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FINANCIAL INCLUSION: COMPARATIVE ANALYSIS WITH SPECIAL EMPHASIS ON THE LEVEL OF FINANCIAL INCLUSION IN REPUBLIC OF MACEDONIA[96]

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ABSTRACT

The core goal of this paper is to analyze the level of financial inclusion in Republic of Macedonia by comparative approach with three other Balkan countries. The level of financial inclusion of the population is important because there is empirically proven relationship between the use of financial services and poverty reduction. Also, higher level of financial inclusion has positive effects on stable macro environment because diversification of bank assets, thereby reducing their riskiness, increased stability of deposit base, reducing liquidity risk and improved transmission of monetary policy. The analyze show that the access to accounts in financial institution in Macedonia, measured through the percentage of population that has account is good. Still, the use of the account only to receive wage and withdraw from ATM indicates for higher need for financial education. Also, only small part of the population has and use credit card and the statistic for electronic payment is much worste.The borrowings in major part are from relative and friends and from retail stores. In all categories as less financially included are older people, people with smaller income and people how are less educated. This gives clear path for the policy makers where to focus its activities of enhancement of the level of financial education.

Keywords: Financial inclusion, Financial access, Macedonia, comparative analyze

[96] Review article

INTRODUCTION

Maybe the term financial inclusion is “most popular and one of the most used” at the policy makers and global financial institutions. What is financial inclusion and what are the main goals? Center for Financial inclusion defines this term as a “Access to a full suite of financial services, provided with quality, to everyone who can use financial services, with financial capability through a diverse and competitive marketplace”. The main goals regarding the financial inclusion are defined from the UN and include:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- sound and safe institutions governed by clear regulation and industry performance standards;
- financial and institutional sustainability, to ensure continuity and certainty of investment; and
- competition to ensure choice and affordability for clients.

The main idea behind the concept of financial inclusion is that it can bring the “unbanked” people into the financial mainstream, with positive effects on economic growth, financial stability and social cohesion. The other important question is whether financial stability and financial inclusion are, broadly speaking, substitutes or complements. In other words, does the move toward greater financial inclusion tend to increase or decrease financial stability? Positive effects include (Morgan and Pontines, 2014): diversification of bank assets, thereby reducing their riskiness; increased stability of their deposit base, reducing liquidity risks; and improved transmission of monetary policy. Negative effects include the erosion of credit standards (e.g., sub-prime), bank reputational risk, and inadequate regulation of MFIs. According to Morgan and Pontines there are positive effects of greater financial inclusion on financial stability, i.e., that the two are complementary rather than there being a trade-off between them. Specifically, there is evidence that an increased share of lending to SMEs in total bank lending aids financial stability, mainly by a reduction of NPLs and a lower probability of default by financial institutions. This suggests that policy measures to increase financial inclusion, at least by SMEs, would have the side benefit of contributing to financial stability as well. So the financial inclusion is important topic not just as tool to decrease poverty but also as a way to increase financial stability. Other studies show that when people participate in the financial system, they are better able to start and expand businesses, invest in education, manage risk, and absorb financial

shocks (Beck, Demirguc-Kunt, and Martinez Peria, 2007). Access to accounts and to savings and payment mechanisms increases savings, empowers women, and boosts productive investment and consumption. Access to credit also has positive effects on consumption—as well as on employment status and income and on some aspects of mental health and outlook. (Karlan and Zinman, 2010)

POLICY AREAS

In 2011 financial regulators from more than 20 countries have made financial inclusion commitments under the "Maya Declaration," to i) create an enabling environment that increases access and lowers costs of financial services, including through new technology; ii) implement a proportionate regulatory framework that balances financial inclusion, integrity, and stability; iii) integrate consumer protection and empowerment as a pillar of financial inclusion; and iv) use data to inform policies and track results. The main goal of G 20 is 90% usage of formal financial account by 2030. When we talk about financial inclusion there are initiatives in three areas:

1. Access to financial services

- Formal bank account,
- Developing flexible financial products.

The main idea behind the financial inclusion is that is a tool for promoting social inclusion, equity, and empowering the underprivileged necessary to accelerate sustained, inclusive growth and to combat poverty. The first step in order to achieve financial inclusion is to increase the share of population that has formal bank account. With formal bank account an individual is in the financial system and can use its other products like loans, savings and payment services. With more formal bank accounts the financial system is stronger because of the bigger deposit base which can be used for loan granting and increase the financial intermediation and promote economic growth. Also, although the bank account is the first step in providing access to financial services, still in developed markets where this is not big issue, it is equally important to encourage regulatory environment allowing new products.

