Horn of Africa Banking Forum

22 – 26 JULY 2019

Marriott Hotel
Addis Ababa, Ethiopia
Country Financial Sector Profiles are also available on Making Finance Work for Africa portal www.mfw4a.org/country

MFW4A is funded by
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Honourable Ministers,
Central Bank Governors,
Chief Executives,

The African Development Bank (AfDB), the Trade Development Bank (TDB) and the Making Finance Work for Africa Secretariat (MFW4A) are pleased to welcome you to the Horn of Africa Banking Forum.

The forum on theme “Building a Dynamic Banking Sector in the Horn of Africa”, will provide government authorities, policy makers, regulators, senior bank executives and other financial stakeholders a platform to discuss the opportunities and challenges facing the sector as the region becomes increasingly more open.

What are the potential impacts on financial inclusion, capital markets and of emerging trends like digitalization? What are the implications for banks in terms of corporate governance? What are the links between the banking sector and the real sector? The forum will explore these strategic issues through a combination of keynote presentations and panel discussions.

Our aim is to:
• Take stock of the current state of the financial sector development and planned reforms in the Horn of Africa;
• Present our instruments available under the public and the private sector windows to support financial sector interventions;
• Explore most effective ways of supporting the financial sector effectively support the real sector;
• Identify constraints to and priorities for financial sector development in the region, and
• Pave the way for a sustained dialogue with national Governments, financial sector regulators and public and private sector financial institutions in order to scale up and accelerate financial sector development in the region.

Your presence here is testament to the importance of these issues and your commitment to working to build a dynamic banking sector in the Horn of Africa. We thank you for your time and look forward to our discussions.
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<td>8:30 - 9:00</td>
<td>Registration and Coffee</td>
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<td>9:00 - 9:30</td>
<td>Opening Ceremony</td>
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<td></td>
<td>Stefan Nalletamby, Director Financial Sector Development Department, Africa Development Bank</td>
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<td>James Kabuga, Adviser Trade and Development Bank</td>
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<td>Host Country Rep (TBC)</td>
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<tr>
<td>9:30 - 10:15</td>
<td>Keynote Address Driving Economic Transformation through Financial Sector Development</td>
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<td>Prof. Njuguna Ndung’u Executive Director African Economic Research Consortium</td>
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<td>10:15 - 10:45</td>
<td>Coffee Break</td>
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<td>10:45 - 11:15</td>
<td>Landscaping the financial sector in the Horn of Africa</td>
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<td>David Ashiagbor, Coordinator MFW4A Partnership</td>
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<td>11:15 - 12:00</td>
<td>Panel discussion: Landscape of the Financial Sector in the Horn of Africa</td>
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<td>Hon. Ahmed Osman Ali, Governor, Central Bank of Djibouti</td>
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<td>Hon. Dr. Yinager Dessie, Governor, National Bank of Ethiopia</td>
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<td>Hon. Abdirahaman Mohamed Abdullahi, Governor, Central Bank of Somalia, Moderator: Mohamed Kalif, Manager, Financial Intermediation and Inclusion Division, AfDB</td>
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<td>12:00 - 12:45</td>
<td>AfDB Financial Sector Strategy and Operations</td>
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<td>Stefan Nalletamby Director, Financial Sector Development Department, AfDB</td>
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<td>12:45 -14:00</td>
<td>Lunch</td>
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<td>14:00 - 14:45</td>
<td>TDB Strategy and Operations</td>
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<td>James Kabuga, Adviser, Trade and Development Bank</td>
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<td>14:45 - 15:30</td>
<td>The Role of Corporate Governance in Financial Sector Development</td>
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<td>Thierry Mbimi Partner &amp; Head of Financial Services – Francophone Africa</td>
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<td>KPMG</td>
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<td>15:30 -16:00</td>
<td>Day 1 Wrap Up and Close</td>
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<tr>
<td>Time</td>
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<td>8:30 - 9:00</td>
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| 9:00 - 9:45  | Financial Inclusion in the Horn of Africa – Lessons from Experience | Mr. Mahat Mohamed Ahmed  
CEO International Bank of Somalia  
Mr. Ibrahim Rashid Jaffar  
CEO East Africa Bank Djibouti  
Moderator: Mohamed Kalif  
Manager, Financial Intermediation and Inclusion Division, AfDB |
| 9:45 - 10:30 | Trade Finance Session                        | Godfrey Okolobo  
Trade and Development Bank                                                        |
| 10:30 - 11:00| Coffee Break                                 |                                                                                  |
| 11:00 - 12:00| Open Forum                                   | Key Financial Sector Development  
Priorities in the Region  
Key Takeaways  
What are the asks from AfDB and TDB                                               |
| 12:00 - 12:30| Closing session                              | Stefan Nalletamby, Director, Financial Sector Development Department, Africa Development Bank  
James Kabuga, Adviser, Trade and Development Bank                                    |
| 12:30 - 14:00| Lunch                                        |                                                                                  |
|              | Afternoon                                    | One on One Meetings as arranged                                                  |
### BANKERS’ WORKSHOP AGENDA

#### GUIDE TO SESSIONS AND CASE STUDIES

**Wednesday 24th July  DAY 3**

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<td><strong>Introduction</strong></td>
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<td><strong>Overview of Bank Lending</strong></td>
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<td>• How banks operate</td>
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<td>• Banking supervision and stability of banks and of banking systems</td>
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<td>• Retail banking and consumer finance</td>
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<td>• Commercial lending, deposits, loans</td>
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<td>• Foreign exchange and money market</td>
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<td>• Advisory work, investment banking and other non-funds based business</td>
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<td>• Capital structure and the regulatory environment</td>
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<td><strong>Borrowing Needs and Lending Rationales</strong></td>
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<td>• Sales &amp; Service</td>
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<td><strong>Credit and Risk – Non-Financial Risk</strong></td>
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<td>• Risk Funnel</td>
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<td>• Marketing Mix</td>
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<td>• Product Market Life Cycle</td>
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<td>• Asset to Cash Conversion Cycle</td>
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<td>• Porter’s Five Forces</td>
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<td><strong>Afternoon MAJOR CASE STUDY #1</strong></td>
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<td><strong>SME Case Study – Focus on Non-financial Risk</strong></td>
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<tr>
<td><strong>Goose Coffee Shop</strong></td>
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<td>The instructor will role play the customer and invite delegates to form teams in order to role play different bank managers assessing this new SME lending opportunity. This is a genuine case study where the identities have been changed for reasons of confidentiality.</td>
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### Thursday 25th July  DAY 4

