2023 International Conference on Science, Engineering and Business for Sustainable Development Goals (SEB-SDG) | 979-8-3503-2478-5/23/$31.00 ©2023 IEEE | DOI: 10.1109/SEB-SDG57117.2023.10124479

The Trend of Financial Inclusion: A Comparative Analysis of Selected African Countries

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Abstract - Financial inclusion (FI) is a widely recognized strategy to improve the quality of life of the poor by allowing everyone to participate in the formal financial system, make daily transactions, prepare for emergencies, and invest in opportunities. Governments worldwide are working towards this goal to pursue sustainable development. Despite these efforts, most African countries still face high poverty levels. To address this issue, this research compared the financial inclusion achievements of selected African countries using data from the Global Findex Database over four years. The goal was to identify the position of each country and compare them to identify areas for improvement and stability. Results showed that Cameroon, Egypt, and Nigeria had the lowest account penetration and borrowing growth rates, while savings in social clubs and borrowing from family and friends were prevalent across all countries. The paper recommends that financial institutions simplify documentation and offer attractive interest rates to improve access to and usage of financial services and products. Moreover, stakeholders should increase awareness to enhance the penetration of formal financial services.

Keywords: Financial Inclusion, Financial products, Savings, Credits, public finance

I. INTRODUCTION

Financial inclusion has been the front-runner in the pursuit of the United Nations development agenda for both developed and developing countries. This is because it helps build a robust financial system, revitalizes small businesses, and lowers the poverty rate through a variety of affordable financial products and services [12]. Such products and services include transaction accounts, savings, credits, payments, pensions, and insurance aimed at the most vulnerable members of society, thereby boosting the economic prosperity of the nation [12].

.Financial inclusion was described as the provision of formal financial services to everyone in an affordable manner, irrespective of one's status in society [1]. Likewise, reference [2] confirmed financial inclusion as the process that ensures all sections of society, especially the vulnerable (low-income earners), have access to easy and low-cost financial products and services geared towards meeting their needs in a fair and transparent manner by the stakeholders (banks and other financial institutions).

Reference [10] asserted that inclusion in the financial system seeks to accomplish several goals, including the eradication of poverty, the encouragement of saving behaviours, the provision of credit to people with low incomes, the promotion of economic growth, an improvement in the standard of living for all people, and the advancement of gender equality. In the same vein, reference [6] reiterated that financial inclusion is an integral part of the financial system because it helps stimulate the growth and stability of the economy. This also reinforces the fact that financial inclusion is seen as a therapy for reducing poverty [9]. As a result, policymakers and scholars worldwide promote financial inclusion [3].

Having access to financial services is crucial for realizing the objectives outlined in the 2030 Agenda for Sustainable Development. Even though there have been advancements in

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this area, a considerable disparity still exists between developed and developing nations. As of 2017, only 63 percent of adults in developing economies had financial accounts, whereas 94 percent of adults in developed economies did [7]. This shows that financial inclusion is still a significant developmental challenge, and the COVID-19 pandemic has made this issue even more pressing.

The strategy of financial inclusion has become an efficient means of accomplishing Sustainable Development Goals (SDGs). The 2030 Agenda for Sustainable Development, which includes the SDGs, was adopted by the General Assembly. These SDGs comprise 17 objectives and 169 targets, designed to unite all stakeholders in addressing the three dimensions of sustainable development: economic prosperity, social equity, and environmental responsibility. The SDGs are slated to be achieved within the next 15 years, starting from 2016. By promoting greater financial inclusion, progress can be made toward attaining certain SDGs [5].

Currently, about 60 governments worldwide have adopted a financial inclusion strategy. Numerous countries are taking significant steps to enhance access to and utilization of financial services, as indicated by a growing trend among national governments [11]. A recent survey of bank regulators across 143 countries revealed that 67 percent have been given the responsibility to promote financial inclusion. In addition to this, international organizations such as the World Bank and G-20 are also developing strategies to advance financial inclusion[5]. Despite the collaborative efforts of various stakeholders across these nations to improve access and usage of financial products, the ultimate goal of achieving full financial inclusion remains unaccomplished.

Hence, the purpose of this study was to determine the order of importance between bank penetration (access) and the use of specific financial services (savings and credit) by the demand side (users) in chosen Sub-Saharan African nations. This analysis aimed to facilitate a comparative evaluation of these countries in terms of their access and usage of financial services. Such an assessment could potentially provide insights into areas where improvement is needed, leading to increased stability in the financial sector.

