Enhancing financial inclusion of older urban poor in Ethiopia

A call for action

HelpAge International

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Contents

Key messages

- **While progress has been made, financial inclusion in Ethiopia remains low.**
- **Amongst older urban poor, account ownership is higher at formal financial institutions (compared to informal institutions). The main reason that deters older people from opening accounts is low income.**
- **The older urban poor who saved money at formal financial institutions were less than 30 per cent, meaning that they have a poor saving culture.**
- **The findings indicate that close to 10 per cent of the older urban poor had borrowed money from someone outside their household.**
- **Older people could be excluded from accessing loans due to limited engagement in business, a lack of collateral, and low income.**
- **Nearly 76 per cent of the older urban poor used formal insurance products, including health insurance, life insurance, car insurance, and property insurance.**
- **Older people have relatively good access to mobile phones, but they have very limited access to mobile banking and mobile money services.**
- **The government, civil society organisations, and financial institutions should work collaboratively to enhance financial inclusion of the older urban poor.**

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Introduction

The more the financial sector develops, the easier it tends to be to achieve sustainable economic development. Because of this, financial sector development has become a key issue on global development agendas. Recently, the main focus of financial sector development has been on financial inclusion, generally measured by the proportion of the population with access to formal financial services.[1]

In particular, financial inclusion became a key development concern during the outbreak of the COVID-19 pandemic as it was even more crucial to sustain the business operations or livelihoods of the poor.[2]

Financial inclusion is a multi-faceted concept that encompasses the ideas of access, quality, usage, and welfare.[3]

- More specifically, **access** is concerned primarily with the ability to use available financial services and products from formal institutions. Access considers the analysis of potential barriers to opening and using a bank account.
- **Quality** measures the relevance of the financial service or product to the needs of the consumer and shows the type of relationship between the financial service provider and the consumer.
- **Usage** focuses more on the permanence and depth of financial service or product use, and measures the combination of financial products used by any person or household.
- The final dimension of financial inclusion is **welfare**, which measures the impact of financial services on the lives of consumers, including changes in consumption, business activity, and wellness.

In 2020, the World Bank defined financial inclusion as:

> *"access to useful and affordable financial products and services by individuals and businesses that meet their needs, delivered in a responsible and sustainable way".*[4]

In other words, it implies a process of accessing basic financial services by those members of an economy who are interested in using them, favouring mainly low-income groups.[4] Financial inclusion emphasises the ability of vulnerable parts of society, such as older people, to afford and use at least one of the financial products and services. The financial products and services include transaction accounts, payments, savings, credit, insurance, and mobile banking.

35%

of the adult population have accounts at formal financial institutions

In Ethiopia, the financial sector has been making progress towards increasing access to financial technologies such as mobile banking, e-money, or electronic payment systems, and it has opened financial institutions in different parts of the country. However, the financial system is concentrated in urban areas and mainly serves people in higher income groups,[5] and overall financial inclusion in Ethiopia remains low. According to Kappeler et al (2018),[6] about 70 per cent of micro firms and 40 per cent of small and medium-scale enterprises in Ethiopia face challenges in accessing credit, and only close to 35 per cent of the adult population have accounts at formal financial institutions.[6] Less than 5 per cent of the population possess mobile banking accounts, despite efforts to digitise the economy.

Existing research also shows that in Ethiopia, there is a gap in account ownership between men and women. Men have a 9 per cent higher likelihood of accessing financial services than women.[7]

Given the above background, the research carried out by HelpAge International in collaboration with the Ethiopian Policy Study Institute (PSI) aimed to better understand the current situation and the obstacles that older people face with access to, and use of, formal and informal financial services (banking, savings, loans or credit, and insurance) in poor urban areas in Ethiopia. The study used a mixed methods design. The quantitative approach involved collecting and analysing questionnaire survey data disaggregated by gender, age, and disability status. To triangulate the findings from the survey data, qualitative data (data from focus group discussions, in-depth interviews, interviews with key informants) were collected and analysed using thematic analysis. The sections on the following pages summarise the key findings and provide a number of policy recommendations based on the newly generated evidence.

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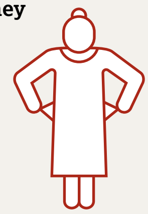
63%

of older people who don't have an account say it's because they don't feel they have enough money to save in a bank



General access to financial services

Account ownership at formal financial institutions, including banks, microfinance institutions, and saving and credit cooperatives (SACCO) is a basic indicator of financial inclusion. The account can be used for various purposes, such as saving, sending and receiving money, and making payments. Our results show that about 94.3 per cent of older people who took part in the survey have account books at formal financial institutions.

