



# Measuring Financial Inclusion<sup>i</sup>

## The Global Financial Inclusion Index (Global Findex)

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### BACKGROUND

Access to financial services plays a critical role in the development process through the facilitation of economic growth and reduction in income inequality. Inclusive financial systems allow the poor to smooth their consumption and insure themselves against the many economic vulnerabilities they face, from illness and accidents, to theft, to unemployment. It enables poor people to save and borrow to build their assets and to make educational and entrepreneurial investments to improve their livelihood. Inclusive finance is particularly important to disadvantaged groups: the poor, women, youth, and rural communities. For these reasons, financial inclusion has gained prominence in recent years as a policy objective to improve the lives of the poor.

In recognition of the need for better data to support the financial inclusion agenda, the World Bank's Development Research Group is building the Global Financial Inclusion Index (Global Findex) with a 10-year grant from the Bill & Melinda Gates Foundation. The Global Findex fills a major gap in the financial inclusion data landscape and is the first public database of demand-side indicators that consistently measures individuals' usage of financial products across countries and over time. Covering a range of topics, the Global Findex can be used to track global financial inclusion policies and facilitate a deeper and more nuanced understanding of how adults around the world save, borrow and make payments. The World Bank has signed a contract with Gallup Inc. to interview at least 1,000 people per country in up to 150 countries about their financial behavior through the Gallup World Poll survey. The full survey was rolled out in January 2011, and the first dataset will be made available to the public in 2012.



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The goal of the Global Findex is to enable policymakers and researchers to construct and evaluate policies based on a sound understanding of the behaviors and constraints that characterize individuals' use of financial products.

## PURPOSE AND SCOPE OF THE GLOBAL FINDEX

This new database of demand-side data will document financial usage across gender, age, education, geographic regions and national income levels. The World Bank has added to the Gallup World Poll a broad set of questions on the use of savings, credit, insurance and payment services.

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Key characteristics of the Global Findex include: cross-country compatibility, availability of demographic covariates and regular measurement of the entire set of countries over time.

The Gates Foundation funded three tri-annual rounds of comprehensive data collection. In addition, Gallup will collect data annually on the use of formal bank accounts and credit.

## USING THE CORE INDICATORS OF THE GLOBAL FINDEX

The core indicators of the Global Findex will provide valuable data for a wide range of users and purposes. The list of possible applications of the core indicators includes:

- **Benchmarking and motivating policymakers to embrace the financial inclusion agenda:** Does spotlighting differences in global and country-level financial inclusion help policymakers assess their relative performance and spur greater action to increase access?
- **Tracking progress:** How effective are reforms to close the gap in financial inclusion? Do reforms improve financial inclusion for some but not others, such as women and the poor?
- **Identifying priorities:** On which countries should development organizations and donors focus? How isolated is the problem across population segments within countries?
- **Providing a baseline for researchers:** Who are the unbanked, and how do they differ from the banked? What is the relationship between financial access, growth, inequality and poverty?

## SELECTION OF THE CORE INDICATORS OF THE GLOBAL FINDEX

The core set of Global Findex indicators is based on the following principles:

- **Usefulness and relevance:** The primary consideration for selecting the core set of Global Findex indicators is the usefulness and relevance of these indicators as a foundation for policymaking, tracking progress and identifying priorities.
- **Consistency:** Given the lack of consistent and internationally accepted definitions of financial inclusion metrics, the core set of Global Findex indicators offers standard definitions to maximize consistency in measuring financial inclusion and facilitate comparability across time and countries.

- **Flexibility:** We also understand that a country's economic, geographic, social and cultural context may affect the definition of various financial inclusion metrics. The survey provides the flexibility for a country to tailor and localize definitions of key covariates, such as youth and the poor.

## CORE INDICATORS OF THE GLOBAL FINDEX

The core set of Global Findex indicators addresses five basic dimensions of the use of financial services on the individual level: accounts, savings, borrowing, payment patterns, and insurance. Usage of financial services refers to the levels and patterns of the use of various products used by different groups such as the poor, youth and women.

