



**Promoting Access to Financial Services:
What Does Data about Bancarization in Latin America
Tell us?**

**A Study Based on the FELABAN Survey on
Bancarization**

Federación Latinoamericana de Bancos

- FELABAN -

PRESENTATION

As a result of the strategic planning exercise undertaken by the Executive Committee on February 2, 2007, in the city of Caracas, it was agreed that the priority topic of the working agenda of this committee would be to direct FELABAN actions to address issues pertaining to bancarization, microfinance and remittances.

It was for this reason, first of all, that it was decided to carry out a work that would allow us with existing information, studies and literature on the topic. Subsequently, around the middle of this year, FELABAN published a report that contains that compilation, titled "What do we know about bancarization in Latin America?: An Inventory of Data and Literature Sources," which has been amply distributed. Likewise, as a result of the analysis of this information, the FELABAN Executive Committee decided to undertake a survey among member Banking Associations to assess the current situation of bancarization in Latin America, aiming at beginning in some measure to find answers to the deficiencies in coverage that studies already carried out present, despite a lack of available information in our countries. The document that we deliver today to the authorities, to the international financial community and to the studios of the matter, contains the analysis of the results of this survey and the data made available by it.

Even though, various works of an academic nature exist in relation to this topic, as well as valuable efforts in the compilation of data and their systematization from different organisms, the survey undertaken represents a special contribution as it is derived from the Banking Associations in the region, that in representation of their associates, can expound direct sources of data, as well as the direct experiences that although harboring a certain subjectivity, stamps the document with the fundamental contribution of synthesizing the qualitative information of many financial institutions, the interaction with their respective clients, regulators, the normative environment and the economic and political reality of each country.

The Federation of Latin American Banks is aware of the fact that economic growth requires a solid and healthy financial system. Nevertheless, in order to reach a sustainable economic growth over time, one that achieves a reduction of the levels of poverty in the region, increasing levels of persons and companies need to be incorporated into the formal financial system. For this reason, we are convinced that every contribution intended to promote bancarization in Latin America are elements that point in the direction of the scope of our objectives in the framework of our Mission and Vision, beginning with an adequate diagnosis and consciousness raising.

FELABAN wants to express its gratitude to the Banking Associations of the region, as well as to the Latin American Credit Bureaus Association, ALACRED [for its initials in Spanish], for the cooperation received from them needed to carry this commitment to a happy end, and of course, to the Andean Development Corporation, CAF [for its initials in Spanish], whose support has been fundamental in the development of this project.

Without a doubt, this work lends weight to our objectives and its objectivity and depth is guaranteed by its being undertaken by a professional of the academic merit of Ms. Liliana Rojas Suarez.

FERNANDO POZO CRESPO

President

Federation of Latin American Banks - FELABAN

Promoting Access to Financial Services: What Does Data about Bancarization in Latin America Tell us?

A Study Based on the FELABAN Survey on Bancarization

Liliana Rojas-Suarez¹

I. Introduction

The advantage of increasing the provision of financial services has been thoroughly documented. For example, theoretical and empirical studies have demonstrated the crucial importance of a greater *depth of the financial markets*—defined as the ratio of key financial aggregates (such as credit or deposits) to GDP—over economic growth. These results have resulted in recommendations of economic policy, including proposals in terms of regulation and supervision that entails a greater deepening of the financial markets.

Likewise, theoretical studies reveal the important relationship that exists between *access to financial services*—defined as the percentage of the population that can freely use financial services—and the reduction of poverty and inequality. Nevertheless, in contrast to the indicator of depth of the financial markets, empirical studies about access are much scarcer and do not give conclusive results regarding the causes and consequences of low access to financial services. As pointed out in the 2005 Beck et al study (among others), one of the main impediments is that data about access is insufficient or inadequate.

Understanding the problem of the lack of access to financial services is particularly important in Latin America, as the levels of poverty continue to be very high and Latin America is the region with the most income disparity in the world, despite the many reforms that have been undertaken in the region.

In Latin America, banks constitute the most important source for the provision of financial services. Although the activities of other non-banking financial intermediaries, especially those oriented towards microcredit, have been increasing recently in a significant way, their participation in the financial system is still really small.² For this reason, it is essential to study and understand the process of the provision of financial services through Latin American banking. The problem is that just as in other areas of the developing world, data about bancarization, in general, and access in particular, are extremely limited.

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² For example, as reported in the Navajas and Tejerina study (2006), despite the fact that only a few banks in Latin America have specialized offices in microfinance, the value of the banking portfolio dedicated to microfinance is significantly greater than that of non-banking microfinance institutions.

The purpose of this study is to advance the knowledge of the process of bancarization in the region through the utilization of a new database created by FELABAN. This database was generated by means of a survey, administered by FELABAN, of the Banking Associations of the countries in the region.

The FELABAN survey has two very important characteristics that make it extremely useful. The first is that the survey covers a series of issues simultaneously, from numeric information about the population's access to financial services provided by banks, to identification of institutional and regulatory problems that confront the banking systems in the provision of these services. Among the information gathered, the survey also includes the identification of areas where the quality of banking services to the clients can be improved.

The second characteristic of this survey that makes it unique is that by being answered by the Banking Associations, the data is representative of local banking in general.³ Briefly, the FELABAN survey differs from others because of the following: it is (a) specific to Latin America; (b) of broad coverage; and (c) representative of each banking system in the region.⁴

The survey was answered by almost all of the banking associations in the region and includes the following 17 countries: Argentina, Bolivia, Brazil, Colombia, Costa Rica, Chile, Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panamá, Peru, Dominican Republic, Uruguay and Venezuela. Due to the large amount of information requested in the survey, not every question was answered by each country. In the preparation of this study, alternative sources were utilized to complement the FELABAN survey, where it was considered appropriate. Moreover, whenever possible, the survey's results were compared with results from other studies undertaken by international organizations.

The remainder of this document reports and analyzes the information from the FELABAN survey and is organized in the following manner: Section II presents available data regarding access of the population to financial services provided by Latin-American banks. This section uses data from the FELABAN survey and other sources to construct an *access indicator* that allows comparisons between countries. This indicator is also compared with ratios of credit/GDP and deposits/GDP to analyze whether a relationship exists between *financial access* and *financial depth*. This section also presents recent information about the provision of banking services through alternative channels: branches, ATMs and Points of Sale (POS).

³ The survey reflects information regarding commercial banks (both private as well as public).

⁴ Through the work of Beck et al (2005 and 2006), the World Bank has made very important efforts to collect information by way of surveys of banks and regulators. These surveys are at a global scale, and therefore are not focused on Latin America in particular. Nevertheless, as will be seen, these surveys are very useful and will be used in the present document both for comparative purposes as well as to supplement information whenever necessary.

Section III identifies the main obstacles confronting banks and their clients in the process of bancarization by means of the FELABAN survey results. These obstacles include: (a) problems related to poverty and informality; (b) deficiencies in banking activities; (c) institutional problems and (d) regulatory obstacles. The severity with which some of these obstacles affect the small and medium sized enterprises (SMEs) and micro enterprises is discussed in this section. Also, the relationship between the obstacles to bancarization and the indicator of access presented in Section II is also discussed in this section. Lastly, Section IV presents final comments.

II. How is Bancarization Advancing in the Region?

As mentioned in the introduction, the indicators of bancarization are many and quite varied. On the one hand, there are indicators related to “depth of the financial markets,” consisting of the traditional ratios of financial aggregates (such as credit and deposits) as a percentage of the Gross Domestic Product (GDP). These ratios have been studied at length due to their proven link with economic growth and because the data is relatively easy to obtain.

On the other hand are the indicators of “access” specifically, which try to measure the percentage of the population that actually uses financial services. The ideal manner for obtaining this information through household surveys is a process that is not only highly expensive but also takes a long time to carry out and the results of which may rapidly become obsolete in countries whose governments and banking systems have initiated programs intended to increase the population’s access to financial services. In the absence of these household surveys, the FELABAN survey allows the derivation of some indicators of access that supplement the existing estimates. It is worth pointing out that in some cases (specified by footnotes in the tables) the survey information was supplemented with additional information from official sources or from studies undertaken by international organizations.

This section presents two types of access indicators derived from the FELABAN survey: (a) access by means of existing channels for the provision of financial services (branches, ATMs and POS) and (b) access through the estimation of the population that utilizes some type of financial service (checking account, savings account, loans or the use of bank credit cards). Both indicators are compared with other existing indicators in the literature. Finally, the access indicators are compared with the indicator of “financial depth” for the purpose of exploring whether greater “access” is associated with a greater “depth.”

1. Channels for the Provision of Banking Services

Banks provide financial services by means of a variety of mechanisms including bank branches, ATMs, points of sale (POS), Internet banking, telephone banking, cellular phone banking and non-banking intermediaries. Although the large majority of countries still do not have aggregate information regarding banking coverage through the use of the Internet, telephone and cellular phone banking, there is information about branches, ATMs, and in some cases, the POS.

Table 1 presents the results of the FELABAN survey with respect to coverage of financial services through bank branches and ATMs per each 100,000 inhabitants. These figures are compared with data collected by a World Bank study (Beck et al, 2005) for the period 2003 – 2004 by means of a survey of regulators.⁵

Table 1
Number of bank branches and ATMs for each 100,000 inhabitants

	No. of branches		No. of ATMs	
	Felaban Survey 2007	World Bank Survey 1/	Felaban Survey 2007	World Bank Survey 1/
	Data 2007	Data 2003-04	Data 2007	Data 2003-04
Argentina	9.70	10.01	19.47	14.91
Bolivia	3.65	1.53	6.90	4.80
Brazil	9.43	9.38 2/	32.00 2/	25.18 2/
Colombia	8.57	8.74	15.64	11.87 3/
Costa Rica	9.99 4/	9.59	9.03	n.c.
Chile	10.58	9.39	31.09	24.03
Ecuador	7.84	9.30	8.07	6.32
El Salvador	4.83	4.62	13.32	11.07
Guatemala	10.83	10.12	9.09	n.c.
Honduras	8.75 5/	7.36 5/	8.47	3.56
México	8.09	7.63	24.95	16.63
Nicaragua	2.84	2.85	n.i.	2.61
Panamá	15.83	12.87	22.25	16.19
Peru	4.81	4.17	8.90	5.85
Dominican Republic	7.38	6.00	17.31	15.08
Uruguay	9.28	6.39	11.59	n.c.
Venezuela	11.16	10.24 6/	16.64	16.60
Averages in Latin America	8.45	7.66	14.98	12.48
Averages developing nations		6.75		11.48
Averages developed nations		30.60		64.30

n.c. = not comparable; n.i. = no information available

1/ Beck et al 2005

2/ Febraban

3/ Banking Association and Financial Entities

4/ SUGEF, branches and agencies included

5/ National Commission of Banks and Insurance, branches and agencies included, values for June 2007 and Sept. 2004.

