Financial Inclusion and Gender Equality in Ethiopia

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Abstract

Financial inclusion is big challenge regardless of gender, and efforts are required to address it for the entire population. The global gender gap is very persistent, that means still the majority of women in the worldwide are financially excluded, and gaps remain very large. Whereas financial inclusion is an important goal in itself, new evidence suggests that greater inclusion of women as users of financial services has generally positive economic outcomes as well. Greater access to and usage of accounts for financial transactions, savings, credit and insurance can help increase long term economic growth. When women are included in the financial system, there is a significant benefit in terms of economic growth, greater equality and societal well-being. However, despite significant advances in financial inclusion for both men and women, women still lag behind men in access and usage of financial products and services. Women still are less likely to have an account than men. Globally, 65 percent of women and 72 percent of men have an account, and currently the gender gap stands at 7% (World Bank Global Financial Inclusion Findex, 2017). However, Ethiopia falls far behind global with a gap of 12 percent. The majorities of women in Ethiopia workforce are agriculture, service sectors and micro, small and medium enterprises and face exclusion from the formal financial services. As such, the financial exclusion of women is a large barrier to the financial stability and economic growth of Ethiopia. This paper documents and analyzes gender gap in the use of financial services in account ownership, saving, credit, payment, insurance, mobile banking, financial literacy, financial awareness etc. and barriers to use these financial services in Ethiopia. The data were drawn from National Bank of Ethiopia, Central Statistical agency, Global Findex which prepared by World Bank and primary data which collected from sample women.

Keywords: Financial Inclusion, Gender, Equality.

1. Introduction

Financial inclusion means access to and usage of financial services and products such as savings, credit, payments, mobile banking, internet banking and insurance from formal financial institutions. Financial inclusions can benefit individuals, households, financial institutions and countries as whole. But, access to financial services is highly unequal with people, mainly for women. Therefore, financial inclusion can help peoples to achieve both gender equity objectives and poverty reduction objectives. As such, in order to encourage poverty reduction and gender equity, there is a clear rationale for using development resources to improve financial inclusion for women. There are economic costs when women are excluding from participation in the economy. Eliminating or reducing gender inequality would allow significant gains in gross domestic product of the country. Financial inclusion is a key for women to participate in the economy. Given the important roles of women in shaping the next generation, financial inclusion will lead to greater security and prosperity for women and men, their families, enterprises and communities. Financial inclusion is a major challenge regardless of gender, and efforts are needed to address it for the entire population. According to global Findex data 2017, out of the 1.7 billion of unbanked adults globally, 56 percent are women, and in developing economies, women remain 9 percentage points more likely to be unbanked than men. Reducing the gender gaps in financial inclusion have positive effects to decrease consumption, lowering financial risks and costs, providing security, increasing saving and investment rates, facilitating new business opportunities etc. Women can contribute to economic growth not only by building businesses but also by better managing their financial resources. Having access to and use of financial services helps women to independence, allows for better use of their personal resources, and reduces the vulnerability of their households and businesses. In short, closing the gender gaps in financial inclusion can act as an enabler of countries' development, economic growth, inequality reduction, business expansion, and social inclusion. Closing the gender gap can be achieved by emphasizing the value proposition of women's financial inclusion and the ways policy frameworks can be designed accordingly. This study focused against the backdrop that despite significant gains made in reducing the number of unbanked globally, the gender gap has not narrowed and that around one billion women globally still do not have access to formal financial services. This is also case in Ethiopia. Therefore, the study focused on financial inclusion and gender equality in Ethiopia.

