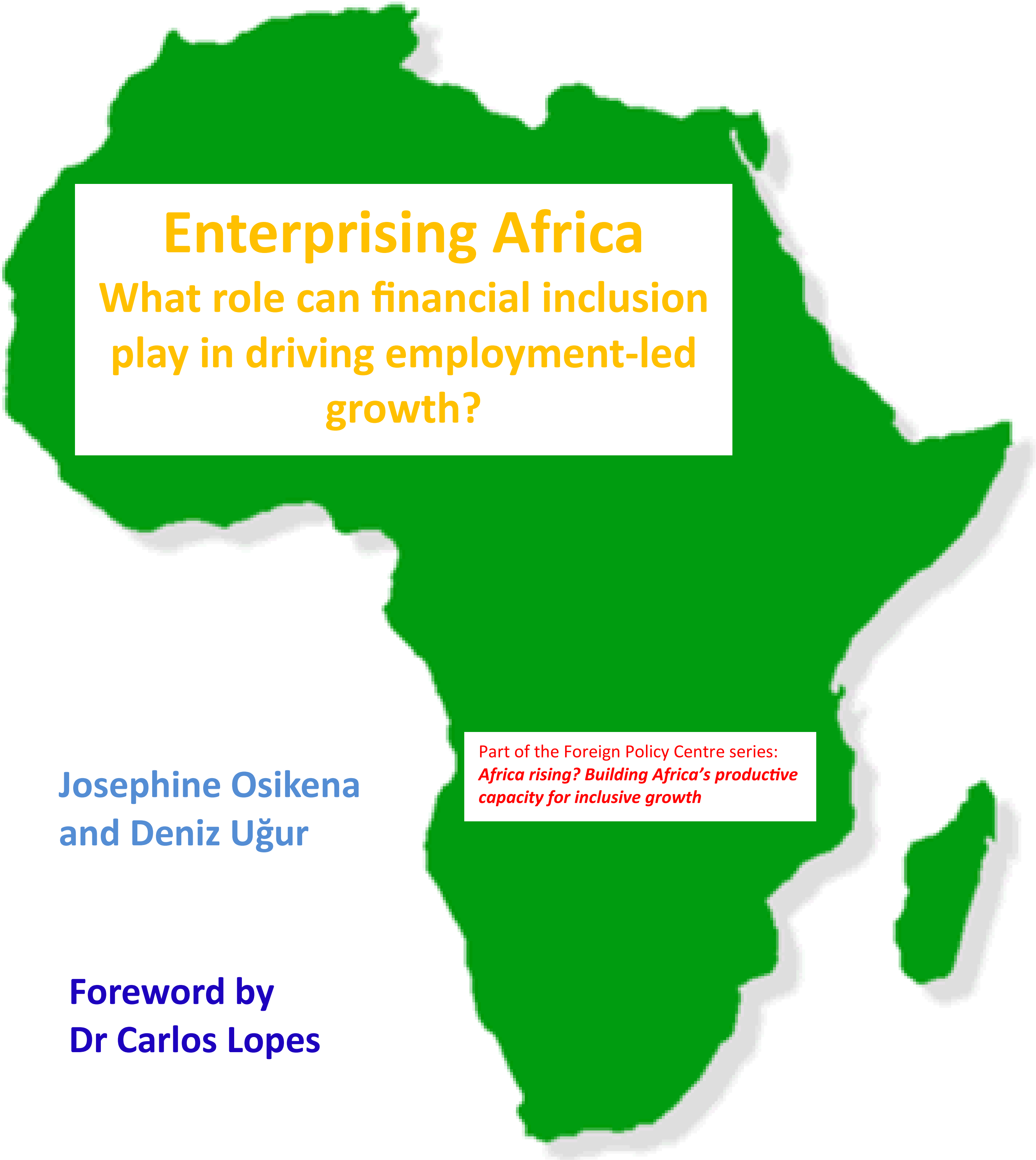

Enterprising Africa

What role can financial inclusion play in driving employment-led growth?

Part of the Foreign Policy Centre series:
Africa rising? Building Africa's productive capacity for inclusive growth

Josephine Osikena
and Deniz Uğur

**Foreword by
Dr Carlos Lopes**

The Foreign Policy Centre

Ideas for a fairer world

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Dr Carlos Lopes, Executive Secretary, United Nations Economic Commission for Africa

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FOREWORD

Africa's stellar growth performance is real but somehow deceiving. It lies in tandem with pervasive poverty and unemployment and where two thirds of those actually employed are classed as working poor. This report argues that transforming African economies requires the development of well-integrated and effectively regulated financial sectors that will support the shift of employment from low-skilled, informal and insecure activities to higher productive sectors, including across agriculture and the primary sector.

Financial inclusion is central for sustained and inclusive economic growth. When people have access to financial services, they can earn and save more, build their assets and cushion themselves against external shocks. Inclusive financial access requires particular attention to specific segments of the population historically excluded, either because of insecure incomes, gender, location, or level of financial literacy.

Africa has more than 50 million micro, small and medium businesses which contribute 58 per cent of total employment and 33 per cent of the continent's GDP, making them critical to job and value creation. The informal sector remains rather large and marked by a lack of proper access to credit. Whilst agriculture remains an important sector for employment, the dominance of smallholder farmers adds to the risks perceived by financial institutions; thus limiting access to necessary finance to enhance productivity. This further exacerbates vulnerability, especially for women and young people.

This report advocates the development of a balanced and integrated financial sector that fully responds to Africa's diversity. Financial sectors in many African countries are at an early stage of development. Whilst still shallow, they are experiencing fairly rapid growth and responding to an ambitious regional integration agenda. New Pan-African banks are spearheading these efforts and have also become sources of innovation buoyed by advancing technology that is enabling flexible banking modalities such as mobile, online and social banking services.

But this regional financial integration can only positively contribute to financial sector development if a certain level of institutional quality is prevalent and it is supported by enabling education, skills development and employment training. More complex financial systems require more sophisticated supervision to maintain financial stability. Ensuring regulation and supervision keeps up with the innovation and sophistication of banking activities is key. Indeed, this forms one of the key recommendations of this report.

The report underscores the importance of generating evidence to support the development of appropriate employment strategies and financial regulation. I welcome this contribution to the discourse on how Africa's growth can shift from a quantitative focus to one of quality, where jobs are created and poverty is eradicated.

Dr Carlos Lopes
Executive Secretary, United Nations Economic Commission for Africa (ECA)

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SUMMARY

TESTING ASSUMPTIONS ON FINANCIAL INCLUSION

This report - and the associated expert roundtable discussion series which preceded it - has sought to test assumptions about how financial inclusion influences employment and job creation across Africa. Such analysis is timely given of the global fight to tackle poverty and inequality. It is echoed by the fact that providing employment and financial inclusion represents a set of targets associated with one of 17 recently adopted United Nations sustainable development goals (SDGs).

TRANSFORMING THE STRUCTURE OF AFRICAN ECONOMIES

Given the complexity of the employment challenge facing African countries, improving access to financial products, services and education has the potential to support job creation. Characterised by significantly large informal private sectors, the structural nature of economies across the continent requires much greater economic diversity. Employment activity needs to shift beyond low-skilled, informal and insecure employment such as subsistence farming. It needs to expand to more productive and higher-skilled jobs across agriculture and the wider rural economy, by upgrading as well as diversifying production. Such transformation can add greater value for wholesale and retail trade; serving Africa's domestic, regional and international markets. Well integrated and effectively regulated financial sector development can play an enabling and accelerating role to achieve this. There are several examples which illustrate this. Firstly, making credit more affordable for micro, small and medium sized enterprises (MSMEs) through the use of credit bureaus, provides more accurate and reliable credit information for borrowers and credit reporting for lenders. Secondly, building on new ways to provide simple micro-insurance (such as via buying airtime top-ups) so premiums are low, payments are flexible and claims are processed swiftly helps small enterprise and the self-employed better mitigate risk and uncertainty. In addition, promoting regional financial integration through improvements in pan-African cross-border banking can support reductions in transaction charges and facilitate regional trade. Such improvements to financial access can help small, precarious and informal private sector enterprise to grow into more stable, formal enterprise, building links to support integrated economic sectors and generate employment for growth.

THE IMPORTANCE OF EDUCATION, SKILLS AND TRAINING

Nonetheless, exclusively focusing on expanding the access and distribution of financial services and products is insufficient for the structural transformation needed to drive economic development and jobs growth across Africa. Appropriate education, skills development and training (including addressing financial literacy) focused on productive economic sectors such as agriculture, food production and rural manufacturing are also required. Without all of this, improvements in financial access may not lead to significant economic growth which creates employment, promotes enterprise, delivers decent incomes, improves workers' skills and helps provide good working conditions.

AGRICULTURE, WOMEN AND YOUNG PEOPLE

The global surge in food demand is driven by a rise in the worldwide population. This is coupled with the fact that between 2015 and 2055, Africa South of the Sahara will boast the largest and youngest global workforce, with the number of 15 to 24 years olds exploding from 216 million to over 452 million. This presents huge employment opportunities for young people and women already disproportionately disadvantaged by unemployment, underemployment and a lack of financial access. Yet African food production is failing to keep up with rising demand. There is an absence of the access to finance needed to acquire land and secure the appropriate technology and innovation needed to make agriculture more productive, commercially viable and create employment. This is particularly relevant to women who represent at least 60 per cent of the labour employed across the rural economy.

Therefore, in order to address both the challenges associated with financial inclusion and employment creation it is important to understand that, though important, financial inclusion is unable to help drive employment led growth in isolation. It is critical that the issues of skills, training and development are also addressed.

