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The Global Findex Database

Financial Inclusion in Fragile and Conflict-Affected States

Asli Demirguc-Kunt

Leora Klapper

Douglas Randall

In fragile and conflict-affected states just 15 percent of adults have an account at a formal financial institution while 26 percent report having saved in the past year, according to new data from the Global Financial Inclusion (Global Findex) database. Adults in these economies are significantly more likely than those in the rest of the developing world to report borrowing for health or emergency purposes. And the use of financial services varies sharply across groups with different individual characteristics. The Global Findex database can be used to track the effects of financial inclusion policies in fragile and conflict-affected states and develop a deeper and more nuanced understanding of how people in these economies save, borrow, make payments, and manage risk.

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Weak institutions in the formal financial sector—public and private—are a common feature in fragile and conflict-affected states. The resulting lack of economic stability and opportunity for individuals is both a driver and a consequence of insecurity. An inability to smooth consumption and make investments through formal savings and credit systems often exacerbates conflicts. Indeed, recent research has shown that civil conflict in Sub-Saharan Africa is more likely to occur in years with economic shocks brought on by poor rainfall.[1] People in fragile and conflict-affected states also face a unique set of payment, credit, and risk management needs related to the high levels of insecurity.

Efforts to improve the scope and quality of financial access have been hindered by the lack of systematic indicators on the use of different financial services (formal and informal) across the developing world—but particularly in fragile and conflict-affected states, where individual-level data are scarce. The Global Findex database provides such indicators, measuring how people in 148 economies around the world save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note features Global Findex data based on almost 20,000 interviews across 19 fragile and conflict-affected states.[2]

How Many Have Accounts—and How Are They Used?

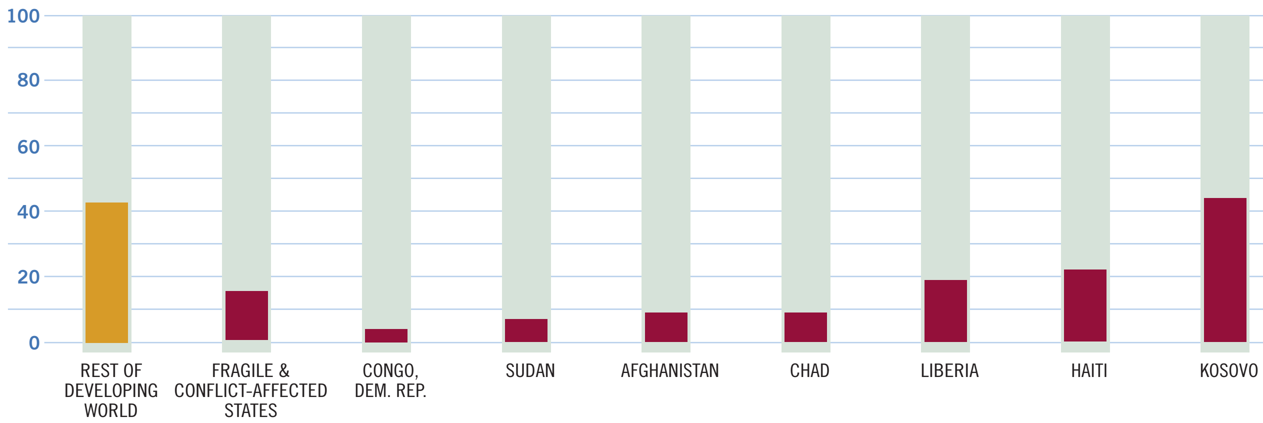
Paradoxically, the insecurity and uncertainty that define fragile and conflict-affected states are precisely the conditions in which having a safe place to save or a reliable method for receiving remittances is most valuable. And too often the weakness or absence of legitimate financial institutions exacerbates the slow pace of recovery after conflicts—because savings have been wiped out and entrepreneurs lack capital to start new businesses.[3] Data on the financial behaviors of people in fragile and conflict-affected states show that they are among the least served by formal financial services in the developing world.

