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FINDEX NOTES

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The Global Findex Database

Financial Inclusion in Sub-Saharan Africa

New data from the Global Financial Inclusion (Global Findex) database show that 24 percent of adults in Sub-Saharan Africa have an account at a formal financial institution, and 16 percent use a mobile phone to pay bills or send or receive money. The data also show deep disparities across subregions and individual characteristics in how adults use financial services. The database can be used to track the effects of financial inclusion policies within the region and develop a deeper and more nuanced understanding of how Africans save, borrow, make payments, and manage risk.

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Recent decades have seen positive developments in Sub-Saharan Africa's financial systems. Yet hundreds of millions of Africans still lack access to affordable financial services. As in other regions, careful attention is now being paid to how to expand the reach of the formal financial sector (Beck and others 2011).

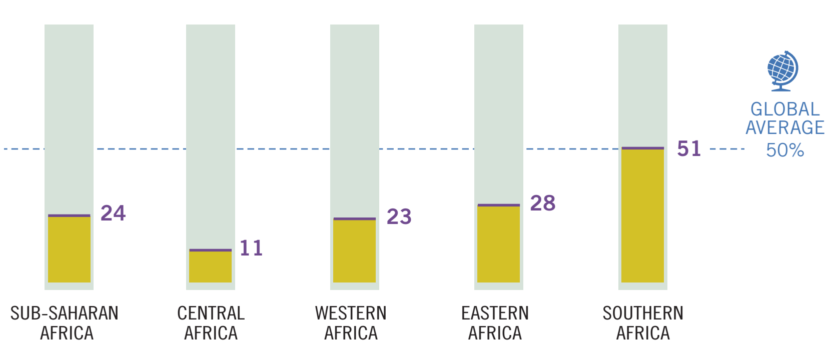
Until now, in Africa and elsewhere, little had been known about the extent of financial inclusion and the degree to which such groups as the poor, women, and youth are excluded from formal financial systems. Systematic indicators of the use of different financial services had been lacking for most economies.

The Global Findex database provides such indicators, measuring how people in 148 economies save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note features Global Findex data based on more than 35,000 interviews across 37 economies in Sub-Saharan Africa.

FIGURE 1

Account penetration

Adults with an account at a formal financial institution (%)



Source: Demirguc-Kunt and Klapper 2012a, 2012b.

Who Is Most Likely to Have an Account?

In Sub-Saharan Africa 24 percent of adults report having an account at a formal financial institution, with the share ranging from 11 percent in Central Africa to 51 percent in Southern Africa (figure 1).[1] In several economies—such as the Central African Republic and the Democratic Republic of Congo—fewer than 5 percent of adults have a formal account.

Men are more likely than women to have a formal account, though the gender gap is relatively small compared with that in other regions. Within economies, adults in the richest income quintile are on average almost four times as likely to have a formal account as those in the poorest. Adults with a tertiary education and those ages 25–64 are also more likely to report having a formal account.

What Are the Barriers?

Why do almost 400 million adults in Sub-Saharan Africa remain outside the formal financial system? The most frequently cited reason for not having a formal account in the region is lack of enough money to use one. This is the response given by 81 percent of adults without a formal account, with 30 percent citing it as the only reason (multiple responses were permitted). But cost, distance, and documentation requirements are cited by more than 30 percent of non-account-holders.

