On the frontier of finance; African banks.(Banks venture deep into sub-Saharan Africa)

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Taking advantage of more stable economies, banks are venturing deep into sub-Saharan Africa

NOT so long ago, a cruel joke among international bankers was that sub-Saharan Africa was less an emerging market than a submerging one. Local bankers had no reason to change that impression; for all the political and economic turmoil, tiny and informal markets, and shabby infrastructure, they mostly made good money doing very little. Using low-cost deposits to buy high-yielding government bonds, they harvested some of the best net-income margins in the world. The corollary, of course, was that most Africans had no access to financial services.

Nowadays, the thinking is shifting. According to the IMF, Africa is enjoying its best period of sustained economic expansion since independence. Real GDP growth is expected to rise from 5.7% in 2006 to 6.1% this year and 6.8% in 2008. This good performance is partly driven by high commodity and oil prices. Foreign aid has also helped. But it is also due to better economic management, more openness and more stable politics. Such policies mean banks have to work harder to make a profit, but also help them to grow. That is encouraging them to reach out to new customers--and so they should. A report from the World Bank on November 13th argues that promoting access to financial services in Africa should be a priority, as it boosts growth and helps reduce the income gap between rich and poor.

Still, only 20% of families in Africa have bank accounts. Small and medium-sized firms struggle to borrow; private credit accounts for 18% of GDP in Africa--and less than 5% in Angola, Chad, Congo, Guinea Bissau and Sierra Leone--compared with 30% in South Asia. Ethiopia, Uganda and Tanzania have less than one bank branch per 100,000 people. Opening an account in Cameroon requires $700--more than many of its people earn in a year. In Swaziland, a woman needs the consent of her father, husband or brother to open an account or take a loan, and 75% of adults do not have a verifiable address. Even in South Africa, where the financial sector is far more sophisticated, almost half of adults do not have bank accounts.

Millions of Africans stash money under their mattresses or keep their savings as cattle. In countries such as South Africa, Kenya and Uganda, many turn to informal services, such as burial societies or savings clubs. Microfinance outfits have filled some of the gap. But they are small, and banks are usually much better equipped to provide financial services on a large scale.

In many countries, not only are better and more predictable monetary policies improving the environment for banking; privatisation of state-owned banks has also created opportunities, and better regulation has helped too. In 2004, Nigeria's central bank raised the minimum capital requirement for banks from 2 billion nairas ($15m) to 25 billion, and it limited government ownership in banks to 10%. The number of banks has shrunk from 89 in 2004 to 25 today, but the number of branches has increased by over 600. So far, experts say, placements on the red-hot stock exchange have provided most of the increased capital. Some banks' returns on equity are believed to be shrinking. But ATMs have become so much a part of life in Nigeria's big cities that lines sometimes stretch down the street. There are also welcome signs of prudence: one Nigerian bank, United Bank of Africa, promises no "wahala" loans. All Nigerians know wahala means "trouble".

The improving climate has caught the attention of foreigners. The Industrial and Commercial Bank of China, in the largest ever single investment in Africa, has offered $5.6 billion for a 20% stake in Standard Bank, of South Africa, which has operations in 18 African countries. In 2005 Barclays, a British bank that has been working in Africa for over a century, bought a majority interest in ABSA, another South African bank. Its ambitions stretch across the continent, and it believes its sponsorship of the English Premier League, something of a religion in football-mad African countries, has given it recognition (so, less happily, has its colonial pedigree). "Africa is going from unbanked to banked," says Frits Seegers, a Barclays executive. Hitherto, the bank has served what it calls the top of the pyramid in Africa; now, spurred by competition from local African banks and by its experience in emerging Asian markets, it is targeting the middle and lower end.

South Africa serves as the petri dish for the trans-African experiment (although its economy is so much larger than its neighbours' that results may not be perfectly replicable elsewhere). In the post-apartheid era, the government has nudged banks into creating simpler and cheaper products. They have taken branches to the unbanked, either in prefabricated form, or in vans that make regular visits to under-served areas. Other countries are doing the same. In remote areas where delivering cash is hard, mini-machines have been installed in corner shops where customers print out a slip confirming they are in the black and present it to the shopkeeper, who provides the cash. Some rural branches and ATMs rely on solar energy and satellite phone connections.

New technology also helps. Few Africans have a bank account, but many have mobile phones: in Kenya and Botswana, for example, 17% of those who are unbanked own a mobile phone, according to the FinMark Trust, a research group seeking to make financial services more accessible. In South Africa, Congo and Kenya, financial services are offered over mobile phones--though it is not always clear whether they can be called banks or not. Subscribers can open accounts, check their balances, pay their bills or transfer money by typing a few commands on their mobile phones. In Kenya, where 3m people have bank accounts, as many as 1m use M-PESA, a mobile-payment scheme.

Splashing out

South African banks, having learned lessons in their home market, are pioneering innovations elsewhere in the region. Standard Bank supplies an isolated branch on an island in Uganda's Lake Victoria by having planes drop bags of cash from the air. The bank credits its mobile sales force and its rapid roll-out of ATMs in Uganda--an extra 128 since it bought a local bank in 2002--to its success there. In a country of 30m people, it has opened close to 700,000 new accounts in five years, and controls 40% of the market. When its shares were listed on the minuscule local stock exchange this year, they were over-subscribed by 200%, and more shares were traded in one day than in the exchange's entire history. ABSA, meanwhile, is developing modern credit-scoring techniques for customers who have never been granted loans before. By keeping costs down and building up scale, it reckons micro lending is at least as profitable as its other services.

But competition among banks is growing. In Ghana, Barclays works with susu collectors, who gather money from small-scale market traders and keep it safe for them for a fee. The collectors' clients are typically too small for high-street banks, but Barclays reckons that they collectively represent a market worth [pounds sterling]75m ($154m). The bank offers savings accounts, loans and training to the susu collectors, and says they have helped it reach 200,000 market traders. In two years, there have been no defaults.

For all the progress, much remains to be done. In spite of innovations to bring in new customers, banks still have to build up necessary scale, cut costs and manage risks better. Sub-Saharan African economies are growing, but except for a handful, they remain very small: South Africa's GDP alone makes up almost 40% of the whole. Relative poverty is declining, but four out of ten Africans still have to survive on less than a dollar a day. According to the World Bank, in 40 out of 48 countries in the region, it still takes over a year--and a long list of procedures--to enforce a contract. In Congo, Malawi, Mozambique and Sierra Leone, procedures to recover a debt cost more than the value of the debt itself.

Africa also remains far more vulnerable than other regions to the vagaries of weather, unpredictable aid flows, and volatile commodity prices. With the exception of places like South Africa, most economies are not diversified and therefore are highly vulnerable to shocks. Countries such as Zimbabwe and Sudan also show that political stability cannot be taken for granted. This residual uncertainty and the lack of confidence in local banks help explain why those who can often prefer to keep their money abroad and why most private finance in Africa is short-term.

Many African countries still have to develop and enforce policies and laws allowing banks to compete and operate more easily, while making sure they are financially solid--and customers are protected. In time, regional integration may help ease the problem of scale. Meanwhile, millions of people are still waiting to take their cash from under the mattress.