Just 15 percent of adults in fragile and conflict-affected states report having an account at a formal financial institution—a bank, credit union, cooperative, post office, or mi-

FIGURE 1

Account penetration

Adults with an account at a formal financial institution (%)



Note: Average for fragile and conflict-affected states includes data for 19 economies. Figure shows economy-level averages for economies with a United Nations or regional peacekeeping force present in the past three years (excluding border monitoring operations).
Source: Demirguc-Kunt and Klapper 2012.

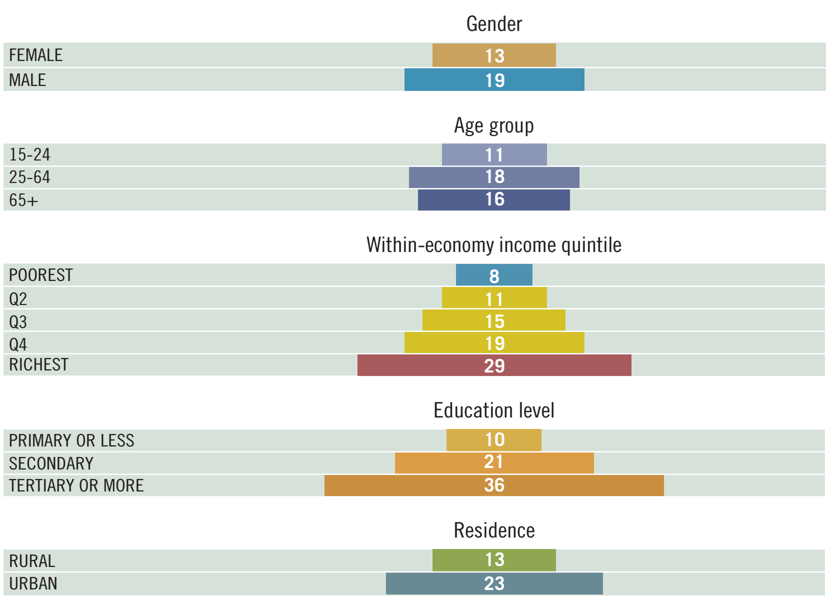
crofinance institution (figure 1).[4] In only 2 of the 19 economies (Bosnia and Herzegovina and Kosovo) does account penetration exceed the average in the rest of the developing world (table 1).

Account penetration varies sharply by individual characteristics in fragile and conflict-affected states (figure 2). Women are 32 percent less likely than men to have a formal account, with the largest gender gaps found in the Democratic Republic of Congo, Kosovo, Sudan, and West Bank and Gaza. The overall gender gap is significantly larger than in other developing economies, where women are on average 19 percent less likely than men to have a formal account.

FIGURE 2

Account penetration in fragile and conflict-affected states by individual characteristics

Adults with an account at a formal financial institution (%)



Note: Data by education level exclude Zimbabwe.
Source: Demirguc-Kunt and Klapper 2012.

In fragile and conflict-affected states, where disenfranchisement of youth often propels the cycle of conflict, those ages 15–24 are 39 percent less likely than those ages 25–64 to have an account. In West Bank and Gaza just 9 percent of youth have an account, compared with 26 percent of older adults. Finally, adults who report working full time for an employer are more than twice as likely as other adults to have a formal account, though this segment makes up just 12 percent of the adult population in these economies.

The use of accounts in fragile and conflict-affected states differs significantly from that in the rest of the developing world. About 25 percent of adults with a formal account in these economies report using their account to receive remittances from family members living elsewhere, compared with 14 percent in the rest of the developing world. In Somaliland 66 percent of account holders report using their account to receive remittances, in Zimbabwe 55 percent, and in Haiti 49 percent.

These remittances can be a lifeline for people lacking employment and economic opportunity and may be a principal reason for opening accounts in these economies. In Somaliland several large remittance companies—including Dahabshiil—serve as de facto banks, offering basic accounts to customers. And with the blessing of the government, they are now moving toward offering a wider range of banking products, such as credit and insurance.[5]

Account holders in fragile and conflict-affected states are also more likely than those in other developing economies to use their account to receive government payments. Requirements to pay salaries into accounts rather than in cash have proved to be effective in stemming corruption in both the public and private sector.

What Are the Barriers to Account Ownership—and the Alternatives?