2. Review of Literature

While the role of financial systems is addressing income inequality and promoting economic growth, relatively little is known about the gender gap in access to finance and usage of financial services or the specific barriers that limit access to finance or usage of financial services for women relative to men. Exclusion of women from financial services has been reported by a number of studies that have found that women are more excluded than men both at individual levels and firm levels. (Beneria et al., 2015), found that the gender gap is very difficult because of exclusion women from economic activities means that their important contribution to economic growth will be missed. The authors reveal two important arguments; the human rights argument and the capabilities argument which can be used to establish the importance of ensuring gender equality and hence eliminating the gender gap. According to the first argument, women should enjoy equal access to financial services so that they have equal participation in social and economic activities. According to the second argument women are more than half of the world population and their exclusion would be disadvantageous to equitable economic development. Therefore, gender gap not only affects women but also the whole nation by declining economic growth. (Arun et al, 2016), discloses that there are many constraints and social norms which limits women from financial inclusion, including deeply rooted expectations about the gender division of labour and unpaid household work. Social norms, specifically norms affected by men plays an important role in keeping women out of using formal financial services. (Demirguc-Kunt et al., 2017), in their study found that despite important advances in expanding access to and usage of formal financial services, a significant access gap remains between men and women specially in the developing country. The growth in account ownership and other financial services has not benefited all groups equally. Women still are less likely than men to have an account ownership. They identified that globally, 65 percent of women and 72 percent of men have an account at formal financial institutions, even though a gender gap of 7 percentage points. The gender gap is similar in developing economies, with 67 percent of men but only 59 percent of women having an account at formal financial institutions. (Oldja et al. 2018), revealed that greater women's financial inclusion requires a more gender inclusive financial system that addresses the specific demand and supply side barriers faced by women. An inclusive regulatory environment is also relevant for women's financial inclusion.

3. Statement of the Problem

There is high percentage of population in the world who are denied basic financial services as the others. Every country either developed or developing is facing the issue. In the countries like Ethiopia, the percentage is very high in number. The vulnerable groups who are financially excluded comprises of women, poor people, rural people and many others. Among those who are marginalized from the formal financial system, women constitute a major part. When women, who are low income with effective and affordable financial tools to save, borrow, make and receive payments and manage risk, it is important to both poverty reduction and women's empowerment. However, the path to greater women's financial inclusion is dependent upon the creation of a more gender inclusive financial system that addresses the specific demand and supply side barriers faced by women.

4. Research Objective

i. To understand how gender influences financial inclusion in Ethiopia.

ii. To identify the level of financial inclusion among gender equality in Ethiopia

5. Research Methodology

The major objective of the present study is to analyse financial inclusion and gender equality in Ethiopia. The study was mainly based on the secondary sources of data and information has been collected from National Bank of Ethiopia, central statistical agency, World Bank, various journals, reports, books, magazines, newspapers, etc. Analysis was conducted using descriptive and analytical statistics on key dimensions of financial inclusion to compare access to account, savings, credit, payment, insurance and mobile banking across gender groups. The gender gap is the difference between women's and men's access and usage expressed in percentages.

6. Analysis and results

In 2018, the population in Ethiopia is 105million. Adults are estimated to be 54million and female are 50.4% out of the total population. Around 20million of peoples are under poverty level, 10.2 million under PSNP and 65% of adults excluded from formal financial services. Poverty reduction and income inequality remain major challenges in the country. Comparing with other Sub- Saharan Africa, Ethiopia has lower levels of financial inclusion. Even if there are some improvements in financial inclusion in Ethiopia, it is based predominantly on urban male bank account holders. Overall, the current financial sector landscape makes it easier for men to access financial services than women. Participation of women in financial inclusion is very low.

Table 1 Evolution of Gender Gap in Ethiopia

Indicators of financial inclusion	Male 2014	Female 2014	G. Gap	Male 2017	Female 2017	G. Gap
Financial institution account (% age 18+)	23%	21%	2%	41%	29%	12%
Saved at a financial institution (% age 18+)	15%	12%	3%	33%	20%	13%
Borrowed from a financial institution (% age 18	7%	8%	-	20%	15%	5%
Sent/received domestic remittances (% age 18+)	17%	15%	2%	26%	21%	5%
Saved to start or expand a farm or business (%	20%	10%	10%	34%	14%	20%
Debit card ownership (% age 18+)	1%	1%	-	5%	3%	2%
Made or received digital payments (% age 18+)	4%	6%	2%	16%	8%	8%
Mobile money account (% age 18+)	0%	0%	-	1%	0%	1%

