

KCP Perspectives

Putting Knowledge to Work

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Message from the Editor



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In this issue we look back at two different areas of research, where the KCP was strategically tapped to help us address emerging gaps in knowledge relevant to development policy. The first relates to financial inclusion and the second concerns international migration. Both these research initiatives could not have been launched and concluded so quickly without the flexibility that the KCP offers the Bank to move rapidly into new and innovative research areas.

The KCP-funded work on financial inclusion opened up innovative and influential new research on the importance of access to financial services for the poor. Before this groundbreaking research, the development community was mostly focused on ways to expand microfinance. This KCP-funded research culminated with the Policy Research Report (PRR) *Finance for All?*, which established a vital intellectual

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Access to Finance: Pioneering Research on the Importance of Financial Inclusion for Poverty Reduction

Financial inclusion is the industry's buzzword these days.¹ Currently, more and more global leaders embrace access to financial services as an important policy objective, as well as a tool for poverty reduction and growth.² At their 2010 summits in Toronto and Seoul, the leaders of the G-20 countries elevated financial inclusion to a top priority of their economic development agenda.

The wide recognition did not come overnight. Ten years ago, people didn't talk much about financial inclusion. Rather, the popular terminology at the time was "Microfinance Strategies." Largely thanks to the success of microfinance, the empowerment dimension of finance gradually entered the policy conversation. That led to the evolution of the thinking: build an inclusive financial system that works for the poor. To assist policymakers in designing effective policies and tracking global progress in financial inclusion, three KCP projects in 2005 collected the first set of indicators of financial access in countries around the world, and updated these indicators for selected countries in 2008.

The start of the financial inclusion saga

Building a more inclusive financial system requires that researchers first get a good knowledge on how well financial systems across countries are directly serving the poor. "Even to answer the basic question 'how many people use financial services?' we were confronted with a dearth of data and lack of consensus on what ought to be measured," recalls **Asli Demirgüç-Kunt**, director of development policy and chief economist for the Finance and Private Sector Development Network at the World Bank.

STEP 1 Measuring access

The project *Micro-indicators of Financial Development*, led by Asli with the support of the KCP from 2002 to 2006, generated a database on financial outreach indicators, which has since allowed policymakers and researchers to benchmark countries along various outreach dimensions, such as number of bank branches, ATMs, deposit and loan accounts per capita. Drawing on this new database, a Policy Research Report on Access to Finance, 'Finance for All? Policies and Pitfalls in Expanding Access,' was published in 2007. This effort also attracted significant

¹ Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups, such as politically excluded and low-income groups, at an affordable cost in a fair and transparent manner by mainstream institutional players.

² A 2012 World Bank Survey on Bank Regulation and Supervision finds that over 70 percent of bank regulators report having a mandate to promote financial inclusion.



attention in the development community. It played a central role in the International Year of Microcredit (2005), as a key element of the overall development agenda. The findings were cited in the UN Secretary General's speeches, and the Economist³ magazine's survey article and new indicators section. The report and several papers, such as *Reaching out: Access to and use of banking services across countries*,⁴ also facilitated greater data-collection efforts on access and inclusion by CGAP⁵ and the IMF. Moreover, the article prompted Princess Máxima⁶ to assist with funding for the IMF, so that they now can implement their survey on an ongoing basis, collecting the indicators that the KCP study helped create.

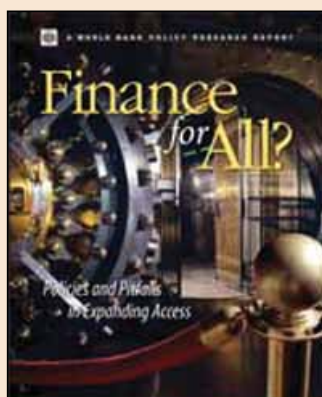
These first attempts at developing consistent and comparable cross-country indicators of banking system outreach data made it possible for countries to measure and evaluate the success of their financial sector programs in boosting outreach. The project also had significant spillover effects on two other KCP projects, which aimed to identify obstacles to access, and evaluate the impact of access on welfare.

STEP 2 Identifying and analyzing barriers to access

To assess the barriers to financial access and the use of banking services across countries, the KCP project, *Barriers to Banking*, financed a survey to collect bank-level data from a sample of 209 banks in 62 countries.

The survey included various questions such as the minimum balances required to open and maintain deposit accounts, the associated fees, the application procedures to

open accounts and apply for loans, and the costs associated with different payment services. As a result, this project developed indicators of the requirements and the costs associated with using banking services around the world. Using these data, the determinants of barriers to banking services and the impact of such barriers on economic outcomes were identified in the study, *Banking Services for Everyone? Barriers to Bank Access and Use around the World*. This study and the database helped researchers and policy makers compare countries based on ease of the use of financial services and understand the factors contributing to such barriers. Furthermore, the research paved the way for other efforts by the World Bank to gather information on access to finance.