FINANCIAL SECTOR DEVELOPMENT AND EMPLOYMENT CREATION TARGETS

Furthermore, balanced financial sector development needs to be diverse, agile, responsible, adequately regulated and developed to serve employment creating sectors of the real economy across both the informal and formal sectors. It is important to ensure greater financial access does not lead to debt-led consumption or create financial distortions that could replace or displace economic sectors which have the potential to create decent jobs. Given that employment creation is an increasing priority for a continent with a rapidly expanding workforce, perhaps African policymakers might consider linking financial sector development to employment creation (across the productive economy) objectives and targets?

RATIONALE AND OVERVIEW

UNDERSTANDING FINANCIAL INCLUSION

Of the two billion unbanked adults across the globe, 17 per cent reside in Africa South of the Sahara, while 31 per cent live in South Asia and 24 per cent live in East Asia and the Pacific[1]. In addition, according to a recent global survey measuring progress towards financial access and usage, Kenya, Nigeria, Rwanda, South Africa and Uganda were in the top 10 highest-scoring economies. These countries demonstrated a commitment to improving financial inclusion through a combination of legislation, public policy, financial regulation and supporting the development of the digital and mobile communications infrastructure needed to develop financial access and use[2]. However, in spite of encouraging progress, there is compelling data which illustrates the acute financial inclusion challenge facing many African economies. In the case of bank branches, the ratio is 3.1 per 100,000 adults compared to 9.6 outside the continent. On average, 21 per cent of firms in Africa are able to access credit from formal financial institutions compared to a 43 per cent share across other global regions[3]. Given these compelling statistics, how might access to affordable and convenient financial services be improved?

FINANCIAL INCLUSION IN ACTION

Moving the payment of salaries and bills from cash to electronic transfers via mobile telephones provides greater efficiencies. It reduces the transaction costs associated with cash payments in terms of time, transport, security and other potential losses. Increasing the availability of financial services ranging from credit, payment, savings, insurance and the knowledge to make sound financial decisions requires the right products (and advice) to be delivered at the most affordable price as well as at an appropriate time and in a convenient and workable manner. Furthermore, new approaches to improve financial access also need to be diverse, responsible, flexible and coordinated in order to reach a broad base of consumers as well as protect them. In addition, to ensure all this is fit for purpose, testing and experimenting ways to develop, distribute and deliver products is essential. Consumers need to understand what products and services are, how they work and by which means they can be supported to develop ways of assessing if products and services are fit for their specific needs. More significantly however, improving the availability of measurable and comparable data to evaluate all this is vital. This provides evidence-based insights regarding which financial services and products are demanded and the potential impacts they might generate, given specific contexts.

WHY FINANCIAL INCLUSION MATTERS FOR EMPLOYMENT CREATION

Employment and financial inclusion represent a set of indicators and targets associated with one[4] of 17 new goals recently adopted as United Nations Sustainable Development Goals (SDGs) leading its efforts to end global poverty and inequality by 2030[5]. How might the development of domestic financial sectors drive employment creation across Africa? A well developed financial sector provides robust, dynamic and stable local financial networks and structures. It is responsible for delivering a range of functions

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[1] Demirguc-Kunt, Asli et al. (2015), 'The Global Findex Database 2014: Measuring Financial Inclusion around the World' in *Policy Research Working Paper 7255*, World Bank Group. Available at http://bit.ly/1WMmY8r last accessed 2 November 2015

[2] Villasenor, John D, (2015), *The 2015 Brookings Financial and Digital Inclusion Project Report: Measuring Progress on Financial Access and Usage.* Available at http://www.brookings.edu/~/media/research/files/reports/2015/08/financial-digital-inclusion-2015-villasenor-west-lewis/fdip2015.pdf last accessed 2 November 2015

[3] Beck, Thorsten and Cull Robert, (October 2013), 'Banking in Africa', *World Bank Policy Research Working Paper No. 6684,* World Bank Research Group, Finance and Private Sector Development Team. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2348417 last accessed 2 November 2015

[4] Promoting inclusive and sustainable economic growth, employment and decent work for all.

[5] United Nations (UN) (2015), *Transforming our World; the 2030 Agenda for Sustainable Development*. Available at https://sustainabledevelopment.un.org/post2015/transformingourworld last accessed 2 November 2015

including financial products and services, business development advice, assessing financial risk, developing appropriate regulation and providing effective financial supervision. This intermediation role boosts productive investment and consumption through mobilising domestic savings as well as diaspora remittances; allocates credit finance; helps target investment; provides insurance and supports channels for payments as well as transfers. All of this should facilitate business expansion particularly for MSMEs (the largest job creating sector cross the continent) as well as unlock enterprise opportunities in new regional markets. As domestic financial sectors are strengthened, they provide a sustainable local funding base. This can help employment creation to thrive by linking businesses of various sizes, exchanging technology and innovation, improving economic competitiveness across sectors ranging from construction to infrastructure, agriculture to food processing and manufacturing to industrial production. In essence, financial sector development can drive the transformation needed to develop and integrate economic sectors which have the greatest potential to generate decent and productive jobs which deliver good employment prospects[6].

Employment which delivers decent incomes improves workers' skills and helps provide good working conditions across increasingly diverse economic sectors can all promote inclusive growth. Yet, as well as inadequate infrastructure development and investment, a lack of financial inclusion represents a principal constraint to expanding good employment opportunities across Africa. Developing competitive financial services and products which are affordable, accessible and distributed in pioneering ways to reach underserved client bases as well as neglected markets are critical to expanding employment. Financial inclusion can help steer and target financial resources. This supports financial stability through: improving market access for business and enterprise, providing the means to procure scarce enterprise assets and build collateral, as well as helping to generate and allocate savings, investment finance and earn incomes. In addition, financial inclusion can support the provision of social protection which builds resilience, reduces vulnerability and enhances the social benefits of education, health and well being that good employment generates[7]. Thus, far from being a purpose or goal simply desired for its own sake, financial inclusion is instrumental as a means to support a transformation in the nature of African economies across both the informal and formal sectors.

THE LINK BETWEEN ACCESS TO FINANCE AND JOBS

The employment challenge facing African countries is complex. Characterised by significantly large informal sectors, the structural nature of economies across the continent requires much greater economic diversity. Employment activity needs to shift beyond low-skilled, informal and insecure employment such as subsistence farming and street vending. There needs to be an expansion of more productive and higher-skilled jobs across agriculture and the wider rural economy, by upgrading as well as diversify production. This can add greater value for wholesale and retail trade serving domestic, regional and global markets. Developing such productive capacity can support job creation in emerging industrial sectors such as textiles, furniture production, applied sciences, technology and civil engineering. As well as this, transforming Africa's productive capacity can grow employment opportunities across a range of services supporting strategic sectors such as logistics, transport and communications. This transformation helps drive a process of adopting, adapting and creating new and relevant technologies to increase employment productivity and further expand job opportunities

[6] Beck, Thorsten and Maimbo, Samuel Mumzele, (2013), *Financial Sector Development in Africa: Opportunities and Challenges, Directions in Development Finance*, The World Bank. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/11881/9780821396285.pdf?sequence=2 last accessed 2 November 2015

[7] Islam, Iyanatul and Anis Chowdhury, (2014), *The limits of conventional macroeconomics: Why one needs to focus on structural transformation and inclusive development*, VOX, CEPR's Policy Portal. Available at http://www.voxeu.org/debates/commentaries/limits-conventional-macroeconomics-why-one-needs-focus-structural-transformation-and-inclusive-development last accessed 2 November 2015

which builds resilience, reduces poverty and drives down inequality. Such change contributes to developing the links needed to integrate economic sectors and generate sustainable and inclusive investment, growth as well as greater economic productivity and competitiveness. Developing reliable infrastructure represents a fundamental component in facilitating this structural change. Well-developed, affordable, universally accessible and inclusive financial systems are part of this essential infrastructure.

Financial inclusion (beyond satisfying consumption) has the potential to support economic development and there is little doubt that employment powers development transformation. Given the assumptions made about the impact of improving financial access, a number of questions arise. What impact does the availability of financial products and services as well as financial education have on employment growth across Africa? Can supporting the expansion of accessible, diverse and competitive financial systems, which champion financial access, unlock the employment potential of young people and women? How might improvements in the distribution and delivery of products and services across financial markets support the quality and expansion of productive employment which generate decent incomes and enterprise revenues? In addition, can the design and implementation of financial policies and regulation support employment-led growth across Africa which ultimately helps build a range of employment prospects to develop diverse and sustainable national economies?

THE EVENT SERIES

In 2014 the Foreign Policy Centre (FPC) convened a series of roundtable discussions supported by Barclays. The series attempted to understand how best to address Africa's unprecedented employment challenge and explore the role financial sector development might play in tackling this. The meetings were held in the UK Houses of Parliament and moderated by a cross-party panel of leading UK parliamentarians from both the House of Commons and the House of Lords. The FPC brought together a diverse network of domestic and international participants. This included representatives from the worlds of: business, civil society – including diaspora organisations - diplomacy, academia, philanthropy, politics as well as bilateral and multilateral agencies. Without claiming to be either academic or exhaustive, this report aims to capture, share and build on many of the critical issues discussed during the course of the roundtable series. The report also provides a selection of brief case studies illustrating the practical challenges of developing a more informed understanding of the interplay between financial sector development and employment-led growth. While the report perhaps poses more questions than it can possibly hope to address, it seeks to help inform, develop and promote the integration of employment and financial inclusion policy ideas across a wider public audience.