II. LITERATURE REVIEW

Cross-country assessment is necessary to accelerate the stakeholder's progress in pursuit of sustainable development goals (SDGs) and to provide credible financial services that will continue to meet the demand of the users to enhance their standard of living. Hence, many researchers from different countries, regions, and international organizations have proposed a robust assessment of country-side penetration and usage of financial services. For example, [13] conducted a comparative analysis of financial inclusion trends and financial stability in the South Asian Association for Regional Cooperation (SAARC). The finding indicates that country-level data is an instrument to assess the performance of a policy framework that informs the design and helps sequence reforms, and the same data also helps the stakeholders improve the design and delivery of financial products.

Reference [14] conducted a macro- and micro-level comparative analysis of the factors affecting financial inclusion in Kenya and Ethiopia. The findings show that Kenya has a higher level of financial inclusion than Ethiopia, using various indicators. Likewise, reference [15] undertakes a comparative analysis of the measurement of inclusive finance among South African regions. The researchers were able to identify the improvement in the level of access and usage of financial services over a period of time and the decline in financial services between 2015 and 2018.

Moreso, in Reference [16], a comparative study was conducted on the level of financial inclusion in 31 sub-Saharan African countries using data from the global Findex database. The study reveals that although there has been a considerable increase in the overall level of financial inclusion from 2011 to 2014, there are differences in the levels and rates of improvement among the countries. The study also identifies critical predictors of financial inclusion at both the micro and macro levels, such as age, education, gender, wealth, GDP growth rate, and the availability of financial institutions.

We observed in the literature that cross-country comparative analysis has been instrumental in the assessment of any policy for continuous improvement. Thus, the need for this study in the selected regions of sub-Saharan Africa, where the comparison has received little attention in the literature.

III. RESEARCH METHODOLOGY

This study considered a four-year comparative study among selected African countries (Cameroon, Egypt, Kenya, Nigeria, and South Africa) based on their financial inclusion achievements using the Global Findex Database. The selection represents the five regions of Africa. They include Central or Middle Africa, East Africa, Northern Africa, Southern Africa, and Western Africa, respectively, and they were purposefully selected.

The study employed descriptive statistics to measure the level of inclusive finance in the selected countries, focusing on two basic dimensions of financial inclusion, which are account penetration and usage of banking services.

A. Comparison based on Bank Account Penetration

Bank account penetration has been recognised as a vital measurement of the access and usage of

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financial institution products and services towards realising financial inclusion goals [5]. The objective of bank account penetration is to motivate individuals in all sectors of society to save for the future and obtain credit for investment purposes. The Global Findex report for 2021 reveals a 76% global account ownership rate, which represents a 50% increase from the worldwide average of 51% reported in 2011 over a 10-year. Account ownership in developing countries increased by 30 percentage points, from 42% in 2011 to 71% in 2021, which is more than a 70% increase. However, the rate of growth of account penetration in developing economies was greater on average. Figure 1 below depicts the status of account penetration for the selected African countries between 2011 and 2021.

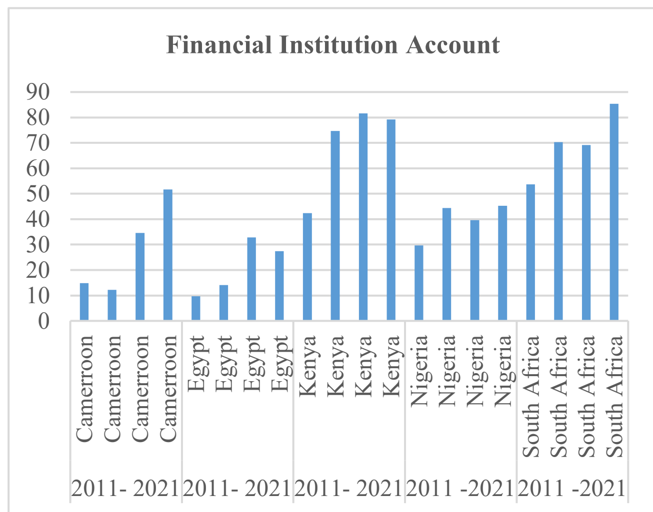

Fig 1. Source: Author's computations

The account penetration levels in selected African countries (Cameroon, Egypt, Kenya, Nigeria, and South Africa) are presented in Figure 1. As of 2011, Cameroon had a baseline account penetration of 15%, Egypt had 10%, Kenya had 42%, Nigeria had 30%, and South Africa had 54%. By 2014, there was an increase in account ownership in four of these countries, with Egypt, Kenya, Nigeria, and South Africa experiencing growth rates of 14%, 75%, 44%, and 70%, respectively. The only exception was Cameroon, where account ownership dropped to 12%. Between 2017 and 2021, there was an increase in account penetration in Cameroon from 35% to 52%, in Nigeria from 40% to 41%, and in South Africa from 69% to 85%. However, Egypt experienced a decline from 33% to 27%, and Kenya from 82% to 79%.

