

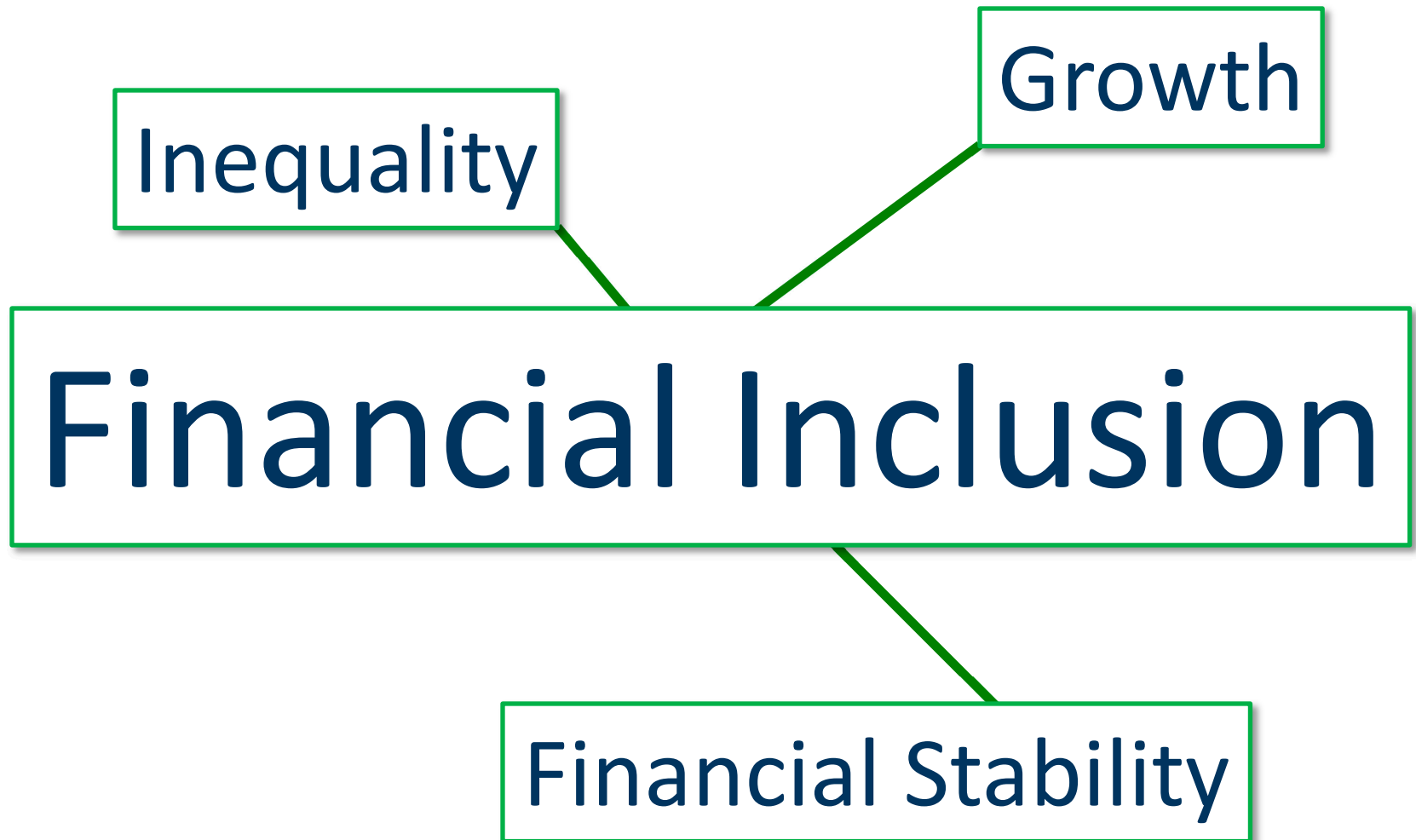


# Financial Inclusion, Growth, Inequality and Stability in Latin America

**A Model-based Analysis of Firm Inclusion**

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Strategy, Policy, Review Department**

# Why Do we Care about Financial Inclusion?



# Different Constraints to Financial Inclusion

## Participation Cost

### 1 Access to Credit

Determined by:



Fees



Transaction Costs



Documentation Requirements

## Borrowing Constraints

### 2 Depth of Credit

Determined by:



Collateral Requirements/  
Borrowing Costs

## Intermediation Costs

### 3 Credit Intermediation Efficiency

Determined by:



Interest Rate Spreads & Fees



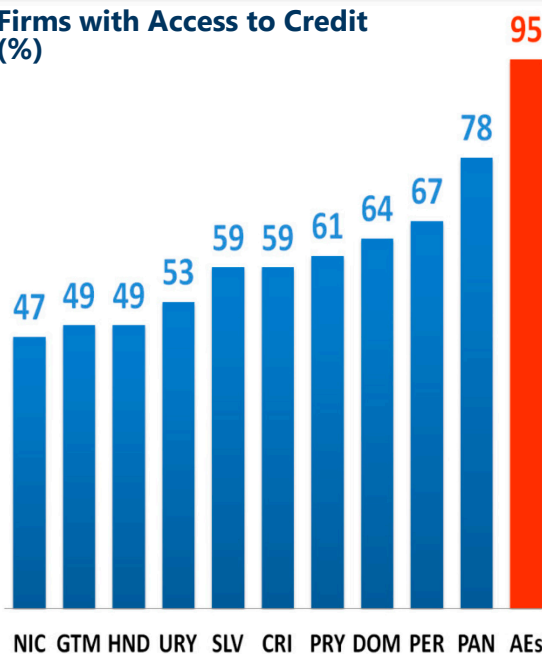
Monitoring Costs for Banks

# Why Do we Care about Financial Inclusion?

## Constraints Are Country-Specific

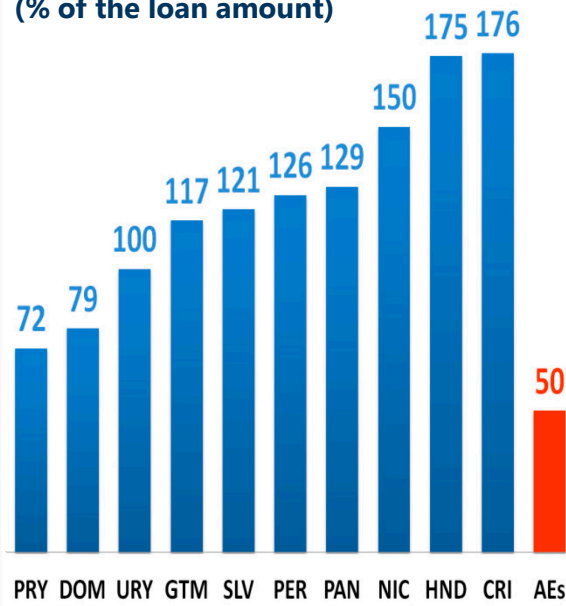
### Access

Firms with Access to Credit (%)



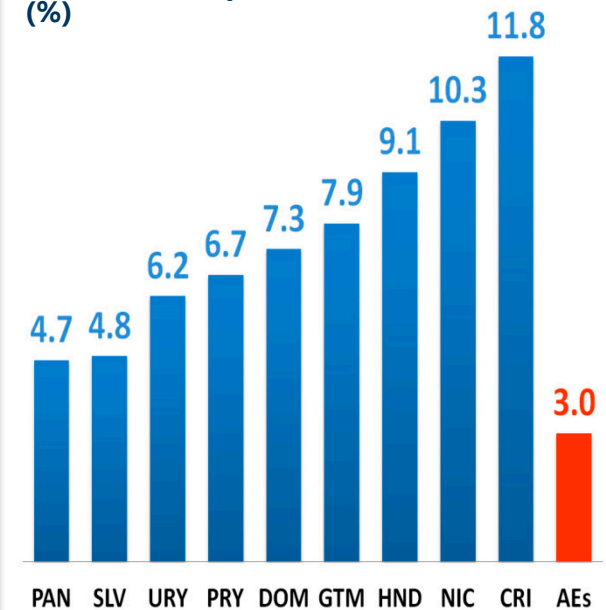
### Borrowing Constraints

Collateral Needed for a Loan (% of the loan amount)