2. Usage of financial services

- Financial literacy & education,
- Regulatory environment,
- Digitize payments.

The access to financial services is one side of the coin. What is important for individual that have access to financial services is to use them. This can be done by increasing the level of financial literacy by some kind of

education. Financially literate person is one who has the necessary Knowledge, Abilities, Skills and culture, which gives him the possibility/opportunity to make decisions about his/her personal, finances and takes actions which are appropriate to their/the current circumstances. There are lots of initiatives in a lot of countries regarding education of population but also some global initiatives. The most important is the International Network for Financial Education with 240 public institutions from 112 countries. Most of them have national strategies that include the financial education. The regulatory environment in every country should be "friendly" towards the financial inclusion. For example in some countries is forbidden to have bank account for individuals less then 18 years old. To have bank account for early age and to build a culture for saving is one of the most efficient ways for financial education. Or another example are regulatory constrains regarding mobile payment which can be the only way of payment if the bank subsidiary networks are not developed.

Digitalization of payment especially is important when the government and its bodies make payments. It is a very efficient way to increase the number of bank accounts and their usage if government subventions for agriculture or social transfers are done only through bank account.

3. Quality of products & service delivery

- Adequate consumer protection,
- Well-suited and tailored to the needs of clients,
- Convenient products (easy to access and use),
- Affordability,
- Dignity of treatment,
- Transparency.

The third important aspect when you have access to financial services and you know how to use them is their quality and the level of consumer protection. The system of consumer protection must be built in the same time because target group of financial inclusion are less educated and sophisticated buyers. Good consumer protection must keep the reputation of fairness of the banking system in order the individuals with access to financial services to continue with their usage. Also the products must be tailored to the needs of the clients and easy to use. The concept of customer-centricity must be applied for low income and less educated costumers. The affordability is one of the major obstacles for financial inclusion. According to World Bank these issues seem to be particularly important in Latin America and the Caribbean, where 40 percent of non-account-holders report that formal accounts are too expensive. Worldwide, reducing withdrawal charges and balance fees could make formal accounts more attractive to more than 500 million adults who are without one. The transparency is

prerequisite for consumer protection. Every costumer must know the characteristics of the products that uses and its prices in order to have the possibility for comparation with the other market participants.

What is important is that all three initiatives must be run parallel because that is the only way to achieve financial inclusion evenly.

MEASURE OF THE LEVEL OF FINANCIAL INCLUSION

When building an index for financial inclusion in fact in the index should be included access indicators, usage indicators and quality measures (WB, 2015). The access indicators reflect the depth of outreach of financial services, such as the penetration of bank branches or point of sale (POS) devices in rural areas, or demand-side barriers that customers face to access financial institutions, such as cost or information. The usage indicators measure how clients use financial services, such as the regularity and duration of the financial product/service over time (e.g. average savings balances, number of transactions per account, number of electronic payments made). The quality indicators are important because they describe whether financial products and services match clients' needs, the range of options available to customers, and clients' awareness and understanding of financial products. Most used global measures for financial inclusion are Global index and indicators on GPFI.

The Global findex indicators include number of accounts and their usage, number of remittances, level od savings and credit. The Global Findex indicators measure the use of financial services, whichis distinct from access to financial services. Access most often refers to thesupply of services, whereas use is determined by demand as well as supply factors (World Bank 2008a). The Global Findex data can shed light on the levels and patterns of use of different financial services both globally and among different groups, such as poor people, youth, and women. But one cannot assume that all those who do not use formal financial services are somehow constrained from participating in the formal financial sector—access and use are not the same thing. The role of policy is to broaden financial inclusion to reach those who are excluded because of market failures.