BUILDING A COLLECTION OF WORK

The event series and accompanying FPC report, forms the basis of an emerging body of FPC work. This collection of events, analysis and publications is entitled, '***Africa Rising? Building Africa's Productive Capacity for Inclusive Growth.***' The project seeks to understand how to deliver broad-based structural transformation through the development of well-integrated economic sectors which promote inclusive growth across the continent. Complementary roundtable discussions in the series have focused on the economic sectors considered most likely to expand employment as well as how best to build women's resilience to improve their economic and social wellbeing, particularly across agriculture and the rural economy[8]. The first report in this series was cited in the UK Parliamentary International Development Committee's 'Jobs and Livelihoods' report (2015)[9]. As well as Barclays, other project supporters include CDC Group (the UK's development finance institution) and Nestlé.

[8] Osikena, Josephine et al., (2014), *Employment, enterprise and skills; Building business infrastructure for African development*, Foreign Policy Centre (FPC). Available at http://fpc.org.uk/fsblob/1663.pdf last accessed on 2 November 2015
[9] House of Commons, (March 2015), *International Development Committee: Jobs and Livelihoods*, Twelfth report of session 2014/15. Available at http://www.publications.parliament.uk/pa/cm201415/cmselect/cmintdev/685/685.pdf last accessed 2 November 2015

RECOMMENDATIONS

The report has produced a number of practical recommendations which might help build a more informed understanding about the relationship between financial sector development and employment-led growth across Africa.

EVIDENCE MATTERS

The complex nature of the employment challenges confronted by African economies demands the development of independent and robust research which is both qualitative and quantitative. This evidence needs to explore the links between financial access and jobs in order to help develop and test appropriate employment strategies and financial regulation. In addition, reliable data enables policymakers and practitioners to develop evidence-based policies which can be tested and revised to ensure relevance at different times and in diverse contexts. Developments in the emerging micro-insurance sector, illustrates how reliable data can help share knowledge and draw lessons to improve the viability and impact of insurance products and services for both providers and customers. MSMEs, self-employment, the agriculture sector and the wider rural economy are all significant sources of job creation. There are however, often high levels of risk and uncertainty associated with employment across these sectors, which micro-insurance can help address.

DEVELOPING FINANCIAL INFRASTRUCTURE AND BUILDING INTEGRATED FINANCIAL SYSTEMS

Pooling small, local and fragmented regional financial markets across Africa to create well-integrated and effectively regulated financial networks and institutions is essential for employment-led development. Well-developed financial systems support employment expansion by efficiently mobilising and allocating scarce financial resources. This is opposed to an exclusive focus on large corporate clients or indeed targeting capital intensive sectors such as extractive industries. This often is at the expense of servicing a much wider, diverse and profitable market share including MSMEs, particularly across the informal sector. In spite of their modest size MSMEs account for the largest proportion of jobs growth across Africa[10].

Developing financial infrastructure and integrated financial markets can help directly create employment across the financial sector. More significantly, it can also support employment prospects for unbanked populations through improvements to enterprise cash flow management, assisting enterprise to build working capital and sustaining essential household spending when income becomes rigid. Furthermore, functioning and integrated financial systems facilitates greater cross-border trade, providing opportunities to spread (as opposed to concentrate) risk exposure. African financial integration can help drive competition between financial service providers (including non-financial institutions), promote innovation in terms of the distribution of products and services as well as expand the depth and breadth of financial access. All of this contributes to lowering intra-African transaction costs associated with payments and settlements and provides more investment for employment expansion. In addition, deeper financial integration provides simple and reliable ways of sharing credit data and information (for both borrowers and lenders) to assess and monitor financial risks and uncertainty, all underpinning financial stability. An example of emerging efforts being made to promote greater financial integration across Africa in recent years includes the

[10] Osikena, Josephine et al., (2014), *Employment, enterprise and skills; Building business infrastructure for African development*, Foreign Policy Centre (FPC). Available at http://fpc.org.uk/fsblob/1663.pdf last accessed on 2 November 2015

rise of low cost mobile money transfer services. This allows users to deposit and withdraw cash from an account using a mobile telephone. Money transfer (e-money) brands include: M-Pesa, MTN mobile money, Tigo Cash and Airtel Money. The rise of this emerging sector does however presents challenges concerning the high volume of inactive accounts and the lack of interoperability for customers sending and receiving payments across different network providers. This suggests providers are not doing enough to holistically address clients' needs. There is also the rise in the popularity of digital financial products such as M-Shwari in Kenya. Launched in 2012 by the Commercial Bank of Africa (CBA) and Safaricom (a mobile network operator), M-Shwari is a bank account offering loans and savings products via M-Pesa. The accounts can be opened instantly, savings earn interest and there is convenient access to short term loans. In addition, M-Shwari's non-performing loan rate is low. There are concerns about the immediacy of credit access which might adversely affect the spending behaviour of borrowers and could lead to over-indebtedness. Furthermore, the immediate nature of digital credit products might fail to provide sufficient consideration time for borrowers to make informed decisions and assess the terms, conditions, cost and suitability of the loans[11].

Greater financial integration is also illustrated by the expansion of pan-African banking groups with branches or subsidiary networks across several African countries. From 2000 to 2015 Ecobank, headquartered in Togo, increased its local affiliated network from 11 to 36 countries. United Bank for Africa (UBA) expanded from Nigeria to 19 other African economies between 2007 and 2011 (with the exception of the Ghana subsidiary established in 2004). In addition, South Africa's Standard Bank Group (Stanbic) has a presence in 18 African economies. It was one of the first African banks to drive cross-border expansion by acquiring banks in Botswana, Kenya, Uganda and Zambia, among others[12]. In addition, there are also efforts to build two common regional payment and settlement systems (launched in 2013) across East African Community (EAC) member states and Southern African Development Community (SADC) economies[13].

However, how can the employment benefits of integrated and cross-border financial markets be harnessed? In addition, how best can the risks and challenges be mitigated from increasing financial interdependence? Furthermore, how can adequate and clear supervision and regulation build resilience as well as avert financial shocks and contagion[14]? More significantly, it is important to ensure that financial sector development across Africa does not displace the real economy. Significant shares of economic growth need to be generated from employment opposed to growth through finance led by debt consumption[15].

IMPROVING EMPLOYABILITY THROUGH ENHANCING FINANCIAL CAPABILITY

The ability to make informed financial decisions is essential for young people's transition to work. Building financial capacity underpinned by access to sound knowledge and valuable skills helps develop economic stability and reduce vulnerability through good financial management. This represents a critical aspect in the employment journey for

[11] Mazer, Rafe and Alexandra Fiorillo, (April 2015), *Digital Credit: Consumer Protection for M-Shwari and M-Pawa Users,* CGAP Blog post. Available at http://www.cgap.org/blog/digital-credit-consumer-protection-m-shwari-and-m-pawa-users last accessed 7 December 2015

[12] Vibe Christensen, Benedicte (2014) 'Financial Integration in Africa: implications for monetary policy and financial stability' from 'The role of central banks and macro economic stability' edited by Mohanty, M S, Bank for International Settlement, *BIS Papers No. 76*. Available at http://www.bis.org/publ/bppdf/bispap76.pdf last accessed 2 November 2015

[13] Beck, Thorsten et al. (2014), *Making Cross-Border Banking Work for Africa*, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/20248/892020WP0Makin00Box385274B00PUBLIC0.pdf?sequence=1 last accessed 2 November 2015

[14] Astrakhan, Irina, (2014), *Promoting Financial Integration in Africa; Lessons from supporting deeper and more efficient financial sectors in East and Southern Africa*, The World Bank and International Finance Corporation (IFC). Available at https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/Economie_et_Statistiques/La_recherche/Irina_Astrakhan.pdf last accessed 2 November 2015

[15] New Economic Foundation (NEF) and Friedrich Ebert Stiftung, (2014), *Inequality and Financialisation: A dangerous mix.* Available at http://www.feslondon.org.uk/cms/files/fes/pdf/Inequality_financialisation%20FINAL.pdf last accessed 2 November 2015

young people and women who are often disproportionately affected by unemployment and underemployment. Developing lifelong learning in financial literacy from an early age can help foster a culture of encouraging savings, developing ideas to generate income and revenue, insuring against unforeseen circumstances, promoting the accumulation of assets and distinguishing between enterprise liabilities and personal assets. This can support potential employment creation and self-employment opportunities. Building financial capability also provides a platform to blend business coaching and education, with peer-to-peer development and learning which all build employment links to help develop (and test) robust business ideas. Financial (including digital) literacy tailored to the needs of this very diverse and often highly mobile demographic facilitates work preparedness and enables young people and women to respond to labour market demands in sectors and industries with the greatest propensity to create employment. This is illustrated by the MasterCard Foundation and SNV's (the Dutch development agency), 'Opportunities for Youth Employment Programme'. A five-year project launched in 2013, this initiative seeks to increase youth employment and incomes in rural communities across Mozambique, Rwanda and Tanzania. The programme aims to support young people to access market opportunities in growth sectors such as renewable energy and agribusiness[16].

JOB CREATION THROUGH ENTREPRENEURSHIP

Entrepreneurship helps drive instinct, ambition and energy as well as the knowledge and skills critical to building new business ideas. This ability helps to develop and grow micro-enterprise with the potential to expand innovation and create employment[17]. Yet, as well as the need for appropriate education, coupled with relevant business management training and improve links to markets, entrepreneurs need better access to finance. For those who are unemployed or have insecure jobs, entrepreneurship provides an opportunity to build sustainable livelihoods through self-employment and can also support the transition to formal waged employment, particularly for young people and women. In this regard, financial inclusion can help create an environment to support entrepreneurs to access and hone important employment skills. This might include teamwork, effective communication, critical and creative thinking as well as provide access to practical experience (through job training and work placements) and networks helpful to improve employment opportunities. Such an approach enables job seekers to transform into employment creators by facilitating the acquisition of skills, experience and networks needed to support fledgling enterprises to succeed. Such support can range from innovative ways to provide start-up finances to bridging the gap between education, business development skills and services as well as building entrepreneurial experience essential for managing complexity (in business and enterprise development).

