FINDEX NOTE 2

SUB-SAHARAN AFRICA SERIES:
SAVINGS, CREDIT AND FINANCIAL RESILIENCE IN SUB-SAHARAN AFRICA

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AUTHORS

Leora Klapper, Saniya Ansar,
Jake Hess, and Dorothe Singer
Development Research Group
The World Bank

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Savings, credit and financial resilience in Sub-Saharan Africa

Throughout Sub-Saharan Africa, innovation is transforming how people conduct financial transactions and live their lives. Mobile phones and the availability of new digital technologies are at the forefront of this change, helping to draw more and more people into the formal economy, potentially mitigating gender and income inequality and stimulating development in areas ranging from farming to education.

The Findex Notes: *Sub-Saharan Africa series summarize data compiled by Global Findex from nationally representative surveys of more than 150,000 adults in over 140 economies in 2017, including more than 35,000 adults in 35 economies in Sub-Saharan Africa. Global Findex is the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk.*

IN THIS NOTE

We explore how and why adults in Sub-Saharan Africa save money, obtain loans, and manage their financial risks.[i] A healthy economy depends in part on people's ability to save money, obtain appropriate credit and access the tools necessary to manage their financial risks. The benefits of a sound financial footing extend into every corner of society. When women acquire accounts, they often increase spending on more nutritious foods, education for their children and investments in their businesses. Farmers invest in their crops, resulting in higher outputs and greater stocks of food. Microloans, even if they don't immediately lift people out of poverty, often spark new businesses and prop up existing ones. Digital payment systems make it faster, easier and oftentimes safer for people to collect money from faraway friends and relatives when faced with a financial emergency, reducing the likelihood of falling into poverty.

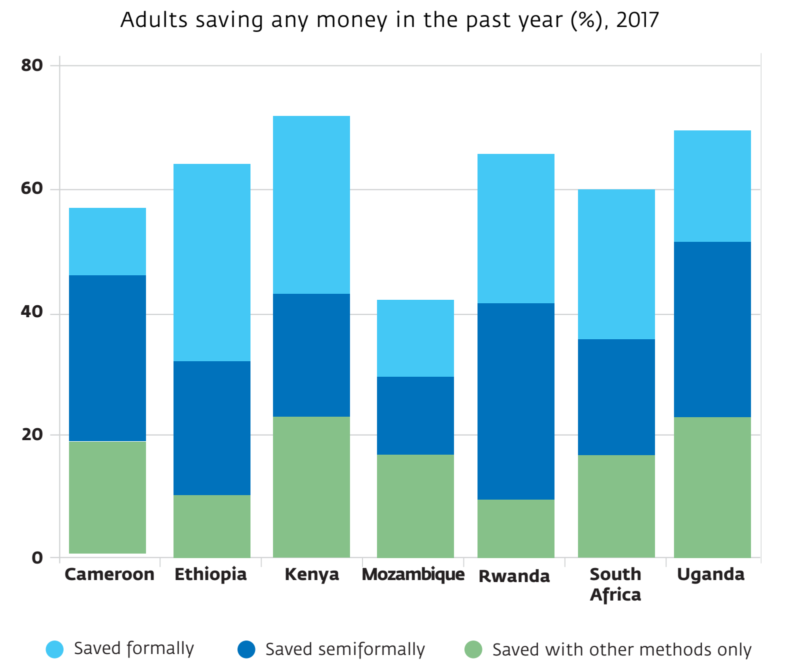
Over half of adults save money—but relatively few use banks to do so

Over half of adults in Sub-Saharan Africa say that they have saved money in the past year. Overall, 54 percent of adults in the region reported saving, but only a quarter of savers used formal methods such as an account at a bank or at a formal financial institution. Savers more commonly save semiformally, by using a savings club or a person outside the home. One example is a rotating savings and credit association, which typically operates by pooling members' weekly deposits and giving the entire sum to a different member each week. Many savers also use what the Global Findex categorizes as "other" methods, which might entail saving cash at home ("under the mattress"), or buying livestock, jewelry, or real estate. People use many methods to save, and savings patterns vary across the region (Figure 1). Roughly half of savers use semiformal methods in economies such as Cameroon, Mozambique, and Uganda. Formal savings are high in Ethiopia, Kenya, and South Africa, where they are used by roughly 4 in 10 savers.

