal financial services accounted for most of the income-related challenges that resulted in financial exclusion. Access barriers such as a lack of proper documentation, complex financial products and services, illiteracy and the location of financial institutions were the main reasons why Kenyans were unable to use formal financial institutions. Although the research was conducted in Kenya, these results highlight challenges that many other African countries face in terms of financially excluded and unbanked populations.[2] Figure 1 highlights the levels of financial exclusion in selected African countries.

Figure 1: Use of formal financial services in selected African countries

Country	% with formal accounts	% who obtained loans	% with debit cards	% with credit cards	Population
Algeria	33	1	14	1	38 295 000
Angola	39	8	30	15	21 256 000
Botswana	30	6	16	11	2 096 000
Cameroon	15	4	2	2	20 930 000
CAR*	3	1	1	1	5 217 000
Chad	9	6	5	5	12 948 000
DRC**	4	2	2	2	74 618 000
Egypt	10	4	5	1	84 605 000
Ghana	29	6	11	2	26 441 000
Kenya	42	10	30	6	43 291 000
Morocco	39	4	22	4	32 950 000
Mozambique	40	6	37	4	24 491 000
Nigeria	30	2	19	1	177 096 000
Senegal	60	4	2	1	13 567 000
Tanzania	17	7	12	4	45 950 000
Uganda	20	9	10	2	35 363 000
South Africa	54	9	45	8	52 982 000
Zambia	21	6	16	4	14 129 000
Zimbabwe	40	5	28	6	13 098 000

* Central African Republic
** Democratic Republic of Congo

Sources: World Bank, World Bank Financial Inclusion Database 2011, http://datatopics.worldbank.org/financialinclusion/; geoba.se, 'The world: population (2013) – Top 100+', http://www.geoba.se/population.php?pc=world

As Figure 1 shows, many Africans are not part of a formal financial system and hence operate in the informal economy, where transactions take place without financial institutions being used as intermediaries. Due to, among other things, the resultant difficulties in measuring the actual size of the local economy and local financial institutions' reduced liquidity (leaving them unable to grant further loans), this is a lost opportunity for development and subsequently, economic growth. Since established income and access barriers prevent mostly the rural poor from engaging the services of formal financial institutions, people have developed other means through which to obtain credit, save money and conduct informal financial transactions. The names of these informal mechanisms differ from country to country, but there are clear similarities in the underlying remittance, savings and credit-accessing principles. The informal financial sector in African countries is mostly characterised by savings groups and credit associations consisting of people with similar commercial objectives, such as traders; similar religious beliefs, in the case of Christian and Muslim organisations; or social or youth clubs, town unions and moneylenders.

ROTATING SAVINGS AND CREDIT-ISSUING MECHANISMS IN AFRICAN COUNTRIES

In many African countries, most people in the middle- and lower-income brackets use informal or semi-formal savings clubs, associations and co-operatives to save money and access credit when necessary. These types of associations are considered informal when they are not recognised by the government, and assume a semi-formal status when associated with a registered institution overseen by the state or local government. For instance, a semi-formal savings club can consist of a group of traders at a particular market pooling their financial resources as part of an umbrella association of traders recognised by the local government. Rotating savings and credit-issuing mechanisms in African countries have similar operational models, with variations stemming from differing cultural or economic philosophies.

In Nigeria, the most popular model for rotating savings and credit-issuing clubs in the informal economy is *esusu*; in other parts of the country this model is known as *dashi* or *awiko*. In an *esusu* arrangement, members make individual financial contributions on a fixed day of the week or month, as stipulated mostly by oral agreements, and the funds collected are allocated in turn to each member, in a predetermined order. For many rural people, an *esusu* arrangement serves as a form of insurance, guaranteeing a lump sum of cash at a particular time. Many people enter into *esusu* agreements to save money to invest in business ventures. While the principle underlying the saving and disbursement of funds in an *esusu* arrangement is similar to those systems used by social clubs and *stokvels*,[3] *esusu* arrangements differ from *stokvels* in that the participating members do not necessarily know each other. However, many other savings clubs with a collective fund comprise friends and mutual acquaintances. *Esusu* arrangements operate as revolving funds and exist in many other countries. A similar arrangement is known as *dajanggi* in Cameroon, *tontine* in Benin and *chilemba* in Uganda.

