3

Country Rankings on the Getting Finance Indicators

Analysis of the Getting Finance Indicators confirms that the commercial banking sector in the five South Asian countries have made significant progress under the development dimensions reviewed in this study. The progress made under each dimension varies among the countries. The countries were ranked using a simple-averaged ranking method (for a description of the ranking methodology, see chapter 7). It is anticipated that such rankings would help to understand where performance is strong and where improvements are most needed, and where each country is on the development paradigm.

As with any evaluation system, assessing the health of the financial system based on a limited number of micro indicators imposes many technical as well as practical limitations. And the interpretation of the results reflects these caveats.

To assess the soundness and performance of the financial sector, six development dimensions were used. Six micro indicators were used to represent each of the five financial dimensions—access to finance, performance and evaluation, financial stability, capital market development, and market concentration and competitiveness. For the sixth dimension (corporate governance), a questionnaire was used to assess four key areas. Each of the six dimensions was ranked across the six-year period to arrive at individual composite scores. An overall composite score was computed by averaging the individual composite scores.

Overall Rankings on Development Dimensions

India secured the top rank with an overall composite score of 0.80—emerging as the strongest South Asian commercial banking sector (table 3.1). The Indian commercial banking sector was competitive and financially stable and was ably supported by a well-developed capital market. Pakistan was second (overall composite score of 0.67) with strong performance and quality corporate governance. Sri Lanka secured the third place (overall composite score of 0.65) with healthier financial outreach by the commercial banking sector. Bangladesh was fourth (overall composite score of 0.57) and demonstrated improved access to finance and market concentration, although it did not rank on top. Nepal was ranked fifth.
It has made commendable efforts in certain areas; however, to be comparable, it needs to address many issues to improve its commercial banking system. All countries have their own strengths and weaknesses. The two radar graphs highlight the key issues that matter to each country in their efforts to develop financial soundness. The first radar graph (figure 3.1) shows India being ahead of other countries with scores ranging from 0.63 on performance and efficiency to 0.91 on capital market development. The range for Pakistan was 0.43 for access to finance and 0.84 for corporate governance. The development dimensions for Sri Lanka ranged between 0.40 for market concentration and 0.93 for access to finance, while the Bangladesh range was between 0.42 for performance and efficiency and 0.71 for market concentration. Nepal had the lowest scores ranging from 0.24 for financial stability and 0.65 for corporate governance.

The second radar graph (figure 3.2) shows how these countries have fared under different dimensions from the dimensions’ perspective. All countries had higher performance in corporate governance, ranging from 0.64 in Bangladesh to 0.80 in Pakistan. On the other hand, capital market development showed the least amount of development with scores ranging from 0.30 in Nepal to 0.91 in India. The other four dimensions scored between these two extremes. Access to finance ranged between 0.28 in Nepal to 0.93 in Sri Lanka. Performance and efficiency scores were between 0.42 for both Nepal and Bangladesh, and 0.80 for Pakistan. Financial stability scores were between 0.24 in Nepal and 0.89 in India. Finally, market concentration scores were 0.40 in Sri Lanka to 0.89 in India. These two

Table 3.1  Getting Finance Indicators for South Asian Countries, 2001–06
(final rankings)

<table>
<thead>
<tr>
<th>Access to finance</th>
<th>Bangladesh</th>
<th>India</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite score (total points/180)</td>
<td>0.68</td>
<td>0.66</td>
<td>0.28</td>
<td>0.43</td>
<td>0.93</td>
</tr>
<tr>
<td>Indicator rank</td>
<td>2</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Performance and efficiency</td>
<td>0.42</td>
<td>0.63</td>
<td>0.42</td>
<td>0.80</td>
<td>0.73</td>
</tr>
<tr>
<td>Indicator rank</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Financial stability</td>
<td>0.49</td>
<td>0.89</td>
<td>0.24</td>
<td>0.81</td>
<td>0.57</td>
</tr>
<tr>
<td>Indicator rank</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Capital market development</td>
<td>0.46</td>
<td>0.91</td>
<td>0.37</td>
<td>0.69</td>
<td>0.58</td>
</tr>
<tr>
<td>Indicator rank</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Market concentration and competitiveness</td>
<td>0.71</td>
<td>0.89</td>
<td>0.56</td>
<td>0.44</td>
<td>0.40</td>
</tr>
<tr>
<td>Indicator rank</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>0.64</td>
<td>0.80</td>
<td>0.95</td>
<td>0.84</td>
<td>0.67</td>
</tr>
<tr>
<td>Indicator rank</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Total points</td>
<td>3.40</td>
<td>4.77</td>
<td>2.52</td>
<td>4.01</td>
<td>3.88</td>
</tr>
<tr>
<td>Score (total points/6)</td>
<td>0.57</td>
<td>0.80</td>
<td>0.42</td>
<td>0.67</td>
<td>0.65</td>
</tr>
<tr>
<td>Overall Rank</td>
<td>4</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: From table 7.1. Authors’ calculations are based on appendices 1 and 3. Data in appendices come from South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, and 2006c; and 2007.

