

SUB-SAHARAN AFRICA SERIES: YOUTH, ENTREPRENEURSHIP, AND DIGITAL FINANCIAL INCLUSION IN SUB-SAHARAN AFRICA

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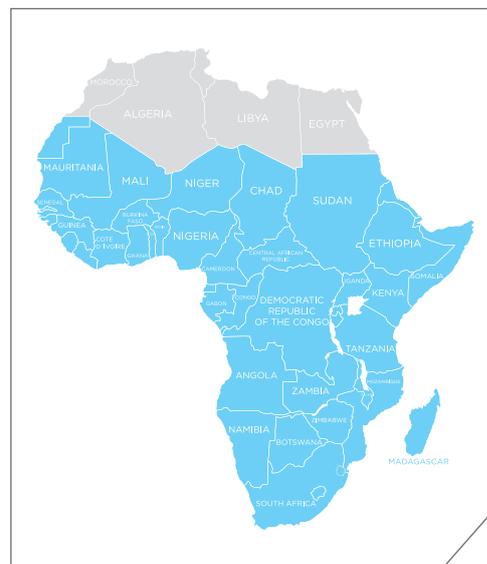
ACKNOWLEDGEMENTS

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Youth, entrepreneurship, and digital financial inclusion in Sub-Saharan Africa

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



The Findex Notes: Sub-Saharan Africa series summarizes data compiled by the Global Findex from nationally representative surveys of more than 150,000 adults in over 140 economies in 2017, including more than 35,000 adults in 35 economies in Sub-Saharan Africa. The Global Findex is the world's most comprehensive dataset on how adults save, borrow, make payments, and manage risk. The full dataset and methodology are available at <https://globalfindex.worldbank.org/>.

IN THIS NOTE

We explore the many ways that young people in Sub-Saharan Africa are using formal financial services for entrepreneurship and personal banking. Recent research from the region suggests that financial inclusion can contribute to positive business outcomes. In Kenya, the use of mobile money accounts by entrepreneurs has been shown to reduce theft while speeding up transactions between business owners and suppliers, thereby lowering output losses while driving up business growth and productivity.ⁱ Researchers found that self-employed women in rural Kenya who signed up for free savings accounts boosted their daily business investment by 60 percent while also increasing spending on personal goods and food.ⁱⁱ Early research suggests that digital loans delivered through mobile phones can help households make ends meet during an economic emergency.ⁱⁱⁱ But digital loans are rarely used for business purposes, and researchers have raised strong concerns about transparency and consumer protection.^{iv}

Nearly 4 in 10 younger adults have an account

In Sub-Saharan Africa, 37 percent of adults ages 15-24 have an account. By contrast, 43 percent of adults (age 15+) have an account. Globally, most adults who have an account do their banking at a formal financial institution such as a bank. Sub-Saharan Africa is notable for widespread use of mobile money accounts, which are offered by mobile network providers and operated on SIM cards. Regionally, 20 percent of young adults have a mobile money account. The same is true of 3 in 10 youngsters in Cote d'Ivoire, nearly half in Uganda, and 70 percent in Kenya (Figure 1). People can own more than one type of account: About 17 percent of younger adults in the region have only a financial institution account; 11 percent have only a mobile money account; and 9 percent have both types.

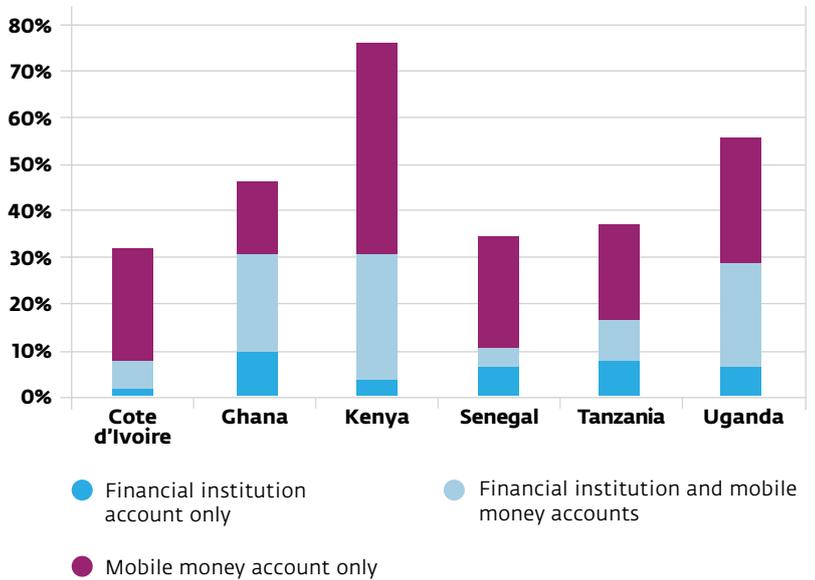
Mobile money predominates in several economies in West Africa and East Africa. In Kenya, Tanzania, and Uganda, nearly 30 percent of younger adults have a mobile money account only, while the share with a financial institution account only is in the single digits (Figure 1). In Cote d'Ivoire, younger adults are nearly eight times as likely to exclusively use mobile money as they are to exclusively use financial institution accounts.