In Ghana, people in the middle- and lower-income brackets use the services of *susu* collectors to save money, mostly on a monthly basis. In the *susu* collection system, people who share a physical location such as a market, make fixed daily contributions to *susu* collectors operating from kiosks at the market. The contributions are usually small amounts, but the monthly total is a substantial amount of money, which the various contributors can use at their discretion. In the *susu* collection system, payout is normally made to several members at a time after monthly collections have been received. At the end of the month, for their services *susu* collectors usually collect an amount equivalent to the daily contribution of each contributor.[4]

In Nigeria, this daily contribution scheme is known by the Yoruba-speaking people in the south-west as *ajo ojumo*, and the *alajo* is the custodian of the collected funds who receives 3% of the total contributions. Similar to the *susu* collection system, in the *ajo ojumo* savings model contributors determine at the start of the month how much they can set aside for savings. This figure remains constant throughout the course of the month. In both systems, the custodian of the funds can issue short-term loans to contributors, but this carries a risk as contributors will hold the custodian liable for any defaults in scheduled payments at the end of the month.[5]

Despite the growth and expansion of formal financial institutions, a lot of people in the lower and middle classes prefer using informal savings and credit schemes. There are several reasons for this. Firstly, informal schemes can provide savings facilities and credit to poorer people at cheaper and more favourable terms than those of formal financial institutions. For example, in the *ajo ojumo* savings scheme, contributors can borrow funds against their accumulated daily contributions before the end of the month. The poor see this as a benefit and their continued patronage encourages the proliferation of informal financial institutions. Secondly, in patronising informal financial institutions, people do not have to try to comply with the requirements necessary to open up savings or credit accounts at formal financial institutions, such as submitting proof of residence or an identity document. Informal financial institutions also do not require collateral, which gives them an edge over formal financial institutions. Thirdly, many of the rural poor live far away from formal financial institutions' branches and may have to travel across several villages to find a bank. In this case, geography and proximity are important factors that compel people to patronise informal financial institutions often located in their own villages.

While informal financial institutions benefit people in the lower- and middle-income brackets, filling gaps by providing services, terms of agreements and flexible savings and credit structures that formal financial institutions cannot provide, these institutions are characterised by a high level of risk from which their patrons are not immune. No interest is accrued on accumulated funds in the savings schemes; there is a risk of defaults and delays in repaying loans; and general management is normally poor as the custodians of funds lack the appropriate bookkeeping skills. The lack of appropriate and effective regulations over these schemes and participants' activities makes it difficult to leverage informal financial institutions' potential to contribute optimally to development. When people are unable to obtain emergency funds from their credit societies or do not belong to savings clubs, many turn to moneylenders, who mostly operate illegally as loan sharks and charge extremely high interest rates on loans.

INFORMAL REMITTANCE MECHANISMS IN AFRICAN COUNTRIES

International migrants send money to their countries of origin to support relatives or for investment purposes. While some migrants have families in cities and consequently use formal money transfer channels such as MoneyGram and Western Union Money Transfer, which charge a flat rate of 10% of the amount being transferred, many migrants are unable to access these channels. When using a formal money transfer agency, both the sender and the recipient must produce identifying documents. The recipients of transferred funds are also required to fill out forms and provide information known only to the sender and recipient. This creates access barriers, especially for illiterate relatives, who in this case must rely on other relatives or friends to collect the funds on their behalf. People living in rural areas may also not have access to branches of the money transfer agencies, which are mostly located in cities. Poorer migrants may also consider the 10% commission too expensive. For these reasons many international and domestic migrants prefer to transfer funds informally.

While the mechanisms used to transfer money informally from one country to another may seem unsophisticated and even primitive in comparison with the technologies and systems available to formal financial institutions, the informal money transfer market is highly effective in providing financial services to international migrants in host countries and rural inhabitants in the home country. A single informal remittance transfer may comprise a network of transactions among individuals in the host and home countries, which are mainly based on trust. In many African countries, the most common method used in remittance transfers is hand delivery. In the Southern African region, migrant workers in South Africa regularly send money to relatives in their home countries through taxi drivers. The taxi driver charges a fee for the service and on most occasions takes the money from the collection point, usually a car park, directly to the relatives in the sender's home country. This method of remittance is mostly used by low-skilled migrant workers, and is also used to transfer funds from cities to rural areas within countries. More skilled workers with accounts at formal financial institutions sometimes use this method to transfer funds to less educated relatives who are unable to open bank accounts.

