

MEASURING THE EFFECTIVENESS OF FINANCIAL INCLUSION EFFORTS



Committee on Payments and
Market Infrastructures
BANK FOR INTERNATIONAL SETTLEMENTS

PAYMENT
ASPECTS OF
FINANCIAL
INCLUSION



WORLD BANK GROUP
Finance & Markets

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Introduction

- **One of the work streams for the PAFI Task Force in this new phase is to discuss the development of a methodology for measuring progress in attaining financial inclusion objectives from a payments perspective**
- **As with any other measurement effort, keeping track of financial inclusion implementation actions is essential to determine whether those actions are being effective in helping to achieve the underlying objectives**
- **The PAFI report included (in Chapter 5) a preliminary discussion of the importance of developing a results framework for measuring progress and the overall success in achieving financial inclusion objectives**

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1. Towards a potential PAFI results framework

- A results framework may be produced with the purpose of tracking progress in a centralized manner (e.g. by an IFI or other global agency), over time and across countries
 - *Example of the World Bank Group's UFA 2020 Progress Tracker (see Annex 1)*
 - *The UFA 2020 Progress Tracker essentially uses global data sources*
- Another option is that a results framework be produced to provide guidance to countries in designing and compiling their own indicators
 - *In addition to standardized indicators, it is desirable that each country designs at least some specific indicators to reflect the unique financial sector context and financial inclusion priorities in that country*
- The two options are not mutually exclusive: efforts by individual countries, if observing a certain degree of standardization, may be further compiled by a global agency to produce global/regional comparisons
- The Irving Fisher Committee work on Financial Inclusion statistics

1. Towards a PAFI results framework (II)

- **Regardless of the option(s) chosen, the results framework needs to be robust and comprehensive**
- **The key elements of a results framework include:**
 1. *Thematic alignment with key policy pillars and actions;*
 2. *Development of key performance indicators (KPIs);*
 3. *Setting quantitative KPI targets; and,*
 4. *Reliance on robust data sources*
- **Each of these elements is discussed briefly in the following slides**

a. Thematic alignment with key policy pillars and actions

- The results framework must be aligned with the key policy objectives being sought
 - *In the case of PAFI, the stated policy objectives are:*
 - i. universal access to transaction accounts for individuals and firms*
 - ii. frequent usage of such accounts*
 - iii. that these accounts serve as a gateway to other financial services.*
 - *Normally, all overarching objectives should be reflected in the structure of the results framework*
- Beyond objectives, thematic areas for action, specific actions areas and/or target populations should also be incorporated in the results framework, and this framework should report specifically and/or separately on them
- For PAFI, this may be illustrated as follows (see next slide):

a. Thematic alignment with key policy pillars and actions (II)

Overarching objectives

- i) Universal access to accounts; ii) Frequent usage of accounts; iii) Accounts as a gateway to other financial services

Thematic areas for action

- Foundations and catalytic pillars framed in the form of the Guiding Principles

Specific actions

- The key actions for consideration under each of the Guiding Principles

b. Key Performance Indicators

- **Key performance indicators (KPIs) consist of a set of core indicators measuring a certain final objective (e.g. universal access to transaction accounts). Very often, KPIs are complemented with a number of supporting indicators.**
 - *In a field like financial inclusion, KPIs are not intended to measure the exact contribution of a program like PAFI to observed improvements. This is because there are multiple exogenous factors outside the span of the program's activities/outputs*
- **Most KPIs found in national financial inclusion results frameworks measure outcomes at the national level. However, as mentioned earlier, some KPIs can be specifically designed to measure specific target populations, action areas, etc.**
- **KPIs can be obtained from specific domestic or global surveys, from domestic statistical data sources and/or from global databases/survey efforts**

b. Key Performance Indicators (II)

	Indicator	Data source*	Potential breakdown
Examples of core national indicators	% of adults that own a transaction account	Global Findex (2011, 2014, 2017)	Target population, region
	% of adults using a transaction account to make/receive payments electronically	Global Findex (2014, 2017)	Target population, region
Examples of supporting national indicators	No of financial access points per 100,000 adults and per 1,000 square kilometres	IMF Financial Access Survey (FAS), WBG Global Payment Systems Survey (GPSS)	Type of financial access point
	% of districts with a financial access point	MIX FinClusion Lab	Type of financial access point
	% of adults living within 5 km of a financial access point	FSP Maps	Type of financial access point
	No of cashless retail payments per capita	WBG Global Payment Systems Survey (GPSS)	Type of payment
	% of adults citing cost as barrier to account ownership	Global Findex (2011, 2014, 2017)	Target population, region
	% of government payments delivered through electronic channels	Country sources	G2P, G2B, G2B and by programme

