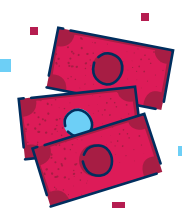


INCLUDING THE BOTTOM OF  
THE PYRAMID INTO THE MARKET:

# Why livelihoods data matters for financial inclusion

## Money is first and foremost a social phenomenon

*Money belongs in markets but is also a social and cultural concept. To talk about finances is to go to the heart of households and individuals and the way they earn and spend their money.*



*Money and the generation of it is essential to people's ability to live, progress, and prosper.*

While money has traditionally been considered as operating in the abstract, in the financial market, it is first and foremost a social phenomenon. Its role and relationship are qualitatively different in marriage, family businesses, and banking. In combination with the financial the concept of 'inclusion', by its nature, makes it a valuable proposition for bridging the vast economic chasms in contemporary society, both within and between countries. Money and the generation of it is essential to people's ability to live, progress, and prosper. Hence, understanding people's lived realities in terms of generating an income is essential to understand and address poverty.

The following questions have become important indicators of how a community functions, survives, and hopefully thrives: Are they employed or working for themselves, do they receive a salary or wage or simply get paid when they work, do they generate income in the formal or informal sector, how much do they earn, and how frequently do they receive an income.

Given the means, people consistently strive to improve their circumstances – to earn more money, more consistently. To do this, they invest in certain things – their health, education, new opportunities, and in other basic services like access to energy. Understanding how personal financing comes together within a community is critical to determine pathways out of poverty and hopefully illuminate the potential of increasing domestic financing across all segments of society.



*The United Nations Capital Development Fund (UNCDF) Making Access Possible (MAP) programme's livelihoods data sheds light on three essential components that allow for the understanding of livelihoods, as well as behaviour, which is essential to inform decisions about access to appropriate financial products.*

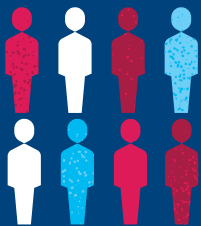
*These include understanding people's income generation and income levels; understanding what they spend that income on, which reveals their financial and real economic needs, as well as their priorities, and; understanding people's perceptions, awareness and behaviour, which also impacts their usage of financial services to meet real economic needs.*

When coupled with basic demographic information (age, gender, geographic location), as well as people's financial inclusion realities (what products they have access to and use), powerful conclusions can be drawn for market development and policy provision to create better functioning market systems.

### *Data for more inclusive finance*

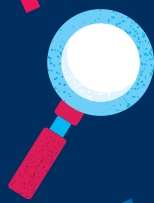
Data plays a critical role for a policymaking process that uses an evidence-based approach to developing functioning market systems. With rigorous, objective, and reliable key performance indicators, policymakers can accurately diagnose the state of financial inclusion and its potential to generate pathways out of poverty, agree on policy targets for market expansion, identify existing barriers, craft effective policies, determine implementation focus, and monitor and measure policy impact. Without high-quality data providing the right information on the right things at the right time, designing, monitoring and evaluating policies for effective growth and market development become almost impossible. Despite considerable progress in recent years, the majority of people, particularly in Least Developed Countries (LDCs), are not being counted and important aspects of people's lives and environmental conditions are still not being measured.

# Inclusive data – who benefits?



## INCLUSIVE DATA IS FAIR AND REPRESENTATIVE.

In a data-saturated world, consumers have come to expect personalised service and an informed understanding of their lives by politicians and commercial entities alike. Accurate quantification and segmentation build public trust in data and in the institutions of government and society. Seeing their realities reflected rather than simply seeing 'averages' gives the public hope of improving their prospects for the future. In turn, inclusive data is instrumental in helping governments and the private sector deliver improved consumer protection and value.



## INCLUSIVE DATA MAKES THE 'INVISIBLE' VISIBLE.

This allows for targets to be set and the public to hold government accountable. Inclusive data provides transparency and consequences to government decision-making, with interventions to improve the situation being monitored and taken seriously, and with corrective action where necessary. Inclusive data thus plays a harmonising role in terms of people's perception and experience of being included.



