

**ACCESS TO FINANCIAL SERVICES:  
IMPACT ON GROWTH AND POVERTY**

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## To what extent does access to financial services increase growth and reduce poverty?

*Cross-country data has recently thrown light on several aspects of this question*

Financial sector development seems to accelerate growth and hence lower poverty...

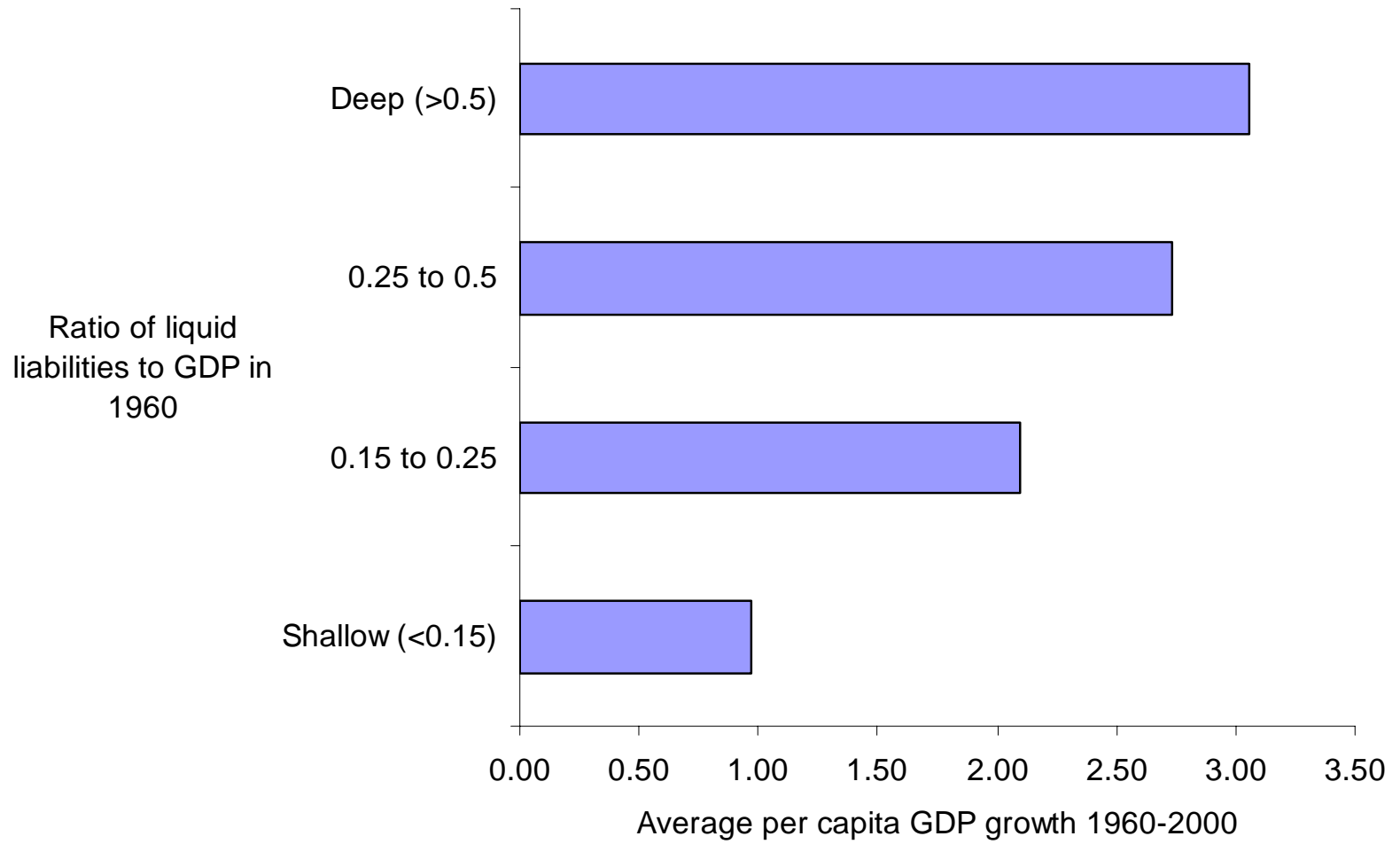
...but in countries that emphasize financial sector development, does growth reduce poverty by more?

Is poverty lower in countries where more people have **direct access** to financial services?

[Do financial crises disproportionately hit the poor?]

## **I: Financial sector development promotes growth**

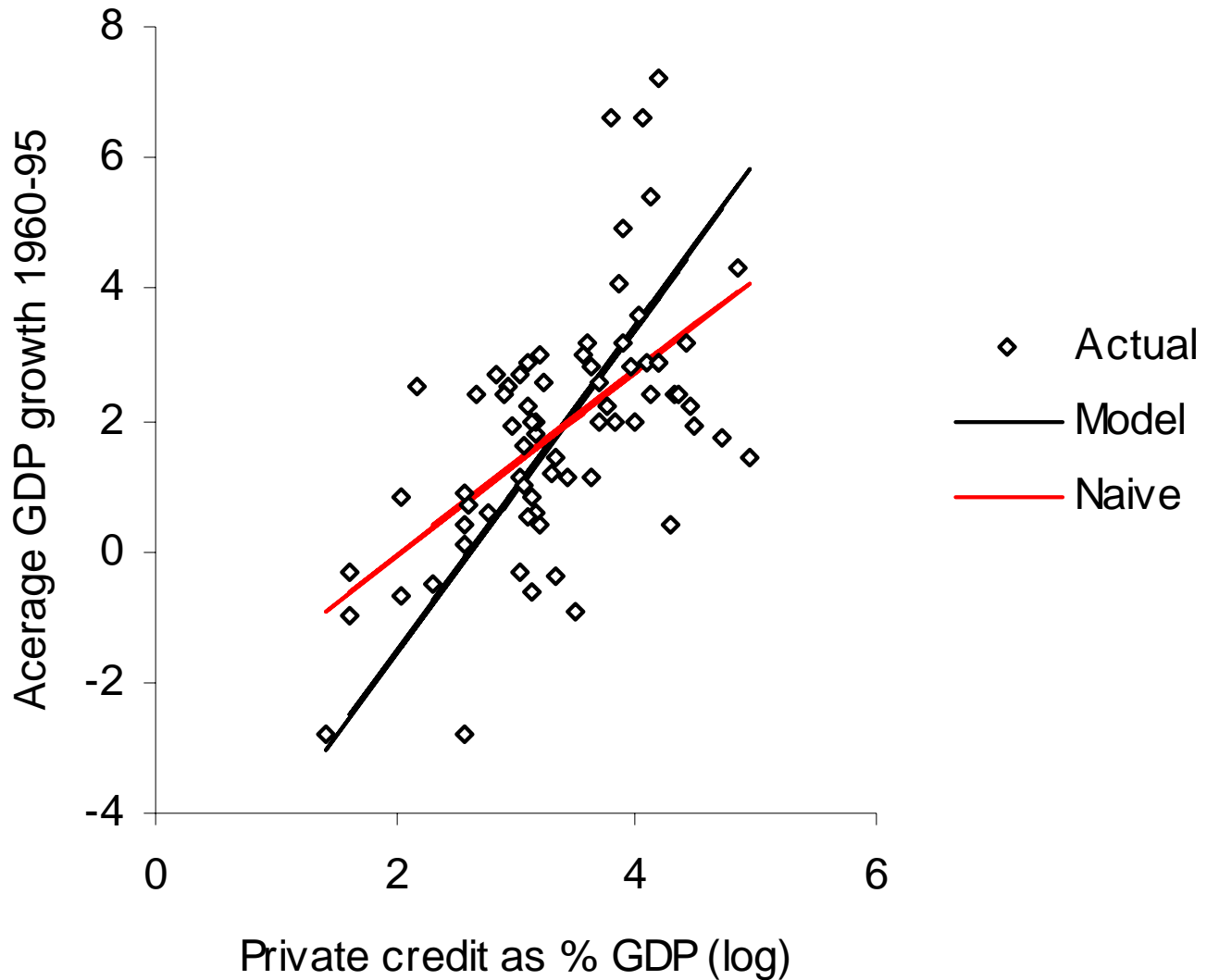
(Now an old-established finding; albeit still sometimes disputed)