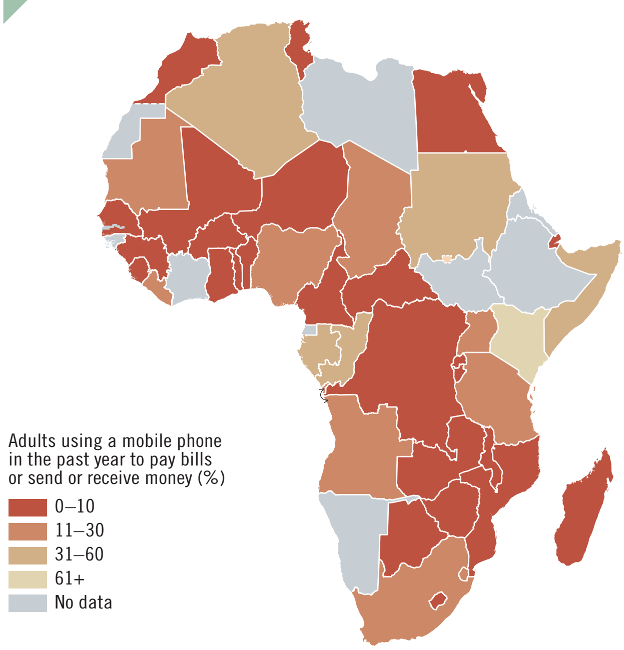
Lack of required documents is a commonly cited reason for younger adults, and distance from a bank is an important barrier for rural adults. In Eastern and Southern Africa fixed fees and high costs are important obstacles. In Uganda, for example, the annual cost of maintaining a checking account is equivalent to 25 percent of GDP per capita. Not surprisingly, 54 percent of non-account-holders there cite cost as a reason for not having an account.

How and Why Are Accounts Used?

The majority of adults with a formal account in Sub-Saharan Africa make deposits and withdrawals over the counter at their financial institution, though account holders in Southern Africa most commonly rely on automated teller machines (ATMs). Data from financial regulators show that there are more than 50 ATMs per 1,000 individuals in Southern Africa while there are fewer than 5 per 1,000 individuals in other African subregions (CGAP 2010). Across Sub-Saharan Africa, 16 percent of adults (and 64 percent of account holders) have a debit card.

MAP 1

Mobile money users in Africa



Source: Demirguc-Kunt and Klapper 2012a, 2012b.

In Sub-Saharan Africa 38 percent of account holders (and 9 percent of adults) use their account to receive remittances—compared with only 14 percent of account holders (and 7 percent of adults) worldwide. In Lesotho, Somalia, Swaziland, and Zimbabwe more than 50 percent of account holders report using their account to receive money from family members living elsewhere.

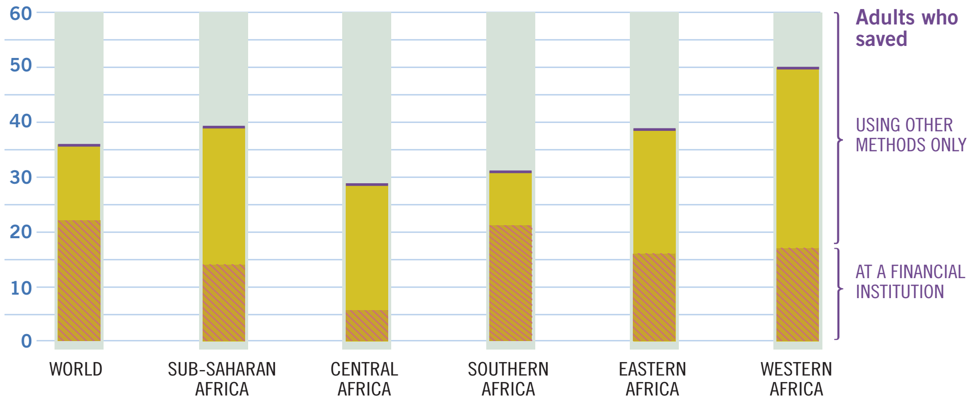
The Spread of Mobile Money

Although people without an account at a formal financial institution may lose out on the security and reliability that such a relationship provides, they often employ fairly sophisticated methods to manage their day-to-day finances and plan for the future. A growing number are using new alternatives to traditional banking made possible by the rapid spread of mobile phones. Mobile

FIGURE 2

Formal and informal saving

Adults saving any money in the past year (%)



Source: Demirguc-Kunt and Klapper 2012a, 2012b.

money—sometimes a form of "branchless banking"—has allowed millions of people who are otherwise excluded from the formal financial system to perform financial transactions relatively cheaply, securely, and reliably.

Mobile money has achieved the broadest success in Sub-Saharan Africa, where 16 percent of adults report having used a mobile phone in the past 12 months to pay bills or send or receive money (map 1). In Kenya, where the M-PESA service was commercially launched in 2007, 68 percent of adults report using mobile money. The share using mobile money is less than 5 percent in all other regions.

