Financial Exclusion Restricts Entrepreneurship in Ethiopia

Ethiopia has been ranked as the 150th hardest country in the world in terms of access to credit and the development of micro and small enterprises (MSEs) is hindered by the availability of financial services. Though efforts have been made to improve things, only 1.9% of small enterprises have credit facilities. Among firms that applied for a loan or line of credit in the last fiscal year, 57.3% and 87.9% of applications submitted by micro and small firms respectively were rejected.

Access to banking services is a national issue with less than 8% of Ethiopians having a formal bank account. This issue is particularly prevalent for young people, who are struggling to access financial services and build up enough finance to start a business. Additionally, the majority of people in rural areas, and poor people from urban areas, are financially excluded as they struggle to access financial services.

Financial inclusion is defined as the availability and equality of opportunities to access financial services.

A team of local PEP researchers sought to identify the factors which affect financial inclusion among young people in Ethiopia.
people in Ethiopia with the aim of informing new policies to improve access to financial services.

**The Analysis:**

The research team conducted the study by gathering information using the Community Based Monitoring System (CBMS) from 4,928 youth who are residing in three areas of Addis Ababa and Arsi administrations. They wanted to find out more about the levels of financial inclusion in young men and women, as well as the level of entrepreneurship amongst youths in these areas.

Additionally, they wanted to discover more about the impact of being financially included on the welfare of young men and women and if young people are more likely to be financially excluded due to religion or culture compared to factors such as age, gender or financial literacy.

**Key Findings:**

The results highlight issues related to financial inclusion amongst young people in Ethiopia.

- Specific to the study areas, only 34.68% of the youth surveyed were financially included, with 65.32% financially excluded.
- Additionally, only 0.47% of youth had what is considered to be a high level of financial inclusion, i.e., they receive remittance service, have a savings account and receive credit simultaneously.
- Young men are more financially included than young women. Specifically, 37.70% and 32.37% for men and women, respectively.
- If a young person is financially literate, they are more likely to actively save money and seek financial inclusion.
- The more that young people have access to technology the more financially included they are.
- The repayment period and loan sizes negatively affects financial inclusion of young people in the study area.
- More people are financially excluded in rural areas than urban areas.
- Young women who are financially included generate a higher yearly income than those who are excluded.
- Religion and culture affects negatively the participation of people in financial service provision. Responses shows that those who are strictly following their religion are less likely to be financial service users than those who do not rigidly follow dogma.
- The data also revealed that there is a negative relationship between age and financial inclusion. Whilst older people are more likely to be financially included, once they reach a certain age the likelihood of being financially included diminishes.
- 96.04% of surveyed young people do not have their own business, with more than half (51.82%) indicating that the main reason is lack of finance.
Conclusions and Policy Implications:

The findings of this study highlight the need to institutionalize firm-level or nationwide policies which promote financial literacy and encourage people, particularly female youth, to save.

The cost of borrowing needs to be reduced and e-payment periods adjusted to allow borrowers a better opportunity of paying back their debt.

Policies needed to allow for more technology – such as mobile and internet banking – to be introduced to the financial services market.

There should also be efforts to consider religion when designing financial service provision, as this is one of the barriers of financial inclusion.

Furthermore, policy needs to improve the regulatory and legal environment and promote youth entrepreneurship to allow young people to start businesses and increase their access to finance.

- Stakeholders should support or reinforce informal financial service providers as they are useful for allowing more people to become financially included and are popular among older people who are gradually moving away from formal financial inclusion as they age.
- Improve information outlets that deliver relevant and up to date financial information.
- Incorporate business and finance subjects in early schooling which helps to develop financial literacy.
- Promote entrepreneurship to women and girls, particularly those living in rural areas.
- Revise assessment criteria of female applicants for loans to include ‘softer’ assessment criteria than the ones that are currently in place.
- Accept mobile money transfer platforms as a launch pad to financial inclusion for many.
Why Education is the Key to Improving Financial Inclusion in Uganda

Editor’s Notes
The research article featured below is lifted from the policy brief entitled “Why education is the key to improving financial inclusion in Uganda” prepared by Margaret Banga, Johnson Kagugube, John Nsubuga, and Allan Kyebambe of Development Research and Training (DRT), Uganda.

Key Messages:

- Mass unemployment amongst young people in Uganda needs urgent attention;

- Making access to bank loans easier so that young people can start their own businesses is a key part of the solution; and

- Financial institutions should reduce interest rates and cut banking fees to help give young people a start.

