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**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**FACULTY OF BUSINESS AND ECONOMICS**

**THE CHALLENGES AND BENEFITS OF  
FINANCIAL INCLUSION IN ETHIOPIA**

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**Addis Ababa, Ethiopia**

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ETHIOPIA**

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REQUIREMENTS FOR THE MASTER OF BUSINESS  
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**APPROVED BY BOARD OF EXAMINERS**

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## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Degefa Duressa (PhD) All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

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Signature

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## **LIST OF ABBREVIATIONS**

CBE	Commercial bank of Ethiopia
CSA	Central Statistics Agency of Ethiopia
ESS	Ethiopia Socioeconomic Survey
DFS	digital financial services
FI	Financial Inclusion
FIS	Financial Inclusion Secretariat
KYC	Know Your Customer
MFI	Microfinance institutions
MoFEC	Ministry of Finance and economic Cooperation
NBE	National Bank of Ethiopia
NCFI	The national council for Financial Inclusion
NFIS	National Financial Inclusion Strategy
NFISC	The national Financial Inclusion Steering Committee
SACCO	Savings and Credit Cooperative Organization
SMEs	Small and Medium Enterprises
WBG	World Bank Group

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## **ABSTRACT**

*The past two decades have seen a rapid increase in interest in financial inclusion, both from policymakers and researchers. In recognition of the role of access to finance in contributing to rapid economic growth and poverty reduction, Ethiopia developed National financial Inclusion strategy for five-year from 2017 – 2022. In this study, the progress, challenges and benefits of financial inclusion in Ethiopia studied and analyzed based on **access, quality, usage and Impact/welfare indicators** of financial inclusion. In this study, information collected from secondary source, face-to-face interviews with regulatory and financial service providers, report reviews and literature reviews used. Primary data collected from Financial Service providers to assess their current practices in relation to financial inclusion. The findings of the study indicated the progress of financial inclusion in Ethiopia is behind other sub- African countries. Further, this study revealed that barriers to access and usage of financial services categorized under demand and supply-side constraints including enabling environment/governance, infrastructure and technology. The study also indicated the existence of gender gap where Female are still excluded and lack of meaningful coordination among the stakeholder listed in NFIS, 2017 are another barriers to achieve financial inclusion goals. Therefore, policymakers should emphasize strategies that foster access to and use of financial services. As highlighted under the recommendations of this study, addressing the root causes (barriers) identified and promoting new technologies, the elimination of challenges and expansion of financial inclusion tends to be possible. For example, digital financial services, diversification of access points, mobile banking, internet banking, and credit facilities improvement financial inclusion and in return all-inclusive economic growth. Use of biometric devices instead of Identification card (ID) can reduce costs, attract excluded persons, speed up transfers and increase the security of household transactions.*

**Key words: Financial Inclusion, Financial exclusion, access, Usage, digital payment, NFIS:**

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1. Background of the study

The past two decades financial inclusion has received increasing attention both from policymakers and researchers. Financial inclusion connotes all initiatives that make formal financial services accessible and affordable, primarily to low-income people. Nowadays, financial inclusion has been perceived as a dynamic tool for attaining multidimensional macroeconomic stability, sustainable and inclusive economic growth, employment generation, encourage business startup, poverty reduction, and income equality for advanced and developing countries Moreover, financial inclusion seems an incremental and complementary approach to meeting the United Nations' Millennium Development Goals (Chibba 2009). Nonetheless, financial inclusion has multifaceted positive implications for economic development, but it may be challenged by the low level of financial literacy by not capitalizing the financial services at the potential level and diluting the impact of financial inclusion (Ardic et al., 2011; Chikalipah, 2017; Nyarko, 2018). Lower financial literacy is critical in financial decision-making as it compromises the economic outcomes in the form of poverty and inequality (Refera et al., 2016). According to a report by African Development Bank in 2013, Africa has not performed well in terms of financial and economic reforms to eradicate poverty and inequality. These findings are supported by Tchamyu et al. (2019) and Tchamyu (2020) who indicated that a large segment of population in Africa is yet to be financially included. According to a report of the World Bank (2016), Africa is the world's poorest region (more than 50% of the world's poor) in the world and the second-most unequal region in terms of income distribution after Latin America (Africa Development Bank, 2012).

Hence, more emphasis is placed on financial inclusion, which reflects its potentially transformative power to accelerate inclusive development and financial inclusion has moved up the global reform agenda and gained great interest for its potential to break the vicious cycle of poverty and lower income inequality. The World Bank set goals to end extreme poverty by 2030 and raise the shared prosperity of the bottom 40% of people in each country through reducing

income inequality. In this view, financial inclusion hailed as an enabler of seven of the seventeen sustainable development goals.

In response to World Bank call to countries for the launch of national financial inclusion strategy (NFIS), which could accelerate their pace to ensure access to financial services, most of East Africa countries including Ethiopia, Uganda, Kenya, Tanzania, Rwanda their National Financial Inclusion Strategy (NFIS). For instance, Ethiopia launched its NFIS in October 2017 and the primary goal for the strategy is to raise the percentage of adults with a transaction account to 60 percent in 2020. Some countries like Burundi, based on a World Bank report dated 2017 had only 7% of its population with a bank account. Uganda in 2017 launched its National Financial Inclusion Strategy 2017-2022. The strategy seeks to reduce financial exclusion to 5% by 2022. Rwanda on the other hand considers financial inclusion an integral enabler to achieving its development and poverty reduction objectives. Rwanda aims for a 90% financial inclusion by 2020. Tanzania also has in place a National Financial Inclusion Framework (NFIF 2018-2022) whose objective is to drive provision of financial goods and services that serve individuals and business needs in line with supporting livelihood and job creation.

However, the real-world financial systems are still far from inclusive. The barriers to inclusivity in developing countries are usually formidable; however, access to education, communications services, and financial and banking services pose special challenges, especially in Africa. The barriers include distance from a financial service provider, lack of necessary documentation papers, lack of trust in financial service providers, culture and religion.

On the other hand, successful financial inclusion is achieved through country's strong political commitment and coordination across relevant public and private stakeholders, and be able to create an enabling environment and wide-reaching policies that promote responsible financial access, financial capability, innovative products and delivery mechanisms, and high quality data to inform policy-making. (World Bank 2016, G20 2009, CGAP (Consultative Group to Assist the Poor). 2018).

## **1.2. Statement of the problem**

The importance of financial inclusion is multiple. Financial inclusion drives economic growth by helping countries in mobilizing savings and investment. Financial Inclusion considered instrumental in alleviation of poverty and promotion of financial prosperity in many countries.

Researchers have found a positive association between financial development and economic growth (Levine, 2005; Demirguc-Kunt & Levine, 2008). Financial inclusion helps individuals in consumption smoothing during shocks, reduces income inequality and poverty, and improves welfare (Beck et al., 2007).

Financial inclusion has therefore become an explicit strategy for accelerated economic growth and considered critical for achieving inclusive growth in a country. This realization, in the recent past, was the major impetus for the adoption of policies and measures aimed at growing global financial inclusion as a means of promoting world economic prosperity.

Given its multifaceted implications, financial inclusion remains a core topic for the World Bank and the Government of Ethiopia has made strategic efforts by launching its National Financial Inclusion Strategy (NFIS) in October 2017 in order to enhance financial inclusion over the past few years. Financial inclusion allows individuals to build assets, increase asset security, invest productively for income growth, and reduce their vulnerability to income fluctuations. Burgess and Pande (2005) and Levine (2005). The Government launched its National Financial Inclusion Strategy (NFIS) in October 2017 to overcome financial inclusion barriers. The primary goal for the strategy is to raise the percentage of adults with a transaction account to 60 percent in 2020. The strategy recommends digital financial services as a way to drive financial inclusion and one ambitious target is to increase adult uptake of electronic payment from 6 percent in 2015 to 40 percent in 2020 (NFIS, 2017). The objectives are to facilitate progress on this indicator and increase the number of automatic teller machines (ATMs) to 25.4 per 100,000 adults, point-of-sale (POS) machines to 120, and agents to 229.

While the World Bank agrees that financial inclusion is a key enabler in reducing poverty and boosting prosperity, it is peculiar that still more than half of the world's adult population do not have access to basic financial services. Surprising still are many countries in Asia and Africa where less than 15% of the population has a bank account. Similarly, Ethiopia is also still lagging behind its neighbors. According to 2017 Global Findex database, 82% of adults own accounts in Kenya, 50% in Rwanda, and 43% of adults have an account in the region, whereas, less than one-quarter of adults in Ethiopia have a formal account. On the other hand, some private and public bankers argue that ownership of formal accounts is increasing (Adeola and Evans 2017).

Therefore, the purpose of the study is to identify and discuss the challenges of financial inclusion in Ethiopia and assess the benefits of financial inclusion toward inclusive growth and economic development of the country. To determine key challenges and benefits of financial inclusions, related theoretical and empirical evidences are assessed focusing on **access, quality, usage and impacts**. It concludes by outlining some of the challenges and required interventions to realizing the benefits of financial inclusion and tips for future research about key barriers to access to financial inclusion and effect of financial inclusion in alleviating poverty, contribute to economic growth and development.

### **1.3. Basic Research Questions**

1. What are the challenges in Ethiopia towards financial inclusion?
2. What are the benefits residents Ethiopia achieves by implementing financial inclusions?
3. What efforts made by policymakers to effectively solve Financial Inclusion challenges and enhance its contributions to inclusive growth and economic development?
4. Under what conditions financial inclusion plays effective role in reducing poverty and income inequality in Ethiopia?

### **1.4. Objectives of the Study**

#### **1.4.1. General Objective**

The general objective of this study is to identify and assess the challenges and benefits of financial inclusion in Ethiopia.

#### **1.4.2. Specific Objectives**

The study will specifically look at the following;

- I. To Assess the role of financial service providers and users barriers concerning financial inclusion
- II. To Assess role of Financial inclusion on the overall development of the country
- III. To Assess challenges limiting regulatory bodies initiatives to overcome financial inclusion barriers
- IV. To recommend practices and actions which help to overcome the challenges and promotes financial inclusion

## **1.5. Significance of the study**

The study identifies the challenges and benefits of financial inclusion and analyzes the progress of financial inclusion focusing on Ethiopia in comparison with countries in East Africa. In this study, financial inclusions dimensions identified and analyzed. The result of the study is informing financial institutions and policymakers about key enablers of financial inclusions. Further, the study is source of information to further studies about the key barriers to access to financial inclusion and contribution of financial inclusion on reducing poverty, income inequality, contribution to economic growth and development.

## **1.6. Scope and limitation of the study**

### **1.6.1 The scope of the study**

The study is mainly focus on secondary data information reviewing and analysis. In this regards, financial inclusion literatures, supply-side and demand-side challenges and benefits of financial inclusions considered. Macro-environmental factors i.e. Political, Economic, Social and Technological (PEST) also discussed within the scope of making financial inclusion a reality in Ethiopia.

### **1.6.2 Limitation of the study**

The research is a descriptive study that was limited in scope and sample size. The study majorly limited to the data from secondary information designed to assess the challenges and benefit from existing literatures and interview of Governance, Financial Institutions and Users. Concerning the primary data information, although, large-scale survey is not feasible due to time limitation and COVID-19 epidemic issues, I designed and conducted face-to-face interview with Financial Service Providers. These service providers selected location selected because of two reasons; first, the location situated at outskirts of the capital city, Addis Ababa and people living in this location are rural and urban mixed residents. Secondly, the resident at this location are migrant from both a mix of rural and urban residents. The mini survey due to their role in financial inclusion activities and NFIS 2017. Given the aforementioned limitations, the researcher tried to provide clear picture by performing proper analysis of the different theoretical and empirical literatures, desk review research and other secondary data analysis related to the challenges benefits of financial inclusion. Availability of micro and micro data related to financial inclusion in Ethiopia is also one the limitation to this study.

## **1.7. Organization of the Study**

The research paper organized into five chapters. The first chapter deals with introductory part consisting of background of the study, statement of the problem, basic research questions, objective of the study, significance of the study, scope and limitation of the study and organization of the paper. The second chapter reviews literature related to the topic. In this chapter relevant theoretical and empirical studies to each specific topics discussed and reviewed to capture emerging themes and compared with those that have been studied previously. Third chapter discusses methods and design of the research & data analysis. The fourth chapter presents results and discussions, and chapter five concludes with a summary of our findings and policy implications.

## CHAPTER TWO

### 2. LITRUTURE REVIEWS

This chapter reviews the literature on the past studies conducted on financial inclusion and the challenges and benefits of financial inclusion in Ethiopia and elsewhere.

#### 2.1. Concept of Financial Inclusion

Financial inclusion refers to all forms of initiatives that make formal financial services available, accessible and affordable to all sections of the population. Over time, a specific portion of the population have been exempted from the offerings of the formal financial sector either because of their level of income and volatility, gender, type of activity, location or level of financial literacy. Therefore, an urgent need to tap the untapped reserve of potentials of those individuals, groups and businesses excluded from the services and offerings of formal financial sectors. Further, need to explore them to develop their capacity, support their human and physical capital, enlighten them on the numerous income-generating activities, and manage risks associated with their livelihoods (Triki and Faye, 2013).

Financial Exclusion broadly defined as the lack of access by certain segments of the society to suitable, low-cost, fair and safe financial products and services from mainstream providers (Mohan, 2006).

