POLICY BRIEF

# Financial Exclusion in Central African Republic

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## Introduction

Access to and use of financial services is critical to ensure the economic and social integration of citizens in today's society. It is also a necessity for employment, economic growth, poverty reduction and social inclusion. This recognition explains the interest given by governments and international institutions to the issue of financial inclusion as the cornerstone of economic and social development and well-being. The goal of financial inclusion is to expand access to affordable banking and financial products and services for populations excluded from the traditional banking circuit (Osei-Assibey, 2009, Kabakova and Plaksenkov 2018 and Demircguc-Kunt et al. 2018).

The CAR, one of the least developed countries, has been marked by repeated crises over the past two decades. Despite all the above, financial inclusion could be a real priority for the country, and a solution. This is because it would not only allow the country to achieve a desirable level of economic growth, which will be reflected in the facilitation and encouragement of economic activities, the promotion of income-generating activities, increased investment and job creation (inclusive growth), but also in the reduction of poverty and the promotion of the financial stability necessary for the formalisation of businesses (Osei-Assibey, 2009).

Despite this, the objective has not been achieved for two fundamental reasons: repeated crises and poor geographical coverage by financial services. This means that the CAR is not spared from financial exclusion problem. It is ranked among the countries in the world where the issue of financial exclusion is the most developed. About 86% of the adult population does not have a bank account. The situation is even more pronounced in rural areas, where around 7% of the active population has an account with formal financial institutions (Global Findex, 2017). Within the Central African population, the situation may appear more dramatic for women and young people. Women represent 70% of the active population in the agricultural sector, yet 84.6% of households headed by women in rural areas are poor, compared to 74% of those headed by men[1].

Women participate poorly in the country's economic activities. According to the 2019 quarterly bulletin of business creation statistics, out of 369 economic units created, there are 74 women, or about 20%. In addition to being less represented in economic activities, women face even greater difficulties in terms of access to bank credits. While 18% of active men have a bank account, the rate for women in the same category is 10%, despite the setting up of the women entrepreneurs' group and the Government's initiative, in synergy with partners, to set up a fund called the "Bêkou Fund" (Bêkou means hope) in order to help them fight against poverty.

With regard to youth, those under 35 years of age represent more than 78% of the Central African population. With regard to access to financial services, particularly access to a bank account, only 11% of young people have access (Kadre, 2021). This shows the extent to which a large proportion of economic and social actors are excluded from the financial or banking system in CAR.

Indeed, the Central African financial sector remains narrow and is concentrated in the capital Bangui, with four (4) commercial banks and three (3) microfinance institutions for a population of over 5 million inhabitants. The emergence of Fintech, which should be an alternative to traditional finance, is struggling to take off in the CAR due to challenges related to insecurity in some regions of the country and the low rate of access to information and communication technology.

1 UNFPA, CAF, 2014.

Faced with this situation, it seems more than necessary to consider ways of reducing the extent of the situation. This must be done by researching and identifying the factors responsible for financial exclusion in the country. Hence the following research question: What are the determinants of financial exclusion in the Central African Republic? In other words, what are the factors that explain the financial exclusion of the majority of the Central African population from financial services?

This question prompted us to take stock of the literature in order to identify and understand in depth the factors that explain financial exclusion in order to formulate possible solutions to this problem.

The objective of this study is to investigate the socio-economic factors of financial exclusion and to contribute to a broader understanding of the mechanisms of financial exclusion in the Central African Republic.

# Analysis

Data for this study were obtained from a household survey. The survey was carried out on a sample of 550 individuals in total, using a questionnaire [2], in three CAR cities. After data processing, the sample is reduced to 478 individuals due to insufficient information and aberrant responses, with 277 individuals coming from urban areas against 201 individuals from rural areas. Drawing on previous studies on the topic such as Ren et al. (2018) and Coffinet and Jadeau (2017), we will estimate a simple Logit model since the dependent variable is qualitative.

For this sample, 195 individuals are excluded from the financial system against 283 who have an account either in a bank, an MFI or a mobile money account. It is worth noting that of the 283 individuals included in the financial system, 84 hold a mobile money account exclusively, although without this new financial service the number of individuals excluded from the financial system should increase.

With regard to gender, the sample is made up of 50% women and 50% men, which makes it possible to assess the influence of this variable on the dependent variable.

The level of education variable has four modalities. Of the total sample, 5.02% have no education, i.e. they have never been to school, 31.17% have primary education, 42.05% have secondary education and 21.76% have higher education.