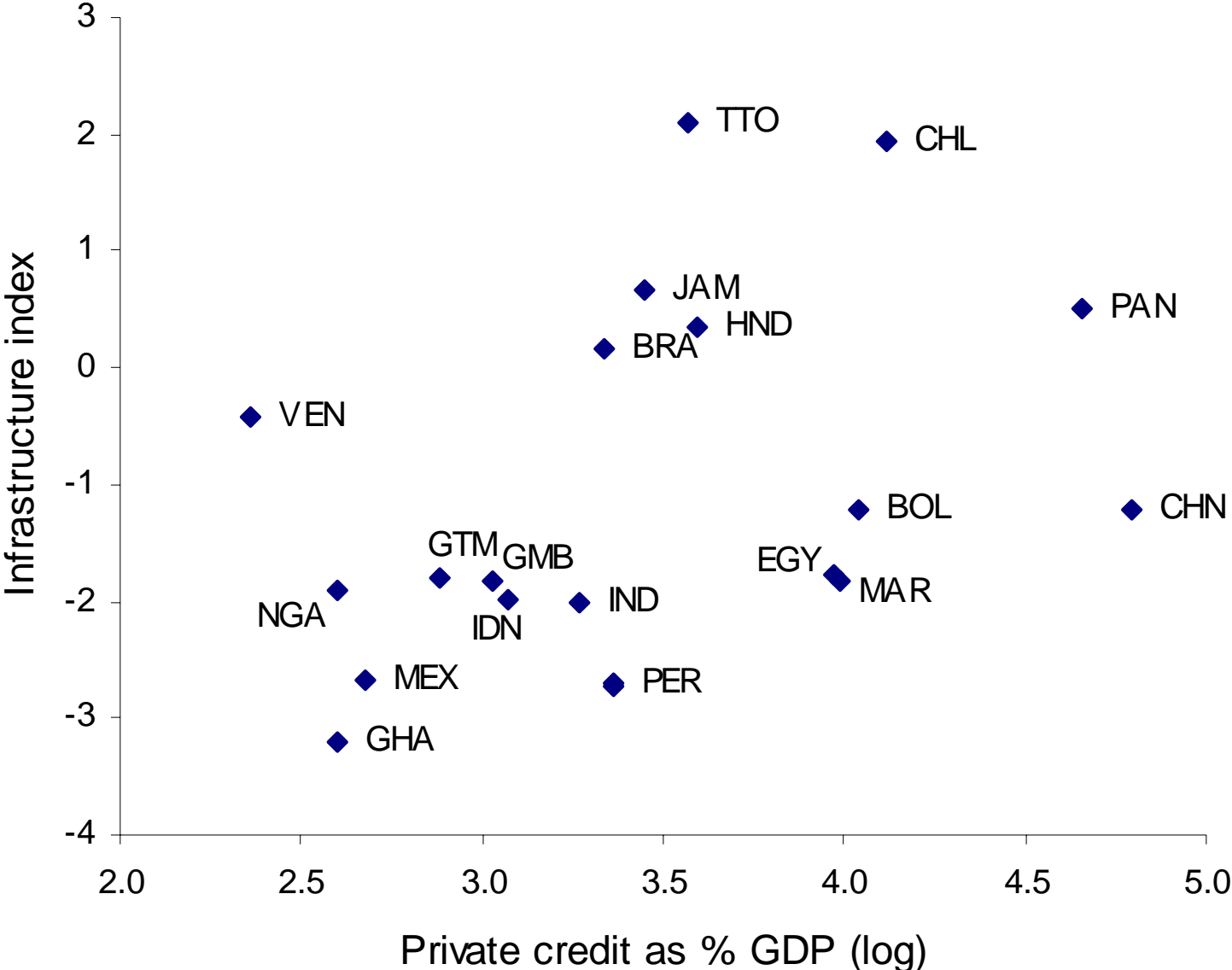
Updated from Levine

# Growth and financial development

## Naïve and model-based relationship



# Depth and financial infrastructure



Source: Honohan (2004a)

## **II: Is finance-intensive growth pro-poor**

(or does the rising tide at best raise all boats)?

## Opposing views

*Pro finance:*

Economies with undeveloped financial systems are “uncompetitive, clubby, conservative”

Developing the financial system can:

- Undermine the power of incumbent firms
- Help households and small producers escape the tyranny of middlemen

(Rajan and Zingales, 2003)