## INCLUSIVE DATA 'COUNTS PEOPLE IN'.

When inclusive data is harnessed to improve people's inclusion in resource provision, their ability to 'be counted' also improves because data is usually skewed towards the formal sector (i.e. those that are already socially included), which leaves the majority – those in the informal sector – locked out.



## INCLUSIVE DATA SUPPORTS STAKEHOLDERS IN CO-SHAPING MARKETS.

Inclusive data affords governments, providers, investors and the development community full insight into market demand, and helps quantify the addressable market for selling services – both financial services and real-economy services such as health, education and energy – as a business proposition. This provides an understanding of the potential for national businesses to scale within this context, while allowing insight into the business cases (for providers) and infrastructure investment requirements (for governments and investors) to expand supply to meet market demand.



## INCLUSIVE DATA HELPS REVEAL HOW PEOPLE INVEST IN THEIR NEEDS.

Consumers, including the poor, spend their own money on increasing their social mobility and improving their prospects for the future: they start small businesses (entrepreneurship) in order to access opportunity, and they use financial mechanisms, whether formal or informal, to access resources in the form of education, healthcare, and basic services such as electricity, water, communications and the like. In other words, at the micro level people self-fund increased access to resources, in the process contributing to government's achievement of these macro-level objectives.



*Aspects of people's lives and environmental conditions are still not being measured*

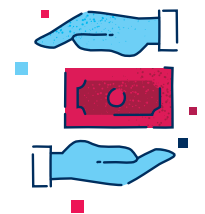
The UNCDF MAP programme has been active in conducting national demand-side surveys and diagnostic studies on financial inclusion in 19 countries across Africa and Asia. The data is nationally representative, and findings are disaggregated to a granular level by gender and geography and analysed for five or six identified market segments covering access and decision making in relation to a range of financial services, including informal services.

This evidence-based approach enables factual and insightful discussions across a range of financial inclusion issues, while also allowing for the identification of appropriate approaches for financing growth across multiple market segments and systems. The availability of in-depth and representative data also ensures that the invisible segments and opportunities are made visible, which is crucial for growth and leaving no part of the market behind. Understanding people's livelihoods and realities is core to the MAP approach, incorporating the livelihoods approach to development – whether they derive their livelihood in the formal or informal sector, and whether they make use of formal or informal basic and financial services.

### *The right data for the right purpose*

Financial inclusion promises to include the previously excluded, while also taking all consumer needs seriously. By accommodating integration between the personal and the communal, financial inclusion encompasses multiple areas of society and is pertinent across different country circumstances. This, to a large extent, accounts for its power and potential as a policy mechanism suited to the societal complexity with which governments and development partners must grapple.

However, societal complexity also underlies the needs for market systems approaches, aimed at addressing system changes that would have impact and longevity beyond any single intervention. As such, the data requirements to truly affect change is also complex. While different types of data and data sources can be useful and are indeed leveraged for different purposes, a solid underlying representative dataset is required for evidenced-based decision making. However, such a dataset also needs to contain livelihoods and behavioural data, which allows for the exploration of income generation, expenditure, behaviour, and perceptions in terms of people's broader livelihoods (not limited to financial inclusion). In addition, while indicators and indicator datasets in its own right is of value to measure and track progress, inclusive data (to inform systems change) should allow for granular and ad hoc analysis<sup>1</sup>. In other words, datasets need to be fungible as opposed to an indicator dataset that are pre-determined and not further analysable.



*Financial inclusion promises to include the previously excluded, while also taking all consumer needs seriously.*

<sup>1</sup> Indicator set surveys are fairly standardized in design to track the movement in specific indicators, while data sets are tailor-made to specific national or context demands. Data sets yield a rich underlying database that is accessible to end users and can be used for ad hoc analysis to serve the needs of a diverse set of users. Indicator sets on the other hand, are only flexible in as far as the indicators that are collected can be adapted with consecutive rounds of collection. Put differently, indicator sets cannot be used for deeper analysis of behaviour and livelihoods, while a dataset can, in addition to also allowing for the construction of indicators from the dataset.



