

Comments on:

“Banking Service for Everyone? Barriers to Bank Access and Use Around the World”

Thorsten Beck, Asli Demirguc-Kunt and Maria Soledad Martinez Peria

and

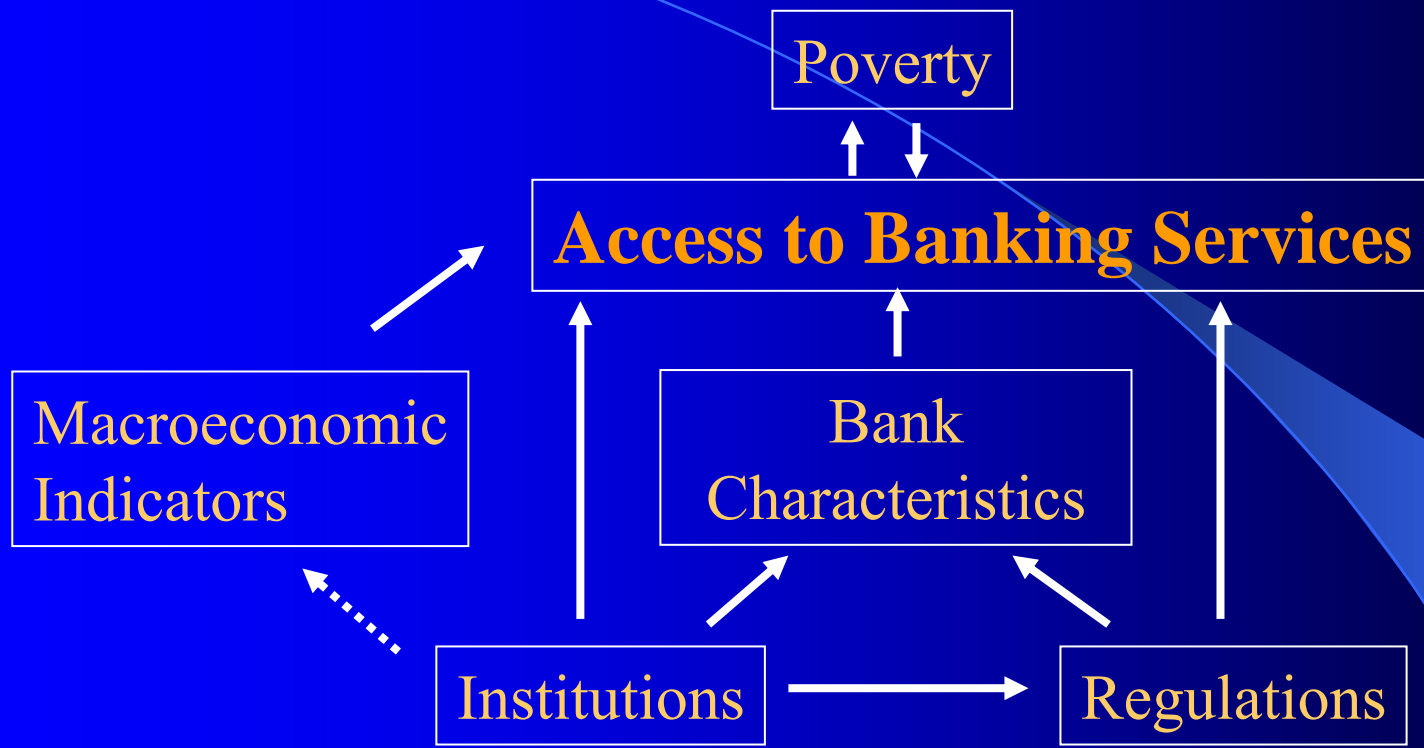
Finance and Opportunity: Financial Systems and Intergenerational Persistence of Relative Incomes

Asli Demirguc-Kunt and Ross Levine



Liliana Rojas-Suárez
Center For Global Development
Slovenia, May 2007

The Complexities of Access to Banking Services



Source: Rojas-Suarez, Reinhart, Vazquez (2007, forthcoming)