#### 2.2. Theoretical Literature

Beck et al., (2007), Brune et al., (2011), Dixit and Ghosh, (2013), Le and Nguyen (2020), and Sanjaya, (2014) state that financial inclusion is a critical enabler for poverty reduction and inclusive growth. Access to transaction accounts opens up a pathway to broader financial inclusion, whereby people and firms can make financial transactions more efficiently and safely, access funds (whether payments, credit, savings, or other) invest in the future, and cope with economic shocks. Access to transaction accounts also enables participation in the digital economy, and is a critical building block for digital development too<sup>1</sup> (*The Global Findex Database. 2017*).

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<sup>1</sup> <https://www.worldbank.org/en/topic/financialinclusion/brief/figi>

Sarma and Pais, (2008) stated that the financial inclusion mechanism ensures that all entrepreneurs have easy access to and use the formal financial system. Therefore, financial inclusion redefined to raise awareness of financial systems, improve access and transparency, and ensure that all sectors of society benefit from basic financial products and services.

The absence of financial inclusion can also contribute to slower economic growth and persistent income inequality. On the latter, women are most disadvantaged in developing economies. While 65 percent of men have a formal bank account, only 58 percent of women do. Indeed, there is a persistent gender gap of 7 percentage points across income groups, and 9 points within developing economies. Allowing broad access to financial services, without price or non-price barriers to their use and offered in a responsible manner to benefit poor people and other disadvantaged groups. The availability of capital will allow poor people to realize small business opportunities, with flow on welfare effects.<sup>2</sup>

Financial inclusion infers a coordinated effort to deepen financial services among a large number of customers (Carbo et al., 2005). Well-functioning financial inclusion is capable of providing appropriate, low-cost, fair, and secure financial services and instruments, such as bank accounts, affordable loans, assets, savings, and insurance payments, and sending mainstream money advice to everyone (Mohan, 2006; Allen et al., 2016). The same views have been articulated in the formal financial system by Oji, (2015), who is a proponent of financial inclusion, for those who continue to be excluded from affordable financial services (e.g., access to deposits, loans, insurance facilities, payment, and transfer facility).

Financial inclusion also has many direct benefits to poor households that are using loans or savings to accelerate consumption, absorb shocks such as health issues, or make household investments in durable goods, home improvements or school fees (Collins, Morduch, Rutherford, and Ruthven, 2009). Other financial products, such as insurance, can also help the poor manage risks. Research shows that financial inclusion can result in women's economic empowerment. There is also macroeconomic evidence to show that economies with deeper financial intermediation tend to grow faster and reduce income inequality (Beck, Demirgüç-Kunt, and Levine, 2007).

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<sup>2</sup> <https://www.gpfi.org/about/why-financial-inclusion>

Financial inclusion facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as savings, credit and insurance, start and expand businesses, invest in education or health, manage risk, and weather financial shocks, all of which can improve the overall quality of their lives.

The benefits from financial inclusion can be wide ranging. For example, studies have shown that mobile money services, which allow users to store and transfer funds through a mobile phone, can help improve people's income earning potential and thus reduce poverty. A study in Kenya found that access to mobile money services delivered big benefits, especially for women. It enabled women-headed households to increase their savings by more than a fifth; allowed 185,000 women to leave farming and develop business or retail activities; and helped reduce extreme poverty among women-headed households by 22 percent (Suri et al., 2016).

### **2.2.1. Financial Inclusion and Economic Growth**

Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals. Further, the World Bank Group considers financial inclusion as an enabler to reduce extreme poverty and boost shared prosperity. It has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020.

Financial Inclusion is widely recognized to be critical and key for reaching economic growth and a requisite for ensuring total growth in the economy. Financial inclusion in most countries spurs economic growth of those nations. A well-structured financial framework in an economy steers to economic growth. The advance delivery conducts like the SMS banking, mobile money and distinctive banking product for specific individuals help these people get easy access for the financial service which intend to boost economic growth.

Access to affordable financial services-especially credit and insurance enlarges livelihood opportunities and empowers the poor to require a charge of their lives. Such empowerment aids social, political, and economic stability. Aside from these benefits, financial inclusion provides formal identity, access to the payments system, and security to savings to the standard people within the society. The economic system is a catalyst for economic development. The formal financial channels collect savings and idle funds and distribute such funds to entrepreneurs, businesses, households, and government for investment projects and other purposes with a view

of a return. Hence, financial inclusion considered critical for achieving economic growth; which itself is required for ensuring overall sustainable growth within the country. As more people include in financial system, the economy will be more sustainable. When more people participate in economic activity, the economy will be safe & strong.

### **2.2.2. Enablers of Financial inclusion**

Digital financial services can also help people manage financial risk by making it easier for them to collect money from distant friends and relatives when times are tough. In Kenya, researchers found that when hit with an unexpected drop in income, mobile money users did not reduce household spending while nonusers and users with poor access to the mobile money network reduced their purchases of food and other items by 7–10 percent.

In addition, digital financial services can lower the cost of receiving payments. In a five-month relief program in Niger, switching the monthly payment of government social benefits from cash to mobile phones saved the recipients 20 hours on average in overall travel and wait time to obtain the payments. Financial services can also help people accumulate savings and increase spending on necessities. After being provided with savings accounts, market vendors in Kenya, primarily women, saved at a higher rate and invested 60 percent more in their businesses. Women-headed households in Nepal spent 15 percent more on nutritious foods (meat and fish) and 20 percent more on education after receiving free savings accounts. And farmers in Malawi who had their earnings deposited into savings accounts spent 13 percent more on farming equipment and increased their crop values by 15 percent. For governments, switching from cash to digital payments can reduce corruption and improve efficiency. In India the leakage of funds for pension payments dropped by 47 percent (2.8 percentage points) when the payments were made through biometric smart cards rather than being handed out in cash. In Niger, distributing social transfers through mobile phones rather than in cash reduced the variable cost of administering the benefits by 20 percent.

### **2.2.3. Barriers of Financial Inclusion**

A variety of models to identify financial inclusion barriers proposed. In general, there is a consensus on the presence of barriers to supply and demand. The literature on the supply side discusses how the structure, establishment, and accessibility of financial institutions contribute to the unbanked status of some households. Most (poor) households will be borrowing for needs

that are non-returnable, such as healthcare and marriages. This may make banks unwilling to borrow because a payback guarantee is not available (Johnson and Arnold, 2012).

Another barrier is the definition of the core against the non-core business. In developing countries, the poor may be interested in payments and remittances. However, credit is what most banks consider to be a key, and interest rate ceiling financial regimes have supported this idea as well (Johnson and Arnold, 2012). In order to guarantee everyone's inclusiveness, the traditional role of banks in developing markets must be challenged.

Transactions by the poor may be small in size, which means that the high burden of variable or fixed cost cannot be carried by each transaction (Demirguc-Kunt et al., 2015). The need for institutions to reach the unbanked may be affected by weak systems, i.e., legal and information infrastructure. These weak systems enhance the risk and costs of services and thus economically unrealistic business proposals. Failures on the market, such as asymmetric information, monopoly of financial markets, or oligopoly and accessibility barriers for new competitors are obstacles to part of the population, which is excluded due to prices, risks, and lower supplies (Zins and Weill, 2016). Other determinants of supply-side include branch distance, branch times, language, staff position, and tedious documentation and procedures. In general, supply-side factors increase transaction costs, which are a significant effect.

The predominant barriers to access financial services on the side of demand are prices and incomes (Efina, 2016). The low level of literacy (financial) leads to lower demands on formal service providers (Efina, 2016; Morgan and Trinh, 2019). When financial infrastructure is less developed, formal financial services are expected to be unavailable. This is especially serious in Africa because in some countries remote populations are anticipated. As Mlachila et al., (2016) pointed out, the gaps in financial inclusion have sometimes been covered by new financial services such as mobile payment systems and mobile banks, especially in East Africa and in particular those relating to economic status and gender. More specifically, women will contribute to growth not only through the establishment of businesses but also through better management of their financial resources. Access and use of a range of financial services not only enhance the contribution to the growth of women and women-led companies but also helps female empowerment, uses their personal and home resources more effectively, and reduces their household's and companies' vulnerability (World Bank, 2017). Briefly, closing the gender gap in

financial inclusion can be an impulse for country development, economic growth, and reduction of inequalities, business development, and social inclusion. However, women's financial inclusion calls for a more gender-based, inclusive financial system that addresses the specific barriers to demand and supply for women. It is also applicable to a regulatory inclusive environment (GCAP, 2017). It is important to recognize that wider social constraints associated with intra-domestic negotiations and the social status of women limit the greater impact of financial inclusion on the empowerment of women. It is also applicable to a regulatory inclusive environment (GCAP, 2017). It is also important to recognize that wider social constraints associated with intra-domestic negotiations and the social status of women limit the greater impact of financial inclusion on the empowerment of women (GCAP, 2017).

Any challenges hampering efforts at the state or federal level toward financial inclusion even more pronounced in rural areas (Calderón and Liu, 2003). Users have limited financial capacity that limits demands, while financial institutions provide services that are not entirely tailored to people's needs (Beck et al., 2007). The literature illustrates the relationship between the rural populations and financial inclusion, thus assessing factors influencing financial inclusion indexes (Ford and Rowlingson, 1996). Yorulmaz, (2016) findings show a negative relationship between the rural population and financial inclusion. He acknowledges with the general observation that financial inclusion levels decrease as one goes into rural parts of a country.

## **2.3. Empirical Literature**

### **2.3.1. Empirical evidence on financial inclusion, poverty and income inequality**

Due to the limited time span of available data and a large number of missing data regarding financial inclusion, the literature's empirical impact analysis seems to cover this topic is only partially. Only a few studies have investigated the link between financial inclusion, poverty, and income inequality, with mixed results. Park and Mercado, (2015) tested the factors influencing financial inclusion and the significance of financial inclusion in reducing poverty and lowering income inequality, focusing on 37 developing Asian economies. They found that per capita income, rule of law, and demographic structure increased financial inclusion, while a higher age-dependency ratio significantly reduced financial inclusion. Primary education completion and literacy rates have no significant effect on the level of financial inclusion in developing Asia.

Moreover, financial inclusion significantly reduces poverty; there is also evidence that it lowers income inequality when more regressors are considered.

In the latest version of their paper, Park and Mercado, (2018) assessed the cross-country impact of financial inclusion on poverty and income inequality across country income groups by introducing a new financial inclusion index for 151 economies, using principal component analysis and a cross-sectional approach. The results indicate that higher financial inclusion significantly co-varies with higher economic growth and lower poverty rates, but only for high and middle-high-income economies, not those that are middle-low and low-income. However, they did not find significant effect of financial inclusion on income inequality in any income group.

Honohan (2007, 2008) examined the fraction of the adult population using formal financial intermediaries for 162 economies and its relationship with poverty and inequality. The composite financial access indicator was constructed by using a cross-sectional series that combined both household survey data sets and published data. The results show that financial access significantly reduced poverty on its own, but not when other control variables were included as regressors, such as per capita income, private credit as a percentage of GDP, inflation, institutions (KKZ index), institutions (freedom house bank), population size, and a sub-Saharan Africa dummy. Furthermore, there was evidence that financial access significantly reduced income inequality on its own and also when financial depth measure (private credit as a percentage of GDP and inflation) was included, but the result did not hold when per capita income and a sub-Saharan Africa dummy were included.

Jabir et al., (2017) analyzed the effect of financial inclusion on reducing poverty among the low-income household level for 35 countries in sub-Saharan Africa. Taking cross-sectional data of 2011, they found that financial inclusion significantly reduced the level of poverty in sub-Saharan Africa through providing net wealth and larger welfare benefits to the poor.

Swamy, (2014) found that gender dimension, particularly poor women's participation in financial inclusion programs in general, had a strong impact on increasing household income and improving family well-being in India. Burgess and Pande, (2005) revealed that state-led bank branch expansions into rural unbanked locations significantly reduced rural poverty in India through access to formal sector credit provision and saving opportunities. Brune et al., (2011)

determined that increased financial access by offering commitment savings accounts to poor smallholder cash-crop farmers in Malawi had a substantial impact on their well-being, as it provided access to funds for agricultural input.

García-Herrer and Turégano, (2015) assessed the role of both dimensions of financial development (size of the financial sector and financial inclusion) in reducing income inequality. They found that financial inclusion contributed to reducing income inequality when the regression was controlled for key relevant factors, especially economic development and fiscal policy. Interestingly, financial deepening (size of the financial system) did not appreciably contribute to a more equal income distribution. Dabla-Norris et al., (2015) stated that reducing financial participation and monitoring costs and relaxing collateral constraints helped to encourage growth and lower inequality in Latin America and the Caribbean, though trade-offs were likely.

Salazar-Cantú et al., (2015) investigated the effect of financial inclusion on inequality in income distribution based on regional information in Mexico. The results indicated that higher financial inclusion would initially lead to greater income inequality, but later reduce inequality significantly as financial inclusion continued to grow within Mexican municipalities.

Although all of these studies suggest links between financial inclusion, poverty, and income inequality, they lack a comprehensive understanding of their relationship due to their lack of panel data study and a limited set of variables for constructing a financial inclusion index. This study tries to expand on existing literature regarding impact analysis of financial inclusion on poverty and income inequality with a broad set of variables for financial inclusion index, and a panel data set consisting of a number of developing countries in Asia, Africa, and Latin America and the Caribbean.

## **2.4. Overview of Ethiopia Financial Inclusion Progress**

### **2.4.1. Ethiopia Overview**

The population of **Ethiopia** has estimated to **117,518,108** as of Friday, May 28, 2021, based on World meter elaboration of the latest United Nations data. Ethiopia population is equivalent

to **1.47%** of the total world population<sup>3</sup>. Ethiopia ranks number 12 in the list of countries (and dependencies) by population.