## Opposing views

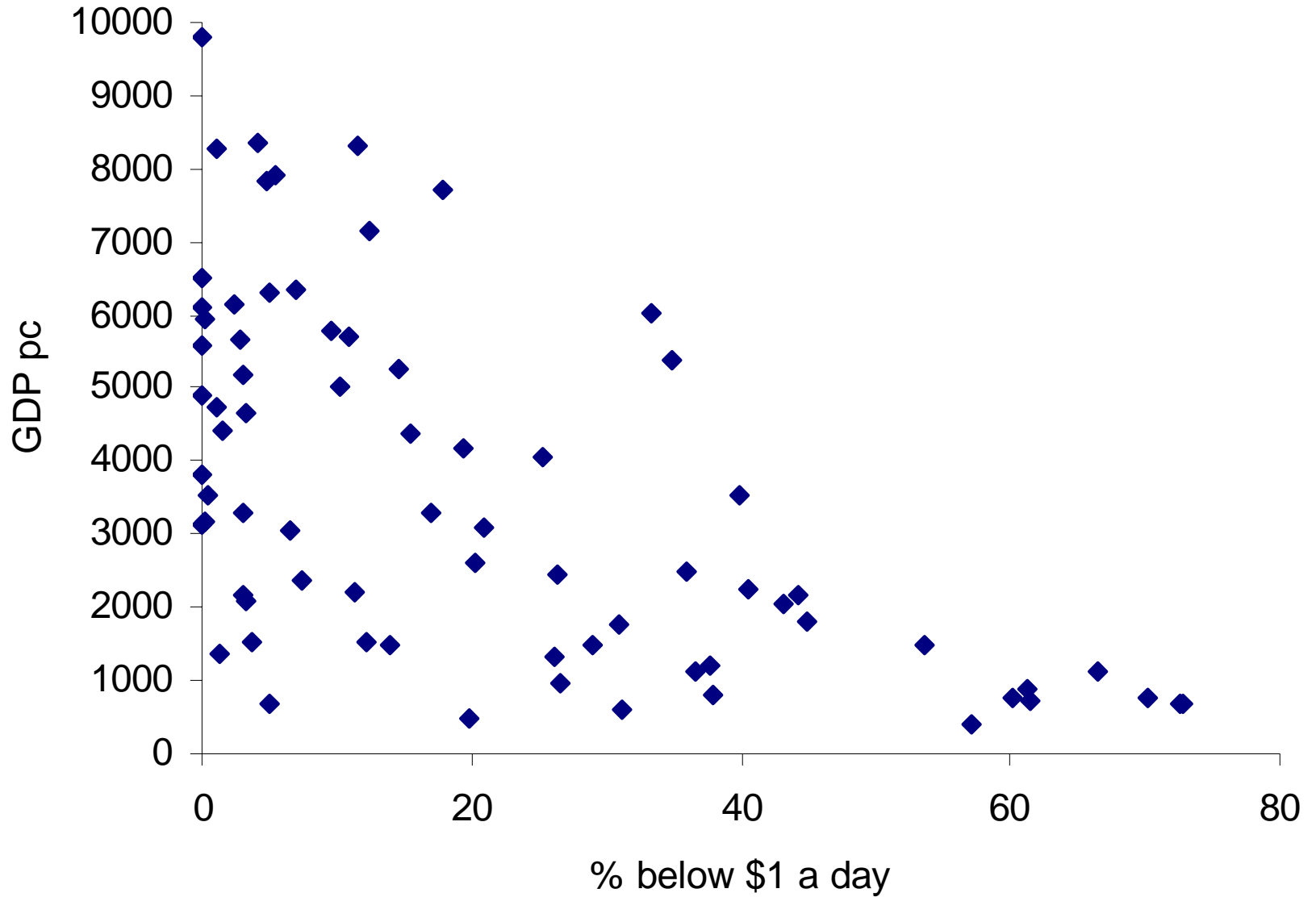
### *Anti finance:*

Theoretical arguments e.g. based on the idea that entrepreneurs require minimum scale/wealth in order to benefit from formal finance

(Greenwood and Jovanovic, 1990)

Those excluded from finance-driven growth might fall back even further

# Poverty and per capita income



## Poverty and Financial Depth

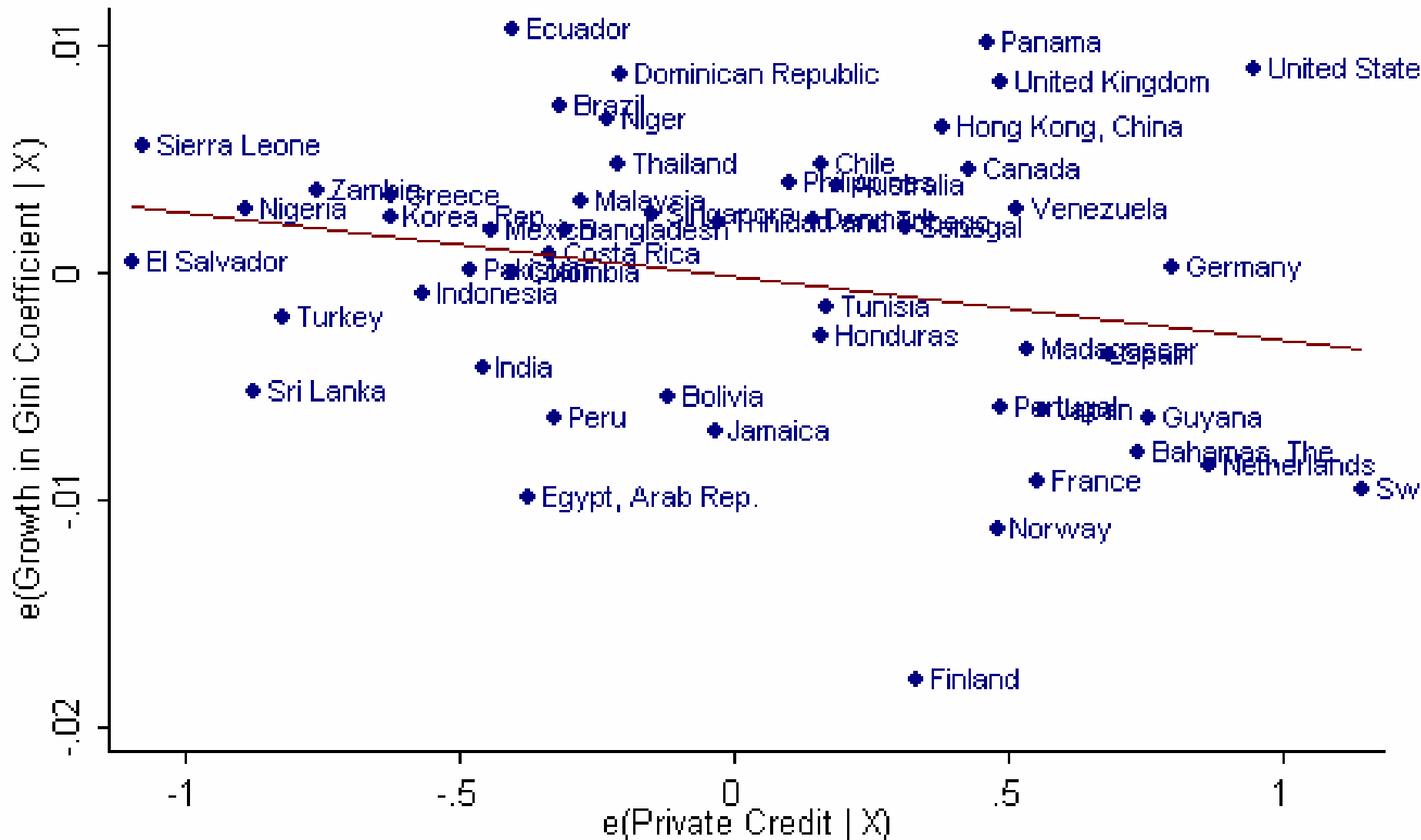
Dependent variable: \$1 a day headcount

Equation:	1.C		2.A	
	Coeff.	t-Stat	Coeff.	t-Stat
Constant	137.8	**8.5	149.7	**8.8
GNI per cap lower 90%	-17.5	**10.4	-15.0	**6.8
Share of top 10%	0.574	**3.3	0.515	**2.7
Private credit % GDP			-6.45	*2.4
Inflation			-3.39	1.8
R-squared / NOBS	0.643	89	0.681	70

\*\* and \* indicate significance at the 1% and 5% levels, respectively.

