

**Kyiv National University of Trade and Economics**  
**Banking department**

**FINAL QUALIFYING PAPER**  
**on the topic:**

**«Financial inclusion strategy in the direction of microcredit  
of the population»**

Student of the 2<sup>nd</sup> year, group 10am,  
specialty 072 «Finance, banking and  
insurance  
specialization  
«Financial Intermediation»

Lapin Y. A.

\_\_\_\_\_  
(*student's signature*)

Scientific adviser  
PhD in Economics

Serazhym Y. V.

\_\_\_\_\_  
(*signature of a  
scientific adviser*)

Manager of the educational program  
PhD in Economics  
Associate Professor

Erkes O. E.

\_\_\_\_\_  
(*signature of the  
head of the project  
team*)

**Kyiv, 2021**

# Kyiv National University of Trade and Economics

Faculty of Finance and Accounting  
Department of Banking  
Specialty 072 Finance, Banking and Insurance  
Specialization Financial Intermediation

**Approved by**  
Head of the Department of Banking  
Nataliia P. Shulha,  
Doctor of Sciences in Economics, Professor  
on \_\_\_\_\_, \_\_\_\_\_, 20\_\_\_\_

## **Task for a final qualifying paper**

Lapin Yevhen Andriyovych

1. Topic of a final qualifying paper

“Financial inclusion strategy in the direction of microcredit of the population”

Approved by the Rector’s order from November \_\_\_\_ 2020, No. \_\_\_\_\_.

2. Term of submitting by a student his/her terminated paper (project) to 21.11.2021

3. Initial data of the final qualifying paper (project)

*Purpose of the paper (project)* – research of theoretical aspects of the strategy of financial inclusion in the direction of microcredit of the population, as well as providing practical recommendations regarding its improvement\_\_\_\_\_

*Object of the research* - the process of currency risk management of a financial institution economic relations that are developing in the process of implementing financial inclusion in the direction of microcredit

*Subject of the research*\_ there is a process of financial inclusion in the direction of microcredit to the population

4. Consultants of the research and titles of subsections which were consulted:

Section	Consultant (last name and initials)	Date and signature	
		The task given	The task fulfilled

5. Contents of a final qualifying paper (list of all the sections and subsections)

INTRODUCTION

SECTION 1. THEORETICAL AND METHODOLOGICAL ASPECTS OF FINANCIAL INCLUSION DIRECTION OF POPULATION MICROCREDITING

SECTION 2. ANALYSIS AND EVALUATION OF STRATEGIES OF FINANCIAL INCLUSION OF THE DIRECTION OF MICROCREDITING OF THE POPULATION

2.1. Analysis of innovative instruments of financial inclusion in the direction of microcredit.

2.2. Evaluation of financial inclusion strategies in the direction of microcredit to the population.

SECTION 3. DIRECTIONS OF IMPROVEMENT OF FINANCIAL INCLUSION IN DIRECTION OF MICROCREDITING OF POPULATION

3.1. Development and implementation of a modern strategy "State - Population" in the direction of microcredit.

3.2. Economic effect of implementation and testing of results for partner countries

CONCLUSIONS AND SUGGESTIONS

REFERENCES

APPENDICIES

6. Time schedule of the paper

No.	Stages of a final qualifying paper	Terms of a final qualifying paper	
		de jure	de facto
1	2	3	4
1.	Approval of the Task of the FQP (Ukrainian)	02.11.2020	02.11.2020
	Approval of the Task of the FQP (English)	23.11.2020	23.11.2020
2.	Submission of an <b>article</b> to the Banking department (English), paper and electronic versions	29.03.2021	29.03.2021
3.	Part I. List of sources used (references)	19.04.2021	19.04.2021
4.	Part II. List of sources used (references)	21.06.2021	21.06.2021
5.	Part III, Introduction, Conclusions, References	01.10.2021	01.10.2021
6.	Submission of the FQP to the Banking department (all Parts, appendices), <b>resume</b> of a scientific adviser	22.10.2021	22.10.2021
7.	Preliminary FQP' protection at the Banking department, <b>review</b> (KNUTE, Ukraine), <b>review</b> (KNUTE, English)	02.11.2021	02.11.2021
8.	Submission of completed (intertwined) the FQP to the Banking department, supporting documents (summary, supporting data, three reviews)	22.11.2021	22.11.2021
9.	Public FQP' protection in the examination commission	07.12.2021	07.12.2021

7. Date of receiving the task \_\_\_\_\_, \_\_\_\_\_, 20\_\_\_\_\_.

8. Scientific adviser of the final qualifying paper

Yulian V. Serazhym \_\_\_\_\_

(last name, initials, signature)

9. Head of the project team

(Manager of the educational program) Erkes O.E., PhD in Economics,

Associate Professor of the Department of Banking

\_\_\_\_\_  
(last name, initials, signature)

10. The task received by the student

Lapin Yevhen A.

\_\_\_\_\_  
(last name, initials, signature)

## **11. Resume of a scientific adviser of a final qualifying paper**

Student LAPIN YEVHEN ANDRIYOVYCH completed the final qualifying paper on a topic on Strategy of financial inclusion in the direction of microcredit of the population.

While working on the research, the student used all the knowledge and practical skills acquired during his studies in the English-speaking master's program in "Financial Intermediation".

Advantages of the final qualifying paper are results of the research a number of tasks, namely: theorists-methodological aspects of financial inclusion in the field of microcredit of the population were characterized; innovative instruments of financial inclusion in the direction of microcredit of the population are analyzed; the assessment of financial inclusion strategies in the direction of microcredit of the population was carried out; a review of the development and implementation of a modern strategy "State - Population" in the direction of microcredit; the economic effect of the implementation and testing of the results for the partner countries is clarified.

In general, the submitted work achieves the goal, content and design meets the conditions for writing such work. This qualifying work can be admitted to the defense.

Scientific adviser of a final qualifying paper \_\_\_\_\_  
(last name, initials, signature)

Note about preliminary paper defence \_\_\_\_\_  
(last name, initials, signature)

## **12. Resume about a final qualifying paper**

A final qualifying paper of the student Lapin Yevhen A. can be admitted to defence in the Examination Board.

Head of the project team  
(Manager of the educational program) Erkes O. E. \_\_\_\_\_  
(last name, initials, signature)

Head of the Department Nataliia P. Shulha \_\_\_\_\_  
(last name, initials, signature)

\_\_\_\_\_. \_\_\_\_\_. 2020.

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## INTRODUCTION

**The relevance of the topic** is confirmed by the special attention of international and regional organizations and the emergence of new projects to study the phenomenon of financial inclusion. Peculiarities of determining the economic essence of financial inclusion, as well as the factors that affect it, are under close attention of many world and domestic scientists. The works of the following researchers deserve special attention: S. Naumenkova [1], A. Bazyliuk [2], V. Galasyuk [3], O. Zhulin [4], T. Zatonatsky [5], O. Akimova [6], M. Vidyakin [7], D. Yablonovsky [8], S. Kozhemyakin [9], O. Pakhnenko [10], L. Dudynets [11], O. Verney [12] and others. Among the foreign authors are R. Allen [13], R. Khan [14], T. Beck [15], D. Schonmeaker [16], L. Brix [17], K. Ellis [18], M. Sarma [19] and others. As well as organizations such as the World Bank, the International Monetary Fund, the Organization for Economic Co-operation and Development, the Basel Committee on Banking Supervision, the Alliance for Financial Inclusion, the Center for Financial Inclusion, the Global Partnership for Affordability and others.

**The purpose** of the study is to study the theoretical aspects of financial inclusion, to analyze and evaluate financial inclusion strategies and to review areas for improving financial inclusion in the field of microcredit.

To achieve this goal, it is necessary to solve the following *tasks*:

- to characterize theorists-methodological aspects of financial inclusion of microcrediting of the population;
- to analyze innovative instruments of financial inclusion in the direction of microcredit of the population;
- to evaluate the strategies of financial inclusion in the direction of microcredit to the population;
- to review the development and implementation of a modern strategy "State - Population" in the direction of microcredit;

- to find out the economic effect of the implementation and approbation of the results for the partner countries.

**The object** is the inclusion of the population of Ukraine in the system of financial services.

**The subject** is the methodological and theoretical foundations of the financial market, as well as the practice of implementing and functioning of policies to increase the financial inclusion of the population at the national level.

**Research methods:** the research methodology is based on a comprehensive approach to both evolutionary (historical) and general theoretical study of the characteristics of financial inclusion as part of endogenous growth, including in Ukraine, their economic essence and impact on economic growth. In studying the current state of financial inclusion in Ukraine, methods of analysis and synthesis, definition of concrete and abstract, establishment of comparative characteristics and generalizations, as well as dialectical, logical and graphic methods were used.

**Publications.** According to the results of the final qualifying work, 1 article was published: Lapin Y.A. *Micro lending in Ukraine: a collection of scientific articles by students / resp. ed. N. Shulga.* – Kyiv: Kyiv National University of Trade and Economics, 2021. – 392p.

**The structure of the thesis:** The work consists of three sections, which are divided into sections, introduction, conclusion and list of sources used. The work contains 4 tables, 7 figures. The total volume of the work is 64 pages, including 50 pages of the main text.



## **SECTION 1**

### **THEORETICAL AND METHODOLOGICAL ASPECTS OF FINANCIAL INCLUSION IN THE DIRECTION OF MICROCREDITING OF POPULATION**

In recent years, the problem of low public participation in the financial sector has become increasingly important around the world - not everyone has access to high-quality financial services and has enough knowledge and experience to use them. According to the World Bank, more than 2.5 billion people worldwide do not have access to high-quality financial services. They use informal methods of borrowing money and insuring their assets. At the same time, the availability of basic financial services for consumers is an important indicator of the development of the financial sector [1, p.41].

Access to financial services is an important tool for establishing the competitiveness of any country, as the financial sector stimulates people's well-being, promotes business development and expands the market for goods and services. This issue has led to the concept of "financial inclusion / inclusiveness", which usually means the provision of financial services to retail consumers. In the long run, a well-developed inclusive financial system can reduce information and transaction costs while stimulating investment decisions, technological innovation and growth.

Therefore, the analysis of the theoretical aspect of financial inclusion in the field of microcredit will be analyzed on the basis of the study of the essence of financial inclusion and its features in terms of microcredit [2].

Financial inclusion is a fairly new concept, and its exact meaning has not yet been determined. Some experts believe that financial inclusion is equal access to and use of available financial products and services to meet the needs of households and businesses. Financial inclusion can be used by all segments of society, regardless of income and place of residence. provided by representatives

of the financial sector responsibly and environmentally for all participants in the process [1, p. 43].

Work to improve financial inclusion and financial literacy is long-term, so coordination and interaction between different stakeholders and partners is needed to achieve the goal. The main entities involved in the formation of financial inclusion are the entities shown in fig. 1.1

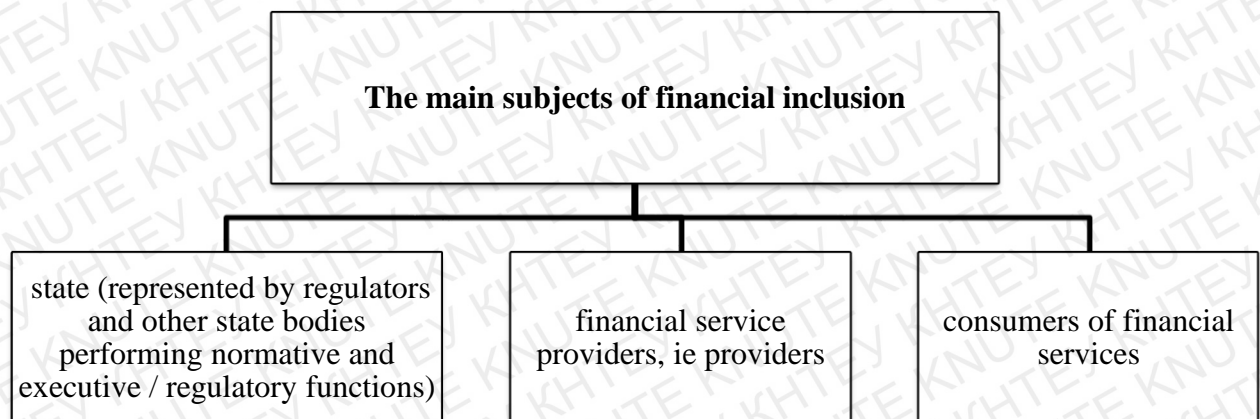


Fig. 1.1. The main subjects of financial inclusion

*Source: [2]*

According to the International Financial Education Network (INFE) of the Organization for Economic Co-operation and Development (OSEC), financial inclusion is the process of facilitating access, timely and comprehensive access to and dissemination of a wide range of financial products and services through existing and innovative methods including financial awareness and education to promote the financial well-being of economic and social inclusion [5]. At the same time, the National Bank of Ukraine understands financial inclusion as creating conditions for involving the entire population and business in the use of infrastructure and various financial services provided at prices, officially regulated and to meet the needs of the population to stimulate economic growth and reduce social inequality [1]. M. Vidyakin, Director of the Strategy and Reform Department of the National Bank, gave a general interpretation of financial

inclusion. According to him, financial inclusion is an opportunity, ability and possibility of different groups of people to participate in financial services [2]. In a study by L. L.A. Dudynets financial inclusion is considered "a characteristic of the inclusion of the population in the official financial circulation, including access to the services of officially registered financial institutions" [3, p. 11]. According to S. V. Naumenkova, the disclosure of the economic meaning of the concept of "financial inclusion" is associated with such concepts as "financial coverage" and "financial exclusion". Financial coverage is a financial channel through which consumers receive basic financial services based on the absence of various barriers (price and non-price) to receive these services [4].