#### Morning

**ANALYSING CREDIT**

**Key Learning Points from Session Day 1**

**Corporate Financial Statement Analysis**
- Preparing Financial Information (spreading)
- Interpreting Ratios
- Operating Performance Ratios (Sales, Gross Margin, and Profitability)
- Liquidity, Profitability, Solvency & Efficiency Ratios
- Capital Structure Ratios: Gearing and Leverage
- Trend analysis
- Horizontal Analysis

**Credit and Risk – Financial Analysis**
- Vertical Analysis
- Ratio Analysis
- Solvency
- Profitability
- Liquidity
- Break Even

**Cash Flow Analysis**
- Net Cash Flow from Operations
- Net Cash Flow from Investing Activities
- Net Cash Flow from Financing Activities

**Cash Flow Forecasting**
- Project the amount of bank facilities required to finance planned expenditure.
- Predict when its facilities will be drawn and how and when they will be repaid.
- Confirm how much profit our customer is making from the business financed.
- Modelling facilities to match cash flow forecasting.

#### Afternoon

**MAJOR CASE STUDY #2**

**Business Banking Case Study – Focus on Start Up Break Even and Profitability**

**Falcon Business Park**

The instructor will role play the customer and invite delegates to form teams in order to role play different bank managers assessing this new Business Banking lending opportunity. This is a genuine case study where the identities have been changed for reasons of confidentiality.
### Key Learning Points from Session Day 2

#### Analysis, Judgment and Lending
- Consider implications between amount we are comfortable offering and the amount that has been requested
- MAKE SURE that you are confident about the nature, source and certainty of repayment
- Always review
  - the comparison of customer drawings with profits
  - breakeven sales analysis and
  - profitability

#### Security
- Assignment of Contract Proceeds
- Cash Deposits
- Guarantees
- Life Policies
- Mutual Funds
- Quoted shares
- Real Estate
- Shipments of goods financed by the bank

#### Early Warning Signs
- Overdues and Excesses
- No account activity; hard core borrowing
- Difficulty scheduling visits and contacting customer
- Financial information is poor in quality, late and/or negative
- Repeated requests for one-offs or additional facilities
- Market comment
- Disputes between shareholders

#### Managing Risk – Basel I, Basel II and Basel III
- Credit Risk
- Operational Risk
- Anti-Money Laundering (AML)
- Illicit Financial Flows
- Unexplained Wealth Orders (UWOs)
- Making sure that banks have enough capital to stay in business
### Corporate Governance
- Key players accountable for corporate governance and financial risk management
- Codes of Conduct for directors and other key players
- Over sight function of Non-executive directors
- Credibility of the Board – (authority, duty independence)
- Overview of governance structures
  - The Board of directors
  - Management
  - Risk subcommittees
  - The Board risk committee
  - Investment analyst/ rating agencies
- Reputational risk

Overview other stakeholders in the banking system

### Afternoon

**MAJOR CASE STUDY #3**

**Commercial Banking Case Study – Bringing together Financial Risk & Non-financial Risk**

Peacock Contractors

The instructor will brief delegates on this historically accurate case study and invite delegates, either individually or in teams, to explore the creditworthiness of this client’s borrowing proposals. After the delegates have presented their views and findings, the instructor will also debrief the delegate group on ‘What happened next.’

This is a genuine case study where the identities have been changed for reasons of confidentiality.

**Closing Quiz and Open Forum**
Finance for Development

AfDB’s Financial Sector Development Department (PIFD) focuses on supporting and developing financial intermediaries, their products and delivery systems, the markets in which they function, and the regulatory environment under which they operate. The Department applies a combination of financial and technical assistance and human resources expertise to achieve three mutually reinforcing objectives:

- **Broadening** and **deepening** Africa’s financial systems;
- **Increasing** access to financial services for the **underserved**;
- **Financial stability** and governance.

The role of financial institutions in Africa is fundamental. The AfDB supports financial institutions through loans, lines of credit, risk-sharing guarantees, liquidity management facilities, equity, and technical assistance. A key objective of the AfDB is also to make basic financial services and products accessible to households that are excluded from the traditional financial system. For the unbanked, it is an opportunity to improve credit, increase savings and accumulate assets. For financial institutions, it is an untapped market of consumers. Moreover, investing in Digital Financial Services and promoting on-lending to SMEs is increasingly essential in priority sectors such as energy, agribusiness and transformative industries to meet the Bank’s High Five Agenda.

Promoting broader, deeper and world class Capital Markets, capable of intermediating additional and alternative sources of long-term funding to investors, corporates, entrepreneurs and governments, is paramount for Africa’s development. In this context, the Bank provides financial support through debt, guarantees, equity, and bespoke technical assistance/ advisory to public and private sector clients. Other key activities include investment structuring of innovative capital market instruments (green bonds, diaspora bonds and infrastructure bonds), and innovative financing solutions for mortgage finance in Africa. In addition, as a thought leader, the Capital Markets Division leads several advisory groups, partnerships, and policy dialogues with internal and external stakeholders to bolster awareness on capital market development, and to build capacity across the continent.