*MAP uses data for different purposes – for instance tracking data versus data for diagnostics – and ancillary data sources that complement demand-side surveys to paint a holistic picture.*

Lastly, to ensure longevity and sustainable impact, local ownership of locally generated data is key to enable countries to define and determine their own future priorities for unknown market pockets. These criteria underpin the critical necessity of having nationally representative demand-side datasets.

MAP uses data for different purposes – for instance tracking data versus data for diagnostics – and ancillary data sources that complement demand-side surveys to paint a holistic picture. In other words, there are use cases for different types of datasets and indicators sets, and programmes like MAP benefits from all use cases in specific instances be it national deep dives like FinScope, internationally comparable data like Findex, or thematic deep dives like GSMA or Financial Inclusion Insight (FII) surveys. MAP also benefits from both supply- and demand-side data for the same reason. In addition, big data and transactional data offer specific use cases, which programmes can benefit from and use in certain instances.

Therefore, some data options may be useful to the programme, even if they are not suitable as a primary data tool. For instance, there is an absence of leaner, periodic, thematic surveys that can respond to the specific interests of regulators, such as segment specific surveys (e.g. women, youth, MSMEs, migrants, etc.) or market-specific surveys (e.g. loans, savings, and energy payment products).

## *Data as a cooperation tool*

There are a number of large livelihood focussed datasets that sit within the multilateral system, which can enable a more collaborative framework for working together. Given the availability of various datasets that are produced and updated throughout the multilateral system as well as by country governments for supervisory purposes or to inform policy and decision making, a review of the functionality of such datasets for particular needs highlights opportunities for cooperation and enables more efficiencies around data collection. Broadly, the type of data collected relating to financial services usage fall into two categories, supply-side and demand-side.

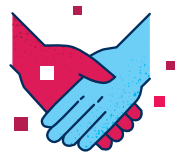
Supply-side surveys typically capture information from regulated financial service providers on indicators such as number of accounts and product specifications in order to estimate the percentage of the population that use financial services. Moreover, financial service providers could be asked to report on their physical outreach, specifically on the number of branches, location of branches, ATMs, pricing of different products and services, and penetration or usage of products and services, etc. If combined with population data; these indicators can be used as a proxy for determining the level of access to financial services. These types of surveys offer a low-cost alternative with more frequent data at the expense of a set of rather broad indicators on only formal and regulated providers in general. Because they tend to be of higher frequency than demand-side data, they allow for regular monitoring of financial access. Most of the progress to date in building cross-country datasets has been on the supply-side, largely because this data tends to be already available from most regulators. A drawback of supply-side data is that it only captures information for existing customers of formal financial services.



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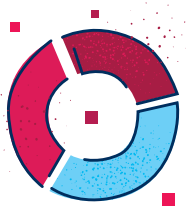
There is also duplication in supply-side data (people with multiple accounts), which countries to date have found difficult to eliminate.

New alternative data sources that use supply-side data have emerged over the years, such as fintech, insurtech, and transactional data from large commercial banks to determine customer behaviour. With technology advancement and digital technology utilisation, data can be made available timely to improve decision making. This is especially the case for decision making from private sector providers related to operational efficiency processes and hopefully extending the boundaries of new and more risky markets for service provision. However, it is critical that access to this data is within an ecosystem that ensures data confidentiality especially around privacy to avoid data breaches of confidential information. Developing deeper relationships with the private sector that allows for the cross-sharing of transactional and customer data within a secure cloud environment will be immensely valuable at a market level. It will also form the basis of discussion for a neutral coordinator around the facilitation of financing for market growth.



*While a basic estimate of outreach is helpful, a clear picture of financial inclusion requires input from customers.*

While a basic estimate of outreach is helpful (using supply-side data), a clear picture of financial inclusion requires input from customers (actual and potential) – particularly, whether financial inclusion is equitably distributed across the population and the related financing needs to grow the market. Demand-side survey data offer detailed information on many dimensions of financial inclusion directly from users of financial services. But they are typically infrequent due to cost (although there are examples of countries with more frequently updated demand side data). Demand-side datasets can be disaggregated by income level, urban/rural residence, employment, gender, education level and so on, to ultimately help determine who is being served. This information is important to understand financial needs (met and unmet) of users, barriers encountered when seeking formal financial products/services, and information of users by socioeconomic and demographic characteristics. Demand-side indicators can inform the designing of policies, track progress on the implementation of policies and programmes, and inform areas of weakness in current markets for further development.

