Individual's Behavior and Access to Finance: Evidence from Palestine

Article *in* The Singapore Economic Review · September 2019

DOI: 10.1142/S0217590819420025

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The Singapore Economic Review, (2019)

DOI: 10.1142/S0217590819420025

INDIVIDUAL's BEHAVIOR AND ACCESS TO FINANCE: EVIDENCE FROM PALESTINE

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Published Online 17 October 2019

Governments and global institutions are working to enhance economic development as a key for sustainability by including disadvantaged people (including the poor, women, youth, and illiterate) in the financial system. This paper uses the World Bank Global Findex Database (2014) for 1000 Palestinians to examine the influence of individual behavior on financial inclusion in Palestine. This study used empirical methods to determine whether individual socioeconomic characteristics influence financial inclusion in Palestine. The results indicated that females were less likely to be included in financial transactions, especially transactions involving borrowing and formal accounts. Further, we learned that borrowing behavior in Palestine leans toward informal sources. Formal institutions have made remarkable efforts to develop an inclusive financial infrastructure in Palestine. However, the country's unstable political climate continues to impede economic stability and individuals' motivation to use formal financial resources such as credit. More efforts to specifically encourage youth, the poor, and women to use formal banking could enhance their access to financial services. Adopting Islamic financial services, and online banking would also improve financial inclusion for all of Palestine's citizens and drive sustainable development. Further, theoretical and empirical studies of Palestine's economic development are recommended.

Keywords: Financial inclusion; Palestine; individual behavior; access to finance; Islamic services.

JEL Classification: G21, O16, O530, Q01

1. Introduction

Internationally, governments and organizations are working together to develop and implement rules, regulations, and procedures designed to help organizations achieve sustainable development in communities, economies, and countries. Development as a sustainability process requires commitment and active participation from all parties, both public and private, especially at the implementation stage. According to the Consultative Group to Assist the Poor (CGAP), comprehensive development goals include poverty reduction, gender equality, solid infrastructure, educational and employment opportunities, and access to quality healthcare (CGAP, 2016). As financial sources are considered the main drivers of these factors, the global agenda focuses on how individuals and small and medium enterprises (SME) can obtain access to adequate financing on reasonable terms.

Financial inclusion can enhance the lives of the disadvantaged (i.e., the poor, women, youth, the illiterate) by enabling them to invest in businesses, gain access to health services, and acquire an education — all of which improve knowledge, skills, and employability. In 2010, the G20 determined that world development could be enhanced through financial inclusion, defined as making formal financial services available to all citizens in the community so they can cover their needs at an affordable price. Financial development focuses on measures at the country level, such as the performance of stock market indices and the percentage of bank loans to GDP, where financial inclusion is measured according to individuals' levels of access to and use of formal financial services (banks and other lending agencies). Thus, financial inclusion at the micro-level, which enhances financial development at the macro-level, is vital for the development of sustainability (CGAP, 2016).

Globally, among the disadvantaged, most youth have limited access to financial resources (United Nations, 2013). Financial resources can enable them to innovate and create their businesses, thereby alleviating poverty, reducing unemployment, and helping citizens cover their daily needs. It is understandable, then, that these factors improve the development process in any country, and as a philosophy, financial inclusion stands to improve the lives of the disadvantaged, in particular, thereby enhancing the sustainable development process in these economies. Having a good grasp of the individual socioeconomic characteristics that influence financial inclusion provides a better image of those who have little or no access to formal financial services and, therefore, those for whom this study should direct its attention regarding how to provide access to financial services. Consequently, formal institutions can develop regulations and procedures that would enhance both the access level and the infrastructure for comprehensive and sustainable development.

Previous studies found that most of the excluded individuals are poor, female, illiterate, and youth who mainly come from rural areas (Yuan and Xu, 2015; Shoji *et al.*, 2012). Accordingly, this research focused on why these individuals are less likely to be included in the financial system, and what formal institutions could do to include them. Moreover, poor people, the illiterate, and youth are considered the world's majority. Thus, enhancing their financial inclusion will improve their lives through employment, education, and healthcare and reflect on the economy and its sustainable development.

