

# Access to Financial Services: A Review of the Issues and Public Policy Objectives

by

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## Abstract

This paper reviews the evidence on the importance of finance for economic well-being, provides data on the degree of usage of basic financial services by households and firms across a sample of countries, assesses the desirability of more universal access, and overviews the macro-economic, legal and regulatory obstacles to access using general evidence and case studies. Although access to finance can be very beneficial, the data show that universal usage is far from prevalent in many countries, especially developing countries. At the same time, universal access has generally not been a public policy objective and is surely not easily achievable in most countries. Countries can, however, undertake many actions to facilitate access to financial services, including through strengthening their institutional infrastructures, liberalizing and opening up their markets and facilitating greater competition, and encouraging innovative use of know-how and technology. Government attempts and interventions to directly broaden the provision of access to finance, however, are fraught with risks and costs, among others, the risk of missing the targeted groups. The paper concludes with possible global actions aimed at improving data on access and usage and areas of further analysis to help identify the constraints to broadening access.

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## **Introduction**

Finance has been shown to matter for countries' economic development. There is much evidence today for a strong and causal relationship between the depth of the financial system (as measured, for example, by the supply of private credit, stock market capitalization or other financial measures relative to GDP) on one hand and investment, growth, poverty, total factor productivity, etc. on the other hand. Indeed, by many empirical cross-country tests, initial financial development is one of the few robust determinants of the subsequent growth of countries. Finance matters for the well being of people beyond overall economic growth: finance can help individuals smooth income, insure against risks, and broaden investment opportunities. Finance can be particularly important for the poor and indeed recent evidence has shown that a more developed financial system can help reduce poverty and income inequality.

Much of this evidence has however, focused attention on the importance of overall financial development. Yet, and especially in many developing countries, the financial system at large does not cater to the needs of all customers. Banking systems and capital markets are often skewed towards those already better off, catering mainly to large enterprises and wealthier individuals. Often, many segments of the enterprise and household sector suffer from lack of access to finance, hindering their growth and welfare. This raises the question whether more general availability of financial services should be a public sector goal and, if so, what the best means of achieving this are.

This paper reviews the evidence on the importance of financial development for economic well-being, provides data on the degree of usage of and access to financial services across a sample of countries, provides an assessment of desirability of more universal access to financial services, overviews the macro-economic, legal and regulatory obstacles to access to financial services, and reviews the risks and costs associated with attempts to broaden the provision of access to finance. The paper is structured around the following topics: Why the attention on access recently? What does access to finance mean? What evidence is there on access and who has or does not have

access? What do we know on what constraints access and what can be done by governments to improve access? And what are possible international actions?

### **Access to finance: relevance**

Access to financial services has received more attention lately and has become a more important part of the overall development agenda. This is likely for a number of reasons. For one, evidence that “finance”—as in financial development—matters for growth has been accumulating over the last decade. Second, based on changes in economies and economic production, finance may have moved up in the ranking of barriers to growth. Third, there is an increasing perception that access to finance has been skewed for households and enterprises. We review briefly the evidence on these three aspects.

There is much more evidence today that finance causes growth. The empirical evidence is very robust and available at the level of country, sector and individual firm and households and using various statistical techniques. Financial deepening has been shown to “cause” growth (Rajan and Zingales, 1998; Demirguc-Kunt and Maksimovic, 1998; Beck, Levine and Loayza, 2000; for an extensive review of this evidence, see Levine 2005.) The channels why finance matters are multiple. Finance helps growth through raising and pooling funds, thereby allowing more and more risky investments to be undertaken, by allocating resources to their most productive use, by monitoring the usage of funds, and by providing instruments for risk mitigation. Interesting, it is less the form in which these services come—whether from banks or capital markets—but more the fact that they are being provided in an efficient manner, i.e., being supported by a proper institutional and competitive environment, which matters for growth (Demirguc-Kunt and Levine, 2000; see also World Bank 2001). As such, it is difficult to assert that particular types of financial systems are more or less conducive to growth, and possibly neither which type of system is more or less conducive to facilitate access to financial services.

Finance also helps with improving income distribution and poverty reduction through several channels. Foremost, finance helps through economic growth, thus raising overall

income levels. Finance can more specifically help by distributing opportunities fairer. There is evidence that finance matters especially for poor households and smaller firms. Cross-country studies on the link between finance and poverty include Beck, Demirgüç-Kunt and Levine 2004a. Controlling for reverse causality, they find that financial development causes less income inequality. Clarke, Xu, Zou, 2002 also find that inequality decreases as finance develops, and, since the more concentrated income the higher poverty, finance thus helps reduce poverty.

Honohan (2004a and 2004b) specifically shows that financial depth explains poverty (number of people with income less than \$1 or \$2 a day). But, he also finds that across countries the degree of microfinance penetration, often thought to be specifically useful for the poor, has no special effects on poverty (see, however, Morduch and Hayley, 2002). Specific ways in which financial sector development has been found to help reduce poverty is by alleviating credit constraints that reduce child labor and increase education, including the opportunity cost of foregone child labor services, and by insuring against shocks (see Morduch, 2003 for the important of micro-insurance for poverty). More generally, with one or two exceptions, it is arguably that direct access of poor people to financial services can strongly affect the attainability of each of the Millennium Development Goals (MDGs)<sup>1</sup>, including those that chiefly require upgrading of public services in health and education, etc, as these also require poor households to be able to afford these services, which in turn is facilitated by their access to finance

Second, as economic production is changing and countries are liberalizing their real economies, it has become clearer that the degree of financial development importantly influences the ability of countries, firms and individuals to make use of (new) growth opportunities. The fact that finance matters for firms' growth opportunities is especially so for SMEs. Beck, Demirgüç-Kunt and Levine, 2004b show that, while large SME sectors are characteristic of successful economies, SMEs do not "cause" growth, nor do SMEs alleviate poverty or decrease income inequality. Rather they show that the overall business environment—ease of firm entry and exit, sound property rights, and proper

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<sup>1</sup> See IMF/World Bank 2004 on the MDG and progress in achieving them.

contract enforcement—influences economic growth. Finance, however, accelerates growth by removing constraints on small firms, more so than on large firms. Finance allows firms to operate on a larger scale and encourages more efficient asset allocation. Financial—and institutional—development thus help leveling the playing field among firms and countries, especially important in a global economy with rapidly changing growth opportunities.

Third, while financial development in general is beneficial for growth and poverty, this does not mean that finance is available on an equal basis. Finance can be allocated skewed or even perversely. While hard to “proof” for a large sample of countries, increasingly there is evidence that finance often benefits the few, especially in developing countries. In normal times, this has meant that not all have been given a fair chance at getting their projects financed. Loans are being allocated on the basis of connections and non-market criteria. In the context of crises, this has meant that the costs of financial crises have been allocated unevenly, with the brunt borne by the poor. Halac and Schmukler (2003) show that financial transfers during crises are large and expected to increase income inequality and to be very regressive. For more discussion of the uneven distribution of finance and the impact of financial reform on inequality, see Claessens and Perotti (2005) and references therein.