Overall in Sub-Saharan Africa, far more adults use semiformal savings than formal savings (Map 1). In economies such as Cameroon, Cote d'Ivoire, Tanzania, and Uganda, adults are at least two times more likely to use semiformal savings than formal savings. Formal savings are not totally absent. Roughly a fifth of adults save formally in Nigeria, Rwanda, and South Africa, as do a quarter in Ethiopia and Kenya, and a third in Namibia.

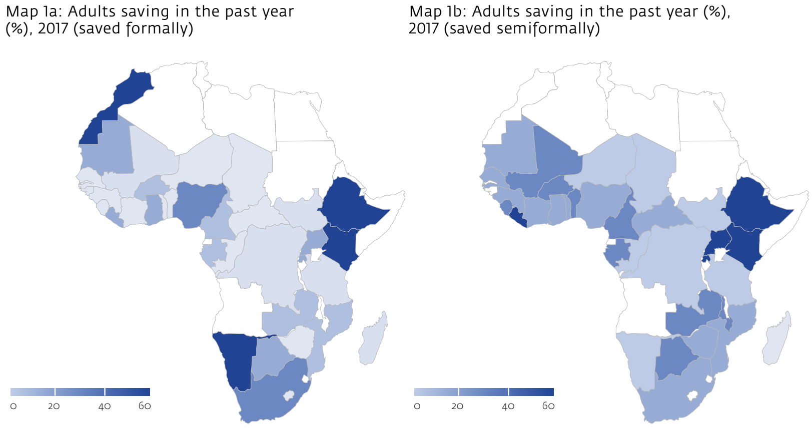
Formal savings patterns vary by gender and income. Overall in Sub-Saharan Africa, 19 percent of men save formally, compared with 11 percent of women. Formal savings is twice as common among men than women in Kenya and Nigeria. Poorer adults lag wealthier adults in tendency to save. Regionally, among adults in the richest 60 percent of households, 19 percent use formal savings, against only 9 percent of those in the poorest 40 percent of households. Comparable inequalities are found in economies such as Burkina Faso, Rwanda, Uganda, and Zambia. Formal savings is twice as high among the wealthy than the poor in Ethiopia.

Figure 1: In Sub-Saharan Africa, Adults who save typically don't do so at a financial institution



Source: Global Findex database. Note: People may save in multiple ways, but categories are constructed to be mutually exclusive. Saved formally includes all adults who saved any money formally. Saved semiformally includes all adults who saved any money semiformally but not formally.

Map 1: In Sub-Saharan Africa, saving semiformally is much more common than saving formally



Source: Global Findex database. Note: Data are displayed only for economies in Sub-Saharan Africa.

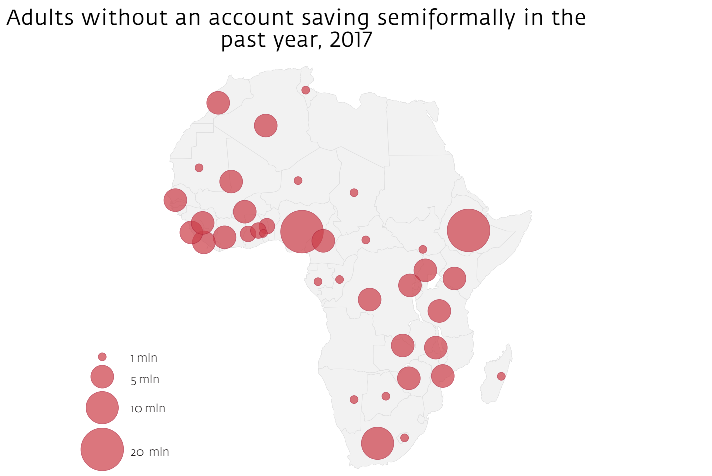
Formalizing savings could increase ownership and use of accounts

Most adults—and most savers—in Sub-Saharan Africa spurn formal savings products. If financial institutions offered an appealing product, the benefits could be enormous. Underserved adults would stand to benefit from higher ownership and usage of accounts.

