

Financial Inclusion in Latin America

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A decorative graphic consisting of several horizontal lines of varying lengths and colors (teal, light blue, white) extending from the right side of the slide towards the center.

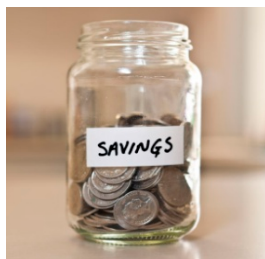
What is financial inclusion (FI)?

Access and effective usage of financial services by households and firms.



Focus on financially-constrained households and enterprises.

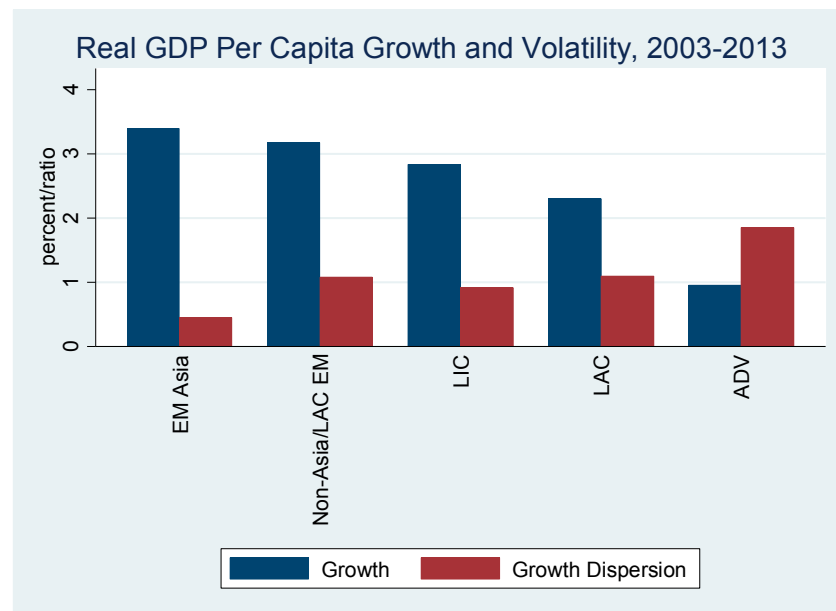
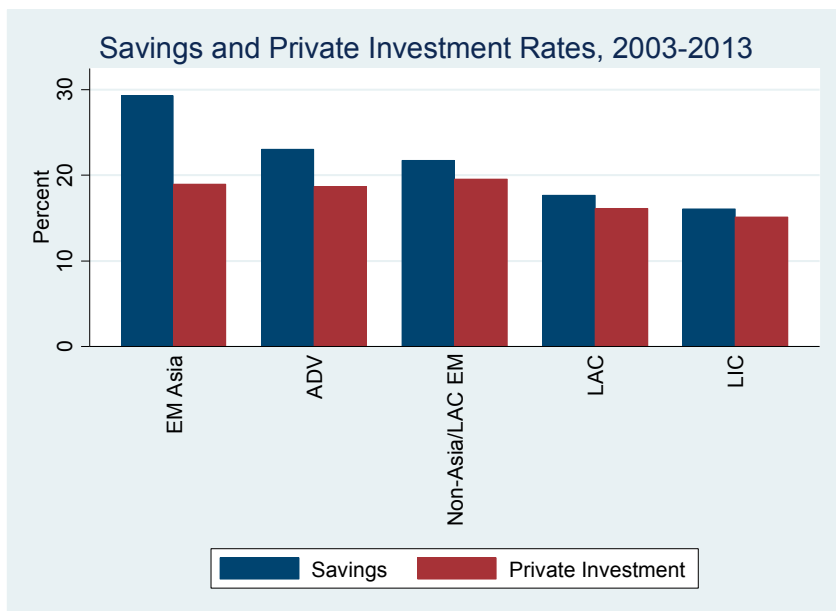
Why is FI important for LAC?



LAC savings and investment rates have been low.



Per capita GDP growth has been low and volatile.



Why is FI important for LAC?

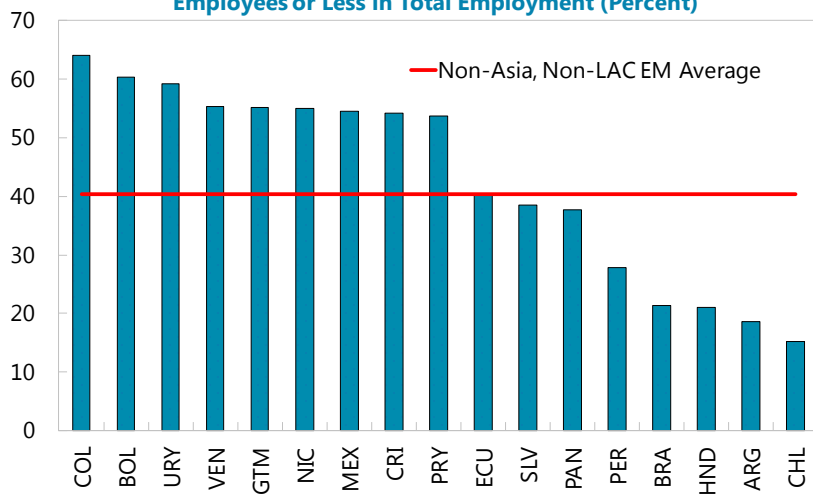


Small enterprises are important...