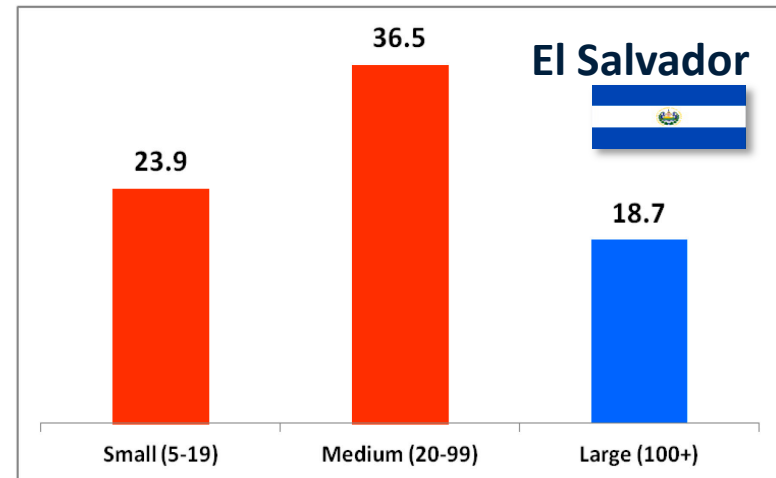
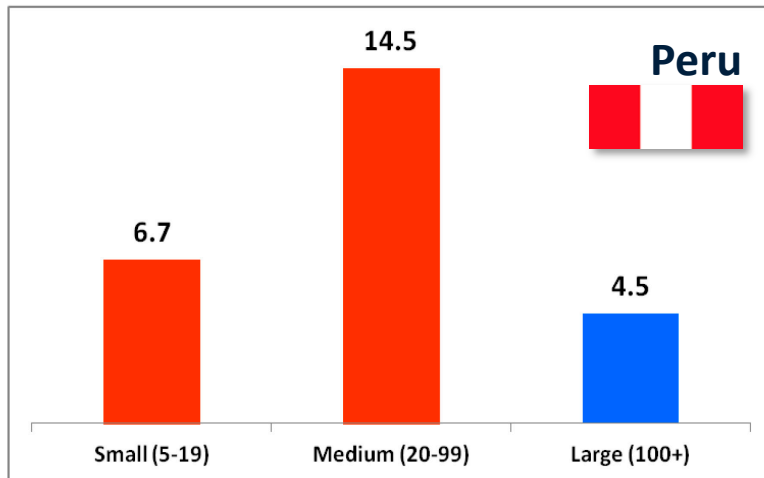
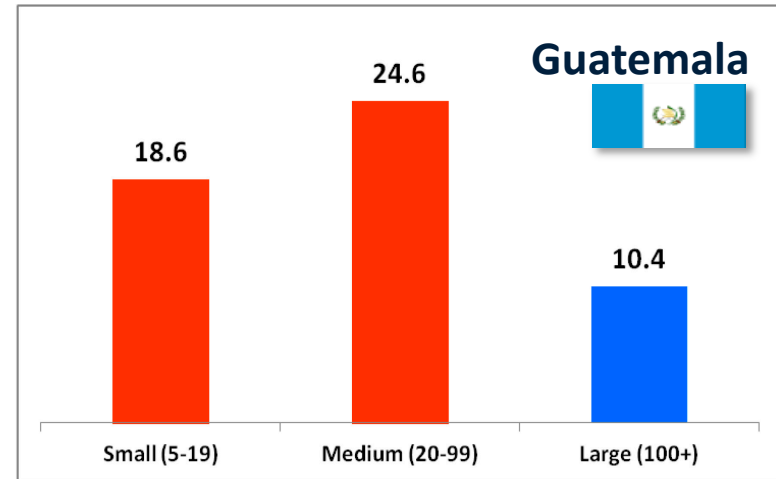
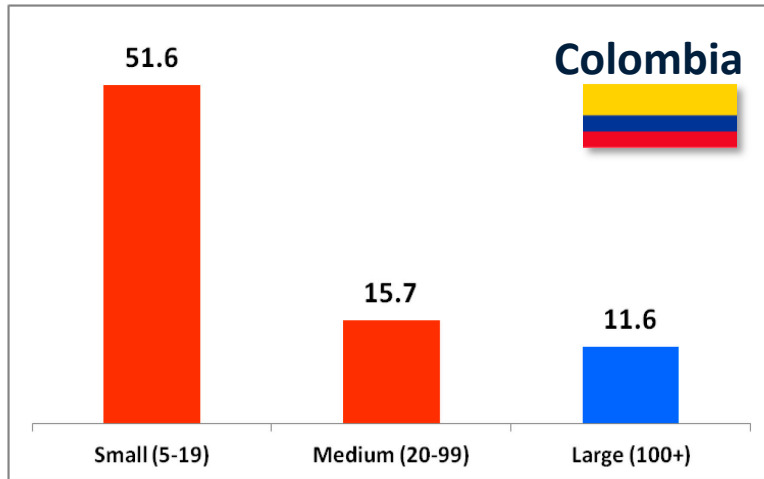
### Intermediation Costs

Interest Rate Spread (%)

