

Financial Inclusion Data

Assessing the Landscape and Country-level Target Approaches

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Discussion Paper Prepared by IFC on Behalf of the Global Partnership for Financial Inclusion



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ABBREVIATIONS

Alliance for Financial Inclusion	“AFI”
Automatic Teller Machines	“ATMs”
Bank of International Settlements	“BIS”
Consultative Group to Assist the Poor	“CGAP”
Comisión Nacional Bancaria y de Valores	“CNBV”
Development Finance Institutions	“DFIs”
European Commission	“EC”
European Central Bank	“ECB”
ECB Monetary and Financial Institutions database	“ECB MFI”
ECB Bank Lending Survey	“ECB BLS”
ECB Household Finance and Consumption Surveys	“ECB HFCS”
Financial Inclusion Experts Group	“FIEG”
Global Partnership for Financial Inclusion	“GPFI”
Government-to-Person	“G2P”
Group of 20	“G-20”
International Finance Corporation	“IFC”
International Finance Institutions	“IFIs”
International Monetary Fund	“IMF”
IMF Financial Access Survey	“IMF FAS”
IMF Financial Soundness Indicators	“IMF FSI”
IMF International Financial Statistics	“IMF IFS”
Key Performance Indicators	“KPIs”
Measurement of Living Conditions in Latin America and Caribbean	“MECOVI”
Micro, Small and Medium Enterprises	“MSMEs”
Millennium Development Goals	“MDGs”
Organisation for Economic Co-operation and Development	“OECD”
Small and Medium Enterprises	“SMEs”
United Nations	“UN”
World Bank	“WB”
WB Financial Institutions Survey	“WB FIS”
WB Living Standards Measurement Study	“WB LSMS”
WB Global Consumer Protection and Financial Literacy Program – Consumer Protection and Financial Literacy Surveys	“WB CP/FL”
World Bank Group	“WBG”
World Council of Credit Unions	“WOCCU”
World Saving Banks Institute	“WSBI”

SCOPE OF THE REPORT

The G-20 recognizes data and measurement as an essential foundation for advancing financial inclusion at a global level. The G-20 Leaders committed to the journey toward universal financial access at the 2009 Pittsburgh Summit with the formation of the Financial Inclusion Experts Group (FIEG). A year later, in Seoul, the Leaders committed to implement the Financial Inclusion Action Plan, and to launch the Global Partnership for Financial Inclusion (GPFI) to institutionalize, expand, and provide continuity to the global financial inclusion agenda. To strengthen financial inclusion data and measurement as well as to develop country-led financial inclusion target setting methodologies, the G-20 created a Data and Measurement Sub-Group within the GPFI.

The Data and Measurement Sub-Group, in its first year, was tasked to identify the existing financial inclusion data landscape, to assess the data gaps, to develop key performance indicators, and to lay out the foundations for the framing of financial inclusion target setting approaches. To implement the items in the Sub-Group's work plan, IFC and CGAP performed the data stocktaking and gap exercise, AFI Financial Inclusion Data Working Group formulated "the Core Set" of financial inclusion indicators, and IFC initiated the analytical framework for financial inclusion target setting.

The purpose of this report, prepared for the GPFI, is to highlight the key findings and recommendations of the Data and Measurement Sub-Group during its first year, provide input for a roadmap for the GPFI's workplan for the coming year, and to propose key policy recommendations for consideration by the G-20 policy makers for the Cannes Summit in November 2011. The policy recommendations proposed are relevant at the global level, including both G-20 and non-G-20 countries.

SUMMARY RECOMMENDATIONS

Lack of standardization of data collection methodologies and indicator computation, harmonization of definitions, and coordination of data collection efforts within and across countries remain major data challenges. Standardization ensures comparability, transparency, consistency, and cost efficiency; improves data availability and quality; and minimizes misinterpretations of published statistics besides contributing to informed policy design. Harmonization of definitions, in particular of SMEs, women-owned SMEs, and active vs. dormant accounts would be of great value for improving data availability and quality. Coordination contributes to consistency, cost efficiency, and data quality.

Strengthening national statistical capacity is the key to good statistics. National statistical capacity is crucial to achieve reliable and consistent data sources not only at the national level but also on a global scale, as international data collection and compilation efforts rely heavily on country-level statistics and data collection by national statistical agencies.

Promoting open data access will improve the quality of data. Data available in the public domain facilitates knowledge creation and a shared understanding of challenges, and in turn leads to better policies and higher quality data.

Continuity and improvement of global supply-side data initiatives can be advanced by requesting the IMF to continue and expand its efforts in collecting supply-side data on financial access on a global scale. The IMF is well positioned to be one of the data leaders in financial inclusion as: (i) linking financial inclusion to financial stability can be aided by the fact that the IMF is a recognized global expert on financial stability; (ii) the IMF is a standard setter in monetary statistics and financial soundness indicators and it is therefore fitting that the IMF is engaged in this data collection effort. The involvement of the IMF should be limited to collecting the core, macro dataset, which could then be complemented by other initiatives to encompass the full definition of financial inclusion.

Progress toward a comprehensive set of financial inclusion indicators requires special attention to developing indicators for the dimensions of financial inclusion that are yet to be measured consistently: (i) indicators on quality of financial services, financial literacy, barriers to access; (ii) access and usage indicators for informal and non-bank providers; (iii) indicators on key enabling environment; (iv) differentiation of active users; (v) access to finance by women-owned SMEs, agricultural SMEs, and informal businesses; and (vi) frequency of measurement of usage by enterprises. World Bank's Enterprise Surveys could be updated and expanded considerably to address the last two items on this list.

For a shared framework on data and measurement that encompasses dimensions of financial inclusion and is also flexible to meet country-specific needs, the AFI Core Set could be leveraged as a starting point. The Core Set lists basic indicators of access and usage by households, which are good candidates for the set of KPIs of financial inclusion. The Core Set could be used to measure progress of the state of global financial inclusion and be integrated into the financial inclusion target setting exercise.

Financial inclusion target-setting initiatives can accelerate progress toward achieving the shared vision of universal access. Goals and targets help raise awareness, mobilize resources, inspire efforts, set priorities, and direct actions, all of which would ultimately contribute significantly to improving access to finance. The GPFI holds the potential for impact on two levels: (i) incorporating guidance on measurement frameworks and prioritizations of targets through GPFI country-level pilots; (ii) aligning on the roadmap and determining a toolkit for formulating country level targets or goals to help “operationalize” GPFI's universal access vision.

1. FINANCIAL INCLUSION DATA STOCKTAKING

1.1 Financial Inclusion Data Collection and Compilation Efforts

In recent years, with the increased interest in financial inclusion, a growing number of data collection and compilation efforts were initiated—both on a global scale and at national level. Increasingly, policy makers are recognizing the importance of evidence-based decision making and the central role of data and measurement. Data on financial inclusion can enable identification of areas where policy is most needed, inform program design and policy choice, and facilitate monitoring and evaluation.

In its first year, the Data and Measurement Sub-Group was tasked to identify the existing financial inclusion data landscape and to assess the data gaps. The first two chapters of this report include the key elements that emerged from the stocktaking exercise implemented for this purpose, and develop key recommendations to fill the data gaps.¹

1.2 Frameworks for Financial Inclusion Data Collection and Compilation

Financial inclusion is a complex and multidimensional concept. Yet, simply put, an inclusive financial system provides access to financial services for all in a reliable, convenient, affordable, continuous, and flexible manner by focusing on financially underserved as well as financially excluded.

Financial inclusion data landscape needs to span this multidimensional nature. Frameworks for data collection should cover the relevant concepts for all functions of finance for those institutions within the boundary of the financial system, while ensuring consistency, comparability, and continuity as well as allowing for flexibility to meet country-specific needs.

Existing data collection frameworks can broadly be categorized as supply- and demand-side initiatives: supply-side data are from the providers of financial services through financial institution surveys and regulator surveys, and demand-side data are from the users through household surveys and firm surveys. There are also other initiatives such as compilations of administrative/legislative data or expert surveys.

Supply- and demand-side data are not substitutes, but rather are complementary to each other. While demand-side data offers richer information on many dimensions of financial inclusion, household and firm surveys are costly, less frequent, susceptible to sampling bias and omissions by respondents, and in many cases, not comparable across countries or over time. Supply-side data, on the other hand, offers a low-cost alternative with more frequent and comparable data, however, at the expense of a set of rather broad indicators on only formal and regulated providers in general.

1.3 International and Multi-Country Data Collection and Compilation Efforts

Various data collection and compilation initiatives exist at international or multi-country level, focusing on a large number of countries but touching on only a few of financial inclusion topics, or focusing on a smaller group of countries for a multidimensional measurement of financial inclusion. These international and multi-country initiatives help standardize definitions and measurement, and enable comparisons across countries and regions, as well as over time. Nevertheless, these initiatives do not necessarily produce data that are custom-tailored to meet a particular country's needs.

A number of global-scale data initiatives exist on the supply-side. Among these, IMF's FAS collects the core indicators of access and usage on a global scale, and enables comparisons across countries and over time on an annual basis. Other supply-side data initiatives are, in general, complementary to IMF FAS; they cover specific aspects only, e.g. World Bank's Payment Systems Survey; produce more in-depth indicators but for a limited

¹ Further details of the stocktaking exercise and gap analysis are reported in IFC and CGAP (2011).

number of countries, e.g. World Bank’s Remittance Prices Worldwide database or ECB’s Bank Lending Survey; or are for specific types of providers, e.g. WOCCU statistics on credit unions. Figure 1 provides a summary comparison of selected current global or multi-country supply-side data collection efforts. The figure indicates that basic usage and access indicators are reasonably well-developed in the form of country-level aggregates, especially for commercial banks.

Figure 1 – Global or Multi-Country Supply-Side Data Collection Efforts: A Comparison

		IMF FAS	WB Payment Systems Survey	WB Fin. Inst. Survey	The MIX	BankScope	FinStats	IMF - IFS	IMF - FSI							
BASICS	Publicly Available	Yes	No	No	Partially	No	No	Yes	Yes							
	Frequency	Annual	Bi-annual	Irregular	Irregular	Irregular	Annual	Varies	Varies							
	Coverage	Global	Global	Global	Selected Developing	Selected	Global	Global	Global							
DATA COLLECTED	Basic Usage Indicators	S	C		S	C	S	C	S	C	S	C	S	C	S	C
		P	I	P										I		
	Access/Infrastructure	S	C		S	C	S	C	S	C	S	C				
		P	I	P												
	Barriers to Access				Yes											
Regulatory/Enabling Environment			P					S	C							
USER	Aggregated	Yes	Yes		Yes	Yes	Yes	Yes	Yes	Yes						
	Firm						Yes									
	Household/Individual	Yes														
PROVIDER	Commercial Banks	Yes		Yes		Yes	Yes	Yes	Yes	Yes						
	Coops & Credit Unions	Yes *								Yes *						
	Specialized State Fin. Inst.	Yes *								Yes *						
	Microfinance Institutions	Yes *			Yes					Yes *						
	Insurance Providers	Yes						Yes	Yes							
	Finance Companies	Yes						Yes	Yes							
Informal Providers																

* IMF data sets categorize deposit-taking institutions as “commercial banks” and “others”.
 S – Savings, C – Credit, I – Insurance, P – Payments
 Problem areas Major data gaps

Source: IFC and CGAP (2011).

On the demand side, two initiatives collect consistent and comparable data on a global scale. Of the two, Enterprise Surveys by the World Bank collect firm-based data enabling comparisons across countries and over time to a certain extent. This initiative produces a comprehensive data set of business environment in developing countries, and includes a variety of questions on the financing conditions faced by firms. On the individual users’ side, GFII produced by the World Bank and the Bill & Melinda Gates Foundation aims to construct a database of high-level financial inclusion indicators comparable across countries as well as over time. The first round of GFII data will be available by fall 2012. Besides these two global-scale initiatives that encourage comparability, some other initiatives produce a thorough set of indicators by focusing on specific areas of financial inclusion, and on a number of selected countries, e.g. FinMark Trust’s FinScope Surveys, or ECB’s Access to Finance by SMEs. Figure 2 provides a summary comparison of selected current global or multi-country demand-side data collection efforts. The figure indicates that basic usage indicators are fairly well-developed, especially for households.