Note: The ranking calculation methodology is given in chapter 7.
Figure 3.1 South Asian Countries: Strengths and Weaknesses of the Commercial Banking Sector

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.

Figure 3.2 South Asian Countries Focused on Corporate Governance; Capital Market Development Needs Attention

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.
graphs show that each country has its own priorities that are different from others, depending on the characteristics of their own financial systems and economic structures and the stage of development they are in as of now.

**Individual Rankings on Micro Indicators**

The following analysis provides a more comprehensive picture of how each country fared on the micro indicators within each development dimension and thereby key areas on which to focus for each country.

**Access to Finance**

Sri Lanka leads in the area of access to finance on all indicators except for geographic bank penetration. Its overall access ratios have improved favorably over the period (figure 3.3). Bangladesh has the highest geographic branch penetration. India and Pakistan need to focus on access indicators. Access is lowest in Nepal.

**Performance and Efficiency**

Pakistan comes first in the performance and efficiency category with superior performance in most micro indicators. India also fares well in all areas. The area that requires Pakistan’s focus is operating costs (figure 3.4). Sri Lanka is not far behind, and records the lowest staff cost ratios in the region. Nepal confronts problems of negative capital and low operating efficiency with high staff cost ratios. However, their operating cost ratios are the lowest in the region. Bangladesh must focus on high operating costs and lower net interest margins.

---

**Figure 3.3** Sri Lanka Leads on All Access to Finance Indicators

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.
Financial Stability
India’s top performance on stability reflects higher capital adequacy ratios (CARs), lower nonperforming loan (NPL) ratios, and stable liquidity positions (figure 3.5). Pakistan ranks second with higher provisioning ratios; it should focus on its liquidity management. Sri Lanka has improved well in all areas with liquidity as the main area of concern. Bangladesh should improve its capital positions and should focus on NPLs and provisioning. Nepal has negative CARs and lower ratios on all indicators when compared with the region.

Capital Market Development
India fares well with higher market capitalization, liquidity, and lower concentration resulting from having a developed capital market (figure 3.6). All other countries need to concentrate on developing their capital markets. For Pakistan and Sri Lanka, the focus should be on developing their bond markets.

Market Concentration and Competitiveness
The Indian banking system proves to be the best in the region on market concentration (figure 3.7). All the concentration ratios have declined over the years. Bangladesh also fared well in this category. The banking sector in Sri Lanka is highly concentrated, with more than 50 percent of assets, deposits, and loans concentrated in three banks. Most countries should monitor the rapid growth of bank credit to the private sector, with a view to manage credit risk.

Corporate Governance
Pakistan does well in all areas of corporate governance, but the keys to its superior performance are the detailed governance guidelines issued by its regulatory authorities, demonstrating better disclosure and greater shareholder rights (figure 3.8).

Figure 3.4 Pakistan Performance Is Better on Performance Indicators

Source: From table 7.1. Data used in table 7.1 calculation come from appendices 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.
Figure 3.5  India Shows Strong Performance on Financial Stability

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.

Figure 3.6  India Leads the Region in Capital Market Development Indicators

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.
Country Rankings on the Getting Finance Indicators

Figure 3.7  **India Ranks High on Market Concentration and Competitiveness Indicators**

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.

Figure 3.8  **Pakistan Leads in Corporate Governance Indicators**

Source: From table 7.1. Data used in table 7.1 calculation come from appendixes 1 and 3, for which the sources are South Asian Central Banks, SECs and Boards, and stock exchanges; Indian Banks’ Association 2006a, 2006b, and 2006c; Reserve Bank of India 2006a, 2006b, 2006c, and 2007.
India follows closely behind. The other three countries have performed fairly well. All countries appear to have done reasonably well on meetings and voting procedures, board structure, and accounting and auditing standards. All countries need to concentrate on indirect share ownership, basic ownership rights, responsibilities and effectiveness of the boards, and disclosure requirements.