

FINDEX
NOTES

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The Global Findex Database

Financial Inclusion in Europe and Central Asia

In Europe and Central Asia 45 percent of adults have an account with a formal financial institution though just 7 percent report having saved formally in the past year, according to new data from the Global Financial Inclusion (Global Findex) database. And how adults use financial services differs significantly by gender, education, employment status, and other individual characteristics. The database can be used to track the effects of financial inclusion policies in Europe and Central Asia and develop a deeper and more nuanced understanding of how adults in the region save, borrow, make payments, and manage risk.

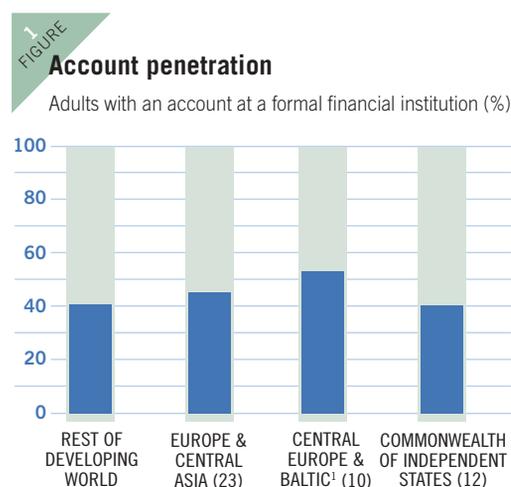
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The countries of Europe and Central Asia¹ have made undeniable, if uneven, progress in expanding financial inclusion in recent years. The well-developed microfinance industry and relatively widespread use of wage accounts in some countries are signs of success, though low savings rates and high levels of mistrust in the formal financial sector signal that much work remains to be done. The exclusion from the formal financial system of more than 175 million adults—disproportionately located in Central Asia—presents a particularly difficult challenge for policy makers in the region.

Efforts to improve the scope and quality of financial access have been hindered by the lack of systematic indicators on the use of different financial services—both formal and informal—in most of the region's economies. The Global Findex database provides such indicators, measuring how people in 148 economies around the world save, borrow, make payments, and manage risk. These new indicators are constructed with survey data from interviews with more than 150,000 nationally representative and randomly selected adults age 15 and above. The survey was carried out over the 2011 calendar year by Gallup, Inc. as part of its Gallup World Poll. This note features Global Findex data based on almost 25,000 interviews across 23 economies in Europe and Central Asia.



Note: Figures in parentheses refer to the number of economies in the region or subregion. Turkey is not included in the subregional averages.

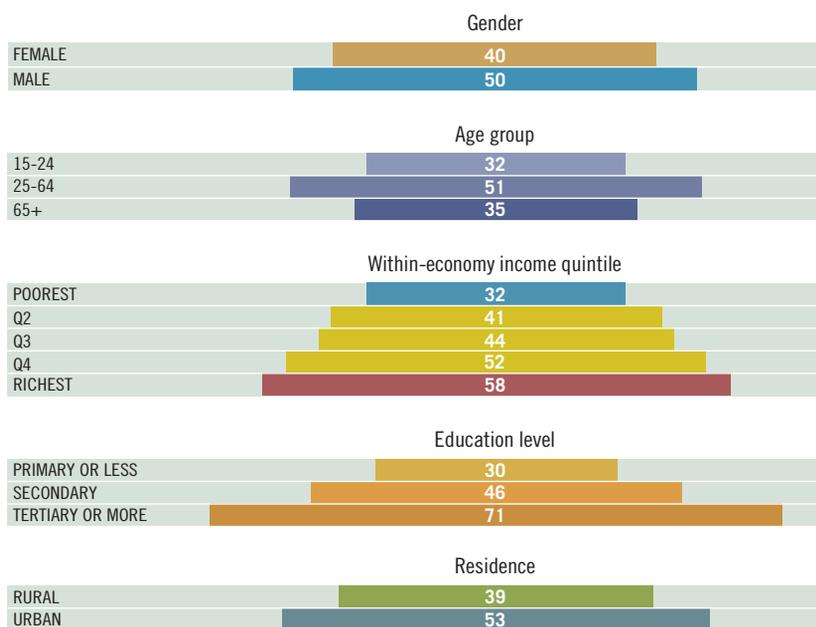
Source: Demircuc-Kunt and Klapper 2012.

How Common Is the Use of Formal Financial Services?

Although mobile payment services and sophisticated remittance systems are changing how we define and measure financial inclusion, traditional products and services such as loans and deposit and savings accounts are still the most common entry points into the formal financial system for most adults.² The use of these products and services from formal financial institutions—banks, credit unions, cooperatives, post offices, or microfinance institutions—provides an important and easily compared benchmark for measuring financial inclusion.

Account penetration in Europe and Central Asia by individual characteristics

Adults with an account at a formal financial institution (%)



Note: Primary includes those with less than a primary education; tertiary includes those with more than a tertiary education.
Source: Demircuc-Kunt and Klapper 2012.