**21.3 %** of the population is **urban** (24,463,423 people in 2020).

On the other hand, Ethiopia is one of the poorest, with a per capita income of \$850. Ethiopia employed number of goals include promoting rapid economic growth, improving service delivery and fight poverty and improve living standards of its people. The government has launched a new 10-year perspective plan that will run from 2020/21 to 2029/30 with the aims to sustain the remarkable economic growth achieved under the Growth and Transformation Plans, while putting more emphasis on the private sector.

However, Ethiopia's main challenges are sustaining its positive economic growth and accelerating poverty reduction, which both require significant progress in job creation, as well as improved governance. In recognition of the effect of financial inclusion that has proved by most of the researchers that there is a relationship between financial exclusion and economic growth and poverty, the government of Ethiopia, with the support of WBG, launched a National Financial Inclusion Strategy (NFIS) in 2017. The headline indicator for the strategy is to increase the percentage of adults with a transaction account from 22% in 2014 to 60% in 2020. Further, the strategy recommends digital financial services as a way to drive financial inclusion and one ambitious target is to increase adult uptake of electronic payment from 6 percent in 2015 to 40 percent in 2020. To facilitate progress on this indicator, the objectives were to increase the number of automatic teller machines (ATMs) to 25.4 per 100,000 adults, point-of-sale (POS) machines to 120 and agents to 229.

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<sup>3</sup> Worldometer: <https://www.worldometers.info/world-population/ethiopia-population/>

## 2.4.2. Development of Financial Service and other infrastructure

*Table 1: Financial Sector development*

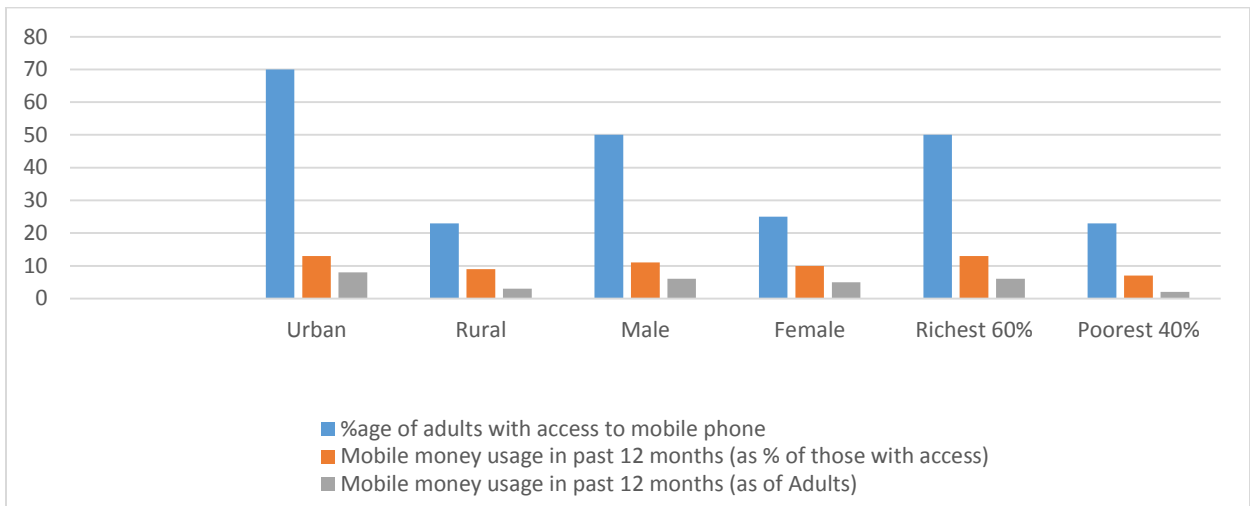
<b>Banks &amp; MFs</b>	<b>Branch and Network (2016)</b>	<b>Branch Network Ethiopia</b>		
	<b>Total</b>	<b>Region</b>	<b>Addis Ababa</b>	<b>Total</b>
Number of Banks' Branch	3,282	4,361	2,267	6,628
Insurance Companies	17	280	336	605
MFIs	35	24	15	39

**Sources: National Bank of Ethiopia**

## 2.4.3. Development of Telecom Sector & others

Intensive use of technology is a major driving force in finance inclusion globally. Therefore, it is fundamental to improve telecommunications and electricity services and digitalize financial services and increasing mobile and other electronic access points. Enhance inter-agency coordination to align policies of financial and non-financial sectors to support financial inclusions.

**Figure 3.2.1: Access to Mobile Phones and Use of Mobile Money, by Residence, Gender, and Wealth Quantile, Ethiopia 2018/19, Percent**



**Source: ESS Survey 2018/19**

Unlike traditional financial services, mobile money does not rely on physical access points, which might make it a useful service to deploy in areas far from a physical financial access point.

**Figures - 1** show access to mobile phones, through sole or joint ownership, and use of mobile money in the past 12 months. Nationally, mobile access is only about 38 percent and use of mobile money services is just 4 percent. As Figure -1 shows, the percentages vary significantly by residence, gender, and wealth. Individuals in the poorest 40 percent of households not only have less access to mobile services but even among those who do, few use mobile money services.

#### **2.4.4. Account ownership**

Account ownership allows an individual to access financial services to save, take out a loan, transfer money, receive wages, and acquire insurance. Account ownership, often used as a proxy for financial inclusion, is defined as having an account at a bank (public or private), microfinance institution, Savings and Credit Cooperative Organization (SACCO), mobile money application (M-Birr and Hello Cash), or in any other formal financial institution.

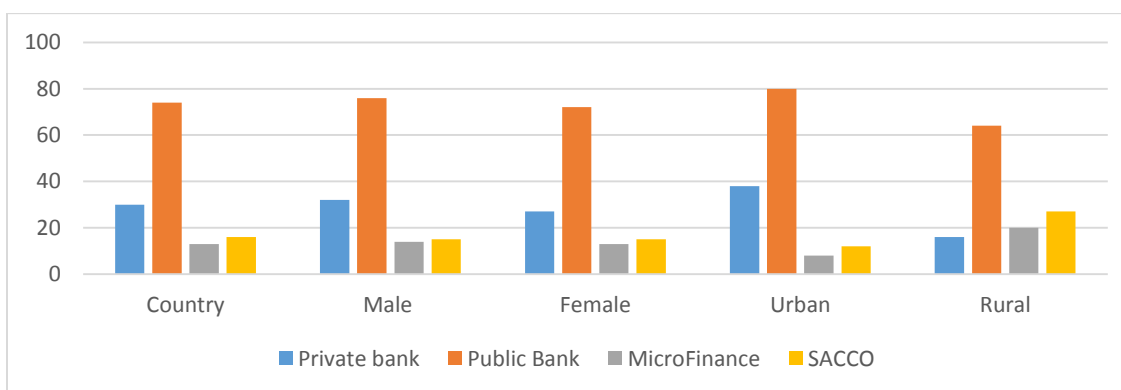
According to ESS survey, about 30.5 percent of Ethiopians 18 years and older had an account at a formal financial institution in 2018/19 that an impressive change from the 21.8 percent reported in 2015/16. Household financial inclusion (at least one member has an account) was

45.9 percentage points. However, good progress in the level of account ownership in Ethiopia, still there is a clear need to improve.

### 2.4.5. Financial Institutions and products

According to ESS survey, account ownership by type of financial institutions has shown in **Figure-3.2.2**. Public banks are the most popular institution for both genders and in both urban and rural areas. Nationally, private banks are the second most popular, trailed by microfinance institutions and SACCOs. However, in rural areas both microfinance institutions (19.6 percent) and SACCOs (27.4 percent) are preferred to private banks (16.6 percent). This finding is in line with global evidence that these institutions has often better positioned to serve rural populations.

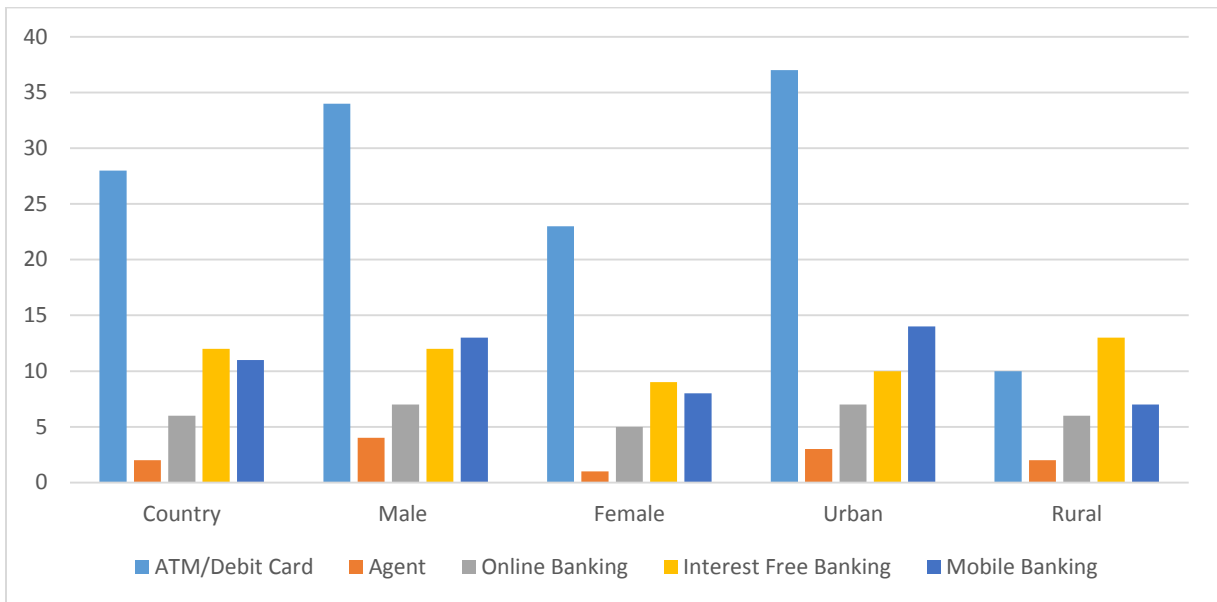
**Figure 3.2.2 Financial Institutions Chosen by Individuals 18 and Older, by Gender and Residence, Ethiopia 2018/19, Percent**



*Source: ESS Survey 2018/19*

**Figure 3.2.3** summarizes use of five financial services by adult Ethiopians. As stated in ESS survey 2018/19, ATMs/Debit cards are the most popular service across gender and rural or urban residence, except for interest-free banking for rural women. There is less interest in digital financial services, whether online or mobile banking. Interestingly, online banking seems to reduce the gender gap, particularly in rural areas. In fact, women there tend to use online banking more than those in urban areas. Innovative channels such as agent banking are unpopular in both rural and urban areas. However, comparing to other countries in Sub-Saharan Africa, uptake and usage of a diverse range of regulated financial services (e.g. Savings, Credit, Insurance, Electronic payments) are still low.

**Figure 3.2.3. Type of Financial Services, Individuals 18 and Older, by Gender and Place of Residence, Ethiopia 2018/19, Percent**



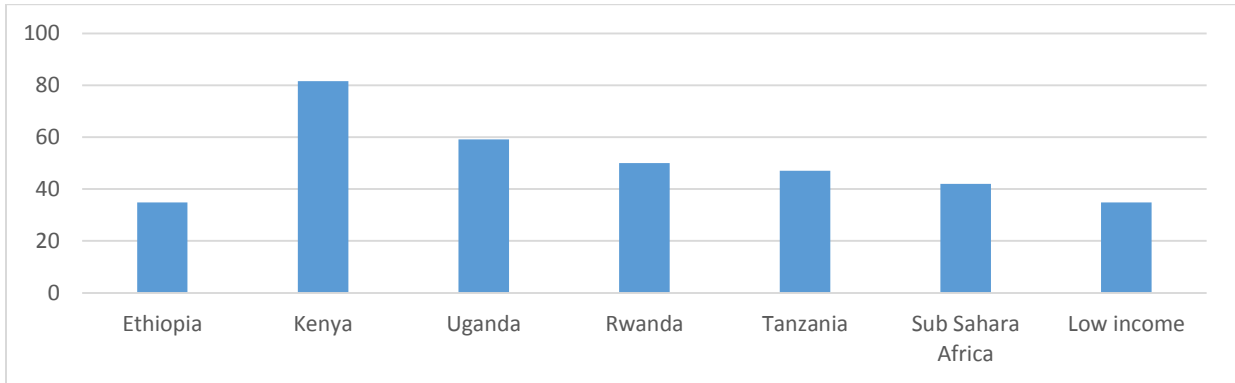
**Source: ESS Survey 2018/19**

The use of financial services does not necessarily imply convenient access. Distances can vary greatly in rural areas; some communities have much further to go to reach a financial institution. According to ESS Survey 2018/19, One way to look at access was to measure the proportion of people living within a reasonable distance (defined here as within 5 kms) 6 to a financial access point; that group numbers about 41 percent of Ethiopians. As expected, about 90 percent of those in urban areas have reasonable access to financial services but only 18.6 percent in rural areas. Since almost all individuals in Addis Ababa are within 5 kms of a financial institution, access is found not deemed to be an issue there.

