Financial Intermediation and Access to Finance in African Countries South of the Sahara

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1. Introduction

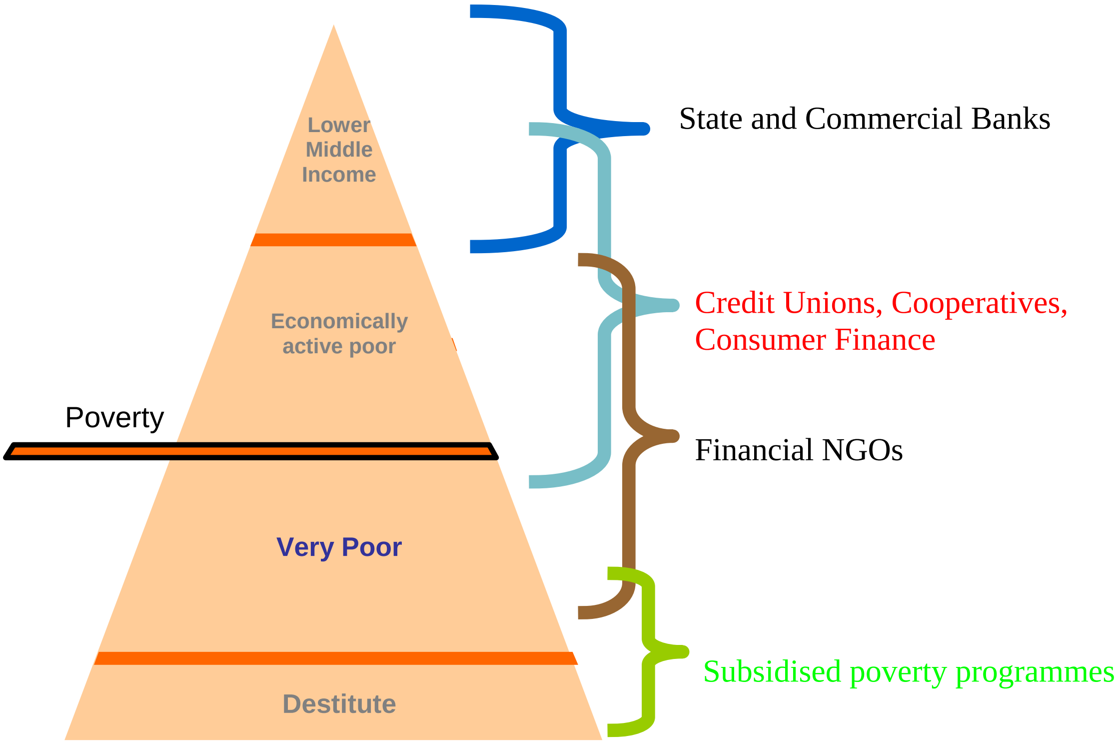
This paper describes the status of financial systems for a number of African countries south of the Sahara, identifying various problems that hinder access to finance, especially for the poor, and subsequently those issues that deter economic performance and development. The countries surveyed were selected on the basis of a range of criteria including: geographical spread, economic size and development, level of financial market development and availability of information. Although Angola, Botswana, Gabon, Ethiopia, Kenya, Mauritius, Mozambique, Nigeria, Senegal and South Africa are the focus countries of this survey, many of the scenarios presented in this paper are applicable to other African countries south of the Sahara. Broad policy measures to tackle the bottlenecks that currently undermine financial systems' responsiveness to the needs of the real economic sector are recommended.

The broad structure of this paper is as follows. Section two discusses the nature of financial intermediation in Sub-Saharan countries, while section three presents the financial intermediation challenges that these and other African countries face, in both macro and micro terms. Section four proposes possible policy interventions and ongoing developments in financial intermediation and section five concludes by drawing attention to the key challenges to financial intermediation in Sub-Saharan countries and to the essential prerequisites for successful programmes to respond to these challenges.

2. Background

Figure 1 below is a model that summarises the nature of financial intermediation in terms of service providers and the client base served. The diverse needs of poor people require a variety of savings and credit products to meet these diverse needs. These products can address short, medium and long term needs through disciplined, small regular savings, small irregular savings or irregular larger lump sum savings. Poor people typically want a mix of highly liquid, semi-liquid and illiquid savings products.

