Collecting Better Data on Access to Financial Services

DFID’s approach to this challenging issue

By Karen Ellis
Department for International Development (DFID)
Economic Advisor, Financial Sector Team

A large body of evidence now exists which shows that financial sector development is important for growth in developing countries. And there is growing evidence of more direct linkages between financial sector development and poverty reduction, inequality, infant mortality, and child labour. The literature on these issues was reviewed in the recent DFID Working Paper “The Importance of Financial Sector Development for Growth and Poverty Reduction”.

Most of these studies use traditional, macro measures of the financial sector, such as the total value of bank deposits, or private credit, which may not be very strongly related to the level of access to financial services. Such measures may therefore capture only the indirect impact of financial sector development on poverty through its impact on growth, as in many developing countries very few poor people have access to formal financial services. Yet better access to financial services could have a significant impact on growth and poverty reduction.

The lack of evidence on these linkages arises because of the absence of data on access to financial services in developing countries. Most financial sector data currently comes from financial institutions themselves, and they have not traditionally provided the kind of data that could be used to generate a good measure or proxy for access to financial services.

Ideally, representative data at a household or individual level is needed to get an accurate picture of patterns of access and usage across the population, but few household surveys address these issues.

Better access data could be very valuable in promoting wider access to financial services for the poor in developing countries by:

(a) allowing for inter-country comparisons and raising the profile of access issues, hence incentivising governments to undertake the necessary reforms and allowing progress to be measured;
(b) providing information to policymakers about the main barriers to access;
(c) providing information to the private sector about market opportunities; and
(d) providing data for use in analysis of the impact of access to financial services on growth and poverty reduction.

Last year DFID commissioned a fact-finding exercise, with the aim of developing a comprehensive inventory of existing financial services access and usage data sources.

The inventory identified a number of potential sources of data including: household or individual surveys, macroeconomic data collected from banks and regulatory agencies, indirect measures looking at supply side characteristics of the market which determine the level of access (such as costs and fees, the number of branches and ATMs etc.), focus groups, expert surveys and enterprise surveys. (“Financial Access Indicators Stocktake: A paper for the Department for International Development”, EME, 1 December 2004).

For the purposes of generating headline indicators to facilitate cross-country comparisons, and providing data for empirical analysis, we may only need a few overall measures of access to financial services, which should be sufficiently clearly defined to facilitate fair cross-country comparisons, and cheap enough to collect on a wide basis. For these purposes, macro-level proxies of access may suffice, such as the total number of bank accounts (per head of population) or the number of bank branches (per sq. mile).

However, more accurate measures could be generated using household surveys, such as the proportion of the population which has a bank account. The inventory shows that while quite a few household surveys have been
conducted in various countries asking questions relating to financial services, their findings are usually not comparable with each other, as different methodologies have been used on each occasion.

For the purposes of better identifying the barriers to wider access, and gaps in the market for financial services providers, a range of more detailed information is going to be required than for headline indicators, with financial services-focused household surveys likely to be the most useful source of such information.

The DFID funded FinMark Trust has pioneered the use of specialized household surveys of financial services usage through its ‘FinScope’ surveys in the five countries FinMark covers; South Africa, Botswana, Namibia, Lesotho and Swaziland.

FinMark Trust is an independent trust which was established in March 2002 with a mission to “Make financial markets work for the poor”. It aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Southern Africa.

FinScope is a representative national household survey of financial services needs and usage amongst consumers. The aim of this demand side study is to establish credible benchmarks and highlight opportunities for innovation in product and delivery. FinScope tracks the changing landscape of access to financial services across all the main product categories - transaction banking, savings, credit and insurance - in both formal and informal sectors. The study extends over a spectrum of areas of financial interest; from examining quality of life and poverty, to attitudes to and the use of technology, as well as levels of financial literacy.

FinScope research is of value to banks and other financial institutions that are able to design product strategies around the segmentation models and trends highlighted by the data, as well as to policymakers who aim to improve the functioning of financial markets.

As coordinator of FinScope, FinMark Trust has partially underwritten the costs of the FinScope studies to date. However the exercise is syndicated to private sector providers who, through their sponsorship, secure privileged access to the research findings. Approximately 80% of the FinScope South Africa study has been funded through syndication, and approximately 45% has been syndicated in Botswana and Namibia. It is hoped that, as the value of FinScope data becomes more widely understood by the private sector, the costs will be met entirely through syndication proceeds and will no longer require underwriting from FinMark Trust.

FinMark Trust has received enquiries from DFID’s Country Offices in Zambia, Kenya, and Nigeria for assistance on similar exercises in those countries, and DFID is actively exploring options for replicating FinScope (or a reduced version) more widely across Africa, with a view to generating not only much more detailed information on financial services access and usage than is currently available in these countries, but also more comparable measures of the level of access in each of these countries.

DFID is keen to collaborate with the World Bank and others in these efforts, and is planning to host a workshop with the World Bank this Spring to (a) facilitate a more collaborative approach amongst researchers and agree on a more uniform methodology and set of survey questions, in order to provide greater comparability in research findings, and (b) discuss the potential for joint donor / private sector financing of an Africa-wide FinScope. Such an initiative might receive support from the Commission for Africa, and could potentially be part-funded by the proposed Investment Climate Facility that is currently being promoted by NEPAD.

www.dfid.gov.uk/pubs/files/finsecworkingpaper.pdf