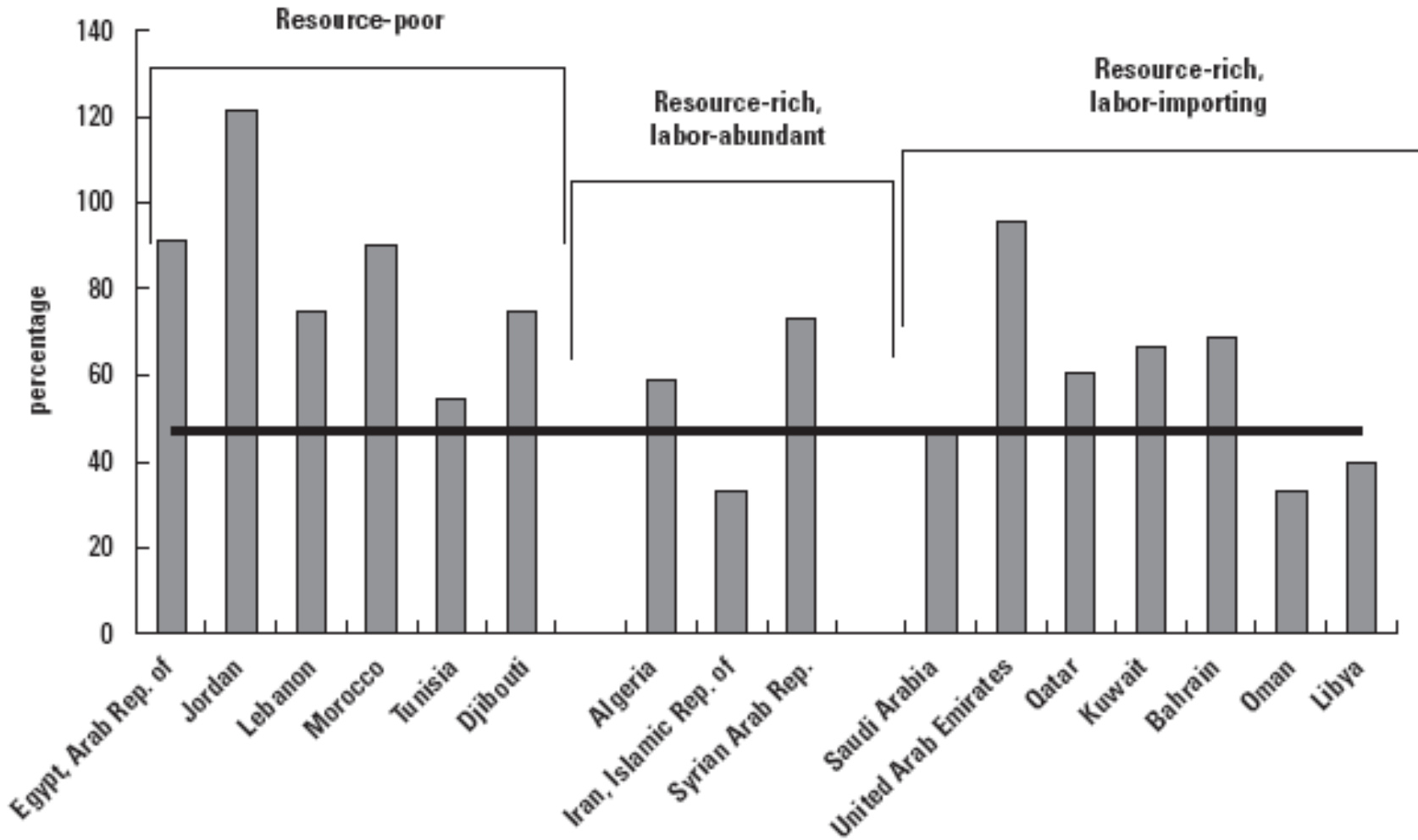


# Inequality more likely to fall if finance is deep



# Are financial systems in oil-rich countries different?

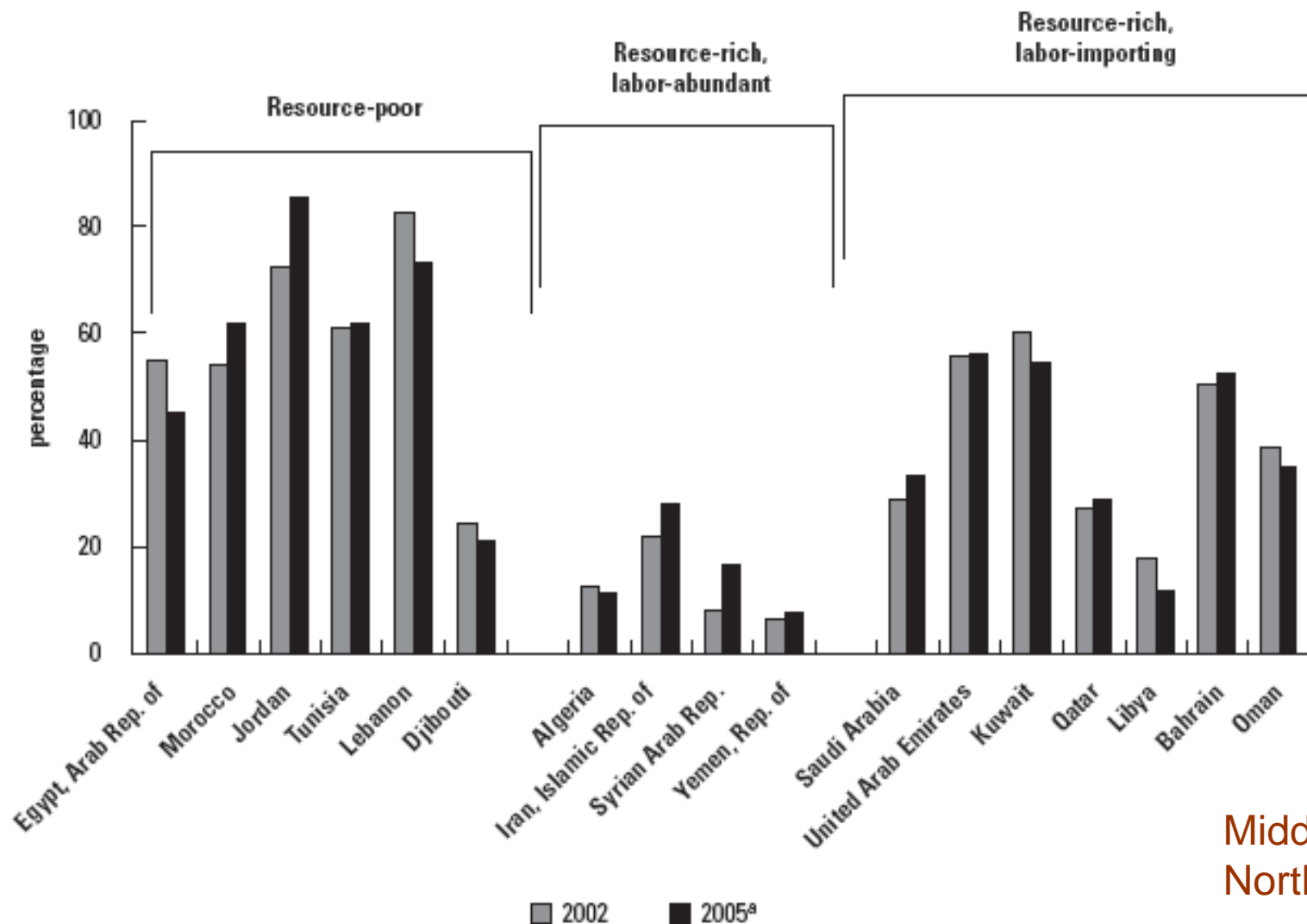
Figure 2.8: M2 to GDP in MENA



Middle East &  
North Africa

# Are financial systems in oil-rich countries different?

Figure 2.2: Private sector credit to GDP, 2002–2005



Middle East &  
North Africa

**III: That was about financial depth**  
**But what about financial access/inclusion and poverty:**

If more people have access to financial services, is poverty lower?