Thus, based on the above, it is obvious that the basic idea of financial inclusion is to use financial services to improve people's well-being. To pay tribute to the various studies of the World Bank, the United States Agency for International Development (USAID) and the National Bank of Ukraine, it is worth noting that the key to sustainable financial inclusion lies in three areas:

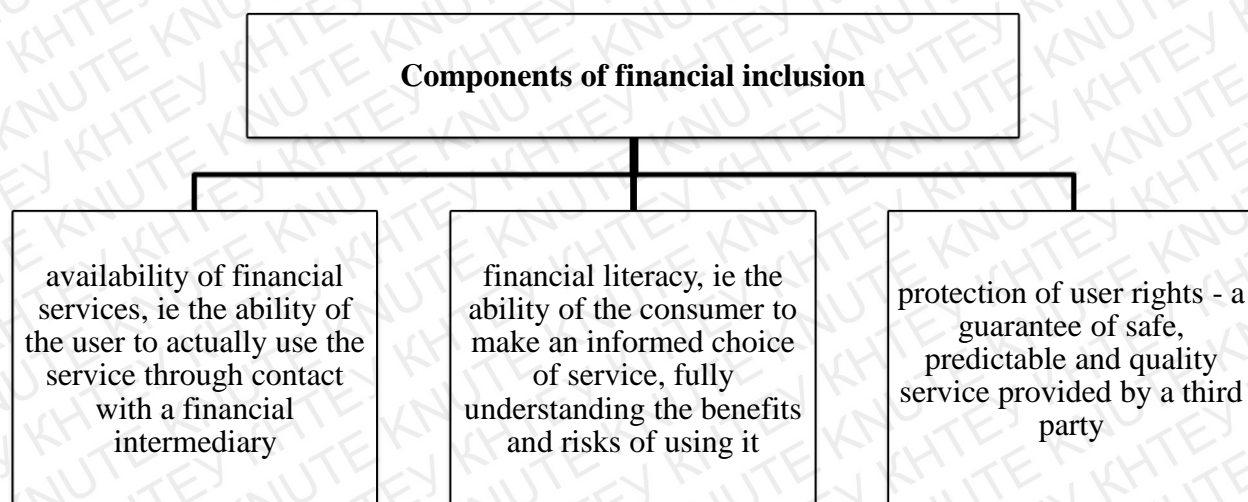


Fig. 1.2. Components of financial inclusion

Source: [11]

The main prerequisites for financial inclusion are shown in fig. 1.3.

Thus, financial inclusion should create conditions for involving the entire population and enterprises in the use of various financial services, which are

provided with infrastructure and prices, are officially regulated and meet the needs of the population, in order to stimulate economic growth and reduce social inequality.

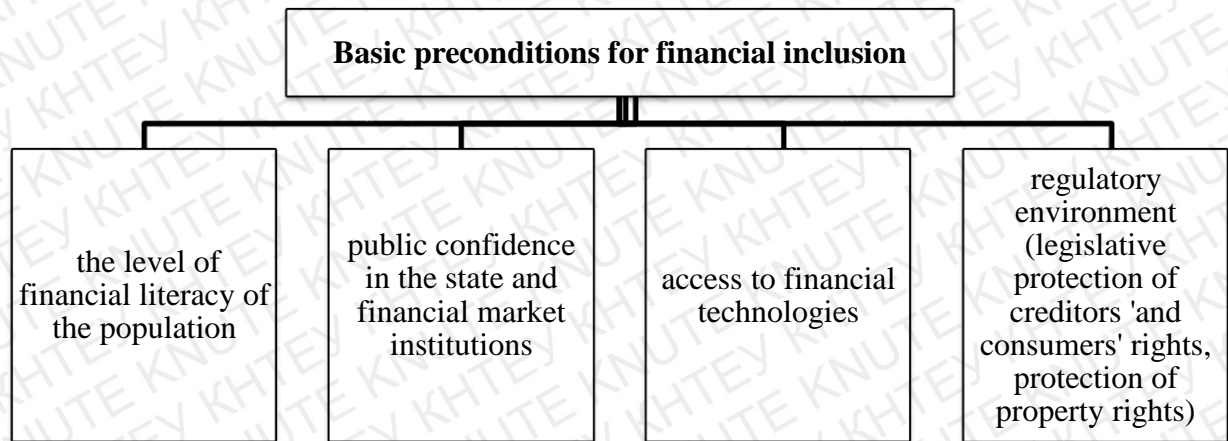


Fig. 1.3. Basic preconditions for financial inclusion

*Source: [4]*

At present, consumers must indicate the full range of financial products and services. Financial inclusion, especially the importance and relevance of financial education for financial products, services and activities, plays a crucial role in helping people choose the right financial products in the microcredit market.

Financial literacy is closely linked to the development of each country's financial systems. Lack of financial literacy has quite negative consequences for making personal financial decisions. Financial inclusion improves people's understanding of different financial products and concepts through a variety of instructions, information and advice to develop skills in recognizing financial risks and opportunities [12].

Basic financial knowledge is whether they know about different financial services or not, and how well they are acknowledged of the general financial conditions related to banking, microfinance and mobile banking.

1. Access through banking. The first aspect of access to financial services is banking services, which are a formal way of providing financial communications

and services. Being able to access a bank account is the first step to greater affordability, as a transactional account helps people access broader financial services. It is assumed that the entire solvent population can have access to appropriate financial products and services, mainly from banks. Financial access through banking allows people to save money, support their business and family plans, hedge daily risks and promote their economic activities.

2. Access through microfinance. The second most effective way to access finance is microfinance, which is considered a valuable and powerful tool for poverty reduction. It is also defined as the provision of financial services to poor households. Call and Morduch proposed a broader concept of "affordability" for microfinance activities, such as the provision of savings, insurance and payment services in underserved communities. Microfinance is also a solution that allows you to attract credit markets for low-income people who want to be self-employed. Microfinance provides self-employment opportunities for the population.

3. Access via FinTech. FinTech is fashionable in today's financial market, and its rapid development is a new challenge for the financial world. FinTech is a combination of the concepts of "finance" and "technology". The terms "Internet Finance", "FinTech" and "Digital Finance", "Mobile Banking" are almost identical in meaning and interchangeable around the world. In addition to traditional financial systems, the participation of digital financial services in the inclusive financial sector is reflected in the FinTech problem. This applies to a wide range of financial services, such as online banking, payment for goods and services on the Internet, online insurance, crowdfunding and online banking.

One of the types of microfinance today is microcredit [12].

Increasingly, people are seeking loans not from banks, but from other organizations willing to provide them with certain amounts of money. Today there are many such organizations. All of them, under certain conditions, lend their money to the population, and their services have both their advantages and disadvantages.

Microcredit is provided to the population through a network of MFIs

exclusively for consumer purposes. However, this type of loan is much more expensive than a bank. The main activity of MFIs is the provision of instant and short-term loans.

Thus, the popularity of microfinance organizations arose due to a number of factors, including [5, p.65]:

- low financial literacy of the population, when they do not notice the difference between microfinance organizations and banking institutions;
- "salaries in envelopes" blocked the way for many to obtain loans from banks;
- bad credit history;
- most banking institutions do not issue loans in the amount of less than UAH 5,000;
- "urgency" in providing loans (loans) is provided.

Microfinance activity is the activity of legal entities that have the status of a microfinance organization, as well as other legal entities that have the right to carry out microfinance activities in accordance with the law, to provide microloans (microfinance) [6].

Microfinance organization - a legal entity registered in the form of a fund, autonomous non-profit organization, institution (excluding budgetary institution), non-profit partnership, business association or company conducting microfinance activities and entered in the state register of microfinance organizations.

Based on the proposed definition, we can identify the following features of MFIs:

Microloan - a loan provided by the lender to the borrower on the terms stipulated in the loan agreement, in an amount not exceeding UAH 100 thousand.

The most common MFI products are consumer loans (long-term personal needs), payday loans (small amounts for a very short time), business loans (start-ups, business support and development).

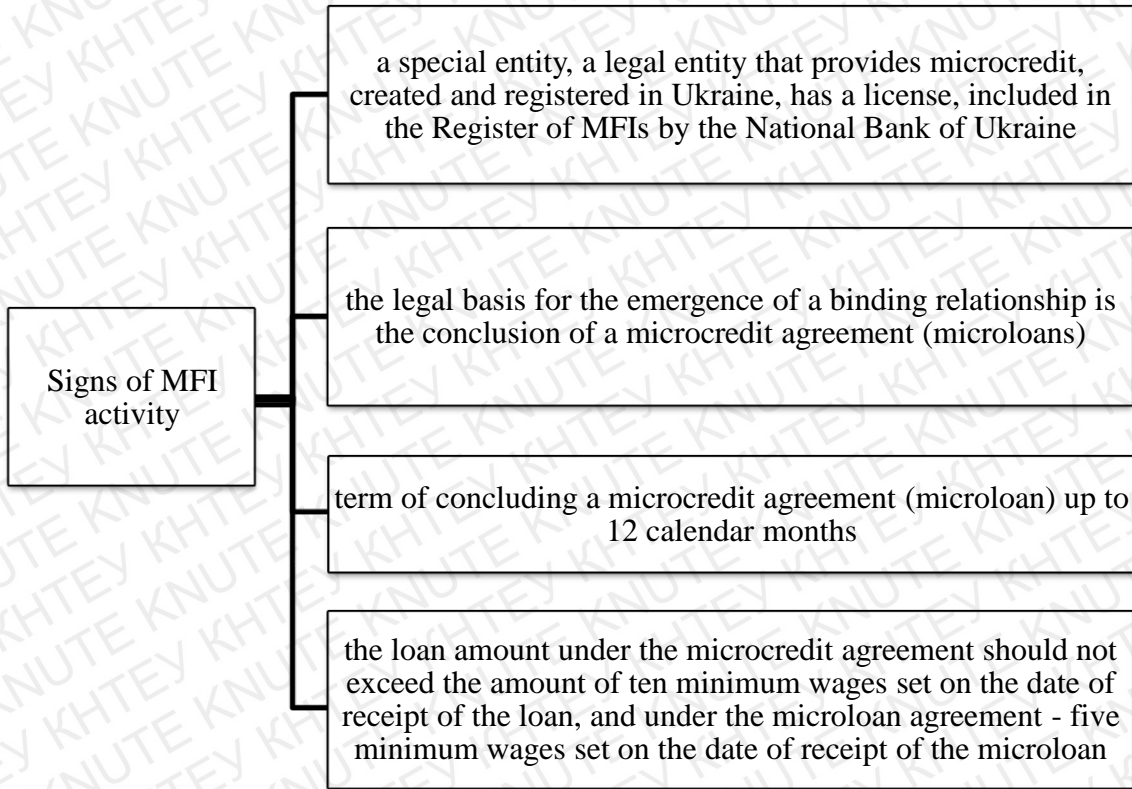


Fig. 1.4. Signs of MFI activity

Source: [5]

MFIs provide two types of microloans (fig. 1.5):