* Data sources in this slide are examples from globally comparable data sets. There are versions of these indicators collected and compiled separately by countries as well. For example, IMF FAS and WBG GPSS collects data from the regulators, who collect and compile data before submitting to the IMF and the WBG.

b. Key Performance Indicators (III)

- **KPIs may not capture some important qualitative aspects, such as the quality or strength of the enabling environment**
 - *For example, when observing financial inclusion from a payments perspective, relevant aspects include the quality of the underlying payment system/ICT infrastructure, or of the payments regulatory/oversight framework*
- **Indicators can be explicitly designed to capture these quality dimensions. As part of the framework, indicators can be developed to “translate” the quality of the enabling environment into “levels of readiness” or “levels of development”**
 - *UFA 2020 Progress Tracker follows a quantitative + qualitative approach (see Annex 1)*

b. Providing guidance to countries in setting quantitative KPI targets

- In addition to compiling the current status of KPI indicators, it is desirable that countries set quantitative targets for these indicators
 - *Some countries have already developed quantitative targets in their National Financial Inclusion Strategy, National Payments Strategy, Digital Economy Strategy, etc.*
 - *For others, quantitative performance/outcome indicators such as those shown in **slide 8** are conducive to target-setting*
- **Targets should be achievable but ambitious**
 - *Targets should be grounded in a robust analysis of the current financial inclusion landscape. Benchmarks (e.g. average values for the region, for countries with a similar income level, etc.) can be useful to ascertain how realistic the targets are*
 - *At the same time, targets should be politically salient and designed with an eye towards generating a rallying effect*
 - *Targets that are not realistic may be seen as overly political and may not be endorsed by certain key stakeholders, including the private sector.*
 - *Finally, targets should not threaten, through perverse incentives, the stability or efficiency of a country's financial system.*

c. Data sources

- Both demand side and supply side data collection tools are critical to financial inclusion measurement, each with distinct comparative advantages
- Demand side (e.g. survey data)
 - *The most sustainable approach to demand side data collection is through the integration of specific-purpose surveys into national statistical systems. In this way, technical and financial support can be institutionalized*
 - *Global demand side surveying efforts include notably the Global Findex Database*
- Supply side (typically information collected by financial regulators)
 - *The ability of authorities to collect financial inclusion data (as well as other data) is often determined by the legal and regulatory framework*
 - *Reporting entities (and also regulators) may lack the capacities and/or resources to produce the required data accurately*
 - *Some of the most relevant international efforts include the IMF's Financial Access Survey (FAS), the World Bank's Global Payment Systems Survey and the World Bank's Global Survey on Consumer Protection and Financial Literacy*

3. Example: UFA 2020 Progress Tracker

- The WBG developed this internal tool to measure interim progress across the 25 UFA focus countries
- The tool provides a “traffic light” view of the status of each of the UFA Action Framework elements (i.e. the foundations and catalytic pillars of the “PAFI house”) for each of the UFA 25 focus countries
- The purpose of the tool is to inform the WBG institutional UFA strategy and country-level engagements.
 - *The status of each foundation and pillar is reflected in country-level Action Plans, is used in dialogue with country counterparts, informs WBG financial, advisory, knowledge and convening engagements with client countries in support of UFA, etc.*

