



Financial Inclusion

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Role of Government

- Set up the “scene” for development of credit and capital markets
- Creating legal and regulatory framework
 - Protecting creditor rights
 - Protecting shareholder rights
 - Law enforcement
- Financial liberalization
 - Banking system
 - Capital markets

Role of Foreigners

- Increase competition in credit markets
- Foreign direct investment (FDI) - cross-border M&A
 - Economic nationalism protects private benefits of control of corporate insiders
 - Source of valuable technology and know-how transfer by promoting linkages with host country firms
 - Generate improvements in productivity and corporate governance
 - (Crowd-out effects and absorptive capacity in developing countries)

FDI & Corporate Governance

Albuquerque, Ferreira, Marques and Matos (2013)

- FDI generates positive corporate governance spillover effects to local firms
 - Facing a cross-border M&A, rival local firms improve governance in response to competitive forces
- Spillover more pronounced when FDI originates from:
 - Country with strong investor protection
 - Product market competition is more intense in target firm's industry

Foreign Portfolio Investment

- Conventional wisdom
 - Institutional investors seek short-term gains only
 - No concern on long term prospects of firms
 - Foreign portfolio flows are “hot money”
- Research agenda on foreign institutional ownership
 - Financial globalization is changing corporate ownership
 - Dispersed ownership structures
 - Rise of foreign institutions

Foreign Portfolio Investment

- Foreign institutional investors are “agents of change”
 - Better monitoring of management as they are more independent than locals (impaired by business ties)
 - Improve corporate performance and value
 - Facilitate value-enhancing takeovers
 - Improve corporate governance
 - Board monitoring
 - Link executive compensation to performance