Several other international data collection and compilation efforts, which rely on expert surveys, administrative and/or legislative data, project-level data, or funder-level data, also exist. For example, World Bank’s Doing Business collects annual indicators on creditor rights, credit registry coverage, and depth of credit information among others, on a global scale via an expert survey.

Figure 2 – Global or Multi-Country Demand-Side Data Collection Efforts: A Comparison

		WB Enterprise Surveys	WB LSMS	WB & Gates GFII	CP/FL Surveys - WB FPD	WB Migration & Remittances Surveys	FinScope	MECOVI							
BASICS	Publicly Available	Yes	Partially	Partially	Yes	Yes	No	No							
	Frequency	Every few years	Irregular	Annual	One time	One time	Irregular	Irregular							
	Coverage	Selected Developing	Selected Developing	Global	Selected Developing	5 in SSA	14 in SSA & Pakistan, India	12 in LAC							
DATA COLLECTED	Basic Usage Indicators	S	C	S	C	S	C	S	C	S	C	S	C	S	C
						P	I	P	I	P		P	I		I
	Access/Infrastructure										S	C			
	Barriers to Access	Yes				Yes	Yes			Yes					
USER	Aggregated														
	Firm	Yes									Yes (in 6 countries)				
	Household/Individual			Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
PROVIDER	Commercial Banks				Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
	Coops & Credit Unions				Yes		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	
	Specialized State Fin. Inst.				Yes (Postal)		Yes	Yes (Postal)	Yes	Yes	Yes	Yes	Yes	Yes	
	Microfinance Institutions				Yes			Yes	Yes	Yes	Yes	Yes	Yes	Yes	
	Insurance Providers							Yes	Yes	Yes	Yes	Yes	Yes	Yes	
	Finance Companies							Yes	Yes	Yes	Yes	Yes	Yes	Yes	
	Informal Providers						Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	

LAC – Latin America and the Caribbean, SSA – Sub-Saharan Africa
 S - Savings, C - Credit, I - Insurance, P – Payments
 Problem Areas Major data gaps

Source: IFC and CGAP (2011).

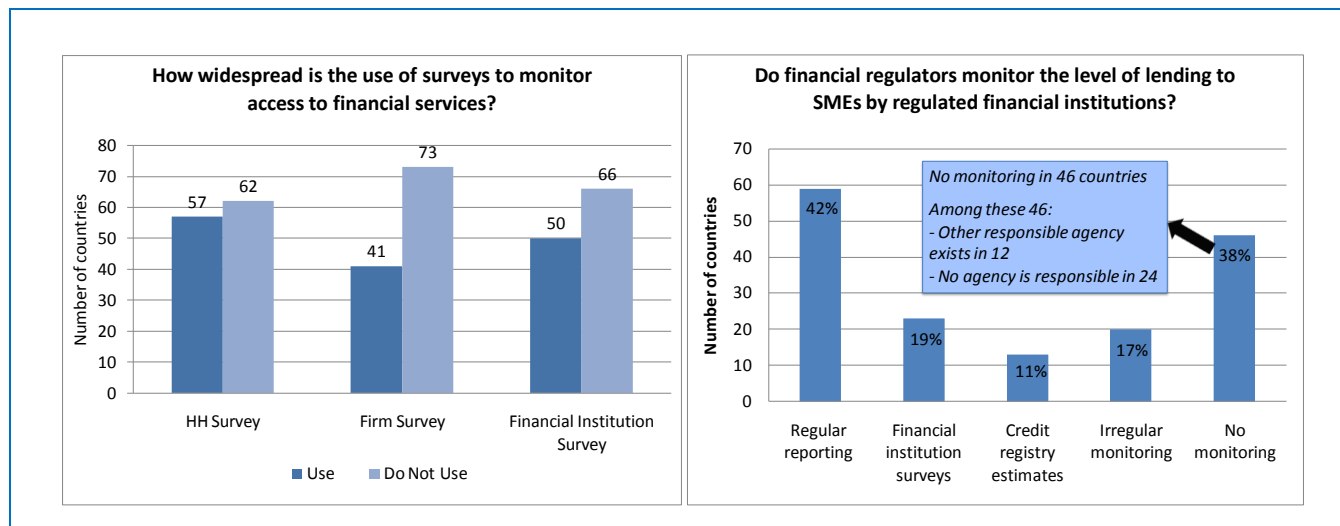
1.4 Data Collection Efforts at the Country Level

Increasingly, more countries started monitoring financial inclusion through household, firm and/or financial institution surveys at the national level. Figure 3 suggests that household survey is the most common method used by financial regulators to monitor financial inclusion. In addition to surveys, financial regulators sometimes gather data on financial inclusion via regular reporting by financial institutions. While country-led efforts produce data that are specific to the country context, the indicators may not allow comparisons to other countries or to earlier efforts within the same country. Yet, this direct ownership of measurement and data collection activities suggests a potential for informed policy action.

Data collection efforts at the national level vary across countries. Based on the 2010 CGAP/World Bank *Financial Access* survey, a survey of financial regulators, (i) around half of the responding regulators monitor access to financial services through one of these methods, and household survey is the most common mechanism; (ii) most economies also monitor SME lending (see Figure 3), and most often line ministries, such as ministry of industry and trade is tasked to do so although the definition of an SME may vary from one institution to another even within a country; (iii) majority of the countries with national strategy documents for financial inclusion tend to put more emphasis on data and measurement (see Figure 4).²

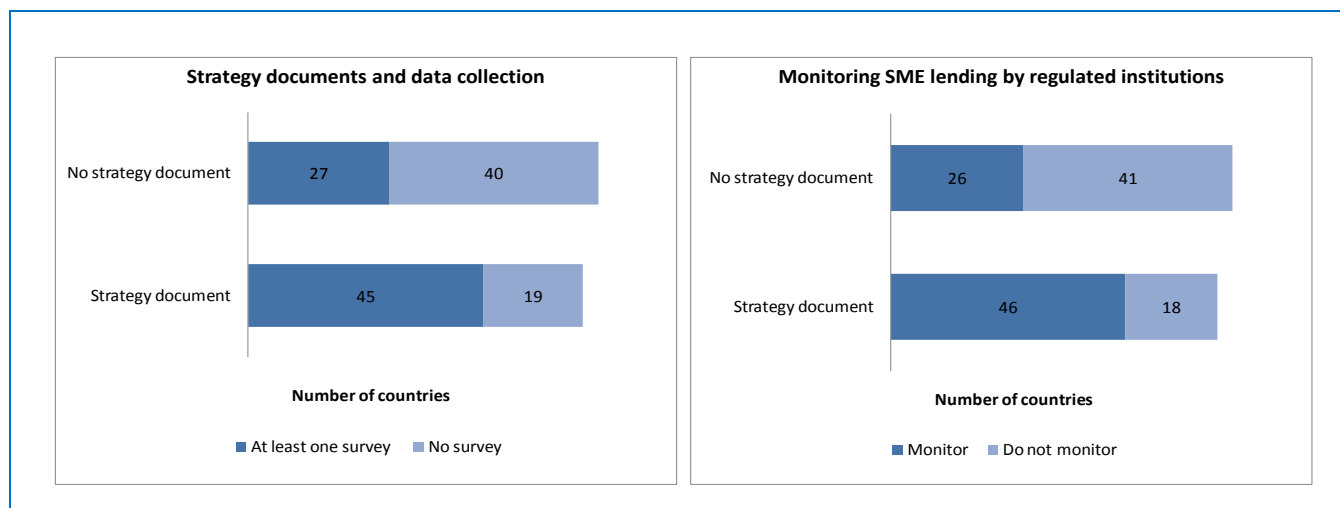
² Data collection initiatives at the national level and national-level activities to monitor SME lending based on the 2010 CGAP/World Bank Group *Financial Access* database are listed in IFC and CGAP (2011).

Figure 3 – Country-Level Monitoring and Data Collection Efforts



Source: CGAP/World Bank Group Financial Access database. Left panel is based on responses by 120 countries. Right panel is based on responses by 120 countries, 23 of which use more than one method to monitor SME lending.

Figure 4 – National Strategy Documents and Data Collection and Monitoring Efforts



Source: CGAP/World Bank Financial Access database. Based on responses by 131 countries.

2. GAPS IN THE FINANCIAL INCLUSION DATA LANDSCAPE

Financial inclusion measurement and data collection efforts are plenty—both at country levels and on a global scale—but gaps in the data landscape still exist. The first step in identifying the data gaps is to define the comprehensive financial inclusion data landscape. The second step, then, is to evaluate the existing indicators in relation to this comprehensive set.

Defining the comprehensive financial inclusion data landscape is not straightforward and should be based on at least the following two conditions. First, a full, accurate, and widely-accepted definition of financial inclusion and its dimensions is essential. Second, it is necessary to acknowledge that defining the comprehensive data landscape is a dynamic process as data requirements may change over time, especially because technology is rapidly changing the way people access and use financial services. As such, it is not possible to completely and accurately define the comprehensive financial inclusion data landscape.

Yet, this should not hinder the efforts to identify the data gaps, as it is possible to envision drawing the boundaries of a comprehensive data landscape based on the generally-agreed principles for high-quality statistics as well as on certain principles that financial inclusion policy making would necessitate. As a first step in reaching a common understanding toward a comprehensive data landscape, purposes and qualities of an ideal data landscape should be identified. Second, principles for building or improving national statistical capacity and principles for building inclusive financial systems would provide guidance to visualize a comprehensive data landscape. Finally, evaluating the existing data landscape in relation to these two sets of principles, and simultaneously accounting for the purposes and qualities of an ideal data landscape, would allow the identification of data gaps.

The rest of this chapter is as follows. Section 2.1 describes the first two steps to develop an understanding of a comprehensive data landscape for financial inclusion. Next, sections 2.2 and 2.3 build on these principles to identify the data gaps in international and multi-country initiatives, and country-led initiatives, respectively.

2.1 Toward a Comprehensive Data Landscape

Step 1

A comprehensive set of financial inclusion indicators should serve three purposes: (i) to inform financial inclusion policy making both domestically and internationally; (ii) to provide a basis for measuring the current state of financial inclusion on a global scale and at country level; and (iii) to provide a basis for monitoring and evaluation of financial inclusion policies and targets, both domestically and internationally.

A comprehensive set of financial inclusion indicators should have three qualities: (i) encompass dimensions of financial inclusion; (ii) be sufficiently standardized to ensure transparency, consistency, and comparability, and yet sufficiently flexible to meet country-specific needs; and (iii) be collected through coordinated and efficient processes.

Step 2

Building or improving national statistical capacity to meet national, regional, and international data needs on financial inclusion is one step toward constructing a comprehensive data landscape, especially in terms of emphasizing standardization and harmonization of measurement and definitions to ensure quality of data and indicators. Earlier and existing initiatives can be of guidance in this respect. For example, the UN Statistical Commission endorsed a set of 10 principles, known as the Fundamental Principles of Official Statistics in 1994 to guide the efforts for building national statistical capacity. In addition, the Partnership in Statistics for Development in the 21st century (PARIS21) was founded in 1999 by the UN, EC, IMF, World Bank and OECD to encourage and assist all low-income and lower-middle-income countries to design, implement, and monitor

National Strategies for the Development of Statistics (NSDS), and to have nationally owned and produced data for all MDG indicators.

National statistical capacity building would also lead to more efficient data collection processes. A key ingredient in national statistical capacity is the coordination of data collection efforts within and across countries. For example, statistics on SME lending might be collected by the Ministry of Industry and Trade as well as the financial regulator. Coordination of the data collection efforts by the two agencies within the country would bring cost efficiency as well as consistency in the resulting data.

Building inclusive financial systems is a multi-stage journey, and different types of indicators are suitable for different stages of this journey. Reflecting on this journey would be of help in terms of identifying the indicators relevant for each stage. For example, one way to envision these stages is as follows: building basic enabling environment, enabling first entry into the formal financial system, enabling informed use of financial products and services, enabling the use of a full suite of financial products and services, ensuring high quality financial products and services.