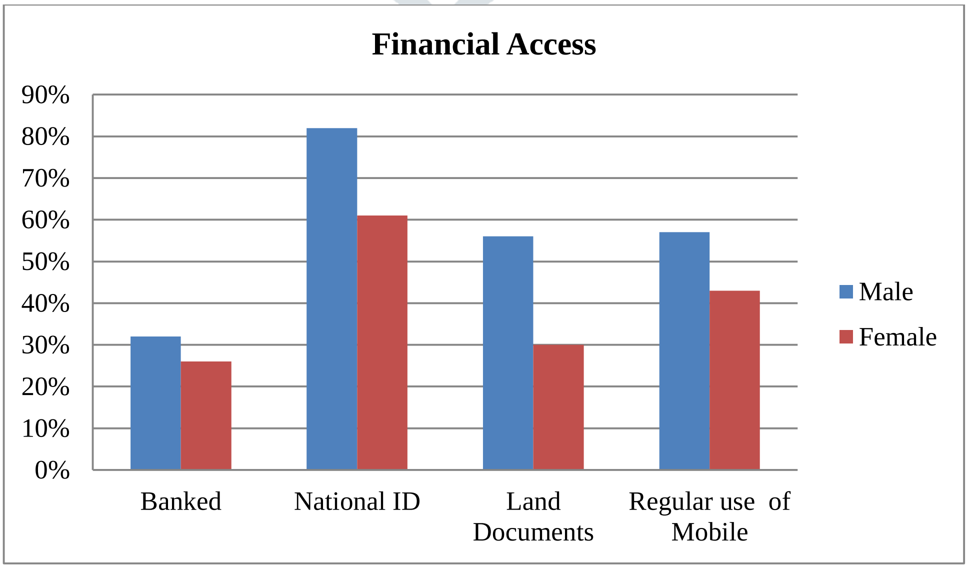
Source, Global Findex 2017

Table one above demonstrates the gender disparity in account ownership, saving, credit, payment, reason of saving, ATM or debit card ownership, made or received digital payments, mobile money account.

a) Financial Access and Gender

Account ownership was analysed across gender groups by looking bank account ownership as this represents the most common indicators of access. The overall picture of gender disparity in financial inclusion can be illustrated by looking at the proportion of people who are financially excluded. Adult is said to have an account if he or she is registered in a book at a bank, micro-finance institution, SACCO, insurance, mobile bank application or other formal financial institution in order to take out a loan, save, transfer money, payments or receive wages etc. The gender divide is pervasive in Ethiopia, and large gaps exist between men and women for both awareness and ownership of different products and services. Financial inclusion is correlated with education and in Ethiopia females receive less education than men and roughly 52 percent of women not attending school as opposite to 34 percent of men.

Graph 1 Financial Access and Gender



Source, World Bank Data

The Global Findex data for 2014 shows that, in Ethiopia, 21% of female adults had a bank account at a formal financial institution, compared to 23% of male adults. In 2017, 29% of women adults and 41% of men adults had bank accounts. While number of men and women own financial accounts increased than before, the gender gap increased from 2% to 12 percent points. From 2014 to 2017, men's account ownership in Ethiopia increased from 23 to 41 percent, and women's ownership grew only from 21 to 29 percent. The result indicates significant gender gap in account ownership.

Barriers to account ownership by gender

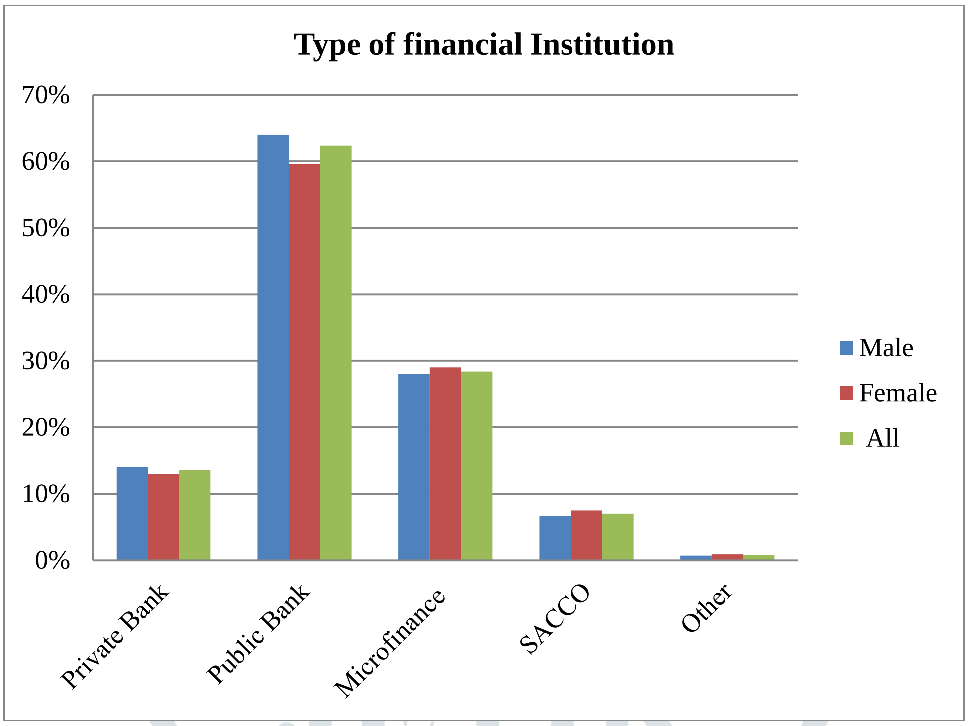
Why do fewer women have a formal account than men? Female adults not having enough money to use an account, as well as lack of awareness of where or how to open an account, are the major barriers to account ownership. About 85 percent of unbanked women and 80 percent of unbanked men reported they do not have an account because they do not know how or where to open an account at a bank or micro finance institutions. This demonstrates the large literacy gap among adults, even though most adults are using informal financial services. Roughly 66 percent of adults reported not having enough money to use an account. Less than 6% of the population cited other barriers including trust, religion, documentation, etc.