This study examines the influence of individual's behavior on financial inclusion and whether the socioeconomic characteristics of individuals living in Palestine (age, gender, education, and income) influence this country's financial inclusion indicators. According to the Palestinian Central Bureau of Statistics (PCBS, 2015), Palestine suffers from high unemployment (around 26% in 2015) and unstable economic growth. Therefore, improving its financial system could enhance sustainable development (CGAP, 2010). The contribution of this study is to present new evidence from developing countries, which faces several issues could influence its financial inclusion level, therefore, recommending to the policymakers regarding the results and findings how they can develop the regulation according to the individual's behavior in Palestine.

people with secondary- and tertiary-level educations are more likely to use online payment systems. Further, there is no relation between online payment and the income quintiles and gender (female) used in this analysis. Therefore, enhancing access to digital payment could increase innovation, job creation, and thus support the national agenda to achieve sustainable development (Demirguc-Kunt *et al.*, 2015).

6. Conclusions and Policy Implications

This paper addressed the individuals' behavior that influences financial inclusion as key for sustainable development in Palestine. The remarkable developments in the infrastructure of financial inclusion could enhance the agenda to achieve economic growth and equality, as factors for sustainable development. By understanding the characteristics of individuals who have little or no access to financial resources, policymakers can develop new rules and regulations and, ultimately, improve the economy. The development process focuses on the disadvantaged; including them in the financial system could improve their chances to work, innovate, operate a business, get an education, have access to health care, and save for the future, all leading to sustainable development as a continuous process.

For the main indicators of financial inclusion, the study finds that age has a positive influence on financial inclusion while being female reduces inclusion, especially for borrowing and having a formal bank account. The results indicate that females experience economic discrimination. For having a formal account, the analysis reveals that having less money is considered a primary reason for females not having formal accounts. Additionally, being in the low-income quintiles relates to not having formal accounts; this factor is also related to the high unemployment rate in Palestine and fewer chances of obtaining work. Borrowing behavior in Palestine tends toward informal sources, such as getting credit from stores and borrowing from family and other private sources. The results also show that many Palestinians are not interested in formal borrowing. The lack of interest leads to increased costs for banks and less money going into the economy, which could negatively influence economic growth.

Formal institutions, such as the PMA, the Palestine Capital Market Authority, and the Ministry of Higher Education have made exceptional progress toward developing a financial inclusion infrastructure in Palestine. However, the present unstable political climate continues to impede the country's economic stability and people's motivation to use formal financial resources such as credit. However, continued work toward the current goals, with more focus on online payment systems and offering innovative and affordable services, especially for adults, females, and the poor could enhance financial inclusion. Meanwhile, enhancing access will reflect on the country's economic growth and sustainable development process.

These findings point to the need for more research to understand why Palestinians do not use formal financial resources and whether social reasons factor into these economic decisions. Further, more research should be directed toward youth and females to test whether existing services cover their needs and whether they could start businesses if banks were to reduce collateral requirements and finance charges. These findings could help

academics conduct more theoretical and empirical studies about Palestine. Moreover, as the majority religion in Palestine is Islam, is worth that banks and formal financial services developing their services according to the Islamic financial rules. Learning from successful stories among the world regarding adopting appropriate financial services for Muslims could enhance their accessing level to the financial services. Therefore, significant participation in the economic growth is indicated by previous studies.

Furthermore, policymakers could benefit from these findings regarding understanding the individual characteristics that will help them draw up government agendas for enhancing financial inclusion as a way toward economic growth and sustainable development. All entities in the country should work together to achieve better results for sustainable development in the long run. Some of these institutions and programs could work together to achieve financial inclusion and awareness in, for example, financial awareness programs in universities and schools, financing programs for SMEs and youth, and supporting innovative ideas through the provision of resources, technologies, and employment funds.

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