Discussion of “Liquidity, Business Development, and Gender: Evidence from Credit Contracts”

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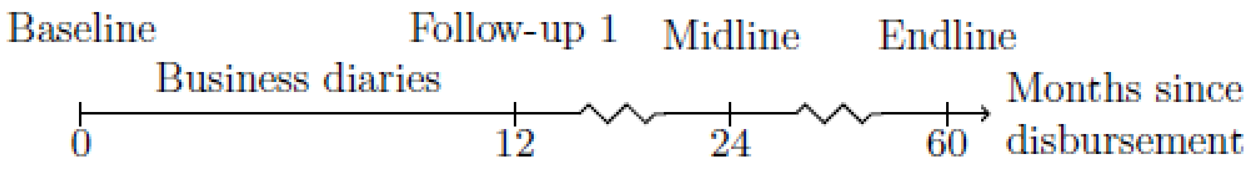
Relevance and contributions

- Test 3 variations on standard 12-month loan contract
  - Upfront liquidity: Cash transfer with value of 2 loan repayments
  - Dynamic liquidity: Write-off any 2 repayments
  - Early liquidity: Write-off first 2 repayments

- Do women face different financial constraints (credit, savings, cash flow, and insurance) than men?

- Five-year follow-up

Figure 2: Timeline

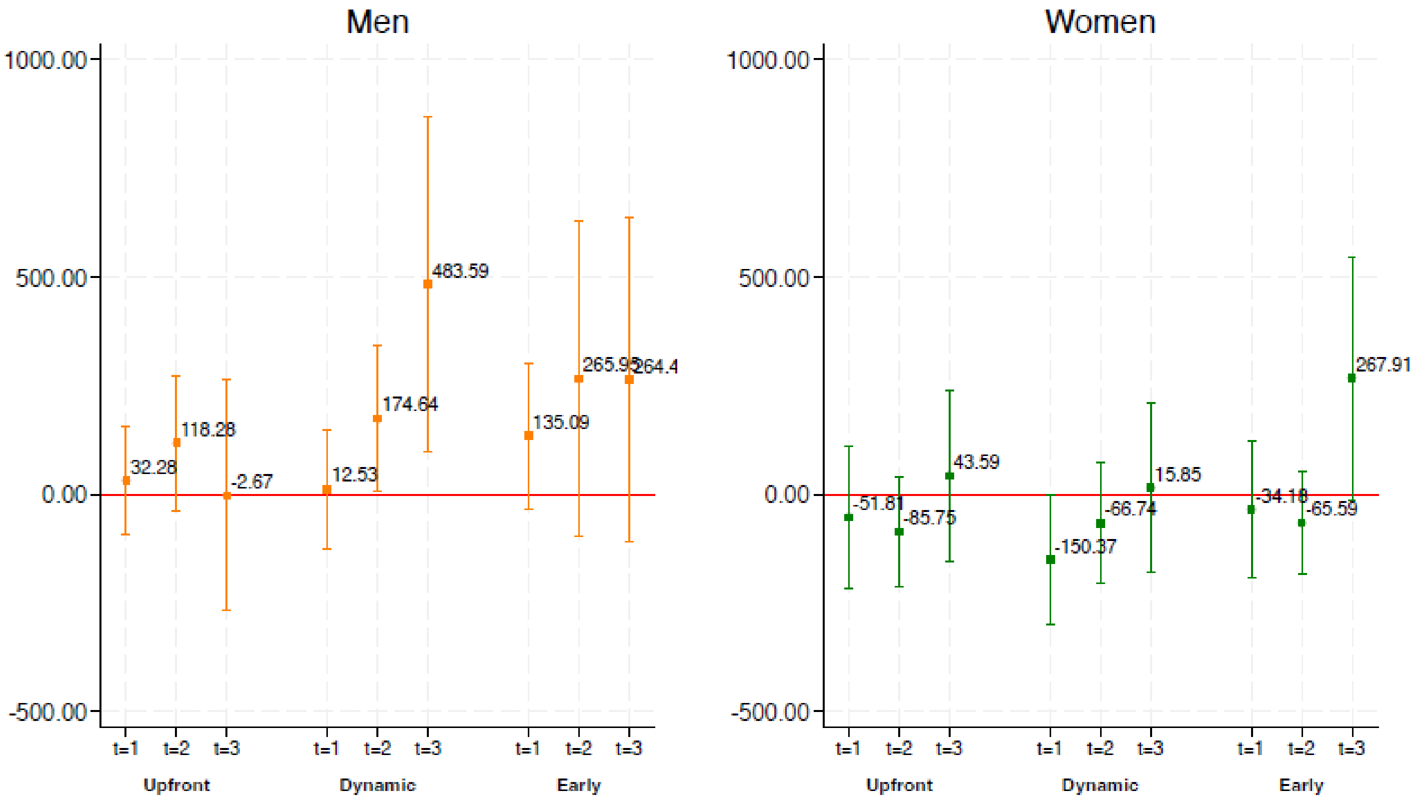


Profits increase only for men

- Dynamic liquidity contracts increase long-run profits by 57% for male-owned SMEs
- Effects of early liquidity contracts are less robust
- Adjust standard errors for multiple hypothesis testing

Figure 4: Heterogeneous treatment effects on business profits & labor force

(a) Profits



How do the findings compare to the literature?