Another channel through which people transfer money in the informal economy is by using money transmitters. Money transmitters offer money transfer services mostly from Europe and North America to Africa. The business of transmitting money informally is highly institutionalised and may comprise independent operators and ethnic or national niche operators. Individual operators normally have wide geographic coverage across several countries, but their networks are smaller than those of established formal money transfer businesses such as MoneyGram and Western Union. National niche operators, in contrast, serve specific groups, eg, Al-Aman focuses its operations on Somalia, Leppe serves people from Senegal, and WatuWetu has operations across East Africa. Some money transmitters also offer in-kind services: WatuWetu offers vouchers that can be redeemed at Kenyan stores and Leppe organises religious ceremonies in Senegal for migrants living in the US and France. Money transmitters are subject to some degree of regulation, which is an important aspect of the on-going debate on whether they should be considered informal or semi-formal financial institutions.[6]

BALANCING FINANCIAL INCLUSION AND FINANCIAL LITERACY

Research has shown that activities aimed at lessening financial exclusion are more effective when the financially excluded are informed of the benefits of having accounts with formal financial institutions and the variety of financial products available. This knowledge could have an impact on the ways in which rural people save and invest money to secure accumulated capital. For financial inclusion to be effective, financial literacy (ie, credit counselling, as well as knowledge of credit absorption capacity and financial products and the need for these products and services) must be established. If programmes on financial inclusion are to achieve any degree of success, the physical infrastructure to reduce financial exclusion must be in place. Financial institutions will have to extend their services to rural populations through innovative approaches such as partnering with informal and semi-formal credit associations in order to establish a physical presence in rural areas. In addition, formal financial institutions will have to design and develop products that can easily be marketed to rural inhabitants.

While many agree that financial literacy and inclusion are important aspects of development, there is a school of thought that questions the 'sudden' interest in Africa's unbanked population, which mostly consists of the rural poor. This group argues that the development agenda linked to financial literacy and financial inclusion is a secondary element of the dominant motive to cater to the financially excluded. The concept of financial inclusion thus presents formal financial institutions with a different model or approach to increase profits. In simple economic terms, the unbanked population is a market with needs demanding simpler and safer financial transactions, and it is up to formal financial institutions to meet these needs by developing the relevant products. This group explains that since a large number of Africans live in rural areas, the 'financial inclusion' model is based on an aggregation of small financial contributions with lower service charges to yield profits for both the financially excluded and the financial institution – the opposite of the model established by financial institutions in urban areas.

This said, in terms of the safety of deposits, security and the accumulation of interest on deposits, for rural people the benefits of opening low interest-bearing accounts with formal financial institutions greatly outweigh the advantages of using informal financial institutions. For these reasons many groups and institutions currently engage in initiatives to promote financial inclusion for the rural poor.[7]

INITIATIVES FOR FINANCIAL INCLUSION

Various institutions have taken steps to promote financial inclusion in African countries. While some of these initiatives have contributed to increasing financial inclusion, others have not been as successful. Experts on financial inclusion suggest that several factors – such as technology, appropriate regulations, policy infrastructure and well-designed financial products – are necessary for initiatives supporting financial inclusion to take off and have an appreciable impact on communities. M-Pesa in Kenya, Grameen Bank in Bangladesh and Fonkoze in Haiti are used as examples to highlight lessons for African countries in establishing initiatives to promote financial inclusion.