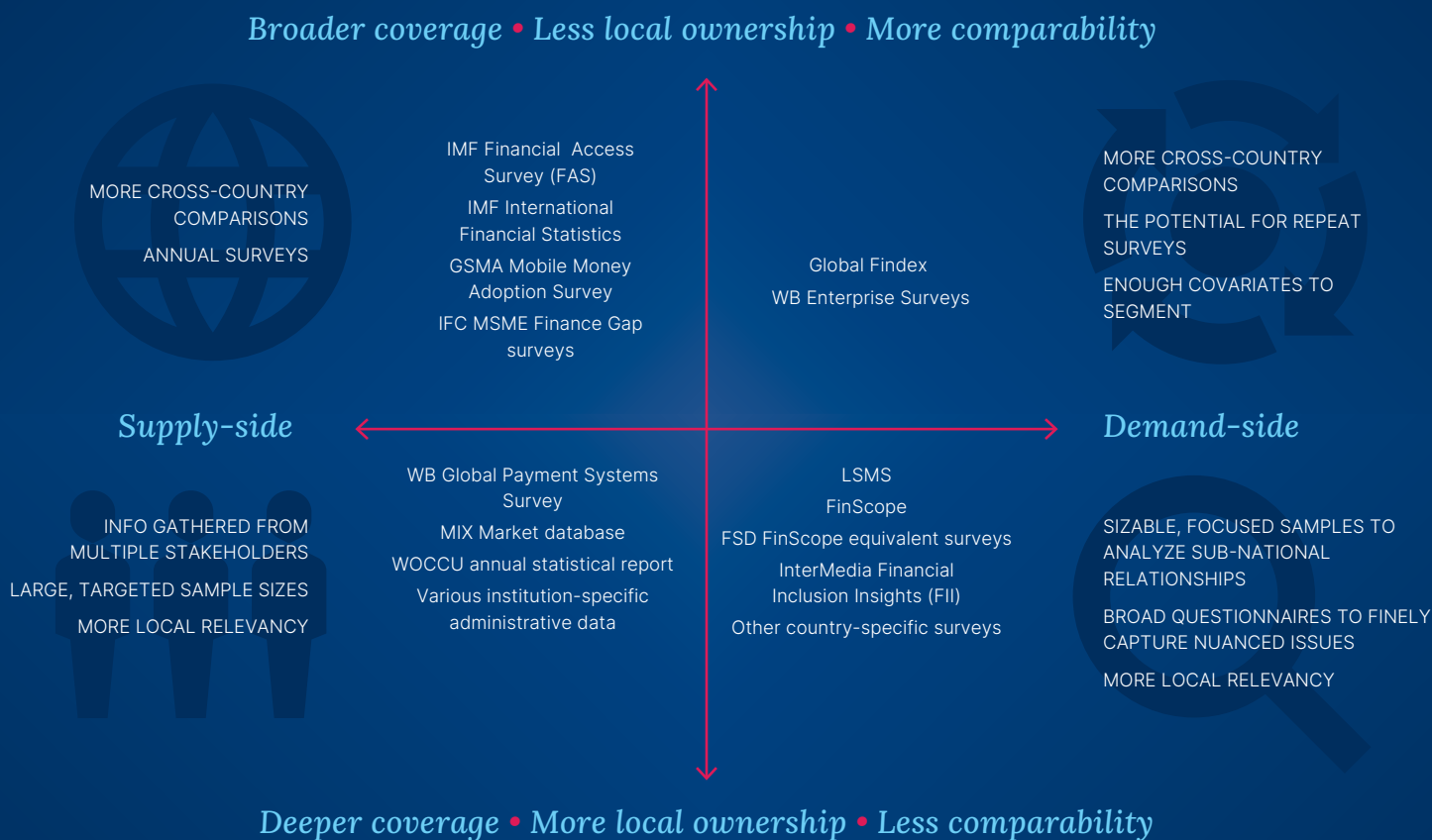


*Several bilateral and multilateral stakeholders have invested in the generation of datasets, sometimes on a periodic basis.*

