

The Role of Development Finance in Closing the Finance Gap

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These are my views and not those of the IMF, its Executive Board or IMF Management

Outline

- What is commendable about the report?
- What could be improved?
- The role of the IMF in closing finance GAP

What is commendable?

- ▶ Question is very relevant
- ▶ Heroic effort to come up with estimates
- ▶ Methodology is generally clear
- ▶ Authors are quite forthcoming about the assumptions and limitations
- ▶ Estimates can be reproduced in the future
- ▶ Variations across regions/income groups seem sensible

What could be improved?

1. Give greater consideration to firms' bankability

- ▶ Previous efforts did not consider bankability of firms needing finance
- ▶ How is this done in the report?
- ▶ Does the report assume that every firm that receives finance in benchmark developed countries is deserving of finance?
- ▶ What about considering debt to sales only for firms that can repay debt based on ICR?

What could be improved?

2. Perform more data checks and comparison with other estimates

- ▶ While data from Orbis on debt to sales might be representative at the country level, useful to check representativeness for subsamples considered (small and young firms in particular)
- ▶ Other gap studies mentioned might be narrower in scope but some seem to have less heroic assumptions.
- ▶ Worth comparing results for overlapping countries and regions.

What could be improved?

3. Broaden the discussion of the role of the state

- ▶ No discussion of importance of macroeconomic environment (i.e., the presence of macro policies that deliver a stable environment where financial inclusion can increase)
- ▶ Policies that support growth, price, and financial stability are important

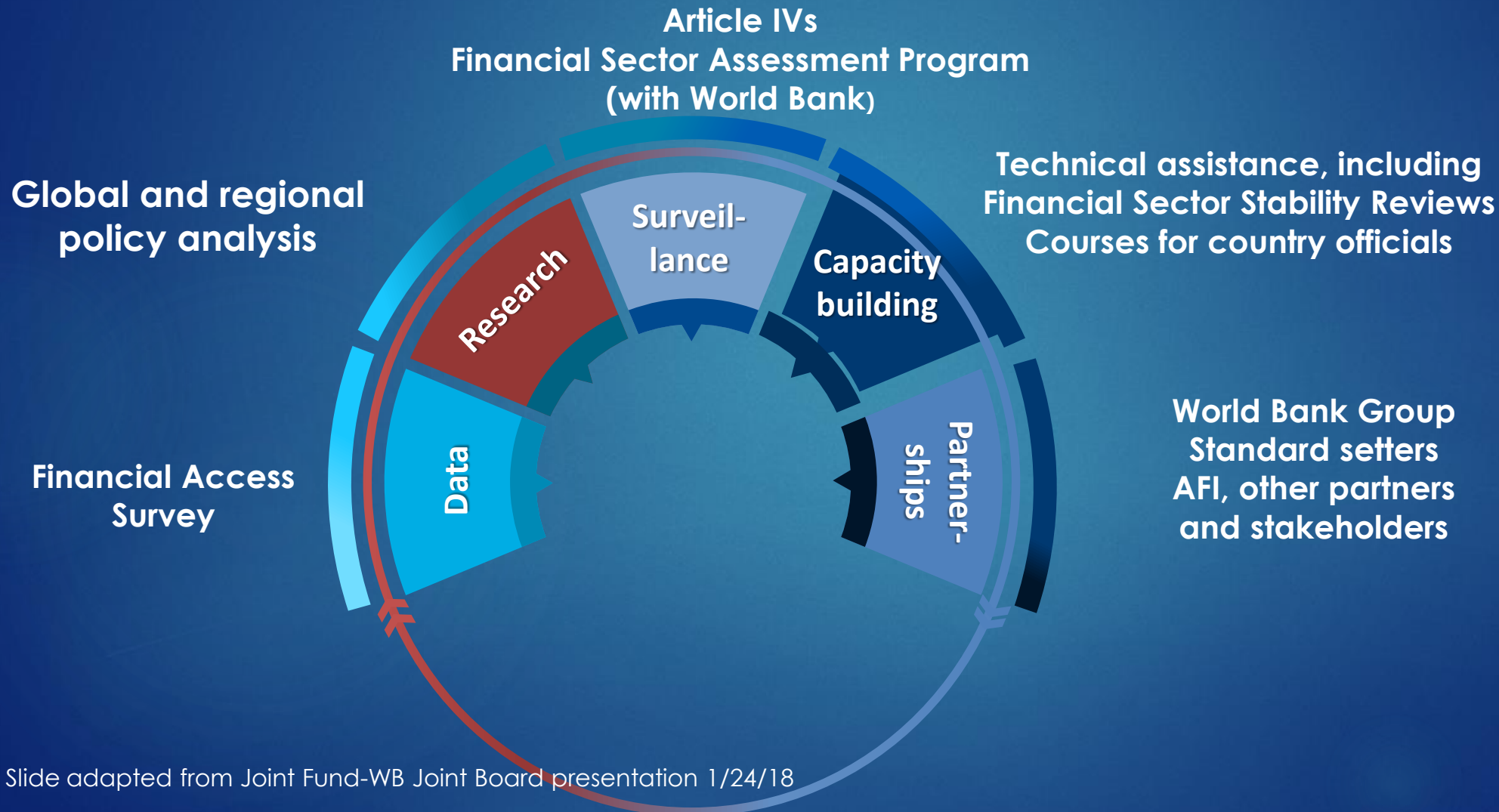
What could be improved?

4. Analyze the determinants of the gap

- ▶ Even with the limitations of cross-country regressions, it might be interesting to see some associations between measure of the gap and:
 - Macroeconomic variables
 - Institutional factors
 - Measures of the structure of the financial sector

Role for the IMF in Financial Inclusion*

Focus is on macro policies and linkages to stability



* Slide adapted from Joint Fund-WB Joint Board presentation 1/24/18