These three aspects already suggest that there may be a case for making financial services more generally available. We need to analyze though what access to finance means, what the data show, what the impediments to access are, how access can be improved, and whether there is a residual role of the government in encouraging greater and more equal access.

## **What does access to financial services mean and what do the data tell us on usage of and access to finance?**

To analyze the issues of access, we first need a definition what access to finance means. There are various dimensions to access to financial services (see Bodie and Merton, 1995, for a general review of the functions of finance). First, is the question of availability: are financial services available and in what quantity? Second is the question of cost: at what price are financial services available, including all costs, also the opportunity costs of say of having to wait in line for a teller or having to travel a long distance to a bank branch? Third, what are the range, type and quality of financial services being offered? Following Morduch (1999), we can name these dimensions differently as reliability, i.e., is finance available when needed/desired; convenience, i.e., what is the ease of access; continuity, i.e., can finance be accessed repeatedly; and flexibility, i.e., is the product tailored to the needs. There are other variants of dimensions of finance used in other studies.<sup>2</sup> The point is that there are various dimensions to access, making it more difficult to establish the degree of (lack) of access.

This discussion already shows that there will not be an easy definition of access. One also needs a clear objective of what is the desirable degree of access. Universal access is not necessarily the goal, different perhaps from basic health services, primary education, clean water, etc. There are number of reasons. For one, we do not (yet) know at the micro-level sufficiently well what the benefits and impacts of access to finance are and whether there is a public goods argument to be made in favor of extending access more broadly. The gains of access to basic health care services such as immunization are better known today than the gains from access to financial services. Second, as for other good and services, the demand for financial services may not exist. Many households even in developed countries choose not have a bank account as they do not engage in enough financial transactions, e.g., write no checks, collect wages in cash or cash their checks,

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<sup>2</sup> For example, Kempson et al. 2000 distinguish between five types of exclusion to financial services: (i) access exclusion: e.g. through risk screening; (ii) condition exclusion: product design inappropriate for the needs of some people; (iii) price exclusion: financial products too costly; (iv) marketing exclusion: with some people effectively excluded by targeting marketing and sales; (v) self-exclusion: some persons not applying in the belief that they would be refused.

yet they may not be burdened by no “access.” Firms without use of external credit may choose to remain so as their rates of return on capital are too low to justify formal finance or because they are not willing to provide the necessary information on their business to banks, and by implications to others, including tax authorities. Equally important, and even in the best financial systems financial services providers may not wish to provide access to all customers as it is not profitable or sustainable to do so. This does not reflect any market failures, but rather that finance, like other services, has its own demand and supply. This may mean that a country requires a certain overall level of development before more universal access is a viable proposition. Furthermore, there is plenty of anecdotal evidence that some households may have difficulty managing access to credit (e.g., credit cards), suggesting that some restraint, say until financial literacy is more adequate, may well be overall welfare enhancing.

In order to answer whether there is a case for more universal provision of financial services, we need thus to know more on the benefits of access, the reasons why households and firms may (or may not) demand financial services and why financial services providers may (or may not) provide financial services, and, of course, the costs to society of providing greater access. Here, we face a number of questions, starting with the basic one that we have limited data across countries on the degree of usage of and access to financial services. While there is much data on financial sector development, there is very limited data on usage and access, both for households and for firms.<sup>3</sup> There is consequently also limited analysis on the dimensions in which access may be deficient. There can be deficient access geographically to branches and outlets. Or access can be socio-economically deficient, i.e., access is available only for some population segments. Or it can be deficient in an opportunity sense: the deserving do not have access. Data are insufficient in all respects, so far, making judgments on the relative benefits and costs of access difficult.

For some countries, there are data on households’ use of basic financial services, such as having a bank account, often obtained using commercial banks and central bank data, or

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<sup>3</sup> See Honohan 2004c and DFID 2005 on data availability and deficiencies

on the basis of surveys. More recently, data have been collected on the spread of micro-finance following CGAP efforts and Microcredit Summit. These cover the number of people with access to a savings account. For some countries, there are data from household surveys, such as the Living Standard Measurement Survey (LSMS)-type. Of these LSMS-surveys, some 27 have covered some dimensions of households' use of financial services (see Honohan, 2004c). Still, and with the exceptions of some developed countries such as Sweden, much of the data collected in these general households surveys is very basic and limited in terms of the various dimensions of use and access (quantity, costs, quality). Access by households to credit, although typically only one-quarter in terms of number of access to savings and arguably less important in terms of growth and development, has been equally difficult to document at the level of households. Many countries, for example, do not even have data on the aggregate level of consumer credit, in part, as not just banks are providing that, but also non-bank financial institutions.

Data on firms' use and access to financial services are equally limited. While there is much information on listed firms' financial structure and their access to (some forms of) external financing, there is much less information on the unlisted firms and especially limited information on small firm finance access. Mostly data come from surveys, such as those conducted by the World Bank (World Bank Economic Survey—WBES, Investment Climate Assessments—ICAs), or by national agencies such as the US Federal Reserve Boards, UK Bank of England, EU, etc. Some data come from central bank statistics and advocacy groups (e.g., US Small Business Administration, chambers of commerce, and equivalents). Again, the data are basic and limited in terms of various dimensions of access (quantity, costs, quality). Access to credit dominates the data collection efforts, with access to savings services less of an issue, although payment services are important as well for firms. Mostly data are collected on use of and access to banking services, and much less data are available on other financial services, such as insurance, leasing, factoring and the like.



Although weak and often not comparable, available data show that access of households to banking services varies greatly. In developing countries, many households do not have a bank account. Table 1 provides data on the degree to which households use a basic financial service provided by a formal financial institution, e.g., have a checking or savings bank account, across a number of countries.<sup>4</sup> It shows that usage in most of the OECD countries is nearly universal, with many percentages above 95% and with an average of 90%; in developing countries, though, usage is much less and the average is only 26%. The highest usage of financial services from formal financial institutions is 59% percent in Jamaica. Some other high numbers may not be representative of the whole country as they apply to the population of the capital city only (Mexico) or some specific cities or regions (China, Colombia, India) or urban areas (Brazil). For most of the other developing countries, use of a basic bank account does not exceed 30 percent, and in the lowest-income countries, use is less than 10% of households.

Individuals obtain financial services through other means, though, including through non-financial institutions, as the comparison for some Latin American countries shows (Table 2). The Microcredit data also show that there is often use of other forms of financial services, outside the banking system. As such, these numbers underestimate the degree of access to financial services, but they do show the large differences between developed and developing countries in terms of usage of financial services from formal financial institutions.