High Unemployment and Low Financial Inclusion for Youth in Uganda

Uganda has one of the youngest populations in the world. 78% of people are below the age of 30, and those aged 18-30 (approximately 7.8 million people) make up 23% of the population (UBOS, 2016). Around 64% of the unemployed in Uganda are young people, meaning the country has one of the highest levels of youth unemployment in the world (UBOS, 2016).

There is a significant lack of jobs available for young people. To help resolve this, youths need to start their own businesses and become employers themselves. However, it’s difficult for people to get the money they need to start a new company or expand an existing one. For instance, in Katakwi, only 14.5% of young entrepreneurs were able to access credit.

The World Bank (2014) states that financial inclusion can boost self-employment, improve consumer spending, help the local economy, and reduce inequality. It’s recognised as critical to reducing poverty and achieving economic growth.

However, financial inclusion still remains low, with about two billion people worldwide without bank accounts (The Global Findex Database, 2014). Uganda has made

improvements, however, a significant number of Ugandans remain excluded from financial services. The share of adults who only accessed loans from formal institutions in 2013 was 6%, whilst 25% of adults only saved through formal channels, and just 2% used formal insurance products.

The Analysis:

A local PEP team used the Community-Based Monitoring System (CBMS) to explore youth unemployment and entrepreneurship in Uganda. The use of CBMS was expanded in 2018 to generate data for examining the determinants of financial inclusion amongst young people, whilst also exploring how well Uganda was performing in relation to the United Nations Sustainable Development Goals.

The 2018 CBMS survey covered 5,210 households in two subcounties of Katakwi and Akoboi in Katakwi district. The primary objective of the study was to find out the level to which young people had access to affordable and useful financial services, the barriers they faced, and the factors determining the opportunities open to them. Both descriptive analysis and a probit model were used.

Key Findings:

Financial inclusiveness increased with education

- Results show a clear decline in percentages of the non-financially included among youth as level of education rises, indicating that the less educated were more financially excluded than the more educated.

14% of the population in Katakwi and Akoboi sub-counties are young people (18-30), with more women (57%) than men (43%).

- 38.4% of young people are unemployed.
- Though mobile phones have made it easier for people to access financial services, far more men have phones than women. This could be because it is easier for men to get casual work and then use their earnings to buy phones.
- Only 30.8% of young people benefit from financial inclusion, and far more men than women.

The majority of young people (41.6%) do not have savings, and this is largely because they do not have any income.

- The rest save at home (34.2%), via ROSCAS and VSLA (12.4%), and on mobile phones (9.3%).
- More men than women save on mobile phones, and more women than men save at home and in ROSCAS.

- More women than men save in ROSCAS because saving is a requirement for getting a loan. This shows the role that VSLAs and ROSCAS play in enhancing financial inclusion.

- 70.7% of people who said they are not using mobile money said this was because they don’t have a mobile phone.

Young people shared useful insight into the obstacles that prevent them from using banks.

- The main reason people said they didn’t have a bank account was because they didn’t have an income (49.3%). Whilst this was an issue for men and women, significantly more women said this.
- Other people said they didn’t have a bank account because of the distance to the bank (12.8%). Others said they didn’t understand how accounts work (12.8%), and other people said the high cost of operating an account (9.8%) was a barrier.

Where people said that they weren’t trying to access a bank loan, this was because they said they didn’t need it

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(31.5%).

- Others said they didn’t apply because they didn’t like debt (23.2%), because of inadequate security (11.9%) and because they were put off by high interest rates (10.2%).

- Young people said they didn’t apply for loans because they didn’t have the skills required to put the money to good use, so getting credit would only lead to further problems.

Whilst various agencies (government and others) have offered soft loans and grants to young people, this has not seen great results.

- This may be because young people do not all have the skills to use and manage money appropriately.

*Men, people who are educated, people who understand how money works, people with jobs, and those who are married are most likely to use financial services in Uganda.*

**Conclusions and policy implications:**

For the financial system in Uganda to become truly inclusive, financial institutions need to encourage those who face the greatest barriers to engaging with them to do so.

- Removing these obstacles is more important than providing formal financial services. Even with Automatic Teller Machines (ATM), an increase in bank branches, mobile money stalls and other financial services in many areas, if people do not have income, they do not know how accounts work, and they cannot afford banking fees, they still won’t be able to benefit from them.

- Financial institutions should reduce costs associated with operating an account and reduce interest rates.

- Educated young people who understand how money works are more likely to get access to the financial support and services they need.

- Katakwi District Education Department should work with financial institutions to introduce financial talks to schools so that young people appreciate the importance of saving from an early age.

