ACCESS TO FINANCE AND FINANCIAL INCLUSION IMPACTS ON ECONOMIC GROWTH

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Abstract

Access to finance defined as the possibility that individuals and companies can access financial services such as loans, deposits, insurance, payments and risk management services. In this study, access to finance and financial inclusion concepts, the importance of access to finance in recent years, the measures used for access to finance which is one of the four characteristics of the financial system, and researches on access to finance were examined. There are findings that access to finance positively affects financial development and hence economic development.

Keywords: Access to Finance, Financial Inclusion, Financial Development, Economic Growth

1. The Concept of Access to Finance

The concept of financial inclusion, which generally defined as the proportion of individuals and firms that use financial services, has become a subject of considerable interest among policymakers, researchers and other stakeholders. The increasing number of researches in this regard reflects the importance of financial inclusion for economic and social development. This demonstrates an increasing awareness that access to financial services has a critical role in reducing over-poverty, increasing common welfare, promoting inclusive and sustainable development. For example, half of the world's adult population - more than 2.5 billion people - have no account in official financial institutions. In developed economies, the

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proportion of adults who have an account in official financial institutions is more than twice that of developing economies. Business surveys carried out in 137 countries use bank loans in developed countries at a rate of 51%, while only 34% of firms in developing countries use bank loans. In developing economies, 35% of small firms define "finance" as a significant constraint. In contrast, 16% of small firms in the developed economies make the same definition. Such statistics and surveys reveal a positive relationship between access to finance and financial development and economic development (World Bank, 2014, pp. 1–13). This led to organizations such as the World Bank (WB), the International Monetary Fund (IMF) and The Organization for Economic Co-operation and Development (OECD) to conduct surveys, provide data and conduct research on access to finance as a pioneer.

Although there is a new area, studies on the relationship between financial development and access to financial services have spread. Many factors are contributing to this. First, there is empirical evidence that expansion of access can reduce poverty, although it is still limited. Burgess and Pande (2005) found that in rural areas in India, the expansion of the bank branch significantly reduced rural poverty (Burgess & Pande, 2005, p. 780). Secondly, discussions about the channels in which financial development can lead to growth are mostly related to the stories about access. Rajan and Zingales (2003) discussed that by directing the efficient use of resources especially efficient new hands that called "creative destruction" is the re-expression of Schumpeter's argument which is the financial development caused by economic growth. This study also argue that healthy and competitive financial markets are an extraordinarily useful means of spreading opportunities and fighting poverty (R. R. Rajan & Zingales, 2003, p. 2). The third reason for increasing interest in access to finance studies is the complete lack of access to finance to developing economies, especially when compared to the extent of access to finance in developed countries.

In recent years, the World Bank country-based report states that 70 percent of Latin American population does not have access to basic financial services such as deposit account or checking account, compared to the statistics, which are generally below 20 percent in industrialized countries. In studies showing differences in access to finance across countries, firms in developing countries have shown that SMEs in particular use far fewer official financial resources than similar firms in the industrialized countries (Torre, Gozzi, Gozzi, & Schmukler, 2007, pp. 1–2).
Beck et al. (2002), indicate that the majority of firms in 54 countries in the survey view the financing constraints as the most critical barrier to growth compared to other legal and corruption issues. However, restrictions tend to be lower in developed countries such as the United Kingdom and the US compared to developing countries (Beck, Demirgüç-Kunt, & Maksimovic, 2002, p. 12).

Financial inclusion and access to finance are different topics. Financial inclusion defined as the proportion of people and firms using financial services and the fact that there is no use does not necessarily mean that there is no access. Some people may access financial services at affordable prices. However, some may choose not to use certain financial services, while many others may not have access to these services because of the high limitation of their costs, or due to legislative barriers, legal difficulties, or just not being able to use services due to a mix of market and cultural phenomena. The critical point here is the lack of financial inclusion, how much lack of demand for financial services, or how much of it is due to barriers that prevent individuals and firms from accessing financial services (World Bank, 2014, p. 2). The inclusive financial system seems attractive for many reasons. First, it facilitates the efficient allocation of productive resources. Second, access to appropriate financial services significantly improves the daily management of finance. Third, all-inclusive financial systems often help to reduce the growth of informal sources of loans that tend to exploit (Sarma, 2008, p. 2).