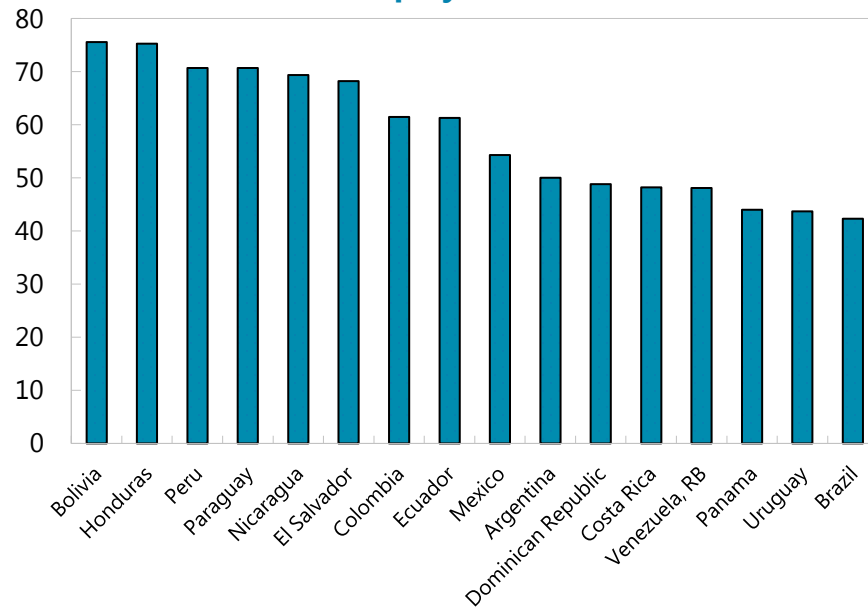
...and informal sector is large in many countries.

Latin America and Caribbean: Share of SMEs With 100 Employees or Less in Total Employment (Percent)



Sources: World Bank

Informal Employment, 2003-2013



Why is FI important for LAC?

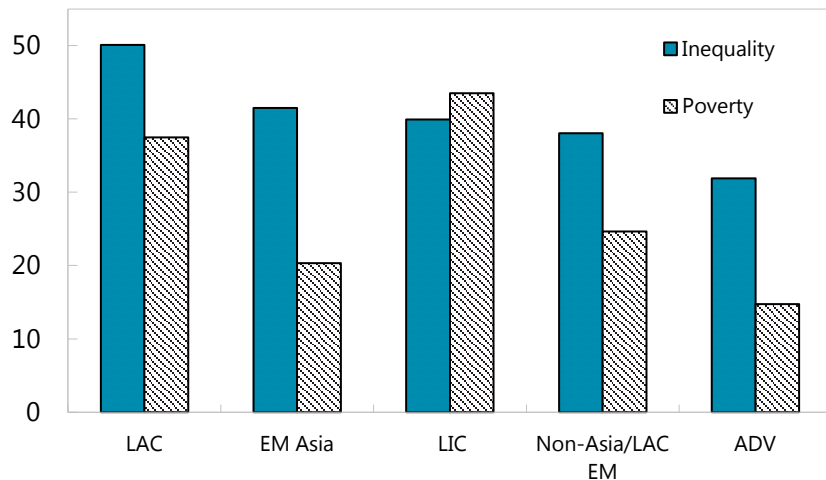


Poverty and, in particular, inequality, is high...

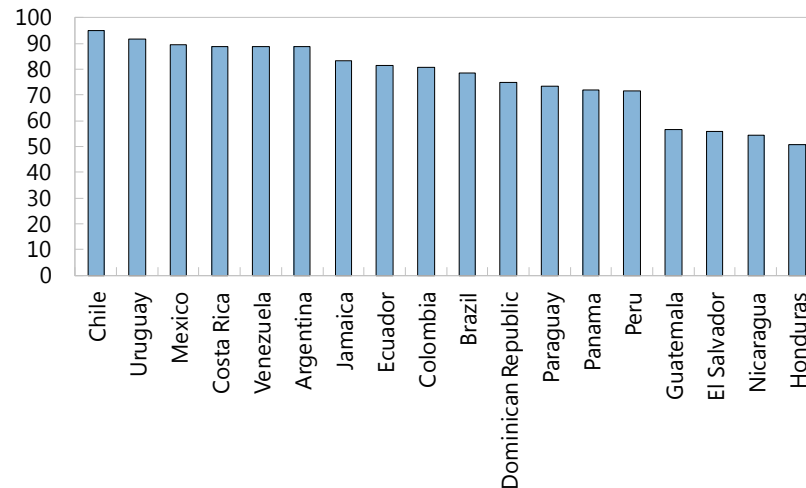


...in part, reflecting large inequality of opportunities.

Poverty Rate, 2003-2013



Latin America and the Caribbean: Human Opportunity Index, 2010





Measuring Financial Inclusion

Financial Inclusion Index

Use of financial services

Households (FINDEX)

- Account at a formal financial institution (% age 15+)
- ATM is main mode of withdrawal (% with an account, age 15+)
- Debit card (% age 15+)
- Loan from a financial institution in the past year (% age 15+)
- Saved at a financial institution in the past year (% age 15+)

Firms/SMEs (Enterprise Survey, <100 employees)

- % of SMEs Firms With a Checking or Savings Account
- % of SME Firms With Bank Loans/line of Credit
- % of SME Firms Using Banks to Finance Investments
- Working Capital Bank Financing (%)
- Value of Collateral Needed for a Loan (% of the Loan Amount)
- % of SME Firms not needing a loan
- % of SME Firms Identifying Access/cost of Finance as a Major Constraint

Access to financial infrastructure (FAS, WDI)

- Number of ATMs per 1,000 sq km
- Number of branches of ODCs per 1,000 sq km
- Number of branches per 100,000 adults
- Number of ATMs per 100,000 adults



Household Index 2014

- Less than 0.3
- 0.3 to 0.45
- 0.45 to 0.6
- 0.6 to 0.75
- More than 0.75



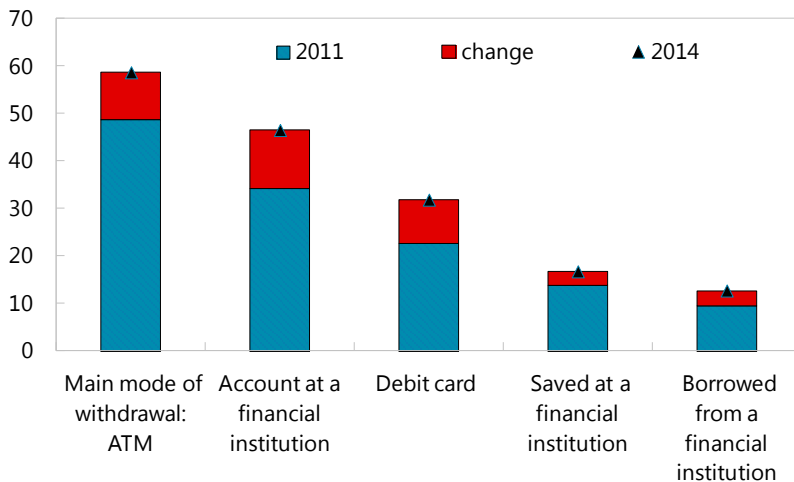
Where does LAC stand on FI of Households?