STEP 3 Evaluating the impact of access on welfare

After measuring financial access and identifying barriers, the third step in improving access is evaluating its impact on welfare. The evaluation required micro data at the household and enterprise levels. Efforts to systematically collect these data around the world were made possible through the KCP project *Household Surveys on Access to Finance*. By introducing a random component to the provisional work of financial products, such as financial literacy training or random variation in the terms or availability of credit to micro-entrepreneurs and households, the project illustrated how removing barriers and improving access affects growth and household welfare.

This project inspired the Bill and Melinda Gates Foundation to fund a worldwide poll to measure and benchmark access to

financial services. That led to the first public database⁷ of demand-side indicators, which consistently measure individuals' use of financial products across countries and over time. Financed by a 10-year grant from the Bill and Melinda Gates Foundation, DECFP⁸—in partnership with Gallup Inc.—has started to collect demand-side data, the *Global Financial Inclusion (Global Findex) Database*. These new indicators, expected to be released at the 2012 Spring Meetings, will be central in the financial inclusion agenda of the G-20 discussions in Mexico.

Financial inclusion is no longer painful to contemplate

These three steps taken with the help of the KCP helped achieve the initial objectives of producing *finance indicators*. These indicators have helped policy makers identify the factors that help improve access to finance in a national context. In India, the World Bank has recently championed an initiative to understand and improve financial access,

³ Economist, "The Hidden Wealth of the Poor," November 3, 2005 and Economist, Emerging-Market Indicators, "Bank Density," December 1, 2005.

⁴ Journal of Financial Economics Volume 85, Issue 1, July 2007, Pages 234–266.

⁵ CGAP (Consultative Group to Assist the Poor), is a global policy and research center dedicated to advancing financial access for the world's poor. CGAP promotes standards, funds and develops innovations, and shares knowledge and best practices.

⁶ An economist and investment banker by training, Princess Máxima of the Netherlands had played active roles in the UN International Year of Microcredit in 2005 and in the subsequent UN Advisors Group on Inclusive Financial Sectors from 2006 to 2008.

⁷ 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.

⁸ DECFP is the Finance & Private Sector Development unit in the Research Group.



in partnership with the National Council of Applied Economic Research (India).

Altogether, these steps helped create an inventory of options and barriers that enabled the reassessment of the supply and demand side, and to take a closer look at general market practices. Also, these KCP projects created a much needed foundation for the analysis by the global community as it charts an agenda for improving access to finance for the poor. In other words, the KCP has again assisted in creating a true public good and helped leverage additional resources for research and data collection in this important area.

International Migration, Remittances and Development – A Rapid Response by the KCP

For centuries, people have moved across international borders in search of better opportunities. Currently more than 215 million people in the world are estimated to live outside their countries of birth. Yet, international migration has not kept up with other measures of global integration, such as international trade and financial flows. Thus, there is a need to develop a better understanding of the linkages between migration, poverty reduction and economic development. There is also a pressing need for global development institutions, such as the World Bank, to take the lead in generating public data and knowledge on migration, so that academics, policymakers, and development experts can identify and enhance mechanisms to maximize welfare gains from

migration. This topic was among many discussed at the 2004 Sea Island G8 summit, where the World Bank was asked to bring about a better understanding of the impact of international migration on developing countries.

In response to this request from the G8 summit, the Internal Management Committee (IMC) of the KCP decided in a special meeting to allocate over a million USD to jump-start a research program for this purpose.⁹

Where on earth is everybody? Where do people go? Who are the movers?

In recognizing the importance of the data issues and the challenges, the KCP funded the development of a series of comprehensive databases¹⁰ of global migration patterns. The first goal was to generate an overview of global migration patterns since the end of WWII. The resulting database provides, for the first time, a complete set of bilateral migration stocks for the second half of the 20th century. The database is composed of five 226-by-226 bilateral matrices of migration stocks disaggregated by gender and educational attainment for each decade between 1960 and 2000.¹¹

The second database focuses on the other key dimension of migration patterns, namely the educational distribution, better known as “the brain drain” in the academic and policy circles. The database presents bilateral migrant stocks by both gender and education for the labor force ages 25 and above for 1990 and 2000. Compared with previous analyses, the database covers migration to all developing country destinations, by introducing new census data and utilizing appropriate estimation methods. In terms of high-skilled migration, countries such as South Africa, the Persian Gulf countries and some Eastern

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foundation for better and more effective policies in this key area.