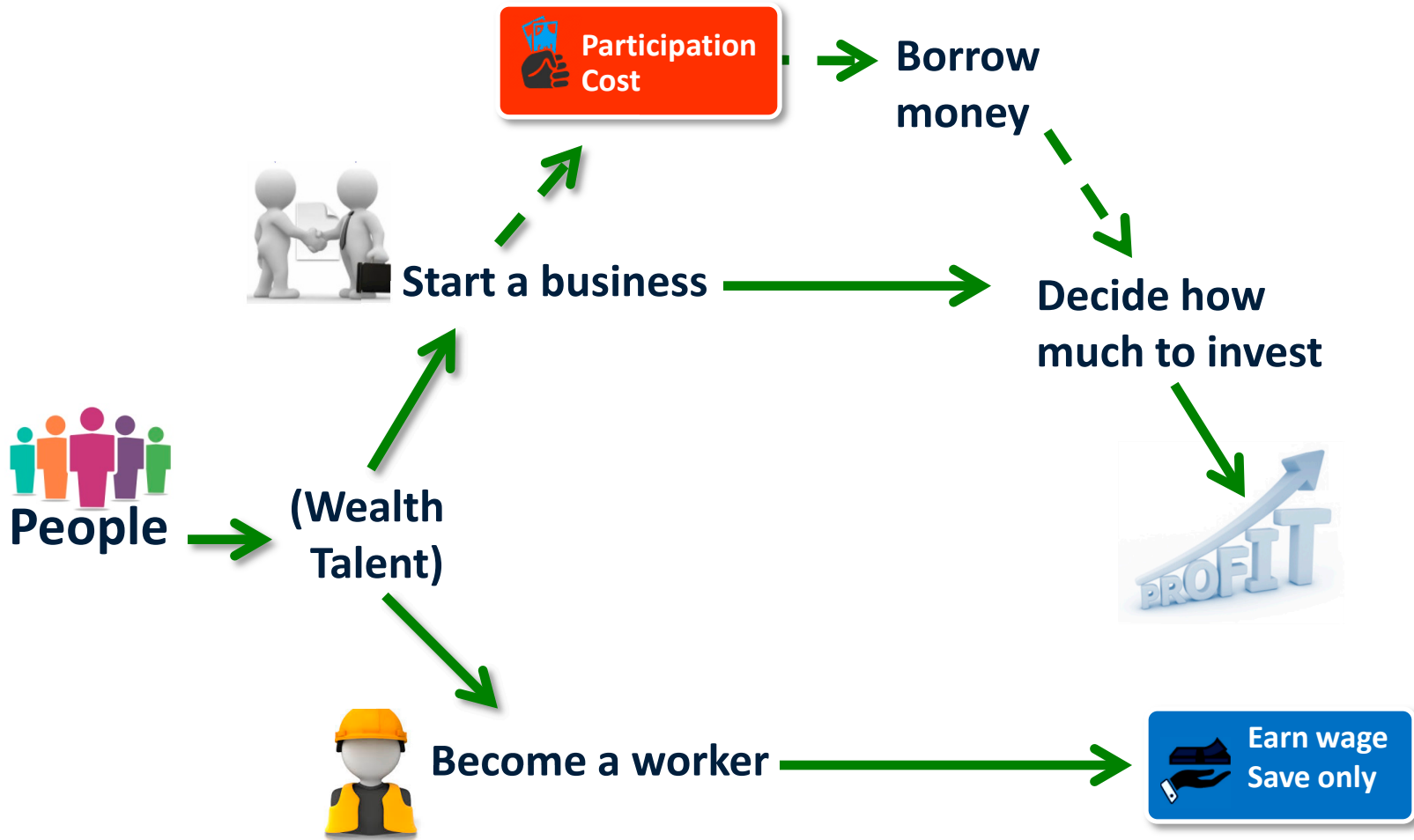


# Finance is Major Constraint Among SMEs

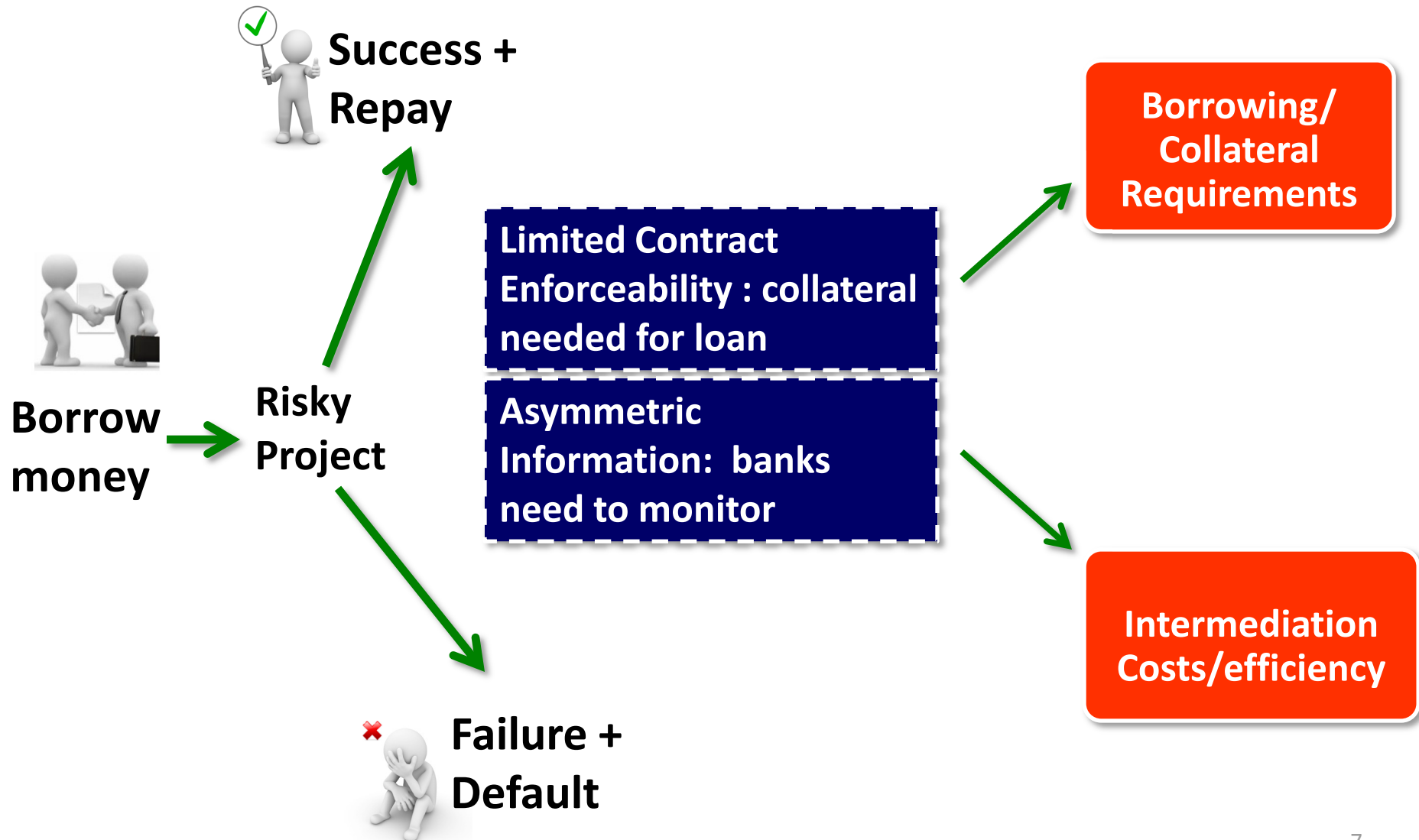
## Percent of Firms Identifying Access to Finance a Major Constraint



