

MAKING FINANCIAL MARKETS WORK FOR THE POOR

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WHAT IS SPECIAL ABOUT FINANCIAL MARKETS?

Causes of market failure:

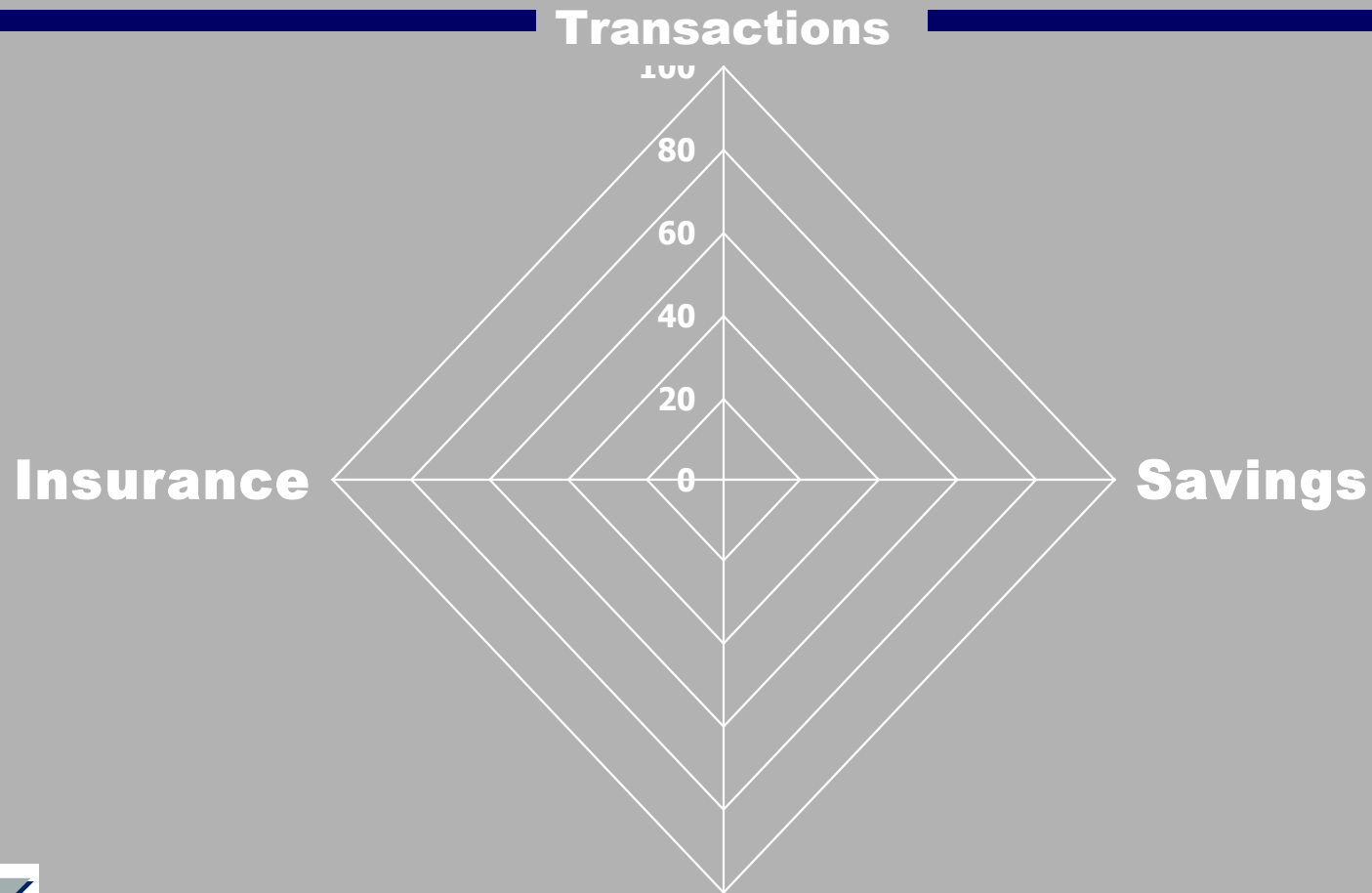
- **High transaction costs**
 - High informational content
- **Externalities**
 - Network effects: positive and negative

Therefore: most heavily regulated
New views on dualism of financial
markets



LANDSCAPE OF RETAIL ACCESS

% of adults



Credit



1. WHAT DOES IT MEAN FOR MW4P?

Necessary:

1. Usage by poor increasing

+

2. Choice

+

3. Acceptable to have a market

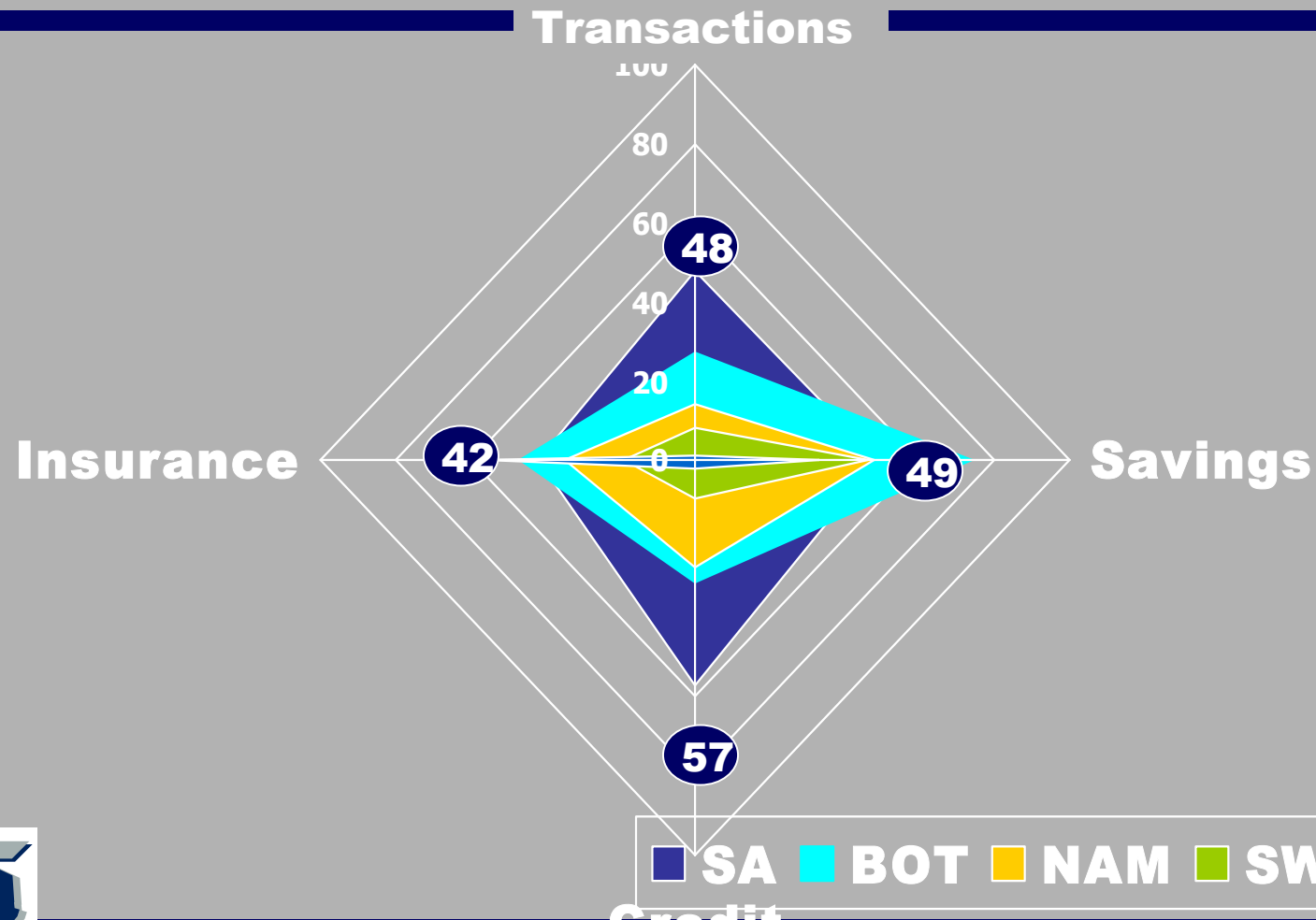
Appropriate?

