The Economist Intelligence Unit

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GLOBAL MICROSCOPE 2016

THE ENABLING ENVIRONMENT FOR FINANCIAL INCLUSION

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About this report

The *Global Microscope 2016: The enabling environment for financial inclusion* assesses the regulatory environment for financial inclusion across 12 indicators and 55 countries. The Microscope was originally developed for countries in the Latin American and Caribbean regions in 2007 and was expanded into a global study in 2009. Most of the research for this report, which included interviews and desk analysis, was conducted between April and August 2016.

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The complete index, as well as detailed country analysis, can be viewed on these websites:

www.eiu.com/microscope2016;

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The Center for Financial Inclusion at Accion (CFI) helps bring about the conditions to achieve full financial inclusion around the world. Constructing a financial-inclusion sector that offers everyone access to quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using a toolkit that moves from thought leadership to action. For more information, visit www.centerforfinancialinclusion.org.

About MetLife Foundation
MetLife Foundation was created in 1976 to continue MetLife's long tradition of corporate contributions and community involvement. Since its founding through the end of 2014, MetLife Foundation has provided more than $670m in grants and $70m in program-related investments to organisations addressing issues that have a positive impact in their communities. Today, the Foundation is dedicated to advancing financial inclusion, committing $200m to help build a secure future for individuals and communities around the world. To learn more about MetLife Foundation, visit www.metlife.org.

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Microscope indicators

The 12 indicators and supporting sub-indicators for this index are as follows:

1. Government support for financial inclusion
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2. Regulatory and supervisory capacity for financial inclusion
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3. Prudential regulation
   Sub-indicator 1: Appropriate entry and licensing requirements
   Sub-indicator 2: Ease of operation
4. Regulation and supervision of credit portfolios
   Sub-indicator 1: Interest rates
   Sub-indicator 2: Risk management of credit portfolios
   Sub-indicator 3: Risk management framework for microcredit portfolios
5. Regulation and supervision of deposit-taking activities
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ADJUSTMENT FACTOR: Stability

Sub-indicator 1: General political stability
Sub-indicator 2: Shocks and policies affecting financial inclusion

Scoring methodology: Each of the indicators contains between one and three sub-indicators and, in turn, each sub-indicator is composed of between one and four questions that were scored from 0 to 4, where 4 = best and 0 = worst. Once indicator scores were assigned, these were normalised and weighted according to a consensus among clients and experts, then aggregated to produce an overall scoring range of 0–100, where 100 = best and 0 = worst. Each of the 12 indicators was given equal weight, while sub-indicator weights varied according to importance and the number of sub-indicators included.

Finally, the adjustment factor, Stability, adjusts each country's score for political stability and policies that affect financial inclusion.

For a detailed description of the scoring methodology, please refer to the Appendix.

Introduction

The Global Microscope turns 10 this year—a significant milestone, since few benchmarking indices track progress for so long. This tenth edition also provides an opportunity to pause and consider how far the field of financial inclusion has come since 2006, before the Alliance for Financial Inclusion[1] or even mobile money had come into existence.

The potential benefits of financial inclusion are important: individuals and small-scale entrepreneurs can work themselves and their families out of poverty; women can take advantage of economic opportunities, advancing gender equality across societies; and avenues for money laundering may be reduced. The benefits are sure to spread as an increasing number of people gain greater access to a range of financial tools.

Promoting financial inclusion has become a universal priority, confirmed by the targets set by international organisations. The United Nations' 2030 Sustainable Development Goals (SDGs) consider financial inclusion a fundamental underpinning of wider progress, with five of the 17 SDGs[2] specifically mentioning the need for improved or universal access to financial services. The World Bank Group, meanwhile, has set ambitious goals[3] for the spread of these services to the world's low-income population.

The goals of, and channels for, financial inclusion are continuing to evolve. Financial services for low-income populations have long since grown beyond the early origins in microcredit to include a wide variety of services, including savings products, insurance and payment systems. Technology is also continuing to revolutionise the nature of provision. This year's "High Level Principles for Digital Financial Inclusion", issued by the G20 and the Global Partnership for Financial Inclusion[4], recognise the extent to which financial services for the world's poor increasingly rely on digital technologies, and seek to drive further progress in this area. But the apparent successes in fields such as mobile payments should not obscure the substantial opportunities—and need—for enhancing inclusion that still exist. According to Mix Market, which provides data on financial services for low-income clients, although 78% of access points to financial services in Kenya involve mobile money, the

1 The Alliance for Financial Inclusion is a member-owned network of regulatory and policy making bodies that addresses policy and regulation on financial inclusion; http://www.afi-global.org/

2 The preamble specifically mentions financial inclusion, and five SDGs—Ending Poverty (Goal 1, specifically Target 1.4); Ending Hunger (Goal 2, specifically Target 2.3); Gender Equality (Goal 5, specifically Target 5.a); Sustainable, Inclusive Economic Growth (Goal 8, specifically Target 8.3); and Sustainable, Inclusive Industrialisation (Goal 9, specifically Target 9.3)—note the need for improved or universal access to financial services. "Transforming our world: the 2030 Agenda for Sustainable Development," Resolution adopted by the UN General Assembly, September 2015; http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E.

3 World Bank Group, "Universal Financial Access 2020"; http://ufa.worldbank.org/

4 G20 and GPFI, *High-Level Principles for Digital Financial Inclusion*, July 2016; http://www.gpfi.org/publications/g20-high-level-principles-digital-financial-inclusion.pdf

figure is just 1.5% in neighbouring Ethiopia.[5]

Amid these ambitious expectations and rapid developments, it is more important than ever for stakeholders to have the tools that help them understand the current challenges and opportunities surrounding financial inclusion. The Economist Intelligence Unit's Global Microscope series continues to be a key part of the knowledge base for financial inclusion. One of the biggest challenges we note, for example, is the low use of new access points and new accounts by low-income populations leading to a growing recognition that access alone may be insufficient for meaningful financial inclusion. In addition, stakeholders must keep up with innovations such as peer-to-peer (P2P) lending, which is an increasingly significant mechanism for financial inclusion in China and spreading at a varying pace in many other countries.

Like previous editions, the Global Microscope 2016 analyses the overall regulatory and institutional environment for financial inclusion in more than 50 countries. To do so, it examines the policy and institutional environment that enables providers to offer financial products and services and employ new technologies to deliver them, as well as the support that ensures the safe provision of services to low-income populations. These enabling elements are scored across a dozen indicators, each made up of multiple sub-indicators. Together, they give a nuanced picture of the practical realities of enabling financial inclusion in the markets covered. In addition, the accompanying excel model provides a wealth of detailed documentation on the status of each indicator in each country as a resource for digging deeper.

Global Microscope 2016 is intended to support practitioners, policymakers, investors, and other stakeholders in advancing financial inclusion—to help them evaluate countries' progress in this area and to identify further targets that will yield additional benefits. It does so in a variety of ways. First, through a detailed and transparent scoring system, it provides a useful benchmark for how countries are performing compared with their peers on enabling financial inclusion overall as well as on specific elements. The *Microscope* also allows readers to track the performance of countries across the years, and it provides timely information to spur dialogue amongst policymakers and stakeholders and encourage change.

The indicator scores and the data behind them tell an important story, though as a snapshot, it is inevitably incomplete. We hope that the report will provoke stakeholders into putting their knowledge into practice with innovative and effective policies and tools. As the findings in the report discuss, there is a significant gap in most of the countries reviewed and the high aspirations announced at a global level to increase and strengthen financial inclusion. ■

5 MixMarket Finclusion Lab, "Ethiopia—Key Findings: Mobile Money—Ethiopia vs other African countries"; http://finclusionlab.org/country/ethiopia/analytics

Key findings

Figure 1: Microscope 2015 overall scores and rankings

Normalised score 0–100, where 100=best

Score 76–100 | Score 51–75 | Score 26–50 | Score 0–25

"=" denotes tied rank between two or more countries "←→" No change in rank "Δ" denotes a change

Rank/55			Score /100	Δ
		Average	**49**	**+1**
=1	▲ 1	Colombia	89	+3
=1	←→	Peru	89	-1
=3	▲ 1	India	78	+7
=3	←→	Philippines	78	-3
5	←→	Pakistan	63	-1
=6	←→	Chile	62	0
=6	←→	Tanzania	62	0
=8	▲ 3	Kenya	61	+5
=8	▲ 8	Rwanda	61	+7
10	▼ 2	Mexico	60	0
11	←→	Uruguay	59	+3
12	▼ 2	Ghana	58	0
=13	▼ 5	Bolivia	56	-4
=13	▲ 13	El Salvador	56	+7
=15	▼ 4	Indonesia	55	-1
=15	▼ 1	Morocco	55	0
=15	▲ 2	Nicaragua	55	+2
=15	▲ 4	Paraguay	55	+3
19	▲ 1	Dominican Republic	52	+1
=20	←→	Bosnia and Herzegovina	51	0
=20	▼ 3	Brazil	51	-2
=20	▲ 3	Mozambique	51	+1
=20	▲ 11	South Africa	51	+5
=20	▲ 6	Thailand	51	+2
25	▼ 5	Ecuador	50	-1
26	▲ 7	Russia	49	+4
=27	▲ 9	Costa Rica	48	+6

Rank/55			Score /100	Δ
=27	▲ 3	Kyrgyz Republic	48	+1
=27	▲ 4	Panama	48	+2
=30	▼ 16	Cambodia	47	-8
=30	▲ 6	Honduras	47	+5
=30	▲ 5	Senegal	47	+3
=33	←→	Jamaica	46	+1
=33	▼ 5	Nigeria	46	-2
=33	▼ 10	Turkey	46	-4
=33	▼ 10	Uganda	46	-4
=37	▼ 9	Mongolia	45	-3
=37	▼ 1	Trinidad and Tobago	45	+3
39	▼ 3	China	44	+2
=40	←→	Bangladesh	42	+3
=40	←→	Nepal	42	+3
=42	▼ 2	Guatemala	40	+1
=42	▲ 3	Vietnam	40	+6
=44	▼ 4	Argentina	39	0
=44	←→	Tajikistan	39	+1
46	▲ 2	Jordan	38	+6
47	←→	Sri Lanka	36	+3
48	←→	Ethiopia	34	+2
49	▼ 4	Cameroon	33	-1
50	←→	Venezuela	32	+1
51	←→	Egypt	31	+2
52	▲ 1	Madagascar	30	+3
53	▼ 2	Lebanon	29	0
54	←→	Dem. Rep. of Congo	26	0
55	←→	Haiti	22	-2

Leading countries in the field of financial inclusion show consistency across the board

For the first time in seven years, Peru does not occupy the top spot alone: it has been joined by Colombia, last year's number two country (Figure 1). While these two leaders continue to perform highly and in Colombia's case to strengthen certain areas, the more substantial shift and interesting story is about India. India is now firmly among the leaders, having tied the Philippines for third position overall. India is the leader among several countries that have jumped forward substantially this year thanks to deliberate efforts to upgrade their financial inclusion systems (Box 1). Amid these changes, the broader lessons that have emerged over time remain important.

The first is that long-term commitment matters. In the four leading countries, financial inclusion has been on the policy agenda for many years. The central banks of Peru and the Philippines were among the 17 original participants in the Maya Declaration in 2011. Although Colombia took another year to join, its financial inclusion efforts date back at least to 2006. The Reserve Bank of India, meanwhile, has not signed the declaration, but there is no doubting its commitment. With a historic commitment to finance for the lower income segment that stretches back decades, India has taken steps during the past 10 years to modernise its financial system, particularly leveraging technology to bring more of the population in.

The second lesson from the leading countries is the value of consistency across all fields of financial inclusion. The strength in the scores of all four leaders in all indicators is particularly striking. Each country has weaknesses, but for no indicator do any of the four countries score below 50 out of 100. Far more common than low scores are perfect ones, with all but India receiving 100 in at least four of 12 indicators and Colombia achieving 100 in eight indicators. Such results are not accidental. Each of these leading countries has comprehensive, wide-ranging financial inclusion strategies, with three receiving full marks on the sub-indicator *Existence and implementation of a strategy*.

As the scores show, having a strategy with a wide focus means that all areas of financial inclusion receive attention. The differences that set the leaders apart are notable in those areas where weaknesses in financial inclusion are widespread in other countries. In particular, elements added to the inclusion agenda relatively recently have received much more prompt attention in leading countries than elsewhere. For example, the average score among the leaders in the *Regulation of Insurance for Low-Income Populations* indicator is a strong 89 out of 100, with none of the four falling below 80. This is more than twice the overall indicator average of 37. Similarly, all of the leaders receive full marks for the sub-indicator *Digital financial services*, while the average score for this sub-indicator is just 62.

And as they put regulations and systems in place to support the supply of financial services, the four leading countries also take steps to protect consumers. Each of the leaders finishes in the top eight places out of 55 for *Market Conduct Rules* and in the top 12 for *Grievance Redress and Operation of Dispute Resolution Mechanisms*, with Colombia and Peru in both cases receiving perfect scores.

Box 1: **Microscope Movers and Shakers**

Countries that have improved their scores in the last two editions of the Microscope by more than ten points.

India: India has shown dramatic improvement in the Global Microscope between 2014 and 2016. India's financial inclusion policy, Pradhan Mantri Jan-Dhan Yojana (PMJDY or Prime Minister's People's Wealth Scheme), has the political will and institutional support of the government of India and the Reserve Bank of India (RBI). This is demonstrated with quantifiable goals such as the opening of 100m bank accounts for low-income families in 2014 and assisted by the Aadhaar national biometric identification program. The momentum in account opening continued over the next two years, reaching 221m by April 2016. The plan also emphasises access to credit, insurance and pension facilities, as well as the goal of channelling all government benefits into beneficiaries' bank accounts to increase usage. The RBI has targets in place to provide alternative sources of access through bank branches, bank correspondents, ATMs, and satellite branches in villages of 2,000 or more residents. It has also issued guidelines to strengthen financial literacy. In addition, the RBI is working to strengthen the payment system with the launch of the Unified Payment Interface (UPI) to facilitate digital money transfers.

Central American countries (Costa Rica and Honduras): In 2016, Costa Rica implemented long-awaited regulations to make it easier to serve the low-income population. This includes an official, operational definition of microcredit for the purposes of risk management and prudential regulation and a newly recognised additional portfolio of second-tier lending. Costa Rica also issued an executive decree in May 2015 that simplified documentary requirements to open small-sum accounts. Honduras has been committed to financial inclusion for several years, and launched its National Strategy for Financial Inclusion in 2015. The strategy includes specific commitments, such as reaching 51.5% of the population with financial literacy education (up from 30% in 2015), boosting the number of adults with bank accounts to 51.4% (from 31.5% in 2015), and increasing the number of basic savings accounts, to more than 314,000. Also, in 2016, Honduras emphasised the importance of digital financial services regulation with the publication of a comprehensive regulatory framework in a Central Bank Agreement.

Egypt: Egypt has a long way to go to achieve broad financial inclusion but is moving in the right direction. The central bank is working on a financial inclusion strategy with the Egyptian Banking Institute. In 2014, the Microfinance Law went into effect to strengthen the regulatory environment in Egypt. The law also includes a list of Executive Decrees by which licensed institutions must abide. The law will also make reporting to the Egyptian Financial Supervisory Authority (EFSA) obligatory for everyone in the non-bank financial service industry, including all nongovernmental organisation microfinance institutions (NGO-MFIs); they will be required to prepare annual and quarterly financial statements in accordance with EFSA standards (which are in line with international requirements). In 2016, Egypt signed a 3-year US$12bn Extended Fund Facility (EFF) programme with the International Monetary Fund (IMF) that will bolster financial inclusion.

The environment for financial inclusion is moving in the right direction, though slowly

National regulation and policy around financial inclusion are showing gradual progress worldwide, although increases in overall scores since 2014 are small (Figures 2 and 3). The global goal of providing financial services for the billions that do not have them is achievable, but strong momentum, rather than gradual change, is needed. Slow progress might be understandable if policies were already reasonably robust. Unfortunately, by any measure, this is far from the case. The average overall Index score is just 49 out of 100. Similarly, fewer than half of the countries covered—24 out of 55—score above 50. In other words, most countries are not even halfway to an entirely supportive policy environment for financial inclusion.

Figure 2: Convergence of scores, mean and variance—2014, 2015 and 2016

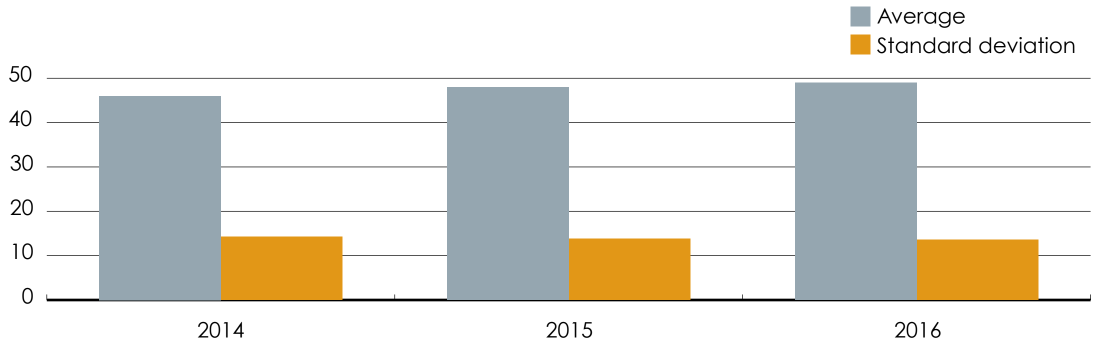
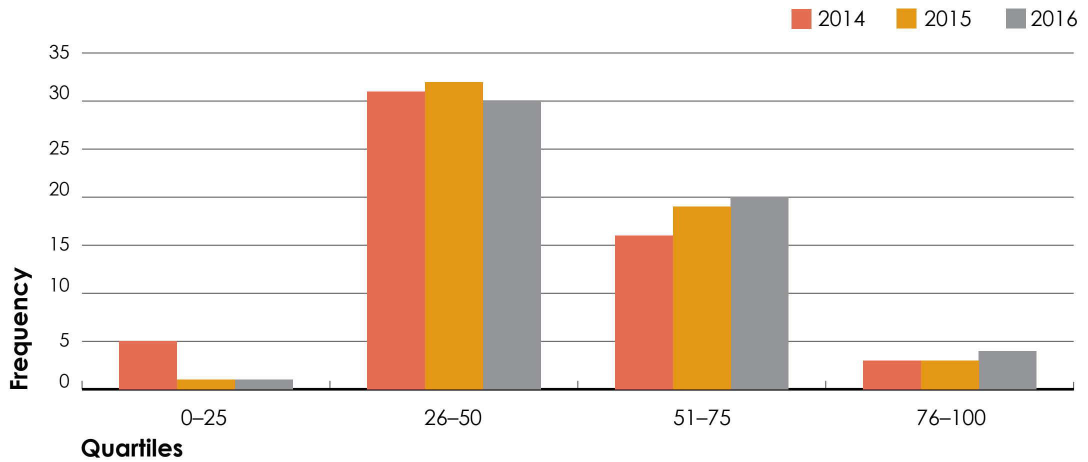


Figure 3: Histogram of country scores: 2014, 2015, and 2016



Between 2014 and 2016, the distribution of scores shows a gradual convergence towards the mean, with a standard deviation of 14.3 in 2014 compared with 13.6 in 2016 (Figure 2). This shows that more countries are performing closer to the average score for enabling financial inclusion, and that outliers with poor enabling environments are slowly increasing their scores with progressive or new policies. An analysis of scores by quartile between 2014 and 2016 (Figure 3) also shows that more countries are scoring in higher quartiles over time. In 2014, 16 countries scored between 51 and 75 out of 100; in 2016, 20 countries are in this group. Also, a slow increase is also apparent for the highest-scoring countries, with three scoring more than 75 out of 100 in 2014, rising to four countries in the latest index for 2016.

