

MAP TOOLKIT SERIES

3

Performing the MAP Diagnostic:
Analysing the country context



TOOLKIT 3: Performing the MAP Diagnostic: Analysing the country context

In this Toolkit:

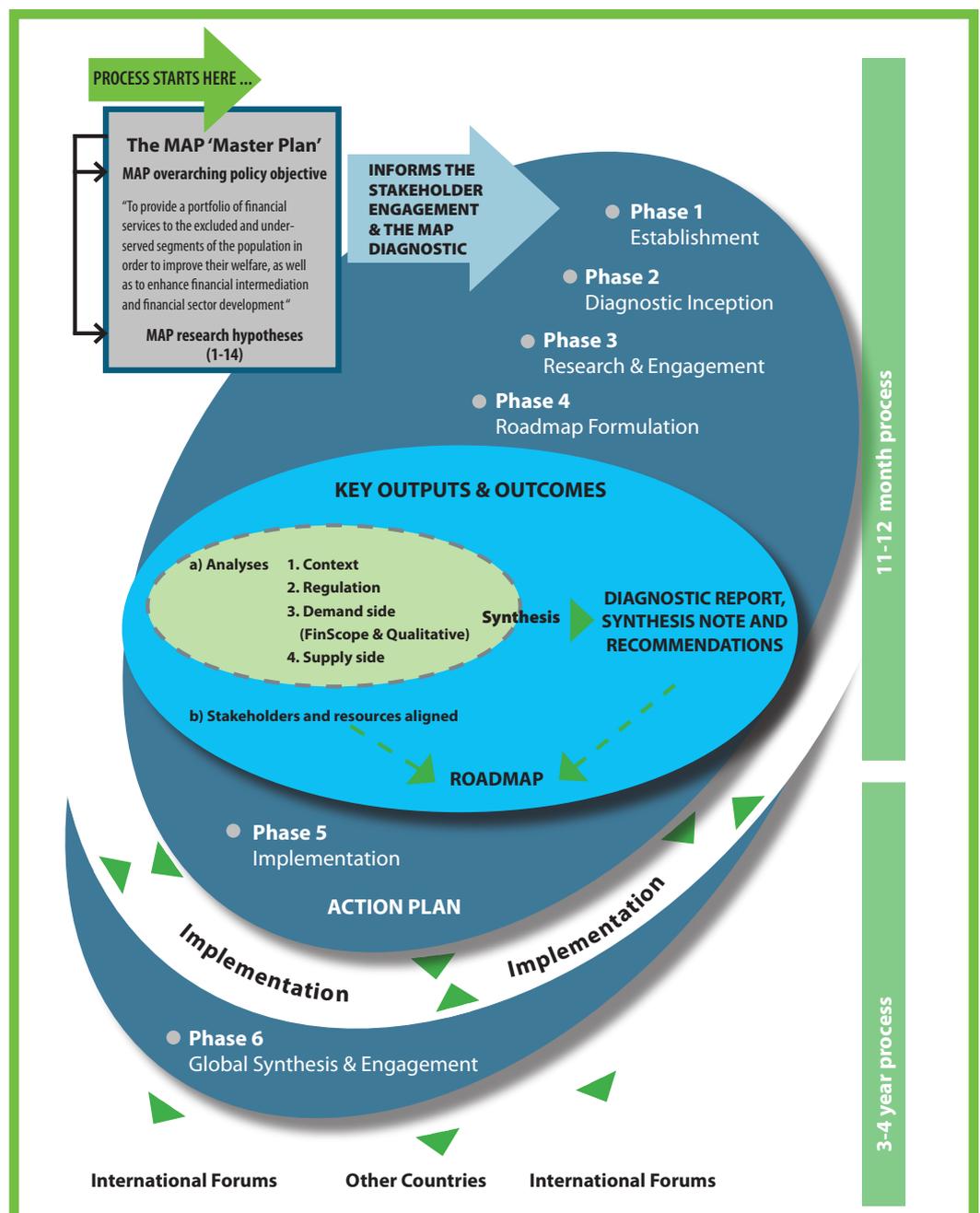
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THE MAP PROCESS

CONCEPTUAL OVERVIEW OF THE MAP PROCESS

1. Conceptual overview of the MAP process

The diagram below provides an overview of the MAP process. **Toolkit 3** focuses on conducting the country context aspect of the diagnostic.