6/ Banking Association of Venezuela

⁵ In some cases, the data is not comparable, possibly due to the use of different definitions. This study has tried to obtain the highest degree of comparability possible. The cases where it was not possible to obtain comparable data are identified as: n.c. (not comparable)

The data reveals three important results. The first is that there is still a long road to travel in Latin America with respect to bancarization through branches and ATMs. The Latin-American averages in 2007 with respect to banking coverage through branches and ATMs does not reach even a third of the corresponding indicators for the average in industrialized nations in 2004. The second result is that very important differences exist between the countries in the region and some of these differences have increased. For example, Brazil and Chile not only stand out as being the two countries with the most number of ATMs per each 100,000 inhabitants both in 2004 and 2007, but the gap in the utilization of these channels in these two countries with respect to other countries, such as Bolivia, Peru and El Salvador, continues to increase.

Thirdly, it is clear that the majority of banking systems in the region prefer to expand the provision of financial services by means of ATMs rather than by branches. Various examples stand out. In Colombia, while the increase of branches only shows a slight rise between 2004 and 2007, the increase through ATMs was of 65 percent in the same time period. The situation is similar in Mexico and Brazil where the increases of ATMs per each 100,000 inhabitants rose by 52 percent and 30 percent respectively between 2004 and 2007.⁶ Although the variation is less drastic, the result is similar in almost all the countries in the region (the exception being Venezuela where the proportion of ATMs per each 100,000 inhabitants has remained practically constant over the past four years).

Other additional information of importance is that of the provision of financial services by private banking versus public banking. In various countries, service to rural populations is largely covered by public banks. For example, in Colombia approximately 50 percent of the bank branches established in rural zones belong to the Banco Agrario. Table 2 shows the enormous variation that exists between countries in the region with respect to the composition of the branches be they private or public. On one extreme is Bolivia where there is no commercial public banks. On the other extreme is Costa Rica, where branches of public banks constitute more than 60 percent of the total number of bank branches. In Argentina, Brazil and Peru this share is approximately 30 and 40 percent.⁷ The breakdown of the branches in terms of public/private for the region is new information derived from the survey.

⁶ In Honduras, the number of ATMs per 100,000 inhabitants doubled between 2004 and 2007, but the initial figures were extremely low.

⁷ In Brazil, the high participation of public bank branches as a percentage of the total bank branches (43 percent) is consistent with the expansion of banking services model of private banks based more on ATMs and electronic means than on branches.

Table 2
Composition of branches for public/private banking

	Number of bank branches in the Country per 100,000 inhabitants		Public bank branches as % of total bank branches
	Private Banks	Public Banks	
Argentina	6.12	3.58	36.90
Bolivia	3.65	0.00	0.00
Brazil 1/	5.38	4.06	43.01
Colombia	7.01	1.56	18.17
Costa Rica 2/	3.84	6.16	61.61
Chile	8.69	1.89	17.89
Ecuador	6.68	1.15	14.71
El Salvador	4.34	0.49	10.17
Guatemala	10.42	0.41	3.77
Honduras 3/	8.39	0.36	4.10
Panamá	12.66	3.17	20.00
Peru	3.34	1.47	30.47
Latin American Averages	6.71	2.02	21.73

1/ Central Bank of Brazil

2/ SUGEF, Branches plus agencies

3/ National Commission of Banks and Insurance, branches and agencies

While acknowledging the advances in the region, it is evident that in most countries the effort needed to provide financial services through branches and ATMs is still very great. In section III the obstacles identified in the FELABAN survey that limit the expansion of these channels to provide services are discussed.

Another two channels for the provision of services that are gaining importance in the region are points of sale (POS) and Internet banking. Table 3 makes use of results from the survey to show the use of these mechanisms of bancarization in those countries that have access to this data at the national level.

Table 3
Provision of Financial Services through Points of Sale (POS) and the Use of the Internet

	No. of POS per each 100,000 inhabitants	No. of persons that use Internet banking (as a Percentage of the adult population) 1/
Brazil	1,018.13	20.30
Colombia	163.70	
Costa Rica	232.21	10.49
Chile	243.90	10.58
El Salvador	172.41	
Guatemala	234.31	
México	297.11	9.67
Panamá	267.00	
Dominican Republic	262.10	

1/ Population data from the World Development Indicators

The most interesting result is that with the exception of Brazil (in the upper extreme), the relative utilization of the POS and of Internet banking does not differ much between the countries in the sample.⁸ The reality is that Brazil stands out amongst the other countries in the region in the utilization of these channels for the provision of services. This result is not surprising given that Brazil is the Latin American leader in the use of technology for the purpose of bancarization. A study by the International Monetary Fund (2002) reveals that the percentage of Brazilian banks utilizing Internet banking is similar to the percentage of that of many industrialized nations, including the United Kingdom and the United States.

Although the survey does not provide sufficient quantitative information, it is important to point out that the use of *non-bank correspondents*—that is the extension of financial services on the part of banks through non-banking entities—is expanding ever more and more in the region, with Brazil, Colombia, Mexico and Peru as stand outs.

2. Utilization of Banking Services

As mentioned previously, the ideal measure for the utilization of banking services would be obtained through household and business surveys with a uniform design and focused on financial topics in such a way as to allow comparisons between countries in the region.⁹ Nevertheless, the development and administration of these surveys, although necessary, is a long term project on which various multilateral organizations have embarked. In the short and medium-term, the FELABAN survey permits estimates to be obtained, even if imperfect, about the population's access to financial services. Tables 4 and 5 present indicators for individuals in a sample of countries in the region.

Table 4 answered the following question: given *recent* available information, what percentage of the adult population has access to *some* kind of banking service, be it in the form of bank accounts, loans or availability of credit cards? The available information provided by the FELABAN survey encompasses six countries: Colombia, Costa Rica, Ecuador, El Salvador, Honduras and Peru. In addition, data obtained from a survey reported in Kumar et al (2005) allows the inclusion of data for Brazil. Although the number of countries is limited, it is important to point out that, in my understanding, there is not another recent study that presents this kind of information for at least a third of the countries in Latin America. Other studies have collected data about the *number of deposits* or *loans* or about the *value* of these aggregates,¹⁰ but not about the *number of persons* with access. Also, Claessens (2005) reports data of access to financial services coming from household surveys in 4 countries in the region (Guatemala,

⁸ Although Colombia and El Salvador have a longer road to cover than the rest of the countries in the sample in terms of expansion of POS.

⁹ In a review of financial data included in the household surveys of Latin America, Tejerina (2007) documents two important problems. The first is that only a third of the countries in the region have carried out surveys of households in which detailed information about credit access is included. The second is that out of over 300 surveys undertaken since 1990, only 39 surveys can be identified as being of "high quality" with respect to the provision of data dealing with credit access. Out of these 39 surveys, 23 are from just two countries: El Salvador and Peru.

¹⁰ See for example, Beck et al (2005) regarding data from a survey with regulators at a global level.

Nicaragua, Panama and Peru), but those surveys correspond to the 1990's. Tejerina and Westley (2007) maximize the use of finance information through household surveys, but again the information corresponds to surveys at the end of the 1990's or at the beginning of the 2000's. Additionally, the data from the household surveys does not refer exclusively to the provision of services by way of the banking system, but instead includes other financial institutions.¹¹

Table 4
Utilization of Banking Services by Individuals
(as a percentage of the adult population)

	No. of persons with checking Accounts	No. of persons with savings Accounts	No. of persons with bank credit cards	No. of persons with mortgage loans	No. of persons with consumer credit	No. of persons with microcredit
Brazil 1/		43.00 2/	20.00	1.21	6.87	
Colombia	4.41	42.71	10.43	1.72	8.60	1.70
Costa Rica	3.60	40.38		1.25	4.30	0.13
Ecuador	6.99 3/	35.84 3/	23.06	0.51	6.48	2.84
El Salvador			10.59	3.45	16.61	0.68
Honduras			5.71			
Peru	3.13	24.64		0.28	12.88	1.95

1/ Kumar et al 2005

2/ Includes the number of persons with checking accounts

3/ Only account holders were considered, not the sum of account holders and the undersigned

The information from Table 4 reaffirms the fact that bancarization is still at a very low level in the region and this is consistent with the equally low numbers found in Chart 1 (regarding banking coverage through branches and ATMs). In particular, access to basic services by the adult population, such as having a bank account, stands at a maximum of 43 percent between the five countries in the sample.¹² This contrasts significantly with the industrialized nations where access by the population is close to 100 percent. Chart 4 also confirms the great disparity that exists between countries in the region. For example, among the countries with information, the proportion of adults with a savings account is only 25 percent in Peru compared with over 40 percent in Colombia and Costa Rica.

The numbers are even lower when the percentage of the adult population with access to bank credit is analyzed. Among the countries of the sample, El Salvador stands out for reporting the highest percentage of adult population with access to consumer credit; but even this value (17 percent) is extremely low. Even more serious is access to mortgage credit by the adult

¹¹ An important contribution, as far as more recent information and wider coverage in the region, is the study by the Economist Intelligence Unit (2007) for microfinance. The latter study, however, does not make a distinction between the provision of financial services through banks and other financial institutions.