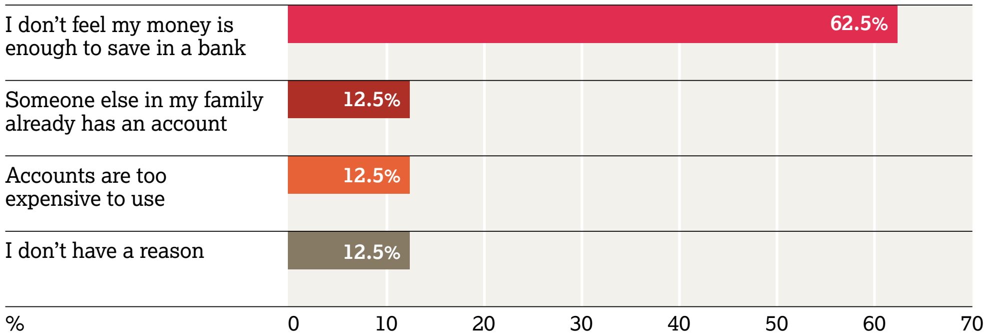
There are several reasons that may deter people from opening accounts at formal financial institutions. For the majority of older respondents (62.5 per cent) who do not have an account book at formal financial institutions, the main reason for not having an account book was mentioned as:

> *"I do not feel that my money is enough to save in a bank".*

In this regard, the focus group discussion (FGD) results show that some participants never opened an account because they didn't have sufficient money. A key informant from one of the financial institutions explained that the level of understanding of how to use banks, economic constraints, and health-related problems all result in the low number of account holders among older people. Another expert mentioned that the illiteracy of older people is one of the key challenges. Those older people who have accounts worry about their balance as they are unable to check it themselves. Cases of abuse in the bank were reported by some older people who were seeking support to withdraw money. Some older people pay others to help them withdraw their money from the bank. A key informant from a financial institution stated the case as follows:

> *"One of the challenges is their illiteracy. They [older people] worry about their balance and ask the bank again and again to know it. As a result, some of them are abused in the bank while seeking support from someone to help them withdraw their money from the bank. There are some older people who pay individuals to show them how to withdraw their money from the bank."*

Figure 1: The main reasons for not having an account book at formal financial institutions



Regarding gender, it was found that a slightly higher share of male respondents has an account book than female respondents. In general, 92.9 per cent of the female older respondents and all male older respondents have had account books at formal financial institutions. A recent study by Mossie (2022)[8] shows that women are less likely to have account books because they encounter disproportionate barriers compared to men. One reason might be that women primarily engage in informal economic activities while formal financial institutions mainly target the formal economy. The other reason could be that women tend to allocate their income mainly for household expenditure. As a result, they may not have any extra money to be kept at financial institutions. So far, income generation in most households in Ethiopia has primarily been in the hands of men. As a result, the man decides how the money is used, as he is the financial provider in a household.

2%

of older survey respondents use mobile banking

Digital access to financial services requires access to mobile phones. The survey findings indicate that 79.3 per cent of older people who took part in the survey own mobile phones, either exclusively or jointly with someone else. However, the use of mobile banking remains low because it involves recent technology that requires both the affordability of phones and the literacy of users, which is why few people are using it. The proportion of older respondents who reported using mobile banking was only 1.8 per cent. However, this proportion was higher for the overall use of mobile services than for having a mobile banking account.

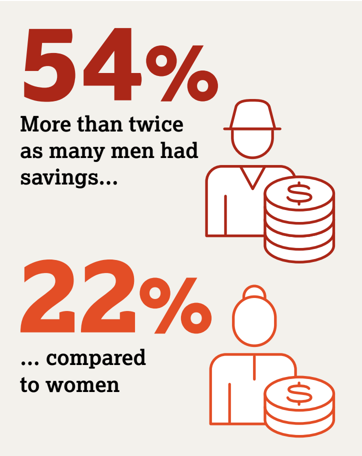
Savings

The results of the study show that 27.9 per cent of older people who took part in the survey had savings at formal financial institutions in the past 12 months. Existing evidence suggests that an increase in age significantly reduces formal savings.[8] The reason may be that as people age, they become consumers instead of savers.

A key informant interview with an older people's association leader highlighted that the majority of the members of the association, which is about 80 in size, do not have access to savings. He said:

> *"Older people have limited knowledge about saving, limited financial resources, and a poor saving culture".*

An expert from the Commercial Bank of Ethiopia stated that the savings of older people remain low, though they are gradually increasing.



During the study, the respondents were asked to choose the best savings method. The majority (89.3 per cent) of older people who took part in the survey and who save money indicated that they preferred to save at banks. This implies that older people are shifting towards the formal financial sector for their savings rather than using informal methods.

