



# Focus on *inclusion*

## MEASURING ACCESS TO FINANCE: DEVELOPING EVIDENCE-BASED ACCESS POLICIES

*In response to the growing interest within Europe and Central Asia in diagnostic instruments to inform policy-level change, the Microfinance Centre (MFC) has developed an effective methodology for assessing the current state of access to financial services. Drawing on these insights, policy-makers can develop strategies to broaden and deepen access to finance.*

## INTRODUCTION

In 2012, the MFC launched its new financial inclusion framework in Belarus — a middle-income country that demonstrates only modest use of financial services, despite its well-developed financial infrastructure. The framework recognizes a number of key lessons emerging from work across the industry around measuring access to finance:

- Participation of the financial regulator in the design of research ensures the relevance of research methodology to the policy process
- A phased approach, which combines a short initial survey and further in-depth research, ensures that we are asking the right questions
- It is vital to take multiple dimensions of access to finance into consideration (including at the level of individual, households, and enterprises)
- Continuity of research over time depends on developing local capacity to collect data and conduct analysis
- We ensure affordability by using a simple research structure and local resources
- We use specific outcomes measures that can be applied at a country and sub-regional levels and tracked over time.



# PROCESS IN BRIEF

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We start by establishing an inter-governmental policy council formed of representatives from the central bank, the ministries of economy, finance, and statistics, as well as universities, science institutes, and commercial banks. The council develops the project scope and guidelines, and oversees implementation.

2

The research team is formed from the researchers of local science institutes, market research agencies, etc.

3

The role of the research team is to review and adapt the methodology according to the guidelines developed by the inter-governmental council.

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The research team collects and analyzes data, often in cooperation with the national statistics office.

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Research findings form the basis for the development of policy recommendations jointly by the research team and inter-governmental council.

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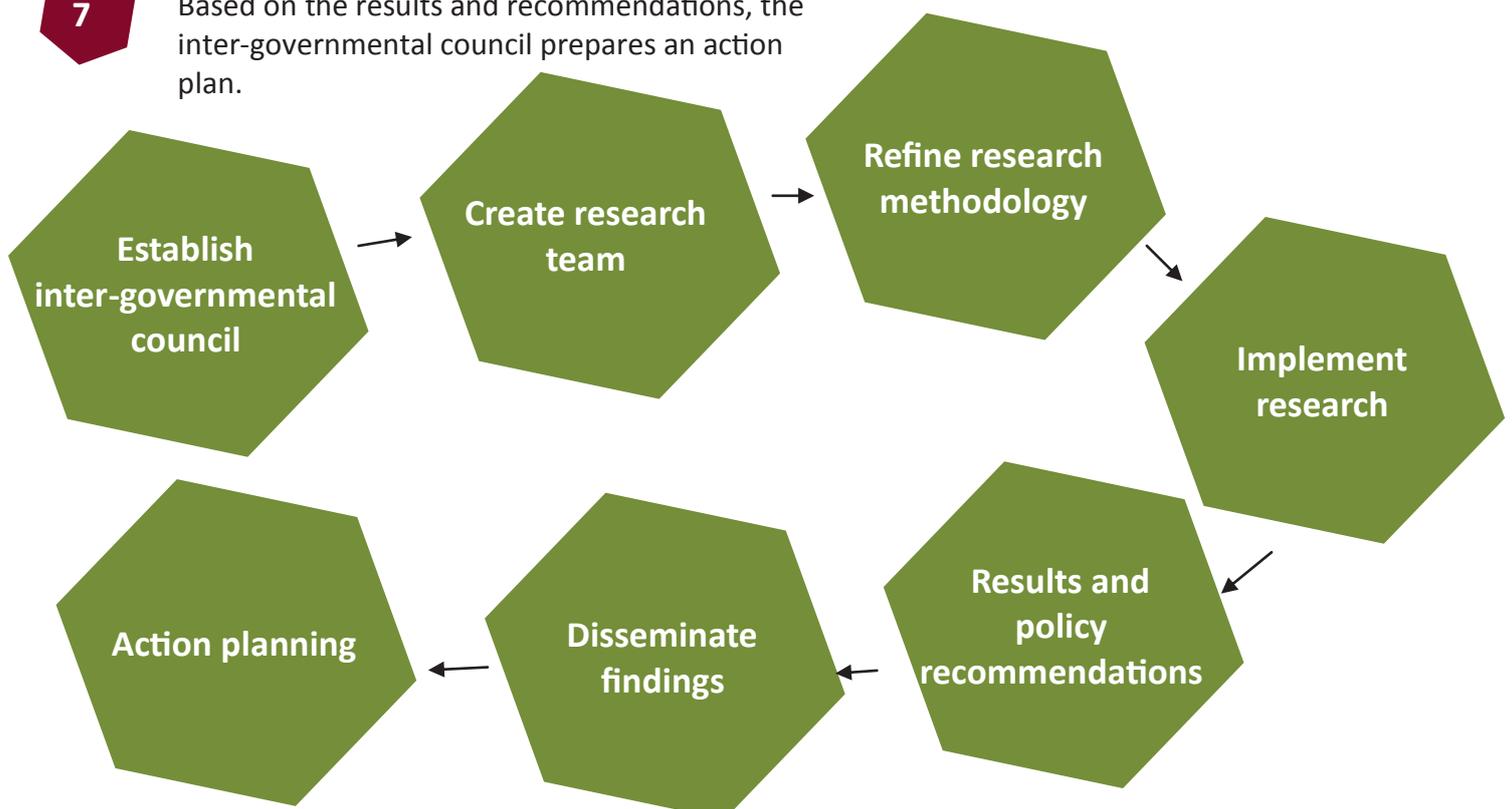
The final results and recommendations are presented by the research team during the high-level policy conference attended by financial sector stakeholders on governmental and commercial level.