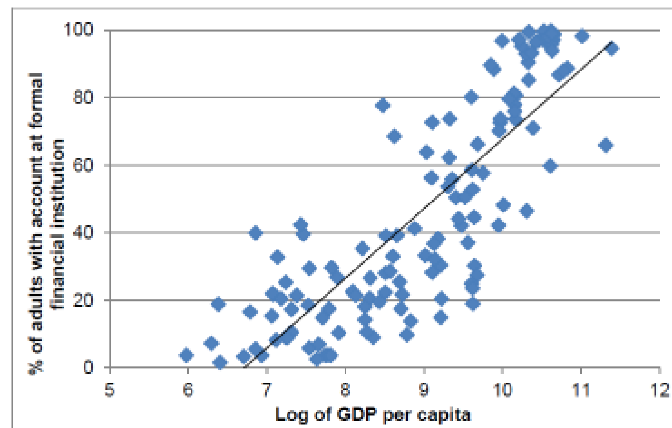
The G20 and Global partnership for financial inclusion indicators include banked adults, adults with credit, banked enterprises, enterprises with outstanding loan and point if services. This index is similar to Findex but is more aggregative and uses same of the data that are used in Findex but also aggregate data from IMF and World Bank surveys. Same as the Findex index this index has the same main weakness, and measure the use of financial services but not the demand for financial services. Also, global

indexes help to compare the level of financial inclusion in different country and time but better approach for single country is unique index that will reflects the characteristics of the country and will give better picture for the level of financial inclusion in the time line.

Survey that offers the most comprehensive global supply-side data on financial inclusion is the IMF Financial Access Survey (FAS). The FAS is a global survey that provides geographic and demographic data, offering a strong quantitative underpinning to research on the link between financial inclusion and economic growth. Because it has supply site data it overcomes the biggest weakness of Findex regarding the difference between access and usage of financial services.

Generally speaking there is empirical relationship which can be demonstrated between the economic development of a country and the level of financial inclusion. More developed countries have higher level of financial inclusion and vice versa.

Figure 1: Share of adults with an account at one or more formal financial institution versus per Capita GDP



GDP = gross domestic product.

Source: World Bank Global Financial Inclusion Database (2012).

The last Findex study (World Bank, 2015) shows that 94 percent of adults in OECD reported having an account in 2014. In developing economies only 54 percent did. There are also enormous disparities among developing regions, where account penetration ranges from 14 percent in the Middle East to 69 percent in East Asia and the Pacific. Not only the development of the country, but also comparison of account penetration across within-economy income quintiles sheds lighton the role of relative

income. On average in developing economies, account penetration in the richest 20 per-cent of households—the richest income quintile—is 68 percent. This is 25 percentage points higher on aver-age than in the poorest income quintile in these economies—but about 20 percentage points lower on average than in the poorest income quintile in high-income OECD economies.

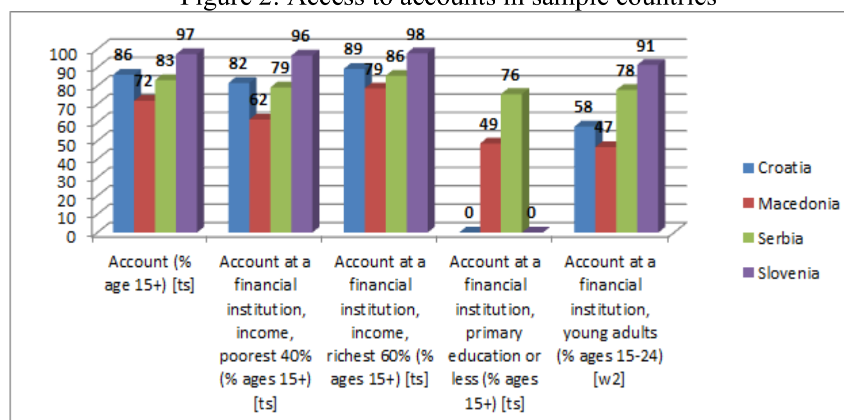
LEVEL OF FINANCIAL INCLUSION IN REPUBLIC OF MACEDONIA

In this section of the paper there will be analyze of the level of financial inclusion in Republic of Macedonia through comparative analyze with the same indicators in Serbia, Croatia and Slovenia. The three sample countries are chosen in order to examine and confirm whether the level of financial inclusion is dependable from the economic development. Also, the examples from Croatia and Slovenia can be used in order to increase the level of financial inclusion in Macedonia.

NUMBER OF ACCOUNTS

The comparation by number of accounts shows that all sample countries have satisfactory level of population that has account. Still, the level of financial inclusion measured through percentage of population above 15 years that have account is the best in Slovenia with 97% and worse in Macedonia with 72%.