Cihak et al. (2012), in their study, introduced Global Financial Development Database which is a comprehensive database of characteristics of the financial system for the economies between 1960 and 2010 and measured four significant characteristics of financial systems empirically. They used the financial depth characteristic for the size of financial institutions and markets, the access characteristics for individuals and firms to use and use financial institutions and markets, the efficiency characteristics for the efficiency of financial institutions and markets in the provision of financial services, and the stability characteristics of financial institutions and markets.

These financial system characteristics are proxies of the services provided by the financial system. For example, while financial depth is not a function of its own, it is the proxy of the overall scope of services by the financial system. Similarly, the existing measures for access to finance do not directly measure how well the financial system defines good
investments, regardless of the individual's collateral. However, it provides a (imperfect, ex post) proximity to the extent of the use of certain financial institutions and instruments.

For each of the four characteristics, financial institutions (especially banks, as well as other, non-bank financial companies) and financial markets presented measures for each of the four characteristics. The measurements they provide for access to finance are shown in the table below (Cihák, Demirgüç-Kunt, Feyen and Levine, 2012, pp. 8–9).

Table 1: Financial System Characteristics for Access to finance

<table>
<thead>
<tr>
<th>Financial Institutions</th>
<th>Financial Markets</th>
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<tr>
<td><strong>Access</strong></td>
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<tr>
<td>Number of accounts per adults (commercial banks)</td>
<td>Percentage of market capitalization outside of top 10 companies</td>
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<tr>
<td>Number of branches per 100,000 adults (commercial banks)</td>
<td>Percentage of value traded outside of top 10 listed companies</td>
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<tr>
<td>% of people with bank accounts</td>
<td>Government bond-bond yields (3 months and 10 years)</td>
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<td>% of companies with line of credit (all companies)</td>
<td>Ratio of domestic to total debt securities</td>
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<tr>
<td>% of firms with line of credit (small firms)</td>
<td>Ratio of private to total debt securities (domestic)</td>
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<td>Ratio of new corporate bond issues to GDP</td>
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2. Access to Finance Literature Review

Financial Dependence and Growth, analyzed by Rajan and Zingales (1998), examines whether financial development facilitates economic development through the rationale that firms reduce the cost of external financing. In this study, it has been concluded that the industrial sectors, which need relatively more external financing, in particular, have disproportionately
developed more rapidly in the countries with more developed financial markets, and this is valid on a large sample of countries after the 1980s (R. G. Rajan & Zingales, 1998, pp. 559–586).

The work called Saving Capitalism from Capitalists by Rajan and Zingales (2003) emphasizes that the free market system is the most effective way for organized production and distribution and that healthy and competitive financial markets are an extraordinarily useful means of reducing opportunities and reducing poverty. As a result of the research, it has been determined that the creative destruction process, in which new and better ones replace the financial markets, is being kept alive because of the role of financial markets in the financing of new ideas. (R. R. Rajan & Zingales, 2003, pp. 1–28).

Burgess and Pande (2004) investigated the effect of the bank branch licensing law, which increased and equalized the status of bank branches among the states in India, as well as the effect of the abolition of the branch and the opening of a rural bank branch on poverty. Between 1977 and 1990, in order to obtain a license to open a branch in an area where another bank branch is located, it was obliged to open four bank branches to the settlements that had been designated as rural and impoverished regions and had no bank branches. As a result of this study, it has been shown that rural branch expansion in India decreases rural poverty by using trend changes arising from this policy and the relationship between the province's initial financial development and rural branch expansion (Burgess & Pande, 2005, pp. 780–795).

In the Kuijs (2005) study, it is investigated which factors are caused by China's high investment, which channel goes to investors, how it finances the investment of institutions, the role of the domestic banking sector, institutions and the role of the state. Previous studies reported that China's high growth was due to household savings and policies that affect the population, such as one child. This study concludes that especially in the absence of the distribution of dividends in the firms, and as a result of the transfer of some of the state savings (as opposed to other countries) to the firms is the main effects on firms' growth and investments (Kuijs, 2005, pp. 1–20).