There are important variations. As noted below, regulation of institutions, and fields associated with the long-established microfinance agenda—such as prudential regulation of microfinance institutions and supervision of deposit taking activities—are already good in many Microscope countries, with the average score in both of these indicators well over 70. At the same time, notable weaknesses remain in regulation of insurance for low-income populations, market conduct rules and redress mechanisms. A comprehensive strategy for addressing financial inclusion is also often lacking: roughly half (27 out of 55) of the Microscope countries do not have a strategy that contains specific commitments for financial inclusion.

Most countries, then, still need to make substantial improvements in the regulatory environment for financial inclusion, but few are moving quickly toward this goal.

Prudential regulation remains strong but capacity to execute is limited; client protection still has room for improvement

A look at the average scores for the indicators covering prudential regulation reveals the kind of strengths and weaknesses that define today's financial inclusion regulatory landscape. On the one hand, most countries are doing reasonably well in striking the right balance for rules covering relevant institutions. *Prudential Regulation* is one of the three indicators with a high average score (71 out of 100). This does not mean, however, that countries are necessarily well equipped to enforce these rules: the average country score in the *Regulatory and supervisory capacity for financial inclusion* indicator is only 48 out of 100. Nevertheless, the regulations themselves are, in most of the world, reasonably sound.

On the other hand, weaknesses in consumer protection and redress mechanisms for individuals are common. This is particularly true for insurance targeting low-income populations: the two sub-indicators that have the lowest average results in the Index are *Monitoring of consumer protection* for such insurance, where the mean score is just 15 out of 100, and *Relevant dispute resolution mechanisms* (31 out of 100). The lack of safeguards for low-income users of financial services is also an important issue. The two key indicators in this area—*Market conduct rules* and *Grievance redress and dispute resolution mechanisms*—have among the lowest average scores in the Index. In particular, lack of protection against aggressive sales and collection practices, as well as poor efforts to promote market transparency, remain widespread issues.

Financial inclusion efforts, therefore, need to build on broadly successful efforts around institutions so that the balance between service providers and low-income customers is more even.

The greater attention to digital technologies for financial inclusion holds promise

As noted earlier, the "High Level Principles for Digital Financial Inclusion" reflect the already substantial and growing importance of digital technologies to the broader inclusion agenda. Over all, in the indicator of *Electronic payments*, which includes an assessment of the available infrastructure for digital financial services and the services actually available, the average score has improved by three points since 2015. In the 2014–15 period, countries' scores in this area rose by a remarkable 11 points on average, indicating widespread, positive action to create a regulatory environment more conducive to digital economic activity.

In several countries, the availability of, or regulation around, digital financial services improved during the year covered by this study. In three countries highlighted here, this was the direct or indirect result of a wider financial inclusion strategy.

In El Salvador, Honduras and Nepal, implementation of a recently adopted strategy enhanced regulation. In El Salvador, where mobile money has played a role in closing the financial access gap, the Law to Facilitate Financial inclusion has come into force. This created e-money suppliers, Sociedades Proveedores de Dinero Electronico (SPDEs) allowing for simplified requirements for e-money and savings accounts, enhanced regulation of directors and managers of SPDEs, and reduced costs for the suppliers of e-money. In Honduras, the Payment System and Settlement Act regulates the operation of payment systems and securities settlements, including real-time interbank funds transfers, electronic cheque-clearing, electronic payments, payment cards, public funds transfers, cross-border payment transfers and payments made by mobile phone. The National Strategy for Financial Inclusion in Honduras recognises the importance of e-money and digital financial services for financial inclusion, and it is accompanied by a comprehensive regulatory framework issued by the Central Bank. Nepal's central bank, Nepal Rastra Bank, issued new guidelines on mobile money and branchless banking, which also cover internet banking and e-card business services.

Apart from improvements year to year, several of the countries in the study continue to receive the highest score of 100 out of 100 in the overall indicator of e-payments. These are Bolivia, Ghana, India, Kenya, Sri Lanka and Tanzania, with India being the addition this year to countries with a full score in this indicator. These countries' achievements in the infrastructure and availability of digital financial services is reflected in indicators assessed by World Bank's Global Findex[1], though the outcomes are not always in line with regulations as it takes time for regulations and institutions (which are assessed in the Global Microscope) to make an impact in terms of customer numbers (assessed in the Global Findex).

This is evident in Figure 4, the Global Findex indicator "Mobile phone used to receive money (% age 15+)", in which Kenya (66.7%) and Tanzania (19.6%) have the highest usage for receiving money via mobile phone, out of all the countries with a score of 100 out of 100 for the indicator of *Electric payments* in the Microscope. This reflects the lead that countries in Sub-Saharan Africa have taken in adopting policies and regulations on mobile money. Kenya is well ahead of the other high-scoring countries in the Microscope's e-payments indicator with 67% of the population using such means—again this is due to Kenya's lead in the adoption of mobile money and its well established M-PESA mobile money transfer service.

As a way to serve more of the low-income population and encourage use of e-money, some governments are prioritising the digitisation of their own transfer payments to individuals. Examples in the World Bank's Global Findex report highlight how governments are doing this with transfer payments. The development bank Bansefi in Mexico makes digital payments to 6.5m social-transfer recipients of the Prospera program, using Disconsa, a state-owned retailer as part of its distribution network. In Brazil, almost all (99%) of recipients of transfer payments in the Bolsa Familia programme receive payments digitally into a card or bank account. And Mongolia's Child Money Program which redistributes mining funds to families in poverty, deposits the funds into savings accounts opened in children's names.[2] Since Uruguay's government passed the Financial Inclusion Law in 2014, it has been working to build the infrastructure and capacity in the payments systems to provide automatic clearing. The law aims to achieve universal access to banks and financial services by providing rebates on electronic payments and requiring salaries to be paid

Figure 4. Select indicators from the Global Findex, 2014

Countries will full scores for Regulation of e-payments	9) Regulation of e-payments (Global Microscope 2016)	Account at a financial institution (% age 15+)	Made transaction from an account at a financial institution using a mobile phone (% with an account, age 15+)	Mobile phone used to receive money (% age 15+)	Main mode of withdrawal: ATM (% with an account, age 15+)	Received government transfers: into an account at a financial institution (% transfer recipients, age 15+)
Bolivia	100	40.7	4.6	6.8	40.3	11.2
Ghana	100	34.6	18.7	1.5	19.9	..
India	100	52.8	6.1	2.0	33.1	..
Kenya	100	55.2	39.7	66.7	52.7	51.7
Sri Lanka	100	82.7	0.8	0.7	24.3	52.5
Tanzania	100	19.0	37.7	19.6	62.0	..
Low income	N/A	22.3	14.5	9.7	20.2	..

1 Global Findex Database 2014, Policy Research Working Paper 7255: "Measuring Financial Inclusion around the World", April 2015.

2 Global Findex Database 2014, Policy Research Working Paper 7255: "Measuring Financial Inclusion around the World", April 2015.

into bank accounts. The law reduces the value-added tax (VAT) for electronic payment transactions using debit and credit cards and mandates that salaries be paid electronically into a bank (or other financial institution) account by 2017. The law also facilitates interoperability among payment systems and reduces fees for transferring money. In India, both central and state government transfers to low-income populations are increasingly delivered through bank accounts. By April 2016, around $900m was being transferred to 300mn people every month under 56 government schemes.

With more and more "inclusive" bank accounts being opened, attention must now shift to the use of those accounts. In too many places inclusion still entails no more than the withdrawal of transfer payments from accounts that are otherwise dormant. The monitoring of information on transactions in such accounts is the first step to understanding what measures need to be taken to facilitate the use of those accounts and bring about real inclusion. The Reserve Bank of India has been monitoring transactions in e-enabled inclusive accounts over the past six years. The average number of annual transactions in such accounts has remained between 2.5 and 3.0 over the past five years; and the number of e-enabled inclusive accounts has increased from 30m to more than 220m during this period. Ongoing concern about account dormancy has led to the liberalisation of agent banking rules in India in order to facilitate account use. In the Philippines, Bangko Sentral ng Pilipinas also measures transactions in e-money accounts and is concerned about the lack of account use—an average of eight transactions in 2014 in each of 26.7m accounts. Dormancy remains an issue but there is hope that this will change over time as people become more familiar with the possible uses of the accounts.

In a fast-evolving technological environment, there is increasing innovation in the field of financial services. One trend that drew increasing attention in 2016 was peer to peer lending - flows of loan capital facilitated by private information platforms. These act as matchmakers between individuals or small institutions with investible capital, on the one hand, and individuals or SMEs with a need for debt capital, on the other. Known generally as peer-to-peer (P2P) or marketplace lending, this type of service is increasingly common in China, in particular, but is also making an impact among low-income populations in developed countries (the US and UK) and in developing countries (India and others). P2P lending has recorded explosive growth in China over the past three to five years. There were reported to be 2,349 online lenders at the end of June 2016 with total outstanding loans of $93bn.[3] However, many of the P2P platforms are said to have been engaged in insider lending or offering fake investment products using what are effectively deposits from the public. Nearly half of all the platforms are reported to face financial problems as a result. Though China's regulators were initially willing to allow these platforms to function unchecked, the failure in December 2015 of one (Ezubao), resulting in losses of $7.6bn to more than 900,000 retail investors, has led to a clampdown. Since then, the China Banking Regulatory Commission (CBRC) has introduced a number of increasingly stringent measures to ensure that P2P companies do not take deposits and limit their role to information provision and matchmaking.

With the spread of internet use, P2P platforms are likely to play an increasingly important role in many countries in the future. As is starting to happen in China, the services offered via P2P platforms are likely to expand beyond lending to matchmaking for the provision of insurance and investment services to small enterprises and retail investors. The story of Ezubao has spread beyond China and regulators throughout Asia are now looking at such platforms more closely to formulate measures that protect retail investors while enabling the flow of capital and other financial services to small enterprises and other users.

3 *Shanghai Daily*, August 25th 2016.

Box 2: **Special topics**

Financial inclusion strategy remains a key to the leadership and support needed to provide financial services to low-income populations. In the past year, five countries launched financial inclusion strategies: China, El Salvador, Honduras, Mexico and Mozambique. Improvements in the score for this indicator was demonstrated by three other countries, which have signed microfinance bills (Guatemala and Sri Lanka) or have made progress in commitments (Vietnam). Egypt and Jordan are discussing the passage of a strategy.

The overall average score for **credit reporting systems** increased by two points in 2016. Sixteen countries have a score of 76 out of 100 or above and high scores in this indicator represent a broad focus on building and improving credit bureaus. Jordan's first licensed credit bureau was launched in December 2015. With limited time since inception, an understanding of the comprehensiveness of reporting will be evaluated through time but represents progress in this indicator. Senegal is developing a regional private credit bureau that will be operational soon. The Central Bank of West African States (BCEAO) and the International Finance Corporation (IFC) have partnered on the development of a regional credit reporting solution in the West African Economic and Monetary Union, which was agreed upon in 2013. Implementation is almost complete, and banks and top-tier microfinance institutions will report to this entity. In October 2015, Mozambique passed a law allowing the creation of private credit bureaus but to date none have been established in the country. Despite these positive trends, four out of 55 countries still either have no functioning credit bureau or have a credit bureau with very limited information—an improvement compared with 2015's five and 2014's seven.

Regulation of insurance for low-income populations is in its relatively early stage of development with an overall average score of just 37 out of 100, but some countries are scoring high in this indicator: India, Peru, Mexico, Colombia, Brazil, Philippines, Ghana, South Africa and Nicaragua. Their environments can be an example of best practices for countries that are at earlier stages. For example, in India, which passed the Microinsurance Regulation Act in 2005, the Insurance Regulatory and Development Authority (IRDA), has created a special category called microinsurance policies to promote insurance coverage among economically vulnerable sections of society. Nicaragua published a Microinsurance Norm in July 2015, stemming from the 2010 Ley General de Seguros, Reaseguros y Fianzas (the Insurance Law). The norm, implemented in October 2015, applies to insurance agencies, which are regulated by the Superintendencia de Bancos y Otras Instituciones Financieras (SIBOIF) and allows microfinance institutions to broker microinsurance policies. Nepal is in the process of drafting a microinsurance regulation that will be comprehensive in scope if enacted and implemented. In Cambodia, the Ministry of Economy and Finance is working to revamp the entire insurance law, which will include microinsurance. The new legislation is currently in draft format and is likely to be passed in 2016. In South Africa, new legislation—the Insurance Bill—was tabled in parliament at the beginning of 2016. Once signed, it will give effect to the National Treasury's Micro-insurance Policy Document released in July 2011.

In terms of **deposit insurance systems**, as of August 2015, all Rwandans with deposit accounts at commercial banks, microfinance banks, microfinance institutions and Umurenge SACCOs are protected by deposit insurance on equal terms. In Ghana, the Executive sent the Deposit Insurance Bill to Parliament in March 2016 and it is expected to pass soon. Colombia, Kyrgyz Republic and the Philippines have improved their coverage while South Africa has published a position paper on the establishment of a deposit guarantee scheme, a welcome first step. In Paraguay, a separate deposit insurance scheme is planned for co-operatives but there are no details yet. Developments are expected to be revealed throughout 2016.

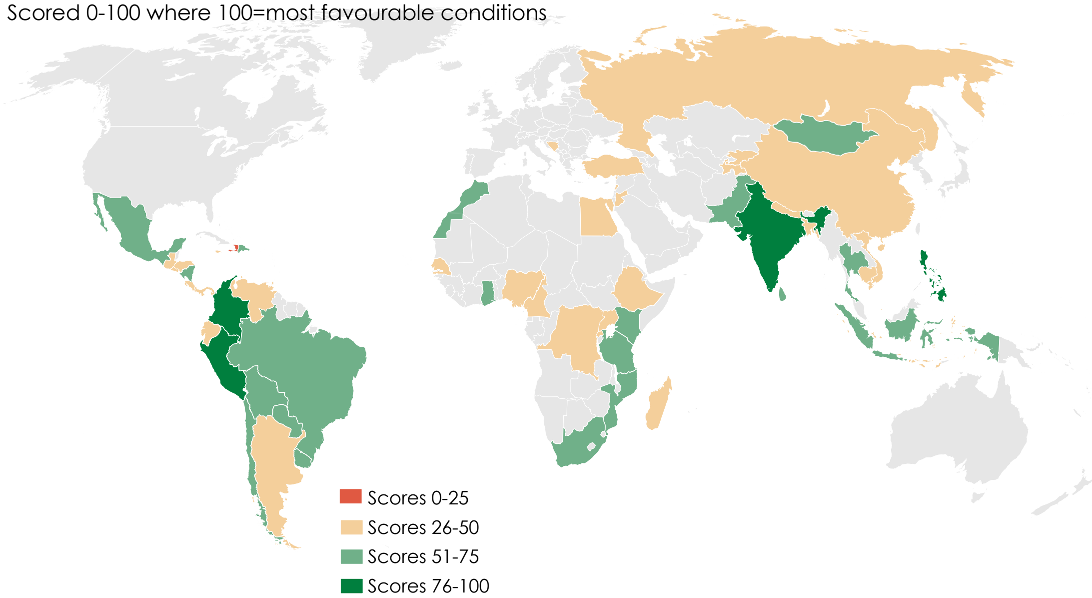
Conclusion

In the 10 years since the Global Microscope began, financial inclusion is now on the global agenda and is understood to be a critical foundation in the improvement of livelihoods, earning it a key role in the SDGs. It is important that governments, regulators, banks, non-bank financial institutions, telecom providers, and other stakeholders continue the momentum. Much work remains to be done, particularly in the areas of government support for financial inclusion, de-risking and client protections. Insurance for low income populations remains a challenge and stakeholders need to focus on usage of financial services, now that access is well underway.

Country profiles—major changes since 2015

In this year's review of country environments, the main changes since the 2015 edition are summarised below.

Figure 5: Overall scores
Weighted sum of all indicator scores with adjustment factor applied
Scored 0-100 where 100=most favourable conditions



East and South Asia

Figure 6:
Country scores for East and South Asia

OVERALL SCORE

Rank/55	Change in Rank		Score/100	Change in Score ∆
		Average	**52**	**+1**
=3	▲ 1	India	78	+7
=3	←→	Philippines	78	-3
5	←→	Pakistan	63	-1
=15	▼ 4	Indonesia	55	-1
=20	▲ 6	Thailand	51	+2
=30	▼ 16	Cambodia	47	-8
=37	▼ 9	Mongolia	45	-3
39	▼ 3	China	44	+2
=40	←→	Bangladesh	42	+3
=40	←→	Nepal	42	+3
=42	▲ 3	Vietnam	40	+6
47	←→	Sri Lanka	36	+3

Bangladesh

- Bangladesh Bank (BB, the central bank) has adopted several initiatives to further promote financial inclusion. Such initiatives include the Financial Literacy programme that provides financial education across the country including the creation of a dynamic and interactive web portal linked to its website containing storybooks, games, videos, a calculator and informative write-ups on different financial services. BB has also identified "strengthening financial education initiatives" as an important core objective in its strategic plan for 2015–19 and set a related action plan and completion date.

- Other initiatives include the New Lending Facilitation programme to encourage banks to direct idle liquidity towards productive lending to farm and nonfarm MSMEs. In this effort, Area Heads of BB offices have been advised to conduct field visits with bankers to search for eligible clients that are not yet part of financial inclusion initiatives. BB also advised all banks to explore new lending opportunities.

- In October 2015, the NGO/MFI BRAC announced an expansion of the Innovation Fund for Mobile Money project in an effort to reduce poverty. BRAC endeavoured to create a "cashless branch" in the South-eastern district of Noakhali that would enable women to receive remittances from distant family members and use mobile money to repay loans and deposit savings. BRAC also conducted free training sessions on mobile money for 200 microfinance clients—all women—of whom 65 started to receive and send cash, make payments, check their balance and refill mobile airtime.

