FINANCIAL INCLUSION IN AFRICA: THE ROLE OF INFORMALITY

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Global Findex: Goal to collect comparable cross-country data on financial inclusion by surveying individuals around the world:

— Measure the use of formal and informal financial services, using consistent methodology across economies and time

— Added questions on the use of financial services - payments, savings, credit, and insurance – to the 2011 Gallup World Poll

— Surveys 1,000+ individuals in 148 countries; overall nationally representative data based on 150,000+ interviews of adults aged 15+

— Funded by a 10 year grant from the Bill & Melinda Gates Foundation (through 2020)

— 2014 and 2017 next years of full data collection

— Motivate and track policies to expand financial services to the poor
Over 2.5 billion adults do not have a formal account

41% of adults in developing economies are banked—compared to 89% of adults in high-income economies

37% of women in developing economies are banked—compared to 46% of men

23% of adults living below $2 per day have a formal account
23% of adults in Africa are banked compared to 41% of adults in developing countries.

Wide variation of account ownership across sub-regions, from 12% in Central Africa to 51% in Southern Africa.

In several countries fewer than 5% of adults have accounts, including Central African Republic and Democratic Republic of Congo.
Women, rural residents, youth, adults with little education and the poor are the least likely to have a formal account.

Adults in the richest income quintile in Africa economies are four times as likely to be banked as adults in the poorest quintile.

Compared with other regions, the gender gap in Africa is relatively small.
Positive but imperfect correlation between account penetration and financial depth raises questions regarding cross-country differences in financial use and access and suggests room for policy reforms.
82% of unbanked in Africa choose “Not enough money” and 36% of unbanked in Africa cite it as only reason. This compares to 66% and 30%, respectively, in developing countries overall.

Cost, lack of documents, and distance cited by more than 25% of unbanked in Africa, a significantly higher number than in developing countries in general.
Cost to open checking account vs account penetration

Self-reported barriers to the use of accounts closely related to objective measures of costs, documentation requirements and bank branch penetration.
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14% of adults in Africa use a mobile phone to pay bills, send or receive money in the past year.

68% of adults in Kenya use mobile money technology, driven by the early success of M-PESA.

51% of adults in Africa who use mobile technology to transfer money are otherwise unbanked.

5% of adults in all developing economies use mobile money technology.
36% of adults in Africa saved in the past year, compared to 31% in developing countries.

13% of adults in Africa (35% of savers) saved using a formal financial institution.

19% of adults in Sub-Saharan Africa (48% of savers) saved using a community-based method. 34% of savers report having used a *only* community saving clubs.
Formal savings in Africa by individual characteristics
Adults saving at a formal financial institution in the past year (%)

Formal savings most likely among men, adults living in urban areas, adults between ages 25-64, adults with higher education, and adults in the highest income quintiles.

Informal savings most likely among women, adults living in urban areas, adults with a primary education or less, and the poor.
44% of adults in Africa have borrowed money in the past 12 months, compared to 34% of adults worldwide.

38% of adults in Africa have borrowed from family and friends, including 28% who report this as their only source of borrowing.

5% of adults in Africa have borrowed from a formal financial institution.

3% of adults in Africa report having a credit card.
Compared to developing countries in general, adults in Africa are more likely to report outstanding loans for funerals or weddings (4%), school fees (8%) and emergency or health purposes (15%).

Adults in Central Africa are most likely to report an outstanding loan in each of these categories.
Determinants of Account Ownership, Savings, and Credit

- **Account ownership**: women, poorer and less educated adults, and adults living in rural areas are least likely to have an account. Employment status is also an important determinant.

- **Savings, formal vs informal vs none**:.
  - **Formal savings**, compared to not savings at all, are more likely for men, the rich, more educated, those living in urban areas, and those employed for an employer.
  - The determinants for **saving informally**, compared to not saving at all, are similar to formal savings, however, urban and employed for employer are no longer significant.

- **Credit, formal vs informal vs none**:.
  - **Formal credit**, compared to no credit, is more likely the richer, more educated and those employed by an employer.
  - Access to **credit from informal sources** such as family and friends – the main source of credit in Africa --, compared to no credit at all, is not related to income
To conclude

- Despite financial sector in Africa over the past decades, **almost 500 million adults in Africa remain outside the formal financial system.**

- **Data show deep disparities across sub-regions and individual characteristics** in how adults use financial services.

- Unbanked adults cite the lack of money, high costs, distance, and documentation requirements as barriers. **Removing financial, physical, and bureaucratic barriers to expand financial inclusion is challenging and will require addressing underlying structural issues.**

- **Technological innovations** such as mobile financial services and **new business models** such as agent banking **offer new opportunities to expand financial inclusion in a cost-effective manner.**

- For financial inclusion efforts to be successful, policy must be tailored to systemic failure in each setting.
Global Findex Suite of Products
— Financial Inclusion Data Portal
— World Bank eAtlas of Financial Inclusion
— The Little Data Book on Financial Inclusion 2012
— Global Financial Inclusion Microdata Databank
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Reference citation for the Global Findex:
Findex Database.” Brookings Papers on Economic Activity.

www.worldbank.org/globalfindex
GLOBAL FINDEX data is available for 38 African countries. A star indicates that country is excluded from the regression analysis due to data availability.