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Financial Inclusion: Access and Extent of Getting Financial Services

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Abstract

As financial inclusion is the access to get financial services such as saving, loan, insurance and others easily at an affordable cost, this study aims at examining the extent of financial inclusion in Ethiopia with special reference to Amhara region and role of banks in the financial inclusion. The extent of financial inclusion is assessed by considering three indicators to financial inclusion; having a bank account, access to loan and access to insurance. The data collected from distributed questionnaire from 124 respondents. The result access to have a bank account is high, especially for government employees who take salary through banks but still it is low for women, unemployed and self-employed respondents, whereas access to get loan from formal financial institutions is very low and it is almost none in getting insurance services.

Keywords: Financial inclusion; Loan; Insurance

Introduction

In earlier times it was micro credit and later microfinance, which holds an idea of providing financial services to the poor particularly small amount of loans, now a day's financial inclusion is emerging as a new paradigm of economic growth that plays an essential role in alleviating poverty. Financial inclusion is defined as the access to formal financial service, including banking service and credit, at an affordable cost for all members of an economy, favoring mainly low income groups, and a vast section of disadvantaged groups [1]. It is an equalizer that enables all citizens to contribute to economic growth and to gain from it [2].

Financial inclusion is the one among selected issues of federal democratic republic of Ethiopia as stated by the international monetary fund's country report form No15/326, 2016. According to the report there is a room for more financial inclusion in the country compared to other countries in the region; Ethiopia's broad money to GDP is 75 percent to the regional average, while private sector credit to only 25 percent of the regional average. Growth in Ethiopia's banking sector has not kept up with other sectors of the economy. Despite strong effort undertaken by banks to offer financial products to attract clients and offer novel financial service, financial inclusion has a long way to go. In addition to this Ethiopia is listed the last second for financial inclusion from the same 26 politically geographically and economically divers countries (FDIP 2016).

In the existing state of affairs Ethiopia is at its stage of economic growth and as per its plan it is assumed and reported by government officials in public Medias to grow with "a double digit even may be more than 11 percent" (EBC 2017). In spite of this, what is need is an inclusive growth in which condition of low income and neglected people in the country should be improved in a faster rate. Reports of World bank, international monetary fund (IMF) and others also indicate an increased demand for inclusive growth and poverty reduction over the world could be achieved with appropriate financial inclusions not only to under developed and developing countries but also for developed countries, notwithstanding, existing literatures in an academic arena explores different pillars to the improvement of financial participation such as; product availability, financial literacy, accessibility, risk management absence of legal identity & gender biasness, level of income and bank charge, type of business, rigid term and condition [1,3].

Statement of the problem

Currently financial sector in Ethiopia consists of 3 public and 16 private banks 14 private insurance companies, 1 public insurance company, 31 microfinance institutions and more than 8,000 saving and credit associations making financial services available for both rural and urban areas. However, it is still below what it is demanded by the society, existing studies show only 10% of households have access to formal credit [4]. Only 1 percent of rural population has bank account. To achieve greater financial inclusion, accessibility and availability of financial service should reach the poor people of the society. In the existing situation banks have playing a vital role in fulfilling this gap. Recent index of countries financial inclusion shows financial inclusion in Ethiopia is left untouched and it is an area demanding a quick remedy to maintain provision of financial service by adopting and expanding menses that will achieve full financial inclusion.

In Ethiopia financial inclusion is needed for uplifting the poor and disadvantaged people by providing those diversified financial products and services this leads to inclusive growth. As compared to developed countries financial inclusion in African countries is very low, of which Ethiopia is listed almost the last in financial inclusion in which many financially excluded individuals reside in. different countries experience various mechanisms to reduce financial exclusion among the society, such as mobile banking (Kenya), correspondence banking (India), using shops as financial service provision centers etc. All these practices are at its infant stage in and some of them even don't exist in Ethiopia. Thus, it is a hot issue for financial institutions, and researchers to investigate what hinders or limits households either voluntarily involuntarily excluded from financial services, it is a policy issue for the government as well.

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Global development cannot be achieved letting Africa aside where only 34% adults have an account in sub Saharan Africa (global financial index data 2014) As a result of this it is a policy issue for inclusive development in the globe. Ethiopia is the one which should contribute its share to the millennium development goal apart from self-development through financially including its citizen by investigating reasons for this much financial exclusion and devising techniques to enhance an affordable financial service to all members of the society.