Cambodia

- March 2016 saw an increase in the minimum capital requirement for MFIs and other financial institutions. The minimum requirement for deposit-taking MFIs was increased from KHR10bn (around US$2.5m) to KHR120bn (around US$30m) and for non-deposit taking MFIs it rose from KHR250m (around US$60,000) to KHR6bn (around US$1.5m). For commercial banks, the requirement was also increased from KHR50bn ($12.5m) to KHR300bn (around US$75m). This amount is not problematic for large MFIs operating in the sector. All regulated entities have two years to fulfil the minimum capital requirement.

- There is increasing concern over the emergence of unregistered or unlicensed entities engaging in microfinance. NGOs are not subject to any reporting requirements. Observers note a worrisome trend: a credit-providing organisation can remain unregistered as long as its portfolio is below KHR100mn (US$24,000) and unlicensed if its portfolio is less than KHR1,000m (US$244,000). A number of entities with predatory lending practices are now emerging. They remain unregistered and unlicensed, with no reporting requirements to the National Bank of Cambodia (NBC, the financial regulator) or other regulatory bodies.

- Consumer protection systems are under development and 10 of the largest MFIs are undergoing Client Protection Principles (CPP) certification. This will align their practices to global standards on protecting clients within the financial inclusion movement.

China

- On December 31, 2015, the State Council of the People's Republic of China published the Plan for Advancing Inclusive Finance Development (2016–20), GF[2015] No. 74, outlining a detailed strategy on the development of financial inclusion in China. This comprehensive document sets out the principles for the promotion, monitoring and regulation of all aspects of financial inclusion in China.

- The main positive changes that have taken place since 2015 are the abolition of the cap on deposit rates and the lifting of geographic limits on online insurance sales. In addition, in November 2015, the State Council of the People's Republic of China issued new guidelines on the protection of financial consumers. This is the first time clear rules on this topics have been issued.

India

- By the end of April 2016, Aadhaar, which is a biometric unique identifier, had been issued to over 1bn residents and now covers over 93% of adults in the country. Under the Pradhan Mantri Jan-Dhan Yojana (PMJDY or Prime Minister's People's Wealth Scheme) 217m new bank accounts have been opened and 126,000 banking correspondents (agents) have been appointed to provide cash-in and cash-out facilities in underserved regions. The programme is now aiming to provide access to credit, insurance and pension facilities in addition to the basic deposit services currently available. It also aims to channel all government benefits into recipients' accounts. By end-April 2016, the direct transfer of benefits had been implemented in 56 government schemes in which around INR60bn (US$900m) are transferred every month to about 300m people. The percentage of operational bank accounts increased significantly from around just 30% in January 2015 to around 72% in February 2016. The use is limited to the withdrawal of direct transfer of subsidies in most cases, but gradually more and more people are expected to start using these accounts for savings and other services.

- Although the agency banking network is growing very fast, it needs to be strengthened to improve the quality of services while making it financially viable for the agents serving its customer base. In principle, licences have been issued for the establishment of 11 payment banks and 10 small finance banks and many of these are expected to start operations by the end of 2016. While payment banks will provide deposits and payment services, small finance banks will offer savings and credit services to small businesses, small and marginal farmers and micro and small industries as well as other members of the unorganised economy. With a large G2P programme and the entry of payment banks, digital financial services are expected to register strong growth.

- The liberalisation of insurance and agency rules as well as growing digitisation of the economy are also expected to improve the low penetration of insurance (3.3% of GDP at the end of March 2016) and social security by providing more distribution channels.

Indonesia

- In the past year, Financial Services Authority of Indonesia (Otoritas Jasa Keuangan, OJK, the financial regulator) further tightened the conditions for minimum capital and liquidity, especially for smaller banks, in a move aimed at consolidating the banking sector. The conversion of the reinsurance business to be Indonesian-owned has begun, in keeping with the Insurance Law, which prohibits foreign ownership of this business.

- There is a new Kredit Usaha Rakyat (KUR) programme (for microfinance) for subsidising banks' interest rates. Bank Rakyat Indonesia (BRI) and other government-owned banks (including regional banks) are using KUR subsidies to lend to micro clients at lower interest rates.

- Branchless banking, which began in 2015, is growing, with the support of the OJK. After starting with four large banks, two more banks, Bank Tabungan Negara (BTN), a commercial bank, and Bank Negara Indonesia (BNI), the Indonesia State Bank, joined in 2015. Now OJK has invited a regional development bank, Bank Kaltim, and an Islamic finance lender, BRI Syariah, to participate in the programme. OJK expects that there will be at least 300,000 branchless banking agents in 2016.

Mongolia

- In December 2015 the Financial Regulatory Committee (FRC) raised minimum capital requirements for non-bank financial institutions (NBFIs), which will come into force in January 2017. The minimum capital requirements were raised in the capital of Ulaanbaatar from MNT400m (US$0.2m) to MNT800m (US$0.4m) because in the FRC's opinion, there were already too many NBFIs. However, the requirements were not raised for NBFIs in provinces in order to encourage new entrants there. The measure was prompted by the need to improve the quality of microfinance institutions.

- In the June 29th 2016 election, the opposition Mongolian People's Party beat the ruling Democratic Party, winning 65 out of 76 seats. The election of a foreign investor-friendly party may revive the embattled economy, the growth of which fell 17.3% to slightly over 1.0% during the Democratic Party's time in power. The new government's investor-friendly policies may boost the development of microfinance in Mongolia.

Nepal

- Nepal Rastra Bank (NRB, the financial regulator) established a payment and settlement department in 2015, which will also oversee some new products such as mobile banking and branchless banking. Expansion in the branch network of banking and financial institutions (BFIs) has widened access to finance. The network reached 4,023 in mid-January 2016 from 3,625 a year earlier. Likewise, the growth in deposit accounts (from 13m in mid-January 2015 to 15.82m a year later) and loan accounts (from 1,003,523 to 1,010,204 in the same period) has also broadened financial access.

- At the policy level, the unified directives of Nepal Rastra Bank, issued in 2015—which include the specific directives aimed at microfinance institutions—are an important step in further strengthening the financial inclusion space. The directives provide detailed guidelines on agents and branchless banking and a plan to map financial access in order to inform the campaign of "at least one bank account for each household".

  The new draft Insurance Act, which makes it mandatory for life and non-life insurance companies to launch microinsurance schemes, is another important landmark in increasing the financial inclusion of vulnerable populations. The draft microinsurance regulation for Nepal covers diverse products such as domestic microinsurance, micro health insurance, accidental, livestock, crop, term life and endowment life microinsurance.

Pakistan

- On November 25th 2015, amendments to Regulations on Non-banking Finance Companies and Notified Entities were enacted. These ensure that all non-bank MFIs are regulated by the Securities and Exchange Commission Pakistan (SECP) and thus make microlending a regulated activity.

- In May 2016, "Regulations for Mobile Banking Inter¬operability were introduced to offer maximum outreach and connectivity. The third-party service provider (TPSP) model, as stipulated in the regulations, offers maximum outreach and connectivity, whereby all banks and mobile network operators are able to access one another's customers.

- During 2015, there was a strong increase in the branchless banking sector with the number of accounts jumping 16% in a single quarter (July-September 2015 to October-December 2015). This was spurred by the growing availability of applications such as m-wallets.

Philippines

- The main change during the past year was the introduction of reporting standards for NGO-MFIs. The Microfinance NGOs Act, introduced on November 3rd 2015, strengthened NGOs engaged in microfinance operations for the poor. According to this act, NGO-MFIs are required to submit regular reports to the Microfinance NGO Regulatory Council which, in turn, submits an annual report to the President of the Philippines and the relevant committees of both houses. The Cooperative Development Authority (CDA) issued revised rules in March 2015, to implement provisions of the Philippine co-operative code of 2008. These require all co-operatives, their federations and unions to submit annual financial statements, which must also be audited by certified public accountants, as well as general information sheets. This gives the CDA more standardisation in applications and financial reporting and, with the clear rules, faster adoption of reporting requirements by co-operatives.

- Then-President Benigno Aquino III signed Republic Act No. 10846, amending the Charter of the Philippine Deposit Insurance Corporation (PDIC)—a government agency that insures the deposits of all banks—which further strengthened PDIC's institutional and governance framework to align it with international best practices.

Sri Lanka

- The most significant change in the past year was the passage of the Microfinance Bill in parliament on May 5th 2016. The new law strengthens the licensing, regulation and supervision of microfinance businesses and NGO-MFIs. Experts expect a consolidation to take place among MFIs as a result. Many of the smaller MFIs will likely dissolve or get absorbed into larger ones, which is thought to be positive for the sector.

- There was a notable increase in savings and current-account deposits in 2015, each growing at a rate of 18.3% and 17.2%, respectively. This was partly attributed to higher domestic real interest rates.

Thailand

- Over all, financial inclusion in Thailand made only small improvements since 2015. Most government initiatives have been slow to develop, with plans still under revision by ministries. Within this broader picture of stagnation, two main changes could have important implications for the future development of financial inclusion.

- The first is the commencement of the Bank of Thailand's (BOT) Financial Sector Master Plan Phase 3 (FSMPIII), which covers 2016 through 2020. Two of the plan's major aims—the promotion of electronic payments and financial access—are very relevant to the progress of financial inclusion. However, the BOT is still drafting the details and implementation.

- The second change is the initiation of the Ministry of Finance's Nano-Financial Scheme, which aims to promote the expansion of microcredit by raising the annual interest rate ceiling from 28% to 36%. Still, many providers are not yet on board with the new scheme, with some asking for the ceiling to be raised even further.

Vietnam

- In June 2015, the government issued Decree 55/2015/NĐ-CP on agricultural and rural credit policy. It identified seven priority areas, revised lending criteria and increased the amount of money that farmers and co-operatives can borrow. The decree may encourage the development of new agricultural production models and greater use of technology in banking.

- The Vietnam Bank for Social Policies (VBSP) continued its work on electronic money by commissioning a feasibility study on the demand for mobile services and e-money for the poor, low-income workers and other vulnerable sectors of the economy. The study concluded that the legal and technical frameworks are in place for the VBSP to launch pilot programmes and proposed recommendations for next steps. The VBSP is currently working on selecting an implementation model and strategic partners to launch mobile-based banking services.

Eastern Europe and Central Asia

Figure 7:
Country scores for Eastern Europe and Central Asia

OVERALL SCORE

Rank/55	Change in Rank		Score/100	Change in Score ∆
		Average	**47**	**+1**
=20	↔	Bosnia and Herzegovina	51	0
26	▲ 7	Russia	49	+4
=27	▲ 3	Kyrgyz Republic	48	+1
=33	▼ 10	Turkey	46	-4
=44	↔	Tajikistan	39	+1

Bosnia and Herzegovina

- Since 2015, there have not been any major legal or regulatory changes in the microfinance market and financial inclusion movement in Bosnia and Herzegovina (BIH). However, it has been confirmed by the banking agencies and the Ministry of Finance of the Federation of BIH that new laws on banks and banking agencies are being prepared and are expected in late September 2016.

- Also in 2015, due to the difficult political and economic situation in BIH, the Council of Ministers, with the help of the international community, recognised the urgent need to start the recovery process. It adopted a reform agenda for 2015–18, which promotes economic growth in an attempt to ensure the stability of the country.

- The reform agenda is expected to have an impact on the financial market in 2016–17. Because not all members of the government signed a letter of intent, as had previously been agreed upon with the IMF, an IMF economic programme, supported by a 36-month SDR443.04m (€550m or US$607m) loan, was not finalised in July 2016 as planned, which exacerbates the instability of the country.

Kyrgyz Republic

- The main changes in the past year include the enforcement of minimum capital requirements and a consequent decrease in the number of MFIs: 35 MFIs lost their licences in 2015 after they failed to meet minimum requirements. The minimum requirement for new regulated MFIs stands at Som50m (US$740,000) for MFIs that do not offer deposit operations and at Som100m (US$1.48m) for MFIs that do. The minimum capital requirement for new unregulated MFIs stands at Som5m (US$74,000).

- Increased capital requirements for MFIs have allowed stronger players to remain in the market, bringing competition to a qualitatively higher level. The fact that three deposit-taking MFIs have become fully fledged banks points to the maturation of the microcredit market.

- The expiration of the Strategy for the Development of Microfinance in 2011–15, failure to achieve its stated goals such as higher penetration of financial services and creation of the institution of a financial ombudsman, and a lack of plans to draft and adopt a new strategy for financial inclusion present a challenge for the development of the microfinance sector.

- Kyrgyz Republic's membership in the Eurasian Economic Union (EEU) has opened the domestic financial market for competition from more developed markets in Russia and Kazakhstan, which should eventually benefit financial services customers.

Russia

- In 2016, the Central Bank of Russia (CBR) has taken several steps to consolidate the market. From July 2016, new non-bank credit organisations (NBCOs) that make settlements on behalf of legal entities, including correspondent banks, on their bank accounts are required to have minimum capital of 90m roubles (US$1.36m), while those that perform money transfers and related banking transactions without opening bank accounts must have minimum capital of 18m roubles (US$272,000). NBCOs with less than 90m roubles in capital, whose capital is not decreasing, are given a 3-year grace period to reach the required minimum. As of March 29th 2016, MFIs are split into two types, depending on their capital. Those with at least 70m roubles (US$1.066m) are called microfinance companies (MFC), while those with less than 70m roubles are called microcredit companies (MCC). MFCs can draw investments from people or entities with at least 1.5m roubles (US$22,841), while MCCs can receive investments only from founders, shareholders and members. MFCs can issue personal loans of up to 1m roubles (US$15,227) and issue bonds, whereas MCCs can issue only personal loans up to 0.5m roubles (US$7,614) and cannot issue bonds. While both measures are predicted to contract the market, the large number of existing organisations had arguably hindered proper regulation, and it is hoped that the reforms will go some way towards rectifying that.

- The CBR has also amended risk-based capital requirements to bring them into line with Basel III standards: the risk weight for exposures with the highest risk was raised from 1000% to 1250%, while the minimum capital requirement was lowered from 10% to 8%. As a result, all applicable capital standards under Basel III are covered by the new CBR requirements. However, the effectiveness of the framework will depend on how well it is implemented and what the outcomes are. The CBR has also introduced an interest rate cap on payday loans for up to one year of 400% per annum (previously, rates were typically over 700% per annum).

Tajikistan

- As of April 2016, the minimum capital requirement was TJS6m ($0.76m) for deposit-taking MFIs and TJS4m ($0.5m) for commercial microcredit organisations. This has led to consolidation in the market as three deposit-taking MFIs and 14 commercial MFIs have closed.

- The volatility of the Tajik national currency, the somoni, due to the sharp depreciation of regional currencies such as the Russian rouble and the Kazakh tenge, has led regulators to close down non-banking exchange offices and ban foreign-currency loans. Restrictions have been imposed on the circulation of foreign currency and on operations involving foreign currency. This will have a negative impact on the financial market.

Turkey

- The regulatory environment is unchanged since 2015. There has been no progress on long-awaited legislation on microfinance and related institutions.

- E-money issuers and financial institutions that received licences in 2015 following the regulations of 2014 are operating but their impact on financial inclusion is as yet unclear.

- The action plans on financial education and financial consumer protection—the twin pillars of the government's financial inclusion strategy—continue to be implemented. In particular, the regulatory agencies, the Financial Literacy and Inclusion Association (FODER), individual banks and others are carrying out extensive educational activities through schools, media and other channels, reaching millions of people, including some of the financially excluded.

- Bank credit has been expanding slowly due to reduced international financial flows, already-high credit-deposit ratios and falling profitability in part due to taxation, limits on charges, and fees. The larger of the two small microcredit institutions, the Turkish Grameen Microfinance Programme (TGMP) with 57,000 members (customers), has been unable to expand: funding from public social funds, which is at the discretion of local administrators, has been unpredictable while the TGMP's uncertain legal status affects its ability to attract private funding.

Latin America and the Caribbean

Figure 8:
Country scores for Latin America and the Caribbean

OVERALL SCORE

Rank/55	Change in Rank		Score/100	Change in Score ∆
		Average	**52**	**+1**
=1	▲ 1	Colombia	89	+3
=1	←→	Peru	89	-1
=6	←→	Chile	62	0
10	▼ 2	Mexico	60	0
11	←→	Uruguay	59	+3
=13	▼ 5	Bolivia	56	-4
=13	▲ 13	El Salvador	56	+7
=15	▲ 2	Nicaragua	55	+2
=15	▲ 4	Paraguay	55	+3
19	▲ 1	Dominican Republic	52	+1
=20	▼ 3	Brazil	51	-2
25	▼ 5	Ecuador	50	-1
=27	▲ 9	Costa Rica	48	+6
=27	▲ 4	Panama	48	+2
=30	▲ 6	Honduras	47	+5
=33	←→	Jamaica	46	+1
=37	▼ 1	Trinidad and Tobago	45	+3
=42	▼ 2	Guatemala	40	+1
=44	▼ 4	Argentina	39	0
50	←→	Venezuela	32	+1
55	←→	Haiti	22	-2

Argentina

- Since last year, the biggest change affecting the financial inclusion environment is the transition to new leadership. The new president, Mauricio Macri, and the new president of the central bank, Federico Sturzenegger, both assumed their roles in December 2015. Policies taken by the new government are necessary to bring the economy back to stability, to promote investment and a higher level of competitiveness and economic-growth, with poverty reduction. Local experts expect financial inclusion to eventually take a relevant place in the new administration's agenda, as the new minister of economy, Alfonso Prat-Gay, and Mr Sturzenegger, both held roles in institutions with microfinance activities (Andares and Banco Ciudad respectively), and have sound technical expertise in financial services. The government has recently begun developing a national strategy for inclusive finance. The project is being carried out jointly with the Inter-American Development Bank. Coordination and cooperation between the government, financial institutions and regulatory bodies play a central role in the strategy.

- Since March 2016, the central bank has made a number of adjustments to the regulatory framework to ease requirements for the establishment of financial branches, such as simplifying the authorisation process, reducing building code requirements for areas of lower population density, and allowing all banks to use mobile branches, among others. Although the measures are still new, these adjustments are expected to have a positive impact on the expansion of financial inclusion in Argentina in the future.

Bolivia

- In the past year, the financial sector has continued to adjust to the Financial System Law of 2013 (Law 393, the FSL). The legislation was adopted to replace the 1993 banking law, which was thought to favour the interests of private financial entities over social objectives and consumer protection. The FSL subordinated the role of financial activities to social objectives by aiming to promote production, food security, and poverty reduction. It is designed to require the financial sector to respond to the needs of other strategic sectors; meet the financing needs of new enterprises; and pay special attention to meeting the demand of the micro and small businesses. The law introduced minimum interest rates on deposits and which tend to discourage the offering of savings products. On the demand side, negative real interest rates also work to discourage savings in low-income populations.