Beck et al. (2007) in his study firstly showed the new indicators of banking sector access with aggregated data provided by bank regulators in 99 countries. These indicators have been shown to be close to micro level household and firm banking services statistics, and are related to firm financing barriers. At the end of the study, the relationship between the access indicators
and the standard determinants of the depth of the financial sector were discovered (Beck, Demirgüç-Kunt, & Martinez Peria, 2005, pp. 1–52).

Beck et al. (2007) investigated that whether financial development decreases the poverty after the economic growth, and the Gini coefficient decreases or not, whether the income of the poor increases, and whether the percentage of the population is living with less than $1 income declines. As a result of the study, it was found that financial development disproportionately increased the income of the poor and decreased income inequality. It is concluded with the research that financial development is the result of the decrease in income inequality by 40% of the long-term impact of the poorest segment on revenue growth, and 60% is the impact of financial development on aggregate economic growth (Beck, Demirgüç-Kunt, & Levine, 2007, pp. 27–49).

Cetorelli and Strahan (2008) between 1977 and 1994, panel data sets were used for manufacturing enterprises operating in the US. As a result of the study, it was found that stronger competition in the local US banking market reduced the size of typical enterprises. It is concluded that better bank competition also increases the share of small-scale enterprises and increases the total number of enterprises. It was emphasized that the increase in bank competition did not have a significant effect on large scale enterprises with the opportunity to access financial resources in commercial bills, corporate bonds, and securities markets (Cetorelli & Strahan, 2004, pp. 1–42).

In the study, Adjasi and Biekpe (2009) investigated the effect of the securities market on investment growth by using dynamic panel data analysis for selected African countries and also tested whether the securities market is a significant estimator of investments in underdeveloped markets. As a result of the study, it was determined that the securities market yields affected the investment growth positively and significantly and the investment reactions resulting from the securities returns increased with the growth of the market scale (Adjasi & Biekpe, 2009, pp. 109–120).

Hale and Long (2011) study, between 1997 and 2006, the internal and external, formal and informal financial resources of Chinese companies were investigated. As a result of the study, it was seen that state-owned enterprises benefited more from external finance and private enterprises applied to retained earnings and informal financial markets and they operate with
low inventories in order to overcome financial constraints. It has been found that, the small-scale enterprises has more financial constraints, the formal financial sector provide critical financial resources to private enterprises, especially for daily operations. It has been determined that private enterprises have limited capabilities in obtaining long-term funds required for investments (Hale & Long, 2011, pp. 313–339).

Allen et al. (2012) study investigated in 123 countries and more than 124,000 people were surveyed. In this study, the most effective policies regarding the use of formal accounts, such as individual and national characteristics, the poor and rural settlements, were examined. As a result of the study, it was emphasized that policies that reduce barriers to access to finance have expanded the pool of eligible account users, encouraging existing account holders to save money and visit the bank account more frequently (Allen, Demirguc-Kunt, Klapper, & Martinez Peria, 2016, pp. 1–30).

Ghimire and Giorgioni (2013) investigated the relationship between financial development and economic growth through the impact of internal finance using the World Bank Survey. As a result of the study, it was determined that bank financing had a negative effect on short-term growth similar to previous studies and that securities markets and domestic finance had no significant effect on growth (Ghimire & Giorgioni, 2013, pp. 31–46).

Yorulmaz (2013) study NUTS1 of Turkey and the analysis was carried out of the data of the provinces in these regions. In this study, between 2004 and 2010 index of access to finance for regions and provinces in Turkey was created. As a result of the study, it was found that the ratio of access to finance rates calculated at the regional and provincial level and the development levels of the regions and provinces were found to be proportional (Yorulmaz, 2013, pp. 79–101).