The AfDB provides liquidity and risk mitigation support to financial institutions and commercial actors to facilitate trade for local corporates and SMEs in critical sectors such as agri-business, manufacturing and intermediate goods using three broad instruments: Risk Participation Agreements (RPA) to provide credit and political risk mitigation cover to international confirming banks on behalf of local banks in Africa; Trade Finance Lines of Credit to provide liquidity to local banks for on-lending to corporates and SMEs; and a Soft Commodity Finance Facilities to provide direct liquidity support to soft commodity aggregators and other commercial actors in agri-business.
**TRADE AND DEVELOPMENT BANK (TDB)**

Established in 1985, the Eastern and Southern African Trade and Development Bank (TDB), formerly the PTA Bank, is a multilateral, treaty-based development financial institution, with assets of USD 5.6 billion. The Bank’s mandate is to finance and foster trade, regional economic integration and sustainable development through trade finance, project and infrastructure finance, asset management and business advisory services.

### Membership

The Bank’s membership comprises 22 Member States from across COMESA, EAC, and SADC, 2 non-regional members, Belarus and China, as well as 13 institutional shareholders. The latter include the African Development Bank, African Reinsurance Corporation, Arab Bank for Economic Development in Africa (BADEA), Banco Nacional de Investimento (Mozambique), Mauritian Eagle Insurance Company, National Pension Fund (Mauritius), National Social Security Fund (Uganda), OPEC Fund for International Development (OFID), PTA Reinsurance Company, Rwanda Social Security Board, Sacos Group (Seychelles) and Seychelles Pension Fund.

### Organizational structure

The Bank is governed by a Board of Governors (BoG), which is comprised of shareholders’ representatives, and is responsible for exercising all the powers of the Bank. The BoG has delegated some of its functions to the Board of Directors (BOD), but still retains full powers and exercises authority over any such delegated powers. The BOD is responsible for the conduct and general operations of the Bank. The President is the Chief Executive Officer of the Bank and is responsible for the conduct and management of the business of the Bank on a day-to-day basis.

Our senior management comprises the executives of all departments and units, including: Asset Management, Compliance Risk Management, Financial Management, Portfolio Management, Human Resources & Administration, Corporate Affairs & Investor Relations, Legal Services, Lending Operations, Syndication and Agency Operations, Treasury, Credit Risk and Coverage.

### Recent awards

- African Bankers Awards – African Banker of the Year: TDB President and Chief Executive – 2019
- African Bankers Awards – Best Infrastructure Deal of the Year – 2019
- EMEA – Best Supranational Syndicated Loan – 2018
- EMEA – Best Financial Institution Syndicated Loan in Africa – 2016
- GTR – Best Trade Finance Bank in East Africa – 2015
- CFI – Best ESG Private Enterprise Bank for Africa – 2015
- Global Transport Finance – Best Aircraft Deal of the Year in Africa – 2014

### Operations

TDB provides funding to both public and private enterprises, covering almost all sectors of economy. The Bank employs either one or a combination of modes of financing which are: direct financing (senior and mezzanine debt or equity), co-financing with local and/or foreign lenders, loan guarantees and syndications.

**Trade finance**

The range of products offered includes import and export financing, structured commodity finance, guarantees and bonds, pre and post shipment finance, issuance of letters of credit, receivable-backed and asset financing.
Project and Infrastructure Finance

The range of financing solutions offered includes project finance, corporate finance and leasing, and guarantees amongst others.

Asset Management

In Corporate Plan V, the Bank developed two funds to leverage its expertise in trade finance and infrastructure financing. These initiatives made it clear that there was a role for the bank to engage more broadly in the area of third-party funds management. As part of Corporate Plan VI (2018-2022), the Bank has expanded its funds management strategy to an asset management strategy covering programme management and fund administration services to development partners. TDB leverages its networks in the region and its experience in deploying capital to initiatives in the region to provide outsourced programme management services. This can entail assisting governments, foundations, and DFIs to find projects to co-fund as well as to design grant/loan-fund programmes and support the implementation of such programmes.

FINANCIAL HIGHLIGHTS as at December 31st 2018

- Total Assets: USD 5.6 billion
- Net Profit Consolidated: USD 130 million
- ROE = 11.57 %
- ROA = 2.45 %
- Strong balance sheet and investment grade ratings: the Bank's rating was upgraded to investment grade by Moody's and Global Credit Ratings (GCR) in 2017 and raised by Fitch to BB+ stable from BB positive in 2018.
- Solid net profit growth with a CAGR 2013-18 of 14%
- Diversity of Bank portfolio by sector (net exposure): agri-business 25%; banking and financial services 13%; infrastructure 13%; energy 13%; oil & gas 9%; manufacturing and heavy industries 8%; transport and logistics 7%; ICT 5%; wholesale commodities 3%; hospitality 2%; health services 1%; real estate 1%
- Bank Shareholding: Regional Member States: 68.60%; Non-Regional Member Countries: 8.84%; Institutional Shareholding including class B shares: 22.56%

Equipped with a strong performance ethic, TDB continues to evolve. It is expanding its shareholder base as it repositions itself as a more encompassing regional development bank serving most countries in Eastern and Southern Africa. In the past 6 years, TDB's shareholder base has grown from 19 to 37 members, shareholder funds, total assets, and annual net profits have risen several-fold, while non-performing loans are at their lowest level, under 3%.

As a result of TDB's work, over 1.1 million jobs have been created. The Bank is now investment grade-rated and one of the leading financial institution in the region. TDB currently has regional offices in Kenya, Zimbabwe and Ethiopia, and principal offices in Mauritius and Burundi.
Who We Are

The Making Finance Work for Africa Partnership (MFW4A) is an initiative to support the development of African financial sectors. We are a unique platform for African governments, the private sector, and development partners to coordinate financial sector development interventions across the continent, avoiding duplication and maximizing developmental impact.

The MFW4A Secretariat was established as the executive arm of the Partnership and works to advance the goals of the Partnership. Operating as an independent entity, the Secretariat is hosted within the African Development Bank (AfDB) in Abidjan, Côte d’Ivoire.

Vision

MFW4A Partners share a common vision of innovative, sustainable, competitive and diverse African financial systems, providing near universal access by 2030, and offering a full range of products and services for the continent.

