

THE FOUNDATION FOR DEVELOPMENT COOPERATION



Financial inclusion:
An historic opportunity for ABAC

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ABSTRACT

The 2008 APEC process offers ABAC an historic opportunity. It can secure endorsement for concerted international action to extend financial services to the 'unbanked'. APEC Finance Ministers will be asked to approve an initiative on *Financial Inclusion* as a goal of economic policy, with *Microfinance* as the principal policy instrument. ABAC has a track record of persuasive advocacy and is an active participant in the APEC 'Finance Ministers' Process' (the FMP).

The paper revolves around a central issue, that of defining and measuring 'financial inclusion', drawing on a cross-country dataset on 'access to finance' generated by World Bank researchers. From this it extracts data dealing with the APEC economies. These suggest, 1) that there is wide variation in access to financial services within APEC and, 2) that only a minority of the APEC economies are able to furnish the relevant data. A 'headline' indicator is presented, along with several others dealing with particular key aspects of access. The other indicators deal with matters such as loan and deposit accounts per capita, the prevalence of branches and ATMs, and barriers to accessing cheque and deposit accounts, SME loan services and payments services.

The paper discusses a difficult policy question: where many or most are excluded, who should be given priority for access to financial services? It dismisses as 'credit-centric' the contention that priority is owed to the 'excluded non-poor'. This view undervalues the benefits the poor receive from access to the full range of 'micro-financial' services. The paper concludes that a successful initiative led by ABAC and accepted by Finance Ministers would place financial inclusion firmly on the economic policy agenda of the APEC economies. Apart from the participation of economies, recruitment of suitable partner institutions will be crucial for success.

The initiative would focus on entrenching the measurement of financial inclusion as an economic policy variable and improving the available data. It would encourage policy dialogue and the exchange of experience among participants and comparative surveys of national policy frameworks for the elimination of exclusion. ABAC has listed six topics for special attention. These are a mixture of institutional, marketing, technological and regulatory issues. Participants could agree to document domestic initiatives (governmental, private-for-profit, voluntary, public-private and donor-sponsored) designed to increase inclusion. The initiative would stimulate capacity-building exercises and technology transfer for officials (including financial regulators) and finance professionals. The initiative would be designed to allow economies to demonstrate measurable progress towards agreed goals, both quantitative and qualitative. Economies would be encouraged to commit to progressive improvement in their national 'inclusion' indicators.



Introduction: ABAC's historic opportunity

The 2008 Asia Pacific Economic Cooperation (APEC) process offers ABAC an historic opportunity. It can act to secure endorsement, at the highest political level, for concerted action to extend financial services to the 'unbanked'. APEC Finance Ministers, meeting in Peru in November, will be asked by the APEC Business Advisory Council (ABAC) to approve a comprehensive initiative on *Financial Inclusion* as a goal of economic policy. The Ministers will also be asked to adopt *Microfinance* as the principal policy instrument for that goal¹. With this new initiative ABAC has seized an historic opportunity.

ABAC has a track record of persuasive advocacy at the Ministerial and Leaders' levels and is an active participant in the APEC 'Finance Ministers' Process' (the FMP). ABAC is currently co-leading an FMP initiative, the *APEC Public-Private Dialogue on Bond Market Development*. This allies ABAC with the 'commanding heights' of Asia-Pacific economies. By contrast, an FMP financial inclusion initiative would ally ABAC with the grass roots of those economies. Such a duo of activities would have a pleasing symmetry: ABAC in action at both the 'commanding heights' and 'the base of the pyramid'. In either case, the implications are huge: the one promising to generate billions in corporate bond markets, the other aiming to bring hundreds of millions of excluded people within reach of basic banking services.

1. The content and objectives of a financial inclusion initiative: Some suggestions

What might a *Financial Inclusion* policy initiative within the FMP look like, and what should it aim to achieve? ABAC's recommendations, to be put to Finance Ministers in November, (footnote 1, below) refer to the need to 'promote an enabling policy and regulatory environment' for the reduction of financial exclusion. The FMP needs to consider best practice in policy and regulation around the globe, as well as the lessons of successful commercialization of inclusive financial services. It will need to examine the experience of APEC member economies in the light of international experience.