In terms of gender, the results of the analysis showed that a greater proportion of men has savings compared to women. As shown in the survey result 21.4 per cent of women and 53.6 per cent of men are savers. This finding aligns with Mossie, (2022),[8] who found that women are less likely to save. Mostly, women's income is used for daily expenses but there is not enough to save.

Access to loans and credit

Access to loans and credit is essential for day-to-day economic activities and for the overall economic growth of a country. Borrowers can use the loan to achieve several economic goals, including smoothing consumption and increasing investment activities. Access to credit is one of the fundamental indicators of financial inclusion. Empirical evidence reveals that, in developing countries, the number of adults formally borrowing has shown significant growth over the last decade.[9]

Based on our results, in the last 12 months, 11.4 per cent of older people who took part in the survey had access to loans. They borrowed money from someone outside their household. The results from the qualitative data indicate that banks are less willing to provide credit to older people because of their age, which limits their engagement in business and their lack of collateral to insure loans. Banks are not interested in providing loans to older people because of the assumption that older people have fewer working and income-generating years ahead. A key informant interview with one older people's association leader stated as follows:

> *"Older people in Addis Ababa do have access to credit/loans from financial institutions in our community. Of course, financial institutions do have a fear of providing loans to older people. This is because of our age. Financial institutions prefer to approach the young rather than the old to provide loans. Financial institutions prefer to support people who have a better political advantage."*

Therefore, unless older people provide collateral, banks tend to be reluctant to provide them with credit. Many of our key informants and FGD participants commented on this phenomenon. For instance, one member of the FGD said that:

> *"I went to a financial institution to get a loan to work on some activities, but they refused from the start to provide the loan due to my age and the absence of an income generation mechanism."*

Similar to the above, a key informant from a financial institution stated:

> *"The bank wants everybody to pay back their loan in a timely manner. He or she should be actively engaged in a business environment. So, before we provide the loan, we study the background information of the beneficiaries. In order to get the loan, they need to have a business license with good potential in the working environment."*

This finding was confirmed by a recent study, which shows that an increase in age significantly reduces formal credit,[10] as banks may not provide loans to older clients because of the higher risk of default.

Despite such challenges, there are opportunities to overcome them. For instance, Addis Savings and Credit Institute provides loans with a friend's or other individual's ID card as collateral. Nevertheless, other participants didn't take out a loan because they were afraid to repay the interest on their credit or didn't know how to use loans.

The findings from FGD show that there are microcredits available in the community. However, most participants don't know about them because they have no interest in them. Some others know about the available credits, but they don't want to apply for them. Still other older people have limited knowledge about how to use loans and have a fear of loans, believing that they create a debit to their generation. In particular, most older people fear group credits. It is important to emphasise that savings and credit institutions study the financial history of the borrower before lending to ensure that the beneficiary can repay.

According to the leader of an older people's association, financial institutions in Addis Ababa only provide loans to older people with caution. In reality, financial institutions attract more young people than older people regarding loans, which can give them a political advantage. According to experts in the Addis Savings and Credit Association, some financial institutions disregard older people as beneficiaries.

Many older people fear loans, believing that they don't want to pass the burden on to their children. Also, many of them are wary of taking loans in groups, fearing that there might be misuse among the members. Another major challenge is that the *woreda* (districts in Ethiopia) office gives them business working places only for five years. After five years, they have to leave the place for other poor people to use. This kind of transfer of the business place to others would make it difficult for the association to provide loans because whenever their place of work was taken, the institute would lose its business address and local ID, which is necessary to obtain the loan, and it would be difficult to check how they could repay the loan.

Experts from another financial institution also confirmed that when providing a loan to older people, they look at the succession plan, check the continuity of the collateral, and identify its future nature. However, an expert from the Commercial Bank of Ethiopia pointed out that older people may obtain credit if they fulfil the necessary preconditions that the bank stipulates. For instance, if enough collateral is presented as required by the bank system, they can get the necessary credit.