LAC has improved on all components of HH use of financial services ...

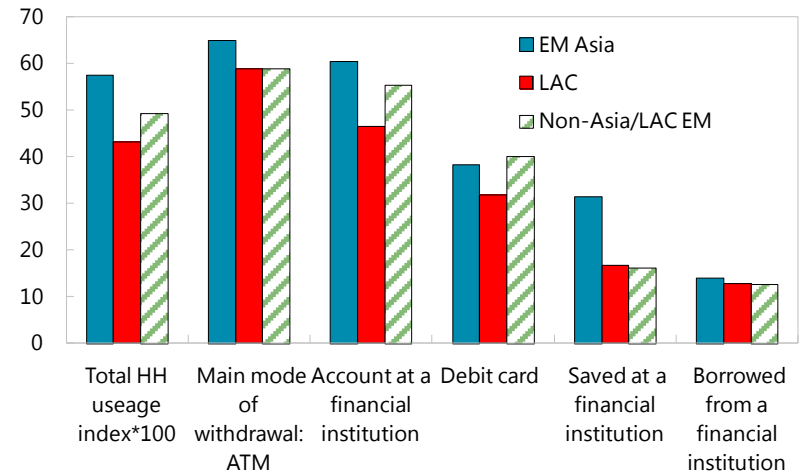
...but continues to lag behind other EMs.

LAC: Components of Index of Household Use of Financial Services (percent of adults 15+)



Sources: FINDEX and IMF staff calculations

LAC and EMs: Household Use of Financial Services (Percent of adults 15+ for components, index for total)



Sources: FINDEX and IMF staff calculations



Where does LAC stand on FI of Households?

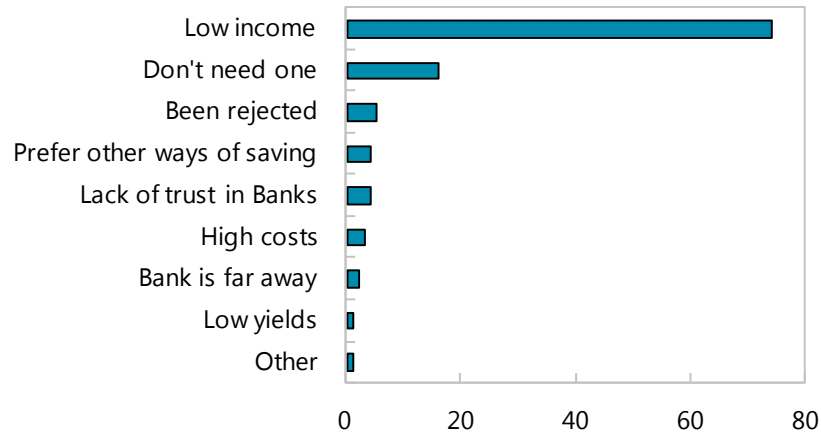


In Mexico low income is quoted as the major reason for not having a bank account ...

...while rejections, debt aversion, and high costs are quoted as main reasons for not having credit.

Mexico: Reasons for Not Having a Bank Account

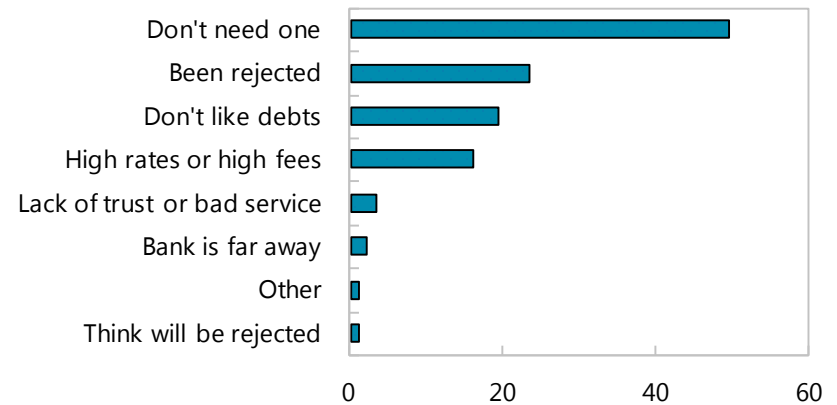
(Percent of people who don't have a bank account, they represent 65 percent of total)



Sources: INEGI, 2012 National Survey of Financial Inclusion and Fund Staff estimates.

Mexico: Reasons for Not Having Credit

(Percent of people who don't have credit, they represent 73 percent of total)



Sources: INEGI, 2012 National Survey of Financial Inclusion and Fund Staff estimates.



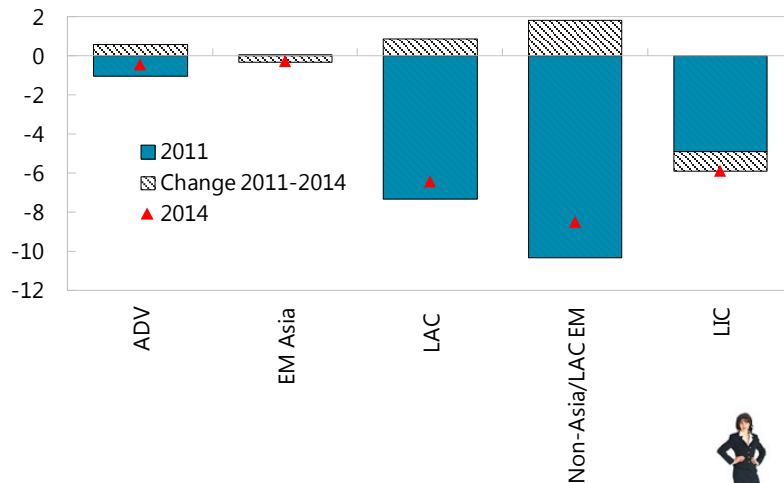
Where does LAC stand on FI of Households?