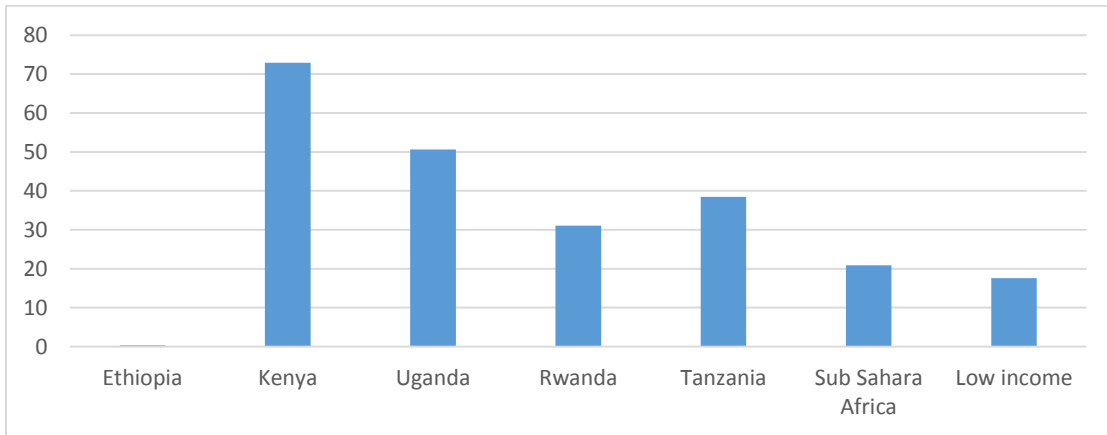
**2.4.6. Ethiopia’s level of Financial Inclusion compared to proximate region**

According to the chart below, Ethiopia as opposed to the neighboring countries Kenya, Uganda, Rwanda, Tanzania and the Sub- Sahara is the last country that adults with access to financial services at formal financial institution, Mobile money accounts and digital Financial level is very low.

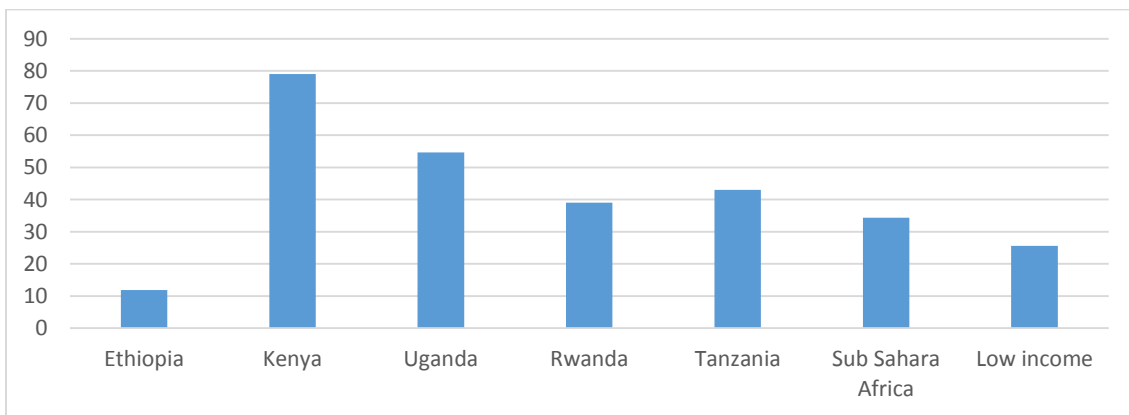
**Figure 3.2.4: Proportion of Adults with access to Financial Services**



**Figure 3.2.5. Mobile Money Account (%age 15+)**



**Figure 3.2.6. Digital Payments in the past year (%age 15+)**



**Source: Global Findex database**

## **2.4.7. Barriers to Financial Inclusion**

### **2.4.7.1. Demand-Side barriers**

#### **a) A preference for informal financial services and products**

Due to psychological and cultural factor such as a mistrust toward banks, reluctance to formal savings and social networks leads to self-exclusion from formal financial services. If there is no means of formal financial services to effect payments, then cash has used throughout a community for payment and investment, then the need for a bank account is lower.

#### **b) Financial illiteracy**

Financial literacy refers to the ability to evaluate and take the right financial decision; to know where and how to look and choose a financial product that adapts to the user's financial needs, as well as the understanding of right and obligations imposed by a contract for financial product or services. Therefore, financial service providers require information sharing and educate people in rural and urban areas of the country. Unless illiteracy has simultaneously addressed in Ethiopia, the process of increasing financial access to financial services is ineffective.

### **2.4.7.2. Supply-Side barriers**

#### **a) Lack of appropriate financial products**

A supply-side barriers to financial inclusion is that exist financial service and products are hardly aimed towards the poor and hence the unique needs of the financially excluded segment are not taken into consideration. Some people in urban areas and most of the people in rural areas in Ethiopia has excluded due to lack of financial products that fit to their need.

#### **b) Lack of banking infrastructure**

The financial sector in Ethiopia has dominated by banks, which are concentrated in urban areas and even there, access points and non-cash payment instruments are available only in certain locations. In rural and remote areas, there are very few banking options and connectivity inadequacies still prevent digital alternatives. There are more than 2,700 operational ATMs and 8,800 POS terminals in Ethiopia, owned by both state and private banks. In 2017, the 19 banks together had about 5,500 branches; 33 percent of bank branches and 50 percent of ATMs are in Addis Ababa, where only 3 percent of Ethiopians live. The country's POS network is much less

extensive than in neighboring countries. Finally, in 2019, the total number of agents estimated at about 10,000.<sup>4</sup> Therefore, inadequacy of financial infrastructure is hindering accessibility to formal financial service and this left out majority of population to use finance services.

### **c) Lack of necessary documentations**

Due to security and legitimacy reasons, financial services and product often requires provision of a number of formal documents. In case of Ethiopia, this could be difficult for the financially excluded people special for individuals residing in rural areas.

## **2.5. Factors of Exclusion**

In his paper Claessens (2006) argues that improved access to financial services requires the prerequisites of availability, reliability, flexibility and continuity of access. According to findex 2014 survey, 78%, 12%, and 2% of adults included in the survey respectively cited insufficient fund attitude, distance and relatively high cost of services as major barriers to access and usage of regulated financial services. Lack of documentation, distrust and religion also cited as barriers by 1% of adults under each of the categories.

In a similar way, a study by ESS 2018/19 demonstrated that the country distance to a formal financial institution related to the likelihood of owning an account: those with accounts tend to live within 7.3 km of a financial institution; those without live on average 19.4 kilometers away. This difference is less than 1 percent in Addis Ababa; as expected, the difference is higher in rural than urban areas.

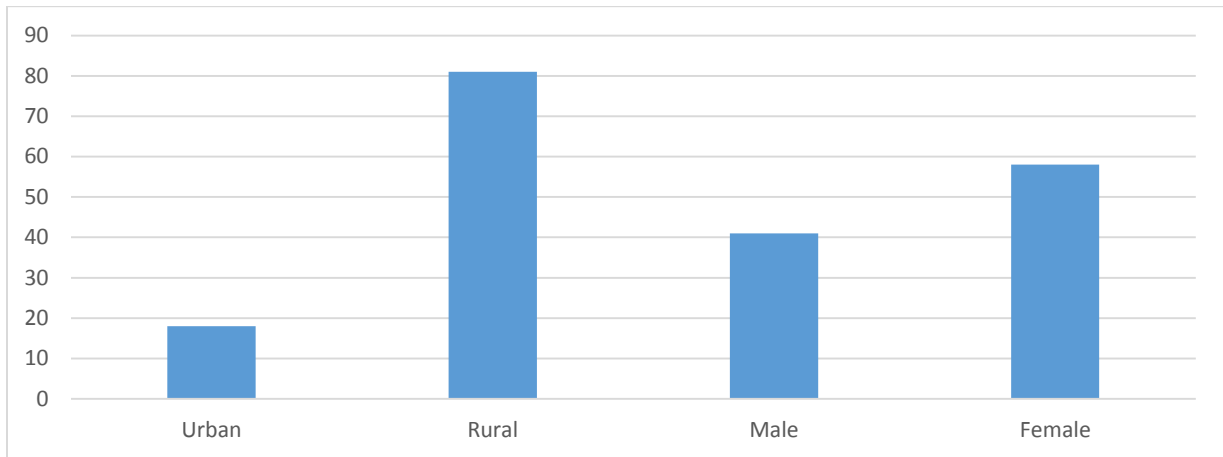
The most common reasons for not banked are not having enough money, which aligns in line with earlier findings about the relationship between wealth and financial inclusion. (Kama & Adigun, 2013). The next most common reason is that financial institutions are too far away, which adds to the cost of accessing financial services; this factor varies in relevance by region and residence. As expected, this is less of a problem in urban areas. An equally common reason is lack of understanding of the benefits of having a formal financial account. This has typically related to financial literacy levels, which tend to be lower in less educated individuals. (Liew,2006).

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<sup>4</sup> Ethiopia socioeconomic survey 2018/19

**Figure – 3.2.7.** Profiles the unbanked by residence and gender. As expected, most live in rural areas (81.4 percent). Financial inclusion in urban areas is far better: only 18.4 percent of those without bank accounts live there. Of the unbanked, women comprise about 58 percent and men about 42 percent.

*Figure 3.2.7: Adults without Formal Accounts by Residence and Gender*



**Source: ESS 2018/19 Financial Inclusion**

## **2.6. Ethiopia National Financial Inclusion Strategy (NFIS) and plan**

Ethiopia has recognized finance inclusion a core element toward accelerated economic growth, greater prosperity and social development. In its' NFIS stated financial inclusion provides and expands opportunities for a range of micro, small & medium enterprises and households to become economic empowered and self- reliant over time. Further, sustained, prudent and responsible financial inclusion contributes to financial and monetary stability and integrity by enhancing the transmission of monetary policy, broadens the banks deposit base and brings previous untraceable cash based transactions into the regulated financial sectors. Accordingly, mobilizing domestic savings and financing to foster job creation considered the two tracks of financial inclusion and key enabler for inclusive economic growth and poverty reduction. The NFIS also stated that Access to finance contributes to reducing poverty and income inequality by prompting job creation in the private sector and helping households had better manage their finances through the use of more efficient and better designed financial instruments that meet their needs.

### **2.6.1. The national Financial Inclusion Strategy Coordination Structure**

The national financial inclusion strategy analyzes the state of financial exclusion and creates logical framework for accelerating efforts toward financial inclusion based on the countries development priorities. In NFIS document, Ethiopia authority recognizes that responsible financial inclusion contributes to monetary stability, accelerate economic growth, promote investment & create employment, poverty reduction.

In view of the overarching benefits of financial inclusion to the country, Ethiopia committed to address the underlying causes of financial exclusion through well-defined systematic approaches ranging from baseline survey, employing the necessary strategies and established high-level coordination office to implement NFIS action plan. The structure of NFIS coordination office comprises:

- The national council for Financial Inclusion (NCFI)
- National Bank of Ethiopia (NBE)
- The Financial Inclusion Secretariat ( FIS)
- The national Financial Inclusion Steering Committee ( NFISC)
- Coordinators

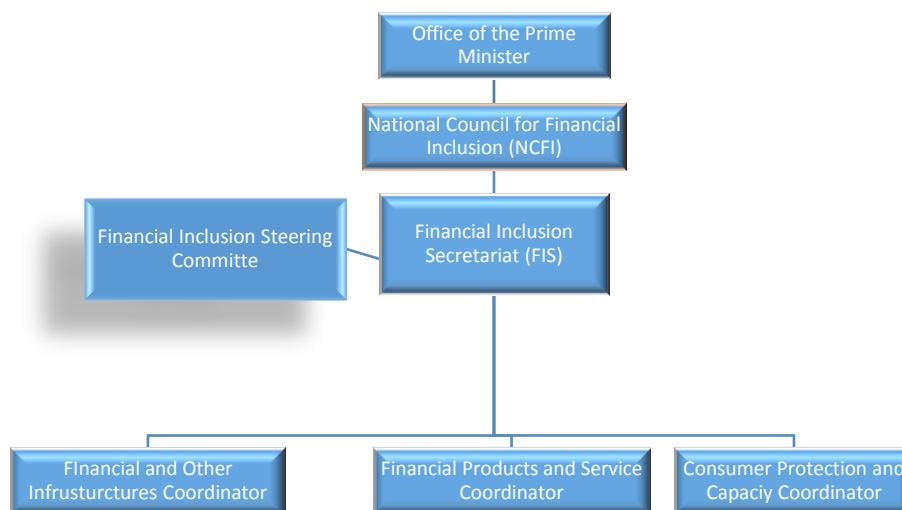
The members of the council comprise Ministry of Finance and Economic Cooperation (Chairperson), Ministry of Agriculture and Natural Resources, with the rank of Minister-Chief of Macroeconomic Planning, Effectiveness, follow up and support, Commissioner of National Plan Commission, Director of Ethiopia, Development Research Institute and Governor of the National Bank of Ethiopia. The Vice-governor for the financial institution Supervision will serve as a Secretary to National Council for Financial Inclusion. The coordination office is accountable to the Office of the Prime Minister and this shows Country's commitment to accelerate Financial Inclusion and reap its multifaceted benefits.

In order to achieve the NFIS, Ethiopia identified the following four major challenges that causes Financial Exclusion which includes Infrastructures, Quality Products & Access, Customer Protection, Capability and set specific strategies, targets and systematic monitoring and evaluation.

