Table B.4 | Scoring methodology for finance indicators

INDICATOR	SUB-INDICATOR	DESCRIPTION	WHAT IS MEASURED	HOW IT IS SCORED
NON-BANK LENDING INSTITUTIONS	Operation and prudential regulation of MFIs (operations)[1]	This indicator measures the regulatory framework for deposit-taking MFIs.	1. The country allows and regulates deposit-taking MFIs. 2. There is a minimum capital requirement to establish an MFI. 3. The regulated minimum capital adequacy ratio for MFIs is at least equal to, or no more than 2 percentage points higher, than the capital adequacy ratio for commercial banks[2] 4. Loan sizes of MFIs are: not limited to a specific amount; or are greater than 10 times the gross national income (GNI) per capita if there is a specific amount; or are a percentage of capital, equity or deposits[3] 5. MFIs must disclose the effective interest rate or a proxy to loan applicants 6. MFIs are required to fully provision a delinquent, unsecured loan after the same number of days required for commercial banks, or within half the number of days required for commercial banks 7. MFIs are required to subscribe to a deposit insurance system	**A score of 1** if yes
	Operation and governance of financial cooperatives (operations)	This indicator measures the regulatory framework for financial cooperatives.	1. There is a law regulating financial cooperatives, or there is a specific section of a general cooperatives law that regulates the governance and operation of financial cooperatives 2. There is a minimum capital requirement to establish a financial cooperative 3. A minimum number of members is required to establish a financial cooperative 4. Ratios are defined in the law to ensure the financial stability of financial cooperatives 5. Financial cooperatives must disclose the effective interest rate or a proxy to loan applicants 6. Financial cooperatives must subscribe to a mandatory deposit insurance system 7. Two or more financial cooperatives may merge or amalgamate into a new financial cooperative	**A score of 1** if yes for each question
BRANCHLESS BANKING	Agent banking (operations)[4]	This indicator measures the entry and operational requirements for agent banking.	1. There exists a legal framework to regulate agent banking activities	**A score of 1** if yes
			2. Whether there are minimum standards to qualify and operate as an agent in the following areas: 1) can either be an operating/established business or an individual; 2) has to have financial soundness; 3) has no criminal record; 4) has to have real-time connectivity to a commercial bank; and 5) location.	**A score of 0.2** for each standard
			3. Agents can enter into both exclusive and non-exclusive contracts with financial institutions.	**A score of 1** if yes **A score of 0.5** if only non-exclusive contracts are allowed **A score of 0** is assigned if only exclusive contracts are allowed.
			4. The types of services that agents can offer on behalf of a bank includes: a. cash deposits; b. cash withdrawals; c. transfer of funds to other customers' accounts; d. bill payments; e. balance inquiry; f. opening a deposit account; g. collection/processing of loan application documents; h. know your customer (KYC) and customer due diligence (CDD) procedures.	**A score of 0.125** for each service that can be offered
			5. Commercial banks are liable for the acts of commission and omission of agents providing financial services on their behalf.	**A score of 1** if yes **A score of 0** if no

(continued)

INDICATOR	SUB-INDICATOR	DESCRIPTION	WHAT IS MEASURED	HOW IT IS SCORED
	Electronic money (e-money) (operations)	This indicator measures the legal framework for e-money, in particular, the entry and operational requirements for non-financial institution e-money issuers.	1. E-money is defined and regulated. 2. Non-financial institution businesses are allowed to issue e-money. 3. Non-financial institution e-money issuers are required to keep customer's funds safeguarded and deposited in a trust at a fully prudentially regulated financial institution under which funds are held on behalf of clients.	**A score of 1** if yes for each question
			4. There are four requirements for non-financial institution businesses to receive a license to issue e-money: a. an initial capital requirement; for the initial capital requirement, countries are divided into four groups (1, 2/3, 1/3 and 0) based on the country's capital requirement as a multiple of its income per capita	**A score of "1*1/4"** if the capital requirement is less than 101 times the GNI per capita, but greater than 0. **A score of "2/3*1/4"** if the minimum capital is equal to or greater than 101 times the income per capita, but less than 501. **A score of "1/3*1/4"** if the minimum capital is equal to or greater than 501 times the income per capita, but less than 901. **A score of 0** if the minimum capital requirement is equal to or greater than 901 times the income per capita or if there are no provisions on the minimum capital requirement.
			a. interoperability with other existing electronic money payment/transfer systems b. existence of internal control mechanisms to comply with Anti-Money Laundering and Combatting Financing of Terrorism (AML/CFT) laws, standards and measures c. consumer protection measures such as consumer recourse mechanisms, consumer awareness programs, and so on	**A score of 1/4** if the law states the requirement and 0 if it does not.