¹ ABAC's recommendation reads, inter alia: 'That financial inclusion as a policy goal, with microfinance as an instrument of choice, be adopted by the APEC Finance Ministers as part of their agenda, and endorsed by the APEC Economic Leaders'. Also that 'the APEC Finance Ministers undertake activities to promote an enabling policy and regulatory environment, including measurement of levels of financial inclusion in developing member economies, initiation of capacity-building activities and holding of policy dialogues ... with special attention to the following key areas ... (1) agent banking; (2) mobile phone banking; (3) increasing the diversity of microfinance service providers; (4) improving governance and management of public banks; (5) financial identity regulations; and (6) protection of consumer and creditor rights'. Finally, ABAC recommends that 'APEC Finance Ministers work closely with ABAC and the Advisory Group on APEC Financial System Capacity-Building in developing their financial inclusion agenda'.



Fortunately, some examples of world's best practice are to be found within various APEC economies. The FMP should authorize an initiative that includes, inter alia, issues of documentation and measurement, case studies, policy dialogue, capacity-building and policy commitment, to allow lessons to be drawn for wider application. The ABAC recommendation lists six topics for special attention (footnote 1). These are a mixture of institutional, marketing, technological and regulatory issues which have emerged in the complex and rapidly-changing world of microfinance.

Aside from the major issues of definition and measurement, which are discussed at greater length below, the initiative would encourage comparative surveys of national policy frameworks for the elimination of exclusion. It would encourage participants to document domestic initiatives (governmental, private-for-profit, voluntary, public-private and donor-sponsored) designed to increase inclusion. It would encourage policy dialogue and the exchange of experience among participants. It would conduct capacity-building exercises for officials (including financial regulators) and finance professionals. The initiative would be designed to allow economies to demonstrate measurable progress towards agreed goals, both quantitative and qualitative.

ABAC's recommendations to be put to Finance Ministers call for 'measurement of levels of financial inclusion in developing member economies'. World Bank efforts at measurement on a global scale have been underway for a number of years. A recent report pulls together comparable data for a substantial number of World Bank member countries, including some of the APEC economies². Tables extracted from the report, which describe the current situation in those APEC member economies for which comprehensive data are available, are presented below. They show two main things; *firstly*, that there is wide variation in access to finance among APEC economies (and that a number of economies have very low access). *Secondly*, it appears that only a minority of the APEC economies are able to furnish data that can be adduced to illustrate particular key aspects of access.

These deficiencies suggest the need for the FMP to stimulate APEC economies to agree appropriate definitions and indicators of financial inclusion. They should examine methodological issues around the estimation of indicators and the collection of data. Participants in the initiative should agree to publish the relevant indicators. These should include an appropriate 'headline' measure, as well as indicators for particular key aspects of access. The FMP should encourage economies to commit to progressive improvements in financial inclusion, and to set time-bound targets for such improvement. While the ABAC recommendation refers specifically to 'developing' member economies, it would not be inappropriate for developed economies to participate, contributing to methodological and policy dialogue and perhaps committing to eliminate their own remaining pockets of financial exclusion.

² See *Finance for all? Policies and pitfalls in expanding access*, World Bank Policy Research Report, 2008.

2. Definition and measurement of financial inclusion

As a guide to the ‘state of the art’ in estimating indicators of financial inclusion, this paper presents one ‘headline’ and several ‘key’ indicators of access to services. These are reported for APEC economies in which suitable data are available, and are taken from the World Bank study, *Finance for All*. In presenting these indicators it is not intended to analyze in any detail the patterns of financial service provision that they suggest. Instead, the purpose is to describe the data resources available from the most comprehensive attempt to date to measure degrees of inclusion on a cross-country basis. The World Bank’s work in compiling cross-national measures of access to finance is a work in progress, with progressive improvement promised to deal with patchy coverage and other data gaps and fragilities. An FMP drive to improve data coverage and quality in APEC economies, using measures consistent with those developed by *Finance for All*, would be a valuable contribution to this multi-national effort.

This section of the paper discusses the selected ‘headline’ indicator and the picture of inclusion it presents across APEC. A ‘headline’ indicator of financial inclusion is useful as a summary measure. It will usually be a ‘composite’ measure, constructed from data from a number of sources. A researcher associated with the World Bank’s ‘Access to Finance’ project notes that a headline indicator ‘should be easy to update on a regular basis, comprehensive yet simple and transparent, and empirically robust’. Moreover, ‘such an indicator should have maximum impact and easily translate into policy’³. It should, in other words, be useable for setting national targets for increased financial inclusion. *Finance for All* gives a suitable ‘headline’ measure of inclusion for some APEC economies (table 1). This measures the percentage of the adult population with access to an account with a financial intermediary. Researchers were able to construct the composite measure for only 15 of the 21 member economies. Unfortunately, for various key measures of access, discussed below, coverage is even lower.