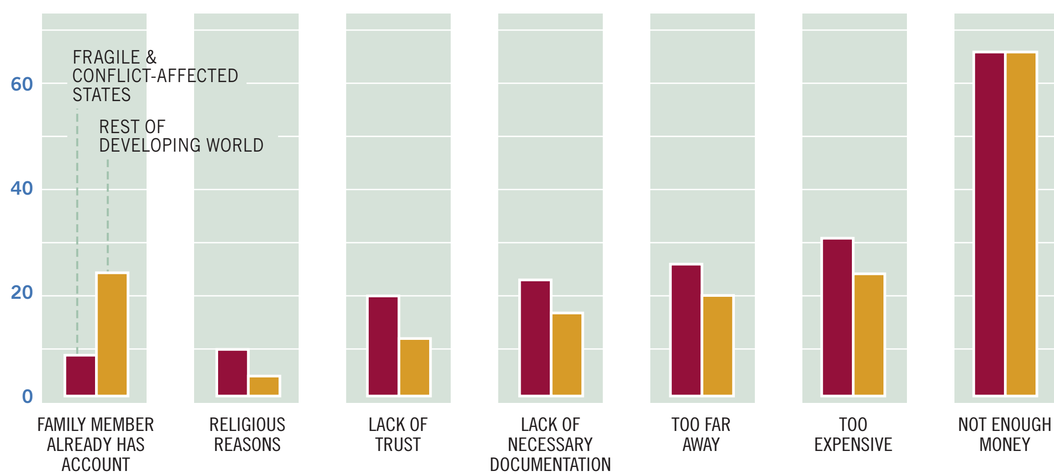
Why do more than 85 percent of adults in fragile and conflict-affected states remain outside the formal financial system? As in the rest of the developing world, the most frequently cited reason for not having a formal account is lack of enough money to use one: this is the response given by 66 percent of adults without a formal account in these economies, with 24 percent citing it as the only reason (multiple responses were permitted; figure 3).

But unbanked adults in fragile and conflict-affected states are significantly more likely to cite religious reasons (10 percent), lack of trust (20 percent), documentation requirements (23 percent), distance (26 percent), and cost (31 percent) as obstacles to account ownership, suggesting that policy makers and private sector leaders in these economies face nontrivial challenges in expanding financial inclusion. While concrete strategies and reforms—such as national ID programs, improved regulation, or subsidies for rural

FIGURE 3

Self-reported barriers to use of formal accounts

Non-account-holders reporting barrier as a reason for not having an account (%)



Note: Respondents could choose more than one reason.
Source: Demirguc-Kunt and Klapper 2012.

branches—can alleviate obstacles of documentation, distance, and cost, building trust in institutions or governments with a history of corruption or ineffectiveness is an extremely challenging task. In Afghanistan, where 37 percent of adults without an account cite lack of trust as an obstacle, the recent banking scandal suggests that formal financial institutions may in fact not deserve the trust of their clients.

An emerging alternative to formal banking systems is the use of "mobile money." About 11 percent of adults in fragile and conflict-affected states report having used a mobile phone to pay bills or to send or receive money in the past 12 months, compared with 4 percent in the rest of the developing world. Mobile phones can be used to make payments linked to a bank account, to make payments linked to a mobile-only account, or to simply transfer airtime—although the first two uses are more likely to serve as an entry point into the formal financial system. The ability to quickly and safely transfer funds to family members or program recipients holds much potential for improving people's financial lives. Evidence from Kenya suggests that users of mobile money are less likely to experience reductions in consumption following negative income shocks, largely because of their ability to smooth risk via remittances.[6] And in Haiti support from international donors for the mobile payment industry has facilitated its adoption as a mechanism for disbursing cash-for-work payments and social benefits to earthquake victims.[7]

