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FINDEX NOTES

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The Global Findex Database 2014

Financial Inclusion in the Middle East

About 14 percent of adults in the Middle East have an account at a financial institution or through a mobile money provider, virtually unchanged from 2011. Account ownership is highly unequal: Women, poorer adults, and young people remain largely outside the financial system. Digital payments and formal savings have yet to take off in the region. Drawing on new data from the 2014 Global Financial Inclusion (Global Findex) database, this note measures the extent of account ownership in the Middle East and explores how people use their accounts. It concludes by outlining ways governments and businesses can help the region's 85 million unbanked adults gain access to financial services, and encourage more active use of accounts.*

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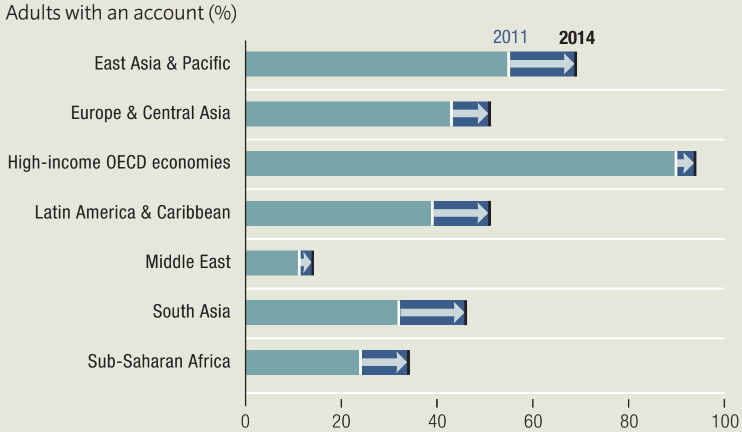
Financial inclusion—access to and use of financial services—is critical in reducing poverty and achieving shared economic growth. When people can participate in the financial system, they are better able to start and expand businesses, invest in their children's education, and absorb financial shocks. Before 2011, little was known about the financial system's global reach, including how many people owned accounts and the extent to which such groups as women and the poor were excluded. The first Global Findex database was a landmark, delivering unprecedented insights into how people in more than 140 economies were saving, borrowing, making payments, and managing risk.

Three years later, the second edition provides an update on the indicators collected in 2011 while adding new data on mobile money and domestic payments. As in the first edition, indicators are constructed with survey data from interviews with nationally representative and randomly selected adults age 15 and older—about 150,000 people were surveyed in 143 economies during the 2014 calendar year.

FIGURE 1

The Middle East trails developing regions in account ownership growth between 2011 and 2014

Adults with an account (%)



Source: Global Findex database.

Account Ownership Low and Uneven

Adults all over the world are rapidly joining the formal financial system. Globally, 62 percent of adults have an account at a financial institution—such as a bank, credit union, cooperative, or microfinance institution—or through a mobile money provider, up from 51 percent in 2011. In developing economies, 54 percent of adults have an account, an increase from 41 percent in 2011.

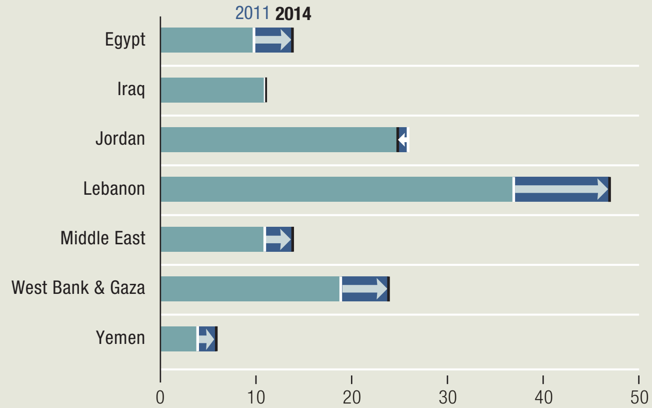
Progress has been slow in the Middle East, however, with account ownership rising by a statistically insignificant 3 percentage points to 14 percent, the lowest rate among developing regions (figure 1). Certain economies experienced increases, especially Lebanon, where account ownership grew by 10 percentage points to 47 percent. The

* For the purposes of this note, the Middle East comprises Egypt. Iraq, Jordan, Lebanon, the West Bank and Gaza, and Yemen.

FIGURE 2

Account ownership largely stagnant in Middle Eastern economies between 2011 and 2014

Adults with an account (%)

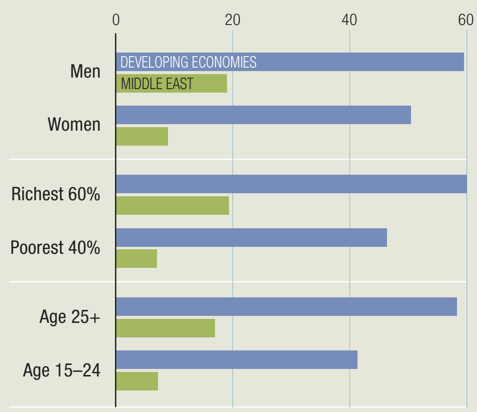


Source: Global Findex database.