Table 1, APEC Economies, Composite Measure of Access to Financial Services

Economies	%	Economies	%	Economies	%
Australia	n/a	Japan	n/a	Philippines	26
Brunei Darussalam	n/a	Korea	63	Russia	69
Canada	96	Malaysia	60	Singapore	98
Chile	60	Mexico	25	Chinese Taipei	n/a
China, Peoples Republic	42	New Zealand	n/a	Thailand	59
Hong Kong, China	n/a	Papua New Guinea	8	USA	91
Indonesia	40	Peru	26	Vietnam	29

Note: Data relate to various years around 2000. N/a means ‘Not available’. *Source:* World Bank (2008) *Finance for all*

³ Stijn Claessens in *AccessFinance Newsletter*, World Bank, September 2005



The headline measure shows a wide range, from 8% ‘included’ in Papua New Guinea to 98% in Singapore. Among economies with small minorities of financially-included people are Mexico (25%), Peru and the Philippines (both 26%), and Vietnam (29%). The PRC has 42% of adult population with access, along with other mid-range economies, Malaysia (60%), Chile (60%) and Thailand (59%). Nor is significant exclusion restricted to the developing economies. The USA, with an inclusion rate of 91%, compares unfavourably with some other advanced economies. Other evidence suggests serious financial exclusion in the United States⁴. As mentioned above, it should not be assumed that only the less developed economies could benefit from participating in an FMP inclusion initiative. Some degree of financial exclusion occurs in *all* economies.

3. Key measures of inclusion for APEC member economies

Aside from the summary or ‘headline’ measure of inclusion, there is a need for indicators of the use of key financial services and of barriers to accessing such services. *Finance for All* surveyed banks to compile estimates of use of loan and deposit services (table 2). Bank regulators were surveyed to calculate branch and ATM penetration across economies (table 3). In the case of table 2, the loan and deposit data are available for only 9 of the 21 APEC economies.

Data available for these nine economies permit calculation of numbers of loan and deposit accounts per capita, while loan and deposit size data can be expressed in terms of GDP per capita. The data set in table 2 is incomplete, even for the nine participating economies. An indicator of levels of financial development (private credit as a proportion of GDP) is provided while GDP per capita data signal overall levels of development.

Loan accounts per capita range from 418 per thousand in Chile to 54 in Russia. In Chile, average loan size is 1.6 times GDP per capita, with a range to 4.23 in Russia and 4.56 in Thailand. In Chile, private credit is less than 70% of GDP, whereas in Thailand and Malaysia, the figures are 104% and 135%, respectively. However the financial development indicator ranges down to 18% (in Mexico) and 15% (Papua New Guinea). Overall levels of development as measured by GDP per capita range from \$617 in PNG to \$21,500 in Singapore. At the low end, numbers of deposit accounts per capita range from 120 per thousand (PNG) to around 300 (Philippines and Mexico). At the other extreme, highs extend to 1671 (Singapore) and 1892 (Russia).

⁴ *Time* (27 August 2007) describes the emergence of alternative financial services for some 40 million adult Americans without bank accounts, suggesting financial inclusion is relevant to high income economies. Beyond APEC, the Blair government commenced a series of initiatives on financial inclusion from 1997. See HM Treasury, *Financial inclusion: the way forward*, 2007. Available at hm-treasury.gov.uk

Table 2, APEC Economies, Use of Loan and Deposit Services

Economies	Loan a/cs per capita (number)	Loan-income ratio	Deposit a/cs per capita (number)	Deposit -income ratio	Private credit/ GDP	GDP per capita
Chile	418	1.6	1045	0.46	0.694	4591
Malaysia	329	2.95	1250	0.92	1.352	4164
Mexico	----	-----	310	0.46	0.181	6121
Papua New Guinea	----	-----	120	2.48	0.147	617
Peru	78	2.45	316	0.74	0.248	2247
Philippines	----	-----	302	1.77	0.405	989
Russia	54	4.23	1892	0.07	-----	3022
Singapore	513	3.84	1671	1.62	1.159	21492
Thailand	248	4.56	1423	0.83	1.044	2309

