SURVEY BRIEF

Financial Inclusion in Ethiopia

KEY FINDINGS FROM THE ETHIOPIA SOCIOECONOMIC SURVEY 2018/19

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Integrating a financial inclusion module into a multitopic household survey like the Ethiopia Socioeconomic Survey (ESS) makes it possible to explore how different community spatial, demographic, and socioeconomic characteristics affect the financial decisions of individuals and households. In addition, the survey data underpins financial inclusion policymaking and measurement – an agenda spearheaded by the National Bank of Ethiopia through the National Financial Inclusion Strategy (NFIS) efforts. The survey collected information from households and individuals on several financial matters including current levels of access to finance based on the prevalence of account ownership, use of financial services, types of institutions used, and their proximity to the household; household and individual financial decisions about savings, credit, insurance, and payments; and financial behavior, knowledge, and attitudes. The data provides a rigorous, multidimensional picture of where the country stands in expanding access to formal financial services and reaching the NFIS goals.

This brief summarizes the ESS Financial Inclusion survey report, emphasizing on key findings on account ownership, gender gap, financial behavior and knowledge of financial institutions and products.[1]

[1] This brief is a summary of the Ethiopia Socioeconomic Survey- Financial Inclusion report. Ethiopia - Socioeconomic Survey 2018-2019 (worldbank.org)

KEY FINDINGS

- In **2018/19 about 30.5 percent of adults** (18 years of age and older) **had an account at a formal financial institution**, up from 21.8 percent in 2015/16. **Financial inclusion at the household level** (meaning that at least one adult in the household has an account) **rose from 35 percent** in 2015/16 **to 45.9 percent** in 2018/19.

- The **percentage of women owning a bank account** increased **from 17.5 percent** in 2015/16 **to 22.7 percent** in 2018/19 overall, but the **gender gap has widened from 8.9 to 16.2 percentage points.** More focus on financial including women household members is crucial.

- **Financial inclusion is higher among males, those who reside in urban areas, those more educated and wealthier.**

- About **25.6 percent of Ethiopians reported saving of at least 150 Birr over the last 12 months.** Of those who save, 72.9 percent said that the reason was to be prepared in case of an emergency.

- **Most households save in formal financial institutions**. However, informal sources such as friends and relatives are the most important sources for getting loans.

- Approximately, **15.5 percent of households reported taking loans in the past 12 months**. Purchase of agricultural inputs, food and non-food items are the major reasons for borrowing.

- **Majority of respondents (about 50 percent) rely on informal insurance arrangements like *Iddir***.

- Most respondents are **aware of banks**; they are **least familiar with insurance institutions**. Financial terms related to credit, such as ***collateral*** and ***credit report***, are least familiar to adults, especially those in rural areas.

- **Majority of respondents (about 93 percent) rely on cash and paper-based transactions for receiving and sending payments**.

FINANCIAL ACCOUNT OWNERSHIP

Account ownership at a financial institution, often used as a proxy for financial inclusion, would allow individuals to use formal financial services to save, take out a loan, transfer money, receive wages, and acquire insurance. It is defined as having an account at a bank (public or private), microfinance institution, Savings and Credit Cooperative Organization (SACCO), mobile money application (M-Birr and hello cash), or in any other formal financial institution. About 30.5 percent of Ethiopians 18 years and older had an account at a formal financial institution, an impressive change from the 21.8 percent reported in three years ago.

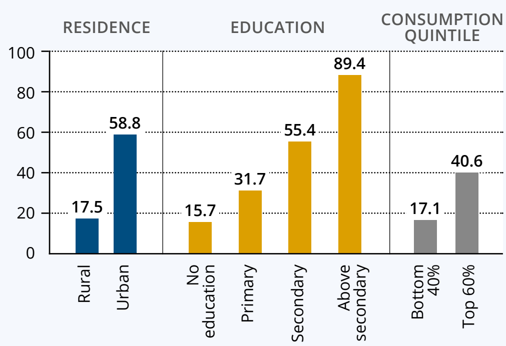
Overall, financial inclusion is improving in Ethiopia – in part due to the strategic efforts of the NFIS which included a heavy focus on increasing core infrastructures and access points, which has enabled 45.9 percent of households (where at least one member has an account) to gain access to an account an increase from 35 percent in 2015/16.