The next question then is who are then the unbanked households, and how do they differ, if at all, between developed and developing countries? To the extent we know, the

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<sup>4</sup> The data for Table 1 come from a variety of sources. The main sources are households' surveys, the LSMS (Living Standard Measurement Surveys). Here individual households responses on questions of usage of financial services are averaged for each country. Second main sources are the surveys conducted by FINMARK and genesis in a number of Southern African countries. Again, these are household surveys, but more specifically aimed at usage of financial services. The source for the EU-countries is Pesaresi and Pilley, 2003. For the US, the source is the Survey of Consumer Finance, 2004. For Brazil, Colombia, India and Mexico the recent estimates are from Kumar et al. 2004, Basu et al. 2004, and Solo et al. 2004. The earlier India numbers are from the regular Indian household survey. The Kenya, Tanzania and Uganda estimates are from Peachey and Roe, 2004. Questions on financial services usage do vary across the households survey, numbers are thus not necessarily comparable and some of the numbers are only rough estimates.

profiles are as expected, although we have to realize that it is choice of households, so we observe only revealed usage and not potential access (given costs, quality, ease, etc., many do not bother to seek access from formal financial institutions). Socioeconomic characteristics such as income, wealth and education play the largest roles in explaining access. Financial exclusion is thus often part of a broader exclusion in terms of education, jobs, formal training, etc. Households that use credit have a different profile from those with banking account and savings use, and the profile is more affected by income and wealth characteristics, as it tends to be the richer that borrow.

The comparison between the US and Latin America countries indeed shows some similarities between otherwise very different countries in terms of why people do not (want to) bank (Table 3). Conveniences, trust and savings are important considerations for households to seek financial services from banks. Unbanked households in the US and Mexico also display very similar characteristics, two countries otherwise at different levels of development, with the exception of home ownership (Table 4). The costs of being unbanked do vary considerably, however, as the alternative means are much fewer and more costly in Mexico. The costs in the USA for being unbanked are estimated to be only 2.5% of median income in the lowest income segment, whereas in Mexico they are estimated at 5% (Solo et al. 2004).

Although also weak and often neither comparable, some data on firm access to financing have more recently become available. Specifically, Table 5 reports the percentages of firms that say access to financing presents major or severe obstacles to the operation and growth of their business. The data come from the World Bank Investment Climate Assessments (ICA) that have been conducted in the last few years. About a quarter of the firms on average complain about the lack of external financing, with large variations though, from less than seven percent for Latvia and Lithuania, to more than 50 percent for several countries and a high of 60 percent for Brazil.

Somewhat similar to the households' analysis is the answer to the question what are the unbanked firms? To the extent we know, profiles are as expected, with size of the firm

(and related, age) especially important. Table 5 already suggests this since the percentage of large firms with complaints is less than that for the smallest firms, on average some eight-percentage points, but sometimes as much as 10 to 20 percentage points. Across a large sample of countries and controlling for other factors, it has also been found that size strongest affects access to credit (Beck, Demirgüç-Kunt, and Maksimovic, 2005). (This analysis used the World Bank Economic Survey data; the ICA-data are currently being analyzed to further determine what drives (lack of) firm access across countries.) For a specific country, Brazil, size was found to be more important than performance and other variables, suggesting quantitative limitations to credit access (Francisco and Kumar, 2004). The impact of size on credit was found to be greater for longer-term loans in case of Brazil (as well as for many other countries). As an aside, public financial institutions in Brazil are actually found more likely to lend to large firms, thus negating the idea that public banks necessary fill market gaps.

Size may, however, reflect not only profitability, financial and legal collateral but also political collateral. This is particularly so in developing countries where lending is often done on the basis of relationship and connections, often political. Indeed, in countries with well-developed financial systems size can be overcome. Many banks in developed countries lend to many small, single proprietary firms, sometimes without requiring collateral, financial statements, or other requirements. Thanks due to the spread of technological advances such as automated credit scoring, banks in developing countries are also becoming active in these forms of financing. And in the most developed financial markets, universal access to basic financial services, including some forms of credit, is essentially assured for households, as the data above showed.

Access can thus be based on opportunities and needs. Since in many countries it does not seem so, the question to ask is what constrains access in general and in some countries in particular? In other words, before asking whether there is a need for intervention, one needs to address the question what the barriers to access are, and whether there is a market failure and, if so, which.

## **Financial institutions' specific and institutional environment barriers to access**

Explanations of the lack of access fall into two dimensions: financial institutions' specific constraints, and barriers arising from the overall institutional environment. In the terminology of Beck and de la Torre (2005), this means one can classify options to expand access in two groups: individual financial institutions' solutions, or what they call moving towards the country's access possibilities frontier; and government actions, or what they call expanding the country's access possibilities frontier. We will first discuss these two aspects and evidence on them and then consider the associated policy actions.

*Individual financial institutions' constraints.* Consumers—households and firms—often state that they restrain their demand because not the right types of financial services are being provided. Households often mention problems of high minimum deposits, and high administrative burden and fees. Getting a loan can be especially cumbersome and too costly for many a borrower given the small amounts desired, the high fixed costs of applying, and the often-high rejection rates. Financial institutions may furthermore demand collateral, which poor borrowers typically lack. Formal financial services provision may also entail other, non-pecuniary barriers, such as requiring (greater) literacy. Instead, households and firms will not seek financial services from formal financial institutions and rely on informal forms of finance. This applies to deposit, lending and payment services. Individuals needed funds for investment may rely on family and friends. People wanting to transmit payments to the relatives, whether domestic or international, may rely on informal networks, although at higher costs. This is most obvious in the transmission of international remittances, where unit costs can be very high when more informal mechanisms are used. A \$100 wire from New York to Mexico costs for the banked - \$9 plus unknown exchange rate spread, whereas it costs for the unbanked - \$19 plus unknown exchange rate spread (Solo, Caskey, and Durán, 2004). Yet, these informal mechanisms are often preferred due other, non-pecuniary barriers.

Thus, lack of demand is a very important reason why usage is not universal: many households and firms may not use financial services, although they do have access to

some financial services. And banks may consider some households and firms as less attractive as customers, and are therefore not be willing to extend financial services. When demand is there, though, and the environment is sufficiently competitive, banks can be expected to try to provide financial services. Still, one common reaction of financial services providers why they do not serve poor households and small firms is that these are too high-risk, too high-cost propositions. In other words, financial institutions find it not profitable enough to offer appropriate financial services to some segments.

There may be variety of reasons for the lack of provision of appropriate products and services. Banks may have problems providing financial services to all households and firms given population density, e.g., it may be too costly to provide the physical infrastructure in rural areas. Or in some areas there may be a lack of security in cash transfers and branches cannot be operated commercially profitable. High transactions costs for small volumes are often mentioned as constraining financial services providers from broadening access. Small borrowers borrow frequently, for example, and repay in small installments. They consequently do not want financial products with high per unit costs, yet for the bank costs are often similar regardless of transaction size. Households and firms in developing countries may seek financing or insurance for specific purposes (major life events such as marriage, health or specific crop insurance), for which contracts are difficult to design. Firms may be underserved for the same reasons. Small firms seek different products than large enterprises, e.g., payments services for small amounts, and banks may therefore not consider these firms sufficiently attractive as clients. Small markets may make it more difficult to develop or roll out new products specifically useful for that market.