NOTE: Economies listed are those for which data are available. Loan/deposit accounts per capita refer to the number of loans/deposits per 1,000 people. Loan/deposit-income ratio refers to the average size of loans/deposits as proportion of GDP per capita. Private credit to GDP is the ratio of claims of financial institutions on the private sector as a proportion of GDP. N/a means data 'Not available'. Bank surveys were conducted in 2004 and 2005. **Source:** World Bank (2008) *Finance for All?*

The measures of banking 'penetration' (table 3) deal with numbers of bank branches and ATMs and are geographic (related to the surface area of each economy) and demographic (related to population size). Once again, these variables are listed alongside the indicators for financial development and overall development status.

Reflecting the fact that branches and ATMs are established subject to regulatory permission, the data set is more complete, covering 17 of the 21 APEC economies and with few gaps. A quirk of the geographic measure is apparent. For countries of large surface area in relation to population (Australia, Russia) the indicators for branches and ATMs are very low. Indeed Australia, a country in which one would assume inclusion is high (though the data are not available to show it) is very nearly at the bottom on both measures. It is not surprising that, at the other extreme, Singapore, with its small surface area, and high inclusion and incomes, has very high penetration on both the geographic and demographic measures. However, such quirks do not invalidate the measures in table 3; what matters for each economy is the trend in its provision of branches and ATMs over time.

Table 3, APEC Economies, Branch and ATM Penetration

Economies	Geographic branch penetration (No.)	Demographic branch penetration (No.)	Geographic ATM penetration (No.)	Demograph. ATM Penetration (No.)	Private credit/ GDP	GDP per capita
Australia	0.77	29.86	1.66	64.18	0.879	26062
Canada	1.56	45.6	4.64	135.23	0.967	26380
Chile	1.98	9.39	5.06	24.03	0.694	4591
China, PRC	1.83	1.33	5.25	3.8	1.236	1094
Indonesia	10	8.44	5.73	4.84	0.236	971
Japan	34.82	9.98	397	114	1.115	34010
Korea	65.02	13.4	437	90	1.197	12634
Malaysia	7.39	9.8	12.4	16.44	1.352	4164
Mexico	4.09	7.63	8.91	16.63	0.181	6121
New Zealand	4.19	28.04	7.53	50.36	1.101	19021
PNG	0.2	1.64	-----	-----	0.147	617
Peru	0.89	4.17	1.24	5.85	0.248	2247
Philippines	21.4	7.83	14.52	5.31	0.405	989
Russia	0.19	2.24	0.53	6.28	-----	3022
Singapore	636.1	9.13	2643	37.93	1.159	21492
Thailand	8.71	7.18	20.69	17.05	1.044	2309
USA	9.81	30.86	38.43	120.94	1.628	37388

NOTE: Economies listed are those for which data are available. Geographic branch/ATM penetration refers to the number of branches/ATMs per 1000 KmSq. Demographic branch/ATM penetration refers to the number of branches/ATMs per 100,000 people. Private credit to GDP is the ratio of financial institutions' claims on the private sector to GDP. N/a means 'Not available'

Source: World Bank (2008) *Finance for All?*

Surveys of banks conducted by *Finance for All* enabled estimates of barriers to accessing cheque and deposit services (table 4) and barriers to SME loans (table 5), as well as barriers to payments services (table 6). Since bank response was voluntary, the data are patchy in that the market share of responding banks for loans and deposits varies substantially across economies.

Table 4 presents a number of measures describing the 'accessibility' of services (measure #1) and their affordability (#2 to #7) as perceived by the potential customer. There are also measures of the 'eligibility' of potential customers (#8, #9). The convenience with which business units or service points of the bank are approached is a factor in 'accessibility'. The minimum charges levied for services influence 'affordability', while the documentary requirements ('red tape') for opening an account speak to the issue of 'eligibility'. Data are available for ten of the 21 economies.

