UNIVERSITI TEKNOLOGI MARA JOHOR

FINANCIAL INCLUSION: A CROSS COUNTRY ANALYSIS

MUHAMAD FAKHRUL BIN FIKRI

Thesis submitted in fulfillment of the requirements for the degree of **Bachelor of Business Administration (Hons) (Finance)**

Faculty of Business and Management

July 2017

ABSTRACT

This study aims to investigate the determinants of financial inclusion in a cross country analysis. Financial inclusion has been a burning issues in the past decade gaining attentions from both policymakers and private bodies as many bodies realized the importance of it. Previous literatures suggest that financial inclusion are closely related with poverty, income equality and gender equality. However, different researchers use different indicator for financial inclusion resulting inconsistent findings. Therefore, there is a need for a subsequent research to be done in order to determine what variables are significant towards financial inclusion. The dependent data used for this paper is calculated from 4 different variables which are depositors with commercial banks, commercial bank branches, automated teller machines and domestic credit provided by financial sector. These variables are calculated using a formula to obtain a single index which are the Index of Financial Inclusion (IFI) to show a clearer and accurate indicator of financial inclusion. The independent variables are then tested with 4 independent variables which are GDP per capita, rural population, internet users and mobile cellular subscriptions. This research uses data from 40 countries in the year 2015. The country is selected in respect to availability of data using cross sectional method. The data are analysed using E-views 8.0 and are tested according to 5 assumptions which are multicollinearity, heterokedasticity, serial correlation, normality and specifications test. Previous study suggests that only internet users and mobile cellular subscriptions are significant to financial inclusion.

ACKNOWLEDGEMENT

Prima facea, Alhamdulillah and praise to Allah Almighty for granting me a good health and wellbeing that were necessary to fulfil this Academic Project requirement for the Bachelor of Business Administration (Hons.) Finance. With his blessing, I was able to complete this project with minimal problem and within the allocated time frame.

I place my record, my sincere thank you to my thesis project's advisor, Madam Hazila Binti Ismail, who sacrificed her time and effort for me. I am extremely thankful and indebted to her for sharing expertise, and sincere and valuable guidance and encouragement to me. I am also grateful to Madam Nur Asyiqin Binti Ramdhan, my second advisor, for her guidance and help in completing this project paper.

I also want to express my deepest gratitude to all of the Department faculty members for their help and support. In addition, I am also extending my thanks to my loving parents for supporting me mentally and financially. I would also like to thank my colleagues for their support and assistance.

I also place on record, my sense of gratitude to one and all, who directly and indirectly, have lend their hand in this venture.

TABLE OF CONTENTS

	Page
LETTER OF SUBMISSION	i
AUTHOR'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS/NOMENCLATURE	x
CHAPTER ONE: INTRODUCTION	1
1.1 Introduction	1
1.2 Problem Statement	4
1.3 Research Question	7
1.4 Research Objective	8
1.5 Significant of Study	9
1.6 Scope of Study	10
1.7 Limitation of Study	11
1.8 Terms	13
1.9 Summary	15

CHAPTER 1
INTRODUCTION

1.1 INTRODUCTION

In the status quo, financial inclusion is one of the most importance aspects in an economy. To simplify, financial inclusiveness is a state where all the members in the economy is included in the financial system. It is important for an economy to be financially inclusive because it enables members in the economy to obtain and use banking products and services such as bank account or loans. Through this, it will greatly help improve the economy of a system. For example, farmers can obtain loans from banks to buy newly improved machinery that will help increase the production of their crops which will boost their income and in turn improves the economy. Due to these, financial inclusion has been under the spotlight of many government and private economic bodies throughout this past decade due to its importance. Many countries and its policymakers have been putting a lot of efforts in order to achieve financially inclusive economy. The example in Figure 1 highlights countries effort towards achieving financial inclusion.

One of the earliest country to pay attention to financial inclusion is India. The earliest effort being made by the Reserved Bank of India (RBI) started with a branching policy in 1977. They realized that by having a financially inclusive economy, it will greatly help reduce the poverty level in India. However, this policy didn't last long as it was only implemented until 1990. Although, from the findings of Burgess & Pande (2005), it is notable that there was significant improvement throughout the period as it increased output per capita, promoted growth in rural areas, increased participation in financial institutions and many more.

Meanwhile in Malaysia, the government started to recognize financial inclusion in 2009 with the introduction of the New Economic Model (NEM). NEM outlines the directions for transforming Malaysia into high income economy, supported by sustainable growth. Inclusiveness, is one of the key desired outcomes of this vision. This is later