

What explains differences in financial inclusion? A cross-country analysis

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Abstract

Recent years have witnessed a global commitment to advancing financial inclusion as a key enabler for equal opportunity and reducing poverty. In this paper, we use a principal component analysis and six indicators drawn from the IMF's Financial Access Survey to construct a financial inclusion index for a sample of 95 countries over the period 2004-2015. Our financial inclusion index shows an overall progress over the sample period, most markedly in the accessibility and usage dimensions. Further analysis suggests that the level of financial inclusion is related to specific banking market conditions, technology and infrastructure, macroeconomic factors, institutional quality, and social variables. In particular, financial inclusion seems to be positively associated with the national level of income, banking industry competition, the level of human development, regulatory quality, and internet usage.

Keywords: Financial inclusion; Banking conditions; Cross-country analysis; Principal component analysis.

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