Table 4, APEC Economies, Barriers to Cheque and Deposit Services

Indicators	# 1	# 2	# 3	# 4	# 5	# 6	# 7	# 8	# 9
Economies	Locations to open deposit a/c (1, 2, 3)	Min. initial deposit, Cheque a/c	Min. initial deposit, Savings a/c	Min. balance Cheque a/c	Min. balance Deposit a/c	Annual fees, Cheque a/c	Annual fees, Savings a/c	Docs to open Chq. a/c	Docs to open Saving a/c
Australia	2.59	0.00	0.00	0.00	0.00	0.16	0.10	3.0	3.0
Chile	2.42	4.33	0.00	0.00	0.00	3.38	0.42	4.42	1.58
China, PRC	3.0	0.00	0.01	0.00	0.00	0.00	0.00	1.00	1.00
Indonesia	2.53	9.54	3.03	6.14	0.65	2.80	0.66	3.18	2.66
Japan	1.75	0.00	0.00	0.66	0.00	0.02	0.00	2.03	1.24
Korea	2.11	3.32	0.01	0.00	0.01	0.06	0.00	1.94	1.20
Mexico	2.18	1.11	0.62	0.90	0.67	0.43	0.18	2.80	2.18
Peru	2.0	1.66	0.53	0.00	0.00	1.44	0.50	2.42	1.87
Philippines	2.0	14.54	11.88	14.54	11.88	0.00	0.00	3.17	2.20
Thailand	2.48	6.74	0.41	0.31	0.31	1.29	1.29	1.23	1.23

NOTE: Economies listed are those for which data are available. *Physical access indicator (#1)* : Locations to open deposit account take value 1 if possible only at headquarters, 2 if possible at headquarters or branch, 3 if at HQ, branch or other outlet. *Affordability indicators (# 2, 3, 4, 5, 6, 7)*: Minimum balance to open/maintain a cheque/savings account is the minimum amount required to open/maintain such an account. Annual fees to maintain a cheque/savings account. Costs expressed as percentage of per capita GDP. *Eligibility indicators (# 8, 9)*: Number of documents required to open a cheque or savings account. N/a means 'Not available'. Bank surveys were conducted in 2004 and 2005. **Source:** World Bank (2008) *Finance for All?*

The PRC appears to offer the widest choice of service points (headquarters, branch, 'other outlet') to open deposit accounts, while Japanese banking appears least accessible on this measure. Minimum initial deposits, expressed as a percentage of per capita GDP, may pose a barrier to low income earners. This appears most likely in the case of cheque accounts in the Philippines (15% of mean income) and Indonesia (almost 10%). For savings accounts, the Philippines imposes an onerous 12% requirement although Indonesia's minimum deposit is equivalent to about 3% of mean income. Low initial deposit barriers are seen in Australia, China and Japan, among others. Annual fees to operate cheque accounts are relatively burdensome in Chile and Indonesia, at around 3% of mean annual income, but are zero (or close to it) in a number of the economies. Annual fees for savings accounts are much lower than for cheque accounts in general, and zero in a number of cases.

Concerning 'eligibility' to hold an account, there is quite a wide range of experience, in terms of the documents required by banks. In general, it is simpler to open a savings account than a cheque account in most economies. Bank requirements in Chile appear quite stringent, demanding between 4 and 5 documents for cheque accounts, though a deposit account requires only from one to two. By contrast, in the PRC a single proof of identity is required for either account. Thailand and Korea are also relatively relaxed, requiring between one and two documents for either account.

Table 5 is concerned with barriers in the path of potential SME borrowers, such as limited access or opportunity to apply for loans, large minimum loan sizes and high fees and lengthy processing times. Data are available for ten of the APEC economies. Variables considered include the number of modes of service available for filing applications, as an indicator of accessibility (from headquarters, to branches and agents, and electronic and phone procedures). Minimum loan size and loan fees are expressed as percentages of GDP per capita.

Table 5, APEC Economies, Barriers to SME loan services

Economy	Locations to submit application (of 5)	Minimum Amount SME loan %GDPpc	Fees SME loan % of Min. Amt	Days to process SME Loan	Economy	Locations to submit application (of 5)	Minimum Amount SME loan %GDPpc	Fees SME loan % of Min. amt	Days to process SME loan
Australia	5.0	10.06	1.29	7.19	Korea	3.78	16.99	0.29	2.73
Chile	5.0	121.70	1.09	13.87	Mexico	4.20	87.80	1.61	9.86
China, Peoples Republic	2.0	-----	0.00	40.00	Peru	3.21	54.35	0.16	3.71
Indonesia	3.10	1853.19	1.46	9.68	Philippines	2.36	916.66	1.41	33.29
Japan	3.42	11.75	0.00	10.14	Thailand	2.00	3.21	0.94	23.74

