

## **Panel I: Overview and Conceptual Framework**

### **Rural Finance in Latin America and the Caribbean: Challenges and Opportunities**

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DRAFT: ONLY FOR COMMENTS

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## **Abstract**

Despite substantial financial deregulation in larger financial systems, rural financial markets in Latin America are shallow, segmented, and inefficient. The principal reasons for the observed market failure are the pervasive risks, information asymmetries, and high transaction costs present in rural financial markets. In order to improve the situation, yet avoid government failure, concerted effort is needed in a number of areas--- policy reform (macroeconomic, sectoral, legal, financial regulatory), institutional capacity building, and new product development--- to effectively resolve the underlying root causes. The role of donors and national governments is primarily to create a conducive environment and the role of the private intermediaries is to assume risks and to provide financial services. This paper reviews the current situation, the causes of observed problems, and highlights solution areas. The value of the paper is the integrated approach to assaying the challenge and pinpointing how to attack the identified problems. The financial market and economic policy liberalizations that occurred in the late 1980s and early 1990s in Latin America and the Caribbean were necessary but not sufficient conditions for the deepening and improved functioning of rural financial markets. Second generation policy reform efforts and attention to institutional details are needed.