- The two papers can be placed as part of a comprehensive framework that identifies four pillars affecting access:
 - Macroeconomic conditions
 - Institutions
 - Bank characteristics
 - Regulations
- There are large and significant interrelations between these pillars

First, on the relationship between Poverty and Access to Banking Services (D-K, L papers)



- Theoretical advances show that the relationship between income inequality and growth is affected by the degree of development of financial markets (which is identified with financial access)
- An interesting recommendation from the paper: Focus the analysis (theoretical and empirical) on policies to remove financial market imperfections (which would help access) to fight poverty and persistent income inequality.

Next on the Factors Behind Bank Barriers (B, D-K, M-P paper)

Access to Banking Services



Bank Barriers

- **Number of places** to open deposit account or apply for loans
- **Number of documents** and days to process loans and open deposit accounts
 - **Minimum balance** to open deposit accounts
- **Fees** to maintain deposit accounts or to extend loans
- **Minimum amount** of SMEs and consumer loans



Institutions

- Efficiency of credit information system
- Creditors' rights
- Contract enforcement
- Transparency



Bank Characteristics

- Size
- Ownership (public/private/foreign)
- Concentration
- Competitiveness

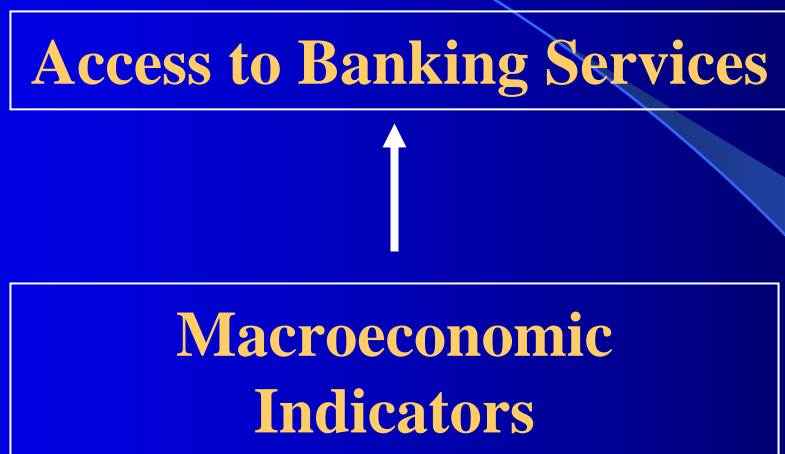


Regulations

- Regulation Discipline vs. Market Discipline

- While the empirical results in the paper do not imply causalities, the variables included have theoretical foundations
- A very smart and thoughtful identification of barriers leading the way to important policy recommendations:
 - Upgrade credit information systems
 - Improving infrastructure
 - Secure a free media