Nearly 65 million unbanked adults in Sub-Saharan Africa save semiformally (Map 2), among them 35 million women. If those savings were moved into accounts, the overall number of unbanked adults could fall by nearly a quarter in Nigeria and almost a third in Ethiopia.

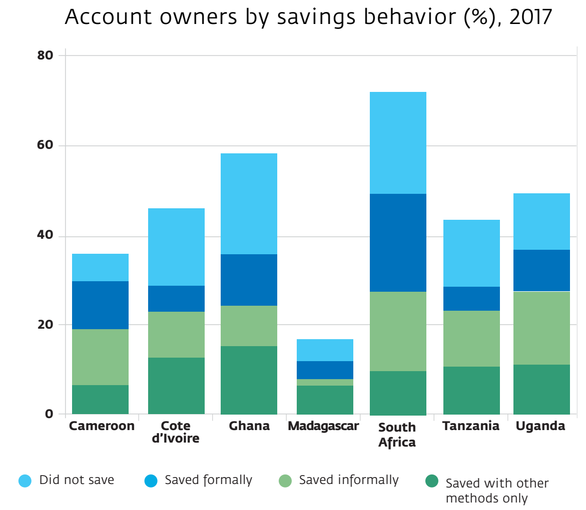
Formalizing savings could also spur an increase in account usage. Regionally, about a third of account owners use their accounts to save money formally. The same goes for about 14 percent of account owners in Cote d'Ivoire and Tanzania, and a fifth in both Madagascar and Uganda (Figure 2). Across Sub-Saharan Africa, a fifth of account holders still save semiformally (and not formally), as do about a third in Cameroon and Uganda. Plenty of adults do not save at all even though they have an account. That includes about a quarter of account owners regionally, nearly 40 percent in Mozambique, and about a third in Cote d'Ivoire, Ghana, South Africa, and Tanzania. Financial services provided through mobile phones could help boost savings rates among account holders. Research has found that automatically enrolling employees in electronic wage payments via mobile phones can improve savings. Mobile phones can also be used to deliver text message reminders to save money, potentially resulting in higher savings balances. [ii]

Map 2: About 65 million unbanked (without an account) adults in Sub-Saharan Africa save semiformally (2017)



Source: Global Findex database. Note: Data are not displayed for economies where the share of adults with an account is 5 percent or less or where the share saving semiformally is 10 percent or less.

Figure 2: Scores of account owners save semiformally - or don't save at all



Note: Account owners may save in multiple ways, but categories are constructed to be mutually exclusive. Saved formally includes all account owners who saved any money formally. Saved semi-formally includes all account owners who saved any money semiformally but not formally.

Borrowers tend to rely on family and friends or semiformal lenders

Most people borrow money from time to time, whether to invest in education, buy a home, or cover expenses during an economic emergency. In Sub-Saharan Africa, 45 percent of adults report that they have borrowed money in the past year, and only 1 in 6 borrowers report getting money from formal sources such as a bank loan. Borrowers in the region more commonly borrow semiformally, from a savings club such as a rotation savings and credit association, or get money from family or friends. Nearly a fifth of adults in Malawi borrow in a semiformal manner, as do nearly a third of adults in Rwanda (Figure 3). Formal borrowing is more common in economies, such as Ethiopia, Ghana, and Uganda, where 10 percent or more of adults borrow from formal sources. In Kenya, 17 percent of people borrow from formal sources.

