



Measuring Financial Inclusion

Core Set of Financial Inclusion Indicators

Background

More and more, policymakers are recognizing the importance of evidence-based policymaking and the critical role data plays in the policymaking process, from design and implementation to monitoring and evaluation. With rigorous, objective, and reliable data, policymakers can accurately diagnose the state of financial inclusion, judiciously set targets, identify existing barriers, craft effective policies, and monitor and assess policy impact.

While there is consensus on the importance of collecting financial inclusion data, no standard exists for what to measure or how to measure it. Currently, different countries measure different indicators and use a variety of methodologies for similar purposes. Some countries have sophisticated data collection mechanisms while others have none at all. To address the need for a common understanding of financial inclusion, and a basic set of financial inclusion data that is consistent across countries, the AFI Financial Inclusion Data Working Group (FIDWG) has formulated a Core Set of financial inclusion indicators.

Purpose and scope of the Core Set of Indicators

The Core Set of Financial Inclusion Indicators (“the Core Set”) is the first step in establishing a common understanding of financial inclusion with respect to data and measurement. The Core Set will be part of a larger, more comprehensive financial inclusion measurement framework to be developed by FIDWG. The framework will provide guidelines on financial inclusion measurement, including a more robust catalogue of indicators covering the access and usage dimensions of financial inclusion, as well as guiding notes on measuring quality.

The Core Set is a limited set of quantitative indicators that captures the status of financial inclusion in a country. The indicators are meant to measure the most basic and fundamental aspects of financial inclusion in a way that is as standardized as possible while remaining relevant to individual countries.

The Core Set is a tool for guiding quantitative data collection and measurement that 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.

Although the Core Set may be used to benchmark a country’s own status with its peers when so desired, the primary intention is not to set standards or rankings.

Using the Core Set of Indicators

FIDWG seeks a commitment from countries to collect the Core Set of Indicators. A ratification and application process is currently underway (2011).¹

About the working group

Policymakers are recognizing the importance of evidence-based policymaking and the critical role data plays in the policymaking process, from design and implementation to monitoring and evaluation. The Financial Inclusion Data Working Group (FIDWG) was created to explore the topic of financial inclusion data and share expertise aimed at building capacity within the AFI network in data methodologies and approaches. The group leverages this growing interest to capture current progress and learning from practitioners around the world while creating new knowledge products and resources for the AFI network and the wider world.

¹ FIDWG members (and other willing AFI members) will collect the Core Set of Indicators for the first time and report the results just prior to the AFI Global Policy Forum in September 2011. At this time, FIDWG will meet again to collect country data collection experiences and finalize the Core Set. Moving forward, FIDWG will again seek the commitment of countries, particularly AFI member countries, to collect the Core Set on a regular basis.

Core Set of Indicators: the selection process

A subgroup of four members of the FIDWG was tasked with developing the 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 Core Set.

Efforts were made to align the Core Set with existing international financial inclusion data initiatives.

The initial Core Set was presented to FIDWG at its third Working Group meeting in Lima, Peru, in March 2011. There, the entire Working Group arrived at a consensus on the final Core Set of Indicators presented in this document.

Subgroup members:

Bangko Sentral ng Pilipinas, Central Bank of Kenya, Bank Negara Malaysia, and CNBV Mexico.

Countries are encouraged to go beyond the Core Set and collect additional indicators that are relevant to their national context and policy questions. For example, countries may collect data on access points or types of financial services, such as remittances, payments, or insurance. Countries can also determine the level of disaggregation, breadth, and depth of measurement, depending on their needs and priorities.

This Core Set may be shared with other organizations and data practitioners to inform their own initiatives.

Selection of the Core Set of Indicators

The Core Set of Indicators is anchored on six key principles developed through deliberations of the FIDWG subgroup. These principles were informed by inputs from AFI member countries and strategic partners in the World Café session at the 2010 Global Policy Forum.

- **Usefulness and relevance.** The primary consideration for selecting the Core Set is the usefulness and relevance of the indicators as a foundation for domestic policymaking.
- **Pragmatism.** The collection of data for the Core Set should be realistically achievable within a reasonable timeline. The Core Set was designed to leverage existing and available data to the extent possible to minimize cost and effort.
- **Consistency.** Given the lack of a uniform, internationally accepted definition of financial inclusion, the Core Set offers standard definitions to maximize consistency in measurement and facilitate comparability across time and countries. To the extent possible, the Core Set is aligned with financial access surveys and data collection projects of international and multilateral organizations to avoid overburdening countries.
- **Flexibility.** The Core Set recognizes that a country's data initiatives are largely driven by its rationale for pursuing greater financial inclusion, and are shaped by its unique economic, geographic, social, and cultural context. Considering that circumstances and resources

vary greatly across countries, the Core Set provides scope for flexibility. Countries have the flexibility to adjust certain definitions within the Core Set and/or use the suggested proxy indicators. Transparency is critical, and countries will disclose variations appropriately to uphold the principle of consistency.

- **Balance.** The Core Set represents a balanced data set that addresses two important dimensions of financial inclusion—access and usage—and leverages both supply- and demand-side data.
- **Aspiration.** The Core Set strives to define a set of indicators that accurately reflect financial inclusion. To meet this objective, measurement of some of the indicators may require additional effort and resources. Countries should aspire to collect the Core Set as it is defined. However, in the spirit of flexibility and pragmatism, certain modifications are accepted and proxy indicators are provided when this is not possible. Finally, the aspiration principle implies that the Core Set is dynamic and improved indicators may be introduced at a later date.