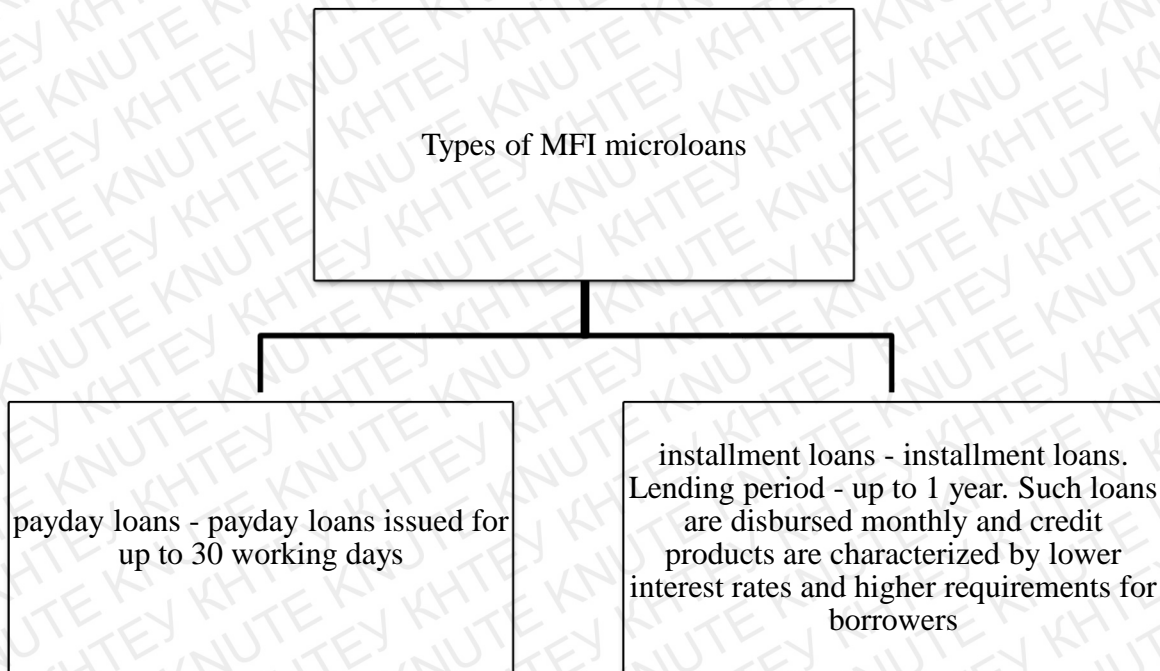


Fig. 1.5. Types of MFI microloans [19]

Source: [14]

Having received a small loan, borrowers did not just use the funds for their own needs - they increased their profits and repaid the loan. Despite high interest rates, the share of microcredit repayments is over 95%.

Currently, the main goals of microfinance are to reduce poverty, enable the most vulnerable members of society (women, the poor, etc.) to participate in market activities, create new jobs and businesses, stimulate the involvement of able-bodied citizens in certain sectors of the economy.

The essence of microfinance - the provision of unsecured loans to borrowers who do not have a steady income, such as salary, ie. cannot provide standard support.

Moreover, in microfinance, collateral may not be of great importance to creditors, as the cost of applying for and selling such collateral may exceed the cost of the loan itself. Lack of collateral, however, increases the cost of financing, as the lender bears the risk of non-payment or complications in receiving payment.

Most often, interest on microloans can be several times higher than those paid for regular lending. In proportion to the reduction in lending, its terms are reduced: microfinance is provided for up to a year, often for less than 90 days. Interest periods are also reduced (for example, one week).

The main principal positions of microfinance include the following (Fig. 1.6) [17].

In the wake of the popularity of microcredit, a large number of companies in this field are emerging. The most popular among the population are the following MFIs: Moneyveo, MyCredit, CreditKasa, CreditPlus, Miloan, AlexCredit, CreditMarket, QuickMoney, Quick Loan, Your Money, etc. However, a large number of complaints from consumers of consumer lending indicates the dishonest activities of these organizations. We are talking about the transfer of personal data of the MFI debtor to third parties (collectors) in cases of delayed payment or complete inability to pay the loan [13].

According to research conducted by the Consultative Group to Assist the Poor (CGAP), microcredit programs are more successful if they are run by



professional organizations that have the resources needed for long-term use.

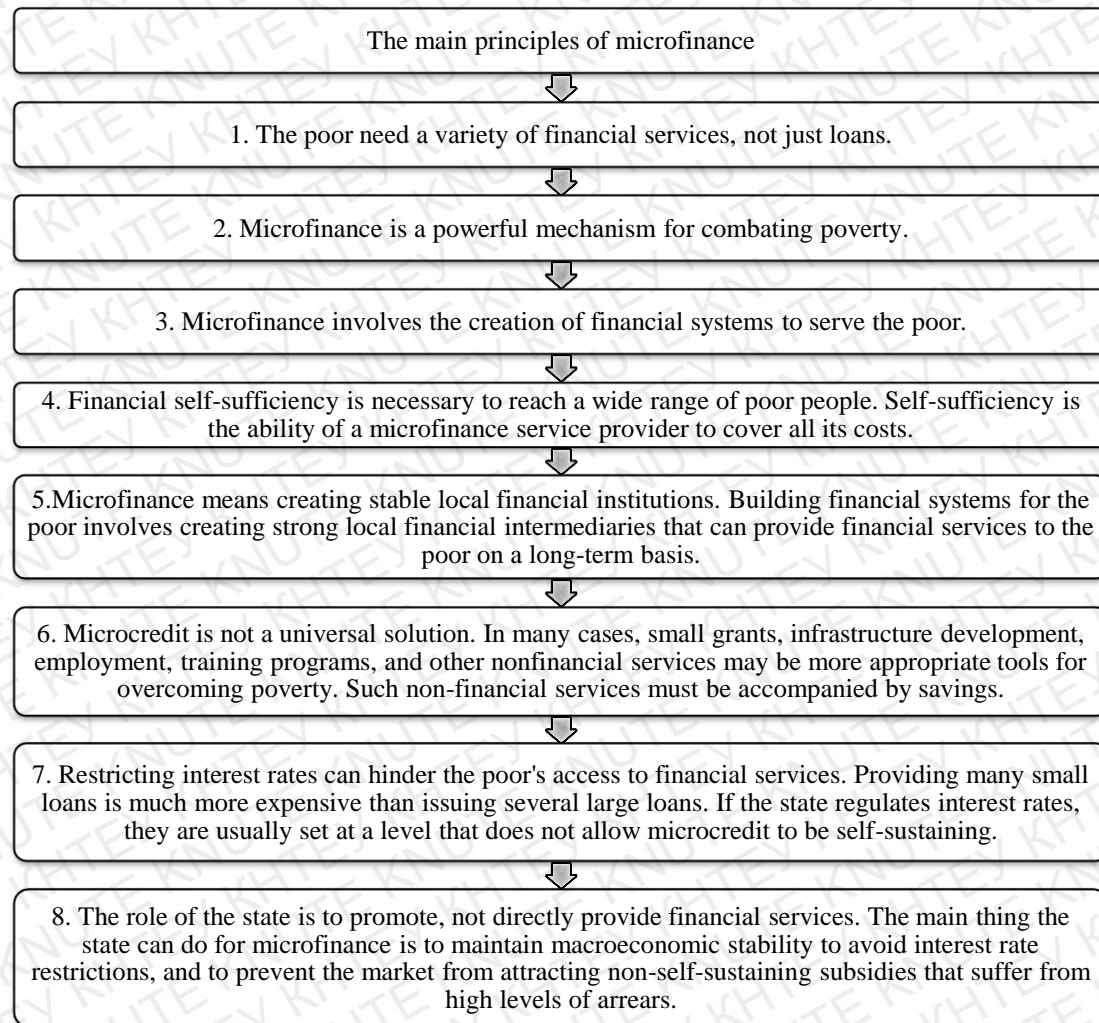


Fig. 1.6. The main principles of microfinance

Source: [12]

For microcredit to be high quality, MFIs must adhere to the following principles:

- sustainability - to provide financial services on a long-term permanent basis;
- scale - to expand the geographical scope of activities;
- depth of scope - not only to provide loans to small and medium enterprises, but also to provide consumer loans to various segments of the population;

- self-sufficiency - to cover operating and financial costs;
- profitability - to achieve high productivity while reducing costs.

As a person with a low level of knowledge in the field of financial activities is more likely to make financial mistakes, an appropriate legal framework should be created that can, at least in part, protect it.

To this end, Ukraine has developed a draft Law of Ukraine dated 02.03.2021 "On protection of the rights of borrowers under microcredit and microloan agreements", the purpose of which is to regulate legal relations arising in relation to microcredit agreements, microloans provided to borrowers by financial institutions non-bank financial institutions, the exclusive activity of which is the provision of financial services, and banks, and the relationship arising between the borrower and the lender (new or subsequent lender).

Also, some issues of legal regulation of these organizations are regulated [16]:

- Civil Code of Ukraine;
- Commercial Code of Ukraine;
- Law of Ukraine (hereinafter - the Law) "On Financial Services and State Regulation of the Financial Services Market";
- Law "On access to public information";
- Law "On Banks and Banking";
- Law "On Insurance";
- Law "On consumer lending";
- Law "On Consumer Protection";
- Law "On e-commerce";
- Law "On Amendments to Certain Laws of Ukraine on Consumer Protection in Settlement of Overdue Debts", etc.

In addition, today many banks in Ukraine [16] offer various training programs to the population. These financial literacy trainings help the population to better understand the directions and conditions of using credit money, for example, efficient and effective use of money, advising family members on various

economic activities.

Therefore, the financial education component should be mandatory for all microfinance programs. Thus, financial inclusion for microfinance should include four thematic areas [17]:

- budgeting;
- savings;
- debt management;
- banking services.

These four thematic areas are considered in two aspects:

- current behavior;
- desired behavior.

Current behavior related to:

- budgeting for everyday life;
- financial behavior;
- lack of financial planning;
- wasteful expenses;
- irregular savings;
- savings that are not related to the goals;
- borrowings in case of emergencies;
- excessive debt;
- borrowing services;
- limited use of banking services.

Desirable behaviors included:

- cost planning;
- budgeting;
- use of the budget to manage available funds;
- avoid unnecessary costs;
- availability of a savings plan;
- availability of regular savings;
- saving funds for contingencies.

Thus, financial inclusion should create the conditions for involving the entire population and enterprises in the use of various financial services, which are provided with infrastructure and prices, are officially regulated and meet the needs of the population, in order to stimulate economic growth and reduce social inequality. Financial literacy is closely linked to the development of each country's financial systems. Lack of financial literacy has quite negative consequences for making personal financial decisions. Financial inclusion improves people's understanding of different financial products and concepts through a variety of instructions, information and advice to develop skills in recognizing financial risks and opportunities.

## **SECTION 2. ANALYSIS AND EVALUATION OF STRATEGIES OF FINANCIAL INCLUSION OF THE DIRECTION OF MICROCREDITING OF THE POPULATION**

### **2.1. Analysis of innovative instruments of financial inclusion in the direction of microcredit**

Globalization of the economy in general and financial globalization in particular have raised issues of financial inclusion of society, which are analyzed both at the local level and globally. According to the World Bank, at the present stage, 100% of the level of financial inclusion of the population has already reached certain countries, including: Denmark, Sweden, Norway, the Netherlands and Australia. In Ukraine, according to the NBU Chairman, this figure was 63% in 2020, which is the global average, as more than 138 million Europeans still do not have a bank account [11].

In general, financial inclusion is growing worldwide. The Global Findex 2020 database demonstrates that 1.2 billion adults have opened an account since 2015, including 515 million since 2014. In the period from 2017 to 2020, the share of adults who have an account in a financial institution or through a mobile money service increased globally from 62% to 69%. Moreover, in developing countries, this share has increased from 54% to 63% [15].

According to the World Bank, there are more than 7,000 microfinance institutions in the world, serving more than 16 million people. in developing countries and third world countries. Thus, the subjects of microcredit are [15; 21]:

- informal financial organizations (creditors, pawnshops, savings and credit unions, supply stores);
- member organizations (self-help groups, peasant savings and credit association, credit unions);
- non-governmental organizations (about 3 thousand specialized institutions and non-governmental organizations);

- formal financial institutions (commercial banks, state-owned banks, agricultural development banks, savings banks, non-bank financial institutions);

In Ukraine, as of the end of the second quarter of 2021, the number of financial companies that have valid licenses to lend funds, including on the terms of a financial loan, was 755 companies. A list of several microcredit companies is provided in Annex B. The main users of microcredit are young people and other vulnerable segments of the population. And these are mostly people who, due to the unstable financial situation and low level of education, are poorly oriented in the specifics of financial services in general, and, in particular, lending. The current balance of outstanding loans to individuals to financial companies is UAH 14.8 billion [18].