b) Types of Financial Institutions

Table 2 below summarizes the types of financial institutions used by those who reported holding an account from formal financial institutions. Compared to all other types of financial institutions, commercial bank of Ethiopia are the most common institutions used by individuals for bank accounts. Microfinance institutions represent the second most common institutions used by individuals and the third is private banks. By gender, microfinance institutions are more likely to be used by female than male. Furthermore, saving and credit association and other institution significantly more likely to be used by women than men.

Graph 2 Type of Financial Institution

Percent of Account Owning Individuals (18 years and older) by Financial Institution by gender



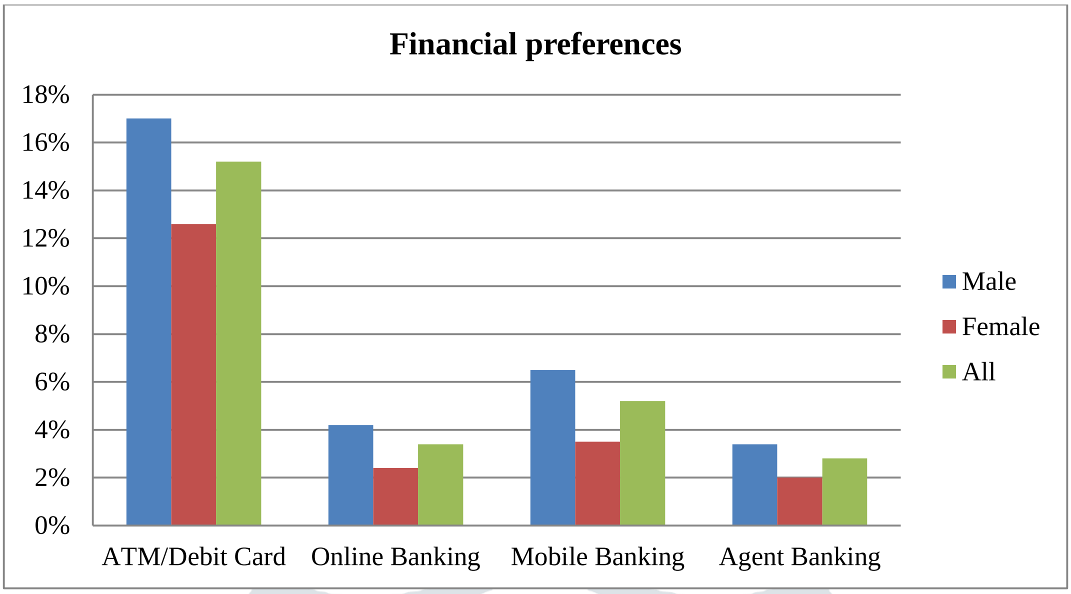
Source, Central Statistical Agency Data

Around 35% of adults reported owning a transaction account at either a Commercial Bank, Microfinance Bank or SACCO. While 41% of male adults own an account, female adults lag behind with 12% account ownership. Male adults more frequently own a commercial bank account, whereas more female adults own accounts at a microfinance institution and saving and credit cooperation.

c) Ownership of Formal Products and Services

Around 35% of Ethiopian adults own a transaction account but few Ethiopian adults own or use electronic products and services. Only 7% of adults have reported transacting electronically (via an Automated Teller Machine, debit card or mobile money service). Female adults are significantly less likely to own an electronic product or channel. Graph 3 below summarizes utilization of key financial services and products by account holders. These services include ATM or debit cards, online banking, mobile banking, and agent banking. At the national level, account owners were most likely to utilize an ATM, as compared to the other services.