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76%
of older repondents used formal insurance products in the last year

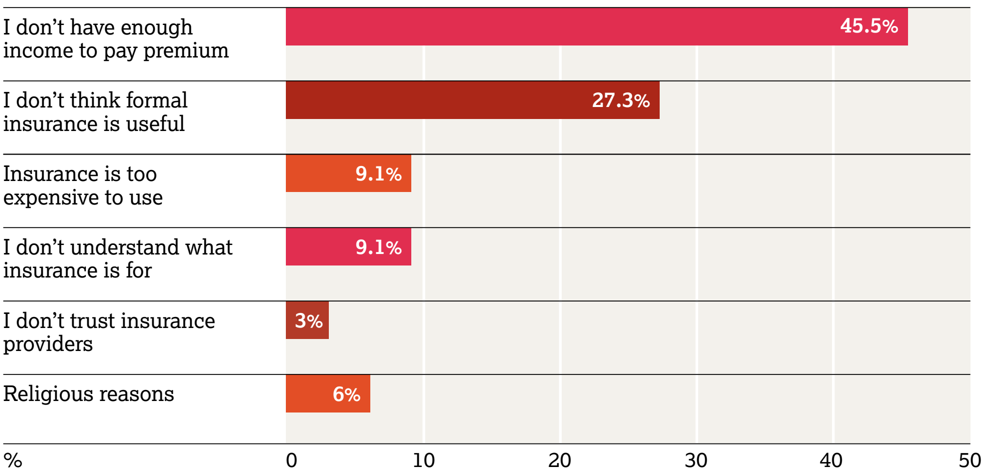
Insurance

Insurance helps reduce financial uncertainty and manage accidental losses, and the use of formal insurance products is another indicator of financial inclusion. Our study results showed that in the last 12 months, 76.4 per cent of older people who took part in the survey (75.9 per cent of women and 78.6 per cent of men) used formal insurance products. This includes insurance schemes such as health insurance, life insurance, car insurance, and property insurance.

Older people are more likely to buy insurance because of the relatively higher probability of facing risks related to old age. Key informant interviews with older people's association leaders confirmed that most older people were included in community-based health insurance, of which almost 90 per cent of members of the association were beneficiaries. In addition, some older people benefit from and are included in safety-net programmes, either through cash transfers or creating employment opportunities based on a regular salary. However, a lack of good governance at village level makes it a challenge to include all older people in the system.

Several factors contribute to excluding older people from using insurance products. The survey results show that the main reasons why older respondents didn't use insurance services was because they didn't have enough income to pay premiums (45.5 per cent) or didn't think formal insurance was useful (27.3 per cent). Thus, low income and lack of awareness are considered the principal barriers to insurance use.

Figure 2: The main reasons for not using formal insurance services



Conclusions

This study has investigated the financial inclusion of older people in the Addis Ababa city administration of Ethiopia. Comparisons of financial inclusion of older people were made across gender, disabilities and functional limitations.

The study findings show that the rate of account ownership amongst older people is relatively high, although savings, credit use, and the use of formal insurance products at formal financial institutions remain low. While the likelihood of owning mobile phones, exclusively or jointly with someone else, among older people is high, using a mobile phone to make payments, buy products, or send/receive money is not widespread.

The study findings also show that older women face disproportionate barriers to financial inclusion compared to older men. The latter are more likely to have an account book, to save, to use credit, to use mobile banking and to use mobile phones to pay bills or send or receive money using financial services such as M-BIRR, HELLO CASH, CBE BIRR and Telebirr than older women. In contrast, older men are less likely to have life insurance than older women.

Almost the same proportion of older people with disabilities and functional limitations have account books at formal financial institutions, have borrowed money, used mobile money services, and used mobile money accounts in the last 12 months. A smaller proportion of older people with disabilities and functional limitations have savings at formal financial institutions, have mobile phones, and use mobile banking. Overall, financial inclusion of older people with disabilities and functional limitations is less likely than that of people who are not disabled or functionally limited.

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Recommendations

To increase the financial inclusion of the older urban poor in Ethiopia, with a specific focus on the disproportionate barriers that older women and older people with disabilities encounter, the following interventions are recommended:

1. **Financial institutions should develop and introduce tailored financial products and/or benefit packages** such as products with interest rate adjustments to cater to the needs of older and poorer customers. The associated cost of attracting such groups of people by financial institutions might be shared by the government in terms of tax reductions, affirmative treatment in government service provisions and financial service utilisations.

2. **Financial institutions should relax the collateral requirements, taking the income of the poor into account**, to enhance credit use among older people. Innovative and more inclusive business models are critically essential.

3. **Financial institutions should promote and create more understanding of the benefits of saving among older people** and create reward mechanisms, for instance in the form of annual gifts to those who are successfully saving.

4. **The government, financial institutions and civil society organisations that work on social affairs should support older people** by creating more awareness and providing trainings to improve digital literacy and digital financial inclusion.

5. **The government and civil society organisations working on the livelihoods and rights of older people should support activities** that enhance the income-generating capacity of older people to enable them to participate in formal financial institutions.

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HelpAge International is a global network of organisations promoting the right of all older people to lead dignified, healthy and secure lives.

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