# General Equilibrium Model: Decision Tree



# General Equilibrium Model: Borrowing Money



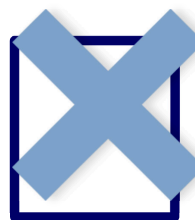
# What the Model Can and Cannot Do



**Allows identifying  
bottlenecks to financial  
inclusion**

**Implications for GDP, GINI,  
NPLs and new firm  
creation**

**Trade-off between  
growth, inequality, and  
financial stability**



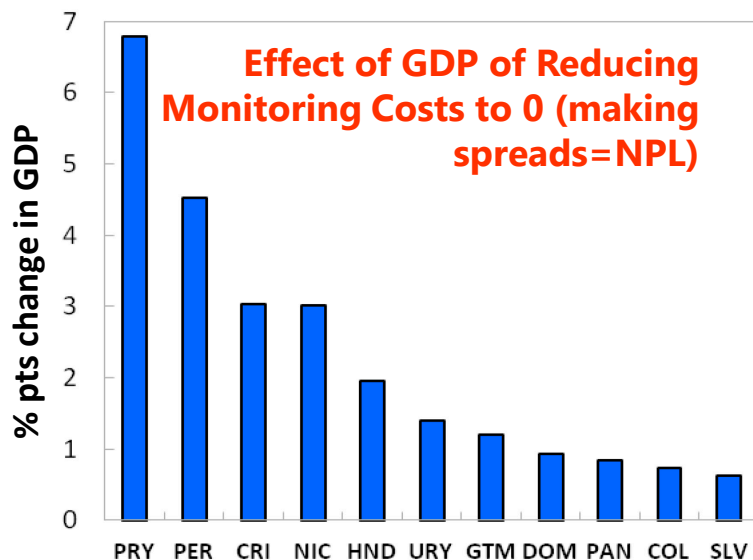
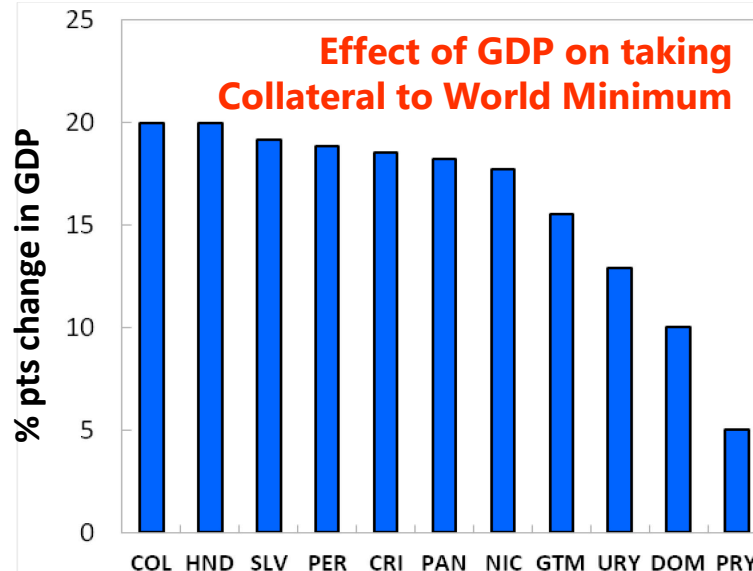
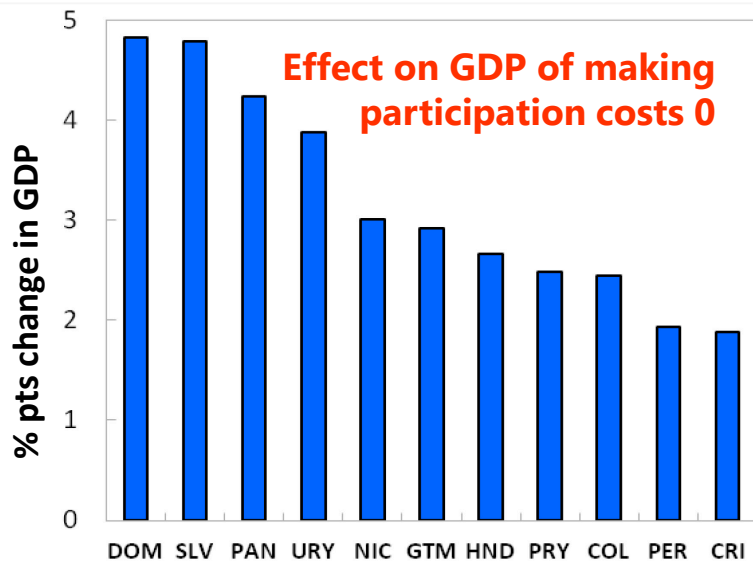
**How to promote  
financial inclusion  
(specific policies needed)**