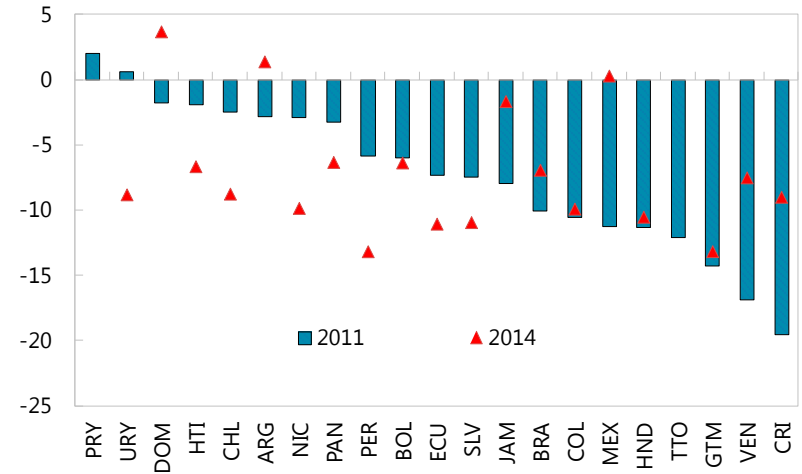
There is a relatively large gender gap ...

... though it has been shrinking in MEX, CRI, VEN, and JAM.

Gender Gap (percentage points)



Latin America and Caribbean - Gender Gap, 2011-2014 (percentage points)





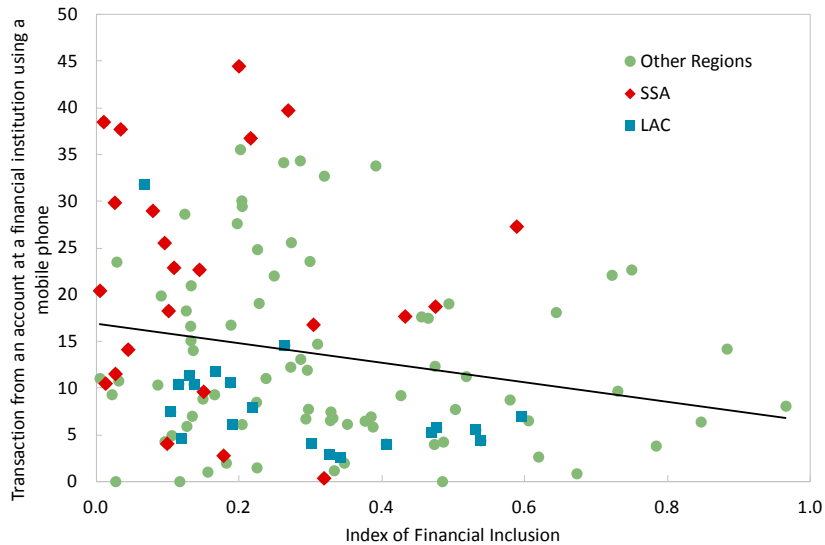
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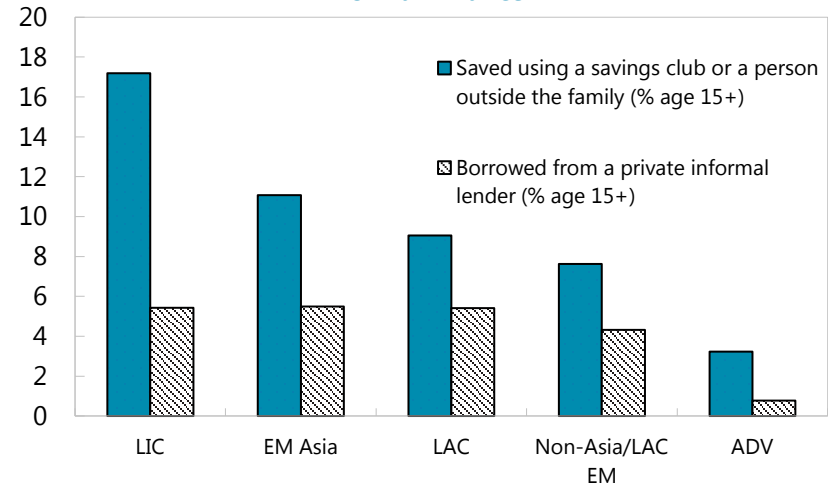
LAC lags behind other regions on mobile use of financial services.

Informal finance is important.

Access to Financial Services: Mobile Versus Infrastructure



Informal Finance





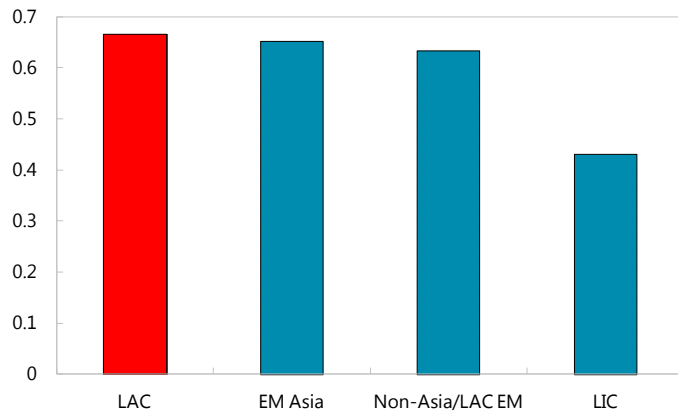
Where does LAC stand on FI of Enterprises?



LAC performs well on firm use of financial services.