To answer this question, we need more and better data

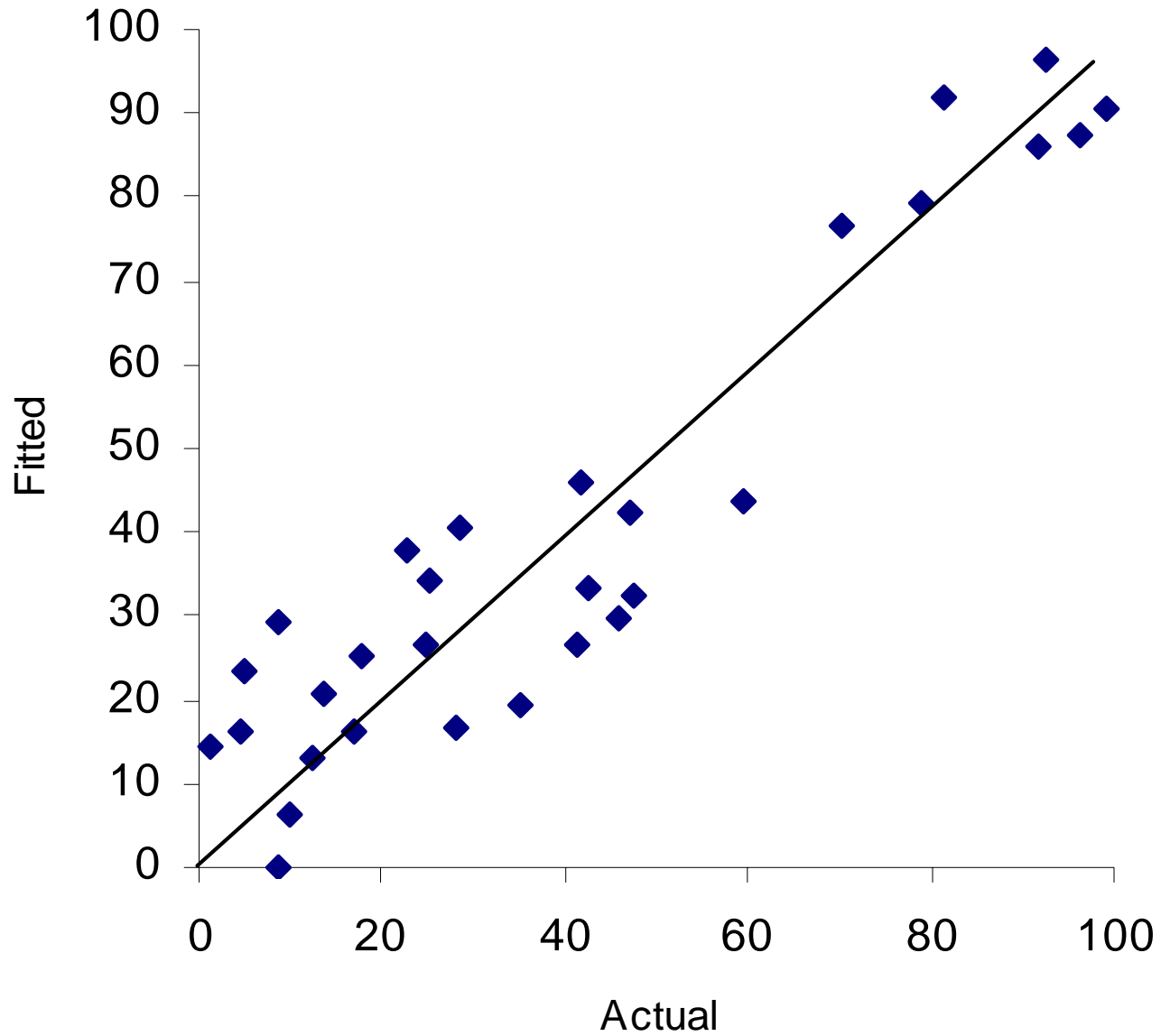
- (i) Micro evidence (not covered here – surprisingly inconclusive)
- (ii) Cross-country data on the % of households with a bank account (“access”)

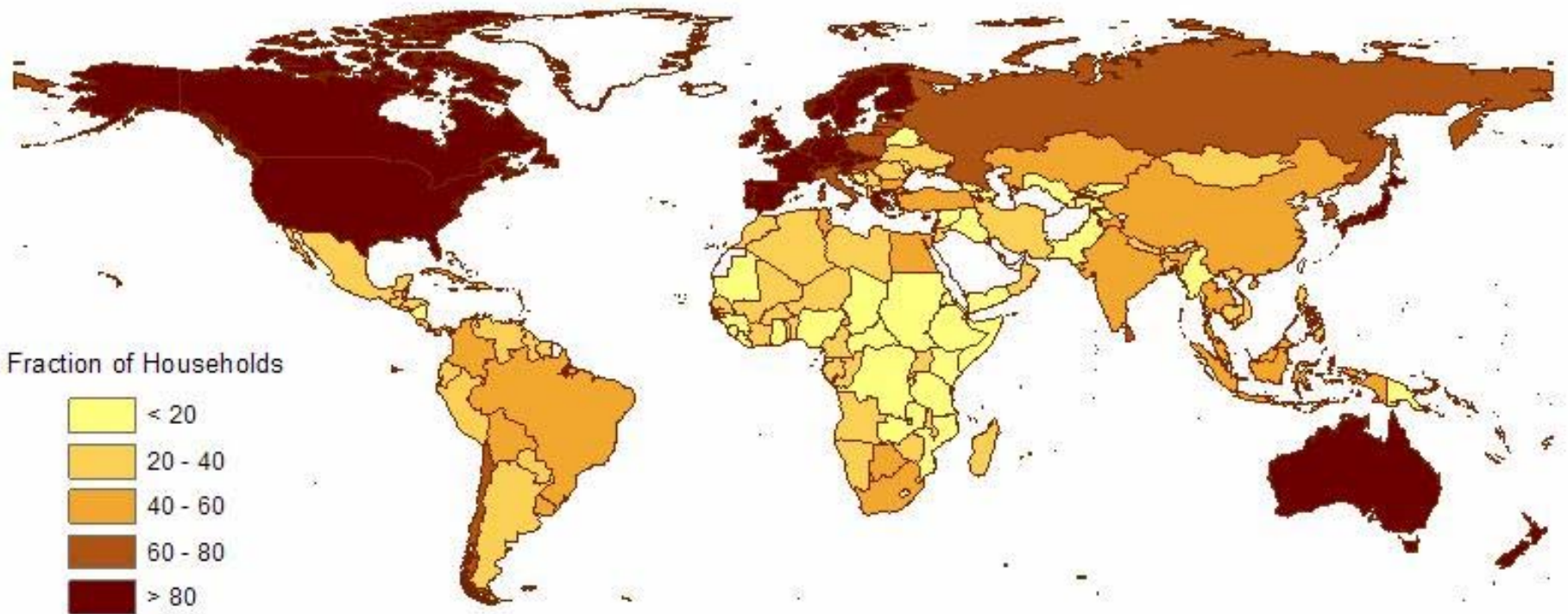
We have:

- (a) survey data for households (few countries)
- (b) account numbers and average size for commercial banks (more countries)
- (c) account numbers for (“alternative financial intermediaries” focusing on access) (many countries)

Despite obvious weaknesses of (b) and (c) can we splice these with (a)?