Financial inclusion also refers to how easily individuals can access available financial services and products from formal institutions. Reliable and timely data on bank branch and ATM penetration is essential to the accurate measurement of financial inclusion. The demand-side data that the Global Findex provides will be an important complement to existing supply-side data collection efforts such as the IMF's Financial Access Survey<sup>ii</sup> and the Alliance for Financial Inclusion's Core Set of Financial Inclusion Indicators.<sup>iii</sup>

A selected core set of indicators and sub-indicators of financial inclusion based on the Global Findex database include:

### Use of bank accounts

- Percentage of adults with an account at a formal financial institution (such as a bank, credit union, post office or microfinance institution [MFI])<sup>iv</sup>
  - Purpose of accounts (personal or business)
  - Frequency of transactions (deposits and withdrawals); percentage of adults with an active account at a formal financial institution
  - Mode of access (such as ATM, bank branch, retail store or bank agent)

### Savings

- Percentage of adults who saved within the past 12 months using a formal financial institution (such as a bank, credit union, post office or MFI)
- Percentage of adults who saved within the past 12 months using an informal savings club or a person outside the family
- Percentage of adults who otherwise saved (e.g., in their home) within the past 12 months

### Borrowing

- Percentage of adults who borrowed within the past 12 months from a formal financial institution (such as a bank, credit union, post office or MFI) (*flow measure*)
- Percentage of adults who borrowed within the past 12 months from informal sources (including family and friends)
- Percentage of adults with an outstanding loan to purchase a home or an apartment (*stock measure*)

### Payments

- Percentage of adults who used a formal account to receive wages or government payments within the past 12 months
- Percentage of adults who used a formal account to receive or send money to family members living elsewhere within the past 12 months
  - Percentage of adults who used a mobile phone to pay bills or send or receive money within the past 12 months<sup>v</sup>

### Insurance

- Percentage of adults who personally purchased private health insurance<sup>v</sup>
- Percentage of adults who work in farming, forestry or fishing and personally paid for crop, rainfall or livestock insurance<sup>v</sup>

i. This note draws on a work in progress: Asli Demirguc-Kunt and Leora Klapper, 2011, "Measuring Financial Inclusion."

ii. IMF-IFS, 2011. The International Monetary Fund: Washington, DC.

iii. Alliance for Financial Inclusion. 2011. "Measuring Financial Inclusion, Core Set of Financial Inclusion Indicators," AFI: Bangkok, Thailand.

iv. We define "formal" financial services as those offered by institutions authorized (or licensed) to offer financial services and may or may not be actively supervised. For the purposes of this survey, an "MFI" refers to formal microfinance institutions that are registered with the government and subject to general laws (and sometimes banking regulations).

v. This question is omitted in high-income countries.





## BOX 1: CORE INDICATORS OF THE GLOBAL FINDEX

CATEGORY	INDICATOR	SUB-INDICATOR
<b>Use of bank accounts</b>	<ul style="list-style-type: none"> <li>Percentage of adults with an account at a formal financial institution</li> </ul>	<ul style="list-style-type: none"> <li>Purpose of accounts (personal or business)</li> <li>Frequency of transactions (deposits and withdrawals)</li> <li>Mode of access (such as ATM, bank branch, retail store or bank agent)</li> </ul>
<b>Savings</b>	<ul style="list-style-type: none"> <li>Percentage of adults who saved within the past 12 months using a formal financial institution</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of adults who saved within the past 12 months using an informal savings club or a person outside the family</li> <li>Percentage of adults who otherwise saved (e.g. in their home) within the past 12 months</li> </ul>
<b>Borrowing</b>	<ul style="list-style-type: none"> <li>Percentage of adults who borrowed within the past 12 months from a formal financial institution</li> <li>Percentage of adults with an outstanding loan to purchase a home or an apartment</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of adults who borrowed within the past 12 months from informal sources (including family and friends)</li> </ul>
<b>Payments</b>	<ul style="list-style-type: none"> <li>Percentage of adults who used a formal account to receive wages or government payments within the past 12 months</li> <li>Percentage of adults who used a formal account to receive or send money to family members living elsewhere within the past 12 months</li> </ul>	<ul style="list-style-type: none"> <li>Percentage of adults who used a mobile phone to pay bills or send or receive money within the past 12 months</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>Percentage of adults who personally purchased private health insurance</li> <li>Percentage of adults who work in farming, forestry or fishing and personally paid for crop, rainfall or livestock insurance</li> </ul>	

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