¹² As will be seen farther below, the estimate of the adult population in Chile with access to banking services is found to be around 60 percent. This data, however, is not derived directly from the survey.

population, which does not reach 4 percent in any of the sampled countries.¹³ With the objective of supplementing the survey results and to be able to include a larger number of countries in the analysis, Chart 5 presents two alternative estimators for the utilization of banking services by individuals. The first indicator is that of Honohan (2007). This estimator (calculated for more than 160 countries) is constructed combining available information in other studies and is presented in column (A) of Chart 5.¹⁴

Table 5
Alternative Estimators of the Utilization of Banking
Services per Individuals
 (as a percentage of the adult population)

	Honohan Indicator 2006 1/ (A)	Calculation of "Range of Access" 2/ (B)	Access Indicator (C)
Argentina	28		28.00
Bolivia	30	7.02 - 10.68	8.85
Brazil	43		43.00
Colombia	41		42.71
Costa Rica	29		40.38
Chile	60	50.17 - 76.34	60.00
Ecuador	35		35.80
El Salvador	26	30.23 - 46 3/	38.12
Guatemala	32	28.99 - 44.11	32.00
Honduras	25	29.14 - 44.34	36.74
México	25		25.00
Nicaragua	4/	10.37 - 15.79 5/	13.08
Panamá	46	29.28 - 45	46.00
Peru	26		24.60
Dominican Republic	29		29.00
Uruguay	42		42.00
Venezuela	28	39.23 - 59.7	49.47

1/ Honohan 2007

2/ Calculations by the author

3/ Superintendent's Office of the Financial System of El Salvador

4/ Estimates by Honohan for Nicaragua are not included as these are based on very old household surveys (1998)

5/ Superintendent's Office of Banks and other Financial Institutions of Nicaragua

The second indicator is a calculation by the author for the countries where no *direct* response was obtained through the FELABAN survey. The calculation is based on two observations: (a) the main access to banking services by the population is realized by means of savings accounts;

¹³ The information about the percentage of the adult population with access to microcredit cannot be analyzed in the same way as consumer and mortgage credits, since this type of credit is only relevant for segments of the population with lower incomes.

¹⁴ The specific methodology for the construction of these estimators is found in Honohan (2007). It is important to point out two characteristics of the estimator: (a) the objective of the estimator is to calculate the percentage of adult persons with access to *any* form of financial access, not only banks; this characteristic tends to make the estimator overestimate access; and (b) the data utilized is much less recent than the data from the FELABAN survey; this characteristic causes the indicator to tend to underestimate access. The limitations of this estimator are acknowledged by the same author.

(b) Information about the *number* of savings accounts is available for the majority of countries in the region.

In calculating this estimator three steps were followed. In the first step, a group of countries was selected that had information both of the *number of persons* with savings accounts as well as of the *number of savings accounts* (Brazil, Colombia, Costa Rica and Peru¹⁵). For each of these countries, the ratio of the number of persons with a savings account was calculated as a percentage of the number of savings accounts. In all cases, this ratio is significantly less than 100 percent because there are a significant number of people that maintain more than one savings account in each country. In the second step, the lowest and highest numbers of the calculated ratios were considered with the objective of obtaining the range of the relationship: number of persons/number of accounts in the region. The calculated range was of 50 to 77 percent. In the third step, this range was applied to the countries in the region with information about the number of savings accounts, but without information regarding the number of persons with savings accounts. These estimates are presented in column B of Chart 5 for Bolivia, Chile, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Venezuela.¹⁶ Despite the limitations of this estimator and of its lack of precision (the range is quite ample), it is interesting to point out that only the calculations for Bolivia and Venezuela differ significantly with the Honohan indicator¹⁷ and that in both cases there are good reasons to confide more in the calculation based on the FELABAN survey.¹⁸

A comparison between the Honohan indicator and data about the number of persons with savings accounts (as a percentage of the adult population) for the countries in Table 4 reveals the great similarity between both estimates for Brazil, Colombia, Ecuador and Peru. There are important discrepancies between the two indicators only in the case of Costa Rica.

¹⁵ Ecuador is not included in this calculation due to the way that that country computes the number of bank accounts. In particular, in Ecuador the number of accounts is considered as the number of account holders, while the number of persons having accounts is equal to the number of account holders plus signatories. These particular definitions in Ecuador prevent a calculation from being performed by the conventional manner utilized in the rest of the countries, of persons who are account holders over the total number of accounts held.

¹⁶ In the cases of El Salvador and Nicaragua, the survey did not have information. Nevertheless, we were able to find information available in the Banking Superintendent's Offices of both countries.

¹⁷ In the case of Bolivia the upper value of the estimated range (10.68) is lower than the Honohan indicator by 20 percentage points. In Venezuela, the lower value of the estimated range (39.2) is higher than the Honohan indicator by almost 10 percentage points.

¹⁸ In the case of Bolivia, the Honohan indicator reflects the monetary value equation of deposits/GDP (depth of the financial system) that differs in an important way from the indicators of access to banking services by the population. For example, data from the Superintendent's Office of Banks and Financial Entities of Bolivia indicate that for July, 2007 the value of the deposits as a percentage of the GDP was 34 percent, while the number of bank accounts (including deposits, savings and term) only reached 17 percent of the adult population. This last ratio, of course, overestimates the percentage of *persons* with bank accounts, since there are persons who have more than one account of any type. In the case of Venezuela, in the last two years there has been a very important expansion in the number of bank accounts. For example, according to a statement by Armando León, Director of the Banco Central de Venezuela on July 26, 2007 the number of savings accounts has increased by more than two million. This recent expansion is not considered by the Honohan indicator.

The results of columns A and B of Table 5 reinforce the conclusions of Table 4 with respect to the low levels of access to banking services in the countries of the region and the variation between countries.

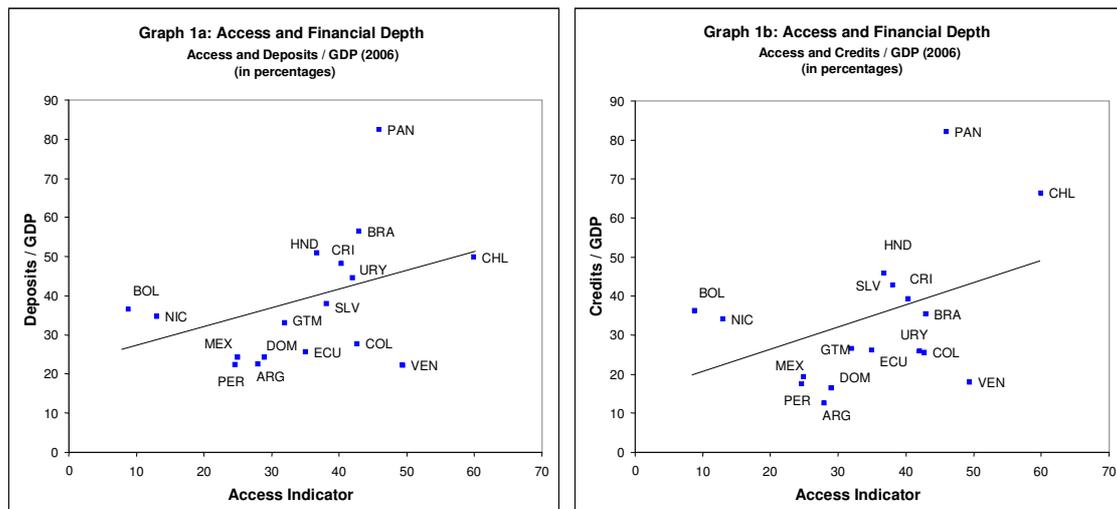
Combining the data from Table 4 and the estimators of columns A and B of Table 5, an *access indicator* can be constructed, through which countries can be classified. This estimator is presented in column C of Table 5. The idea is simple: the indicator of access takes the values derived from the survey (or another source as in the case of Brazil) for those countries in which there is direct information (Brazil, Colombia, Costa Rica, Ecuador y Peru). The access indicator takes the values of Honohan in two cases: (a) when there is no other source of alternative information (Argentina, Mexico, Dominican Republic and Uruguay) and (b) when the Honohan indicator is found within (or extremely close to) the estimated range in column B of Table 5 (Chile, Guatemala y Panamá). Finally, the access indicator takes the *average value* of the range of access calculated in column B of Table 5 in those countries for which there is information about the number of bank accounts (from the survey or another source), but in which the Honohan indicator is found outside of the estimated range in column B of Table 5 (Bolivia, El Salvador, Honduras, Nicaragua and Venezuela).

Utilizing the access indicator of column C we can divide the countries for which information was obtained through the survey and other sources (directly or indirectly) in three groups: (a) those with very low access, defined as those where only about a third or less of the population has access to banking services; (b) those with low to medium access, where access is available for around 40 percent of the population and (c) those with medium access, where access is between 50 and 60 percent of the population. None of the countries qualifies as of “high access.” In the first group are Argentina, Bolivia, Ecuador, Guatemala, Honduras, México, Nicaragua, Peru and the Dominican Republic. In the second group are Brazil, Colombia, Costa Rica, El Salvador, Panamá, Uruguay and Venezuela. In the third group only Chile is found.

3. Access and Depth of Financial Markets

The population’s access to financial services and the degree of depth of financial markets (value of deposits or of credit as a percentage of GDP) can in some cases differ in significant ways; the case of Bolivia is an example of this. Nevertheless, in other cases both indicators are significantly related. For example, Chile and Panama, two of the countries with the highest ratios of deposits/GDP and credit /GDP in Latin America, also present the highest indicators of access in the region. Graphs 1 and 2 present the relationship between two access indicators and the traditional indicators of financial depth.

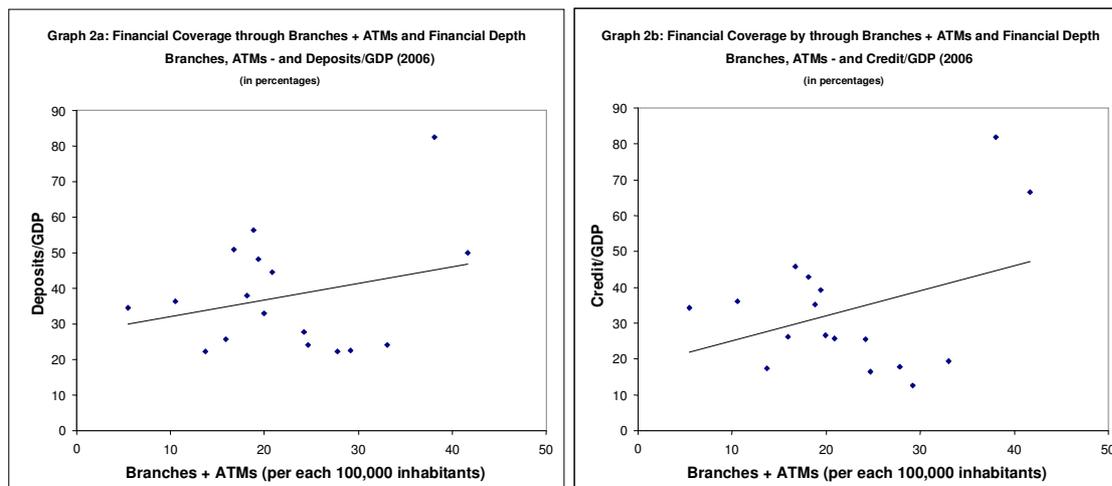
Graph 1a shows the link between the indicator of the percentage of the adult population with access to banking services (presented in column C of Table 5) and the monetary value of deposits as a percentage of GDP. Graph 1b shows the link between the access indicator and the value of credit as a percentage of GDP.