2 The questionnaire can be found in the annex to this paper.

Of the total sample, 83.68% of individuals fall into the first income bracket, i.e. 0 to 100,000 CFA francs, compared to 14.02% of individuals in the second bracket, and the last bracket, which is considered as the reference, represents 2.30% of individuals.

To take into account geographical disparity, the survey covered both urban and rural areas. Of the total of 478 individuals, 57.95% were from urban areas and 42.05% from rural areas.

Considering mobile phone ownership as a means of accessing new technology and possibly accessing financial services, of all the individuals in the sample, 84.1% have a mobile phone compared to 15.9% who do not.

Finally, with regard to access to the Internet, which is a tool for facilitating access to financial services, 35.15% of the individuals in the sample have access to the Internet, compared to 64.85% who do not.

Furthermore, by cross-referencing the information on financial exclusion with the possible causes for the CAR, we find that:

- Between financial exclusion and gender, out of 195 excluded from financial services 114 are women against 81 men, while men using financial services are 158 against 125 women. This shows that women have less access to financial services than men in the study area, although the sample was made up of 50% men and 50% women.

- Between financial exclusion and income, the majority of those excluded from financial services are individuals with an income level between 0 and 100,000 FCFA, 189 out of 195.

- Between financial exclusion and access to the Internet, 178 of the 195 people excluded from financial services do not have access to the Internet. Only 17 people with access to the internet who do not have access to financial services.

- Between financial exclusion and place of residence, 116 out of a total of 195 people excluded from financial services come from rural areas, compared to 79 from urban areas.

- Finally, between gender and the Internet, out of 310 individuals who do not have access to the Internet, 171 are women against 139 men. The disparity between men and women remains valid with regard to access to information and communication technology.

The analysis of the data collected by the Logit econometric model reveals that the level of education significantly explains the financial exclusion of the individuals in the sample. In other words, being uneducated or having only primary education increases the probability of being excluded from the financial system. Furthermore, being in the labour force reduces the probability of being excluded from the financial system. This result seems obvious because the bancarisation policy developed in the country since the end of the 2000s continues to be implemented among almost all the country's employees. In addition, the development of mobile money would facilitate transactions in all activities, which explains the sign and significance of the coefficient of this variable. However, the level of income for those who earn more than CFAF 100,000 per month reduces the probability of being excluded from the financial system. Indeed, having a high enough income may force one to use financial services, which would promote financial inclusion. Access to the internet also reduces the likelihood of being excluded from financial services. Although access to the Internet does not necessarily guarantee access to financial services, it does reflect a preference for information and communication technologies, which is now a key tool for accessing and using financial services. Finally, living in an urban area reduces the probability of being excluded from financial services. This finding reflects the reality of the context studied, as in CAR the four commercial banks operating in the country as well as the microfinance institutions are concentrated in the capital Bangui, and are poorly represented in the country's other cities, while they are non-existent in rural areas. This proximity to the urban environment would increase the likelihood of urban residents having access to financial services, while the rural environment has remained without such access.

# Recommendation

Access to financial services is seen as a factor in social integration, economic development and economic growth. In CAR, this inclusion is limited to a large majority of the active population compared to other countries in the Central African sub-region in particular and developing countries in general.

The theoretical and empirical literature shows that financial, economic, social and technological factors can explain this exclusion. These include the cost of financial services, income level, gender, level of education, living area, access to ICT, etc.

For this study, by using the Logit model, given the nature of the data, we arrived at the results according to which financial exclusion is explained in the study area by the level of education, income, occupation, i.e. being inactive, non-accessibility to the Internet and living in a rural area. The particularity of this study lies in the fact that it takes into account the difference between rural and urban areas. Indeed, the rural environment in CAR is doubly penalised in terms of accessibility to financial services, firstly because this environment is completely devoid of formal financial structures and the only alternative offered to them is the adoption of tontines. Secondly, because it also lacks access to ICTs, where between two towns, a village is not connected to the fixed and mobile communication network. This explains why the vast majority of people in this area are excluded from financial services.

In view of these results, it would be advisable to promote access to education in general, but especially to financial education through several channels in order to show the population the merits of financial services so that they can be adopted.
Another recommended solution is the deployment or redeployment of economic activities in the rural environment in order to revive production structures likely to create jobs and promote income redistribution within the population. Training or promotion of entrepreneurship could help to foster economic empowerment, which would facilitate access to financial services. Finally, easy access to mobile phones and the Internet would help to connect a large majority of the rural population in particular to ICT and eventually to basic financial services.

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