

Literature Review on the Barriers to Access Credit for Small Agricultural Producers and Policies to Mitigate Them in Developing Countries

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Abstract : This paper establishes the theoretical aspects that explain the barriers to accessing credit for small agricultural producers in developing countries and identifies successful policy experiences to mitigate them. We will test two hypotheses. The first one is that information asymmetries, high transaction costs and high-risk exposure limit the supply of credit to small agricultural producers in developing countries. The second hypothesis is that low levels of financial education and productivity and high uncertainty about the returns of agricultural activity limit the demand for credit. To test these hypotheses, a review of the theoretical and empirical literature on access to rural credit in developing countries will be carried out. The first part of this review focuses on theoretical models that incorporate information asymmetries in the credit market and analyzes the interaction between these asymmetries and the characteristics of the agricultural sector in developing countries. Some of the characteristics we will focus on are the absence of collateral, the underdevelopment of the judicial systems and insurance markets, and the high dependence on climatic factors of production technologies. The second part of this review focuses on the determinants of credit demand by small agricultural producers, including the profitability of productive projects, security conditions, risk aversion or loss, financial education, and cognitive biases, among others. There are policies that focus on resolving these supply and demand constraints and managing to improve credit access. Therefore, another objective of this paper is to present a review of effective policies that have promoted access to credit for smallholders in the world. For this, information available in policy documents will be collected. This information will be complemented by interviews with officials in charge of the design and execution of these policies in a subset of selected countries. The information collected will be analyzed in light of the conceptual framework proposed in the first two parts of this section. The barriers to access to credit that each policy attempts to resolve and the factors that could explain its effectiveness will be identified.

Keywords : agricultural economics, credit access, smallholder, developing countries

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