Graph 3 Financial Preferences



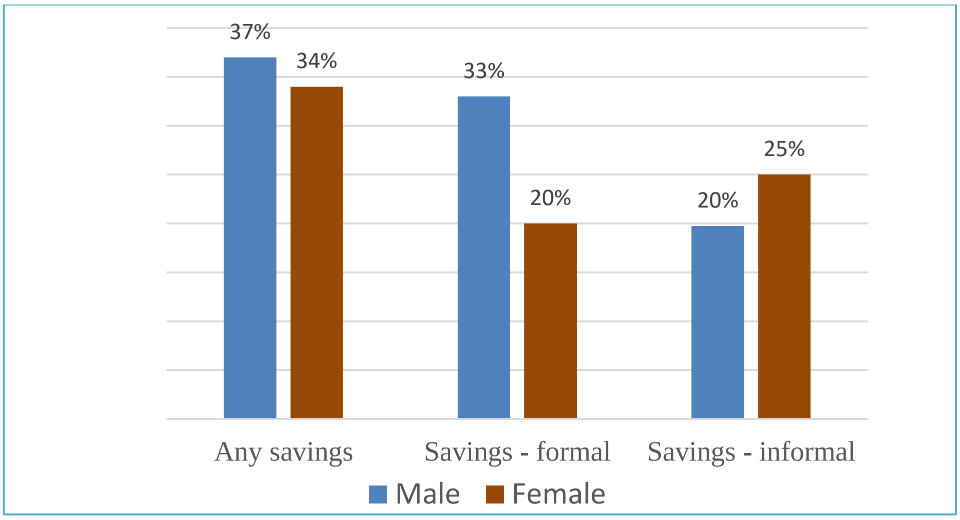
Source, Central Statistical Agency Data

Utilization of ATM or debit cards, online banking, mobile banking and agent banking are higher by men) as compared to women using these services. The gender gap in account usage is by far wider than access to a bank account.

d) Savings by gender

The other dimension of examining gender inequality in financial inclusion is by looking at access to savings. Saving is the ability to manage risk and smooth consumption in the face of shocks or loss of income and its very important component of women's economic empowerment. There is pervious research that supports the importance of saving at the individual and national level, yet women in the developing world like Ethiopia consistently reported lower levels not only of account ownership but rates of formal savings balances. Adults across the world may save using different methods. Individuals may save using an account at a formal financial institution and others including those who have a formal account, may use alternative methods of saving such as community savings clubs or saving under the mattress. As for savings behavior in general, there are often gender differences in the modes of saving. A higher number of men, compared to women, saved or set aside money by using an account at a bank, credit union, insurance or microfinance institution in Ethiopia.

Graph 4 Savings by gender



Source: World Bank Data

Approximately around 26% of adults are saving in any way in Ethiopia. Saving patterns significantly differ between males and females, and the major factors that correlate with saving are if adults are male or banked or living in urban areas. The majority of savers live capital city of the country in Addis Ababa. Unbanked female adults are most vulnerable to economic shocks or unexpected expenses. The greatest gender gap in formal savings held is observed in Ethiopia. Not surprisingly, the trend in gender gap persists in the saving market as well. Regarding choice of institution where money is saved, the male preference for formal financial institutions is 33 percent. It is somewhat lower for informal places (20 percent). Female adults prefer to save informally (25 percent) as opposed to formally (20 percent). As depicted in above graph the proportion of savers for adult males is 33 percent compared with 20 for adult females. While there is little variation with informal saving, 25% of female adults save in informal as compared to 20% of male adults.

Reasons for Saving

Table 2 below summarizes the main reasons cited for saving. Adults generally save to cover future expenses, for education, for wedding, health/medical expense or asset building or to insure for possible emergencies or a time when they are not working.