Youth entrepreneurship is widespread but only a quarter use mobile money

Entrepreneurs stand to benefit from digital financial services, and many young entrepreneurs already use mobile money either for personal reasons, business functions, or both. Data from the Global Findex database show that 43 percent of adults in Sub-Saharan Africa report that they are self-employed or own a business, by far the largest share among low and middle income regions. Most adults who identify as business owners report having two or fewer employees, and the majority of these businesses are probably informal. A quarter of young entrepreneurs in Sub-Saharan Africa have a mobile money account. Among young adults in Uganda who are self-employed or own a business, nearly two-thirds have a mobile money account (Figure 2). In Kenya nearly half of young adults are self-employed or run a business—and roughly three-quarters of these entrepreneurs have a mobile money account.

Figure 1: Mobile money is popular among younger adults

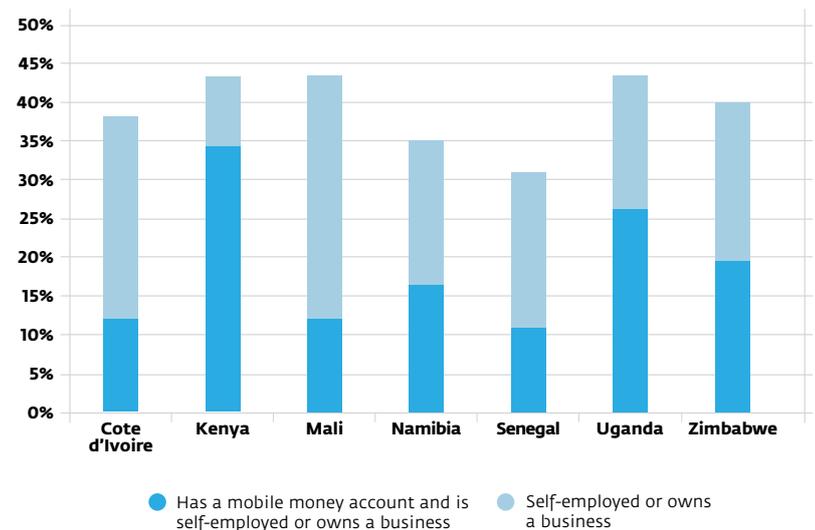
Young adults with an account (% ages 15-24), 2017



Source: Global Findex database.

Figure 2: Youth entrepreneurship is high in Sub-Saharan Africa

Young adults who report being self-employed or report owning a business (% ages 15-24), 2017



Source: Gallup World Poll and Global Findex database.

Younger adults are twice as likely to have a mobile phone than have the internet

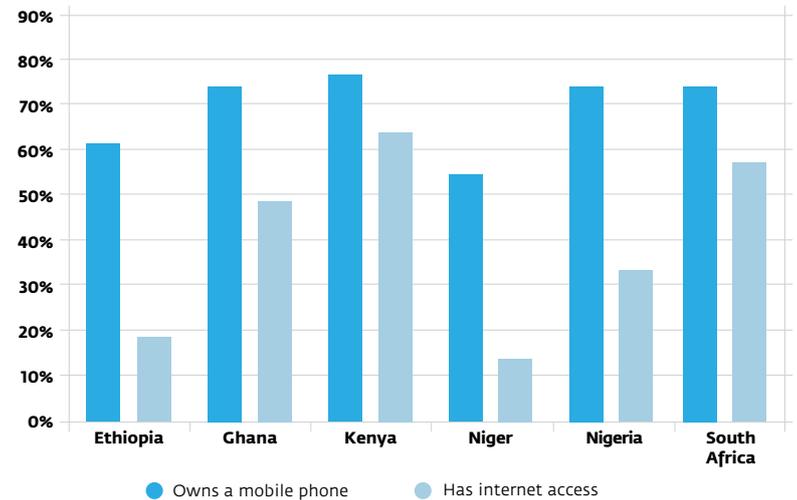
Digital technology serves as a gateway to the formal financial system as financial services are increasingly provided through mobile phones and the internet. Mobile phone ownership varies across the region. Data from 2018 show that 56 percent of younger adults have one in Niger, versus nearly 80 percent in Kenya (Figure 3). The internet is less accessible than mobile phones. In Ethiopia and Niger, for example, only about a fifth of young adults have an internet connection—whether through a smartphone, an internet café, or some other source. In Kenya, two-thirds of younger adults have the internet. Mauritius is the only economy in the region where more than 90 percent of younger adults have a mobile phone as well as an internet connection.