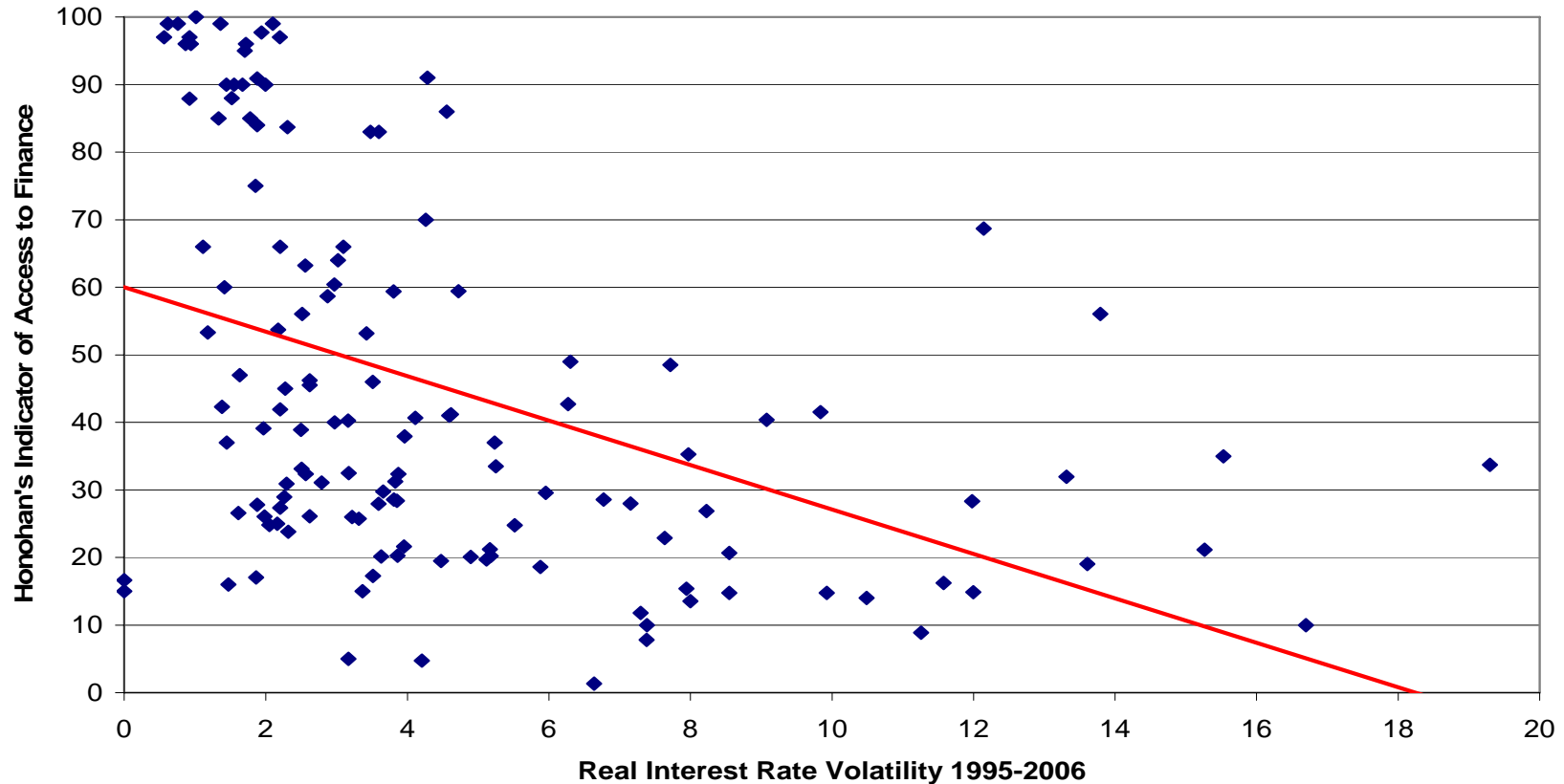
But We Can't Forget the Other Components of the Framework in Order to Understand Financial Access



- A key factor: As macroeconomic stability (or lack of it) affects people's *trust* in bank soundness, it also affects the *demand* for banks' financial services.
- Lack of trust in the banking system will result in short-term deposits, limiting banks' ability to extend long-term financing, especially to relatively riskier clients (like SMEs.)

Macro stability and Financial Access

Access to Finance and Real Interest Rate Volatility



Source: Honohan (2007) and IFS, International Monetary Fund

The high volatility of real interest rates has a negative impact on a Composite Measure of Access to Financial Services

Quality of Institutions and Access to Banking Services



Quality of Institutions affects Banking Access
BEYOND its impact on bank barriers
identified by the B, D-K and M-P paper

Quality of Institutions and Access to Banking Services

Examples from Latin America:

- In Mexico the “automatic discount system” (electronic payment system) has not been very successful in spite that the financial and legal infrastructure is already in place. The reason lies in consumers’ fears that charges will not be suspended by the provider when suspension of the service is requested. Fraud and judicial deficiencies justify these fears.
- In El Salvador, where most productive land is unoccupied, lack of adequate property registries **COMPLETELY** prevents the use of land as collateral for bank credit.