In both cases there exists a clear positive relationship. Without intending to show causality, this result indicates that on average, the most successful countries in Latin America, in terms of advances in the depth of the financial markets, are likewise those that incorporate a greater portion of their population in the use of banking services. The cases of Chile and Panamá, mentioned previously, are good examples.

It is important to point out that recent studies have concluded that macroeconomic stability is essential for the deepening of financial markets. For example, a study by Rojas-Suarez (2006) discusses the adverse effect that high interest rate volatility has on the indicators of financial depth. It is to be expected therefore that macroeconomic stability is also a requisite for greater access to financial services by the population.

A similar result to that obtained in Graphs 1a and 1b is attained when access is measured not by the number of persons, but by mechanisms for bancarization. In this way, a significant positive relationship is also obtained between the sum of the branches and ATMs per each 100,000 inhabitants and the traditional indicators of financial depth. Graphs 2a and 2b present these relationships.



Based on the discussion of this section, two important results are derived. The first is that for the region as a whole, access to financial services is very low; with very important gaps in relation to industrialized nations. The second result is that the diversity between countries in terms of access is enormous. What can we conclude from this last result? Basically that the issue of access to banking services is extremely complex, that it depends significantly on the characteristics of each country that determine the factors of supply and demand for financial services. The data on access (as a percentage of the adult population) do not exclusively reflect the factors of supply or of demand, but a combination of both. It is for this reason that it is possible to have situations (and countries) in which a very high demand for financial services faces a supply that is *constrained* by certain factors. On the other hand, it is also possible to find situations (and countries) in which demand for banking services is *constrained* by other types of factors. The following section discusses the diversity of factors that limit the demand for and supply of financial services.

III. The Obstacles that Banks and their Clients Confront in the Process of Bancarization

1. A Central Problem in terms of Access and the Costs of Bancarization: Poverty and Informality

The problem of access to financial services is not generalized to all income levels or to all types of businesses. In particular, individuals with high incomes and large businesses in the countries of the region do not have any problems of access. Moreover, many large companies, especially exporting ones and those that provide public utilities (telephone, electricity) are financed both locally and internationally and at costs that do not present any kind of obstacle.

As shown in Table 6, for a sample of the four countries for which we had information from the FELABAN survey (Colombia, Chile, El Salvador and Honduras), the share of the large

companies in the value of the total banking loans fluctuated between 60 and 70 percent. The share decreases according to a lessening size of the company. The problem of access to business credit in Latin America is a problem of the small and medium sized companies and micro enterprises.

Table 6
Composition of business loans per size of the business for
a sample of countries (in percentages)

	Value of Business Loans / Total Assets of the Banking System	Share of the value of the loan per size of the business in the total value of business loans			
		Large Companies	Medium sized Companies	Small Companies	Micro Enterprises
Colombia	43.36	65.39	26.49		8.12
Chile 1/	46.28	64.41	26.59	7.18	1.83
El Salvador	41.29	69.68	20.17	7.34	2.81
Honduras	46.55	62.00	18.00	14.00	6.00

1/ In Chile the classification of business loans includes micro debtors, small debtors, medium sized debtors, large debtors and mega debtors. In the Table mega debtors were considered in the calculation of the participation of large companies. Also, for the calculation of the medium sized companies the large debtors were grouped with medium sized ones.

Contrary to that of large companies, the finance of the small and medium sized companies and micro enterprises has two distinctive characteristics. The first is that the costs of monitoring *as a percentage of the value of the loan* are much higher than for the large companies. This is due to two factors: (a) as is well known, banks have certain *fixed costs* for projects that do not depend on the size of the loan; and (b) the *variable* costs of monitoring smaller companies are greater than those for monitoring large companies; this is especially true in the case of micro enterprises, where the banking cost in time spent and personnel utilized in *visits to the entrepreneur* is essential to continuously guarantee the payment capacity of the debtor. As will be discussed further below, in a series of countries in the region, deficiencies in the registry of property and in the information of credit bureaus aggravate this last type of cost.

The second characteristic is that credit risk is greater in small companies than in larger ones. There are five factors that explain this: (a) small and medium sized companies and micro enterprises are sectors that are extremely heterogeneous; in the case of the micro enterprises, this reduces the usefulness of some risk evaluation techniques such as credit scoring; (b) an important proportion of the small and medium sized companies and the micro enterprises in Latin America operate in the informal sector and do not maintain adequate documentation of their balances, which tend to have very little transparency; (c) related to the previous point, many of these businesses have a very low level of *financial literacy*, which reduces their capacity to perform adequate evaluations about the profitability of projects; (d) in a high percentage of cases, these businesses are not sufficiently diversified in their sources of income and many times depend exclusively on only one company that buys their products and (e) these types of businesses do not have adequate collateral (many times related to problems of an institutional nature that will be discussed further below).¹⁹

These two characteristics: greater costs in the analysis of a credit application and monitoring, and a greater credit risk make it a must for banks *following "good banking practices"* to charge

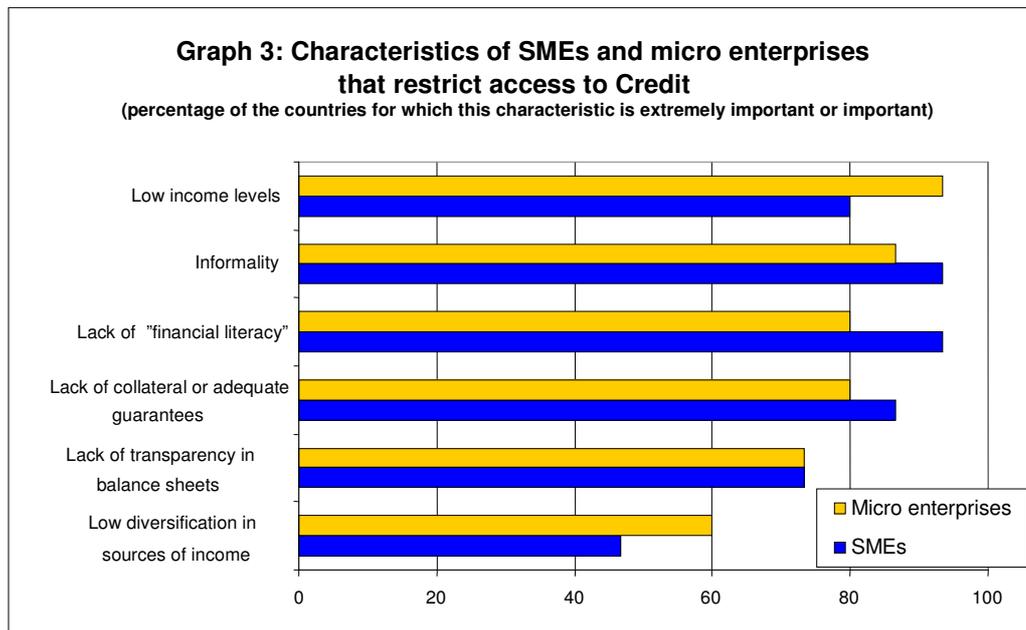
¹⁹ Businesses oriented towards the consumer segment have a greater diversification. higher costs to the small and medium enterprises (SMEs) and micro enterprises in order to extend credit than they would to large companies.²⁰

This point is important to emphasize, because misunderstanding could lead to regulations that diminish bank solvency and/or have the counterproductive effect of blocking credit to the small and medium sized companies. For example, as will be discussed further below, controlling the interest rate is a grave error of economic policy in countries that at the same time seek to encourage access to credit by the small and medium enterprises (SMEs) and micro enterprises. As worldwide experience attests, these types of controls lead to the following results. The first is that banks seek to compensate costs through a commission charge. The second is that if the commissions are regulated and, in addition, there are controls to the interest rate, the banks lose the incentive to provide loans to these business segments.

It is for this reason that understanding the factors behind the costs, including commissions, which banks charge in the region to extend credit to the small and medium sized companies and micro enterprises is of extreme importance for the design of agendas for bancarization in the countries. This analysis is beyond the scope of this study as it requires very detailed information at the national level that cannot be obtained in a survey. Because of this, the topic of costs and commissions requires specific case by case studies.

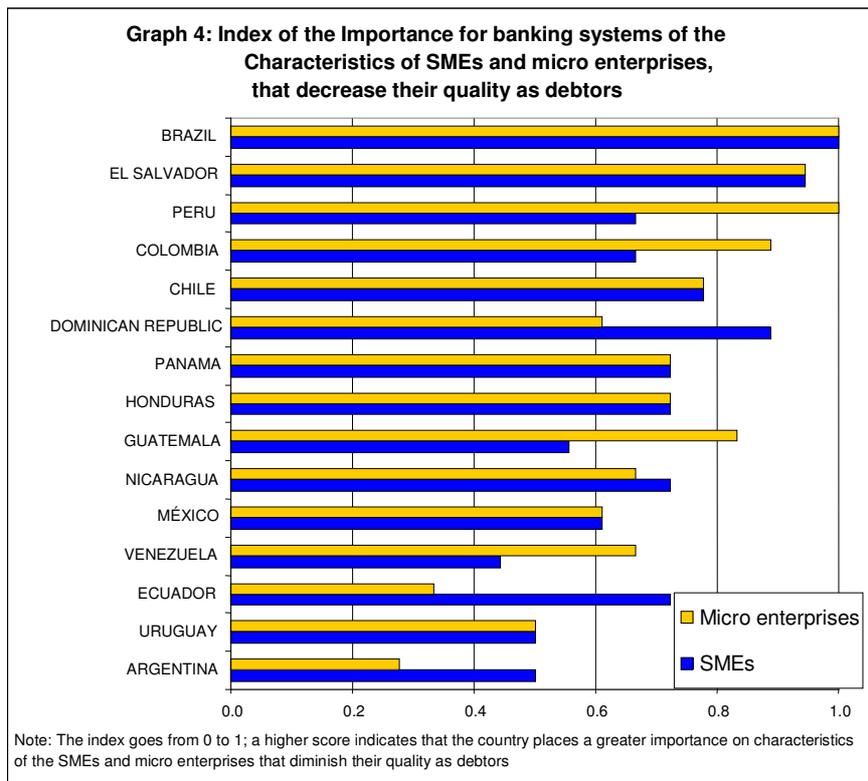
The FELABAN survey asked Banking Associations to identify the characteristics unique to the small and medium sized enterprises that were considered as the main obstacles to extend bank credit. Consistent with the previous discussion, the three most important factors cited by the large majority of the countries were: low income levels, informality and the lack of financial literacy. That is, factors of a *social* nature occupy a predominant role in the problems of access by businesses. As indicated in Graph 3, between 80 to 90 percent of the countries pointed out these three factors as the principal problems for the small and medium sized enterprises and for micro enterprises.