Figure 1: A Summary of Financial Intermediation Levels



Source: Littlefield, 2002

Lower, middle-income and wealthier consumers are typically served by the mainstream, formal financial sector. Economically active but poor consumers are often not targeted by the formal financial sector, or find mainstream financial services to be unaffordable and unresponsive. They therefore depend on the services of credit unions, community-financing initiatives, financial services co-operatives and financial NGOs. The destitute are usually only served by social programmes and subsidised poverty alleviation programmes.

Within the broader context of the financial systems described above, a plethora of policies and programmes have been designed and implemented to address the financial services needs of the poor. Many of those in need of funds are rural residents and women; two groups that have traditionally not been well served by formal financial institutions, despite evidence that they are capable of saving if provided with the appropriate instruments. Appropriate financial services can help the poor spread savings and expenses inter-temporally, thus enabling them to cope with periods of vulnerability and take advantage of occasional opportunities.

3. Impediments to Access to Finance

This section broadly assesses the abilities of the financial sectors of Sub-Saharan African states to attract and intermediate funds.

3.1. Macro Factors

3.1.1. Macroeconomic Fundamentals

A stable macroeconomic environment provides the backdrop against which sound financial intermediation can take place both in the formal and informal sectors. Empirical research supports intuition that reckless monetary and fiscal policies lead to run-away inflation that triggers high nominal interest rates, which often fail to bring about positive interest rates for investors. They also bring about exchange rate deterioration that reinforces high inflation, supporting a vicious circle. Inflation is effectively a tax on investment and hence discourages investment and raises uncertainty. Moreover it discourages long term contracting.

In Sub-Saharan economies, high inflation invites interest caps in micro-finance schemes that end up undermining the same schemes to the detriment of the poor who need access to finance. Managing balance sheets during periods of high inflation becomes difficult as matching liabilities and assets become onerous.

Another important problem with many African countries south of the Sahara, related to macroeconomic stability, is indebtedness. Debt repayment, including interest, siphons off critical funds that could be going into credit and other finance schemes to address the needs of poor people. Debt is thus a serious macro constraint for least developed economies. On the other hand, funds do not readily flow in from foreign countries because of the inconvertibility of most African currencies. Consequently, foreign players have no interest in getting involved in the micro-finance activities of Africa since repatriation of returns is difficult.

Most of these countries also lack coherent credit and saving-friendly policies to stimulate financial intermediation. If anything, credit policies are more distortionary than supportive of intermediation since credit is directed on political rather than economic grounds. Investment and trade policies are also largely fragmented and hence not supportive of entrepreneurship, which, in turn, does not stimulate creative intermediation.

3.1.2. Attracting Capital Flows

A survey of commercial banks, investment banks and mutual fund managers reveals that investors perceive greater risks and impediments to identifying and exploiting profitable opportunities in Southern Africa than in any other region in the world. Despite these handicaps, some countries in the region are succeeding in attracting private capital flows; their efforts to adopt outward-looking policies and establishing stable macroeconomic environments are paying off (Bhattacharya et al., 1997). In some cases, such as investment in the mining and oil sectors, rent-seeking behaviour is the key explanation for investment and not the typical risk/ return analysis that influences investment decisions in other sectors of the economy.

As developed countries like the US seek to finance their current account deficits, the capital flows to developing countries may be adversely affected. Factors that contribute to Sub-Saharan Africa's declining relative attractiveness in terms of foreign investment include: macroeconomic instability, slow economic growth and underdeveloped markets, inward orientation and burdensome regulation, slow progress on privatisation, poor infrastructure and high wage and production costs. These impediments are discussed in greater detail in the sections that follow.

3.1.3. Financial Sector Development

Emerging evidence suggests that both the level of banking sector development and stock market development exert a causal impact on economic growth. While banking is more deeply entrenched in Sub-Saharan African economies than securities markets and other non-bank sectors, distinct challenges face policymakers in trying to ensure that both banks and markets reach their full functional potential. Measures that succeed in deepening financial markets and limiting the distorting exercise of market power, result in more firms and individuals securing access to credit at acceptable cost. Experience shows that formal financial institutions are slow to incur the set-up costs involved in reaching a dispersed, poor clientele. In looking to improvements, however, two aspects appear crucial, namely information and the relatively high fixed costs of small-scale lending.

