Core and Headline Indicators on Access to Financial Services: World Bank and DFID Teams Up to Measure Access to Finance

By Stijn Claessens, FSE

The week of June 20, 2005 saw high-level political and technical meetings related to the International Year of Microcredit held in Paris and Frankfurt. Organized in conjunction with a meeting of the Advisors Group to the International Year of Microcredit as well as the Agence Française de Développement (AFD) conference “Expanding Access to Microfinance: Challenges and Actors,” the World Bank, the UK’s Department for International Development (DFID), and the United Nations Capital Development Fund (UNCDF) hosted a technical meeting on June 21 titled “Financial Access for All: Better Measurement, Monitoring and Policy Action” to further examine the critical issue of how to measure access to finance. Participants included donors, international financial institutions, policymakers and representatives from the private sector. Papers are available.

Documenting the Benefits of Access to Financial Services

It has been well established that increasing access to finance has both private and social benefits. Much recent empirical research has shown that financial deepening causes economic growth and can improve income distribution. It also has become known that poor people benefit disproportionately from financial intermediary development. Obvious to many observers from anecdotal evidence and some studies have been the benefits to access to financial services: alleviating credit constraints which reduce child labor, increasing access to education and health care, and helping bring people up out of poverty and keep them out of it. These latter gains of finance, however, have received less attention as focus has been on other aspects of financial sector development. As Cesare Calari, World Bank Financial Sector Vice President, said in his remarks at the June 21 workshop: “To be sure, financial reform and development have been high on our [World Bank] agenda for years, but considerations of stability and efficiency, as well as the implementation of standards and codes, have been paramount, with access to financial services often receiving little attention”.

The Need for Data

The benefits of access to finance have been less well documented for a related reason: the lack of reliable, systematic, comparable data. There is surprisingly little known about who has access to financial services, what affects the supply and demand of financial services and consequently how best to promote access to finance for the poor. Some data exist on firms’ access to finance, and previous research and analysis has concentrated the determinants of that access. So far, little has been documented on how individuals and households fare in their access to finance.

The International Year of Microcredit Data Project

This lack of data is partly due to the inherent difficulty of documenting household or individual access to financial services and the wide variety of concepts used to measure access. To address this, the International Year of Microcredit, the World Bank and the International Monetary Fund initiated a working group on measuring access in October 26 2004. The effort aims to create an international guideline on the collection of survey—individual and household—and other access indicator data to ensure
comparability across countries and across time, and thereby allow systematic research and better policy advice. In addition to helping policy makers, practitioners, researchers and the private sector more fully understand the current and potential supply and demand for financial services; more comparative data will also serve to motivate countries to reform their financial systems so as to encourage greater access.

Recent Workshops

The working group held discussions over the past few months, including on June 14, 2005, by video-conference between London and Washington. The technical workshop in Paris on June 21st was a further step in the efforts towards the development of international indicators on access to financial services. The event was opened by Stanley Fischer, Chair of the Advisors Group to the International Year of Microcredit and Governor of the Bank of Israel. At the workshop, the World Bank and DFID presented core concepts and the proposed guidelines on core indicators for access-related surveys and other indicator work. The workshop also considered existing household and individual data collections. In addition to recent specialized World Bank country surveys in Brazil, India and other countries, FinMark Trust’s FinScope model now used in Southern Africa was considered as well as the ongoing data collection efforts on access to financial services by Banque Centrale de Etats de l’Afrique de l’Ouest (BCEAO). Finally, the workshop solicited feedback from policy makers, practitioners and academics from Brazil, India and South Africa.

Defining Terms

Four main core concepts were discussed that require more common definitions – usage and access; individual and household; financial functions (products); and formal and informal services.

Access versus Usage

High among the key concepts is the question of access versus usage. In developing countries, access does not automatically correlate to usage. Or put differently, the supply and demand curves for financial services are not necessarily such that there is an intersection. Theoretically, simply measuring usage would not necessarily yield a reliable indication of the access to financial services. Some people may not have any access to financial services. Other may have access, but prefer not to use financial services given the prices being charged. In practice, however, these difference are very hard to distinguish, and there will be a continuum of current consumers: (A) voluntarily excluded consumers; (B) consumers which are involuntarily excluded; and (C) see chart. Considerable attention was therefore devoted to the definition of access and usage and setting boundaries for the core indicators. As a starting place, it was agreed that usage will be used as a proxy for access. Current consumers offer a natural base for the collection of data, but getting information on those excluded, and the reasons why they are either excluded—voluntarily or involuntarily—are essential to document as well.
Individual versus Household

Another key core concept discussed was the boundary of individual versus household as a measure of response. While much theory and practice is centered on the household as a unit, the intra household power structure can often be opaque and access cannot be assumed for all in the households if one has access. Using only the household as respondent also risks losing valuable characteristic data, or completely missing it, should the head of the household not be aware of the entire household’s use of financial services. Although more time consuming and potentially more difficult, it was agreed that to make the adult individual the appropriate unit of response for survey data on access to financial services.