## *Popular data surveys for financial inclusion and their uses*

In some instances, nationally representative demand-side data surveys are being conducted by national governments. But such datasets are generally absent in many low-income countries, and more so LDCs. In the absence of such datasets, informing policy and decision-making with the potential to catalyse growth becomes difficult. To fill this gap, several bilateral and multilateral stakeholders have invested in the generation of datasets, sometimes on a periodic basis. However, the functionality and focus of these datasets tend to vary to suit particular needs and priorities, and not all of them are sufficient sources to inform evidence-based national priorities on financial inclusion.

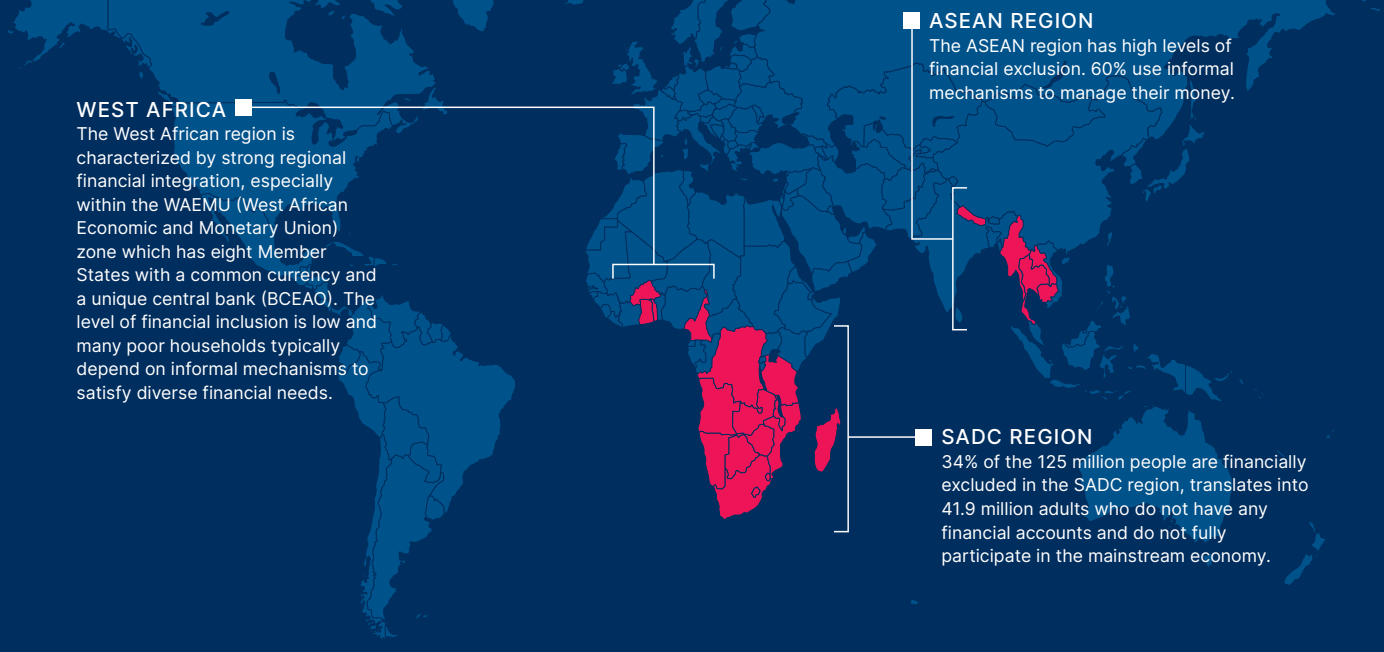
**FIGURE 1** Multicountry FI and HH surveys