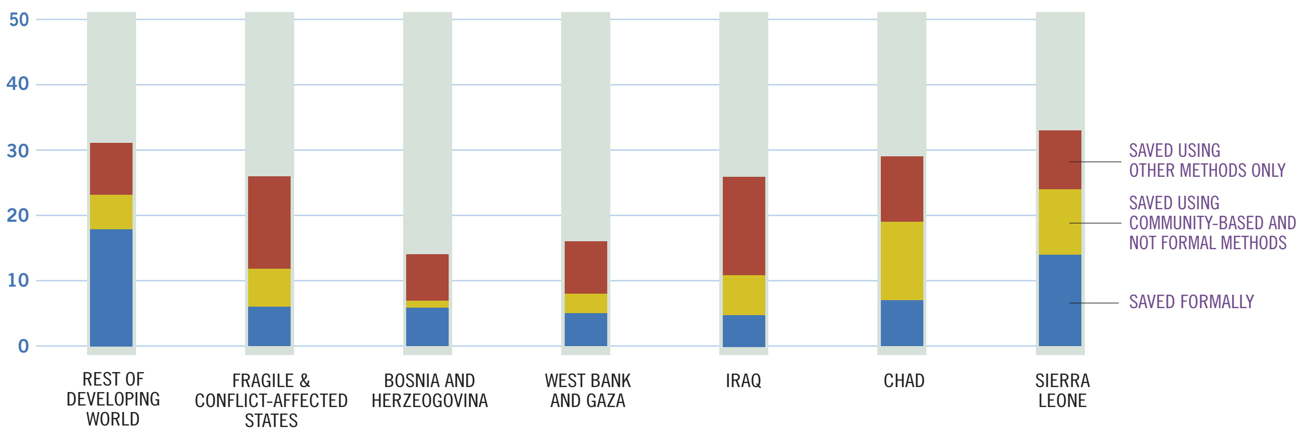
How Do People Save?

The share of adults in fragile and conflict-affected states who report having saved in the past year (26 percent) is only slightly smaller than the share in the rest of the developing world (31 percent). But the methods used for saving differ substantially. Savers in fragile and conflict-affected states are less than half as likely as those in the rest of the developing world to save at a formal financial institution—and almost 50 percent more likely to save using a community-based method (figure 4). They are also significantly more likely to save using other methods, such as storing cash in their home. In Chad, for example, 29 percent of adults report having saved or set aside money in the past year. But just 7 percent of adults did so using a formal financial institution, while 12 percent used an informal savings club and 13 percent used only other methods, such as saving at home.

FIGURE 4

Formal and informal saving

Adults saving any money in the past year (%)

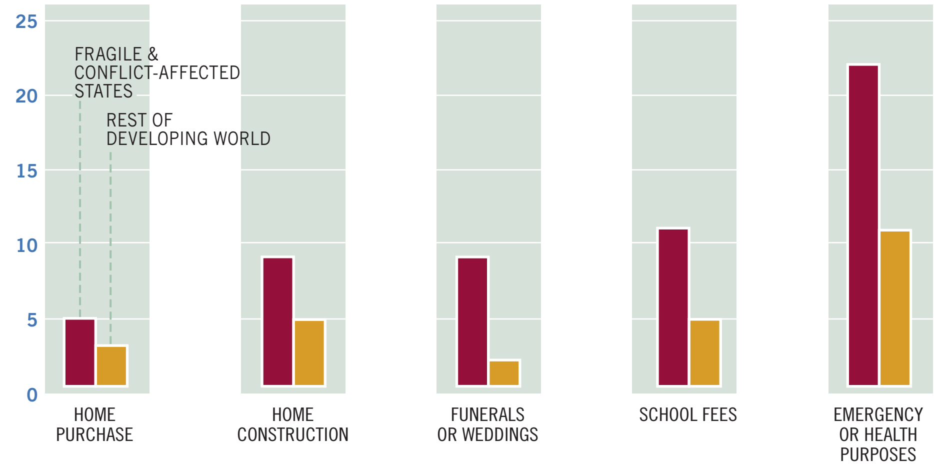


Source: Demirguc-Kunt and Klapper 2012.

FIGURE 5

Reasons for loans reported by borrowers

Adults with an outstanding loan for purpose specified (%)



Source: Demirguc-Kunt and Klapper 2012.

What Are the Sources and Purposes of Borrowing?

Just 6 percent of adults in fragile and conflict-affected states report having borrowed money from a formal financial institution in the past year. Significantly larger shares report having borrowed money from family or friends (34 percent), from a retailer using installment or store credit (12 percent), or from an informal lender (9 percent). People in these economies appear to be in far greater need of credit than those in the rest of the developing world: while 48 percent of adults in fragile and conflict-affected states report some form of borrowing in the past year, only 34 percent do in other developing economies. And those in fragile and conflict-affected states who report having borrowed also report borrowing from significantly more sources.