- Moreover, interest rate caps on certain financial products appear to be affecting all types of credit. Minimum credit quotas to the productive and social housing sectors are being met by most financial institutions. This has accelerated the growth of loans to these sectors (up 26% since December 2014), and significantly slowed credit growth to the service and commerce sectors. In particular, microfinance institutions have increased loan sizes above trend to reduce operational costs and maintain profitability under the interest rate caps.

Brazil

- Following on the heels of a credit-led consumption boom, a contraction of credit—related to the recession and the elimination or scaling back of several government programmes to stimulate credit for the poor and working class—has deepened since early 2015, and household debt and rates of loan delinquency are rising. Meanwhile, institutions focused on the bottom half of the financial pyramid such as co-operatives and OSCIPs (Organização da Sociedade Civil de Interesse Público—Public Interest Civil Society Organisations) have tried to assist clients in restructuring existing debts, and large public banks are either stepping back from microcredit or moving to more specialised operations that can deal more effectively with a different clientele and compete with other lending institutions.

- On the regulatory front, important steps have been taken since August 2015 to create a more diversified regulatory structure for a large subset of the country's co-operatives, which tailor their capital requirements, information reporting and prudential regulations to the precise nature of the co-operative subtypes that were created under the new framework. Another significant move came in March 2016, as the official credit registry—run by the central bank with data from and for regulated institutions—announced it would, as of June 30th 2016, collect and report information about loans above a threshold five times lower (about US$255) than before. The move aims to provide a more accurate picture of lending to smaller borrowers.

Chile

- In order to fulfil its commitments to the Maya Declaration of the Alliance for Financial Inclusion (AFI), signed by the country in 2013, Chile has made important structural and legal reforms to enable financial inclusion. It has adopted the International Financial Reporting Standards and is gradually adjusting internal financial practices to meet the Basel III principles. A series of regulatory revisions in 2016 suggest an expansion of financial inclusion in the upcoming years.

- Congress is currently revising a 2014 law on digital payments, which had been largely inoperative due to inaccuracies in the text, to expand the offer of e-money by regulated financial institutions. It is also reviewing approval of a similar law on the delivery of e-payment products and services by non-banking financial service providers, which is specifically intended to reach low-income segments.

- Recent allegations involving the president's family have raised questions about the relationship between politicians and the country's financial system. Despite the isolated incident, various internationally recognised institutions, including the IMF, the World Bank and the OECD, describe Chilean financial institutions and regulatory framework as strong and stable.

Colombia

- The creation in December 2015 of the Comision Intersectorial de Inclusion Financiera (CIIF, the Financial Inclusion Inter-sector Commission) was the main development in financial inclusion over the past year and one of the most important steps ever for the articulation of the government's policy on the subject. The CIIF ensures greater co-ordination amongst government entities, which in the past undertook parallel efforts despite the active role of the Banca de las Oportunidades (BdO). The new body also enhances co-ordination between government and new private-sector actors that were formerly excluded, although the level of interaction is minimal and might prove ineffective. Altogether, however, this bodes for better co-operation between supply and demand for financial products, which should increase financial inclusion.

- In 2015 the government reached important milestones for its financial inclusion goals, including having at least one financial service available in all of Colombia's municipalities. The government's financial inclusion indicator (that is, the share of population with access to at least one financial product) rose to 76.3% at end-2015, with a goal of 84% at end-2018. On the prudential and supervisory side, both the Superintendencia Financiera (SFC) and the Superintendency of Economic Solidarity (Superintendencia de Economia Solidaria—Supersolidaria) took steps to strengthen risk monitoring of the institutions under their jurisdiction in light of the relative deterioration of domestic economic conditions.

Costa Rica

- Regulations for a new type of mobile payment system for customers of regulated institutions, called SINPE Movil, were adopted in November 2015. Half a dozen banks are now offering the service. A form of simplified banking accounts called "cuentas de tramite simplificado" was approved that same month, and initial reports indicate this type of account, requiring less paperwork for smaller balances, is popular.

- Still pending are final regulations by which the Development Banking System (SBD), a public bank that provides microcredit, will regulate on-lending by private and public banks to organisations (mainly MFIs) under resources that have long been withheld from them under a tax (peaje bancario). The rules would specifically regulate microcredit for the first time as a distinct credit portfolio with its own loan classification, guarantee, provisioning and other characteristics, albeit under a broad definition that would also include small business loans. Banks had been reluctant to lend these withheld resources in the absence of such specific regulations, which are mandated by a 2014 law and 2015 regulatory guidelines.

- Costa Rica signed the Maya Declaration of the AFI in September 2015, and continues to work on developing regulations in other areas such as e-money and banking correspondents, aiming to form a national strategy of financial inclusion with concrete indicators.

Dominican Republic

- The government created an inter-institutional commission that, among other issues, aims to support micro enterprises in the country. A mutual guarantee scheme was drafted and submitted to the congress for approval. Supervision and controls within the banking sector improved, a microcredit regulation that was approved in 2015 was implemented, and financial consumer protection was more strictly enforced.

- A 2015 law regulating credit bureaus was also implemented, and stronger controls were applied to promote credit reporting, even among microfinance institutions that are otherwise not obligated to do so.

- Agent banking, which was regulated in 2014, continued to expand as more institutions took on the service, most notably Banco de Reservas, which allied with Fundacion Reservas, a large government second-tier lending programme, to serve the clients of the Fundacion via microfinance institutions that receive lending (NGOs and co-operatives). Also, the Asociacion La Nacional de Ahorros y Prestamos, a credit union (credit unions are prudentially regulated), provides financial products such as pre-paid cards and savings accounts to the beneficiaries of Progresando con Solidaridad, the government's largest subsidised-services programme.

Ecuador

- Entities in the "popular and solidarity economy" continue to work towards standards of prudential regulation (transparency, capital adequacy ratios and consumer protection mechanisms), but some experts have expressed concerns about a widening gap between private-sector banks and co-operatives, especially after the Junta Politica de Regulacion Monetaria y Financiera (Monetary and Financial Board) passed legislation (Resolución No. 208-2016-F) in 2016 that extends deadlines for formalisation.

- Since the fourth quarter of 2014, Ecuador's economic growth has slowed and the sharp decline in international oil prices has significantly undercut oil revenues. Overall credit growth has slowed, non-performing loans have increased, and minimum wage growth is limited. The government has reduced public spending and raised lending rate caps and capital adequacy ratios in response to a weaker economic outlook.

El Salvador

- El Salvador's legislative assembly approved the Law to Facilitate Financial Inclusion as an effort to provide more financial services to the poor. In effect since September 2015, this law specifically aims to make it easier for underserved populations to better access banking services. It creates the figures of e-money suppliers (Sociedadesties Proveedoras de Dinero Electrónico -SPDEs), and savings accounts with simplified requirements.

- Microinsurance is also a priority for the country's financial inclusion plan. In September 2015, the central bank kicked off a comprehensive survey to identify the financial needs of low-income segments of the population, signalling that changes are expected throughout the rest of 2016 as information gathering develops. Also, the

Asociación de Organizaciones de Microfinanza de El Salvador (ASOMI), the country's main umbrella organisation for microfinance institutions) now offers microinsurance for both health and life to low-income clients.

- In December 2015, an amendment to the Law on Credit History provided consumers with the right to access and correct credit information and requires data reporting agencies to have at least one no-cost customer service centre in each region of the country. As El Salvador remains committed to expanding financial inclusion throughout the nation, large changes can be expected to take place in the remainder of 2016.

Guatemala

- In April 2016, the new congress adopted a microfinance law that had been stuck in committee since 2013; the law was published in May 2016. Effective six months from its official publication, the law creates new microfinance specialised institutions—one of which would be able to raise capital on financial markets and the other of which would also be allowed to capture deposits under which regulated or supervised institutions dedicated to microfinance or into which microfinance NGOs could transform by fulfilling newly established criteria including minimum capital requirements. The law would have its own government- and institution-funded guarantee fund to protect depositor and investors.

- It is hoped that the implementing regulations still to be adopted will create a good working definition of microfinance, as well as risk classification, management guidelines and loan methodologies, that would promote microcredit and microfinance. For purposes of transparency and funding facilitation, the new law would also create a voluntary registry of unregulated microfinance institutions (which would be called "non-profit microfinance entities") and second-tier funders. In April 2016, the Ministry of Economy and Commerce (MINECO) announced a new loan guarantee fund, which will increase second-tier funding to micro, small and medium-sized entities.

- In December 2015 the outgoing congress passed a law that may never be implemented in practice. The credit card law, opposed by the central bank and by financial institutions, would cap interest charges on credit cards, prohibit their capitalisation, and penalise credit card cloning as well as aggressive debt collection practices. A few weeks after it was put into force in March 2016, the Constitutional Court suspended the law based on an appeal by the central bank, and is expected to rule on its constitutionality in its next session. In the meantime, financial institutions that have earned high returns from credit cards with high spreads over inflation, as well as organised consumers who have complained about abusive practices regarding such products, anxiously await the decision, which has generated great uncertainty in this market segment.

Haiti

- A virtual government shutdown resulting from delayed presidential elections has prevented important legislation from passing, including laws concerning microfinance, insurance companies, and financial co-operatives. Lack of regulation continues to be, by all expert accounts, the biggest obstacle for financial inclusion. The implementation of a Financial Inclusion Strategy, passed in 2014 by the Banque de la République d'Haïti (BRH, the central bank) has also been delayed owing to the country's unstable political atmosphere.

- The BRH has advanced on some points of the strategy, such as the norm for financial consumer protection. Experts noted that the action plan is well defined, but hampered by the need to pass other important regulation, a lack of co-ordination among participating government institutions, and the need to appoint members to the Financial Inclusion Council. A new governor of the BRH, Jean Baden Dubois, was appointed in December 2015. Mr Dubois pledged to support the strategy while promoting transparency in bank management and operations, expanding the regulatory framework, establishing a deposit insurance scheme, implementing financial education programmes for economic agents, and establishing a mutual guarantee scheme to foster lending to SMEs.

- Haiti has advanced in some aspects of financial inclusion; agent banking has grown, namely through mobile banking schemes such as the Mon Cash Reimbursement Project, launched in 2015 by FINCA with the support of the Swiss Capacity Building Facility (SCBF) and in alliance with Digicel and Scotiabank. The country's credit bureau, the Bureau d'Information sur le Credit (BIC), has improved its coverage, with reporting by most banks and one large MFI, although experts agreed that the BIC is still in its early stages and not very useful for purposes of preventing over-indebtedness. Specific microinsurance schemes have continued to expand, with players such as Alternative Insurance Company (AIC) and the Microinsurance Catastrophe Risk Organisation (MiCRO–Haiti), although the sector is hindered by a lack of specific regulation.

Honduras

- In October 2015 the government, through its principal financial regulator, the Comisión Nacional de Bancos y Seguros (CNBS, the National Banking and Insurance Commission), launched Honduras' first comprehensive strategy for financial inclusion, the Estrategia Nacional de Inclusion Social (ENIF), which will cover the period 2015–20.

- The popularity of mobile banking is growing rapidly. Honduras remains among the top 15 markets globally in terms of the proportion of adults actively using mobile money. Demand for mobile-based microinsurance services has risen sharply in the past year, owing to an expansion of product offerings by Tigo, a mobile provider; around 8% of Tigo's customer base purchased personal insurance coverage in 2015, up from just 0.15% in 2014.

Jamaica

- There have been some important changes since 2015. The Bank of Jamaica (BoJ, the central bank) is spearheading efforts to increase financial inclusion. It joined the AFI in 2015 and began drafting a financial inclusion strategy during the same year with the assistance of the IMF. The development of the strategy is expected by the end of 2016. Moreover, a new prime minister, Andrew Holness, was elected in February 2016, and local experts expect this change to bring about additional commitments to expand and reform financial inclusion in Jamaica.

- In an effort to increase regulation of microfinance, the Micro Credit Act draft proposes that a regulator be established with broad authority over the microfinance sector. This bill was first introduced in November 2013 by the Ministry of Finance (MoF), but legislation on the regulatory framework has yet to be passed. Because credit unions are large players in microfinance but are not prudentially regulated, there is need for greater oversight on these entities. In October 2015, the MoF confirmed that credit unions and development banks are to be placed under the prudential supervision of the BoJ. As of June 2016, this legislation is still pending.

- The reform of the financial system will target key financial inclusion areas such as enhanced consumer protection, the creation of a microinsurance framework, the establishment of regulations for microfinance institutions and several other important issues. Finally, the Banking Services Act (BSA), effective since September 2015, granted the BoJ significantly more supervisory powers that aim to strengthen the financial industry. Under the BSA, certain critical functions have been transferred from the MoF to the BoJ's supervisory committee, such as determinations on issuance and revocation of licences, the establishment of branch operations and adjustment of prudential capital adequacy requirements, among others.

Mexico

- In June 2016, the National Council on Financial Inclusion (CONAIF) released the National Financial Inclusion Plan, which was under development by various regulatory agencies and ministries comprising this umbrella group for five years; it also incorporates the results of the second triennial National Financial Information Survey, conducted in July-August 2015. By year's end, the government expects to announce a much-awaited official definition of microcredit portfolios along with specific regulations for their management.

- An effort continues by the financial regulator, Comision Nacional Bancaria y de Valores (CNBV), to thin and consolidate the ranks of non-regulated MFIs, known as SOFOM-ENRs, by requiring them to register and adopt strict anti-money-laundering regulations; the rules have prompted complaints from MFI networks but also diligent efforts to comply with these regulations in order to survive and regain access to second-tier funding. Others lost their legal permission to operate and went out of business.

- The number of consumer complaints handled by the financial consumer protection authority, Comisión Nacional para protección y Defensa de los Usuarios de Servicios Financieros (CONDUSEF), regarding financial companies ranging from credit and savings institutions to insurance companies to debt collection agencies, has continued to grow. Consumers have a growing awareness of their rights and a stronger perception of the usefulness of the legal recourse available through CONDUSEF, such as administrative sanctions, conciliation processes, and legal defence.

Nicaragua

- The country's payments infrastructure has been developing; an Automated Clearing House (ACH) system was launched in April 2016. Although financial institutions serving the lowest rungs of the socioeconomic ladder face cost-related obstacles to accessing retail payment systems, microfinance institutions do access payments systems for the purposes of loan payments, disbursements, cheques, etc. For example, in 2016, ProMujer (a microfinance institution with more than 46,000 clients) joined commercial bank BanPro in offering its clients pre-paid cards for loan disbursements. The card gives access to ATMs, non-bank agents, balance requests, and other bank services. The CONAMI (Consejo Nacional de Microfinanzas , the regulatory body created by the 2011 law to supervise and promote the sector) launched a study of Financial Inclusion in Nicaragua. The study was still under way in mid-2016.

- Microfinance institutions have increased their product offerings, diversifying types of credit and offering housing loans, mortgages, microinsurance, and micro-pensions. Moreover, agent banking has expanded in the past year, as large commercial banks such as BanPro have continued to increase services.

- The CONAMI has continued to develop its supervisory framework, completing pending norms such as the Norma sobre Manual Único de Cuentas, taking on in-situ audits of microfinance institutions, and training its personnel. Regulation under the 2011 Microfinance Law is under way, and microfinance institutions are in the process of developing and complying with internal processes requirements, especially related to reporting, prudential regulation, and client protection. Savings are still not prevalent, and deposits are discouraged by high bank fees, minimum balance requirements, and a 10% tax on interest. Microfinance institutions are not allowed to accept deposits but are seeking to amend the Microcredit Law in that regard by end-2016.

Panama

- In March 2016, more than 5,000 students participated in Global Money Week in Panama, showcasing the Superintendencia de Bancos por la Fundación de la Ciudad de Panamá's (SBP) efforts to increase financial literacy in the nation.

- Law 130 of 2013, which has not been implemented since mid-2016, establishes rules for the prudential regulation by the SBP of some currently unregulated financial service providers. These include entities such as non-bank finance companies and NGOs that issue microcredits, though the regulation notably excludes co-operatives.

- In June 2015, the Superintendence of Insurance and Reinsurance announced that the National Bank of Panama (BNP) and the Savings Bank (CA) will sell microinsurance products, although were not yet available as of Mid- 2016. Although Panama has adequate economic conditions to create an enabling environment for the promotion of financial inclusion, the country has yet to make stronger commitments to advancement in this space.

Paraguay

- There have been some changes to the financial inclusion environment over the past year. Law 5476, introduced in September 2015, set new interest rate caps that affect the provision of microcredit and consumer credit. As of January 2016, there are new minimum capital requirements for banks at G46,552bn (US$8.3m) and for finance companies at G23,276bn (US$4.1m), set by Resolution 00006/2016.

- Despite these changes, there are no specific regulations for the provision of microinsurance. In March 2016, the Central Bank of Paraguay and the Superintendency of Insurance held a series of meetings with insurance and reinsurance companies, banks, telecoms and other players in the financial inclusion space to better understand demand and supply barriers to access and adoption of microinsurance products among vulnerable populations.

- The government is making significant strides in advancing the financial inclusion environment, as established in its national strategy for financial inclusion (Estrategia Nacional de Inclusión Financiera 2014–18, ENIF), which are likely to significantly increase financial inclusion in the future.

Peru

- More than 30 financial institutions, the four main telecommunications providers, and the government have been working on an initiative called Modelo Peru, which is an interoperable mobile payment platform. These stakeholders founded Pagos Digitales Peruanos (PDP), the company that runs Bim, the mobile payments platform that was launched to the public in February 2016. The platform is the first of its kind as it includes all significant players in the financial system and customers can transact across phone companies. The goal of Modelo Perú is to reach 2m active users by 2020, and to facilitate the creation of mobile wallets offered by the e-money issuers, supervised by Superintendency of Banking, Insurance and Private Pension Funds (SBS).

- Economic growth remains subdued relative to last year. A decline in business confidence will factor into the prolonged torpor suffered by GDP, the difficulty in implementing counter-cyclical policies, and the greater political fractions. However, the launch of BiM mobile wallet in first-quarter 2016 is a positive development in the landscape for financial inclusion. Concerns around co-operatives that are not prudentially regulated by the SBS are growing and the SBS has said that it should play a larger role in this sector.

Trinidad and Tobago

- Following several years of concrete achievements with regard to strengthening financial inclusion, Trinidad and Tobago's progress on its targets has slowed down in during 2016, owing mainly to elections in September 2015 that brought a new government to power and a new governor to the central bank. It remains to be seen whether the current administration will place a priority on financial inclusion.

- Some restrictive policies have had a limited, negative impact on market development. State-funded initiatives (such as the Agricultural Development Bank, for example) have largely crowded out private microfinance/financial inclusion operations because the client base expects subsidised loans and low penalties for not meeting repayment commitments.