THE AIMS OF TOOLKIT 3

INTRODUCTION

2. Introduction

Toolkit 3 discusses conducting the MAP *country context* diagnostic.

As set out in **Toolkit 1**, the overarching policy objective pursued through financial inclusion policies or strategies is:

To provide a portfolio of financial services to the excluded and underserved segments of the population in order to improve their welfare, as well as to enhance financial intermediation and financial sector development.

For the purposes of completing the diagnostic, the research and analysis is divided up into the four main focus areas: context, regulation, demand side, and supply side. The MAP diagnostic begins with desktop research into the context within which the financial sector operates in the particular country.

Note: As already mentioned and as you are reminded at the start of **Toolkits 4, 5** and **6**, there is considerable overlap between the focus areas. In particular, both country context (this toolkit) and regulation (see **Toolkit 4**) feature very strongly in the supply-side research (**Toolkit 6**), and thus there will be large overlaps with the supply-side data-gathering exercise covered in that toolkit. Similarly, the demand-side findings (**Toolkit 5**) are heavily influenced by both contextual and regulatory issues, and in turn feed into the supply-side research, and so on. Nevertheless, for purposes of both conceptual clarity and division of labour in terms of the task of undertaking the research and analysis, it remains helpful to separate out the focus areas, while remaining alert to the considerable intersection between them. **Toolkit 7** demonstrates how the various components come together in the diagnostic report.

For the other three focus areas of the MAP diagnostic research and analysis, see **Toolkits 4** (regulation), **5** (demand side) and **6** (supply side). See **Toolkit 7** for information on pulling the analyses together into a diagnostic report and synthesis note with recommendations.

3. What are the aims of Toolkit 3?

Working through this toolkit should enable you to:

- Understand what is entailed in researching and analysing the country context aspect of a MAP diagnostic; and
- Build a dynamic understanding of the drivers of financial inclusion related to the country context, and pull together the insights gained to reach relevant conclusions regarding the following two questions:
 - In what way/s does the country context – current as well as historical – influence the development of the financial sector in the particular country?
 - Which contextual factors either inhibit or facilitate the extension of financial inclusion in the country?

WHY FOCUS ON CONTEXT?

INTERACTION BETWEEN PROCESSES

Why do we want to do this? By understanding the country context, the MAP diagnostic will inform the following of the MAP research hypotheses that, in turn, speak to the MAP overarching policy objective of improving welfare through a portfolio of financial services

Hypothesis 13

The pace at which financial inclusion can grow depends also on the level of physical, telecommunication, governance/institutional and social infrastructure of a country.

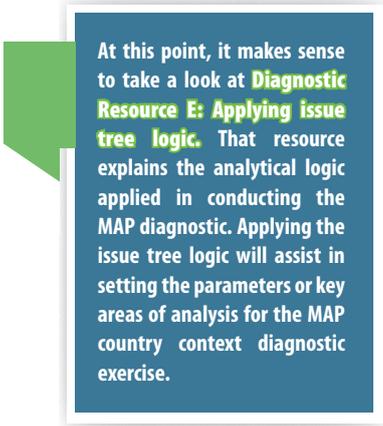
Hypothesis 14

The macroeconomic conditions of a country influence the pace of financial inclusion through their impact on income levels, prices and economic stability.



Something to think about

The country context findings will make up a comparatively short section of the diagnostic report – particularly given that context crops up in different guises in relation to the other three diagnostic focus areas.



At this point, it makes sense to take a look at **Diagnostic Resource E: Applying issue tree logic**. That resource explains the analytical logic applied in conducting the MAP diagnostic. Applying the issue tree logic will assist in setting the parameters or key areas of analysis for the MAP country context diagnostic exercise.

4. Why focus on context?

The environment or country context has a determining influence on the development of the financial sector and the extent of financial access in the market. Since the environment changes all the time, it is also important to have a historical perspective. Thus the country context is the backdrop against which the financial services market develops.

5. Scope of Toolkit 3

While there are clearly contextual elements to the other diagnostic focus areas (regulation, demand and supply), the country context analysis provides more general country contextual information.

The country context research and analysis focuses on the drivers of market development related to the country context, identifying and describing the most important underlying factors that may impact on financial access in the country. The country context includes: the macroeconomic context, the socio-economic context, the political economy, and the general and social infrastructure underpinning financial services provision and usage.