Objective

The research aims at examining the extent of financial inclusion in Ethiopia with special reference to Amhara region and role of banks in the financial inclusion.

Specific objective

- To investigate the major factors affecting access to financial service
- To examine financial inclusion indicators on the financial inclusion of Amhara region

Methodology

As a descriptive study and insight on a phenomenon, the research aims at shedding light on the various factors of consumer behavior in access and use of financial services. Both primary and secondary data will be collected. Report of National bank of Ethiopia (NBE) and report of selected commercial banks will be the secondary data source, primary data will be collected on two bases, the first phase is an open ended questioner prepared to collect exploratory variables which will help to develop clear picture of existing problems and come up with a valid framework in addition to what the existing literature shows. In order to achieve stated objectives, both descriptive and regression methods of data analysis will be used. The descriptive methods of data analysis include the use of tables and percentages that can clearly describe findings. These are used to analyze the level of the financial inclusion based on variables measurement.

Review of Literature

Financial inclusion is gained great attention in an international community in the development circle and it is a buzz word. Central bankers, policy makers and other stakeholders stress on the importance and urgency of financial inclusion for inclusive development in the world, from this stand different forums and conferences from around the world are held. Examples include conference held on June 2006 in Dakar by United Nations on financial inclusion in Africa, Access to Finance conference held in Washington DC in March 2007 by World Bank; Making Finance Work for the Poor event of April 2007 in London, England by United Kingdom's Department for International Development (DFID), the UK Microfinance Club and the World Bank; DFID's Financial inclusion Conference of June 2007; and the global conference titled 'Next Generation Access to Finance: Gaining Scale and Reducing Costs with Technology and Credit Scoring' that was held in Washington DC in late September 2007 under the auspices of the International Finance Corporation, the Consultative Group to Assist the Poor and Visa International, Alliance for Financial Inclusion (AFI) and the G-20's Global Partnership for Financial Inclusion discuss how to build more financially inclusive economic systems. Most recently November 2015, September 2016 in Malaysia and other international financial inclusion forums are calling participants from around the world and held continuously with special attention given to Africa.

Banks take the lion shares in provision of financial services in Ethiopia followed by micro finance institutions and insurance companies. However, the traditional and conventional banking solutions may not be the answer to address the problem of financial inclusion. Banks, therefore, need to be innovative in financial services and think 'out-of-the-box' for solutions to overcome the problem of financial exclusion. They need to walk the talk, go the extra mile, deploy new technologies and create financially viable models to take forward the process of financial inclusion in an effective manner [5].

There is a growing body of economic literature arguing that financial development has a positive impact on economic growth, while dividing benefits of the growth more equally.

Cross-country analysis has found that the Gini coefficient falls more rapidly in countries with more developed financial intermediaries. Another study, conducted for India, found that output increased, and poverty declined with greater access to finance. There are broad benefits of financial development. Financial development allows for channeling capital to more productive sectors and creating a larger pool of resources available for investment. A better developed financial system allows for reducing cash and barter transactions, limit cost of remitting funds, and allows for smoothing income and consumption over time. Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged population of the country. Lack of accessible, affordable and appropriate financial services has always been a problem and effective inclusive financial system is needed for economic growth of the country [3]. Banks are the main participant in the area. Insurance services also help households and firms to better withstand unexpected shocks and reduce their vulnerability to adverse events. Some studies indicate that greater financial inclusion reduces inequality directly by easing constraints to credit [3,6].

Financial development in Ethiopia

In Ethiopia, access to finance is primarily through the banking sector and microfinance institutions (MFIs). There are '18' commercial banks and one state-owned development institution (Development Bank of Ethiopia). The sector is highly concentrated, with the largest, state-owned commercial bank comprising about 70 percent of total assets. Banks have been rapidly expanding their branches, which have increased four-fold since 2010. However, as more than a third of branches are located in Addis Ababa, the rural areas (with almost 80 percent of population) still lack good access to financial services (IMF 2015). Banks have increased their branches and areas of coverage from year to year and reached to 1376 branches as of first quarter of 2012/13 just from 350 in 2004/05; nearly 400% increase within 8 years. As a result, the number of people to a single bank branch has declined significantly notwithstanding that it is still high by even SSA standard [4]. Despite rapid growth, compared to other countries in the region, the population per bank branch remains high (35,957 as of March 2015). It should be noted, however, that significant part of branch expansion is in the capital city, Addis Ababa. The national bank report shows that out of the total branch 33.3% is found in the capital city of the country. Within the last 8 years the increase in the number of branches is a little higher in the capital city than other parts of the country. This shows that the formal banks have still limitations in reaching out the unbanked population [7].