²⁰ A major discussion of these topics is found in CLAAF (2004).



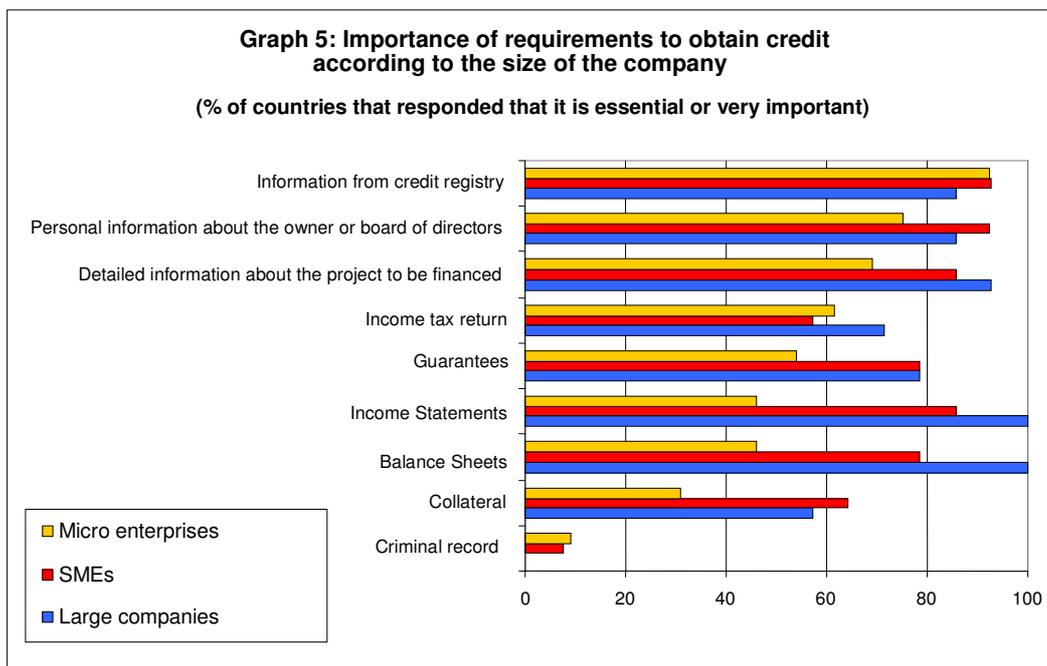
As far as the categorization per country, Graph 4 presents an index that measures the importance attributed by the banking systems to those characteristics of the SMEs and micro enterprises that diminish their quality as debtors. In addition to the three social factors described above, the index included: lack of collateral or adequate guarantees, lack of transparency in the companies' balance sheets and a low diversification in the sources of income of these companies. The index goes from 0 to 1. The higher the number, the greater the importance that banks give to these six characteristics of the SMEs and micro enterprises that obstruct their access to credit.

Among the countries in the sample, Brazil stands out for giving the maximum importance possible to the characteristics of the SMEs and micro enterprises that lower their quality as debtors (the index takes a value of 1). That means that in Brazil the 6 factors that make up the index are considered essential obstacles both for the SMEs and for micro enterprises. In Peru, the index also takes a value of 1, but only in the case of micro enterprises. A very interesting result, but one that requires specific studies for each country in order to understand it fully, is that in some countries the index takes higher values for the micro enterprises (Peru, Colombia, Guatemala and Venezuela) and in others the index is higher for the SMEs (Dominican Republic, Nicaragua, Ecuador and Argentina).



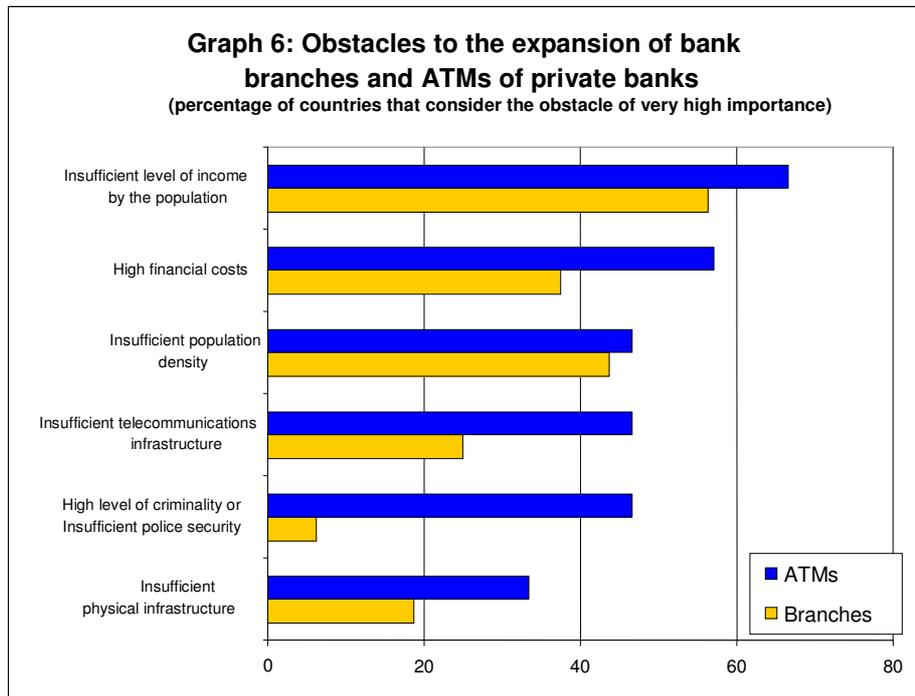
With the exception of Argentina and Uruguay, the index takes a value greater than 0.6 in the rest of the countries, be that for SMEs or for micro enterprises or for both. Even in Chile, the country of the region with the most financial access, the index takes a value close to 0.8 both for SMEs and micro enterprises. This is consistent with the fact that the percentage of the population with low incomes is very high throughout the region.

The survey also obtained information regarding the importance that banks place on the different requirements to obtain credit. This information was able to be classified in accordance with the size of the company. The results of the survey at the regional level are presented in Graph 5 and are consistent with the results presented in Graph 3.

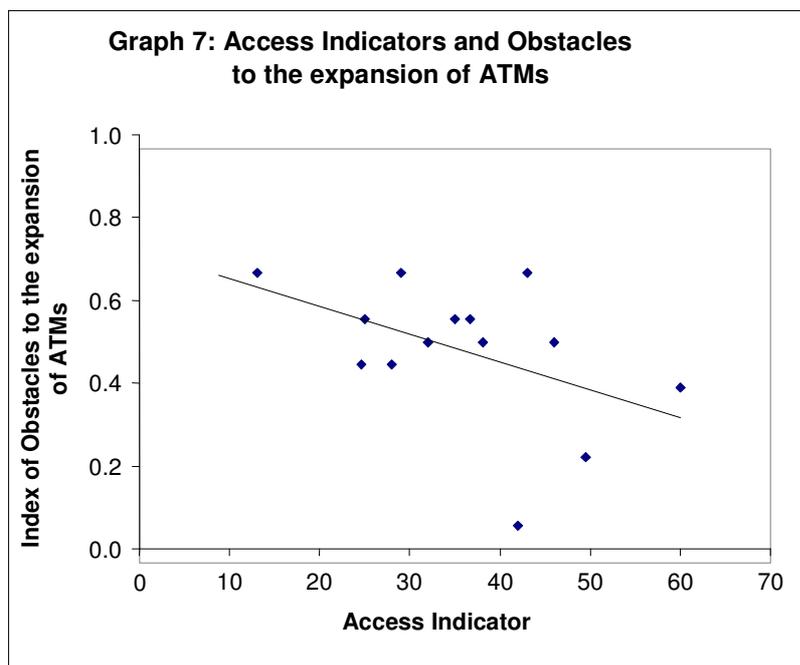


Since large companies do not have the problems of informality, nor of a lack of financial literacy, the most important requirements to evaluate applications for credit from this type of company are balance sheets and income statements. In this regard, all the countries are in agreement. In contrast, these two requirements are considered of lesser importance for the micro enterprises in the majority of the countries. Instead of basing the decision about credit on the evaluation of balance sheets—that are not reliable or simply do not exist for many SMEs and micro enterprises—banks in Latin America place great importance on information they can obtain about the debtor both through the credit registry and the direct collection of information that they themselves carry out. For this reason, the requirements of information about the debtor occupy the first two places of importance in the bars in Graph 5 referring to micro enterprises and SMEs.

The crucial role of these social factors in the decisions regarding bancarization are reinforced in Graph 6, where countries classified the relative importance of obstacles they face in increasing the number of bank branches and ATMs. As shown in the mentioned graph, insufficient income by the population is cited by the majority of the countries of the region as the most important obstacle both in terms of expansion of branches and expansion of ATMs. This factor surpasses even the obstacles related to costs (high financial costs) and those of a lack of infrastructure (physical and of telecommunications) that are characteristic problems in the region. Annex A.1 complements the information of Graph 6, constructing an index that allows the classification of the countries in accordance with the importance of the obstacles for the expansion of ATMs. In this annex, it was decided to classify countries based on the importance of the obstacles to the expansion of ATMs and not that of branches because, as discussed in section II, there is evidence that private banking favors the expansion of supply channels of service through ATMs.