Case: cell phone industry in SA 1993-2004

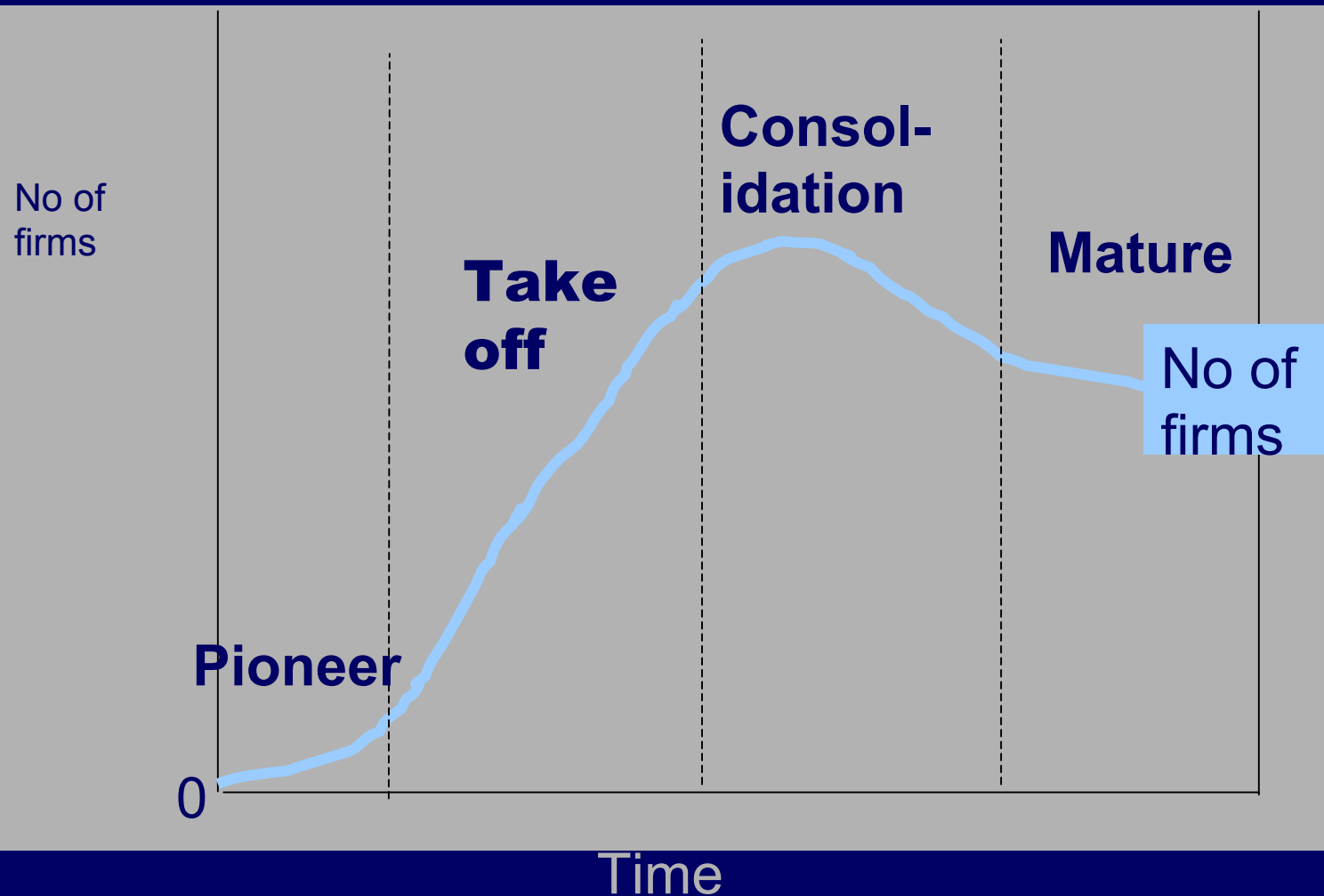


SACU: LANDSCAPE OF ACCESS

% of adults



MARKET DEVELOPMENT TRAJECTORY 1



MARKET DEVELOPMENT TRAJECTORY 2

No of
firms

Industry