**Closed economy => limited  
stability implications**

**Growth implications  
from inclusion alone**

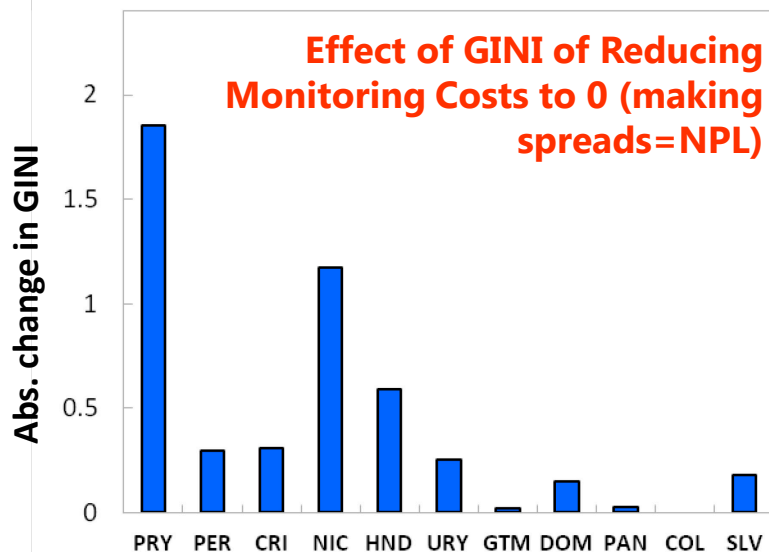
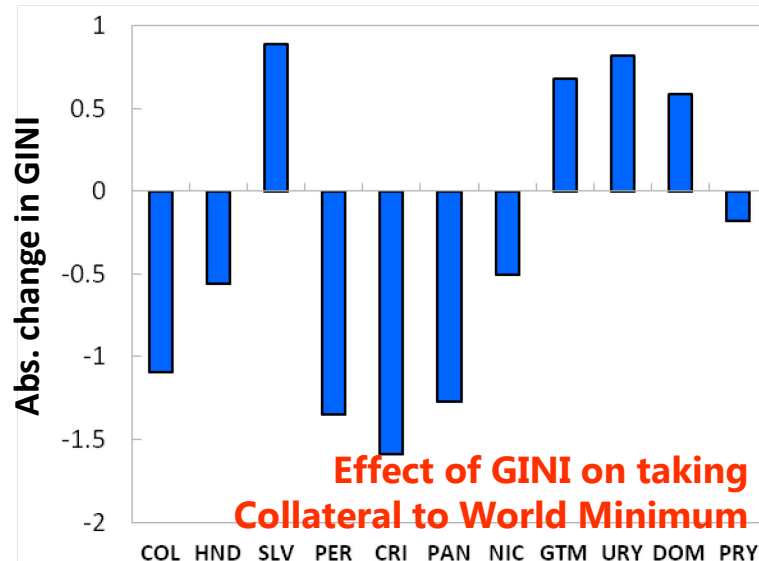
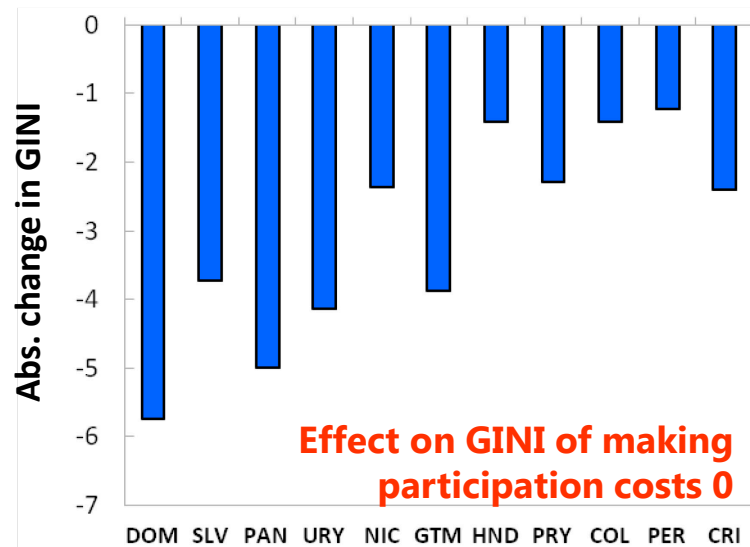