FIGURE 3

Unequal account access in the Middle East

Adults with an account (%), 2014



Source: Global Findex database.

West Bank and Gaza followed, with account ownership rising by 5 percentage points to 24 percent. Everywhere else, however, account ownership was largely stagnant (figure 2).

The region struggles with unequal account ownership: Women, poorer adults, and young people are excluded in large numbers. Today, 19 percent of men have an account, compared with just 9 percent of women—a gender gap of 10 percentage points. From this perspective, the region does not appear dramatically worse off than the developing world as a whole, which faces a 9 percentage point gender gap (figure 3). But the Middle East suffers from the widest such gap in relative terms: Men are almost twice as likely as women to have an account. Moreover, account ownership among women was basically flat compared with 2011, while it rose by 4 percentage points among men. The exceptions were Lebanon, where female account ownership rose by 13 percentage points, and the West Bank and Gaza, where it doubled.

Rich adults in the Middle East are more than twice as likely as poor adults to have an account. In relative terms, this is the biggest income gap among developing regions. Just 7 percent of adults in the poorest 40 percent of households have an account, basically unchanged from 2011. But account ownership among adults in the richest 60 percent of households grew by 4 percentage points to 19 percent. In certain economies the poor did post big gains in account ownership—notably Lebanon, where it rose by 50 percent, and the West Bank and Gaza, where it doubled. These gains were offset by Egypt—the most populous country in the Middle East—where account ownership grew faster among the rich than the poor. Regionally, the income gap looks even more severe when the richest 20 percent of adults are compared with the poorest 20 percent: Those at the top are more than four times as likely to have an account compared with those at the bottom—by far the largest such disparity among developing regions.

Young people are almost totally excluded from the financial system. Across the Middle East, about 8 percent of adults ages 15-24 have an account, mostly unchanged from 2011. By contrast, account ownership among adults age 25 or older grew by 4 percentage points to 17 percent. Older adults are therefore twice as likely as younger ones to have an account, leaving the Middle East with the developing world's largest relative age gap.

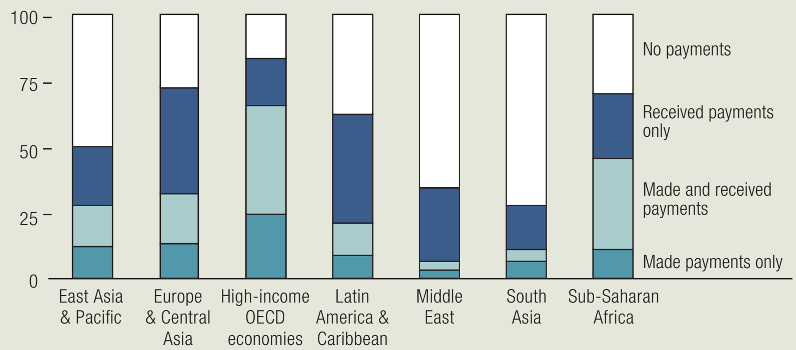
Weak Use of Accounts for Payments and Savings

Account ownership is a first step toward financial inclusion. But the benefits really come from people actively using their accounts to save and make payments. The Global Findex provides the world's most detailed measure of how people make payments for things like school fees and utility bills. It also tracks public and private sector wage payments as well as government transfer payments. In the Middle East, about 37 percent of account holders have what the Global Findex refers to as a high-use account—one

FIGURE 4

Accounts rarely used to make payments

Adults with an account by its use for payments in the past year (as % of account owners), 2014



Source: Global Findex database.

used for cash management, making payments, or saving money in the past year—compared with 57 percent of account owners in the developing world overall. Only South Asia has a lower figure among emerging regions.

Why is account use so low in the Middle East? One reason: Digital payments have yet to catch on across the region, with two-thirds of account holders neither making nor receiving payments through their account (figure 4). That figure exceeds 70 percent in the region's two largest countries, Egypt and Iraq. Low formal savings is another factor: Just a fifth of account holders keep their savings in a bank account or other formal financial institution, while a third use semi-formal savings clubs or choose some other method. About half of account owners do not save at all.

Savings provide a financial buffer against unexpected shocks, such as the death of a breadwinner, job loss, extreme weather, or political turmoil. In the Middle East, just 30 percent of adults save money, and only 4 percent use formal savings—the lowest figures in the developing world. This puts millions of adults at risk of sinking into poverty in a region battered by political instability.