For financial services providers, the fixed costs in financial intermediation thus make providing services for small clients, by small institutions, and in small markets hard. At the same time, economies of scale lead to decreasing unit costs as transaction volume increases, making some specialization attractive. While better cost management can lower unit cost and thereby lead to higher outreach for low-income clientele, there are

limits to cost management at the level of an individual institution, as evidence on economies of scale for banks in mature financial markets shows (see Berger and Humphrey, 1997 for a survey). Evidence on micro-finance institutions also shows this (Honohan, 2004b). The proliferation of micro-finance institutions in many countries has not necessarily benefited final clients as much as possible as few institutions have reached the scale necessary for efficient financial services provision. Similar constraints arise at the country-level where many financial systems are very small (less than a few billion dollars, which is less than a very small bank in most developed countries), hindering effective financial services provision (Hanson, Honohan and Majnoni, 2003). It suggests that the scale for effective financial services provision may not exist in all countries.

Banks can innovate though and move closer to the “access frontier”. Sometimes prodded by government and public opinion, they can make their products more suited to low-income households. In South Africa, the country's major banks launched in November 2004 a low-cost bank account aimed at extending banking to the black majority. The country's four big retail banks along with the post office's Postbank launched the "Mzansi" account. The account, set up under a financial sector charter agreed on by the industry in 2003, requires a minimum deposit of 20 rand (some 4 US dollars) and is aimed at providing some 13 million low-income South Africans without prior access to bank accounts access to financial services. Whether this will be profitable and sustainable is to be seen, but the initial take-up has been promising (see further Napier, 2005 for an analysis of access to financial services in South Africa). For further examples of innovate approaches see De la Torre and Schmukler (2005), which study different cases studies on enhancing access, also to investigate what may be replicable.

*Institutional environment constraints.* For many of the mismatches between potential demand and supply, it is not clear if there is a market failure and if so what the exact source of the market failure is. Why would financial institutions not offer these products if feasible? Or why would financial institutions that operate at the right scale and with the right technology not enter into certain markets? The fact that they do not must mean

that it is not profitable to do so given current technology and the institutional environment (legal, regulations and other requirements) they face in a particular market. Question is whether these mismatches between demand and supply need to and can be remedied. While there is much (relevant) analysis on what affects financial sector development and the role of the institutional environment there in (e.g., World Bank, 2001), evidence on what is affecting households' and firms' access to financial services across countries is very limited to date. What exists though gives some insights on what the most binding constraints are.

Across countries, it appears that access to micro-finance for poor or the near-poor is less in countries with higher GDP per capita, in countries with better "institutional" quality and a larger market size (Honohan, 2004a and 2004b). This suggests that there is some element of the overall general development, including a greater usage of advanced technology, allowing more developed countries to offer financial services profitably to lower segments. Of course, the lower segment in these more developed countries represents a higher income level, so it does not mean that the same technology can also reach the lower segments in developing countries. The same analysis shows that the quality of the main banking system discourages the spread of micro-finance institutions. Specifically, countries with higher spreads and higher profitability in their main banking system have fewer micro-finance institutions. This suggests that more competition in banking system can foster greater access to financial services from micro-finance institutions.

It also appears that access to savings can be a function of the distribution networks, including that of postal, saving banks and other more specialized financial institutions. In Brazil, for example, the size and scope of the some branch networks, as well as the split between public/private banks and domestic/foreign banks plays a role in the degree of access (Kumar et al. 2004; and World Bank 2005). In other markets, more specialized financial institutions such as savings banks and other proximity banks that have, besides profitability, an objective of providing financial services, have had some impacts on broadening access (Peachy and Roe, 2004). These findings suggest that what is driving

households access is not purely a function of the scope for profitable banking, but that the overall institutional environment and level of development do play a role.

The access of small firms across countries has been analyzed more to date, and evidence here suggests even stronger than for households that the institutional environment matters (Berger and Udell, 2004 for a review of the conceptual issues). This is particularly so on the credit side, as can be expected. The absence of credit information, difficulty in collateral that can be registered and recovered if necessary, difficulties in general contract design and enforcement can make lending especially difficult. Credit services may consequently be limited to entrepreneurs with credit history, (political) connections, or immovable collateral, such as real estate collateral. Even when a business is viable, there will often be a lack of formal reliance on past records and little regard to expected future performance. In many countries, there is often the additional problem of uncertain repayment capacity arising from volatile income and expenditures. Especially new and smaller firms often have high exposures to these systemic risks (e.g., macro-economic volatility, financial crises, default by governments, arbitrary taxation and other risks).

There is empirical evidence on the importance of these barriers. The quality of legal systems, property rights, and the presence of mechanisms for reliable information have been found to be especially important for small firms (Beck, Demirgüç-Kunt, and Maksimovic, 2005). Small firms and firms in countries with poor institutions use less external finance, especially less bank finance. Better protection of property rights increases external financing of small firms significantly more than that of large firms, mainly due to more bank and equity finance. It also appears that substitutes to bank finance are imperfect, e.g., small firms do not use disproportionately more leasing or trade finance compared to larger firms.<sup>5</sup>

Analysis at the individual country level has been more limited to date, but it does provide some insights as well in what may be driving access. It is clear that banking system

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<sup>5</sup> See further some of the papers presented at a recent World Bank SME-conference, [http://www.worldbank.org/research/projects/sme\\_conference.htm](http://www.worldbank.org/research/projects/sme_conference.htm).



regulations can hinder access. There can be minimum or maximum interest rates policies, which make it hard for financial services providers to offer saving or lending instruments profitable. Other regulations can include usury laws, restrictions and requirements on lending, and high compliance costs. High transactions costs and barriers for dealing with formal financial institutions for households can be due to administrative regulations and procedures. The procedures for a household opening a bank account can be complex, requiring among others proof of identity, address, or income. Many countries, for example, have customer identification requirements, so called “Know Your Customer” rules, which limit their ability to offer simple banking products. The recent focus on anti-money laundering and counter-terrorisms financing (AML/CFT) has led to laws that can adversely affect the provision of financial services, as it has threaten to do in South Africa (see Mapier, 2005). In some countries there are other, costly or distortive rules (e.g., in some African countries where permission from the male household head is necessary for the female member of the household to open a bank account). More generally, government interference can distort risk-return signals, making it hard for formal financial institutions to offer attractive products.

In addition to hindering the activity of existing financial services providers, regulations can also hinder the emergence of financial institutions more suited to the needs of lower-income households or smaller firms. Rigidity in chartering rules, (high) minimum capital adequacy requirements (in absolute terms), limited degrees in funding structures, too heavy regulations and supervision, too strict accounting requirements and other rules can hinder micro-finance institutions and smaller financial institutions from emerging. In South Africa, regulation and supervision for banks was being extended to micro-finance institutions, which reduced their capacity to offer financial services profitable to the lower segments of the populations (Glaessner et al. 2004). Separate charters may be useful, with the structures required depending, among others, on whether the institution borrows, takes deposits, is owned by its members and only caters to those (Van Greuning, Gallardo, and Randhawa, 1999).

