



Global Microscope 2014

The enabling environment for financial inclusion

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About this report

The *Global Microscope 2014: The enabling environment for financial inclusion*, formerly known as the *Global microscope on the microfinance business environment*, assesses the regulatory environment for financial inclusion across 12 indicators and 55 countries. The *Microscope* was originally developed for countries in the Latin America and Caribbean region in 2007 and was expanded into a global study in 2009. This year's *Microscope* has a new indicator framework that considers products and institutions beyond microfinance to reflect financial inclusion more broadly. Due to the *Microscope's* new focus and significant methodology changes, users should be cautious when making comparisons across years. Most of the research for this report, which included interviews and desk analysis, was conducted between June and August 2014.

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

www.eiu.com/microscope2014; www.fomin.org; www.caf.com/en/msme;
www.centerforfinancialinclusion.org/microscope; www.citimicrofinance.com.

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For further information, please contact:

Economist Intelligence Unit

Leo Abruzzese
Project Director: leoabruzzo@eiu.com
Romina Bandura
Project Manager: rominabandura@eiu.com
Jimena Serrano
Analyst: jimenaserrano@eiu.com
Samantha Grenville
Consulting Analyst: samanthagrenville@eiu.com
Brian Mulligan
Marketing Director: brianmulligan@eiu.com
+44 (0)20 7576 8134
Rachael Glynn
Marketing Executive: rachaelglynn@eiu.com
+44(2)7 576 8224

**Multilateral Investment Fund
Inter-American Development Bank**

Sergio Navajas
Senior Specialist: sergion@iadb.org
+1 202 623 3268
Verónica Trujillo
Consultant: vtrujillo@iadb.org
+1 202 312 4084
Alejandra Viveros
Principal Communications Specialist: aviveros@iadb.org
+1 202 312 4074

CAF**Dirección de Promoción de PYME y Microempresas**

Manuel Malaret
Director: mmalaret@caf.com
+51 1 710 8581
Francisco Olivares
Principal Officer: folivares@caf.com
+58 212 209 6579
Pablo F. Rolando
Communications Officer: prolando@caf.com
+58 212 209 2451

Center for Financial Inclusion at Accion

Elisabeth Rhyne
Managing Director: erhyne@accion.org
Sonja Kelly
Fellow: skelly@accion.org
Bruce MacDonald
Senior Vice President, Communications:
bmacdonald@accion.org
Eric Zuehlke
Communications Director: ezuehlke@accion.org
+1 202 393 5113

Citi Microfinance

Philip Martin Brown
Managing Director, Risk:
philip.martin.brown@citi.com
Jorge Rubio Nava
Director, Business Development:
jorge.rubionava@citi.com
Microfinance Team
microfinance@citi.com

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The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank (IDB) Group, supports economic growth and poverty reduction in Latin America and the Caribbean through encouraging increased private investment and advancing private-sector development. It works with the private sector to develop, finance and execute innovative business models that benefit entrepreneurs and poor and low-income households; partners with a wide variety of institutions from the private, public and non-profit sectors; evaluates results; and shares lessons learned. The MIF is a laboratory for testing pioneering, market-based approaches to development, and an agent of change that seeks to broaden the reach and deepen the impact of its most successful interventions. For more information, visit www.fomin.org.

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CAF—Development Bank of Latin America—has the mission of stimulating sustainable development and regional integration by financing projects in the public and private sectors, and providing technical co-operation and other specialised services. Founded in 1970 and currently with 18 member countries from Latin America, the Caribbean, and Europe, along with 14 private banks, CAF is one of the main sources of multilateral financing and an important generator of knowledge for the region. For more information, visit www.caf.com.

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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 Citi Microfinance

Citi Microfinance works with Citi businesses across the world to develop solutions that expand access to financial services. It serves microfinance institutions, traditional banks, funds, governments, global and local corporations, social enterprises and non-governmental organisations (NGOs) with a diverse and innovative set of products and services, including different sources of funding, access to capital markets and new payment technologies, which aim to advance inclusive finance. Learn more at www.citimicrofinance.com.

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Country analysis:

Rodrigo Aguilera, Diane Alarcon, Angela Ambroz, Madeline Baron, Federico Barriga, Dinah Bengur, Naubet Bisenov, Marco De Natale, Fion De Vletter, Amila de Saram, Andreas Eberhard, Fatima Frank, Tom Felix Joehnk, Karen Kim, Haris Komic, Isya Kresnadi, Veronica Lara, M-CRIL (Sanjay Sinha and Sana Zehra), MANAUS Consulting (Tamar Koosed and Elizabeth Torres), Dinka Majanovic, Sebastien Marlier, Scott Martin, Susana Martinez, Jason Mitchell, Trevor Mugwanga, Thorn Pitidol, Tom Rafferty, Deen Sharp, Andrew Viteritti, Dana Vorisek, Molly Watts and Stewart Windeler.

Model and report production:

Madeline Baron, Roberto Donadi, Emiliana Donadi, Christopher Dychala, Lolli Duvivier, Mike Kenny, Edelle Lorenzana, Will Shallcross, Tom Scruton and Nick Wolf.



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Foreword

Taking a cue from evolving financial-inclusion efforts and initiatives in the microfinance and international development sectors, the *Microscope 2014* has evolved in its own right. As a wide range of institutions (including banks, non-bank financial institutions (NBFIs), businesses and non-governmental organisations (NGOs)) look to expand their financial offerings, they are reaching out to traditionally underserved populations through non-traditional channels. This process, known as “financial inclusion”, aims to provide universal access to, and use of, innovative financial products and services to traditionally underserved or excluded populations, so as to encourage economic growth and development in emerging economies, and equip individuals with the tools necessary to improve their lives. Building on previous editions of the *Global Microscope on Microfinance*, the *Microscope 2014* is the first edition that focuses on financial inclusion, evaluating the conditions and enablers of expanded access to finance to establish a benchmark across countries. The results and experiences from this first edition of the new index will be used to refine the methodology in the coming years.

This enhanced version of the *Microscope* is directed towards practitioners, policymakers and investors, to help evaluate countries’ progress in achieving financial inclusion, and to establish where further efforts should focus in order to yield

additional benefits. Conceptually, the *Microscope* measures the national environment for financial inclusion by using the following criteria: the range of financial products and services offered; the diversity of institutions offering them; the array of delivery methods; and the institutional support that ensures the safe provision of services to low-income populations.

Because some of the indicators in this year’s *Microscope* are new, the initial edition of the new *Microscope* will establish an important baseline and allow subsequent reports to record and measure changes in the financial-inclusion landscape. This type of data collection and analysis is key in providing policymakers with evidence of best practices and measurable changes over time in each locale. In addition, a data-driven approach will assist policymakers in implementing measures that will have beneficial effects on the financial-inclusion landscape, or will signal when changes are needed.

The *Microscope*’s methodological evolution to capture countries’ progress in enabling financial inclusion has entailed the addition of new indicators, including assessments of government-sponsored financial-inclusion strategies, regulation on micro-insurance, availability of electronic-payment and retail-payment infrastructure, regulatory response to market innovations and market-conduct rules. Analysing a government’s financial-inclusion strategy is

important because it sets a tone of inclusiveness for the country's financial sector and allocates responsibility for expanding financial inclusion among practitioners and policymakers. In addition, indicators on micro-insurance products and regulation of electronic-payment services reflect the innovations that have occurred in recent years and ensure that the *Microscope* captures as broad a picture as possible of the state and variety of financial products and services available to low-income populations. Financial-product diversity is only possible if the regulator embraces innovation through appropriate capacity and sufficient, knowledgeable staff to provide safety and risk mitigation. Finally, the modification of the *market-conduct rules* indicator, formerly addressed as *client protection*, has expanded how the *Microscope* measures financial-consumer protection, moving beyond pricing transparency and dispute resolution to include appropriate disclosure of product terms and rules about aggressive collection practices.

Although the 2014 *Microscope's* methodology has changed, the study continues to capture both laws and regulations "on the books", as well as their effectiveness and implementation. The intent is to measure practical reality; consequently, the *Microscope* reflects laws and regulations and the effects of their implementation, or lack of same, in practice.

Due to the methodological changes in this year's *Microscope*, large shifts are evident in some countries' rankings, while others have performed equally well (or poorly) under both the current and the previous methodologies. Unlike earlier versions of the *Microscope*, the 2014 figures are not directly comparable to those of previous years. Therefore, the richness of new information provided in this year's index is more significant than the year-over-year score changes. This new methodology explains why, for example, the Philippines remains in the top five, while other countries have moved down the rankings. Under any framework, however, the Philippines will score well, because it benefits from having a highly capable regulator, optimal credit

regulation and effective dispute-resolution mechanisms.

Covering the 12 months to August 2014, the new *Microscope* evaluates the regulatory landscape for financial inclusion across 12 indicators, adjusted for political stability and financial shocks. A full explanation of the *Microscope 2014* methodology is available as an appendix to this report. ■

Microscope indicators

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

1. Government support for financial inclusion

Sub-indicator 1: Existence and implementation of a strategy
Sub-indicator 2: Data collection

2. Regulatory and supervisory capacity for financial inclusion

Sub-indicator 1: Technical capacity to supervise
Sub-indicator 2: Regulator's openness to innovation for financial inclusion

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

Sub-indicator 1: Ease of offering savings products by regulated institutions
Sub-indicator 2: Existence of in-depth deposit-insurance coverage

6. Regulation of insurance targeting low-income populations

Sub-indicator 1: Existence of regulation for micro-insurance

7. Regulation and supervision of branches and agents

Sub-indicator 1: Ease of setting up a branch
Sub-indicator 2: Ease of agent operation

8. Requirements for non-regulated lenders

Sub-indicator 1: Information reporting and operational guidelines

9. Regulation of electronic payments

Sub-indicator 1: Available infrastructure for financial inclusion
Sub-indicator 2: E-money regulation

10. Credit-reporting systems

Sub-indicator 1: Comprehensiveness of information

Sub-indicator 2: Privacy protection for both borrowers and lenders

11. Market-conduct rules

Sub-indicator 1: Existence of a framework and institutional capacity to protect the financial consumer

Sub-indicator 2: Existence and content of disclosure rules

Sub-indicator 3: Existence of fair-treatment rules

12. Grievance redress and operation of dispute-resolution mechanisms

Sub-indicator 1: Internal complaint mechanisms

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

ADJUSTMENT FACTOR: Stability

Sub-indicator 1: General political stability

Sub-indicator 2: Shocks and policies impacting 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 0-4, where 4=best and 0=worst. Once indicator scores had been 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 impact financial inclusion.

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

Overall score and rankings

Normalised score 0–100, where 100=best

Score 76–100

Score 51–75

Score 26–50

Score 0–25

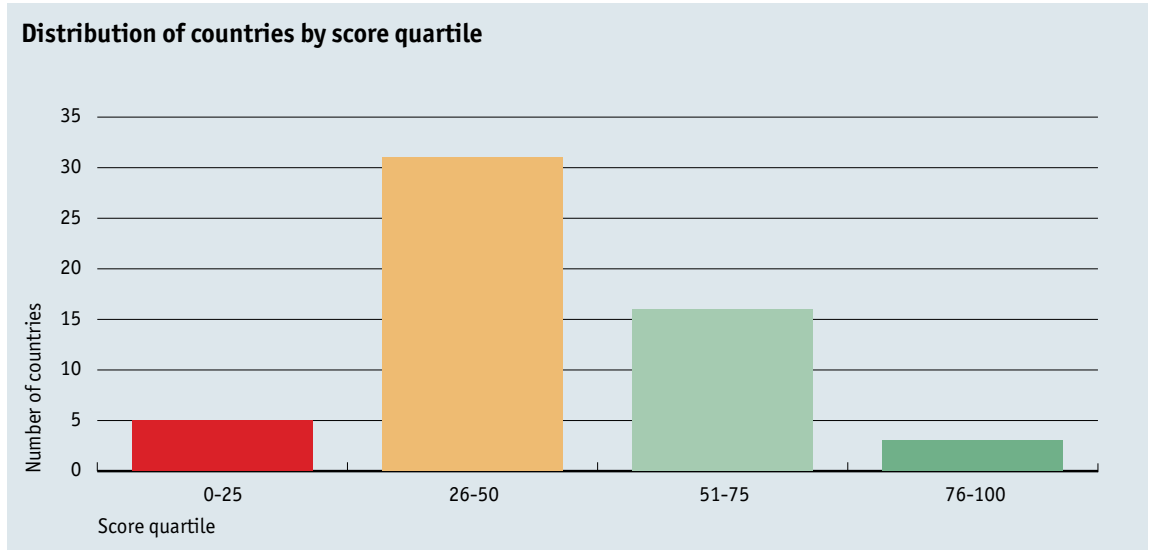
"=" denotes tied rank between two or more countries

Rank	Country	Score / 100
1	Peru	87
2	Colombia	85
3	Philippines	79
4	Chile	66
=5	India	61
=5	Mexico	61
=7	Bolivia	58
=7	Pakistan	58
=9	Cambodia	56
=9	Tanzania	56
=11	Indonesia	55
=11	Kenya	55
=11	Rwanda	55
=14	Brazil	53
=14	Paraguay	53
=14	Uruguay	53
17	Morocco	52
=18	Ghana	51
=18	Nicaragua	51
=20	Nigeria	50
=20	Uganda	50
22	Armenia	49
=23	Bosnia and Herzegovina	48
=23	Dominican Republic	48
=23	Ecuador	48
=23	El Salvador	48
=23	Thailand	48
28	Turkey	46

Rank	Country	Score / 100
=29	Bangladesh	45
=29	Mongolia	45
=31	Mozambique	44
=31	Panama	44
=33	Jamaica	43
=33	Kyrgyz Republic	43
=33	Senegal	43
=36	Guatemala	39
=36	Vietnam	39
=38	Azerbaijan	38
=38	Georgia	38
=38	Tajikistan	38
41	Costa Rica	37
=42	Argentina	36
=42	China	36
=44	Cameroon	35
=44	Honduras	35
=44	Sri Lanka	35
47	Nepal	34
48	Trinidad and Tobago	33
49	Venezuela	28
50	Lebanon	27
51	Dem. Rep. of Congo	25
52	Madagascar	23
53	Egypt	21
54	Yemen	20
55	Haiti	16

Chart 1.

A long way ahead. The majority of the countries are in the bottom two quartiles and fewer than five countries excelled in the new edition of the *Microscope*. This suggests that regulations and policies are far from enabling a financially inclusive environment in more than half of the countries.



Key findings

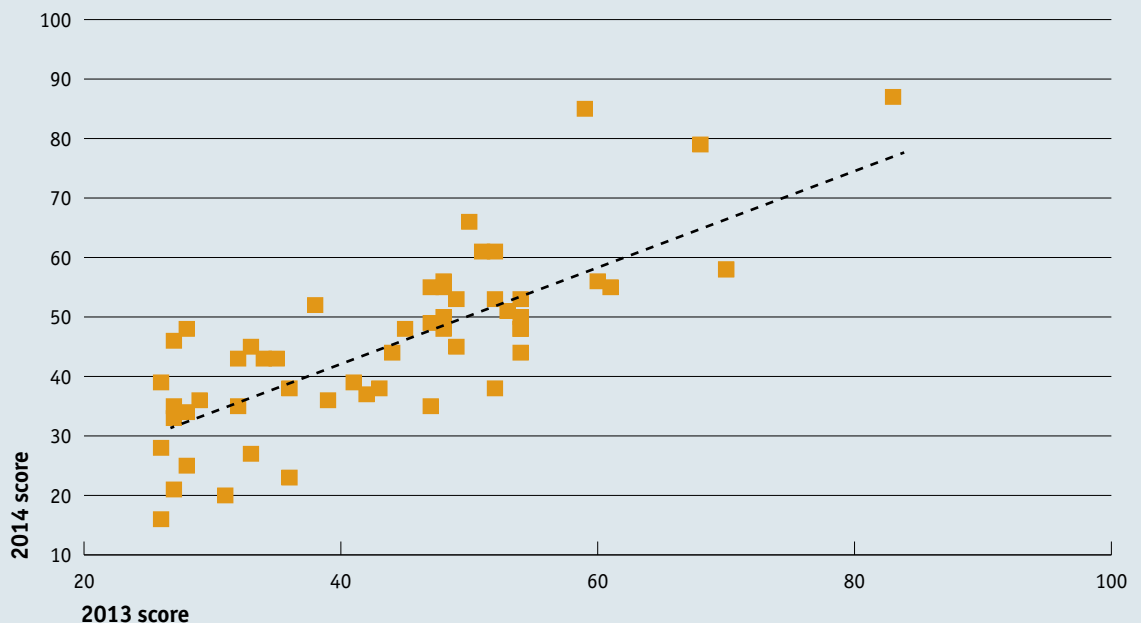
- Countries with favourable business environments for microfinance tend to have favourable conditions for financial inclusion**
 Although the former *Microscope on business environment for microfinance* only considered savings, credit products and a limited set of providers, most of the countries that fared well in the former index also achieve good scores in the *Microscope 2014*. In fact, six of the top ten countries from last year's *Microscope* are among the best performers this year (Bolivia,

Cambodia, Colombia, Peru, Pakistan and Philippines). Indeed, there is a strong correlation between the 2013 and 2014 scores. This is not surprising. Countries with a long tradition in microfinance have better institutional architectures to meet other needs (client-protection rules, credit systems, etc.). Moreover, countries with experience in serving the bottom of the pyramid tend to have a better financial infrastructure to leverage the provision of other products. Finally, regulators

Chart 2. Relationship between 2013 and 2014 Microscope scores

The learning curve

Countries with a favourable environment for microfinance are better positioned to provide strong conditions for financial inclusion by leveraging institutional support already in place.



that embraced microcredit earlier tend to have better capacity and “less fear” of accepting and regulating new products and services.

- **Peru, Colombia and the Philippines demonstrate the most conducive environments for financial inclusion**

Peru finished first in the index, with an overall score of 87 out of 100, followed closely by Colombia at 85, while the Philippines rounded out the top three with a score of 79. Both Peru and Colombia showed strength across the board, ranking in the top five in most of the indicators, while the Philippines received a score of over 76 for eight of the 12 indicators. These top three countries score well above the next-highest country, Chile (66 out of 100), which can be attributed to strong leadership, as well as institutional depth. Colombia and Peru are global leaders in prudential regulation and rules for deposit-taking and have strong records in microcredit. Peru has remarkable institutional support for financial inclusion, especially good regulatory and supervisory capacity, credit-reporting systems and client-protection rules. Colombia is one of the leaders in the regulation of micro-insurance, along with India, Mexico and the Philippines. Interestingly, of the top three countries, neither Colombia nor Peru has a unique, formalised and documented strategy for financial inclusion. While the Philippines has a documented financial-inclusion strategy that contains specific commitments and goals, the governments of Colombia and Peru have provided financial-inclusion support through the implementation of a range of initiatives in the context of financial education, government-to-person (G2P) payments and programmes aimed at increasing access to bank accounts, among others.

- **Governments must make progress in establishing and implementing comprehensive strategies for financial inclusion**

Two-thirds of the countries have some type of stated commitment to financial inclusion, but face obstacles in their implementation. Only 19 of these countries have some kind of formal financial-inclusion strategy with commitments that have been at least partially implemented, while the other 18 have strategies that lack specific commitments. A lack of quantifiable goals makes it difficult to measure progress in achieving inclusion. Overall, one-third of the countries (18) have no financial-inclusion strategy at all, which brings into question the interest of their respective governments in promoting financial inclusion.

Governments in three countries have financial-inclusion strategies that have been substantially implemented and collect demand-side data on financial services for low-income populations: the Philippines (3rd in the global ranking), Tanzania (=9th) and Rwanda (=11th). The Philippines government’s multi-year development plan includes a financial-inclusion strategy with specific commitments, many of which have been implemented, including financial-education initiatives. Rwanda’s government aims to achieve financial inclusion by providing access to formal financial services for 80% of adults by 2017, while Tanzania has set a goal of 50% by 2016.

- **Most countries have adopted regulatory frameworks for agents**

More than two-thirds of the countries have regulation—albeit in some cases limited—of agents. The leaders in this area are Bolivia, Brazil and India. In all of these, a wide range of institutions are allowed to have and to be agents; the portfolio of activities allowed to agents includes cash-in and cash-out transactions and account-opening activities; and regulation clearly establishes that financial institutions retain responsibility for their

agents' actions. Among the countries that have adopted agent regulations, most common limitations refer to the breadth of activities agents are allowed to perform. In Thailand and Turkey, agents are not allowed to execute bank-account-opening activities. This limitation tends to be common in countries that are more exposed to money laundering. However, even if regulations are not ideal, the strong adoption of regulation concerning agents demonstrates governments' efforts in broadening the reach of financial services to low-income populations through alternative delivery methods.

- **East and South Asia and Sub-Saharan Africa are leaders in the area of regulations of electronic payments but with low regional averages**

East and South Asian and Sub-Sahara African (SAA) countries post the highest scores on average for *regulation of electronic payments*. However, the overall average barely passes 50 points, which suggests that digital finance is a work in progress. Top global finishers include Bangladesh, Kenya and Bolivia, with the adoption of comprehensive and conducive regulation of e-money and mobile payments. For example, payment services provided by mobile network operators (MNOs) in Kenya have eclipsed in importance the cheque and electronic-funds-transfer clearing-house; these mobile systems process transactions of more than 25m mobile-platform subscribers. Still, mobile payments and e-money regulations are in their infancy, which means that, in most of the countries where regulations on digital finance have been adopted, it is too early to judge their conduciveness to the growth of such services. There are countries that are already showing good progress, however; in Pakistan, mobile transactions are growing rapidly, supported by regulation resulting from the joint effort of the regulator and the industry.

- **Microinsurance leaders are concentrated in Latin America and East and South Asia**

Four countries lead in the adoption and implementation of specific insurance regulations targeting low-income populations. While Mexico and Philippines adopted either micro-insurance regulations or policies in 2010, India went through that process in 2005. Colombia, the fourth country in this group, has been offering micro-insurance—known as “mass insurance”—since 2008. Albeit sometimes imperfectly, each of these countries has adopted and implemented comprehensive micro-insurance regulation. In Colombia, the landscape is competitive and distribution channels are creative. In Mexico, 30 firms provided coverage to nearly 11m micro-insurance customers in 2011. In India, the micro-insurance market has grown out of rural-insurance targets established by the government in 2002. The Eastern Europe and Central Asia region was the only one in the *Microscope 2014* with no regulation or significant development of the micro-insurance industry.

- **Countries at the bottom of the index perform poorly on measures of institutional support for financial inclusion**

The institutional architecture for financial inclusion is addressed through such indicators as *government support for financial inclusion*, *credit-reporting systems*, *market-conduct rules*, and *grievance redress and availability of dispute-resolution mechanisms*. Countries near the bottom of the index struggle in all of these areas. These results highlight two important needs: first, to make a serious national commitment to financial inclusion and, second, to enact policies and regulations that will build a healthy ecosystem for financial inclusion. Egypt and Haiti, for example, are signatories of the Maya Declaration on Financial Inclusion, but have failed to make any serious commitments beyond that. Yemen, while having some of the most advanced microfinance laws in the Middle

East and North Africa (MENA) region, has done little to broaden its financial-services offerings. Each of these countries also fares poorly on *market-conduct rules* and the *availability of dispute-resolution mechanisms*.

Institutional support is particularly important in the enhancement and enforcement of consumer-protection rules. This area of financial inclusion is now assessed through indicators on the existence and effectiveness of market-conduct rules and dispute-resolution mechanisms. Latin America and the Caribbean is the leader in its capacity to protect the financial consumer, with Peru, Colombia, Chile and Bolivia performing the best in both realms. However, the new *Microscope* reveals that, on average, in one-third of the countries, significant efforts are needed to improve their regulations and implementation to ensure a safe and informed provision of financial services. The MENA region scores particularly poorly in consumer-protection indicators, with weak market-conduct rules and ineffective, if not non-existent, grievance-redress mechanisms. ■

Regional scores

Normalised score 0-100, where 100=best

Average score of the countries

East and South Asia	
Average	49
Philippines	79
India	61
Pakistan	58
Cambodia	56
Indonesia	55
Thailand	48
Bangladesh	45
Mongolia	45
Vietnam	39
China	36
Sri Lanka	35
Nepal	34

Middle East and North Africa	
Average	30
Morocco	52
Lebanon	27
Egypt	21
Yemen	20

Eastern Europe and Central Asia	
Average	43
Armenia	49
Bosnia and Herzegovina	48
Turkey	46
Kyrgyz Republic	43
Azerbaijan	38
Georgia	38
Tajikistan	38

Sub-Saharan Africa	
Average	44
Tanzania	56
Kenya	55
Rwanda	55
Ghana	51
Nigeria	50
Uganda	50
Mozambique	44
Senegal	43
Cameroon	35
Dem. Rep. of Congo	25
Madagascar	23

Latin America and the Caribbean	
Average	49
Peru	87
Colombia	85
Chile	66
Mexico	61
Bolivia	58
Brazil	53
Paraguay	53
Uruguay	53
Nicaragua	51
Dominican Republic	48
Ecuador	48
El Salvador	48
Panama	44
Jamaica	43
Guatemala	39
Costa Rica	37
Argentina	36
Honduras	35
Trinidad and Tobago	33
Venezuela	28
Haiti	16



Regional findings

East and South Asia

The East and South Asia region tied for first place with Latin America and the Caribbean among the five geographical areas included in the *Microscope 2014*, although countries' individual performance varies widely across indicators.