ROE

%

Average
ROE

0

1

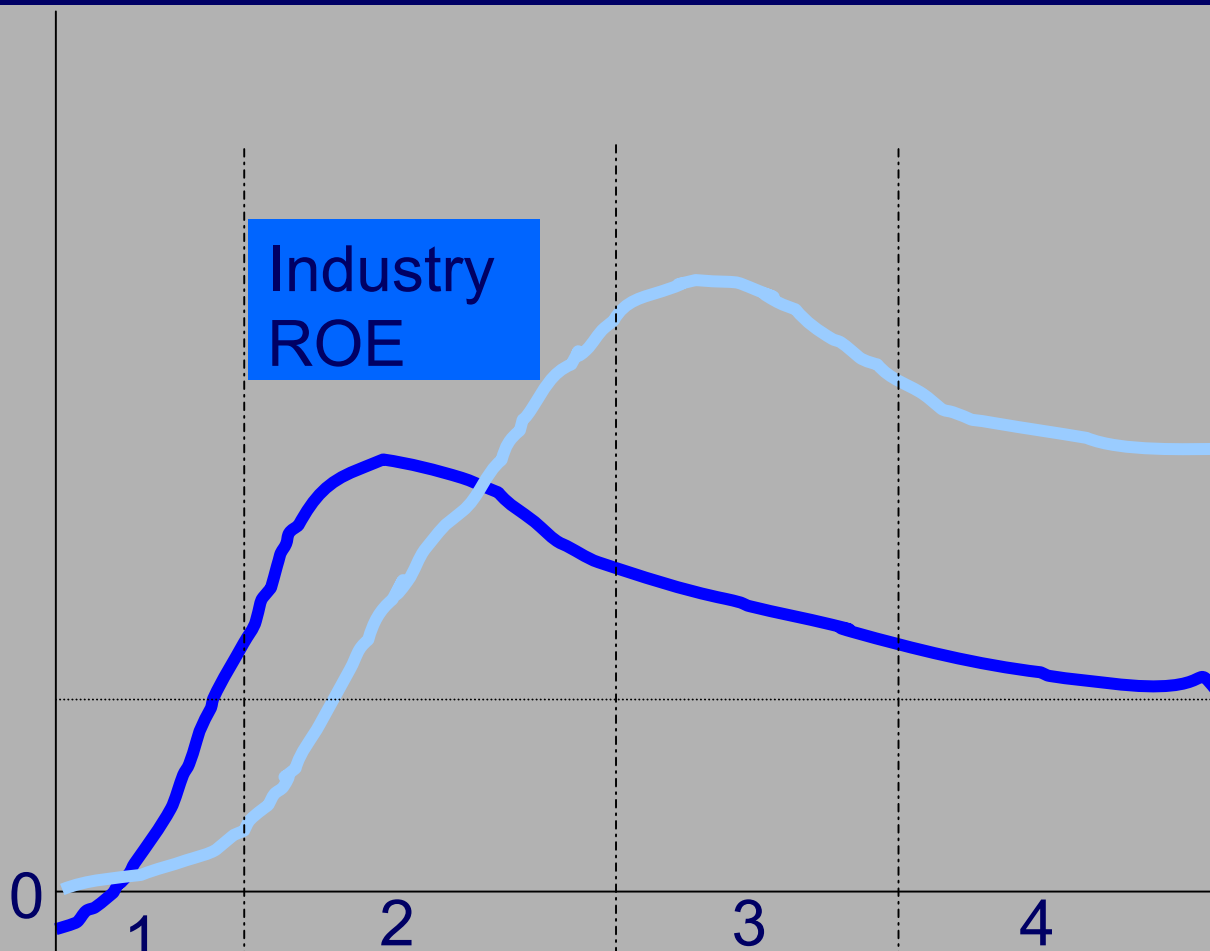
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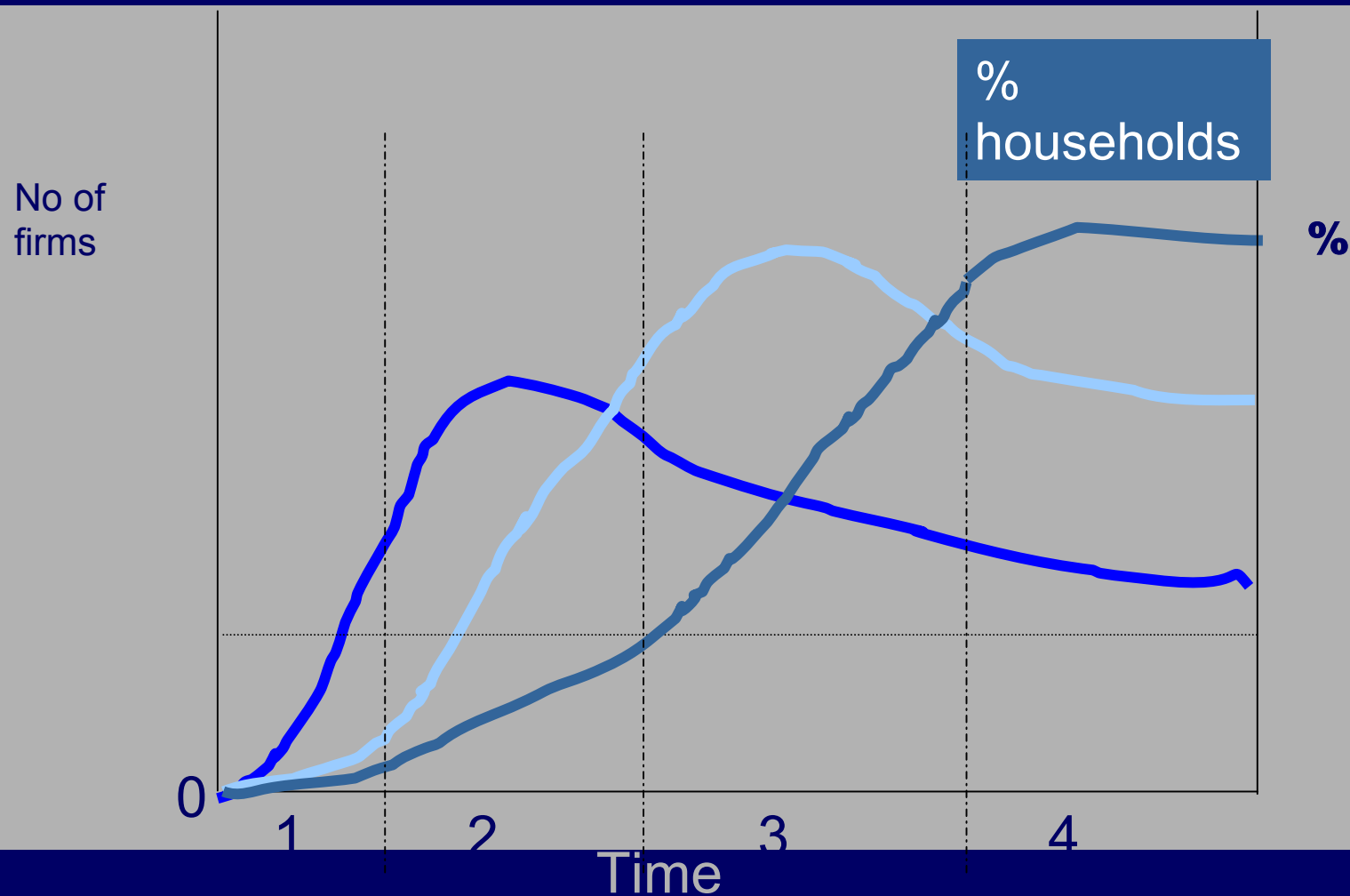
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Time