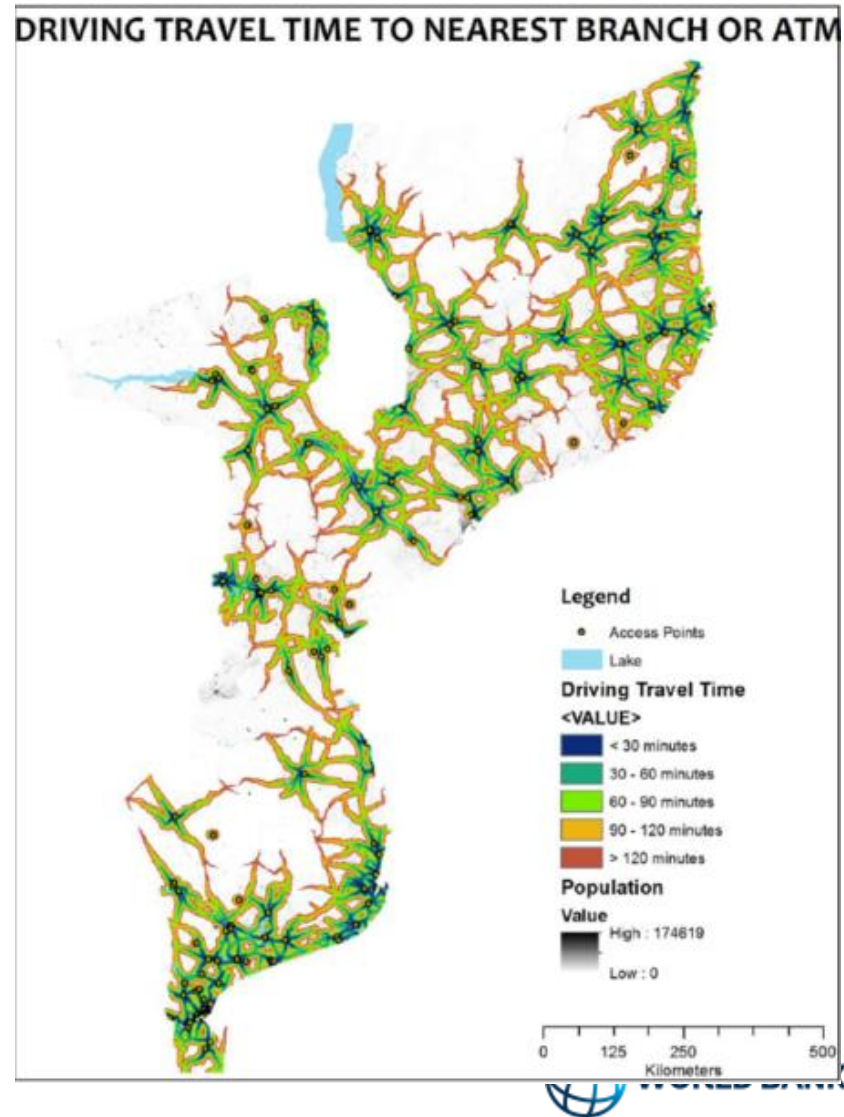
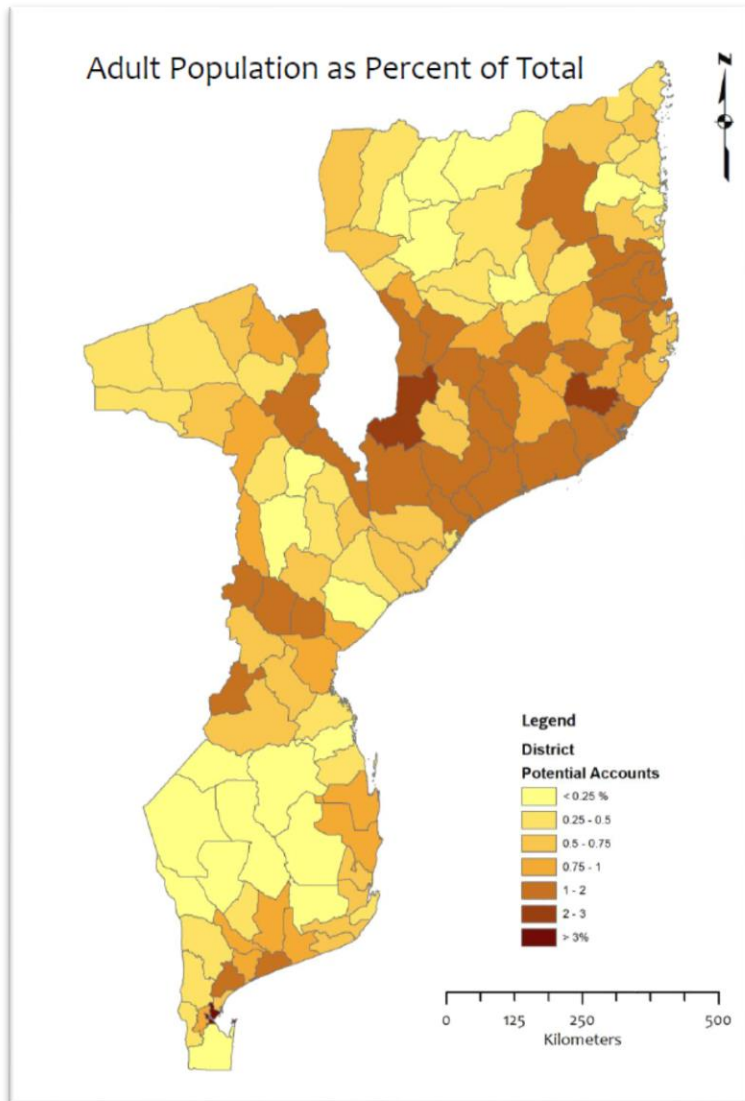
4. Other Examples: Financial Inclusion Data Collection Initiatives by Countries

