Policy Brief

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Boosting financial inclusion and promoting entrepreneurship among young people in Ethiopia

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Key messages

- **The majority of young people in Ethiopia are financially excluded**
- **Policies are needed to promote financial literacy among young people to increase their financial inclusion, including:**
  - **Adjusting the cost of borrowing and repayment periods to boost youth entrepreneurship**
  - **Improving support for informal financial service providers**
  - **Introducing more technology (internet banking and money transfer platforms)**

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 with the aim of informing new policies to improve access to financial services.

Photo: Rémi Kahane / GlobalHort

Photo: Natasha Elkington / CIFOR

The analysis

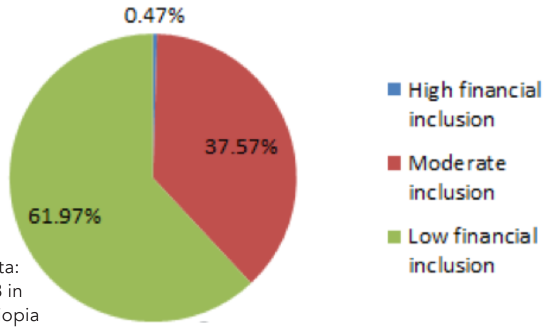
The research team conducted the study by gathering information using the Community Based Monitoring System (CBMS) from 4,928 youth who are residing in three areas of Addis Ababa and Arsi administrations. They wanted to find out more about the levels of financial inclusion in young men and women, as well 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, as it is depicted by figure 2 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, as it is illustrated by figure 1 below the figures are 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.

Degree of Financial inclusion



Source of basic data: CBMS census 2018 in selected sites, Ethiopia

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 repayment 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.

The researchers also suggest the following policy measures:

- 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.

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