Two-thirds of young entrepreneurs in the region have a mobile phone. This potentially puts them in a position to take up mobile money transactions for their businesses. By contrast only half as many have access to the internet. Internet access among young entrepreneurs lags mobile phone ownership by more than 40 percentage points in Ethiopia, Mali and Niger. In other economies like Chad, Malawi, and Rwanda, fewer than half of young entrepreneurs have a mobile phone or access to the internet.

While mobile money payments are relatively widespread in Sub-Saharan Africa, online purchases are rare, leaving the region with plenty of opportunities to expand internet shopping. Only 4 percent of young adults in Sub-Saharan Africa say they used the internet to buy something online in the past year. Kenya and Namibia are among the rare economies where the share breaks into the double-digits. Another point to consider is that buying something online does not always entail paying for it online. Across the region, online shoppers overwhelmingly prefer to pay for their purchases in cash upon delivery instead of paying digitally (Figure 4). Regional data show that fewer than half of young adults have access to the internet in Sub-Saharan Africa. It stands to reason that online payments will eventually increase as internet access expands and people get more used to the idea of paying for purchases digitally.

Figure 3: Mobile phone ownership and internet access varies in Sub-Saharan Africa

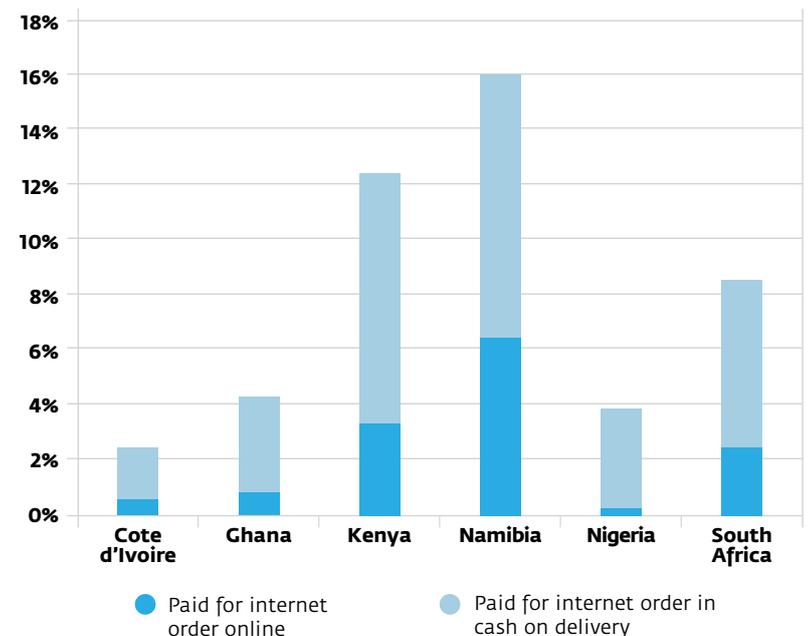
Young adults with a mobile phone or the internet (% ages 15-24), 2018



Source: Gallup World Poll.

Figure 4: Few young adults make online purchases-and most pay in cash upon delivery

Young adults using the internet to buy something online in the past year (% ages 15-24), 2017



Source: Global Findex database.

1 in 2 young adults have ID

Having a national, government-issued identification document is often a precondition for accessing financial services. Increasing financial inclusion therefore depends in part on ensuring that everyone has ID. Within Sub-Saharan Africa roughly 8 in 10 commercial banks require government-issued ID to open an account, and a quarter of unbanked adults in the region cite lack of documentation as a reason for going without an account.^v Overall in Sub-Saharan Africa roughly half of young adults have ID; the share ranges from a quarter of young adults in Chad to 90 percent in Botswana (Figure 5). ID ownership numbers are basically the same among young entrepreneurs.