Regulations and Access to Banking Services



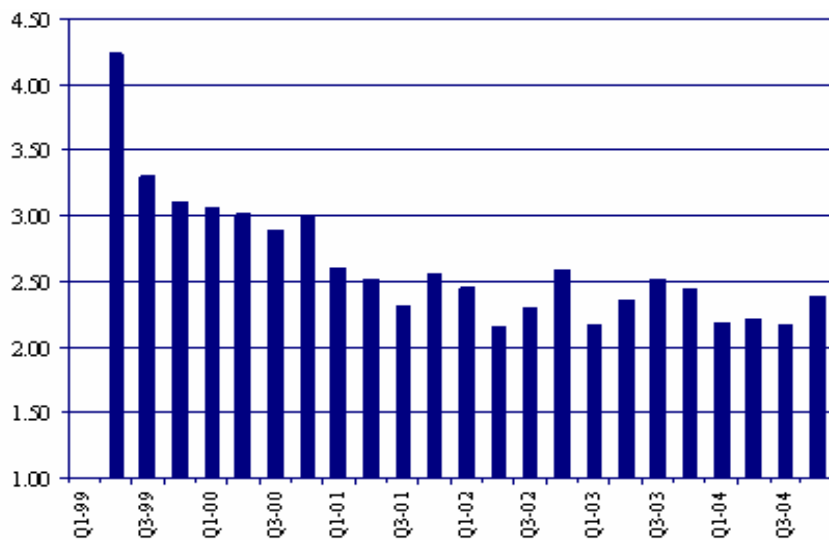
- Distortionary regulations directly and adversely affect access to banking services
- Some distortionary regulations:
 - Transaction Taxes
 - Interest Rate Ceilings (anti-usury laws)
 - Effect of Basel’s capital requirements that induce a “crowding out” of credit to the private sector in favor of bank holdings of government debt.

Regulations and Access to Banking Services

Transaction Tax in Colombia:

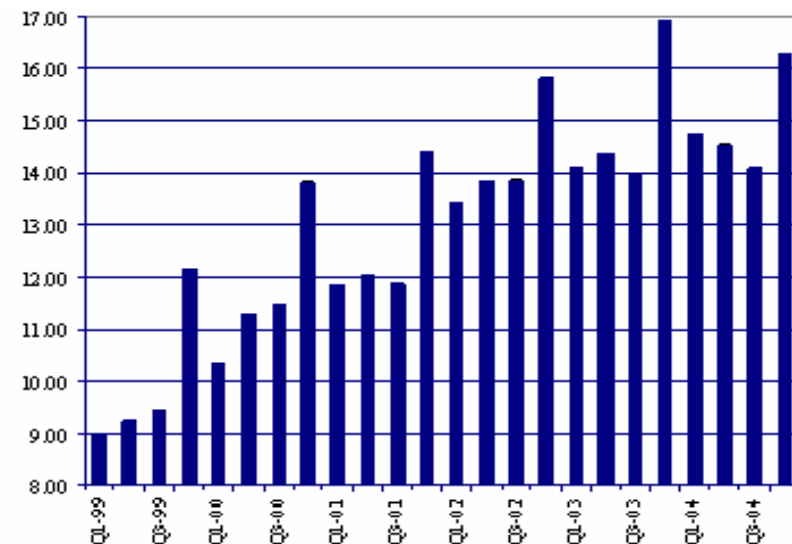
The “tax return” has been decreasing over time...

**Colombia: Transaction Tax Productivity
(Fiscal income from the tax/GDP)/tax rate**



Source: Jorge Baca Campodónico, Luiz de Mello and Andrei Kirilenko, OCDE, 2006

Colombia: Cash outside the banking system as a percentage of banks' liquid assets



Source: Jorge Baca Campodónico, Luiz de Mello and Andrei Kirilenko, OCDE, 2006

...due to an increasing preference of the population to use cash rather than bank liabilities to undertake transactions.