With these and other regulatory and supervisory requirements tradeoffs arise, however, as the requirements are meant to serve other public policy purposes, such as financial stability and financial integrity. There are also tradeoffs in terms of facilitating the mainstreaming of micro-finance institutions. Jansson, Rosales and Westley (2004) argue, for example, that one does not want to create new and distinct institutional forms for microfinance unless: (a) there are several mature and well-managed nonprofit organizations ready to transform into such financial intermediaries, and (b) the existing institutional forms— such as bank or finance company—are for all practical purposes unusable (due to high minimum capital requirements, for instance) or carry important operational restrictions (such as the inability to mobilize deposits).

There is consequently a need to evaluate the value of regulatory approaches from an overall welfare point of view. Although approaches have to strike the right balance, they can be adjusted to further enhance access. In many countries, for example, one needs to develop anti-predatory lending rather than usury laws which in the end hurt the small borrowers as they do not get access to credit at all, even at high interest rates. Also adopting “truth in lending” requirements to small scale lending, rather than the extensive small print type regulations many countries have, can be useful to ease access. Adapting regulations can furthermore mean facilitating multiple forms of financial services provision, e.g., not just “banks” that takes deposits. In many cases, it will involve considering savings mobilization separately from credit extensions. Many households are interested in savings and payments services only, not in credit services. It can be that these types of financial services provision require different forms of regulation and supervision. This mean, one might develop specific frameworks for micro-finance institutions and activities of commercial banks on small scale.

Finally, much of regulation is aimed at protecting savers and borrowers against misuse and risks, yet they may not be effective in developing countries given lack of supervisory capacity, independence and effective checks and balances while still ending up hindering access (see Barth, Caprio and Levine 2005). Consideration also needs to be given to educate people on the risks of (new) financial services and different types of financial

services providers, such they themselves strike the right balance between risk and benefits. More generally, it will be necessary to increase financial literacy, as is actively being done in some countries. Best approaches in these areas, though, will vary greatly from country to country.

Areas where it is obvious that progress can be made in furthering access in many developing countries are institutional infrastructure improvements. Better legal, information, payments systems, distribution and other infrastructures are needed in many countries. The agendas of many governments, multilateral financial institutions and others are already aimed at this, but most of it will take time. Other policy steps can be useful to further access. The evidence of the main banking system suggests that one important way to enhance access is through improving competition in banking systems. This can be done often easier than improving the institutional environment. Also increasing competition and opening up can bring in (newer) technology and know-how.

Increased competition can be applied to all segments. One can, for example, allow smaller and non-bank financial institutions greater access to existing networks. In many countries, access to the payments system is limited to a club of large banks, or the pricing structure of access is such as to preclude smaller financial institutions from having effective access. Information sharing is restricted in many countries to incumbent banks and formal financial institutions. This and the limited existence of (private) credit bureaus in turn are hindering other financial institutions to provide financial services as evidence has shown (Miller, 2001). Few countries, for example, allow non-bank financial institutions and entities, such as department stores, access to bank information, thereby making it more difficult for these entities to provide financial services to low-income households. Yet, from these non-financial institutions often lower-income people get their credit. In Mexico, for example, close to 50% of credit for those with no banking relationship comes from department stores (Solo, Caskey, and Durán, 2004).

Although some of these changes are technically relatively easy to adopt, the area of competition policy remains very complex, especially in small markets with little

institutional capacity. It requires establishing a credible competition agency, for which the institutional requirements are quite high. Furthermore, even in well-developed countries, questions arise on how to deal with the many network properties in financial services (access to the payments system, credit bureau, distribution networks, etc). Answers here are not obvious. One does not want to undermine the incentives for accurate information provision, for example, by opening up a credit bureau to any new party as that can undermine the incentive structure for entities to provide accurate information. Nor does one want to have financial institutions disclose all type of information as that can undermine their willingness to enter relationships with their clients out of fear that competitors take away the business.

In addition to the general view that competition can help with access, there is specific evidence that allowing greater entry by foreign banks can further enhance access. (General evidence on the effects of foreign bank entry is reviewed in Clarke et al. 2003). A study on borrowers' perceptions across 36 countries found that reported financing obstacles were lower in countries with high levels of foreign bank penetration (Clarke et al. 2004). The same study found strong evidence that even small enterprises benefited and no evidence that they were harmed by the presence of foreign banks. The channels appear to be both competitive pressures of foreign banks on the domestic banking system, forcing local banks to go downscale, as well as direct provision of financial services by foreign banks. A specific Latin America study found that foreign banks with small local presence do not appear to lend much to small businesses, but that large foreign banks in many cases surpass large domestic banks (Sanchez et al. 2002).

There are also plenty of case examples on the effects of foreign banks' entry. In Mongolia, a country with an income per capita of less than \$500 and a very rural based economy, after many years of operating deficits, loan losses, and a failed attempt at privatization, the government-owned Agricultural Bank of Mongolia ("Khan" Bank) was placed in receivership in 1999. In March 2003 HS Securities of Japan bought Khan Bank from the Government of Mongolia for \$6.85 million. Khan Bank now operates a network with 379 points of service throughout Mongolia, much greater than any of the other 16

banks operating in the country (and up from 269 when new management took office). One out of two Mongolian households today is a client of Khan Bank and it seems to continue to expand its branch network and services.

The effects of foreign banks entry are both direct and indirect. The direct effects include the direct provision of financial services mentioned above. The indirect effects include the effects of foreign banks on the overall banking system through greater financial stability and improved efficiency of financial intermediation, as reviewed by Clarke et al. (2003). These two effects can make the local banking environment more conducive to lending, including to the lower segments, and can put pressures on local banks to engage more in lending to lower segments as profitability in other segments, say in corporate sector lending, declines.

The impact of foreign competition in securities markets on access is less obvious. Globalization has meant that large firms have been accessing international financial markets. In some developing countries, domestic stock markets' liquidity has consequently been negatively affected, possibly hurting access to finance by smaller firms. At the same time, relaxing the financing constraints of large firms through access to international markets can help financing constraints of small firms since they indirectly benefit, such as through trade-credit type of arrangements. On net, it is not clear yet whether small firms lose or gain from globalization and increased competition in securities markets.

### **Role of technological improvements**

Besides the removal of barriers and improvements in the institutional environment a number of recent country experiences have shown that by some specific interventions access can be enhanced. In India, for example, discussions are underway to use existing networks (e.g., the postal system) to allow the delivery of new financial services by many other, public and private providers. The idea is that the technology and information backbone of existing public or other networks need not be exclusively limited to one

entity. There is little reason, for example, why not to allow multiple financial services providers to offer their products using the same distribution network and in the same outlets. Many countries have large networks of post offices already connected and one could envision, for example, an electronic “kiosk” in every post-office where various financial institutions can offer their services online with the customers to choose. In the post offices in South Africa, using electronic-finance services, a platform is being developed to allow customers to apply for loans from any bank. Another model is Brazil, where the post office is present in 1,738 out of more than 5,000 municipalities without a bank outlet. Here the government auctioned the exclusive right to distribute financial services through post offices in 2001 and a large private bank was the winner. Although this may quickly improve the quality of services, it does, however, carry some risks of local monopolies.