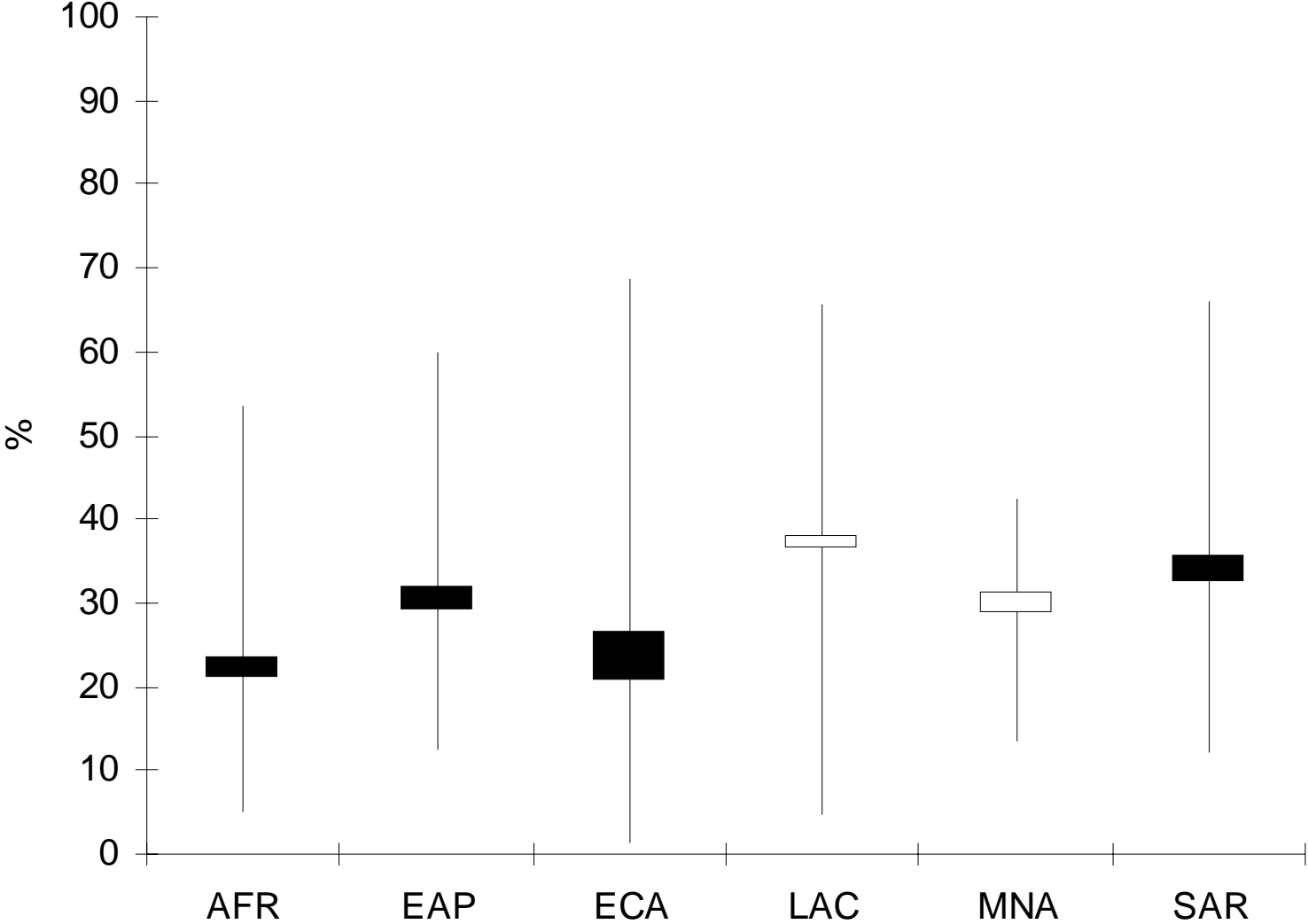
Actual and fitted access indicators



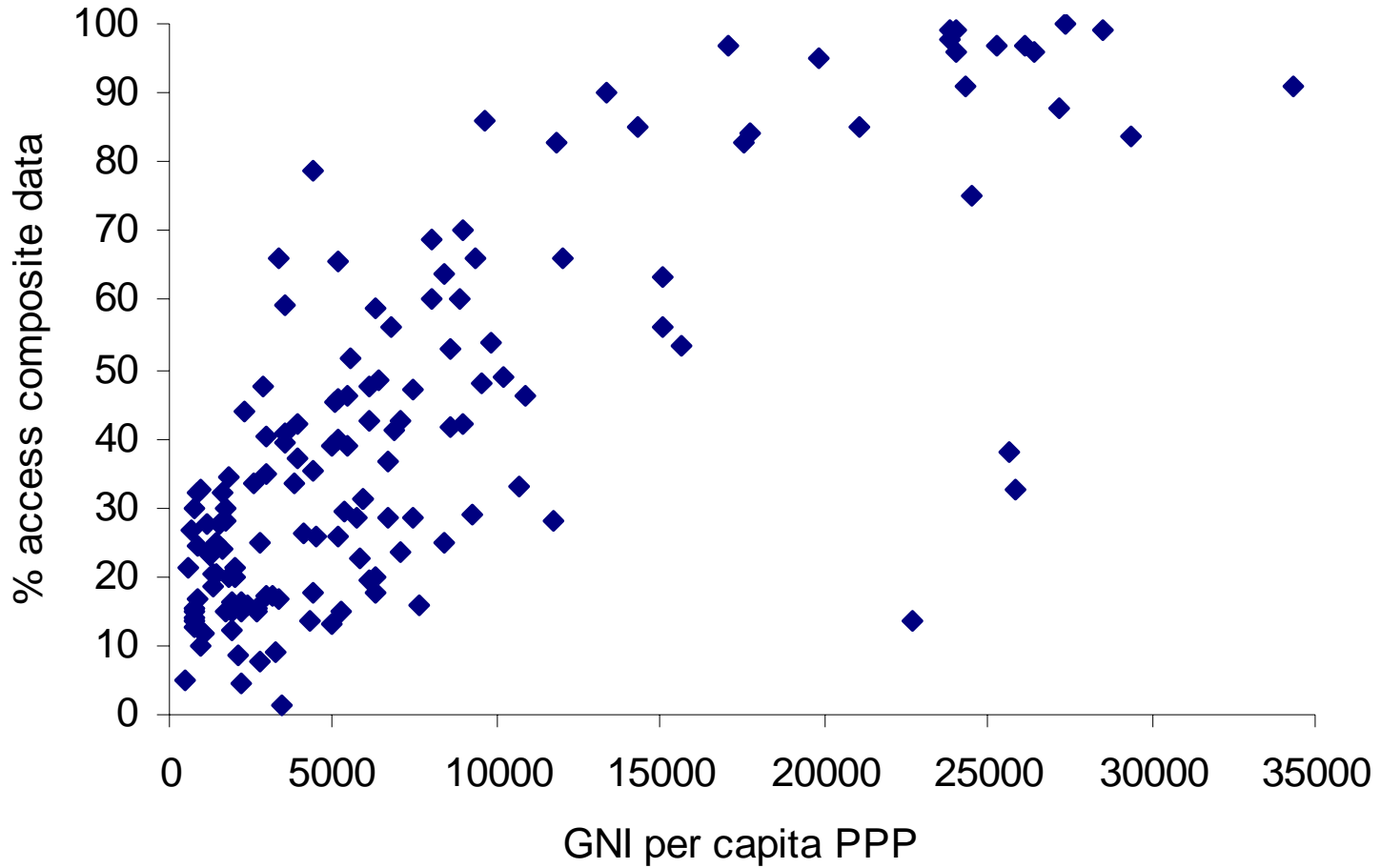


% of households with an account

# Variation in access percentages within each major region



# Access and GNI per capita



**Table 2. Poverty and Financial Access**

This table shows regressions relating the \$1 per day poverty percentage to financial access percentages across countries

Equation:	2.C		2.F		2.G	
	Coeff.	t-Stat	Coeff.	t-Stat	Coeff.	t-Stat
Constant	137.8	**8.5	61.1	**5.7	140.0	**8.5