**Table 2: Major challenges that cause financial exclusion and sub components**

S/n	Challenges to Financial Inclusion	Sub components
1	Strengthen Infrastructures  ( Financial & other )	<ul style="list-style-type: none"> <li>a) Payment Infrastructures</li> <li>b) Credit Infrastructures</li> <li>c) Legal &amp; regulatory Framework</li> <li>d) Telecommunication &amp; Electricity</li> <li>e) Financial Inclusion database</li> <li>f) National Identification card</li> </ul>
2	Adequate range of suitable Products, services and Access points	<ul style="list-style-type: none"> <li>a) Access Points</li> <li>b) Suitable Products and Services</li> </ul>
3	Building a strong Financial Consumer Protection Framework	<ul style="list-style-type: none"> <li>a) Protection regulation</li> <li>b) Supervision</li> </ul>
4	Improved Financial Capability levels	<ul style="list-style-type: none"> <li>a) Literacy and education</li> <li>b) Awareness and create trust</li> </ul>

**Figure 3.2.8: The national Financial Inclusion Strategy Coordination Structure**



**Source: National Financial Inclusion Strategy**

In addition to established multilevel structure embraced of relevant authorities and actors of, the strategy has also set robust monitoring and Evaluation (M&E) system. The system is to track the progress of the National Financial Inclusion strategy Action Plan implementation and measure the impact of the actions, which comprises the following three elements 1) **a result Framework** 2) **robust data infrastructure**; and 3) **monitoring and Evaluation implementation mechanism**.

The Financial Inclusion strategy document<sup>5</sup> stated baseline assessment conducted as of March 2016 regarding the state of the finance sector and physical concentration, barriers to Financial Inclusion and formulated strategies for financial inclusions.

### **2.6.2. Challenges of Financial Inclusion**

Ethiopia identified four challenges in its National Financial Inclusion Strategy(NFIS) including 1) under developed ( financial and other ) infrastructures, 2) Inadequate supply of a range of suitable financial products, services and access points 3) inadequate financial consumer

<sup>5</sup> Ethiopia National Financial Inclusion Strategy: <https://nbebank.com/wp-content/uploads/pdf/useful-links/ethiopian-national-financial-inclusion-strategy.pdf>

protection and 4) low-level of financial capability and awareness. In order to address these challenges, the country set four underpinning strategic pillars.

### **Strategy 1: Strengthen (financial and other) infrastructure**

The strategy has recognized that modern payment infrastructure needs to be in place to facilitate the delivery of a range of financial products and services. Improving credit infrastructure, which includes credit information system and the framework for secured transactions is necessary to extend access to finance to micro, small and medium enterprise. In addition, enhancing telecommunications and electricity services is crucial for the financial institutions to deploy innovative cost-effective business model that offer greater geographical outreach and tailored products that meet the needs of a wider range of clients. The national financial inclusion strategy also advocate for improved financial inclusion data collection and monitoring.

### **Strategy 2: Ensuring the supply of adequate range of suitable products, services and access points**

Financial access will be rely on the expansion of a divers and universal network of convenient and interoperable access points, including alternatives to traditional bank/micro finance institutions/insurance branches such as agents, ATMs, POS, Mobile and internet banking and card system. In addition, a diverse range of appropriate, suitable and tailored saving, credit, payment and insurance products are key to achieve greater level of usage that lead to financial wellbeing of adults and enterprises. Further, Shifting government payments to people from cash to transactions account has also believed improving financial inclusion.

### **Strategy 3: Building strong financial consumer protection framework**

This strategy is to boost consumers trust in financial systems. Thus, the strategy recognized sound financial consumer protection is fundamental to increasing access while maintaining trust and confidence of the public in the financial system. It is also key to ensure financial inclusion has done in a responsible manner and does not jeopardize stability. In this regard, the national financial inclusion strategy foresees improvement and enforcement of regulations dealing with products suitability, information transparency and disclosure, responsible lending rules, marketing and advertising rules, good customer services and effective mechanisms for dispute

resolution. For its implementation, due follow up will made. This will create solid ground for financial service users to have trust on the financial sector.

#### **Strategy 4: Improved financial capability**

The study by World Bank on demand side indicated that 78% of the adults who participated in the survey feel that they have insufficient funds attitude to use regulated financial services. Higher level of financial capability is not only help strengthen trust but also contribute to greater awareness and responsible use of financial products and services. The work in the financial inclusion strategy starts with a stocktaking of current capability (or literacy and education) initiatives, and a nationally representative baseline survey on financial capability and then a unified national financial capability strategy has developed to address each priority segments identified in the survey.

#### **2.6.3. Benefit of Financial Inclusion**

Financial inclusion refers to all initiatives that make formal financial services Available, Accessible and Affordable to all segments of the population. Broadening access to financial services will mobilize greater household savings, marshal capital for investment, expand the class of entrepreneurs, and enable more people to invest in themselves and their families. This requires particular attention to specific portions of the population that have been historically excluded from the formal financial sector either because of their income level and volatility, gender, location, type of activity, or level of financial literacy. In so doing, there is a need to harness the untapped potential of those individuals and businesses currently excluded from the formal financial sector or underserved, and enable them to develop their capacity, strengthen their human and physical capital, engage in income-generating activities, and manage risks associated with their livelihoods. Financial inclusion goes beyond improved access to credit to encompass enhanced access to savings and risk mitigation products, a well-functioning financial infrastructure that allows individuals and companies to engage more actively in the economy, while protecting users' rights.

According to Park and Mercado, (2015), financial inclusion has considered as a critical element that makes growth inclusive as access to finance can enable economic agents to make longer-term consumption and investment decisions, participate in productive activities, and cope with unexpected short-term shocks. Previous studies show that financial inclusion leads to economic

and financial stability of a nation as a whole and the financial institutions in particular (Morgan and Pontines, 2014). Sarma, (2010) recognizes the importance of an inclusive financial system to the economy. In his paper (Sarma, 2010) points out that an inclusive financial system facilitates the efficient allocation of productive resources, significantly improves the day-to-day management of finances and helps in reducing the growth of informal sources of credit that often tend to be exploitative.

Financial inclusion provides a unique opportunity to construct a sustainable financial system. The opportunities for the government as well the financial service providers are plenty. It accelerates growth in the real sector and triggers overall economic development (Varghese, G. and Viswanathan, L., 2018). When the regulators are able to induce trust regarding the product and reduce liquidity constraints, this could help the rural population to ease their vulnerability to risk (Matul, M. at el., 2013). The micro-finance institutions and other group could improve credit availability in rural areas and that may result in an increase in agricultural productivity and other rural activities that generate income. The increase in income leads to higher consumption; higher saving and higher investment thus, poverty levels are declining and are bound to decline further if this trend continues (Burgess, R., Pande, R. and Wong, G., 2005). The reduced poverty level will accelerate the rate of integration with the formal banking system. Access to finance will further attract global market players thereby increasing business and employment opportunities.

Ethiopia also recognized sustained, prudent and responsible financial inclusion contributes to financial and monetary stability helps to combat anti money laundering risk, and supports accelerated economic growth, greater prosperity and social development.

Further, as stated in National Financial inclusion strategy of Ethiopia, financial inclusion has also assumed helping to build on the social and economic gains of the past decade. In the course of promoting increasing savings, financial inclusion will contribute towards filling the gap on the ever-increasing credit demand and consequently promotes investment that would create employment opportunity and rise in income that ultimately contributes to poverty reduction.

#### **2.6.4. Access and Usage of Digital Financial services in Ethiopia compared with other African Countries**

Ethiopia is an outlier among its peers and not yet taking advantage of digital financial services (DFS) can drive access to and usage of financial services.

**Table 3: Access and Usage of Digital Financial Services**

<b>Digital payments in the past year (% age 15+)</b>	<b>Ethiopia</b>	<b>Kenya</b>	<b>Rwanda</b>	<b>SSA Average</b>
Mobile money accounts (in %, age 15+)	0.4	73	31	21
Debit card ownership (% age 15+)	4	38	5	18
Made or received digital payments in the past year (%)	12	79	39	34
Paid utility bills using a mobile phone (out of adults who paid utility bills)	0	82	44	23
Received wages into an account (out of adults who received wages)	17	68	33	45
Received payments for agricultural products into an account (out of adults who received ag. payments)	1	46	14	
Used a mobile phone or the internet to access a financial institution account in the past year (out of adults with a financial institution account, age 15+)	1	57	13	24

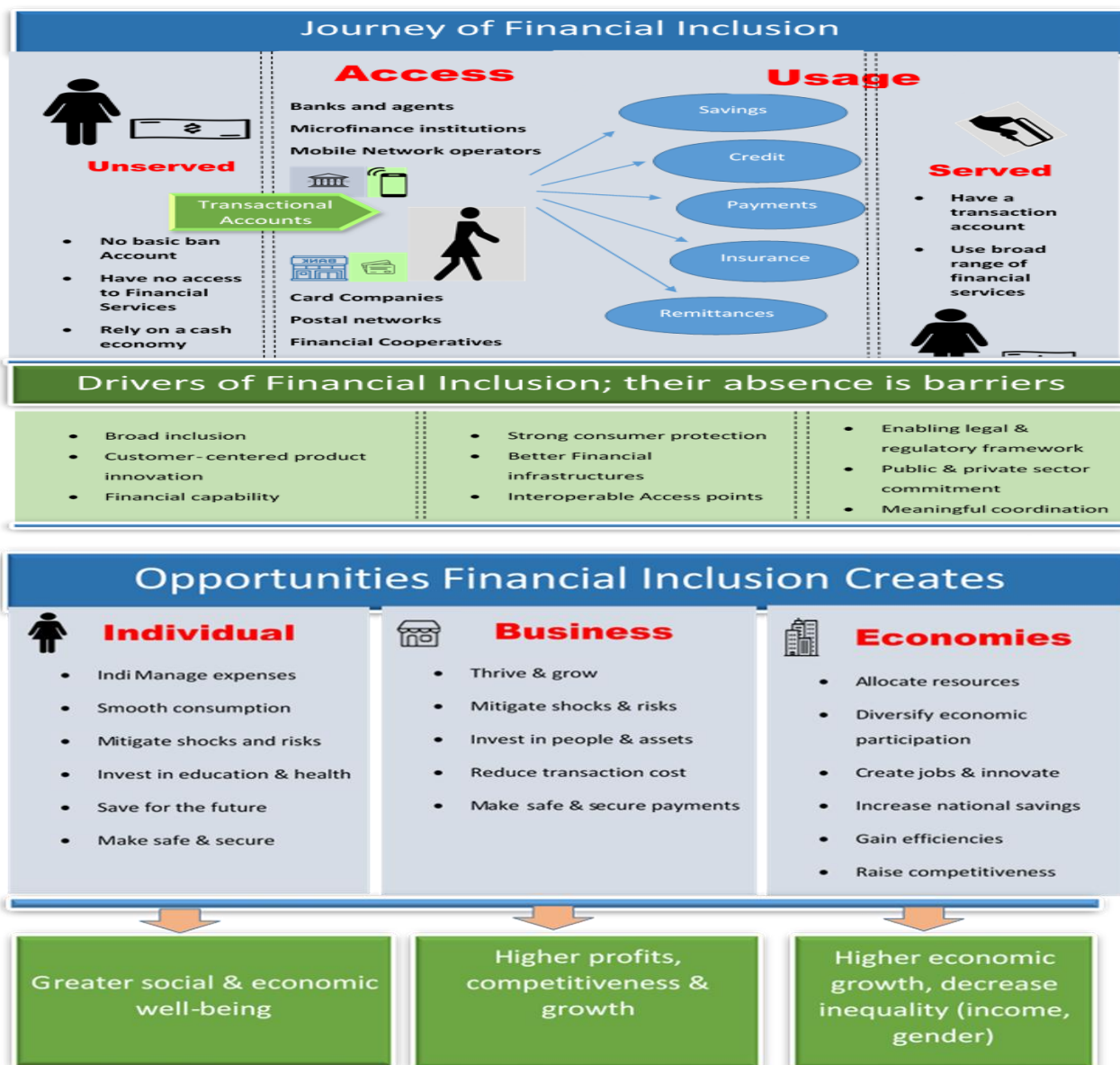
**Source: Global Findex database**

According to the data in table 3, Ethiopia is far below than other neighboring countries in improving Access and Usage of Digital Financial Services. Low mobile phone subscription has usually blamed for low mobile money account penetration; but this is not really the case. According to ESS Survey 2018/19, nationally, mobile access is about 38 percent and use of mobile money services is just 4 percent. This means, mobile phone adoption alone is not

sufficient to drive mobile financial services. Ethiopia needs to look into other enablers of digital financial service such as regulation; skills and institutions could result in low penetration of mobile financial services.

Thus, in view of the current state of financial inclusion in Ethiopia and despite the efforts made by the government and financial institutions, these evidences show that there are limited progress compared to targeted goals of NFIS 2017.

## 2.4. Conceptual Framework



Source: Author adapted from World Bank Gateway to financial access

## **CHAPTER THREE**

### **3. DATA AND METHOD OF ANALYSIS**

#### **3.1. Research design**

The purpose of this study is to understand the progress of financial inclusion in Ethiopia against the NFIS and identifies the challenges and benefits of financial inclusion. The study expects to inform financial institutions and policy makers about key enablers of financial inclusions dimensions. For this purpose, both primary and secondary data collected, extensive survey of literature of relevant publications, previous studies and various initiatives taken by the stakeholders (including the government and the development partners such as World Bank, IMF, Africa Development, UNDP) reviewed.

#### **3.2. Research approach**

To address the research questions, a qualitative approach used to analyze financial inclusion reports including previous literatures, ESS4 2018/19 reports, desk reviews, regulatory bodies and financial service views.

#### **3.3. Data source and population**

Both primary and secondary data used to conduct the research. Secondary data presented in World Bank's 2016 report, Ethiopian Socioeconomic Survey (ESS4) report, available literature concerning financial inclusion, desk reviews, regulatory, supervisory and report of service providers are used. In order to assess the governance roles, data were collected from the National bank of Ethiopia (NBE), Ministry of Finance and Economic development (MoFEC) to assess the progress of and challenges and benefits of financial inclusion. In order to assess the supply-side aspect of Financial Inclusion, data were collected from banks that have many year experiences in the industry.