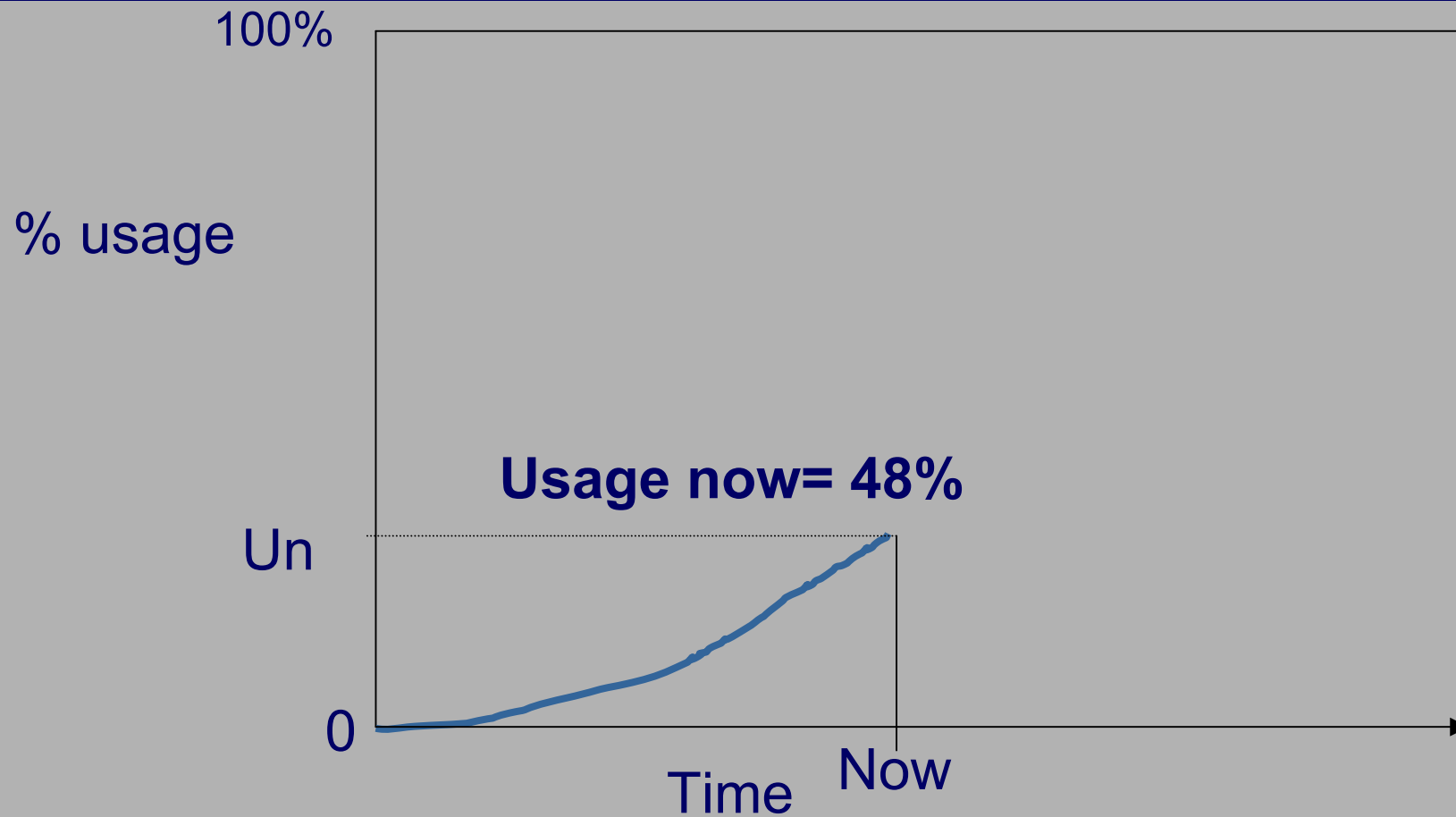
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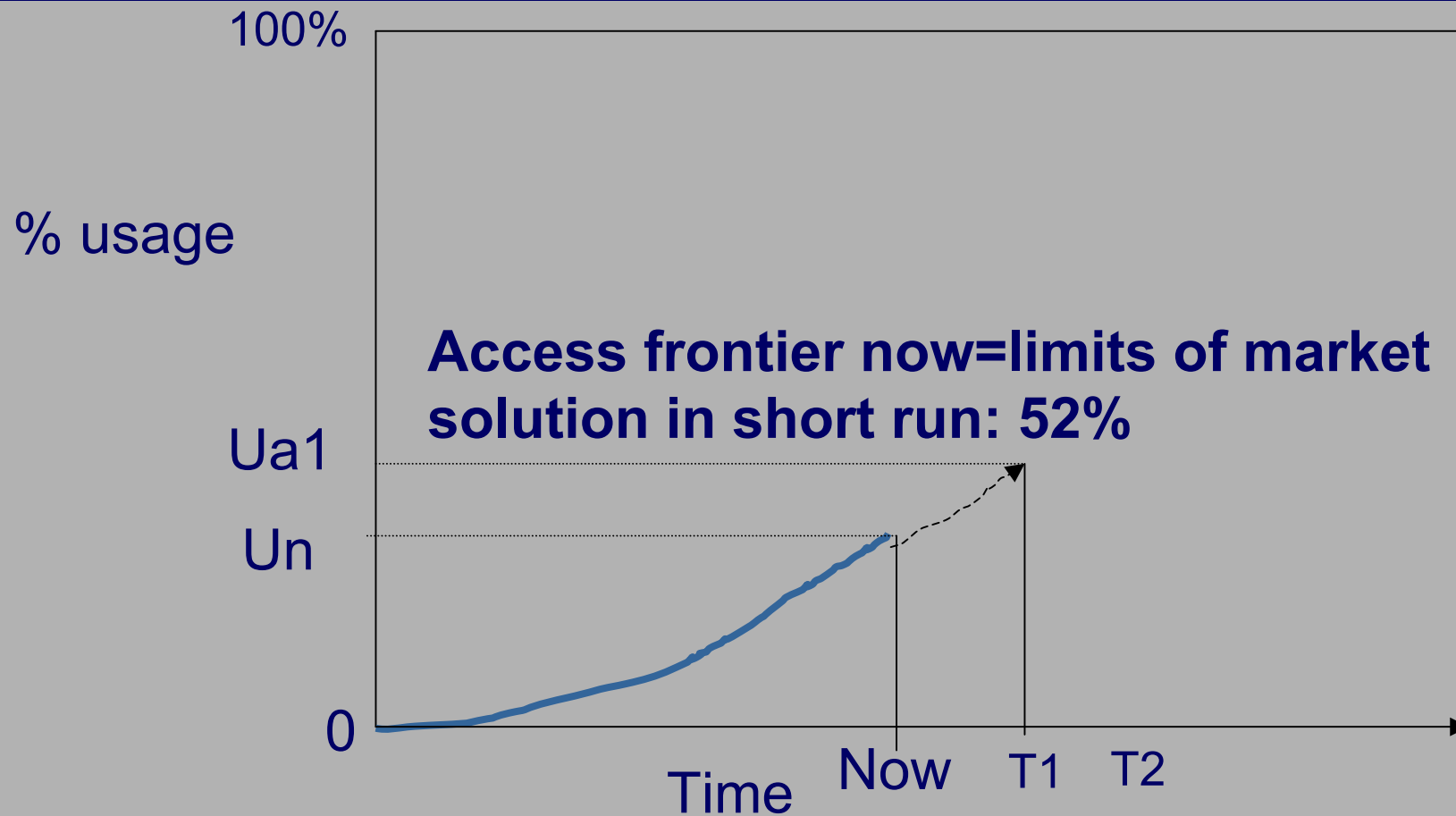
MARKET DEVELOPMENT TRAJECTORY 3



