The Development of Microcredit in Colombia

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I am very happy to present this book because it highlights the role of microfinance institutions (MFIs) in the financial inclusion of the most vulnerable population and its impact on the economic development of the country. Through a rigorous analysis, friends and colleagues from Banco de la República (the Central Bank of Colombia), the Fund for the Financing of the Agricultural Sector (Finagro), the Free University of Amsterdam, and Asomicrofinanzas (the Colombian Association of Microfinance Institutions) show us the evolution of the microcredit market in the last two decades, as well as the main determinants of delinquency in this segment and the impact of this type of loans.

This book is a must-read for those interested in the role of MFIs in the process of financial inclusion in Colombia and in their contribution to the economic development of the country. It is also of interest for the MFIs themselves, who work every day for the most vulnerable population in the country through a diversified portfolio of services and service protocols adapted to this clientele. It is equally important for public policy makers, who can count on the microfinance industry to implement policies focused on the most vulnerable.

Throughout the book you will find evidence of the efforts that MFIs have been making to build a more developed and inclusive country, which has been possible thanks to the openness of regulators and the support of national and international development institutions. In particular, I would like to thank Banco de la República and its technical staff for their support for this type of research, which strengthens the microfinance industry.

In the first chapter, you will find a characterization of the microcredit market in Colombia between 2010 and 2020, highlighting the particularities of this type of loans in terms of amount, destination, and term. Likewise, the advances in coverage by MFIs and the most representative economic sectors are highlighted. Also, the main characteristics of microcredit clients and their evolution in the analysis period are underlined.

The second chapter analyzes the dynamics of microcredit disaggregating between the institutions that are monitored by the Office of the Financial Superintendent of Colombia (SFC) and those that are not.

Likewise, the results of a model of the determinants of delinquency of the microcredit portfolio in Colombia are presented, in order to expand the knowledge of the industry on the factors of greater risk for its portfolio.

The third chapter presents a summary of the recent literature on microcredit impact measurements and the results of the analysis on the incidence of poverty and vulnerability among microcredit clients in Colombia. Complementing the above, we present a model that shows the impact of microcredit on GDP per capita by municipality and the well-being of the population.

The fourth chapter describes how the supply of MFIs in different geographical areas has transformed and examines the reactions of credit providers to the entry-exit of new competitors. It also studies the characteristics of local markets that can influence the decisions of financial institutions regarding their network of offices.

Finally, chapter five presents a review of the fifteen institutions affiliated to Asomicrofinanzas and who shared their microdata for this work. Throughout the book you will also find five boxes that complement the described analyzes. The topics addressed include the situation of micro-businesses in Colombia, the use of alternative scoring methods, social indicators for the microfinance industry, the supply of micro-insurance by sector institutions, and the role of MFIs in the financial inclusion of migrants.

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