Table 2 Reasons for Saving

Gender	Reasons for Saving							
	Emergencies	Health/Med. Exp	Start/Grow Business	Old Age	Education	Children's Future	Asset Building	Other
Male	74.0%	1.7%	7.0%	0.3%	1.6%	2.4%	12.4%	0.6%
Female	76.3%	2.3%	5.6%	0.4%	2.0%	3.1%	9.3%	0.9%

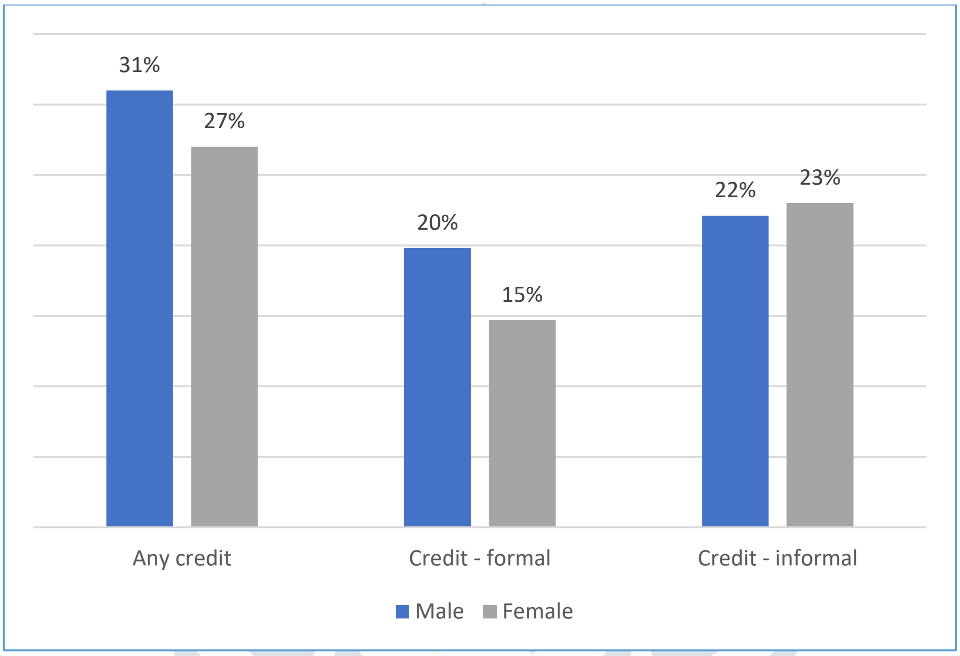
Source; CSA Data

The most frequently mentioned reason why adults saving money were, 76 percent of female adults and 74 percent of male adults agree that they save money because of some provisions for emergencies or unexpected expenses. Other reasons reported, 7 percent of male adults and 5.6 percent of female adults agree that they save money to start or expand a business. Additionally, 12% & 9% male adults and female adults agree that they save money to build and there are also other reasons like save for children, health, education, old age and others.

e) Borrowing by gender

Most people borrow money for a purpose of house, emergency, school fees, a health, or to pay for a wedding etc. They may turn for credit to a formal financial institution, like bank, credit union or microfinance institution, or to a family member or informal lender. In Ethiopia, women still lag behind men in terms of use of formal credit products according to the Global Findex 2017. Women are more credit constrained than men, and therefore expanding women's access to credit can lead to greater investments in income generating activities and ultimately to increased incomes and welfare improvements for the household.

Graph 5 Credit by gender



Source: World Bank Data

Access to credit by gender reveals that females have lower access to bank credit than males. Male Ethiopians are more likely to access formal credit as compared to females. In Ethiopia, 20 percent of men and 15 percent of women borrowed from formal financial institutions (bank, credit union or microfinance institution. While there is little variation with informal credit, 23% of female adults borrow from informal sources of credit as compared to 22% of male adults.

f) Payments by Gender

Payment products have emerged as one of the most promising new tools for financial inclusion in recent years, and can serve as an on-incline to other formal financial products and services, for example via social benefits or wage payments. Digital finance has opened the access to greater product design innovations in the payments space by reducing some of the traditional barriers to financial inclusion such as transaction costs, time saved in traveling to and back from a bank branch, added privacy, and trust. These costs are especially pertinent for women and can be a significant barrier to take up and usage. Women are also increasingly the main recipient of social protection programs, therefore digitizing payments of these social protection programs and linking them with formal financial products could be a way to draw women into the formal financial sector. According to Global Findex 2017, in Ethiopia, 26 percent of men and 21 percent of women sent/received domestic remittances through formal financial institutions. In Ethiopia, women still lag behind men in terms of digitizing payments. The proportion of digitizing payments for adult males is 16 percent compared with eight percent for adult females.