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Based on the results and recommendations, the inter-governmental council prepares an action plan.

## OVERVIEW TO OUR APPROACH

Recognizing that measuring financial inclusion can be technically complicated and resource intensive, our approach uses a **step-wise method** to measuring financial service access and use. To **ensure affordability**, this approach draws on available country-level data. Our **research results can be used by a range of actors**, such as financial institutions, policy makers, and central banks. Our methodology builds the **World Bank's FinDex questions** into its design, facilitating useful cross-country comparison while offering an **in-depth analysis of country-specific issues** not covered by global research.



# RESEARCH METHODOLOGY

We look at access to finance through two overlapping and complementary tools:

## 1 *The Total Financial Inclusion Index*

The **Total Financial Inclusion (TFI) Index** generates a simple, yet comprehensive, measure of national financial service use. The index captures the overall scale of exclusion, as well as by product type —this segmentation by population and enterprise type provides a key insight into national inclusion trends.

The TFI provides an effective basis for more detailed analysis of national financial access. Both its ease of use and its cost-effectiveness mean that it can be applied annually to understand how inclusion dynamics change over time.

## 2 *Access to Finance Scorecard*

The **Access to Finance Scorecard (AFS)** uses set of specific surveys and analysis of existing data, designed based on the results of TFI Index. The AFS framework captures diverse aspects of access and usage issues in one comprehensive tool, the results of which facilitate effective policy-making and financial service regulation.

Our assessment approach considers overall access to financial services from three key perspectives: demand for financial services, supply of financial services and financial inclusion policies and regulations. The AFS looks at:

### Financial infrastructure

Physical/virtual presence of outlets (e.g. branches, ATMs) are the backbone of the financial system and are the key ingredient of access to finance. Lack of such outlets prohibits using financial services.

### Availability of financial services and products

Product availability is a key aspect of the access question. Even with good infrastructure, a lack of appropriate products constrains financial service use.