M-Pesa, Kenya

In 2007, Kenya's largest mobile network operator (MNO), Safaricom, launched a mobile phone money transfer mechanism originally developed to enable microfinance borrowers to receive and send money using a network of Safaricom airtime resellers. The concept allowed microfinance institutions (MFIs) to loan money at competitive rates, since cash transactions were more expensive. Based on the ease of access and use, Kenyans started using M-Pesa more widely in day-to-day transactions. On launching M-Pesa, Safaricom transformed its vast network of airtime resellers across the country into registered agent branches at which customers can register to send and receive money. Once registered, customers can load money onto their phones at any agent by handing over cash at the counter. Similarly, customers can receive cash through their accounts at any M-Pesa agent.[8] In 2013 there were approximately 79 000 agents and 18.2 million subscribers in Kenya.[9] In the same year, according to the *Financial Times*, M-Pesa transactions accounted for 31% of Kenya's gross domestic product,[10] which amounted to $33.62 billion in 2013.[11]

Most villages in rural Kenya have M-Pesa agents, hence M-Pesa plays an important role in increasing financial inclusion in the country. Prior to the launch of M-Pesa, only 19% of the Kenyan population had access to financial services. According to a study conducted by FinAccess in 2013, 66.7% of adults accessed financial services through various financial providers. It showed that 11.5 million people accessed financial services through their mobile phones, while 5.4 million used banks.[12]

Products similar to M-Pesa have been launched in a few other developing countries, but many of these have not experienced the same level of success. Examples include Wizzit in South Africa, Moneybox in Nigeria, M-Cash in Uganda and Paymenx in Ghana. Experts suggest that a number of factors relating to regulatory issues and business model development responsible for the success of M-Pesa in Kenya are missing in the structuring of the mobile payment systems in these countries.

While some of these countries use banks as the channel leaders in mobile payment systems, the MNO Safaricom is M-Pesa's channel leader. Safaricom has leveraged its network of airtime resellers across Kenya, even in the most remote areas where banks are not located, thereby significantly lessening the impact of the physical access barrier on customers. Safaricom has maintained 'Know Your Customer' (KYC) rules and made it easier for customers to subscribe to M-Pesa – all that is needed to set up an account is some form of identification. The cost of transferring money using M-Pesa is also significantly lower than what Kenyan banks charge for similar services. Considering the vast network of airtime resellers, customers do not have to travel far to send or receive money. In addition, the regulatory environment in Kenya has been accommodating, with the Central Bank of Kenya (CBK) opting to co-operate with MNOs and financial institutions in regulating mobile payment options as they evolve.[13] Based on the flexibility of the CBK's regulations, M-Pesa has evolved from the original concept of MFIs offering loans at low interest rates to becoming an everyday part of financial transactions in Kenya where customers use the service for sundry transactions, such as paying utility bills and buying airline tickets. Through a partnership with CBA Bank in 2014, M-Pesa customers can now also sign up for M-Shwari, which allows them to save and borrow money.

Grameen Bank, Bangladesh

In 1984, Muhammad Yunus founded Grameen Bank as a platform to provide financial services to poor people in rural areas. Yunus believed that the rural poor possessed the skills needed to earn a living as a part of localised economic communities. In order to unlock the economic potential of the rural poor, access to finance in the form of credit was necessary to spur economic activity. Grameen Bank began providing poor rural women with microloans without demanding collateral. Currently, women comprise 97% of the bank's borrowers who own 95% of the bank's equity.[14]

Experts suggest that Grameen Bank focused its operations on women for two main reasons – women in developing countries are more vulnerable to economic hardships than men, and women are generally considered lower risk and form the bulk of small business owners in rural communities. In providing microloans, no legal contract exists between the bank and its borrowers and the system is based entirely on trust. However, Grameen Bank requires borrowers to save small amounts of money in different funds to cover any emergencies and unforeseen circumstances they may encounter.

Although Grameen Bank's business model fosters co-operation among groups consisting of a few women, individual borrowers are responsible for their own debt and there is no joint liability among members or groups. In 2011, Grameen Bank had 8.3 million borrowers, of whom 97% were women, with 2 565 branches in 81 379 villages. Since its inception, Grameen Bank has disbursed over $10 billion in loans, and 97% of loans have been repaid to the bank by borrowers. On average, in 2011 Grameen Bank disbursed $123.38 million every month to borrowers.[15]

Fonkoze, Haiti

In 1994, Joseph Philippe, a Haitian priest, founded Fonkoze as a means to empower the rural poor economically and reduce the number of abject poor in rural Haiti. Since its inception, Fonkoze has become Haiti's largest MFI, offering microloans and operating low-cost savings accounts for the rural poor. Since single women head about 44% of households in Haiti and women dominate the small commercial business landscape in the country,[16] Fonkoze focuses on providing financial services at reduced cost to Haitian women. It offers the most vulnerable women a four-step programme[17] to lift themselves out of poverty, with affordable loans, credit schemes and savings accounts forming the core of its operations. Solidarity lending, the third step in Fonkoze's four-step programme, is the institution's core microfinance programme. In this, loans of between $75 and $1,300 are provided to groups of five women, known as a solidarity group, to help established micro-entrepreneurs expand their businesses. Five or six solidarity groups in a common geographical area comprise a solidarity centre, where women meet twice a month to repay loans and participate in education and training activities.