Note: Economies listed are those for which data are available. Locations to submit loan applications, score is out of five possibilities, including physical offices, electronically and by phone. Minimum loan size is the smallest SME loan available, expressed as % of GDP per capita (GDPpc). Loan fee is expressed as % of minimum loan size. Days to process is the typical waiting period for approval of an SME loan. N/a means data 'Not available'. Bank surveys conducted 2004 and 2005. **Source:** World Bank (2008) *Finance for All?*

All economies report multiple modes or locations for filing applications, with most in the range of 3 to 5 service modes. Loan minima appear to vary widely, from little more than 3% of mean income in Thailand to some 20 times income in Indonesia and ten times in Philippines. However this result reveals a weakness in the data set as presently compiled, since data are collected from (or about) mainstream commercial banks. Thus both Indonesia and the Philippines will look much better when the data set is expanded to include Indonesia's BRI Village Units and rural banks in the Philippines, both of which operate at much more SME-friendly levels. These two economies could assist in repairing this deficiency in the data by active engagement with the FMP initiative on financial inclusion.

Table 6 is concerned with barriers to payments services, specifically the international remittance of funds and the domestic use of ATM services. Costs of these services are estimated as a percentage of \$250 (for the remittance) and \$100 (for the ATM transaction). For remittances via the commercial banking system, charges vary between 20 % (Chile) and less than 3% (Indonesia, PRC, Philippines), with most under 10%. Domestic ATM use incurs no cost for an own-bank transaction in most cases, and well below 1% in the remainder of cases, though no doubt a more fine-grained schedule of costs would reveal other aspects of user-cost. The choice of a transaction level as high as \$100 may also be questionable for low-income economies.



Table 6, APEC Economies, Barriers to Payments services

Economies	Cost for int'l funds transfer (% of \$250)	Fee for ATM use (% of \$100)	Economies	Cost for int'l funds transfer (% of \$250)	Fee for ATM use (% of \$100)
Australia	8.05	0.00	Korea	7.05	0.22
Chile	20.00	0.00	Mexico	8.66	0.40
China (PRC)	2.67	0.12	Peru	6.68	0.24
Indonesia	2.83	0.00	Philippines	2.27	0.00
Japan	13.24	0.00	Thailand	4.97	0.00

NOTE: Economies listed are those for which data are available. Cost to transfer funds is the amount banks charge for international transfers, expressed as a percentage of \$250. Fee for ATM use is the fee banks charge customers for use of an ATM card, expressed as a percentage of \$100. N/a means 'Not available'. Bank surveys were conducted in 2004 and 2005.

Source: World Bank (2008) *Finance for All?*

4. Some methodological problems underlying the *Finance for All* database

The tables discussed in sections 3 and 4 have been presented as representing the status of financial inclusion in a number of the APEC economies. However, it must be emphasized that the access dataset, as presented in *Finance for All* and abstracted here, is a work in progress. Continuing improvement is promised by the research team, to extend the coverage of countries and institutions and to remedy other data gaps and fragilities. The database, at <http://econ.worldbank.org/programs/finance>, will be updated progressively as work proceeds. An FMP activity on the measurement of financial inclusion could be designed to flesh out the *Finance for All* data set, and would be a valuable contribution to this important work.

Individual use of financial services is best estimated from household surveys. However comparatively few countries, APEC or non-APEC, have conducted appropriate household surveys. For the 'headline' measure given in table 1, proxy indicators were compiled. In the first instance, household survey data were accessed for those economies, 34 of them, where these are available. In the absence of household surveys, estimates of access to finance in the general population were made by applying regression analysis to data for the aggregate number and estimated mean size of bank accounts. If APEC economies were to commit to including relevant questions in their periodic household socioeconomic surveys this would assist in putting the calculation of the headline indicator on firmer ground.

The headline measure of table 1 is more comprehensive than the indicators displayed in tables 2 to 6, in that it covers a wider range of financial intermediaries. Aside from commercial banks it also includes 'alternative financial institutions' that 'target low-income clients and are not profit maximizers'. These include 'microfinance institutions, postal savings banks, credit unions, and state-owned agricultural and development banks'⁵ as well as member institutions of the World Savings Banks Association.

