Access to Finance

Measurement, Determinants, and Impact

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How do financial institutions and markets help growth?

- Ease the exchange of goods and services by providing payment services
- Mobilize and pool savings from a large number of investors
- Acquire and process information about investments and enterprises, thus allocating society’s savings to its most productive use
- Monitor investments and exert corporate governance after providing finance
- Help diversify and reduce
  - Liquidity risk
  - Intertemporal risk
Finance and Poverty Alleviation
Financial exclusion – why do we care?

- We know: financial depth is important for economic growth, income equity and poverty alleviation.

- Access can affect the impact of financial development on growth and poverty.
  - Financial market imperfections are particularly binding on the poor, who lack collateral, credit histories and connections. Without broad access, they would be hindered from investing in high-return projects.
  - Access helps the process of “creative destruction” by allowing new firms that are able to use resources more efficiently to enter the market.

- Access to finance can be seen as similar to access to basic needs such as safe water, health services, and education (Peachey and Roe, 2004).
Financial exclusion - the facts
Financial exclusion – new data

- Financial depth – very good data
  - M2 and M3 to GDP
  - Private Credit to GDP
  - Total deposits to GDP
- How many borrowers, how many depositors?
- New data collection efforts
  - Branches, ATMs, Loan/deposit accounts
  - Barriers to banking (affordability, physical access, eligibility)
  - Household surveys to get headline indicator (share of households that use financial services) and understand barriers – but very costly to undertake
<table>
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<tr>
<th>Percentile</th>
<th>Country</th>
<th>Branches per 100,000 Population</th>
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<tr>
<td>99th</td>
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<tr>
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Deposit accounts per 1,000 Population

99th Percentile
- Austria: 3,119.95
- Greece: 2,417.64

75th Percentile
- Mauritius: 1,585.99
- Thailand: 1,423.12
- Trinidad and Tobago: 1,073.48

50th Percentile
- Venezuela: 486.74
- Bosnia: 429.40
- Philippines: 302.05

25th Percentile
- Honduras: 287.27
- Papua New Guinea: 119.77
- Armenia: 111.38

1st Percentile
- Madagascar: 14.46
Annual Fees on checking accounts

Sample size: 55 countries
Documentation requirements to open an account

Sample size: 56 countries
What explains outreach across countries?

- Economic and financial development
- “Classical” financial sector policies
  - Contract enforcement
  - Credit information sharing
- Competition and regulatory policies
- Non-financial sector policy areas:
  - Physical infrastructure
  - Media freedom
Financial outreach/exclusion – other issues

- Is access to finance a basic need or public good that’s worth subsidizing?
- Role of government:
  - Service provider
  - Provider of enabling environment
  - Facilitator
- Access to finance in a globalized world
- Role of technology
- ...
Financial outreach/exclusion – the work program

- Get better data
  - Household surveys on access to finance
  - Headline indicators that can be easily collected
  - Access maps to analyze the barriers to outreach

- Understand determinants better and formulate policy messages
  - Need mix of supplier and demand data plus access maps
  - From cross-country to country-specific

- Measure impact of access to finance better better
  - Panel data on outreach
  - Experimental approach

- We want to know
  - Which services are most important?
  - How important is access to finance relative to other areas of public sector intervention?
  - Impact of specific interventions (weather insurance, MFI techniques, financial literacy programs etc.)
Financial outreach/exclusion – what is the role of the WB Research Group?

- Pioneer data collection exercises
  - Mainstreaming done by others
- Use new data sources for academic policy-oriented research
- Field experiments on design of access to finance projects and impact analysis
- Advise operational departments on policies to foster outreach
- Policy Research Report on Access to Finance - summarize existing research
Want to know more?

econ.worldbank.org/programs/finance

Papers, newsletter, data sets, conferences etc.