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Financial Consumers – Promoters of Sustainable Development? Evidences from Europe and Central Asia

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Abstract

Achieving the goals of sustainable development is a complex process that requires a sustained financial effort on the part of public authorities and a major involvement on the part of international institutions. In addition, both public authorities and international bodies must create the legislative framework to support the promotion of the principles of sustainable development at various levels of economic activity. Given the complexity and importance of promoting sustainable development, citizens also play an important role in this process. This category of stakeholders can be involved in various forms, both through proactive and reactive behaviour. Thus, they must be responsible in the consumption process, but they must sanction through specific mechanisms the opportunistic or irresponsible behaviour of some companies. Given the importance of financial resources to support the process of transition to a green economy, citizens must be able to make the best possible financial decisions, both in the process of saving and investing. For this reason, financial education acquires new values, given the repercussions that a wrong financial decision can have both economically and socially. However, financial education is just one of the pillars supporting the process of promoting sustainable development. Sustained efforts must also be made by financial institutions and financial market supervisory authorities in the process of reducing social exclusion. The current health crisis has demonstrated the importance of digitizing financial operations. Financial innovation and Fintech must be focused on increasing financial inclusion and attracting vulnerable groups to the financial circuit. The goal of the research consists in analysing the evolution of two global financial inclusion indicators which are among the pillars of digitizing the financial operations. The values of the two global financial inclusion indicators mentioned above were computed by the Word Bank in 2014 and 2017. The research focuses on analysing the values of the two indicators by gender, for 48 countries from Europe and Central Asia.

Keywords: Financial consumers, sustainable development, CSR, Central and Eastern Europe.

JEL Classification:D1, G1

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1. Introduction

Financial markets are going through a complex process of transformation that targets both the behaviour of financial institutions and the attitude of portfolio investors and financial consumers (Rjoub, 2012, Matei, 2013, Andrei et al. 2018, Zamora-Polo & Sánchez-Martín, 2019, Bali Swain & Yang-Wallentin, 2020; Edwards et al. 2020, Horne et al., 2020, Moyer & Hedden, 2020,). The paradigm shifts that take place on the financial market are fuelled by numerous economic, social, political and environmental factors (Goodell et al., 2020). For example, more and more banks and stock exchanges have become aware of their role in promoting the principles of sustainable development and offer financial products and services that include certain ESG aspects (Forgione & Migliardo, 2020). In addition, financial institutions also have at their disposal specific principles such as the Equator Principles through which they can model the behaviour of borrowers in the sense that they must meet certain social and environmental criteria in order to receive the requested financing (Scholtens & Dam, 2007; Conley & Williams, 2011; Wright, 2012). Stock markets are also taking important steps in this regard, because they have either launched sustainability stock market indices or created special market segments where only companies that meet certain ESG criteria can be listed (Missbach, 2004; Wright & Rwabizambuga, 2006). Thus, the stock exchanges also have embraced the idea of sustainability, thus being interested in the initiatives launched by the UN on sustainable stock exchanges. The activity of the issuing companies is also in the same trend, because specific financial instruments such as green bonds have been issued (Reboredo, 2018; Reboredo & Ugolini, 2020).

On the other hand, the portfolio investors have considerably noticed their behaviour and more and more buyers on the stock market consider not only risk profitability criteria but also certain ESG criteria when selecting the traded securities. Financial consumers have also become important players in the sense that they are increasingly aware of the forces that can exert it on the financial market (McWilliam, & Siegel, 2000; Unit & Britain, 2001, Öberseder et al., 2011; Hira, 2012, Tang et al., 2012, Raimi et al., 2015, Iacovoiu , 2018, Palazzo, 2019, Carpena & Zia, 2020, Nousheen et al., 2020). This metamorphosis of financial markets has been fuelled by scandals and financial crises that have undermined consumer confidence in credit institutions. To this was added the explosion of the financial innovation process that brought on the market complex assets, sophisticated and difficult to understand and evaluate even by specialists. These assets have proven their toxic character, considering the consequences of the securitization process and the onset of the international financial crisis in 2008 on the American market (Matei, 2013). For these reasons, the concept of social responsibility has crystallized, which must change the classic behaviour of financial institutions that were oriented only towards maximizing the wishes of shareholders. A new category of stakeholders, namely financial consumers, has become one of the priorities of credit institutions (Ene, 2017).