Are obstacles for the expansion of ATMs important factors constraining access by the population to financial services? Graph 7 gives an affirmative answer. This graph shows the relationship between the access indicator (presented in Table 5) and the index of obstacles to the expansion of ATMs (presented in Graph A.1). The relationship is clearly negative and leads to an important conclusion: Both for the population in general, as for the SMEs and micro enterprises, the social factors leading to low income levels are obstacles of primary importance that hinder bancarization. Although resolving these types of problems is a challenge for the medium and long term, the agendas of bancarization of the countries (both public and private) need to include these aspects in order to be successful.



2. Obstacles Resulting from Inefficiencies in Banking Activities

As was mentioned previously, the obstacles to bancarization are multiple. In addition to the identification of the social problems discussed in the previous sub-section and the institutional and regulatory obstacles that will be analyzed in the following sub-sections, the FELABAN survey permitted identifying the problems in the conducting of banking business that slow down the process of bancarization. The survey permits the analysis of two topics: (a) deficiencies in the channels and mechanisms of risk evaluation of banks and (b) needed improvements in customer service provided by banks to their clients.

With respect to the deficiencies in credit risk evaluations, Table 7 answers the following questions: (a) What percentage of private banks in each country have specialized units for extending credit to the SMEs and to micro enterprises?; and (b) What percentage of banks use the technology of *credit scoring* to evaluate credit to SMEs? As mentioned in the previous sub-section, in the context of a high level of informality and a high heterogeneity, the utilization of the technique of credit scoring is of less usefulness in the case of micro enterprises.

Table 7

Availability of Financial Infrastructure and Technology to extend loans to SMEs and micro enterprises

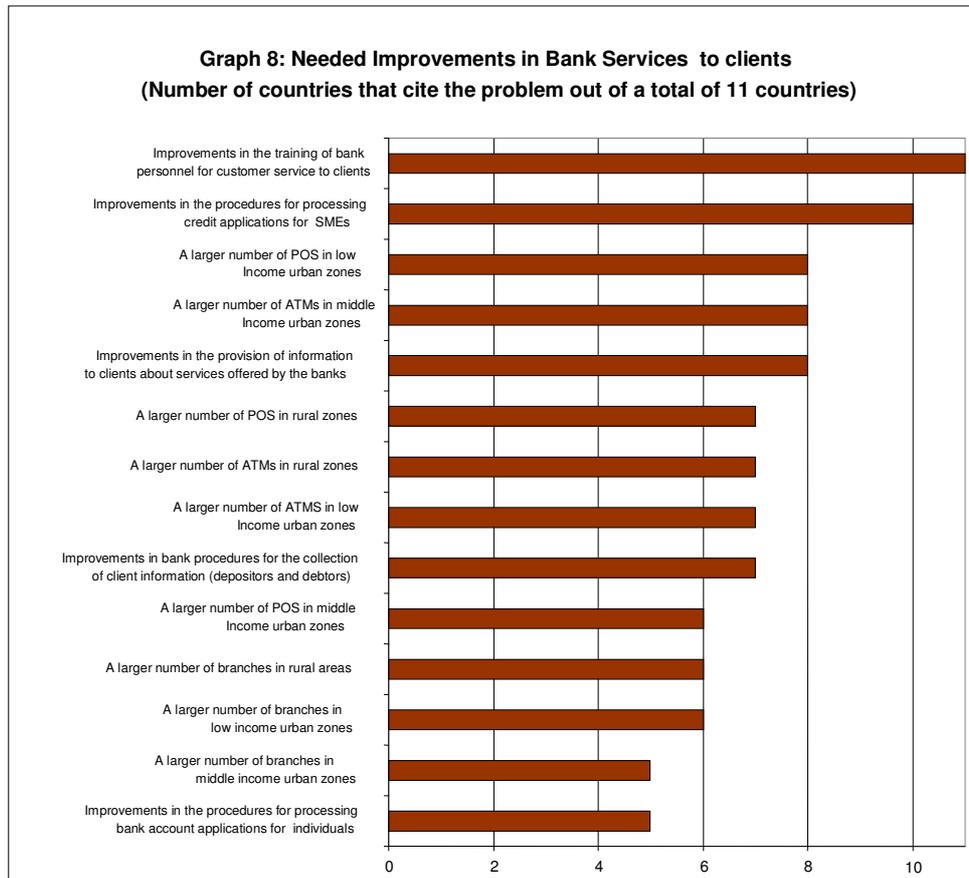
(No. of countries according to availability of financial infrastructure and technology)

Percentage of private banks that have:	More than 70%	Between 50% and 70%	Between 30% and 50%	Between 10% and 30%	Less than 10%	Total
Units or offices specialized in extending credit to SMEs	7 54% of the sample	2 15% of the sample	2 15% of the sample	1 8% of the sample	1 8% of the sample	13 100% of the sample
Units or offices specialized in extending credit to micro enterprises	5 38% of the sample	1 8% of the sample	1 8% of the sample	4 31% of the sample	2 15% of the sample	
Technology of “credit scoring” to extend loans to SMEs	4 31% of the sample	3 23% of the sample	0 0% of the sample	3 23% of the sample	3 23% of the sample	

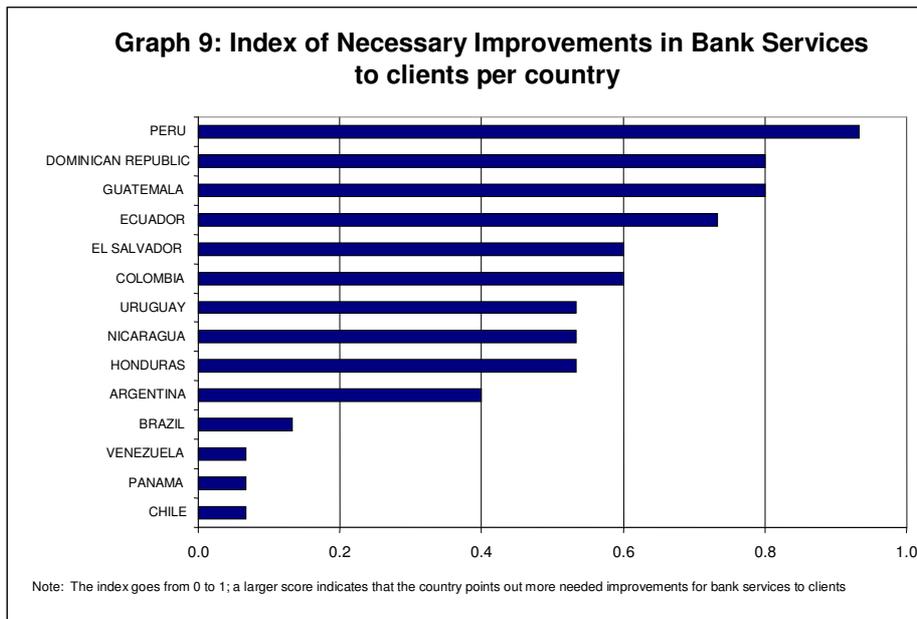
The results of this table show that important deficiencies still exist in the region for an adequate evaluation of business credit. In the first place, only half of the countries have more than 70 percent of the banks with specialized offices for extending credit to SMEs. This percentage decreases to 35 percent when it refers to specialized units for microcredit. Moreover, in almost half of the countries, less than a third of the banks have specialized units for microcredit. This result is not surprising (nor as negative as it seems) since the business of microcredit, within the banking activity, is relatively new in the region, and is actually growing significantly. It is appropriate is to evaluate this information again in a few years time.

The use of the technology of “credit scoring” to evaluate credit risk for the SMEs is also very insufficient in the region. Just as in the case of the specialized units, in half of the countries in the region, less than a third of the banks utilize the methodology of credit scoring to evaluate this type of loans. This result is consistent with other prior surveys undertaken by FELABAN et al (2004 and 2007).

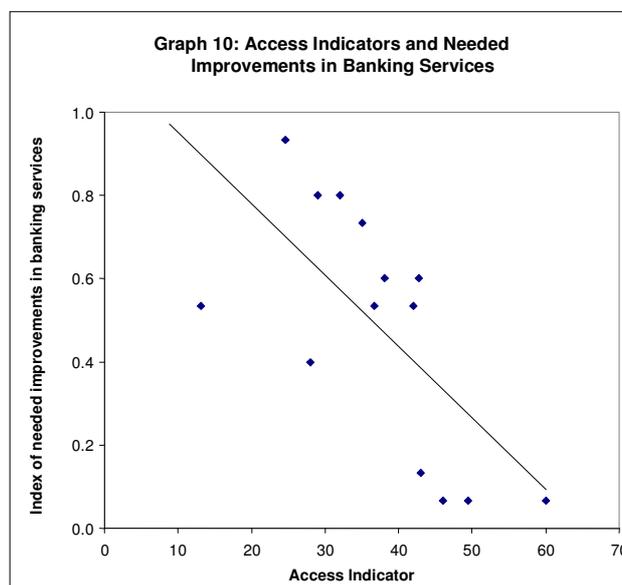
With respect to the necessary improvements in bank services to clients, Graph 8 shows these in order of importance for the region as a whole. All of the countries for which information was obtained through the survey concur in the need for improvements in the training of bank personnel for the purpose of providing customer service to clients. Consistent with the results of Table 7, the need to improve the procedures for processing credit applications by the SMEs occupies second place. Also consistent with the preference of the banks to expand their services through ATMs and other channels instead of by branches, the need to increase branches, both in rural as well as in urban zones, is found among the last positions in terms of importance.



Graph 9 orders the sampled countries according to the necessary improvements reported. The index goes from zero to 1. The higher the index, the greater the number of improvements that are considered necessary in the banking system of the country for the purpose of improving service to clients. Peru, followed by the Dominican Republic and Guatemala, report the most needed improvements in services to clients by banks. On the other extreme, Chile, Panama, and Venezuela report less needed improvements in banking services to clients.