The context template in **Diagnostic Resource C** stipulates data points to gather from desktop research as part of the in-country diagnostic exercise and should preferably be completed before the country visit. Identifying key context elements upfront allows the interviews that will be conducted as part of **Toolkits 4** (regulation) and **6** (supply side) to focus on unpacking key issues and trends (see **Diagnostic Resource B** for illustrative interview questions).

MACROECONOMIC CONTEXT

IMPACTS OF ECONOMIC SECTOR COMPOSITION

See also **Diagnostic Resource C: Data templates**, and make use of the '**Context template**' – **Table 1**. Data points to be collected on country context – which is a summary of the data collection table/s that will be supplied to consultants/practitioners in Excel spreadsheet format.

It is important, while undertaking the research, to remain mindful of the possible shape and form of the data as it will be presented in the diagnostic report – and thus it is sensible to look ahead to **Toolkit 7**, in which an indicative template structure for the diagnostic report is provided.

The sections that follow highlight a number of illustrative macroeconomic, demographic, political economic, socio-economic and public and general infrastructure-related themes that can influence financial inclusion. These key themes are provided to illustrate the impact that common contextual aspects can have, noting that each country will have a unique context. For each, the rationale for the particular aspect is explained, followed by an overview of relevant aspects to cover. The discussion on each context element is intended as a guide to and framework for context data gathering and analysis – it is not intended for use as a template document to be filled out. For this reason, the toolkit does not outline the structure of the actual diagnostic report.

Remember: The MAP overarching policy objective and the hypotheses that it gives rise to together form the 'master plan' from which each part of the analysis should derive. In deciding which information to collect and analyse, the test for relevance should time and again be: is this piece of evidence necessary to prove or disprove the hypotheses and realise the public policy objective? This is the only way to ensure that the scope of the diagnostic remains manageable.

6. Macroeconomic context

The growth path, stability, fiscal conditions and sector composition of the economy will all impact on financial sector development by determining the realities within which financial institutions operate and policy and regulation are set.

See also the 'Macroeconomic factors' section of the context template (Table 1) in Diagnostic Resource C.

MACROECONOMIC CONTEXT

IMPACTS OF ECONOMIC SECTOR COMPOSITION

Something to think about

The performance of the economy has implications for income levels, as well as for the health of businesses and their ability and incentive to extend downmarket. Furthermore, the stage of economic development can affect which aspects of the financial sector are likely to develop at that point

Something to think about

Fluctuations in price levels can increase or decrease the level of savings and demand for credit in a market, and hyperinflation may erode life insurance or long-term contractual savings value.

RATIONALE

This section of the country context diagnostic seeks to answer the following questions:

- To what extent does the long-term **economic growth** performance of the country drive financial sector development?.
- How, if at all, does **inflation** impact on the demand for and supply of financial services? Have there been periods of hyperinflation? If so, how have these impacted on the financial services market?
- How, if at all, do the **fiscal conditions** of a country shape trends and impact on the ability of the state to provide welfare benefits and/or subsidise provision of financial services – thereby indirectly impacting on financial inclusion?
- How, if at all, does the **sectoral and geographical composition** of the economy drive the demand for financial services or relevant public policy initiatives?

Aspects to cover

Economic growth:

- Long-term growth trends of the economy;
- Current stage of the economic cycle;
- Changes in income levels over time;
- Domestic impact of the economic performance of other countries in the region; and
- Economic growth policies.

Inflation:

- Current inflation level and trends over time, including any hyperinflation experience.

Fiscal conditions:

- Levels of tax being collected;
- Level of government debt and interest rates paid on government debt; and
- Level of foreign support for government expenditure.

Composition of the economy:

- The composition of the economy by sector: primary, secondary and tertiary;
- Main features and value chains of sectors playing a particularly strong role: e.g. agriculture, trade, extractive industries, and that have specific financial services needs and risks;
- The urban/rural divide in economic activity; and
- Particular regions of the country that lead or lag in economic activity.

DEMOGRAPHICS

FACTORS THAT MATTER

7. Demographics

The demographic profile provides an understanding of the potential for both the demand for financial services and the distribution thereof. Factors such as religious networks and the level of urbanisation can provide a good indication of the existence and sophistication of potential distribution networks.