g) **Mobile Money usage by gender**

Digital financial services (DFS) have played a major role in increasing people's access to financial accounts globally, but access to these services has been uneven for men and women. Mobile money is helping women to accelerate their access to the formal financial system. The Government of Ethiopia is trying to expand the use of mobile money services, particularly as a way to reach rural adults especially women. However, only 50% of adults regularly use a mobile phone (and only 43% of women). There are 0.6 mobile money agents for every 100,000 Ethiopian adults and small number of mobile products available in the market (Kifiya, Hellocash, and Mbirr). There is significant scope to shift adults, particularly women from using cash for local and cross border remittances to mobile money. Currently, 9% of Ethiopians report receiving remittances (7% locally and 2% from abroad). More women (11%) than men (7%) receive remittances, including rural women (10%). Around 29% of adults receiving remittances own a transactional account. But only 1% adults have a mobile money account. Few rural Ethiopians report owning a mobile money account, even though they would gain more from it as access to financial services is low. Many channels that policy makers leverage to provide financial messages or awareness may not reach the populations that need it most. For instance, mobile messaging campaigns may not reach rural adults well, particularly rural women. Roughly 32% of rural women regularly use a mobile phone. There is very little awareness of mobile money. Roughly 87% of adults have not heard of mobile money. According to Findex, in Ethiopia, between 2014 and 2017 women's mobile money account ownership rate is less than one percent. But men's mobile money account ownership rate jumped from 0% to 1 percent.

Women own and use mobile phones at lower rates than men due to barriers, such as cost, don't have a smart phone, the right documents, don't have an agent or point of service close by and operator trust, don't know where or how to open a mobile money account, and technical literacy and confidence. In Ethiopia, 99% of adults do not own a mobile money product, among which 87% have never heard of mobile money services.