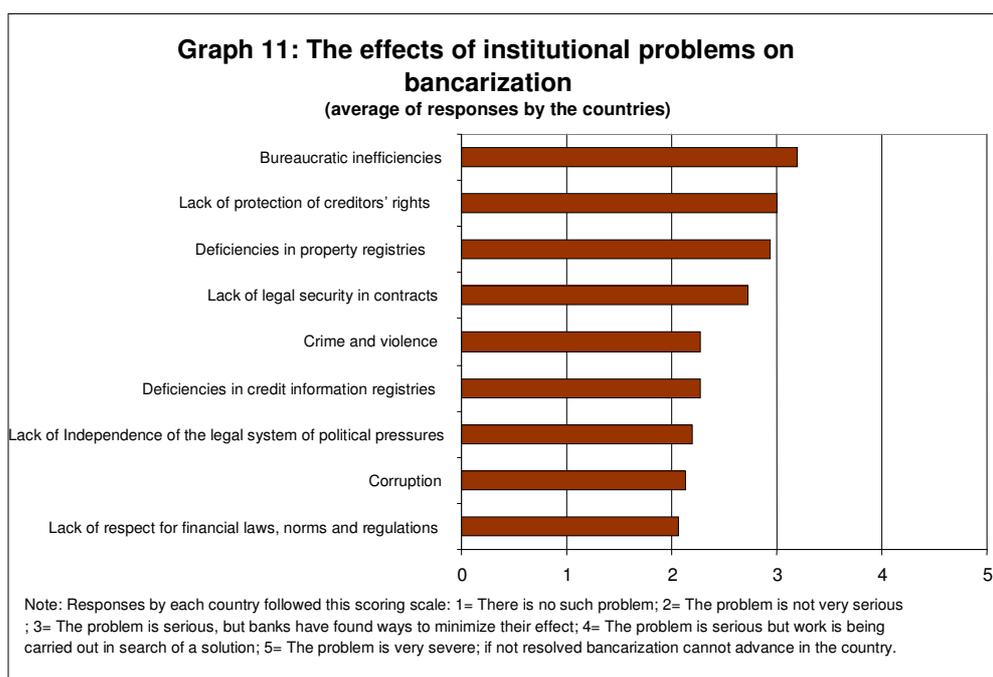


Although the responses in the survey clearly have an important subjective element, it is important to explore to what extent this subjectivity coincides with reality. In theory, it is to be expected that countries with more access to bank services are those that also enjoy better services, as better services and procedures reduce the costs of bancarization. Or put the other way around, the high costs of bancarization derived from inefficient banking services should be linked to less access to banking services by the population. Graph 10 confirms this conjecture, as it shows a significant inverse relationship between the access indicator from Table 5 and the index of necessary improvements in bank services presented in Graph 9.



3. Institutional Obstacles

The importance of adequate *institutional quality* in order to promote bancarization in Latin America has been extensively discussed in the literature.²¹ The contribution of the FELABAN survey in this matter is to identify which institutional problems have the most importance in the region. Graph 11 provides an answer to this question. On average, for countries in the region, bureaucratic inefficiencies in the public sector are the most important institutional obstacles, followed by the lack of protection of creditors' rights and deficiencies in property registries.



The importance given by countries to deficiencies of property registries is consistent with the result obtained in Graph 5, which indicates that collateral does not fulfill a predominant role in the banks' evaluation of credit applications by micro enterprises. In other words: it is not that the collateral *should not be important*; what happens is that in the absence of an adequate property registry, the collateral is not reliable and it is not possible to mobilize. One of the most important examples in the region with respect to this problem is the case of El Salvador. In that country, the civil war, agrarian reform, and high migration have resulted in the majority of the productive lands remaining unoccupied. In this context, the lack of a legal system that regulates the ownership of the land impedes that it be used as collateral for obtaining credits.²²

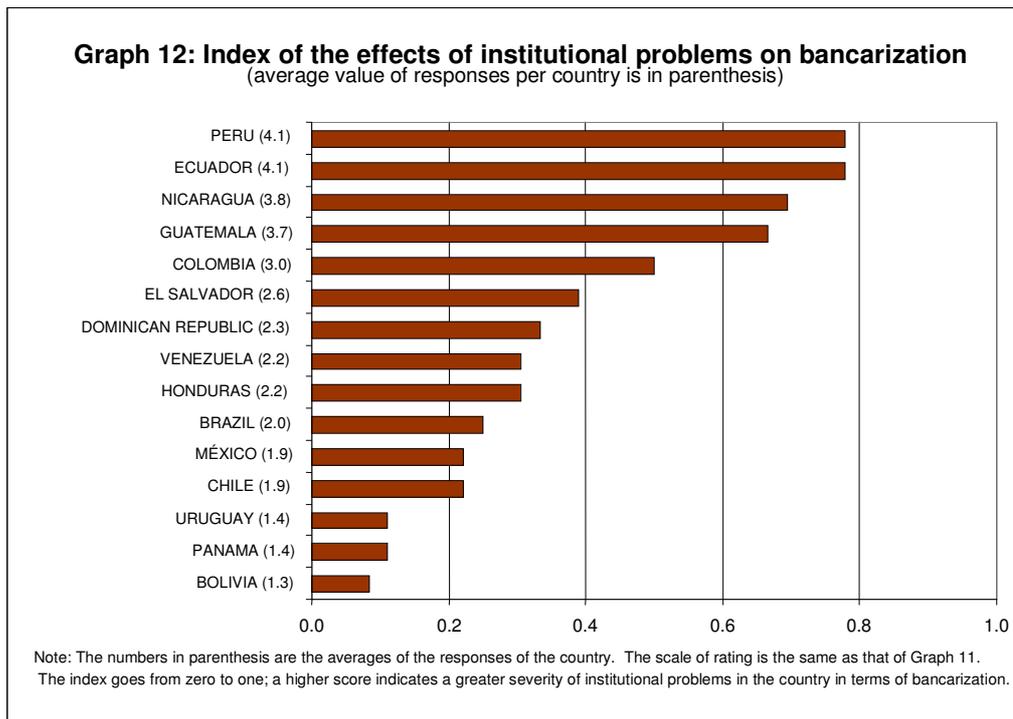
Deficiencies in credit information registries are also included among the institutional problems affecting the banking systems in the region. This, of course, is consistent with the high

²¹ See, for example Rojas-Suarez (2006).

²² See García and Morera (2006).

costs of monitoring that banks have to cope with in order to evaluate the quality of debtors—through company visits—especially in the case of micro enterprises.

Graph 12 provides a country ranking according to the importance that institutional problems have in terms of bancarization. For this, an index was constructed whose components are the different institutional problems listed in Graph 11. The index goes from zero to 1. A higher value indicates that the institutional problems are more important in the country. Peru and Ecuador are the countries that report the most institutional problems, followed closely by Nicaragua and Guatemala.

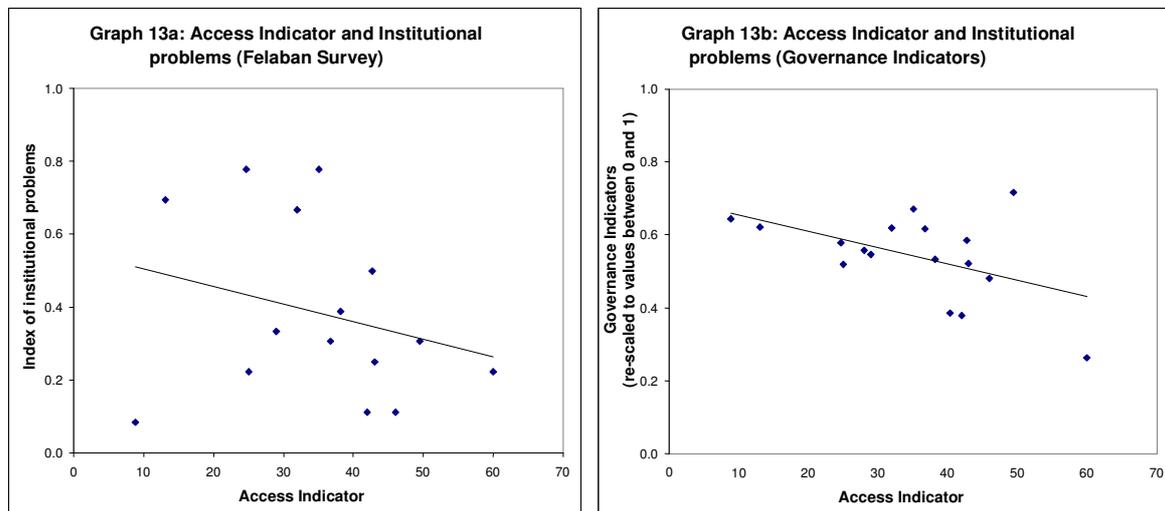


Once again, this index of institutional quality derived from the FELABAN survey has a highly subjective component. To verify the strength of the index, it was compared with another index of institutional quality, recognized worldwide and used amply by analysts and academics: the “Governance Indicators” of the World Bank (Kaufmann, Kraay and Mastruzzi, 2007). The comparison shows that with the exception of Bolivia and Venezuela, the ranking of the countries is very similar. In this way, excluding Bolivia and Venezuela, both indices are highly correlated, obtaining a correlation coefficient equal to 0.7.²³

The inverse relationship expected between institutional problems and access to bancarization is confirmed in Graphs 13a and 13b. Graph 13a relates the index of access from Table 5 with the

²³ In the case of Bolivia and Venezuela, the differences between the index of the FELABAN survey and that of the Governance Indicators of the World Bank could be partly due to the fact that the latter includes a component of “political stability” that is not included in the FELABAN survey. The Governance Indicators of the World Bank rank the political stability in both countries very negatively.

indicator of *institutional problems* presented in Graph 12. Graph 13b relates the same access index with the Governance Indicators of the World Bank. Clearly, the adverse effect of institutional problems on bancarization is much more pronounced when the World Bank Governance Indicators are utilized as an indicator of institutional quality.



4. Regulatory Obstacles

A consensus exists around the world about the need to design and to implement adequate banking regulations, which are defined as those that induce banks to correctly evaluate risks. This is so because the objective of banking regulation is to promote financial stability, avoiding excessive risk-taking by banks. In Latin America, efforts are being undertaken to improve banking regulations, and in fact, very important achievements have been made; especially in those areas related to the quality of the banking supervision, regulations about operation licenses of financial institutions and the mechanisms for resolving banking problems.

Without diminishing the importance of advances made in the issue of banking regulation, there still exists serious deficiencies in the region. This is due both to the needed regulations that have not been implemented or that could be improved, as well as for regulations that, despite their good intentions as far as promoting access to financial services for the population, generate important distortions that act as a disincentive to the development of financial markets, obstruct bancarization, and even work against financial stability.