ACCESS FRONTIER: i. CURRENT USAGE



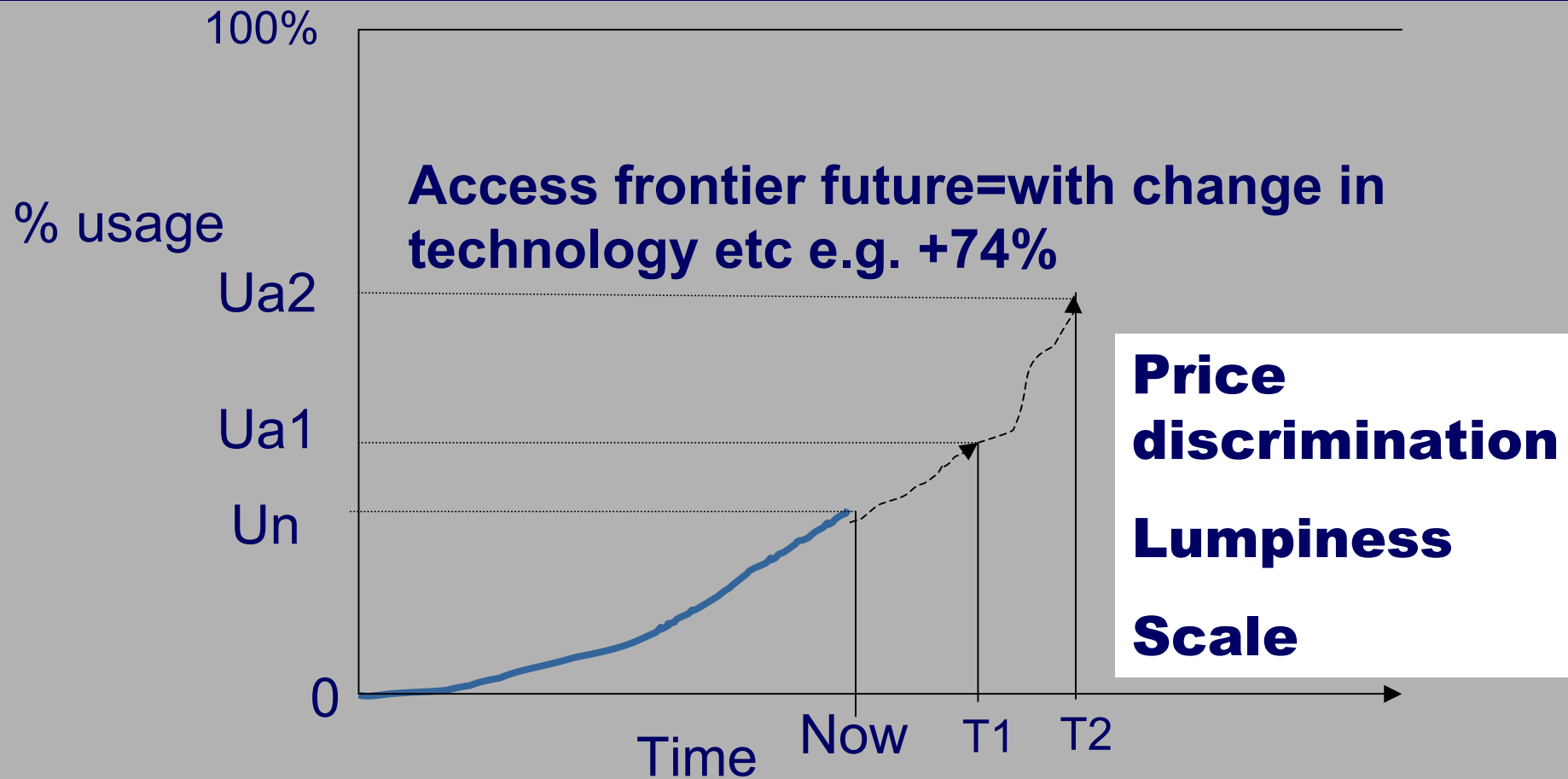