The World Bank's Findex has utilized as the main source of global financial inclusion data reference. National & Regional statistics were also used (where available), with the aim of demonstrating data comparability of financial inclusion in East Africa countries.

### **3.4. Sample size**

To obtain financial service providers data related to financial inclusion, four Banks, two insurance companies, two microfinance, which have many years experiences selected. Longer experiences in the industry was important because, these service providers can share many lessons and realities in the past. National bank of Ethiopia, Ministry of Finance and Economic development selected because of their significant role concerning National Financial Inclusion Strategy (NFIS 2017).

#### **3.4.1. Sampling Technique**

The financial service providers, National bank of Ethiopia (NBE), Ministry of Finance and Economic development (MoFEC) purposefully selected considering their role to coordinate and regulate National Financial Inclusion Strategy (NFIS 2017).

#### **3.4.2. Instruments of data collection and Fieldwork data collection**

Data collected from financial service providers' and regulatory bodies such as National bank of Ethiopia, Ministry of Finance and Economic Cooperation report analysis and face to face interviews. Pilot exercise data collection started on March 22, in select Area for a period of 1 day, while the main exercise commenced on March 23, 2022 and ended on March 25, 2022 for a period of 2 days.

### **3.5. Method of data analysis**

Secondary data analyzed focusing on the four commonly indicators access, quality, literacy, awareness, and impact to assess the challenges and benefits of financial inclusion in Ethiopia. Further, Alliance for financial inclusion (AFI) concepts of both demand and supply side perspectives barriers assessed to identify and discuss financial inclusion challenges and benefits in Ethiopia.

In general, a comprehensive data analysis made from interview data. Descriptive analytic approach used and data are analyzed using table, graphs and charts.

## CHAPTER FOUR

### 4. ANALYSIS AND DISCUSSION OF THE RESULT

To assess the challenges and Benefits of Financial Inclusion in Ethiopia, the study used both secondary and primary data. Section 5.1 analyses NFIS Progress using secondary data. Section 5.2 analyses the role of Financial regulatory. Section 5.3 analyses the role of financial institutions including banks, insurances and MFIs in financial inclusion using survey results. Section 5.4 analyses the perception results from the survey on barriers to financial inclusion.

#### 4.1. Financial inclusion performance against NFIS targets

Both institutions clearly mentioned in their responses the main and additional targets of NFIS. These institutions also felt the progress of NFIS is low and lagging behind to meet the targets. The table below illustrates the progress of Ethiopia NFIS. According to the ESS 2018/19 survey data, even if there are encouraging progress most of the targets are not yet attained. Further, there are also no adequate data collection, reporting and monitoring the progress of the targets done. On the other hand, Ethiopia Socioeconomic Survey for 2019/2020 has not published by the CSA.

*Table 4: National Financial Inclusion Strategy (NFIS) Main Target*

*Table 4.1: Target vs Progress result*

S/N	NFIS TARGET BY END OF 2020	NFIS TARGET BY END OF 2019	AS REPORTED BY ESS 2018/2019
1	60% of Adults (+18 years) ownership of transactions accounts in regulated Financial Institutions	51.45	30.5
2	80% of Adults will live within 5 KM from financial services access point	-	41
3	40% of Adults will save at a regular financial institutions	34.15	20.4
4	5% of Adults reporting having insurances policy	4.1	7.8
5	Adults reporting using an electronic instrument in the last 12 months will be 40%	32.34	28.8
6	Increasing adults having loan at a regulated financial institution from 10% to 40%	32.4	16

*Table 4.21: Target vs No Progress*

<b>S/N</b>	<b>NFIS TARGET BY END OF 2020</b>	<b>NFIS TARGET BY END OF 2019</b>	<b>AS REPORTED BY ESS 2018/2019</b>
<b>1</b>	<b>Increase the number of Transaction accounts by bank &amp; Micro finance institutions, per 100 adults from 68 to 90</b>	<b>84.50</b>	-
<b>2</b>	<b>80% of the adults are aware of basic account opening procedures</b>	<b>65.15</b>	-
<b>3</b>	<b>Increasing agricultural to total bank and micro finance institutions credit to private sector from 10.4% (2016) to 15%</b>	<b>13.9</b>	-
<b>4</b>	<b>Increase the proportion micro, small and medium enterprises lending to 15%</b>	<b>12.5</b>	-

**SOURCE: ETHIOPIA SOCIOECONOMIC SURVEY 2018/19**

## **4.2. The role of financial regulatory**

In NFIS strategy documents, more than 20 key stakeholders or participating institutions identified and assigned roles and responsibilities. Ministry of Finance and Economic Cooperation and National Bank of Ethiopia were the 1<sup>st</sup> two which took the lion share of roles and responsibilities. In addition, both institutions have financial regulatory responsibilities. Due to these reasons, both institutions selected for the interview prepared to assess the regulatory institutions roles related to financial inclusion. In order to assess the governance aspect, interview questions organized and conducted for both institutions in accordance with the following four issues of financial inclusion.

### **1. Mandates, policies and governance structures,**

In response to the extent of accomplished major roles and responsibilities concerned National Financial inclusion strategy (NFIS), both institutions rated average. Both institutions confirmed that in the past four years the Country trapped by various challenges emerged in connection with the change of political environment and as a result could not realize NFIS priorities.

Both institutions acclaimed the coordination structures of NFIS established promote the effective use of technical skills, competencies and coordinate efforts of stakeholders toward

implementation of NFIS. According the response from the representatives of these institutions, all major stakeholders are part of the coordination team and the highest level of the coordination structure reports to the office of the Prime Minister. In their view, although the achievement in NFIS is not as such adequate, this shows how Ethiopia dedicated to respond to the global and national agenda in connection with financial inclusion.

## 2. Definitions, measurement and analysis,

Both institutions agreed that the definitions and measurement used by Ethiopia meets Financial Inclusion dimensions.

*Table 5: Does the definition include any of the following dimensions of financial inclusion?*

Dimensions of FI	NBE		MoFEC	
	Yes	No	Yes	No
Availability/supply of financial services	✓		✓	
Access to financial services	✓		✓	
Demand for financial services	✓		✓	
Effective use of financial services	✓		✓	
Quality of financial services (including welfare aspects)	✓		✓	
Financial literacy	✓		✓	
SME financing	✓		✓	
Quality of infrastructure (legal, financial, telecommunications, etc)	✓		✓	

The institutions asked whether the data collected in Ethiopia allow improving the various dimensions of financial inclusion, both institutions agreed that the data collected is in line with the NFIS target and global financial inclusion indicators; thus, it enable to see the progress, gaps and enable to take improvement actions if necessary.

Concerning the questions in relation to the source of data, frequency of data collection and responsible institutions for Financial Inclusion indicators, the institutions responses summarized in the table below.

**Table 6: Who are responsible to collect data and how often?**

<b>Responsible Institution</b>	<b>Frequency</b>	<b>Demand or supply</b>
National Bank of Ethiopia (NBE)	Varies	Supply
Federal Cooperative Association (FCA)	Not defined	Supply
Central Statistics Agency(CSA) Financial Access module	Every 2 years	Demand
Financial Inclusion Secretariat (FIS) - Template	Quarterly	Supply

The supply-side and demand-side data surveys are complementary and measuring and monitoring of financial inclusion by combining frequently collected supply-side data, with more detailed demand-side information for better policymaking.

However, in case of Ethiopia the data collection by different stakeholders seemed irregular and could make measurement of financial inclusion indicators difficult unless put standard data collection time.

On the other hand, both institutions responded there is no mid-term review of NFIS action plan. The reason for not performing the review is due to political instability and minor shift of priorities to stabilize the situations in the Country. However, the institutions are optimistic to follow NFIS action plan and conduct the reviews.

### **3. International collaboration,**

As per the information gathered from both institutions, exchange of views, competencies and technical skills with other parties are important to accelerate NFIS target achievements. Further, international collaborations based on resources, defining, measuring and analyzing financial inclusion data are key for success. With these assumptions, both institutions and FIS are working with international organizations like the World Bank and others.

#### 4. Challenges and Benefits of Financial Inclusion in Ethiopia

Concerning the existing challenges, the responses of the institutions summarized below.

**Table 7: According to your institutions, what are the challenges impeding financial inclusion implementation?**

Factors	NBE	MoFEC
Infrastructure,	✓	✓
Legal framework	✓	✓
Quality financial services	✓	✓
Technology,	✓	✓
Literacy,	✓	✓
Availability of financial services	✓	✓

Based on the result in **Table-7**, both institutions emphasized that NFIS next action plan should focus to address the impeding factors and implement pertinent strategies to improve financial inclusion.

In connection with the question of financial inclusion contribution, both institutions agree that financial inclusions could contribute to inclusive economic growth, poverty reduction, income inequalities and financial instability.

#### 4.3 Financial Institutions roles and services

In this section randomly selected commercial banks, Insurances and Microfinance Institutions assessed regarding provision of services for various users of different economic background and locations (Cites and urbans)

##### 4.3.1. Commercial banks

According to NBE report 2020/2021, there are two (2) Government owned and 17 (Seventeen) private owned banks in Ethiopia. Overall, the number of branches shows an increase compared to previous year data. However, comparing with the World Bank standard<sup>6</sup>, the increase in branches is still below world average of 78.8 whereas, the there is no data for ATMs statistics. On the other hand, there are gaps in collecting and achieving various data of commercial banks

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a) <sup>6</sup> Number of commercial bank branches per 100,000 adults and  
b) Number of automated teller machines (ATMs) per 100,000 adults

performance or efforts implementing digital banking, ATMs, PoS and other activities and technologies that promote financial inclusions.

**Table 8: Number of banks in Ethiopia (2020/21)**

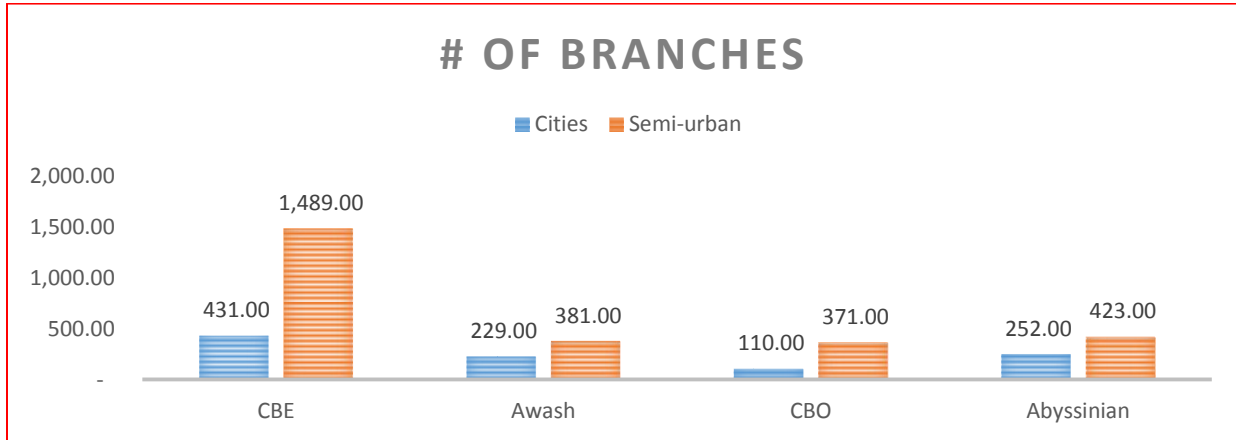
No.	Banks	No. of Branches 2020/2021			2019/2020
		Region	Addis Ababa	Total	Total
1	Commercial bank of Ethiopia	1,489	431	1920	1825
2	Development bank of Ethiopia	77	5	82	93
<b>Total state owned Banks</b>		<b>1566</b>	<b>436</b>	<b>2002</b>	<b>1918</b>
1	Awash International Bank	381	229	610	481
2	Dashen Bank	302	167	469	436
3	Abyssinia Bank	423	252	675	579
4	Wegagen Bank	271	148	419	399
5	United Bank	206	184	390	351
6	Nib International Bank	198	218	416	327
7	Cooperative Bank of Ethiopi7a	371	110	481	430
8	Lion International Bank	203	86	289	272
9	Oromia International Bank	219	109	328	314
10	Zemen Bank	25	42	67	52
11	Buna International Bank	169	137	306	244
12	Berhan International Bank	152	139	291	256
13	Abay Bank	199	100	299	232
14	Addis International Bank	36	60	96	81
15	Debub Global Bank	52	67	119	82
16	Enat Bank	37	43	80	57
17	Zemzem Bank SS	1	6	7	0
<b>Total private Banks</b>		<b>3,245</b>	<b>2,097</b>	<b>5,342</b>	<b>4,593</b>
<b>Grand Total Banks</b>		<b>3,245</b>	<b>2,533</b>	<b>7,344</b>	<b>6,511</b>

**Source: National Bank of Ethiopia**

Four banks selected based on their long-term experiences and size of networking and assessed regarding the distribution of their branches. According to the responses collected from the interviewee, the branches of all banks are concentrated in Capital, Regional Cities whereas, thin