About 8 percent of adults in Europe and Central Asia report having borrowed money from a formal financial institution in the past year, on par with the average in the rest of the developing world.³ This figure may reflect depressed borrowing following the global financial crisis, which hit the region especially hard. Larger shares of adults report borrowing from other sources, such as family and friends (28 percent) and store credit (12 percent). In addition, credit cards are common in the region: 16 percent of adults in Europe and Central Asia report having a credit card, compared with 5 percent in the rest of the developing world. In Serbia 23 percent of adults report having a credit card; in Turkey 45 percent do.⁴

Across the region, 45 percent of adults report having an account at a formal financial institution, with the share ranging from less than 5 percent in the Kyrgyz Republic, Tajikistan, and Turkmenistan to 90 percent in Latvia.

The regional average is slightly higher than that for the rest of the developing world, where 41 percent of adults have a formal account (figure 1). Fifty-nine percent of adults with an account in Europe and Central Asia report making one to two deposits and withdrawals in a typical month, compared with 49 percent in other developing regions. This difference is probably related to the large share of account holders in the region using their account to receive wages.

Account penetration in the region varies sharply across groups with different individual characteristics (figure 2). Men are 25 percent more likely than women to have a formal account, with the largest gender gaps found in Albania, Bosnia and Herzegovina, Kosovo, and Turkey. Adults with a tertiary education are more than twice as likely to have a formal account as those with a primary education or less. Consistent with the high rate of use of accounts to receive wages, account penetration is significantly higher among adults who report working full time for an employer (65 percent).

How Are Accounts Used?

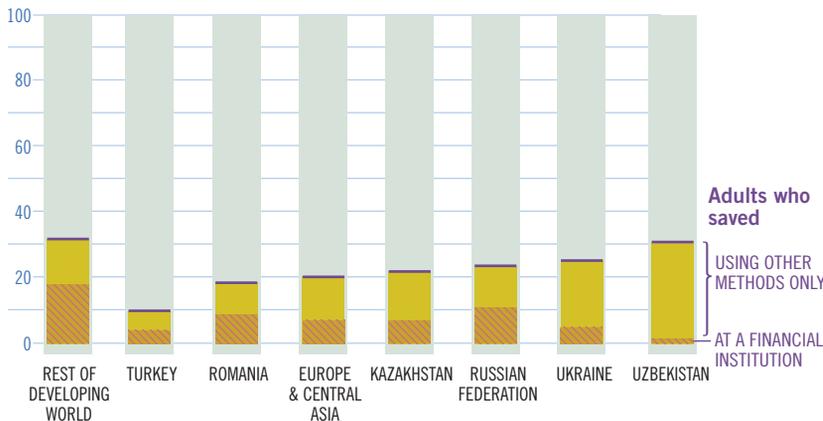
Despite the higher account penetration in the region, adults in Europe and Central Asia are significantly less likely than their counterparts in other developing regions to report having saved money at a formal financial institution in the past 12 months. While 7 percent of adults in Europe and Central Asia report having saved formally, 18 percent in the rest of the developing world report having done so. Within the region, adults in the highest within-country income quintile are more than three times as likely on average as those in the lowest income quintile to save formally.

The gap in formal savings activity with the rest of the developing world can be attributed to differences in general savings activity as well as in savings methods. The share of respondents reporting any savings activity is significantly smaller in Europe and Central Asia (20

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FIGURE

Formal and informal saving

Adults saving any money in the past year (%)

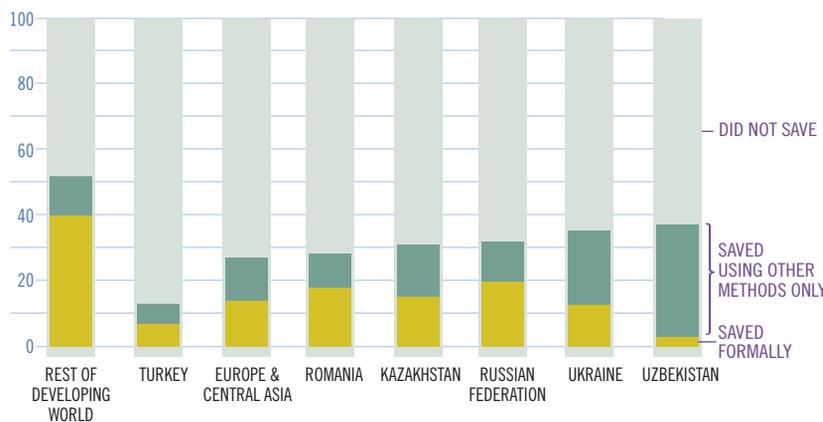


Note: Country-level data shown for the 6 economies with the largest adult population.
Source: Demircuc-Kunt and Klapper 2012.

4
FIGURE

Savings behavior among account holders

Adults with a formal account by savings behavior in the past year (%)



Note: Country-level data shown for the 6 economies with the largest adult population.
Source: Demircuc-Kunt and Klapper 2012.

percent) than in the rest of the developing world (32 percent). And while 58 percent of savers in the rest of the developing world report having saved in the past year using a formal account, only 34 percent of savers in Europe and Central Asia report having done so (figure 3).