⁵ *Finance for All*, Box 1.4



The data reported in tables 2 to 6 are collected from, or about, commercial banks. Unlike table 1, these tables do not include data for other regulated institutions. Many financial institutions of great significance to low-income people are not yet included in the data set (as for example the Indonesian Village Units and Philippine rural banks mentioned in section 4, above). To that extent these ‘non-headline’ indicators are likely to overstate the degree of financial exclusion or the barriers to access in economies where such ‘alternative’ institutions are significant financial players. Again, the *Finance for All* database will be expanded progressively to repair this deficiency, an enterprise to which ABAC might contribute in its ‘inclusion’ initiative.

5. When many or most are excluded: who should be given priority?

In underdeveloped financial systems, those excluded from financial services include significant groups of ‘non-poor’ people. Simple inspection of the headline indicators in Table 1 suggests that this must be the case in (for example) Mexico, the Peoples Republic of China and Malaysia. One school of thought, discussed in *Finance for All*, questions whether providing financial services directly to the poor is the best way to help them⁶. Instead, ‘improving access for small firms and for nonpoor entrepreneurial households can be a powerful mechanism for helping reduce poverty’. This is said to be because such access makes for better-functioning labour and product markets and more productive investment, and leads in turn to better employment and higher wages.

The argument appears to be that preference in provision of financial services should be extended to the ‘excluded non-poor’, at the expense of the poor. But this is a ‘credit-centric’ argument. It boils down to saying that the excluded non-poor can make better use of credit than the excluded poor (and, in such discourse, credit is really the *only* financial service considered). Indeed it is almost certainly true that the non-poor make better use of credit, as also the proposition that credit is more important for the entrepreneurial middle classes than it is for the poor. But the credit-centric view takes insufficient account of the benefits that flow to the poor via their access to the full range of microfinance services, especially deposits and payments (including remittances). The argument for financial inclusion of the poor depends largely on their use of financial services other than credit.

It is difficult to argue with the World Bank’s conclusion that ‘building inclusive financial systems requires a focus broader than microfinance’⁷. A broader focus is certainly needed to provide services appropriate to the needs of the ‘excluded nonpoor’ and to generate the benefits (in terms of employment and higher incomes) that their entrepreneurial activity may provide for the poor. But this cannot be taken as an injunction to concentrate resources on the middle classes (and on SMEs) at the expense of a broad and inclusive approach to financial services for the poor and their microenterprises. As the source cited above also notes:

⁶ See, for example, *Finance for All? Pp. 18-19*.

⁷ In the summary of conclusions of a 2007 World Bank conference, *Access to Finance*, at http://siteresources.worldbank.org/INTFR/Resources/Summary_notes_for_the_conference_on_Access_to_Finance.pdf



‘[f]or poor households, credit is not the only or in many cases the priority financial service they need: good savings and payments (including international remittances) services and insurance may rank higher’⁸

Even if the posited employment and income benefits were actually to flow to the poor, the masses would still lack necessary microfinance services – deposits, payments, remittances and (yes) credit – that would fund their microenterprises, as well as smoothing their consumption and making it more efficient. Frequent references by APEC Leaders and Ministers to the need for ‘shared prosperity’ must be taken by ABAC and the FMP as requiring direct action to promote formal financial services for the poor. They cannot be left to wait for some presumed trickle-down of benefits.

6. Conclusion

A successful ABAC initiative would place financial inclusion on the economic policy agenda in APEC economies plagued by financial exclusion. For that to happen, Ministers must be convinced of the benefits of inclusion and of the need to measure it for policy purposes. They must be persuaded to commit the resources of relevant agencies to the task. Policy dialogue moderated by ABAC will encourage the exchange of experience and joint learning. Case studies of successful institutions, of product and technological innovations, and of national policy environments, will increase understanding of the elements of reform, both within government and the financial sector. These activities will expose the need for capacity-building within APEC economies, while uncovering sources of expertise and models of good practice in the broader APEC community.

The key to progress will be political will, expressed in firm governmental commitments to the progressive elimination of financial exclusion. By making progress towards agreed goals, both quantitative and qualitative, APEC economies will reap the efficiency and equity benefits of growing financial inclusion⁹. Individual ABAC members can assist in building a constituency for these efforts in their own economies. Finally, the recruitment of appropriate partner institutions will be essential to success.

⁸ Ibid.

⁹ Efficiency and equity benefits are canvassed in my paper *Financial inclusion: A new microfinance initiative for APEC*, prepared for the January 2008 meeting of ABAC and available at http://www.apec.org.au/docs/08_MFAPEC_JC.pdf