The FELABAN survey permits the identification of regulatory problems in both categories.

a. **Insufficient or Nonexistent Regulations**

As discussed in the previous sub-section, two of the institutional obstacles reported by the countries as being of major importance for bancarization are the problems of property rights and the rights of creditors. Consistent with the identification of these problems, the majority of countries report deficiencies in the regulations that protect these rights.

According to information recompiled in Table 8, 73 percent of the countries that provided answers regarding regulatory issues in the FELABAN survey are not satisfied with the quality of regulation regarding property rights. In addition to the deficiencies of the property registries (Bolivia, Colombia and Nicaragua among others), the countries reported problems in the norms for the execution of guarantees, due to inefficient legal systems (Ecuador, El Salvador and Dominican Republic, among others).

Table 8
Quality of Regulation to protect property rights 1/ and the bankruptcy law

Percentage of banking systems where:	Property rights (of 15 countries)	Bankruptcy law (of 11 countries)
There are no problems with the regulation	26.67	36.36
Regulation can be improved	73.33	63.64

1/ Especially of assets that could be used as collateral

With respect to the rights of creditors, the survey explored the degree of satisfaction of countries with the bankruptcy law. Sixty three percent (63%) of the countries who answered expressed dissatisfaction with the regulation or with a lack of this regulation. In fact, at present in El Salvador, Guatemala, Honduras and the Dominican Republic, bankruptcy law does not exist.

b. **Inadequate Regulations that Impede Bancarization**

In this category of regulations, are those that act as a disincentive to the process of bancarization, either because they increase the cost of awarding credit and/or because they have an adverse bearing on the lower income population (individuals and businesses).

The FELABAN survey identified three types of regulations in this category: (i) an excessive tax burden on the banking system, including a tax on financial transactions; (ii) controls on interest rates and (iii) directed loans.²⁴

²⁴ Some countries report other types of regulation that affects the costs of bancarization. Nevertheless, the analysis of these specific regulations requires concrete case studies and goes beyond the scope of this study.

As for the excess tax burden, Brazil and Ecuador stand out for the long list of taxes that fall on the banking system.²⁵ The problem of an excess of taxes on banking is that with the objective of covering costs, banks tend to raise the interest rates they charge clients, or to raise commissions or both. As discussed previously, understanding the costs of providing financial services (including commissions) is complex and cannot be carried out without an analysis of the impact that the tax burden has over those costs. For example, a calculation by the Federation of Banks of Brazil (FEBRABAN), estimates that in a hypothetical case in which the basic interest rate, banking costs, investment risk, default risk and bank profits were equal to zero, the interest rate for a bank intermediation operation for one month would correspond to nearly 30 percent annually only as a function of the tax burden.²⁶

Among the taxes generating the most distortions in the provision of financial services, the tax on financial transactions stands out (TFT). This tax is applied on bank debits, typically withdrawals of funds from checking and savings accounts, be that through checks, automatic tellers, debit cards, etc. Currently the TFT is applied in Argentina, Bolivia, Brazil, Colombia, Peru and Venezuela. Among the adverse problems for bancarization generated by TFT, two stand out. The first problem is that the tax encourages financial disintermediation due to the fact that depositors (persons and businesses) will try to avoid paying the tax, decreasing the number of transactions they perform through banks and increasing the number of transactions in cash. The study by Singh et al (2005) documents the reduction of the financial intermediation in Colombia and in Brazil as a result of this tax.

The second problem with TFT is that the tax levy falls with greater weight on individuals and businesses of lower economic resources, thereby acting as a disincentive for these segments in their *demand* for bank services. This is a result of the fact that the low income population does not have the opportunities that the larger companies have, of avoiding the tax by means of access to off shore transactions and operations through derivatives. Of course, this implies that this tax works against the purpose of increasing access to financial services by the population.

In view of the profound distortions of the TFT and its adverse effects on bancarization, why do many governments in the region continue its implementation? (and there are others considering incorporating it). The reason is that this tax has solely fiscal ends; the tax has the capacity to rapidly collect income and the administration of the collection of the tax is simple. This shows even more the complexities of the process of bancarization and draws out an important conclusion: the elimination of obstacles to bancarization requires strong fiscal positions; otherwise the governments will have an incentive to collect income through taxes on financial transactions.

²⁵ In addition to the tax on financial transactions, there is also the Contribution to finance Social Security (COFINS), the contribution for the Social Integration Program (PIS), the contribution over net profit (CSLL), income tax, tax on credit operations, tax on international transactions and tax on insurance operations. In Ecuador, taxes include: income tax, tax for the National Institute of the Child and the Family, the contribution to the SOLCA (Society for the Fight Against Cancer), municipal taxes, contributions to the Institute of Social Security, tax on assets for the benefit of each territorial district in which a banking entity maintains offices, etc.

²⁶ See Febraban, 2006

As for the controls on the interest rates, the FELABAN survey identified four countries of the region where these controls exist: Colombia, Chile, Ecuador and Venezuela. In all these countries, the controls take the form of maximum rates on credit (and in Venezuela there also exists minimum rates for savings and term deposits).

As documented in Rojas-Suarez (2006), the good intentions of this regulation—to protect against usury—has counterproductive effects as it hinders access to credit by medium and small sized companies, that by their high risk nature are subject to higher interest rates than the maximum ones established by law. Moreover, controls to the interest rates generate an incentive to the banks to increase commissions. In a study about Chile, Larrain (2006) documents that banks in that country compensate the restrictions imposed by the maximum interest rate through commission and insurance charges for managing on sight accounts and/or credit cards. Once again, the causes of high commissions require comprehensive studies that include the different types of regulation that banks confront.

Finally, two countries of the region report the existence of “directed loans”: Brazil and Venezuela. In both countries there exist minimum banking credit balances that should be directed to certain productive sectors. In Brazil, the sectors chosen by the government are the rural and microfinance. In Venezuela, these sectors are: agriculture, mortgage, micro-finance and tourism. These types of policies proved not to be very useful and instead generated problems in the stability of the banking systems during the 70’s and 80’s in the region.

The principal reason is that directed credits tend to eliminate a central function of banks, which is to channel the depositors’ resources towards productive activities, whose nature evolves continuously. Directed credits limit the capacity of banks to undertake their own risk and profitability evaluations. This in turn, diminishes the strength of these institutions.

IV. Final Conclusions

The present study has had the goal of advancing the understanding of the process of bancarization in Latin America by means of the utilization of a new database created by FELABAN. The data are obtained from a survey that has the feature, unique among surveys of its type, of encompassing simultaneously a wide variety of issues and of providing quantitative as well as qualitative information. The survey was answered by the Banking Associations of the countries.

Many conclusions are presented throughout the study, and country rankings are included in accordance with different aspects and obstacles that they tackle in the process of bancarization. Here only eight conclusions are mentioned that stand out due to their importance at the regional level.

The first conclusion is the need for the countries (financial authorities and Bank Associations) to improve the quantity and quality of the information about the population's access to financial services. The execution of the FELABAN survey has revealed important deficiencies in information. The need for this data cannot be overemphasized because the implementation of the plans and the agendas of bancarization pointed out by authorities and banking entities in the region rely on this information.

The second conclusion, based on existing information, is that there is still much to be done in order for the region to reach the level of the industrial nations in the provision of financial services to the population. Through the utilization of the data from the FELABAN survey and other sources, a *financial access indicator* was constructed that tries to approximate the percentage of the adult population that has access to banking services. The indicator shows that the countries can be divided in three groups, those with very low access, those with low to medium access and those with medium access. Only Chile belongs to the third group, and none of the countries in the region can be classified as enjoying high access.

The third conclusion is that it is not easy to explain the nature of the costs of access to bank services. As explained in this study, at the worldwide level, but especially in Latin America, for *prudential* reasons, banks *must* charge higher costs in the provision of credit to small and medium enterprises and micro enterprises in the region compared to the costs charged to large companies. Nevertheless, in some countries, inadequate regulations tend to increase the costs of access. For example, the excessive tax burden faced by some countries of the region raises the costs of credit. In the same way, controls on interest rates induce the higher commission charges. That is why fully understanding the costs of access in each country requires specific case studies.

The fourth conclusion, also related to regulatory distortions, is that the tax on bank transactions present in a group of countries in the region stimulates financial disintermediation and disproportionately burdens the lower income population and micro enterprises. The logical recommendation is for the elimination of this tax. However, given its high capacity for tax collection and its easy administration, it is difficult for governments to eliminate it entirely. In addition to the regulatory reforms discussed in this document, reforms to the tax system and to the administration of fiscal expenditures are needed to make this tax unnecessary.

The fifth conclusion is that factors of a social nature are crucial in the limitations of access to credit for SMEs and micro enterprises. Among the factors underscored are: low income, informality and a lack of financial literacy. The social factors hamper both the demand for financial services (too poor to be able to save or too little education to understand the complexities of financial products) as well as the supply of such services (an important part of the population is not considered “eligible for credit” by the banking system). Although this is a problem with a long term solution, programs in the region have already begun that are designed to attack the problem, especially that of financial literacy, but these efforts are still just starting.

The sixth conclusion is that the same social factors that limit the population’s access to financial services are also obstacles to the expansion of channels for the provision of these services, especially ATMs, the type of expansion that private banking prefers over expansion through bank branches.

The seventh conclusion is that there exists a very important relationship between institutional quality and access to bank services by the population. Among the most important institutional obstacles that stand out in the region are: bureaucratic inefficiencies, a lack of protection of the rights of creditors and deficiencies in property registries. The latter problem causes banks to distrust the value of the collateral presented by potential debtors. For this reason, in their evaluations of credit applications by SMEs and micro enterprises, banks focus more on direct information about the debtor rather than on the collateral or on the guarantees.

The eighth and final conclusion is that there exists an important relationship between improvement of services that banks can deliver to clients and the access by the population to financial services. This means that banks have a direct task to accomplish in order to facilitate access. The most needed improvements at the regional level are: training to provide customer service to clients and improvements in procedures and in technologies to evaluate and process credit applications.

This study is only a first step in the process of understanding the difficulties of bancarization in Latin America. The next step is to continue to make use of the information provided by the FELABAN survey to analyze the particular characteristics of each country in more detail.

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