See also the 'Demographics' section of the context template (Table 1) in Diagnostic Resource C.

RATIONALE	<p>This section of the country context diagnostic seeks to answer questions such as:</p> <ul style="list-style-type: none">• In what way does the demographic profile (e.g. gender, age) and spread of the population shape the potential for financial inclusion?• Is migration a significant feature of the population? If so, how does migration drive financial inclusion via remittance patterns? and• In what ways do skills, education and literacy levels impact on the ability of consumers to interact with financial services?
Aspects to cover	<ul style="list-style-type: none">• Population size, household size and age distribution of the population;• Levels of dependency (i.e. depending on the state, household members or others for livelihood);• Religious affiliation and networks (where relevant and not sensitive);• Level of urbanisation;• Migration levels and trends (immigration as well as emigration, cross-border as well as domestic);• Literacy and education levels; and• Skills distribution in the economy, and particular skills gaps.

POLITICAL ECONOMY

IMPACTS

8. Political economy

Given the wide range of national stakeholders involved, it is vital to understand the dynamics of the political economy and the impact this can have on financial inclusion.

There is no single conceptual framework for political economy analysis, but the following OECD-DAC definition is useful in capturing some of the main elements:

Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time. (OECD-DAC, in DFID 2009: 4)

The political economy analysis is meant to inform policy and programming by locating and making explicit the key political economy issues underpinning reform, particularly in terms of how resources are allocated in the country, how incentives are made available within the financial sector, and how government decisions are made in terms of formulating and enforcing policies.

The analysis of the political economy should take into consideration the following:

- What systemic features are relevant for financial sector development, e.g. culture, historical legacies, nature of financial sector policies (state vs market orientation etc.)?;
- What are the main institutional and governance arrangements (e.g. laws, regulations, policy processes but also *informal norms* such as culture and values) of relevance for financial inclusion-relevant policy?
- How do these arrangements affect how power is exercised? and
- What are the incentives and motivations for stakeholders that explain current behaviour? Who has the balance of power in these relationships?

Later, when the diagnostic report is being written, it will be vital to link the political economy context to the diagnostic report and subsequent roadmap (as discussed in [Toolkit 7](#)).

See also the 'Political economy' section of the context template (Table 1) in Diagnostic Resource C.



Related links

- **Oxford Policy Management (OPM)**

OPM (Stone, R., Arora, S., Carpio, M., Hayes, J. & Williams, R.). Cracking the Nut Conference 25–26 June 2012, Washington DC.

OPM and University of Bath (Williams, R. & Johnson, S.). (2013). *Facing up to the Political Realities of Financial Inclusion – Time for donors to re-think their approach?* OPM Briefing Note October 2013.

OPM and University of Bath (Williams, R. & Johnson, S.). (2013). *The Political Economy of Financial Inclusion: Working with governments on market development.* Bath Papers in International Development and Well-Being No. 23 June, 2013.

- **DFID (Department for International Development)**

DFID (2009). *Political Economy Analysis: How to note.* A DFID practice paper. Available online from: www.odi.org.uk/sites/odi.org.uk/files/odi-assets/events-documents/3797.pdf

Harris, D. (2013). *Applied Political Economy Analysis: A problem-driven framework 2013, Key steps in undertaking PEA.* Available online from: www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8334.pdf

RATIONALE

This section of the country context diagnostic seeks to answer the following questions:

- How do various aspects of the political economy – including the judicial system, administrative systems and the ruling political philosophy – shape policy objectives and approaches that impact on financial inclusion? and
- How do liberalisation and privatisation (alternatively nationalisation or the extension of state control) trends impact on the modernisation and efficiency, as well as the depth and competition, of the financial sector?

Aspects to cover

- The nature of the legislative process and political system;
- The structure of the administrative system at various levels of the economy (national, state, regional, provincial and town/village levels);
- The level of political stability;
- Rural or other development policies in place;
- Social protection system aspects and relevant policies;
- Country participation in regional development bodies or initiatives that is likely to impact on financial inclusion policies;
- Material changes in the political ideology (e.g. introducing market reforms after a period of socialism or strong state control) in recent years;
- Recent instances of or trends in privatisation in the financial sector; and
- Any indigenisation policies that aim to vest ownership and control of assets in the hands of nationals.

