

# Contents

<b>Preface</b> .....	vii
<b>Summary</b> .....	ix
Why Finance Can Contribute to the MDGs. ....	xi
Illustrative Analysis Shows Finance Impact is Large .....	xi
Robust Evidence on the Impact of Finance on the MDGs .....	xii
Why Access to Finance is Limited in Developing Countries. ....	xiv
Improving Access to Finance Services: Recommendations .....	xv
<b>1. Introduction and Overview</b> .....	1
The Millennium Declaration .....	1
The Eight Millennium Development Goals .....	2
The MDGs are Highly Interdependent, with a Central Role for Income Poverty .....	2
While There is Progress on the MDGs, Some Regions Lag Behind .....	5
Why Financial Services Matter for Reaching the MDGs .....	5
Illustrative Analysis Shows Finance Impact is Large .....	8
Goal, Questions Addressed, and Contribution of the Study .....	10
Organization of the Study .....	12
<b>2. Financial Sector Development and Income Improvement</b> .....	15
A Brief Overview of the Financial Sector .....	15
Standard Determinants of Economic Growth Include MDG Themes .....	17
Financial Development Results in Income Growth .....	19
Financial Development and the Sources of Income Growth .....	24
Summary and Conclusion .....	31
<b>3. Financial Sector Development and Poverty Reduction</b> .....	33
How Households Use Financial Services to Reduce Poverty .....	34
Financial Development Reduces Poverty By Stimulating Economic Growth and Reducing Inequality .....	36
Financial Development May Reduce Undernourishment By Reducing Income Poverty and Increasing Agricultural Productivity .....	43
Summary and Conclusion .....	49

<b>4. Financial Sector Development and Health, Education, and Gender Equality Improvement</b> .....	51
Determinants of Health, Education, and Gender Equality .....	52
Financial Sector Development and Health .....	55
Financial Sector Development and Education .....	58
Financial Sector Development and Gender Equality .....	61
Summary and Conclusion .....	63
<b>5. Access to Financial Services for Poor Households and Smaller Firms</b> .....	65
Lack of Development and Reach of Financial Sectors .....	66
Causes for Access Problems for Poor Households and SMEs .....	75
Summary and Conclusion .....	83
<b>6. Improving Access to Financial Services: Recommendations</b> .....	85
Increase Size and Outreach of Financial Systems .....	85
Stabilize the General Economic Environment .....	88
Address Supply and Demand Mismatches .....	90
Improve Data and Expand Research .....	93
Summary and Conclusion .....	96
<b>References</b> .....	97

## LIST OF FIGURES

1. The Millennium Development Goals and Targets .....	x
2. Relationships Between Finance, Income, and the Millennium Development Goals Under Study .....	x
3. Impact of Financial Development and GDP per Capita on Selected MDGs in 2015 (assuming current growth trend) .....	xii
4. Overview of Recommendations to Improve Access to Financial Services .....	xv
1.1 Timeline of the Millennium Development Goals .....	2
1.2 The Millennium Development Goals and Targets .....	3
1.3 Interdependency of Poverty, Education, Health, Gender Equality, and Economic Welfare .....	4
1.4 High Correlation Between MDG Themes .....	4
1.5 Future Projections for MDG Themes Show Mixed Progress .....	6
1.6 Impact of Financial Development and GDP per Capita on Selected MDGs in 2015 (assuming current growth trend) .....	9
1.7 Extra Annual Financial Development and Per Capita GDP Growth Needed to Attain Selected MDGs in 2015 .....	10