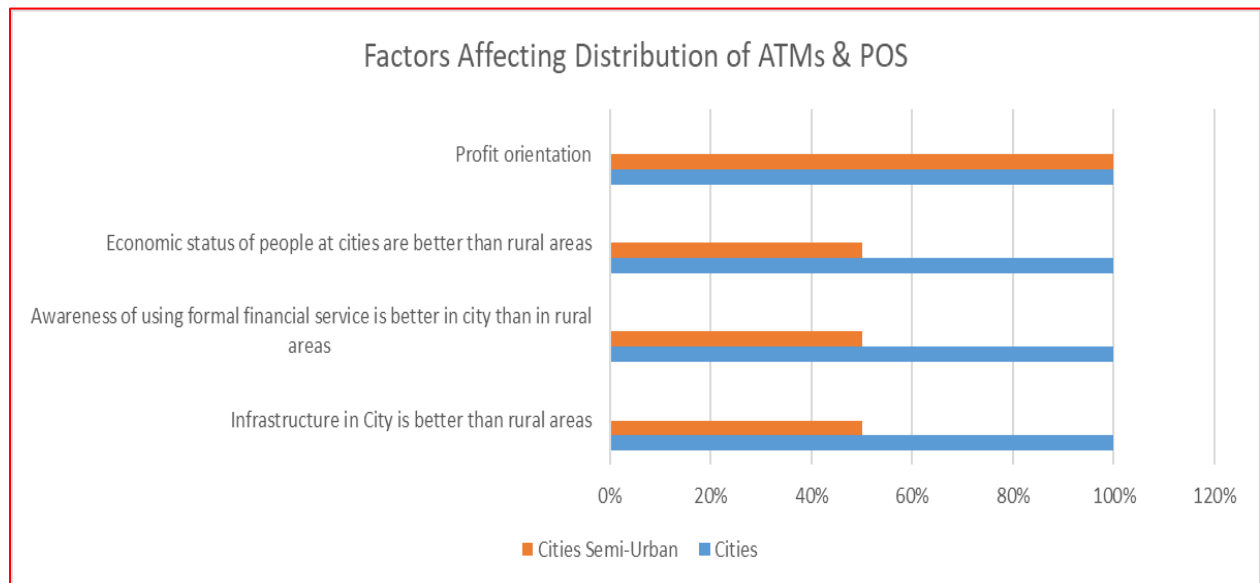
in semi-urban and close to zero in rural areas. In terms of coverage, CBE takes the lion share now.

**Figure 5.3.1: Distribution of Branch network**



The banks also asked about potential factors, which hinder the distributions of their branches, ATMS, POS and the responses charted in the graph below.

**Figure 5.3.2: Factors determining Branches, ATMs and POS distribution**



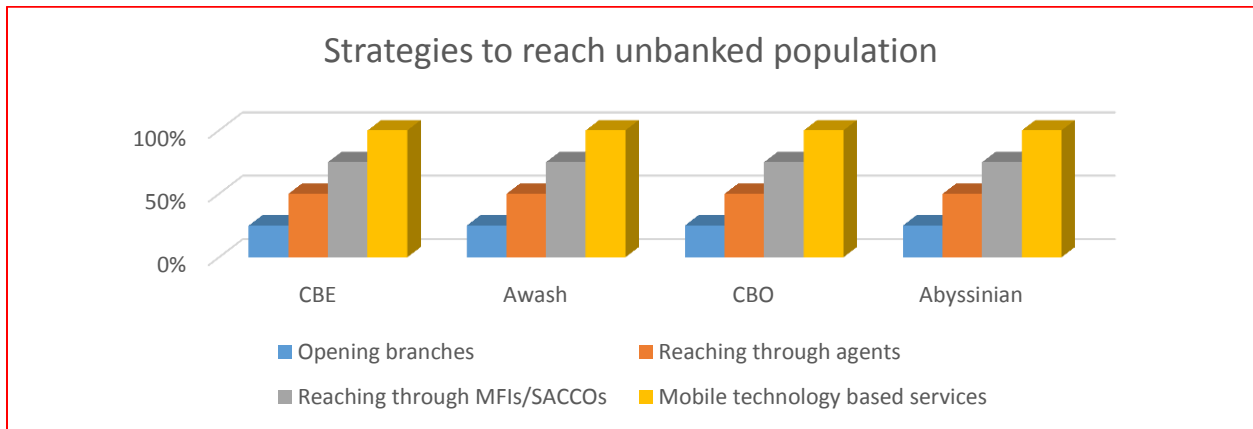
According to the respondents, all factors listed in the graph are playing influential roles in determining the distribution of banking outlets and limiting access.

On the other hand, the various e-channels and applications such as ATM, POS and mobile banking platforms that are supposed to facilitate electronic transactions have remained deficient

in most cases. ATM card requests takes weeks and months, while most subscribers to internet and mobile banking platforms complain of poor services. This challenge manifest itself generally in form of inadequate financial infrastructure especially in the rural areas where the bulk of the financially excluded are found and therefore limits options for accessing financial services.

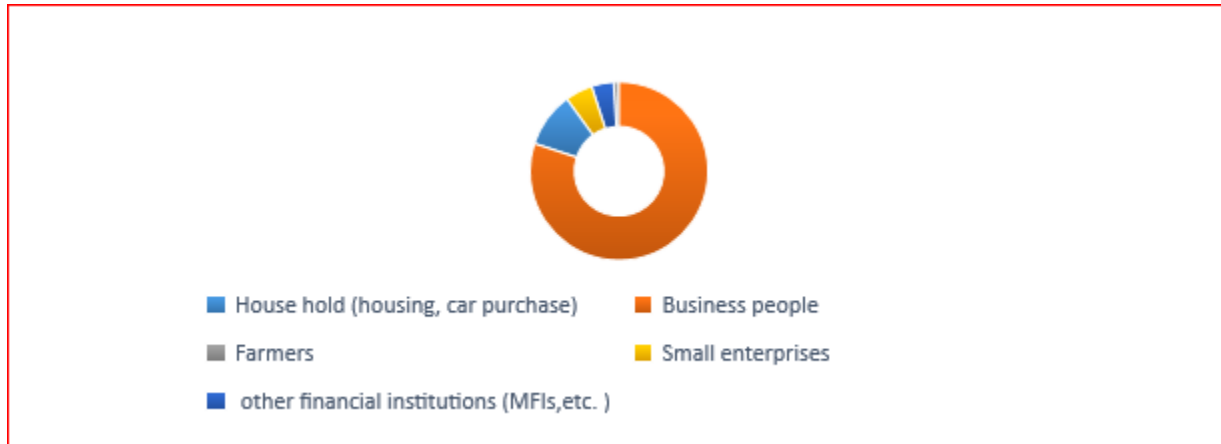
As far as the strategies of reaching to population who are unbanked, the respondents agreed implementation of the four approaches listed in the graph attracts more users. However, according to the majority responses, Mobile technology based banking services is the best the best strategy in the future.

**Figure 5.3.3: Strategies to reach unbanked population**



Further, the interviewee asked about access to credit/loan and criteria to get credit/loan from each bank service providers. According to the responses of the representatives of the banks, business people are enjoying both credit and loan facilities most whereas, other couldn't access the facilities due to stringent requirements in relation to collateral.

*Figure 5.3.4. Access to Loan/Credit*



Accordingly, mostly farmers and to some extents people living at semi-urban are barely access to the facilities’ or getting zero chance to access credit/loan.

#### 4.3.2. Insurance Service

According to the responses from the interviewee, branch distributions and access of insurance services are limited similar to the banking services. Therefore, majority of the people both in Cities, Semi-urban and rural areas do not get access to insurances due to availability, cost and lack of awareness. On other hand, insurance service products are also limited; for example, agriculture related insurances service are not promoted.

*Table 8: Number of Insurance companies in Ethiopia (2020/21)*

No.	Insurance Companies	2020/21			2019/20
		AA	Region	Total	Total
1	Ethiopian Insurance Corporation	25	65	90	90
2	Awash Insurance Company	29	23	52	48
3	Africa Insurance Company	18	14	32	32
4	National Insurance Corporation of ethiopia	22	17	39	39
5	United Insurance Company	28	12	40	40
6	Global Insurance Company	12	8	20	20
7	Nile Insurance Company	29	22	51	48
8	Nyala Insurance Company	17	18	35	33
9	Nib Insurance company	28	14	42	41
10	Li on Insurance Company	16	20	36	35
11	Ethio-Life & General Insurance S.C	18	6	24	23
12	Oromia Insurance Company	22	21	43	42
13	Abay Insurance S.C	15	14	29	28
14	Berhan Insurance S.C	13	8	21	19
15	Tsehay Insurance S.C	19	9	28	27
16	Lucy Insurance	16	6	22	17
17	Bunna Insurance S.C.	16	12	28	23
18	Zemen Insurance S.C	2	1	3	0
Total		345	290	635	605

Source: Insurance Companies

### **4.3.3. Micro- Finance Institutions**

Similar to the responses from banking and insurance companies, the distributions and access of MFIs are limited. According to the respondents, the same factors limiting both banks and insurances are affecting MFIs ambitions to reach majority of the population in the Country. The respondents mentioned lack of adequate resources (capital) is claimed particular hindrance to expand the services.

### **4.4. Drivers of Usage**

Technology is the key driver of narrowing the gap between rural and urban users of financial services. Active digital account refers to the use of a bank through mobile bank, mobile money, or regulated MFI, SACCO through transactions or access via mobile phone app, website, debit/credit card or other means, without using cash.

In spite of the fact that Technology giants have moved into the financial sphere, leveraging deep customer knowledge to provide a broad range of financial services and the power of financial technology to expand access to and use of accounts is demonstrated most persuasively in Sub-Saharan Africa, Ethiopia is still lagging behind in this services. Therefore, Ethiopia financial institutions needs to design and develop appropriate products and facilities to reach unbanked majority. The Ethiopian Telecommunication needs to encourage and facilitate technological research and innovation that will make financial services not just easily accessible but also cheaply available.

### **4.5. Financial Knowledge (Literacy)**

In Ethiopia, lack of financial literacy knowledge and awareness of financial services and their benefits is a major obstacle to financial inclusion (ESS, 2018/19).

Lack of understanding and awareness of products is one of the main reason why most people do not use financial products. Therefore, there is still need to intensify financial education programs for financial inclusion whose ultimate goal will generally be to support positive behavioral change. Banks should also continue to lobby for inclusion of financial literacy programs in primary and secondary school curriculum.

#### 4.6. Major findings

- ⊙ The number of female accessing and using formal financial providers are less compared to male,
- ⊙ Less coordination between financial service providers, regulatory bodies to solve the challenges impeding Financial inclusion which includes:
  - Some infrastructure and system-based challenges including underdevelopment of existing financial systems,
  - Limited interoperability,
  - Immature digital financial services and scarcity of qualified agents in the case of mobile payments,
  - Financial illiteracy
  - low/irregular income among the rural poor
  - Inadequate credit-reporting institutions,
  - Limited capacity of businesses and inadequate infrastructure.
- ⊙ FS Providers are overwhelmed by huge market in the cities and slow to expand branches to rural areas,
- ⊙ Lack of capital specially for Saving and Credit cooperation organizations (SACCOs), Micro Finance Institutions (MFIs) and even some banks,
- ⊙ Policymakers pay less attention to enhance promotion of financial inclusions
  - Improve regulations,
  - Get lesson from neighboring countries and promoting digital banking, Credit report info,
- ⊙ Empirical and theoretical evidences show there are links between b/n financial inclusion, poverty, and income inequality. As a result, financial inclusion is key to enhance economic growth, reducing the level of poverty, and income inequality
- ⊙ Financial inclusion access to financial service is critical for people outside cities especially rural areas but no adequate actions from the stakeholders such as financial service providers, policymakers and etc..

## **CHAPTER FIVE**

### **5. CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Conclusion**

Currently, experts and policymakers see financial inclusion and policymakers as a way to improve people's livelihoods, reduce poverty, and advance economic development. On the other hand, greater financial inclusion is achieved when every economic activities, geographical region and segments of the society have access to financial information, financial assistance, financial services and financing with ease and at minimum cost. This helps to promote balanced growth through its process of facilitating savings and investment and thus causing efficient resource allocation from surplus sector/segments (unproductive) of the society to deficit sectors/segments (productive) of the society. This process make financial transaction easy, income level and growth increases with equity, poverty is eliminated, while the economy becomes safe from external shock.

The G20 through its Global Partnership for Financial Inclusion recognizes the importance of financial inclusion alongside its other goals of stability, integrity and protection. Such global consensus reached due to Financial Inclusion key roles in bringing integrity and stability into an economy's financial system as well as its role in fighting poverty in a sustainable manner. It is more pertinent in the case of Ethiopia as a developing nation to use financial inclusion as a platform not just for growing the financial sector but more as an engine for driving an inclusive economic growth.

Therefore, this is a call for a concerted effort by all the stakeholders such as banks, governments, civil societies, and NGOs etc. to put heads to achieving the objective of financial inclusion by focusing on developing policies considering a sustainable banking services delivery model and need-based products for rural and urban consumers. According to the ESS 2018/19 survey, in Ethiopia, most of the Financial Infrastructures are not well developed and adequate so that Access, Suitable Financial Product, appropriate Consumer Protection are still a challenges. Lack of financial literacy of financial services and their benefits especially in rural area are a major obstacle to financial inclusion. Further, interest-free banking and Automated Teller Machines

(ATMs) are more popular financial products in urban whereas, these and digital financial services are less popular in rural areas.

Therefore, addressing the root causes and removing barriers to access, reducing financial literacy, supply constraints, credit, and documentation. Nowadays, introduction of robust technologies helps to eliminate access challenges and promote expansion of financial inclusion.

## **5.2. Recommendation**

In Ethiopia case, despite the improvements and the effort made to overcome longstanding, emerging and future challenges to implement financial inclusion strategies, most of the challenges are not yet getting appropriate solution. The physical footprint of regulated financial institutions remain underdeveloped and concentrated in capital cities.