A range of innovative, specialised micro-finance institutions, mostly subsidised, has become established with remarkable success. Loan delinquency has been low - far lower than in the previous generation of subsidised lending programs operated in many developing countries - and the reach of the institutions in terms of sheer numbers, as well as to previously grossly neglected groups, such as women and the very poor, has been remarkable. This success is attributed to reliance on innovation in, for example, the use of group lending contracts exploiting the potential of social capital and peer pressure to reduce wilful delinquency, dynamic incentives using regular repayment schedules and follow-up loans or "progressive lending," and lighter distributed management structures that reduce costs and enable lenders to keep loan rates down to reasonable levels.

It is through its support of growth that financial development has its strongest impact on improving the living standards of the poor. Though some argue that the services of the formal financial system only benefit the rich, research suggests otherwise. Furthermore, countries with strong, deep financial systems find that, on balance, they are better insulated from macroeconomic shocks.

3.1.4. Political

Political factors cannot be discounted when it comes to successful financial intermediation and a few key issues are presented below:

- State-owned financial institutions are generally inefficient and lead to the blurring of the boundaries between the political-cum-economic activities of the state and the economic activities of the financial institution.
- Corrupt governments compel both state-owned and private financial institutions to extend credit to particular favoured individuals and institutions on grounds other than economic.
- General conditions of political instability lead to economic instability, which in turn leads to financial instability. Financial instability leads to reduced capital flows into a country and reduced financial intermediation through a loss of confidence in rights enforcement.

3.2. Micro Factors

Apart from the broad macroeconomic factors, there are specific issues that arise from a history of attempts by many countries to ensure access to finance by the majority of their citizens.

3.2.1. Financial Institutional

Some of the micro factors relate to the institutions themselves and the way they operate.

- One of the biggest problems is that formal institutions do not have the risk analysis expertise or the familiarity with the often rural, poor potential clients. Moreover, formal lending is highly collateralised rendering it inappropriate for the poor. While informal organisations and NGOs are more familiar with these markets, they lack the resources of the formal lending institutions to adequately serve the poor.
- A lack of familiarity with potential clientele often leads to inappropriate instruments when the formal institutions dare to delve in low-end markets. Research suggests that such players sometimes cannot distinguish between liquidity and credit needs among the poor. Micro-credit institutions have a tendency to be supply-driven and do not match specific needs (Rosengard, 2001).
- Related to the above, there is greater access to savings vehicles than credit and hence an imbalance. In Senegal, from 1993 to 1995, deposits by commercial banks grew 44% in nominal terms while credit extension fell by 16.5%. For all countries south of the Sahara demand for deposit services outstrips demand for credit services by 7:1 (Rosengard, 2001).
- Further, savings mobilised from the poor in SA and Senegal, for example, support large borrowers, despite the finance needs of the poor.
- Because the small, low-end market lacks depth and liquidity, formal players find it difficult to exploit economies of scale in service delivery. The added problem of lack of physical and technical infrastructure exacerbates the problem of delivery.

3.2.2. Regulatory and Legal

Other problems in accessing finance find root in the legal and regulatory environment as the following illustrate:

- Weak judiciaries call into question the ability of the judicial system to enforce creditor rights in the event of default.
- In many African countries, central bank leadership is politically determined and the institution itself may lack autonomy. The unfortunate result is that its ability to supervise the financial system coherently is compromised.
- Compounding the above, over-regulation can emerge, for instance, preventing foreign players in local markets (Conning and Kevane, 2002). Further, most financial regulations were scoped for large players with sizeable deposits, and prudential requirements that focus on protection of depositors restrict banks' ability to cater for the poor.

- Furthermore, most countries still lack legal frameworks that recognise micro-financiers; some countries like South Africa and Senegal have started to make changes. This affects non-traditional banks' ability to mobilise deposits legally.
- Often, legislation is complex and difficult to administer. Interest rate caps are prevalent and these are distortionary. Contrary to popular expectations, research suggests that the poor are willing to pay market rates for productive uses of borrowed funds (Nelson, 1999).
- Problematic legislation leads to fragmentation whereby no operational or strategic linkage among formal, semi-formal and informal micro-finance institutions exists. This leads to a failure to tap into synergies – where some are good at collecting deposits but lack local knowledge and information and *vice versa.*

3.2.3. Social, Religious and Cultural

The cause of broadening access to finance is impeded by the following social factors:

- Illiteracy is high among rural poor people, especially women, and specialised credit officers are required to deal with this type of client. In a sense, employees of formal institutions are also illiterate when it comes to dealing with these clients.
- In some places, women have cultural and religious restrictions that prevent them from seeking credit. They may take up credit only with their fathers, brothers or husbands as co-signatories.
- In predominantly Muslim societies, fair market interest rates cannot be charged on religious and moral grounds.