The Boundary between Formal and Informal

The next significant core concept reviewed was that of the boundary between formal and informal financial services. In many of the target countries, this is often a continuum: some consumers will only use formal, some only informal financial services, while some will use both formal and informal services. Furthermore, the nature of the formal and informal financial services providers will vary greatly among countries. In order to establish comparability across surveys, it was proposed that the following common groupings be distinguished for this issue:

- Banks or near banks—legal entities that are reporting to a legal authority (not necessarily supervisory), are deposit taking, have access to the national payments network, have some supervision and oversight, and operate on relative standard terms.
  - Examples of this group include commercial banks and broad-spectrum financial intermediaries (e.g., some credit unions, niche banks)
- Other formal financial institutions (more specialized) – not necessarily subject to prudential regulation, with the definition to vary by country and by service, introducing thus a tradeoff of comparability and comprehensiveness across countries
  - Examples of this group include insurance and money transfer agents, and finance/credit companies
- Informal – no legal status, but still organized entities
  - Examples of this group include rotating savings and credit associations (ROSCAs), tontines, moneylenders, pawn shops, ususus, stokvels etc.

Functional Dimension (Products)

The functional dimension was another key concept reviewed. Three, possibly four, main functions were identified: transaction/payment; savings/investment; loans/credit; and insurance/risk transformation. Surveys and other indicators should include core measures for the first three functions. It still remains a question whether insurance and risk management tools can be measured as their own functions or whether for measurement purposes would be better considered to be a derivative of a savings function.

Secondary Issues: Time and Representative Coverage

In addition to the four main core issues of use/access, individual/household, formal/informal, and functional dimensions, there are secondary issues of time, and representative coverage. The reference time period for poor people to use financial services can be expected to sometimes be less regular, and typically longer than those in wealthier countries. In response to this, existing surveys range from 30 days, 12 months, to even three years. International consensus on a standard reference time period will be important, with twelve months currently proposed as the reference point.

The existing household and individual level surveys run the gamut of geographic and other coverage, such as only rural, only urban or national surveys, or only poor or a cross-section of all type of users. Given differences in resources likely to be available for such surveys, it is suggested that information from less than national coverage cannot be eliminated, although caveats on the exact coverage will be required if used for the purposes of cross country comparison. However, strong efforts should be made to ensure a representative sample is constructed.
Can such a sample be used to extrapolate up to nationally representative indicators? This could only be realistically attempted by incorporating ‘supply side’ information on quantities of services provided with national indicators on factors such as local economic activity, population density and income, etc. However the interpretation of such hybrid indicators would have considerable limitations, and would be particularly problematic if one were to try to scale up from say rural samples to a mixed rural and urban population.

Developing a Headline Indicator

With all of the possible variants on these select core issues, it is easy to see how important international cooperation and coordination is for the development of comparative indicators. In addition, critical to the development of core standards in surveys is the development of a composite ‘headline’ indicator. Such an indicator should have maximum impact and easily translate into policy. This is imperative should the measurement of access make it onto the global agenda in the same way that other indicators are now part of the UN Human Development Indicators and the Millennium Development Goals. The headline indicator should be easy to update on a regular basis, comprehensive yet simple and transparent, and empirically robust. How to achieve this was discussed as well, for example, such as using supplier surveys complemented with other data, but no firm conclusions were yet reached.

Next Steps

The events in Paris brought together many of the key players in this effort and the momentum created by these exciting discussions was sustained. The next step in the development of these indicators is the development and publication of a concise and precise guide about the indicator definitions and their use. A small working group is working on continued communication with the international community. No single bilateral or multilateral donor can accomplish or lead this effort and it will be important to simultaneously develop both the technical details of this mission and to disseminate the broader objective to a high-level policy discussion. In his capacity as Chair of the Advisors Group to the International Year of Microcredit, Stanley Fischer has indeed called upon the leaders of the G-8 to “urge the World Bank and the IMF to broaden the scope of their financial data to develop and include indicators of access to, and use of, microfinance”. And the G8-communique indeed reflected the importance attached to access to financial services as part of a broad development agenda.

Contributor’s Note: The June 21 event was organized by jointly by the International Year of Microcredit, DFID, the World Bank, and UNCDF in collaboration with the Consultative Group to Assist the Poor and le Collectif des Acteurs Français de la Microfinance, with generous logistic support from Ministère de l’Economie, des Finances et de l’Industrie de France. People involved in the World Bank/DFID/Finmark Trust working group and the events include Priya Basu, Thorsten Beck, Anne-Marie Chidzero, Stijn Claessens, Karen Ellis, Brigit Helms, Patrick Honohan, Jennifer Isern, Anjali Kumar, Asli Demirguc-Kunt, Mark Napier, Douglas Pierce, Robert Stone and Marilou Uy.

[For further information please contact: Anjali Kumar, World Bank, at Akumar@worldbank.org and Karen Ellis, DFID, at K-Ellis@dfid.gov.uk.]

1. An earlier version of this note was published in the July issue of Microfinance Matters.
2. For more information, see "France Convenes Microfinance Conference: Financial Leaders from across the Globe Discuss the Changing Sector," July issue, Microfinance Matters: http://www.uncdf.org/english/microfinance/newsletter
AccessFinance is a newsletter published by the Financial Sector Vice-Presidency and the Access to Finance Thematic Group. For comments and contributions to AccessFinance, please send an email to accessfinance@worldbank.org

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