2. Problem Statement

The international financial crisis launched in 2008 dramatically changed the balance of power in the financial market (Purfield & Rosenberg, 2010; Erkens et al., 2012). If until then, credit institutions taught the conditions on the banking market and had a strong position, with the crisis, their selfish and irresponsible behaviour towards different categories of stakeholders came to light. Maximizing shareholders' profits and personal benefits have led credit institution managers to engage in fierce competition by launching misleading advertising campaigns, abusive contractual clauses or complex financial instruments, difficult to assess even by rating agencies (Ivashina & Scharfstein, 2010). The economic and social consequences have demonstrated the fragility of financial consumers in the face of financial giants (Chari et al., 2008; Munir, 2011; Frankel & Saravelos, 2012). Gradually, with the promotion of the concepts of CSR and sustainable development, financial consumers have become a force that reshapes the behaviour of credit institutions. The support provided by national consumer protection authorities is bearing fruit, and the position of financial consumers on the market is improving dramatically. Financial education programmes and the financial inclusion process have started from the credit institutions improving the force of financial consumers (Voica, 2017).

3. Research Questions / Aims of the Research

The goal of the research consists in analysing the evolution of two global financial inclusion indicators which are among the pillars of digitizing the financial operations, i.e. the financial consumers who received private sector wages in the past year, and respectively, who received public sector wages in the past year. The purpose of the research is to highlight the differences between countries and to identify clusters of countries with similar policy in financial inclusion.

4. Research Methods

The values of the two global financial inclusion indicators mentioned above were computed by the Word Bank in 2014 and 2017. The research focuses on analysing the values of the two indicators by gender, for 48 countries from Europe and Central Asia which belong to all income levels (high income, upper middle income, low middle income, and low income).

5. Findings

As it was previously mentioned, the analysis focuses on the financial consumers who received private sector wages in the past year, and respectively, who received public sector wages in the past year.

5.1. Analysis of the financial consumers who received private sector wages in the past year

The financial consumers who received private sector wages in the past year, by gender, in the countries from Europe and Central Asia are depicted in figure 1.

In 2014, the highest number of female financial consumers who received private sector wages in the past year was in the case of Austria (45.3%), Estonia (44.7%), Netherlands (43.7%), Switzerland (43.4%), and Belgium (38.8%). At the opposite pole, the smallest number, excepting Turkmenistan which did not reported, is for Tajikistan (4.7%), Azerbaijan (7%), Armenia and Kosovo (7.9%), Albania (8.2%), and Uzbekistan (9.3%). In the same year, the highest number of male financial consumers who received private sector wages in the past year was as follows: France (55.4%), Netherlands (53.1%), Denmark (52.7%), Estonia (50.7%), and Austria (48.6%). By contrast, the smallest number (excepting Turkmenistan from the same cause) was for Tajikistan (15.4%), Georgia (16.2%), Kyrgyz Republic (16.4%), Albania (17.2%), and Armenia (19.4%).