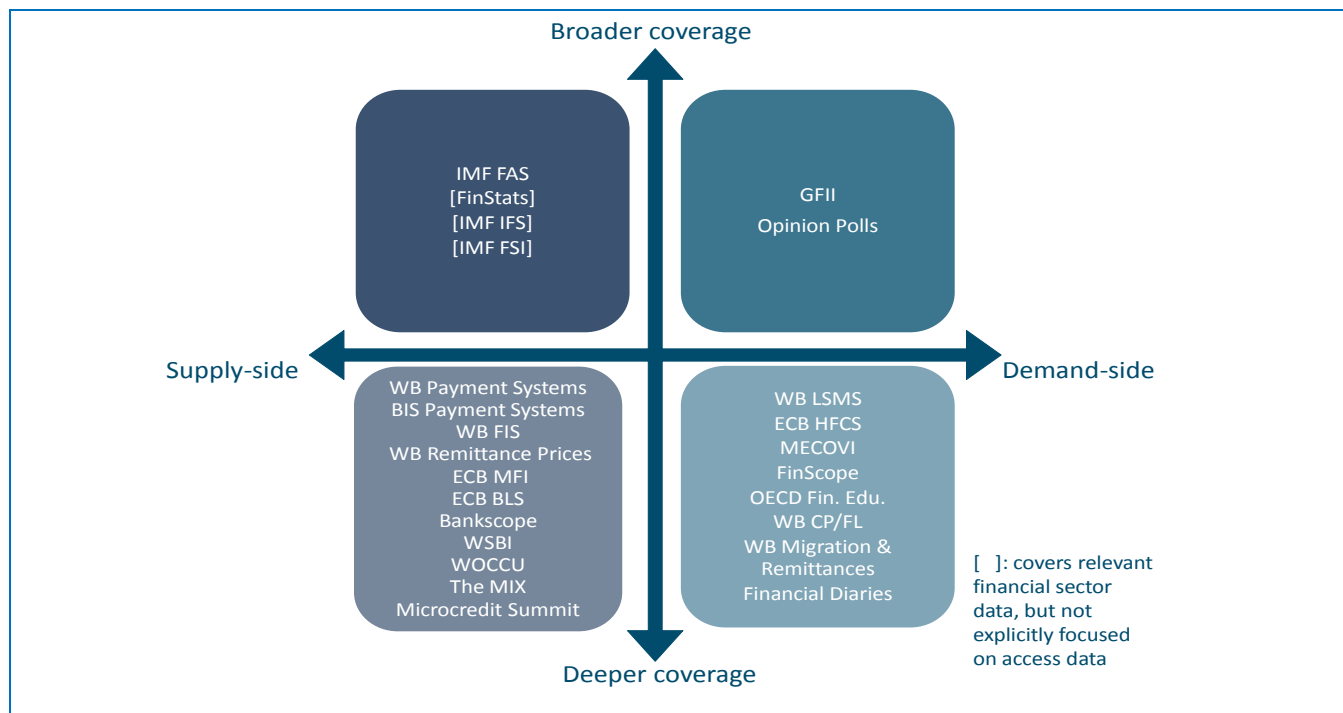
The stages of the journey toward full financial inclusion are not necessarily sequential, but some may overlap with one another; however within each stage, it is possible to consider indicators grouped into three as input, output and impact. Input indicators describe the key characteristics of the enabling environment, output indicators capture consequences of input actions, and impact indicators measure improvements in individual well-being and firm profitability due to financial inclusion policies. In this context, key enabling environment includes public sector driven enablers such as the existence or quality of relevant legislation or institutions, private sector drive, and macroeconomic descriptors. Basic set of output indicators are access and usage indicators such as number of branches or number of banked adults that measure entry into the formal financial system. The next generation output indicators include more forward-looking dimensions of financial inclusion such as lifting barriers to access, quality of financial services, and financial literacy. Impact indicators are the most challenging in terms of measurement because they require isolating the effect of financial inclusion policies on well-being. Each stage of the journey toward full financial inclusion might call for a different set of indicators that fall into each of the three categories.

2.2 Data Gaps in International and Multi-Country Initiatives

Given the guiding principles toward an understanding of a comprehensive financial inclusion data landscape, data gaps in international and multi-country data initiatives can be broadly grouped into two: gaps related to statistical capacity in general, and gaps related to specific financial inclusion dimensions.

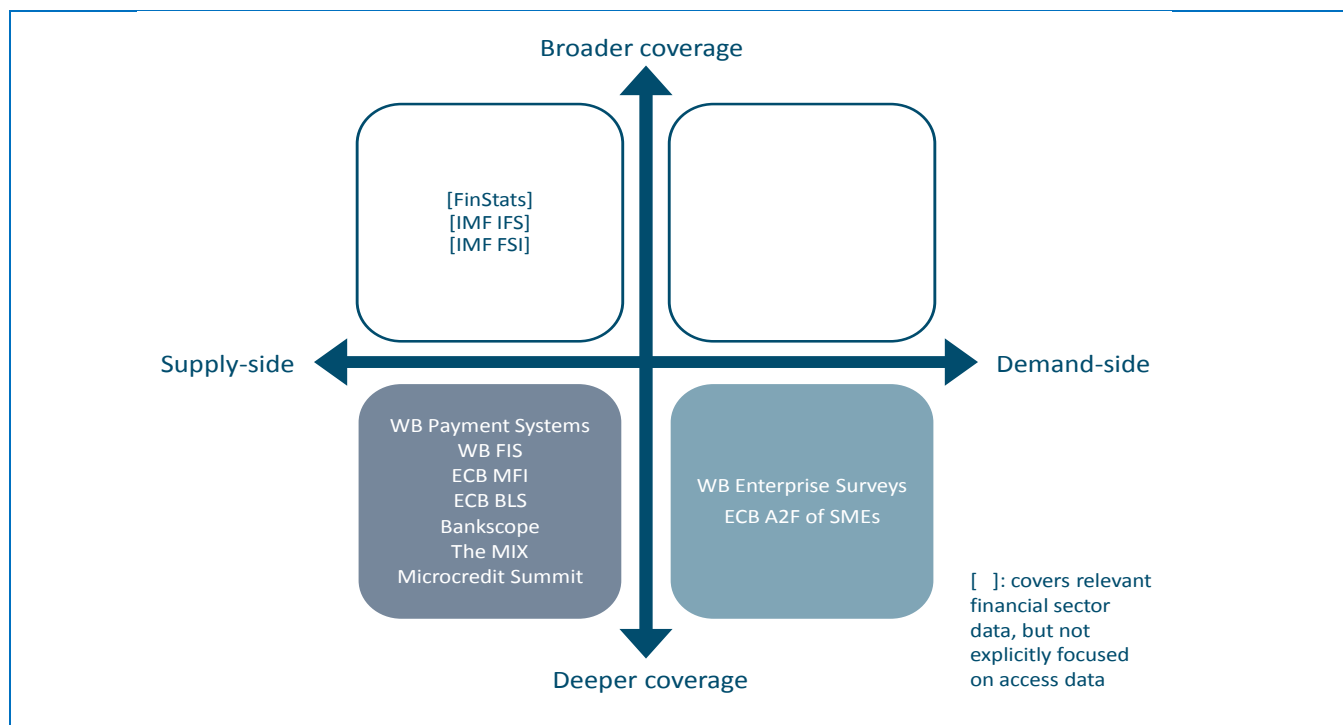
- i. The gaps related to statistical capacity are those that involve the way in which financial inclusion statistics are measured, collected, and disseminated in general. These are:
 - Some data sets, especially demand-side databases, are not publicly available (see Figures 1 and 2). In some cases, this is because of confidentiality, in some others, because of transparency or private property.
 - Data and measurement on access to finance by households are more developed than those on access to finance by firms (see Figures 1 and 2, and also coverage for households vs. enterprises: Figures 5 and 6).
 - There is lack of data on informal providers and informal businesses, though it should be acknowledged that data on the informal sector are hard to gather in general (see Figures 1 and 2).
 - Lack of financial identity weakens the reliability of supply-side data on usage. As users cannot be uniquely identified in forming country-level aggregates in the absence of financial identity, supply-side indicators on usage are prone to multiple counting.
 - Lack of harmonized definitions, standardized data collection and indicator construction—especially for SMEs, active vs. dormant accounts, and demand-side data—lead to challenges with comparability of indicators over time and across countries.

Figure 5 – Data Coverage for Households/Individuals



Source: IFC and CGAP (2011). Matrix representation is adapted from Bill and Melinda Gates Foundation (2010). Listed datasets cover only global and multi-country data sources.

Figure 6 – Data Coverage and Gaps for Enterprises



Source: IFC and CGAP (2011). Matrix representation is adapted from Bill and Melinda Gates Foundation (2010). Listed datasets cover only global and multi-country data sources. White boxes in the matrix point to data gaps.

- ii. The gaps related to financial inclusion dimensions are those that concern input, output and impact indicators. These are:
 - Access and usage indicators that measure the entry into the formal financial system are reasonably well-developed, though there are certain gaps to be filled. For example, frequency of measurement of usage by enterprises and differentiation of active users need improvements.
 - Next generation output indicators such as quality of services, financial literacy, absence of barriers to access, etc. are yet to be developed in a consistent way.
 - Regular and thorough measurement of the key enabling environment—more specifically, public sector driven enablers and private sector drive—is lacking.
 - Methods and indicators to assess the impact of financial inclusion policies are missing.

2.3 Data Gaps in Country-Level Initiatives

Based on CGAP/World Bank *Financial Access* database, it is possible to identify a number of gaps in country-level data and measurement initiatives:

- i. In those countries where more than one agency collects data, coordination & cooperation at the national level is essential to achieve consistency and efficiency.
- ii. Financial regulators in a significant number of countries do not use any mechanism to keep track of the state of financial inclusion.
- iii. Although many countries keep track of SME lending, a consistent definition of an SME even at a national level is lacking in most countries, leading to problems in aggregating numbers and monitoring progress.³
- iv. Countries with national strategy documents for financial inclusion put more emphasis on data and measurement than those that do not have strategy documents.

More detailed analysis of data gaps in country-level initiatives requires comprehensive country-level case studies. Yet it is possible to conjecture that the majority of the gaps identified for international and multi-country initiatives also apply for country-level initiatives because almost all international and multi-country data collection and compilation efforts depend on national data collection capacity, as well as data availability and quality at the country level.

2.4 Key Implications and Recommendations for the GPFi

The findings of the stocktaking and gap analysis have key implications for the GPFi work going forward. These are summarized below, in addition to the data-related recommendations that emerged from the findings of the GPFi SME Finance Sub-Group. Box 1 summarizes the data recommendations by the Data Working Group of the G-20 FIEG SME Finance Sub-Group made in September 2010.

Measures to improve the overall data landscape

Harmonize definitions

Harmonization of the definitions of the concepts to be measured is essential to ensure comparability across countries and over time, to devise development strategies, and to adapt or design informed policies. This is especially important for data and measurement of access to finance by SMEs and women-owned SMEs, active vs. dormant accounts, quality of financial products and services, and regulatory environment, as data and indicators in these areas are currently being developed, while indicators of physical proximity and usage by households are relatively well-established.

³ See CGAP and the World Bank Group (2010).

Box 1: Summary Recommendations by the Data Working Group of the G-20 FIEG SME Finance Sub-Group (September 2010)

The group proposes the following recommendations with the aim of obtaining better data which will lead to improving the process of designing policies, setting targets, and understanding the impact of specific interventions over time:

Request for consistent collection of supply side data, disaggregated for households, micro, small and medium-sized enterprises, with a mandate for the World Bank/CGAP and IMF to [consolidate/harmonize] their global efforts within their respective mandates.

Request for continuity and expansion of demand side data, with a mandate for the World Bank, OECD and ECB to harmonize their global efforts and include more sectors in their data collection efforts such as enterprises with less than 5 employees and the informal sector.

Request MDBs, IFIs and DFIs to harmonize their reporting on their support for SME Finance, as well as encourage initiatives to make institution level data for SME Finance available including the collection of supply side data from funders under the leadership of the IFC/CGAP.