ii. FIND CURRENT FRONTIER



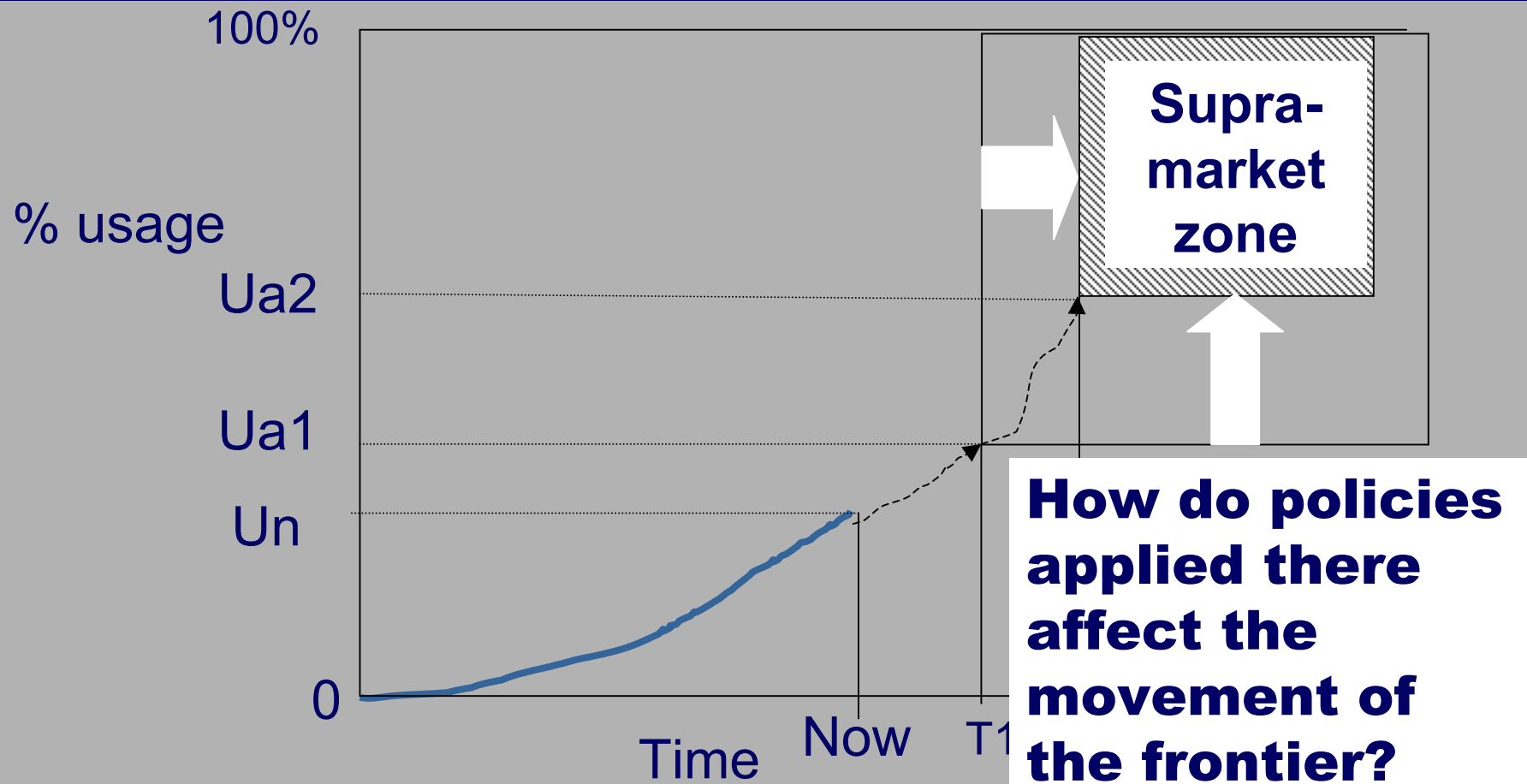
iii. WHAT'S UP IN THE SMZ?