Mission

To be the reference platform for advocacy, knowledge sharing and cooperation on financial sector development in Africa.
Djibouti’s economy is mainly based on services. The economy’s dynamism has recently been strengthened by the development of transport infrastructure. GDP growth averaged 5.4% between 2010 and 2017, slightly lower than the East African Community (5.6%) but significantly higher than the 3.3% recorded in the Middle East and North Africa (MENA) region. Despite these positive developments, the country still faces major challenges. High poverty and unemployment rates and limited economic its vulnerability to economic and climate shocks. In addition, instability in the Horn of Africa poses a real threat to the Djibouti economy. The authorities have designed a development strategy, known as Vision Djibouti 2035, which aims to transform Djibouti into a middle-income country and a logistics and trade hub for East Africa. The business environment has improved markedly in the World Bank’s Doing Business. The country climbed to 99th place, up 59 places from 2010, largely due to improvements in time to investor protection and business creation.
Financial Sector Overview

Djibouti’s financial system is still underdeveloped. It is dominated by the banking sector, which holds more than 95% of financial sector assets. As of July 2019, the financial landscape consisted of 11 banks with majority foreign ownership, including 8 traditional commercial banks and 3 Islamic banks. Islamic finance products and services have attracted nearly 20% of bank customers. The non-bank financial sector consists of 20 authorized financial auxiliaries (foreign exchange bureaus and/or remittances offices), 3 microfinance institutions, 2 insurance companies and an economic development fund specializing in SME financing. In 2011, the Central Bank raised the banks’ minimum capital to 1 billion Djibouti Francs (DJF) (US$5.6 million), up from DJF 300 million (US$1.7 million). Reforms initiated in the sector include: (i) the establishment of a partial credit guarantees fund for SMEs/SMIs, (ii) the modernization of the national financial infrastructure with the establishment an automated transfer system and an electronic clearing house, (iii) the introduction in July 2016 of the law creating a new national payment system and, (iv) the law establishing a credit information system.

Banking Sector

Structure – In 2017, banks’ consolidated balance sheets stood at DJF 438.1 billion (US$ 2.06 billion), or an increase of 21.2% over a year. 25% of the adult population have a bank account an increase of more than 2.2 percentage points over 2014. The increase in the number of active banks and increased competition have led to the creation of 8 new bank branches between 2016 and 2017. The two largest banks hold about 67% of the assets, but their share is declining due to increased competition in the sector.

Credit and deposit structure – Credit to the private sector reached DJF 102.3 billion (US$ 0.48 billion), in 2017 (28.7% of GDP), up from 10% in 2016, due to an increase in medium- and long-term loans. Loans to the private sector have been steadily increasing since 2014, as credit institutions pursued a policy of proximity through the opening of several branches in the capital city and the interior regions. Customer deposits were DJF 358.1 billion (US$ 1.69 billion) in 2017, an increase of 25.9% over 2016. They are dominated by demand deposits, which averaged 66.2% of the total between 2014 and 2017.

Debit and credit interest rates – Between 2011 and 2015, the deposit rate remained well below the lending rate. The high spreads of around 10% between 2011 and 2017, reflect limited bank intermediation.

Financial strength of the banking sector – Banks have gradually strengthened their capital base following the increase in minimum capital requirements in 2011. The banking system's net consolidated shareholder's equity stood at DJF 23.6 billion (US$ 0.11 billion) at the end of June 2017, an increase of 16.2% compared to June 2016. The bank solvency ratio remained in line with the minimum regulatory requirement (12%), apart from in 2014 where it dropped below the regulatory threshold. The liquidity ratio, although below the required threshold of 100%, has steadily improved since 2014 to 74.9% in 2017. The quality of assets has gradually deteriorated since 2014. The provisioning rate for bad debts improved from 67.2% in 2016 to 75.8% in 2017, however banking profitability remained positive. The consolidated net profit of the domestic banking sector amounted to 2.4 billion DJF (US$ 11.3 million) in 2017, which represents an increase of more than 648 million DJF (US$ 2.6 million) compared to the end of 2014.

Financial Inclusion

According to IMF data, the number of commercial banking agencies per 100,000 adults in 2015 was 6.4 in Djibouti and 5.6 in Kenya. However, in Djibouti, only 9.21% adults hold a loan account in a commercial bank, while this rate is 23.1% in Kenya. At the end of 2015, about 5% of Djiboutians had a bank card.

Access to credit also remains one of the main constraints in the formal private sector. Only 5% of companies have access to bank financing. The expansion of the financial sector as a result of financial liberalization contrasts with the low level of inclusion and is partly explained by the sector’s strong concentration on a few individuals and companies. More than 80% of banks exceeded the single-borrower competition limit between 2012 and 2015.

Access to financial services is constrained by several factors including: (i) unemployment and poverty that do not allow a category of households to meet the costs of managing bank accounts, even if opening conditions have been relaxed in a context of increased competition; (ii) low mobile and internet penetration, (iii) high credit costs and, (iv) underdeveloped payment and credit information systems limiting banks’ financing offerings. Promoting financial inclusion requires strengthening financial infrastructure,
Djibouti's microfinance is underdeveloped, with limited coverage and low market penetration rates. The sector does very little to support small entrepreneurs and non-performing loans remain high. Medium- and long-term credits, and those for amounts between DJF 1 million (US$ 5,618) and DJF 3 million (US$ 16,854), are not satisfied. The Djibouti People's Savings and Credit Bank (CPEC), the main MFI, was placed under administration by the Central Bank, following management problems between 2012 and 2015. In 2014, it had more than 14,000 customers, about 3% of the country's adult population. The institution's loan stock remains negligible (less than 0.2% of total bank credit) due to the insufficient financial resources. Although a sector development strategy was designed and adopted in 2012, it is yet to be implemented.