These recommendations will require a certain amount of funding to be fully implemented.

The working group further recognizes that SME Finance data collection cannot be seen in isolation from the broader financial access data efforts. Also, there is a need to engage with standard-setting bodies as well as at a country level in order to support improvements to existing reporting frameworks that are aligned with national development priorities, as well as evolving reporting frameworks linked to changes in financial institutions oversight and prudential regulations.

Additional considerations going forward. The following agenda items may need to be considered within the context of the data agenda going forward: (i) Measuring impact of MSME Finance, in particular on employment creation, growth, labor standards, and the link to non-financial interventions, the impact of financial infrastructure, different financial instruments such as equity, debt, leasing, and the impact of different public interventions, including guarantees. (ii) Demonstrating the link to stability, both on the demand and the supply side. (iii) Articulating a plan to address capacity issues at financial institutions to report data, in particular with respect to MIS and IT systems. (iv) Reviewing different approaches towards MSME definitions, in particular in developing proxies for the supply side data collection. (v) Reviewing how best to build on existing data sources such as public registries and commercial credit bureaus to complement/support the respective data collection efforts. (vi) Reviewing possible introduction of regulatory requirements on banks and other financial institutions to report on lending by type of borrower.

Source: Summary outcome document prepared for the second meeting of the Data Working Group of the G-20 FIEG Sub-Group on SME Finance held in Washington, DC on September 2, 2010.

Standardize data collection and indicator computation

The use of international concepts, classifications and methods promotes the transparency, consistency and efficiency of statistical systems. This also avoids misinterpretations of published statistics. It is also important to recognize that country-specific characteristics, such as urban-rural divide, etc. might necessitate certain differences across countries in terms of the level of disaggregation in which the indicators are computed so as to inform the policy makers in the best possible way. Nevertheless, such national classifications tailored to country situations and needs should enable internationally-standardized data to be generated.

International data classification standards exist for various data types, though not for financial inclusion data and measurement. Nevertheless, efforts should focus on producing indicators that are consistent and comparable, yet suitable to country-specific conditions. In this regard, it might be possible to borrow from

standards and classifications for similar areas/initiatives. For example, the IMF FAS uses definitions and standards consistent with the IMF’s Monetary and Statistics Manual.⁴

Build or improve national statistical capacity (prioritize based on country-specific needs)

Building or improving national statistical capacity is imperative in improving data availability and quality. National statistical capacity is the key to consistent and reliable data collection not only at the country level and also on a global scale, as international initiatives rely on country-level statistics and data collection by national statistical agencies. As good statistics are important for informed policy making and achieving better outcomes, national statistical capacity building should take into account country-specific needs for data collection and measurement for custom-tailored policy making.

Improve data availability and quality with a focus on missing indicators

While indicators on access and usage dimensions of financial inclusion are reasonably well-developed, progress is yet to be made on indicators to consistently measure other aspects, i.e. indicators on quality of financial services, financial literacy, absence of barriers to access; differentiation of active users; access to finance by women-owned enterprises and agricultural SMEs; and frequency of measurement of usage by enterprises. Furthermore, regular and thorough measurement of the key enabling environment is yet to be developed. Developing methodologies and indicators to consistently measure access, usage and quality through informal and unregulated providers would help complete the picture. World Bank’s Enterprise Surveys could be updated and expanded considerably to address the issues that relate to enterprises, that is, measurement of usage by enterprises, access to finance by women-owned enterprises and agricultural SMEs, and the role of informal businesses.

Impact indicators to evaluate financial inclusion policies are also missing. Impact evaluation is gaining more attention recently; as such assessments would be of great value in sharpening national efforts for financial inclusion and designing country-level targets. Needless to say, measuring the impact dimension is very challenging because it requires isolating the effect of financial inclusion policies on well-being of individuals and firms. Ideally, policies and programs may be designed to have the impact assessment dimension as an integral part, taking into account the specific data needs of this process.

Measures to improve supply-side data

Updates for the IMF FAS

The IMF would benefit from a clear mandate to continue and expand its efforts in collecting supply-side data on financial access. The IMF FAS is the only global supply-side data source that produces internationally comparable data on basic indicators of financial access and usage; however some improvements to the survey are necessary to provide a comprehensive state of financial access globally. Namely, it is essential to increase data availability in the IMF FAS, as well as to expand the scope of the survey to some extent. Yet, the mandate of the IMF in collecting more detailed data on financial access is not explicit, and this in turn has implications in terms of resource allocation.

The IMF is well positioned to be one of the data leaders in the financial inclusion space due to the following reasons: (i) linking financial inclusion to financial stability can be facilitated by the fact that the IMF is a global expert on financial stability issues; (ii) the IMF is a standard setter in monetary statistics and financial soundness indicators, and therefore it is important and fitting that the IMF is engaged in this data collection effort. The involvement of the IMF should be limited to collecting the core, macro data set, which could then be complemented by other initiatives to encompass all dimensions of financial inclusion, provided that there is a common understanding of the underlying definitions.

⁴ The manual is available at <http://www.imf.org/external/pubs/ft.mfs/manual/index.htm>

Four specific updates to the data set collected by the IMF FAS are identified: (i) increasing data availability, especially as there are very few observations on usage indicators in the latest vintage leading to a partial assessment of the number of banked/unbanked around the world; (ii) including the SME dimension—for credit and deposit services—as supply-side data on access to finance by SMEs do not exist and demand-side data is limited; (iii) collecting data on number of accounts in addition to number of account holders for all types of financial institutions as well as for all types of financial services, as most countries would have aggregated data on the number of accounts but not on the number of account holders; (iv) disaggregating access and usage statistics for cooperatives/credit unions and MFIs, as these are the institutions that by and large serve the poor.

Improve measurement: active vs. dormant accounts

Establishing and standardizing definitions of active vs. dormant accounts would yield more accurate measurement of usage by enabling financial institutions around the world to use similar methods to categorize accounts as dormant. Because there is currently no such standardization, some countries might end up showing artificially high levels of usage of financial services based on supply-side data when in fact there are many dormant accounts. This would also improve the comparability of data across countries.

Improve measurement: financial identity

Financial identity can help supply-side data collection by serving as a unique identifier for counting the number of users of formal financial services. The primary functions of establishing financial identity are enabling access to financial services, and screening and monitoring financial activities. Yet, another important use of financial identity is that it enables aggregating the number of users of financial services across different financial institutions and products at the country level. In the absence of such a unique identifier, supply-side data collection is prone to multiple counting, as households or enterprises with accounts in more than one bank would be counted more than once, leading to an over-estimation in the number of people with access.

Measures to improve demand-side data

Ensure open data access

Ensuring open data access would lead to further knowledge creation and an improved understanding of problems and challenges, and as a result, better solutions and policies. However, the majority of the existing financial inclusion data initiatives on the demand side—both at country level and on a global scale—are publicly unavailable at least partially if not fully. The benefits of open data access include increased awareness and transparency by encouraging use. By doing so, it could accelerate the drive for improved data availability and quality.

Improve measurement: comparability across countries and over time

Harmonization of methodologies and standardization of definitions and indicator computation to a certain extent in demand-side surveys could bring about comparability of statistics across countries and over time. An increasing number of countries are implementing household and firm surveys tailored to country-specific needs, but these efforts do not necessarily produce comparable country-level aggregated indicators. Recognizing the importance of country-specific needs, these surveys should still allow for some level of comparability across countries and over time to enable monitoring and understanding the performance of a country and to evaluate policies.

Improve data availability: coordinate survey efforts

Survey efforts within a country by different agencies should be coordinated to improve data availability and to lower costs. Demand-side data is costly to collect, and therefore household or firm surveys to monitor progress in a specific field are not implemented frequently, impeding data availability. Nonetheless, it is common to have different demand-side surveys that serve different purposes—such as access to education or household budget surveys—implemented simultaneously in many countries. Coordinated efforts in designing and

implementing these surveys could increase the frequency of demand-side data, at least for high-level indicators, and improve efficiency through lowering costs.

Recommendations by other GPFi Sub-Groups to improve the data landscape

Build a database on women-owned enterprises⁵

A platform to collect cross-country data on SME finance, disaggregated by gender, should be established. To enable a consistent database, the definition of a women-owned business should be clarified and standardized. This new database should facilitate the monitoring of drivers of gender-specific differences in enterprise growth and access to finance.

Specific data gaps identified include (i) lack of individual level data on entry decisions together with information on relevant factors that influence such decisions; (ii) lack of information on gender of owners in business registration forms; (iii) lack of gender-based data on ownership and control, i.e. women’s decision-making power; and (iv) lack of gender-based information on lenders’ portfolios.

The report identifies three specific points for improvement:

- Gender-disaggregated data on access to finance should be collected at the national level, in collaboration with financial authorities, commercial banks, and other financial institutions by differentiating among the types of financial services.
- Enabling computerization and on-line registration of businesses, with information on the gender of the business owners, would create higher quality data and more efficient data collection platforms.
- Gender disaggregated questions on access to finance and ownership of assets—rather than household access and ownership—should be included in demand-side surveys conducted by national authorities, such as national surveys on labor force participation.

Build consistent and reliable data sources for access to finance by agricultural SMEs⁶

The work stream on access to finance by agricultural SMEs of the GPFi SME Finance Sub-Group identified a large gap in data as one item that impedes growth in agricultural finance. For example, data on agricultural markets in general—such as production and prices, weather—are not collected regularly. Evaluating loans, defining and quantifying financing risks, and developing risk management tools all depend on reliable data with regular frequency. In addition to market data, data on loans are not collected, which makes the estimation of financing gaps infeasible.

Three specific recommendations emerged from this work stream:

- Governments should invest in the regular collection and dissemination of reliable data related to agricultural finance, as well as agricultural production, supply chains, and market pricing information.
- Banks and other financial institutions should report data on their agricultural lending, such as the amount, tenor, loan purpose, and repayment performance, to inform policy and to contribute to the diagnostics and strategic reviews of agricultural finance at country level.
- Public sector should be the key actor in constructing the database on agricultural finance to reduce problems of imperfect and asymmetric information that may hinder the efficient allocation of resources toward and within the agricultural sector. This is especially important for constructing country-level aggregated indicators for agricultural finance.

⁵ Source: “Strengthening Access to Finance for Women-Owned SMEs in Developing Countries,” prepared by IFC for the GPFi SME Finance Sub-Group (October 2011).

⁶ Source: “Scaling Up Access to Finance for Agricultural SMEs – Policy Review and Recommendations,” prepared by IFC for the GPFi SME Finance Sub-Group (October 2011).

3. IMPLEMENTING A COMMON DATA FRAMEWORK FOR MEASURING FINANCIAL INCLUSION

As outlined in the previous chapters, while there is consensus on the importance of collecting financial inclusion data, no standard exists for what to measure or how to measure it across countries. In response to this identified gap, the AFI Financial Inclusion Data Working Group (FIDWG)⁷ formulated a basic framework for measuring financial inclusion and a core set of financial inclusion indicators (the Core Set). The Core Set is a list of five indicators that are consistent across countries yet sufficiently flexible to meet country-specific needs. The GPI Sub-Group on Data and Measurement has recognized the potential of this Core Set as a central component in its strategy to measure global progress and to set country-driven targets as a part of its activities to define the components and key performance indicators (KPIs) for financial inclusion.⁸

3.1 The AFI “Core Set”

The AFI Core Set is a tool for guiding quantitative data collection and measurement in an effort to make it more accessible. The tool is intended to ultimately help policymakers develop appropriate financial inclusion policies and monitor progress over time. The Core Set also helps pave the way for greater consistency and comparability across countries along with other tools being developed by the AFI FIDWG which will include a catalogue of financial inclusion indicators and a framework for measuring the quality dimension of financial inclusion (see Box 2 on the details of the development process for the Core Set).