Thus, Policymakers, Financial Institutions and all stakeholder need to work to Strengthen Infrastructures (financial & other complements) as per National Financial Inclusion Strategy Action plan. The role of the regulator is to shape incentives so that financial services providers can efficiently respond to the needs of their customers. Some financial institutions in Africa have had successfully adapted traditional branch-based approaches to serve the excluded segment. Alternative distribution models also hold great promise, in particular correspondent banking and mobile banking such as in Kenya. Addressing of MFIs, SACCOs, and SMEs financial credit/loan bottleneck has considered key instrumentals for the expansion of these institutions in turn improve of access to financial services.

The policy makers must invest in job creation, promote small-scale businesses among the population, and provide incentives to financial institutions reaching the remotest areas, as well as encouraging the culture of online transactions by regulating the service charges by the operators. These efforts combined may improve the level of participation in the financial services amongst the local masses; hence, economic empowerment has easily achieved.

Therefore, Ethiopia needs to work on the following actions in order to reduce the barriers to financial inclusion and take on its benefit:

**1. The key enablers including ICT infrastructure, regulatory environment and political commitment.**

Investment in physical infrastructure will lead to the generation of employment, improve efficiency, reduce cost and thus will improve the overall standard of living.

**2. Need to work out on drivers of access including expand digital payment instruments, diversify access points, Achieve scale through social transfer.**

An affordable and accessible platform are key to drive financial inclusion. For example, Post offices could play a proactive role in inclusive growth in areas where there are no banks and other formal financial institutions. A low-cost solution, based on mobile technology can be a good platform to deliver financial services. Reducing the risk of agent misconduct, investing in audit studies, conducting risk management assessments, usage of new and improved technologies to provide information, and keeping the consumers updated of the changes are some of the popular and effective strategies that Ethiopia could adopt from countries like across Asia and other Africa countries in our journey to an all-inclusive economic growth.

Banks need to focus more on introducing tailor-made services and deliver it through a better and effective mechanism. The credit disbursement should be made more flexible in order to attract the consumers who are used to informal sources of credit. Encouraging NGOs and MFIs to participate in this process will help identify default risk as they work closely with the target population. Provision of general credit card (GCC) or a limited overdraft (OD) against no-frills account will increase the access of credit. It will be ideal if affordable insurance and remittance facilities are encompassed in the same plan.

**3. Reinforce the national council engagement toward financial inclusion strategy and closely monitoring of the progress of strategy Actions, and ultimately address potential challenges impeding the progress in Financial Inclusion.**

In case of Ethiopia, it is estimated that 80% of Ethiopia population is in rural areas. Thus, promoting rural population engagement in formal economic activities have significant impact on development, poverty reduction and economic growth. ( Jabir et al., 2017) . Thus, there should be a need to restructure the financial system, particularly the services available for the rural

population. A coordinated drive for financial inclusion involving educational institutions is necessary to promote financial literacy.

Regular surveys should be conducted in villages to understand financial needs of the people and to check whether the products available are actually utilized by them and meets their expectations. NBE should allow telecom service providers to provide enhanced banking products at affordable prices. Giving authorization to microfinance as well as non-banking financial organizations to perform limited mainstream financial services in remote areas can help improve the reach of the program. These measures, if effectively implemented guarantees to accelerate the process of inclusive growth.

#### **4. Financial Institutions and stakeholders needs to make joint effort and design financial literacy education especially for rural population.**

According to ESS 2018/19 survey, in Ethiopia, lack of financial literacy (knowledge and awareness) of financial services and their benefits is a major obstacle to financial inclusion. The World Bank literacy index indicates that 48% of the Ethiopia adult population do not have any formal education and only 52% of the population managed to attain primary education, which is not enough to make one fully financially literate.

Investment in financial literacy is considered as the most crucial step without which any policy action with regard to financial inclusion will remain futile. It is the need of the hour to educate the target section about the available services and to create an awareness about their rights.

According to Liew (2006), when an economy is made up of knowledgeable consumers who make wise decisions on spending, savings and investment, the economy can be strengthened by way of increased productivity arising from financial education which can as well influence a switch from conspicuous consumption to productive investment.

#### **5. Strengthening of Microfinance & similar institutions, increase in the number of rural bank outlets and cash centers**

This can give easy access to the excluded population and cater for the financial needs.

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## APPENDICES

### Appendix - 1: Timeframe and Budget

S/n	Activity	Dates of activity	January	February	March	April	Budget
1	Thesis Title Selection						
2	Preliminary Literature review						
3	Proposal Writing						2,000
4	Proposal Submission						
5	Submission of Questionnaires						
6	Data Collections						15,000
7	Data analysis						8,000
8	Writing findings and results						1,000
9	Submission of 1 <sup>st</sup> draft Thesis						
10	Submission of final Thesis						

## Appendix- 2: Questionnaires<sup>7</sup>

### Cover letter to the respondent

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To whom it may concern,

I am a post graduate student at Addis Ababa University. I am undertaking a research on the title ‘**The challenges and benefits of financial inclusion in Ethiopia**’, in partial fulfillment to the requirement for the Master of Business Administration (MBA) in Finance. I therefore request for your kind assistance in completing the attached questionnaire to the best of your knowledge. The information you give will be treated with strict confidentiality and is solely for academic purposes. Even where a name is given, it will not under any circumstances appear in the final report.

Your assistance and co-operation will be highly appreciated.

Thank you.

**Tesfaye Haile**

*For further clarification or question please don't hesitate to contact the researcher at +251 91 1403191 or email: Tesfaye.haile@aau.edu.et*

### Questionnaires

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#### 1. Your contact information

Institution: \_\_\_\_\_

Name: \_\_\_\_\_

Job title: \_\_\_\_\_

Email address (for queries): \_\_\_\_\_

Telephone number (for queries): \_\_\_\_\_

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<sup>7</sup> Source: Irving Fisher Committee (IFC) modified to some extents to fit to the policymaker specifically the national bank and Ministry of finance and economic development of Ethiopia.

## Part A: Mandates, policies and governance structures

- 1) What were the major objectives/targets of NFIS, how do you see the progress?
- 2) Under Annex F: of National Financial inclusion strategy, roles and responsibilities assigned to the identified stakeholders; therefore, to what extent your institution accomplished its major roles and responsibilities concerned National Financial inclusion strategy (NFIS)?
  - a) Below average
  - b) Average
  - c) Above average
- 3) Do you think a multiple level coordination structure created foster financial inclusion or a hindrance to implementing polices?

## Part B: Definitions, measurement and analysis

1. Does the definition include any of the following dimensions of financial inclusion?

Please refer to the attached for guidance notes on the various dimensions of financial inclusion.

	Yes	No
Availability/supply of financial services	<input type="radio"/>	<input type="radio"/>
Access to financial services	<input type="radio"/>	<input type="radio"/>
Demand for financial services	<input type="radio"/>	<input type="radio"/>
Effective use of financial services	<input type="radio"/>	<input type="radio"/>
Quality of financial services (including welfare aspects)	<input type="radio"/>	<input type="radio"/>
Financial literacy	<input type="radio"/>	<input type="radio"/>
SME financing	<input type="radio"/>	<input type="radio"/>
Quality of infrastructure (legal, financial, telecommunications, etc)	<input type="radio"/>	<input type="radio"/>
Other (please specify below)	<input type="radio"/>	<input type="radio"/>

2. **Do the various types and sources of data available in your country allow improving the various dimensions of financial inclusion?**

Please refer to the guidance notes on the various dimensions in the Attached.

	<b>Yes</b>	<b>No</b>
Welfare benefits of financial inclusion	<input type="radio"/>	<input type="radio"/>
Availability/supply of financial services	<input type="radio"/>	<input type="radio"/>
Access to financial services	<input type="radio"/>	<input type="radio"/>
Demand for financial services	<input type="radio"/>	<input type="radio"/>
Effective use of financial services	<input type="radio"/>	<input type="radio"/>
Quality of financial services	<input type="radio"/>	<input type="radio"/>
Financial literacy	<input type="radio"/>	<input type="radio"/>
SME financing	<input type="radio"/>	<input type="radio"/>
Quality of infrastructure	<input type="radio"/>	<input type="radio"/>
Other (please specify below)	<input type="radio"/>	<input type="radio"/>

---

3. **Are data on financial inclusion collected in your country? Yes or No**

If no, what challenges does your institution face in respect of data collection on financial inclusion (eg cost of demand side surveys)? If yes who which institution collects data on financial inclusion in Ethiopia, with what frequency are data available in the country?

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4. **Have you conducted the mid-term review of National Financial Inclusion strategy (NFIS) action plan? If 'yes' what are the success and challenges, if 'no' what is the reason? Are there further action plan to address the challenges**

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**Part C: International collaboration**

5. Does your institution benefit from an international exchange of views with other parties regarding defining, measuring and analyzing financial inclusion?

	<b>Yes</b>	<b>No</b>
With other central banks	<input type="radio"/>	<input type="radio"/>
With other policymakers, regulators or supervisors	<input type="radio"/>	<input type="radio"/>
With international organizations	<input type="radio"/>	<input type="radio"/>
With academics	<input type="radio"/>	<input type="radio"/>
With other relevant parties (please specify below)	<input type="radio"/>	<input type="radio"/>

**Part C D. Challenges and Benefits of Financial Inclusion in Ethiopia**

12. According to your institution, what are the challenges impeding financial inclusion implementation?

- Infrastructure,
- Legal framework,
- Quality financial services,
- Other (specify)
- Technology,
- Literacy,
- Availability of financial services

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13. What actions does your institution plan to overcome the challenges of financial inclusion strategy implementation?

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14. Does your institution agree that financial inclusion contribute to one or all of the following?

- Inclusive Economic growth
- Poverty reduction
- Income inequality
- Others Specify \_\_\_\_\_

## APPENDIX – 2: INTERVIEW

### 1. Interview Questions for Financial Institutions - Banks

#### Part1: General Back Information

1. What is the name of your institution .....
2. How many branches do your institutions have in Ethiopia?.....
  - a) Cities
  - b) Rural areas (Semi-urban)
3. How many financial service outlets do you have (ATMs & POS)?
  - a) Cities
  - b) Rural areas (Semi-urban)

#### Part II: Financial Inclusion

3. Do you think achievement of complete financial inclusion contribute to Economic Growth, reduction of Poverty and Inequality and Financial Stability.
  - a) Yes
  - b) No
5. What are the challenges to expand financial services to rural areas?
  - a) Infrastructure in City is better than rural areas
  - b) Awareness of using formal financial service is better in city than in rural areas
  - c) Economic status of people at cities are better than rural areas
  - d) Profitability
6. Among the alternatives below which could be the best ways to address the excluded population especially rural residents, rate 1- 5?
  - a) Opening branches
  - b) Reaching through agents
  - c) Reaching through MFIs/SACCOs
  - d) Mobile technology based services
7. What are the major criteria to get loan or credit from your bank?
  - a) Asset collateral
  - b) Personal guarantee
  - c) Good credit history
  - d) other

8. Do you have adequate financial resources to give loan/credit?
  - a) Yes
  - b) No sometimes
  - c) No
9. Which categories of people you provide loans/credits at most?
  - a) Any person in need
  - b) Business people

## **2. Interview Questions for Financial Institutions - Insurances**

### **Part1: General Back Information**

1. What is the name of your institution .....
2. How many branches do your institutions have in Ethiopia?.....
  - a) Cities
  - b) Rural areas (Semi-urban

### **Part II: Financial Inclusion**

3. Do you think achievement of complete financial inclusion contribute to Economic Growth, reduction of Poverty and Inequality and Financial Stability.
  - a) Yes
  - b) No
4. What are the challenges to expand financial services to rural areas?
  - a. Infrastructure in City is better than rural areas
  - b. Awareness of using formal financial service is better in city than in rural areas
  - c. Economic status of people at cities are better than rural areas
  - d. Profitability
5. What are your strategies to address the excluded population especially rural residents, rate a-d?
  - a. Opening branches
  - b. Reaching through agents
  - c. Reaching through MFIs/SACCOs
  - d. Awareness raising
6. Do you have adequate financial resources to expand your services?
  - a. Yes

- b. No sometimes
- c. No

### **3. Interview Questions for Financial Institutions - MFIs**

#### **Part1: General Back Information**

1. What is the name of your institution?.....
2. How many branches do your institutions have in Ethiopia?.....
  - a. Cities
  - b. Rural areas (Semi-urban)

#### **Part II: Financial Inclusion**

3. Do you think achievement of complete financial inclusion contribute to Economic Growth, reduction of Poverty and Inequality and Financial Stability.
  - c) Yes
  - d) No
4. What are the challenges to expand financial services to rural areas?
  - a. Infrastructure in City is better than rural areas
  - b. Awareness of using formal financial service is better in city than in rural areas
  - c. Economic status of people at cities are better than rural areas
  - d. Profitability
5. Among the alternatives below which could be the best ways to address the excluded population especially rural residents, rate 1- 5?
  - a. Opening branches
  - b. Reaching through agents
  - c. Reaching through MFIs/SACCOs
  - d. Mobile technology based services
6. What are the major criteria to get loan or credit from your bank?
  - a. Asset collateral
  - b. Personal guarantee
  - c. Good credit history
  - d. Other
7. Do you have adequate financial resources to give loan/credit?
  - a. Yes
  - b. No sometimes
  - c. No
8. Which categories of people you provide loans/credits at most?
  - a. Any person in need
  - b. Business people