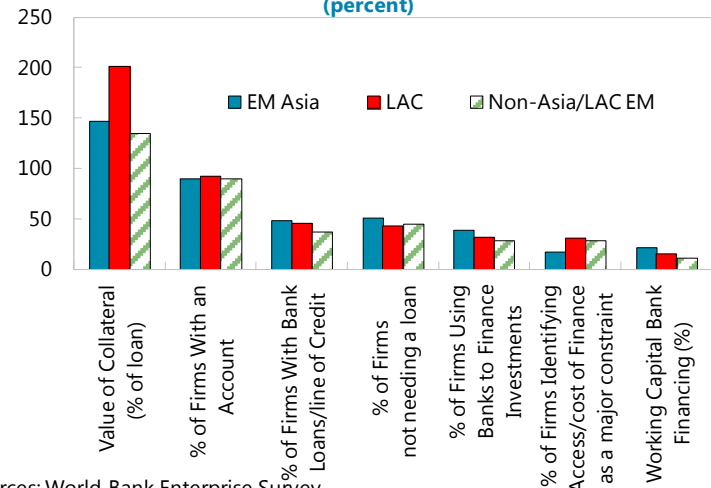
But collateral requirements are high and access to/cost of finance is seen as a major constraint.

Index of Enterprise Use of Financial Services by Income Level



Sources: World Bank Enterprise Survey, various year, IMF staff calculations

LAC and EMs: Enterprise Use of Financial Services (percent)



Sources: World Bank Enterprise Survey



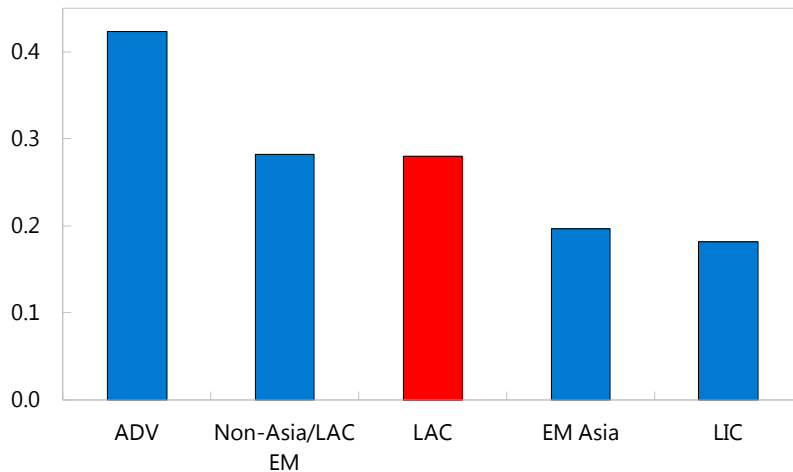
Where does LAC stand on Access to Financial Infrastructure?



LAC is at par with non-Asia EMs on access to financial infrastructure...

...though in VEN, BOL, CHL, and the CARIB access remains poor.

Index of Access to Financial Services, 2011



Sources: Financial Access Survey, IMF staff calculations





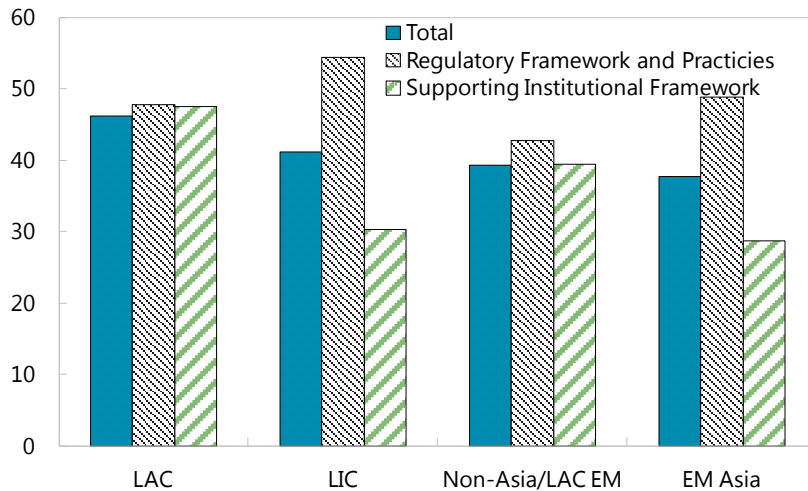
Where does LAC stand on enabling environment for FI?



LAC provides supportive environment for FI, in particular, on institutional framework.

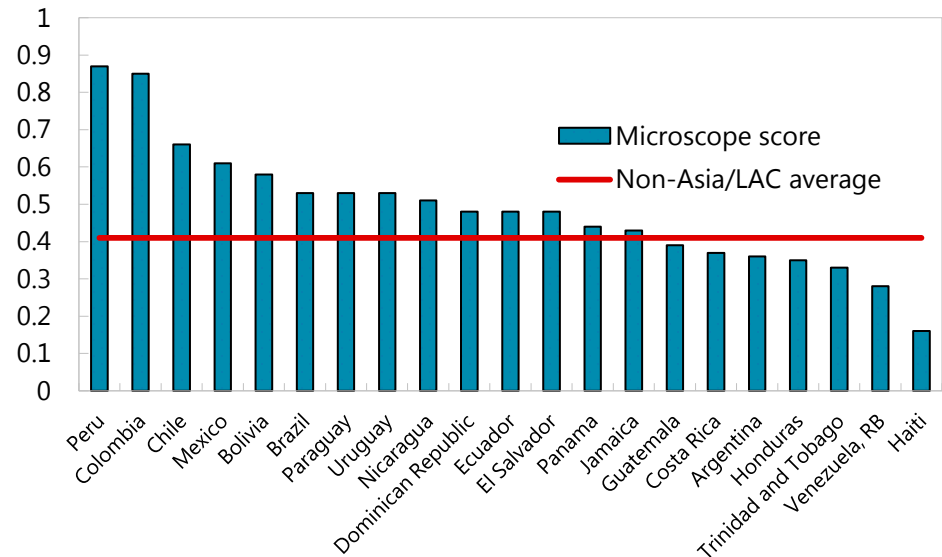
Peru is the world champion on enabling environment for FI!