Financial inclusion can also support high-growth ventures to drive employment growth through supporting the provision of more accurate financial data. It can identify alternative solutions to meeting creditworthiness requirements in order to access a range of financial services needed to grow businesses. Data requirements might include the need for credit history and sufficient collateral or guarantees to secure borrowing. Identifying early opportunities to develop the skills to acquire self-sustaining resources is important given that Africa South of the Sahara is the global region most likely to experience a disproportionate number of businesses founded through necessity, opposed to opportunity. The continent also has the highest proportion of businesses with low growth expectations. One solution to facilitating entrepreneurship for jobs growth is to create enterprise development funds which promote employment creation. Such funds

[16] SNV, Opportunities for Youth Employment project. Available at http://www.snvworld.org/en/oye last accessed 2 November 2015
[17] Robs, Alicia et al. (ed.) (2014), *Entrepreneurship, Education and Training; Insights from Ghana, Kenya and Mozambique,* The World Bank Group. Available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/06/12/000470435_20140612105917/Rendered/PDF/886570PUB0978100Box385230B00PUBLIC0.pdf last accessed 2 November 2015

provide flexible collateral loans at competitive rates, as is the case with the Youth Enterprise Development Fund in Kenya[18].

TRANSITIONING EMPLOYMENT FROM THE INFORMAL PRIVATE SECTOR

Statistical data compiled by the International Labour Organisation (ILO) in 2011 found that informal employment represents a substantial percentage of overall employment outside agriculture and the rural economy. Yet, there are distinct regional variations. Southern Africa registered low rates of informality ranging from 37.2 per cent in South Africa to 49.3 per cent in Namibia. In Tanzania and Mali the rates were much higher at 76.2 per cent and 81.8 per cent respectively. In addition, women were more likely to be employed in the informal sector compared to men. In the case of Liberia, 72 per cent of women were employed in the informal sector compared to 47.4 per cent of men[19]. For informal private enterprise, inadequate access to finance represents the most significant constraint for businesses to transition from the informal sector. In addition, the administrative and regulatory burdens for MSMEs are often immense. This ranges from business registration and licences to tax administration as well as accounting requirements. Furthermore, keeping up with frequent regulatory changes can be a daunting task for fledgling and resource-scarce enterprises. In the long term, improving access to finance can help develop the business environment and might help map an exit out of informality to support greater employment creation. Such a shift would allow an increase in the tax base for investment in public services and infrastructure in addition to greater opportunities to establish links across other economic sectors with businesses of various sizes. The transition to formality also provides more stability as well as security for growth through sharing and exchanging ideas focused on technology and innovation to improve productivity and skills. As well as improved access to financial products, services and advisory support, simplifying and fast-tracking business registration can help to build links between business enterprises. Given that they vary in size across value chains and clusters, this can support better integration and improve market access[20].

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[18] United Nations Conference on Trade and Development (UNCTAD) (2014) *Entrepreneurship and Productive Capacity-building: Creating jobs through enterprise development*,' Trade and Development Board; Investment, Enterprise and Development Commission, Sixth session Geneva, 28 April–2 May 2014. Available at http://unctad.org/meetings/en/SessionalDocuments/ciid24_en.pdf last accessed 2 November 2015

[19] International Labour Organisation (ILO), (2013) *Women and Men in the Informal Economy; A Statistical Picture*, (2nd edition). Available at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_234413.pdf last accessed 2 November 2015

[20] ILO, (2009), *The Informal Economy in Africa: Promoting transition to formality, challenges and strategies* (2009). Available at http://www.ilo.org/wcmsp5/groups/public/@ed_emp/@emp_policy/documents/publication/wcms_127814.pdf last accessed 2 November 2015

IMPROVING FINANCIAL INFRASTRUCTURE AND INTEGRATION TO SUPPORT JOB CREATION

BUILDING FINANCIAL INFRASTRUCTURE TO IMPROVE FINANCIAL ACCESS

The weakness of financial sector development across Africa is demonstrated by the average ratio of private credit to gross domestic product (GDP). In 2011, this stood at 18 per cent compared to an average of 34 per cent in other global regions. The modest size of African economies and the shallowness of financial markets across the continent are translated into weak financial institutions and networks. There are limited means to exchange timely and accurate financial data. In addition, there is scarce availability of safe and efficient means to effectively make payments and settlements which are adequately regulated. There is an over concentration of banks in urban areas, leaving rural locations underserved. For banks this has proved to be more cost effective given their concentration in the urban-based formal and large corporate sector as well as lending to government through high interest bonds[21]. Limited financial infrastructure is coupled with onerous official documentation requirements, needed to conduct financial transactions. Such high costs associated with financial services contribute to limited support provided to the real economy (particularly the informal private sector), from which a significant proportion of employment is created.

DEVELOPING CREDIT REGISTRIES

Strengthening deficient and frail financial infrastructure particularly with respect to the efficiency, reliability and comparability of credit reporting delivered through credit bureaus and registries could help bring down financial transaction costs (case study provided on page 12) including accessing borrowers creditworthiness. In 2004, fewer than half of the economies across Africa had credit registries; by 2012 this had increased to 70 per cent[22]. Mobile telephone technology is providing new and emerging ways to assess loan eligibility including through the use of mobile phone records and other digital data (branchless banking transactions such as bill payments) to produce credit decisions. While these developments are still being piloted and tested, innovation in design also needs to focus on how best to screen rural populations, who have less digital data to mine[23].

In addition, beyond fixed assets such as land and buildings, allowing borrowers to broaden the forms of collateral they can leverage provides greater access to credit. A less onerous and more simplified approach includes movable property as collateral such as: mortgages, leases, machinery and equipment as well as warehouse receipts against future harvests. The latter transforms stored commodities into collateral which can also

[21] Beck, Thorsten and Cull Robert (October 2013), 'Banking in Africa', in *World Bank Policy Research Working Paper No. 6684*, World Bank Research Group, Finance and Private Sector Development Team. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2348417 last accessed 2 November 2015
[22] Ibid
[23] Meyer, Richard L., (March 2015), 'Financing agriculture and rural areas in sub-Saharan Africa; Progress, challenges and the way forward' in *International Institute for Environment and Development (IIED) et al. Working Paper.* Available at www.frankfurt-school.de/dms/ias/ALES/financing-agriculture.pdf last accessed on 7 December 2015

provide a safe place to stock harvests, reducing price variations across seasons and circumventing the need to sell commodities promptly post-harvest. As well as ensuring the accuracy of data about warehoused stock there is the challenge of convincing farmers eager to sell swiftly.

Attempts to improve creditworthiness data can help improve access to affordable and commercially viable credit markets. The importance of such flexibility (for collateral and guarantees against credit) has been recognised through the 2010 amendments to legislation relating to collateral and guarantees for secured transactions. This revision took place across the 17 member state signatories (in West and Central Africa) to the Organisation for the Harmonization of Commercial Law in Africa (OHADA)[24].

ESTABLISHING CREDIT BUREAUS

Efforts have been made to secure affordable business finance for consumers and small enterprises. This can be achieved by removing the risk of uncertainty generated by unreliable credit information, typically associated with micro-enterprise and people on low incomes. To help increase the number of credit bureaus and improve the accuracy of the data they provide, the International Finance Corporation (IFC) - part of the World Bank Group - and the Swiss State Secretariat for Economic Affairs (SECO) - have collaborated to provide advisory services to central banks, national bankers associations and private sector organisations. This support has been extended from an initial phase of six countries to 15 by 2014. The programme has helped to deliver credit information sharing systems such as private credit bureaus, public credit registries and mixed credit reporting systems. In addition, government agencies have been supported to develop appropriate legal and regulatory structures. The credit bureau programme also supports public and private sector education campaigns which highlight the advantages of responsibly sharing credit information.

Examples of the programme impact include: workshops on credit reporting to support the Bank of Ghana to develop its private credit bureau markets; the Tanzania Bankers' Association was also helped to establish a private credit reporting framework; and the National Bank of Ethiopia has been supported to modernise its existing credit information system. As with all credit information systems however, care must be taken to ensure the information shared is kept securely and that data is checked for accuracy. In addition, providing advice on how to avoid over-indebtedness is important for strengthening financial stability.

For more information see International Finance Corporation (IFC) credit bureau program. Available at http://bit.ly/20o5O5I

STRENGTHENING FINANCIAL INTEGRATION

Integrating local financial markets in a discerning and targeted manner can help develop the innovation needed to expand regional financial service provision. This could enable underserved local producers to invest and build local supplier chains which promote regional economic diversification and employment growth[25]. For deeper and wider financial inclusion to help drive employment-led growth across Africa, financial integration can provide economies of scale. This reduces costs and increases competitiveness in the financial sector and wider economy. Financial integration facilitates cross-border trade as well as economic activity in productive sectors across the real economy, all of which has the potential to generate employment. Greater financial integration also provides access and free movement (capital and labour) creating larger and more interconnected markets. It offers more financial access, a wider pool of investors and greater investment opportunities with the potential to increase economic growth through employment. As well as sharing reliable credit information, integrating financial sectors across the continent requires additional financial infrastructure such as common payment and settlement systems, integrated trade and supply chain finance as well as cross-border

[24] Brooks, Karen et al., (June 2013), 'Agriculture as a Sector of Opportunity for Young People in Africa', The World Bank Sustainable Development Network, Agriculture and Environmental Services Department in *Policy Research Working Paper 6473.* Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/03/000158349_20130603105035/Rendered/PDF/WPS6473.pdf last accessed 2 November 2015

[25] Beck, Thorsten et al., (2014), *Making Cross-Border Banking Work for Africa*, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/20248/892020WP0Makin00Box385274B00PUBLIC0.pdf?sequence=1 last accessed 2 November 2015

financial regulation and supervision. There are however huge challenges associated with such co-ordination including finding consensus regarding how best to prioritise and sequence policies for building financial infrastructure and deepening integration across African economies. This is particularly the case, given the diversity of technical skills and expertise available in both public and private African financial institutions to facilitate integration across respective countries[26].