According to the International Monetary Fund (IMF) classification, until April 2004, all Central and Eastern European countries, as well as the countries of the former Soviet Union (USSR) in Central Asia (Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Turkmenistan) and Mongolia were not included in any of the developed or developed regions, but rather called "countries with economies in transition." However, they are considered in international reports as "developing countries".

The IMF uses a flexible classification system that takes into account the level of per capita income, diversification of exports, the degree of integration into the global financial system [17].

The World Bank classifies countries into four income groups. These figures are set annually on July 1. Until 2018, the economy was distributed according to GDP per capita, using the following income ranges [21]:

- low-income countries - GNI per capita of 1025 US dollars or less;
- countries with lower incomes - from 1026 to 4035 US dollars;
- countries with average income - from 4036 to 123 636 dollars. USA;
- high-income countries - above 12,237 US dollars

Developing countries are generally countries that have not achieved significant industrialization according to their population, and in most cases have a

medium and low standard of living. The World Bank estimates that at the end of 2018, extreme poverty is at its lowest level in the history of observations, but it is increasingly concentrated in one region.

In the world, developing countries have tried to solve the problem of poverty with the help of microcredit, which is one of the ways to reduce poverty in developing countries. We can say that microcredit has its positive sides, providing an opportunity to increase the level of education in families and improve employment. Microcredit programs that have operated and are operating in developing countries are aimed at the financial inclusion of the poor [26].

The main problem of microcredit is high interest rates. Microfinance institutions are trying to reverse this trend by lowering interest rates, but they will not be low, as standard banking operations and transactions can not be cheaper than the loan amount.

In recent years, microfinance statistics show a steady increase of over 9% in the total loan portfolio and the number of active borrowers in this area. In 2018, microfinance institutions (MFIs) reached 132 million low-income clients with a loan portfolio of \$ 102 billion. At the global level, MFIs recorded an annual increase in the loan portfolio by 9.4%, and the number of borrowers - by 9.6% [27].

The 100 largest institutions (according to the loan portfolio rating) account for 76% of the world market, with a loan portfolio of \$ 77.1 billion and coverage of 81.1 million clients in the microfinance sector. In 2020, non-banking financial institutions (NBFIs) had the highest concentration of borrowers at 35%, followed by banks, which served 33% of global borrowers (Fig. 2.1). Non-governmental organizations recorded the highest increase in the loan portfolio (+ 17.7%), but banks still have the highest concentration of loans (51%).

In South Asia, the number of borrowers exceeded the rest of the world (59%) and increased the most in total loans (+ 23.5%) and customers (+ 13.4%). Although the region registered strong growth, it was lower than in 2017, when growth was recorded at 45.6% and 19%, respectively.

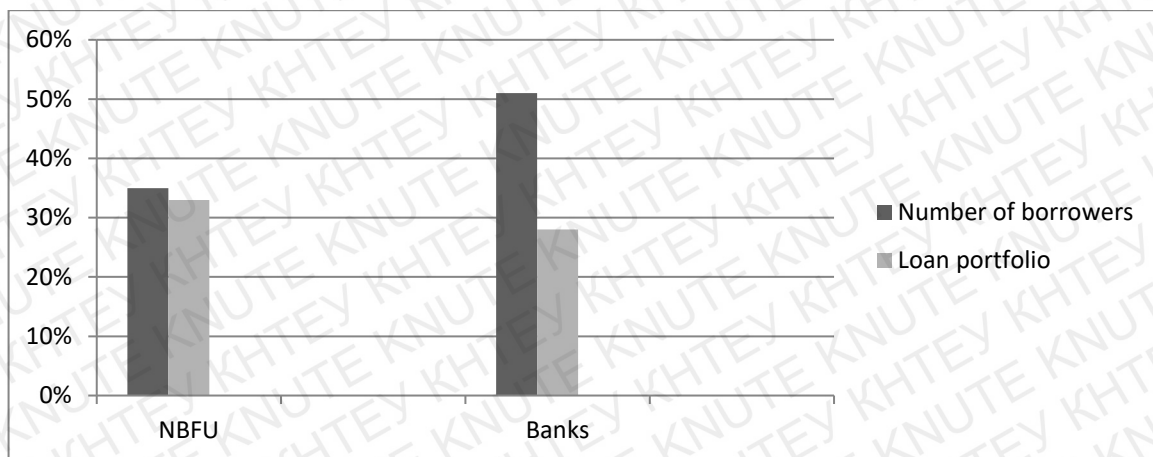


Fig. 2.1. Distribution of customers' share and loan portfolio between non-bank financial institutions and banks on the world market, 2020

Source: [21]

In table 2.1. depicts the ten countries that have the most borrowers and the amount of borrowed funds.

Table 2.1.

**Top 10 countries by number of borrowers and portfolio of borrowed funds in the world, 2020**

Rank	Country	Number of borrowers, mln.	Gross loan portfolio, billion dollars USA
1	India	47	14,7
2	Vietnam	7,6	7,4
3	Bangladesh	25,2	6,9
4	Peru	4,6	10,8
5	Mexico	7	4,4
6	Cambodia	2,3	6,4
7	Colombia	2,8	6
8	Bolivia	1,3	7,4
9	Brazil	3,2	1,9
10	Ecuador	1,3	5,1

Source: [21]

Given the indicators of table 2.1. We can say that in the first place is India with a number of customers of 47 million and a loan portfolio of 14.7 billion dollars. USA. The next largest number of borrowers is Bangladesh (25.2 million people) with 6.9 billion dollars. USA. The second country in terms of loans is Peru (\$ 10.8 billion) with 4.6 million customers.



In Latin America and the Caribbean, growth rates of + 8% in the number of borrowers and + 9.2% growth in the loan portfolio (42%) were registered. In the region, there has been a significant merger of MFIs with different consequences in each country. In Peru, for example, mergers have been positive for the sector, while in Mexico they have led to slower market development [8].

The world recorded an annual increase in the loan portfolio by 9.4%, and the number of borrowers - by 9.6%. The largest concentration of borrowers in non-bank financial institutions and banks. The largest growth dynamics of microcredit customers was recorded in India, where the number of borrowers has doubled since 2013.

Microfinance services are provided mainly to women in countries around the world, except for Eastern Europe, where men predominate. More than half of the clients were served in rural areas of the countries. In addition to loans, deposits are also a popular service. People living in poverty are one of the most difficult segments of the population excluded from the financial system. That is why microcredit aims to reduce this segment and improve the quality of life of poor people.

The main functions of microcredit are to reduce poverty in developing countries and improve their access to financial services. Ukraine is also one of those countries where microcredit and microfinance can become one of the vectors of poverty reduction in the country [23].

The main difference between microcredit programs between developing countries and developed countries is that most microcredit is not provided for the personal purposes of individuals, but to those who intend to use loans for their business. These microloans are different from ordinary bank loans, because they are more favorable in their terms, and the amount of loans that can be taken are much smaller. That is, the main purpose of microcredit in Europe, in contrast to poor countries, is to support micro-entrepreneurship. This enables national economies to develop and show higher results.

The reasons for the insufficient development of the credit market of Ukraine

and incomplete satisfaction of borrowers' demand today are [9]:

- low solvency of potential and existing borrowers (it should be noted the unemployment factor and lack of legalization of income);
- preservation of systematic (permanent) and situational (due to crisis or instability) risks and threats of money laundering, poverty reduction in the country.

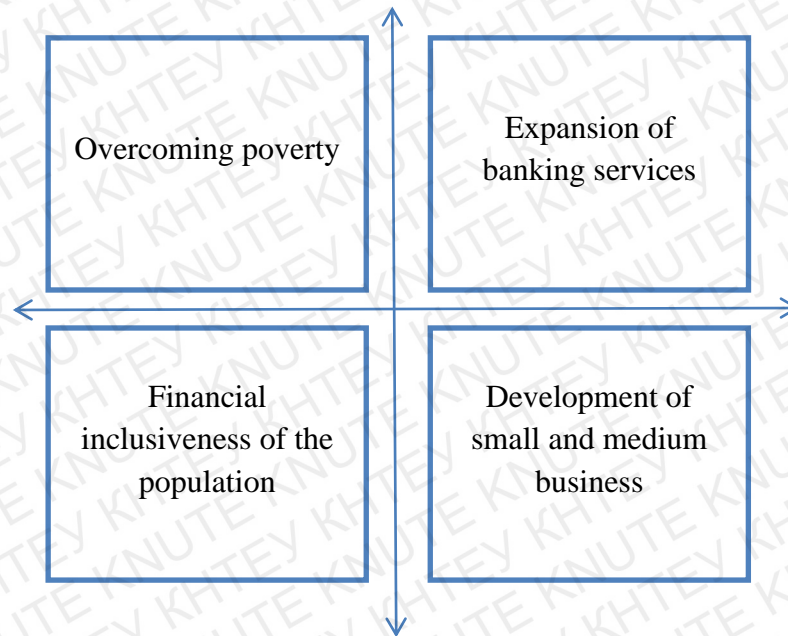


Fig. 2.2. The main factors in the development of microcredit in Ukraine

Source: [9; 12]

As shown in Fig. 2.2, the most important factor in the development of microcredit is the development of small and medium-sized businesses as the driving mechanism of the national economy. It also includes limited banking services and, consequently, improved financial inclusiveness. Although extreme poverty is usually the main reason for the development of the microcredit market in developing countries, in this Ukrainian case it is not a priority. But based on the general concept of poverty and economic situation in the country, the very poor life of the population of Ukraine is an incentive for the development of small and medium-sized businesses, which in turn leads to the development of the microcredit market.

Given the current needs of small business, the most important components of the state program are measures aimed at financial and credit support for small

business through the implementation of an effective microcredit process. Microcredit is currently a new and still underdeveloped financial technology. Overcoming the main obstacles to the development of microcredit in Ukraine requires a comprehensive approach, which may include [19]:

- stimulating banks and non-bank financial institutions to expand microcredit and improve the legislative support of their activities;
- creation of favorable conditions for small businesses in obtaining microloans, including by simplifying the procedure for their provision, reducing interest rates, increasing the term of use; - Improving the mechanisms of state support for small businesses in obtaining loans and developing a national microcredit program;
- setting up a system of information and educational support for citizens in the field of lending;
- regulatory regulation of relations between banking and financial institutions and their clients;
- creating conditions for the development of non-bank financial institutions.

One of the trends in the development of microfinance is the transition to digital finance, which means new technologies for automation, authentication and identification.

Digital technologies make it easier to provide microfinance services. However, not all developing countries are ready for such technologies. Therefore, this is a new challenge for the development of not only microcredit, but also the entire financial sector. Innovative ideas and startups in this area will help spread financial technology in developing countries. Unwillingness to digital transformation is a major risk that top managers see for their companies. Some executives respond to the challenges of the knowledge economy by hiring teams of consultants, others implement business processes typical of IT companies, but only 15% of them are ready to conduct a digital revolution in the finance department. Few people are willing to give artificial intelligence access to money and account analysis, but organizations with special teams or people, so-called "digital finance

leaders", for the introduction and use of new technologies have already gained a competitive advantage - they are better suited to the needs and expectations of customers. But it is digital leaders who implement IT innovations in the company's finances, not just the CFO - only 10% of CFOs believe that they have sufficient knowledge and competencies in this area [19; 21].

One of the reasons for the rapid development of financial companies is the availability of their services on the Internet. Thus, in the first quarter of 2020, 80% of loan agreements were concluded remotely. Under quarantine, the ability to get a loan online without leaving home has become a major driver of growth in 2020. As microloans were not previously covered by the Law on Consumer Lending (due to the term and amount of such loans), they were not included in previous studies conducted by the USAID Financial Sector Transformation Project in 2017-2019. Given the importance of this segment of the consumer lending market, the Project decided to explore the practice of microcredit to financial companies.

Almost all financial companies complied with the legislation in force at the time of concluding the agreements. However, a number of provisions have been identified that can be considered as a violation of consumer lending legislation from January 2021, if such provisions are not changed. 73% of contracts had one or more such provisions. Every 2 out of 3 contracts (64%) contain provisions on raising the interest rate in case of non-fulfillment of obligations under the contract. The application of both fines and penalties for the same violation was found in every fifth contract (21%), and 12% of contracts limited the right to early repayment of the loan. The agreements were also analyzed for the presence of provisions that in one way or another create increased risks for the borrower. Only 3% of contracts did not have any such provisions. In addition, 29% of contracts contain conflicting provisions or may be interpreted ambiguously [22].

