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Selection into Credit Markets: Evidence from Agriculture in Mali

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Abstract

We examine whether returns to capital are higher for farmers who borrow than for those who do not, a direct implication of many credit market models. We measure the difference in returns through a two-stage loan and grant experiment. We find large positive investment responses and returns to grants for a random (representative) sample of farmers, showing that liquidity constraints bind. However, we find zero returns to grants for a sample of farmers who endogenously did not borrow. Thus we find important heterogeneity, even conditional on a wide range of observed characteristics, which has critical implications for theory and policy.

JEL: D21, D92, O12, O16, Q12, Q14

Keywords: credit markets; agriculture; returns to capital

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Self-Selection into Credit Markets: Evidence from Agriculture in Mali

We examine whether returns to capital are higher for farmers who borrow than for those who do not, a direct implication of many credit market models. We measure the difference in returns through a two-stage loan and grant experiment. We find large positive investment responses and returns to grants for a random (representative) sample of farmers, showing that liquidity constraints bind. However, we find zero returns to grants for a sample of farmers who endogenously did not borrow. Thus we find important heterogeneity, even

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