# Reducing Constraints: Impact on GDP



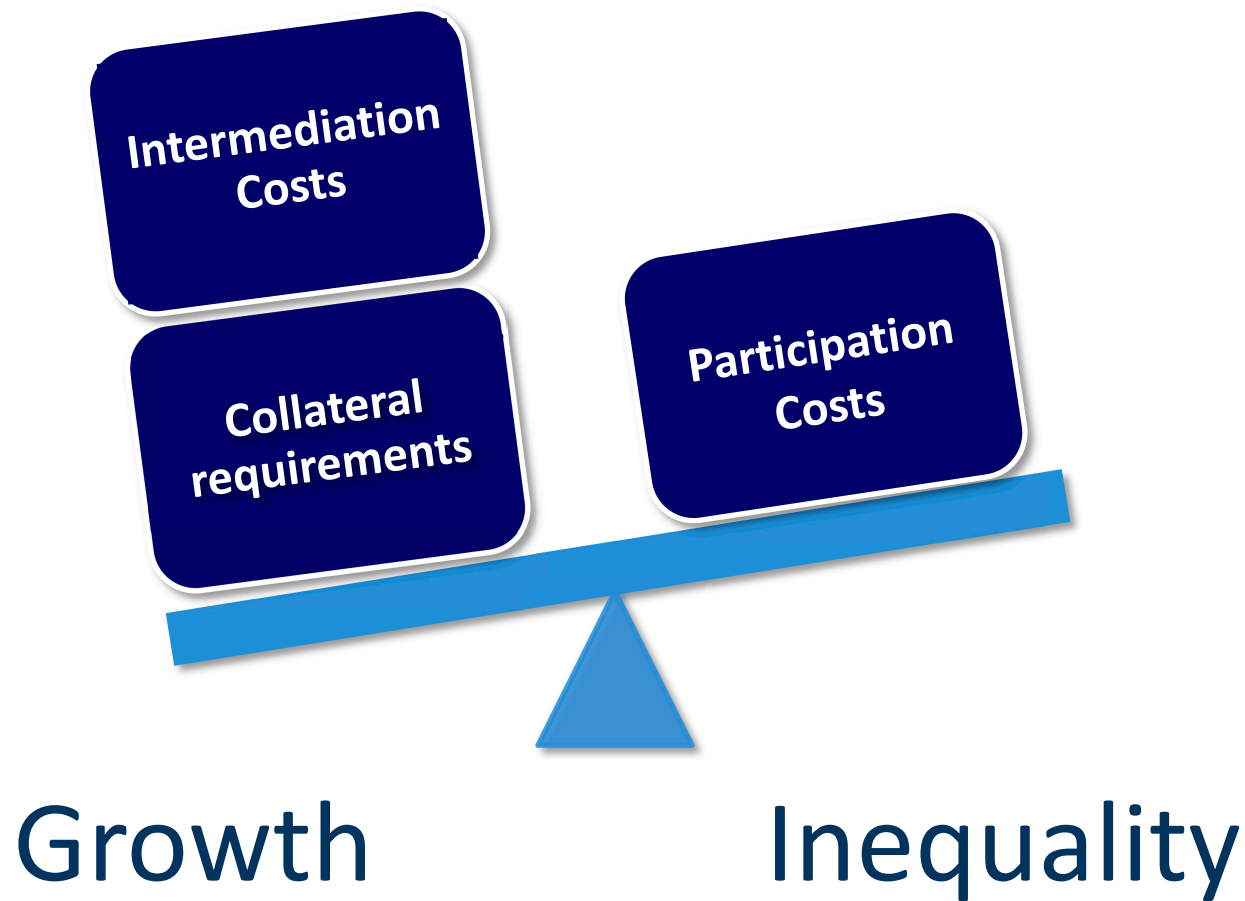
- ✓ Higher capital and investment
- ✓ Productivity increases (firm scale expands)
- ✓ More efficient financial contracts
- ✓ New business start ups

# Reducing Constraints: Impact on Inequality



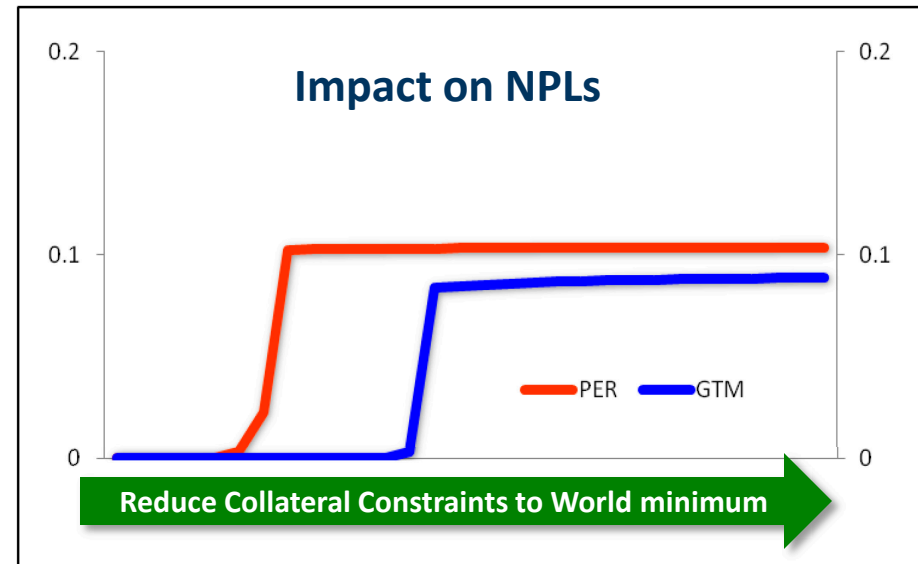
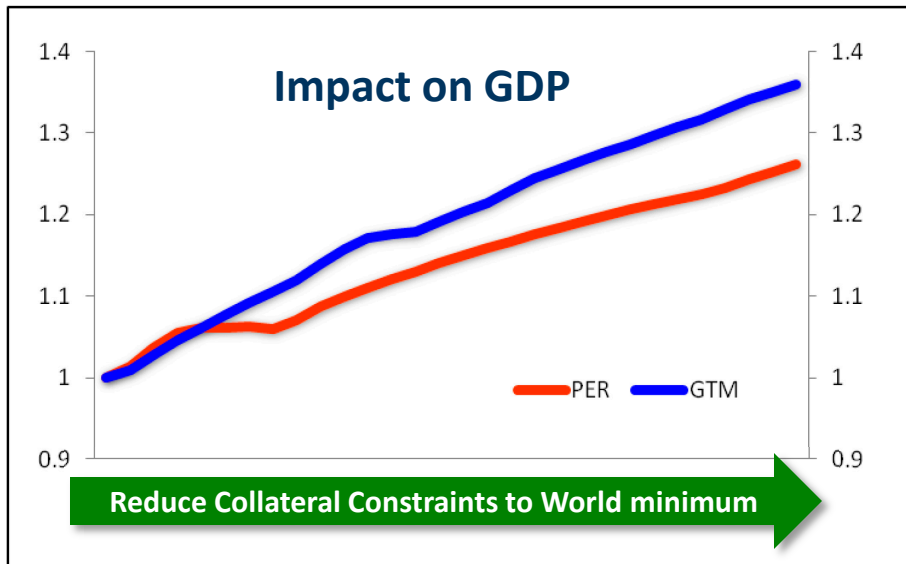
- ✓ Lower participation costs reduce inequality in all countries
- ✓ Lower collateral requirements (largest effect on GDP), have mixed effects
- ✓ Improved efficiency benefits larger firms most, increasing inequality

