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Governments should consider local conditions in bank regulations to aid the poor

Research has shown that better access to banking can help lift people out of poverty. A recent study in Bangladesh confirms that link. But it also suggests that policy makers should consider the large regional and local differences when applying regulations.

The study, detailed in a recent working paper for the Asian Development Bank Institute, matched maps compiled from poverty data in Bangladesh with maps that tracked local-level banking services.

As in other studies, the research suggests that access to banking services is strongly associated with poverty reduction. The development of a country's financial system aids poverty reduction when that system is opened to the poor. For example, increased access to banking services has been shown earlier to have a strong correlation with increased spending on education and protein in diets.

Most previous studies on the link between access to financial services and poverty reduction have looked at country-wide data, however. Considering the issue from a local level allowed the researchers to highlight the greater results seen in poor rural areas when they were given more access to financial services.

That's a lesson policy makers should take on board when they are considering regulations, the authors say.

In Bangladesh, the poorest areas are often the rural areas. Historically, banks in Bangladesh have concentrated their branch networks in the richest areas to maximize their profits. That is the case in many developing countries.

Recognizing the link between poverty reduction and access to financial services, the Bangladesh government decided in 2006 that banks should set up one rural branch for every four branches in urban areas. In 2012, the regulation became even more in favor of rural banking, with banks ordered to open one rural branch for every urban branch they opened.

The effects were plain to see.

The rate of increase in a number of measures of banking access rose across the country from 2010 to 2015 but the rate grew fastest in rural areas. This was largely due to an increase in the number of branches and bank accounts held in private banks, which were most affected by the regulations on opening rural branches.

For example, both the average number of branches per square kilometer and number of accounts per adult in private banks increased three-fold in rural areas during 2010–2015 but the rise was only moderate from a nation-wide perspective.

In rural subdistricts, the smallest geographic area considered in the study, the number of private bank branches rose to about 2.65 in 2015 from 1.52 in 2010.

In rural areas the number of bank accounts per 100 adults increased from 53 in 2010 to 72 in 2015.

In rural subdistricts, there was one branch of a commercial bank for every 20,000 adults in 2010 but one for every 13,400 adults in 2015.

Comparing those rises in banking access with changes in poverty levels confirmed earlier studies that suggested a link between the two.

The researchers found that an average increase in one bank account per adult in a rural subdistrict was associated with about a four-percentage-point fall in moderate poverty and a three-percentage-point decrease in extreme poverty.

Another interesting result from the study was the indication that greater access to deposits was a much stronger poverty fighter than access to credit. The research showed that deposits per adult in rural subdistricts rose from 9,000 taka in 2010 to 22,000 taka in 2015.

An increase of 1,000 taka in bank deposits per adult was associated with a reduction of 0.38 of a percentage point of moderate poverty and 0.26 of a percentage point of extreme poverty. That association was stronger in rural areas than in richer ones, the authors note.

Increased access to credit was not associated with any decrease in poverty.

The increase in deposits the researchers saw was an indication that more money flowed to rural areas through those newly opened banking channels, they suggest. Improvements in making and receiving payments, the ability to save more money, and remittances from those working in the cities or overseas were all likely contributors to the greater savings.

This podcast is based on *Regional Variations of Banking Services and Poverty Reduction: Evidence From Subdistrict Level Administrative Data of Bangladesh*, working paper for the Asian Development Bank Institute by Kazi Iqbal, a senior research fellow at the Bangladesh Institute of Development Studies; Paritosh K. Roy, assistant professor at the Institute of Statistical Research and Training of the University of Dhaka; and Shamsul Alam senior secretary of the General Economics Division, Planning Commission, Government of Bangladesh.

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