Enabling Environment for Financial Inclusion, 2011



Sources: Global Microscope, Center for Financial Inclusion

LAC: Enabling Environment for Financial Inclusion





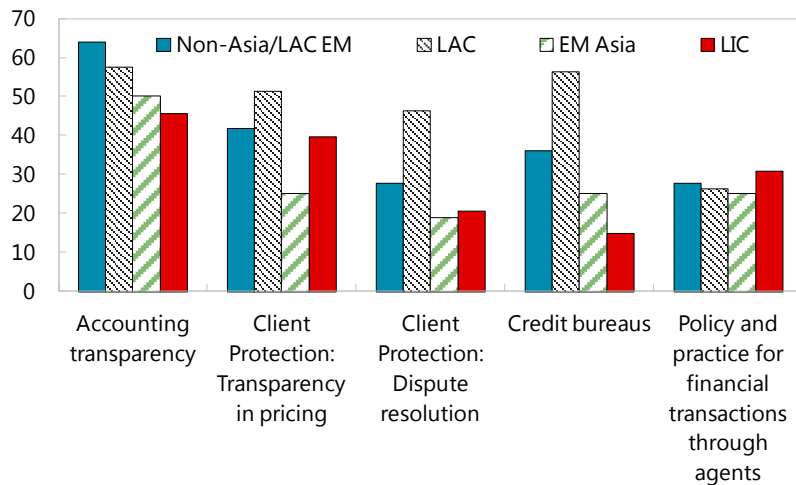
Where does LAC stand on enabling environment for FI?



LAC is doing particularly well on credit bureaus and client protection ...

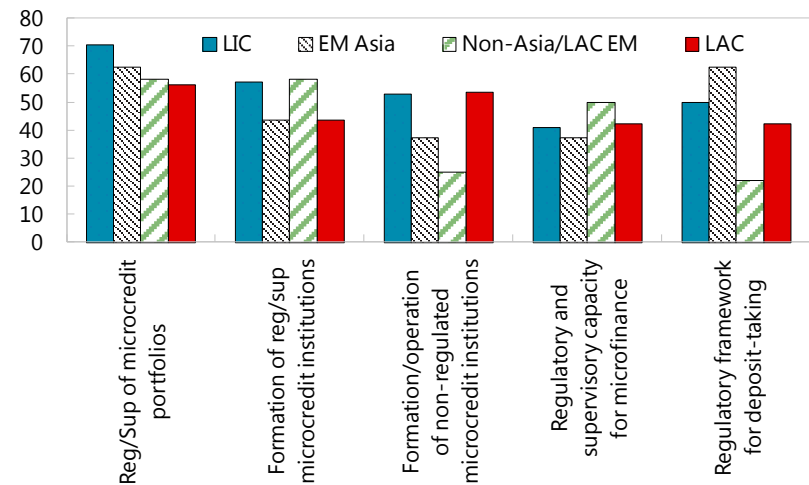
...but is lagging behind on regulation/supervision and formation of microcredit institutions.

Enabling Environment for Financial Inclusion: Supporting Institutional Framework, 2011



Sources: Global Microscope, Center for Financial Inclusion

Enabling Environment for Financial Inclusion: Regulatory Framework and Practices, 2011



Sources: Global Microscope, Center for Financial Inclusion



Determinants of FI



VARIABLES	Households			Firms	Access
	HH 2011	HH 2011 &2014	HH 2014	2011	2011
Rule of Law (-2.5(weak) to 2.5(strong))	0.0510 (0.0310)	0.0531** (0.0230)	0.0551* (0.0287)	0.0217 (0.0434)	0.0148 (0.0373)
log_GDP_pcap	0.0883*** (0.0296)	0.112*** (0.0210)	0.122*** (0.0290)	0.117*** (0.0390)	0.0922** (0.0418)
Mean years of schooling (of adults) (years)	0.0256*** (0.00824)	0.0205*** (0.00581)	0.0186** (0.00785)	0.00951 (0.0126)	-0.00951 (0.0135)
Shadow Economies Index	-0.00191 (0.00177)	-0.00260* (0.00134)	-0.00351* (0.00180)	-0.00170 (0.00270)	0.000505 (0.00205)
Fuel exports (% of merchandise exports)	-0.000378 (0.000587)	-0.000408 (0.000487)	-0.000322 (0.000739)	-0.00227** (0.000950)	-0.00155* (0.000833)
Constant	-0.506** (0.241)	-0.603*** (0.174)	-0.607** (0.241)	-0.402 (0.301)	-0.483 (0.335)
Observations	84	169	85	55	123
R-squared	0.722	0.699	0.732	0.570	0.184

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1



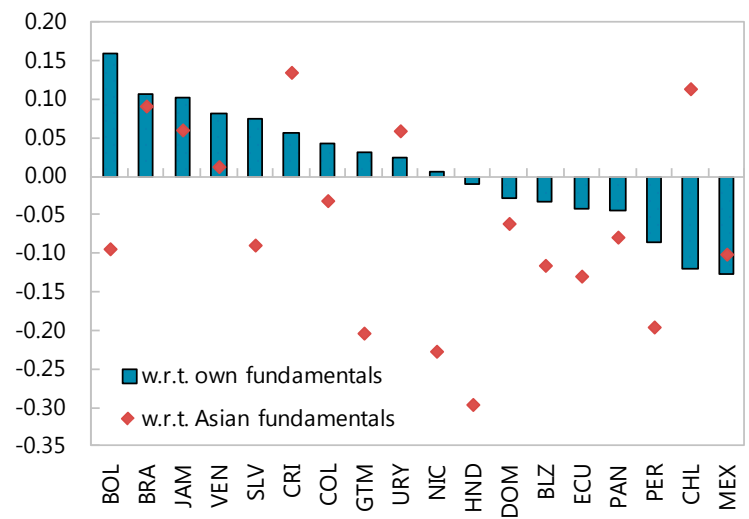
Computing FI Gaps



Some countries do not have gaps w.r.t. to their own fundamentals, though the fundamentals maybe poor...