Uruguay

- In April 2014 the government passed Law 19.210, the Law on Financial Inclusion, which aims to achieve universal access to banks and financial services by providing rebates on electronic payments and requiring salaries to be paid into bank accounts. Specifically, the law reduces the VAT for electronic payment transactions using debit (2% reduction) and credit cards (additional 2% reduction in the first year) and mandates that salaries be paid electronically into bank (or other financial institution) accounts by 2017. The law also facilitates interoperability among payment systems and reduces fees for transferring money. The first stage of implementation was the VAT reduction, which has led to more electronic transactions and more points of service.

- The government estimates that between 600,000 and 800,000 workers receive their salaries in cash. Therefore, the second stage of implementation is to incorporate these workers by mandating that salaries be paid electronically into bank accounts. The transition period began in October 2015 and workers who receive salaries above a certain amount had nine months to select banks and notify their employers. Officials expect all workers, including part-time and domestic workers, to be incorporated into the financial system by May 2017. Although the law aims to cover all sectors of the economy, workers in the informal sector or in regions with few points of service risk being left out of the system. Another initiative to move away from cash payments was a resolution in March 2016 to require taxi payments to be made electronically.

Venezuela

- Recent government efforts have focused on "bancarisation" or financial penetration. The Superintendencia de las Instituciones del Sector Bancario de Venezuela (SUDEBAN) introduced new rules for agents in March 2014 that allow them to process a number of cash-in and cash-out transactions. Large banks, both public and private, actively use agents throughout the country. Some banks are also allowing retailers, such as pharmacies and grocery stores in deprived or remote areas, to have points of service.

- Since 2015, the environment for financial inclusion in Venezuela has significantly deteriorated due to a combination of inadequate legislation and a fragile economic situation. The 2016 IMF World Economic

Outlook forecasts inflation rates in Venezuela to end 2016 at 500%. The law tightly limits interest rates and fees on some financial services. New regulations in force since January 2016 now also tax financial transactions. With such high inflation and low interest rate caps, real interest rates importantly distort the market in terms of creating incentives for saving as well as for the provision of consumer credit and microcredit.

- In February 2016, the government announced a 37% devaluation of the primary exchange rate and a 60-fold increase in gas prices, which will significantly affect an economy that heavily relies on imported goods. There has been significant social unrest due to severe shortages of basic goods and services. Recurrent executive intervention to erode the legislature's powers, as well as the government's resistance to a referendum to oust the current president, have worsened the country's political instability. This context further hinders any efforts to promote financial inclusion.

Middle East and North Africa

Figure 9:
Country scores for the Middle East and North Africa

OVERALL SCORE

Rank/55	Change in Rank		Score/100	Change in Score ∆
		Average	**38**	**+2**
=15	▼ 1	Morocco	55	0
46	▲ 2	Jordan	38	+6
51	←→	Egypt	31	+2
53	▼ 2	Lebanon	29	0

Egypt

● Egypt has made important strides in promoting financial inclusion in the past two years. The regulatory environment has been strengthened and access to financial institutions has improved. In November 2014, a presidential decree issued Law No. 141, which is the first law regulating microfinance services. The Egyptian Financial Supervisory Authority (EFSA) has a unit that is ostensibly focused on the supervision of microfinance activities by civil associations and NGOs. The microfinance law also includes a list of Executive Decrees by which licensed institutions must abide. In February 2016, the Central Bank of Egypt (CBE) exempted banks' lending to SMEs that focus on exports from reserve requirements and reduced the cost of funding to 5–7% (compared to an average lending rate of 12%) to encourage banks to allocate more of their lending to SMEs. Moreover, the CBE has been working on developing a financial inclusion strategy with the Egyptian Banking Institute, aiming to increase SME loans to approximately 20% of total loans by the year 2020.

● Presidential Decree No. 141, passed in November 2014, resulted in significant changes in the regulatory structure in Egypt during 2015-16. The decree placed the EFSA in charge of the supervision of microfinance activities by civil associations and NGOs. In 2016, the EFSA consolidated its role in regulating the microfinance sector and overseeing financial inclusion more broadly. There is some concern that the EFSA is trying to regulate all NGO-MFIs, including many hundreds of rural NGO-MFIs, and is not focusing on regulating the major urban-based providers.

● There has been significant movement by the EFSA with regard to microinsurance, including the creation of a "microinsurance platform". However, the regulations regarding microinsurance that would enable the establishment of microinsurance companies have still not been issued but are expected in the near future.

Jordan

● In November 2015, the Central Bank of Jordan (CBJ), the Arab Monetary Fund (AMF) and GIZ organised a high-level conference on "Financial Inclusion and Employment in the Arab Region". At this conference, the CBJ officially launched the process of creating a financial inclusion strategy for Jordan. The strategy is seen as a significant step forward and is expected to be launched in the next year or so, according to market experts.

- In December 2015, Jordan's first licensed credit bureau was launched and is operated by the CRIF, a private Italian company that specialises in credit information systems. The credit bureau had long been expected and is a significant market development.

- The CBJ is actively building a specialised capacity for financial inclusion. In the past year, three new staff members have been appointed, focusing on financial inclusion, and two consultants are also assisting this unit. Moreover, the CBJ is currently drafting legislation to ensure that reporting requirements for microfinance institutions are reasonable.

Lebanon

- The broader environment for financial inclusion remains constrained due to the political crisis in the country and the war in neighbouring Syria. In reaction to consumer complaints about loan practices, the Banque du Liban (BdL, the central bank) increased existing regulations on non-bank lenders. The BdL issued Basic Circulars No. 11948 in 2015 and No. 12174 in 2016 to target "loan sharks" or what are known as "comptoirs" in Lebanon. These circulars restricted loans by comptoirs, ensuring that clients cannot be made to pay monthly instalments that exceed 35% of their household income; the loans themselves also cannot exceed 35% of household income and cannot exceed 5% of the comptoir's capital or $100,000.

- Lebanon's first Microfinance Association, registered in March 2015, is now fully operational. However, while the association has begun meeting, the impact of this group is expected to be minimal.

Morocco

- A number of significant developments to improve financial inclusion in Morocco are expected to occur in the near future. The foremost is the expected release of the National Financial Inclusion Strategy (NFIS), which is expected to improve the regulatory environment for financial inclusion, and in particular consumer protection, as well as co-ordination among key stakeholders.

- Further, the Bank Al-Maghreb (BAM, the central bank) is expected to release new regulations on the risk management standards for the micro credit sector and on issues related to insurance codes (this is not expected to directly address microinsurance, however).

Sub-Saharan Africa

Figure 10:
Country scores for Sub-Saharan Africa

OVERALL SCORE

Rank/55	Change in Rank		Score/100	Change in Score ∆
		Average	**47**	**+2**
=6	←→	Tanzania	62	0
=8	▲ 3	Kenya	61	+5
=8	▲ 8	Rwanda	61	+7
12	▼ 2	Ghana	58	0
=20	▲ 3	Mozambique	51	+1
=20	▲ 11	South Africa	51	+5
=30	▲ 5	Senegal	47	+3
=33	▼ 5	Nigeria	46	-2
=33	▼ 10	Uganda	46	-4
48	←→	Ethiopia	34	+2
49	▼ 4	Cameroon	33	-1
52	▲ 1	Madagascar	30	+3
54	←→	Dem. Rep. of Congo	26	0

Cameroon

- There have been two main substantive changes since 2015. First, according to the IMF, all pricing caps on credit have now been removed. Second, we have seen a further development of the microinsurance sector with AXA, a global insurance company, having been approved by the insurance authority (Conférence Interafricaine des Marchés d'Assurances, CIMA) to offer microinsurance in Cameroon.

- There is potential for improvement in implementing the financial inclusion strategy, which now has no specific commitments, savings-account-opening requirements for low-income populations, or accounting standards, hindering good practices by banks and MFIs.

DR Congo

- The new insurance code, which removes the monopoly of the state-owned Société Nationale d'Assurances (SONAS), came into force in March 2016. However, the appointment of the regulator who will supervise the insurance sector and licence companies that enter the market has been delayed. There have not been any other concrete regulatory developments; however, the central bank is very close to introducing regulation to cover agent banking (although it has been authorising financial institutions to establish agent networks since 2011) and is in the process of finalising a comprehensive consumer protection framework.

- Another major change is that in June 2015 the DRC's government split the country into 26 provinces, up from 11. As a result, some of the new provinces are now entirely unserved by any kind of financial institution. The number of mobile money subscribers has continued to grow and, in terms of innovation, there has been progress in the area of products developed by banks and mobile network operators (MNOs) aimed at the low-income population. These include a microcredit service developed by Airtel Money and United Bank for Africa, a partnership between Airtel Money and WorldRemit (a money transfer app), and an application created by Trust Merchant Bank permitting customers to manage, pay and receive money regardless of the operator.

Ethiopia

- The government continues to work, with technical assistance from the World Bank and through continued collaboration with counterparts within the AFI, to formulate a national financial inclusion strategy. No imminent action was expected as of June 2016, however. A promising new microinsurance regulatory framework was put into place in early 2015, but has yet to be implemented and is likely to require follow-on regulations in order to become an effective tool for development of a large formal microinsurance market.

- Five years in the making, a national retail payment system linking banks for smaller transactions was launched in 2016.

- Meanwhile, new regulations regarding mobile banking and transactions that took effect in 2013 are starting to bear fruit with the launching of the first mobile payment system, the spread of mobile banking platforms, and other innovative market initiatives in digital financial services.

Ghana

- In June 2015, Ghana replaced the 2008 Guidelines on Branchless Banking with the 2015 Guidelines for E-Money Issuers and introduced the 2015 Guidelines for Agents. Under the new guidelines, non-banks are allowed to establish, own and manage electronic money businesses in the form of separate entities, to be supervised by the Bank of Ghana (BoG), and partnerships with banks are no longer required. The newer Guidelines for Agents have expanded the range of services that agents can provide.

- E-money regulations have opened up and are adding diversity to the sector. In early 2015, Airtel Ghana, a mobile network operator, launched a contactless tap-and-pay service based on Near Field Communication (NFC) technology, an innovation that reduces the cost of making small payments for low-income customers. Also in 2015, MasterCard partnered with Ecobank Ghana, a subsidiary of regional commercial bank Ecobank Transnational Incorporated, to extend its services to the country using digital products. The partnership offers prepaid cards to all market segments, especially unbanked and financially excluded young people.

- The BoG has drafted a new Deposit Insurance Bill that would create both a deposit insurance scheme and a regulating entity to oversee insurance activities. This bill proposes two differentiated funds: one for banks and one for other financial institutions. In March 2016, this bill reached Parliament and is expected to pass in 2016.

- The Ministry of Gender, Children and Social Protection (MOGCS), which has been collecting customer-level data over the years to better understand the needs of the low-income population, has entered into an agreement with Genkey Solutions BV, a private information technology company that specialises in biometrics, for the delivery of data collection services leading to the establishment of the Ghana National Household Registry (GNHR). This was rolled out in May 2016 and the data are expected to be available by October of this year. The progress made over the course of the last year, along with the various initiatives underway for 2016, suggest an expansion of financial inclusion in Ghana in the future.

Kenya

- There have been continued attempts to politicise lending rates and introduce caps. After we closed the research for the Microscope in late August 2016, President Uhuru Kenyatta signed a law that caps the interest rates on loans and sets minimum payments on deposits. The amendment to the Banking Act also puts a cap on credit costs at 400 basis points above the benchmark central bank rate.

- There has been continued expansion of financial inclusion via mobile banking with fast growth in savings access and credit access via mobile phones. Kenya now has more than 135,000 mobile money agents countrywide. Also, since the middle of 2015, three small to mid-sized banks (most recently Chase Bank) have gone into receivership. This has not yet sparked any overall contagion but may signal a need for closer Central Bank of Kenya (CBK) supervision.

Madagascar

- A new statutory body has been empowered with oversight for consumers seeking redress from complaints, but it is too early to assess its effectiveness. The new consumer protection law—"Loi no. 2015–14 sur les guaranties et la protection des consommateurs"—sets out mechanisms for resolving disputes and defines sanctions. The Service de la Protection des Consommateurs (SPC) sits within the Direction de la Prévention des Fraudes et de la Protection des Consommateurs (DPFPC), which is itself housed within the Ministry of Commerce ("Ministère du Commerce et de la Consommation").

- Madagascar is still considered a fragile state and more than 80% of the population is living below the poverty line. Although in the past year there has been no specific shock, nor restrictive policies, that have negatively affected market development, the country remains vulnerable, with most of the population battling for survival every day. The appointment of Olivier Mahafaly as prime minister on April 10th should boost cohesiveness in the government, but the administration will continue to face resistance from vested interests, while reform efforts will be held back by the struggle for parliamentary dominance.

Mozambique

- Since 2015, Mozambique has made important efforts to create a more enabling environment for financial inclusion. In March 2016, the government released the National Strategy for Financial Inclusion 2016–2022, which sets three global targets to be achieved by 2022: i) 70% of the adult population has an account at a formal financial institution; ii) 100% of districts have at least one point of access to formal financial services; and iii) 90% of the population has at least one point of access to formal financial services within a 5-km radius from their residence or workplace. In addition to these three overarching objectives, the strategy sets a number of specific commitments on e-money, credit (including microcredit), electronic payments, microinsurance and consumer protection, among others.

- To adequately implement this strategy, the government created a National Committee for Financial Inclusion, headed by the Bank of Mozambique (BdM, the central bank) and the Mozambican Insurance Supervision Institute (ISSM), and membered by the Association of

Microfinance Operators of Mozambique (AMOMIF), the Association of Banks (AMB), the Association of Insurance Companies (AMS), National Stock Exchange (BVM), the National Statistics Bureau (INE) and the National Institute of Communications (INCM).

- Despite these important efforts towards the expansion of financial inclusion in the country, specific events in early 2016 may limit advancements in this space. In April 2016, the IMF put on hold the payment of a second part of a US$285m loan granted to Mozambique, after discovering the country had hidden debt of more than US$1bn. The Mozambican authorities confirmed the existence of a large amount of borrowing that had not been previously disclosed to the IMF. The World Bank later followed the IMF by suspending approximately US$40m in financial aid for direct budgetary support. As Mozambique's financial sector continues to be heavily reliant on donor interventions and foreign aid funding, it is expected that the suspension of this sizeable funding will generally affect its financial sector and delay any efforts to expand financial inclusion.

Nigeria

- There have been two key changes with respect to financial inclusion in the past year. In July 2015, the National Insurance Commission (NAICOM) issued licences to 16 microinsurance firms. And in March 2016, NAICOM announced that it was considering reducing licence fees for microinsurers to encourage entry into the market.

- The oil price shock has affected market development due to its impact on disposable income. The naira has depreciated and inflation has increased, partly due to the removal of fuel subsidies that kept local fuel prices low. Higher inflation is resulting in slower economic growth, which is in turn affecting micro, small and medium enterprises negatively. Foreign exchange constraints have had a serious impact on microfinance institutions, with international loans requiring settlement in US dollars, since many firms are reported to have been unable to obtain the foreign currency needed for loan repayments. In addition, political issues in the north-east due to the activities of Boko Haram have resulted in millions of people being displaced internally, which also adversely affects the loan portfolios (and therefore credit availability) of financial institutions where clients have been forced to abandon their businesses. The triumph of the All Progressives Congress (APC) in the 2015 federal and state elections, when it defeated the People's Democratic Party (PDP) that had held power since the end of military rule in 1999, undoubtedly opened a new chapter for the country. But it remains unclear whether this change will shift the fortunes of a nation shaped by a turbulent history and facing formidable challenges ahead.

Rwanda

- The past year has seen considerable investment in capacity building, notably at the district level of savings and credit co-operatives (SACCOs). Central bank staff newly deployed in district offices in late 2014 received training for supervising SACCOs, and the number of on-site inspections has increased correspondingly. The staff is also helping SACCO administrators to improve their reporting skills.

- The government of Rwanda has set a target to have all SACCO operations digitalised by the end of 2016, and this process is under way, as is the consolidation of district SACCOs at provincial level, prior to national consolidation.

- As of August 2015, all Rwandans with deposit accounts at commercial banks, microfinance banks, microfinance institutions and Umurenge SACCOs were protected by deposit insurance on equal terms. Informal village savings and loan schemes (VSLAs) and "tontines" are not covered by the new legislation ("Law determining the organisation and functioning of deposit guarantee fund for banks and microfinance institutions"), but also are not authorised to take deposits.

Senegal

- In 2015, the Central Bank of West African States (BCEAO) adopted Instruction No. 008-05-2015 governing the terms and conditions of electronic money issuers. Even though the BCEAO authorises a variety of actors to issue e-money, market dynamics have not allowed the development of large-scale models. Mobile network operators (MNOs) have opted to partner with banks for the licensing and launch of e-money platforms, and the majority of banks still play a passive role in promoting digital financial services. Microfinance institutions and other e-money issuers often lack resources and technological capacity to launch their own e-money products. The aforementioned 2015 regulations allow for more players to gain licences and enter the market, which is expected to allow for further sector diversification.

- As of January 2016, there were interest rate restrictions on deposits in Senegal, which present a demand-side constraint on the uptake of financial services, especially among low-income consumer segments.

- The BCEAO and the IFC have partnered on the development of a regional credit reporting solution in the West African Economic and Monetary Union, which is expected to be operational in Senegal on June 30th 2016. According to interviewed stakeholders, banks and top-tier microfinance institutions will report to this regional credit bureau and reporting will become mandatory as of July 2016.

- A documented National Financial Inclusion Strategy, funded by the Gates Foundation and developed with assistance from the African Development Bank and the BCEAO, will be approved in the coming months. All these initiatives are expected to expand financial inclusion in Senegal in the upcoming years.

South Africa

- The legal framework of the South African financial services sector is undergoing major reform as the country moves towards a "Twin Peaks" model for supervision. The Financial Sector Regulation Bill was passed by parliament in October 2015 and will be enacted once signed by President Zuma. The new legislation explicitly includes financial inclusion as an objective, extends the mandate of the South African Reserve Bank to encompass financial inclusion, and calls for the establishment of a financial inclusion working group.

- The ongoing shift from rules-based to risk-based supervision is already having an impact on financial inclusion, as banks and other financial service providers become more risk-averse and therefore less likely to extend credit to low-income consumers, who are deemed higher risk. At the same time, in its current form, the Financial Intelligence Centre Amendment Bill 2015 removed all know-your-customer exemptions, which allowed for less stringent requirements for entry-level accounts. Should this not be remedied, it is expected to have a significant impact on low-income accounts where customers are unable to provide documented proof of address.

- The reduction in interest rate caps is also expected to have repercussions for low-income populations, who may find it harder to obtain credit from regulated lenders and therefore seek the services of unregulated lenders operating outside the law.