### User-friendliness of products and openness of institutions

In addition to physical outlets and products, financial services need to be readily available for clients in terms of affordability, simplicity, and flexibility.

### Public confidence

Where products and services are easily accessible, clients may still be reluctant to use them when they lack trust that their savings will be protected and available, or when they doubt the quality and security of transactions.

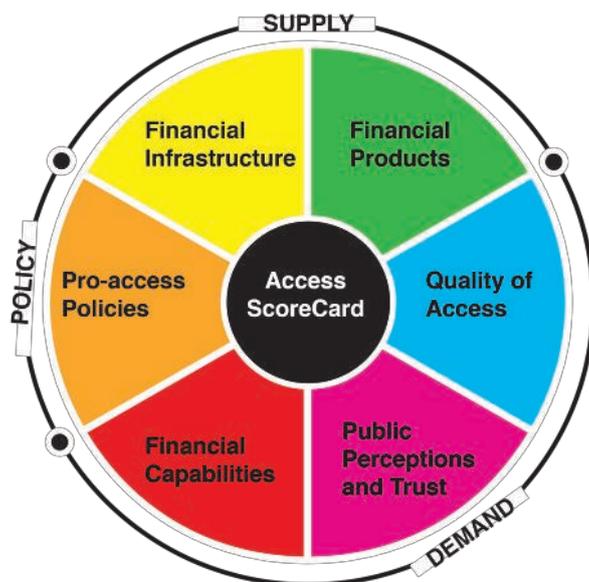
### Financial literacy

Financial skills and knowledge play an important role in financial service access and use, especially in terms of choosing between different products, using multiple products, and using each effectively.

### Pro-access policies and regulations

Active and progressive policies create a better environment for increased access to finance. Where these are absent, financial deepening and development is hindered, which can act to stifle long-term economic growth.

*Our cost-effective methodology allows us to monitor access to finance using available data, and to develop local capacity to track changes in access levels on an on-going basis.*



**Table 1: The TFI and the AFS compared**

	TFI Index	AFS
<b>Scope</b>	Snapshot of the degree of ownership of various financial products	Comprehensive analysis of supply- and demand-level policy issues
<b>Tools</b>	Survey of individuals and small/medium enterprises	Survey of individuals, interviews with policy experts, and analysis
<b>Results/indices</b>	Total Financial Inclusion Index I and II for different socio-demographic groups	Index of Financial Inclusion (IFI): Composite score and scores for the supply, demand and policy dimension, financial inclusion maps
<b>Costs</b>	Low cost intervention	Higher costs for comprehensive, sector-wide review
<b>Frequency</b>	Annual	Bi-annual
<b>Application</b>	Snapshot for policy-makers, banks, used to monitor changes in access	In-depth information for policy-makers to review and address policy constraints, and for financial service providers to identify supply gaps and demand opportunities.

# WHAT CAN WE LEARN FROM THE DATA?

Research on financial inclusion generates a wealth of information. In detail:

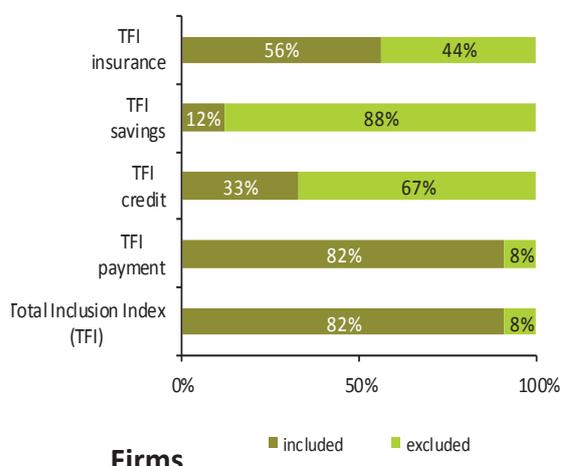
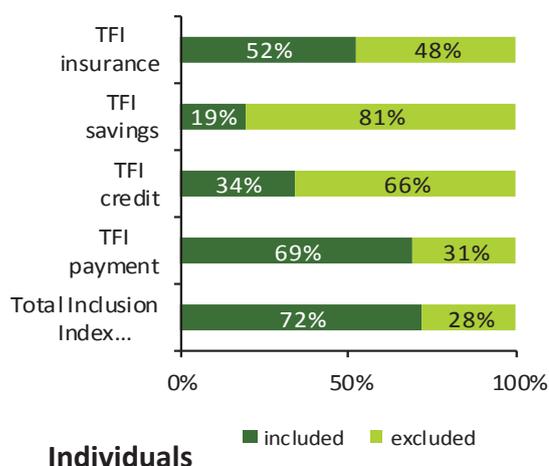
## Headline indicators