Figure 1 illustrates the trend in account penetration across five selected African countries (Cameroon, Egypt, Kenya, Nigeria, and South Africa) within a decade. South Africa recorded the highest account penetration, growing steadily from 54% to 85% over the 10-year period. Kenya's account penetration also grew from 42% to 79%, despite a 2% drop in 2014 when it was at 82%. Nigeria's account ownership increased from 30% to 45%, while Egypt's account penetration, starting at 10%, rose to 27% in 2014 before falling by 6%. Cameroon, however, experienced a decline from 15% to 12% in 2014, but subsequently showed a remarkable improvement of 33% and 52% in 2017 and 2021, respectively. In general, Egypt and Nigeria had the lowest growth rates in adult account penetration, emphasizing the need for sustained policy initiatives across these African countries.

B. Usage of Banking Services

Microfinance is a developmental approach aimed at promoting financial inclusion by providing financial services to individuals across all segments of society[4]. The main focus is to offer services such as savings and credit to individuals who have traditionally been excluded from the formal financial sector due to factors such as low income, gender, location, and financial literacy levels [4]. Microfinance creates the financial infrastructure that enables individuals, particularly impoverished women, to become more actively involved in the economy[4]. It encourages the accumulation of household savings, mobilizes investment capital, promotes entrepreneurship, and reduces poverty levels, particularly in Nigeria. This section of the paper examines the progress of savings and borrowing among adults, comparing formal financial institutions with social clubs and also assessing borrowing between financial institutions and family and friends.

C. Comparison-Based Bank Savings

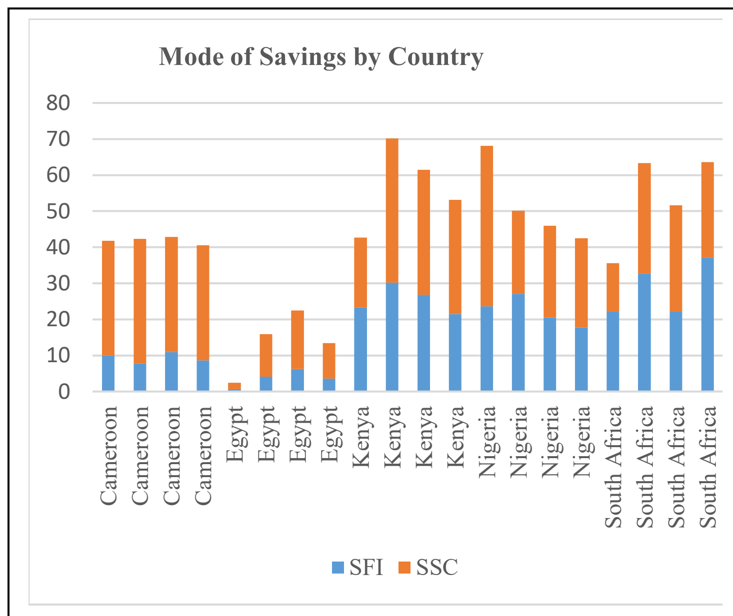

Fig 2. **Source: Author's computations**

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Figure 2 depicts the proportion of individuals aged 15 and above who saved through formal financial services or social clubs across several African countries. In 2011, the baseline figures for savings at financial institutions were 10%, 1%, 23%, and 24% for Cameroon, Egypt, Kenya, Nigeria, and South Africa, respectively. Conversely, savings at social clubs were 32%, 2%, 19%, 44%, and 14% for the same countries. Subsequently, between 2014 and 2021, savings at financial institutions increased in Egypt, Kenya, Nigeria, and South Africa, but decreased in Cameroon, Egypt, Kenya, and Nigeria. During the same period, savings at social clubs also fluctuated in the selected countries. Notably, between 2017 and 2021, savings at financial institutions rose in South Africa but dropped in other countries. The decline in savings at social clubs in most countries during the same period may be linked to the COVID-19 pandemic.