The Core Set of Financial Inclusion Indicators

The Core Set of Financial Inclusion Indicators addresses the two basic dimensions of financial inclusion: *access* and *usage* of financial services.² The *quality* dimension, while important, is a more complex topic both conceptually and in terms of measurement, which tends to require demand-side surveys and the use of qualitative indicators. This dimension will be addressed by FIDWG under a broader measurement framework for financial inclusion in the near future.

Access dimension

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 physical proximity of bank service points (branches, ATMs, etc). Data on access can usually be obtained through information provided by financial institutions.

The indicators for access in the Core Set are:

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

Measurement

This data would be collected from the supply side, i.e. from financial institutions. Indicator 2.2 incorporates population data that should be available through national statistics.

² This focus was agreed upon by the FIDWG in its September 2010 and March 2011 meetings.

Box 1. Core Indicators of Financial Inclusion

Dimension	Definition of Dimension	Core Indicator	Proxy Indicator	Definitional comments
Access	Ability to use formal financial services, i.e. minimal barriers to opening an account <ul style="list-style-type: none"> Physical proximity Affordability 	<ol style="list-style-type: none"> Number of access points per 10,000 adults at a national level and segmented by type and relevant administrative units <ol style="list-style-type: none"> % of administrative units with at least one access point % of total population living in administrative units with at least one access point 		Regulated access points where cash-in (including deposits) and cash-out transactions can be performed. Demand-side indicators of distance may help here, but would be nationally determined.
Usage	Actual usage of financial services/products <ul style="list-style-type: none"> Regularity Frequency Length of time used 	<ol style="list-style-type: none"> % of adults with at least one type of regulated deposit account % of adults with at least one type of regulated credit account 	<ol style="list-style-type: none"> Number of deposit accounts per 10,000 adults Number of loan accounts per 10,000 adults 	Adult is 15 and older, or an age defined by country. Define "active accounts" and seek to measure in future.

Definitional notes

- "Administrative unit" must be defined by each country and could, for example, refer to municipality, township, county, or other (depending on the country).
- "Access points" are defined as regulated access points where cash-in (including deposits) and cash-out transactions can be performed. This would include traditional bank branches and other offices of regulated entities (such as MFIs) that perform these functions. Depending on the type of transactions permitted, this will also include agents of regulated entities and automated teller machines (ATMs) (only those that perform cash-in as well as cash-out transactions).
- "Regulated entities" are only those that are prudentially regulated/supervised, not necessarily all licensed or registered entities. (Please see Box 2) Since this will lead to reporting discrepancies among countries, a country should also report which types of financial institutions are included in this calculation, e.g. banks, co-ops, MFIs.
- "Adults" refer to the population aged 15 years and older. If a different age is used because of country-specific definitions, a country would need to disclose the age threshold used.

Usage dimension

Usage refers to the performance and depth or extent of financial services and product use. In other words, determining usage requires gathering details about the regularity, frequency, and duration of use over time.

The indicators for usage in the Core Set are:

- 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

In countries where this data is not available, the following proxy indicators can be used:

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

Measurement

The data for Core Indicators 3.1 and 3.2 would likely be collected through nationally representative demand-side surveys. (In countries with robust supply-side data linked to a robust national identity system, this data would also be available through supply-side data.) The proxy indicators 3.a and 3.b would be obtained through supply-side data.

Definitional notes

- "Adults" are defined in the same way as for the Access indicators.
- "Regulated accounts" are accounts at regulated institutions (see definition used for the Access indicators and Box 2).
- Adults (as opposed to households) are the preferred unit of analysis because this is consistent with the other indicators that use 10,000 adults as the unit of measurement.³
- The above indicators may not truly reflect the level of account usage by individual clients compared to indicators that measure numbers of transactions or account activity. Considering that the definition of an "active account" varies by provider and country, this indicator will not form part of the Core Indicators, but countries may opt to collect such data through demand-side surveys.

³ Where households are used as the unit of measurement in a demand-side survey, countries may use this data as an alternative and invoke the principle of flexibility. This should be clearly recorded.

Box 2. Definitional notes for the term “formal”

Most regulators opt to collect indicators with respect only to formal financial services, meaning those offered by formal providers, since these are under their purview; and by definition, information about the informal may be difficult to collect. However, a more precise definition of “formal” is required. Regulators may define formal at one of three levels, outlined in the table below, each of which carries implications for measuring financial inclusion.

The Core Indicators take level 2 and above as a baseline approach for measuring formal financial inclusion, although in certain circumstances countries may initiate exceptions to this.

Level	Implication for measurement
1. All registered institutions offering financial services	This level may include large numbers of corporate entities that offer financial services, but are not subject to any specific authorization to provide financial services, hence, are not required to provide information to any regulator. As a result, service provided can only be measured from the demand (user) side. An example in some country would be cooperatives or loan companies.
2. All institutions authorized (or licensed) to offer financial services but not actively supervised	This level would include entities that are subject to specific authorization, but over which the regulator has limited oversight. These entities may have limited or no reporting obligations. An example is remittance agents.
3. All institutions authorized and supervised on an ongoing basis	At this level, the provider is subject to direct and ongoing monitoring and supervision, which is likely to include reporting of data. This is the most restrictive definition, but is also the level at which financial regulators have the most influence.

About AFI

The Alliance for Financial Inclusion (AFI) is a global network of central banks and other financial inclusion policymaking bodies in developing countries. AFI provides its members with the tools and resources to share, develop and implement their knowledge of financial inclusion policies. AFI connects policymakers through online and face-to-face channels, supported by grants and links to strategic partners, so that policymakers can share their insights and implement the most appropriate financial inclusion policies for their countries individual circumstances. Learn more: www.afi-global.org

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