3.2.4. Technological

The financial sector has long been an early adopter of innovations in information and communications technology. Internationalisation of finance (despite efforts to block it) has been one consequence. This has helped lower the cost of equity and loan capital on average, even if it has also heightened vulnerability to capital flows.

While a few countries such as South Africa and Swaziland have started making use of technological advances in financial services, such as smart cards, many African countries are still some way behind international norms in rolling out the relevant infrastructure that will facilitate delivery to rural populations.

4. Towards a Responsive Financial Intermediation Framework

This sub-section reflects on the problems highlighted in the previous sub-section and proposes provisional elements of a possible framework for improved financial intermediation. The recommendations that follow apply to both the formal and the informal sectors, as well as to the affluent and the poor. However, because much of the research on financial intermediation focuses on the poor and because the other more affluent economic groupings are typically well catered for by the formal financial system, many of the policy implications have a slant towards improving financial intermediation for the poor.

Evidence is growing that a diversity of services, rather than "credit only" programmes, is preferable in addressing the needs of the poor. Financial institutions help clients by facilitating payments and transfers, managing liquidity, taking deposits, and providing mechanisms for savings, credit, equity building, and dealing with risk. Each of these services can enable the poor to empower themselves. For example, money transfers are an important mechanism for the poor to deal with financial shocks. When institutions fail to provide transfer services, the poor must often rely on individuals to carry cash long distances for purposes of either family support or trade.

4.1. Macro Interventions

One of the intuitive lessons gleaned from the literature is that the overall context in which financial intermediation takes place and in which specific interventions take place plays an important role in the success or failure of such interventions.

Achieving minimum efficient scale - both in market infrastructure and in such aspects as payments systems - is going to be a challenge. Exploring the possibilities of regional cooperation on these fronts should bear fruit. If democracy is weak and ethnic conflict high, a significant level of uncertainty will likely prevail, which will deter physical entry by good foreign banks; the entry of foreign banks will also be deterred by low population density. E-finance or joining a regional financial system may be the best hope of getting access to higher-quality financial services.

4.1.1. Economic

Macroeconomic policies must be geared towards stability of the key macroeconomic variables such as inflation and interest rates. Furthermore, policies that encourage savings (such as tax concessions) should be adopted.

The question that will be increasingly asked is whether smaller developing countries need to have local securities and debt markets in the traditional sense, and even how much of banking infrastructure needs to be domestic. For policymakers in developing countries, the questions will shift to the consideration of the stability of domestic financial institutions in the face of the increased competition. Increased access to foreign financial services will entail greater use of foreign currency, and this will accentuate the risks of exchange rate and interest rate volatility for countries that choose to retain their own currency. One thing is certain, heightened prudential alertness will be needed.

The internationalisation of the provision of financial services, including the entry of reputable foreign banks and other financial firms, can be a powerful generator of operational efficiency and competition, and should also prove ultimately to be a stabilising force. Unfortunately, there is no clear consensus on whether the net impact of full capital account liberalisation on growth, poverty, or volatility should be regarded as favourable or not. The evidence, however, suggests that restrictions on international capital flows should be applied cautiously. Box 1 describes the liberalisation process in one Sub-Saharan country, Kenya.

Box 1: Financial Liberalisation in Kenya

Domestic financial liberalisation in Kenya is a fairly recent event. Ceilings on bank interest rates were not removed until July 1991. The central bank continued to announce guidelines for the sectoral composition of bank credit expansion, although these were not strictly enforced after interest rate liberalisation. International financial liberalisation is even more recent. Offshore borrowing by domestic residents has been permitted only since 1994 and portfolio capital inflows from abroad were restricted until January 1995. Supporting structural and institutional reforms have yet to be fully implemented. Many banks remain publicly owned and competition among them is limited.

Source: Pill and Pradhan, 1997

4.1.2. Political

Political leaders should understand that excessive state involvement in a financial system creates distortions and encourages rent-seeking behaviour. Lending activities are conducted on non-business considerations where credit is allocated on the basis of political relationships, at less than market interest rate conditions.