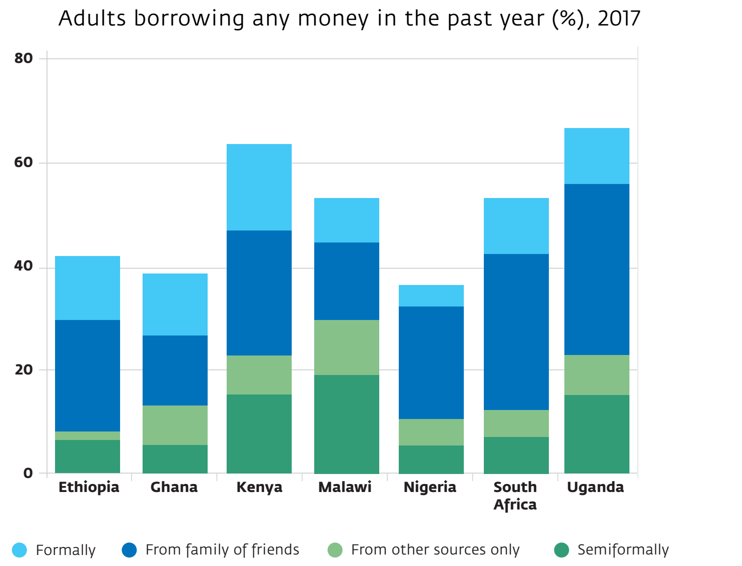
Young entrepreneurs tend to save for business rather than borrow for business

Sub-Saharan Africa is an entrepreneurial continent. Regionally, 23 percent of adults save for business purposes, while 12 percent borrow for business purposes. Both numbers are far higher than in other developing regions. Sub-Saharan Africa is also youthful. As is true of the overall population, young people are more likely to save for business than borrow for business. Regionally in Sub-Saharan Africa, 3 percent of young people borrow for business, while 19 percent save for business. In Kenya, 40 percent of young adults save for business, while 5 percent borrow. In Ethiopia, the numbers are 28 percent and 2 percent respectively (Figure 4). The share of young people who borrow for business tops out at about 10 percent in economies such as Uganda and Zambia. Older entrepreneurs also tend to rely on savings rather than credit. Regionally, 5 percent of adults age 25 or older borrow for business, while five times as many save for that purpose.

Relatively few adults save for old age

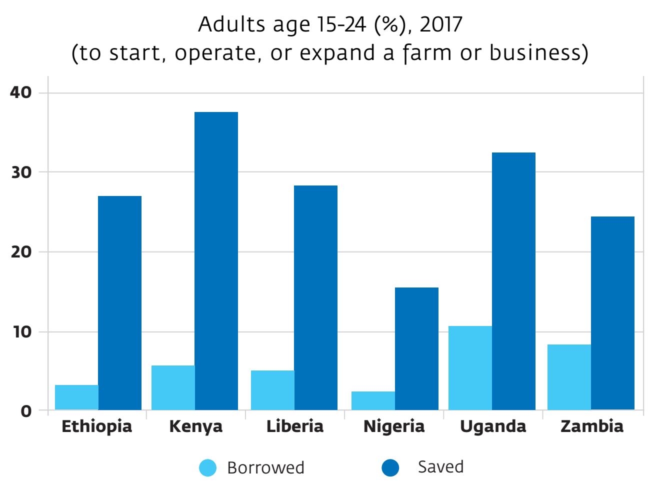
Regionally in Sub-Saharan Africa, 1 in 10 adults set aside money for old age. The share is slightly higher in economies such as Ghana, Kenya, Madagascar, Nigeria, and Uganda, and especially Mauritius, where nearly 1 in 3 adults report doing so. The percentage of adults saving for old age is in the single digits in economies like Democratic Republic of Congo, Mozambique, and Tanzania.

