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Microcredit plays a relevant role in reducing information asymmetries in the rural credit market, although its effects are concentrated in a small fraction of beneficiaries, posing additional challenges to broaden its reach and effectiveness. Accessing credit through microfinance institutions or residing in areas such as post-conflict municipalities is associated with higher probabilities of access.

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Approach

This paper examines how access to microcredit programs can help mitigate the asymmetric information faced by small-scale borrowers in Colombia’s rural credit market. Using administrative data from FINAGRO (Agricultural Sector Financing Fund) between 2015 and 2019, the study analyzes whether beneficiaries who enter the financial system through microcredit manage to transition to traditional credit lines with more favorable conditions. The analysis employs econometric methods to compare the probability of access and credit conditions from FINAGRO among three groups of producers: those who access via microcredit, those who access directly through traditional credit, and those who enter the traditional credit system for the first time in subsequent years. Additionally, it assesses whether microcredit contributes to asset accumulation as a complementary mechanism to reduce information asymmetries.

Contribution

Small rural producers in Colombia face structural barriers to accessing credit due to the lack of credit history, tangible assets, and guarantees. These limitations exacerbate the problem of asymmetric information between lenders and borrowers, restricting access to financing and perpetuating financial exclusion. This study provides empirical evidence on how microcredit can reduce these frictions by enabling credit history building and asset accumulation. It shows that although only a fraction of beneficiaries manage to transition to traditional credit lines, those who do gain access to significantly more favorable conditions. Furthermore, factors such as asset levels, gender, type of financial intermediary, and territorial context influence the probability of transition, highlighting the need to design public policies that promote equitable access, taking into account the structural differences among rural producers and the territorial particularities of the country.

Findings

The study’s findings suggest that microcredit can play a key role in reducing information asymmetries in the rural credit market. This mechanism enables a small proportion of rural producers to access financing lines with more favorable conditions, such as higher amounts, lower interest rates, and longer terms. Moreover, microcredit appears to contribute to asset accumulation among beneficiaries, especially those receiving above-average disbursements, which improves their credit profile and strengthens their reputation with lenders. The analysis also reveals that having a higher level of assets increases the likelihood of transitioning to traditional credit lines. Conversely, gender affects the probability of transition: women are less likely to advance to traditional credit lines compared to men. On the other hand, accessing credit through microfinance institutions or residing in areas such as post-conflict municipalities is associated with higher probabilities of access. Overall, the study suggests that microcredit plays a relevant role in reducing information asymmetries in the rural credit market, although its effects are concentrated in a small fraction of beneficiaries, posing additional challenges to broaden its reach and effectiveness.