Figure 2: Access to accounts in sample countries



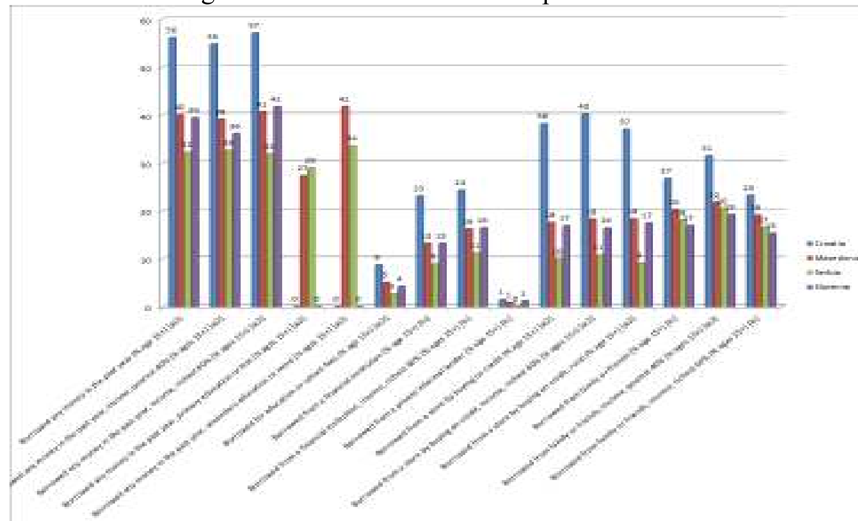
Source: World Bank Global Financial Inclusion Database (2014).

The analazy of number of accounts by income level in all three countries confirm that poorest population uses less financial services than the population with higher income. Still, in Slovenia the difference at usage in accounts between the poorest 40% and the richest 60% is 2 pp. In Macedonia this difference is almost 17 pp. Also the data clearly indicates that individuals with primary education far less are users of accounts. In Macedonian case this percentage is only 49%. This points that Macedonia need a strategy how to include poor individuals who are less educated. The numbers of young adults that have account are important pointer of the level of financial education and building financial culture. In Slovenia high 91% of the young population has bank account and this percentage in Macedonia is only 47%. Macedonia needs to take action plans to increase the financial education of young population and to increase the financial inclusion from early stage.

BORROWED FUNDS

Except having account in financial institution, effective inclusion implies usage of all the other financial products in order more effective to manage with the money and to improve the living standard. The usage of loans from financial institutions is closely connected to having formal account. Above 40% of the population above 15 years have borrowed money in the past year, but from financial institution this percentage is only 13%. This is clear indicator for low level of financial inclusion and need for financial education. From high 72% of the population above 15 years that have accounts almost half of the borrowed funds but the primary source are not financial institutions but are family and friends and borrowed from a store by buying on credit.

Figure 3: Borrowed funds in sample countries



Source: World Bank Global Financial Inclusion Database (2014).

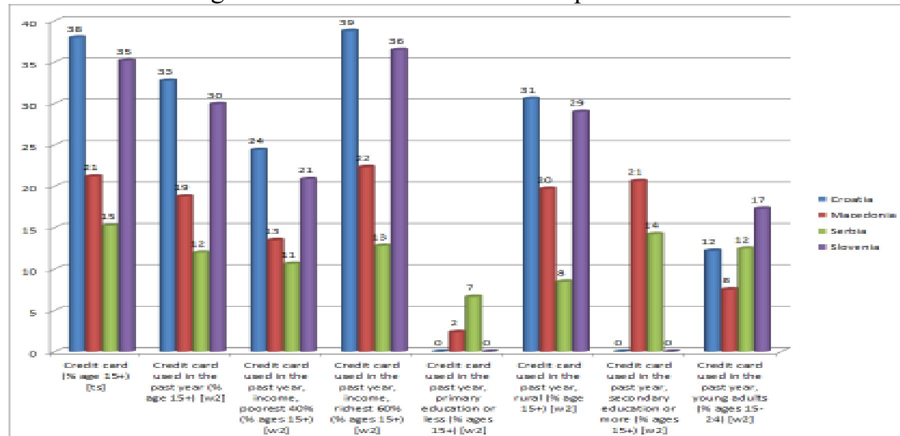
The analyze by income level for example, shows that in all the sample countries population with higher income borrow funds from financial institutions. Also, there is clear tendency that population with higher education use financial institutions

Compared to the other sample countries, in the category of borrowed funds, Macedonian citizens although borrow fund more than the population of Serbia and Slovenia, primary source of borrowings are family and friends and buying in a store on credit. Above 23% from the population of Slovenia older than 15 years use loan from financial institution which is 10 pp higher than this rate in Macedonia.