GNI per cap lower 90% (log)	-17.5	**10.4			23.4	**8.8
Share of top 10%	0.574	**3.3			0.948	**3.1
Access (log)			-12.4	**3.9	-2.0	0.8
R-squared / NOBS	0.643	89	0.151	89	0.645	87
Adjusted R-squared	0.634		0.141		0.632	
S.E. of regression	13.5		21.0		13.7	

\*\* and \* indicate significance at the 1% and 5% levels, respectively.

Cross section: all available countries: Note GNI per cap is measured at PPP ;

Access is based on Mark IIa of the composite series.

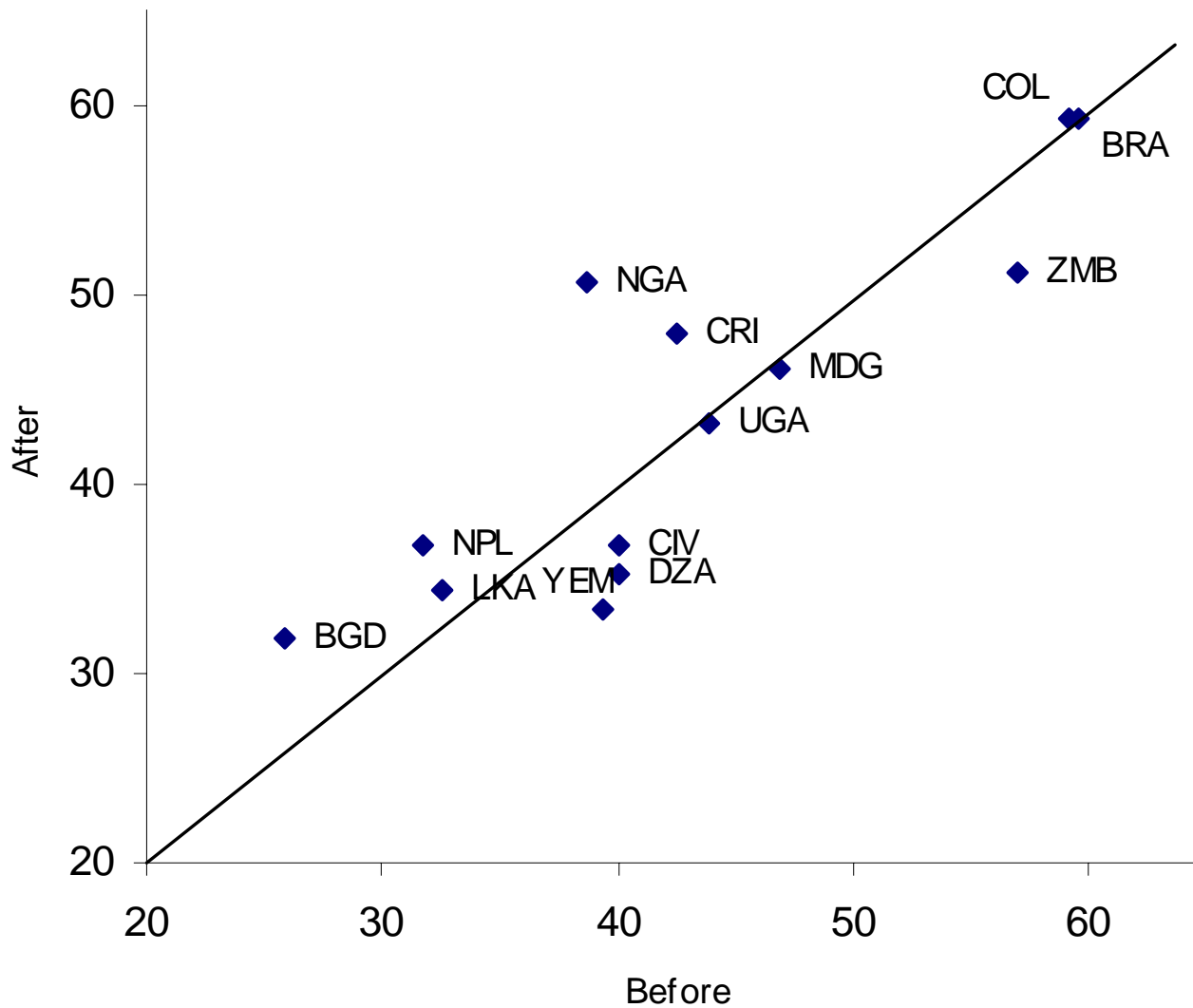
Source for poverty and inequality measures: GPID; source for GNI: WDI.