In developing the Core Set the FIDWG developed a framework for defining and measuring financial inclusion which begins by defining three broad dimensions of financial inclusion: access, usage and quality. Access refers to the ability to use available financial services and products from formal institutions. Understanding levels of access may require identifying and analyzing potential barriers to opening and using a bank account, such as cost or

Box 2: The Development of the AFI Core Set

The FIDWG accepted a broad framework for defining and measuring financial inclusion that consists of three dimensions: access, usage and quality. Broadly, access and usage are the dimensions that address the basic concept of financial inclusion, while the quality dimension delves deeper into the nature and characteristics of the access and/or usage, and as such is a more complex dimension to measure. As a starting point, the FIDWG decided to create a concise set of indicators of access and usage that most countries could collect and would find useful in their financial inclusion policymaking processes.

A subgroup of four members of the FIDWG was tasked with developing this Core Set of Financial Inclusion Indicators. Each member shortlisted an initial set of access and usage indicators to be included in the Core Set. The subgroup then reconvened to find common ground and consolidate the initial lists into a concise set. Efforts were made to align the Core Set with existing international financial inclusion data initiatives. The initial list was presented to the FIDWG at its third Working Group meeting in Lima, Peru, in March 2011. There, the entire Working Group arrived at a consensus on the Core Set of Indicators (as presented in this document) that would be piloted by AFI member institutions between March and September 2011.

Within the work plan of FIDWG, the Core Set is positioned as a “first step” set of indicators. It is part of a larger, more comprehensive financial inclusion measurement toolkit to be developed by this working group. In addition to the Core Set, as next steps, the group plans to develop guidelines on financial inclusion measurement, including a more robust catalogue of indicators covering the access and usage dimensions of financial inclusion, as well as a framework for measuring the quality dimension of financial inclusion.

⁷ The AFI FIDWG was formed in response to the requests by AFI members at the AFI Global Policy Forum in 2009 for a platform to further explore the topic of financial inclusion data. The group’s purpose is to build the capacity by sharing expertise within the AFI network in data methodologies and approaches aimed at creating evidence-based policy.

⁸ This chapter was contributed by AFI in September 2011.

physical proximity of bank service points (branches, ATMs, etc). Data on access can usually be obtained through information provided by financial institutions. Usage, on the other hand, refers to the performance and depth or extent of financial services and product use. In other words, determining usage requires gathering details about the take-up or popularity, regularity, frequency, and duration of use over time. Quality refers to the quality and appropriateness of the financial services, including topics in consumer protection and financial literacy.

The Core Set specifically addresses the access and usage of financial services (see Box 3 for the list of the Core Set indicators). Although there are many possible components of access and usage, the access indicators defined in the Core Set measure the possibility of using financial services by way of physical outreach of access points⁹ and the usage indicators measure the use of deposit accounts and credit accounts through regulated institutions. Quality, while important, is not measured in the Core Set because it is the most difficult dimension to measure and does not address financial inclusion at the most basic level as do the other two dimensions.

Scope and Limitations of the AFI Core Set

The Core Set includes measures of the basic and fundamental aspects of financial inclusion that are relevant for financial sector decision makers addressing issues of financial inclusion. The Core Set offers measurement which is as standardized as possible while remaining relevant to individual countries. The Core Set focuses on national level data that is relatively easy to collect (ensuring wide collection).

In summary, within the current data landscape the Core Set offers the following value proposition:

1. **Developed by policymakers, for use by policymakers,** the Core Set reflects policymakers’ collective experiences with data, ensuring the utility and availability of the data and thus increasing the likelihood of uptake. The Core Set **provides a foundation for country-led, national level financial inclusion data gathering.** With a focus on the most basic aspects of financial inclusion—access and usage—the Core Set is not a complete catalogue of indicators by itself. Rather, it provides a meaningful starting point within the reach of most policymakers which can eventually be integrated into a larger and more comprehensive measurement initiative.
2. **Supports domestic policymaking.** The Core Set provides a refined set of indicators designed specifically to address basic financial inclusion policy questions from both the angle of service providers and the users of these services. For example, the Core Set defines indicators that address the functionality of access points and builds a level of disaggregation by physical administrative units (such as municipalities).

Box 3: The AFI Core Set

Access Indicators

1. Number of access points per 10,000 adults at a national level and segmented by type and by relevant administrative units
- 2.1 Percentage of administrative units with at least one access point
- 2.2 Percentage of total population living in administrative units with at least one access point

Usage Indicators

- 3.1 Percentage of adults with at least one type of regulated deposit account
- 3.2 Percentage of adults with at least one type of regulated credit account

The following indicators are identified as proxies where data for the two indicators above are unavailable:

- 3.a Number of deposit accounts per 10,000 adults
- 3.b Number of loan accounts per 10,000 adults

⁹ Access point is defined as a regulated access point where cash-in and cash-out transactions can be performed.

3. **Easy to collect and has built-in flexibility for country-specific contexts.** Additionally, while in many countries the indicators in the Core Set already exist; proxy indicators are identified where data availability might be an issue.
4. **Sufficiently standardized** to allow for cross-country comparisons to a certain extent.

The Core Set is a limited list of indicators (consisting of only five indicators with two alternative proxy indicators). As a trade off to its brevity and ease of use, the Core Set does not measure the quality of the services, it does not explore the details of the access or usage, or it does not delve into access to finance by enterprises.

To fully cover all dimensions of financial inclusion, including quality and access to finance by enterprises, and to meet other country-specific needs, it is important to note that countries are encouraged to go beyond the Core Set and collect additional indicators. For example, countries may collect data on specific types of access points or types of financial services (remittances, payments, insurance, etc.), as well as expand this framework to include SME and agribusiness, and examine disaggregated indicators by gender or level of poverty. Countries may determine the level of disaggregation, breadth, and depth of measurement, depending on their needs and priorities.

The AFI Core Set and Other Data Initiatives

As identified in the stocktaking exercise many data initiatives exist. The Core Set is unique in the global data landscape because of its balance of standardization and flexibility, its focus on policymaking for financial inclusion, and its broad support from financial sector policymakers.

Most importantly, the Core Set is not a data collection or compilation effort by itself; it is a framework to provide guidance for country-level data collection efforts. As such, the Core Set is different from cross-country data collection efforts. The Core Set is a list of indicators designed by policymakers to be flexible for country-specific policy needs. For example, the indicators of access specify the actual functions performed by an access point that make an access point significant for financial inclusion, i.e. cash-in *and* cash-out can be performed. The access indicators additionally go one step further to specify the physical distribution of the access points throughout the country, which can lead to significant implications for policymaking.

Country-led data initiatives of both supply-side data and demand-side data may be targeted to the country-specific context. The Core Set, on the other hand, distinguishes itself from other efforts in that this initiative was developed collaboratively by policymakers representing a diverse group of countries facing issues of financial inclusion. Unlike the country-specific initiatives, the Core Set will allow for a certain amount of benchmarking and comparison among countries.

3.2 Pilot Testing the AFI Core Set

A pilot testing phase of collecting data for the Core Set began in March 2011 when it was first agreed upon by the FIDWG. FIDWG members and a number of other AFI member institutions have pledged to complete the Core Set for their country by fall 2011. The output of this exercise will be an initial dataset, and more importantly, findings and feedback from countries and other stakeholders that will help improve the design of the Core Set. The Core Set is not yet finalized and will evolve during the coming year within the key characteristics of the Core Set outlined previously (such as ease of collection, standardization, financial inclusion policy-specific, etc.)

Feedback on the Core Set already received includes a proposal from the GPF Data and Measurement Sub-Group to expand the Core Set to include: cellular phone coverage, adults with at least one type of regulated insurance product, adults with a regulated savings or investment account, % of SMEs with at least one type of regulated deposit account, % of SMEs with at least one type of regulated credit account.¹⁰

The current list of institutions that are in the process of piloting the Core Set include:

¹⁰ See GPF Data and Measurement Sub-Group Proposed Financial Inclusion Indicators (9 May 2011).

1. Bank Negara Malaysia
2. Banque Republique du Burundi
3. Central Bank of Kenya
4. Bangko Sentral ng Pilipinas
5. CNBV Mexico
6. South Africa Treasury
7. SBS Peru
8. SIB Guatemala
9. Bank of Thailand
10. Bank of Zambia
11. Banco Central do Brasil
12. Bank of Uganda (tbc)

3.3 Key Implications and Recommendations for the GPFI

The development and use of the Core Set has certain implications for measurement initiatives around the world.

For international data initiatives, the successful application of the Core Set—which currently is in the piloting phase—could demonstrate that international indicators can possibly be refined to more specifically reflect a better understanding the domestic conditions of financial inclusion, rather than aiming at just cross-country comparison.

For country-specific initiatives, the wide-spread adoption of the Core Set could help guide countries just beginning to measure domestic financial inclusion. In addition, the adoption of the Core Set presents an opportunity for all countries to realign their indicators to be consistent with the Core Set to facilitate better understanding of their domestic conditions in relation to the domestic conditions of their peers.

The Core Set could play a critical role in the work of the GPFI. First, the Core Set contributes to filling a gap that exists in the data landscape. As laid out in Chapters 1 and 2 of this report, there is still a need to characterize a complete set of financial inclusion indicators. The Core Set could be used as the basic measurement of financial inclusion across countries, as the Core Set largely fulfills the requirements of this ideal data set by being sufficiently standardized to ensure transparency, consistency, and comparability, and yet sufficiently flexible to meet country-specific needs.

Secondly, the Sub-Group on Data and Measurement has set out to define a broad framework for measurement. The Core Set fits into the measurement framework and contributes by defining basic indicators for the access and usage dimensions of financial inclusion.

Thirdly, the Core Set could serve as a tool for measuring progress of the state of global financial inclusion over time and to monitor the impact of the GPFI’s work in the long run, i.e. the indicators in the Core Set are good candidates for the set of KPIs of financial inclusion.

Finally, the Core Set could also be incorporated into the financial inclusion target setting exercise as a part of the set of monitoring indicators. The potential role of the indicators in the Core Set for target-setting purposes is to support the diagnosis of the initial state by assessing the level of financial inclusion, and to act as a means to set high-level targets for countries with low levels of financial deepening.

4. EXPLORING BOTTOM-UP TARGET APPROACHES

Any goal-setting for a multi-dimensional challenge such as financial inclusion requires a well-planned series of technical due diligence, consensus development and political outreach efforts. The GPFi Sub-Group on Data and Measurement determined that it will first focus on advancing the global dialogue to consolidate and harmonize data gathering activities, to develop a common understanding on the measurement framework and methodology and to determine the key top line indicators to track at the country and global level, supporting the development of new indicators, and supporting countries’ national data collection and target setting activities.¹¹ All these activities could potentially lead frameworks that can help countries determine technically sound country-level goals.

During the first year of the GPFi Data and Measurement Sub-Group’s formation, the working group focused on kick-starting the analytical thinking process on financial inclusion target-setting. This section of the report provides highlights from the 7-week exercise which was focused on *initial* technical and analytical inputs for the target-setting process, recognizing that this process involves a multi-phased series of analytics, engagements and ultimately, outreach at the country-level.¹² The highlights are followed by implications and suggested key next steps for the GPFi. This section presents initial analytics that are under discussion within the Data and Measurement Sub-Group and that are expected to be defined at a future stage.

4.1 Global Target-Setting Precedents (MDGs, G-8 5x5)

For any potential future discussions that seek to canvass the global landscape in terms of existing global target setting efforts, there are two key examples that illustrate the way global goals are expressed: the Millennium Development Goals and the G8 5x5 target. Global credible targets, accompanied by multi-year global commitments and structured programs, in the international development arena are few. Prior to the announcement of Millennium Development Goals (MDGs), the history of global and regional target-setting did not yield long-term global programs. For example, the UN Development Decades of the 1960s, 1970s and 1980s started charting target objectives and success indicators, but at the time there was “no clear and tested process for generating the desired results, and there were no defined and monitorable trajectories for reaching them”.¹³

The MDGs represent the most globally recognized, referenced and followed targets and goals in the international development arena. In 2000, 189 nations made a pledge to eradicate extreme poverty and free people from multiple deprivations. These promises shaped the eight MDGs to be achieved by 2015.¹⁴ The eight MDGs break into 21 quantifiable targets that are measured by 60 indicators. Since their adoption, the MDGs have been a major driving force and advocacy tool to increase and track development efforts in poor countries and have galvanized unprecedented attention to the multiple development dimensions.