Digital Finance

Digital Finance remains underdeveloped due partly to limited internet and mobile penetration and a lack of institutional and technical capacity. Only 38% of households subscribe to a mobile phone service (54% in East Africa), and only 12% of them have access to the internet. Low geographic coverage and high subscription prices are the main causes of this low penetration. Djibouti is ranked 158th out of 176 countries in the Information and Communication Technology Development Index (ICT) published by the International Telecommunications Unio

SME Financing

Access to finance for SMEs is a recurrent issue in Djibouti. Most SMEs operate in the informal sector and cannot access bank loans. SME loans account for only 12% of business loans. The limited scope of the credit reporting system, and the unreliability of the financial information presented by the SMEs partly explain the low levels of credit granted to businesses. In addition, the regressive tax system is a deterrent to formalisation of SMEs.

Pension and Social Security

The social security system consists mainly of two contributory schemes: a special scheme and a general scheme. The special scheme regime is that of state employees and their dependants. The Ministry of Employment takes care of state officials by financing their pension scheme through the State budget. Coverage of the general scheme extends to health (work-related accident and illness), family (family benefits), old age and death. This second regime is reserved for workers under the provisions of the labour code. In addition to these two schemes, the military pension fund provides specific social security coverage for the military personnel.

An institutional reform aimed at establishing coherence between agencies gave rise in 2008 to the National Social Security Fund (CNSS – Caisse Nationale de Sécurité Sociale), a merger of the Social Protection Organization (OPS – Organisme de Protection Sociale) and the National Pension Fund (CNR – Caisse nationale de Retraite). The CNSS is under the authority of the Ministry of Employment and Administration Reform. Although progress has been made, the social security system remains limited, both in terms of risk and social coverage due to increasing demand. The CNSS is financed on the one hand by contributions paid by employers and those levied directly on workers’ wages; on the other hand, the CNSS benefits from government subsidies. In addition, the persistent collection problems undermine the CNSS's chances of financial sustainability.

developing microfinance and liberalizing the telecommunications sector.
Eritrea has emerged from twenty years of conflict with Ethiopia and a decade of sanctions imposed by the international community. The country gained formal independence from Ethiopia in 1993 and despite recent progress, it remains one of the least developed countries in the world. Anecdotal evidence indicates that poverty is still widespread in the country where 65% of the population lives in rural areas and 80% depend on subsistence agriculture for their livelihoods. Eritrea has faced many challenges, including lack of financial resources and chronic drought, which have been exacerbated by restrictive economic policies. Apart from mining, Eritrea is almost entirely dependent on agriculture for economic growth. Trade and transportation also play a pivotal role with the Massawa Port serving as an important sea access for landlocked Ethiopia. Foreign Direct Investment (FDI) is largely dominated by the mining sector, accounting for 96% of total FDI in 2017. Copper, potash, and gold production are likely to drive economic growth and government revenue over the next few years. Most medium and large businesses in Eritrea are controlled by either the government or the ruling party. The government however signals it is seeking to privatize some state-owned firms, but little progress has been made. Firms slated for privatization include the telephone company, hotels and some food production and packaging entities. About 58,000 private businesses operate across the country.
Financial Sector Overview

The Eritrean financial sector is small, undeveloped and offers only a limited range of financial services. All Banks are controlled by the government, and the lack of fiscal, legal and fiscal transparency hinders efficient assessment of the domestic financial sector development. The government also exerts strict control over the use of foreign currency. New regulations issued in 2013 aimed at relaxing currency controls have had little economic effect. The Eritrean government has set a law for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) in addition to institutional efforts to establish a financial intelligence unit, restore faith in the system and build capacity for financial institutions.

Banking Sector

Eritrea's banking system was established under Proclamation 32/1993 and later modified under Proclamation 93/1997. The Proclamation pertaining to foreign exchange bureaus was introduced in 1998. There are 3 state-owned banks in Eritrea: the Bank of Eritrea, the Commercial Bank, and the Commercial and Housing Bank. Himbol Financial Services, the arrangement by which foreign currency is transferred from abroad, is also run by the sole political party. The state-run banks do not publish financial statements, exacerbating public distrust.

Microfinance

The microfinance sector has been actively functioning for many decades in local, traditional Eritrean forms of rotating savings and credit clubs known as the ekubs and idirs. Also, moneylenders have been a common source of funds for rural people, but at high, unaffordable rates ranging between 70 and 600% per annum. Semi-formal and formal microfinance programs were developed only recently. The two largest microfinance institutions are the Southern Zone Saving and Credit Scheme (SZSCS) and the Saving and Micro Credit Program (SMCP). The main objective of the SZSCS is to provide underprivileged people access to credit. The Savings and Micro Credit Program (SMCP) operates throughout the State of Eritrea and was established in 1996 as part of the Eritrean Community Development Fund. Eritrea has several other microcredit schemes run by the government and Non-Governmental Organizations (NGOs). They remain the main source of external capital for the poor and micro and small businesses. The later are mostly owned and operated by individuals who are socially and economically disadvantaged. The small size of loans, absence of asset-based collateral and simplicity of operations are the three distinctive characteristics of the financial services provided by Eritrean MFIs.

Capital markets

There are no formal capital markets and the Eritrean currency (nakfa) is nonconvertible. Foreign ownership and investment are prohibited.

Digital Finance

Eritrea's telecom sector operates under a state-owned monopoly for fixed and mobile services. Partly as a result of such restrictions on competition, the country has the least developed telecommunications market in Africa. Mobile penetration is only about 11% (compared to 60 phones per 100 inhabitants in Ethiopia, one of the lowest mobile penetration rates in Africa), while fixed-line internet use barely registers. Although the provision of internet services is open to competition, about 2% of households have access to the internet. Mobile money services are not yet available in the country.
Ethiopia’s economic growth rate has remained at a relatively high level over the past decade. Its real gross domestic product (GDP) grew at 10.1% per annum between 2010 and 2017 - one of the highest rates in Africa. Significant progress has been made in reducing poverty, which, however, affects more than a quarter of the population (27.3% in 2015 compared to 33.5% in 2010). Through a development model based essentially on domestic demand and more particularly public investment, Ethiopia has made significant progress in infrastructure, energy production, transport, health, and education. However, Ethiopia’s strong economic growth has not been accompanied by a real structural transformation. The contribution of the manufacturing sector to GDP remains relatively low (6.4% of GDP) compared to the agricultural sector (36.3% of GDP).