However, when accounting for location differences, the trends depict a continuing divide between rural and urban population. While account ownership among urban individuals stood at 58.8 percent, only 17.5 percent among the rural residents own an account (**Figure 1**). This unequal pace of financial inclusion can partly be attributed to the lack of financial access points in the rural areas. According to the 2018/2019 ESS Survey, average distance to a financial access point for rural dwellers is 15km as compared to an average of 1km distance for an urban resident. In some regions like Somali, the residents have to travel up to 42km to reach an access point.

Account ownership in Ethiopia also varies by education and poverty levels. There are substantial differences between those with no education and with some education; and individuals or households from the poorest and the richest consumption quintile (**Figure 1**). In addition, account ownership among young adults (aged 18-24) stands at 24.1 percent as compared to 32.4 percent of adults older than 25 years. The age gap was found out to be larger among urban individuals as compared to their rural counterparts.

Insufficient funds to use an account effectively (48.8 percent), excessive distance to nearest financial institution (11 percent), and poor understanding of the benefits of owning an account (10.7 percent) are the main reasons for not owning a financial account.

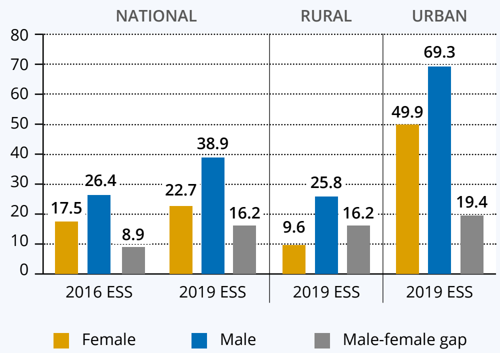
Figure 1
Account ownership gaps by residence, education and consumption quintile, 2019, Percent



GENDER GAP IN ACCOUNT OWNERSHIP

There is singificant gender differences in account ownership. Nationally, about 38.9 percent of Ethiopian men are financially included but only about 22.7 percent of women. While female account ownership went up from 17.5 percent in 2015/16 to 22.7 percent in 2018/19, the gender gap still expanded from 8.9 to 15.2 percentage point (**Figure 2**).

Figure 2
Trends in Gender Gap in Financial Inclusion, 2016 and 2019, Percent



The differences in account ownership are even starker for rural women. Whileaccount ownership for rural males increased from 16 percent to 25.8 percent (a growth of 9.8 percentage points), the same for rural females only grew by 2.1 percentage points and currently stands at 9.6 percent.

Although access to financial services is improving, the widening gender gap highlights a need for policymakers to now prioritize efforts around further including women within the financial sector in order to meet NFIS goals.

FINANCIAL DECISIONS OF HOUSEHOLDS & INDIVIDUALS

Key financial decisions by households and individuals that the ESS financial inclusion module included are savings, loans and insurance. About 25.6 percent of individuals saved in the past 12 months though 40.3 percent of households reported saving, i.e. at least one member have saved. Saving practice is higher in urban areas compared to rural. In urban areas 44 percent of individuals and 63.1 percent of households report having saved in the past 12 months compared to 17.3 percent of individuals and 29.4 percent of households in rural areas. The major reason (over 70 percent of those who saved) for saving was to be prepared in case of emergency. Among the savers, while 47.4 percent reported saving in only in formal financial institutions (see **Figure 3**), the frequency of saving was found to be more consistenet and regular through informal channels like associations or *Equb*.

Only 15.5 percent of households access a loan in the past 12 months, with majority (35 percent) borrowing from relatives. Only 19.2 percent and 11.6 percent of borrowers