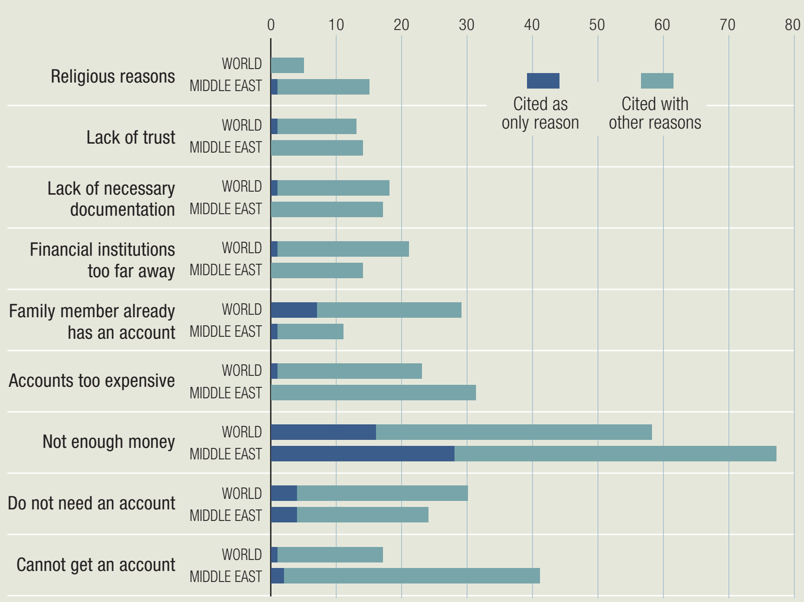
Poverty Cited as Main Barrier to Account Ownership

Worldwide, 2 billion adults lack access to an account. By asking these adults why they are unbanked, the Global Findex survey exposes barriers to financial inclusion. On average, unbanked adults give two reasons for not having an account. The most common is lack of enough money to use an account (figure 5). Globally, 59 percent cited this as a reason for being unbanked—although only 16 percent cited it as the sole reason. Poverty weighs even more heavily in the Middle East, with 77 percent of respondents citing it as a reason for not having an account. Also notable: 28 percent of unbanked adults in the Middle East identified poverty as the only reason. That is the highest such rate among all developing regions other than Sub-Saharan Africa, where the figure is also 28 percent.

FIGURE 5

Financial exclusion driven by poverty

Adults without an account reporting barrier as a reason for not having one (%), 2014



Source: Global Findex database.

The next most commonly cited barrier in the Middle East is the inability to get an account—cited by 41 percent of unbanked adults—with no significant difference between men and women. Contrary to what might be expected, religion does not appear to be a major barrier to account ownership in the Middle East—although religious belief is considered more important in the Middle East than in any other developing region. Fifteen percent of unbanked adults cited religious reasons, which is three times the global rate. Yet just 1 percent cited religious reasons as the only factor, which is roughly the same as the worldwide figure. Across the region and the world as a whole, just 4 percent of unbanked adults said lack of need is their only reason for not having an account, underscoring the unmet demand for financial services among much of the world's unbanked population.

Using Digital Payments to Reach the 85 Million Unbanked and Increase Account Use

The Middle East is home to 85 million of the world's 2 billion unbanked adults. And despite the region's financial inclusion woes, there is room for optimism: the 2014 Global Findex shows that businesses and the government could help bring millions of people into the financial system by abandoning cash as a payment method.

Wages are one place to start. Currently, almost 80 percent of wage-employed adults in the region are paid in cash. If businesses shifted the payment of wages from cash into accounts, the number of adults in the region with an account could increase by up to 6 million—including up to 4 million in Egypt alone. Directly depositing public wages into accounts could reduce the number of unbanked adults by up to 2.5 million regionally.

Payments for the sale of agricultural products offer another opportunity. Across the region, adults who receive such payments are almost exclusively paid in cash. The number of adults with an account could increase by up to 6 million if payments for agricultural goods shifted from cash into accounts.

Moving these payments into accounts could provide many potential benefits for both senders and receivers. It could improve the efficiency of payments by increasing their speed and reducing the cost of sending and receiving them. Digitizing payments could also enhance the security of payments and thus lower the incidence of associated crime. And it could reduce possibilities for corruption by making payments more transparent.

There are also opportunities to increase account use. In the Middle East, 70 percent of account holders—about 10 million adults—still pay utility bills in cash. At the same time, 31 percent of account holders—roughly 4.5 million adults—pay school fees in cash. The benefit of moving such expenses into accounts goes well beyond convenience; research shows that people often have to travel and queue to make such payments—forcing them to miss work and lose out on wages as a result.

Conclusion

Account ownership is largely stagnant in the Middle East, with just 14 percent of adults owning an account—largely unchanged from 2011. Men and the richer adults did make some progress, but women, poorer adults, and young people still struggle to get a foothold in the formal financial system. To make matters worse, infrequent use of digital payments and formal savings means account owners are not enjoying the full benefits of financial inclusion. By presenting detailed data on how adults save, borrow, make payments, and manage risk, the Global Findex database reveals ways that governments and businesses can help people in the region more fully benefit from financial services.

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The reference citation for the 2014 Global Findex data is as follows:

Demirguc-Kunt, Asli, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden. 2015. "The Global Findex Database 2014: Measuring Financial Inclusion around the World." Policy Research Working Paper 7255, World Bank, Washington, DC.

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