In terms of *government support for financial inclusion*, governments in the Philippines and India are implementing financial-inclusion strategies: India has put in place a Financial Inclusion Policy, which focuses on universal coverage of basic bank accounts, promotion of agents model and mobile banking, a framework that has been systematically put into action. Pakistan and Cambodia both have financial-inclusion plans. Goals in Cambodia have been partially achieved, while Pakistan is in the process of formulating a broader strategy.

Credit-reporting systems are relatively well developed in the region. Cambodia and Thailand store information in credit-reporting systems that are comprehensive and regularly updated and exhibit adequate privacy protection for borrowers and lenders. These countries, along with Indonesia, score in the top ten of the global ranking for this indicator. Progress is lacking, however, in Bangladesh, Vietnam and Nepal, where quality of information needs to be improved.

East and South Asia is the most-advanced region for *micro-insurance*. The Philippines and India lead the region. India has had rural-insurance targets

since 2002, but the maximum insurable amounts are restrictive, limiting uptake among the population to 9%. Coverage in Pakistan stands at 3%, but regulations approved in early 2014 have not yet been fully implemented among NGOs. In China, state-owned and private insurers offer accident, life, health and disability policies in 24 of 34 provinces. Two countries in the region, Mongolia and Sri Lanka, lack regulations that would permit the development of micro-insurance products.

The East and South Asia region, along with Sub-Saharan Africa (SSA), posted the highest score in *regulation of electronic payments*. All but three countries in the region have regulation conducive to the growth of mobile payments. In particular, Bangladesh, China and Pakistan demonstrate wide activity in this area. In addition, half of the countries have comprehensive regulation on e-money. Bangladesh and Philippines posted the highest scores in the regulation of this product, with the former exhibiting a bank-led model and the latter allowing the participation of telecommunications companies, in addition to banks.

The East and South Asia region ranks second-lowest in terms of *prudential regulation*. India and China are second- and third-lowest in this area in the overall index, and pull the region's average score down. In China, capital requirements do not appear to correspond to the risk levels associated

with specific banking activities and funding regulations are restrictive. In India, both funding and ownership restrictions limit entry into the sector, although operation and reporting requirements are less burdensome than in China.

China, along with Cambodia, shows room for improvement in *regulation and supervision of deposit-taking activities*. Interest-rate caps on deposits generate market distortions for low-income savers in China. Neither China nor Cambodia offers deposit insurance. However, Indonesia, Mongolia, the Philippines and Thailand match the highest scorers globally on this indicator, offering accounts that are accessible to low-income savers, with unrestricted interest rates and deposit protection via insurance schemes. Micro-deposit accounts in the Philippines have removed barriers such as high-balance requirements and dormancy charges. In Mongolia, one bank's "future millionaires club" allows parents to save for their children.

Despite their strong regulation of deposits in commercial banks, Indonesia, Thailand, Bangladesh and Nepal lack sufficient *requirements for non-regulated lenders*. Non-regulated credit providers in these countries often do not report any aspect of their activities to authorities and exhibit variable accounting standards.

Eastern Europe and Central Asia

Although Eastern Europe and Central Asia (ECA) scored second-lowest overall, the seven countries that make up the region posted the highest average scores on the following indicators: *regulation and supervision of credit portfolios*, *requirements for non-regulated lenders*, *credit reporting systems and market-conduct rules*.

On average, credit registries in the ECA region are significantly more developed than elsewhere in the world; Tajikistan is the only laggard in this respect, although the credit bureau established in mid-2013 already covers 90% of borrowers. Leaders in this category, such as Bosnia and Herzegovina and the Kyrgyz Republic, feature

public and private bureaus, protect clients' privacy and allow consumers to correct errors in their data easily.

ECA is the only region where no country has developed regulations to support *micro-insurance*. All seven countries scored zero on this indicator due to the lack of a framework, although there is a miniscule market in Turkey, and the Kyrgyz Republic's microfinance strategy makes reference to the development of the micro-insurance industry. By comparison, countries in regions with significant microfinance markets (India, the Philippines, Colombia and Mexico, for example) have specific micro-insurance regulations to facilitate the provision of life, health and other insurance products to low-income populations.

Bosnia and Herzegovina leads the region on *regulation and supervision of credit portfolios*, accompanied by Tajikistan. Neither country imposes interest-rate caps on loans and both have created differentiated risk-management frameworks for microcredit. In contrast, Turkey issued interest-rate caps in 2013 to rein in the explosive rise of consumer debt, but the country does not have a risk-management framework specific to microcredit.

The ECA region could improve its *government support for financial inclusion*; it ranked the lowest globally in this category. In general, governments in the region lack financial-inclusion strategies. The Kyrgyz Republic is the only country in the region to feature a financial-inclusion framework with specific goals, while the plans that exist in Turkey and Armenia are more general. Armenia's government has made progress on its commitment to financial education, which is outlined in its National Strategy for Financial Literacy.

In terms of *regulatory and supervisory capacity for financial inclusion*, regulators' response to innovation has been slow; Turkey's participation in global partnerships and task forces has been an exception. The countries that perform best in this category in the region feature central banks that are generally considered to be politically independent, including in Turkey, Azerbaijan and Georgia.

More than half the countries in the region do not have regulation on mobile payments, or the one that they have adopted is not conducive to the growth of such services. The situation is no better when it comes to e-money, where only Bosnia Herzegovina and Armenia demonstrated comprehensive regulation of electronically stored money.

Latin America and the Caribbean

Five of the 21 countries in Latin America and the Caribbean (LAC) rank in the global top ten in the *Microscope 2014*: Peru (1st), Colombia (2nd), Chile (4th), Mexico (=5th) and Bolivia (=7th). Nonetheless, conditions for financial inclusion in the region vary widely across countries, and the region is also home to four of the bottom ten countries in the index: Haiti (55th), Venezuela (49th), Trinidad and Tobago (48th) and Honduras (=44th).

LAC leads on three indicators globally: *prudential regulation* (ties with ECA), *regulation and supervision of branches and agents*, and *grievance redress and operation of dispute resolution*. In terms of grievances and disputes, 15 countries in the region require regulated institutions to set up internal mechanisms to deal with complaints, while El Salvador, Guatemala, Haiti, Jamaica, Mexico and Paraguay do not. In Haiti, Mexico and Paraguay, leading institutions have set up these mechanisms, although they are not forced by law to do so. In Honduras, clients can lodge complaints via a standardised process online, while in Colombia financial institutions dealt with 89% of complaints internally in 2013.

Agent services are widely used throughout much of LAC, continuing a trend from previous years. Bolivia and Brazil have the highest score globally in terms of *ease of agent operation*. Both South American countries have regulations that allow for a wide range of institutions to be agents and to perform a variety of activities. In Brazil, agents are allowed to carry out bill payments, execute cash-in and cash-out transactions and perform account-

opening activities, among others. In contrast, Jamaica and Argentina have yet to set up regulatory frameworks for agents and these services are non-existent in these countries. Although Jamaica's 2014 banking law introduced some rules for branchless banking, implementation by the central bank is proceeding at a very conservative pace.

Four Latin American countries (Colombia, Costa Rica, El Salvador and Peru) tie with Morocco for having the most favourable *prudential regulation* for financial inclusion. All of these countries are leaders in setting minimum-capital requirements that ensure the safe entry of institutions into the market, while allowing a variety of providers to serve the bottom of the pyramid. They have also set up operation and reporting requirements that facilitate financial activities in a business-friendly environment.

Only six LAC countries (Argentina, Haiti, Nicaragua, Panama, Trinidad and Tobago, and Venezuela) have no strategies or any recent initiatives to support financial inclusion. In Nicaragua and Panama, governments have expressed interest in promoting financial inclusion in declarations and laws, but concrete plans have not materialised. In contrast, Chile, Colombia, Mexico and Peru have created inter-agency commissions that bridge sectors and levels of government to promote financial inclusion. A financial-inclusion strategy is expected to be issued in Paraguay by the end of 2014. In early 2014 Uruguay passed the Law on Financial Inclusion, with the goal of increasing the number of people that use banks, although critics say the Law does not sufficiently address vulnerable populations.

Latin America and the Caribbean was ranked lowest globally on *regulation of electronic payments*, with Central American countries (with the exception of Nicaragua) and Haiti at the bottom of the regional and global rankings in this category. Obstacles related to accessing retail-payment systems are a common stumbling block in these countries: high costs and restrictive criteria for membership pose challenges to many smaller

financial institutions targeting the poor. This is particularly so in Brazil, Ecuador, Guatemala, Haiti, Honduras and Panama. In addition, almost half of the countries have yet to regulate electronically stored money, including Costa Rica, the Dominican Republic and Honduras, although draft regulations are under discussion in the last of these. Nicaragua issued regulations in 2011, but the private sector's concerns over money laundering have reduced interest in offering these services. At the other end of the spectrum, Bolivia allows all financial intermediaries to access retail-payment systems and allows money to be stored and transferred electronically via mobile phones.

Middle East and North Africa

The Middle East and North Africa (MENA) was the lowest-ranked among all regions. Nonetheless, Morocco (17th) scored on a par with global leaders in terms of *prudential regulation* and *regulation and supervision of deposit-taking activities*. Morocco is the MENA leader in several areas: capital requirements for lending institutions vary by activity and reporting requirements are reasonable; low-income populations can access savings accounts without excessive requirements; and the post office has been opening more than 1,000 accounts per day in the past year.

As a region, MENA's scores were mixed. The region's highest scores came from *prudential regulation* and the *regulation and supervision of deposit-taking activities*, but it scored lowest on *regulation and supervision of credit portfolios*, *regulation and supervision of branches and agents*, and *market-conduct rules*. Morocco is the only country in the region to have a document resembling a financial-inclusion strategy, which forms part of a broader financial-sector development strategy that includes specific commitments to increase access to banking services to two-thirds of the Moroccan population by the end of 2014. Egypt and Yemen have joined the Alliance for Financial Inclusion (AFI), but have not yet issued concrete plans. Financial inclusion is not a principal concern for Lebanon's government

or central bank.

Although all MENA countries in the study do not have a definition of microcredit for the purposes of risk management, Lebanon and Morocco perform rather well in the *supervision of over-indebtedness*. These countries closely monitor indicators such as *growth in individual institution portfolios*, *concentration of lending by population segments*, and *growth in average loan size and default rates*. Such provisions do not exist in Egypt and Yemen.

In terms of *regulation and supervision of branches and agents*, the region has yet to develop current frameworks. Lebanon and Yemen lack regulations on agents, while, in Egypt, only banks and the national post office are allowed to accept deposits and offer financial services other than loans. Regulations on agents are limited in Morocco, but a few agents are active in the market.

Micro-insurance has yet to develop in the region. Except for Morocco, none of the MENA countries has any inclusive insurance activity operating within either a specific or a general insurance law. In the case of Morocco, the market for micro-insurance has been addressed through a general law and activity is incipient. The government of Morocco does not plan to issue a specific regulation any time soon, as it considers the current legal framework adequate for the market.

Sub-Saharan Africa

Sub-Saharan Africa (SSA) ranked second globally, buoyed by *government support for financial inclusion* and *regulatory and supervisory capacity for financial inclusion*. Tanzania and Rwanda have substantially implemented their financial-inclusion strategies, while plans in Kenya, Madagascar, Nigeria and Uganda have been partially implemented. Uganda's Prosperity for All programme aims to create savings and credit co-operatives in all sub-counties in the country by 2015. Cameroon was the only country in the region that lacked a strategy, initiatives or specific goals related to financial inclusion.

Regulatory and supervisory capacity for financial inclusion is strong in Kenya, Tanzania, Ghana, Mozambique, Rwanda and Uganda. Kenya's central bank has a specialised financial-inclusion team. In Tanzania, the head of the central bank is a strong proponent of financial inclusion, and, in Rwanda, a push to establish financial institutions throughout the country has stretched supervisory resources thin, although regulators are adding staff at the sub-national level to keep pace. By contrast, Madagascar's recent political crisis (2009–13) left its central bank understaffed and lacking technical knowledge.

SSA exhibits a wide range of capabilities on financial inclusion. For example, the region contains countries that posted the highest, as well as the lowest, scores globally on *regulation and supervision of deposit-taking activities, regulation and supervision of branches and agents, requirements for non-regulated lenders* and *regulation of electronic payments*. In terms of regulation of deposits, Kenya and Uganda stand out because of a comprehensive deposit-insurance system and proportionality of account-opening requirements. However, the rest of the region faces issues with either restrictive interest rates, unequal treatment of deposits, or difficulties in the provision of savings products.

The SSA region ties with East and South Asia as

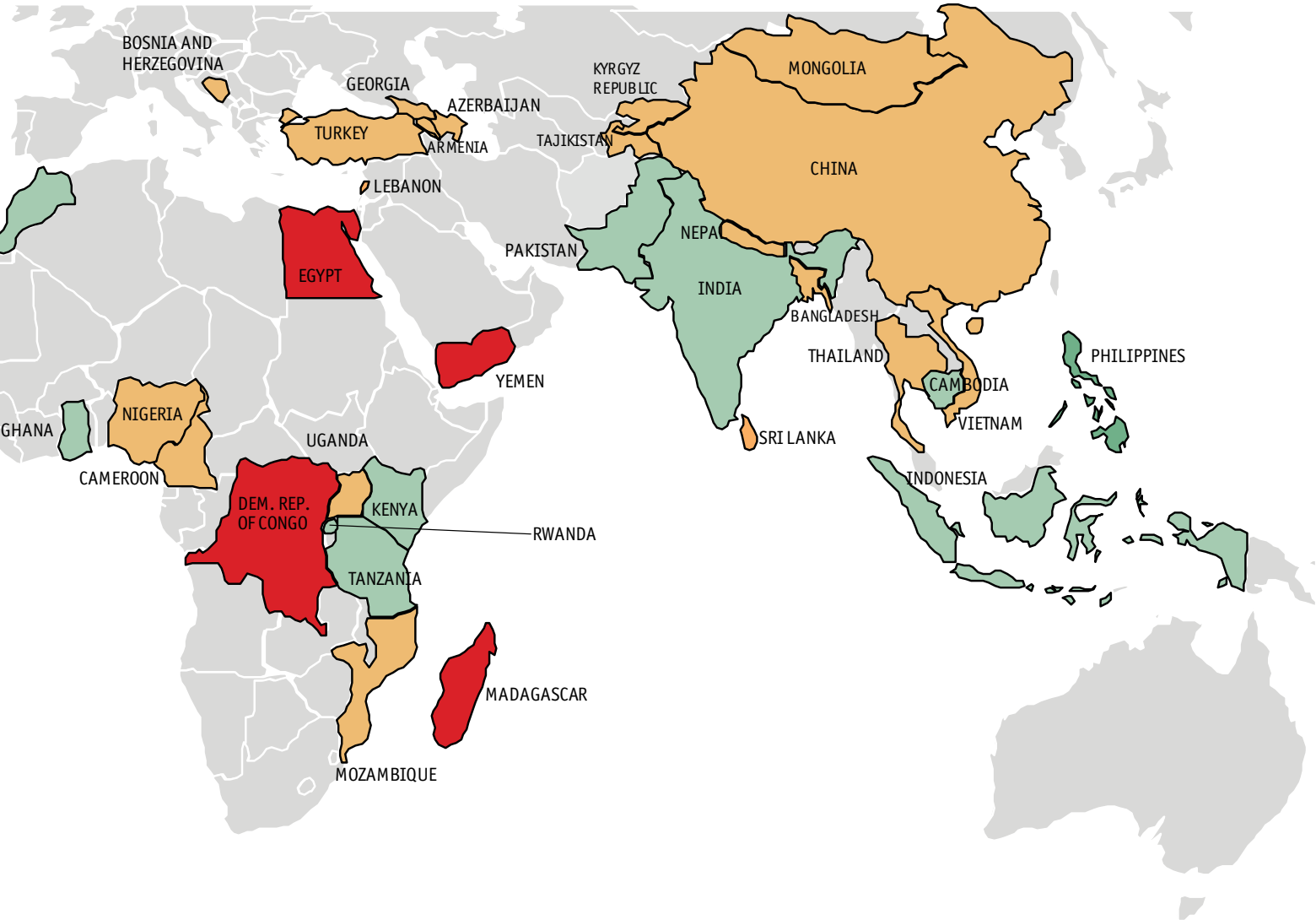
leaders in *regulation of electronic payments and mobile money*. All but three countries—Cameroon, Democratic Republic of Congo and Madagascar—have regulations on mobile payments that are considered conducive to the growth of these services. Both in Kenya and Tanzania, M-Pesa, a mobile-phone-based money-transfer service, accounts for most of the activity in this area. Moreover, all but two SSA countries have adopted, albeit not comprehensively, regulation of electronically stored money. In most of the countries where regulations have been implemented, they are considered to be generally conducive to the growth of e-money services.

SSA has significant room for improvement in the area of credit-reporting systems. All countries but Rwanda have credit systems that store information that is either not comprehensive, not regularly updated or not regularly accessed by providers. Moreover, Cameroon does not have a private credit bureau, the public registry is incomplete (it covers only 9% of the adult population aged 15 and above) and updates are erratic. Legislation establishing a new system was approved in early 2013, but implementation has been slow and the data designated for collection will not be comprehensive. The Democratic Republic of Congo does not have any credit bureaus, public or private.

Microscope country profiles

The following section provides a brief profile of the financial-inclusion environment for each of the 55 countries in this study. Countries are listed in alphabetical order and are organised by region. Each country profile is presented in three parts: the first section contains key characteristics and statistics of financial inclusion; the second outlines key financial-inclusion developments, and the third looks at the sector's challenges. Please note that the information selected for the country profiles is intended to provide a high-level overview; it is not intended to provide an outline of the legal environment or represent a comprehensive account of all recent activity. For more in-depth analysis and regulatory detail, please visit the "country profile" tab of the Excel model, available free of charge at www.eiu.com/microscope2014; www.fomin.org; www.caf.com/en/msme; www.centerforfinancialinclusion.org and www.centerforfinancialinclusion.org/microscope





East and South Asia

■ Bangladesh

General landscape: The Bangladesh government has a long tradition of improving access to financial services for the poor. It has facilitated the operation of the Bangladesh Rural Advancement Committee (BRAC), a leading non-governmental organisation (NGO), and Grameen Bank, a pioneering microcredit institution. The formal banking sector, along with non-banking financial institutions (NBFI), co-operatives and microfinance institutions (MFIs), provides financial services (loans, savings and insurance products) to the poor. Despite significant progress, the majority of the country's 160m people remain financially excluded. According to the World Bank's Global Financial Inclusion (Global Findex) Database, 40% of the adult population (over age 15) had a formal account with a bank in 2011 and nearly one-fifth had taken out a loan in the last 12 months. Only 2% of the adult population used an account to receive wages and 3% to receive remittances. Bangladesh Bank (BB, the central bank) regulates the country's banks and financial institutions and is the lead agency on financial inclusion, publishing a monthly progress report on financial inclusion. The Microcredit Regulatory Authority regulates licensed MFIs. Five big players dominate the microfinance market, with 25m microcredit borrowers between them. Additionally, Palli Karma-Sahayak Foundation (PKSF), the government-owned wholesale-funding agency, provides loans at a subsidised rate. Interest rates are capped at 27%, but this is below the average interest rate on small loans.

Financial inclusion highlights: Bangladesh's deep mobile-phone penetration makes it an ideal place to scale up the use of mobile phones. The central bank created a regulatory framework for mobile banking in 2011. A recent take-off in mobile-banking service promises to help boost financial inclusion. The government and the central

bank are also pushing for increased agricultural lending for small farmers. The central bank is committed to financial inclusion and this is likely to remain the case as long as the current governor, Atiur Rahman (whose term was renewed in 2014) heads the central bank.

Challenges: The government has tightened its grip on rural finance, including an attack on Grameen Bank that, while failing to make a tangible impact on the segment, is seen as an indication of the government's negative stance. Experts expect that further progress on financial inclusion could be made if the government stopped intervening in the sector and focused on passing legislation that would allow providers of microfinance to borrow from commercial banks. This would help capitalise the market and drive down interest rates, which are still high, but is not expected to happen in the medium term. Transaction costs also remain high and the spread of information technology (IT), which is a key to reducing them, is limited. While the sector is stable, a perennial risk is the occurrence of natural disasters (specifically, floods and cyclones). The government is concerned about overindebtedness and scams in the area of rural finance, and has subsequently proposed a law that would regulate the operations and funding of any group with foreign funding, including hundreds of entities providing financial services to the poor. The concern is that the law will interfere with donor funding in key development areas, including rural finance. A proposed tax on profits from microfinance was withdrawn from the 2014–15 annual budget, following resistance from MFIs.

■ Cambodia

General landscape: Cambodia's government is supporting financial inclusion and the growth of the microfinance sector as part of its Financial Sector Development Strategy 2011–20. The strategy's Action Plan for Microfinance outlines short-, medium- and long-term targets, and the targets for 2011–14 have been partially

implemented. According to the National Bank of Cambodia (NBC, the central bank), at end-2013 there were 36 microfinance institutions (MFIs) in operation, including seven that could accept deposits. The non-performing loan (NPL) ratio was very low for deposit-taking MFIs, at 0.16%, compared with 3.10% for those that do not accept deposits and 0.59% for the sector overall. Although all lending institutions must either register with or receive licences from the NBC, the operation of unregistered lenders raises the risk of overindebtedness. The NBC has been flexible in its approach to the adoption of new technologies to expand financial inclusion. Although it has not issued specialised regulations to accommodate non-traditional products, neither has it placed constraints on innovation. According to the World Bank's Global Financial Inclusion (Global Findex) Database, around 4% of the adult population (over age 15) had a formal account with a financial institution in 2011, while only 2% of those in the bottom 40% of the income distribution held a formal account.

Financial inclusion highlights: The Cambodia Microfinance Association (CMA) is active in supporting MFIs through training, fundraising and promoting new technologies. Cambodia has generally been free of political developments that could negatively affect financial inclusion. There was a widespread withdrawal of deposits from banks and MFIs in the third quarter of 2013, following a disputed election in July of that year. However, as confidence in the political environment has improved, deposits at MFIs have been restored. Local observers have cited few obstacles to accessing retail-payment systems; however, rather than forming partnerships with one another, institutions are setting up their own automated teller machine (ATM) networks, at significant cost. Mobile-payment usage has been led by WING, a payment processor that in 2013 posted a transaction volume of US\$1.5bn. Although Cambodia's regulatory framework allows only mobile-payment providers to have agents, AMK, a deposit-taking MFI, is offering deposit

services through agents as part of a pilot project. AMK received NBC approval to expand its network nationwide in 2013.

Challenges: Although there has been improvement, the NBC's capacity to supervise newly licensed institutions still appears strained. Concerns remain that minimum-capital requirements are too lax, but, despite an IMF proposal to place a moratorium on new licensing, the NBC has maintained its minimum-capital requirements to encourage MFI registration. There still appears to be unregistered lending activity in the market, however, and, unless there is a crackdown on informal lenders, overindebtedness remains a risk. Consumer protection could also be strengthened. Cambodia has no clear rules in place requiring internal mechanisms to deal with consumer complaints, nor does it have regulations aimed at preventing aggressive sales or unreasonable collection practices. Institutions may outline acceptable practices in their code of ethics, but compliance varies depending on the capacity of each institution to enforce its rules. Nearly half of Cambodia's licensed MFIs have signed on to the global Smart Campaign initiative, pledging to adopt consumer-protection principles, such as providing mechanisms for redress. However, enforcement of such measures is not always consistent, and compliance is unclear.

■ China

General landscape: The time is ripe for China to move forward with financial inclusion. Slowing economic growth has highlighted the weaknesses of a state-led financial system, which has traditionally served to channel household savings to large state-owned enterprises and local government-backed vehicles in the form of inexpensive loans. As China seeks to rebalance the economy around consumption and place it on a sustainable footing, the authorities will have to reallocate resources. In November 2013 the ruling Chinese Communist Party outlined an ambitious

economic and social-reform agenda for the period up to 2020. This included a commitment to develop “inclusive finance” and to open up the banking sector to more private firms. According to the World Bank’s Global Financial Inclusion (Global Findex) Database, 64% of the adult population (over age 15) had a bank account in 2011, while 41% owned a bank debit card. From a financial-inclusion perspective, innovations in mobile banking and third-party-payment systems have also been promising.

Financial inclusion highlights: Financial services have deep penetration in China by developing-economy standards. The government has encouraged bank-account ownership by channelling transfer payments through bank accounts. Bank-card and point-of-sale (POS) access points have multiplied. Policy reforms have also been implemented to support lending to rural households and micro-, small- and medium-sized enterprises (MSMEs), whose access to financial services was badly affected by the closure of non-viable rural credit co-operatives (RCCs) in the early 2000s. Commercial lenders were encouraged to downscale their operations to target underprovisioned sectors, notably through Village and Township Banks (VTBs). The Postal Savings Bank of China (PSBC) was created in 2007, with a mandate to increase loan provision in agricultural areas. Credit-only microcredit companies (MCCs) were piloted from 2005 and their number stood at nearly 8,000 at end-2013.