The figure above provides an illustration of the identified supply-side and demand-side surveys and the scope of their coverage that are relevant to the UNCDF MAP programme. A distinguishing feature of these surveys is on their coverage with some having broader coverage by taking a global view (i.e. limited headline numbers, but broader cross-country comparability). On the supply-side, these are usually annual surveys with cross-country comparisons, while the demand-side offer cross-country comparisons with the potential for repeat surveys and enough covariates to segment. Others have deeper coverage focusing more on national representativeness (i.e. in-depth data, but less cross-country comparability). On the supply-side, information is gathered from multiple stakeholders with large, targeted sample sizes, whilst the demand-side are sizable, focused samples to analyse sub-national relationships with broad questionnaires to finely capture nuanced issues.

Some financial inclusion datasets tend to have a narrower focus, most notably in the case of FII, which focuses on digital financial services (DFS) and payments, while others seek to generate a globally comparable dataset (as in the case of Global Findex). The World Bank Enterprise Survey does not focus on financial inclusion and livelihoods specifically, but includes some of these indicators for micro, small, and medium sized enterprises (MSMEs). However, FinScope, FSD surveys and the Living Standards Measurement Survey (LSMS) have good depth and breadth on livelihoods and financial inclusion indicators, whilst FII include some information on livelihoods through data collection on Progress out of Poverty Indicators (PPI), as well as financial health and resilience, limited to the countries of operation.

*Making Access Possible (MAP) is a multi-country initiative, supporting Ministries of Finance and Central Banks, to drive financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap.*



The FinScope surveys appear to lead on the breadth and depth of survey indicators on financial inclusion and livelihoods in most categories except in financial resilience which is still under development. FSD surveys uses a similar methodology as FinScope, however, across FSD countries, it appears to be trailing in terms of updating the questionnaire on new issues emerging in financial inclusion. LSMS appears to include more information than the Global Findex in a number of key livelihoods and poverty categories.

However, there is still a gap in the frequency of timely data from most of these surveys, which is a critical component of the UNCDF MAP methodology and value add for effective policymaking and implementation. To fill the data gaps at national level and remain relevant in a changing technological environment, as well as increasing the impact of financial inclusion on inclusive growth, the data collection process needs to evolve with the market as well as consumer needs and priorities. By providing more cost effective and frequent surveys, decisions can be shaped closer to real time, which improves its usefulness to local decision-makers and empowers them to fulfil their commitments and objectives.

Of the surveys reviewed, FinScope, FSD surveys, FII, and LSMS appear comprehensive and meet most of the critical components required for an in depth representative and locally owned data approach to inform livelihoods improvement.

Global comparable datasets like Findex does not allow for granular analysis as there is no ability to segment the market on an ad hoc basis, and no ability to drill down and understand newly identified segments more holistically. On the other hand, nationally representative household surveys like FinScope, FSD surveys, FII, and LSMS allow for a detailed exploration of population characteristics and behaviour and ad hoc segmentation of the market. This aids in developing a holistic understanding of each segment in terms of their financial lives and needs.



*By providing more cost effective and frequent surveys, decisions can be shaped closer to real time, which improves its usefulness to local decision-makers and empowers them to fulfil their commitments and objectives.*

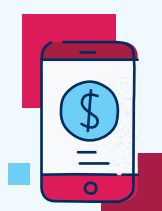
## Findings



### NO SINGLE SOURCE OF DATA IS ADEQUATE FOR ALL NEEDS

Both supply and demand side surveys are required by governments for both macro and micro-economic policy planning to improve inclusive finance services and livelihoods of those at the bottom of the pyramid and in the missing middle. Similarly, the UNCDF MAP programme uses different sources of data for different purposes.

However, the approach that is taken and creating a better enabling environment to enable evidence-based decision-making will be important for helping governments meet the Sustainable Development Goals (SDGs) through effective progress tracking using data, in addition to informing policy and decision making.