EXPANDING FINANCIAL INCLUSION TO SUPPORT EMPLOYMENT GROWTH

There are some encouraging examples of financial integration as demonstrated by recent cross-border banking experiences on the continent. The Uganda Commercial Bank (UCB), once the largest state-owned bank in the country, was privatised and sold to South Africa's Stanbic. Following this, an agreement was honoured to maintain existing branches (post acquisition) and in fact, new branches were opened. Stanbic introduced new financial products increasing service provision to unbanked population groups as well as expanded lending to the agricultural sector, an important source for job creation[27]. Additional examples where cross-border banking has developed new products and innovative ways to deliver financial services to a much wider client base, with the potential to support employment generation include Kenya and Gambia. In Kenya, Equity Bank has focused on the retail market via agents promoting financial services using mobile telephones (illustrated in the case study provided on page 14). The number of banking agents grew from 1,000 in 2011 to over 6,000 by the end of 2012. This represented over 30 per cent of Equity Bank's total transactions[28]. In Gambia, Ecobank provides a deposit collection service called 'condaneh' (open box) where traders and micro enterprises are able to securely store their takings, which are collected by a bank employee at the end of each trading day. This practice has helped promote micro savings[29].

RISKS ASSOCIATED WITH FINANCIAL INTEGRATION

While financial integration accrues benefits, there are risks associated with cross-border banking. Financial markets could be dominated by a limited number of providers without actually increasing competition. This could have negative effects on the potential to generate employment. Integration could lead to a failure to expand financial access to a wide range of customers, particularly small informal enterprise and low income populations. This significant and diverse unbanked group often requires relationship banking through building client links and developing specific local market knowledge, as opposed to the often expensive formal financial reporting requirements. There is also a risk that cross-border banks can transmit shocks and become sources of contagion during times of financial crises. This was the case across developed financial markets outside Africa during the 2008 banking crisis. In such circumstances, host economies and customers could be left financially vulnerable with little protection should financial institutions default. Cross-border banking can also be costly with respect to high fixed set-up costs associated with opening a stand-alone branch. This has been the principal model of integration adopted by pan-African banks. Average overhead costs across the African financial system stood at 5.5 per cent of total assets compared to 3.4 per cent

[26] Astrakhan, Irina, (2014), *Promoting Financial Integration in Africa; Lessons from supporting deeper and more efficient financial sectors in East and Southern Africa*, The World Bank and International Finance Corporation (IFC). Available at https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/Economie_et_Statistiques/La_recherche/Irina_Astrakhan.pdf last accessed 2 November 2015

[27] Clarke, George R.G et al., (November 2007), 'Bank Privatization in Sub-Saharan Africa: The Case of Uganda Commercial Bank' The World Bank Development Research Group, Finance and Private Sector Team in *Policy Research Working Paper 4407*. Available at http://bit.ly/1WIl26f last accessed 2 November 2015

[28] Beck, Thorsten and Robert Cull, (October 2013), 'Banking in Africa', in *World Bank Policy Research Working Paper No. 6684*, World Bank Research Group, Finance and Private Sector Development Team. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2348417 last accessed 2 November 2015

[29] Beck, Thorsten et al., (2014), *Making Cross-Border Banking Work for Africa*, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/20248/892020WP0Makin00Box385274B00PUBLIC0.pdf?sequence=1 last accessed 2 November 2015

FINANCIAL INCLUSION, EMPLOYMENT AND THE AGENT BANKING MODEL

Almost a decade after it was established, Equity Bank undertook a strategic shift which led to its transformation and refocus from mortgage finance to small balance deposits targeted at a much wider population. By the end of 2013 it boasted 7.4 million accounts which represent 57 per cent of all bank accounts in Kenya. In 2007, with varying degrees of success, Equity Bank drove its regional expansion to acquire a microfinance institution in Uganda (2008) as well as launching subsidiaries in South Sudan (2009), in Rwanda (2011) and in Tanzania (2012). Equity Bank has driven financial inclusion in the region by providing unbanked and underserved populations with affordable access to savings products. There has however, been less success in providing credit facilities to this demographic. Financing to SMEs has helped facilitate cross-border trade which benefits employment creation. Yet, there are issues associated with lending fraud, borrowers being predominantly salaried formal sector employees and often being more affluent. In 2012 the IFC provided a one million US dollars loan to promote lending to MSMEs, agricultural projects and women entrepreneurs across all five countries of operation.

Equity Bank's relative success has been based on a number of factors, including enthusiastically opening zero-balance accounts as a way to introduce banking services to an unserved and underserved population. There are however challenges which need to be addressed regarding the number of inactive accounts. Initially focusing on small clients including consumers, retailers and small businesses, this strategy has helped to build a large and growing base of low–cost deposits. This was achieved through providing accessible and affordable services, which have proved profitable. Critical to Equity Bank's expansion has been its labour intensive agent banking model where agent networks represent a platform for clients to access payments and other financial services through relationship banking directly with an Equity Bank agent. This has also been complemented by technical innovation; agents have their own agent bank accounts allowing them to perform cash transactions (client deposits and withdrawals) on behalf of the bank. These transactions are facilitated with a GSM-enabled point of sale (POS) device or a mobile telephone, allowing the agents to connect directly to Equity Bank's server.

While agent banking has pioneered important ways to reach unbanked populations, there are a number of challenges which could help address the drive to increase direct employment. Equity Bank requires more staff to manage its expanding agent network. This is particularly the case given requirements for comprehensive training and on-going support to agents where staff turnover can be high. Agent recruitment across the network needs to be clustered so agents cover a realistic and feasible geographical spread. This ensures improved supervision and communication for agents to specific bank branches. Agent recruitment can be focused on the location where agent banking has the greatest opportunities to be taken up by new clients. Furthermore, there are employment opportunities for young people who demonstrate the potential to develop customer service skills essential for agent banking as well as technical skills to employ technological tools. This includes tackling the issues of internet connectivity and the need to switch across multiple mobile network operators via SIM cards.

For more information see Ann Duval (2014), *Increasing Financial Inclusion in East Africa: Equity Bank's Agent-Driven Model*, United Nations Capital Development Fund (UNCDF). Available at http://bit.ly/1Mtff9B

outside Africa[30]. More significantly, in spite of the progress that has been made, banks continue to fail to meet the swelling demand to provide financial services to a number of employment growth sectors including MSMEs, agriculture and infrastructure[31]. In spite of the expansion of pan-African banks, the African financial sector remains dominated by relatively small (and mainly foreign) financial institutions. Across the sector lending is concentrated on large firms or holding government securities (eg. bonds) offering very high interest rates. This crowds-out incentives to provide credit and financial services to MSMEs, agriculture and other productive sectors across the economy[32].

Greater effort is needed to deepen financial systems and foster greater financial integration through new distribution channels. Such an approach can provide new client focused products and a greater number of appropriately regulated non-bank financial providers such as; payment service providers, mobile network operators (MNOs), digital

[30] Beck, Thorsten and Robert Cull, (October 2013), 'Banking in Africa', in *World Bank Policy Research Working Paper No. 6684*, World Bank Research Group, Finance and Private Sector Development Team. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2348417 last accessed 2 November 2015

[31] Beck, Thorsten et al., (2014), *Making Cross-Border Banking Work for Africa*, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. Available at https://openknowledge.worldbank.org/bitstream/handle/10986/20248/892020WP0Makin00Box385274B00PUBLIC0.pdf?sequence=1 last accessed 2 November 2015

[32] Osikena, Josephine et al., (2014), *Employment, enterprise and skills; Building business infrastructure for African development*, Foreign Policy Centre (FPC). Available at http://fpc.org.uk/fsblob/1663.pdf last accessed on 2 November 2015

finance service providers, insurance providers and community-based financial organisations. For example, Kopo Kopo is a web-based mobile payment platform which was piloted in Sierra Leone and Kenya in 2011 and subsequently launched in Kenya the following year. Kopo Kopo enables MSMEs to accept mobile money payments from multiple digital financial service providers. The software service platform is provided on a pay-as–you-go basis and enables merchants to integrate payments without expensive charges or having to undertake the tiresome and complex exercise of manually reconciling payments from different providers[33]. In addition, this emerging sector also presents challenges with respect to trust and reliability of service provision. Firstly, in the case of fraud, where the privacy and protection of clients' data may become compromised and vulnerable to misuse, adequate measures need to be established to determine who has access to client data and how best it can be protected. Secondly, there are also concerns about the risks presented by technology, such as the need to connect and exchange information across multiple provider systems (which are not connected or interoperable) and the frustration of network outages. Finally, there are issues relating to regulatory risk, where regulation is unclear, inconsistent or frequently changes. In spite of all this, these pioneering ways to support financial service provision and integration requires effective policy strategies and robustly responsive regulation with clear targets and measurable indicators to monitor its impact on employment creation[34].