1.8 Relationships and Organization of Chapters. . . . .	13
2.1 Financial Development is Driven by Many Factors and Aspects. . . . .	16
2.2 Financial Development Has High Explanatory Power for Per Capita GDP, 1980–2004 . . . . .	19
2.3 Per Capita GDP is Associated with Financial Development, 1960–95 . . . . .	20
2.4 Impact of Private Credit and Stock Market on Annual Growth is Large . . . . .	21
2.5 Banks and Markets are Complementary, 1976–93 . . . . .	22
2.6 Financial Development and the Drivers of Per Capita GDP Growth . . . . .	25
2.7 Less Volatility is Associated with Higher Per Capita GDP, 1986–97 . . . . .	29
2.8 More Private Credit May Dampen GDP Volatility, 1986–97 . . . . .	30
3.1 Financial Development and Poverty Across Country Income Groups, 1980–2004 . . . . .	34
3.2 Financial Development Reduces Poverty via Per Capita GDP Growth and By Reducing Inequality. . . . .	37
3.3 Average Income and Income of Lowest Quintile Are Highly Associated . . . . .	38
3.4 More Income Poverty in Poorer Countries, 1980–2003. . . . .	39
3.5 More Financial Development, Lower Income Poverty Growth, 1980–95 . . . . .	40
3.6 Higher Private Credit is Somewhat Associated with Less Inequality, 1980–95 . . . . .	42
3.7 Financial Development May Reduce Undernourishment Prevalence via Income Poverty Reduction and Agricultural Productivity. . . . .	44
3.8 Financial Development Reduces Undernourishment, 1980–2004 . . . . .	45
3.9 Income Poverty and Undernourishment Are Strongly Associated, 1980–2004. . . . .	46
3.10 Financial Development Causes Less Undernourishment via Agricultural Productivity, 1980–2004 . . . . .	47
4.1 Health, Education, and Gender Equality and Financial Development Across Country Income Groups, 1980–2004 . . . . .	52
4.2 Financial Development and Life Expectancy in Lower Income Countries Are Related, 1980–2003 . . . . .	57
4.3 Financial Development Somewhat Associated with Educational Improvements but Not Causally, 1980–2004. . . . .	60
4.4 Financial Development and Female Labor Force Participation in Lower Income Countries are Related, 1980–2003 . . . . .	62
5.1 Most Financial Systems are Small. . . . .	66
5.2 Large Variation in Average Overall Size of Financial Sectors, 1980–95 . . . . .	67
5.3 Large Variation of Financial Development Indicators by Income, 2000–04. . . . .	68

5.4 Insurance Industry is in its Infancy in Low-income Countries, 1980–95 .....	68
5.5 Large Differences in Access to Finance .....	69
5.6 Highest Income Quintiles Have Better Banking Services Penetration, 2003–04 .....	70
5.7 Highest Income Quartiles Have More, but Relatively Smaller Loans and Deposits, 2003–04 .....	70
5.8 Penetration of Microfinance Institutions is Improving but Still Low .....	71
5.9 Average Savings of Microfinance Institutions per Country, 2004 .....	72
5.10 Average Loans of Microfinance Institutions per Country, 2004 .....	72
5.11 Use of Financial Services in Selected African Countries, 2003 .....	73
5.12 SMEs Use Less External Finance .....	74
5.13 Smaller Firms Experience More Financial Obstacles and Grow Slower as a Result .....	74
5.14 Difference Between Access to and Usage of Services .....	76
5.15 Large Variation in Availability of Credit Information, 2006 .....	79
6.1 Overview of Recommendations to Improve Access to Financial Services .....	86

## LIST OF BOXES

1.1 Achievement of the MDGs and Regional Differences .....	7
1.2 Case Study Evidence Supports the Large Impact of Finance on MDGs .....	11
2.1 Standard Determinants of Economic Welfare .....	18
2.2 Predetermined Aspects of Financial Sectors Drive Economic Growth .....	22
2.3 Sectors Dependent on External Finance Grow Faster in Countries that Provide Better Creditor Information .....	23
2.4 U.S. State Banking Deregulation Boosted Per Capita State Income Growth Rate .....	23
2.5 Stock Market Liberalization Leads to Economic Growth .....	24
4.1 Case Study Evidence on the Effects of Financial Services and Household Health .....	58
4.2 The Effect of Financial Services on Education Microcredit Increases Schooling in Bangladesh .....	61
4.3 Financial Services and Gender Equality Empowerment of Women in Bolivia .....	63
6.1 Improving Creditworthiness for Smaller Firms in Mexico .....	88
6.2 Government Actions to Enhance Access .....	92
6.3 Other Options for the Government to Increase Access .....	93