New technology, including the internet, smart cards, and the use of mobile phones can in general help broaden access (see BIS, 2004, for a general overview of e-finance developments). On one end of the income spectrum, in Vienna, payments for parking fees and in Finland payments at vending machines can be made by mobile phone. In many developed countries, mobile payments can now be made through voice access, text messaging (SMS) or WAP (as a gateway to the internet). Another arrangement in developed countries allows customers to pay using the prepaid value stored on their mobile phone or to pay ex post, where payments for goods or services are placed as additional items on the customer’s phone bill. Use of mobile phones for financial services provision might also facilitate access in lower-income, developing countries as mobile phones are often more widespread than fixed lines and can have a lower threshold for users than banks.

In some developing and transition countries, banks have offered pre-paid cards (Bolivia, Brazil, China, Ghana, India, Lithuania, Malawi, Malaysia, Mexico, Nigeria, the Philippines, Russia, Turkey and Venezuela). The use of pre-paid cards can facilitate payment services for low-income households. Often though, this will need regulatory changes, as when pre-paid cards are considered deposit instruments and fall under some

form of banking regulation. Technology can help in other ways. In Uganda, over the past two years, Hewlett-Packard and others active in the microfinance industry have been working to increase the scale of microfinance. The team has developed, tested and is implementing a remote transaction system using handheld devices, which capture transaction data and use a GSM network to transmit this back to a head office server and, in turn, management information system. Hand-held tools are being used more generally by several micro-finance institutions to provide on the spot loan applications and approvals (see [Microsave.org](http://Microsave.org) for other examples).

In Mexico, there have been innovative ways of trade finance using reverse factoring. The program developed by Nafin, a government development bank, allows many small suppliers to use their receivables from large credit-worthy buyers, including foreign MNCs, to receive working capital financing, effectively transferring their creditworthiness to allow small firms to access more and cheaper financing. What makes Nafin special is that it operates an internet-based platform, providing on-line services, reducing costs, increasing transparency and improving security. In the short-run, there is a subsidization of overhead costs, but by lowering costs for SME working capital, it expects to generate more business and become sustainable (see further Klapper, 2004).

Paulson and McAndrews (1998) provide a case study of how Standard Bank of South Africa tried a new way of addressing an un-banked population. Already a decade ago, in 1993, Standard Bank set up E-Bank. It was a simple savings product offering card-only access, but supported by dedicated staff speaking a mix of relevant local languages and operating out of dedicated outlets to help overcome problems of illiteracy and concerns about security in a high crime environment. It had high start-up costs, but provided financial services to a low-income segment. Since then E-bank has been absorbed in the bank's more general provision of financial services to low-income households.

These are examples of some specific market approaches and government interventions that can further enhance access. Many other examples like these exist. More generally, there is much emphasis recently on facilitating the mainstreaming of micro-finance

institutions and the scaling up of new initiatives on access. These initiatives can be done by specific interventions, as the above examples and work underway in India (see Basu et al. 2004, and Ananth and Mor, 2005) and other places shows, but how to generalize is still a lesson to be drawn.

### **Government interventions to broaden access**

Universal usage, as will be clear by now, should not necessarily be a public policy goal and trying to broaden access too forcefully raises some concerns. Access to credit may be a further problem when it leads to impoverishing indebtedness as poor can over-borrow, often at unfavorable terms. More generally, the fact that the poor and disenfranchised lack access may be more a problem of poverty than a problem of access. Although data are weak and do not allow one to make a definitive assessments, the share of those with potential “bankable” demand for financial services but no access in poorer developing economies may well be similar to the share of exclusion in richer advanced industrial economies. Since there is evidence that access rises with per capita income and wealth, although with complex causality links, arguably the focus should primarily be on poverty-reducing growth and programs to enhance overall inclusion (jobs, education, social participation), with greater access to financial services to follow as corollary. And, even where there is a case to try to extend financial services provision to a larger segment, it can be that the costs of general, public or public-induced provision may outweigh its benefits.

Broader public interventions can nevertheless be useful in some cases, but will need to be carefully introduced. Given political economy factors, broadening access may not relax credit and savings constraints, when there is a selection bias, i.e., those households or firms with good prospects anyway apply for credit. Subsidies cannot only distort markets, but evidence is mounting that subsidies are captured by the relatively well off, which often already have access. Priority lending requirements are neither the solution, but rather can also divert resources away from the lowest segments, often towards the less needed. Furthermore, there may not be any additionality, as clients that have access



already move to new providers that are being subsidized. For example, much of emphasis on improving the supply of housing finance (by providing tax breaks, requiring minimum lending shares for commercial banks or establishing specialized financial institutions that rely on implicit government support) ends up being a subsidy for the middle-class. In Brazil, for example, the cost of the housing finance program is one of the many factors behind the general high financial intermediation spreads, hurting borrowers and depositors through higher lending rates and lower deposit rates, presumably especially those less well off. Enhancing access can then in the end hurt those truly needed as the costs are borne by all.

Another example relates to micro-finance institutions. Much emphasis has been given by donors and others, including multilateral financial institutions, to micro-finance institutions, including by providing subsidies for setting up institutions (sometimes also with providing subsidies for the continued costs of operating, but that has become less accepted in recent years). These forms of subsidies can already work perversely as they can lead to higher subsequent spreads to recover the fixed costs (Hoff and Stiglitz, 1998). There is thus a need to keep the direct and indirect subsidies minimal and for any program costs and risks co-sharing with the private sector is key as a (partial) market test.

There is some evidence that the demand for and supply of financial services may be stimulated in other, less costly ways. Many employers prefer to deposit their payroll and wages electronically, and would be willing to stimulate usage of formal bank services by providing some form of subsidy (for example, facilitating branching within the premises, encouraging the establishment of a credit union, or facilitating private savings schemes). Governments can also do this. They can, for example, try to make social security, tax and other individual-oriented payments in such a way so as to encourage more bank access, among others, by making them largely electronically.

In 1999, the US Treasury Department, for example, initiated a program to pay all federal benefit payments, such as social security benefits, by Electronic Transfer Accounts (ETAs). One impediment was the large number of benefit recipients without bank

accounts, whom cashed their checks instead of depositing them in a bank account. Using subsidies, banks were encouraged to open bank accounts and recipients were encouraged to switch to electronic payments. The Treasury offered to pay banks \$12.60 for each ETA account they established for benefit recipients, and the Treasury specified a minimum set of characteristics that these accounts must meet (the accounts could not cost account owners more than \$3 a month and they could not levy a fee for electronic deposits coming in). The switch would benefit the government as supplier (lower costs), but in the end could also help the recipient by giving him access to financial services. In the end, the take-up was less than expected, suggesting again that lack of access to financial services is part of a broader issue of social exclusion. Similar experiences exist with encouraging taxes payments and returns to be made electronically, where the usage is often concentrated among those already having access and otherwise better off.