Fonkoze focuses mainly on issuing microloans to women who do not qualify for loans from banks or other MFIs because they do not have a steady income or any collateral. Typically, Fonkoze loans increase in size and repayment cycles over time, taking into consideration rural women's lack of business and management skills and understanding that it may take longer for these businesses to become profitable. In addition to microloans, Fonkoze offers savings accounts, small and medium enterprise (SME) loans, foreign exchange, domestic money transfers, international remittances and insurance. In contrast with the traditional banking system in Haiti, where 70% of commercial banks' branches are located in the capital Port-au-Prince, 96% of Fonkoze's branches are located in rural areas. By 2013, Fonkoze had 222 106 savings clients and 64 355 loan clients, and had granted 138 799 loans amounting to $30.1 million. The average loan amount was $217.[18]

FINANCIAL INCLUSION AND INCLUSIVE ECONOMIC GROWTH

Financial inclusion has an impact on economic growth by enabling localised development. This mostly occurs through providing people with access to financial services, loans, credit and insurance, thereby allowing them to engage in gainful economic activity. In turn, this empowers people to provide for themselves and their families, and to save and invest their earnings. Day-to-day living consists of a series of financial exchanges and transactions; and empowering the financially excluded through the provision of suitable financial products opens up and increases the potential for local economic development.[19] With the appropriate support structures, people can establish small enterprises while employing others to generate their own income and carry out financial transactions, which are necessary to grow and sustain local economies. SMEs form the backbone of many economies in Africa; hence providing support to SMEs will ultimately benefit the national economy.

According to the Maya Declaration,[20] an important aim of financial inclusion is lifting less privileged people and the rural poor out of poverty by helping them build better and more dignified lives. Well-designed financial inclusion programmes can help the rural poor start businesses and help small businesses to grow. For instance, a programme that provides loans with lowered interest rates to farmers can serve as the trigger that moves a particular farmer from labour-intensive subsistence farming to semi-mechanised farming. It may also make the difference between a large harvest and a smaller one by enabling a subsistence farmer to buy pesticides, for example, thereby raising the farmer's chances of increasing his/her income at the lower level of the agricultural value chain. In this way, entire economies can grow, eventually benefitting the wider population.

CHALLENGES FOR FINANCIAL INCLUSION

As desirable as financial inclusion is, the concept faces unique demand and supply-side challenges that impede its development and consequent impact on a rural population. Pertinent challenges include inappropriate regulation, limited interoperability, and a scarcity of qualified agents in the case of mobile payments, as well as financial illiteracy and low/irregular income among the rural poor. Some infrastructure and system-based challenges for financial inclusion include the underdevelopment of existing financial systems, a lack of credit-reporting institutions, limited capacity of businesses and inadequate infrastructure.

With mobile payment options, many countries in Africa face challenges in establishing appropriate regulations to promote financial transactions using mobile phones. This has a lot to do with the structuring of business models for mobile transaction platforms and deciding which part of the system – ie, banks or MNOs – should be the channel leader, which is responsible for implementing the programmes that support mobile payments. Experts suggest that the structure of these operational models can be either an enabler or a barrier in promoting mobile payments as a means to increase financial inclusion. South Africa, which has the most developed financial system in Africa, has struggled to make mobile payments work, although the country does have the necessary physical and financial infrastructure to support the development and growth of mobile payments. According to experts, South Africa's biggest challenge with mobile payments is product and service regulations, which categorise mobile payments as a banking service. Classifying mobile payments as banking services curtails their penetrative ability as a form of branchless banking, thereby reducing the chances of mobile payments' helping to lessen financial exclusion.[21]