Figure 3
Saving locations and loan sources, 2019, Percent

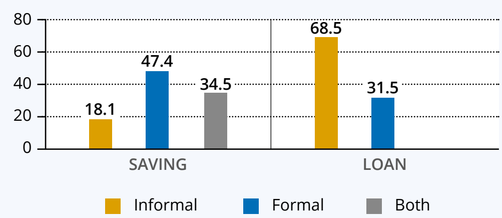
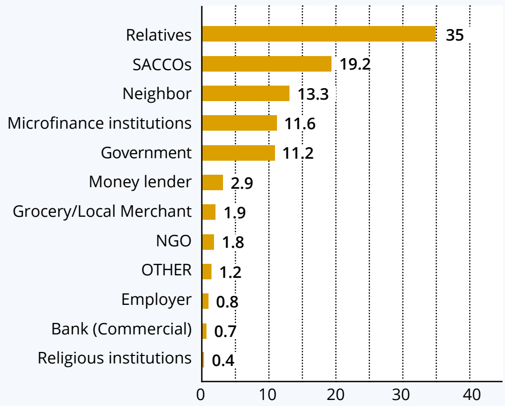


Figure 4
Loan sources, 2019, Percent



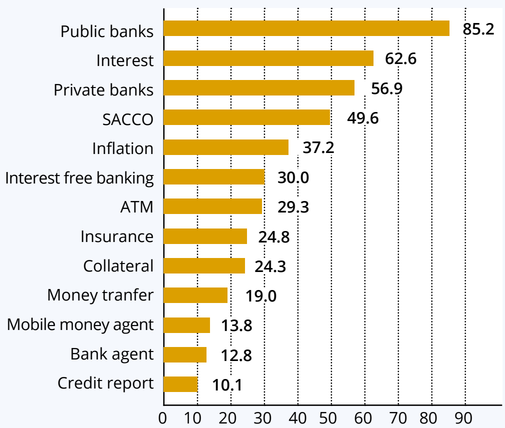
turned to formal channels like SACCOs and MFIs, respectively (**Figure 4**). Women were found to be more reliant on relatives for loans (43.8 percent vs 32.5 percent men). Purchase of agricultural inputs, food and non-food items are the major reasons for borrowing.

Only 7.8 percent of individuals have formal insurance coverage. However, informal insurance coverage much is more widespread. For example, about 50 percent reported having an *Iddir* membership.

KNOWLEDGE OF FINANCIAL SERVICES AND PRODUCTS

Knowledge of financial services and their benefits can help drive account ownership and then access to financial services. The survey finds a mixed picture in knowledge of financial services and products (**Figure 5**). On financial institutions, most respondents are aware of publicly owned banks. This might be expected due to the long history of service and largest coverage of the publicly owned Commercial Bank of Ethiopia. Insurance agencies, SACCOs and interest-free banking are less known, despite higher usage, among rural adults than urban adults. Financial terms related to credit, such as *collateral* and *credit report*, are least familiar to adults.

Figure 5
Knowledge of financial institutions, services and products, 2019, Percent



DIGITAL FINANCIAL SERVICES

An overwhelming majority, 93 percent of individuals, reported receiving government payments (including wages, transfers) in cash. Among the urban populace, usage of non-cash channels (like formal accounts) for payments was found to be 16.7 percent while the same for rural areas was only 1.2 percent. These trends leave a significant opportunity to shift payments to digital means to move towards digitalization. Out of all adults who reported having a bank account, only 28.8 percent own an ATM / Debit card, and 11.1 percent own a mobile money product (a significant improvement since 2015/16 when only 15 and 5 percent of account holders had used ATM/ Debit card and Mobile money products, respectively). Yet there is significant potential, especially for mobile money, given 37.8 percent of adults have access to mobile phones.

BOX 1 SURVEY METHODOLOGY

The Ethiopia Socioeconomic Survey (ESS) 2018/19 interviewed 6,770 households in all areas of the country. The sample is representative at region level. It is also representative at rural and urban levels. ESS is a multi-topic household survey. It includes Agriculture, Household, and Community questionnaires. Several household demographic and socioeconomic variables were collected at individual, household and community levels. The Financial Inclusion module was incorporated into the household questionnaire. The module asked about savings, insurance, credit, banking practices, financial knowledge, and financial capability. The questionnaires were fielded at different times. The financial inclusion module was fielded with the other Household module and was fielded in June-August 2019. Eligible individual respondents for the financial inclusion module were household members 18 years and older at the time of the survey—14,862 responded. More than 99.5 percent responded for themselves; only 75 individuals were not available at the time of the survey. The credit and loan questions were asked at the household level, and the most knowledgeable household member responded.