- Financial Institutions should be given an opportunity to address the children (both in primary and higher levels) at least once a month at assemblies so they know which products are suitable for them.
Improving Localized COVID-19 Responses through CBMS Data

"In light of the ongoing global COVID-19 crisis impact, local governments in the Philippines are at the forefront of implementing national policy measures to provide necessary assistance particularly to the most affected sectors of the population. Many LGUs, with established CBMS databases, were able to use their CBMS data for planning and implementation of social amelioration and relief programs particularly for identifying and prioritization of beneficiaries given resources available. The CBMS Network is likewise providing technical assistance to the LGUs seeking support and guidance for identifying and targeting beneficiaries in their localities given their CBMS data." [Excerpt from PART 1 | Local Governments in the Philippines Use CBMS Data for COVID-19 Related Social Amelioration Program and Relief Operations]

As the pandemic fails to slow down in various communities in the Philippines, local government units have to ensure that vulnerable groups are not left behind in COVID-19 response efforts.

In line with the Provincial Government of Palawan's response program to the COVID-19 pandemic, the provincial government utilized CBMS data on migration for use in analyzing socio-economic impacts of emerging health issues. The Municipal Government of Kiangan, Ifugao identified around 400 households which qualify as beneficiaries under the municipality's minimal localized social amelioration program through CBMS data. The identified middle income households are not listed in the national Social Amelioration Program (SAP). The Municipal Government of Carmona, Cavite identified 13,298 beneficiaries for the Emergency Subsidy Program under SAP. Since LGU Tabaco’s adoption of CBMS in 2008, Tabaco City has turned to CBMS data to identify and target priority beneficiaries of various programs. More recent use of the database focuses on the local government’s COVID-19 response efforts (e.g. distribution of cash aid to poor/vulnerable households). Village officials in Barangay Cale in Tanauan City, Batangas, used their CBMS data as reference for identifying around 378 household beneficiaries for SAP.

In a webinar ("Strategies Employed by Leading LGUs in Managing the Impacts of the COVID-19 Pandemic") hosted by the Center for Strategic Planning and Policy Studies (CSPPS) of the University of the Philippines Los Baños (UPLB) College of Public Affairs and Development (CPAF) last June 29, 2020, Mayor Rex Gatchalian of Valenzuela City shared how the City Government of Valenzuela used CBMS data to identify and locate poor families for the distribution of food packs. Similarly, LGU Panabo in Davao del Norte used their CBMS data in identifying target beneficiaries for COVID-19 related interventions.

Recently, public officials have lobbied for the use of CBMS in facilitating delivery and monitoring of cash assistance during the COVID-19 pandemic. Senator Sherwin Gatchalian mentioned that CBMS can expedite the implementation of the SAP and urged the national government to maximize the use of the CBMS Law. Meanwhile, Congresswoman Lucy Torres-Gomez filed a resolution (House Resolution No. 937) pushing for the immediate implementation of the national ID system and the CBMS Law.
CBMS Network Updates

CBMS Network to Participate in the 2020 UN World Data Forum

The third UN World Data Forum, to be conducted on October 19 to 21, 2020, will be attended by data and statistics experts across the globe. It primarily aims to enjoin participants to discuss and examine new approaches to utilizing data/statistics in formulating evidence-based policy decisions and monitoring global progress on the 2030 Agenda for Sustainable Development.

The CBMS session entitled "Generating Local Level Statistics for More Informed Policymaking Using the Community-Based Monitoring System (CBMS)" is organized by the CBMS Network of the DLSU-Angelo King Institute for Economic and Business Studies (DLSU-AKI) and will take place on the second day of the forum. The session aims to showcase how the adoption of the CBMS methodology can complement existing national statistical systems in filling in data gaps at the local level for planning and program implementation in the context of various thematic concerns (i.e monitoring and meeting the SDGs, disaster risk planning and management, and covid-related response programs, among others). It will discuss how LGUs can be capacitated through the CBMS in generating local poverty statistics that are useful for more comprehensive needs assessment and prioritization, focused program action, and impact monitoring over time.

The virtual forum organized by the United Nations will be hosted by the Swiss Confederation, with support/guidance from the Federal Statistical Office, of Switzerland, the Statistics Division of the UN Department of Economic and Social Affairs, the United Nations Statistical Commission, and the High-level Group for Partnership, Coordination and Capacity-Building for Statistics for the 2030 Agenda for Sustainable Development.

16th CBMS National Conference Announcement:

In consideration of recent developments in the COVID-19 pandemic and in compliance with related government policies on mass gathering, please be informed that the 16th CBMS Philippines National Conference, supposedly scheduled in July 2020, is postponed until further notice.