Government ownership has resulted in credit being directed to under-performing state entities; incentives and professional capacity are weak in the banking system, and there may still be a hidden inheritance of doubtful loans. The priority for the state must be to divest itself of its bank holdings and to create a credible policy stance sufficient to attract reputable international bank owners.

4.2. Micro Interventions

In addition to the overall macro environment, more specific recommendations emerge from the literature as covered in the sections below.

4.2.1. Financial Institutional

Based on the problems identified in section three, it is proposed that financial institutions need to:

- Develop knowledge and understanding of the poor and women. They also need to gear their delivery infrastructure to cater for this unique group of potential financial players in the system.
- Establish databases of information on the risk profiles of borrowers by using local networks.
- Redevelop their products and services while standardising them for cost effectiveness and economies of scale. To do so, they will need to revisit their assumptions about the poor and the viability of offering financial services - research suggests that the poor do have a propensity to save and also require diverse financial services.
- Focus less on loan supervision, as it is resource intensive, but rather focus on peer pressure to secure repayments (The South African Women's Development Bank model works on this basis, for instance).
- Take loans to clients to reduce transaction costs.
- Provide appropriate credit timeously to allow the poor to exploit unexpected opportunities.
- Charge commercial rates of interest and be tough on defaulters.

The following boxes illustrate examples of innovation geared to serve the poor:

Box 2: Kenya Post Office Savings Bank (KPOSB): A Variety of Products

KPOSB offers seven major savings products through its network of 493 outlets (compared to a total of 370 operated by commercial banks):

- *Ordinary Savings Scheme (OSS):* The OSS or the "Passbook" is a typical interest-earning account, opened with a minimum initial amount, which must be left on deposit at all times.
- *Save as You Earn (SAYE)*: This product was introduced in 1981 to attract savings from formal sector employees and independent small business people. It is a contractual savings scheme whereby the saver remits specific amounts of money for a fixed period.
- *Fixed Deposit Scheme (FDS):* The FDS was introduced by KPOSB in 1983 to cater to middle and low-income groups. Deposits are placed for fixed terms ranging from 7 days to 12 months.
- *Premium Bond (PB):* This scheme was introduced in 1978 and is based on bearer bonds. Some conditions are attached to participation; deposits are free of charges but withdrawals are not possible within the first three months.
- *Premium Savings Account (PSA):* KPOSB launched this product in 1991 for middle and high-income groups. Interest is tax-free and in 1998 ranged from 11% to 16%, depending on the balance in the account.
- *Children's Savings Account:* This account is open for children below 18 years.
- *Trust Account:* This account is for associations, clubs, societies, etc.

Source: Kamewe and Radcliffe, 1999 as cited in Wright, 1999

Box 3: More Financial Innovation in Kenya

The Kenyan NGO K-REP works in both rural and urban areas. It assists other NGOs to strengthen their institutional capacity to help rural enterprises, and operates two credit schemes. The first is a wholesale loans scheme to local ROSCAs (Chikola) and a group-lending program (Juhudi), with a forced savings component beginning 8 weeks before credit extension. Loan sizes vary from $85 to $847, with an average of $259 under the Juhudi scheme. The average Chikola wholesale scheme loan is $16,950. Juhudi regulations are standardised, with a fixed maximum on the first loan and increasing ceilings for subsequent borrowing. The repayment rate is 95% at a top effective lending rate of 38%. Repayments are due weekly at group meetings. Inflation has proved to be a problem for K-REP and the organisation is struggling to charge positive real interest rates. This highlights the importance of macroeconomic stability for successful access to finance programmes.

Source: Kamewe and Radcliffe, 1999 as cited in Wright, 1999

- Research also suggests that a forced savings component helps secure commitment from the poor as it gives them a sense of ownership. This works particularly well in the context of group guarantees. It is also useful to use graduated rounds of credit as a way of accessing credit-worthiness.

The following boxes illustrate examples of group participation:

Box 4: Esusu and Dashi: ROSCAs in Nigeria

In Yoruba, Nigeria, the *esusu* is a universal custom for the bringing together of a number of people to help one another financially. A fixed contribution is agreed upon, and is given by each participant at a fixed time and place. The total is then paid over to each member in rotation (although an attempt is usually made to pay the fund to a member who may need it during an emergency). This enables the poor to purchase an expensive capital good or pay off debts. *Esusu* usually have over 200 members with cycles that can last 4-5 years and are more formally organised than ROSCAs in East Africa. Large *Esusu* are divided into roads where the participants live, each with its own sub-head. Collection for the group alternates among members and among roads. The overall head of the *Esusu* need not be acquainted with all its members; it is the sub-group head's responsibility to collect his road's donations. The overall head does have legal recourse should any member default however. Default is minimised by keeping back the first payment as security and splitting payments between group members so that each member receives the fund twice.