Challenges: Despite progress, China still faces challenges in having an inclusive financial environment. Many of the institutions set up to deliver wider access to financial services appear to focus on what elsewhere would be interpreted as commercial lending. Regulatory controls over lending and leverage have prevented MCCs from scaling up. As such, large segments of the population remain reliant on informal suppliers of financial services. Although there has been a concerted political push to diversify the provision of financial services, some challenges remain.

Inter-agency co-operation on the subject is weak, with the People’s Bank of China (PBC, the central bank) conflicting with the more conservative China Banking Regulatory Commission (CBRC, the regulator). Regulations in areas such as consumer protection are only just being developed. Moreover, concerns about financial risks associated with a rapid rise in shadow banking may prompt a regulatory backlash that would have a systemic impact.

■ India

General landscape: According to the 2011 World Bank Global Financial Inclusion (Global Findex) Database, 35% of adults over age 15 and 26% of adult women over age 15 in India held deposit accounts at formal financial institutions. Over the past five years, the government and the Reserve Bank of India (RBI, the central bank) have increasingly emphasised financial inclusion, targeting underserved sections of the population. RBI data show that there were 182m “no-frills”, low-value accounts (BSBDAs) at the end of March 2013. All Direct Benefit Transfers—cash transfers and social-security payments/wages from employment-guarantee programmes—are now paid into such accounts in most states of India. The figure of 182m BSBDA compares with an estimated 300m households; although it is well known that many families hold more than one low-value account, studies have shown that over 90% of such accounts are used just as pass-through-payment accounts and are otherwise dormant. The number of client accounts at microfinance institutions (MFIs) amounted to around 32m at the end of March 2014, although it is important to note that many of these clients are also BSBDA holders. MFIs are not permitted to offer deposit accounts, so their contribution is mainly in terms of microcredit and as micro-insurance facilitators for insurance companies.

Financial inclusion highlights: Under pressure from the government, the number of BSBDA

continues to grow rapidly, as business correspondents reach out to urban neighbourhoods and rural villages to provide deposit-collection and withdrawal services, credit outreach and fund transfers. Although there appears to be little take-up from this outreach effort in the form of more transactions, the new government has announced the Sampurna Vittiya Samaveshan (Total Financial Inclusion) programme to add another 200m BSBDA for financially excluded women. The microfinance sector has returned to high growth since the microfinance crisis of 2010, when the RBI took a more active role in microfinance regulation and a new category of non-bank finance company, known as NBFC-MFI, was created. The RBI is taking unprecedented steps by appointing the leading MFI network, MFIN, as a self-regulation organisation, with the aim of enhancing supervisory capacity. More extensive regulation has not yet been introduced due to political disagreements regarding who should regulate not-for-profit microfinance, but the central bank has recently signalled its intent to be more pragmatic in its approach to financial inclusion by issuing draft guidelines for “payment banks” that can issue Pre-Paid Instruments (PPI) and small finance banks, a move towards integrating NBFC-MFIs into the banking structure. While concerns remain, particularly concerning capital adequacy, area limitations and deposit security at small entities, the variety of delivery mechanisms is growing.

Challenges: One of the primary inclusion issues in India is consumer protection. Regulators are mainly concerned with MFI pricing transparency and dispute resolution. Over the past two years, the introduction of pricing caps has brought average MFI yields down from around 28% to around 25%. The microfinance crisis of 2010 resulted from a period of frenetic growth in the microfinance sector, with a high incidence of multiple lending leading to consumer overindebtedness, crisis management of MFIs and a more active regulator. However, the MFIs’ return to average growth of 35% in 2013–14 and

individual growth in excess of 50% per annum for many of the large MFIs points to the possibility of rapid expansion and overindebtedness issues similar to those seen in the previous crisis. In the case of the banks, the key issue is the focus on reporting volume of accounts, rather than transactions. The volume of transactions, the real measure of inclusion, can only be increased with growing ease of access and increasing financial capability of clients through financial-education programmes.

■ Indonesia

General landscape: Less than 20% of Indonesian adults (over age 15) held an account at a formal financial institution, according to the 2011 World Bank Global Financial Inclusion (Global Findex) Database. Indonesia’s national strategy for financial inclusion started fairly recently, in 2010, focusing on financial literacy, and most of the regulations and initiatives are moving in the right direction, albeit at a slow pace. With the memory of the 1998 banking and monetary crisis still fresh, Bank Indonesia (BI, the central bank) and the Financial Services Authority (OJK) are cautious regarding new financial products. This cautionary stance and the recent supervisory transition from BI to OJK, has caused occasional drawbacks, but financial-service providers consider both regulators to have a strong commitment to improving the regulatory environment for microfinance products, as they have been proactively engaging with the business sector. On the supply side, banking is still the dominant provider. Rural banks (RBs), pawnshops, co-operatives and other microfinance institutions (MFIs) have significantly smaller assets, but a large consumer base, particularly in rural and poor areas. Bank Rakyat Indonesia (BRI) has dominated microcredit for some time; however, lured by the market, other banks with no previous strong micro portfolios, such as Mandiri, BTPN and Danamon, have also begun offering microcredit products. While microfinance is well established in terms of

market and regulatory environment, these products have not yet reached the poorest base. To improve the reach of financial services, branchless banking is expected to reach the unbanked in the medium term. The country's landscape—with growing mobile-telephone penetration and largely untapped “bottom-of-the-pyramid” market—can be a fertile ground for branchless banking and micro-insurance.

Financial inclusion highlights: The development of branchless banking, micro-insurance, the MFI law, and the law on co-operatives are some of the most important signals of Indonesia's financial-inclusion progress. The branchless-banking pilot in 2013, which involved telecommunications companies and banks, was a tremendous achievement in terms of financial inclusion and indicative of good interoperability among providers. However, after the pilot ended, no further progress has been made in the development of related regulations, such as e-banking and agents. Another strong initiative that has slowed in pace is the micro-insurance blueprint that was launched in 2013. Since then, no regulation has been issued and a degree of uncertainty for micro-insurance businesses remains. The MFI law that was issued in 2013 is seen as progress in terms of regulating non-bank financial institutions (NBFIs). Future regulation updating the 1992 law on co-operatives could affect how credit co-operatives are managed and supervised.

Challenges: There is a risk of over-regulation as the BI tends to be extra prudent regarding new financial products, which may result in slow progress for the implementation of e-money, or any service related to the country's payment system. However, the business sector perceives OJK as having a more open stance than its predecessor. This potentially supports the progress of financial inclusion, encouraging product development for low-income consumers, such as micro-insurance and branchless banking. Another risk comes from Indonesia's recent change in

government, and, as the cabinet is yet to be decided, the impact on financial inclusion is still unclear. However, in a broader sense, it is likely that the stances of the BI and OJK will not change significantly following the change in leadership. Additionally, more populist policies can be expected to come out of the Ministry of Cooperatives, as the new leadership will have to align itself with the populist platform of the new president, Jokowi.

■ Mongolia

General landscape: Mongolia's microfinance sector has grown steadily over the last 15 years. The market is dominated by commercial banks, which held 95.6% of industry assets as of 2010. Among commercial banks, the most notable providers of financial services to low-income populations include Khan Bank and XacBank, which markets itself as a microfinance bank (MFB). Non-bank financial institutions (NBFIs), such as Credit Mongol NBFi and VisionFund, have considerable reach among low-income populations, and, in recent years, there has also been rapid growth in the number of small NBFIs offering credit in Mongolia. Mongolia has been an early tech adopter, with very deep mobile-phone penetration and providers have taken advantage of this coverage by establishing mobile-payment platforms. Examples include XacBank's AMAR service, established in 2009 and aimed at rural populations who lacked access to banks, and Most Money, a mobile-payment service offered by MobiFinance (a subsidiary NBFi related to the mobile-phone provider, Mobicom). Mobile-banking regulation is currently in development. Electronic-payment systems are also growing, with the active encouragement of the Bank of Mongolia (BoM, the central bank), which established a national platform for electronic-payment systems in 2010, the Interbank Payment Card Centralized Network (IPCCN). In 2011, 61% of the population (over age 15) had a debit card, 23% had saved at a formal financial institution in the past year, and 25% had

taken a loan from a formal financial institution in the past year, according to the World Bank's Global Financial Inclusion (Global Findex) Database.

Financial inclusion highlights: Recent developments include improvements to the public-credit registry maintained by the central bank since 2000. In 2012 the minimum threshold for loans included in the system was eliminated, and, as of 2013, it is guaranteed by law that consumers can review their credit data. The registry covers more than half of the population. Other recent regulations include a deposit-insurance law passed by the parliament of Mongolia in 2013, which established a mandatory insurance scheme for the protection of bank deposits and stipulates that compensation must be paid to consumers irrespective of the initial deposit amount.

Challenges: A challenge to financial inclusion in Mongolia is the lack of cost-effective distribution channels to cover the sparsely populated rural areas in which 40% of Mongolia's population lives. Although the growth of mobile- and electronic-payment systems could provide a cost-effective solution, regulation is still lacking to ensure secure electronic and mobile transactions. Low levels of financial literacy in Mongolia present another threat to financial inclusion. A nationally representative World Bank financial-capability survey conducted in 2012 found that around one-third of respondents do not have a full understanding of the concept of interest rates, and that financial knowledge was lower among low-income groups. The central bank is currently leading a working group to produce a national financial-education strategy, which it hopes to have drafted by the end of the year.

■ Nepal

General landscape: Nepal's financial sector has grown rapidly over the past two decades, with the country experiencing a substantial growth in financial institutions, both licensed and non-

licensed. Despite this, 75% of adults (over age 15) were unbanked, with little to no access to financial services, according to the 2011 World Bank Global Financial Inclusion (Global Findex) Database. This is largely because the majority of the population lives in remote, mountainous areas that are hard to access. Additionally, the World Bank states that only 25.3% of adults in Nepal have savings at a formal financial-services provider, including banks, microfinance institutions (MFIs) and co-operatives. According to a sector expert, there is a lot of interest in the area of financial inclusion on the part of the government, Nepal Rastra Bank (NRB, the central bank), non-governmental organisations (NGOs) and donors, and there has been a steady dialogue among the various stakeholders with a view to promoting financial inclusion. While the NRB has promoted many initiatives to increase access to microfinance, this has resulted in a proliferation of banks, which has overstretched the supervisory capacity of the central bank. There is a moratorium on all new bank licences, with the exception of microfinance development banks (MFDBs). By the end of July 2013, there were 253 licensed banks and non-bank financial institutions (NBFIs) in operation. The NRB hopes to establish a separate, second-tier organisation for regulating licensed NGOs and co-operatives through a Microfinance Act, but the ratification of this Act has been pending approval by Nepal's Constituent Assembly for the past five years. Further, some argue that the new regulatory body will be highly politicised, as 90% of the regulatory activity will be government-funded and 10% funded by the NRB.

Financial inclusion highlights: Consistent with its monetary policy for financial year 2013/14 (July–July), the NRB is in the process of formulating a Financial Sector Development Strategy (FSDS), of which financial-inclusion serves as a pillar. The FSDS draft is expected to be complete by October 2014. The NRB increased deprived-sector lending requirements: by the end of 2013–14 commercial banks must lend 4.5% of their total credit portfolios to the deprived sector,

while development banks must lend 4.0% and finance companies 3.5%. The NRB also increased the threshold of deposit insurance to Rs300,000 (around US\$3,000). The establishment of a new Microfinance Credit Bureau has been completed and is expected to be fully functional later in the year.

Challenges: According to sector experts, there are three main risks to financial inclusion. First, overindebtedness is a problem due to multiple financing and over-borrowing. Second, there is risk of exclusion of the very poor and dependent populations due to Nepal's geography, with around 80% of the population living in inaccessible mountainous and hilly areas. Lastly, the rapid spread of non-regulated financial co-operatives, especially in urban areas, is largely corrupt and subject to financial manipulation. This undermines fair and equitable access to lending. Both primary and secondary sources point to the need for more government regulation in these areas. Financial literacy also remains a challenge, although the NRB is working on several interaction programmes to promote financial knowledge in schools and colleges.

■ Pakistan

General landscape: The level of financial inclusion in Pakistan remains low. In 2011 an estimated 10% of the population (over age 15) had a bank account, according to the World Bank's Global Financial Inclusion (Global Findex) Database. However, there has been some progress, with the microcredit and branchless-banking segments experiencing robust growth. According to the Pakistan Microfinance Network (PMN), an organisation that represents the interests of microfinance practitioners, the total number of borrowers rose 18.5% year on year, to just under 3m in the first quarter of 2014, while the total value of microfinance loans rose by 31.2% year on year, to PKR57.1bn (US\$56.2m). This compares with 1.4m borrowers and PKR16.6bn in 2009.

Deposits at microfinance banks (MFBs) rose by 37.1%, to PKR34.5bn. In 2013 the value of branchless-banking transactions rose by 63% year on year, to PKR802bn and the number of branchless-banking accounts rose by 65% year on year, to 3.5m, according to the State Bank of Pakistan (SBP, the central bank).

Financial inclusion highlights: Government policies have contributed to the growth of financial inclusion. The SBP has established a financial-inclusion programme, aimed at improving outreach and financial capability among the population. Pakistan is one of the few countries in the world that has a separate legal and regulatory framework for MFBs, which it first formulated in 2001. In March 2008 the SBP introduced some of the first regulations anywhere in the world designed specifically to encourage branchless banking. It revised those regulations in 2011 as a way by which to foster the growth of agent banking. The SBP has worked closely with both MFBs and conventional banks to devise suitable regulations for innovations in delivery systems. The government-supported Pakistan Poverty Alleviation Fund (PPAF), the microfinance sector's main apex institution, and the PMN have also worked with the government to develop prudential regulations to safeguard the sector and enforce the rules among their members. The poor security situation and lack of electricity have curtailed the growth in financial inclusion. There is also a lack of expertise in the government regulatory bodies on consumer protection, leading to poor enforcement of these rules, which has likely also deterred people from using financial products. In February 2014 the Security and Exchange Commission of Pakistan approved the regulatory framework for micro-insurance, which prescribes standards of conduct and outlines requirements for consumer protection and disclosure. This should help encourage more participation by improving standards of consumer protection and transparency in the sector. Highlighting increasing competition in the branchless-banking segment, Warid Telecom, in partnership with Bank Al-falah and the Muslim

Commercial Bank, set up branchless-banking platforms at the end of 2013.

Challenges: The government often borrows from the banks to finance its persistent budget deficits. This is likely to dampen overall private-sector credit growth and, therefore, financial inclusion, as most lenders would rather make low-risk loans to the government than engage in microfinance. The level of financial capability among the population remains low, which will likely contribute to a lack of product innovation and consumer-protection improvement.

■ Philippines

General landscape: Since developing the National Strategy for Microfinance in 1997, the Philippine microfinance sector has enjoyed considerable support and the government's focus on this sector has been a key tool in reducing poverty. The Bangko Sentral ng Pilipinas (BSP, the central bank) was the first central bank in the world to establish an office, the Inclusive Finance Advocacy Staff, dedicated to financial inclusion. While there has been a sustained increase in the number of financial-services providers and products, distribution is skewed towards highly populous and urbanised areas. There is still much to be done, as only 26.6% of the adult population (over age 15) has a deposit account, according to the 2011 World Bank Global Financial Inclusion (Global Findex) Database. Archipelago barriers post a significant challenge to increasing access to financial services to low-income and underserved populations. The BSP continues to promote an enabling environment for financial inclusion through the issuance of various regulations and circulars, which seek to encourage new entrants of financial-services providers and products that serve the poor, while also ensuring the safe provision of such services. Through the BSP's microfinance strategy, the private sector plays a greater role in the provision of financial services, resulting in a wider range of products, including micro-deposits,

micro-enterprise loans and micro-insurance. As of June 2013, there were 186 banks with microfinance operations, which serve over 1m clients, with an outstanding portfolio of P8.04bn (US\$179m), allowing these clients to save P8.9bn.

Financial inclusion highlights: An Inclusive Finance Steering Committee was recently established to craft a national strategy for financial inclusion. This is only one of three internal committees that the governor chairs, which is indicative of the importance that the governor accords to financial inclusion. In May 2014 the BSP approved a general consumer-protection framework, in which the BSP will supervise and assess the safety and soundness of banking operations. The framework, which includes a separate system to access consumer-protection practices, is expected to be fully functional in 2016. Established under the Credit Information System Act in 2008, the Credit Information Corporation is now off the ground and expected to be fully operational by December 2014.

Challenges: While the Philippines is at the forefront of promoting and creating an enabling environment for financial inclusion, some sector experts believe that delivery and implementation is weak. In an archipelago made up of more than 7,000 islands, there are huge financial, security and logistical challenges in reaching the poor and unbanked. The concentration of microfinance institutions (MFIs) is found in the urban and semi-urban areas with larger populations, and this often results in lenders charging higher interest rates. In the country's largest province, Mindanao, coverage for microfinance is negligible. Non-regulated financial institutions, namely, co-operatives, are not well supervised and engage in deceptive practices and charge high interest rates. Overindebtedness is also an issue with multiple financing, although the establishment of the Credit Information Corporation is a step in the right direction. Lastly, financial literacy continues to be a problem, as many Filipinos do not understand or value the importance of savings.

■ Sri Lanka

General landscape: In 2013 the Sri Lankan banking system had 33 licensed banks: 21 domestic (including nine licensed specialised banks) and 12 branches of foreign banks. The regulated non-bank financial sector consists of 48 finance companies and ten leasing companies, with over 1,060 branches. There were 88 new branches opened in 2013 and 61 of these were opened outside the Western Province. The financial system also includes 21 insurance companies and community-based financial institutions, such as co-operative rural banks with over 2,000 branches; over 1,100 Samurghi Bank Societies; and more than 4,000 active thrift and credit co-operative societies. In addition, Sri Lanka has ten large and medium-sized niche-market microfinance institutions (MFIs), with over 400 branches. As of 2013 there were 6,487 banking outlets and 2,538 automated teller machines (ATMs), bringing Sri Lanka's banking density to 16.8 branches per 100,000 people. In 2011 around 69% of adults (over age 15) reported having an account at a formal financial institution such as a bank, finance company, co-operative, post office or MFI, according to the World Bank's Global Financial Inclusion (Global Findex) Database.

Financial inclusion highlights: The bulk of banking services has historically been limited to the Western Province of Sri Lanka; however, over the last three years or so, Sri Lankan banks have opened additional branches beyond the Western Province, mainly in underserved and post-conflict regions. This has enhanced access to finance across the country. This expansion of access has been facilitated by government policies, including subsidised commercial lending to micro, small and medium-sized enterprises (MSMEs) and a lowering of interest rates. The north and east of Sri Lanka, the areas that were worst affected by the nearly 30-year-long civil conflict, have the greatest need of basic financial facilities. Since the end of the conflict in 2009, banks have been opening up in these areas. In the first half of 2011, 32 bank outlets were opened in the sparsely banked areas

of the north and east. The launch of a mobile-money service, eZ Cash, by Sri Lanka telecommunications company, Dialog, in June 2012, and its successful uptake, is one of the recent highlights for financial inclusion in Sri Lanka. The streamlined and minimal paperwork involved with the product has made it popular with the financially excluded, who can be intimidated by bureaucracy. By March 2013 daily eZ Cash transactions had topped R8m (US\$61,000).

Challenges: The lack of progress on the passage of the Microfinance Bill in 2013 is a detriment to financial inclusion, according to experts interviewed. If approved, the Bill, currently in its third draft, would set up a separate authority to regulate and supervise MFIs and provide a mechanism by which to co-ordinate microfinance operations with other government policies aimed at rural development and poverty alleviation. While the Central Bank of Sri Lanka acknowledges the need to regulate MFIs, the government has not passed the Bill.

■ Thailand

General landscape: Financial inclusion in Thailand is measured in terms of the financial access available to households. The latest measurement from the Bank of Thailand (BOT, the central bank), conducted in 2013, found that around 88% of surveyed Thai households have access to at least one type of financial service, an increase from around 85% in 2010. The overall landscape of financial inclusion in Thailand is characterised by government-supported financial institutions. Major players in providing financial services to the poor include Specialized Financial Institutions (SFIs) and the Village Fund (VF). The SFIs are state-owned banks and two are particularly important to financial inclusion: Bank for Agriculture and Agricultural Cooperatives (BACC), which provides financial services to rural farmers, and Government Savings Bank (GSB), which provides financial services to the urban poor. The VF is one of the

largest micro-credit programmes in the world, providing an important source of small-credit at village level throughout the country. Commercial banks in Thailand have yet to offer services to low-income populations. Regulation for financial inclusion has not been extensively developed; a specific plan to promote financial inclusion has yet to come into effect, and other regulations governing financial inclusion are characterised by the fragmentation of regulators.

Financial inclusion highlights: The past year has seen several attempts to promote financial inclusion. The most notable was the co-operation between the Fiscal Policy Office (FPO) and the Asian Development Bank (ADB) in developing a Financial Inclusion Master Plan, which is scheduled to commence later in 2014. In addition, the Ministry of Finance recently attempted to promote microfinance by allowing the interest-rate cap to be expanded to 36%, and allowing microfinance providers to register with lower capital requirements.

Challenges: Recent political crises and the military coup could stall these attempts. With the military now in power, Thailand's political situation remains highly volatile. The duration of military control remains unclear, whereas the direction of its policies on the economy is yet to become clear. The market for financial services to the low-income population in Thailand is immature and there are regulations that make it unattractive for financial providers to enter the microfinance sector, most notably the interest-rate caps that make it difficult to cover the cost and risk of doing so. The BoT could have played a more active role by co-ordinating fragmented regulators and promoting the unified mandate and plan to achieve financial inclusion. However, since the financial crisis of 1997, the BOT's main focus has been to maintain financial stability in the country, preventing it from taking many risks, including those associated with microfinance provision. It is unlikely that Thailand will make much progress towards greater financial inclusion in the near future.

■ Vietnam

General landscape: Strong economic growth has not accelerated financial inclusion in Vietnam, as only about 21% of the population reported having an account at a formal financial institution in a recent World Bank Survey. Financial-inclusion initiatives are driven by the State Bank of Vietnam (SBV, the central bank), which supervises the entities that offer banking services to the vulnerable population. The two largest state banks that focus on delivering services to the poor are the Vietnam Bank for Social Policies (VBSP) and the Vietnam Bank for Agriculture and Rural Development (Agribank). These banks offer subsidised credit; however, according to the World Bank's Global Financial Inclusion (Global Findex) Database, in 2011 (latest data available) only about 16% of the adult population (over age 15) reported borrowing or having debt at a formal financial institution, while 31% reported borrowing from friends and family. Licensed microfinance institutions (MFIs) currently play a limited role in financial inclusion, as there are only two players, Tinh Thuong Microfinance Institution (TYM) and M7. According to Findex data, around 21% of adults in Vietnam held an account at a formal financial institution, and only 11% of those in the bottom 40% of the income distribution held a formal account. The SBV has recognised the importance of developing a microfinance sector and, in December 2011, the prime minister, Nguyen Tan Dung, announced a decision to develop the sector through 2020.

Financial inclusion highlights: Poverty reduction is a key policy focus and the government recognises how financial inclusion encourages this. The implementation of Mr Dung's 2011 decision has two phases: the first, which lasts through 2015, is to develop guidelines, training and relevant databases for microfinance, while the second phase, which begins in 2016, allows expansion and diversification of MFIs and products. The SBV and VBSP have developed several credit programmes targeting poor households, students,

microbusinesses, potable-water projects, environmental protection, job creation and housing for the poor. An important feature of the SBV's credit policy is establishing convenient and simple procedures, such as creditworthiness assessments via mass organisations and People's Committees. These will facilitate increased access to bank loans.

Challenges: Today, Vietnam remains a cash-based economy. Many people prefer to save in hard currency, making it challenging to expand savings services. Several state-owned banks face liquidity issues, which reduce the public's trust in them. Additionally, an inadequate legal framework for payment systems is a major obstacle to the progress of e-payment implementation and innovation. The absence of Certification Authority (CA) is one of the identified obstacles to the promotion of e-commerce in general, and e-payments in particular.

Eastern Europe and Central Asia

■ Armenia

General landscape: The financial system in Armenia is highly fragmented, and is dominated by the banking sector. There are 21 banks, 32 credit organisations, nine insurance companies, four payments-processing organisations and nine investment companies, among other financial institutions. Yet, finance is largely concentrated in the capital, Yerevan, and access to financial products and services remains a major challenge for many small and medium-sized enterprises (SMEs), and those in rural areas. According to the 2011 World Bank Global Financial Inclusion (Global Findex) Database, 17% of Armenian adults (over age 15) held an account at a formal financial institution, while only 14% of the poorest 40% of Armenians held a formal account. Microfinance in Armenia is also dominated by a few large microfinance institutions (MFIs).