Appleyard (2013), investigated the impact of the 2007 financial crisis on access to finance for businesses in West Midland, England. As a result of the study, Community Development Finance Institutions (CDFI), which started to be opened in the 1990s, filled the gap that was formed as a result of the credit tightness that occurred in the aftermath of the financial crisis and the fact that banks did not give loans to suitable commercial and social enterprises. It has been determined that it serves financially excluded enterprises (Appleyard, 2013, pp. 868–879).
Bruhn and Love (2014), investigated the impact of access to finance on poverty through the Banco Azteca bank, which opened 800 bank branches in Mexico, and opened up nearly 800 banks at the same time and focused primarily on low-income clients. As a result of the study, it was observed that the opening of the bank resulted in a 7.6% increase in informal business statistics, no change in the formal job statistics, and an increase of 7% in 2 years on the income level. On the other hand, the unemployment rate of unemployed individuals decreased by 1.4%, and GDP per capita growth rate increased (Bruhn & Love, 2014, pp. 1347–1376).

Ogege and Boloupremo (2014) examined the role of financial intermediation by deposit banks on Nigeria's development and economic growth between 1973 and 2011. As a result of the research, it was found that the effect of the loans provided by the deposit banks to the production sector on the growth of Nigeria's economy was significant and positive, and that the general trade, services and other sectors were negatively but insignificant related to the economic growth taken as per capita GDP (Ogege & Boloupremo, 2014, pp. 41–50).

Farazi (2014) study significant characteristics of informal firms, financial usage, and financing models, differences in financing usage of firms in formal and informal sectors and essential characteristics of informal firms with high access to finance are investigated. As a result of the study, it was determined that formal firms had higher bank and credit usage as a result of the comparison of formal and informal small-scale companies, the scale of the firm and the level of education of the owner, were significantly related to the access to finance of informal firms (Farazi, 2014, pp. 1–33).

Kaya (2017) analyzed the impacts of the 2008 global crisis on high-income OECD, non-income, middle-income, and low-income countries. The number of bank branches per 100,000 adults, the ratio of the ten largest companies listed on the stock exchange to the total value traded on the exchange (%) and the largest ratio of market capitalization to total market capitalization other than ten firms (%) has been examined through access to finance measures. There was no significant change in the extent of access to the three funds during the crisis and immediately after the crisis. They found that only middle-income countries were significantly affected during the crisis. It is revealed that these countries are affected by the ratio of the ten largest companies traded on the stock exchange, which is only one of the dimensions, to the total value traded on the exchange (%). It was observed that this measure increased and this
change was marginally significant. In this study, it was concluded that the global crisis only affected access to finance in middle-income countries.

Ratny (2019) studied the observations of 10,691 firms listed on the stock exchange between 2002 and 2011. The answers to the following questions are investigated: how do various sources of external financing affect firms' investment efficiency and investment opportunities in a regulated financial market like China? Moreover, what is the impact of state subsidies on investment efficiency and investment opportunities in a state-funded financial system? In the study, due to the strict control over the appropriateness of public and private equity issuance by the China Securities Regulatory Commission (CSRC), the Chinese stock exchange companies are still tied to the more expensive bank loan funding source. This finding confirms the result of previous studies that only a limited number of firms have passed eligibility test. Bank loans are positively effective on investment efficiency and investment opportunities. Public equity issues has a small impact on firms' investment efficiency. Private equity placements and government subsidies have a positive impact on investment efficiency, while private equity financing is negatively associated with investment opportunities and concluded that state subsidies do not have a significant impact on investment opportunities (Ratny, Fonseka, & Tian, 2019, pp. 109–122).

3. Conclusion

When the benefits of access to finance are examined, it can be seen that two main target groups are affected positively. When the effects of individuals were analyzed, it was found that access to finance had positive effects on the distribution of opportunities and reduction of poverty and income inequality. It is emphasized that access to finance has made it possible for individuals to use this financing in productive investments by providing individuals with opportunities to finance new ideas, and also by executing this “creative destruction” process through the new and efficient ideas challenging them with old ideas.

According to the effect of access to finance on firms, it was found that access to finance have a positive effect on development and growth rate of firms. In the studies, especially the factors that affect the access to finance of firms are emphasized. It has been determined that the companies of the countries with developed financial markets progress more rapidly than the companies of the countries without developed financial markets. Besides, it is concluded that
companies in developed countries have more advantages concerning access to finance compared to developing countries and that small-scale companies have more constraints in terms of access to finance than large-scale companies.

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