The MDG approach includes a cascading framework that sets high-level goals, its respective time-bound target(s), followed by indicators to measure and track progress (see Figure 7 for an example of MDG Goal No. 2). In addition, the MDG target-setting approach differentiates between intermediate (“input” and “output”) and final indicators (“outcome” and “impact”) for each goal.¹⁵

¹¹ GPFi Sub-Group on Data and Measurement Workplan, August 2011

¹² The Financial Inclusion Initial Target-Setting Assessment was conducted from April to June 2011, driven by IFC with technical support from McKinsey & Company.

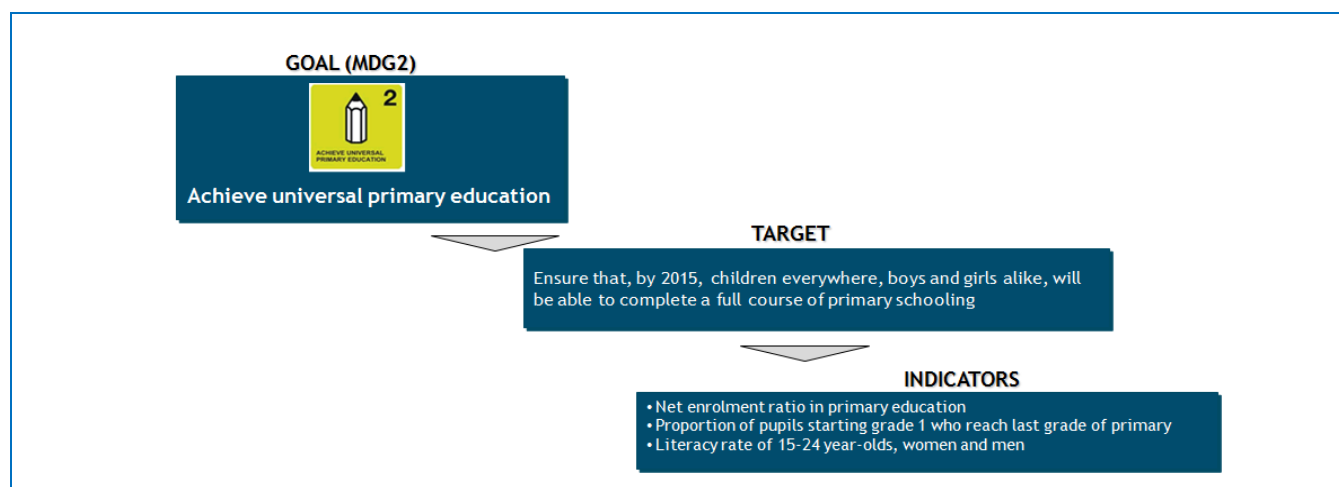
¹³ Roberts (2005).

¹⁴ United Nations Development Program (UNDP), available at: <http://www.undp.org/mdg/basics.shtml>. The eight MDG goals are: eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality rates; improve maternal health; combat HIV/AIDS, malaria, and other diseases; ensure environmental sustainability; develop a global partnership for development.

¹⁵ For a detailed discussion on indicators and evaluations to track poverty reduction strategies see: Prennushi, Rubio, and Subbarao (2002).

Despite the unquestionable energy and motivation the MDGs have stimulated, they are not immune to criticism. While MDGs are praised as a global catalyst for international awareness, better development progress-tracking and focusing aid dollars towards the goals, many raise questions around the technical nature of the goals and their feasibility or attainability. Scholars have noted that “the processes used to determine the targets set in the conferences’ concluding declarations were more political than scientific” and that “targets were at best based on extrapolations of past achievements made by agency secretariats; they were not based on any country-by-country assessment of feasibility”.¹⁶ In addition, the results as tracked by the MDG framework demonstrate that progress has been uneven, with China and India making significant progress while most countries in Sub-Saharan Africa are behind most MDGs, and some scholars note that this continuous negative categorization of Sub-Saharan Africa is a misrepresentation of the actual successes that are being made.¹⁷

Figure 7 – The MDG Target-Setting Approach



Source: Information based on undp.org.

Another example of a global-target setting initiative is the 5x5 remittance target, adopted at the G-8 L’Aquila Summit in 2009. Recognizing the importance of migrant remittances for the global development agenda, the G-8 announced the formation in February 2009 of a Global Remittances Working Group (GRWG) to facilitate the flow of remittances worldwide. In 2009, the efforts of the working group were successful in securing the commitment of the G8 Heads of State to reducing the global average cost of transferring remittances by five percentage points in five years.¹⁸ If the cost of sending remittances could be reduced by 5 percentage points relative to the value sent, remittance recipients in emerging markets would receive up to \$16 billion dollars more each year than they do now. This added income could then provide remittance recipients with more disposable income resulting in higher rates of consumption, savings, and investment within local economies and higher levels of economic growth.¹⁹

The 5x5 target signals a strong commitment towards supporting more affordable and efficient remittance flows and has energized relevant collaboration and partnerships among governments, operators and interested stakeholders. The “5x5” is open to the participation of all countries, international organizations and stakeholders that are engaged and motivated.²⁰ The 5x5 remittance target, which was embedded in a political process, was set with a highly aspirational goal in mind (see Figure 8 for more details on the process). Interestingly, the target was not linked to the key headline indicator (such as for example access to remittance

¹⁶ Roberts (2005); Easterly (2009), Garau, P. (2009).

¹⁷ Easterly (2009).

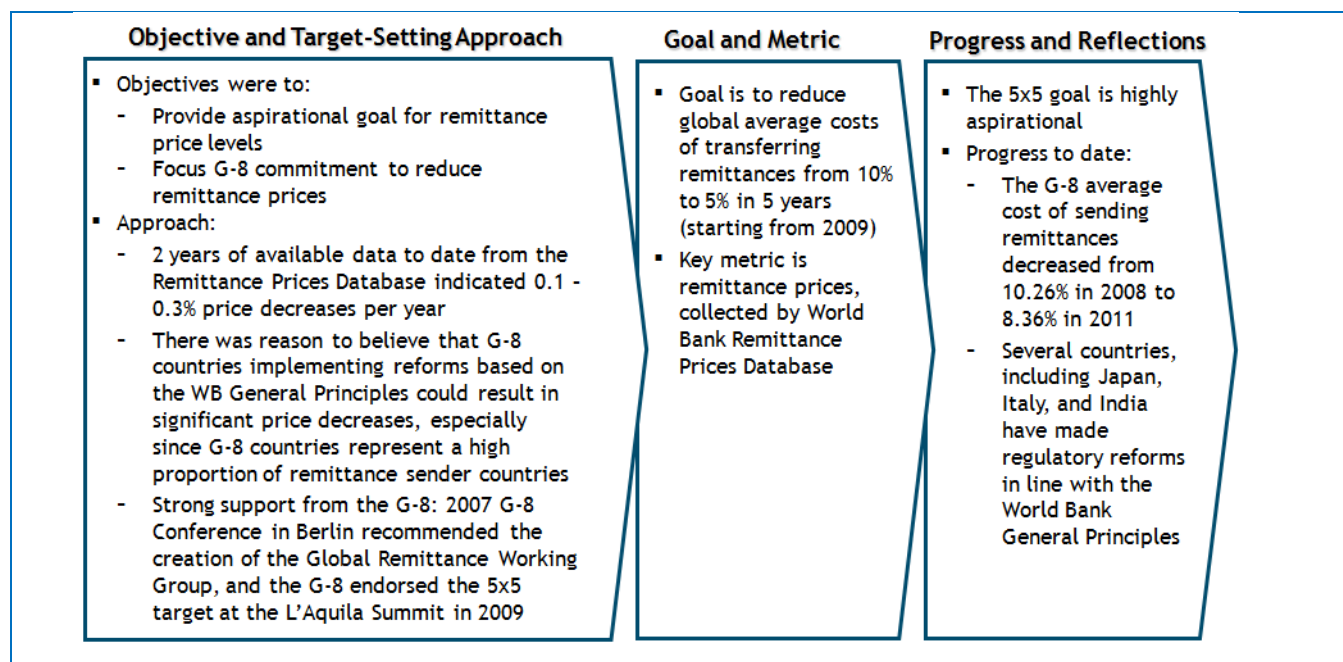
¹⁸ G8 Leaders Declaration: “Responsible Leadership for a Sustainable Future”. L’Aquila Summit, July 2009

¹⁹ World Bank Payment Systems Development Group (2010). Part of this paragraph is extracted verbatim from page 460 of Stein, Randhawa, and Bilandzic (2010).

²⁰ Ministero Degli Affari Esteri and the World Bank (2009).

services provider) but focused on one area that needed most progress and had the potential for most impact, namely improving the affordability of remittances, and thereby helping increasing access and efficiency.

Figure 8 – The G8 5x5 Target-Setting Approach



Source: Cirasino and Ratha (2009), Corazza (2009), IFC and McKinsey & Company (2011).

4.2 Initial Approaches to Financial Inclusion Target Setting at the Country Level

The initial-target setting exercise, driven by a country-level, bottom-up approach was conducted to begin the analytical thinking process that would help countries prioritize and define financial inclusion goals. The analytics presented in this section represent initial outputs that are not yet finalized and are under discussion within the members of the GPMI Data and Measurement Sub-Group. The main sounding board for the exercise consisted of a core “Experts Group” that was convened throughout the 7-week initial target-setting exercise.²¹ The Experts were selected for their depth and diversity of experience in analyzing financial inclusion data, with some Experts specializing more in firm-level data, some in country-level statistical capacity and, some in overall financial inclusion data and research.

One of the first analytical principles determined throughout the initial target setting effort was high-level target-setting aspirations. Aspirations were driven towards designing targets that incentivize country-level ownership and that incorporate the full multi-dimensional holistic view of financial inclusion (see Box 4). The GPMI Data and Measurement Sub-Group is committed to advancing a process that is driven at the country-level and designed to ensure country ownership and buy-in in order to ultimately lay the foundation for more credible and accessible targets.

²¹ Consulted Experts consisted of (in alphabetical order): Alberto Chaia (Principal, McKinsey & Co, Mexico) B.R.H.S. Rajcoomar (Division Chief – Financial Institutions Division, Statistics Department, IMF); Jake Kendall (Program Officer, Bill & Melinda Gates Foundation); Lara Gidvani (AFI); Leora Klapper (Lead Economist, Finance and Private Sector, Development Research Group, World Bank); Raúl Hernández – Coss (Director General for Access to Finance at the Comisión Nacional Bancaria y de Valores (CNBV, National Banking and Securities Commission of Mexico), Policy Champion at AFI, and Co-Chair for the GPMI Data and Measurement Sub-Group); Thorsten Beck (Professor of Economics and Chairman of European Banking Center, Tilburg University); Tilman Ehrbeck (Chief Executive Officer of CGAP).

When embarking upon a target-setting effort, there are a variety of analytical avenues one can take. For the initial target-setting exercise, a spectrum of target setting options was assessed, from a fully country-specific approach to country-agnostic top-down modeling (see Figure 9). The fully country-designed approach would best take into account countries’ unique starting positions and develop targets based on each country’s strategy, but would be limited assurance that targets would be set in a standardized data-driven and robust way. This approach would then almost fully depart from what is traditionally called “global target-setting” and would be more applicable as an area of development during capacity building or technical assistance efforts with each country, where the country would formulate its targets. Unless there is a guiding framework or template applicable for each country, there would be a great variability in the way targets are determined, expressed and tracked with this fully country-specific approach. At the other end of the spectrum, the top-down modeling approach is most efficient and simplest to communicate globally, but if developed without complementary bottom-up feasibility assessments, it lacks the credible country perspective and country ownership.

