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## Autores

Juan Carlos Urueña

Luis H. Gutiérrez

Paul Rodríguez



**ALIANZA EFI**  
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# Financial inclusion and business practices of microbusiness in Colombia

Juan Carlos Urueña-Mejía<sup>1</sup>  · Luis H. Gutierrez<sup>2</sup>  · Paul Rodríguez-Lesmes<sup>2</sup> 

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## Abstract

Financial inclusion is known to be relevant for improving the growth perspectives of microbusinesses. This research has three aims. First, to explore how adopting business practices can impact the usage of financial products and services of these firms. Second, to determine if higher levels of microbusinesses' formalization mediate the impact. Third, to establish if there are differences according to gender and education level. A structural equation model was estimated to test these hypotheses while considering the potential endogeneity of the main variables of interest. The model includes latent variables modeled in the form of confirmatory factor analysis. Estimates are based on self-reported information collected through a survey of 1542 microentrepreneurs in 10 Colombian cities in 2019. The results show that microentrepreneurs who adopt (more) business practices have more financial inclusion. No specific category of business practices drives the results. The effect is larger for men than women and is not present for microentrepreneurs of low education levels. Furthermore, personal initiative, a psychological construct, indirectly relates to being more financially included by increasing the adoption of business practices. Finally, there is no evidence that this is driven by higher levels of formalization regardless of the specific set of requirements that are considered. Our findings support efforts to improve business skills in microentrepreneurs and call for more comprehensive public policy strategies. These findings open the door to using soft skill-based training programs that enhance business practices, to improve microbusinesses' financial inclusion.

**Keywords** Financial inclusion · Business practices · Formality · Personal initiative · Microbusiness

**JEL Classification** C30 · D22 · O17

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✉ Juan Carlos Urueña-Mejía  
juanca.uruenaa@urosario.edu.co; juan.urena@uniminuto.edu

Extended author information available on the last page of the article