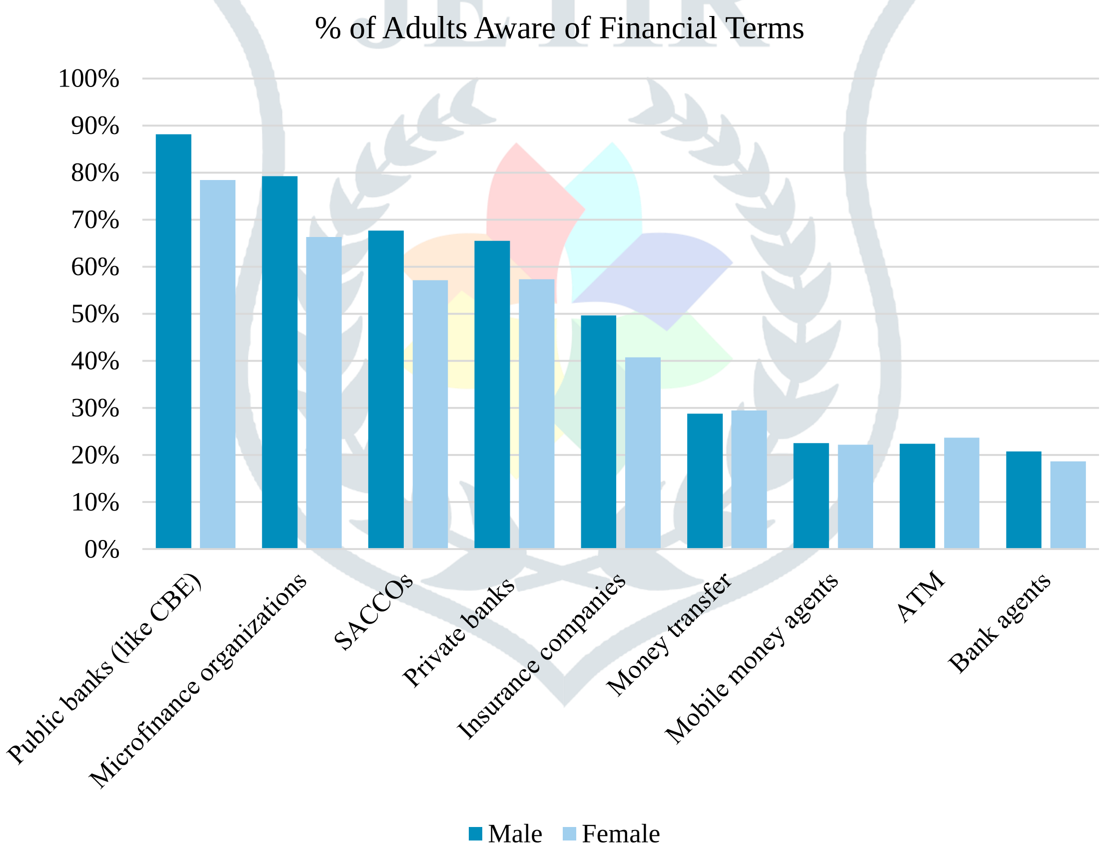
h) Insurance Coverage

Insurance can be an important tool with which to safeguard against future financial shocks and protect assets. While positive returns when invest on insurance, demand for formal insurance products, especially among women remains low. There is evidence to suggest that the lower demand for insurance among women as compared to men can be attributed to differences in spheres of activity, lack of understanding regarding the purpose of insurance, risks faced, institutional trust, risk aversion, and financial literacy. The coverage of formal insurance in Ethiopia is minimal. At the national level, only 1.4 percent of individuals have formal insurance. While there is little variation with coverage of formal insurance in Ethiopia by gender, 1.7% of male adults have access to insurance products and services as compared to 1.2% of female adults.

i) Financial literacy and Awareness of Financial Terms

Financial education programs targeted at females will enable them to develop a reasonable understanding about the language used by banks, benefits of owning a bank account, and how to apply for it. Such programs should also enable females to develop skills in household financial management that leads to their empowerment and increased involvement in household financial decisions. Typical behaviours of adults to consume information greatly differ between genders. Overall, females are less aware of financial terms than males and may require further targeting to improve their financial awareness. Many adults are unaware of more complicated financial terms, often due to lack of exposure and access the various financial services. Banked adults have more awareness of financial services than unbanked adults. Yet only 46% of banked adults are aware of the term ATM. Higher levels of education correlates with greater financial awareness. Around 41% of adults do not have any education (61% of uneducated adults are female). Female adults remain the most vulnerable and have lower levels of financial awareness overall.

Graph 6 Awareness of financial terms



Source: World Bank Data

There is a significant divide in financial awareness between Ethiopian men and women and rural women are most vulnerable. In general, 67% of rural females do not have any formal education (as compared to roughly 38% of rural men), which has implications on financial behaviors and awareness.

CONCLUSIONS

Financially excluded women face several barriers to access and make use of financial products. For financial inclusion to have an impact on women's economic empowerment, livelihoods and broader welfare effects, social norms need to be taken into account and acted upon. While social norms change is complex, the design and roll out of financial services and products has a key role to play. Knowledge gaps, social norms and cultural issues could inhibit women from opening and using an account. Lack of familiarity and exposure to interacting with the financial sector also other constraints for women. In order to overcome the barriers faced by women to access and use financial services, it's better when the Government of Ethiopia consider leveraging the reach of commercial banks of Ethiopia, MFI and insurance branch agents and networks in rural areas to explain services especially for women and Embedding strategies to better target women for financial programs, products and services. Additionally, other barrier to access and use of formal savings accounts among women might be the costs associated with opening and maintaining accounts. The offer of simplified, or no-frill, low-cost accounts may be a way to reduce this barrier to entry and improve account ownership among women. Therefore, the Government of Ethiopia should have to consider a targeted savings program delivered to female and targeting curriculum to map to savings habits and financial patterns between female / male divide. The Government of Ethiopia should measure to close the gender gap by supporting the inclusion of financially excluded women the unbanked. Several elements of financial infrastructure are among the basic building blocks of women's financial inclusion. Attention to these building blocks will create a better basis for the expansion of the usage of financial services by women. To reduce gender gap, the government should give attention to the elements of financial infrastructure that create a better basis for the expansion of the usage of financial services by women. Awareness of the relevance cultural and societal issues that constrain women's financial inclusion and promotion of the importance financial education are critically important elements to expand women's financial inclusion. Statistical data is also very important and collection of gender-disaggregated data that will allow financial authorities to take stock of the current state of women's financial inclusion, and women's digital financial inclusion in particular, and to determine whether their policy objectives are being met, building awareness of its value.

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