Therefore, Microfinance institutions (MFIs) and Savings and Credit Cooperatives (SACCOs) should increase their reach to the poor. In 1996, the National Bank of Ethiopia (NBE) developed a prudential regulatory framework for microfinance to supply financial services to the poor. The Microfinance Proclamation 40/1996 opened the possibility for the establishment of deposit-taking MFIs. Despite these efforts, in March 2015, there were only 24 MFIs providing financial services. Their penetration ratio is still low, with less than 4 percent of the population being served. Similarly, SACCOs, which are voluntary associations with a purpose to save and lend money to its members, remain small by international standards. Although they are growing in number, their coverage is insignificant relative to the size of the unbanked population.

These evidences are relevant for advanced economies as well; for instance, better access to bank branches lowered income inequality in the USA [8].

In many SSA countries, MFIs have greatly benefited from access and tapping to resources of NGO and other organizations, to secure financing for the private sector development in the rural areas.

There is room for more financial inclusion

Compared to other countries in the region, Ethiopian broad money to GDP accounts for 75 percent of the regional average, while the private sector credit to GDP is only 25 percent of the regional average. Growth in Ethiopia's banking sector has not kept up with other, more vibrant, sectors of the economy. Ethiopia is the last second country for financial inclusion from the region in which only 10% of population has access to financial service.

Despite strong efforts undertaken by banks to offer new financial products to attract clients and to offer novel financial services, such as electronic and mobile banking, financial inclusion still has a long way to go.

Credit allocation is distorted by heavy intervention in financial sector policies, which does not allow banks to achieve the most from their operations [9]. With the majority of credit channeled to state-owned enterprises, the private sector needs to rely on informal lending and their own savings. Limited financial credit products (e.g.: lack of availability of personal loans), and high cost and lengthy procedures to seize collateral, hinder the development of the credit market, and do not allow for credit to play an adequate role in smoothing consumption, income, and investment. Stronger efforts should be undertaken to promote mobile banking, which has made a significant contribution in neighboring countries. The rapid development of M-Pesa in Kenya business correspondence in India and others should serve as a good model to follow. It is a private sector-led innovation to address constraints related to information asymmetry, risks and overall high costs of traditional financial intermediation, supported by an enabling policy environment, including better regulation. Financial policies constraining availability of credit to the private sector should be eliminated. Decisive efforts need to be undertaken to promote capital market development, as an alternative to bank credit as a source of financing.

Result and Discussion

Demographics

There are different financial inclusion indicators such as having a saving account, getting loan from a financial institution and different insurances. Therefore, discussion will be forwarded accordingly.

Out of the total 124 respondents 34% of respondents were female while the rest are male. For this study occupation of respondents is classified as self-employed, student, government employee and unemployed. 17 respondents were missing to specify their occupation accordingly. The highest percentage (57%) of respondents is government employees of the total valid respondents followed by 25% unemployed. This percentage of unemployment comprises a large share and it is also the reason to don't have account because of different reasons like absence of money as it will be explained later. Only 7% of respondents were student while respondents participating in their own jobs i.e., self-employed accounts to 18%.

Saving

106 out of 124 respondents have a bank account it is about 85.5% (Table 1). This may imply even those respondents not having work have a bank account, to make it clear 32 (25 and 7) respondents were un employed and students respectively and assumed to not have a bank account while they do. Of those having a bank account 58% opened the account to receive monthly salary from employer followed by 24% using their accounts for saving money and only 3 respondents replied as they use their bank account to process loans furthermore using the bank account for remittance purpose accounts to 13.3%. From this it can easily observed that majority of respondents opened the bank account only to receive their monthly salary. As shown in the following table more than 58% of valid respondents opened their bank account and go to their bank monthly only to take their own salary while here it is employers determining to employees to have a bank account because they are paying salary through banks that is why most of the government employees have a bank account than further using financial institutions (Table 2).