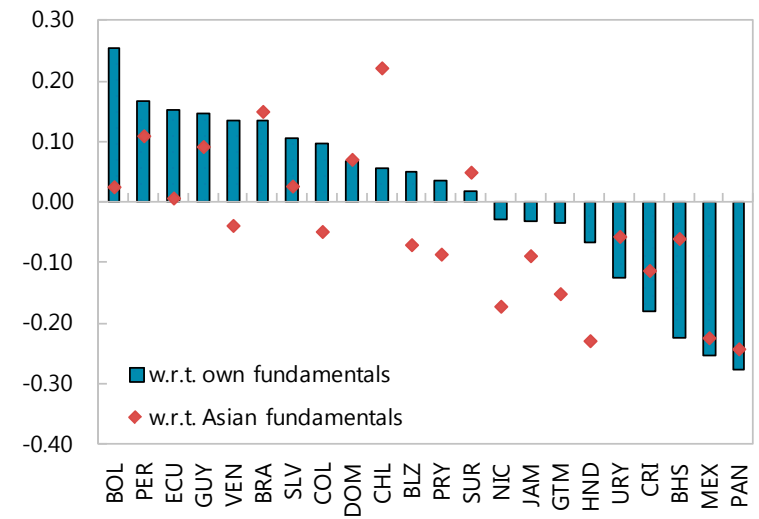
...many have gaps with respect to Asian benchmark and there is heterogeneity on HH and firms (e.g. PER, CRI).

Household Financial Inclusion Gap



Sources: IMF staff calculations.

Firm Financial Inclusion Gap



Sources: IMF staff calculations.



Determinants of FI Gaps



VARIABLES	HH FI gap 2014	Firm FI gap 2011	Access gap 2011
Non-Interest Income / Total income (%)	-0.00281* (0.00167)	-0.00504* (0.00267)	0.00209 (0.00385)
Bank net interest margin (%)	9.44e-05 (0.0125)	-0.0192 (0.0152)	0.0297 (0.0241)
3 Bank Asset Concentration (%)	0.000587 (0.00141)	0.00121 (0.00129)	0.00134 (0.00182)
Overhead Costs / Total Assets (%)	0.00118 (0.0118)	0.0270 (0.0168)	-0.0170 (0.0262)
Microscope-Overall Score (0-100, 100 best)	0.000724 (0.000949)	0.00420** (0.00158)	0.000879 (0.00265)
Distance to default	-0.00320** (0.00134)	-0.00128 (0.00213)	-0.000149 (0.00271)
Prevalence of foreign ownership, 1-7 (best)	-0.0203 (0.0248)	-0.117*** (0.0261)	-0.0630* (0.0354)
Constant	0.121 (0.109)	0.484*** (0.143)	0.0115 (0.215)
Observations	88	30	46
R-squared	0.162	0.549	0.143

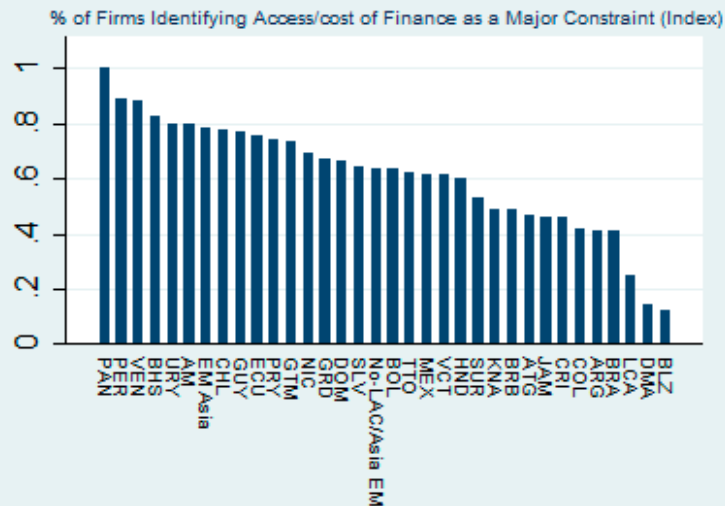
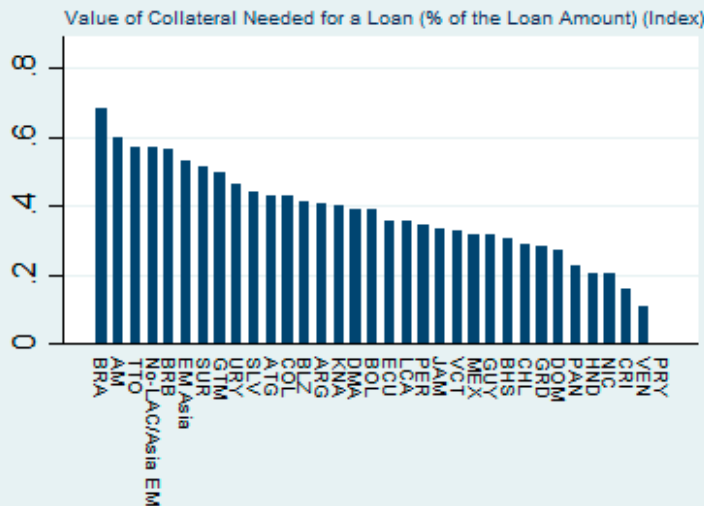
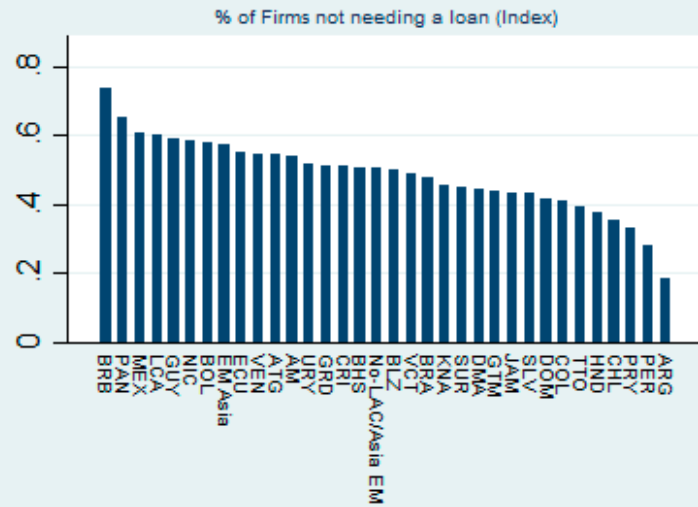
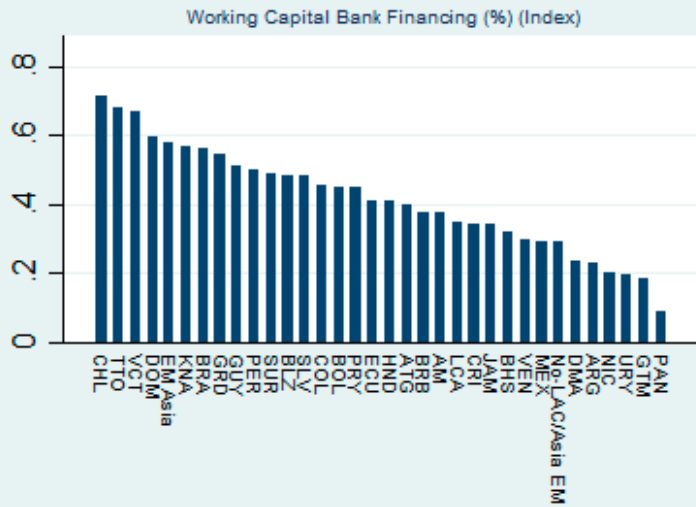
Robust standard errors in parentheses

