Robert M. Townsend
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Thank you very much for inviting me and for giving me the opportunity to speak on this panel. Just quickly, by way of background, since I seem to represent the academics, I actually noted that several of you have academic backgrounds as well. I represent myself and the Consortium on Financial Systems and Poverty.

I want to emphasize that rather than being ivory tower, we’re very much on the ground. In my case, I’ve been on the ground in Thailand and other countries for over fifteen years. And I’ll give you some of the data experiences momentarily. But there are others in the Consortium, researchers who have long-standing projects and partnerships in Kenya, Ghana, Sri Lanka and so on. Plus, we’re not narrow in one subfield.

We deliberately configure ourselves as a collection of people in different subfields doing finance, macro, industrial organization, development, and international economics. And we’re not narrowly doing randomized control trials alone, but rather we’re trying to look at the big picture of financial systems, how they’re put together, and think about the various possibilities for innovation, such as improved platforms and payments, and the provision of financial services more generally.

Let me come to this question of what do we know now and how do we find out more? I want to speak to a new generation of standards. I’m not sure I would say second generation, but something to add to and supplement the data that are already being collected that we talked about this morning. How to, in particular, judge the quality of financial services. So there is a set of standards, core standards, that comes from basic economic theories that have to do with the efficiency, welfare and well being of households and businesses. And these standards are well understood, they come from theory, and they
require data for testing. Let me give you an example of insurance and try to make the point that it’s quite operational.

So, in insurance we talk about the optimal allocation of risk bearing. Firms and households are subject to shocks, idiosyncratic shocks, but I’ll make a distinction between those shocks and regional or macro aggregate shocks. Under this benchmark standard, the idiosyncratic shocks should be pooled across households and businesses in the entire economy, as if in a mutual fund, so to speak, and the aggregate shocks by definition have to be borne by someone. So consumption should be smoothed against some shocks and not against others. Likewise, for investment, we have a benchmark standard that firms should be able to invest when they face productive opportunities, but they should be able to smooth against erratic fluctuations in cash flow.

So what data do we need to test these standards? Not much, as it turns out. Consumption data is very crucial, income, investment, capital stock, wealth would help, but these data can be easily added to existing and new surveys. I’ll speak to an example of collaboration within a country that I have with the Bank of Thailand. They were doing a new financial access survey, and we entered into collaboration, deciding what would be useful and what they need. And these kinds of variables were put onto their survey so that Thailand will be in a position to be able to judge on the quality of financial access and what to do next. This obviously can be done in other countries as well. The benchmark standards need to be modified to take into account moral hazard, the fact that some people may choose to walk away from loans, adverse selection, but again, over the years we’ve figured out how to do this, we know how to do this, we have codes available that can run on data from any country if the appropriate variables are measured.

So I want to give you some examples, rather than being vague and abstract, of the kind of things that can come from this. Again, I will use Thailand as an example, but it’s only meant to be an example, the point was made earlier that we do not expect the same results in different countries, across different countries. We have to find out. That’s the whole point, what I’m about to tell you cannot be generalized necessarily, we cannot assume that what we find in one place is applicable to another.

If we look at Thailand within small villages or urban communities, we see an enormous amount of sharing of risk. This turns up in consumption, in labor supply, in making investment decisions more immune from the erratic fluctuations of cash flow. It’s a remarkably good thing, but how is it done? It’s being done through the informal sector at a local level. Households are helping each other, they’re
rolling over formal sector loans by borrowing and lending and giving gifts to each other-bridge loans, essentially. There’s an extremely active internal money market. So they actually locally, within the community, don’t need insurance. It’s an odd thing to say first but I do so to be productively constructive. That is to say, if someone went in there offering an insurance product, they may well discover that the take-up is quite low, but there is a reason. So as you’ll see in a minute, there are many other places where the benchmark standards fail, but the algorithm is to use the data and the theory to find out first, before going in.

Another thing I want to come to is the geography. If you think about remittances, which were mentioned earlier, there are flows, not within communities but across communities and indicative that things may work well locally but not necessarily work well when considering villages and regions as a whole. Even investment funds can flow in through remittances in the informal sector. Who’s vulnerable in these communities? It’s low-wealth households who do not have access to family around. So we learn something about how to target, to fine-tune the targets, of vulnerability.

In fact, when we consider indirect connections and remove those who have indirect connections, we find that the vulnerable people are even more vulnerable than we thought, because they have been masked in taking these averages. When we look at the standards modified to include information costs, we discover that its collateral that needs to be focused on the rural areas and better information systems in the urban areas, where there’s more of a moral hazard problem. We learn how to focus on enterprise that seems quite vulnerable relative to farmers. Again these are just examples. These are not intended to be broad statements about what is true in other countries. Rainfall shocks are covered, rubber prices are not. That is an indicator of where we need to create financial instruments.

You can actually use these standards to create a scorecard for the existing financial institutions. You could imagine, and we have done this, a rating system. So that, for example, the bank for agriculture in Thailand is doing quite well with its internal system for smoothing shocks to consumption and investment. Commercial banks are doing quite well with respect to smoothing shocks. The saving accounts, some other institutions, and agricultural cooperatives actually score very poorly. And I could imagine, this operational way of rating institutions could be included in other countries.

On many standards, such as the marginal product of capital, the flow of cash, the inadequate use of putting cash in bank accounts, lifecycle smoothing, again these are standards that come from theory and indicate where to make progress. At the end of day, almost all of these things could be done relatively
quickly. There are other things that require more work. For example, we need to understand the industrial organization of financial service providers and how they interact with one another. And that is, again, something that is happening in a few countries. We need to understand the micro and the macro, we need to link financial institutions at the micro-level to macro, as was mentioned in the case of Brazil, so that we understand the impact of increased access on growth and inequality. And we do have models available that are running, not just on Thailand but also on Mexico and beginning to be run on Brazil.

And I have a lot of other comments on data but I think in the interest of time I should end there. Thank you.