From Honohan (2006)

## **IV: Do banking crises hit the poor harder?**

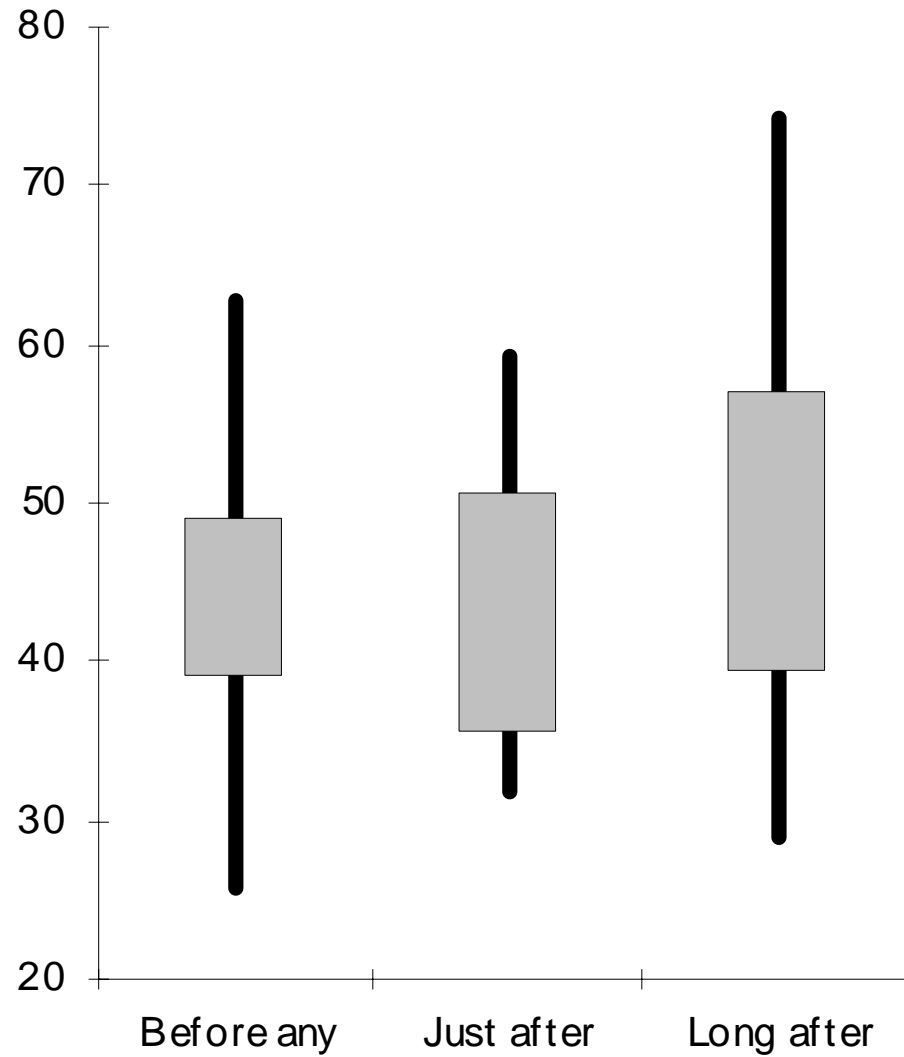
Does inequality worsen?

## Gini before and just after end of crisis

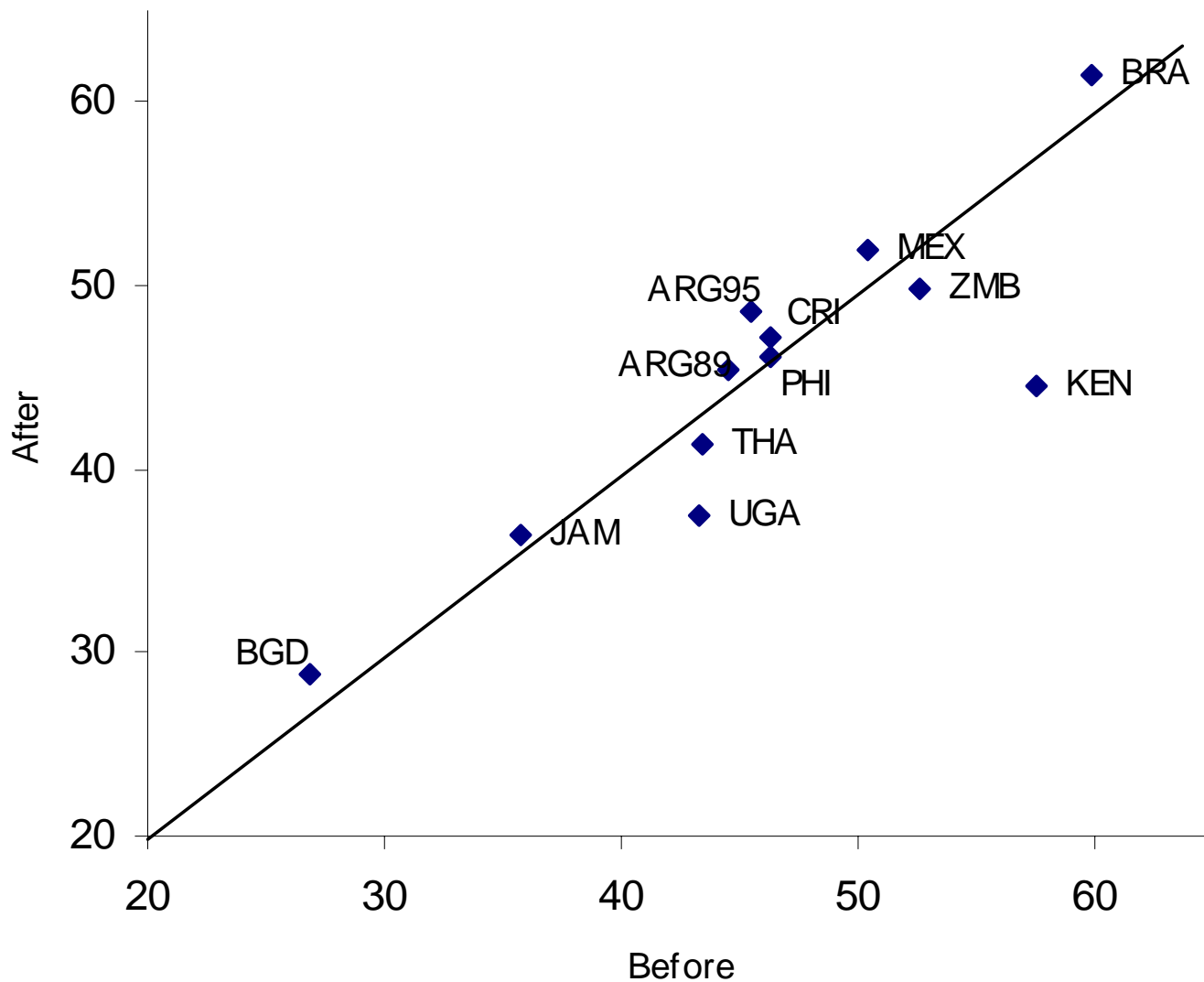


# Gini: range & interquartile

around banking crises



# Gini before and just after onset of crisis



## Summary: Four **striking** facts about finance & poverty

Financial development is an important cause of growth

But our measures of finance are very imperfect

Financial *depth* seems to reduce poverty

i.e. Finance-rich growth is pro-poor

Even conditional on mean income

But: harder to find evidence that financial *access*

(e.g. microfinance) reduces poverty

Data is scarce; no correlations

(Even micro evidence is inconclusive)

Banking crises do *not* always hit the poor disproportionately