The reasons for borrowing—whether from formal or informal sources—also differ sharply. The most common purpose of current loans in fragile and conflict-affected states is emergency or health reasons, reported by 22 percent of adults—twice the average in the rest of the developing world (figure 5). In Afghanistan, Burundi, Guinea, Haiti, Iraq and Sudan more than 25 percent of adults report currently having a loan for emergency or health purposes. This large share almost certainly reflects the high incidence of violent conflict as well as the general lack of government-sponsored health insurance in these economies. Adults in fragile and conflict-affected states are also more than twice as likely as their counterparts in other developing economies to report having a current loan for school fees or for funerals or weddings.

Conclusion

As the first public database of indicators that consistently measure people's use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people in fragile and conflict-affected states save, borrow, make payments, and manage risk. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

TABLE 1

Selected Global Findex indicators by economy

	Accounts and payments: Share with an account at a formal financial institution — All adults (%)	Poorest income quintile (%)	Women (%)	Ages 15–24 (%)	Adults using a formal account in the past year to receive — Payments from government (%)	Family remittances (%)	Adults using mobile money in the past year (%)[a]	Saving and credit: Adults saving in the past year — Using any method (%)	Using a community-based method (%)	Using a formal account (%)	Adults originating a new loan in the past year — From a formal financial institution (%)	From family or friends (%)	Adults with an outstanding loan — For emergency or health purposes (%)	For funerals or weddings (%)
World	50	–	47	37	13	7	–	36	–	22	9	23	15	7
Fragile and conflict-affected states	15	–	13	11	3	4	11	26	6	6	6	34	22	9
Rest of developing world	43	–	39	33	6	6	4	31	5	18	8	25	11	2
Afghanistan	9	0	3	6	2	2	7	15	3	3	7	30	27	29
Angola	39	31	39	30	10	8	26	37	8	16	8	26	16	9
Bosnia and Herzegovina	56	35	48	46	15	8	2	14	1	6	13	16	5	2
Burundi	7	3	6	5	2	1	5	25	2	3	2	44	30	5
Chad	9	6	7	7	3	3	18	29	12	7	6	31	20	13
Comoros	22	9	18	7	5	4	4	29	16	11	7	25	24	13
Congo, Dem. Rep.	4	0	3	2	0	1	2	24	8	1	2	30	25	4
Guinea	4	2	3	2	1	1	7	27	6	2	2	35	30	16
Haiti	22	4	21	6	1	11	15	32	6	18	8	36	27	8
Iraq	11	5	8	7	4	2	8	26	6	5	8	41	27	13
Kosovo	44	24	31	34	10	9	18	15	1	5	6	17	2	1
Liberia	19	3	15	15	6	7	19	35	16	14	6	42	15	5
Nepal	25	15	21	24	1	5	0	18	6	10	11	33	24	6
Sierra Leone	15	4	13	11	4	7	2	33	10	14	6	43	9	2
Sudan	7	4	4	4	2	2	52	23	9	3	2	47	30	9
Syrian Arab Republic	23	20	20	22	0	1	0	48	1	5	13	20	3	8
Togo	10	2	9	7	2	1	1	20	4	4	4	19	14	2
West Bank and Gaza	19	8	10	9	6	2	4	16	3	5	4	42	20	11
Zimbabwe	40	22	37	22	10	22	4	40	11	17	5	57	7	3

– = not available.
a. Data refer to adults who report having used a mobile phone in the past year to pay bills or send or receive money.
Source: Demirguc-Kunt and Klapper 2012.

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1. Satyanath, Miguel, and Sergenti 2004.
2. Fragile states are identified on the basis of the World Bank's Fragile Situations List, available at http://go.worldbank.org/BNFOS8V3S0. The fragile and conflict-affected states included in this analysis are listed in table 1. Data for the Central African Republic and Somalia are available online but are not included in the aggregate statistics because more than 35 percent of the population in each country was excluded from sampling as a result of security concerns.
3. World Bank 2011.
4. Statistics are weighted by economy-level adult population.
5. Tran 2012.
6. Jack and Suri 2011.
7. USAID 2012.

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