FINANCIAL SECTOR DEVELOPMENT; SEEKING TO SERVE NOT DISPLACE EMPLOYMENT CREATION

There are many financial integration lessons to be learnt from the 2008 banking crisis which led to a global economic slow down and adversely affected global employment. Many African financial sectors managed to avoid the contagion from the crisis as their financial sectors were not globally integrated. Firstly, financial sector development across Africa need not displace the real economy by shifting significant shares of economic growth generated from employment to economic growth created by finance (without jobs creation) through debt-led consumption. Secondly, financial sector development should not create structural market distortions which fail to create new wealth but instead exploit imbalances in financial markets to harvest excess profits from productive employment generating sectors of the real economy. Such imbalances stifle the very kind of structural transformation Africa needs to accelerate employment growth. Thirdly, for financial sector development to establish financial stability and ensure inclusive growth it need not produce impressive growth rates and rising inequality compounded by low pay, insufficient investment in skills development and an inability to target decent job creation (or indeed fail to promote a fairer tax system). Finally, financial sector development needs to advance in ways that ensure financial institutions are not oversized, but diverse, agile, responsive, adequately regulated to service the productive economy and avoid corrosive financial speculation or damaging cross-border capital flows. All of this can severely constrain attempts to deepen and widen the continent's jobs creation landscape[35]. Policymakers supervising financial sector development might link its progress to the impact on employment creation. Such an approach can help ensure economic development and inclusive growth is driven by employment expansion, supported by developing a responsible financial sector.

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[33] Kaffenberger, Michelle and Ben Lyon, (January 2015), 'Responsible Digital Finance for Kenyan Merchants: Five Priorities', CGAP Blog post. Available at http://www.cgap.org/blog/responsible-digital-finance-kenyan-merchants-five-priorities last accessed on 2 November 2015

[34] Lonie, Susie and Lesley Denyes, (October 2015), DFS Risk: 'When it works it's great; when it's bad, it's awful', CGAP Blog post. Available at http://www.cgap.org/blog/dfs-risk-%E2%80%9Cwhen-it-works-it%E2%80%99s-great-when-it%E2%80%99s-bad-it%E2%80%99s-awful last accessed 2 November 2015

[35] New Economic Foundation (NEF) and Friedrich Ebert Stiftung, (2014), *Inequality and Financialisation: A dangerous mix.* Available at http://www.feslondon.org.uk/cms/files/fes/pdf/Inequality_financialisation%20FINAL.pdf last accessed 2 November 2015

FINANCIAL EDUCATION AND EMPLOYABILITY: A FOCUS ON YOUNG PEOPLE AND WOMEN

AFRICA'S YOUTH BULGE

Progress in financial sector development through expanding financial infrastructure and deepening financial integration both support financial inclusion. However, far from playing an independent role in enabling and accelerating job creation, financial access is also determined by a host of other factors including education, skills development and employment training. All this needs to be addressed through education curricula during the early years of schooling to embed the tools needed to secure and maintain employment, establish successful enterprise (where relevant) with a propensity to grow and more significantly pursue economic independence. In light of this fact, financial capability – which provides the knowledge needed to make financial decisions and access appropriate financial products as well as services - plays an important role in supporting employability. Such capacity could range from the confidence to manage money and deal with financial transactions to financial budgeting and planning as well as the ability to build assets. This is particularly the case for women and young people, a demographic which is disproportionately financially excluded[36]. For example, people aged between 15-24 years old are more likely to experience low rates of bank account penetration. In 2014, this was approximately 25 per cent in the region[37]. Yet, it is estimated that in 2013 USD 2.2 billion is held by young people in savings across the continent. Almost 50 per cent of young savers live on less than two US dollars a day with limited access to savings instruments[38]. Banking on Change; a partnership between Barclays and two development charities - Care International and Plan UK - has aimed to address this by supporting the development of community savings groups in economies such as Ghana, Kenya, Mozambique, Tanzania, Uganda and Zambia (among others). Members of the group collectively develop skills to lend and save as well as exchange financial and enterprise advice and training[39]. This approach represents a sustainable way to provide respected savings services, particularly to women. Savers meet regularly to deposit savings, provide funds to lend to group members and distribute accumulated interest. Members develop trust and governance skills and the costs associated with organising such self-help groups promoting discipline and community mobilisation are minimal. In the longer term there are also opportunities to build links with more formal financial service providers[40].

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[36] MasterCard Foundation and the Boston Consulting Group, (2015), *Financial Services for Young People Prospects and Challenges*. Available at http://www.youtheconomicopportunities.org/sites/default/files/uploads/resource/MCF10024_YFSPaper_Final.pdf last accessed 2 November 2015

[37] Villasenor, John D, (2015), *The 2015 Brookings Financial and Digital Inclusion Project Report: Measuring Progress on Financial Access and Usage*. Available at http://www.brookings.edu/~/media/research/files/reports/2015/08/financial-digital-inclusion-2015-villasenor-west-lewis/fdip2015.pdf last accessed 2 November 2015

[38] Ibid

[39] Barclays et al., (2013), *Banking on Change: Breaking the Barrier to Financial Inclusion*. Available at https://www.home.barclays/content/dam/barclayspublic/docs/Citizenship/banking-on-change.pdf last accessed 2 December 2015

[40] Meyer, Richard L., (March 2015), 'Financing agriculture and rural areas in sub-Saharan Africa; Progress, challenges and the way forward' in *International Institute for Environment and Development (IIED) et al. Working Paper.* Available at www.frankfurt-school.de/dms/ias/ALES/financing-agriculture.pdf last accessed on 7 December 2015

Beyond savings requirements, as young people prepare to transition into work, assistance to develop financial skills including managing income, meeting credit and payment requirements for purchases, investment and production as well as insurance all become increasingly important. Again, this support needs to be initiated during the early years of schooling. Like many hard to reach groups, there are challenges in providing financial services to young people of modest economic means using a conventional banking approach. There are however, huge commercial opportunities from employing innovation in financial service provision, including mobile technology, agent banking and more customised products and services. This can help to target this young and significant market share - which exceeds one billion US dollars and is rising. The rise in this demographic means it is steadily becoming a key priority market, including in rural areas. By 2050, Africa will represent the only global region with a growing rural population, increasing by approximately 150 million people. In addition, between 2015 and 2055 the number of young people (15 to 24 year olds) across Africa South of the Sahara will increase from 226 million to exceed 452 million,[41] this means Africa will become the largest and youngest global workforce.

With the appropriate education, skills and training this demographic could transform from dependency to providing a structurally transformative dividend. Young people could drive the dynamism needed to respond to new economic trends and opportunities in high growth economic sectors with the potential to generate employment. The Youth Enterprise Development Fund in Kenya attempts to address the financial inclusion challenges faced by young people alongside supporting skills training and development to promote employment expansion (case study provided).

Youth Enterprise Development Fund, Kenya

Established in 2006 by the Government of Kenya, the Youth Enterprise Development Fund (YEDF) seeks to reduce unemployment for those aged 18-35 by supporting enterprise development. The fund provides a host of services to assist young people in setting up their own businesses including: mentorship programmes, building online platforms for young entrepreneurs to exchange ideas, building links with learning institutions to provide training courses, business development services, offering credit finance, providing commercial infrastructure such as IT support, office space, marketing and communication support, developing links between young entrepreneurs and potential investors, organising trade fairs and building links with large enterprise. In addition, in 2013, the Kenyan Government launched its Youth Access to Government Procurement Opportunities (YAGPO). This initiative stipulates that 30 per cent of all government procurement contracts must be tendered to enterprises owned by young people, women and disabled people.

For more information see Youth Enterprise Development Fund, Kenya. Available at http://www.youthfund.go.ke/about/

The YEDF provides a gateway for young people to build their business capacity through government procurement contracts. The YEDF has however attracted some criticism with respect to improving its impact on youth employment. Primarily, it is insufficiently funded. It requires a much stronger focus on young people in the informal private sector to support job growth. The fund also needs to ensure entrepreneurship skills and employment training provides on-going support both before and after loans are disbursed. Furthermore, a significant proportion of credit needs to concentrate on enterprise expansion opposed to merely funding start-ups. More significantly, some of the learning and support provided through this initiative can be linked to education curricula, helping young children adequately prepare for the transition to work.

For more information see Maisiba, Fredrick Momanyi and George, Dr. Gongera Enock (2013), 'The Role of Youth Enterprise Development Fund (YEDF) in *Job Creation: A Case of Dagoretti Constituency, Nairobi County, Kenya*. Research Journal of Finance and Accounting Vol.4, No.12.

AGRICULTURE; AN EMPLOYMENT SECTOR WITH GROWING POTENTIAL

Unlocking the productivity potential of African agriculture to increase technical innovation, profitability and competitiveness is central to dynamic rural development and

[41] United Nations Department for Economic and Social Affairs, (May 2015), 'Youth Populations Trends and Sustainable Development' in *Populations Facts Population Division No.2015/1*. Available at http://www.un.org/en/development/desa/population/publications/pdf/popfacts/PopFacts_2015-1.pdf last accessed 2 November 2015

expanding enterprise across the sector. Agriculture represents an important strategic sector for employment creation by local producers and can support improvements in rural incomes which benefit growth, food production, food quality, traceability, security, affordability and environmental sustainability. Yet, African food production is failing to keep up with the rising global demand[42]. In 2012, Africa South of the Sahara's total food imports approached USD 37.7 billion and is projected to increase to one trillion US dollars by 2030. The price of staple foods across Africa is often considerably higher than prices in some regions across Asia. Many African consumers are forced to spend as much as 40-50 per cent of their household budget on staple food products. High food prices stifle investment in employment-creating industries across manufacturing, wider industry, services and other non-farming sectors, by depressing wages.