Source: Bascom, 1952 and Geertz, 1962 cited in Wright, 1999

Box 5: Ethiopian Iddirs: A Funeral Fund Combined with an Accumulating Savings and Credit Associations (ASCA)

Iddirs (which were probably originally burial societies) are formed by groups of people who commit themselves to contributing a fixed amount every month into a pooled fund. This fund is then used to meet emergency needs (particularly medical and funeral expenses) and/or lend out to members. There are several types of *iddir: c*ommunity *iddirs* (usually the largest and the oldest) occupational *iddirs*, friends and family *iddirs*. When asked why they joined *iddir* the most common response for all income groups was financial and material assistance, and consolation in time of stress.

Source: Aredo, 1993 cited in Wright, 1993

- Formal institutions should also be more sensitive to the imbalance between the number of savings and credit instruments on the one hand, and that between the collection of deposits from many and lending to only a few on the other hand. These imbalances must be redressed.
- Inter-linkages among the formal, semi-formal and informal sectors should be strengthened through appropriate incentives, where partnerships between formal institutions and NGOs for example are rewarded. This would allow each to use its strengths to good effect while serving the poor. NGOs tend to have better knowledge of local communities while banks have the technical expertise to put products together.
- Diversity is good for stability. Banks, securities markets, and a range of other types of intermediary and ancillary financial firms, can all contribute to balanced financial development. The extensive evidence now available cannot justify a radical preference in favour either of markets or of banks. Instead, development of different

segments of the financial system challenges the other segments to innovate, to improve quality and efficiency, and to lower prices.

4.2.2. Regulatory and Legal

In terms of the regulatory and legal environment the following recommendations are pertinent:

- The judiciary must be given sufficient teeth to ensure the credibility of the property rights regime that creditors can trust. Political interference must be discouraged.
- Central bank autonomy must be constitutionally guaranteed and top leadership must be selected on the basis of a meritocracy.
- Financial legislation and regulation must be revisited to cater for hybrid institutions (for instance, village banks) that are needed to be more responsive to the needs of the poor. This is particularly pertinent as it relates to macroprudential requirements such as capital adequacy, as well as to the ability to accept deposits. Usury laws must be equally revamped in light of research findings that the poor are willing to pay fair market value for their borrowed funds. New legislation must be simplified and mindful of business imperatives.

The following two boxes illustrate some of these issues:

Box 6: Countries' Adaptation of Legislation

Different countries have addressed the inadequacy of their banking laws in different ways. South Africa has exempted credit unions and savings and credit associations from banking legislation when such institutions belong to an accredited supervisory body. The Philippines and Indonesia have introduced separately monitored village-owned banks that operate with lower capitalisation and reserve requirements than commercial banks. Indonesia claims 14,000 self-supporting village banks serving clients with loans as small as $50, daily savings collections, and other services.

Source: Nelson, 1999

Box 7: Dangers of Interest Rate Caps in Senegal

In Senegal, ACEP has proved successful despite its collateral and reporting requirements. It has grown to cover even urban areas and has graduated from USAID donor funding to a deposit-taking institution. It has also established a wholesale credit facility. The effective interest rate charged tops 20% although 1995 credit union legislation caps rates at 15%. This is causing financial problems for ACEP and highlights the negative role interest rate caps in the area of micro finance.

Source: Nelson, 1999

- Laws guaranteeing the independence of women and their legal status, as financial players, should be enacted.
- Increased globalisation of labour has created remittances as key source of funding in some countries such as Somalia and Ethiopia. Enabling policies are needed to capitalise on this source of finance.

The right type of regulation is "incentive compatible" - that is to say, it is designed with a view to ensuring that the incentives it creates for market participants help achieve its goals rather than hinder them. Incentives are key to limiting undue risk-taking and fraudulent behaviour in the management and supervision of financial intermediaries, especially banks which are prone to costly failure. Instability and crashes are endemic to financial markets, but need not be as costly as they have been in recent years. They reflect the results of risk-taking going well beyond society's risk tolerance. These costs are very real; they represent a potentially persistent tax on growth. This can raise poverty in the near term, and can have longer-term affects on the poor, both through lower growth and through reduced spending in areas such as health and education.