PAYMENT SERVICES

The payment aspects as an indicator of the financial inclusion will be elaborated by the usage of credit cards, debit cards, the way of payment of utilities, the actual usage of account and the usage of modern technologies. By number of population older than 15 years that use credit cards, Macedonia is lagging behind. Only 21% of the population use credit cards and this percentage in Croatia and Slovenia are 38% and 35% respectively. There is no big difference between the percentages of population that have and actually uses the credit cards, and this is evident in all sample countries.

Figure 4:Use of credit cards in sample countries

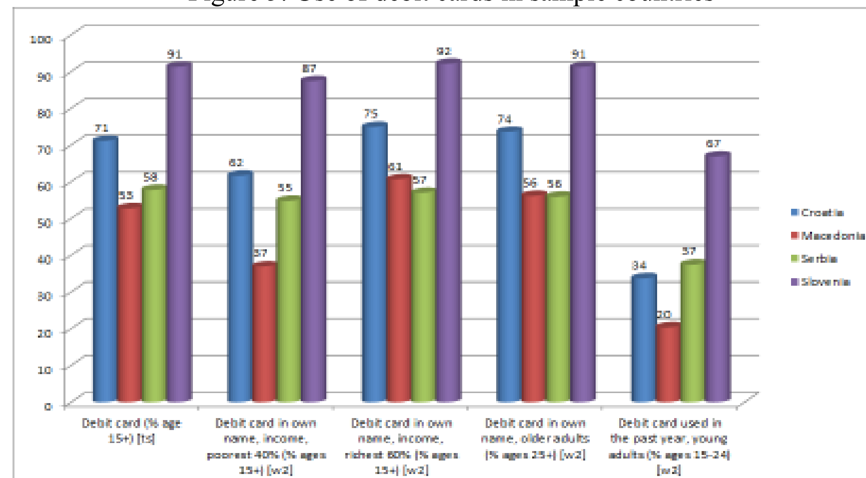


Source: World Bank Global Financial Inclusion Database (2014).

In Macedonia there is no difference of the usage of the credit cards by income level but in the other sample countries, population with higher income level use credit cards far more than population with lower income level.

Far greater percentage from the population older than 15 years have debit cards. Still the difference in sample countries is evident and between Macedonia and Slovenia is almost 40 pp in favor of Slovenia.

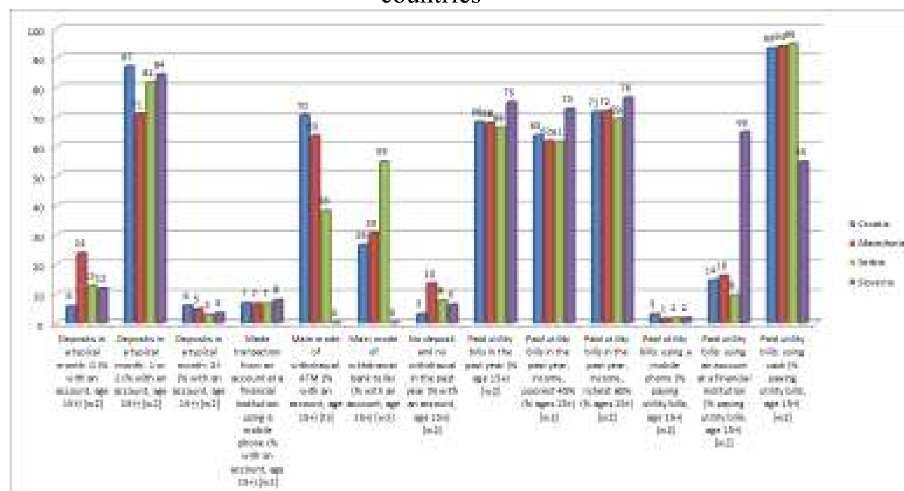
Figure 5: Use of debit cards in sample countries



Source: World Bank Global Financial Inclusion Database (2014).