Furthermore, the private sector’s potential is not sufficiently tapped due to constraints related to the business environment and the resulting distortions. According to the World Bank’s Doing Business, Ethiopia is ranked 159th out of 190 countries, a 55-spot drop since 2010. The World Economic Forum’s Global Competitiveness ranking puts Ethiopia in 122nd position out of 140 economies. Recent reforms have stabilised the socio-political climate, although the security situation in some parts of the country remains volatile. Frequent droughts due to climate change have also had major fiscal and humanitarian consequences. The government is continuing to pursue its second growth transformation plan aimed at achieving the sustainable development goals and middle-income country status by 2025.
Overview of the Financial Sector

Ethiopia’s financial sector includes 18 banking institutions, of which 16 private and 2 public. The total number of bank branches stood at 4,757, with more than a third (35.3%) in the capital Addis Ababa. The country has 37 microfinance institutions (MFIs), 17 insurance companies (16 of them privately owned), and 532 agencies. The Development Bank of Ethiopia (DBE), a non-deposit-taking institution, runs 107 branches throughout the country. In October 2017, the Central Bank of Ethiopia devalued the local currency Birr (ETB) by 15% against the US dollar in an attempt to reduce its overvaluation and improve economic competitiveness. The Central Bank and the Financial Intelligence Centre are making progress in strengthening the framework to combat money laundering and terrorism financing. An action plan agreed with the Financial Action Task Force on Money Laundering (FATF) is being implemented. The financial sector remains narrow and only open to local investors. This is the case with the banking sector, which is still closed to foreign operators.

Banking Sector

Banking market structure - The banking sector remains relatively concentrated. The largest commercial bank, owned by the State, represents about 70% of total assets. Geographical distribution of bank branches is uneven, with more than a third located in Addis Ababa. The sector’s equity capital reached ETB 85.8 billion in 2019, or USD 3 billion, of which 60.1% held by public banks. Deposits and loans represented 40.4% and 21.8% of GDP in fiscal year 2017/18. Structure of loans and deposits in the banking sector - Loans and advances to customers are increasing each year and amounted to ETB 394.56 billion (USD 13.7 billion) in 2017/18. Despite progress made by private banks, public sector banks have held their dominance in credit with a 53.8% market share. Financing is largely allocated to the industrial sector, which has averaged 40% of the credit granted over the last 3 years, ahead of external trade (19%), domestic commercial activities (12%) and housing (11%). Thanks to the increase in the number of bank branches, deposits - mainly savings - rose to ETB 730.26 billion (USD 25.3 billion).

Deposit and lending rates - The average interest rate on savings stood at 8% and the average lending rate was 13.5%, after remaining at 11.88% until 2014/15. The weighted average interest rate on term deposits was 8.09%.

Financial strength of the banking sector - Ethiopian authorities have chosen not to systematically adopt the Basel II and III agreements. Instead, the Central Bank has put in place instruments adapted to the country’s context. For the most part, Ethiopian banks have remained well capitalised and liquid. The sector’s capital adequacy ratio has stood at a level above the regulatory minimum of 8%. The liquidity ratio is also in line with the minimum requirement of 15%. Bank profitability has continued to remain positive, despite the downward trend. The quality of assets has been broadly preserved, with the ratio of non-performing loans below the 5% statutory ceiling. However, the quality of DBE’s assets has gradually deteriorated. Its bad debt ratio stood at 39% in 2017/18, well above the maximum threshold of 15% set by the supervisory authorities for development finance institutions. The reasons for this situation include low productivity in agricultural projects, political unrest in some parts of the country and low international competitiveness of textile projects in which the bank is exposed. Although DBE is not a deposit-taking institution (and therefore excluded from the commercial banking system), the high level of non-performing loans could pose a threat to the financial sector and a create significant tax liability for the State. Remediation strategies are being considered by the authorities who have undertaken a financial assessment of the bank.

Financial Inclusion

In 2017, the country adopted a National Financial Inclusion Strategy (NFIS). The NFIS is expected to help fill gaps in credit supply and, by extension, promote investments that would create jobs and ultimately contribute to poverty reduction. According to Global Findex, financial inclusion improved substantially between 2014 and 2017. The share of adults with an account rose by 59.6%, compared to 2014, to stand at 34.8% in 2017. However, this level remains lower than the sub-Saharan average of 42.6%. Several factors have contributed to financial inclusion expansion in Ethiopia: the financial sector has grown considerably and the country has made great progress in building an inclusive and modern financial sector; banks rapidly expanded their branches by more than six fold between 2010 and 2018, from 681 to 4,757. As of March 2016, there were 18,000 savings and credit cooperatives across country, mainly in rural areas. In addition, 30.7 million transaction accounts were recorded, including 19.3 million bank accounts and 11.4 million MFI accounts - a ratio of 68 transaction accounts per 100 adults. Some of the initiatives implemented focused on access of credit reference bureaux by microfinance institutions and the establishment of a framework for consumers protection. However, very little progress has been made in mobile money: Only 0.3% of adults have an
Microfinance Sector

Thirty-seven (37) microfinance institutions (MFIs) operate in the country. As of 30 June 2018, savings mobilised by the sector amounted to ETB 33.2 billion (USD 1.2 billion), an increase of approximately 26.2% year-on-year. Total outstanding loans also increased by 38.9% to about ETB 45 billion (USD 1.6 billion), suggesting the growing role of these institutions in poverty reduction and wealth creation among low-income groups. Total assets also increased by 35.7% to ETB 67.3 billion (USD 2.3 billion). Since 2003, the total loan portfolio of MFIs has grown steadily and the number of borrowers has tripled. However, MFI penetration rate remains low, with less than 4% of the population served. In addition, MFIs face a number of challenges, including low operational efficiency, lack of long-term resources for small business financing, and weak management and IT capacity, among others.