- The South African government has, in the last year, published a position paper on the establishment of a deposit guarantee scheme; this is the first step in the policy-making process.

- The new Insurance Bill, which is currently going through the legislative process, will, once it is enacted, give effect to the National Treasury's Microinsurance Policy Framework. The Debt Collectors' Amendment Bill 2016 closes some legal loopholes to provide financial consumers with better protection.

Tanzania

- Tanzania has continued to make progress in achieving its financial inclusion goals and in improving the regulatory environment in this respect.

- The main developments in the past year have been the National Payment Systems Act (NPSA) and the Electronic Money Regulations (EMR), both enacted in 2015, which extend financial consumer protection. The NPSA and its attendant regulations, as well as the EMR, have extended the range of institutions covered by the Bank of Tanzania's (BOT, the central bank) policy on disclosure, notably to mobile money operators.

- The new Microfinance Act is still in draft form and it is not clear when it will be passed.

- There is some activity in the insurance market as new companies such as Maendeleo Bank Plc have been approved to offer insurance products that cover the masses.

- The BOT, which has the mandate to enforce consumer financial protection, set up a complaint desk in April 2015. It also requires that the financial institutions under its supervision submit quarterly reports on complaints received and resolutions achieved.

Uganda

- The Tier 4 Institutions Bill of 2015 establishes a second prudential and market conduct regulator for Tier 4 institutions, which means that microfinance institutions, SACCOs and money lenders will have a distinct supervisor.

- The Financial Institutions Amendment Act 2016 provides for agent banking, creates a single deposit insurance fund for all supervised financial institutions, and enables banks to offer insurance products (bancassurance) to their customers.

- The Bank of Uganda (BoU) has enforced tiered capital adequacy ratio buffers in line with Basel III guidelines. These apply to banks only.

- The Credit Reference Bureau (CRB) was launched in 2008 and there was a single operator, Compuscan CRB, until 2015, when a second licence was granted to Metropol Corporation (Kenya) Limited in November. The operations of the credit reference bureaus are regulated by the BoU through the Financial Institutions (Credit Reference Bureaus) Regulations, 2005. The 2016 Financial Institutions (Amendment) Act extended CRB coverage to Tier 4 institutions on a selective basis. Specifically, the amendment enables the BoU to extend coverage although it is too soon to implement this.

Glossary

Anti-money laundering and combating the financing of terrorism (AML/CFT): Legal re¬quirements, controls, and practices designed to detect and prevent money-laundering, the financing of terrorism, and other illicit activities. The term usually refers to the international standards on AML/CFT set up by the Financial Action Task Force (FATF), an inter-governmental body. While each country can chose how to adapt these international standards, in most countries financial institutions are required to apply certain know your customer (KYC) regulations to all customers, strengthen internal controls, and watch for suspicious transactions. These regulations, while important, can sometimes create barriers to financial inclusion. Source: CGAP 2012, Accion, 2015

Automated clearing house (ACH): An electronic clearing system in which payment orders are exchanged among participants (primarily via electronic media) and handled by a data-processing centre. Source: ECB, 2009

Agent banking (or correspondent banking): A model for delivering financial services whereby a bank partners with a retail agent (or correspondent) in order to extend financial services in locations for which bank branches would be uneconomical. Agents can be both banking (small banks) and non-banking correspondents (post offices, gas stations, and mom and pop shops). Agent banking is a delivery channel that holds high potential for closing the location gap. Source: Accion, 2015

Automated teller machine (ATM): An electromechanical device that allows authorised users, typically using machine-readable plastic cards, to withdraw cash from their accounts and/or access other services (allowing them, for example, to make balance enquiries, transfer funds or deposit money). Source: ECB, 2009

ATM card: A plastic card that can be used with an ATM for deposits or withdrawal of funds in a bank account. ATM cards can use magnetic strips or smart card technology. Source: Accion, 2015

Bank: A commercial or state bank that provides financial services to the clients generally of middle and upper income. Until recently most traditional banks did not know how to extend financial services to the poor and did not believe that such clients could be served profitably. Today banks are taking interest in serving lower-income clients, or downscaling, and in doing so they can play an important role in financial inclusion. Source: Accion, 2015

Banking outlet: A physical place where clients can access a financial service. The following can all be considered banking outlets: a bank branch, an ATM, a banking agent (such as gas station or post office that provides financial services), a retail store with in-store banking, a mobile phone, a website (in the case of e-banking), or a point of sale (POS) device (these are portable devices with antennas or connected to tellers that function as a quasi ATMs). Source: Accion, 2015

Beneficiary: Person who receives a life insurance benefit in the event of the policyholder's death. Source: CGAP, 2015

Branchless banking: Banking models and delivery channels that deliver financial services to clients through outlets other than full-service bank branches. Branchless banking refers to mobile banking, correspondent and agent banking, electronic banking, and the use of ATMs. The appeal of branchless banking in context of financial inclusion is its ability to close the location gap and increase affordability through automation. Source: Accion, 2015

Broker: Licensed firm or individual that designs, negotiates, and services insurance programs on behalf of the insurance buyer. Source: CGAP, 2015

Capital adequacy ratio (CAR): The capital adequacy ratio is the central feature of the Basel Capital Accord. It is an analytical construct in which regulatory capital is the numerator and risk-weighted assets is the denominator. A minimum ratio of regulatory capital to risk-weighted assets is set to achieve the objective of securing over time soundly-based and consistent capital ratios for all international banks. Source: OECD, 2007

Claim: Request for payment under terms of an insurance contract when an insured event occurs. Source: CGAP, 2015

Claims processing: System and procedures that link the occurrence of an insured event with a payout. Processing should be quick and efficient so payouts can be made as quickly as possible. Source: CGAP, 2015

Cover (or coverage): Scope of protection provided under an insurance contract. Source: CGAP, 2015

Client protection principles: Standards of appropriate treatment that clients should expect to receive when doing business with a microfinance institution, as agreed upon by the microfinance industry-wide effort called the Smart Campaign. The Client Protection Principles include: 1. Avoidance of over-indebtedness; 2. Transparent and responsible pricing; 3. Appropriate collections practices; 4. Ethical staff behaviour; 5. Mechanisms for redress of grievances; 6. Privacy of client data. Source: Accion, 2015

Consumer credit: Credit allowing an individual to purchase and/or use a consumer good or service while paying for it over a set repayment period. Consumer credit is in many countries the fastest growing financial service but not always the one of highest priority for financial inclusion. Consumer credit can be offered by retailers as merchandise purchase financing or by financial institutions as personal loans, or through credit cards. Source: Accion, 2015

Credit bureau: A private agency or firm, established either as a profit-making venture by en¬trepreneurs (with or without financial institution owners) or as a co-operative association by a group of lenders, that gathers and provides consumer credit information. This information can be used to assess an individual's creditworthiness and other factors important to a lender when determining whether to grant a loan. The term "credit bureau" can also be used to refer to a public credit registry. Source: CGAP, 2012

Credit card: An electronic payment card allowing the holder to purchase goods and services on credit. Each card is associated a credit line. A ceiling level, determined by the issuing financial institution, serves as a limit on the amount of debt the card holder can take on. Unlike a debit card, matching funds do not need to be available on the card holder's account, but the card holder must generally pay interest on the debt incurred while using the credit card. Source: Accion, 2015

Credit registry: A database maintained by a government agency (eg, the central bank) to which regulated financial institutions are typically required to submit loan and repay¬ment information. In many countries, only regulated financial institutions can access information from a public credit registry. Source: CGAP, 2012

Credit union: A provider of financial services that is owned by its members under a co-operative form of governance. Credit unions usually provide savings services and loans to their members. They play an important role in financial inclusion because they often have greater presence in rural areas where traditional banks might not be present and because they often offer services at more affordable rates than other financial institutions. Credit unions are known by many names around the world including co-operatives, cajas (in many Latin American countries), and savings and credit co-operatives (SACCOs) (throughout Africa). Source: Accion, 2015

Customer due diligence (CDD) (see also "know your customer"): Requirements imposed on banks and other financial insti¬tutions by regulation. The Financial Action Task Force (FATF) has a specific Recommendation on CDD setting forth what financial institutions should be required by regulation to do (subject to the risk-based approach), including (i) identifying the customer and verifying that customer's identity, (ii) identifying the beneficial owner, (iii) understanding the nature of the business relation¬ship, and (iv) conducting ongoing due diligence on the business relationship. Similar (and sometimes identical) to "know-your-customer" requirements. Source: CGAP, 2012

Debit card: An electronic payment allowing the holder to deposit or withdraw funds to or from a bank account. May be used with an ATM or in retail stores for payments of goods and services, in conjunction with a POS device. The amount available on the card matches the funds accessible in the corresponding bank account. Unlike a credit card, debit card users do not accumulate debt as a result of card use. Source: Accion, 2015

Delivery channel: A method of providing products or services. Examples of delivery channels include traditional banking outlets such as bank branches, ATMs, or branchless banking channels, such as mobile banking and agent banking. Source: Accion, 2015

Electronic money (E-Money): Monetary value represented by a claim on the issuer that is (i) stored on an electronic device, (ii) issued on receipt of funds of an amount not less in value than the monetary value issued, (iii) accepted as a means of payment by parties other than the issuer, and (iv) convertible into cash. In practice, the customer exchanges cash at a retail agent in return for an electronic record of value. Source: CGAP, 2012

Electronic wallet: A place to store electronic money to allow rapid and secure electronic transactions. An electronic wallet can take the form of a smart card or a mobile phone. Electronic wallets allow individuals to store money in a secure place even if they do not have a bank account. In addition users of electronic wallets can pay for certain products and services without carrying cash, making electronic wallets an alternative and safe way to transport money. Source: Accion, 2015

Excluded: A term describing individuals who have access to none of the products in the full suite of basic services (savings, credit, insurance, and payment services) from a formal financial service provider. Source: Accion, 2015

Financial capability: The combination of knowledge, understanding, skills, attitudes and especially behaviours which people need in order to make sound personal finance decisions, suited to their social and financial circumstances. Source: Accion, 2015

Financial education: The provision of education on the use of financial services. Financial education is important in the context of financial inclusion because as previously excluded populations gain access to formal financial services they need to be able to use these services in a productive and responsible manner that will not cause them harm. Financial education may be provided by schools, financial institutions, and others, through channels ranging from classrooms, to mass media and direct contact with financial institution staff. Source: Accion, 2015

Financial literacy: The ability to understand how to use financial products and services and how to manage personal, household, or micro-enterprise finances over time. Improvements in literacy levels can be achieved through financial education. Source: Accion, 2015

Financial inclusion (FI): There are many definitions of financial inclusion and this report does not adopt any particular one. The aim is to measure the enablers of financial inclusion and not the outcome per se. In this report, we characterise "financial inclusion" as the availability of a wide range of financial services to all populations, especially the disadvantaged.

Financial institution: A category of entities engaged in financial services, including banks, credit unions, savings and, loan associations, money transfer operators, microfinance institutions, and currency exchange offices. Source: IMF, 2009

Formal financial service provider: An institution that provides formal financial services, is formally recognised by the government, and is often (but not necessarily) regulated. Formal providers of financial services include commercial banks, state banks, rural/agricultural banks, savings banks, and non-bank finance institutions. Other financial institutions such as microfinance NGOs and credit unions can also be considered formal financial service providers despite not always being regulated. Source: Accion, 2015

G2P: Government-to-person payment. G2P payments include government benefits and salary payments. Source: AFI, 2013

Health insurance: Coverage for illness, accidents and other health-related risks. Source: CGAP, 2015

Informal financial service provider: An unregulated provider of financial services, which is generally not legally registered with the government. Informal financial service providers may include moneylenders, pawnbrokers, rotating savings and credit associations (ROSCAs) and accumulating savings and credit associations (ASCAs). Usually they are characterised by their community-based nature and their informality. Their services can be convenient, but may be also costly, and not always reliable. (ROSCAs and ASCAs are sometimes categorised as informal service providers although the debate on how to categorise them continues.) Source: Accion, 2015

Insurance: System under which individuals, businesses, and other entities, in exchange for a monetary payment (a premium), are guaranteed compensation for losses resulting from certain perils under specified conditions. Source: CGAP, 2015

Insurance intermediary: Any natural person or legal entity that engages in insurance intermediation. Intermediaries are generally divided into separate classes. The most common types are "independent intermediaries" who represent the buyer in dealings with the insurer (also known as "independent brokers") and "agents" (which generally include multiple agents and sub-agents) who represent the insurer. Source: CGAP, 2015

Insurance supervisor: Refers to either the insurance and reinsurance regulator or the insurance and reinsurance supervisor in a jurisdiction. Source: CGAP, 2015

Insurers: Commercial regulated and licensed insurers with no particular focus on the low income market. Source: CGAP, 2015

Interest rate: Interest charges expressed as a percentage of the principal value to be paid over a specific unit of time. Interest rates are the most important determinant of affordability. Source: Accion, 2015

Interest rate cap: An agreement between two or more parties under which one party limits its exposure to interest rate increases above a specified ceiling (the cap) by paying a fixed premium, ie the borrower pays a premium for the right to have a maximum interest rate. In return, the other party agrees to pay the first party the amount by which interest on a notional principle amount, as measured by an agreed interest rate index, exceeds the specified cap. Source: IBFD, 2009

Interoperability: The ability of diverse information technology systems to work together so services can be provided across multiple providers. For example, interoperable ATMs allow a customer to withdraw funds from any ATM, not just those owned by her bank. Interoperability is important for scaling delivery channels such as mobile banking If a telecoms company's mobile phones are not interoperable with those of other companies, for example, customers will only be able to send money to a limited range of recipients, and may find the service of insufficient value to sign on. Source: Accion, 2015

Know your customer (KYC; see also "customer due diligence"): Due diligence (sometimes referred to as customer due diligence [CDD]) that banks are typically required (pursuant to prudential requirements, AML/CFT requirements, and also internal guidelines) to perform on potential customers to ascertain and verify the identity of a client. Common KYC requirements include the provision of national identification cards and documentary proof of home address and employment. KYC regulation is part of the AML/CFT standards, and while important, can sometimes create barriers to financial inclusion. For example, new KYC regulations require that providers review identity documents for new clients which many financially-excluded clients often lack (such as a passport, identification card, or employment documentation). Source: CGAP, 2012; Accion, 2015

Life insurance: An insurance policy that allows an individual's relatives to receive a preset sum of money upon the end of the insured person's life. Source: Accion, 2015

Microcredit: Small-scale credit typically provided to self-employed or informally employed poor and low-income individuals and microenterprises. Other common features of microcredit include lending methodology characterised by familiarity with the borrower, lack of collateral, expectation of a follow-on loan, and very small loan amounts (although the size of microcredit loans varies from country to country.) Source: CGAP, 2012

Microenterprise: A very small enterprise, generally operated by a low-income person, usually the sole proprietor. In the developing world, most small businesses fall into this category and are generally part of the informal economy. Source: Accion, 2015

Microfinance: The provision of financial products and services focused on serving low-income clients who often lack access to other forms of formal financial services. Microfinance is sometimes used as a synonym for microcredit although microfinance refers to the provision of services beyond credit, including savings, insurance, and payments. Microfinance as an industry has evolved from the first microcredit pilots a few decades ago that proved that the poor need and can use financial services. Microfinance as an industry has roots in and advocates the use of financial services in a way that enhances and does not harm the lives of its low-income clients. Despite its rapid growth, there are still over 2bn people who lack access to financial services, and this has inspired the more recent push for financial inclusion. Source: Accion, 2015

Microfinance institutions (MFIs): Institutions that provide financial services to low-income populations. Microfinance institutions can take many forms including, bank, non-bank financial institution, credit union, or NGO. The term MFIs often refers to institutions primarily focused on serving low-income populations and who self-identify with the microfinance movement, often with a focus on microenterprise credit. The term can also be used to refer to any financial institution serving low-income populations. Source: Accion, 2015

Microinsurance (or "insurance to low-income population" or "inclusive insurance"): Insurance that is accessed by the low-income population, provided by a variety of different entities and run in accordance with generally accepted insurance practices. Often characterised by very low premiums, small payouts, and very simple claims mechanisms. Source: Access to Insurance Initiative, 2015; Accion, 2015

Minimum capital requirements: The minimum absolute amount that owners must invest as equity in an institution seeking a licence to accept deposits. Source: CGAP, 2012

Mobile banking: The use of a mobile phone to access banking services and execute financial transactions. This covers both transactional and non-transactional services, such as viewing financial information on a bank customer's mobile phone. Mobile banking is an alternative delivery channel. Mobile banking supports payment transactions including money transfers and in some cases loan repayments. Because in many developing countries mobile penetration is growing faster than the penetration of financial services, many point to mobile banking as one possible way to decrease close the location gap and increase financial inclusion. Source: AFI, 2013; Accion, 2015

Mobile network operator (MNO): A company that has a government-issued licence to provide telecommunications services through mobile devices. Source: AFI, 2013

Money transfer: A payments transaction that moves money from one person or business to another. Money transfers allow individuals or businesses to make payments from one account to another (in order to pay a bill, pay taxes, or purchase a good or service). Money transfers also allow government to distribute money to households (in the form of tax rebates or welfare vouchers). Money transfers facilitate payments, which are one of the four basic financial services in the full suite of financial services. Source: Accion, 2015

Moral hazard: Occurs when insurance protection creates incentives for individuals to cause the insured event; or a behaviour that increases the likelihood that the event will occur, for instance bad habits such as smoking in the case of health insurance or life insurance. Source: CGAP, 2015

Non-depository financial Institution: An institution that funds their lending from various sources other than public deposits. Source: CGAP, 2012

Overindebtedness: A state in which a borrower's debt service obligations are so high that they require the borrower to make sacrifices in her basic quality of life. Overindebtedness can arise from excessive borrowing (especially from multiple institutions) or from unpredictable events or vulnerability. Overindebtedness can be temporary or chronic. Some of the more widely accepted indicators of overindebtedness include consistently poor repayment rates over a period of time (generally a lagging indicator), high ratios of debt-service-to-income or debt-to-assets, and inability to make loan payments without extreme family or personal hardship. Source: CGAP 2012, Accion, 2015

Payment system: A payment system consists of a set of instruments, banking procedures, and, typically, interbank funds transfer systems that ensure the circulation of money. Source: IMF, 2009

Payments: Transfers of money between two parties. Payments can include the transfer of money for a variety of reasons, including purchase of goods and services, government transfer of aid, bill payment, direct deposit of salary, or sending of remittances. Source: Accion, 2015

Point of sale (POS): Netting of orders in respect of obligations between two or more parties which neither satisfies nor discharges those original individual obligations. Source: ECB, 2009

Point of sale (POS) device: A small, portable device that facilitates an electronic financial transaction. POS devices can serve as a banking outlet in certain cases. Because they are inexpensive and easily transportable, they play in important role in closing the location gap and bringing access to financial services in rural areas and those with underdeveloped infrastructure. Source: Accion, 2015

