

Comment on “Finance and Opportunity” by Asli Demirguc-Kunt and Ross Levine, and “Banking Services for Everyone?” by Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria

VICTOR MURINDE

UNIVERSITY OF BIRMINGHAM

Introduction: Financial Inclusion

- The two papers are important contributions to existing literature on finance and development; they blaze the trail for future work in this area
- Timely, in view of current emphasis on the role of finance in economic growth and poverty reduction, especially in the context of financial inclusion
- Policy relevant, by emphasizing regulatory and other financial policy choices for governments as well as implications for private sector development

Finance and Opportunity Across Generations

- The ADK-RL identifies a critical gap in the literature, namely the role of the financial system in: (a) shaping economic opportunities faced by individuals; (b) affecting the dynamics of the transmission of poverty and relative incomes across generations
- The insight from OLG models, which informs key policy issues in public finance, especially taxation, is innovatively used to highlight the under-researched issue of the link between finance and poverty
- The message: Financial sector reforms create opportunities for households and firms, leading to an increase the size of the economic pie and hence disproportionately help the poor. *May be, may be not.*

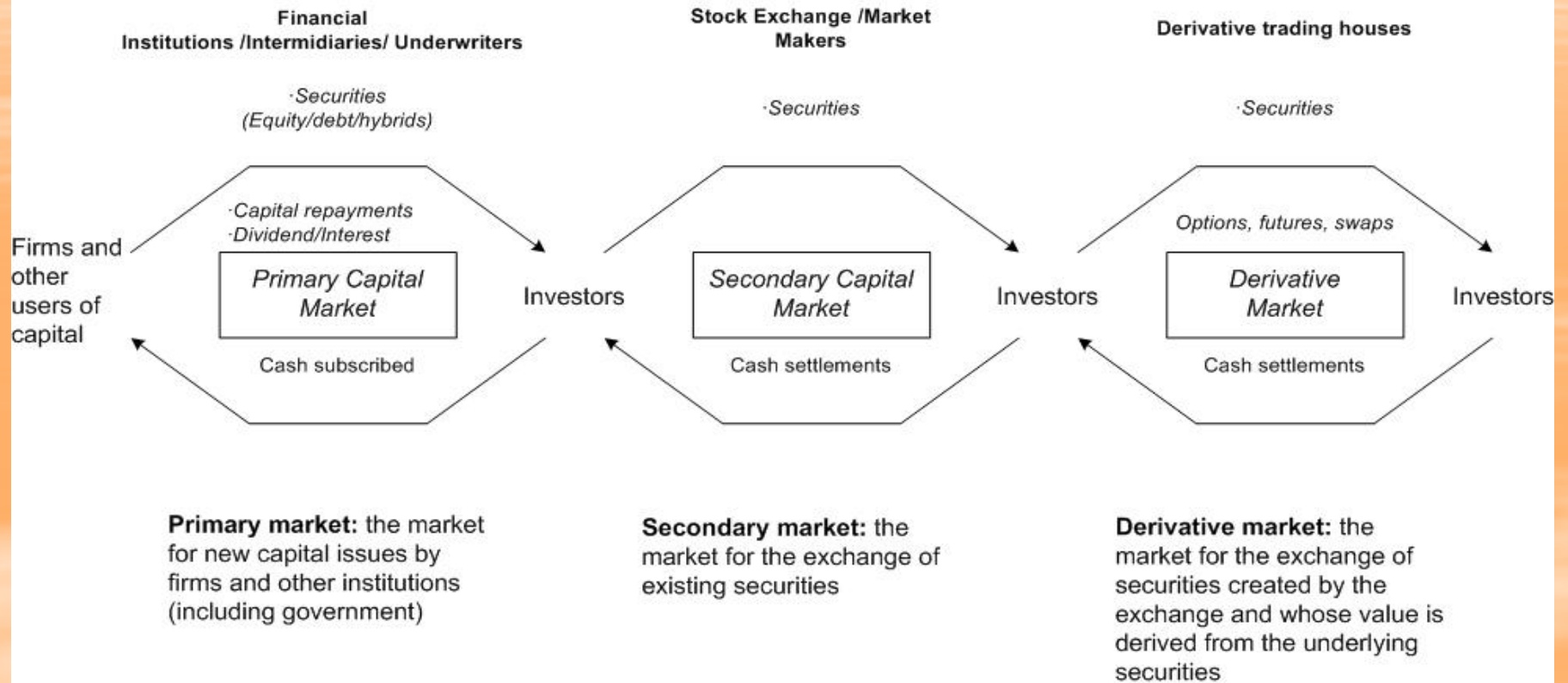
Finance and Opportunity Across Generations

- The evidence that human capital (endogenous growth sense) is as important as finance (financial development sense), as claimed by Evans et al (2003), is given a new lease of life.
- The important idea derives from the baseline theoretical model in equation (1) in which total income of dynasty i in generation t comprises wage income from human capital and the return on assets from physical capital.

Finance and Opportunity Across Generations: the Challenges

- The main challenge, as acknowledged by the authors, is methodological e.g. measurement and data: how do we measure intergenerational issues e.g. intergenerational persistence of relative incomes?
- How do we model intergenerational portfolio choices of households (e.g. asset substitution)?
- Across generations, capital market opportunities change (see figure 1) and the stage of financial development changes: but what is the direction of causality between these changes and changes in poverty indicators? What is endogenous here?.

Figure 1: The Structure of the Capital Market



Barriers to Bank Access

- The TB-ADK-MSMP paper takes up a bit of the data challenges identified by the ADK-RL paper, by developing indicators of barriers to banking services around the world.
- The dataset on bank access is very valuable; research access to the complete dataset is strongly recommended.
- The evidence identifies factors which are positively correlated with the barriers are identified, as are the factors which are inversely correlated with barriers.

Barriers to Bank Access: the Challenges

- Would be useful to follow up the survey in order to obtain repeated samples, adding a time dimension.
- Interpretation of the results: how do you interpret the general finding that ‘a large share of foreign bank ownership is associated with lower barriers in deposit services’?
- Has this to do with the data: the survey was sent to 5 most important banks in each of 115 countries i.e a survey of the CARTEL of banks in each country?

Concluding Remarks

- *Important new work:* with directions for further research, including data
- *Further research 1:* What are the common barriers across countries at similar stages of development and can financial policy or regulators break these barriers down?
- *Further research 2:* The role of financial sector innovations in: (a) information and technology, (b) financial instruments in shaping economic opportunities faced by individuals, and in affecting the dynamics of the transmission of poverty and relative incomes across generation?