The disproportionate impact that the global recession had in the region likely depressed savings activity—future rounds of data may confirm this. And one possible explanation for the relatively low use of formal financial institutions to save could be that people open accounts primarily to receive payments from employers or the government and find it difficult to also use these accounts to accrue personal savings. Indeed, 77 percent of account holders in Europe and Central Asia report having used their account in the past year to receive wages or government payments, compared with only 41 percent in the rest of the developing world. Conversely, just 14 percent of account holders in Europe and Central Asia report having saved in the past year at a formal financial institution (figure 4). New products that target existing account holders could be used to encourage adults to save in formal financial institutions.

What Are the Barriers?

Why do more than 175 million adults in Europe and Central Asia remain outside the formal financial system? As in the rest of the developing world, the most frequently cited reason for not having a formal account is lack

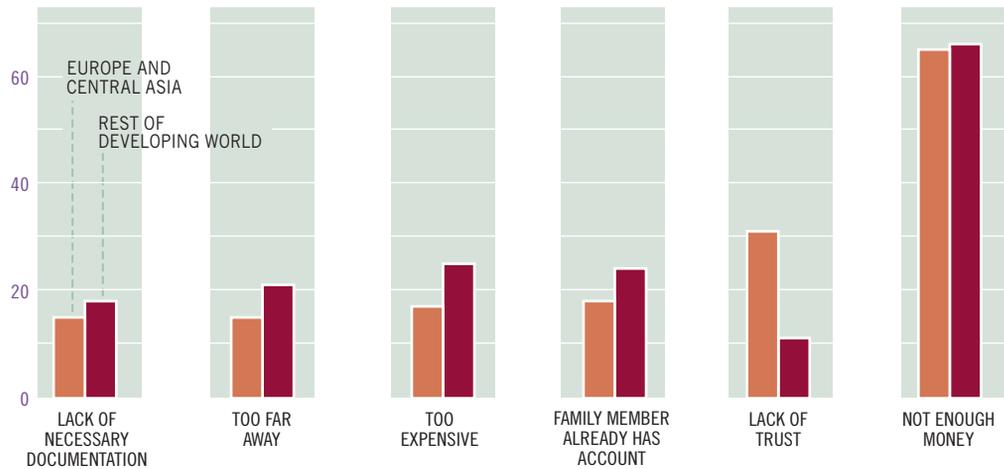
of enough money to use one: this is the response given by 65 percent of adults in the region without a formal account, with 25 percent citing it as the only reason (multiple responses were permitted).

But Europe and Central Asia stands out for the relatively large share citing trust as an important barrier: about 31 percent of respondents in the region without a formal account report not having one because of lack of trust, compared with 11 percent in the rest of the developing world (figure 5). In Ukraine, which experienced a run on banks in 2008, 55 percent of adults without an account report lack of trust as an important barrier. In contrast with other barriers (cost, distance, documentation requirements), lack of trust is an entrenched issue with no mechanical solution, making the expansion of financial inclusion in the region particularly challenging for policy makers. The lack of trust in formal financial institutions points to the importance of developing and enforcing effective consumer protection legislation as well as educating consumers about responsible finance.

5
FIGURE

Most commonly reported barriers to use of formal accounts

Non-account-holders reporting barrier as a reason for not having an account (%)



Note: Respondents could choose more than one reason. In addition to those shown, religious reasons were cited by 4 percent of respondents in Europe and Central Asia.
Source: Demircug-Kunt and Klapper 2012.

Conclusion

As the first public database of indicators that consistently measure people’s use of financial products across economies and over time, the Global Findex database fills a big gap in the financial inclusion data landscape. The data set can be used to track the effects of financial inclusion policies globally and develop a deeper and more nuanced understanding of how people around the world save, borrow, make payments, and manage risk. By enabling policy makers to identify segments of the population excluded from the formal financial sector, the data can help them prioritize reforms accordingly and, as future rounds of the data set become available, track the success of those reforms.

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1. Central Europe and Baltic economies are Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Montenegro, Romania, and Serbia. Commonwealth of Independent States economies are Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. The subregional averages exclude Turkey.
2. The complete database, including indicators on the use of remittances and mobile payments, is available online.
3. The regional and worldwide aggregates omit economies for which Gallup excludes more than 20 percent of the population in the sampling either because of security risks or because the population includes non-Arab expatriates. These excluded economies are Algeria, Bahrain, the Central African Republic, Madagascar, Qatar, Somalia, and the United Arab Emirates. The Islamic Republic of Iran is also excluded because the data were collected in that country using a methodology inconsistent with that used for other economies.
4. Information is collected on the ownership of credit cards but not their use.

The reference citation for the Global Findex data is as follows:

Demircug-Kunt, A., and L. Klapper. 2012. “Measuring Financial Inclusion: The Global Findex Database.” Policy Research Working Paper 6025, World Bank, Washington, DC.