- **Malaysia:** Bank Negara Malaysia’s mandate includes “promoting an inclusive financial system” as of 2009. Financial Sector Blueprint (2011-2020) includes Financial Inclusion Framework. As part of the framework, Bank Negara measures financial inclusion, and has developed a financial inclusion framework and a financial inclusion index that fits its policy purposes.
- **Morocco:** Bank Al-Maghrib has committed to promote financial inclusion since 2007, and has developed a monitoring & evaluation framework that shows barriers, achievements and identifies remaining challenges. The framework uses both supply side and demand side data.
- **Egypt:** The Central Bank of Egypt is in the process of building a financial inclusion database and has recently instructed banks via a circular to submit data regarding deposit accounts and the use of electronic services in order to assess the number of account owners and usage.

4. Other Examples: Geospatial Mapping

- **Help build viable data infrastructure for sufficient monitoring and evaluation of financial inclusion progress and NFIS targets.**
 - *For example, strengthening reporting and data collection templates by governments to include geolocation points (geo-coordinates) and tracking mechanisms.*
- **Develop and track key geospatial targets to ensure that financial services are reaching rural and underserved clientele.**
 - *Includes using and developing geospatial benchmarks for the NFIS like km distance to nearest access point.*
- **Map access points to assess the scale and scope of available and potential financial services to build a business case for reforms**
 - *Such maps can be overlaid with various financial behaviors or socio-demographic indicators from larger household surveys*
- **Inform policy and investments by identifying service gaps and where types of services can be efficiently placed to maximize access and usage**

4. Other Examples: Geospatial Mapping – Uses: Analyze travel times to typical access points – Example from Mozambique



Annex 1

Methodology behind UFA 2020 Progress Tracker: Example of *qualitative assessment*

Guiding Principle 2: Legal and regulatory framework

Subindexes and Indicators

(1) National Payment System Legal & Regulatory

- Key legal concepts covered by existing legal framework
- Central bank legal powers to oversee payment systems

(2) National Payment System Oversight

- Objectives of payment system oversight
- Organizational arrangements for payment system overhaul
- Cooperation with relevant authorities / stakeholders

(3) Enabling Environment for Innovation Payment Services / Inclusive Financial Systems

- Legal certainty and aspects impacting design (e-money laws, non-bank competition)
- Proportionality
- Regulation and supervision of deposit-taking activities


(4) Financial Consumer Protection

- Regulatory framework / institutional arrangements
- Disclosure requirements (content and form)
- Business practices (account statements and fairness)

Methodology

- Each subindex contains several indicators (mostly binary)
- Indicators aggregated (rescaled when necessary) and weighted to produce subindex scores – determined by expert input
- Subindex scores transformed to standard subindex ratings - red (1), yellow (2), green (3) – determined by expert input
- Subindex ratings are then averaged. A final rate is assigned:

0-1.49: Red 

1.50-2.49: Yellow 

2.50 – 3: Green 

Data sources

Sources: Global Payment System Survey; Global Financial Consumer Protection Survey; EIU Microscope




Methodology behind UFA 2020 Progress Tracker: Example of *quantitative assessment*

Guiding Principle 5: Readily available access points

Indicators

- (1) # of branch access points per 100,000 adults (banks, MFIs, cooperatives)
- (2) # of agents per 100,000 adults (mobile money or banking correspondents)
- (3) # of card access points per 100,000 adults (ATMs, PoS)
- (4) % of adults citing distance as a barrier to access

Methodology

- Data used for all available countries
 - Indicators are rescaled 0-1 and averaged
 - This generates a 'distance to the frontier' score (same as used for Doing Business) that measure how far country is from best performers in each category
 - Ratings generated based on distance to the frontier
- 0-.25: Red 
- .26-.75: Yellow 
- .76-1: Green 

Data sources

Global Index; Global Payment Systems Survey; IMF FAS, Team research



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Thank you!