(continued)

1 Countries with a high level of financial inclusion are not measured under the operation and prudential regulation for MFIs sub-indicator.

2 The methodology adopts the Basel Committee recommendation in "Microfinance activities and the Core Principles for Effective Banking Supervision" and the International Development Bank's Jansson et al 2004 "Principles and Practices for Regulating and Supervising Microfinance" report in establishing a CAR that falls within 2-3 percentage point of commercial banks or in the range of 10% to 15%.

3 In some countries, the maximum loan an MFI can extend is limited to a percentage of deposits or a percentage of core capital. This language is included in risk management regulations, intended to limit the exposure of the institution to a single borrower. For countries with this type of loan limitation, *EBA 2017* considers it "no limit" because the currency value corresponding to that percentage is so high as to present no effective limit to borrowers.

4 Countries with high level of financial inclusion are not measured under the agent banking sub-indicator.

INDICATOR	SUB-INDICATOR	DESCRIPTION	WHAT IS MEASURED	HOW IT IS SCORED
MOVABLE COLLATERAL	Warehouse receipts (operations)	This indicator measures the regulatory framework facilitating the use of agricultural commodities as collateral.	1. There is a law regulating the operation of warehouse receipts or the regulation of warehouse receipts is included in other general legislation 2. Warehouse operators are required to file a bond with the regulator, pay into an indemnity fund to secure performance by him of his obligations as a warehouse operator, or are required to insure the warehouse or the stored goods against fire, earthquakes, theft, burglary or other damage 3. Warehouse receipts are negotiable	**A score of 1** if yes for each question
			4. The types of warehouse receipts that are legally valid: paper-based, electronic or both	**A score of 1** is assigned if the law allows both paper-based and electronic warehouse receipts, and if electronic warehouse receipts are explicitly mentioned in the regulation **A score of 0.5** is assigned if the law allows only paper-based receipts **A score of 0** is assigned if warehouse receipt is not recognized or used
			5. Information that must be listed on a warehouse receipt for it to be valid. There are four details measured, namely: > date of issuance or serial number > location of storage > description of goods in storage, (for example, type, quality and harvest) > information on security interest over the goods (for example, a certificate of pledge)	**A score of 0.25** for each piece of information that needs to be listed
	Doing Business–Getting Credit (operations)[5]	This indicator measures the legal rights of borrowers and lenders with respect to secured transactions and the reporting of credit information. A total of eight data points from the indicator's sub-indices (five data points from the strength of legal rights sub-index and three data points from the credit information sub-index) are included.	1. There is a legal framework for secured transactions that grant security interest in movable assets 2. The law allows businesses to grant a non-possessory security right in a single category of movable assets without requiring a specific description of collateral 3. The law allows businesses to grant a non-possessory security right in substantially all of its assets, without requiring a specific description of collateral 4. Security rights are granted to future or after-acquired assets, and they extend automatically to the products, proceeds or replacements of the original assets 5. Existence of a collateral registry for movable assets in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name 6. The credit information is distributed from retailers or utility companies—in addition to data from banks and financial institutions 7. Credit information includes data on loan amounts below 1% of income per capita 8. There is a legal framework that allows borrowers to access their data in the credit bureau or credit registry	**A score of 1** if yes for each question

5 *Doing Business*–Getting Credit data are used as secondary data.