One of the best ways to assess whether somebody is using the account is to check weather he is depositing funds and paying bills through the account. Even though Macedonia is lagging behind measured through population which deposit funds 1-2 times through a month, still the difference is not huge. 71% of the population in Macedonia older than 15 years is depositing money 1-2 times in month. For high 63% ATM is the main mode for withdraw in Macedonia which is indicator that large number of the population have account and receive wage their but then the funds are withdraw from ATM and are used for cash payments. Also, the analyze of the way that bill are paid, in above than 90% in three of the sample countries this is done in cash. Only in Slovenia this percentage is below 55%. Education in this area can have positive effects in order to smoothen the level of withdraw of money from banks and also can decrease the transactional costs for population.

Figure 6: Level of deposit activity and way of payment of utility in sample countries



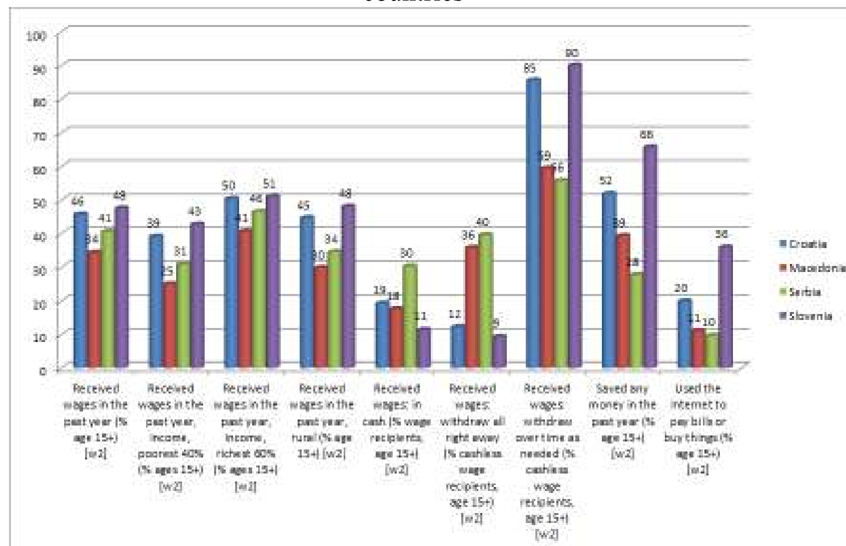
Source: World Bank Global Financial Inclusion Database (2014).

Almost 40% of the population older than 15% withdraws all the money right away in Macedonia and Serbia and around 20% of the population receives the wages in cash. The big difference in percentage of population that withdraw all the money and uses as needed in the sample countries suggest of different level of financial literacy. Also, Slovenia with 36% of

the population above 15 years that uses internet to pay bills is leader in this area compared with the other sample countries.

Compared to the other sample countries, there is need for higher inclusion on Macedonian population. All indicators shows that there is need for long term strategy for financial education especially on population with low income, population with lower level of education and from rural areas. Although, the percentage of population that disposes with account in financial institution is on satisfactory level, still the data about borrowed funds, way of use of the credit and debit cards and use of new technologies show using only fundamental services. Main borrower of financial funds, especially on population with lower level of income is family and friends. Only 21% of the population has credit cards and only 19% are using them. Around 53% of the population has debit cards, but still around 40% are withdrawing the whole amount of wage in one time. The utility bills are almost always paid in cash which demonstrate that higher transactional costs do not influence easily on changing of habits.

Figure 7: Methods of receivement and withdraw of wages in sample countries



Source: World Bank Global Financial Inclusion Database (2014).

CONCLUSION

Maybe the term financial inclusion is “most popular and one of the most used” at the policy makers and global financial institutions. The main idea behind the concept of financial inclusion is that it can bring the “unbanked” people into the financial mainstream, with positive effects on economic growth, financial stability and social cohesion. When we talk about financial inclusion there are initiatives in three areas: access to financial services, usage of financial services and quality of products & service delivery. What is important is that all three initiatives must be run parallel because that is the only way to achieve financial inclusion evenly.

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The comparation of the level of financial inclusion of the sample countries confirms the link between the GDP per capita and level of financial inclusion. The level of financial inclusion measured through percentage of population above 15 years that have account is the best in Slovenia with 97% and worse in Macedonia with 72%.The analyze of number of accounts by income level in all three countries confirm that poorest population uses less financial services than the population with higher income. This points that Macedonia need a strategy how to include poor individuals who are less educated. The numbers of young adults that have account are important pointer of the level of financial education and building financial culture. In Slovenia high 91% of the young population has bank account and this percentage in Macedonia is only 47%. Macedonia needs to take action plans to increase the financial education of young population and to increase the financial inclusion from early stage.

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