A Gender Impact Assessment of Covid-19 Government-backed Loans on MSMEs Liquidity and Earnings

Results from two RCTs

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Financing Women-led SMEs

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Background

- Public guarantee programs are frequently used to support financial access during economic downturns
  - Market-friendly interventions that delegate loan decisions to contracting parties
  - Provide liquidity to otherwise excluded firms
  - Majority of supported credit is expected to be repaid; public funds cover only a fraction
  - Women-led firms, often vulnerable during downturns, might see greater benefits
- What is the evidence for women benefiting more from these loans?

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This paper

- Examines the effect of government-backed loans during Covid-19 in Chile and Colombia on private credit provision to firms
- Using two RCTs that promote these loans, study contrasts financial access for women and men-led firms, showing
  - Women-led businesses are less likely to take up loans and are offered smaller amounts
  - Male-led firms experience increases in both commercial and total liquidity, while women-led firms only see a rise in commercial liquidity
  - Rise in commercial liquidity is less pronounced for women-led firms
  - Sales increase for women and men-led firms (Chile) with no effects on delinquency rates (Colombia) or deposits (across the full sample)

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Comments: clarifications/framing/interpretation

- Is it the causal impact of access to credit, or specifically of government-backed loans?
  - Effect of the guarantee (beyond access) requires comparing borrowers with and without guarantees
  - Currently, paper captures effect of both access to credit and the guarantee vs. no access
- Difference between accepting a loan offer vs. getting the initial offer (in general and across gender)?
- Does ‘deposits’ equate to ‘earnings’?
  - Are deposits a relevant margin if loan is used for employee retention, supplier payments, etc?

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- Are women and men-led businesses in treatment and control observationally equivalent?
  - Gender should be interacted with the baseline characteristics
- Is the 4-month grace period utilized and are delinquency rates adjusted for it (if used)?
- More details on selection into sample and sample itself – are the firms first-time or repeat borrowers?
- Is there differential firm exit across treatment and control?

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Comments: further explorations

- Selection into borrowing
  - Do baseline characteristics (like liquidity, age, size, location, risk score, sales) affect selection differently for women vs. men-led firms?
- Heterogeneity in the treatment effects (CATE)
  - Varying impacts by baseline characteristics between women and men-led businesses?
- While liquidity changes may be explained by loan size, the drivers of the rise in sales are less clear
- Do results differ when women are the main shareholder versus being the sole proprietor?

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Policy implications

- Informs policymakers about importance of government-backed loans and how they affect women vs. men-led businesses
- Women and men-led firms fare quite similarly
- Open questions
  - Are government-guaranteed loans more cost-effective than regular unbacked credit?
  - Do lenders select different clients (when loans are guaranteed) and, if so, along what margins?
  - COVID-19 pandemic resulted in sharpest and most synchronized reduction in global economic activity in history – how do insights translate to other economic crises?