# There Can Be Tradeoffs: Growth and Inequality



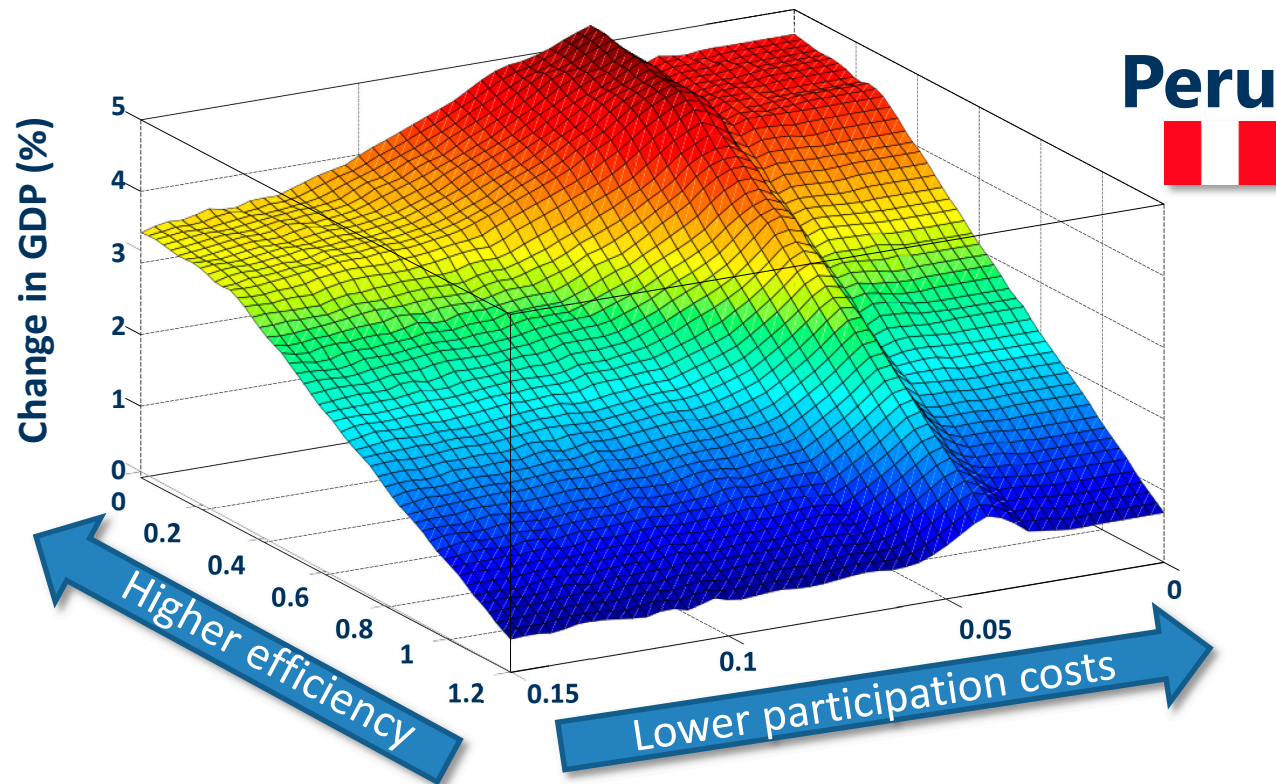
# There Can Be Tradeoffs: Growth and Stability

## Reducing Collateral Constraints raises GDP but NPLs can also increase



# Interactions between Financial Constraints

Collateral constraint is relaxed by 20% for different values of intermediation efficiency and participation costs



# What Policies Can Help?

## Range of Policy Interventions

Develop appropriate legal, regulatory, and institutional frameworks

Improve collateral frameworks (e.g., registries for movable collateral)

Facilitate access to borrower information (e.g., credit bureaus and registries)

Enhance bank penetration (e.g., simplified documentation requirements, non-financial services)

# Concluding remarks

- ✓ Multi-dimensional path to financial inclusion.
- ✓ No “one-size-fits-all”: most binding constraints and drivers vary by country.
- ✓ Developing tailored policies requires understanding country-specific constraints.
- ✓ Policy makers should remain mindful of tradeoffs.