Box 4: Target-Setting Aspirations at a High-Level

- Country ownership and commitment
- Encompass the definition of full financial inclusion
- Take into account how countries’ differing starting points affects what is realistic and aspirational for target setting
- Be determined through data-driven and evidence-based methodology
- Be easily communicable to countries so that they can realistically implement the target setting process

Figure 9 – Target-Setting Spectrum of Approaches

		 Developed approach during the Initial Target Setting Exercise (May – June 2011)		
Approach	Fully country-designed	Archetypes	Generalized “natural” progression path	Top-down modeling
Description	<ul style="list-style-type: none"> Allow each country to decide their own unique target setting approach, most likely linked to the country’s financial inclusion strategy 	<ul style="list-style-type: none"> Organize countries into archetypes based on their starting point (diagnostic) and enabling environment Define different target setting priorities depending on a country’s archetype 	<ul style="list-style-type: none"> Based on assumption that there is a generalizable path for usage of financial services (e.g. exhibiting a progression from small beginnings that accelerates and approaches a climax over time, in the shape of an “S-curve”) Starting point needs to be based on available historical data 	<ul style="list-style-type: none"> Model global and regional-level targets based on currently available standardized data, extrapolated at the regional level Results available upon request
Strengths	<ul style="list-style-type: none"> Fully takes into account countries’ starting points and ambition levels Ensures country commitment to targets 	<ul style="list-style-type: none"> Encompasses multi-dimensional definition of financial inclusion Fully takes into account countries’ starting points and how that affects financial inclusion targets Country-specific, yet conducive to developing broader goals / visions / targets 	<ul style="list-style-type: none"> Provides strong factbase for feasibility of targets (e.g., path of countries that have been in the same starting position in the past) Easily communicable to countries and to the global policy world, assuming the same progression path truly applies to countries at all levels of development 	<ul style="list-style-type: none"> Methodologically easier to understand Provides back of the envelope sense of the global aggregate target Can be used as a “sanity test” for a bottom-up target setting approach
Limitations	<ul style="list-style-type: none"> Limited assurance that targets will be set in a standardized data-driven way that encompasses all the dimensions of financial inclusion Questions the role of a global progress-tracking / vision-galvanizing body as the approach is more focused on technical assistance programs to be customized for each country) 	<ul style="list-style-type: none"> Will likely be longer process to arrive at global numerical target (as the critical mass of countries must individually go through this process), but the extrapolation is possible and would be based on a bottom-up approach and country feasibility assessment Country archetypes may be misinterpreted as rankings or tiers, rather than a diagnostic tool to prioritize targets 	<ul style="list-style-type: none"> Data limitation requires this analysis to be conducted only for usage metrics, leading to not enough emphasis on other dimensions of financial inclusion Likely too deterministic regarding country trajectories; allows little flexibility for country ambition and unique situations 	<ul style="list-style-type: none"> Limited understanding of aspiration and feasibility (e.g., does not take into account inputs in enabling environment) While some steps are informed by country-level data, does not immediately provide country-by-country understanding of targets Potential lack of country buy-in

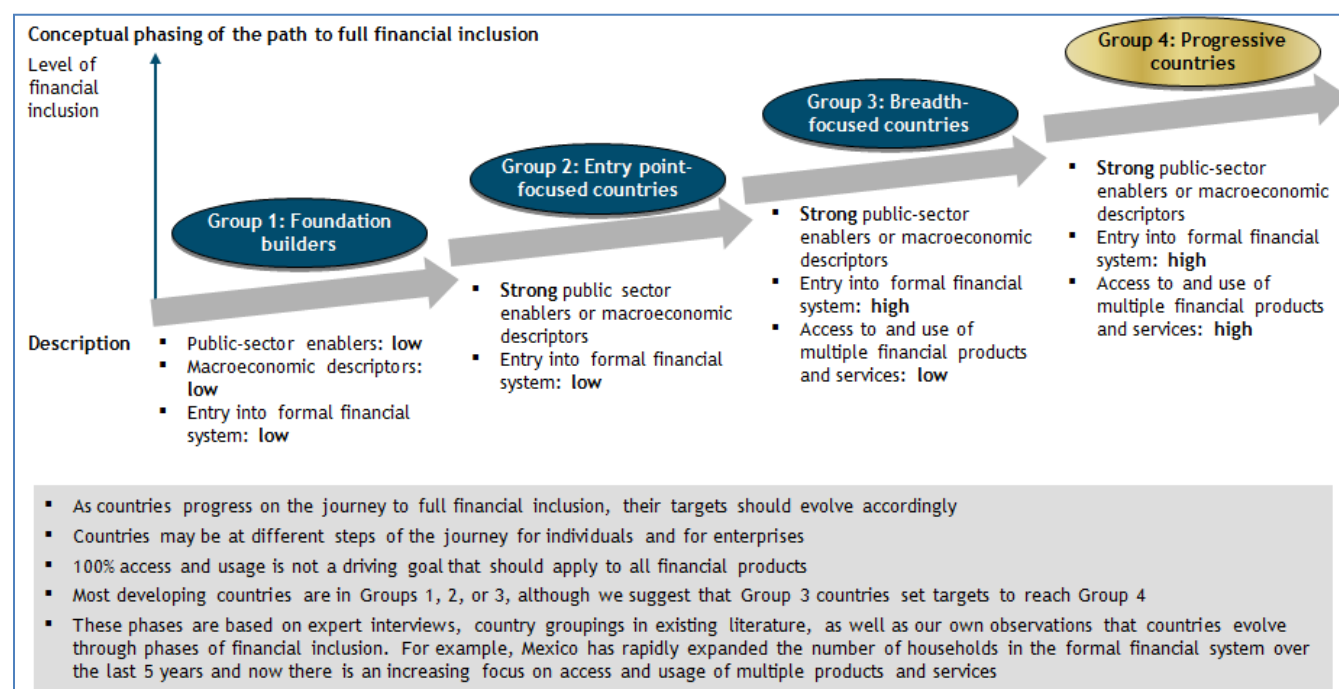
Source: IFC and McKinsey & Company (2011)

The archetypes approach

The archetypes approach was chosen to be explored in most detail as it contains the promise of being country-specific enough with a potential for developing guiding frameworks and globally-relevant aggregate analytics. The archetypes approach differentiates countries based on their starting points, i.e. current levels of financial inclusion development. Therefore, this approach seeks to balance the need for country specificity with an appropriate amount of simplification by organizing countries into four archetypes based on their starting point on the financial inclusion journey. The archetypes approach represents an initial sketch of a toolkit that will be refined at later stages.

The analytical centerpiece of the archetypes target-setting approach is a target-guiding framework which is based on the notion that financial inclusion is a multi-step journey with tailored implications for access to finance at the individual and enterprise level. The guiding framework is demonstrated in Figure 10 below and contains four sequential groups of countries.

Figure 10 – Target-Setting Archetypes Guiding Framework



Source: IFC and McKinsey & Company (2011).

Countries at different stages of the financial inclusion journey will likely focus on different goals, hence there is an evolution of the suggested focus targets across the four archetypes:

- Group 1: “Foundation builder” countries.** These countries currently have low levels of financial inclusion and few foundational conditions in place to enable rapid progress on financial inclusion. The suggested focus targets related to building the foundation of public sector-driven enablers.
- Group 2: “Entry point-focused” countries.** These countries currently have a core set of financial inclusion foundations in place but still have relatively high levels of individuals and households who have not made an entry into the formal financial system, or firms that have access to credit. The suggested focus targets relate to rapidly accelerating entry into the formal financial system.
- Group 3: “Breadth-focused” countries.** These countries have a significant set of foundations in place, and have made substantial progress on providing entries into the formal financial system for firms and individuals. The suggested focus is on driving access and usage of broader suite of financial products and

services in order to ensure individuals / households, and enterprises have access to the full range of products they need.

- **Group 4: “Progressive” countries.** These countries currently have high levels of access and usage of broad kinds of financial products and services. The suggested focus is on balanced growth of all dimensions of financial inclusion, including improving levels of quality, barriers to access (e.g., affordability, ease of opening an account), and financial literacy.

In addition, “entry point” into the financial system and “breadth” implies different states for individuals and enterprises:

- **For individuals**, having access to any kind of financial product from a formal financial institution would be sufficient to consider that individual to have entered the financial system. Most likely individuals would start with checking / deposit accounts, and will expand the breadth to other products and services such as insurance, payments, and credit.
- **For enterprises**, having access to credit is a critical requirement to consider the firm as part of the formal financial system. This is because while over 70 percent of SMEs in developing countries have a banking account, only around 15-20% has a formal credit line.²² As a firm matures, the breadth of financial services and products would mean access to various kinds of credit – short term, fixed capital, and so on, along with other types of financial services and products.

As countries progress on their financial inclusion journeys, it is important to recognize that their focus targets will evolve accordingly. In this way, the archetypes target setting approach allows for meaningful recognition of countries’ differing starting points while providing a coherent global framework for setting financial inclusion targets. It is also important to note that this framework is one initial tool (to be complemented with additional elements that will form a comprehensive “target-setting toolkit at the country level”) for individual countries to use as one input to their measurement and target setting processes, recognizing that individual countries will customize the approach and targets to best fit their unique needs.

The framework currently references key data determinants that are categorized as: output metrics (entry, access and usage), input metrics (public-sector enablers) and standard country macroeconomic descriptors. These metrics were selected through a literature-research and consultative process with Experts and are based on currently available cross-country comparable and trend data. The Experts were interviewed and the team conducted literature review to prioritize metrics. The exercise also involved a preliminary correlation analyses to test the independence of proposed metrics to ensure that the selected metrics are not redundant. The result yielded a list of suggested key metrics that includes:

- **Output metrics** that describe the multiple desired dimensions of financial inclusion. Given that some metrics are more feasible for countries to collect in the near term, so for data collection purposes, a set of “first generation” metrics on access and usage were defined, followed by “next generation” metrics on barriers to access (e.g., ease of opening an account, affordability), quality, and financial literacy
- **Input metrics** that describe policy & regulations, infrastructure, and other public sector initiatives that enable financial inclusion

It is important to emphasize that the selected metrics that informed the exercise represent only a start at defining the key data-determinants of the recommended multi-phased financial inclusion framework. The main purpose of the metrics was to inform the exercise and test the utility of currently available data, in order to provide helpful pointers to countries at a later stage. As noted above, the next generation set of metrics, including indicators covering the quality of financial services and products, is at the early stage of thinking and development. In addition, the currently selected input metrics are based on currently available data and should be expanded with additional relevant enabling environment indicators (especially the ones that can

²² IFC-McKinsey MSME Database (2010), and Stein, Goland, and Schiff (2010).

provide an indicator of the private sector role in financial inclusion) once they are available, more standardized and conducive to cross-country comparisons.

The recommended multi-phased framework represents one input into what can be positioned as a packaged toolkit including additional elements that are relevant to financial inclusion strategies and data and measurement to support those strategies. With additional understanding of country contexts and data, individual countries will likely adjust their archetype classification to best reflect their situation and aspirations. Annex A and B include the first steps of developing a toolkit, with one element focused on a framework and guide to country classification into an archetype group and another toolkit element focused on a framework for the target-setting vision and prioritization.

4.3 Key Implications and Recommendations for the GPFI

Key Recommendation #1: Incorporate initial target-setting approaches and frameworks as part of a GPFI Pilot

The results of the initial target-setting exercise can serve as the foundation for tools to be refined, finalized and pilot tested at the country-level through a GPFI designed pilot process ahead of the Mexico 2012 Summit. The GPFI designed and conducted target-setting pilots could span 2-3 countries for each archetype (Groups 1-3). Ideally, these countries will have strong enthusiasm for financial inclusion target setting and momentum towards improving financial inclusion to serve as role models. They will need to, with the support from the GPFI, establish a baseline based on the analytical exercise outlined in this initial assessment, for individuals and enterprises, and agree on the level of ambition and set targets for 2020 through workshops and/or consultative discussions. In order to effectively plan and design the pilot, next steps for the GPFI Data and Measurement Sub-Group would include: (i) defining the process for further refining and finalizing the elements of the framework; (ii) defining a process and criteria and approaching countries; (iii) determining a strategic and detailed design of the pilot in order to effectively plan how the learnings from the pilot would facilitate the further refinements and potential roll-out of a country-level toolkit.