Financial inclusion highlights: The Central Bank of Armenia (CBA), the financial-system regulator, primarily focuses on market stability and issues relating to consumer protection. Areas of strength are consumer protection, a broad deposit-guarantee fund, and a comprehensive credit-reporting system. In addition, a pillar of the CBA's commitment to consumer protection relates to enhancing financial literacy, and the CBA has made significant headway in this area. Although financial literacy is an important component of expanded financial access, the CBA has not taken the next steps actively to promote and regulate new products and services for the poor.

Challenges: The Armenian government signed the Maya declaration in 2011 and has been a member of the Alliance for Financial Inclusion (AFI) since then. However, there is no specific strategy, commitments or mandates on expanding financial

inclusion. The CBA has implemented policies to strengthen the regulatory environment for non-banking FIs and to increase financial access and banks' roles in microfinance, such as mobile or electronic banking, but the landscape remains small and challenging. The CBA does not have a specific mandate or strategy for expanding financial access and availability of official data on financial inclusion is weak. In addition, there are no developed regulations on micro-insurance and agent banking. Without expanded access to financial products and services, low-income consumers, entrepreneurs and SMEs are unable to take full advantage of Armenia's efficient financial sector.

■ Azerbaijan

General landscape: Although only about 15% of adults (over age 15) have accounts at a formal financial institution according to the 2011 World Bank Global Financial Inclusion (Global Findex) Database, the operating environment in Azerbaijan is fairly conducive to financial inclusion: (a) it is quite competitive, especially in the non-banking credit organisation (NBCO) segment, focused on low-income borrowers, with authorities firmly believing in the promotion of competition as a means by which to ensure better terms for financial customers; (b) the interventions of the authority are increasingly focused on prevention of overindebtedness (for example, new instructions on consumer lending, the success of the Credit Registry and the imminent launch of the Credit Bureau) and consumer protection (for example, mandatory public disclosure of effective rates, financial literacy, etc.); and (c) there are no traditional market distortions in the microfinance institution (MFI) segment (no interest cap, no micro-lender under political influence), although there are broader distortions to the economy, for example in the field of taxation and international trade (payments, equity ownership, etc.). However, the financial regulator does not formally measure financial inclusion, and does not

disseminate statistics to market participants, and the government does not have a formal, shared strategy for financial inclusion. The Azerbaijan government is increasingly (and at the highest political level) demanding that the banking sector focus on funding the real economy, contributing to the general strategy of economic diversification, away from the energy sector. The national microfinance association is expected to conduct (in partnership with an international organisation) a new study of overindebtedness and financial inclusion before year-end, the first such study since late 2011/early 2012.

Financial inclusion highlights: The main developments in Azerbaijan's microfinance sector include (a) a more interventionist approach by the regulator (CBAR), focused on preventing overindebtedness (especially in the field of consumer lending) and overall consumer protection; (b) moderate progress on the launch of the sector-owned Credit Bureau, to be operated by a reputed international private operator, supplementing the existing Credit Registry (and offering more sophisticated services to monitor exposures); (c) increasing competition, with many banks downscaling to the micro-, small and medium-sized enterprises (MSME) segment (and some MFIs gradually upscaling from traditional micro-lending); and (d) some progress on alternative delivery channels, with continuation of the growth of repayment terminals and some promising developments regarding online payments (for example, online platform to pay utilities and repay loans, although these will still predominantly be used by more affluent, urban client segments).

Challenges: Overindebtedness and market saturation remain clear risks, despite steps taken by the regulator over the past three quarters to prevent them: a credit contagion would likely see a severe contraction in financial inclusion. Macro risks also remain, mainly in relation to geopolitical tensions with Armenia, Russia and Iran, whereas macroeconomic risks are more moderate. A third,

key unknown is the bank-consolidation process (no merger and acquisition [M&A] has taken place in the two years since the announcement of the fivefold increase in banks' minimum capital), coupled with a non-bank segment with its largest players increasingly in need of a deposit-taking licence to sustain the robust growth rates of the past four years.

■ Bosnia and Herzegovina

General landscape: The country does not have a defined strategic framework for financial inclusion. Microcredit organisations (MCOs), which include microcredit foundations (MCFs) and microcredit companies (MCCs), play an important role in fostering financial inclusion as non-deposit-taking institutions. There are 18 MCOs in Bosnia and Herzegovina registered in either the Federation of Bosnia and Herzegovina (FBiH) or the Republic of Srpska (RS), and are supervised by the respective banking agencies. According to these banking agencies, MCOs in both entities supplied a total of 549,595 loans in 2013, with 2.6% supplied to legal entities and 97.4% supplied to individuals. The total supply of loans declined 1.2% year on year in 2013, while the private sector saw a decline of 18% and individual loans fell 1.1%. It is important to emphasise that there are no non-regulated financial institutions in BiH, and that MCOs and banks are the only institutions providing loans. According to the Central Bank of BiH, almost 60% of the population had at least one financial transaction in 2013, a rate that has not changed in recent years. At the end of 2012, there were around 1.8m active bank cards for the 3.8m citizens, a figure that declined by about 2% from 2011. According to the World Bank's Global Financial Inclusion (Global Findex) Database, around 34% of the population (over age 15) had a debit card in 2011. In BiH, interest-rate caps on loans are not set by regulations, but are formed by financial institutions, based on supply and demand. The banking agencies in each entity (FBiH and RS) supervise overindebtedness, collect information on

the status of all physical persons and legal entities, and maintain differentiated and comprehensive risk-management frameworks for microcredit. In addition, the Central Bank manages a comprehensive Credit Registry that can be accessed by individuals and legal entities.

Financial inclusion highlights: Regulatory (Entity Ministries of Finance) and supervisory bodies (entity banking and insurance agencies) have, in co-operation with the Central Bank, improved the regulative framework in order to enable a high-quality operating environment. By creating and adopting a set of laws, bylaws and regulations, they created a client-protective environment, which obligates financial institutions to provide transparency, good customer service, efficient dispute-resolution mechanisms, etc. Ombudsmen for banking exist in both entities, which represent important capacities to ensure the protection of clients' rights in BiH. Their aim is to promote and protect the rights and interests of users of financial services in BiH.

Challenges: Most MCOs are exposed to competition pressure from banks and larger MCOs, where smaller MCOs are faced with insufficient funds for financing of credit portfolios. The insurance sector in BiH is developing and mostly supplying traditional products/services without targeting the low-income population, which is making the operations of MCOs even more difficult. Mobile, electronic and Internet-banking services exist in BiH within the banking sector; however, one of the risks in the development of innovative and mobile services lies in the fact that a law on electronic signature in BiH was adopted in 2006, but has not been implemented. This means that the banks are consciously taking a risk in providing electronic and Internet services, but it is certain that the failure to implement the law on electronic signature is hindering the development of mobile-payment systems and any similarly innovative solutions.

■ Georgia

General landscape: Although the Georgian government is not a member of the Alliance for Financial Inclusion (AFI) and has not signed the Maya Declaration, it has made strides in advancing financial inclusion and consumer protection in its financial services sector. The National Bank of Georgia (NBG, the central bank) has a consumer-protection framework in place; collects data on financial products and services and publishes pricing information and interest rates for consumers; requires banks to have adequate disclosure practices and internal dispute-resolution mechanisms; and actively supports the development of microfinance institutions (MFIs). However, access to formal financial products and services in Georgia remains somewhat limited. The government does not have a documented strategy for financial inclusion and lacks specific regulations, formal definitions, and guidelines promoting products and services aimed at the low-income population, such as regulation of e-money, micro-insurance, agent banking or a mandate on supervision of financial inclusion by the central bank. According to the 2011 World Bank Global Financial Inclusion (Global Findex) Database, 17% of the population (over age 15) had an account with a formal financial institution, while only 14% of the poorest 40% held an account.

Financial inclusion highlights: Despite these shortcomings, the government encourages the development of the micro-lending segment and has emphasised "inclusive growth" and small and medium-sized enterprises' (SME) access to finance in its Socio-Economic Development Strategies through 2020. Operating and reporting requirements for Georgian MFIs are considered appropriate and not overly burdensome, and the sector has seen strong growth in recent years. In addition, regulations governing mobile banking and other alternative forms of banking are seen as conducive to the growth of these services and there is incipient activity, with many of the largest

commercial banks offering payment cards, and electronic- and mobile-banking products and services. The retail-payment system in Georgia is well-established and regulatory procedures for opening a new bank branch are considered reasonable for commercial banks, although penetration in rural areas could be improved.

Challenges: Although consumer protection is in focus in Georgia, the country lacks a deposit-insurance programme, strong privacy and disclosure practices, and clear rules governing discrimination and aggressive sales practices. Implementing these measures would be beneficial to consumer protection and financial inclusion. Other risks to the development of financial inclusion include the negative effect that high foreclosure rates and non-performing mortgages, originating from informal and non-regulated lenders, have had on the formal micro-lending segment's reputation. Currently, only entities classified as microfinance organisations (MFO) are regulated, which leaves a significant amount of informal lending out of the supervisory body, and facilitates irresponsible lending. This has hurt not only the regulated sector's reputation, but that of many consumers in recent years—enough potentially to lead to the regulation of such services. While the market for financial products and services aimed at low-income populations is growing, government support and guidance could help shape its growth to ensure that expanded access does not put stability at risk.

■ Kyrgyz Republic

General landscape: The National Bank of the Kyrgyz Republic (NBKR, the central bank) is more than halfway through implementing its Mid-term Strategy for the Development of Microfinance in 2011–15. The strategy addresses most issues existing in the sphere, such as the creation of the institution of a financial ombudsman for settling disputes in the financial sector, increasing financial awareness among the population,

institutionalising mechanisms of dispute resolution, boosting the regulator's institutional capacity, increasing the transparency of microfinance providers, and so on. Much work remains to be done, however, as only 4% of the adult population (over age 15) had an account at a formal financial institution in 2011, according to the World Bank Global Financial Inclusion (Global Findex) Database. Kyrgyzstan has also adopted a deposit-insurance system that covers deposits drawn by microfinance institutions (MFIs); however, only one MFI has, so far, obtained a licence to work with deposits and has now become a fully fledged bank. Minimum-capital requirements for deposit-taking MFIs are very high compared to non-deposit-taking MFIs, and this discourages MFIs from working with deposits. While the regulator does not regularly collect information on the demand for financial-inclusion products, experts estimate that the demand is several times higher than the supply, which has led to MFIs charging extortionate interest rates on their loans, sometimes reaching over 100%. In July 2013 the country adopted a usury law, setting interest-rate caps on loans.

Financial inclusion highlights: In line with the new legislation, the regulator collects information on interest rates on loans and now imposes caps on interest rates at the weighted average interest rate, plus 15 percentage points, or around 55%, as of July 2014. The regulator has also increased minimum-capital requirements by several times to “increase institutional potential and consolidate MFIs”. Combined with interest-rate caps, this has resulted in a decrease in the number of MFIs from over 430 in June 2013 to 230 in June 2014. Some closed MFIs are believed to have gone into the shadow-banking system. The regulator's capacity to regulate the microfinance sector is seen as adequate and it actively supervises overindebtedness of MFIs, requiring the creation of a reserve fund at 25% of substandard loans (non-performing for over 30 days), 50% of dubious loans (non-performing for 60 to 90 days) and 100% of losses (non-performing for more than 90

days). The government of Kyrgyzstan is also encouraging the development of electronic-money legislation, but a bill passed by parliament has not yet been signed by the president, Almazbek Atambayev, due to a disagreement over technical issues. Kyrgyzstan has a relatively well-developed system of credit-information exchange, with credit-bureau databases updated regularly. Credit providers submit information on changes in credit histories within three days of the change, with individuals being able to access their records and to intervene easily if information is not updated.

Challenges: Financial-consumer protection is one challenging area in the financial-inclusion environment for Kyrgyzstan. There is a law on protection of consumer rights, but enforcement is low and there is no specialised capacity in place for consumer protection, including in the financial sector. In the World Economic Forum's (WEF) *Global Competitiveness Report 2012-13*, the country was ranked joint 135th out of 145 with five other countries, in terms of degree of legal protection of borrowers' and lenders' rights. In addition, while regulation is in place to discourage discriminatory practices in the financial sector, enforcement is low and there is no third-party empowered for dealing with consumer complaints, such as a financial ombudsman or governmental or non-governmental body from whom consumers can seek redress.

■ Tajikistan

General landscape: The president, Emomali Rahmon, was re-elected with nearly 84% of the vote in November 2013, bringing some clarity to the likely course of the country's development over the next seven years. However, despite the fact that the central government has managed to assert control over internal tensions, instability may continue to threaten the country's territorial integrity in light of Russia's annexation of the Ukrainian region of Crimea, should Russia consider Mr Rahmon's policy to be hostile to Moscow's interests in the region. While the conflict's impact

on financial-inclusion development in Tajikistan does not seem to have been studied specifically, statistics from four members of the Association of Microfinance Organisations of Tajikistan (AMFOT), which operate in the region, show a decline in micro-loans in the first quarter of 2014. High levels of poverty and the population's general lack of trust in banks mean that the financial-inclusion environment in Tajikistan remains one of the weakest in Europe and Central Asia, according to the World Bank's Global Financial Inclusion (Global Findex) Database, as only 2.5% of the adult population (over age 15) held an account at a formal financial institution in 2011.

Financial inclusion highlights: Major changes that have taken place in the microfinance sector in Tajikistan in the past 18 months include the establishment of the Credit Information Bureau of Tajikistan in June 2013 and the launch of a pilot mobile-banking project jointly by the European Bank for Reconstruction and Development (EBRD) and the National Bank of Tajikistan (NBT, the central bank) in July 2014. The Credit Bureau already boasts coverage of 90% of borrowers, but its efficiency is yet to be proven. Since remittances play a major role in the economy (money transfers from Russia alone accounted for around 40% of 2013 nominal GDP, according to Central Bank of Russia and World Bank figures), the population mostly consume money-transfer services offered by banks and microfinance institutions (MFIs).

Challenges: The government and regulator do not have a published strategy on financial inclusion, and, although the development of micro-leasing and micro-insurance remains topical in Tajikistan, there is no specialised body or capacity effectively to protect consumer rights in the financial sector. Capacity to regulate the microfinance sector has improved, but it remains inadequate. Minimum-capital requirements for non-regulated MFIs are low and pose the threat of dishonest players entering the market and damaging the sector's reputation. There are no caps on deposit or loan interest rates, but competition and the regulation

force MFIs to make pricing transparent and competitive. Reporting requirements for MFIs are not reasonable, as they need to submit a report every ten days, as well as monthly, quarterly, half-yearly and annually, both electronically and in hard copy, with branches filing separate reports.

■ Turkey

General landscape: In light of Turkey's becoming a member of the G20 Troika in December 2013 and assuming the chairmanship of the G20 in 2015, the Turkish government has elevated financial inclusion to the top of its national agenda. In 2012 Turkey joined the Alliance for Financial Inclusion (AFI) and committed to the G20 Financial Inclusion Peer Learning Program (PLP) to further knowledge-sharing with other countries. Turkey also became one of the co-chairs of the Global Partnership for Financial Inclusion (GPIFI) for the sub-group on Small and Medium-sized Enterprises (SME) Finance. The June 2014 Financial Inclusion Strategy marked a major milestone for Turkey, focusing on three pillars: access to financial services, a regulatory framework for financial-consumer protection and financial education. The strategy is based on the diagnostic review that, while Turkey performs relatively well on the supply side of financial inclusion, on the demand side, the level of financial literacy and regulatory frameworks for consumer protection are far from the desired level. According to the 2011 World Bank Global Financial Inclusion (Global Findex) Database, around 42% of adults (over age 15) in Turkey did not have an account at a formal financial institution.

Financial inclusion highlights: Turkey's Financial Stability Committee (FSC) oversees and coordinates its Financial Inclusion Strategy. Formed in 2011 under the Turkish Treasury, the Committee is composed of the heads of the Central Bank of Turkey (CBRT), the Capital Markets Board (CMB), the Banking Regulation and Supervision Agency (BRSA) and the Credit Bureau (KKB), among other regulatory bodies. Some new initiatives underway,

according to the Treasury, include the Business Angel Scheme, SME Action Plans, the New Capital Markets Law and Non-Banking Financial Sector Regulations. The BRSA, which supervises activity of all regulated banks and foundations, has notably begun to require non-banking financial-services providers to acquire operating licences. According to amendments to the Banking Law, e-money institutions are explicitly prohibited from taking deposits, but they are allowed to handle cash payments, withdrawals, money remittances, and to mediate utility-bill payments. The new Consumer Protection Law, passed in 2013, further expands consumer rights regarding unfair banking terms, liabilities from defective financial products, and leasing and loan agreements.

Challenges: There remain gaps in regulation that require attention. There is currently no regulatory framework to govern microfinance institutions (MFIs). Only two MFIs have a presence in Turkey: the Turkish Grameen Microfinance Program (TGMP) and Maya Enterprise, and the ad hoc process through which they were established is seen as non-replicable. The Turkish government has, to date, relied on municipal governments with limited resources to support MFIs, and this has restrained MFI growth. Furthermore, while banks, and retail and telecommunications companies are eager to invest in innovative products and services, regulations around mobile banking and digital financial services are vague and/or burdensome. Agent banking is not addressed. The new regulations on Payment and Security Settlement Systems and Payment Services and Electronic Money Institutions explicitly bar payment institutions and e-money institutions from providing loans or opening accounts. The same regulations only allow banks, licensed payment institutions, and e-money institutions to process e-money. Bitcoin has been singled out as not being "e-money", however, and cannot therefore be processed by these entities. Modifying such ambiguous, restrictive regulations would help to expand financial access for the unbanked low-income populations in Turkey.

Latin America and the Caribbean

■ Argentina

General landscape: The government in Argentina has worked to promote initiatives such as public-welfare programmes, financial education and subsidised microcredit. Despite strong economic growth as Argentina came out of recession, financial inclusion has not kept pace and around 33% of adults (over age 15) have an account with a formal financial institution, according to the most recent statistics from the World Bank's Global Financial Inclusion (Global Findex) Database. Overall, the market for financial services is dominated by banks and the regulatory environment is conducive to competition. However, services that target the poor are less attractive to banks, due to their higher-risk nature, and the low certainty of profits. The number of companies that focus solely on providing services to vulnerable populations (for example, non-governmental organisations [NGOs], foundations, microfinance institutions [MFIs]) is small, underdeveloped and not prudentially regulated. There is no expectation that this will change in the near term.

Financial inclusion highlights: The National Commission on Microcredit (CONAMI), which was founded in 2006, aims to improve financial inclusion by facilitating access to microcredit, supporting social entities that provide it and consolidating a job network to increase employment. CONAMI supervises and works with more than 1,500 social organisations to provide technical support and financing. The Fondo de Capital Social Comprometidos (FONCAP), which is managed by Impulso Argentino, is another programme that provides wholesale funding for microcredit institutions (mostly Sociedades Anónimas [SAs], limited public companies), and requires that on-lent funds carry 6% annual interest.

Challenges: At macroeconomic level, inflation poses a significant risk, as there are concerns that the government has been under-reporting it for years. In 2014 a new consumer price index (CPINu) was developed with support from the IMF, in an attempt to regain market trust. Recently, the government has implemented unconventional measures, such as supermarket-price caps, in an attempt to control inflation, while the Banco Central de la República Argentina (BCRA, the Central Bank) has hiked up interest rates, tightening monetary policy. In July 2014 a US judge prevented interest payments being made to bondholders that had entered the Argentine restructured-debt programme in 2005 and 2010, in the midst of a legal dispute with those not entering the debt restructuring ("holdouts"). In respect of financial services, the costs of building branch networks are relatively high for both banks and other financial-services companies. The costs of building physical branches and accessing electronic networks are prohibitively high, especially for small players. Agent banking is non-existent, since there is still no regulatory framework in place.

■ Bolivia

General landscape: Financial inclusion is a national policy priority, as emphasised in Bolivia's 2009 Constitution and enshrined in the 2013 Law of Financial Services. To this end, the Autoridad de Supervisión del Sistema Financiero (ASFI, the financial regulator) collects detailed data to target underserved areas of the country. Regional data published by ASFI show that, in March 2014, 46%–100% of localities with populations of over 2,000 had access to a point-of-service (POS) site. At national level, the number of POS sites per 100,000 people more than doubled, from 17 in December 2007 to 38 in March 2014. Bolivia has a highly competitive environment for IF, with various types of institutions (banks, private financial funds, non-governmental organisations [NGOs] and co-operatives) providing financial services,

although private-sector institutions dominate the sector, organised under the Asociación de Entidades Financieras Especializadas en Micro Finanzas de Bolivia (ASOFIN). The 2013 legislation, still undergoing implementation, creates new entity types and allows for interest-rate restrictions on deposits and certain loans. Despite operating without a licence, NGOs (officially termed Instituciones Financieras de Desarrollo, IFDs) voluntarily subject themselves to rigorous transparency measures through the Asociación de Instituciones Financieras de Desarrollo (FINRURAL). Overindebtedness in the financial system is not a concern, owing to the strength of Bolivia's credit bureaus, which include one specialised in microfinance.

Financial inclusion highlights: The Law of Financial Services, approved in August 2013, is a wide-reaching legislation that restructures the financial system, focusing heavily on expanding overall financial access and directing loans to productive sectors. The Law divides the financial system into a total of ten public and private-sector entity types, adding new classifications for private lenders to rural areas and social housing. Private financial funds must convert to either Bancos Múltiples (multiple-service banks) or Bancos de Pequeña y Mediana Empresas (Banco PYMES, banks specialised in lending to small- and medium-sized enterprises [SMEs]). The licensing of IFDs has lagged for years, but, recently, the Supreme Decree 2055 of July 2014 gave a completion deadline of two years for IFDs that have already initiated the process. The decree also set an 11.5% interest-rate ceiling on loans to micro-enterprises, with lower rate limits for larger borrowers. A 2% floor on interest rates for savings of up to Bs70,000 (around US\$10,000) now applies, with rates of 0.18%–4.10% for fixed-term deposits. As anticipated by market players, the new restrictions are considerably onerous, and consumer-lending rates are likely to rise as a result. An earlier decree, in December 2013, set interest-rate ceilings for social housing at 5.5%–6.5%, and outlined lending quotas, varying by entity type. Restrictive policies

notwithstanding, the 2013 Law of Financial Services included some very positive developments. These included the incorporation of earlier regulations on new technologies, the inclusion of provisions placing a heavy emphasis on consumer protection, the outlining of a framework for a deposit-insurance fund, and the creation of a Financial Stability Board to co-ordinate inter-agency efforts.

Challenges: Lessons learned in the aftermath of the non-payment movement in 2001 have helped Bolivia build a resilient and sophisticated financial-inclusion environment, with a non-performing loan (NPL) rate of just 1.1% as of March 2014. This was achieved through a prudent regulatory framework that encouraged the participation of the private sector and enabled innovation in the market. Through the restrictive policies of the 2013 legislation, however, Bolivia is actively limiting profits, raising concerns that the private sector may withdraw investment. Another concerning factor is that state-run institutions may gain a greater share of the market, as private-sector players will have less space to compete; this would also have a crippling impact on innovation. While Bolivia's policy emphasis on financial inclusion is commendable, requiring lending to certain sectors of the economy raises the potential of overindebtedness. There is a chance that ASFI and financial institutions may mitigate this risk before it becomes a reality, but ASFI's own supervisory capacity is increasingly limited, as more institutions come under its purview and as it loses political independence.

■ Brazil

General landscape: Financial inclusion continues to grow at a moderate pace in Brazil, and, in 2011, 56% of the adult population (over age 15) had an account with a formal financial institution, according to the World Bank's Global Financial Inclusion (Global Findex) Database. Financially inclusive products and services are dominated by

banks and state banks that have large correspondent banking networks that reach every Brazilian municipality. Banks face government pressure to lend more and extend banking access to lower-income groups, and benefit from privileged access to low-cost public second-tier funding. Meanwhile, a cross-agency effort to promote financial inclusion through a two-and-half-year action plan of regulatory reform and financial education, led by the Banco Central do Brasil (BCB, the Central Bank), will formally come to a close and be evaluated at the end of 2014, and some headway has been achieved. Major private actors who serve as government interlocutors on financial inclusion include the Federation of Brazilian Banks (FEBRABAN), Organization of Brazilian Cooperatives (OCB), Fundação Procon, Brazilian Internet Association (ABRANET), Brazilian Association of Credit Cards and Services (ABEC), and Brazilian Association of Microcredit and Microfinance Entities (ABRECREC). The government (through its Microcredito Productivo Orientado programme) continues to be the main provider of microcredit (both directly and indirectly).

Financial inclusion highlights: The early adoption of agent and micro-insurance regulations place Brazil as a country open to innovation. A new micro-insurance regulatory framework, set up in 2012, has spurred some banks to enter the market, while other banks have expanded their range of micro-insurance offerings. In addition, a pair of recent regulatory changes promises expansion of financial inclusion. The Cadastro Positivo, a positive credit registry, was implemented in August 2013 and will allow private credit bureaus to collect individuals' full credit and payment histories. However, use of the system has been slowed by the provision requiring extensive written communication between borrower and prospective lender for initial approval of credit checks, and further tweaks to the new regulations appear likely. In addition, a new law passed in October 2013—but still awaiting full implementation in mid-2014—creates a category of electronic-

payment institutions regulated by the Central Bank and specifies the principles of non-exclusion and interoperability. It remains to be seen whether these regulations will spur further growth and healthy competition on the fast-growing, but somewhat chaotic, scene of alternative payment arrangements.