In short, the right type of regulation:

- Works with the market, but does not leave it entirely to the market.
- Keeps authorities at arm's length from transactions, lessening the opportunities for conflict of interest and corruption.
- Promotes prudent risk-taking, meaning risks born by those most capable of bearing it, for example, removing distortions that lead to too little direct investment, too little equity finance, too little long-term finance, and too little lending to small firms and the poor. This is financial policy that is *market-aware*.

4.2.3. Social, Religious and Cultural

Social, religious and cultural norms are very controversial and take a long time to change. However, some interventions can still be made to support the constitutional/ legal interventions mentioned above. The following are instructive:

- Female illiteracy must be eliminated as much as possible so that women do not have to rely on the literacy of their male family members. For women, it is particularly important to link lending to skills development.
- Institutions must ensure that women have access to female credit officers who they may feel more comfortable to deal with on financial matters.
- Where religion precludes the lender from receiving a return on a loan greater than the amount originally lent, the lender may participate in the profits of the enterprise to which funds where lent. Under Islamic banking principles, the depositor, lender and borrower should all share equally in the risks of the business venture financed.

4.2.4. Technological

The precise future role of e-finance in accelerating the process of internationalisation is not easy to predict, but it will surely be substantial. There has been phenomenal growth in risk-management technologies with their associated impact on financial instruments. In response, credit information techniques, including scoring mechanisms, should facilitate the expansion of access of small-scale borrowers to credit.

Advanced technologies such as smart cards are making it easier to deliver financial services to segments of the population that were previously unreachable. On this basis, governments should provide appropriate incentives such as tax concessions to financial intermediaries who use technology intensively to deliver financial services to the poor.

The box below illustrates the growing role of technology:

Box 8: Swaziland on the Technological Cutting Edge

A USAID-supported Swazi Business Growth Trust (SBGT) pioneered a “smart” card transaction system in micro-enterprise and small enterprise (MSE) applications in 1993. This allowed the trust to establish a registered bank more cost effectively than would otherwise be the case. It now provides working capital, agribusiness, construction and franchise lending. While it addresses small business rather than the poor, the technology can be easily transferred to programmes geared towards helping the poor. It can be easily adapted to handle deposits in addition to the cash management for participants. Disbursements and collections are handled even in the absence of online computers, full time electricity or telephone connections. The card contains all the necessary information to conclude transactions at points of sale.

Source: Nelson, 1999

6. Conclusion

Obstacles to financial intermediation for the poor in African countries south of the Sahara range from macroeconomic and political to micro factors, such as regulation and institutional arrangements. The poor have diverse credit and saving needs and are willing to pay market interest rates, but the regulatory environment is typically not conducive to intersectoral linkages to allow institutions to respond more flexibly to the needs of the poor.

What is clear is that financial intermediation for the poor requires dedication, innovation, and ongoing research to identify the services that best respond to the needs of the poor while benefiting the institutions that serve them. Formal, semi-formal and informal sectors all have a role to play. An enabling and flexible regulatory environment will foster stronger linkages amongst the sectors. Incentive structures and new technologies are also important in the design of sustainable and efficient financial intermediation to meet the needs of the poor.

Despite the huge economic differences between South Africa and its Sub-Saharan counterparts, the broader challenges faced are very similar. Although the dimensions and contexts differ, the fundamentals of the financial intermediation challenge remain the same across Sub-Saharan Africa. Indeed, it may not be too bold to assert that further studies may also find huge similarities between Sub-Saharan Africa's financial intermediation handicaps and challenges and those of the rest of the developing world.

Conversely, this study has equally revealed that there are huge disparities between the socio-economic and political circumstances of the countries in this region; this despite the developed world often being tempted to regard the countries of this region in homogenous terms. While the fundamentals of the financial intermediation challenge may be broadly the same, this problem is shrouded in complex issues that remain unique to each country. Solutions to the financial intermediation problem also remain vastly different across countries and should be tailored to the unique needs of the country concerned. Although there is much potential for Sub-Saharan countries to benefit from sharing their particular experiences, there can be no "one size fits all" blue print. Successful programmes require sensitivity to local contexts and the involvement of the people purported to benefit from such programmes.

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