iv. WHERE IS FRONTIER MOVING IN NEXT 3-5 YRS?



v. POLICIES TO SHRINK SMZ



2. IS INCREASED ACCESS ALWAYS A GOOD THING?

Generally, but:

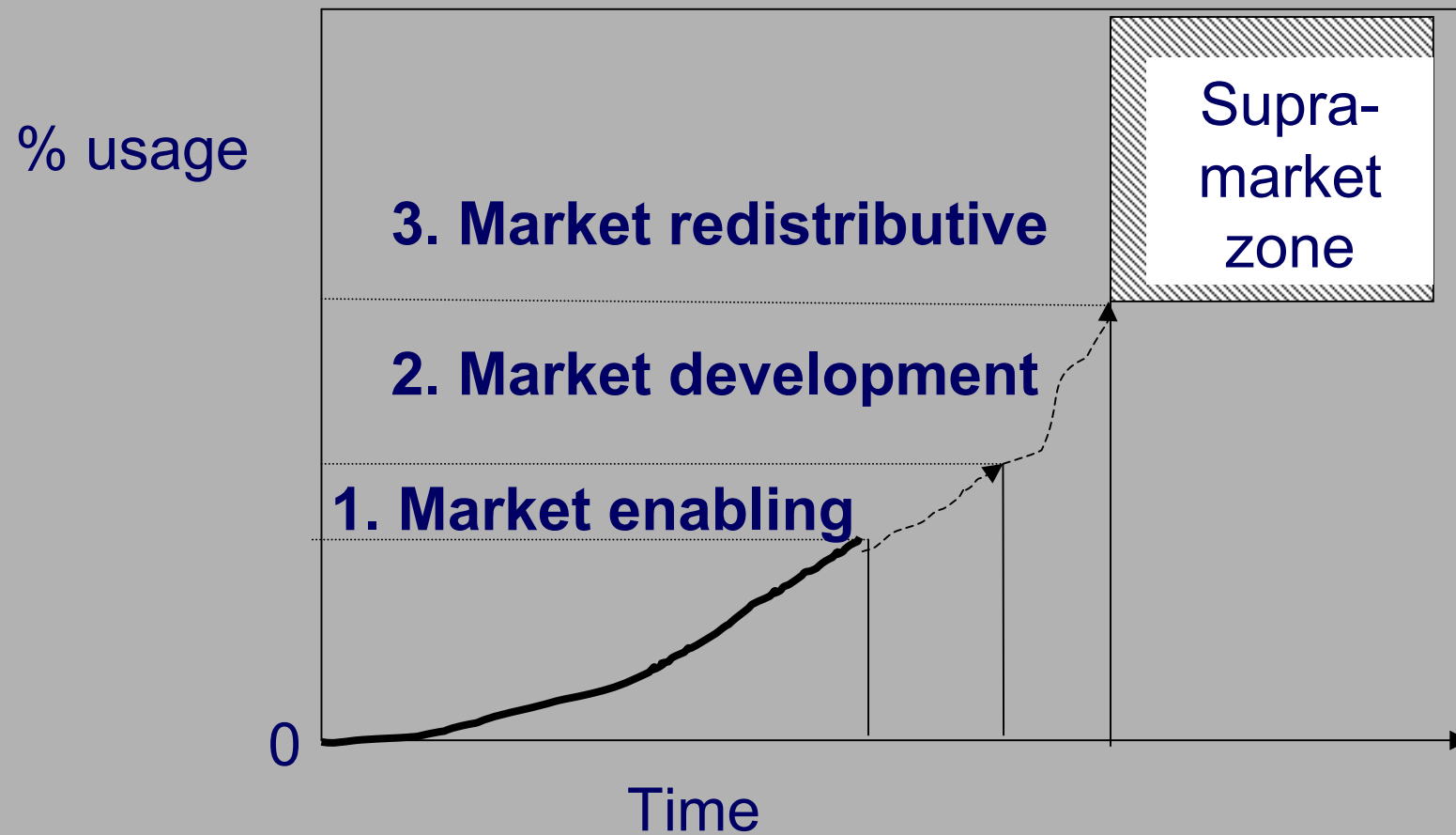
- unintended consequences**
- externalities (bubbles)**

**Need for safety values; regulation is
reactive**

Case: microcredit in SA 1993-2004



3. IS MARKET ENABLEMENT SUFFICIENT FOR M4P?



Example: bank accounts

Reasons for not having a bank account	RSA 2003	US 2001
A. Value proposition	107.8	42.6
B. Access related	20.3	27.3
C. Choice	11.3	27.9
D. Other	4.6	2.1

Source: SA: FinScope 2003; US: carried forward from Table 1



THE FINMARK HOUSE

Support infrastructure,

**Foreign
entry?**

Organizational infrastructure

**Stable
macro base
necessary**

Institutional infrastructure



CONCLUSION

Methodology of access frontier
Develop policy based on zone
market is in

Tricky trade-offs:

- **Systemic vs social stability**

Infrastructure/ public goods

- **Market information important in all**