Policyholder: Party to whom the contract of insurance is issued by the insurance company. Source: CGAP, 2015

Premium: Amount paid by the policyholder for coverage under the contract, usually in periodic instalments. Source: CGAP, 2015

Privacy of client data: A Client Protection Principle that states that the privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions, and such data cannot be used for other purposes without the express permission of the client (while recognising that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories). Source: Accion, 2015

Property insurance: Provides financial protection against loss or damage to the insured's property caused by such perils as fire, windstorm, hail, etc. Source: CGAP, 2015

Prudential regulation: Regulation or supervision that governs the fi¬nancial soundness of licensed intermediaries' businesses, to prevent financial-system instability and losses to small, unsophisticated depositors. Source: CGAP, 2012

Proportionate approach: An approach to regulation and supervision in which the costs should not be excessive when measured against the risks being addressed and the benefits that should result. Source: CGAP, 2012

Real interest rate: An interest rate that takes inflation into account by subtracting the inflation rate from the nominal interest rate. Real interest rates identify whether an account balance to which interest is applied retains its real value (purchasing power) over time. Source: Accion, 2015

Redress of grievance: A Client Protection Principle that states that providers will have in place timely and responsive mechanisms for resolving complaints and problems of individual clients. Source: Accion, 2015

Regulated microinsurer: Licensed by the insurance supervisor to operate as an insurer with a focus on the lower income market either in full or as a product line. Source: CGAP, 2015

Regulation: Binding rules governing the conduct of legal entities and individuals, whether they are adopted by a legislative body (laws) or an executive body (regulations). Source: CGAP, 2012

Remittances: Funds, generally a portion of a salary, transferred from one individual to another. International remittances are funds transferred by a foreign worker to his/her home country, while domestic remittances are funds within one nation, generally from a worker in an urban area to a household in a rural area. Source: Accion, 2015

Savings account: An account that allows a client to store and withdraw money. Savings accounts are often the entry product for the newly included. Savings accounts are offered by a wide range of financial institutions, licensed by the government. Forms of savings accounts include basic savings (few restrictions on deposits or withdrawals), programmed savings (restrictions on withdrawals, focus on specific purpose), and checking accounts—a savings account with check-writing privileges. Source: Accion, 2015

Smart card: A payment card with an embedded computer chip that stores customer account information. Smart cards can function as credit cards, debit cards, and as electronic wallets. Smart cards can be used in locations with poor communications technology because they store all relevant information. They can also store biometric information. Source: Accion, 2015

Stored value card: A payment card, often prepaid and anonymous, where all account data is stored on the card. It only allows for payment in a preset number of outlets. Stored value cards provide an alternative to cash for individuals who do not have a bank account, and cannot use traditional credit and debit cards. Source: Accion, 2015

Supervision: External oversight and engagement aimed at determining and enforcing compliance with regulation. Source: CGAP, 2012

Transparency: A characteristic of quality financial inclusion; complete disclosure of information by a financial service provider. Transparency towards the public and funders includes full disclosure of the provider's financial condition and performance. Transparency towards clients includes full disclosure of all pricing, terms, and conditions of products in a form understandable to clients. Source: Accion, 2015

Unbanked: A person who does not use or does not have access to commercial banking services. Source: IBRD/WB, 2014

Underwriting: Process by which an insurance company evaluates and selects risks to be insured and determines terms and conditions under which they will accept the risk. Source: CGAP, 2015

Usage: The act of employing or utilising a financial service. Usage is often used as a proxy for access because it can be measured directly. The difference between these two terms is important to note when assessing levels of inclusion because clients may have access but decide not to use a service. Source: Accion, 2015

Appendix: Methodology and sources

Background

For seven years (2007–13), the *Microscope* evaluated the regulatory and structural framework for microfinance institutions (MFIs), as well as the business operating environment for microfinance across 55 countries. In 2014 The Economist Intelligence Unit expanded the analytic framework of the Microscope, going beyond microfinance to incorporate indicators reflecting the enablers of financial inclusion. The intention is to maintain the Microscope's relevance to stakeholders who serve low-income populations and broaden the scope of the index to financial inclusion—an important emerging topic and a driver of economic development.[1] Although microfinance remains an important way of providing financing to individuals, the methods and tools for accessing finance continue to develop. Indeed, financial inclusion has emerged as a key public-policy theme.[2]

As a first step in revising the methodology, we convened an expert panel in January 2014 to discuss changes to the *Microscope* benchmarking framework, so as to capture financial inclusion. Around 20 experts were drawn from international research organisations and from among independent consultants in the financial inclusion community. The experts discussed key financial inclusion topics and their suitability for use in the revised indicator framework that forms the foundation of the *Microscope*. After gathering inputs from the panel and consulting the funding organisations, we revised the indicator framework and methodology for this year's report. The revised *Microscope* includes 12 indicators, which assess a country's government, and its political, regulatory and supervisory capacity to enable an environment of financial inclusion, as well as a 13th indicator used as an adjustment factor to reflect political instability, which impacts the country's financial inclusion environment.

Examining the various definitions of financial inclusion across countries, regulators and financial institutions revealed several common elements essential to achieving financial inclusion. For financial services to be more inclusive, the financial and regulatory environments need to:

- **Offer a wide range of products**: There is a consensus that financial inclusion goes beyond microcredit. The environment needs to expand its financial services to include access to savings, insurance, payment systems and pensions.
- **Have a wider range of providers**: Technological advancement demonstrates that many types of companies can provide non-traditional financial services, such as mobile-banking and payment systems (M-Pesa and payments).
- **Target diverse groups and sub-populations**: An inclusive financial environment is one in which people are not solely defined by income. Although the literature on financial inclusion has not reached a consensus as to whom, specifically, financial inclusion should target, the *Global Microscope on Financial Inclusion* will focus on the underserved market for financial products (people "at the bottom of the pyramid", minorities and micro-businesses).
- **Facilitate new ways to deliver financial products or services**: The concept of financial inclusion entails innovative approaches to the way financial services are delivered to traditionally excluded or underserved populations. In this sense, the role of technology is key; the development of platforms using digital technologies means

1 There are many definitions of financial inclusion and this report does not adopt any particular one. The aim is to measure the enablers of financial inclusion and not the outcome per se. In this report, we characterise "financial inclusion" as the availability of a wide range of financial services to all populations, especially the disadvantaged.

2 We first developed the indicators and methodologies used to evaluate the microfinance environment in 2007, in co-ordination with MIF and CAF. The real-world relevance of these indicators was evaluated through in-depth interviews with country experts and microfinance practitioners from the Latin American/Caribbean (LAC) region. The indicators were further validated in 2007 and 2008 by their high positive correlation with some microfinance-penetration figures. The original index included 15 countries in the LAC region, which was subsequently expanded to 21 LAC countries, plus an additional 34 countries around the globe, in co-operation with the IFC. The 2011, 2012, 2013 and 2014 versions of the index cover 55 countries.

that, for example, transactions can be processed through mobile devices in remote areas.

- **Provide adequate financial education**: In order to expand financial products and services to the traditionally underserved and under-banked populations, it is essential also to provide proper education and information about the financial system, consumer rights and pricing, so consumers can make informed decisions. Financial literacy is an important and growing part of consumer protection in microfinance and expanded access to low-income populations.

The index

The *Microscope* is an exercise in benchmarking countries, with the goal of identifying areas for improvement in the legislative and regulatory frameworks that support financial inclusion, as well as a means by which to evaluate conditions that may be conducive to, or inhibit, expanded access to, and understanding and usage of, financial services. The *Microscope* focuses on the enablers of financial inclusion: the laws, regulations and types of products being offered that support or demonstrate financial inclusiveness.

The *Microscope* is broadly patterned after other indices that measure the openness of the regulatory, legal and business environment to private-sector participation. However, the *Microscope* relies to a larger extent on qualitative measures of the financial inclusion environment. This places a special obligation on researchers to design an index that captures relevant aspects of the environment, and that does so in a defensible and consistent manner. Despite insufficient and often incomplete data regarding the financial inclusion environment, much effort has been made to combine available secondary sources and primary legal texts with insights and information from segment stakeholders in each national context. Additional measures are taken to ensure that the qualitative scores are consistent across countries and regions.

Sources

To score the indicators in this index, data were gathered from the following sources:

- In-depth, personal interviews with regional and country experts, as well as practitioners and regulators.
- Texts of laws, regulations and other legal documents.
- Economist Intelligence Unit proprietary country rankings and reports.
- Scholarly studies.
- Websites of governmental authorities and international organisations.
- Websites of industry associations.
- Local and international news-media reports.

A goal for this year's *Microscope* was to increase the number and scope of practitioners interviewed per country, to obtain the widest possible range of perspectives on the financial inclusion environment. This year, we interviewed around 214 experts. A large proportion of these interviewees were drawn from in-country sources, especially local banks and MFIs, national microfinance networks and financial regulators, mobile-network operators (MNOs), and local offices of multilateral organisations. These additional consultations provide a multi-faceted perspective and a nuanced portrait of the environment for financial inclusion. Moreover, the 2016 report continues to draw on new data and secondary sources, so as to be able to provide the most up-to-date and in-depth analysis of the financial inclusion environment in 55 developing countries around the world.

For the general and specific-country bibliography, please visit: www.eiu.com/microscope2016

Scoring criteria

Indicators in the *Microscope* index are qualitative in nature, and defined through a set of 41 questions. These questions seek to measure not only the laws and standards governing the segment, but also their enforcement, implementation and effectiveness. An experienced team of international-development researchers, microfinance practitioners and country experts analysed regulations, laws, news articles, government sites and other resources to provide objective, comprehensive, informed answers to each question. In addition, the researchers interviewed around 214 experts to provide colour and insight into the overall environment of financial inclusion in each country. Economist Intelligence Unit research staff supplied sources, contacts and a detailed set of guidelines outlining the criteria and goals, as well as a scoring scheme for each question.

While the criteria are detailed, they are subjective in nature. Economist Intelligence Unit research staff reviewed each response thoroughly, calibrated scores and conducted cross-country comparisons, so as to ensure that scores were properly justified and consistent across all countries. Consequently, scores are best understood by reading both the scoring criteria and the written justifications provided for each indicator found in the accompanying excel model available at: www.eiu.com/microscope2016. The indicators and scoring scheme are outlined below.[3]

1. Government support for financial inclusion

1. Existence and implementation of a strategy:

a) *Is there a documented strategy on financial inclusion?*
Scoring: 0 = There is no documented strategy for financial inclusion OR recent activities in two or more areas of financial inclusion; 1 = The government has a documented financial inclusion strategy, but it does not contain specific commitments OR there is no documented strategy, but there are recent activities in two or more areas of financial inclusion; 2 = The government has a documented financial inclusion strategy, containing specific commitments that have been partially implemented; 3 = The government has a documented financial inclusion strategy containing specific commitments, including G2P payments and financial capability, and it has been substantially implemented

2. Data collection:

a) *Does the government collect customer-level data that helps to understand low-income populations' demand for financial services?*
Scoring: 0 = The government does not collect customer-level data from financial institutions; 1 = The government collects EITHER customer-level data from regulated institutions or household data; 2 = The government collects customer-level data and household data

2. Regulatory and supervisory capacity for financial inclusion

1. Technical capacity to supervise:

a) *Is there a specialised capacity in place in the regulatory agency?*
Scoring: 0 = There is no specific mandate to supervise financial services and products that facilitate financial inclusion OR there is no specialised capacity for financial inclusion in place; 1 = Limited specialised capacity for financial inclusion is in place; 2 = Some specialised capacity for financial inclusion is in place; 3 = Specialised capacity for financial inclusion is in place

b) *Is the financial regulator politically independent?*
Scoring: 0 = The financial regulator is often influenced by political dynamics; 1 = The financial regulator is generally independent of political influence; 2 = The financial regulator is always independent of political influence

3. Prudential regulation

1. Appropriate entry and licensing requirement:

a) *Are minimum-capital requirements appropriate to allow new entrants and ensure the safe provision of financial services?*
Scoring: 0 = Minimum-capital requirements are not appropriate; 1 = Minimum-capital requirements are somewhat appropriate; 2 = Minimum-capital requirements are appropriate, but not effective; 3 = Minimum-capital requirements are appropriate and effective

3 A score guide has been developed, and is available at: www.eiu.com/microscope2015

b) *Are there any impediments to entering the market, such as funding or ownership restrictions?*
Scoring: 0 = BOTH funding restrictions and ownership restrictions are barriers to entering the market; 1 = EITHER funding restrictions or ownership restrictions are barriers to entering the market; 2 =There are no funding and ownership restrictions to entering the market

2. Ease of operation:

a) *Are capital-adequacy standards appropriate to ensure both financial stability and the operation of a variety of providers?*
Scoring: 0 = Capital-adequacy standards are not appropriate; 1 = Capital-adequacy standards are somewhat appropriate; 2 = Capital-adequacy standards are appropriate

b) *Are reporting requirements reasonable in light of the specific nature of the services provided?*
Scoring: 0 = Reporting requirements are not reasonable; 1 = Reporting requirements are somewhat reasonable; 2 = Reporting requirements are reasonable

4. Regulation and supervision of credit portfolios

1. Interest rates:

a) *If there are interest rate caps for credit, do they distort the market?*
Scoring: 0 = There are interest rate caps and they affect the provision of all types of credit; 1 = There are interest rate caps and they affect the provision of microcredit and consumer credit; 2 = There are interest rate caps and they affect EITHER microcredit OR consumer-credit provision; 3 = There are no interest rate caps OR they do not distort the market for microcredit and consumer credit

2. Risk management of credit portfolios:

a) *Does the regulator actively supervise the status of over-indebtedness for credit portfolios?*
Scoring: 0 = There is no evidence of over-indebtedness monitoring in the past year; 1 = There is some evidence of over-indebtedness monitoring in the past year; 2 = There is clear evidence of over-indebtedness monitoring in the past year

b) *Is there a differentiated risk-management framework for consumer-credit portfolios? Does the regulator supervise the status of consumer-credit portfolios?*
Scoring: 0 = There is no differentiated risk-management framework for consumer credit; 1 = There is a differentiated risk-management framework for consumer credit, but supervision of its status is limited; 2 = There is a differentiated risk-management framework for consumer credit and the regulator supervises its status

3. Risk management framework for microcredit portfolios:

a) *Is there a differentiated and comprehensive risk-management framework for microcredit?*
Scoring: 0 = There is no definition of microcredit; 1 = There is a definition of microcredit, but no differentiated risk-management framework; 2 = Differentiated risk-management framework is not comprehensive; 3 = Differentiated risk-management framework is comprehensive

5. Regulation and supervision of deposit-taking activities

1. Ease of offering savings products by regulated institutions:

a) *Are account-opening requirements for savings products proportionate?*
Scoring: 0 = Account-opening requirements are not proportionate; 1 = Account-opening requirements are somewhat proportionate; 2 = Account-opening requirements are proportionate

b) *Are there any interest rate restrictions on deposits that generate market distortions?*
Scoring: 0 = There are interest rate restrictions and they discourage deposits (from savings) in general;
1 = There are interest rate restrictions and they discourage deposits (from savings) from low-income populations; 2 = There are interest rate restrictions and they discourage some deposits (from savings) from low-income populations;
3 = There are no interest rate restrictions OR they do not discourage deposits (from savings) from low-income populations

2. Existence of in-depth deposit-insurance coverage:

a) *Is deposit insurance applicable to all institutions authorised to take deposits and with the same conditions?*

Scoring: 0 = There is no deposit-insurance system in place for small depositors; 1 = There is a deposit-insurance system in place that gives differentiated treatment to deposits in terms of institutions AND in terms of coverage; 2 = There is a deposit-insurance system in place that gives differentiated treatment to deposits in terms of institutions OR in terms of coverage; 3 = There is a deposit-insurance system in place with no differentiated treatment for any client

6. Regulation of insurance targeting low-income populations

1. Existence of regulation of insurance targeting low-income populations:

a) *Is the regulation comprehensive and has it been implemented?*
Scoring: 0 = There is no regulation of insurance for low-income population, nor any incipient activity under a general insurance law; 1 = There is no specific regulation of insurance for low-income population, but there is some incipient activity OR regulation exists, but it is not comprehensive and it has not been implemented; 2 = Specific regulation exists, it is not comprehensive and has only been partially implemented; 3 = Specific regulation exists, it is comprehensive, but has only been partially implemented; 4 = Specific regulation exists, it is comprehensive and has been fully implemented

2. Delivery channels for insurance targeting low-income populations:

a) *Do regulations facilitate a variety of channels for distribution?*
Scoring: 0 = There is no regulation; 1 = There is regulation BUT it does not facilitate a variety of distribution channels for microinsurance; 2 = There is regulation AND it facilitates a variety of distribution channels for microinsurance

3. Consumer protection for insurance targeting low-income populations:

a) *Does the regulator monitor key indicators for consumer protection?*
Scoring: 0 = There are no consumer-protection standards for insurance targeting low-income customers or the regulator does not monitor any data on consumer protection; 1 = The regulator monitors key indicators, BUT it does not take any action; 2 = The regulator monitors key indicators AND it takes action

b) *Are there clear rules that require insurance providers to disclose information about the overall cost of the products and consumers' rights and obligations*
Scoring: 0 = There are no disclosure rules; 1 = Disclosure rules exist, BUT they are either not comprehensive or not enforced; 2 = Disclosure rules exist, they are comprehensive AND they are enforced

c) *Are there any dispute-resolution mechanisms available for insurance targeting low-income customers?*
Scoring: 0 = No, there are no dispute-resolution mechanisms; 1 = There are general dispute-resolutions mechanisms that work for insurance for low-income population, or there are specific dispute-resolution mechanisms for microinsurance, BUT they are not effective; 2 = There are dispute-resolutions mechanisms AND they are effective

7. Regulation and supervision of branches and agents

1. Ease of setting up a branch:

a) *How easy is it for financial-services providers to open a branch or direct-service outlet owned and operated by the financial institution?*
Scoring: 0 = There are significant obstacles to opening a branch or financial outlet; 1 = There are some obstacles to opening a branch or financial outlet; 2 = There are no significant obstacles to opening a branch or financial outlet