Most financial companies specify in the agreements the amount of the annual and / or daily interest rate on the loan. 94% of the contracts to be analyzed provided information on the size of the annual nominal rate, 97% - the daily rate and 92% - both. The values of the annual nominal rate specified in the agreements

are in the range from 0% to 1,095% per annum, the values of the daily rate are from 0% to 2.5% per day.

Approximately one-fifth of the contracts indicate the RRPS, which is lower than we calculated (Fig. 2.2), for a third of the contracts RRPS rates coincide. For the rest, the calculated RRPS is greater than specified in the contract. For the part of the contracts where the RRPS was not specified, the graph shows a zero value.

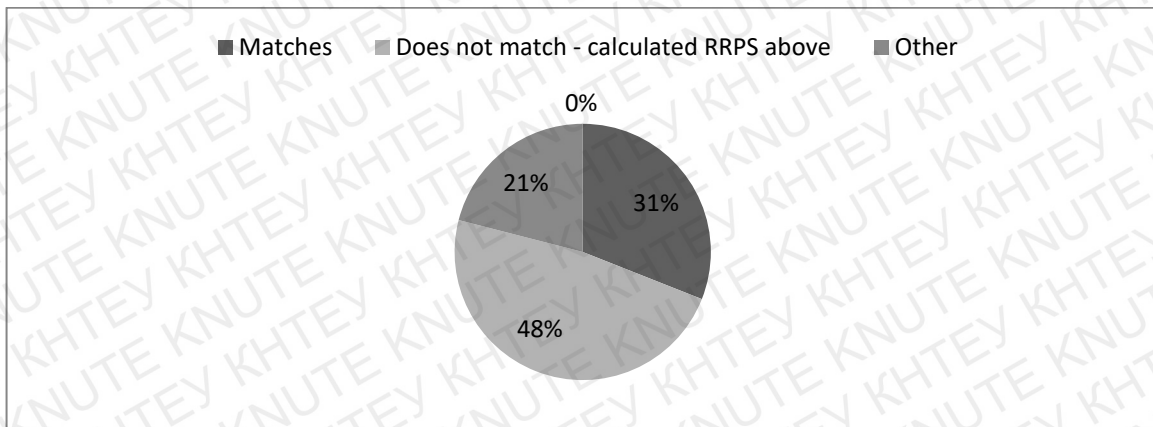


Fig. 2.2. The share of contracts in which the RRPS is specified coincides with the RRPS calculated by analysts according to the method of Natskomfinposlug (N = 68), [21]

Financial companies lend to a rather risky segment of borrowers - people with bad or no credit history, without proof of income, unemployed and so on. Accordingly, financial companies immediately expect that the loan issued by them will not be repaid on time, and provide various sanctions for non-repayment of the loan. Lenders often use several types of liability at the same time. For example, the lender often imposes fines and penalties at the same time (21% of visits), including a combination of fines, penalties and higher interest rates (16% of visits).

The National Bank of Ukraine (NBU) is strongly concerned with protecting the interests of users with microcredit services and will strengthen control over the field of customer proceedings with information about the cost and settlement interest rate on loans. The National Bank has prepared a document called the "Concept for the Protection of the Rights of Financial Services Consumers" and aims to make certain adjustments in the form of the

introduction of new transparency rules and regulations in the financial market for clearer regulation of institutions in terms of informing customers. This document provides that for banks and financial institutions will be increased responsibility for the quality of services provided, financial companies will have to change approaches to disclosing information about the cost of their products and services, and even change the rules for communicating with customers.

The National Bank of Ukraine prompted this step not quite a prosperous situation on the market: IFIs often resort to tricks, provide incomplete information or completely hide data on the true amount of commission and payments and even openly lie in advertising, for example, promising loans to customers at a rate of 0%. As a result, borrowers are often unpleasantly surprised when it turns out that loan payments are much more than they were promised. NBU Governor Kyrylo Shevchenko noted that such dishonest techniques in the form of deceptive advertising or hidden commissions allow financial companies to make good profits. But this is exclusively short-term earnings. In the long term, such dishonest behavior of financial institutions undermines confidence in the entire banking system, inhibits the increase in lending volumes, and hinders economic growth. The current situation not only violates the rights of Ukrainians to reliable information, but also reduces confidence in the financial sector, inhibits its development from EU standards.

The National Bank promises that new requirements for banks and financial institutions will be introduced soon, which stipulate those financial institutions on their websites and in advertising should provide complete and reliable information about all commissions and interest rates provided for by the terms of the loan, as well as warn customers about all risks. The NBU banks and financial institutions will be monitored by providing recommendations, and if this does not help, it will issue a warning and penalize.

A few years ago, the Law "On Consumer Lending" was adopted, which was supposed to provide protection to customers. However, this law could not cope with its task – it could not provide even the banks and IFIs with reliable

information about the cost of their services, although this was the main task of the law. Then the situation had to change the bill on protection of the rights of financial services consumers, but the Verkhovna Rada did not adopt this document. Now the NBU has decided to take the situation into its own hands, and even created a separate management, which will purposefully protect the rights of clients of financial institutions.

According to the NBU's plan, everyone will benefit from this – consumers will receive a complete picture of the cost of loans, and banks and IFIs will be able to attract new customers. According to the NBU, today about a third of the population do not have bank accounts, which means that banks have a very good prospect of increasing their customer base, unless banks close all gaps in disclosing information about the cost of products and services.

To do this, the National Bank will supervise the activities of financial companies in the form of no-fly supervision and inspections. To do this, the National Bank will develop its own procedure for overseeing non-bank financial institutions, which will provide for the procedure for conducting careless supervision, as well as conducting scheduled and unscheduled inspections based on a risk-oriented approach. In particular, inspections will be carried out if necessary (ad hoc) if there are reasonable grounds, taking into account a risk-oriented approach that will take into account materiality (materiality) and systematic manifestation of risks, shortcomings in the activities of companies, corporate governance, risk management systems and internal control. Depending on the degree of risk, the National Bank will determine the intensity of supervision measures. Tentatively, the criteria for assessing the required degree of supervision over the activities of a credit company will include, in particular: the carrying amount of assets; credit company's share in the market; number of previous violations of the law. The National Bank will initiate unscheduled inspections, in particular, based on the analysis of clients' requests for violation of their rights, in case of non-submission of reports within the

established period, if there are facts that indicate an increase in the degree of risk from the activities carried out.

One of the tasks of the National Bank in 2021 will be to ensure effective protection of the rights of consumers of non-bank loans. At the same time, although individuals are the least protected, legal entities and individual entrepreneurs also need protection, as they may be subject to violations of rights as a borrower or user of other financial services by financial companies. Accordingly, the National Bank will strengthen supervision over the observance of the rights of both consumers and other clients of financial companies. General guarantees for borrowers are provided by the Consumer Lending Act, the Financial Services Act and the Advertising Act<sup>1</sup>. Recently, the Law "On Amendments to Certain Legislative Acts of Ukraine on The Protection of The Rights of Financial Services Consumers" No. 122-IX of September 20, 2019 introduced amendments aimed at strengthening consumer protection. The Financial Services Act and the Advertising Act apply to any loans. The Law on Consumer Lending contains more detailed requirements, but this law does not currently apply to loans that do not exceed one minimum wage or whose term is less than one month.

The analysis of the main problems of ensuring financial inclusion in the direction of microcredit to the population of Ukraine provides an opportunity to outline the following strategies that need to be implemented. Yes, first the NBU needs:

1. To stimulate the spread in Ukraine of such instruments for ensuring financial inclusion as: electronic money;
2. To reduce the demand for cash;
3. To ensure the increase of the level of financial awareness of consumers within the framework of the implementation of the Financial Literacy Strategy of the NBU;

Secondly, the NBU in coordination with the Ministry of Education and Science of Ukraine needs:



1. Ensure the implementation of the priorities of the Financial Literacy Strategy;
2. Change the financial culture of individuals through the formation of centers of financial culture in the family, school, community, including with the help of public opinion leaders;
3. To ensure the focus of measures to improve financial literacy on young people (aged 10 to 24) as a target audience;
4. To organize the creation on the basis of the NBU Communications Department of a single communication platform on financial literacy based on the experience of working communication platforms Money Wise (Netherlands), Finanzas para todos (Spain), Money Sense (Canada), La finance pour tous (France), Vikifin.be (Belgium), Money Smart (Australia);
5. To ensure the establishment of the Educational Information Center at the NBU as a center of financial education and communication on the tasks and functions of the NBU, which should combine the Museum of Money, the Center for Youth Education and the Center of Teacher Competences.

Third, the NBU in coordination with the All-Ukrainian Central Union of Consumer Societies "Coop Ukraine" needs:

1. To ensure the spread of the project "Ukoop 2.0" to all regions of Ukraine and all existing (about 14 thousand) stores that operate under the brand "Coop Ukraine";
2. Organize the expansion of the range of financial services offered by payment terminals.

Fourth, JSC "Ukrposhta" and such banks as JSC CB "Privatbank", JSC "State Savings Bank of Ukraine", PJSC JSB "Ukrgasbank") should consider the possibility of installing payment terminals in all post offices located in rural areas, which will increase the availability of banking services for local residents.

## 2.2. Evaluation of financial inclusion strategies in the direction of microcredit to the population

The project "Transformation of the financial sector" published the results of a study of microcredit practices, which studied microloans and short-term expensive loans for small amounts for personal purposes by the method of "mystery shopper" with the conclusion of loan agreements by research company [19].

According to the NBU, microfinance organizations provide 57% of lending in the non-banking market of Ukraine. Thus, during 2020, the number of remotely issued microloans increased significantly, an increase of 144.3%, said the head of projects and programs of the NBU Licensing Department Orest Franchuk. For 9 months of 2020, 67.9% of non-bank loans (over 5 million) in the amount of UAH 17.8 billion were issued remotely.

Although almost all financial companies complied with the Law on Financial Services and the Law on Consumer Protection in force at the time of its conclusion, many of them include in their contracts provisions that in one way or another create increased risks for the borrower. Only in 3% of contracts no such provision was recorded (fig. 2.3.).

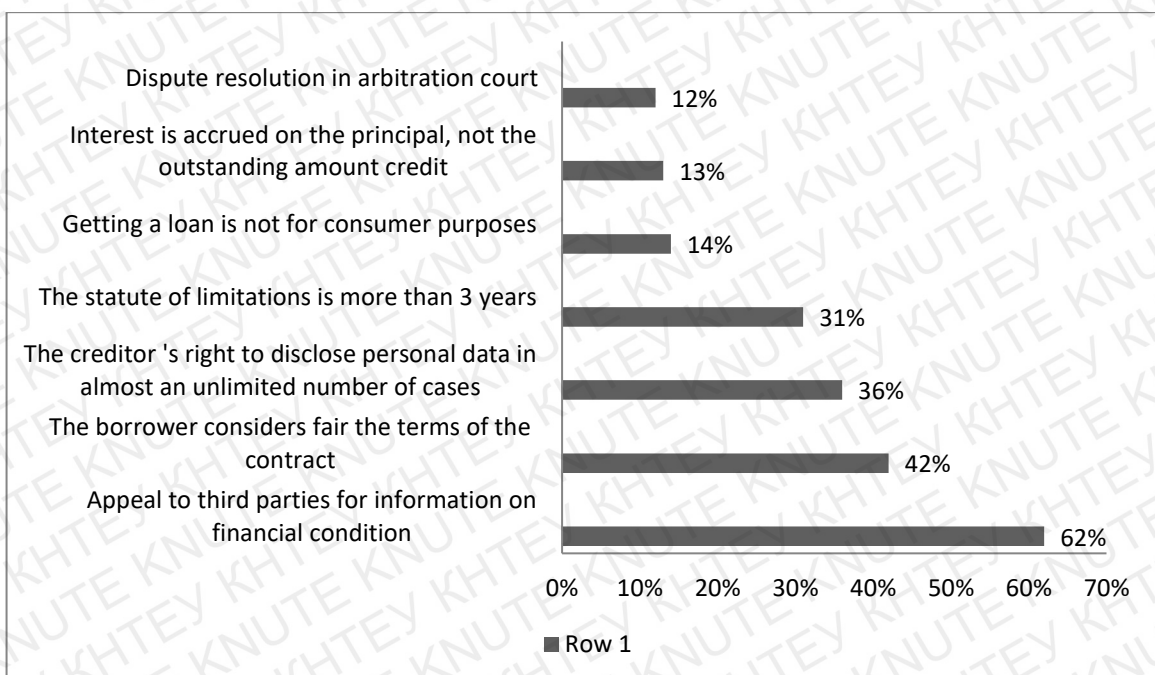


Fig. 2.3. Indicators of provisions in contracts that can be considered risky for the borrower (N = 90)

*Source: [21]*

According to Natskomfinposlug, the TOP-20 companies operating in the online lending market cover almost 85% of the microcredit market. The dynamics shown by financial companies had a positive effect on the issue of income tax payment, which last year increased by 60% compared to 2018, said Natskomfinposlug. However, Natskomfinposlug received about 19,000 complaints about the work of financial companies in 2020.