Besides these methods, there are other options open for governments to stimulate access for households to banking and other basic financial services. For one, the regulatory system can be used to direct, although not mandate banks to address the problem. This is what might be described as the Community Reinvestment Act (RCA) model used in the US. Second, authorities can mandate all banks to provide minimum banking services (“basic accounts”) for otherwise excluded segments of the market. Third, governments can rely on banks with a social commitment (in the legal form of either public banks, cooperatives, foundations, the postal network or proximity banks such as local savings banks) offering very restricted retail services. Each of these approaches has its advantages and disadvantages.<sup>6</sup>

The US Community Reinvestment Act (CRA) enacted by the US Congress in 1977 and revised in 1995 aims to improve financial access. It aims to help meet the credit requirements of the communities in which banks operate, including low to moderate income neighborhoods. Each bank is rated every three years as to the bank’s performance in making loans to low- and moderate-income people (rather than for its process for complying with CRA), allowing the general public to apply pressures for non-

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<sup>6</sup> The following sections draw extensively on Peachy and Roe, 2004.

compliance. Ratings focus on the areas of lending, services and investment, with lending carrying greater weight than the others. Claims for its success are contested but with neither side establishing a strong position; still a sign of success is that it has existed for a long time. The CRA model is very specific model though, not followed elsewhere, which suggest its replicability is limited. The CRA should moreover not be seen in isolation.

The UK, France, Sweden and Ireland, among others, have tried by legal means to broaden access. In France, for example, anyone seeking to open an account, but rejected by a bank, can contact the Bank of France who will provide a named bank (often the post bank) that will then be obligated to open an account for that person. In some other countries, postal banks (often government owned) have been given the task to provide basic cash and banking services. There is little review of the experiences with these schemes, though, as to their effects and efficiency. The experience with “proximity” banks is reviewed by Peach and Roe (2004) and some support is found for a positive effect on access of a greater presence of such banks. Also, credit unions and other non-for-profit financial institutions can make a difference in access.

The experiences with credit extensions, especially for SMEs, are extensive, in both developed and developing countries, suggesting that there has been a large public need to provide these forms. The efficacy of these interventions is much more doubtful, however (a general review of credit lines is World Bank, 2004; Caprio and Demirguc-Kunt 1997 provide some empirical evidence on subsidies and review general experiences). The means to distribute credit to these groups are generally distortive, often credit does not reach the intended target group but rather the well-connected, and institutional development is undermined, as banks do not develop their credit analysis skills. The case for direct and indirect intervention in access to credit is therefore less clear than for access to basic savings, payments and transaction services.

## Conclusions

Over the last decade, finance has been recognized as an important driver of economic growth. More recently, access to financial services has been recognized as an important aspect of development and more emphasis is given to extending financial services to low-income household segments. Although still early in the analysis, there is some evidence that access is improving. On the household side, there are some data on the use of micro-finance that suggest there has been an expansion of access for households. Data here have to be interpreted carefully as increases may represent a better coverage over time, rather than an expansion. There is also evidence in terms of more main-streaming of access by commercial banks as competition forces and technology allow them to go to the lower segments. Examples in developing countries are ICICI bank, SHG Bank Linkage and South African banks that have made it a priority to reach out to lower segments.

For firms, the evidence on access to credit is more mixed. It appears to be increasing in some countries, but mostly in consumer finance forms, less so on the SME credit side. Some have argued that recent trends in banking systems may have adverse consequences. Consolidation of the banking system in many countries increases the distance between borrower and lender, making lending more based on hard information and reducing the role of relationship lending which can be especially useful for new and small firms. Yet, part of this increased consolidation is the consequence of increased competition, which in general helps to increase access. Indeed, while there is cross-country evidence that more concentrated banking systems could increase financing obstacles, this is more so if the system is not competitive and dominated by public banks.

But more definite interpretation on factors affecting access will have to wait for better data on access. This will require some national and international actions to develop more comparable data on access. Data on access will have to come from different sources: providers of financial services provision (using national statistics and financial institutions), users of financial services (on the basis of surveys), and from experts (to identify constraints). Each of these data sources has its tradeoffs, so simultaneous actions

will be needed, but without good data, little progress can be made in terms of policy recommendations.

With better data, benchmarking systems (across and over time) and more analysis on what is driving access will be possible. Furthermore, analysis of the success of different models, with possibly more controlled “experiments” and rigorous evaluations of (lack of) success is needed. This type of analysis will help both private financial institutions deliver financial services profitably as well as guide national and global policy interventions. It might also be useful for international and national agencies to develop “models” on various aspects of access, i.e., advice on regulations of micro-finance institutions and their activities; and rules for some aspects such as consumer protection and Know Thy Customer rules; and guidance on the best data to collect, and who and how to collect data.

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**Table 1: Share of households with access to a bank account or using financial services**

Country	Source	Date of Survey	Number of households	% of		% of		% of	
				household that saved money in the past 12 months	household that used formal financial institutions to save	household that used informal finance to save	household that borrowed money in the past 12 months	household that used formal financial institutions to borrow	household that used informal finance to borrow
Armenia	LSMS	1996	4920	17.13	8.86	0.203			4.51
Bosnia and Herzegovina	LSMS	2001	5400				21.78	6.22	15.83
Bulgaria	LSMS	2001	2633				5.43	5.43	
China (Hebei and Liaoning)	LSMS	1995 - 1997	787	82.47	41.93	13.34	28.08	5.21	24.65
Côte d'Ivoire	LSMS	1988	1600	88.13	24.81		23.81	3.19	21.06
Ghana	LSMS	1998/99	5998	11.97			39.08	3.27	32.03
Guatemala	LSMS	2000	7276	18.13	17.77	0.38	31.75	23.47	7.42
Guyana	LSMS	1992/93	1819	15.67	13.74	3.63	4.67	1.32	2.53
Jamaica	LSMS	1997	2020	68.12	59.41	17.82	10.54	1.88	5.89
Kyrgyz Republic	LSMS	1998	2979	11.35	1.34	10.14	6.08	0.34	5.3
Morocco	LSMS	1990-91	3323	15.53			22.03	3.55	19.32
Nepal	LSMS	1996	3373				57.04	12.93	49.96
Nicaragua	LSMS	1998-99	4209	6.53	4.73	0.19	22.52	7.58	7.75
Pakistan	LSMS	1991	4800	23.58	12.21	14.52	30.31	1.1	29.42
Panama	LSMS	1997	4945				1.52	0.83	0.79
Peru	LSMS	1994	3623	25.23			16.64	2.07	14.52
Romania	LSMS	1994-95	24560	94.28	22.53	1.36	15.88	6	11.41
South Africa	LSMS	1993	9000				44.76	4.94	42.58
Viet Nam	LSMS	1997-98	6002	89.85	8.7	12.81	49.1	26.12	30.44
Brazil (11 urban areas)	SAFS	2002	2000		42.7	45.45			
Colombia (Bogota city)					41.2				
India	AIDIS	1991	57031				26.9	11.8	19
India (UP and AP)	RFAS	2003	6000		47.5				
Mexico (Mexico city)					25				
Botswana	FINSCOPE	2003	530		46.98	25.66		11.70	29.06
Lesotho	FINSCOPE	2003	534		17.04	11.05			5.99
Namibia	FINSCOPE	2003	810		28.40	0.86		5.31	15.19
Swaziland	FINSCOPE	2003	604		35.26	19.54		4.14	16.06
South Africa	FINSCOPE	2004	2988		46				
Kenya	Estimate				10.00				
Tanzania	Estimate				5.00				
Uganda	Estimate				< 5				
United States	SCF	2001	4449		90.9		75.1		
Denmark					99.1				
Netherlands					98.9				
Sweden					98				
Finland					96.7				
Germany					96.5				
France					96.3				
Luxembourg					94.1				
Belgium					92.7				
Spain					91.6				
UK					87.7				
Portugal					81.6				
Austria					81.4				
Ireland					79.6				
Greece					78.9				
Italy					70.4				