Digital Payment and Finance System

The Ethiopian national payment system allows commercial banks to use centralised and electronic banking solutions enabling them to interact with the Central Bank. The Ethiopian Automated Transfer System (EATS) launched in May 2011 includes a real-time gross settlement system (RTGS) and an automated clearing house (ACH). The telecommunications sector has only one operator, Ethio Telecom - a public company, with network coverage of 85% for 2G/3G and 15% for 4G.

By 2016, the mobile penetration rate stood at 33% of the population. The main operators in the mobile money sector are M-Birr and HelloCash. Rapid changes are taking place in this segment. This is particularly the case with the launching of the mobile offer (CBE Birr) by the largest public bank in December 2017. It is also worth noting the acquisition of an MFI by a local technology company (Kifiya) to offer integrated digital services, such as G2P/P2G payments and indexed insurance for agricultural products. Banks and microfinance institutions employ contract agents authorized to open accounts and conduct electronic KYC (Know Your Customer) procedures.

Despite a dynamic digital financial subsector, roadblocks persist, including regulatory limits on daily transactions (ETB 6,000 or USD 208) and mobile bank account balances (ETB 25,000 or USD 868). In addition, prohibition of international fund transfers directly to mobile or MFI accounts, and a decade-long monopoly maintained by Ethio Telecom in the telecommunications sector hinder innovation and limit the scope of services offered.
Most small- and medium-sized enterprises (SMEs) and large companies have access to traditional financial services to manage their liquidity. However, access to credit is more limited, particularly for SMEs: only 30% have access, compared to 68% for large companies. In general, large companies are more likely to benefit from loans, lines of credit or overdraft facilities than micro-, small- and medium-sized enterprises (MSMEs). MSMEs are also more likely to avoid applying for loans because of the high guarantee requirements. In Ethiopia, access to finance is a major challenge in the business environment. MFIs are a viable option for SME financing, given the favourable legal and regulatory environment. This is particularly so in light of Proclamation No. 626/2009, which allows MFIs to transform themselves into banks or other financial institutions enabling them to provide financial services to SMEs. The regulatory framework for the maximum loan size has been relaxed to facilitate the provision of loans to SMEs. Leasing, actively promoted by the Ethiopian authorities, is still in its infancy.

**Insurance Sector**

The sector has 17 insurance companies, 54 insurance brokers and 1,438 agents. The number of agencies rose to 532, i.e. twice as many as in 2010. Insurance companies’ equity increased by 26.4% to ETB 5.5 billion (USD 190.7 million) and total assets in the sector stood at ETB 13.6 billion (USD 472 million) in 2017. Gross written premiums are approximately ETB 7.5 billion (USD 260.3 million), of which 95% or ETB 7.1 billion (USD 246.4 million) is written for non-life insurance and 5% or ETB 0.4 billion (USD 13.9 million) for life insurance. Insurance penetration remains low in Ethiopia, at around 0.4%. Retail insurance is dominated by compulsory vehicle insurance, and potential links with informal insurance mechanisms have not yet been explored. There is a strong informal insurance culture in Ethiopia, including community health or funeral insurance. Micro-insurance could potentially improve access to insurance and better serve the needs of various customer segments. However, its implementation is hampered by several factors, including the lack of cost-effective distribution channels, cumbersome complaints procedures and a low level of awareness, among others. In addition, innovation is limited by the lack of openness in the sector since international insurers are not allowed to do business in Ethiopia.

**Capital Market**

The financial market is nascent and mainly deals with treasury bills and government bonds. Treasury bills are the main financial instruments traded on the primary market. Government bonds are sometimes issued to finance budgetary operations and/or absorb excess liquidity in the banking system. Treasury bills issued amounted to ETB 210.4 billion (USD 7.3 billion) at the end of June 2017, while those requested on the weekly auction market stood at ETB 225.3 billion (USD 7.8 billion). Treasury bill maturities have been increased from 28 to 365 days. The total outstanding amount of treasury bills was ETB 73.3 billion (USD 2.5 billion) at the end of June 2017. Participants in the treasury bill market include financial institutions and non-bank public institutions. The weighted average yield is down and close to 1.4% in 2016/17. The equity market is still non-existent but the country has a commodity exchange, established in 2008. It operates through a public auction system and has 346 members, including 33 agricultural cooperatives. The commodity exchange connects about 3.5 million small Ethiopian farmers to markets. Since its inception, more than 3.9 million tonnes of agricultural products have been traded. The annual ranking of the African Bond Market Development Index published by the African Financial Markets Initiative (AFMI, piloted by the African Development Bank) put Ethiopia at the 39th position in 2017 (40th in 2016). The 2012 Investment Proclamation and the Investment Code (several times revised) constitute the core of the investment regulatory framework. Strict control of foreign currency movements is exercised by the Central Bank.