Figure 3: Most borrowers rely on family and friends or semiformal lenders



Source: Global Findex database. Note: People may borrow from multiple sources, but categories are constructed to be mutually exclusive. Borrowed formally includes all adults who borrowed any money from a financial institution or through the use of a credit card. Borrowed semiformally includes all adults who borrowed semiformally (from a savings club) but not formally. Borrowed from family or friends excludes adults who borrowed formally or semiformally.

Figure 4: Young people are more likely to save for business than borrow for business



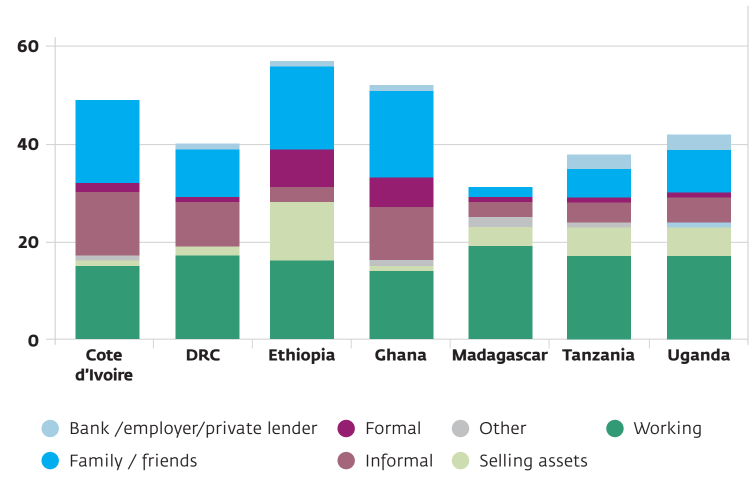
Source: Global Findex database.

Few people turn to the formal financial system for emergency funds

Most people think development is about helping poor people escape poverty. That is a large part of it, of course, but another aspect of development focuses on keeping people out of poverty. One way to do that is to help people manage financial emergencies, like an unexpected expense or sudden unemployment. For example, one estimate found that health expenditures drove 100 million people into poverty in 2010.[iii]

Financial resilience refers to how people manage unexpected expenses. The Global Findex survey probes financial resilience by asking people if they could come up with an amount of money equal to 1/20 of gross national income per capita within the next month. It also asked how they would access emergency funds.

Figure 5: Most people would turn to family, friends, or an employer for emergency funds



Source: Global Findex database. Note: Other includes all respondents who chose "other sources," "don't know," or "refuse" as their response for main source of emergency funds.

Overall, in Sub-Saharan Africa, 43 percent of adults say it would be possible to come up with emergency funds. Across the region, there is variation in the share who say they could do so as well as the sources of funds. Most people say they would get the money by working, or by borrowing from friends or relatives. In Cote d'Ivoire, Ethiopia, and Ghana, nearly a fifth of adults report that they would work more (Figure 5). In Democratic Republic of Congo, Madagascar, Tanzania, and Uganda, almost 20 percent of adults would borrow from friends or relatives. The share of adults reporting that they would borrow money from a bank, employer, or private lender is in the low single digits in most economies. It is more common to use savings—and many respondents who say they would rely on savings report they would draw from semiformal savings. In Cote d'Ivoire and Ghana, for example, more than 10 percent of adults would turn to semiformal savings, while the share who would use formal savings is in the single digits.

Conclusion

Adults in Sub-Saharan Africa use a range of tools to save, borrow, and juggle financial risk. Relatively few use formal products—such as savings accounts or bank loans—to do so. Strengthening the use of formal savings products could improve development outcomes and help people better manage economic emergencies. The challenge for formal financial service providers it to offer fair, affordable, and transparent products which satisfy customer needs.

END NOTES

i See Demirguc-Kunt, Asli, Leora Klapper, and Dorothe Singer (2017), "Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence," World Bank Policy Research Paper No. 8040.

ii See IPA/JPAL (2017), "Nudges for Financial Health: Global Evidence for Improved Product Resign," research brief.

iii See Tariq Khokar (2017), "Chart: 100 Million People Pushed into Poverty by Health Costs in 2010," World Bank blog.