DRIVING ECONOMIC CHANGE

By 2050, the region's population is set to reach 1.7 billion, equating to approximately 50 per cent of the increase in world population growth. This trend provides unprecedented opportunities for well integrated, functioning and competitive regional as well as export food markets given the increased pressure on global food supplies and prices. As Africa's rural population increases over the coming decades, this will result in expansions in the size of small cities, towns and villages. Thus, the ability for the region to meet its own exploding demand for diverse crops as well as livestock and to produce wholesome and nutritious food is only set to increase. This presents challenges for improving agricultural yields, coupled with opportunities to provide a vast array of more formal farming and non-farming jobs in areas ranging from input distribution and the adoption of new and improved crop varieties, research and development, storage and warehousing, transport, food processing, rural manufacturing, marketing, trade as well as retail and export opportunities. The ability of agricultural employment and enterprise to reach its jobs growth potential is constrained by a number of factors, including access to land as well as skills development and technical training. However, access to and the distribution of finance also represents a significant obstacle to growth across the sector, particularly in employment[43].

WOMEN, FINANCIAL INCLUSION AND EMPLOYMENT IN THE RURAL ECONOMY

Globally, 65 per cent of men compared to 58 per cent of women have access to an account in a formal financial institution or through a mobile network provider. In the case of Africa South of the Sahara this increased from under 25 per cent of men in 2011 to just under 40 per cent of men in 2014. For women, account penetration stood at just above 20 per cent in 2011, rising to approximately 30 per cent in 2014[44]. Women represent an average of 50 per cent of those working in agriculture yet a mere one per cent of the limited credit available to agriculture goes to female farmers. In addition, it is estimated that if women agriculturalists had the same level of access to productive resources as men, they could increase their farming yields by 20-30 per cent. Worldwide, this could lift 100-150 million people out of hunger and contribute to an overall increase in sector output of between two and four per cent. Supporting women to improve their farming productivity requires addressing a number of issues, including improved rights and access to land; targeted training programmes; provision of support for the time-consuming burden of household and caring chores; improving access to high quality

[42] Brooks, Karen et al., (June 2013), 'Agriculture as a Sector of Opportunity for Young People in Africa', The World Bank Sustainable Development Network, Agriculture and Environmental Services Department, in *Policy Research Working Paper 6473.* Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/03/000158349_20130603105035/Rendered/PDF/WPS6473.pdf last accessed 2 November 2015

[43] Agriculture for Impact, (June 2014), *Small and Growing Entrepreneurship in Agriculture, A Montpellier Panel Report*. Available at http://ag4impact.org/wp-content/uploads/2014/07/MP_Report_2014.pdf last accessed 2 November 2015

[44] Villasenor, John D, (2015) *The 2015 Brookings Financial and Digital Inclusion Project Report: Measuring Progress on Financial Access and Usage.* Available at http://www.brookings.edu/~/media/research/files/reports/2015/08/financial-digital-inclusion-2015-villasenor-west-lewis/fdip2015.pdf last accessed 2 November 2015

seeds and fertilisers; tackling the barriers to accessing financial services, enabling women to more easily hire farming labour; as well as supporting women to secure better market access for their goods[45].

YOUNG PEOPLE IN AGRICULTURE

In spite of the exodus of young people leaving rural settlements across Africa for economic opportunities in more urban areas, earnings from urban employment sectors such as extractive industries, construction and services have ushered in high rates of economic growth without significant increases in employment. Yet for several decades to come, agriculture will remain an important employment sector for many young people. World Bank data suggests that on average 90 per cent of young African people in rural areas are employed in the informal private sector by their families or self-employed across agriculture and in household enterprise. For young women, their prevalence in this sector is higher (87 per cent) compared to young men (79 per cent). Farming employment represents 64 per cent of the salaried rural jobs undertaken by young people in the formal private sector. Overall, 76 per cent of rural young people are employed in agriculture. Given the expected demographic transformation across the decades ahead, young people in rural areas will have growing employment and enterprise opportunities through an expanding agribusiness value chain. Yet, agriculture does very little to appeal to potential young talent due to it being seen as unprofitable and outdated, characterised by low mechanisation and high machinery costs. This results in widespread use of rudimentary tools, as well as harsh and unappealing working conditions particularly for women. Agriculture is also fraught with high operational costs including limited transport and infrastructure. Its lack of dynamism is characterised by low levels of technological innovation and there are inadequate systems to share advice and provide mentoring support. Added to all this, are the acute challenges associated with land ownership which disproportionately effects women.[46]

AGRICULTURE AND TRANSFORMING EMPLOYMENT PROSPECTS FOR YOUNG PEOPLE

The immense challenge in developing agriculture and the rural economy across Africa hinders the potential for smallholders to access investment finance to grow their enterprise and create employment. Access to capital is urgently needed to unlock and increase the commercial viability of the sector's production and employment potential. The challenges faced by smallholders, and in particular young smallholders, are compounded by their lack of creditworthiness including inadequate levels of fixed collateral (such as land, machinery and technology). Smallholders continue to be considered a high credit risk and as such are often regarded as too costly for financial institutions to serve. There are increasing efforts to explore innovative ways to address this rural financing gap. The critical issue remains, how to ensure the performance and sustainability of innovations in rural financing can be scaled up to better support smallholders and rural entrepreneurs to make agriculture more productive, profitable and increase employment opportunities across the sector? More specifically, how can pioneering ways to access and distribute financial services be improved to better serve and attract young people to employment across the rural economy[47]? The African Youth Agripreneurship Program (AYAP) aims to address this challenge. AYAP has been launched

[45] Osikena, Josephine et al. (2014), *Employment, enterprise and skills; Building business infrastructure for African development*, Foreign Policy Centre (FPC). Available at http://fpc.org.uk/fsblob/1663.pdf last accessed on 2 November 2015
[46] Brooks, Karen et al. (June 2013), 'Agriculture as a Sector of Opportunity for Young People in Africa', The World Bank Sustainable Development Network, Agriculture and Environmental Services Department, in *Policy Research Working Paper 6473.* Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/03/000158349_20130603105035/Rendered/PDF/WPS6473.pdf last accessed 2 November 2015
[47] Ibid

through a partnership established between Barclays Africa and TechnoServe (an international not-for-profit organisation working across the developing world to build farming enterprises and industries to promote economic development). The programme provides support to young people seeking to set-up and grow profitable agricultural enterprises *('business start ups')* which aim to create sustainable employment across the agricultural value chain; from production, to processing and distribution. In addition, the programme also targets existing farming entrepreneurs with high growth potential ('*business accelerators*'). Piloted in Ghana, Kenya, Mozambique and South Africa, AYAP provides support to young people (aged between 18 and 35 years old) across the wider rural economy. Support provided to emerging 'agripreneurs' includes developing young people's business and technical skills through training and advisory services, mentorships as well as business management coaching, financial service advice and assistance to build links to help improve market access. In addition, support, training and development programmes are delivered through a range of channels including workshops and boot camps[48].

FINANCIAL ACCESS TO IMRPOVE PROFITABILITY IN THE RURAL ECONOMY

Rural community banking provides services such as lending, savings, deposit collections and insurance. Such financial organisations can operate on a membership basis where decisions can be made collectively or through an agent banking model. These structures have the potential to support young people to embark on careers in the rural economy. Such approaches can address their inability to access capital as well as mentoring and access to technology and develop innovation to improve productivity. Additional ways for young people to improve their financial access might also include financial leasing of agricultural equipment and machinery through credit agreements. This requires little or no collateral, yet very few businesses exist to provide this service. In view of the fact that officially recorded diaspora remittances to Africa South of the Sahara are forecast to rise from USD 33 billion by the end of 2015 to 36 billion by 2017 (total projected remittance volumes would be considerably higher if unrecorded flows were included), could this significant source of finance be directed to support finance leasing of agricultural equipment and machinery[49]? In addition, supporting young people to access the finance and information needed to support agricultural enterprise could be combined with the provision of agricultural extension services. Might partnerships between private enterprise and government agencies do more to support the development of such businesses? This approach could deliver rural extension services as well as provide greater access to information, advice and mentoring. Such provision of cost-saving and risk-reducing investment helps deliver greater harvests and improve crop diversification as well as livestock management. In addition, public sector grant schemes accompanied by relevant conditions upon which such awards are issued can help improve youth employment and enhance employability skills among young people. Risk-sharing arrangements - such as finding alternative sources of finance to match grant funding - have the potential to build productive links with the private sector, support infrastructure development and improve the use of as well as access to technical innovation. Furthermore, conditions associated with grant funding awards can facilitate monitoring project outcomes. This can be achieved through effective accounting and auditing in order to pay particular attention to transparency, ensuring young people are targeted and supported in the grant scheme.