To most effectively design and implement the GPFI Pilot, it will be important for the GPFI Sub-Group on Data and Measurement to coordinate closely with the other two Sub-Groups to merge pilot elements under one GPFI Pilot umbrella. Pilots of the data and target-setting approaches and frameworks will be most impactful and least duplicative if GPFI Sub-Groups closely coordinate and join forces. Namely, the currently proposed SME Finance Compact can be one platform to be leveraged and to include data-relevant design elements to be pilot tested at the same time. As of the current conceptualization, the “SME Finance Compact between members of the GPFI and LDCs will be proposed to support the implementation of the SME Finance Policy Framework, and its recommendations and good practices, at country level. The SME Finance Compact would reflect the commitment of a limited number of LDCs to lead the effort in developing and implementing their own national enabling policy framework for SME Finance, and, with the support of members of the GPFI (G-20 countries, non-G-20 countries, IFIs, DFIs, private sector, foundations, research facilities, consultancies, etc.), develop innovative models and approaches to address the challenges and constraints faced by LDC in scaling up SME finance. Guiding principles of the compact shall be: i) voluntary membership by all parties involved, ii) broad ownership by those developing countries which choose to develop an action plan with the support of the GPFI and the SME Finance Forum, and iii) focus on measures to improve the enabling environment for SME Finance.”²³ Alternatively, a potential “Financial Inclusion Compact” could provide a more comprehensive context for the support of the piloting of the target-setting frameworks / guidelines / tools, if adopted by the G-20 instead of an SME Finance Compact.

²³ Excerpted from “G-20 SME Finance Policy Framework: Draft for Consultation”, GPFI SME Finance Sub-Group, September 2011, page 8.

Key Recommendation #2: Achieve high-level GPFi alignment on the target-setting vision going forward

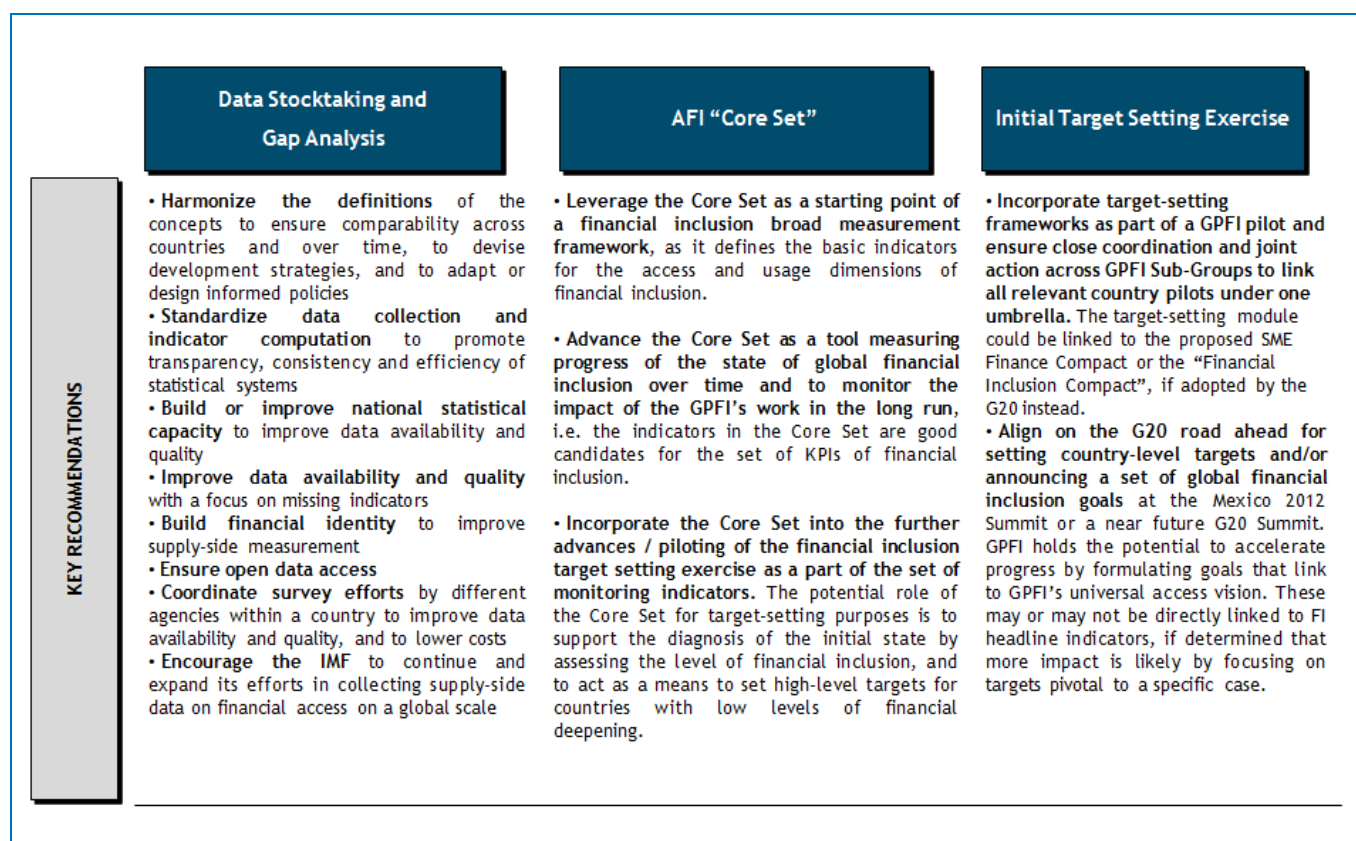
The GPFi is ideally positioned to leverage the current momentum and achieve alignment to determine the road ahead for setting country-level goals. The GPFi, as a G-20 linked body, has the appropriate global clout to further raise the profile of financial inclusion by announcing and committing to credible, sound and feasible high-level targets or goals. The analysis to date by the GPFi Data and Target-Setting Sub-Group can be leveraged for further discussions and appropriate planning for the road ahead in connection with financial inclusion target setting that is driven by a bottom-up approach, with clear demonstration of country-level ownership and drive.

5. THE WAY FORWARD FOR THE GPFI

Key Recommendations and Suggested Next Steps for the GPFI

The findings of the stocktaking and gap analysis, the “Core Set” and the initial target setting exercise lead to important key recommendations for the GPFI. Figure 11 below consolidates the recommendation highlights from the three analytical activities. The key recommendations from the stocktaking and gap analysis are focused on further advancing the harmonization and standardization of financial inclusion data and measurement, on improving the national statistical capacity to improve data availability and quality, with a particular attention on measuring indicators that are currently not tracked on a consistent basis. The development of the “Core Set” provides further recommendations that are focused on effectively and strategically leveraging the Core Set and its pilot process, in order to determine an expanded list of Key Performance Indicators at a later stage. Finally, the initial analytics from the target-setting exercise provide a starting point to be refined and finalized for the purpose of incorporating the frameworks as part of a GPFI country pilot.

Figure 11 – Key Recommendations for the GPFI



Source: Team Analysis.

The high-level recommendations for the GPFi include:

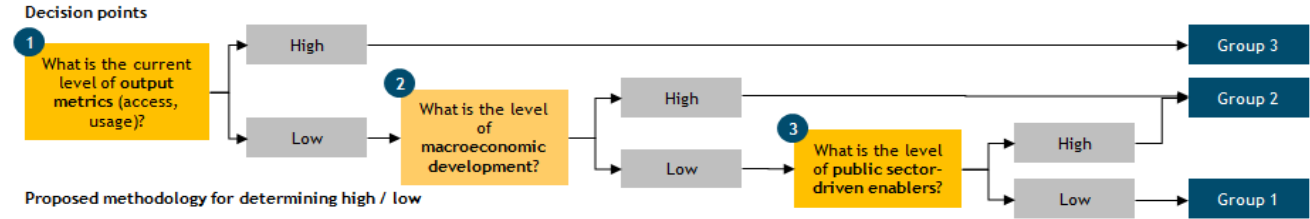
- *GPFi to commit to further anchor the GPFi vision on universal access to and usage of financial services to country-level financial inclusion goals, defined through a data-driven goal setting and evaluation process*
- *Request the IMF to continue and strengthen its supply-side data collection effort with the support of the IFC and CGAP; and encourage countries to develop and use data sources that are relevant for informing and monitoring policy success, leveraging other complementary supply-side and demand-side data*
- *GPFi to reiterate its commitment to further diagnose and advance the data challenges in harmonizing definitions, standardizing data collection, improving national statistical capacity, coordinating survey efforts and building financial identity*

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ANNEX A: “HOW TO CHOOSE A COUNTRY ARCHETYPE” – INITIAL DIAGNOSTIC TOOL

A) apply a series of diagnostic questions through a simplified decision-tree...



Proposed methodology for determining high / low

Output metrics

- The starting point of the decision tree is based on the key financial inclusion output indicators: usage and access. Determine median for usage and access to use as a starting point cutoff
- Additional data and judgment when original data are incomplete to be applied, e.g., Kenya’s M-Pesa accounts are not captured in CGAP or IMF data
- If access and usage indicate different designations, usage should weigh more heavily

Macroeconomic development

- The overall macroeconomic descriptors of a country matter. Variables included in this decision path are: low/middle- or high-income country; world median for financial depth (private credit-to-GDP) and controls / checks for oil-exporting economies, offshore banking centers, strong institutions (e.g. data from World Governance Indicators)

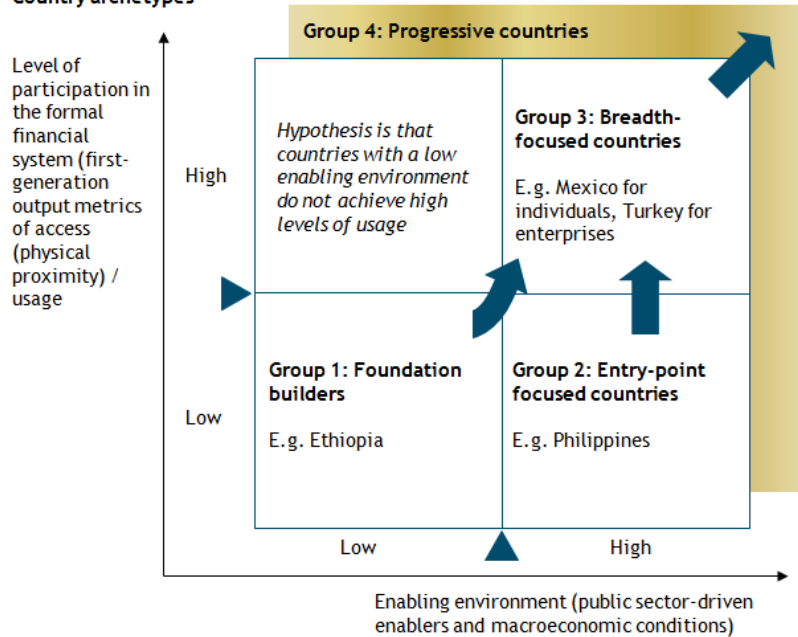
Public sector-driven enablers

- As of now, variables for determining the H/L level are based on currently available enabling environment data, including: mobile penetration, branchless banking regulations, KYC rules, simplified current accounts, banking disclosure practices, electronic G2P payments, DB index components (for enterprises)
- As indicators to be considered for enabling environment or public-sector driven enablers are at the early stages of thinking, this area of the decision tree can be refined once more research is done on the importance of “input” indicators

- Possible to have different levers and roads lead to the similar end point, e.g. two ways to reach Group 2 classification level
- Possible to envision more categories at each step of the tree, e.g. “HIGH,” “MEDIUM,” “LOW.”
- May need to apply country-specific data and/or educated judgment to arrive at final country grouping
- Experts indicate that a decision tree can be a very useful tool for as a financial inclusion diagnostic. This proposed first cut decision tree can be refined and adapted further, depending on the demand and needs at the country level

B) ...then position your country in a matrix-based framework, based on decision tree complemented with own knowledge of country’s financial inclusion state

Country archetypes



Source: IFC and McKinsey & Company (2011).

ANNEX B: “HOW TO TAILOR AND PRIORITIZE TARGETS” – INITIAL DIAGNOSTIC TOOL

