

*The ninth in our series of impact notes examines the impact of a large-scale banking expansion in Mexico, showing that simply increasing access to finance can have important economic effects.*

## **The Economic Impact of Expanding Access to Finance in Mexico**

*Miriam Bruhn and Inessa Love*

Financial development is strongly associated with economic growth across countries, and several recent studies have found a positive correlation between access to finance and poverty alleviation at the country level. However, these studies face severe identification issues, making it hard to establish a causal impact of increasing access to finance on economic outcomes. There is also little evidence on the channels through which finance may help to reduce poverty.

We study a unique bank opening in Mexico that allows us to evaluate the effect of increased access to financial services for low-income individuals on entrepreneurial activity, employment, and income.

### **A large-scale bank for low-income individuals in Mexico**

We examine the effects of opening Banco Azteca in October 2002. This event was unique in that Banco Azteca opened branches in all of the pre-existing stores of its parent company, Grupo Elektra, a large consumer goods retailer. This allowed Banco Azteca to establish the second largest branch network in Mexico almost overnight, setting a world record in opening more than 800 branches at once.

An important feature of Banco Azteca was that it catered to low and middle-income groups which had mostly been excluded

from the commercial banking sector. Capitalizing on Grupo Elektra's decades of experience in making small installment loans for its merchandise, its rich data, and its well-established information and collection technologies, Banco Azteca was uniquely positioned to target this segment of the population, which it estimated to comprise over 70% of all households. Many of these households were part of the informal economy – operating small informal businesses that lacked the documentation necessary for obtaining bank loans.

The nature of Azteca's operations, including low documentation requirements and motorcycle riding loan officers that come to the borrower's house, as well as the size of the loans offered make it comparable to microfinance institutions that operated in Mexico at the time of Azteca opening.

### **Measuring Impact**

We use the predetermined nature of the branch locations – which were opened in all stores of its parent company, Grupo Elektra – to identify the causal impact of Banco Azteca opening on economic activity through a difference-in-difference strategy. That is, we compare the changes in outcome variables from before to after Azteca opening across municipalities with and without pre-existing Grupo Elektra stores at the time of the bank opening. Using the Mexican Labor Market Survey, ENE, we study the impact of this event on individuals' employment choices and income levels.

**Do you have a project you want evaluated?** DECRG-FP researchers are always looking for opportunities to work with colleagues in the Bank and IFC. If you would like to ask our experts for advice or to collaborate on an evaluation, contact us care of the Impact editor, David McKenzie ([dmckenzie@worldbank.org](mailto:dmckenzie@worldbank.org))

### **Positive effects on economic activity**

The three main findings of our study are:

**1. The new bank opening increased the proportion of working age adults who own informal businesses** by 7.6 percent.

However, it had no effect on formal businesses. This is consistent with the anecdotal evidence suggesting that Azteca targeted lower-income individuals and also with Azteca's low documentation requirements. In contrast, formal business owners have easier access to commercial bank credit, and likely prefer it because of higher interest rates charged by Azteca. The increase in informal businesses is only significant for men.

**2. Opening Banco Azteca led to a higher proportion of women working as wage-earners.**

This possibly signifies an expansion of labor market opportunities for women, from house makers to paid staff, perhaps in the informal businesses owned by their husbands or other male family members. Overall, total employment, including informal business owners and wage earners, rose by 1.5 percent for the complete sample. Note that the size of this effect is lower than the 3 percent employment increase caused by a recent simplification of business registration regulation in Mexico (see Issue 2 of the Impact Notes Series). A possible reason for this is that the business registration reform led to an increase in the number of formal businesses, as opposed to informal businesses.

**3. The new bank opening increased income** by about 9 percent for women and by about 5 percent for men.

### **Policy Implications**

**1. Expanding access to finance to low income individuals can have a positive effect on economic activity.** Our study shows that the opening of Banco Azteca promoted the creation and survival of informal businesses. We also find that this had a positive effect on the labor market, raising total employment. Average income also increased due to Banco Azteca opening.

**2 Policies aimed at improving access to finance to low income people might particularly benefit women.** Although the increase in informal businesses we find comes from male-run informal businesses, women in our study are more likely to become gainfully employed after Banco Azteca opening. Moreover, the income effects are largest for women.

**3. Flexible lending practices can play an important role in expanding access to finance to low-income individuals.** Banco Azteca has been able to lend to informal business owners by using alternative collateral requirements, such as co-signers and appliances (appraised during on-site visits by motorcycle riding loan agents). They have also relied on credit information from repayment histories of appliance installment loans. Including these types of repayment histories in credit bureaus could potentially support the growth of credit to low-income individuals.

For further reading see:

Bruhn, Miriam and Inessa Love (2009). "The Economic Impact of Banking the Unbanked: Evidence from Mexico." *World Bank Policy Research Working Paper* 4981.

**Recent impact notes are available on our website:** <http://econ.worldbank.org/programs/finance/impact>