In the second article we tell the story of how the KCP was instrumental in jump-starting the research program on international migration. At that time, we frankly didn't know enough about the impact of the brain drain on poverty, and the mitigating effect of remittances. The research program produced three groundbreaking books on this important topic, as well as the world's largest database on brain drain. That has become a unique public good for the entire research community, especially for researchers in migrant-sending countries.

I hope you enjoy this third issue of volume one of *KCP Perspectives*. We are planning the first issue of volume two to reach you before the annual meetings in October 2012.

Asian countries (e.g. Singapore or Hong Kong) are among the most important

⁹ KCP Projects on migration include: Global Migration Database Extensions – A Global Public Good, Migration Policies and their Impact on Development, Brain Drain and Brain Gain of Ghana's Best and Brightest, Migration, Remittances and Development in Africa: Household Survey with Existing Sampling Frame, Migration and its Impact on Households and Individuals in Migrant-Sending Communities, International Migration, Remittances and Development.

¹⁰ Bilateral Migration Matrix 2010, Bilateral Migration Database 1960–2000, Database with Age of Entry, 1990–2000, Panel Data on International Migration, 1975–2000, Medical Brain Drain, 1991–2004, Extended Bilateral Migration Database – Joint OECD – World Bank.

¹¹ The database is available at <http://data.worldbank.org/data-catalog/global-bilateral-migration-database>.



non-OECD destinations. Until now, those countries had been missing from the list of receiving countries, thereby limiting a true understanding of international human capital mobility.

“These databases have since facilitated work both in and outside of the Bank, serving as a global public good and spurring lively academic debate and research,” said **Çağlar Özden**, the task team leader of the project and senior economist at the Bank.

Renaissance in the interest in remittances triggered by a striking increase in remittance flows

The second KCP project, on remittances, focused on the direct development impact of migration. The data show individuals living outside their countries of birth grew to three percent of the world’s population. The other important statistic is on remittances migrants send to their home countries. Remittance flows in 2010 totaled over USD440 billion, almost three times the amount of foreign aid for that year worldwide. In 24 countries the researchers studied, remittances are equal to more than 10 percent of the gross domestic product in 2009. In nine countries they were equal to more than 20 percent of GDP.

For the KCP project titled Household Surveys of International Migration and Remittances, the researchers designed and implemented a series of innovative household surveys to assess the impact of remittances on poverty, education, healthcare, entrepreneurship, and various labor market outcomes. In a wide range of countries (from Ghana to Brazil, Pacific Islands, Guatemala, the Philippines and to Pakistan), the KCP studies found that remittances reduce the level, the depth and the severity of poverty. The greatest impact is on the severity of poverty, since the households in the lowest 10% income level receive

50–60 percent of their total income from remittances. Remittances have a disproportionately positive impact on educational (school attendance and performance) and healthcare (weight for age, height for age, child delivery by a doctor and vaccinations) outcomes for children, and especially for girls. Investment in physical assets, entrepreneurial activities and consumption of financial services (such as bank accounts and loans) are also benefited from remittances in the migrant households. Finally, migrants earn much more upon their return when compared to other workers, as they have acquired valuable skills while abroad.

The results of these KCP projects have been widely disseminated among researchers, policy makers and others through the publication of a large number of papers in prestigious academic journals. In addition, three edited volumes were published, presenting the main results of the studies funded by the KCP.¹²

The databases and other outputs have contributed to numerous World Bank projects over the last five years. These projects covered a wide range of activities, indicating how migration touches upon different aspects of the development process. These included the World Development Reports, which covered a range of topics over the last several years (such as gender, economic geography and labor markets), as well as the widely disseminated regional flagships

on Africa and Latin America. Some of the projects were directly relevant to operations and geographically focused, such as the Malaysia Economic Monitor, Country Economic Memoranda (CEM) for Jamaica, Ghana and Turkey, new minimum wage implementation in Malaysia, potential temporary labor mobility agreements between Egypt and the European Union, and Reshaping Tomorrow in South Asia.

Perhaps most important, the databases and the analysis contributed to focusing the debate on the migration and development nexus. At the same time, the potential links between migration and development have been identified with more accurate data and empirical evidence. This effort showed that if correctly measured, migration can contribute to the growth and prosperity of both origin and destination countries, as well as directly benefit the migrants themselves.

The database, the papers and the books are also available for the public through the program’s website.



¹² Bilateral Migration and Remittances 2010 database provides updated total of international migration stock which exceeds the total of 215 million people in 2010.

¹³ These are titled “International Migration, Remittances, and the Brain Drain”, “International Migration, Economic Development and Policy” and “International Migration of Women.” List of publications and outputs are listed in each completion report from the KCP Website. Household Surveys of International Migration and Remittances, Global Migration Database Extensions

¹⁴ CGAP promotes standards, funds and develops innovations, and shares knowledge and best practices. It also offers advisory services to governments, financial service providers, donors and investors.