**Table 2: What (Other) Savings and Deposit Facilities are Being Used?**

<i>Distribution of Deposits</i>	<i>Brazil</i>	<i>India</i>	<i>Colombia</i>	<i>Mexico</i>
<b>Banks</b>	<b>95%</b> (54% private; 41% public)	<b>90%</b> (30% Rural Regional Banks)	<b>85%</b>	<b>96%</b>
<b>Cooperatives</b>	<b>0%</b>	<b>7%</b>	<b>14%</b>	
<b>Post Office</b>	<b>n.a.</b>	<b>2%</b>		
<b>Family/Friends</b>	<b>4%</b>	<b>n.a.</b>		
<b>Others</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>4%</b>

Source: Kumar et al. 2004

**Table 3: Why Don't the Unbanked Use Banks?**

	<i>USA*</i>	<i>Mexico</i>	<i>Colombia</i>	<i>Brazil</i>	<i>India</i>
▪ <b>Demand limitations: no need/no savings</b>	<b>53%</b>	<b>7%</b>	<b>16%</b>	<b>n.a.</b>	<b>75%</b>
<b>No awareness</b>					<b>18%</b>
▪ <b>Supply limitations: Bank barriers/ (eg. high costs minimum balances; documentations)</b>	<b>45%</b>	<b>70%</b>	<b>78%</b>	<b>42%</b>	<b>n.a.</b>
▪ <b>Perceptions of Service/Safety/Mistrust:</b>	<b>18%</b>	<b>16%</b>	<b>3%</b>	<b>25%</b>	
<b>Lack of documentation</b>	<b>10%</b>	<b>3%</b>			
<b>Privacy</b>	<b>22%</b>	<b>2%</b>			
▪ <b>Inconvenience –Location and hours</b>	<b>10%</b>	<b>2%</b>			
▪ <b>Other Reasons</b>			<b>3%</b>	<b>33%</b>	

Source: Kumar et al. 2004

**Table 4: Who Are the Unbanked? USA and Mexico**

Similarities	
Lower income groups	
Below median income	
USA	79%
Mexico	90%
Less educated	
Less than high school	
USA	56%
Mexico	51%
Marginalized in socio-economic terms	
Mexico (informal sector)	60%
USA (Latino and Afro American)	90%
Differences	
Percentage of Unbanked	
Mexico (Mexico City)	75%
USA	9.1%
Home Ownership of Unbanked	
Mexico (own home in Mexico City)	63%
USA	7.8%

Source: Solo et al. 2004

**Table 5: Complaints by Firms About Lack of Access to External Financing**

Country	Year	Indicator - Access to financing			
		Country Average	Small (1-49 employees)		
			Medium (50-249 employees)	Large (250+ employees)	
Albania	2002	14.29	16.04	14.81	0
Algeria	2002	53.07	55.84	45.36	44
Armenia	2002	21.82	22.95	19.05	18.18
Azerbaijan	2002	13.04	12.61	24	4.17
Bangladesh	2002	41.59	42.47	45.81	36.36
Belarus	2002	25.83	30.67	12.5	18.92
Bosnia and Herzegovina	2002	22.5	23.16	19.44	25
Brazil	2003	60.46	61.94	60.63	51.85
Bulgaria	2002	38.52	45.24	18.42	29.73
Cambodia	2003	9.39	9.33	5.26	12.2
China	2002	22.8	16.87	20.86	30.18
Croatia	2002	24.86	26.89	24.24	19.23
Czech Republic	2002	25.1	28.83	25.58	6.98
Ecuador	2003	44.9	48.96	36.04	50
El Salvador	2003	30.97	36.54	19.64	19.51
Eritrea	2002	52.31	55	52.63	33.33
Estonia	2002	12.1	11.82	16.67	9.09
Ethiopia	2002	42.82	43.48	48	27.91
Georgia	2002	10.47	10.08	15.38	5.88
Guatemala	2003	34.07	36.36	33.33	22
Honduras	2003	50.79	56.19	51.43	20.69
Hungary	2002	21.63	26.06	16.67	9.52
India	2002	18.3	..	..	..
Indonesia	2003	17.53	15.98	16.59	19.47
Kazakhstan	2002	11.69	9.88	11.43	20.59
Kenya	2003	44.07	60.47	30.59	39.29
Kyrgyz Republic	2002	15.98	15.09	20.45	5.88
Latvia	2002	6.06	5.22	4.17	12
Lithuania	2002	6.67	5.69	12.12	4.55
Macedonia, FYR	2002	13.33	13.21	8.7	22.22
Moldova	2002	25.15	27.12	15.15	30
Nicaragua	2003	54.42	57.18	47.17	12.5
Pakistan	2002	37.55	38.56	34.57	27.5
Peru	2002	50.22	50.65	62.5	66.67
Philippines	2003	13.52	15.04	14.39	8.86
Poland	2002	32.7	36.45	22.64	32.2
Romania	2002	29.72	32.89	25.4	24.32
Russian Federation	2002	20.26	20.95	17.98	20.69
Serbia and Montenegro	2001	33.58	30.77	33.33	42.86
Slovak Republic	2002	29.56	32.67	27.27	20.83
Slovenia	2002	8.15	9.93	4	0
Tajikistan	2002	22.54	24.51	15.56	25
Tanzania	2003	48.33	54.76	38.24	27.27
Turkey	2002	17.33	16.07	25.71	9.84
Uganda	2003	45.04	47.32	39.02	33.33
Ukraine	2002	26.42	31.06	16.25	18.18
Uzbekistan	2002	26.53	26.04	21.43	35.29
Zambia	2002	53.66	65.15	51.58	37.14

Description: Percentage of firms that say access to financing presents major or severe obstacles to the operation and growth of their business.

Source: World Bank Investment Climate Assessments: data from [rru.worldbank.org](http://rru.worldbank.org), downloaded on 2-14-2005.