The average calculated by analysts according to the NBU RRPS is 28,671% per annum, which shows that on average, lending companies charge more in reality than they indicate in the contracts. It is very difficult for an average microloan borrower to calculate this on their own and understand that he is overpaying for an already expensive loan.

In 86% of contracts, provisions were identified that could be considered illegal. Most often, companies include in contracts provisions for raising the interest rate in case of default by the consumer (recorded in 64% of contracts). Provisions on the application of fines and penalties for the same violation were contained in 24% of contracts. Restrictions on the right to early repayment of the loan were contained in 22% of contracts, and restrictions on the right to withdraw from the contract - in 20% of contracts [20].

Until recently, among all companies providing financial services, only financial companies did not have their own relevant legislation. "Even the subject of activity of financial companies is not defined today, this is what the regulatory conflict is based on," the experts said at the round table. Experts at the round table also discussed the most vulnerable points in the field of microcredit, which can be addressed only through the joint efforts of the state and market participants. In particular, the most vulnerable areas at the moment are the minimization of risks

associated with the issuance of loans to fictitious persons, financial illiteracy, low inclusion of financial services and disorder with the protection of consumers of financial services [15].

Today, only 60% of Ukrainians have bank accounts and have the opportunity to use banking and non-banking financial services. The highest level of financial illiteracy is observed among young borrowers - from 18 to 27 years old - who are the main audience of MFIs. Therefore, among the most important tasks of microfinance companies is to ensure the financial inclusion of the population to inform borrowers about the consequences of non-payment of debts, arrears and other non-fulfillment of their obligations by borrowers.

Relatively high levels of fraud, MFIs are trying to increase the level of cybersecurity by introducing new scoring technologies, using advanced IT technologies and artificial intelligence. But the effectiveness of these measures is significantly increased only with sufficient support for such initiatives by the state, namely - the timely improvement of legislation. According to MFIs, from 10 to 30% of companies' profits go to improving the security system, which minimizes the level of fraud.

The analysis of the main problems of ensuring financial inclusion in the direction of microcredit to the population of Ukraine provides an opportunity to outline the following strategies that need to be implemented.

Thus, first, the NBU needs [20]:

- to stimulate the spread in Ukraine of such instruments to ensure financial inclusion as: electronic money, mobile payment systems, first of all - contactless, acceptance of cash payments by terminals for further transfer, private cross-border money transfers by performing the following tasks:

- to ensure a reduction in demand for cash (through the spread of non-cash forms of income, increase the cost of cash, reduce the maximum amount of cash payments);

- to increase the level of financial awareness of consumers within the implementation of the NBU Financial Literacy Strategy, which provides for the

development of a single communication platform on financial literacy and the Educational Information Center based on the NBU.

Secondly, the NBU in coordination with the Ministry of Education and Science of Ukraine needs [20]:

- to ensure the implementation of the priorities of the Financial Literacy Strategy:

- change the financial culture of individuals by forming centers of financial culture in the family, school, community, including with the help of public opinion leaders. An indicator of the implementation of this priority should be the ability of an individual to draw up their own budget, to be responsible for their own financial decisions, to carry out financial planning, including in the long run, control financial accounts, save and accumulate, use loans wisely and manage your own debt, actively and consciously use remote service channels in the financial sphere, buy and sell goods and services via the Internet, identify Internet fraud and be able to protect yourself from them;

- ensure that financial literacy activities are focused on young people (aged 10 to 24) as a target audience, primarily by teaching the school a course on financial literacy as compulsory, as a result of which school-age children will receive basic knowledge and skills from financial literacy;

- to organize the creation on the basis of the NBU Communications Department of a single communication platform on financial literacy based on the experience of working communication platforms Money Wise (Netherlands), Finanzas para todos (Spain), Money Sense (Canada), La finance pour tous (France), Vikifin.be (Belgium), Money Smart (Australia). The key task of such a platform should be to convey information to consumers in simple and accessible language through visual (graphic and video) content. Examples of communication activities to be held on the basis of the NBU's single communication platform are, in particular, successful practices implemented by the Dutch Money Wise platform: "National Money Week" for children aged 4-12, "3 retirement days" for existing employees. , which explains the different options for future pensions, etc .;

- to ensure the establishment of the Educational and Information Center at the NBU as a center of financial education and communication on the tasks and functions of the NBU, which should combine the Museum of Money, the Center for Youth Education and the Center of Teacher Competences; the principles of this Center should be: innovation, interactivity and education; An example of the successful operation of similar centers abroad is, in particular, the practice of the Australian platform Money Smart, which offers personal finance training packages for primary and secondary school teachers, separate modules for students and their parents, a total of 20 interactive digital tools related to the standard school curriculum, which provides financial literacy and financial discipline testing for 5,000 teachers and 120,000 students from 90 schools in the country.

Third, the NBU in coordination with the All-Ukrainian Central Union of Consumer Societies "Coop Ukraine" needs [15]:

- to ensure the spread of the project "Ukoop 2.0" to all regions of Ukraine and all existing (about 14 thousand) stores that operate under the brand "Coop Ukraine";

- to organize the expansion of the range of financial services offered by payment terminals: payment for utilities, payment / repayment of loans, card-to-card transfers, payment of money transfers, other banking services by installing additional payment card acceptance modules.

In general, these measures should increase the penetration of financial services among the rural population, encourage rural residents to open payment cards and use them for payments in terminals, as well as the accumulation of funds in customer accounts, which will further increase the liabilities of the banking system.

Fourth, JSC "Ukrposhta" and such banks as JSC CB "Privatbank", JSC "State Savings Bank of Ukraine", PJSC JSB "Ukrgasbank") should consider the possibility of installing payment terminals in all post offices located in rural areas, which will increase the availability of banking services for local residents.

Fifth, the Ministry of Social Policy of Ukraine in coordination with the

Pension Fund of Ukraine and state banks (JSC CB "Privatbank", JSC "State Savings Bank of Ukraine", PJSC JSB "Ukrigasbank") must gradually transfer all recipients of pensions and other social benefits to non-cash form of payment by issuing payment cards in branches of one of the state banks (at the option of recipients), which will increase bank liabilities, intensify non-cash payments and reduce the share of the shadow economy in the country. It is necessary to agree on such a transfer for each settlement with the guarantee of the possibility of cash withdrawal through a network of physically accessible ATMs located nearby.

These recommendations should address the main problems of financial inclusion in the direction of microcredit in Ukraine, which are currently [26]:

1. Maintaining a high share of individuals who do not use financial services. According to the World Bank, at the end of 2017, about 1.7 billion adults (31% of the population) did not have a bank account (Appendix 1). In Ukraine, their share was even higher and amounted to 37% ix. At the same time, the dynamics of availability of financial services in Ukraine is positive: in 2011 the share of adults who did not have any bank account was 59%. Today, more than 100 countries around the world have already developed a national strategy for financial inclusion or components of financial inclusion integrated into other national strategies.

2. Insufficient level of development of non-cash economy. The share of cash payments in the total amount of payments in recent years in Ukraine has the downward trend, however, remains significant. At the time of the decision to implement in Ukraine a comprehensive program to transfer cash to the non-cash form "Cashless economy" (2014), the level of non-cash payments in the economy was 25%, and the ratio of cash to GDP - 18%. The goals of the project "Cashless economy" for 2020 are defined: the level of non-cash payments in the economy - 55%, the ratio of cash to GDP - 7.5%. As of January 1, 2019, the level of non-cash payments in the economy increased to 45%, the ratio of cash to GDP decreased to 10%.

3. Low level of financial literacy of individuals. Financial inclusion is directly related to financial literacy, so the best practices for improving financial

inclusion are brought together under the auspices of international organizations: the World Bank, the OECD, USAID, etc. At the same time, the function of increasing financial literacy in other countries mainly belongs to the Central Bank. The results of the study of the level of financial literacy, financial inclusion and financial well-being in Ukraine in 2018 showed that Ukraine lags behind the leading countries in the level of financial literacy with a score of 11.6 points from the maximum. At the same time, insufficient financial literacy is an equally important problem for all Ukrainians, regardless of age, gender, region of residence. In particular, Ukrainians avoid talking about personal finances and methods of managing them, most of them are focused on spending money in the current period and tend to spend more than save. At the same time, there is a high public demand for financial literacy. One of the last measures of the regulator aimed at solving this problem was the presentation of the relevant Strategy of the NBUxvii, which took place on June 12, 2019.

4. Limited access to financial infrastructure in rural areas. One of the obstacles to ensuring financial inclusion in Ukraine is the inability of rural residents to use financial services due to their physical inaccessibility. For example, in terms of saturation of payment terminals, the leader is Kyiv, where their number is close to European countries and is 16.2 units. per thousand inhabitants, in Dnipropetrovsk and Kharkiv regions. these indicators are 8.5 and 6.5, respectively, while in Zakarpattia and Ternopil regions. this figure is only 3.3. On average, there are 6 terminals per thousand population in the country, while in Poland - 12.5, and in the UK - more than 50x. About 13 million people, or 31% of the population, live in rural areas in Ukrainexx. At the same time, in rural areas there is a limited presence of financial services against the background of the dominance of cash circulation, physical limited access to the Internet, the dominance of only two national brands: JSC "Ukrposhta" and "Coop Ukraine" (before rebranding - "Ukoopspilka"). Thus, villagers are experiencing an acute shortage of basic financial services: the ability to pay for utilities, replenish mobile accounts, pay for the Internet, pay by card, receive transfers and more. Currently in



the shops of Ternopil region. On the basis of "Coop Ukraine" the project "Ukoop 2.0" is being implemented, which provides for the installation of terminals with a catalog of goods and financial services that will provide consumers with the opportunity to make non-cash transactions, pay for mobile communications, Internet, etc.

5. Insufficient level of public confidence in the financial system due to inadequate consumer protection. One of the strategic goals of the NBU is to ensure maximum openness and transparency of its actions. As part of the measures aimed at achieving this goal, a new Communications Strategy was approved at the end of 2018<sup>xxii</sup>, which contains three main objectives: to strengthen trust in the regulator, maximize its impact on the behavior of economic agents, eliminate information asymmetry and reduce uncertainty in the economy maximum access to information. Since the beginning of 2019, the NBU Expert Platform has been operating - a communication platform that unites central bank specialists with a large body of knowledge in various sectors of the economy and finance. From the beginning of the NBU Expert Platform, the materials of researchers can be found on the NBU's Facebook page and on the regulator's Youtube channel. To strengthen trust, the NBU also sets new standards for the protection of the rights of consumers of financial services and begins to introduce new regulations, which provide for the development of a new standard of client-financial services; creation of a separate subdivision in the NBU, which should take care of citizens' appeals (Department of Consumer Protection of Financial Services); opening of a call center and a Unified Reception Center for prompt answers to questions related to banking and financial services<sup>xxxv</sup>. The adoption on September 20, 2019 of the Law of Ukraine on Amendments to Certain Legislative Acts of Ukraine Concerning the Protection of the Rights of Consumers of Financial Services should significantly increase confidence in the financial system of Ukraine as a whole. Changes in the legislation unify the approaches to the disclosure of information about the value and other parameters of financial products and services, the formats of communication between banks and customers when receiving

complaints, the deadlines and content of appeals and responses.

### **SECTION 3**

#### **DIRECTIONS OF IMPROVEMENT OF FINANCIAL INCLUSION IN DIRECTION OF MICROCREDITING OF POPULATION**

##### **3.1. Development and implementation of a modern strategy "State - Population" in the direction of microcredit**

The process of global development of microfinance is beginning to penetrate into Ukraine, where there is still the formation of microfinance relations. And even with the reduction of state financial support for small business, this institute has a steady development trend [25]

An important role in the cluster of microfinance organizations in Ukraine is played by the Bank for Development and Foreign Economic Affairs of Vnesheconombank, which provides assistance to small businesses. Its activities are mediated by the following procedure: delivery of financial resources to market participants, who then lend to small businesses. At the same time, this bank provides monitoring of the targeted use of resources [26].