2. Ease of agent operation:

a) *Does the regulation allow a wide range of actors to serve as agents and does it enable all providers of financial services to have agents?*
Scoring: 0 = Regulations on agent banking are non-existent; 1 = Regulations on agent banking are limited; 2 = Regulations are limited and agents are active in the field OR regulations are comprehensive and agents are not active in the field; 3 = Regulations are comprehensive and agents are active in the field

b) *Are agents allowed to perform a wide range of activities?*
Scoring: 0 = Agents cannot perform cash-in transactions and account-opening activities; 1 = Agents can perform some activities, but

cannot perform EITHER cash-in transactions OR account opening;
2 = Agents can perform a wide range of activities, including cash-in/cash-out transactions AND account opening

c) *Do regulations on agent exclusivity constrain the market?*
Scoring: 0 = There is no regulation of agent exclusivity or regulation on agent exclusivity constrains the market; 1 = Regulation on agent exclusivity partly constrains the market; 2 = regulation of agent exclusivity does not constrain the market

d) *Do financial institutions retain responsibility for the actions of their agents?*
Scoring: 0 = Financial institutions do not retain any responsibility for the actions of their agents;
1 = Financial institutions retain responsibility for some of the actions of their agents; 2 = Financial institutions retain responsibility for all of the actions of their agents

8. Requirements for non-regulated lenders

1. Information reporting and operational guidelines:

a) *Are reporting requirements reasonable?*
Scoring: 0 = Non-regulated credit providers are not required to report any information to the regulator;
1 = Reporting requirements for non-regulated credit providers are not reasonable; 2 = Reporting requirements for non-regulated credit providers are somewhat reasonable; 3 = Reporting requirements for non-regulated credit providers are reasonable

b) *Do these providers comply with accounting-transparency standards?*
Scoring: 0 = Non-regulated providers are not required to have good accounting practices OR some of the non-regulated credit providers are required to have good accounting practices, but compliance is low;
1 = Some of the non-regulated credit providers are required to have good accounting practices and compliance is moderate; 2 = All non-regulated credit providers are required to have good accounting practices, but few of them comply; 3 = All non-regulated credit providers are required to have good accounting practices and most comply

9. Electronic payments

1. Available infrastructure for financial inclusion:

a) *Does the payment infrastructure serve the needs of the low-income population?*
Scoring: 0 = The payment infrastructure is unreliable and does not serve the needs of the low-income population; 1 = The payment infrastructure is reliable and partly addresses the needs of the low-income population; 2 = The payment infrastructure is reliable and effectively addresses the needs of the low-income population

2. Digital financial services:

a) *Are regulations on e-money or similar digital financial services adequate and are not constraining the market?*
Scoring: 0 = Regulations on e-money or digital financial services do not exist OR they are in the early stages of development; 1 = Regulations on e-money or digital financial services are inadequate OR they constrain the market; 2 = Regulations on e-money or digital financial services are adequate AND they do not constrain the market

10. Credit-reporting systems

1. Comprehensiveness of information:

a) *Is the information stored by credit-reporting systems comprehensive, regularly updated and accessed by providers?*
Scoring: 0 = Credit-reporting systems do not exist OR credit bureaus store information that has none of the items required for a score of "3"; 1 = Credit-reporting systems store information that has one of the items needed for a score of "3"; 2 = Credit-reporting systems store information and it is both comprehensive and accessed by providers, but not updated regularly OR is regularly updated, but not comprehensive; 3 = Credit-reporting systems store information that is comprehensive, regularly updated and accessed by providers

2. Privacy protection for both borrowers and lenders:

a) *Are privacy rights respected?*
Scoring: 0 = Credit-reporting systems do not actively protect privacy rights; 1 = Credit-reporting systems have rules in place to protect privacy rights for EITHER borrowers or lenders, but these rules are not well enforced;
2 = Credit-reporting systems have rules in

place to protect privacy rights for BOTH borrowers and lenders, but these rules are not well enforced; 3 = Credit-reporting systems have rules in place to protect privacy rights for both borrowers and lenders and these rules are well enforced

b) *Can individuals access their records and are they able to correct any errors?*
Scoring: 0 = Individuals cannot access their records or correct any errors; 1 = Individuals may access their records, but may not correct any errors; 2 = Individuals may access their records, but the error-correction process is difficult OR expensive; 3 = Individuals may access their records and the error-correction process is easy and inexpensive

11. Market-conduct rules

1. Existence of a framework and institutional capacity to protect the financial consumer:

a) *Are there a framework and a specialised capacity in place for financial-consumer protection?*
Scoring: 0 = No consumer-rights framework is in place; 1 = Consumer-rights framework exists, but no specialised capacity is in place; 2 = Consumer-rights framework exists and some specialised capacity is in place; 3 = Consumer-rights framework exists and specialised capacity is in place

2. Existence and content of disclosure rules:

a) *Does the regulator collect information about pricing and make relevant information easily accessible to consumers for comparison purposes?*
Scoring: 0 = The regulator does not collect information OR information collected is not easily accessible;
1 = The regulator collects information that is easily accessible, BUT it is either incomplete or difficult to understand; 2 = The regulator collects information that is easily accessible, complete and easy to understand

b) *Are there clear rules that require providers of financial services to disclose information about the overall cost of the products and consumers' rights and obligations?*
Scoring: 0 = Disclosure rules exist EITHER for some products OR apply to some providers;
1 = Disclosure rules exist for all products AND providers; 2 = Disclosure rules exist for all products AND providers AND they are comprehensive

3. Existence of fair-treatment rules:

a) *Are there clear rules requiring non-discrimination in financial-service provision in terms of gender, race, religion, caste, ethnicity, etc.?*
Scoring: 0 = There are no clear rules; 1 = There are clear rules, but compliance is low; 2 = There are clear rules and compliance is high

b) *Are there clear rules set by the regulator aimed at preventing aggressive sales and unreasonable collection practices?*
Scoring: 0 = There are no clear rules set by the regulator; 1 = There are clear rules set by the regulator, but compliance is low; 2 = There are clear rules set by the regulator and compliance is high

12. Grievance redress and operation of dispute-resolution mechanisms

1. Internal complaint mechanisms:

a) *Are there clear rules in place requiring financial-services providers to set up internal mechanisms to deal with consumer complaints?*
Scoring: 0 = There are no clear rules; 1 = There are clear rules, but compliance is low; 2 = There are clear rules and compliance is high

2. Existence and effectiveness of a third-party-redress entity:

a) *Is there a third-party entity empowered with oversight where consumers can seek redress, and is it effective?*
Scoring: 0 = No third-party entity exists;
1 = Third-party entity exists, but redress is ineffective; 2 = Third-party entity exists and redress is somewhat effective; 3 = Third-party entity exists and redress is effective

ADJUSTMENT FACTOR: Stability

1. General political stability:

a) *To what extent are political institutions sufficiently stable to support the needs of businesses and investors?*
Scoring: 0 = Very unstable, and 100 = Very stable

2. Shocks and restrictive policies affecting financial inclusion:

a) *To what extent have any shocks or restrictive policies affected market development?*
Scoring: 0 = There have been shocks or restrictive policies that have affected the market; 1 = There have been shocks or restrictive policies that have had a broad, negative impact in the market; 2 = There have been shocks or restrictive policies that have had a limited, negative impact in the market (either geographically or on a specific type of institutions); 3 = There have been no shocks or restrictive policies affecting market development

Regional representation

This index builds on earlier studies of Latin America and the Caribbean; as a result, countries from that region are numerically over-represented in the global *Microscope* study (21 of 55 countries). Countries in other regions were then selected on the basis of the importance of their existing microfinance segments or the potential for future market development. For the 2016 edition, we still have a total of 55 countries, but in 2015, we added Russia, Ethiopia, South Africa and Jordan, and removed Azerbaijan, Armenia, Georgia and Yemen. The study, therefore, provides differing levels of geographic coverage: 21 countries from Latin America and the Caribbean, 13 countries from Sub-Saharan Africa, 12 from Asia, four from the Middle East and North Africa, and five from Eastern Europe and Central Asia. These differences in coverage impact regional conclusions and should be considered carefully when evaluating index results beyond individual country scores.

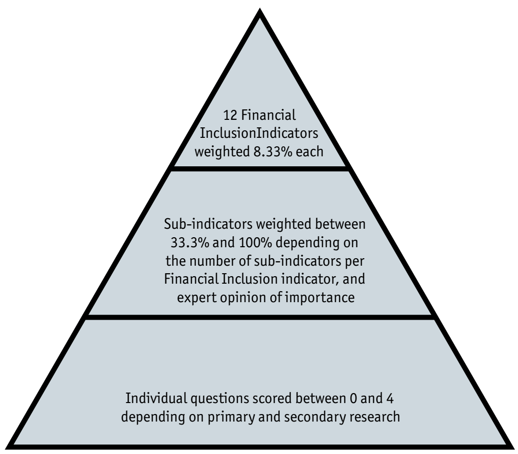
Normalisation and weights

Once the raw scores are assigned, each score is then normalised to a 0–100 range and then aggregated across indicators. Normalisation rebases the raw indicator data to a common unit, to make them comparable, so that they can be aggregated. The data in the *Microscope* are already in a fixed range, for example, 0–100, 0–4, so they have been transformed using the min/max of the fixed range. For example, if the indicator is in a 0–100 range, a raw data value of 0 gives a score of 0, and a raw data value of 100 gives a score of 100. If the indicator is in a 0–4 range, a raw data value of 0 gives a score of 0, and a raw data value of 4 gives a score of 100.

Assigning weights to categories and indicators is a final and critical step in the construction of the index. In a benchmarking model such as the *Microscope*, weights are assigned to categories and/or indicators to reflect different assumptions about their relative importance. There are various methods that can be used to determine these weights.

There are 12 Financial Inclusion Indicators relating to different regulations and business activities conducive to financial inclusion. Each Financial Inclusion Indicator is composed of between one and three sub-indicators, and *all 12 indicators are weighted equally*, or 8.33% each (100% / 12).

The sub-indicators are weighted individually, depending on their overall importance to the Financial Inclusion Indicator. These weights were determined by a consensus between the project team, clients and industry experts. The sub-indicators are composed of between one and four questions, which are scored according



to thorough secondary research and expert interviews.

The scores for each question are aggregated to the sub-indicator level, where the individual weights are applied, and then the sub-indicators are aggregated to determine the final score.

The sub-indicators and their individual weights are listed in the table below.

Table A: Indicator and Sub-indicator Weights

Indicator	Sub-indicator	Question
1. Government support for financial inclusion Considers a country's formal commitment and actions towards achieving financial inclusion. *Weight: 1/12= 8.33%*	1. Existence and implementation of a strategy *Weight: 66.7%*	1. Is there a documented strategy on financial inclusion?
	2. Collection of data *Weight: 33.3%*	1. Does the government collect customer-level data that help understanding of low-income populations' demand of financial services?
2. Regulatory and supervisory capacity for financial inclusion Considers whether regulatory institutions possess an adequate capacity, independence and readiness for the regulation and supervision of products and services related to financial inclusion. *Weight: 1/12= 8.33%*	1. Technical capacity to supervise *Weight: 100%*	1. Is there a specialised and adequate capacity in place in the regulatory agency?
		2. Is the financial regulator politically independent?
3. Prudential regulation Considers how conducive the financial regulation is to allowing the entrance and operation of institutions that offer savings and credit products *Weight: 1/12= 8.33%*	1. Appropriate entry and licensing requirements *Weight: 50%*	1. Are minimum capital requirements appropriate to allow new entrants and ensure the safe provision of financial services?
		2. Are there any impediments imposed on foreign funding or through ownership restrictions?
	2. Ease of operation *Weight: 50%*	1. Are capital-adequacy standards appropriate to ensure both financial stability and the operation of a variety of providers?
		2. Are reporting requirements reasonable in light of the specific nature of the services provided?
4. Regulation and supervision of credit portfolios Considers whether regulations and supervision in the country are conducive to the responsible provision of credit *Weight: 1/12= 8.33%*	1. Interest Rates *Weight: 33.3%*	1. If there are interest-rate caps; if so, do they distort the market?
	2. Risk management of credit portfolios *Weight: 33.3%*	1. Does the regulator actively supervise the status of over-indebtedness for credit portfolios?
		2. Is there a differentiated risk-management framework for consumer-credit portfolios? Does the regulator supervise the status of consumer-credit portfolios?
	3. Risk-management framework for microcredit portfolios *Weight: 33.3%*	1. Is there a differentiated and comprehensive risk-management framework for microcredit?
5. Regulation and supervision of deposit-taking activities Considers how conducive the regulation for deposit-taking is (the assessment focuses on commercial banks and non-bank financial institutions.) *Weight: 1/12= 8.33%*	1. Ease of offering savings products by regulated institutions *Weight: 50%*	1. Are account-opening requirements for savings products proportionate?
		2. Are there any interest-rate restrictions that generate market distortions?
	2. Existence of an in-depth deposit-insurance coverage *Weight: 50%*	1. Is deposit insurance applicable to all institutions authorised to take deposits and with the same conditions?

Indicator	Sub-indicator	Question
6. Regulation of insurance targeting low-income populations* Considers the existence of regulation and promotion of insurance to low-income populations by the regulator and/or government [1] *Weight: 1/12= 8.33%*	1. Existence of regulation of insurance targeting low-income populations *Weight: 33.3%*	1. Is the regulation comprehensive and has it been implemented?
	2. Delivery channels for insurance targeting low-income populations *Weight: 33.3%*	1. Do regulations facilitate a variety of channels for distribution?
	3. Consumer protection for insurance targeting low-income populations *Weight: 33.3%*	1. Does the regulator monitor key indicators for consumer protection?
		2. Are there clear rules that require insurance providers to disclose information about the overall cost of the products and consumers' rights and obligations?
		3. Are there any dispute-resolution mechanisms available for insurance targeting low-income customers?
7. Regulation and supervision of branches and agents Considers whether regulation is conducive to the delivery of financial services through physical branches and non-financial banking outlets. *Weight: 1/12= 8.33%*	1. Ease of setting up a branch *Weight: 33.3%*	1. How easy is it for financial-services providers to open a branch or direct-service outlet owned and operated by the financial institution?
	2. Ease of agent operation *Weight: 66.7%*	1. Does the regulation allow a wide range of actors to serve as agents and does it enable all providers of financial services to have agents?
		2. Are agents allowed to perform a wide range of activities?
		3. Do regulations on agent exclusivity constrain the market?
		4. Do financial institutions retain responsibility for the actions of their agents?
8. Requirements for non-regulated lenders Considers whether the legal framework is conducive to the entrance and functioning of specialised institutions not prudentially regulated by the financial regulator. (NGOs, non-regulated co-operatives, retail lenders and other providers of credit) *Weight: 1/12= 8.33%*	1. Information reporting and operational guidelines *Weight: 100%*	1. Are reporting requirements reasonable?
		2. Do these providers comply with accounting transparency standards?
9. Electronic payments Considers the regulation and infrastructure that facilitates electronic transactions to the low-income population. *Weight: 1/12= 8.33%*	1. Available infrastructure for financial inclusion *Weight: 50%*	1. Does the payment infrastructure serve the needs of the low-income population?
	2. Digital financial services *Weight: 50%*	1. Are regulations on e-money or similar digital financial services adequate and are not constraining the market?
10. Credit-reporting systems Considers the effectiveness and reliability of credit-reporting systems for the provision of credit *Weight: 1/12= 8.33%*	1. Comprehensiveness of information *Weight: 50%*	1. Is the information stored by credit-reporting systems comprehensive, regularly updated and accessed by providers?
	2. Privacy protection for both borrowers and lenders *Weight: 50.0%*	1. Are privacy rights respected?
		2. Can individuals access their records and are they able to correct any errors?

1 For the purposes of this study, "insurance to low-income population", "microinsurance" and "inclusive insurance" are considered to refer to the same concept.

Indicator	Sub-indicator	Question
11. Market-conduct rules Considers institutional capacity as well as transparency, disclosure and fair treatment, with the aim of protecting financial-services consumers that use products and financial services *Weight: 1/12= 8.33%*	1. Existence of a framework and institutional capacity to protect the financial consumer *Weight: 33.3%*	1. Are there a framework and a specialised capacity in place for financial-consumer protection?
	2. Existence and content of disclosure rules *Weight: 33.3%*	1. Does the regulator collect information about pricing and make relevant information easily accessible to consumers for comparison purposes?
		2. Are there clear rules that require providers of financial services to disclose information about the overall cost of the products and consumers' rights and obligations?
	3. Existence of fair-treatment rules *Weight: 33.3%*	1. Are there clear rules requiring non-discrimination in financial-services provision in terms of gender, race, religion, cast, ethnicity, etc.?
		1. Are there clear rules set by the regulator aimed at preventing aggressive sales and unreasonable collection practices?
12. Grievance redress and operation of dispute-resolution mechanisms Considers availability of dispute-resolution mechanisms, client awareness of the grievance processes and ease of access. *Weight: 1/12= 8.33%*	1. Internal complaint mechanisms *Weight: 50%*	1. Are there clear rules in place requiring financial-service providers to set up internal mechanisms to deal with consumer complaints?
	2. Existence and effectiveness of a third party-redress entity *Weight: 50%*	1. Is there a third-party entity empowered with oversight where consumers can seek redress, and is it effective?
A. Stability (Adjustment Factor) Considers political tensions or other significant changes that affect the achievement of financial inclusion.	1. General Political Stability *Weight: 33.3%*	To what extent are political institutions sufficiently stable to support the needs of businesses and investors?
	2. Shocks and restrictive policies impacting financial inclusion *Weight: 66.7%*	To what extent have any shocks or restrictive policies affected market development?

For example, *Financial Inclusion Indicator 1: Government support for financial inclusion* is composed of two sub-indicators: *sub-indicator 1.1 Existence and implementation of a strategy, and sub-indicator 1.2 Collection of data*. Experts agreed that the Existence and implementation of a strategy (sub-indicator 1.1) is of greater importance to financial inclusion than Collection of data (sub-indicator 1.2), so sub-indicator 1.1 is weighted 66.67%, compared to 33.33% for sub-indicator 1.2.

Similar to previous years, the 2016 *Microscope* contains an adjustment factor, based on the stability score (the 13th indicator). After the country's total raw score is determined (through tallying and weighting of sub-indicator and indicator scores), the adjustment factor is applied, adjusting each country's total raw score downwards to account for any political instability and shocks/restrictive policies that may impact or challenge the environment for financial inclusion.

The adjustment factor is a percentage reduction applied to the raw country score, up to a maximum of 25% (that is, countries can lose up to 25% of their raw country score through this adjustment factor). The adjustment factor is calculated based on the country's stability indicator score, which, in turn, is a combination of two sub-indicators (*general political stability, and restrictive policies or other shocks to the market*) aggregated to generate a score of 0–100. The adjustment factor is calculated using the following formula:

Adjustment factor = (100 - stability score) x 0.25

Where:

Stability score = 0.33 x (*normalised political stability score*) + 0.67 x (*normalised restrictive policy score*)

The country score follows this formula:

Country score = Raw country score x [(100 - adjustment factor) ÷100]

Example for a country "Y":

Raw country score = 40.8

Stability score = 37.2

Adjustment factor = (100 - 37.2) x 0.25 = 15.7

Country score = 40.8 x [(100 - 15.7) ÷100] = 40.8 x 0.843 = 34.4

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