**Pension and Social Security**

Social security in Ethiopia consists of two pension schemes: one for civil servants, including employees of state-owned enterprises, the armed forces and the police; and the other for private sector employees. The retirement age for civil servants and private sector employees is 60 years, and 55 years for the military. The pension may be adjusted every 5 years due to indexation for inflation. Contribution rates range from 7% (public and private sectors) of basic salary to 18% of gross income for self-employed workers. In 2016, 3 million employees were covered, including 1.3 million civil servants and 1.7 million private sector workers. The generosity of the system and the limited diversification of the investment portfolio, mandated by restricted regulation, have raised concerns about the financial sustainability of the national pension scheme.
Somalia

Financial sector country profile

Economic landscape

Somalia is slowly emerging from more than two decades of conflict and anarchy. The country is making progress towards consolidating peace, entrenching state-building, and slowly driving economic recovery. Between 2013 and 2017, real Gross Domestic Product (GDP) grew by an average of 2.5%. Growth is expected to pick up at 3.5% in 2019 and 2020, compared with a forecast of 3.1% in 2018, as the country recovers from drought that had reduced farming output. The services sector—particularly telecommunication and mobile money—has been an enabler of economic growth. About half of all Somalia live in poverty, and almost a third live in extreme poverty. The country has embarked on a program with support from the International Monetary Fund (IMF) to increase revenue collection and improve expenditure management as a means to expand the provision of public services and support inclusive growth. The political and security situation is still fragile, and the country remains ineligible for most financial assistance program due to its longstanding arrears. These factors impede the emergence of the strong financial sector needed to support the economy’s wholesale recovery.
Financial Sector Overview

Before the civil war began in 1991, Somalia’s financial system was rudimentary, comprising of the Central Bank of Somalia (CBS) and three commercial banks. All financial institutions collapsed in 1991 and depositors lost all their savings, which eroded public confidence in the financial system and the banks. Between 1991 and 2009, there were no formal financial institutions in the country outside the semi-autonomous northern regions of Somaliland and Puntland. The CBS reopened in 2009 under the Transitional Government of Somalia. In 2012, a Central Banking Act and a Financial Institutions Act were passed that provide a legal framework for financial institutions to operate in the country with supervision from the CBS.

Prior to these developments, the informal financial sector that had developed and grown throughout Somalia’s protracted conflict filled in the gap left by the formal financial sector to provide basic financial services to businesses and the Somali population, especially trust-based loans and money transfer services. The latter, called hawalas, played a vital role facilitating international remittances and domestic financial transactions. A process to regulate and supervise these institutions began in 2012.

Today, Somalia’s financial sector is still at a nascent stage and intermediation remains weak. Monetary policy is limited, as the economy continues to be highly dollarized. Total financial sector assets are equivalent to about 4.3% of GDP. Credit to the private sector is about 1.3% of GDP, although growth has been relatively rapid recently. The government intends to start broad-based reforms to spur financial sector development, while strengthening compliance with the Anti-Money Laundering and Counter-Terrorism Financing act (AML/CFT) and improving data reporting. Also, the CBS has recently approved new banking regulations, including annual relicensing and periodic financial reporting requirements. Similarly, it has defined minimum prudential ratios and set up inter-bank payment, clearing and settlement systems and other critical market infrastructures needed to improve the efficiency of financial intermediation.

Despite making significant progress, the sector faces numerous constrains to greater financial stability and intermediation: There are considerable trust and information deficits; Financial institutions lack capacity and financial infrastructure (credit information, judicial, legal). Mobile money penetration is high but lacks interoperability. In addition, access to credit/finance is usually at unfavourable terms and conditions with insufficient collateral for the majority of the public.

Banking Sector

Banks provide a mix of islamic and conventional financial products. Commercial banks provide non-interest-bearing deposits and lend to the private sector. Formal banking is not common in Somalia partly because anyone under the age of 40 was not old enough to hold a bank account before the start of the two-decade long war. Only about 15% of the population has a bank account, and less than 5% of people with bank accounts are active users.

Six banks operate in Somalia with branches located in urban areas only. Commercial banks function mainly as trade financing institutions. They also finance key areas of the economy: real estate, car loans and construction. Although relatively small, the sector is highly liquid with total loans to deposits ratio around 47%. Banks are also financially sound and adequately capitalized with total capital to total assets ratio above 15%.

Remittances

Money transfer businesses emerged organically as an alternative to the traditional banking system after the collapse of the government and economy in 1991. Remittance inflows (20% of GDP) represent Somalia’s lifeline and an opportunity for inclusivity and broad access to financial services. Fourteen hawalas, or money remittance providers, have been licensed or registered by the CBS. Although they mostly facilitate international remittances, a few have adapted their business model to include banking, microfinance, and mobile money. However, Somali hawalas are struggling to build networks of correspondent banks for cross-border transactions due to fears about money-laundering and terrorist financing. In 2015, Merchants Bank of California which handled 60 to 80% of the money sent to Somalia from the United States closed its accounts with Somali-American transfer companies, virtually ending remittance services by all major U.S banks to Somalia. Despite recent efforts on anti-money laundering and combating the financing of terrorism, the country continues to suffer from pressures related to the reduction of global correspondent banking relationships. This could result in lower and volatile remittances inflows. As part of the financial sector roadmap, the CBS intends to enhance its control of the Money Transfer Businesses (MTBs) compliance with AML/CFT regulations and to establish a digital ID system to monitor and reduce suspicious transactions.
Financial Inclusion

Access to formal financial institution services is very low in Somalia. In 2017, only 7.9% of adults held an account at a formal financial institution, compared with the sub-Saharan Africa average of 32.8%. Far fewer (2.8%) held savings at a formal financial institution, compared to the sub-continental average of 16%.

Digital Finance

For years, mobile money has substituted for the lack of a formal banking sector, and all mobile network operators now provide mobile money services. It is one of the main channels used to access financial services in Somalia: In 2017, about 73% of the population had access to a mobile money account, with only a 5% gap between men (75%) and women (70%). Mobile money wallets are also used for savings. More than half of people who save do so with a mobile money account. Approximately 26% of Somalis report using phones to pay bills (as compared to 13% in Kenya) and 32% reported using their phones to receive money, compared to 30% in Tanzania. These statistics demonstrate that mobile technology can serve as a potential catalyst to accelerate financial inclusion in Somalia.

Insurance Sector

As for most financial institutions in Somalia, the insurance industry is at its infancy. Somalia has been without any form of insurance since 1991. The sector is now largely driven by Islamic insurance, or Takaful, a cooperative scheme in which participants pay a premium in a common pool to guarantee each other against loss or damage. Takaful business emerged for the first time in Somalia at the beginning of 2014. First Takaful and Retakaful (FISO) and Takaful Insurance of Africa are the two companies actively working in Somalia.