Challenges: Efforts to promote inclusion continue. However, with an environment of rising inflation and interest rates, overindebtedness bears continued monitoring. Small-scale non-bank actors, if given a greater role in the sector, may be in a better position to encourage a strong financial-inclusion environment. As a leader in the adoption of innovative financial products and delivery channels, Brazil is well placed to make significant progress in terms of financial inclusion in the coming years.

■ Chile

General landscape: Chile is a market-driven, high-income country with a reputation for strong financial institutions and sound economic policy. The overall market for financial services, which is supervised by the Superintendencia de Bancos e Instituciones Financieras (SBIF), is dominated by large private banks and one large public bank, the Banco del Estado, which offers various products for the poor. Given that poverty levels are low, companies that focus solely on financial services for the poor are few. According to the World Bank's Global Financial Inclusion (Global Findex) Database, 42% of the population (over age 15) had an account at a formal financial institution in 2011. In March 2014 the government announced the creation of the Consejo Nacional de la Inclusion Financiera (CNIF, the National Commission on Financial Inclusion), a department that is charged with co-ordinating the diverse public institutions associated with financial inclusion and literacy. The approval of this department signifies the first time that Chile will have centralised co-ordination of the design and implementation of all the policies and

initiatives aimed at developing banking rates, financial education and consumer protection. Ministries that will be involved are: Social Development, Education, Economy, Work, Secretary-General of the Presidency and Finance. CNIF is tasked with developing a strategy to create products aimed at vulnerable populations; introduce regulation to promote financial innovation; increase access through branches and agents; and improve financial literacy.

Financial inclusion highlights: Chile has a robust system of financial-inclusion policies, ranging from social-benefits payments, to financial-education programmes, to consumer-protection regulation. Banco del Estado has around 5m customers using simplified bank accounts that are based on personal-identification numbers. The social-benefits system presents a key opportunity to increase financial inclusion, as around 2.4m people a month receive transfer payments and 95% of these are in cash. According to a recent government report, the price of administering cash payments is around twice the cost of electronic payments tied to a bank account. Preliminary results of a pilot programme to promote electronic payments found that 64% of recipients used bank accounts over other methods.

Challenges: The infrastructure for access to financial services (through branches, agents, mobile banking and other points of service [POS]) is underdeveloped. A 2013 report by the SBIF on financial inclusion recognised the need to develop the physical and electronic infrastructure necessary to facilitate access across all regions of the country. Another weakness is the availability of information on both the supply and demand for financial services to the poor. Further studies into the informal sector of the economy would provide valuable insight for banks and other financial companies.

■ Colombia

General landscape: Financial inclusion is a key policy focus in Colombia that cuts across various departments and agencies, ranging from the Banco de la República (the central bank) to the Ministries of Finance and Education, the Department for Social Prosperity, the Banca de las Oportunidades and the private sector. The Superintendencia Financiera (SFC), which regulates the financial system, is promoting a market for financial inclusion that is increasingly competitive, transparent, dynamic and formalised. According to the World Bank's Global Financial Inclusion (Global Findex) Database, around 30% of the population (over age 15) held an account at a formal financial institution in 2011. By September 2013, 71.5% of the population had at least one financial product. Between December 2012 and December 2013 the number of people using electronic deposit accounts grew by 1.1m, a growth rate of 160%. The Más Familias en Acción programme, a conditional cash-transfer G2P programme, has played a key role in increasing the number of people with bank accounts because beneficiaries receive their payments as deposits into savings accounts at Banco Agrario, a public bank. Another focus has been improving financial coverage through the expansion of agents, which have increased at an average rate of 70% over the last three years, according to a recent BBVA report. Today, 99.9% of municipalities have access to financial services.

Financial inclusion highlights: In 2009 Colombia signed into law a comprehensive consumer-protection programme that promotes pricing transparency, customer service, efficient dispute resolution and financial literacy. Since then, information asymmetries have declined, as more information is available to the average consumer. Financial-services providers are required clearly to display fees, interest rates and any other costs of their products. Micro-insurance is another highlight in Colombia, as insurance companies have a track record of serving the poor through "mass" insurance policies. The micro-insurance

penetration rate in Colombia is about 8%, which is one of the highest in Latin America. Although the sector is not regulated separately, the insurance companies face prudential, risk-based surveillance that monitors these products under the existing framework. In April 2014 the Ministries of Finance and Information and Communication introduced a bill in Congress on financial inclusion, called Pague Digital. The law introduces a new type of financial entity called a Sociedad Especializada en Depósitos y Pagos Electrónicos, where people can hold electronic accounts that will facilitate affordable and safe money transfers. The SFC will supervise these companies and the national deposit insurance will cover all clients.

Challenges: These top-line figures are encouraging, as they show a big improvement in financial inclusion over the last six years. However, usage and overindebtedness are concerns, especially for consumers of microcredit. According to the Banco de la República (the central bank), the rate of growth for microcredit has declined significantly in recent years, mainly due to concerns about overindebtedness and clients' capacity to pay. Also, the use of saving products is relatively weak, as a 2013 report by the Banco de Las Oportunidades suggests that around 33% of adults who have savings accounts are not actually using them.

■ Costa Rica

General landscape: Costa Rica has historically benefited from widespread access to commercial-banking services, and, as a result, policies to promote financial inclusion have not had the same priority as in other Latin American markets. Costa Rica's financial sector is dominated by a combination of public and private commercial banks. The public banks, in particular, have had a strong focus on lending to low-income clients and this was given a boost following the introduction of the Sistema de Banca de Desarrollo (SBD) in 2008, which sets apart a certain percentage of the

deposit base of the banking system for credits to low-income sectors. The significant role of public lending and the small size of the country have made Costa Rica a slow adopter of innovative financial services and products in the region. According to the World Bank's Global Financial Inclusion (Global Findex) Database, around 50% of adults (over age 15) in Costa Rica had an account at a formal financial institution in 2011, which is high, considering the fact that the country has no regulation of agents.

Financial inclusion highlights: The Costa Rican government has, for the past few years, focused its efforts primarily on expanding the national development-banking system as the principal means of fostering financial inclusion. Consumer-protection laws, procedures and capacity are generally seen as adequate. These are governed by the Comisión Nacional del Consumidor (CNC, the National Consumer Commission), which was established in 1995. Apart from the CNC, the Chamber of Arbitrage of the Costa Rican Chamber of Commerce and a non-profit organisation called Consumidores de Costa Rica also exist to protect consumers and lobby the government in favour of stronger consumer-protection legislation. The government has also undertaken various interventionist monetary policies since 2010 in response to currency appreciation: in January 2013 it imposed a cap on dollar credit, and also proposed a tax on short-term speculative loans. Although there is no specific regulation for micro-insurance, a micro-insurance market was created when the first products were offered in 2010. Today, more than 60 types of micro-insurance products are available in the market.

Challenges: To a large extent, the ubiquitous presence of the public banks has stifled the creation of a market for microfinance and other forms of low-income lending, but these have also had an important role to play as second-tier lenders. As a result of these conditions, specialised vehicles for microfinance are lacking, and those institutions focused on micro-lending and micro-

savings tend to be constituted as non-regulated non-governmental organisations (NGOs). The fact that the two largest of these, ACORDE and ADRI, remain under this category suggests that there is little regulatory incentive to formalise. The lack of a major market for low-income financing has also resulted in regulation being slow to adapt to new technologies and innovations. Costa Rica currently lacks regulation related to banking agents, electronic money and micro-insurance, and there is, as yet, no legal definition for microfinance and microcredits. Nevertheless, these activities do take place, although, for the most part, they are focused on traditional banking clients, rather than on low-income sectors. Although the new government of Luis Guillermo Solís (inaugurated in May) has promised to make strong advances in terms of social policy, measures to promote financial inclusion are likely to take the form of strengthening the SBD, reaffirming the state's pre-eminence in the market.

■ Dominican Republic

General landscape: According to the World Bank's Global Financial Inclusion (Global Findex) Database, only 38% of Dominican adults (over age 15) held an account at a formal financial institution in 2011 (compared with the average of 39% in the LAC region). Commercial banks are prevalent, with around eight banks for every 100,000 adults (compared to 6.2 in the region) and 42.7 automated teller machines (ATMs) per 1,000 sq miles (10.2 in the region)—although banking services are skewed towards urban/metropolitan areas. The government of Danilo Medina has prioritised financial inclusion under the mandate of a 20-year national-strategy law, and is carrying out several efforts on different fronts. Efforts will be strongest for improving access to small and medium-sized enterprises (SMEs) and improving their access to credit, in order to reduce the size of the informal sector, which is around 56% of the labour force. The banking sector has adequate capitalisation and supervisory indicators, but

lending is skewed towards consumption, especially credit cards, and loans to productive sectors such as SMEs are less frequent and made subject to more stringent conditions. Asset-valuation rules for regulated institutions, including those involved in micro-lending, consider specific classification of financial obligation according to the type of debtor, including parameters and provisioning requirements for small loans, such as the ones provided to "small debtors" and "loans to microenterprises". In 2014 there was a project in the pipeline to relax asset-valuation norms in order to promote lending to agriculture and manufacturing. Additionally, recent awareness of the need to enhance financial-consumer protection resulted in new rules for credit-card placement and regulation of rates. Microcredit use is prevalent among the poor, and, although there is no separate legal framework from that of regular insurance, some insurance providers have partnered with regulated financial institutions or regulated microfinance institutions (MFIs) to offer services via the financial institution's distribution channels. The country has an efficient and modern payments system and new agent-banking schemes in partnership with mobile network operators (MNOs) will expand the service in the next few years. However, without e-money regulation, the schemes will continue to be bank-led.

Financial inclusion highlights: The bylaws enabling agent banking were passed in early 2014, and these foster new ventures in terms of mobile payments. At the time of writing, there were two new ventures between MNOs and banks in the works, and two other MFIs were venturing into agent schemes. Existing mobile-payment schemes were still at pilot stage in 2014, so there is a general impression that any shortcomings of the regulation—for example, agent exclusivity—will arise when activity is more advanced. The Banco Central de la República Dominicana (BCRD, the Central Bank) will conduct a survey in 2014 (unavailable at time of writing) of economic and financial culture that will shed some light on the demand side in terms of all aspects of financial

inclusion: banking, insurance, pensions, etc. Government efforts to increase financial inclusion are being strengthened, especially around support for SMEs, and will result in some concrete policies within the next few years through the empowerment of the Vice Ministerio de Fomento a las PYMES and the ongoing technical and financial co-operation of the International Development Bank (IDB). Projects in the pipeline include a new collateral registry, a new framework allowing movable collateral, a mutual guarantee scheme and a guarantee fund.

Challenges: The Dominican Republic would benefit from the collection of demand-side data, which would assist understanding of the needs of the low-income population and improve offerings such as micro-insurance. Only sporadic efforts to gather such data were identified. Savings products face challenges as well. Despite efforts to improve these offerings, commercial-bank deposit products are subject to a range of bank fees, and all interest-bearing products are subject to a 10% tax. Savings accounts are frequently subject to minimum balances and other fees, which have served to discourage savings. Government-supported first- and second-tier financing programmes with subsidised rates are likely to crowd out private-sector MFIs. Although the country currently has good supervision of overindebtedness, risks related to overindebtedness are weighted to the upside, and it is unclear how successful current data-collection programmes will be.

■ Ecuador

General landscape: The landscape for financial inclusion has undergone significant change since the 2011 introduction of the Ley de la Economía Popular y Solidaria (LEPS), which created the Superintendencia de la Economía Popular y Solidaria (SEPS), a regulator to supervise co-operatives, communal banks, non-governmental organisations (NGOs) and other entities that provide financial services within the solidarity

economy. This new regulator is intended to formalise, control and regulate organisations that were previously unsupervised. SEPS aims to be internationally recognised as an effective supervisor of the solidarity economy by 2017. Traditional banks continue to be regulated by the Superintendencia de Bancos del Ecuador (SBS) and face somewhat burdensome tax reforms on banking profits and interest-rates ceilings. In 2011 (latest data available), 37% of adults had an account at a formal financial institution, according to the World Bank's Global Financial Inclusion (Global Findex) Database. Just 1% of adults had saved money in a formal account in the past year, while 2% had used a community-based method, according to the survey. Around 11% had originated a new loan from a formal financial institution, with 15% borrowing from family and friends. Of all adults, 10% had a credit card, but only 2% had a mortgage.

Financial inclusion highlights: The government's financial-inclusion efforts are focusing on co-operatives and other small lenders, which fall under the purview of the SEPS. The introduction of supervision and transparency aims to formalise and improve stability within the solidarity economy. Additionally, the government has excluded small financial entities from recent tax hikes on profits. Another focus is on electronic payments through mobile phones. In August 2014 the Banco Central del Ecuador (BCE, the Central Bank) signed an agreement with one of the country's two private mobile operators, which controls one-third of the market, for a new mobile-payments system. This new payments system targets Ecuadoreans who have a mobile telephone, but no bank account, and particularly benefits rural residents with limited banking access. The BCE will operate the payment system and aims to keep costs low.

Challenges: Through the LEPS regulation, the government has shown a preference for the solidarity economy, but SEPS is not yet a comprehensive supervisor and needs to build its track record as an effective regulator for this

sector. In 2012 private credit bureaus were replaced by the Dirección Nacional de Registro de Datos Públicos (DINARDAP, the National Credit Data Registry). The data transfer from Equifax took longer than anticipated and the DINARDAP had not been launched at the time of the research phase closure. Concerns about the quality of the data and the government's ability to maintain the database persist.

■ El Salvador

General landscape: Despite its middle-income status, El Salvador lags behind other countries with similar development in terms of financial penetration. According to the World Bank's Global Financial Inclusion (Global Findex) Database, 14% of adults (over age 15) held a bank account, and around 10% of the population accessed a credit product in 2011—the lowest rate in Central America. El Salvador's financial sector is concentrated in a few foreign-owned banks, but the vast majority of the population does not have access to them. The result has been the proliferation of other financial institutions that target low-income groups, including microcredit providers, co-operatives and credit unions (CUs). The sector is well-established and very competitive, accounting for around 15% of total lending according to www.elsalvador.com. The financial segment that serves the poor does not have a specific regulatory framework and there have been only limited efforts in the past to standardise practices across regulated and non-regulated institutions. The country's main regulator, the Superintendencia del Sistema Financiero, has tried to develop some capacity to monitor and understand microcredit portfolios, but its focus and regulatory framework target more established sectors. However, the regulated sector allows for a diversity of institutions and some flexibility in entry requirements. Despite this, there are few regulated financial providers that focus on low-income groups, highlighting barriers to formalisation. Standards at the vast array of

non-regulated institutions vary greatly, as there are no formal capital, risk or operational requirements. However, the Asociación de Organizaciones de Microfinanzas (ASOMI) has made some strides to increase best practices across the sector. Efforts have been made in recent years to try to improve transparency and consumer protection via new legislation, but some measures—in particular the implementation of an interest-rate cap on all financial transactions—have led to higher costs in terms of financial inclusion. Other financial products and services are offered, either under the umbrella of a general law (in the case of micro-insurance) or in a legal void (in the case of mobile payments).

Financial inclusion highlights: There was some debate about the need to implement a broad financial-inclusion strategy, but these efforts have not prospered. Instead, in terms of the financial sector, the focus over the past year has been to supervise the implementation of the 2012 usury law, which requires all institutions (regulated and non-regulated) to declare to the Banco Central de Reserva de El Salvador (BCRE, the Central Bank) their interest charges on all their credit products, so that a maximum rate may be set. This requirement has proven difficult for some organisations and there are lingering questions over the transparency of the data provided. A new consumer-protection framework was also put in place recently, but this does not focus on the financial sector and makes no provisions to improve client disputes or create a specific third-party oversight mechanism for financial matters. On the upside, recent reforms to credit history have strengthened El Salvador's already strong credit-bureau system and have improved privacy rights.

Challenges: The Central Bank is making some efforts to create norms for new-product development (involving branchless provision of financial products and services), but a bill on e-transactions and mobile payments has been repeatedly delayed, in part due to concerns over money laundering. The lack of a clear regulatory

framework has not hindered the development of the sector, but has created concerns over unfair competition, especially since supervisory capacity is weak. It also means that some mobile network operators (MNOs) that provide mobile payments operate in a legal void. A further problem is the lack of aggregated information of overindebtedness, which makes risk assessment at macro level harder.

■ Guatemala

General landscape: The Superintendencia de Bancos (SIB) lacks a formal, comprehensive financial-inclusion strategy, although a government-wide strategy is reportedly under development. In late 2013 the SIB began to publish data on banking outlets, agents, automated teller machines (ATMs) and deposit accounts. There were 12,802 points of service (POS) as of March 2014, compared to 11,412 a year earlier. The SIB has developed limited specialised capacity under regulations adopted in recent years regarding Internet banking, non-bank correspondents and simplified bank accounts. Although competition is fragmented by segment and geographic location, a multitude of institutions—banks, finance companies, credit co-operatives, and non-governmental organisations (NGOs)—provide credit for lower-income individuals and smaller firms. There is still widespread obscuring of the real effective costs of loans across institution types, and interest rates are set freely. A definition of microcredit that is still overly broad applies to regulated institutions, and would apply to larger NGOs that become regulated under a microfinance law still before Congress. There is a partially differentiated framework for micro-loans by regulated institutions. Specific regulations that would foster micro-insurance remain absent. The Asociación Bancaria de Guatemala (ABG) has not been particularly active on financial-inclusion issues, while the Red de Instituciones de Microfinanzas de Guatemala (REDIMIF) provides services, training

and data gathering for its 15 members, mostly from the NGO segment.

Financial inclusion highlights: Prospects are uncertain for passage of the draft microfinance law, pending in the legislature since the third quarter of 2013. It would bring larger NGOs into prudential regulation, some of them as deposit takers, and require other NGOs to register with the government. The system of bank correspondents continues to grow at a robust pace, nearly doubling between September 2011 and March 2014. However, progress in implementing simplified accounts has been halting, as it remains difficult to open accounts in practice, and not all banks offer such accounts.

Challenges: Among risks to financial inclusion, government sources acknowledge the need to develop further the regulatory framework in such areas as mobile payments and the credit-information system. Even with improved data gathering for regulated institutions, reliable and up-to-date information about the size of NGOs' portfolios and credit co-operatives is still lacking. The IMF has expressed concerns about increasing levels of indebtedness, including consumer loans, in particular with regard to household leverage in the unregulated sector. In terms of the draft microfinance law, beyond uncertainties over any possible amendments, it seems unlikely that any other than the four larger and better managed NGOs could meet the threshold to become deposit-taking, regulated institutions. Some observers fear that meeting the law's requirements to become regulated or subject to oversight may entail more costs than benefits for at least some of these NGOs, and the likely ensuing consolidation could be a mixed blessing for their very-low-income and heavily rural client base. Meanwhile, credit co-operatives, with their important role, but problematic transparency and finances, remain outside the proposed reforms. Progress on financial capability is still meagre, and the consumer-protection framework remains very limited.

■ Haiti

General landscape: Financial inclusion in Haiti has been hindered by the country's economic and political challenges. Commercial-bank penetration is low (2.74 per 100,000 people), only 22% of Haitians over age 15 have access to a formal financial institution, and banks do not have a strong geographic presence. Most of the poor are served by non-regulated institutions or non-bank financial institutions (NBFIs), which have more widespread branching. The government lacks the financial and political capability to take on financial inclusion as a main priority, and policymaking has been limited by delayed legislative elections (now scheduled for end-2014) and a high rotation in cabinet positions. The government is pushing for the modernisation of archaic collateral registry and other procedures, which are done manually in some cases, but resources are scarce. Mobile banking will continue to grow, although the sector will be limited by insufficient regulation (for example, of electronic money), as well as an underdeveloped payments system. The lack of information is a problem for the assessment of financial inclusion, and limits the development of new products, such as micro-insurance.

Financial inclusion highlights: Development and innovation in the sector are generally led by private companies and donors, with multilaterals being critical to most projects. The Banque de la République d'Haiti (BRH, the central bank) has improved its monitoring of systemic risks and financial stability, and the banking system is sound, but microfinance institutions (MFIs) remain largely unsupervised. Important legislation is detained in the legislature, including the draft laws on microfinance, insurance and financial co-operatives. In November 2013 an AML/CFT law was issued and includes Caribbean Financial Action Task Force (CFATF) recommendations. Some interviewees noted that commercial banks are well advanced in the implementation of a 2012 banking law, which increased the supervision standards of

the BRH and propped up overall bank-compliance rules. The BRH was working on a pilot of a credit bureau at the time of writing, as was an industry association. However, these measures are likely to remain within the regulated financial sector in the near future.

Challenges: The lack of regulation and prudential and reporting standards for non-banks (that is, non-governmental organisations [NGOs], financial co-operatives, and other MFIs) is an increasing risk, given that they provide most of the financing in Haiti. In addition, overindebtedness remains a concern. Banks' credit portfolios remain largely concentrated, and, in the absence of a credit bureau, there is no centralised recordkeeping for indebtedness. Furthermore, several non-regulated institutions have found ways to take deposits, despite not being authorised to do so. This challenges even more strongly the BRH's ability to track overindebtedness. Deposits illegally taken are not safeguarded by any type of deposit insurance, and the risk management of the portfolios is generally poor.

■ Honduras

General landscape: Up-to-date financial-inclusion data are lacking, as the Honduran authorities have made a notable push on several regulatory fronts, but have not yet developed a comprehensive strategy or begun to collect more extensive data. The most recently published data, from the 2011 World Bank Global Financial Inclusion (Global Findex) Database, indicate that 21% of Hondurans (over age 15) had accounts at a formal institution, while 9% had saved at a formal institution within the previous year. The competitive landscape continues to be characterised by the co-existence of prudentially regulated commercial and state banks, finance companies, and special-purpose microfinance providers called OPDFs, with non-regulated credit co-operatives and NGOs known as OPDs. Sometimes, they compete head to head, but other times markets are dispersed by location and

population segment. However, over the last four years, some co-operatives have voluntarily entered into regulation, and a new co-operatives law passed in December 2013 has recently brought all larger co-operatives under regulation. Among private-sector entities shaping financial inclusion, the Asociación Hondureña de Instituciones Bancarias (AHIBA) has training courses on customer service and dispute resolution for its member banks, while the Red de Microfinancieras de Honduras (REDMICROH) provides training seminars on microcredit and social-performance management and gathers sectoral data for its wide-ranging membership, which includes all institutional types of regulated and non-regulated institutions, except co-operatives.

Financial inclusion highlights: In July the government authorised the second-tier state lending bank, Banco para la Producción y Vivienda (BANHPROVI), to provide first-tier financial services in the countryside for social housing and microcredit. Aside from the new co-operatives law, which could improve the solvency and transparency of larger co-operatives in a process that may take several years, recent regulations creating a framework for financial correspondent agents also have the potential to expand financial inclusion in the medium term if promoted aggressively and adopted by a range of institutions currently studying this modality of service provision. The impact of new rules allowing for basic savings accounts has, to date, been blunted by a lack of operational information about how the accounts might work among financial institutions. The adoption of a financial-inclusion framework and an inter-ministerial commission charged with implementing it—an idea currently under discussion—would be important in ensuring further progress. Also key would be action on a mobile-payments framework, an improved consumer-credit-information system, better oversight of financial institutions' mandated internal-complaint mechanisms and systematically compiled financial-inclusion data. A comprehensive micro-insurance framework would also be useful. Smaller, regulated

institutions continue to complain about unfair competition from less transparent NGO-MFIs (OPDs), yet the latter group has few incentives to upgrade into regulated status under current regulations.

Challenges: Three important risks loom for financial inclusion in Honduras. First, consumer lending has outpaced other loan portfolios, but has less stringent credit-risk-assessment. Even without signs of high immediate overindebtedness, the lack of careful monitoring of consumer-credit portfolios poses concerns going forward. Second, the lack of financial capability on the part of lower-income Hondurans remains a serious obstacle. Finally, severe levels of insecurity and violence across low-income neighbourhoods in urban, peri-urban and rural areas have significantly compromised the ability of financial-services providers to do business, as well as the financial health and physical safety of their client base.

■ Jamaica

General landscape: Financial inclusion has only recently become a priority in Jamaica. The country has high levels of bank penetration: according to the World Bank's Global Financial Inclusion (Global Findex) Database. As of 2011, 71% of adults (over age 15) had an account at a formal financial institution, but only 8% had taken out a loan from a formal bank in the past year, compared to the 21% that reported borrowing from friends and family. Conservative and stringent banking-sector regulation, in the aftermath of a banking crisis in 1997, have also served to exclude smaller finance providers from entering the sector. While there is no single mandate for financial inclusion, the government has taken clear steps towards improving financial inclusion, including passing a new legislative framework for the financial sector in 2014, implementing regulation for agent banking in 2013, and pushing through a framework for electronic payments and other retail-payments systems since 2010.