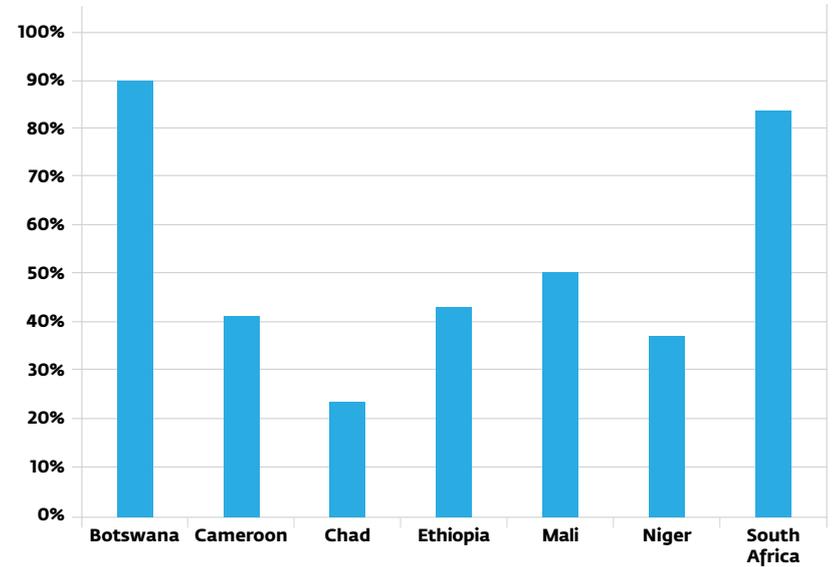
There are ways to increase financial inclusion by drawing on ID. Most unbanked adults in the region have ID. But national ID is not always enough to satisfy documentation requirements. In some economies Know Your Customer rules might demand other types of paperwork—such as a utility bill with a local address—which can be difficult to obtain. One potential solution to this problem is for governments to change the rules so banks can offer simple accounts to unbanked adults who have national, government-issued ID but lack other types of documentation.

Young adults are more likely to rely on family or friends or working extra shifts for emergency funds

Financial services help people escape poverty by making it easier to invest in health, education, and business opportunities. Equally important, financial services can help people manage economic emergencies, thereby reducing the likelihood that they become poor in the first place.^{vi} Financial resilience refers to how people manage unexpected expenses. The Global Findex survey measures it by asking people if they could come up with an amount of money equal to 1/20 of gross national income per capita within the next month. It also asks how they would access emergency funds.

Figure 5: ID ownership varies widely in Sub-Saharan Africa

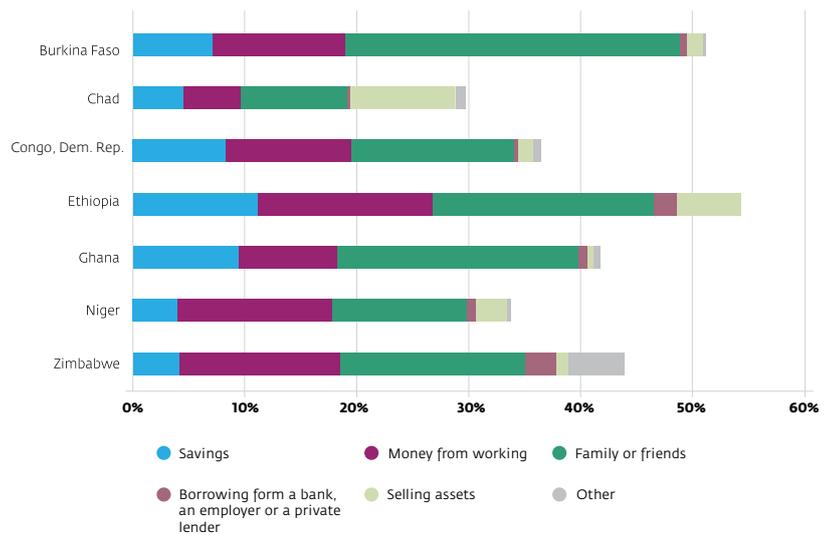
Young adults with ID (% ages 15-24), 2017



Source: ID4D data, available at <https://globalfindex.worldbank.org>

Figure 6: Young people rely on family and friends during an economic emergency

Young adults able to raise emergency funds (% ages 15-24), 2017



Source: Global Findex database.

Overall in Sub-Saharan Africa about 4 in 10 younger adults report that they could come up with emergency funds. The share is slightly higher among older adults. Within the region financial resilience ranges widely. In Chad and Niger about 30 percent of young people say they could produce emergency funds; in Ethiopia, 55 percent do so (Figure 6). Young people are generally less likely than older people to report relying on savings as their source of emergency funds, and more likely to say they would work more or get the money from family or friends. Among young adults in Ghana who say they could come up with emergency funds, half say they would rely on family and friends to do so, while roughly a fifth would rely on savings or picking up extra shifts at work.

Conclusion

The spread of digital technology is drawing Sub-Saharan Africa's young people into the formal financial system. The safety and convenience of mobile money opens opportunities for young entrepreneurs to develop their businesses. With new digital financial products constantly entering the market, it is vital that governments enact and enforce consumer protections, especially for young people and others who might lack financial experience.

END NOTES

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- v For a more detailed discussion of ID ownership and its relationship to financial inclusion, see "Identification, Financial Inclusion, and Development in Sub-Saharan Africa," Findex Note 4, March 2019, available online at <https://globalfindex.worldbank.org>
- vi For a discussion of the link between financial inclusion, financial resilience, and economic development, see Leora Klapper, "Get out, stay out: how financial resilience helps end poverty," World Economic Forum Agenda blog, July 09, 2019.