### MOBILE DEVICES AND OPPORTUNITIES FOR DATA COLLECTION

The proliferation of mobile devices has presented researchers with a new opportunity to rethink the way data is collected. The implementation of surveys using mobile phones as a tool for respondents to answer presents opportunities to improve data collection in a cost-effective manner. However, technology still has limitations in

terms of national representativeness, reporting in rural areas, the informal sector, and other vulnerable groups such as women. Given issues with sampling and the market realities in LDCs, mobile surveys are not going to replace traditional demand-side surveys in the near future, but rather provide complementary options to track key market metrics regularly and to understand emerging phenomena. Mobile generated insights can then be explored further using tailored demand-side surveys.

In addition, advances in data analysis tools such as geospatial mapping allows for granular analysis which is particularly important to understand the provision of access to basic services and infrastructure. However, there is a need to consider data objectives when exploring new methodologies and sources. This means ensuring that the data is appropriate and sufficient to inform policy priority setting at a granular level in this fast-changing data and technological environment.



### NEED FOR FURTHER IMPROVING DATA AVAILABILITY AND QUALITY

This is a development agenda in its own right, and can improve the targeting of existing resources and spur new economic opportunities for countries and their citizens. However, given the value and demand for data, it is near impossible to generate data that can be everything to everyone. Typically, there is a trade-off between the depth of

data that can be collected and the comparability of that data across countries. In other words, data that aims to facilitate cross country comparability usually has to put concrete limits on the amount of data that can be collected and compared. Similarly, data that is driven by local stakeholders needs to be nuanced, rich, and allow for exploration of specific contexts. While there has been good progress on internationally comparable data, existing data gaps therefore can only be overcome through new investments and the strengthening of national capacities.



### COLLABORATION AND PARTNERSHIPS ARE BENEFICIAL

Collaborative partnerships in survey data approaches have collective benefits for the collaborating parties. Benefits include avoiding overlaps in data financing and better financing of primary data needs for evidence-based country programming and investment decisions. Partnerships also mean that funding can be pooled to ensure that there is value-for-money as comprehensive data can be collected and used multiple times by different parties for multiple uses or needs. Collaboration saves valuable stakeholder engagement time as governments engaging deeply on multiple surveys around similar issues sacrifices time and focus on analytics and policy impact. Partnerships help to overcome shortfalls in data funding for larger surveys, thus better enabling evidence-based decision making from sufficient data collected. Lastly, there is the benefit of spearheading investments in LDC's with enabling data to build better business cases for key international financing institutions and potential investment.

*As a relatively new socio-economic concept, financial inclusion aims to achieve inclusive development and growth through the expansion of financial services to all segments of society.*

Financial inclusion empowers individuals, families, households, and small businesses, particularly in impoverished communities, by building well-functioning and responsive financial systems that can empower them and strengthen economies.

It is expected to unleash the hugely untapped potential of the bottom-of-pyramid sections of society that have hitherto been ignored. As a whole, financial inclusion in rural areas as well as in financially backward pockets of cities is a win-win proposition for everybody involved: the banks and other financial service providers and intermediaries, and the members of the excluded population. While the concept of financial inclusion is relatively new, the concept of money has been woven into the fabric of society from time immemorial. As such, the 'concept of money' comes with hefty political, socio-cultural, and economic baggage that influences its role in the lives of individuals, households and countries.

The SDGs, adopted in 2015, are an attempt to address the root causes of poverty, inequality within and between countries, climate change, environmental degradation, and to achieve peace and justice for all. A broad global compact for poverty alleviation, bringing together the widest possible coalition of parties, the SDGs are attempting to implement development solutions at a particularly changeable and challenging time in history. The UN's SDG 17 (Partnerships for the Goals) call for enhanced multi-stakeholder partnerships to mobilise and share knowledge, expertise, technology, and financial resources to support the achievement of the SDGs especially in developing countries.

However, to track progress towards the attainment of these Global Goals, sufficient data needs to be made available in a cost-effective manner through collaboration among stakeholders. As the UN report *A World That Counts* (IEAG, 2014) states, nothing short of a "data revolution" is required to achieve sustainable development. The UNCDF MAP programme remains committed to working with partners across the spectrum and adapting its data approach to ensure the realities and needs of those most vulnerable are understood to inform decision making.

*Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders. MAP was initiated by the UNCDF and in each country brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.*