Financial inclusion highlights: After years of consultation, the legislature passed a Banking Services Law in 2014 (also known as the Omnibus Law) that introduces consolidated supervision across the entire financial sector. The new law, when put into effect, will include better corrective and supervisory roles for the Bank of Jamaica (BoJ, the central bank), a strengthened framework for sanctions and corrective actions, consumer protection and other provisions for conflict resolution, and a more stringent risk-management framework for banks. It will also allow for banks to partner with third parties (agents) to offer banking services. By the time of writing, several banks were exploring entering the business of mobile banking through agents, although the BoJ will only allow for bank-led models. Credit reporting is growing. Two bureaus began operating in 2013, and all banks and some retailers are consulting and reporting. However, it will take some more time for smaller credit providers, especially for the poor, to become users. The government has begun to make efforts to increase the access of credit for local small and medium-sized enterprises (SMEs). Measures on the way include a registry of collateral that includes movable items, and a one-stop-shop or window for incorporating businesses. The framework for electronic retail-payment services, which include mobile payments, was passed in early 2013, and the specific regulation within the new Banking Services Law will propel the growth of mobile-payment schemes in Jamaica.

Challenges: Credit unions (CUs) continue to operate under lax supervision, little prudential oversight and low reporting requirements. A law regulating these issues is currently being discussed in the legislature. Additional risks include the lack of specific regulation for microfinance, and extremely high interest rates that are pushed up further by money lenders and other informal providers of credit.

■ Mexico

General landscape: Mexico has traditionally suffered from lower access to financial services than many other countries in the region at a similar level of development. This is largely the result of a highly concentrated banking sector, which is dominated by a few large (mostly foreign-owned) banks, as well as high levels of income inequality—particularly in the rural sector, which suffers from poor transport and communications infrastructure, which keeps many low-income households without access to traditional banking services. According to official data from the Encuesta Nacional de Inclusión Financiera (ENIF), in 2012, 44% of the adult population (over age 15) lacked access to any form of formal financial service, including savings and credit. The 2011 World Bank Global Financial Inclusion (Global Findex) Database reported similar figures: in 2011 only 27% of adults over age 15 reported having an account at a formal financial institution, and only 8% reported having a formal loan. On the positive side, the country has benefited from a stable financial system since the 1994–95 crash, and the government has made strides in promoting financial inclusion over the past decade, mainly through the creation of new specialised vehicles, such as *Sociedades Financieras Populares* (SOFIPOs) and *Sociedades Cooperativas de Ahorros y Préstamos* (SOCAPS), which have been primarily designed to focus on low-income segments of the population. Many of these vehicles, however, have struggled to take off, mostly because the incentive structures for non-regulated lenders to formalise have not been sufficiently robust. A case in point has been the slow adoption of the SOFIPOs and Niche Banks, as well as the long delay in formalising non-regulated SOCAPS. Unfortunately, the low-income segment has also suffered due to the lack of a formal and comprehensive definition of microcredit that applies to all institutions providers of these types of loans, which, in turn, has caused problems with regard to the supervision of the credit portfolios.

Financial inclusion highlights: The government of Enrique Peña Nieto, who was inaugurated in December 2012, has made some important efforts to prioritise financial inclusion. To this end, a landmark financial reform was negotiated over the course of 2013 and implemented in January 2014. The reform has an explicit focus on financial inclusion through an increase in lending, greater competition in the banking sector and improving regulation. Nevertheless, a proper national strategy on financial inclusion has yet to be announced, although this is expected to take place over the coming months. This greater emphasis on financial inclusion should also help improve the specialised capacity within the main regulator, the Comisión Nacional Bancaria y de Valores (CNBV), as well as the Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (CONDUSEF, the consumer financial-protection agency), which, although adequate overall, still suffers from some shortcomings, particularly in respect of low-income populations. It is worth noting, however, that CONDUSEF excels in its role as a third-party-redress mechanism. Gaps in regulation in areas such as electronic money should also be addressed at some point, although the CNBV has shown some foresight in terms of other innovations, such as the 2009 Ley de Corresponsales Bancarios, which was drafted before a significant market for banking agents existed. Regulation on micro-insurance places Mexico as an example in the region, with specific regulation on micro-insurance and multiple companies' offerings.

Challenges: Overall, issues such as operation and reporting requirements are seen as not particularly onerous, and the effectiveness of credit bureaus and consumer-protection services is also generally good. However, access to these services for low-income clients has proved more difficult and costly to attain, and most services are aimed at the traditional banking sector, with no specific provisions for products such as microcredit. Microcredit activity has been limited mostly to village banking as a result of the “compartamos

effect” and market players could potentially be missing good opportunities and gains in other, innovative products. It remains to be seen whether current products will adapt over the next few years to the widest array of users and income segments. There are also growing concerns about overindebtedness, particularly among clients of non-regulated institutions, which are frequently not reported to the credit bureaus. Many of these institutions have also been accused of aggressive sales and debt collection, despite the existence of laws that prohibit such behaviour. Moreover, gang violence now concentrated in the north could expand, posing a challenge to financial inclusion in the near future.

■ Nicaragua

General landscape: According to the World Bank's Global Financial Inclusion (Global Findex) Database, only 14% of adults (over age 15) in Nicaragua had access to financial services in 2011, one of the lowest rates in the region. Moreover, only 6% in the bottom 40% in terms of income had at least one financial product. A major issue has been the lack of interest from the main banks in financing small producers and low-income groups—owing to the higher costs involved—which has created a large unmet demand for credit facilities and for initiatives related to financial inclusion. This has sprung the creation of a number of microfinance institutions (MFIs) and, to a lesser extent, co-operative over the past two decades. However, for many years, there was no concrete strategy to promote and regulate microfinance or financial inclusion for low-income groups. The lack of a regulatory framework led to abusive practices at some financial institutions, which, in turn, sparked a non-payment movement that was encouraged by a number of politicians and resulted in the adoption of a Moratorium Law in 2010. The Moratorium Law caused significant financial problems for MFIs, including rising levels of non-performing loans (NPLs), a collapse in external funding and a significant loss of clients.

However, over the past three years, the regulatory environment for financial inclusion has improved markedly, spearheaded by the adoption of a Microfinance Law in 2011 and the creation in 2012 of the Comisión Nacional de Microfinanzas (CONAMI), a supervisory agency that is developing a strong specialised framework for financial inclusion. Although financial providers have struggled somewhat with the amount of new regulations, there have been important advances in terms of consumer protection, risk analysis, transparency, reporting practices and corporate governance. These new regulations have created a much better and more predictable playing field, including setting no caps for interest rates. A result of these positive developments has been a gradual recovery of the financial sector that serves the bottom of the pyramid, with the number of clients rising by almost 13% year on year, to 236,000 in 2013. On the downside, the transition process has meant that both the regulator and financial entities have had fewer resources and time to keep track of innovations in the sector, particularly in respect of e-payments. The lack of saving products for low-income groups also remains a problem, reflecting in part legal restriction and complex bureaucratic procedures.

Financial inclusion highlights: The focus in recent months has been on the implementation of the series of norms that CONAMI has issued since its inception in 2012 and which seek to bring stability and promote the sector over the long term. A key issue has been improving pricing transparency across all entities providing financial services, although compliance among the few non-regulated institutions that are left has been weaker. Moreover, there are ongoing efforts to improve consumer-protection mechanisms, including setting up robust client-dispute mechanisms. In the short term, the regulator and CONAMI will increase supervision and compliance in order to guarantee adequate implementation. Some efforts are also being made to increase financial literacy, although there has been limited progress to date. Nicaragua, unlike many of its

Latin American peers, has a deposit-insurance system that covers all deposits in the same way.

Challenges: Although there is general consensus that the new regulatory framework will help spur financial inclusion, some risks exist. Information on overindebtedness is scarce and there are limitations to the country's credit-bureau system. Political shocks in Nicaragua have almost disappeared, but there are still some concerns regarding the regulatory framework and clout of co-operatives, where transparency is much more limited. In addition, recent norms on electronically stored money have restricted some activities and prompted concerns over money-laundering, which has discouraged some financial institutions from offering these products. Although the government has sought to improve its legal framework for retail payments, the competitive environment is poor, as it is dominated by large commercial banks and excludes smaller providers.

■ Panama

General landscape: In a market dominated by banks and a conservative financial regulator that has adopted the financial-inclusion agenda only in part, financial inclusion has developed slowly in Panama. Difficulties persist in bringing non-prudentially regulated institutions, such as non-governmental organisations (NGOs), finance companies, and co-operatives effectively under regulation, although that could change for the former two under a new law still awaiting implementation seven months after its adoption. Inclusion is mostly limited to some access to microcredit and some greater access to non-bank correspondents, as insurance and savings for the poor remain underdeveloped. According to the most recent available data, from the 2011 World Bank' Financial Inclusion (Global Findex) Database, only 24.9% of the population (over age 15) had an account at a formal institution, and 12.5% had a savings account. Three percent of the population used electronic means to make payments, while

none used mobile phones for such purposes and only 10% of the population had taken a loan from a formal financial institution in the previous year.

Financial inclusion highlights: Initial steps to promote financial inclusion were taken in 2011–12 by the Superintendencia de Bancos, with regulations providing for non-bank correspondents, the establishment of an electronic-payments framework, and simplified bank accounts. However, only a few banks have so far embraced non-bank correspondents, as low caps on simplified accounts have limited their appeal and electronic payments have developed slowly. In a positive development that was a first for Panama, in May 2014 a bank partnered with a large telecommunications company to enable mobile customers to transfer money and pay for services at participating merchants without having an account. Consumer-protection norms in the formally regulated banking sector are relatively robust, but are lacking in the non-regulated sector. The credit-information system provides high-quality, comprehensive information and protects the rights of borrowers and creditors. However, consumers face difficulties in correcting their credit histories.

Challenges: The impact of a new microfinance law remains unclear, pending implementation and due to the regulation's exclusion of credit co-operatives, which play a large role among lower-income Panamanians, but, in some cases, face solvency issues. Under the new law, finance companies and NGOs will likely face short-term difficulties in complying with new prudential regulations for their microfinance portfolios and will still be barred from taking deposits and gaining economies of scale. It is not clear whether Banco Delta's (Bandelta, one of the largest microfinance banks [MFBs]) approval to become a general purpose bank will result in a diminution of its microfinance operations. The bank will no longer face the requirement that 75% of its portfolio be constituted by lending to micro- and small enterprises, although it insists the move is

primarily directed at gaining the ability to act as a second-tier lending institution abroad, an activity restricted to general banks.

■ Paraguay

General landscape: Paraguay does not yet have a fully documented strategy for financial inclusion, but is rapidly developing one, with the help of the World Bank. The government sees financial inclusion as one of the key ways in which to reduce poverty in the country. In January 2013 the Superintendencia de Bancos—part of the Banco Central del Paraguay (BCP, the Central Bank)—set up a special unit dedicated to financial inclusion. There are around 60 different initiatives in the country aimed at improving inclusion, according to the Central Bank, which is a signatory to the Alliance for Financial Inclusion's (AFI) Maya Declaration. In June 2014 the Central Bank released data from the Encuesta de Inclusión Financiera (EIF, a financial-inclusion survey), which showed that 29% of adults (over age 15) in the country have an account at a formal financial institution, 28% of adults use a mobile-money product, and 55% use some type of financial service (including both of the former, but also credit, insurance and other payment products). These figures show an improvement from the 2011 World Bank Global Financial Inclusion (Global Findex) Database, when only 22% had a formal account. While Paraguay is below the average for account penetration in Latin America (39% according to the 2011 Global Findex), the country is a regional leader in the development of mobile financial services. Furthermore, the importance of co-operatives is demonstrated by the fact that 21% of adults have either an account or a loan with one, compared to 15% with either an account or a loan with a commercial bank. The co-operative sector is an important player in improving financial inclusion and the country has a fast-growing mobile financial-services industry, led by mobile network operators (MNOs).

Financial inclusion highlights: Paraguay is moving from a position where provision of financial services to low-income groups was largely unsupervised, to one where there is more monitoring. However, its regulatory structures are still adapting to this new goal and it cannot keep fully abreast of new innovations. A first step for this was the creation of a specialised unit on financial inclusion in the Superintendencia. The Central Bank carried out the EIF because it wanted a comprehensive picture of the state of financial inclusion in the country (it expanded its 2011 Global Findex questionnaire to cover additional topics, including financial capability, insurance and domestic remittances). The regulator plans to use the EIF data to define targets, identify priority populations, and develop policy actions. The data will also act as a baseline from which to measure progress and as a means by which to hold the government accountable for its financial-inclusion commitments.

Challenges: Non-banks seem to be at the vanguard of developing services for the poor, although commercial banks are making it easier for people to open basic savings accounts. Although credit is starting to be available, other products, such as micro-insurance, are not yet offered. In addition, consumer-protection rules do not consider mandatory internal-redress mechanisms. At the same time, aggressive collection practices are not forbidden. The recent survey on financial inclusion has provided the government with valuable demand-side data to develop the national financial-inclusion strategy. Moreover, a thorough review of the regulatory and financial consumer-protection structures is also on the agenda. All of this should provide a strong basis for considerable progress in the provision of financial services to the poor.

■ Peru

General landscape: Peru is a leader in developing innovative and co-ordinated strategies to support financial inclusion across various objectives, ranging from increasing banking penetration, to improving financial literacy, to reducing transaction costs and encouraging the use of technology. Since 1997 the Superintendencia de Banca y Seguros (SBS) has worked to develop a regulatory framework to supervise and promote financial services to the poor, enabling the creation and functioning, but prudent diversity of institutions. Today, the business environment for financial services to vulnerable populations in Peru is developed, competitive and diverse. However, financial inclusion is still relatively low, as only 20% of the adult population (over age 15) held an account at a formal financial institution in 2011, according to the World Bank's Global Financial Inclusion (Global Findex) Database. Recognising that financial inclusion goes beyond actors in the finance sector, the government has encouraged co-operation among different ministries, departments and the private sector. For example, the Ministry of Education and the SBS have developed several programmes to teach financial literacy to children and adults. Peru has also committed to converting social-benefits payment programmes from cash to electronic. In February 2014 the president, Ollanta Humala, created the Comisión Multisectorial de Inclusión Financiera, under the Ministry of the Economy and Finance (MEF), which includes members from the Ministry of Development and Social Inclusion (MIDIS), SBS, the Banco Central del Perú (BCRP, the Central Bank) and Banco de la Nación. The commission has the mandate to monitor and promote financial inclusion across the various—sometimes overlapping—ministries in government. A challenge is to develop and define measurements (beyond banking-penetration rates) that can be employed to track progress.

Financial inclusion highlights: Law No. 29985, Ley que Regula las Características Básicas del Dinero Electrónico, como Instrumento de Inclusión

Financiera, was passed in 2013 and allows for mobile and other players to issue and transfer electronic money. Peru is the first country to pass a law on electronic money with the intent of enhancing financial inclusion for unbanked clients. The law encourages financial inclusion and competition, promoting more efficient means of payment, which is expected to be a gateway to a wider range of products. The usage of mobile-banking services is incipient for the overall population and the World Bank reported that almost 2% of the population uses mobile banking. Clients of large banks (Interbank, Banco de Crédito del Perú, etc.) and smaller local financial institutions (for example, cajas municipales) can access mobile-payment systems. According to the Central Bank, in 2013 the average size of electronic transfers grew 11% year on year from 2012, confirming growth in the use of electronic instruments, including credit cards, debit cards, credit transfers and direct-debit cards.

Challenges: Despite strong economic growth, a government focus on financial inclusion, and innovative policy initiatives, banking usage in Peru is still low. A recent study by the Center for Financial Inclusion at Accion (CFI) found that financial education was chosen by experts in the field as the biggest opportunity and challenge in the country. However, beyond education and awareness, a principal obstacle in Peru is the high cost of transfers, transactions and product delivery, especially in remote areas. Financial literacy is necessary for increasing usage of existing services, but, on its own, it cannot overcome the issue of access in rural and remote areas. Overindebtedness continues to be a concern as well, despite regulator's guidelines to mitigate this risk. In October 2013 Standard & Poor's, a ratings agency, issued a warning on the credit quality of loan portfolios, due to growing delinquency and decreasing returns on assets and equity. Market observers have expressed concerns that loan extensions and refinancing may obscure deteriorating credit portfolios.

■ Trinidad and Tobago

General landscape: Trinidad and Tobago has one of the most developed financial systems of any country in the Caribbean. However, there are a significant minority of people—around one-quarter—who do not have access to the financial system. Although Jwala Rambarran, governor of the Central Bank of Trinidad and Tobago (CBTT) since 2012, has highlighted the importance of financial inclusion, no major progress has been made during the past year or so. The governor himself admits that the islands are at an “intermediate” stage in terms of promoting financial inclusion. In January 2007 the National Financial Literacy Programme (NFLP), part of the Central Bank, commissioned a national financial-literacy survey. The results pointed to a number of financial-inclusion **Challenges:** only a modest percentage of the population have bank accounts; insufficient savings and a weak propensity to save; inadequate retirement planning; a lack of understanding of basic financial products and services; and an overall relatively low financial-literacy rate. The survey showed that around two-thirds of the population are not financially savvy and are not planning for their retirement.

Financial inclusion highlights: Mr Rambarran has shown some interest in strengthening financial inclusion and has given more support to co-operatives that provide microfinance and to the National Entrepreneurship Development Company (Nedco). The governor thinks the priority for improving financial inclusion in the country should be to develop people's financial awareness and help them to develop the ability to analyse the risk and return of financial-services products. Under the Maya Declaration, the CBTT made a commitment to transform NFLP into a National Institute for Financial Inclusion by the end of this year, after the islands host the Alliance for Financial Inclusion's (AFI) Annual Global Policy Forum. Nedco is expected to build on the National Financial Literacy Programme (NFLP) as the Central Bank wants to transform the NFLP into a National

Training Institute for financial inclusion by end-2014. The Central Bank envisions the institute devising a financial-inclusion strategy based on the G20 principles of leadership, co-operation and empowerment. Also, 2014 is the Central Bank's "Year of Financial Inclusion" and should usher in changes to the country's financial-inclusion environment.

Challenges: Clearly, Trinidad and Tobago can do more to enhance financial inclusion in the islands. The country is currently working with the World Bank to devise stronger regulations governing its public credit bureau, which lacks comprehensive information and requires individuals to go through an onerous process to correct their financial information. In addition, lax regulations on supervising and preventing aggressive sales and collection practices pose a risk to consumer protection, and regulations governing the third-party financial ombudsman could also be strengthened. Additionally, a differentiated risk-management framework and stronger supervision of consumer-credit portfolios and overindebtedness could improve financial inclusion in the country, as around 75% of loans from Nedco are in arrears.

■ Uruguay

General landscape: Uruguay enjoys one of the highest per capita incomes in Latin America and the Caribbean, but, nevertheless, has relatively low levels of bank usage. Despite stable economic growth in the last few years, financial inclusion has developed slowly in Uruguay, where the banking industry is small, costly and dominated by one public bank, Banco República (BROU). The largest private banks are foreign-owned branches or subsidiaries of large international banks that engage in narrow financial activities. Finance companies, co-operatives and non-governmental organisations (NGOs) also provide financial services, but their role in financial inclusion is small. According to the World Bank's Global

Financial Inclusion (Global Findex) Database, in 2011 (latest data available), 24% of adults (over age 15) held a bank account at a formal institution and only 6% had saved at an institution in the prior year. The segment that offers services to the poor has significant state presence through República Microfinanzas, owned by BROU. Competition is weakened by interest-rate caps on micro-lending, which, in the opinion of practitioners, are low for smaller institutions.

Financial inclusion highlights: The government's initiatives for financial-inclusion focus mostly on banks. In April 2014 the government passed Law 19210, the Law on Financial Inclusion, which aims to increase the number of people using the financial system by requiring them to take salary or government transfers via electronic payments into a bank account. The financial-inclusion law also encourages the use of electronic payments by reducing value-added tax (VAT) on purchases (up to a certain amount) made using debit or credit cards, among other reforms. The Superintendencia de Servicios Financieros will monitor progress, as the expectation is that more people will access banks, given the requirement to do so (that is, banking penetration and number of clients, deposits, etc., should increase). Critics of the law say that, although it should increase access to services, competition may not flourish, as non-bank financial institutions (NBFIs) are at a disadvantage. Also, the infrastructure for access remains weak, because the number of branches and agents is low: Uruguay had 45.2 automated teller machines (ATMs) and 12.7 bank branches for every 100,000 people in 2013, compared to an average of around 54 ATMs and 44 bank branches in other South American countries, according to the 2013 IMF Financial Access Survey. In order to address this, the central bank issued Circular No. 2149 of 2013 on retail banking, which aims to foster diversity across financial services providers. The Ministry of Economy and Finances (MEF) and the Office of Planning and Budgets (OPB), which is an agency under the presidency, are also working on building awareness and policies around financial inclusion.

Challenges: The financial services sector is becoming more segmented, with private banks focusing on higher-income individuals, while BROU and finance companies offer services to the poor. The law on financial inclusion favours banks over finance companies, so competition among non-banks may decrease. The interest-rate cap on micro-lending also hurts smaller players.

■ Venezuela

General landscape: Venezuela has no clear or documented strategy for financial inclusion and has not collected data about the demand or supply of financial-services products to the poor. According to the World Bank's 2011 Financial Inclusion (Global Findex) Database, 44% of Venezuelan adults (over age 15) held an account at formal financial institutions, 33% of the poorest 40% had formal accounts and 2% of adults held a loan from a financial institution, as opposed to 10% from families and friends. The financial sector that serves the poor is marked by interest-rate caps and a heavy government presence in the regulation and provision of such products and services.

Financial inclusion highlights: Consumer protection in Venezuela includes a consumer financial ombudsman, a national deposit-insurance system, and well-respected and enforced privacy rights at the public credit registry. In addition, all banks must disclose interest rates, commissions and fees, and consumer rights and responsibilities in plain language and in a standardised format, for consumer awareness. While the government's actions to promote financial literacy are somewhat limited, some private banks are promoting financial education and increasing transparency in practice. Additionally, although the regulation of electronically stored money is in its infancy in Venezuela, mobile and smartphones are widely used and financial institutions are exploring ways in which to provide electronic or virtual services, such as storing money or making transfers. Sooner or later, this will put pressure on the authorities to

introduce rules that cover these kinds of transactions.

Challenges: The country's banks have been subject to intense regulation in areas ranging from interest-rate caps to mandatory minimum amounts for microfinance loans. The paucity of microfinance institutions (MFIs) and high market concentration result in weak competition. Additionally, private microfinance organisations (MFOs) must compete with heavily subsidised public programmes, which offer interest rates a lot lower than private or not-for-profit programmes. The government has also frozen the issue of new banking licences, meaning it is impossible for new banking entrants to come into the market. Venezuela has strict rules in place pertaining to the foreign ownership of companies in the country, making it difficult for a foreign non-governmental organisation (NGO) to set up a business designed to promote financial inclusion in the country. The government insists that 5% of all banks' loan portfolios must go towards "provisions for the community" and often this credit goes to companies or people who have been financially excluded in the past. Micro-insurance and mobile banking are not yet regulated. The poor economic backdrop—with inflation of more than 50% and an economy forecast to decline by 2% this year—has made it hard for people to set up small businesses that could be suitable for microcredit. Furthermore, social unrest this year has increased the country's political instability and has not been conducive to a strong business climate. During the past few years, the government has been more concerned with helping the poor through various social programmes than through fostering an environment conducive to financial inclusion, which could involve the private sector. The government is reluctant to involve the private sector in important goals, such as poverty alleviation or financial inclusion. The only legislation recently introduced by the regulator relates to non-correspondent banking.

Middle East and North Africa

■ Egypt

General landscape: Although Egypt does not currently have a documented strategy on financial inclusion, according to the World Bank, the Central Bank of Egypt has a strategy under development. There are currently 1.6m active borrowers and 400 microfinance institutions (MFIs) in the country; however, financial infrastructure is very poor and only 10% of the population over age 15 held an account at a formal financial institution in 2011, according to the World Bank's Global Financial Inclusion (Global Findex) Database. The European Investment Bank (EIB) estimates that the supply gap of microcredit stands at 90%, creating significant opportunity for further development. At present, Egypt Post is the largest provider of savings products to the low-income population, offering an estimated 18m savings accounts through 3,700 outlets nationwide.

Financial inclusion highlights: A new government was appointed in February 2014 and considers boosting investment, including expanding financial inclusion, to be a priority. The newly established cabinet swiftly passed a law on microcredit that is now pending a presidential decree, which is expected imminently. The new law is expected to make the Egyptian Financial Supervisory Authority (EFSA) responsible for supervising non-governmental organisation (NGO)-MFIs and to allow commercial companies to engage in microfinance, growing the sector in Egypt.