### Total Financial Inclusion Index (TFI Index)

The TFI survey of individuals and firms generates information about the total degree of exclusion, as well as the degree of exclusion within certain groups or by product type.

The graphs below describes a situation where 28% of the population does not use any financial service. Payment products and services (bank accounts, debit cards, money transfer) are the most popular among individuals, while deposit accounts and other saving/investment instruments are less used. Financial inclusion among firms is higher, with only 8% of micro and small companies not accessing any sort of financial product.

### Graphs 1 and 2: Sample Total Financial Inclusion Index



## TYPES OF INDICATORS

**Headline indicators** provide simple and clear information about the state of financial inclusion as a whole and in terms of demand, supply and policy-level issues.

**Supplementary indicators** deepen our understanding of the headline indicators, by describing the development of the financial system, quality of access or the financial capability of the population.

**Qualitative findings** add key insights generated through the research that are not captured through the indicators, including an analysis of the legal environment (such as regulations for collateral requirements and banking reserves).

## *The TFI Index and IFI can both be segmented by different demographic groups and geographic locations.*

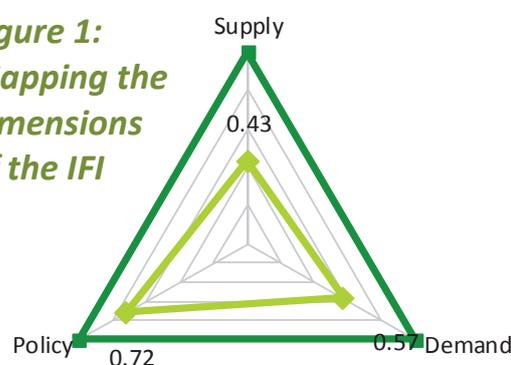
### Index of Financial Inclusion (IFI)

The IFI measures distance from a country's financial inclusion targets, and the extent to which supply, demand and policies support access to finance. Scores range between 0 and 1; the higher the value, the closer a country is to the target. In the example below, the country with the composite score of 0.56 is more than halfway from its target. The country scores well in terms of policy thanks to its regulations, but lags in the supply dimension due to an underdeveloped financial infrastructure.

**Table 2: Sample IFI results**

Composite score	0.56
Dimension scores:	
Supply	0.43
Demand	0.57
Policy	0.72

**Figure 1: Mapping the dimensions of the IFI**

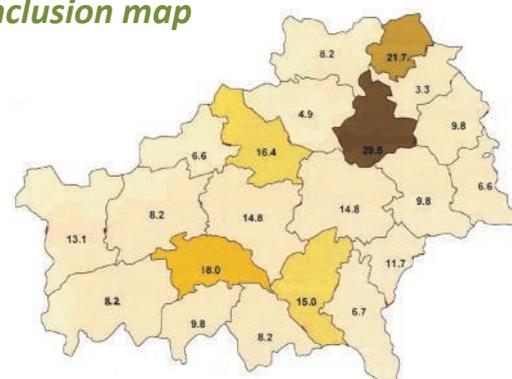


### Supplementary indicators

Additional supply-side indicators (penetration of banks, ATMs, insurance agents or credit unions), as well as on the demand side (trust, financial capability, borrowing and saving habits) emerge from the analysis, deepening our understanding of these aspects of access to finance. They are presented separately for different socio-demographic groups and for geographic locations. We use maps to show how different geographic areas score on each indicator in every dimension.