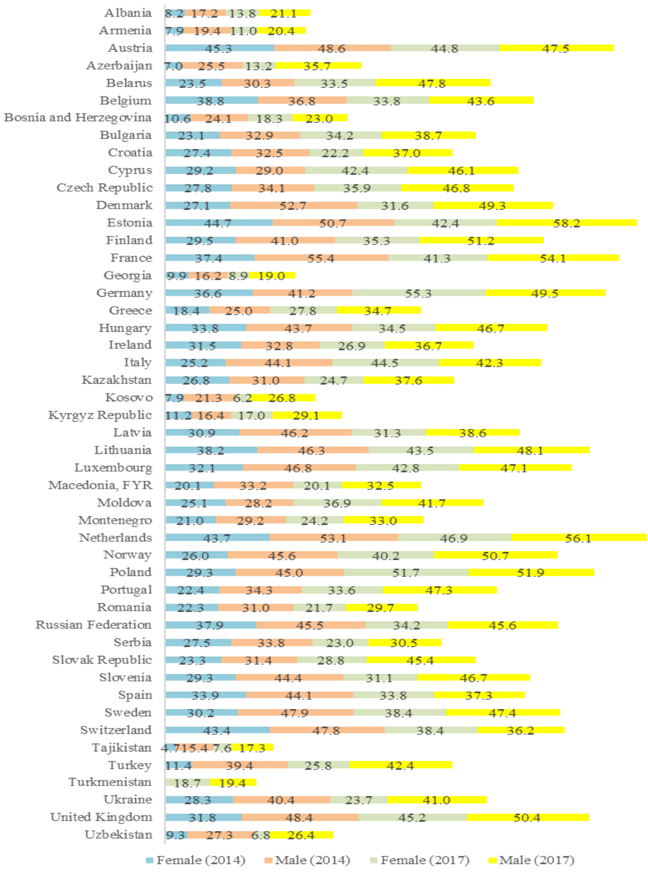

Figure 1. Financial consumers who received private sector wages in the past year, by gender, in the countries from Europe and Central Asia (%)

Source: Developed by the authors based on data from The Word Bank (2018)

In 2017, the highest number of female financial consumers who received private sector wages in the past year was in the case of Germany (55.3%), Poland (51.7%), Netherlands (46.9%), United Kingdom (45.2%), and Austria (44.8%). On the contrary, the smallest number was for Kosovo (6.2%), Uzbekistan (6.8%), Tajikistan (7.6%), Georgia (8.9%), and Armenia (11%). In the same year, the highest number of male financial consumers who received private sector wages in the past year was as follows: Estonia (58.2%), Netherlands (56.1%), France (54.1%), Poland (51.9%), and Finland (51.2%). The smallest number of male financial consumers who received private sector wages in the past year was in Tajikistan (17.3%), Georgia (19%), Turkmenistan (19.4%), Armenia (20.4%), and Albania (21.1%).

Concerning the highest increase in 2017 as compared to 2014 in the female financial consumers who received private sector wages in the past year, the following cases can be underlined: Turkey (126.3%), Azerbaijan (89.6%), Poland (76.3%), Bosnia and Herzegovina and Italy (76.2%), and Albania (69.2%). As regards the highest decrease in the same indicator, the ranking is as follows: Uzbekistan (-26.9%), Kosovo (-21.3%), Croatia (-19.1%), Serbia and Ukraine (-16.5%), and Ireland (-14.4%).

With reference to the highest increase in 2017 as compared to 2014 in the male financial consumers who received private sector wages in the past year, there were cases such as: Kyrgyz Republic (77.9%), Cyprus (58.6%), Belarus (58%), Republic of Moldova (47.8%), and Slovak Republic (44.2%). Relating to the highest decrease in the same indicator, the top five countries are as follows: Switzerland (-24.1%), Latvia (-16.5%), Spain (-15.3%), Serbia (-9.8%), and Denmark (-6.5%).

5.2. Analysis of the financial consumers who received public sector wages in the past year

Figure 2 shows the financial consumers who received public sector wages in the past year, by gender, in the countries from Europe and Central Asia.

In 2014, the highest number of female financial consumers who received public sector wages in the past year was reported in the case of Norway (41.9%), Sweden (35.8%), Belarus (33%), Denmark (32.4%), and Finland (26%). By contrary, the smallest number, excepting Turkmenistan which did not reported, was in the case of Italy and Turkey (3.1%), Kosovo (3.3%), Austria (3.8%), Bosnia and Herzegovina (5.2%), and Lithuania (5.9%). In the case of male financial consumers who received public sector wages in the past year, the highest number was as follows: Belarus (32.6%), Norway (22.6%), Azerbaijan (21.6%), Finland (21.2%), and Sweden (20.9%). By contrast, the smallest number (excepting Turkmenistan from the same cause) was reported for Italy (2.8%), Turkey (5.5%), Austria (5.6%), France and Kyrgyz Republic (6.5%), and Albania (6.8%).

