

Abstract

This paper uses both supply and demand-side factors to measure a composite multidimensional index for financial inclusion using the Principal Component Analysis. The index has been made for 91 countries for two benchmark years, 2011 and 2014 using the World Bank Findex database. Financial Inclusion has been measured, firstly in a disaggregated form into three main dimensions viz. Usage, Access and Barriers, wherein an inclusive system is one that maximizes Usage and Access and minimizes the barriers to the use of financial services. Secondly, a composite index has been formed. Finally, study tried to track the binding determinants of financial inclusion using a panel fixed effects model. We see that the developed and rich countries of the world are consistently the better performers of financial inclusion however the middle and low income countries can perform better if barriers have been tracked efficiently.

Key Words: Financial Inclusion, multidimensional, Principal Component Analysis, Fixed effects model

JEL Classification: G21, G23, C23, C38