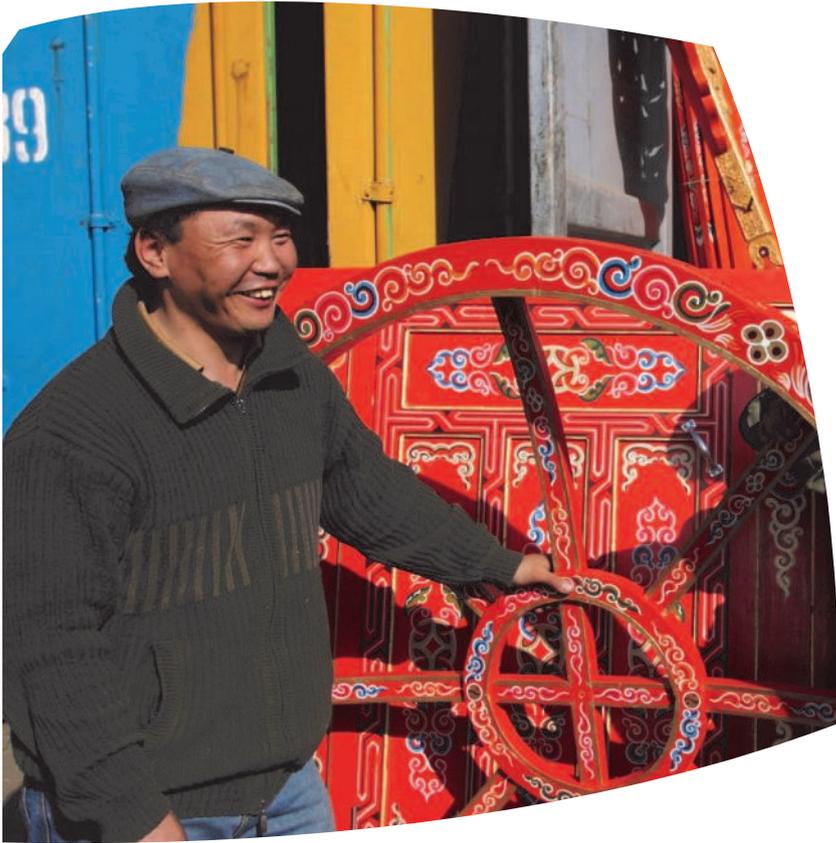
Figure 2 presents a sample map showing deposit service use, where regional penetration rates are compared to the national average. Dark brown areas indicate exclusion levels that exceed the national average by 20%, whereas light brown areas mark regions with exclusion rates below 20% of the national average.

**Figure 2: Sample financial inclusion map**



## Qualitative findings

By assessing the inclusiveness of existing policies and regulations along eight different dimensions (see side bar), our recommendations prioritize focus on particular dimensions where existing laws hinder or insufficiently support better financial inclusion. This can be, for instance, strengthening collateral registers, introducing financial education in secondary schools, or launching a national financial education program.



## 8 POLICY DIMENSIONS

Our framework measures 8 different dimensions of financial inclusion policies and regulation:

1. Pro-inclusion regulation and the competitive environment
2. Payment systems
3. Interest rate policies
4. Transparency and disclosures
5. Consumer protection and financial education
6. Credit bureaus
7. Collateral registry and deposit insurance,
8. Policies to increase financial inclusion

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## About the MFC

The Microfinance Centre (MFC) is a regional microfinance resource center and network. **Our mission** is to contribute to poverty reduction and the development of human potential by promoting a socially-oriented and sustainable microfinance sector that provides adequate financial and non-financial services to a large numbers of poor families and micro-entrepreneurs.



**MICROFINANCE CENTRE**