Banco Azteca: A large-scale bank for low-income individuals in Mexico

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. This policy brief presents the results from a study of a unique bank operating in Mexico that allows for the evaluation of the effect of increased access to financial services for low-income individuals on entrepreneurial activity, employment, and income.

The study examines 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.
Impact evaluation

The predetermined nature of the branch locations – which were opened in all stores of its parent company, Grupo Elektra – is used to identify the casual impact of Banco Azteca opening on economic activity through a difference-in-difference strategy. That is, the study compares 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. The impact of this event on individuals' employment choices and income levels is studied using the Mexican Labor Market Survey, ENE.

Impact evaluation results

The three main findings of the 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 housemakers 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 Note 2 of the World Bank DECRG-FP Finance and Private Sector Development Impact 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.

The study shows that the opening of Banco Azteca promoted the creation and survival of informal businesses. It also finds 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 the study finds comes from male-run informal businesses, women in the 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.


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DIME-FPD: Development Impact Evaluation in Finance and Private Sector Development

DIME-FPD is DIME’s new global program to support governments in getting answers, in real time, to their most pressing questions in the areas of financial & business services and regulatory & policy reforms.

Experts from the program’s high-level technical advisory group work hand-in hand with Bank operations and in-country counterparts to design and implement impact evaluations that respond to the projects’ operational learning needs. The objective is to achieve better results by identifying what interventions work to deliver higher growth and employment generation in the MSME (Micro, Small, and Medium Enterprises) sector.

Programmatic activities:
- Periodic workshops to build capacity for impact evaluation, share knowledge, and build a community of practice of policy makers and project teams for South-South learning
- Technical advisory group to develop a coordinated learning agenda, conduct training, assure high quality standards, develop a common measuring framework and produce knowledge products

In-country activities:
- Technical advice to identify policy questions and design impact evaluations
- Field-coordination and ongoing support for evaluation implementation, and data collection, management and analysis
- Sharing of lessons learned


DIME-FPD partners: Abdul Latif Jameel Poverty Action Lab (J-PAL), Massachusetts Institute of Technology (MIT), Yale University, Innovations for Poverty Action (IPA), London School of Economics (LSE), Harvard Business School (HBS), Oklahoma State University, and Agence Française de Développement, 

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