SOCIO-ECONOMIC CONTEXT

FACTORS SHAPING INCLUSION

9. Socio-economic context

Two main socio-economic factors directly shape financial inclusion by impacting on affordability and 'reachability': income or poverty levels, and employment.

See also the 'Socio-economic factors' section of the context template (Table 1) in Diagnostic Resource C.

<p>RATIONALE</p>	<p>This section of the country context diagnostic seeks to answer the following questions:</p> <ul style="list-style-type: none"> • In what ways do income and poverty levels shape financial inclusion? • How do poverty levels shape the potential target market for financial services? (Poverty can be seen as creating an affordability threshold to the viable financial services target market.) • How do the structure of the labour market and the level of formal vs informal employment impact on the nature and features of the target market, as well as on distribution opportunities?
<p>Aspects to cover</p>	<ul style="list-style-type: none"> • The current income distribution, and notable changes in income levels over time; • The national definition of poverty (national poverty line) and the proportion of the population that falls below it; • The poverty gap and rate, at less than US\$1.25 and US\$2 a day; • The applicable national standard income classification and the spread of the population relative to it; <p>Something to think about... 'National standard income classification' is a ranking scale to indicate the various income and/or lifestyle levels at which the population sits. Different countries adopt different classification systems.</p> <p>For example:</p> <ul style="list-style-type: none"> o In South Africa, the Living Standards Measure (LSM) ranks households on a scale of 1–10 (with 1 being the lowest and 10 the highest), according to their performance against a number of lifestyle indicators, including asset ownership. o In Brazil, five socio-economic classes are defined: A to E. <ul style="list-style-type: none"> • The size of the labour force vis-à-vis the total population; • The structure of formal employment: e.g. government vs private sector employment levels and spread of employment across economic sectors; and • The size and nature of unemployment, as well as employment in the informal economy.

PUBLIC INFRASTRUCTURE

STEPS FOR EACH PHASE

10. Public infrastructure

Public infrastructure refers to those public institutions that are crucial to the proper functioning of the financial services market mechanism, including property rights, the judicial system and the national identification system.

See also the 'Public infrastructure' section of the context template (Table 1) in Diagnostic Resource C.

RATIONALE	<p>This section of the country context diagnostic seeks to answer the following questions:</p> <ul style="list-style-type: none">• How does the property rights regime shape the credit market (via the availability of collateral)?• Does the judicial system efficiently and reliably enable citizens and commercial entities (including financial services providers) to enforce their rights? and• Does a national identification system exist that allows for reliable verification of information on a member of the population by financial services providers?
Aspects to cover	<ul style="list-style-type: none">• The extent and elements of a private property and registration-of-property regime;• The average length of time taken to secure judgments in civil cases, lower courts and higher courts, respectively;• Whether there is a national identity system; and, if not, what the format and variety of generally accepted identification documents is;• The percentage of adults with an acceptable identification document for accessing financial services; and• Whether a reliable online database exists for verification of identity data.

GENERAL INFRASTRUCTURE

ENABLING ASPECTS

11. General infrastructure

Physical infrastructure provides the backbone for the supply of financial services. Roads, electricity and telecommunications enable people to transact and financial services providers to provide their services.

See also the 'General infrastructure' section of the context template (Table 1) in Diagnostic Resource C.

RATIONALE	This section of the country context diagnostic seeks to answer the following question: <ul style="list-style-type: none">• To what extent does the state of infrastructure in the economy impact on the distribution and reliability of financial services?
Aspects to cover	<ul style="list-style-type: none">• Road infrastructure coverage and quality;• Reach and reliability of the electricity grid;• Internet connectivity: penetration and quality;• Reach and reliability of mobile phone networks; and• Reach of account-based utilities such as water or fixed-line telecommunications services.

Within the overall analysis it is also important to take into consideration any relevant plans and strategies for development, as most countries are undergoing some level of infrastructure development – e.g. upgrade of the road network, licensing of new mobile operators – which, when implemented, will change the current situation.

12. Conclusion

Toolkit 3 has focused on one of the four areas of the diagnostic, namely country context. The intention has been to help you reach a dynamic understanding of the drivers of financial inclusion related to the country context, with an appreciation for the importance of past, current and possible future contextual influences and dynamics.



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