Overall, Figure 2 suggests some progress in adult savings at financial institutions over a decade, but social clubs remain a viable option for savers in the selected African countries despite government initiatives to promote financial inclusion

D. Comparison Based on Borrowing by the Selected African Countries

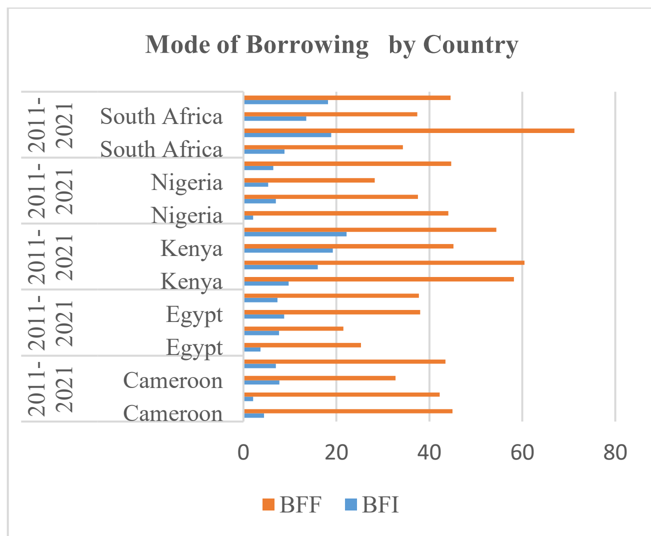

Fig 3 Source: Author's computation

Figure 3 presents the proportion of adults aged 15 and above who borrow from formal financial services (BFI) and from family and friends (BFF) in selected African countries. In 2011, the baseline figures for adult borrowers at financial institutions were 4%, 4%, 10%, 2%, and 9% for Cameroon, Egypt, Kenya, Nigeria, and South Africa, respectively. Conversely, borrowing from family and friends stood at 45%, 25%, 58%, 44%, and 34% for the same countries. Subsequently, between 2014 and 2021, borrowing from financial institutions increased in Egypt, Kenya, Nigeria, and South Africa but decreased in Cameroon and Egypt. During the same period, borrowing from family and friends also fluctuated in the selected countries. Notably, between 2017 and 2021, borrowing from financial institutions rose in Kenya, Nigeria, and South Africa, while it decreased in Cameroon and Egypt. Meanwhile, borrowing from family and friends increased in four countries but remained the same in Egypt.

Overall, Figure 3 highlights the preference of the adult population to borrow from family and friends due to easy access to funds, while long documentation processes and high borrowing costs discourage borrowing from financial institutions. This preference for informal borrowing could undermine the goal of financial inclusion, which aims to increase access to and usage of bank credit.

IV. Conclusion and Recommendation

Financial inclusion has become a significant focus in the international development and banking industries because of its positive impact on individuals, investments, and society. This research conducted a comparative study of selected African countries based on their access and usage of savings and credits using cross-sectional data from the Global Findex Database over four years. The aim was to recognize the position of each country and compare them to identify areas for improvement and stability.

The study found that Cameroon, Egypt, and Nigeria had the lowest growth rates in account penetration and borrowing at financial institutions. Moreover, savings in social clubs and borrowing from family and friends were significantly high across all selected African countries. The study identifies long protocols in the documentation and high borrowing costs, inadequate enlightenment on financial products' benefits, and inconsistencies in the drive for financial inclusion policy as being responsible for low access and usage of financial products.

The study recommends that financial institutions simplify access to credit facilities and provide attractive interest rates to increase borrowing at financial institutions in selected African countries. Additionally, all stakeholders in the banking industry should promote people's confidence in the industry to improve account penetration and savings at financial institutions. Moreover, stakeholders should create awareness and educate users on the importance of financial products to boost the standard of living of the populace and the economy at large, especially savings products, which directly impact users.

The study focuses on the two dimensions of financial inclusion, namely access, and usage, and mainly compares account penetration, savings, and borrowing. Therefore, additional research could consider the three dimensions (access, usage, and quality) for the selected African countries. Furthermore, the study suggests considering the six vital pillars of financial inclusion, such as universal access to

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banking facilities, financial literacy programs, basic banking accounts, credit card accessibility, microinsurance, and pensions.

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