Many mobile money users are not otherwise included in the formal financial system. In Kenya 43 percent of adults who report having used mobile money in the past 12 months do not have a formal account. In Sudan 92 percent do not.

Saving Widespread

Saving is widespread in Sub-Saharan Africa: 40 percent of adults report having saved or set aside money in the past 12 months, compared with a global average of 36 percent (figure 2). But only 14 percent of adults (and 35 percent of savers) report having saved at a formal financial institution. Formal saving is relatively more common in Nigeria, South Africa, and Kenya.

Close to 100 million adults in Sub-Saharan Africa use community-based savings methods such as rotating savings and credit associations. Across the region, 19 percent of adults (and 48 percent of savers) report having saved using a savings club or person outside the family. The use of community-based methods to save is significantly more common among women and those living in Western Africa, where a common form of savings club is known as a *susu*.

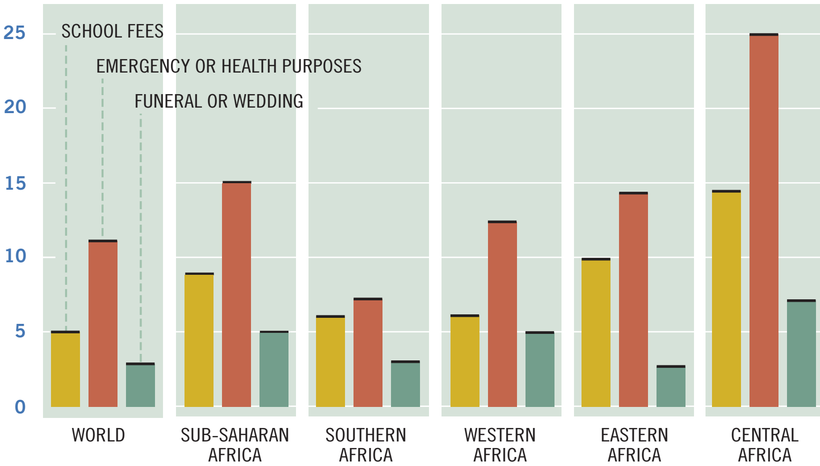
Informal Borrowing Prevalent

The rate of origination of new loans is relatively high in Sub-Saharan Africa: 47 percent of adults report having borrowed money in the past 12 months, compared with 34 percent worldwide. Informal borrowing is particularly prevalent: 40 percent of adults in the region report having borrowed money from friends or family in the past 12 months,

FIGURE 3

Reasons for loans reported by borrowers

Adults with an outstanding loan for purpose specified (%)



Note: World excludes high-income economies.
Source: Demirguc-Kunt and Klapper 2012a, 2012b.

including 29 percent who report this as their only source of borrowing. Only 5 percent report having originated a new loan from a formal financial institution. Adults in Central Africa are particularly likely to report using store credit (11 percent) and borrowing from a private informal lender (8 percent). Regionally, only 3 percent of adults report having a credit card.

Compared with other regions, adults in Sub-Saharan Africa are more likely to report outstanding loans for funerals or weddings (reported by 5 percent), school fees (9 percent), and emergency or health purposes (15 percent). Adults in Central Africa are the most likely to report an outstanding loan in each of these categories (figure 3).

Only 3 percent of adults in Sub-Saharan Africa report having personally paid for health insurance. And only 6 percent of those who work in farming, forestry, or fishing report having purchased crop, rainfall, or livestock insurance in the past 12 months.

Conclusion

As the first public database of indicators that consistently measure people's use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

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1. Subregional classifications are based on those of the United Nations Statistical Division and the World Bank. The analysis includes Sudan in the Central Africa subregion. The regional and subregional aggregates omit economies for which Gallup excludes more than 20 percent of the population in the sampling because of security risks or inaccessibility. In Sub-Saharan Africa these excluded economies are the Central African Republic, Madagascar, and Somalia.

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The reference citation for the Global Findex data is as follows:
Demirguc-Kunt, A., and L. Klapper. 2012. "Measuring Financial Inclusion: The Global Findex Database." Policy Research Working Paper 6025, World Bank, Washington, DC.