Usually large banks form units to interact with customers of microfinance organizations, because they do not work directly in the microfinance system, which is associated with significant costs, growing needs. Thus, it can be stated that the microcredit system is a hierarchical structure of risk distribution between the spectrum of borrowers on the basis of "effective value", in the target markets and strategies for different groups of borrowers.

In practice, microfinance institutions are serviced by regional banks with knowledge of the region's economy and customer needs, and they can more accurately assess credit risks. However, regional banks cooperate with large banks on the acquisition of financial resources for lending, and reinsurance of credit

risks.

The dynamics of the microcredit process in Ukraine is becoming more widespread. In fig. 3.1. the change of the structure of the microcredit market from 2018 to 2020 is stated.

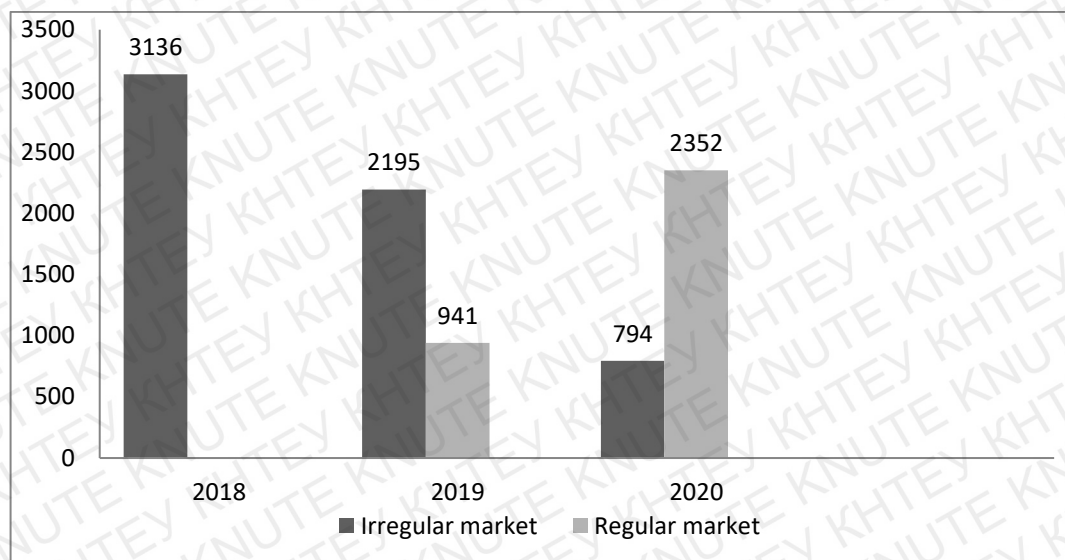


Fig. 3.1. Dynamics of the structure change of the microcredit market in Ukraine for 2018-2020

*Source: [21]*

The annual growth of the loan portfolio in 2019 increased by 33%, in 2020 there was also a positive trend [7].

At the same time, the microfinance system has a range of problems, in particular, a simple loan acquisition scheme that contains the risk of creditworthiness. If the client, having taken loans from banks, can not repay them, he uses loans from microfinance institutions. The perniciousness of such a strategy leads to bankruptcy and loss of property.

Analysis of the simplified lending system shows that the risk of the loan portfolio for more than thirty days is small. The microfinance market in Ukraine is at an early stage of development, and problems with creditworthiness are little felt. But the dynamics of debt growth suggests that this problem is becoming widespread, especially in adverse macroeconomic conditions. Thus, in 2019 the debt on microloans has more than doubled. One of the reasons for this process was

the withdrawal from the market of dishonest microfinance organizations.

In 2020, a number of innovations were introduced with a significant transformation of the microcredit market structure. Among them are self-regulation of the microfinance market and development of a range of business standards.

The development of the microfinance market is outpacing the dynamics of lending to small and medium-sized businesses. The most profitable tool in the field of microcredit is lending on the basis of "payday loans": this segment increased in 2019 by 30%.

In terms of financial stability among MFIs, obviously, banking structures can be considered leaders. In 2020, amendments to normative legal acts and laws on lending and microfinance organizations came into force in Ukraine. As a result of licensing, based on the adoption of new amendments, the volume of the shadow market in lending will decrease, which will increase the importance of sustainable development of the microcredit sector. In addition, microfinance institutions are required to provide information on borrowers to credit bureaus.

In addition to the above, the main change is the need for a reserve of microcredit organizations to cover losses on loans. Innovations in the legislation will lead to increased requirements for borrowers of microcredit organizations.

Large microcredit organizations have prepared for institutional innovations that have a positive impact on the credit system, reduce the share of non-repayments of microcredit and reduce the number of unscrupulous borrowers in the loan portfolio. As a result, if credit bureaus interact effectively with microcredit authorities, market lending rates will decrease as risk reduction potential emerges. The dynamics of the microloan market in Ukraine over the past three years is shown in fig. 3.2.

So given the indicators of Fig. 3.2. we can say that in 2018-2020 the volume of the microcredit market has grown significantly. In the period up to 2020, this trend will continue, and the growth of the microcredit market is projected to be about 50% per year.

The current strategy of "State – Population" in the direction of microcredit is

the inclusivity of the instruments for regulating the microloans market by the state for players of this business (MFIs). Continuous access to CHB (Credit History Bureau) and expansion of borrowed information from the client's bank using the "BankID" verification system allows to predict the client's default/bankruptcy with a high probability is avoiding minor risks.

Due to the majority of clients in Ukraine fill out a loan application form knowingly falsely, a system that calculates the term and size of the loan that can be provided to this client gives the wrong result. Which at best will only lead to a delay in payment of the loan, and at worst – to exhausting court hearings.

At this stage, it is proposed to include the following information in the customer data package provided by the "BankID" service provider:

- average monthly income
- place of work
- average monthly turnover on the card account
- belonging of the client to the risk group (availability of transactions in the direction of entertainment companies, namely internet casinos, bookmakers)
- availability of debts for communal payments (all over-the-top banks of Ukraine provide the service of payment of utility bills in their application and monitor invoices by utility providers)

Microcredit services are popular in small towns as well as in rural areas. In the future, the importance of the microcredit market in small towns will change slightly less. Changes in its share will be a little more than 1-2%.

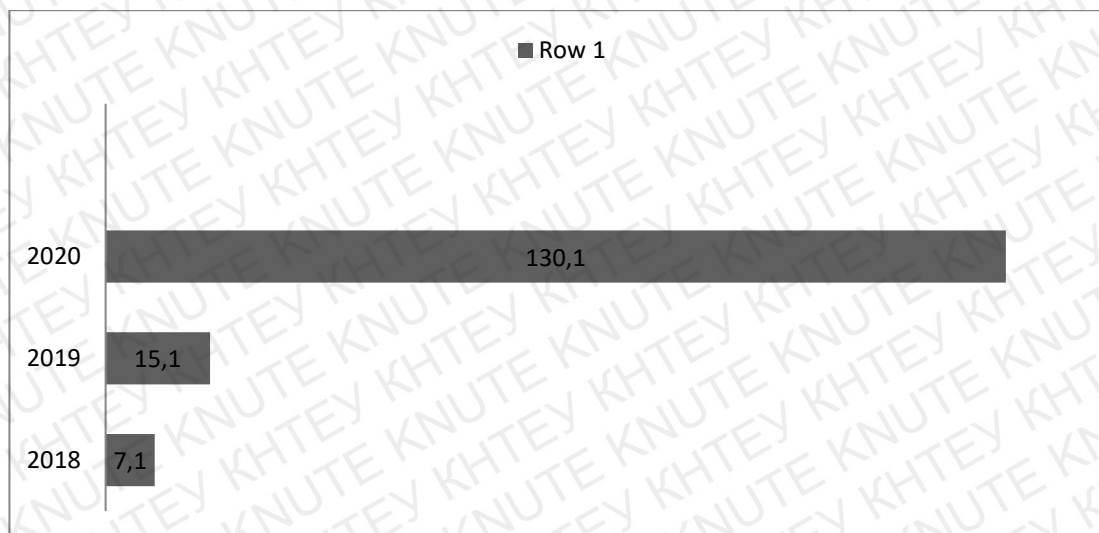


Fig. 3.2. Dynamics of the microcredit market in Ukraine for 2018-2020

Source: [15; 21]

A significant part of microcredit of microcredit organizations was short-term loans with a term of less than one year, which is due to the peculiarities of the microfinance market.

In 2020, there was a tendency to increase long-term loans for more than 1 year. Microcredit organizations have a need to use medium and long-term loans with the growth of the loan portfolio for the efficiency of financial resources by reducing the intensity of operations. In addition, the demand for long-term loans is determined by consumers. Borrowers use funds to replenish working capital and renew fixed assets.

In the consumer sector, purchase loans require an increase in loan repayment schedules. The trend of increasing the share of long-term loans is an indicator of the development of the microloan market, an increase in demand from borrowers and is confirmed by an increase in the volume of the microloan portfolio [28].

Microcredit organizations focus on microloans to small businesses and individuals. The average microloan is no more than 5,000 hryvnias. Working with small loans is associated with a high level of operating costs, which increases with the reduction of the loan amount.

Insignificant amounts of loans, given above for short periods, initiate the

growth of lending rates. This does not reduce the availability of the loan for the borrower, because the profitability and turnover of small business is higher than that of large. The increased rate offsets the risks of non-repayment of loans.

Analysis of the distribution of microcredit organizations in Ukraine shows that MFIs are unevenly distributed. In 2019, the volume of microcredit on the market in Ukraine amounted to UAH 35 billion. It is estimated that only small businesses need an order of magnitude investment, namely about UAH 300 billion. (80% - for the development of small businesses, 20% - for start-ups) [28].

Thus, in the long run, the microcredit market may increase in size. According to the National Bank of Ukraine, there are only 11 bank branches per 100,000 inhabitants of Ukraine, and in the EU this figure is 50-60 branches. The reason is that there are no banking structures in remote regions. All of the above determines the need to develop a strategy for sustainable development of microcredit in the market.

Some scholars are of the opinion that in this case, the first thing to do is to develop a policy that will be implemented through strategic planning and management.

The strategy is developed taking into account a certain management technology. In general, it should include three stages [27].

The first stage is the analysis of the initial situation of the microcredit organization until the development of the strategy. This stage will include:

- analysis of the life cycle of a microcredit organization;
- analysis of strategic fields of activity in terms of market attractiveness and competitiveness;

First, the stage of the MFI life cycle should be determined and its possible actions for strategy development should be analyzed based on the results. In this case, determining the stage of the life cycle is necessary to understand what the initial state of the microfinance organization, and what path it will have to overcome to achieve strategic goals. It is important to identify not only the stage of the life cycle, but also the stages of crisis development that appear in the phase of

maturity and withdrawal from the market. There can be five such crises [29]:

- failure of the strategy;
- profitability;
- liquidity;
- insolvency;
- bankruptcy.

As a rule, the failure of the strategy is eliminated without additional costs. Other crises are addressed through strategic planning to strengthen profitability and liquidity. However, in case of insolvency or bankruptcy, the strategy is appropriate in the presence of business investors.

The analysis of strategic segments of MFI activity begins with formation. Strategic segment of activity (SSD) - part of the market, a hybrid of products and other market segments. The division of the entire market into SSD is necessary for MFIs to organize it, to determine its position in the market.

Reliable market segmentation is a necessary condition for the development of the strategic process. It should be noted that most often the characteristics of strategic planning focus on the marketing function of the strategy. Only after developing a financial strategy for microcredit, you can proceed to its implementation through the organization of operational planning and management.

MFI strategic measures are divided into two groups: those that require investment and those that are implemented at cost.

Strategic measures that require investment are segmented into projects. Usually one to four such projects depending on the size of the MFI and its objectives. Drawing up business plans for each investment project, and then ranking them while payback, is a prerequisite for implementing the strategy, with a minimum amount of cash capital.

An integrated approach to the implementation of the MFI strategy provides harmonization of indicators for functional areas of activity, MFI units and allows to improve competitiveness in a shorter time compared to other management methods.



Thus, based on the analysis of the microfinance market and strategic planning shows the need to form a strategy of the microfinance organization taking into account market conditions that can reduce its risks in the process of its activities.

### **3.2. Economic effect of implementation and testing of results for partner countries**

Microcredit services are widespread all over the world. The closest partner countries with similar rules of service - Moldova, Bulgaria, Romania.

In all the above countries the microcredit market is regulated by the National Bank. Average annual interest rates in Moldova, Bulgaria and Romania are given in table. 3.4

*Table 3.1.*

#### **Real interest rates of the main partner countries of Ukraine**

Country	Real interest rate per annum (p.a.)
Moldova	537%
Bulgaria	468%
Romania	2721%

*Source: [23;27;29]*

Interest rates are calculated according to the methodology of the National Bank of Moldova, Bulgaria and Romania, respectively.