Figure 2. Financial consumers who received public sector wages in the past year, by gender, in the countries from Europe and Central Asia (%)

Source: Developed by the authors based on data from The Word Bank (2018)

In 2017, the highest number of female financial consumers who received public sector wages in the past year was in the case of Norway (28.5%), Sweden (28.2%), Finland (25%), Denmark (24.6%), and Latvia (23.8%). At an opposite pole, the smallest number was reported for Kosovo (2.5%), Italy (3.5%), Macedonia (4.7%), Azerbaijan (5.1%), and Bosnia and Herzegovina (5.2%). As regards the male financial consumers who received public sector wages in the past year, the highest number was in the case of Turkmenistan (28.6%), Sweden (21.6%), Latvia (21.5%), Norway (21.1%), and Luxembourg (18.3%). At the same time, the smallest number was reported for Poland (3.6%), Turkey (4.1%), Azerbaijan (5.1%), Macedonia (5.6%), and Italy (6.5%).

As for the highest increase in 2017 as compared to 2014 in the female financial consumers who received public sector wages in the past year, the following cases can be highlighted: Turkey (100.3%), Romania (44.5%), Georgia (43.7%), Austria (42.8%), and Spain (39.5%). Concerning the highest decrease for the same indicator, the ranking is as follows: Republic of Moldova (-61.6%), Azerbaijan (-56.3%), Germany (-54.6%), Tajikistan (-48%), and Belarus (-34.4%).

With respect to the highest increase in 2017 as compared to 2014 in the male financial consumers who received public sector wages in the past year, there were cases such as: Italy (134.8%), Slovenia (63.4%), Luxembourg (39.6%), Austria (38.9%), and Romania (34.9%). Regarding the highest decrease in the same indicator, the top five countries are as follows: Azerbaijan (-76.3%), Poland (-65.4%), Republic of Moldova (-51.9%), Finland and Tajikistan (-46.9%), and Belarus (-45.8%).

6. Conclusions

Financial inclusion is a complex, lengthy process that is based on the partnership between credit institutions and financial consumers. Financial consumers must show responsibility in decision-making but also receptivity to bank products given the transformations generated by digitalization and financial innovation. Credit institutions must have a policy of attracting financial consumers differentiated according to their certain characteristics such as gender, professional training, or age. So, financial consumers must trust credit institutions in order to initiate and run different operations. In this way, the money from informal economy is brought in formal financial systems. That means better financial decisions and more financial resources for sustainable finance.

In 2014, the highest number of the financial consumers both females and men and who received private sector wages in the past year lived in Austria and Netherlands and those who received public sector wages in the past year were from Norway, Sweden, Belarus, and Finland. For the same year, the smallest number of the financial consumers both females and men who received private sector wages in the past year lived in Tajikistan, Albania, and Armenia, and those who received public sector wages in the past year were from Italy, Turkey, and Austria. In 2017, the highest number of the financial consumers both females and men and who received private sector wages in the past year lived in Poland, and those who received public sector wages in the past year were from Norway, Sweden, and Latvia. For the same year, the smallest number of financial consumers both females and males who received private sector wages in the past year lived in Tajikistan, Georgia, and Armenia, and those who received public sector wages in the past year were from Italy, Macedonia, and Azerbaijan. In 2017 as opposed to 2014, there were 31 out of 47 countries in which the number of the female financial consumers who received private sector wages in the past year has increased, and 16 out of 47 countries in which its number decreased. In the case of the male financial consumers who received private sector wages in the past year, there were 34 out of 47 countries in which their number rise, and 13 out of 47 countries in which their number declined. For the same comparison of years, there were 16 out of 47 countries in which the number of female financial consumers who received public sector wages in the past year has increased, and 31 out of 47 countries in which its number declined. For male financial consumers who received public sector wages in the past year, there were 17 out of 47 countries in which their number rise, and 30 out of 47 countries in which their number has declined. Turkmenistan was not included in the cluster because it did not have reported data in 2014. This situation is explained by the changes of the employees' weight from the public to the private sector. Future research can analyse other global financial inclusion indicators such as account use, credit, payments, savings, etc. for a particular country or for countries from a specific region (East Asia, Latin America, Caribbean, Middle East, North America, South Africa, etc.).

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