

Keynote speech by Klaas Knot "Innovation in Finance makes Africa work!" at conference "Africa Works!", Amsterdam, Royal Tropical Institute, 10 November 2016

Amsterdam, Royal Tropical Institute – Innovations in finance will help Africa get on in the world, especially when combined with a further strengthening of institutions. This was the message Klaas Knot conveyed in his speech marking the opening of the two-day conference "Africa Works!"

See below for the full speechL

Ladies and gentlemen,

I'm delighted to speak here today. How could I not be?

For one, the purpose of this conference is to inform, inspire, connect and catalyse the Dutch private sector with Africa's business opportunities.

This is something I wholeheartedly support.

For if there's been one continent that has seen many changes for the better in the last two decades, it is Africa!

Indeed, only 16 years ago, The Economist portrayed Africa as the "Hopeless Continent", a nickname which would make every businessman or woman hesitant to invest. In less than one-and-a-half decennium, The Economist changed its mind and came up with the pet name "Hopeful Continent".

What made The Economist, like many others, change its mind?

Well, basically two developments, I think.

First, its economic achievements. The years since the turn of the millennium have marked a period of sustained economic growth for the African continent. Importantly, this boom has been shared by all countries in Africa, except for

a few countries where armed conflicts took place.

Admittedly, for some larger commodity-exporting African countries, such as Nigeria or Angola, the boom has been driven largely by the commodity super-cycle. We, in the Netherlands, are well aware that natural resources can be a mixed blessing for an economy. It's what earned this phenomenon the nickname "Dutch Disease"!, referring to the possible decline in competitiveness following the appreciation of our currency after the discovery of natural gas resources in the North Sea.

The currently declining economic conditions in these commodity-exporting countries seem to illustrate that the "results of the past are no guarantee for the future".

But this doesn't take away the fact that the lives of many Africans have started to change as a result of the "African economic boom", lifting millions of people out of direct poverty and gradually creating a rising well-educated middle class.

And, while the outlook for the commodity-exporters may have darkened, the outlook for the non-commodity exporters remains bright, with growth rates of more than 6 percent in countries such as Côte d'Ivoire, Ethiopia, Kenya, and Senegal.

The other development that altered many people's view of Africa, were the political and security-related improvements.

While Africa is, unfortunately, still the continent where most conflicts take place, the absolute number of conflicts in Africa has declined over the past 25 years.

Many of the wars of the 1990s have ended, and despite some ongoing and intensifying conflicts in North Africa and the Middle East, overall Africa nowadays seems to be more peaceful than in the early 1990s.

Moreover, since the start of this millennium democratic governance has improved and institutional reforms have taken place in many countries, be it from a low level.

At the same time, business environments have taken a turn for the better.

While the starting point was perhaps less than auspicious, it is very encouraging to see that African countries as Benin and Senegal nowadays often appear among the global top 10 reformers in the World Bank's "Ease of Doing Business" indicators.

Due to these promising developments, Africa has become a region that boasts strong business opportunities, both for African entrepreneurs and for foreign ones.

Also Dutch firms are increasingly aware of these opportunities.

For instance, nowadays more than 2,000 Dutch firms are doing business in Africa, ranging from smaller – mainly trade-oriented – companies to major Dutch companies such as Heineken, Unilever and Philips.

Africa is also increasingly important for Dutch exports and imports.

Among the 20 most important emerging countries to which Dutch exports are destined, 9 are situated in Africa, with Togo, Ghana and Senegal even in the top 5. And, according to Statistics Netherlands, about 70 percent of our imported roses come from Africa, where, by the way, also Dutch rose growers are active.

Certainly, Africa works for Dutch entrepreneurs! The second reason why I am delighted to be here is the theme of the conference: Innovation in Finance. In my view, this is a very well-chosen topic.

New technologies are changing our lives and our industries.

Also finance is undergoing a rapid transformation, most visibly in the field of payment transfers, but also in lending, insurance and, importantly, remittances.

The advent of smart phones, for instance, has led to the development of new mobile wallets, which makes it easy to "send money home":

Goodbye long unsafe travels, hello smart phones!

Innovations in finance offer new opportunities to the financial sector.

This may especially be the case in Africa, where these innovations are perhaps less of a "threat" to the traditional banking sector than in "overbanked" Europe. But even more important in my view are the benefits

of innovation for consumers and businesses.

New technology in finance brings more choice, lower costs and greater convenience for users.

This not only holds for advanced countries with well-developed banking sectors, but certainly also for Africa with its many remote areas and still many “unbanked” inhabitants.

Indeed, a sustainable and prudent development and use of new technologies in finance will help to further promote financial inclusion in Africa.

And this is of vital importance.

For this relationship between financial inclusion and economic growth has been clearly established time and again. Financial services are the lifeblood of an economy. Access to financial services allows households to smooth out consumption and invest in their future. For businesses, access to credit enables them to expand and to create jobs. Financial inclusion, in short, is one key for promoting strong and stable economic growth.

Innovations in finance are perhaps the most promising way to advance financial inclusion. That is why it is so important that new technologies in finance are being exploited in Africa, as this will help unlock the continent’s massive “unbanked” population.

For companies involved in supplying this new type of services this implies that they will continuously need to embrace innovative strategies.

In this way, they will be able to shape financial products to fit consumers’ rising financial sophistication needs. Recent history suggests that African companies are able to do so quite successfully.

Kenya, for instance, has led the world in innovative financial services based on mobile telephony by introducing M-PESA and M-PESA-derived systems such as M-Shwari and M-Kesho. This has made several financial services available to anyone with a mobile phone at a fraction of the cost.

Exploiting innovations in finance is one. Strengthening institutions is the other. One of the most fundamental questions in economic science is “why

are some countries richer than others”?

Differences in the quality of legal, political and educational institutions between countries turns out to be an important part of the answer.

Indeed, the strengthening of such institutions often goes hand in hand with higher economic growth: countries with stronger institutions experience stronger economic growth compared to countries with weaker institutions. There are several reasons why this turns out to be the case.

Strong institutions provide for the protection of property rights; foster contract enforcement; create a healthy investment climate and help the development of abilities. This makes for an economic environment in which individuals and firms can cooperate, to everyone’s benefit. And, importantly, an environment in which innovations in finance can develop and thrive. Therefore, strong institutions will enable countries to realize the full benefits of innovations in finance.

Research by the IMF and the World Bank shows that there is still plenty of room for Africa on this front. Continuing efforts to further strengthen institutions are therefore highly needed.

Personally, as an economist, I consider tackling deficiencies in property rights protection as the key challenge for African countries.

After all, as several studies have shown, well-defined and strongly protected property rights go hand in hand with economic growth and development.

Let me conclude.

I am optimistic on Africa. Innovations in finance will help Africa get on in the world, especially when combined with a further strengthening of institutions. It goes without saying that this will also create new opportunities for Dutch firms and entrepreneurs. I hope that this conference will contribute to exploiting these opportunities yet further.

I thank you for your attention and wish you a fruitful conference!