There are also contracting arrangements that can offer pre-financing for agricultural inputs as well as provide management services, technical support and more significantly,

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[48] TechnoServe (October 2015) 'Q&A: The Role of Agribusiness in Youth Unemployment available at http://www.technoserve.org/blog/qa-the-role-of-agribusiness-in-youth-unemployment#sthash.qScX6KVi.dpuf last accessed 18 December 2015

[49] World Bank, (April 2015), 'Migration and Remittances: Recent Developments and Outlooks ', in *Financing for Development, Migration and Development Brief 2.* Available at, http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief24.pdf last accessed 2 November 2015

guaranteed channels to market. Therefore, using the value chain to finance agricultural enterprise provides an assurance of income flows. This means that suppliers can be paid once the agricultural products are delivered to purchasers. This approach has been developed in Mozambique, Tanzania, Rwanda and Zambia where Rabo Development (part of the Dutch Rabobank Group) worked with commercial farmers and farming cooperatives. New ways of providing micro-insurance (such as through the purchase of airtime top-ups) with simple products featuring low premiums, flexible payments and speedy claims processing can also work to mitigate risks from adverse climatic conditions (eg. droughts), pests as well as diseases affecting crops and livestock (indexed insurance). It is important to note however that in providing micro-insurance products a number of issues need to be addressed. Principally, it needs to be clearly communicated that insurance pay-outs may not match incurred losses. Furthermore, in order to trust and take up insurance products, clients need to understand how they work. Beyond cost concerns, product design needs to understand users' experience. For example, offering deferred or instalment payment options, providing local and convenient insurance enrolment as well as potentially complementary provision of insurance products alongside other financial services should be considered[50].

Other financial access options include the expansion of loan guarantee schemes to incentivise cautious financial institutions to better serve the agricultural sector through the provision of partial credit guarantees. Again, risk-sharing delivers more affordable loan rates and less demanding credit terms. Such a scheme also cushions the lender from any potential losses through defaults[51]. However, local lenders might be better informed and have a valuable understanding of local conditions, therefore are better able to assess credit risks under such schemes. The Alliance for Green Revolution in Africa (AGRA) set up the Innovative Financing Initiative providing this service in Kenya, Tanzania and Mozambique[52].

MASTERCARD FOUNDATION FUND FOR RURAL PROSPERITY

In early 2015, the MasterCard Foundation launched a USD 50 million Fund for Rural Prosperity (FRP). The aim of the fund is to improve access to and the distribution of appropriate financial products to at least one million rural inhabitants across Africa. The fund seeks to increase rural incomes through the provision of agricultural input loans which can help expand crop yields and increase labour productivity. The fund also aspires to improve resilience and reduce the vulnerability of rural communities through the provision of savings and insurance services. More fundamentally, the prosperity fund plans to support rural communities by creating employment and stimulating the development of robust, integrated and commercially sustainable rural financial markets.

The fund recognises that the private sector is uniquely placed to develop the innovation and generate the scale needed to drive appropriate agricultural finance for small-scale producers. It aims to encourage financial service providers ranging from banks to insurance companies and agribusinesses as well as incentivise new forms of financial service providers. It is hoped this will develop business opportunities to offer financial services and products which improve financial access to unserved and underserved rural communities. The fund expects that these emerging services and products will provide a better understanding of the needs of rural clients and support greater adoption and use responding to the jobs growth challenge.

For more information see The MasterCard Foundation Fund for Rural Prosperity. Available at http://www.frp.org/

Ensuring financial access schemes can build financial capability to support employment creation (particularly for young people and women) through developing indicators and setting targets may also help assess the

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[50] Matul, Michal, (2013), 'Why do people not buy Mirco-insurance and what can we do about it?', in *Microinsurance Paper No. 20*, Microinsurance Innovation Facility, International Labour Organisation (ILO). Available at http://www.ilo.org/public/english/employment/mifacility/download/mpaper20_buy.pdf last accessed 2 November 2015
[51] Dabla-Norris, Era et al., (2015), 'Identifying Constraints to Financial Inclusion and Their Impact on GDP and Inequality: A Structural Framework for Policy', in *IMF Working Paper WP/15/22*. Available at https://www.imf.org/external/pubs/ft/wp/2015/wp1522.pdf last accessed 2 November 2015
[52] Brooks, Karen et al. (June 2013), 'Agriculture as a Sector of Opportunity for Young People in Africa', The World Bank Sustainable Development Network, Agriculture and Environmental Services Department, in *Policy Research Working Paper 6473.* Available at www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/03/000158349_20130603105035/Rendered/PDF/WPS6473.pdf last accessed 2 November 2015

impact of financial sector development. The MasterCard Foundation has tried to develop a fresh approach to supporting economic development in rural Africa through promoting financial inclusion to expand employment (case study provided on page 21).

CONCLUSION

FINANCIAL INCLUSION; ENABLING AND ACCELERATING EMPLOYMENT GROWTH?

Financial inclusion, by its very nature might well be increasingly considered a public good. Firstly, because expanding financial access neither diminishes its availability nor indeed the benefits that financial inclusion accrues. Secondly, to exclude generations or population groups has proven costly and extremely inefficient, particularly with respect to the transformation needed to secure productive and well-integrated economies across Africa. The G20, the World Bank and the United Nations (through the recently adopted SDGs) all recognise financial access as a significant global priority. Nonetheless, financial inclusion in and of itself is insufficient. It is by no means a magic bullet to respond to the employment dilemma confronted by many economies across Africa.

This report has explored how improving the availability, cost and design of financial services and products can help improve competitiveness and integrate economic sectors which have the greatest potential to drive employment growth across Africa. This is particularly important for the development of self-employment and supporting MSMEs to grow and eventually transition out of the informal sector. The report has also outlined how improving financial integration can support job creation by building better financial infrastructure (credit bureaus and payment systems) and supporting cross-border banking, particularly by African financial institutions. This helps reduce the cost of financial transactions and supports investment in employment creating sectors of the economy.

In addition, the report examined the ways in which supporting and promoting financial education can enhance employability. This is particularly the case for young people and women, in agriculture and in the wider rural economy where a lack of financial access hinders developing relevant technology and innovation to improve productivity and investment enterprise growth. For financial inclusion to enable and accelerate employment creation it is dependent on a host of complementary factors including education, skills development and employment training. Financial capacity provides the knowledge required to make informed financial decisions with respect to managing income, budgeting, meeting credit requirements or indeed mitigating risk through insurance provision.

By 2055 Africa will become the largest and youngest global workforce. This demographic trend will be coupled with a rising global population and growing pressure for African agriculture to meet expanding regional and global food demands. Yet, currently African agriculture is failing to keep up with demand due to its low productivity, high operational costs, the discrimination experienced by female smallholders and the sectors failure to attract young people. Improving financial access can help develop the commercial viability of agriculture and the wider the rural economy for employment growth. Risk-sharing through credit guarantees provided by financial institutions and partially underwritten by public agencies could help jump start the sector. This makes loan rates and terms more affordable and flexible to borrowers, benefitting job creation. Policymakers also need to develop targets and indicators which link improvements in financial access to jobs growth across the productive economy.

In closing, for financial sector development to establish financial stability and ensure inclusive growth, it need not produce impressive growth rates with rising inequality compounded by low pay, insufficient investment in skills development and an inability to target decent job creation (or indeed fail to promote a fairer tax system). Financial sector development needs to advance in ways that ensure financial institutions are regulated to service the productive informal and formal economy to deepen and widen job creation prospects across a young and growing continent.

GLOSSARY

AFFORD	African Foundation for Development
AGRA	The Alliance for Green Revolution in Africa
AYAP	African Youth Agripreneurship Programme
BIS	Bank for International Settlements
CBA	Commercial Bank of Africa
Cenfri	Centre for Financial Regulation and Inclusion
CEPR	Centre for Economic Policy Research
CGAP	Consultative Group to Assist the Poor
DFI	Development finance institution
DFS	Digital financial services
DFID	Department for International Development
EAC	East African Community
ECA	Economic Commission for Africa (United Nations)
EfInA	Enhancing Financial Innovation and Access
FPC	Foreign Policy Centre
FRP	Fund for Rural Prosperity
GDP	Gross domestic product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GSM	Global system for mobile communications
IFC	International Finance Corporation
ILO	International Labour Organisation
IMF	International Monetary Fund
MNOs	Mobile network operators
MSME	micro, small and medium-sized enterprises
NEF	New Economics Foundation
ODI	Overseas Development Institute
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires Organization for the Harmonization of Business Law in Africa
POS	Point of sale
SADC	Southern African Development Community
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SIM	Subscriber identity module
SMEs	Small and medium sized enterprises
Stanbic	Standard Bank Group
SNV	Stichting Nederlandse Vrijwilligers
UBA	United Bank for Africa
UCB	Uganda Commercial Bank
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USD	United States dollar
YAGPO	Youth Access to Government Procurement Opportunities
YEDF	Youth Enterprise Development Fund

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This report - and the associated expert roundtable discussion series which preceded it - has sought to test assumptions about how financial inclusion influences employment and job creation across Africa. Such analysis is timely because of the global fight to tackle poverty and inequality. It is echoed by the fact that providing employment and financial inclusion represents a set of targets associated with one of 17 recently adopted United Nations Sustainable Development Goals (SDGs).

Given the complexity of the employment challenge facing African countries, improving access to financial products, services and education has the potential to support job creation. Characterised by significantly large informal private sectors, the structural nature of economies across the continent requires much greater economic diversity. Well integrated and effectively regulated financial sector development can play an enabling and accelerating role to achieve this. Nonetheless, exclusively focusing on expanding the access and distribution of financial services and products is insufficient for the structural transformation needed to drive economic development and jobs growth across Africa. Appropriate education, skills development and training (including addressing financial literacy) focused on productive economic sectors such as agriculture, food production and rural manufacturing are also critical.

Financial sector development needs to be diverse, agile, responsible and adequately regulated to serve employment creating sectors of the real economy across both the informal and formal sectors. It is essential that the issues of skills, training and development are also addressed. Given that employment creation is an increasing priority for a continent with a rapidly expanding young workforce, perhaps African policymakers might consider linking financial sector development to employment creation objectives and targets across the real economy?

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