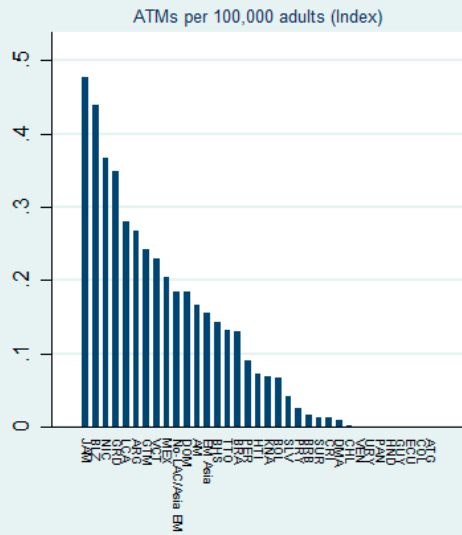
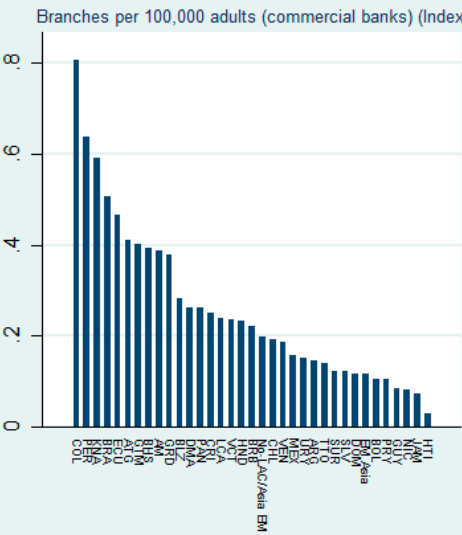
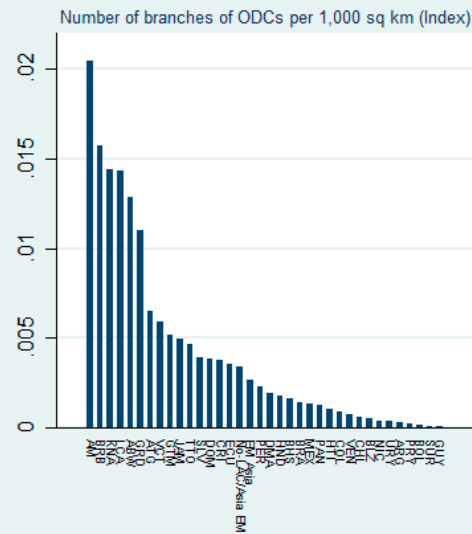
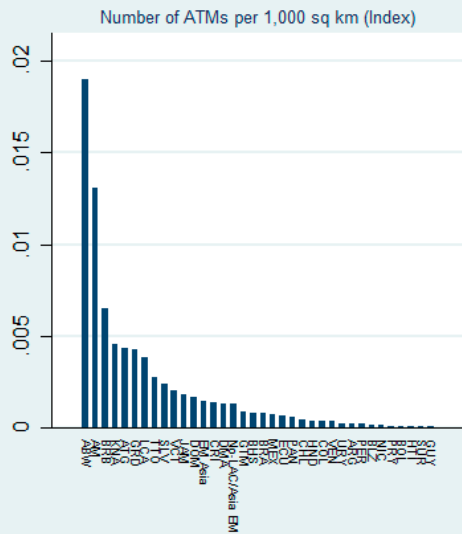
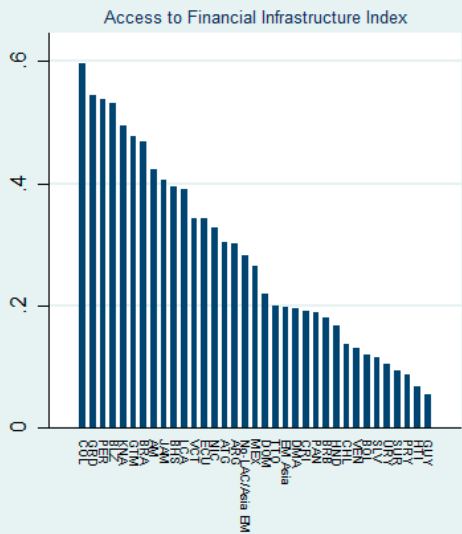
*** p<0.01, ** p<0.05, * p<0.1

Conclusions:

- LAC has improved on FI of HH but continues to lag other EMs. Large gender/rural-urban gaps.
- LAC is in line with other EMs on FI of firms but collateral requirements are high and access to/cost of finance is a major constraint in some countries though access to financial infrastructure is relatively good.
- LAC has created a favorable regulatory environment for FI but regulation/supervision and formation of microcredit institutions could be improved.
- *Income per capita, rule of law, the level of education and informality* for households, and *oil exports* for firms are important determinants of FI.
- FI gaps in LAC remain large, including for firms. Better regulatory environment, lower share of non-interest income, lower bank safety buffers, and prevalence of domestic companies contribute to smaller FI gaps.
- Hence, improving regulatory environment for FI, reducing information costs, as well as reviewing bank income sources and regulatory framework (e.g. reserve requirements) could improve FI outcomes.

Background Slides





Prevalence of Foreign Ownership