From this it can easily observed that majority of respondents opened the bank account only to receive their monthly salary. As shown in the following table more than 58% of valid respondents opened their bank account and go to their bank monthly once a month only to take their own salary while here it is employers determining to employees to have a bank account because they are paying salary through banks that is why most of the government employees have a bank account than further using financial institutions [10].

Remaining 20% of respondents use their accounts to save money followed by 11 respondents those who receive money from abroad (11%), remittance (Table 3).

40 respondents were missed to reply to the question about the frequency of visiting their bank account to save money. Out of those replied 41.7 % save once a month and the other 41.7% save money whenever they have money on hand the remaining 9.7% and 7.15 replied as they save more than once a month and do not save at all.

	Frequency	Percentage
No	18	14.5
Yes	106	85.5
Total	124	100

Table 1: Have a bank account?

	Frequency	Valid percent
Used for salary	48	58
To receive money from abroad	11	13.4
To process loan	3	3.7
To save money	2	24.4
Total	82	100

Table 2: Purpose of opening the account.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Save once a month	35	28.2	41.7	41.7
	More than once a month	8	6.5	9.5	51.2
	When have money	35	28.2	41.7	92.9
	Do not save at all	6	4.8	7.1	100.0
	Total	84	67.7	100.0	
Missing	System	40	32.3		
Total		124	100.0		

Table 3: Frequency to save.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	If do not borrowed	62	50.0	73.8	73.8
	Borrowed money	22	17.7	26.2	100.0
	Total	84	67.7	100.0	
Missing	System	40	32.3		
Total		124	100.0		

Table 4: Loan.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Bank	1	0.8	4.5	4.5
	ACSI	13	10.5	59.1	63.6
	College	5	4.0	22.7	86.4
	Family	2	1.6	9.1	95.5
	Other	1	0.8	4.5	100.0
	Total	22	17.7	100.0	
Missing	System	102	82.3		
Total		124	100.0		

Table 5: Where do you get loan?

Loan

Out of valid respondents, only 26.2% of respondents borrowed money from ACSI and commercial bank here none of them is women; the remaining and largest percentage 73.8% totally do not borrowed money from any of the formal financial institutions (Table 4). As access to loan is one of the indicators to financial inclusion, overall access to loan from formal financial institution is limited it is almost none and women are more likely excluded than men (Table 5).

As explained above majority of respondents do not have access to loan however out of those who get loans, only 1 respondent (4.5%) borrow money from commercial bank while the majority 13, (59.1%) accessed the loan from Amhara credit and saving institution followed by 22.7% from colleague and 9.1% family and relatives. The access to loan from formal financial institution specially banks is too low, from the above table ACSI is significant loan provider for as compared to commercial banks with regard to number of participants, it is not about amounts.

Insurance

Getting insurance services from financial institution is another indicator of financial inclusion. Out of 124 respondents none of them are getting insurance service from any of the insurance companies. Only few replied as having intension to get health insurance service announced by the government, ministry of health, but still not yet practiced, for this they explained different reasons such as; they perceive it as less important, cost, lack of awareness about the insurance policy and absence of this institutions in the locality as well. Instead of this an informal local association are practiced and most of them are members in those associations in order to acquire related services.

Conclusion

Financial development cannot be achieved without the involvement of the general society especially which are excluded from access to financial services. In Ethiopian scenario most of the financial service providers are operating in urban areas which accounts only for 25% of the country's population while 75% of the country's population residing in rural areas face a problem in accessing this financial service.

This study intends assess the extent of financial inclusion by considering three indicators to financial inclusion; having a bank account, access to loan and access to insurance. The result shows many of respondents have a bank account, the number is high specially for government employees who are paid salary through banks but still it is low for women and unemployed and self-employed respondents, that is why frequency of visiting their banks is limited to once a month. With regard to loan access to get loan from banks is to limited, only almost 26% of respondents were borrowed money from ACSI and commercial bank of which the highest share goes to ACSI, the purpose of the loan for most of the borrowers is not to do a business and earn profit rather it is for construction of residential houses. Finally access to get insurance services from any of the financial institutions is almost none it is because they perceive it as less important, cost, lack of awareness about the insurance policy and absence of this institutions in the locality as well.

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