The lack of credit-reporting institutions in African countries poses another challenge for financial inclusion. Many SME owners have detailed the difficulties encountered in trying to obtain credit for business development and expansion from formal financial institutions. The issuing of loans and credit is important for business development; but since many SMEs located in rural areas do not have the standard credit histories required by formal financial institutions, they cannot obtain loans. This negatively affects the earning potential of both employer and employees, reducing the business's ability to engage in economic activities on a larger scale and thereby providing people with a stable income. Effective credit reporting can help to improve the financial stability of SMEs, since financial institutions offer loans to clients who can use credit responsibly. With the growth of credit institutions and the increased ability to document the credit history of SMEs, financial institutions may be able to offer businesses located in rural areas more financial support.

Many of Africa's rural inhabitants lack the basic understanding of finance that enables people to make informed choices about the current and future use and management of their money. Hence, experts believe that for financial inclusion to have maximum impact in alleviating poverty and growing local economies, the low levels of financial literacy among rural Africans must be addressed. If people are unable to understand and make important choices regarding their finances, they will remain exposed to financial risks and shocks that could reverse important gains made in increasing financial inclusion. People must be taught to understand their finances in order to plan for the future and engage in financial transactions. For instance, it is important that rural people understand and engage in basic financial measures such as saving part of their income and insuring themselves against mishaps such as poor harvests, in the case of farmers.[22]

POLICY RECOMMENDATIONS TO PROMOTE FINANCIAL INCLUSION

In June 2012 during the G-20 meeting in Los Cabos, Mexico, global leaders reaffirmed their support for and commitment to increasing financial inclusion globally. Action plans and strategies to reduce financial exclusion were revised and contextualised to address critical challenges. The following recommendations take the work and resolutions of the G-20 Partnership for Financial Inclusion into account and highlight possible strategies that can increase financial inclusion in African countries.

Create an enabling regulatory environment: Governments of African countries should create an environment within which small businesses can function as a part of the larger economic system. New initiatives to provide loans to the rural poor and financially excluded should be supported in order to increase registration with formal financial institutions, which consequently allows individuals to access an array of financial products. Regarding financial institutions and mobile payments, governments should review KYC regulations in order to increase the rural poor's access to financial services.

Improve financial infrastructure: Governments should investigate alternative methods of documenting individuals' credit history and encourage innovative ways through which people can obtain loans. In the case of SMEs in agriculture, value chain financing can be supported. Alternative lending models to reduce the need for collateral while enhancing repayment should also be instituted. Governments should also aim to promote regional financial integration among groups of countries within common geographical areas and support innovative financial solutions.

Diversify product offering: Governments should encourage competition among financial institutions in a bid to support the development of niche financial products that can address the specific challenges encountered by the financially excluded. In Muslim areas, Islamic banking practices should be promoted, as Muslims may find this easier to understand and engage with.

Promote financial literacy: Understanding the benefits and drawbacks of specific financial products allows people to make informed choices. Consequently, financial literacy must be promoted for financial inclusion to be sustainable, with people saving, obtaining loans, investing and insuring themselves and their families against financial shocks.

CONCLUSION

This paper has highlighted the state of financial inclusion in Africa and its importance in ensuring economic development and inclusive growth. However, although many countries have agreed to make financial inclusion a priority, as per the Maya Declaration, many of the rural poor in Africa are still financially excluded. The low level of financial inclusion reflects the impact of demand constraints, such as low levels of financial literacy; and supply constraints, such as the limited capacity of many African financial institutions. In order to increase the level of financial inclusion so that it benefits local economies, these constraints must be addressed.

Financial inclusion can benefit a country's economy immensely if regulatory challenges are appropriately addressed to provide the financially excluded with access to finance. Similarly, it is important to educate people on the importance of saving, the process of obtaining loans, repaying loans on time, investing their money and insuring themselves against financial shocks. To increase access to finance, traditional financial services regulations, eg, those governing KYC requirements, and technologies such as mobile payments will have to be reviewed to accommodate Africa's rural poor. This will allow more people to participate in the formal economy, carrying out registered transactions that can benefit development and growth in African countries.

ENDNOTES

1 World Bank, *Financial Inclusion Database*, 2011.
2 FinAccess, *Financial Inclusion in Kenya: Survey Results and Analysis from FinAccess*, 2009.
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