Challenges: While the change in administration creates an opportunity to expand financial inclusion, it also creates uncertainty. Currently, market participants in financial inclusion are uncertain as regards which legal and regulatory frameworks the administration of Abdel Fattah

el-Sisi will put in place. Egypt Post, also under new leadership, is expected to re-establish its commitment to be the "bank of the poor". The Central Bank has actively engaged with the possibility of utilising mobile payments and this has been matched by a growing interest on the part of Egypt's mobile network operators (MNOs), and incipient activity is present in the provision of mobile payments. However, the social, political and economic context in Egypt is a serious impediment to financial inclusion. Market experts are unclear as to what to expect from the new administration of Mr Sisi and whether the government is truly committed to financial inclusion.

■ Lebanon

General landscape: Lebanon has a highly sophisticated banking sector, but one that has yet to show commitment to financial inclusion. There is no documented strategy on financial inclusion, nor is there any specialised capacity within the regulatory agencies. Current efforts regarding financial inclusion in Lebanon are overwhelmingly focused on the provision of microcredit. The level of competition in the microfinance sector is low, however, due to the small number of significant players and an agreed division of the market. There remains substantial room for growth of financial inclusion in Lebanon, specifically in rural areas, as only 37% of the population (over age 15) had an account at a formal financial institution in 2011, according to the World Bank's Global Financial Inclusion (Global Findex) Database. Currently, the Banque du Liban (BDL, the central bank) collects data on the supply or number of financial products and services offered, but not on the demand for or use of those products and services.

Financial inclusion highlights: The central bank has moved to introduce electronic payments and banks have started to introduce mobile money. However, mobile-money services are at the moment available to high-income segments of the

population and are not likely to be extended to the low-income population in the near future.

Challenges: The conflict in Syria continues to have serious implications for the development of financial inclusion. The insecurity of the Lebanese-Syrian border is making access to a significant portion of Lebanon's low-income population increasingly difficult. Further to this, the influx of Syrian refugees is increasing communal tensions and competition, as many Syrian refugees are skilled workers. The crisis in Syria has also contributed to internal Lebanese political tensions. After almost a year of debate, Lebanon only recently formed a new government and has, to date, been unable to elect a new president, further restraining the environment for financial inclusion. It is probable that these significant political, economic and social tensions will continue to heighten in the coming months.

■ Morocco

General landscape: According to the Bank al-Maghrib (BAM, the central bank), in April 2012 around half of the population had access to one or more financial services, an increase of 18% since 2010. In 2011 the World Bank reported that only 39% of Moroccan adults (over age 15) had an account at a formal financial institution, according to its Global Financial Inclusion (Global Findex) Database. The BAM has articulated a strong pledge to financial inclusion in its Plan Stratégique 2013–15. BAM has committed to increasing the rate of access to banking services to two-thirds of the population by the end of 2014 and has launched several initiatives on financial literacy. CGAP has noted that BAM is one of the strongest financial regulators in the Arab region, that it promotes financial inclusion and is playing a proactive role in its advancement. The government has been particularly attentive to the possibility of expanding access to banking services through the postal service. The postal network, Poste Maroc, established Al Barid Bank in 2010 (formerly La

Poste Services Financiers), a fully fledged commercial bank with an explicit mandate to advance financial inclusion. The bank aims to reach 6m clients by 2015 through leveraging its network of 1,700 branches and establishing 250 new branches; it is reportedly opening as many as 1,500 accounts a day. The expansion of Al Barid Bank is a central pillar of the BAM's goal of increasing access to banking services to two-thirds of the population. Moreover, the BAM has been active in tailoring the regulatory framework to facilitate mobile payments. This effort is aimed at accessing the large number of mobile-telephone-service subscribers, which stood at 114% of the population in 2011.

Financial inclusion highlights: Since the microfinance crisis in 2008–09, the BAM has worked hard to ensure that the financial ecology for financial inclusion is more resilient. Specifically, BAM significantly tightened requirements in terms of provisioning and governance. For example, the establishment of the Réseau de Microfinance Solidaire (RMS), a network of eight small microfinance institutions (MFIs) that have agreed to standardise their provisioning and governance procedures, as well as information systems and administration; strengthened credit-reporting systems through regulation protecting privacy of client data; and the launch in 2014 of the Centre de Médiation Bancaire at the BAM, which aims to settle disputes between customers and lending institutions, including MFIs. The recent regulatory changes in relation to mobile banking are expected to impact access to financial inclusion positively, as the deep mobile penetration in Morocco is viewed as offering an opportunity to transform mobile financial services.

Challenges: Despite advances made by BAM, some challenges in the financial-inclusion landscape include a stronger framework for financial-consumer protection, including rules against discrimination and aggressive sales practices. Moreover, within Morocco, many view the National Federation of Micro-Credit Associations (FNAM) as

holding the sector back. FNAM is supposed to represent the microcredit sector and to spearhead sector-wide initiatives, but has been largely absent from financial-inclusion initiatives and is slowing many processes down. FNAM suffers from a serious lack of resources and is unable to resolve the internal conflict between its large MFIs and its smaller, charitable MFIs. International organisations, such as the World Bank, are providing support to FNAM to resolve these issues. Finally, the continued political instability in the Arab region may become a significant risk to the expansion of financial services and of financial inclusion in Morocco.

■ Yemen

General landscape: The Central Bank of Yemen (CBY) is committed to financial inclusion, despite the absence of a documented strategy. Yemen has some of the most advanced laws and regulations for microfinance institutions (MFIs) in the MENA region. In 2009 Yemen was one of the few countries to adopt a microfinance banking regulation and also established the Yemeni Microfinance Network (YMN). Access to financial services in Yemen is very poor, and only 4% of the population over age 15 held an account at a formal financial institution in 2011, according to the World Bank's Global Financial Inclusion (Global Findex) Database. Currently, there are 12 microfinance providers in Yemen. However, the two microfinance banks, Al Amal Microfinance Bank and Al Kuraimi, established following the promulgation of the Microfinance Banking Law in 2009, have expanded rapidly. Al Amal Microfinance Bank, the largest provider of both loans and savings, is bolstered further by its partnership with Yemen Post, in which Al-Amal Microfinance Bank clients can repay their loans through Yemen Post's extensive branch network. Yemen Post is a key provider of financial services and G2P payments, serving an estimated 1.5m clients.

Financial inclusion highlights: Two new microfinance banks (MFBs) are in development. The CBY has been proactive in its efforts to introduce mobile banking and electronic-payment systems and has requested the assistance of the World Bank in creating the regulatory environment of such systems (currently in progress). MTN Mobile Money, a mobile wallet, is offered in Yemen through one of the largest state-owned banks, the Cooperative Agricultural Credit (CAC) bank. Many experts hope mobile banking can be extended to the low-income segment of the population in the near future. The mobile-penetration rate is 54%.

Challenges: Political, social and economic instability remain a significant threat to financial inclusion. Despite the real commitment to financial inclusion by the Central Bank of Yemen, and its proactive stance, the security situation has deteriorated in the past 12 months, making the expansion of financial inclusion difficult. Microfinance providers are also finding it difficult to find qualified staff, due in part to the continued insecurity in the country. Finally, a new federal structure of six autonomous regions, and elections in 2015, are expected to impact financial inclusion in Yemen.

Sub-Saharan Africa

■ Cameroon

General landscape: According to the World Bank's Global Financial Inclusion (Global Findex) Database, only about 15% of Cameroonian adults (over age 15) held an account with a formal financial institution in 2011, which compares favourably with some other CEMAC-countries, but is far below the average for Sub-Saharan African or lower-middle-income countries. Microfinance institutions (MFIs) play a crucial role in extending financial services to the unbanked; the majority of Cameroonians that save money do so through an MFI or saving club. After a period of unbridled expansion in the late 1990s and early 2000s (with up to 800 legal and illegal MFIs in operation and a series of bankruptcies), the sector is gradually being formalised under the direction of national and regional authorities, in an effort to restore public confidence and further expand the sector's role in the economy. According to the IMF, there were 407 MFIs in Cameroon, most of which are savings and loans co-operatives (S&Ls) or credit unions (CUs, category-1 MFIs; 371), followed by limited liability companies (LLCs; category-2 MFIs; 3) and credit-only institutions (category-3 MFIs; 4). However, the market is fairly concentrated towards a few large MFI networks, which increasingly compete with commercial banks.

Financial inclusion highlights: The Cameroonian authorities in 2013 launched a microfinance strategy and ordered banks and MFIs to publish data on effective interest and usury rates. To further improve transparency, average effective interest and usury rates for different type of loans (both from commercial banks and MFIs) are regularly published in newspapers. However, the national strategy lacks specific commitments and there has been little sign of progress on implementation, which is partly a reflection of wider policy inertia in the country. Furthermore, implementation of regulation on effective interest

and usury rates is hindered by confusion about what it actually covers. In an attempt to restore confidence in the microfinance sector and avoid the type of frauds and bankruptcies that have undermined the sector's reputation in the past, the Commission Bancaire de L'Afrique Centrale (COBAC, the regional regulator) has continued to crack down on unlawful MFIs and has tightened penalties for those failing to comply with reporting requirements.

Challenges: Notwithstanding these efforts, usage of financial services (including of mobile-banking products) remains low. This partly stems from social and cultural factors, but is also a reflection of a wider distrust of activities—including formalised financial transactions—that could be traced by the fiscal authorities. The main risks weighing on the sector include the absence of a credit bureau or of any process for exchanging information on those with poor payment records. Weak supervision, largely as a result of capacity constraints on COBAC, as well as poor co-ordination with national authorities, are additional risks for financial inclusion.

■ Democratic Republic of Congo

General landscape: The population of the Democratic Republic of Congo remains severely underserved by financial institutions, even in comparison to other Sub-Saharan African countries: only 5% of the adult population (aged over 15) held an account at a formal financial institution in 2011, while less than 1% held bank deposits, according to the World Bank's Global Financial Inclusion (Global Findex) Database. The microfinance sector has grown rapidly in recent years, however, and in 2013 was serving more than 1m clients, up from only 100,000 in 2007. Microfinance is reportedly the fastest-growing sector of the economy, and international development agencies have been actively involved in supporting its growth. Savings and credit

co-operatives (SACCOs) represent 83% of the 144 financial institutions offering microfinance services in DRC as of 2013. Formal financial-services firms providing services to the low-income population are highly concentrated in the capital, Kinshasa, and North Kivu and South Kivu provinces; non-regulated firms are active in the remainder of the country. The Banque Centrale du Congo (BCC, the Central Bank) is responsible for providing regulatory and supervisory oversight of the entire financial sector.

Financial inclusion highlights: The BCC has been fairly active in recent years in establishing a commitment to financial inclusion, including the Maya Declaration, the multi-country Making Access to Financial Services Possible (MAP) Initiative, and its own Microfinance Action Plan. Progress towards fulfilling the financial-inclusion goals laid out at national and international levels remains piecemeal, and, in some cases, lagging. A national financial-inclusion policy has been in draft form since 2008. There is still no operational credit bureau in DRC. Nevertheless, there has been progress in other areas. Agent banking is being piloted, for example, and a major, much-needed modernisation of the national payment system is nearing completion. Law 11/020 of September 2011, which recently came into force, is a major piece of legislation establishing rules on the operation and activities of microfinance institutions (MFIs). Another important recent regulatory development helping to shape the financial-inclusion landscape was the BCC's Directive #24 on electronic money, the intention of which was to make e-money services available to the unbanked population. In that regard, the offering of e-money services has been successful: as of December 2013 there were 2.8m registered e-money customers.

Challenges: One basic risk to financial inclusion in DRC is the operational state of the institutions offering microfinance services. Only a very small share of SACCOs and MFIs meet portfolio and other risk standards. Although the BCC has become more

active recently in liquidating problem institutions, in general, its capacity to supervise the financial sector remains limited. There are also geopolitical risks: recurrent violence and instability in the eastern part of DRC has damaged infrastructure and made operating conditions particularly challenging for financial-services providers in the North Kivu and South Kivu provinces. Very poor infrastructure throughout the country already constrains the growth of the financial services segment serving the poor. In addition, the financial-services providers face inconsistent and opportunistic enforcement of financial sector regulations by government officials, as well as endemic corruption.

■ Ghana

General landscape: According to the most recent data, the 2011 World Bank Global Financial Inclusion (Global Findex) Database, around 29% of Ghanaians (over age 15) held an account at a formal financial institution. Despite competition among financial-services providers and efforts by the government to increase financial inclusion, the uptake of financial services among the poor has been slow; lack of financial literacy and regulation have unintentionally constrained the market. Over the past several years, the government of Ghana has demonstrated its commitment to financial inclusion through a number of measures. In 2009 the Ministry of Finance and Economic Planning launched a National Strategy on Financial Literacy and Consumer Education. In 2012 Bank of Ghana (the central bank) signed the Maya Declaration, committing to specific goals, including: revising the Payment System Strategy by the end of 2012; revising the regulatory framework of branchless banking to promote an enabling environment, to achieve 70% financial inclusion by 2017; implementing interoperability in the mobile financial-services segment; improving consumer protection; and taking positive steps to improve financial literacy by the end of 2012.

Financial inclusion highlights: The government is expected to finalise a National Financial Inclusion Strategy in late 2014, which includes moving Ghana towards becoming a cash-light society, expanding access to electronic payments and reducing transaction time and costs. With input from the private sector, the government of Ghana has been revising numerous regulations over the past several years in order to facilitate financial inclusion: the central bank produced *Operating Rules and Guidelines for Microfinance Institutions* in 2011 and established a Collateral Registry in 2013, and the National Insurance Commission (NIC) instituted a micro-insurance regime in 2013. New regulations regarding mobile banking, agent banking, consumer protection and deposit insurance are expected to be finalised by the end of 2014; they are anticipated to significantly expand financial-consumer protection and improve the ability of banks and mobile network operators (MNOs) to offer more competitive services, products and pricing.

Challenges: One of the biggest risks currently facing Ghana's financial sector is the central bank's limited capacity for supervision. The regulator's supervisory mandate is too large, and, with the 2013 decision to license and regulate all microfinance institutions (MFIs), the supervisory department is overtaxed and understaffed to accomplish its mandate. According to one telecommunications expert, only 1m of Ghana's population of 25m utilise mobile banking, and low-income customers cite hesitant lenders and slow credit processing as barriers to accessing credit. Financial institutions that serve the low-income population need capacity-building and comprehensive risk-management frameworks in order more effectively to serve consumers. The central bank is working to strengthen its supervisory capacity, but it must strengthen the capacity of its existing employees, hire more people and provide capacity building for MFIs in order adequately to supervise the sector.

■ Kenya

General landscape: The FinAccess 2013 survey revealed that Kenya's financial-inclusion landscape has progressed considerably, with the proportion of the adult population (over age 15) using various forms of formal financial services rising to 67% in 2013, from 41% in 2009. This rate of expansion places Kenya well ahead of its peers in the region and the Kenyan market is considered a leader in mobile-money technologies. The prudential guidelines for commercial and microfinance banks (MFBs) permit a wide range of bank-agent transactions; however, over 90% of agents in Kenya are exclusive to Safaricom, with around 4% being non-exclusive. Insurance penetration in Kenya currently stands at less than 5% of GDP and is focused on the corporate, wealthy and middle-class citizenry. This is attributed to policy and regulatory barriers, the sector's poor reputation, and supply and demand challenges that need to be addressed in order to foster growth. Additionally, according to the World Bank's Global Financial Inclusion (Global Findex) Database, only 10% of Kenyans over age 15 had borrowed at a formal financial institution in 2011, compared to the 58% who reported borrowing from friends or family.

Financial inclusion highlights: In December 2013 the Central Bank of Kenya (CBK) passed new capital-adequacy rules that will require banks to maintain a capital buffer of 2.5% over and above the minimum capital-adequacy ratios, effective from June 2014. The new capital requirements have led to some lenders working with strategic investors and are expected to leave the market with larger and stronger banks. From July 2014 borrowers are set to benefit from lower-cost loans, after the CBK brought into force a new indicative rate, the Kenya Banks' Reference Rate (KBRR), on which commercial and MFBs will base the cost of credit. The initial KBRR is 9.1% and will be reviewed in January 2015.

Challenges: While there is widespread support for this move among consumers, its efficacy can only

be assessed over the next year. MFBs have joined the credit-information-sharing scheme and are currently submitting negative data. They are expected to begin submitting positive data, as commercial banks do, in the course of 2015. Deposit-mobilising MFIs are robustly regulated by the CBK, and deposit-taking savings and credit cooperatives (SACCOs) by the Sacco Societies Regulatory Authority (SASRA). While this is considered necessary to healthy and viable, regulated institutions, it leaves credit-only institutions, which include the majority of MFIs and SACCOs, widely unregulated. Many non-regulated MFIs have nationwide operations, but find the minimum-capital requirement for national MFBs high. They therefore prefer to operate their nationwide loan portfolios as non-regulated MFIs. There is a proliferation of non-regulated MFIs that leaves the many consumers patronising them exposed to a lack of meaningful consumer-protection oversight.

■ Madagascar

General landscape: There are 11 banks and 31 microfinance institutions (MFIs) operating in Madagascar's financial sector, with loans totalling AR235.9bn (around US\$89m) as of September 2013, up by AR47bn from the start of the year. A three-tiered hierarchy of MFIs is in place, with increasing levels of regulation and supervision appropriate to the level of financial risk (that is, tier-1 institutions receive minimal oversight and supervision, tier-3 the maximum). Three government agencies have responsibility over the financial sector: the Banque Centrale de Madagascar (BCM, the Central Bank), which forms policy; the Commission de Supervision Bancaire et Financière (CSBF), which supervises the financial sector; and the Coordination Nationale de la Microfinance (CNMF), a government body under the Treasury charged with promoting financial inclusion. In December 2012 the CNMF published the *Stratégie Nationale de Finance Inclusive (SNFI) 2013–17*, which sets various goals to widen

financial access, such as increasing the number of points of service (POS) by 6% annually. The plan is a successor to the *Stratégie Nationale de Microfinance 2008–12*, which was hindered by a longstanding political crisis in 2009–13. Much work is to be done, as only 6% of adults over age 15 reported having an account at a formal financial institution in 2011, according to the World Bank's Global Financial Inclusion (Global Findex) Database.

Financial inclusion highlights: Following a coup in 2009, Madagascar's political system had been in a deadlock, until a newly elected president, Hery Rajaonarimampianina, took office in early 2014. Governance standards in Madagascar worsened during the intermittent period, severely constraining the government's ability to make policy or implement regulations. The political turbulence had deterred donor commitments towards Madagascar's microfinance sector. It had also extended weakness in the economy, raising the demand for loans, as well as undermining the creditworthiness of borrowers. While market operators reported no practical impediment to the day-to-day operation of microfinance during the period, the deterioration of governance standards will require regulatory enforcement capacity to mitigate risk in the financial sector overall. Nevertheless, as the political environment returns to a relative calm, local experts note optimism surrounding the 2013–17 strategy. There is a strong political will to revive policymaking for financial inclusion, and plans are underway for a national survey to improve collection of data on demand for financial services.

Challenges: The deterioration of governance standards during the political crisis remains a risk to financial inclusion, especially as there is no consumer-protection framework currently in place. The quality of microfinance portfolios has also worsened, as bad loans grew by 55.4% in the nine months to September 2013. Also, while there has been heavy investment in 2012–14 to improve the supervisory capacity of the CSBF, resources remain

limited. The CSBF is understaffed relative to the load of supervision work in the field, and technical knowledge needs strengthening.

■ Mozambique

General landscape: According to the World Bank's Global Financial Inclusion (Global Findex) Database, in 2011 40% of adults (over age 15) in Mozambique reported having an account at a formal financial institution, while only 6% had taken out a formal loan in the past year, compared to the 35% that reported borrowing from friends or family. While low, these figures are generally superior to the regional average for Sub-Saharan African countries: 24% of adults over age 15 held formal accounts, 5% had formal loans and 40% had informal loans in the past year in 2011. Since then, several important developments are likely to have increased the outreach of financial services—both formal and informal—with data suggesting that the number of formally banked adults may have increased by 50% over the past five years.

Financial inclusion highlights: The microfinance sector in Mozambique developed rapidly following the first initiatives of the 1990s, but has stagnated over the past decade. Of the four commercial banks dedicated to microfinance, only one is profitable. Microfinance has, over the years, focused mainly on lending to informal traders and service providers, while conventional banks and recently established consumer-lending institutions have entered into the microfinance space with a very substantial increase in salary-based consumer loans. In addition, despite substantial donor support, the Associação Mocambicana de Operadores de Microfinancas (AMOMIF) has failed to develop a strategy to tackle what it considers a “crisis”. The Banco de Moçambique (the central bank) policy has significantly expanded commercial banking in rural towns (increasing the number of rural account holders, but not credit growth) and, through subsidised institutional support and low-interest credit lines, donors have also

expanded microfinance-institution (MFI) presence in rural areas. However, low volumes and very high interest rates threaten the longer-term viability of many operations. The introduction of mobile (e-money) banking saw a limited impact due to slow growth in the agent network, but the introduction of the electronic government-payments system will likely have a significant impact in the opening of bank accounts. Major reforms to the country's financial-inclusion strategy are likely to be driven through the government's Mozambique Financial Sector Development Strategy 2013–22 (MFSDS) and the recently initiated donor-driven Mozambique Access to Finance Programme (MAFiP). The latter is still developing its intervention strategy, but will likely include support for commercial banks to increase client bases, support for innovations from mobile-banking providers, and innovations in community-based savings and credit groups. The MFSDS has several initiatives in process, including: improved consumer protection and literacy; the establishment of private credit bureaus; branchless banking (bank agents); a uniform national payments system covering all supervised institutions; and comprehensive regulations for e-banking.

Challenges: Highly subsidised capitalisation interventions have crowded out commercial lending in rural areas and negatively affected the credit culture of farmers and rural entrepreneurs, who do not repay government “loans” or benefit from matching grants, or investment-capital inputs from donor projects. In addition, the rapid increase in consumer-salary-based loans provided by commercial banks and consumer-lending institutions, especially to the urban population, should be a matter of concern.

■ Nigeria

General landscape: Nigeria is at a turning point in its extension of financial services to the unbanked and disadvantaged. Although financial inclusion,

traditionally, has been low in Nigeria, even compared with its African peers, recent efforts by the Central Bank of Nigeria have worked to increase the accessibility and efficiency of the country's financial services sector. In 2011 only 30% of Nigerian adults (over age 15) held an account at a formal financial institution, compared with 54% in South Africa and 42% in Kenya, according to the World Bank's Global Financial Inclusion (Global Findex) Database. Only 14% of Nigeria's poorest 40% of adults, and only 26% of women over age 15 had formal accounts in 2011, according to Findex data. Access to financial services varies considerably by geography, with the country's north-east and north-west areas disproportionately excluded. In 2013 there were six commercial-bank branches and 14 automated teller machines (ATMs) for every 100,000 people across the entire country, according to the IMF's Financial Access Survey.

Financial inclusion highlights: Since 2012 the Central Bank has taken steps to improve financial inclusion across Nigeria. Its programme of interventions has included the launch of a comprehensive financial-inclusion strategy, the creation of a capable Financial Inclusion Secretariat, and the introduction of a number of targeted regulations intended to raise standards, removing barriers to effective service delivery, and strengthening regulatory oversight. Minimum-capital limits and capital-adequacy requirements have invited a necessary reduction in the size of a microfinance sector that is oversaturated with malfunctioning institutions. Similarly, the creation of credit-bureau operating frameworks and regimented "know your customer" (KYC) requirements have helped promote stability in the financial system.

Challenges: The Central Bank has taken several steps to regulate the institutions, products and services that are part and parcel of enhancing financial inclusion across the country. Many of these actions have targeted Nigeria's microfinance banks (MFBs), and have included such measures as

the introduction of minimum-capital requirements, minimum capital-adequacy limits, and new financial-reporting standards. While these regulations have had largely positive effects, they have sent shockwaves through the sector, and many service providers struggle to meet these standards. As the Central Bank continues in its role as the main architect of the country's financial-inclusion enhancement efforts, it will have to demonstrate the value of new instruments, such as e-money and agent banking, by outlining low-cost and efficient ways in which operators can implement them. It will also have to take steps towards educating consumers on how to utilise and trust these services.

■ Rwanda

General landscape: Rwanda has made significant progress in the area of financial inclusion. Since a 2008 FinScope survey measuring the state of financial inclusion in the country found that only 21% of Rwanda's adult population (over age 15) was accessing formal financial services and 52% were completely financially excluded, the government undertook many initiatives to address these findings. A National Savings Mobilization Strategy called for the creation of at least one savings and credit co-operative (SACCO) in each of the 416 Umurenge (administrative units) in the country. Additionally, a Financial Sector Development Programme detailed an action plan for financial inclusion, including a national financial-education strategy, and the promotion of more players, products and services. By 2011 the number of adults over age 15 with an account at a formal institution was 33%, according to the World Bank's Global Financial Inclusion (Global Findex) Database. The National Bank of Rwanda (NBR, the central bank) has since increased its target of achieving financial inclusion to 90% of its adult population by 2020, an expansion on its original target of 80% by 2017, under the bank's Maya Declaration commitment. At the end of June 2013 the Rwandan banking industry included nine

commercial banks and five specialised institutions (including three microfinance banks [MFBs], one development bank, and one co-operative bank). The microfinance sector comprises 490 institutions, of which 12 are limited companies and 478 are SACCOs (including 416 Umurenge SACCOs). There are plans to consolidate all SACCOs into a co-operative bank at national level, in an effort to ensure effective monitoring and improve efficiency in the microfinance sector.