The most interesting part of research was the legal and administrative regulation of market players. In Romania, there is a Decree of the National Bank of Romania "On the disclosure of information on the real interest rate on loans" according to which, in all promotional materials of service providers must indicate the real interest rate on credit products.

The calculation formula of this rate includes all penalties and penalties for the body on the loan. In case of delay by the client to pay the debt within a year.

However, in Moldova and Bulgaria, it is much easier for microcredit companies to do business. The calculation formula of the real interest rate should

include only the interest accrued on the body of the loan during the year, without "compound interest" and penalty accruals.

Therefore, we conclude that financial inclusion in microcredit in Moldova and Bulgaria is much lower than in Romania and Ukraine.

To calculate the performance indicators of the proposed draft strategy, the description of which was set out in section 3.1. it is expedient to make the table (tab. 3.2) where the consolidated monthly data for convenience of calculations are specified.

As an example, we simulate a situation in which the management of one company needs to find financial resources. According to the decision of the financial director of the enterprise, the best option was to take a loan from a bank.

The payback period of the investment project will be calculated under the condition that the company takes a loan from a bank in the amount of UAH 75,000. for 2 years, discount rate 30%.

*Table 3.2.*

**Initial data on the calculation of the main indicators of project efficiency**

<b>Indexes</b>	<b>Value</b>
1. Project cost (project costs), incl.	
Free Cash Flow	69650
EBITDA (= income-variable costs-fixed costs)	52795
EBITDA margin, %	78,2
2. Service life, quarters	6
3 Cash flows by quarters, UAH:	3157150
in the 1st quarter	653830
in the 2nd quarter	625460
in the 3rd quarter	636400
in the 4th quarter	608870
in the 5th quarter	625500
4. Discount rate, %	40
5. Permissible for the company payback period, years.	2

*Source: created by the author*

The probable benefits of the project had to be taken into account in the calculations. The implementation of the proposed project will contribute to the further development of the enterprise, which in the first place will significantly increase the customer base and consolidate leadership in the field of microcredit.

The calculation of net discounted income (NPV) is based on formula 3.1.

$$NPV = \sum_{k=1}^n \frac{Bt - Ct}{(1+i)^n} - IC \quad (3.1)$$

where  $B_t$  - project benefits in year  $t$ ;

$C_t$  - project costs in year  $t$ ;

$t$  - discount rate (30%);

$n$  is the duration of the project

The results of the calculations are set out in table. 3.3.

Table 3.3.

### Calculation of actual cash flows to determine NPV

Time period (t), year	Investments	Income ( $B_t$ )	Expense ( $C_t$ )	$B_t - C_t$	$K_{disk}$ ( $1/(1+i)$ )	Net discounted receipts
0	75000	-	-	-	-	-
1		653920	52300	601620	0,769	462784,62
2		623460	51320	572140	0,592	338544,38
3		635400	55090	580310	0,455	264137,46
4		609870	49800	560070	0,350	196096,08
5		624500	52700	571800	0,269	15400236
$\Sigma$						1415564,89

Source: created by the author

$$NVP = 1415564,89 - 75000 = 1340564,89 \text{ (UAH)}$$

The proposed project has a positive net discounted income of UAH 1,340,564.89.

Next, calculate the index of return on investment by formula 3.2 .:

$$PI = \sum_{k=1}^n \frac{Bt - Ct}{(1+i)^n} = \frac{1455564.89}{75000} = 18.9 \quad (3.2)$$

Since the index of return on investment is greater than 1 (18.9), so the project is effective and appropriate for the company.

Also, calculate the discounted payback period of the investment according to formula 3.3:

$$DPP = t + \frac{KPVt}{PV_{t+1}} = 0 + \frac{462784.62}{338544.3} = 1.37 \quad (3.3.)$$

where  $t$  is the year of the last negative value of the cumulative value;

$KPVt$  - cumulative value of  $t$  year (last negative value), UAH;

$PV_{t+1}$  - discounted value of cash flow in  $t+1$  year, UAH

According to the calculations, the payback period of the project is 1.37 quarters.

Calculate the cost-benefit ratio, it shows how much will be obtained from 1 invested hryvnia.

$$BCR = \frac{\sum_{t=1}^n \frac{Bt}{(l+1)^t}}{\sum_{t=1}^n \frac{Ct}{(l+1)^t}} \quad (3.4)$$

where  $Bt$  - project benefits in year  $t$ ;

$Ct$  - project costs in year  $t$ ;

$l$  - discount rate (30%);

$n$  is the duration of the project.

$$BCR = \frac{653920 * 0,769 + 623460 * 0,592 + 635400 * 0,455 + 609870 * 0,350 + 624500 * 0,269}{52300 * 0,769 + 51320 * 0,592 + 55090 * 0,455 + 49800 * 0,350 + 52700 * 0,269} = 12$$

Thus, we can say that the above draft strategy of micro-lending to the population "State-population" is effective, because 1 invested hryvnia has a profit of 12 UAH.

To evaluate the recommended project and to decide on the feasibility of financing, we will enter the calculated values of the project performance criteria in (Table 3.4.): Net present value (NPV), return on investment index (RI), discounted return on investment (DROI), discounted payback period (DPP), cost-benefit ratio (BCR).

Table 3.4.

**Project performance indicators**

Indicators Indicator Solution	Indicators Indicator Solution	Indicators Indicator Solution
Net discounted income (NPV), UAH	1340564,89	The project should be accepted
Profitability Index (RI)	18,9	The project is profitable
Discounted return on investment (DROI)	17,9	The project is accepted
Discounted return on investment (DPP)	1,37	The project is accepted
Benefit / cost ratio (BCR)	12	The project is accepted

*Source: created by the author*

Thus, analyzing the indicators of evaluation of the effectiveness of the proposed project of microcredit of the population "State-population" and evaluating its economic efficiency on the example of a Ukrainian enterprise, we can conclude that the project is appropriate and profitable.

## CONCLUSION AND RECOMMENDATIONS

The final qualifying work was dedicated to the study of the topic: "Strategy of financial inclusion in the direction of microcredit to the population." Thus, in the course of the research a number of tasks were set and performed, namely: theorists-methodological aspects of financial inclusion in the field of microcredit of the population were characterized; innovative instruments of financial inclusion in the direction of microcredit of the population are analyzed; the assessment of financial inclusion strategies in the direction of microcredit of the population was carried out; a review of the development and implementation of a modern strategy "State - Population" in the direction of microcredit; the economic effect of the implementation and testing of the results for the partner countries is clarified.

The essence of microfinance is to provide unsecured loans to borrowers who do not have a steady income, such as salary, ie. cannot provide standard support.

For microcredit to be high quality, MFIs must adhere to the following principles: sustainability; scale; depth of scope; self-sufficiency; profitability.

Financial inclusion should create the conditions for involving the entire population and enterprises in the use of various financial services, which are provided with infrastructure and prices, are officially regulated and meet the needs of the population, in order to stimulate economic growth and reduce social inequality. Lack of financial literacy has quite negative consequences for making personal financial decisions.

The analysis of the main problems of ensuring financial inclusion in the direction of microcredit to the population of Ukraine provides an opportunity to outline the following strategies that need to be implemented. Yes, first the NBU needs:

4. To stimulate the spread in Ukraine of such instruments for ensuring financial inclusion as: electronic money;
5. To reduce the demand for cash;

6. To ensure the increase of the level of financial awareness of consumers within the framework of the implementation of the Financial Literacy Strategy of the NBU;

Secondly, the NBU in coordination with the Ministry of Education and Science of Ukraine needs:

6. Ensure the implementation of the priorities of the Financial Literacy Strategy;
7. Change the financial culture of individuals through the formation of centers of financial culture in the family, school, community, including with the help of public opinion leaders;
8. To ensure the focus of measures to improve financial literacy on young people (aged 10 to 24) as a target audience;
9. To organize the creation on the basis of the NBU Communications Department of a single communication platform on financial literacy based on the experience of working communication platforms Money Wise (Netherlands), Finanzas para todos (Spain), Money Sense (Canada), La finance pour tous (France), Vikifin.be (Belgium), Money Smart (Australia);
10. To ensure the establishment of the Educational Information Center at the NBU as a center of financial education and communication on the tasks and functions of the NBU, which should combine the Museum of Money, the Center for Youth Education and the Center of Teacher Competences.

Third, the NBU in coordination with the All-Ukrainian Central Union of Consumer Societies "Coop Ukraine" needs:

3. To ensure the spread of the project "Ukoop 2.0" to all regions of Ukraine and all existing (about 14 thousand) stores that operate under the brand "Coop Ukraine";
4. Organize the expansion of the range of financial services offered by payment terminals.

Fourth, JSC "Ukrposhta" and such banks as JSC CB "Privatbank", JSC "State Savings Bank of Ukraine", PJSC JSB "Ukrigasbank") should consider the possibility of installing payment terminals in all post offices located in rural areas, which will increase the availability of banking services for local residents.

Fifth, the Ministry of Social Policy of Ukraine in coordination with the Pension Fund of Ukraine and state banks (JSC CB "Privatbank", JSC "State Savings Bank of Ukraine", PJSC JSB "Ukrigasbank") needs to gradually transfer all recipients of pensions and other social benefits to non-cash form of payment by issuing payment cards in branches of one of the state banks (at the choice of recipients).

The microfinance market in Ukraine is at an early stage of development, and problems with creditworthiness are little felt. But the dynamics of debt growth suggests that this problem is becoming widespread, especially in adverse macroeconomic conditions. Thus, in 2019 the debt on microloans has more than doubled. One of the reasons for this process was the withdrawal from the market of dishonest microfinance organizations.

In 2018-2020, the volume of the microcredit market increased significantly. In the period up to 2020, this trend will continue, and the growth of the microcredit market is projected to be about 50% per year.

Analysis of the distribution of microcredit organizations in Ukraine shows that MFIs are unevenly distributed. In 2019, the volume of microcredit on the market in Ukraine amounted to UAH 35 billion. It is estimated that only small businesses need an order of magnitude investment, namely about UAH 300 billion. (80% - for the development of small businesses, 20% - for start-ups).

Thus, in the long run, the microcredit market may increase in size. According to the National Bank of Ukraine, there are only 11 bank branches per 100,000 inhabitants of Ukraine, and in the EU this figure is 50-60 branches. The reason is that there are no banking structures in remote regions. All of the above determines the need to develop a strategy for sustainable development of microcredit in the market.



The strategy is developed taking into account a certain management technology. In general, it should include three stages.

1. Analysis of the life cycle of a microcredit organization;
2. Analysis of strategic fields of activity in terms of market attractiveness and competitiveness;

Finally, an economic calculation of the effectiveness of the proposed strategy was made. Thus, based on the calculations on the example of one of the Ukrainian enterprises, which was able to use microcredit under the new strategy, it was found that the proposed option to improve the microcredit system in Ukraine is effective and profitable.

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## APPENDICIES

## Appendix A

## Ensuring financial inclusion in some countries in 2017

Country	Proportion of adult population
Austria	98
Azerbaijan	29
Belarus	81
Bulgaria	72
Armenia	48
Georgia	61
Estonia	98
India	80
Italy	94
Kazakhstan	59
Kirghizia	40
China	80
Latvia	93
Lithuania	83
Moldova	44
Poland	87
Russia	76
Romania	58
Slovakia	84
Turkey	69
Hungary	75
<b>Ukraine</b>	<b>63</b>
France	94
Germany	99
Czech Republic	81
The world in general	69

## Appendix B

№	Company name	Brand / trademark under which it operates	Beneficiaries (according to official data)
1	LLC "MANIVEO" ambulance		Mykhailo Lyzanets
2	LLC "Consumer Center"	Fast money, For a long time	Amir Aysautov
3	Aventus Ukraine LLC	Creditplus	Andreas Trofimovas
4	LLC "1 safe agency of necessary credits"	My credit monto	Natalia Gordienko, Olena Katerynychyk
5	UKR Credit Finance LLC	Credit casta	Amir Aysautov
6	LLC FC "Center for Financial Solutions"	Credit market	Sergey Tigibko
7	Miloan LLC	Miloan tengo	Butko Radio
8	BLG MICROFINANCE LLC	Cash point	Butko Radio
9	LLC "SMARTEVEY UKRAINE"	Smartiway	Valery Muratov
10	LLC "Lineura Ukraine"	Credit7	Borisas Trofimovas