Financial inclusion highlights: The introduction of Umurenge SACCOs significantly changed the landscape of formal access in Rwanda; for example, almost one-quarter of Rwandans aged 18 and older are now members. The expansion of bank branches, as well as the introduction of agent banking, mobile banking, automated teller machines (ATMs), and mobile money contributed to an increase in financial inclusion. There are numerous ongoing government initiatives, in partnership with key stakeholders such as Access to Finance Rwanda, the World Bank, UN and Visa, which will result in a more inclusive and innovative financial system, including the development of a financial-consumer-protection law, a financial-literacy curriculum in schools, and a fully interoperable payments system. Other key developments in the microfinance sector include the introduction of new products and services, an increase in foreign banks (including two Kenyan banks), more insurance companies, new capital markets, and agent banking reaching new and more rural areas.

Challenges: The introduction of more players into the Rwandan financial system and competition in the microfinance sector have resulted in poor credit-collection practices and overindebtedness, especially in the informal sector. Rwanda is also challenged with low levels of financial literacy that constrain the demand for and use of financial services. A World Bank diagnostic review of financial literacy found that 58% of adults fear that banks will seize their property if they borrow from them, and around 60% expressed the need for more information on how to keep money safe, how

credit works, and how to spend money wisely. There is a need to adapt the right products and services to fit different segments of the population, especially in a country with a high youth population. The pending financial-consumer-protection law and financial-education initiatives are expected to play an instrumental role in increasing the awareness and protection of low-income populations in accessing financial services.

■ Senegal

General landscape: The financial system in Senegal, similar to its regional partners, faces various challenges in terms of economic and financial inclusion. According to the Senegalese Ministry of Economy and Finance, in 2011 just 23.4% of the adult population (over age 15) had an account with a financial institution (for example, banks, microfinance institutions [MFIs] and the Post Office), while 13% of the total adult population was actively using a service provided by an MFI. However, these figures are much higher than the World Bank's Global Financial Inclusion (Global Findex) Database, which reported only 6% of the adult population as having used a formal financial institution in 2011. As part of the West African Monetary and Economic Union (WAEMU), Senegal financial performance and institutions are regulated and supervised at two different levels: at regional level by the Banque Centrale des Etats de L'Afrique de L'Ouest (BCEAO); and at national level by the finance ministry. MFIs face a cap on interest for loans, which was reduced from 27% to 24% in January 2014. This cap is perceived by some MFIs as unsustainable and un conducive to financial inclusion. In 2011 a diagnostic carried out by the Frankfurt School of Finance and Management found no evidence of overindebtedness or multiple debts. Nevertheless, from the 5,000 interviews and group discussion, the diagnostic review reported that 93% of customers holding multiple loans obtained them from different institutions, suggesting that, in certain cases, a single MFI is

not sufficient to meet the needs of the borrower. Although the regulatory landscape for decentralised financial systems (DFSs) has improved since 2008 and the Senegalese government signed the Maya Declaration in 2012 to promote and support financial inclusion, the need for a more concrete strategy remains.

Financial inclusion highlights: In 2008 the finance ministry enacted the Loi Portant Réglementation Des Systèmes Financiers Décentralisés No. 2008-47 (DFS), which consolidated the microfinance sector. Following the reform, 118 entities closed, leaving 238 registered MFIs at the end of 2012. This consolidation led to the emergence of 18 larger entities that represented 90% of the market in 2013, with one institution alone making up 60% of the market. The 10% of unregulated lenders are required to register with the finance ministry in order to operate legally, and must submit annual reports and financial statements. For smaller MFIs (that is, unions, federations and confederations) the process of producing annual reports is often lengthy, cumbersome and costly. These MFIs and other financial institutions are subject to a number of prudential ratios, such as minimum-capital-requirement ratios, that are not in line with international best practices. Many banks fail to meet these ratios, such as the required-transformation ratio, which is met by only ten Senegalese banks out of 21 institutions (19 banks and two non-banks). This low compliance rate suggests that banks believe the rules are inadequate and, therefore, willingly disobey the regulation, or that supervision is weak and the country does not have a mechanism in place to enforce the regulation or corrective measures.

Challenges: Senegal has a vibrant microfinance sector and is progressively enacting regulations to improve innovation and expand financial services. Mobile money and branchless banking are growing rapidly across the nation. Although the microfinance sector is profitable overall, Senegal's financial development is plagued by large

informational asymmetries. According to the diagnostic review carried out by the Frankfurt School of Finance and Management, nearly 99% of borrowers are unaware that financial institutions are legally bound to not exceed a certain threshold of interest rates and that an advisory body exists for the purpose of monitoring the quality of services provided.

■ Tanzania

General landscape: In December 2013 Tanzania's National Council for Financial Inclusion—a public-private partnership (PPP) of stakeholders, including the Bank of Tanzania (BoT, the central bank) and the Financial Sector Deepening Trust—launched the country's first National Financial Inclusion Framework. This Framework serves as an evidence-driven guidance for future regulatory activity: for example, data demonstrated that over 56% of adult Tanzanians (over age 15) did not have access to any financial services, either formal (of which 17% had access) or informal (27%). The 2011 World Bank Global Financial Inclusion (Global Findex) Database showed similar figures for formal-account penetration. Expert interviews in June 2014 suggest that these indicators may have already changed, with access to formal financial services already having reached the 50%-by-2016 target set in the Framework, and the National Council will, therefore, be undertaking an updating exercise in the latter half of 2014. The private sector has been strong, as competition in all relevant sectors, microfinance, mobile network operators (MNOs), savings and credit associations (SACCOs) and commercial banks, has been increasing since the country's economic liberalisation in the 1990s. There are a large number of MFIs operating in the country, informally co-ordinated under the Tanzania Association of Microfinance Institutions (TAMFI), and soon to have their National Microfinance Policy updated (and likely streamlined under the finance ministry). In terms of MNOs, competition is superior to Tanzania's neighbour, Kenya, with

roughly equal presence from four major providers (Vodacom, Airtel, Zantel, Tigo), compared to Kenya's market, which is dominated by Safaricom. The central bank is effectively regulating and staying current with this fast-moving sector.

Financial inclusion highlights: The regulatory framework for financial inclusion in Tanzania has become increasingly forward-looking in the last several years, largely led by the central bank. The first two credit bureaus were established in 2012 and 2013, respectively, and the BoT created a national credit-reference databank. In addition, there are a number of regulations and policies being drafted or updated, including regulations on microfinance, micro-insurance, mobile payments and consumer protection. Data collection likewise gained priority, with the first FinScope Tanzania survey (a survey of financial access and demand for financial services) occurring in 2006, with follow-ups in 2009 and 2013.

Challenges: While these regulatory and operational developments are likely to deepen and improve financial inclusion and establish an enabling environment for further improvement, Tanzania has significant natural constraints, including a highly dispersed population, with 75% of Tanzanians living in rural areas. Additional risks to financial inclusion relate to consumer protection, as there is not yet a third-party financial ombudsman to handle redress; there is only a thinly stretched regulatory capacity overseeing financial inclusion; there is no supervision of consumer overindebtedness; and there is a lack of regulation requiring banks to disclose loan-interest rates, and annual percentage rates, which can often exceed 100%, according to MF Transparency. While political and religious tensions in the region do not pose a direct risk to financial inclusion, recent attacks and unrest have had a negative impact on the country's economy.

■ Uganda

General landscape: Over the last decade, access to financial services in Uganda has improved significantly, mostly driven by the drastic expansion in mobile-money services; the share of individuals operating a bank account has remained stable, at around 20% in recent years, according to the 2011 World Bank Global Financial Inclusion (Global Findex) Database. In addition, rural areas continue to suffer from low coverage of financial-services outlets, despite government efforts to promote the establishment of informal financial institutions, such as saving and credit cooperatives (SACCOs). Since 2006 the government's Prosperity for All programme has provided SACCOs with wholesale credit at subsidised rates to lend to their members. However, the impact of this programme has been limited, due to low repayment rates, a lack of financial capability and high levels of political interference.

Financial inclusion highlights: There is an emerging consensus in the country that, to achieve full inclusion of the population, a more extensive approach is needed, which addresses both supply- and demand-side constraints. After years of politically motivated delays, the discussion around a new bill that would establish a clear regulatory framework for all microfinance institutions (MFIs) in Uganda is gaining momentum. Currently, only deposit-taking MFIs are regulated by the Bank of Uganda (BoU, the central bank). According to the government, the new bill will set the stage for the establishment of a new regulatory authority, in charge of supervising currently non-regulated MFIs. This authority will apply different regulatory standards, depending on the size of each institution. In addition, the development of new technologies and the huge increase in mobile-money services, which are now used by over 80% of Uganda's adult population, could lead to a reduction in operating costs of MFIs and enable them to reach out to a much larger share of the population.

Challenges: The government has proposed several amendments to the current laws governing the financial sector, which would allow financial institutions to make use of agents to reach out to a greater number of customers. However, the appearance of many fraudulent MFIs, as well as a continued sense of a lack of transparency and competition in the banking sector, has eroded public confidence in many financial products offered by formal and informal institutions alike. These developments prompted the BoU to embark on a confidence-building exercise in 2012, which aimed at improving financial literacy and consumer protection around the country. If successfully implemented, these efforts have the potential to clarify rules on consumer protection and empower consumers to make more prudent choices regarding their personal finances. This, together with a microfinance regulatory framework able to balance prudent regulation with innovation and increased competition, has the potential to transform Uganda's financial sector and put the country at the forefront of financial inclusion in Sub-Saharan Africa.

Appendix: Methodology and sources

Background

For the past seven years, the *Microscope* has evaluated the regulatory and structural framework for microfinance institutions, as well as the business operating environment for microfinance across 55 countries. In 2014—the eighth edition—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 2014 *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 reveal 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

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.

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 on 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 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 sector 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 perspective on the financial-inclusion environment. This year, we interviewed over 230 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, and local offices of multilateral organisations. These additional consultations provide a multi-faceted perspective, nuanced portrait of the environment for financial inclusion. Moreover, the 2014 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/microscope2014

Scoring criteria

Indicators in the Microscope index are qualitative in nature, and defined through a set of 39 questions. These questions seek to measure not only the laws and standards governing the sector, but also their enforcement, implementation and effectiveness. An experienced team of international-development researchers, microfinance practitioners and country experts sought regulations, laws, news articles, government sites and other resources to provide objective, comprehensive, informed answers to each question. In addition, the researchers interviewed over 230 experts to provide colour and insight into the overall environment of financial inclusion in each country. The Economist Intelligence Unit research staff supplied sources, contacts and a detailed set of guidance outlining the criteria and goals, as well as a scoring scheme for each question.

While the criteria are detailed, they are subjective in nature. The 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/microscope2014. 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 demand- and supply-side data on financial services to low-income populations?*

Scoring: 0= The government does not collect any data OR the government collects data on the supply-side of financial services only; 1= The government collects data BOTH on the demand-side AND supply-side of financial services for low-income populations

³ A score guide has been developed, and is available at: www.eiu.com/microscope2014

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 from political influence; 2= The financial regulator is always independent from political influence

2. Regulator's openness to innovation for financial inclusion:

a) *Apart from any non-traditional products and delivery methods already regulated, to what extent is the regulator able to keep up with the pace of new offerings?*

Scoring: 0= The regulator does not reflect the pace of innovation in delivering financial services and products; 1= The regulator somewhat reflects the pace of innovation in delivering financial services and products; 2= The regulator reflects the pace of innovation in delivering financial services and products

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

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 operation requirements appropriate to ensure both financial stability and the operation of a variety of providers?*

Scoring: 0= Operation requirements are not appropriate; 1= Operation requirements are somewhat appropriate; 2= Operation requirements 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 overindebtedness for credit portfolios?*

Scoring: 0= The regulator does not supervise overindebtedness OR supervision is NEITHER active nor comprehensive; 1= The regulator supervises overindebtedness, but supervision is EITHER not comprehensive or it is not active; 2= The regulator actively supervises overindebtedness, but supervision is only partial (that is, not continuous); 3= The regulator actively and comprehensively supervises overindebtedness in credit portfolios

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, nor a differentiated risk-management framework for regulated microcredit providers; 1= There is a definition of microcredit, but there is no differentiated risk-management framework for regulated microcredit providers; 2= There is a definition of microcredit; some regulated microcredit providers are subject to a differentiated risk-management framework that is not comprehensive; 3= There is a definition of microcredit; all regulated microcredit providers are subject to a differentiated risk-management framework that is not comprehensive; 4= There is a definition of microcredit; all regulated microcredit providers are subject to a differentiated and comprehensive risk-management framework

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 for micro-insurance:

a) *Is the regulation comprehensive and has it been implemented?*

Scoring: 0= There is no regulation of micro-insurance, nor any incipient activity under a general insurance law; 1= There is no specific regulation on micro-insurance, but some incipient activity OR micro-insurance 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

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 agents are non-existent; 1= Regulations on agents are limited and few agents are active in the field; 2= Regulations on agents are limited, but agents are active in the field; 3= Regulations on agents are comprehensive, but only a few are active in the field; 4= Regulations on agents 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 or platform interoperability constrain the market?*

Scoring: 0= Both exclusivity and interoperability constrain the market; 1= Either exclusivity OR interoperability constrain the market; 2= Neither exclusivity nor interoperability constrains 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. Regulation of electronic payments

1. Available infrastructure for financial inclusion:

a) *How easy is it for providers of financial services to access retail-payment systems?*

Scoring: 0= Providers of financial services face both prohibitive costs and problems with participant criteria OR infrastructure is poor/non-existent; 1= Providers of financial services face EITHER prohibitive costs OR problems with participant criteria; 2= Providers of financial services face no obstacles to accessing formal retail-payment systems

b) *Is the regulation conducive to sound mobile payments and other alternative means of payment?*

Scoring: 0= No, regulation does not exist or is not conducive; 1= Regulation is conducive and there is incipient activity; 2= Regulation is conducive and there is widespread activity

2. E-Money regulation:

a) *Is the regulation of electronically stored money comprehensive and conducive to the growth of such services?*

Scoring: 0= Regulation of electronically stored money does not exist; 1= The regulation of electronically stored money is not comprehensive and not conducive to the growth of such services; 2= The regulation of electronically stored money is comprehensive and somewhat conducive to the growth of such services OR regulation recently adopted is

comprehensive; 3= The regulation of electronically stored money is comprehensive and conducive to the growth of such services

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; 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 does collect information, but it is EITHER not comprehensive or not easily accessible; 2= The regulator does collect comprehensive information, it is easily accessible, but it is difficult to understand; 3= The regulator does collect comprehensive information, it is easily accessible and it is 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 do not exist OR they exist for some products and are NOT comprehensive; 1= Disclosure rules exist for some products, they are comprehensive, but they do not apply to all financial-service providers; 2= Disclosure rules exist for all financial products, but they are not comprehensive and they do not apply to all financial-service providers; 3= Disclosure rules exist for all financial products, but EITHER they are not comprehensive or they do not apply to all financial-service providers; 4= Disclosure rules exist for all financial products, they are

comprehensive and they apply to all financial-service providers

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-service 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= Extreme instability; 100= Very stable

2. Shocks and restrictive policies impacting 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 broadly affected the market; 2= There have been shocks or restrictive policies that have had a limited impact on 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 sectors or the potential for future market development. For the 2014 edition, we have kept the 55 countries used in 2013. The study, therefore, provides differing levels of geographic coverage: 11 countries were selected from Sub-Saharan Africa, 5 from South Asia, 7 from East Asia, 4 from the Middle East and North Africa, and 7 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.

Weights

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.

In the 2014 Microscope, the weighting scheme has been significantly overhauled. There are no longer categories in the model. Instead, 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.

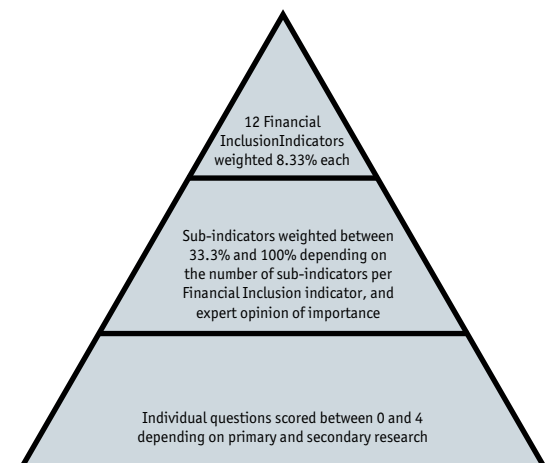


Table A: Indicator and Sub-indicator Weights

Indicator	Sub-indicator	Question
1. Government support for financial inclusion <i>Weight: 8.33%</i>	1. Existence and implementation of a strategy <i>Weight: 66.7%</i>	1.1.1. Is there a documented strategy on financial inclusion? <i>Possible Score Range: 0-3</i>
	2. Collection of data <i>Weight: 33.3%</i>	1.2.1. Does the government collect data on the demand and supply of financial services to low-income populations? <i>Possible Score Range: 0-1</i>
2. Regulatory and supervisory capacity for financial inclusion <i>Weight: 8.33%</i>	1. Technical capacity to supervise <i>Weight: 66.7%</i>	2.1.1. Is there a specialised and adequate capacity in place in the regulatory agency? <i>Possible Score Range: 0-3</i>
		2.1.2. Is the financial regulator politically independent? <i>Possible Score Range: 0-2</i>
	2. Regulator's openness to innovation for financial inclusion <i>Weight: 33.3%</i>	2.2.1. Apart from any non-traditional products and delivery methods already regulated, to what extent is the regulator able to keep up with the pace of new offerings? <i>Possible Score Range: 0-2</i>
3. Prudential Regulation <i>Weight: 8.33%</i>	1. Appropriate entry and licensing requirements <i>Weight: 50.0%</i>	3.1.1. Are minimum capital requirements appropriate to allow new entrants and ensure the safe provision of financial services? <i>Possible Score Range: 0-3</i>
		3.1.2. Are there any impediments to entering the market, such as funding or ownership restrictions? <i>Possible Score Range: 0-2</i>
	2. Ease of operation <i>Weight: 50.0%</i>	3.2.1. Are operation requirements appropriate to ensure both financial stability and the operation of a variety of providers? <i>Possible Score Range: 0-2</i>
		3.2.2. Are reporting requirements reasonable in light of the specific nature of the services provided? <i>Possible Score Range: 0-2</i>
4. Regulation and supervision of credit portfolios <i>Weight: 8.33%</i>	1. Interest Rates <i>Weight: 33.3%</i>	4.1.1. If there are interest-rate caps, do they distort the market? <i>Possible Score Range: 0-3</i>
	2. Risk management of credit portfolios <i>Weight: 33.3%</i>	4.2.1. Does the regulator actively supervise the status of over-indebtedness for credit portfolios? <i>Possible Score Range: 0-3</i>
		4.2.2. Is there a differentiated risk-management framework for consumer-credit portfolios? Does the regulator supervise the status of consumer-credit portfolios? <i>Possible Score Range: 0-2</i>
3. Risk-management framework for microcredit portfolios <i>Weight: 33.3%</i>	4.3.1. Is there a differentiated and comprehensive risk-management framework for microcredit? <i>Possible Score Range: 0-4</i>	
5. Regulation and supervision of deposit-taking activities <i>Weight: 8.33%</i>	1. Ease of offering savings products by regulated institutions <i>Weight: 50.0%</i>	5.1.1. Are account-opening requirements for savings products proportionate? <i>Possible Score Range: 0-2</i>
		5.1.2. Are there any interest-rate restrictions that generate market distortions? <i>Possible Score Range: 0-3</i>
	2. Existence of an in-depth deposit-insurance coverage <i>Weight: 50.0%</i>	5.2.1. Is deposit insurance applicable to all institutions authorised to take deposits and with the same conditions? <i>Possible Score Range: 0-3</i>
6. Regulation of insurance targeting low-income populations <i>Weight: 8.33%</i>	1. Existence of regulation for micro-insurance <i>Weight: 100.0%</i>	6.1.1. Is the regulation comprehensive and has it been implemented? <i>Possible Score Range: 0-4</i>

Indicator	Sub-indicator	Question
7. Regulation and supervision of branches and agents Weight: 8.33%	1. Ease of setting up a branch Weight: 33.3%	7.1.1. How easy is it for financial-service providers to open a branch or direct-service outlet owned and operated by the financial institution? Possible Score Range: 0-2
	2. Ease of agent operation Weight: 66.7%	7.2.1. 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? Possible Score Range: 0-4
		7.2.2. Are agents allowed to perform a wide range of activities? Possible Score Range: 0-2
		7.2.3. Do regulations on agent exclusivity or platform interoperability constrain the market? Possible Score Range: 0-2
	7.2.4. Do financial institutions retain responsibility for the actions of their agents? Possible Score Range: 0-1	
8. Requirements for non-regulated lenders Weight: 8.33%	1. Information Reporting and operational guidelines Weight: 100.0%	8.1.1. Are reporting requirements reasonable? Possible Score Range: 0-1
		8.1.2. Do these providers comply with accounting transparency standards? Possible Score Range: 0-3
9. Regulation of electronic payments Weight: 8.33%	1. Available infrastructure for financial inclusion Weight: 50.0%	9.1.1. How easy is it for providers of financial services to access retail-payment systems? Possible Score Range: 0-2
		9.1.2. Is the regulation conducive to sound mobile payments and other alternative means of payment? Possible Score Range: 0-2
	2. E-Money regulation Weight: 50.0%	9.2.1. Is the regulation of electronically stored money comprehensive and conducive to the growth of such services? Possible Score Range: 0-3
10. Credit-reporting systems Weight: 8.33%	1. Comprehensiveness of information Weight: 50.0%	10.1.1. Is the information stored by credit-reporting systems comprehensive, regularly updated, and accessed by providers? Possible Score Range: 0-3
	2. Privacy protection for both borrowers and lenders Weight: 50.0%	10.2.1. Are privacy rights respected? Possible Score Range: 0-3
		10.2.2. Can individuals access their records and are they able to correct any errors? Possible Score Range: 0-3
11. Market conduct rules Weight: 8.33%	1. Existence of a framework and institutional capacity to protect the financial consumer Weight: 33.3%	11.1.1. Are there a framework and a specialised capacity in place for financial-consumer protection? Possible Score Range: 0-3
	2. Existence and content of disclosure rules Weight: 33.3%	11.2.1. Does the regulator collect information about pricing and make relevant information easily accessible to consumers for comparison purposes? Possible Score Range: 0-3
		11.2.2. 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? Possible Score Range: 0-4
	3. Existence of fair-treatment rules Weight: 33.3%	11.3.1. Are there clear rules requiring non-discrimination in financial-service provision in terms of gender, race, religion, caste, ethnicity, etc.? Possible Score Range: 0-2
		11.3.2. Are there clear rules set by the regulator aimed at preventing aggressive sales and unreasonable collection practices? Possible Score Range: 0-2
12. Grievance redress and operation of dispute-resolution mechanisms Weight: 8.33%	1. Internal complaint mechanisms Weight: 50.0%	12.1.1. Are there clear rules in place requiring financial-service providers to set up internal mechanisms to deal with consumer complaints? Possible Score Range: 0-2
	2. Existence and effectiveness of a third-party-redress entity Weight: 50.0%	12.2.1. Is there a third-party entity empowered with oversight where consumers can seek redress and is it effective? Possible Score Range: 0-3
STABILITY Not weighted— adjustment to final score	1. General Political Stability Weight: 33.3%	To what extent are political institutions sufficiently stable to support the needs of businesses and investors? Possible Score Range: 0-100
	2. Shocks and restrictive policies impacting financial inclusion Weight: 66.7%	To what extent have any shocks or restrictive policies affected market development? Possible Score Range: 0-3

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 2014 Microscope contains an adjustment factor, based on the stability score (the thirteenth 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:

$$\text{Adjustment factor} = (100 - \text{Stability score}) \times 0.25$$

Where:

$$\text{Stability score} = 0.33 \times (\text{normalised political stability score}) + 0.67 \times (\text{normalised restrictive policy score})$$

The country score follows this formula:

$$\text{Country score} = \text{Raw country score} \times [(100 - \text{adjustment factor}) \div 100]$$

Example for a country "Y":

$$\text{Raw country score} = 40.8$$

$$\text{Stability score} = 37.2$$

$$\text{Adjustment factor} = (100 - 37.2) \times 0.25 = 15.7$$

$$\text{Country score} = 40.8 \times [(100 - 15.7) \div 100] = 40.8 \times 0.843 = 34.4$$

While every effort has been made to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd nor the sponsors of this report can accept any responsibility or liability for reliance by any person on this report or any other information, opinions or conclusions set out herein.

London

20 Cabot Square
London
E14 4QW
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8476
E-mail: london@eiu.com

New York

750 Third Avenue
5th Floor
New York, NY 10017
United States
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong

6001, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Geneva

Boulevard des
Tranchées 16
1206 Geneva
Switzerland
Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com