Paper	Country	Contract	Sample	Effect on profits
Aragón et al. (2020)	India	Credit line	100% women	15% increase
Barboni and Agarwal (2013)	India	Repayment holiday	100% men	Increase from -5,000 in control to 0
Battaglia et al. (2024)	Bangladesh (Dabi)	Dynamic liquidity	100% women	25% increase
Battaglia et al. (2024)	Bangladesh (Progoti)	Dynamic liquidity	Men & women	No effect
Brune et al. (2022)	Colombia	Dynamic liquidity	66% women	No effect
Field et al. (2013)	India	Early liquidity	100% women	41% increase

Mechanism behind profit increases

- Dynamic liquidity allows men to hire more workers. Why?
  - Risky investment if workers leave – dynamic liquidity provides insurance
- Cite Bianchi and Bobba (2013) who show that cash transfers alleviate insurance constraints for entrepreneurs

Why does upfront liquidity not increase profits?

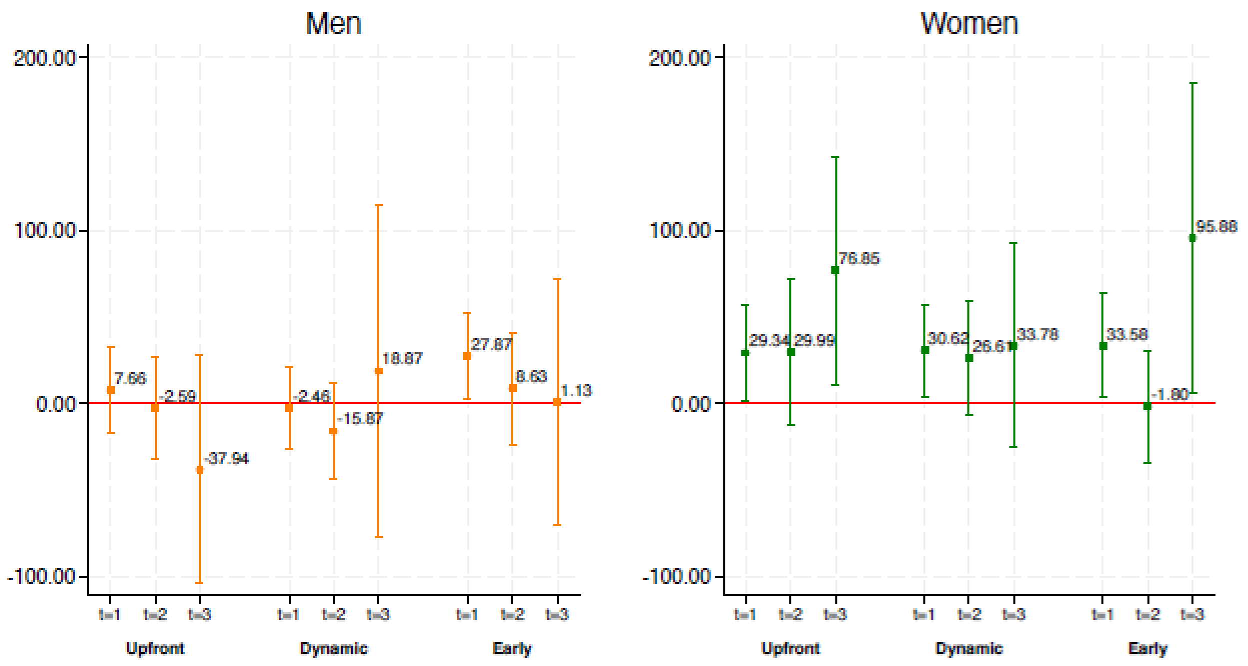
- Cash delivered up-front could enable lumpy purchases
  - But firms may not be credit constrained (they already have a loan)
  - Or the amount may not be large enough to make significant purchases

- Savings constraints must be severe
  - Receiving cash 1-2 months before the “early” treatment group has no effect, suggesting that the SME owners cannot save for 1-2 months

Non-food consumption increases for women

- Why?
  - Consumption smoothing and lumpy expenditures
    - Insurance and savings constraints
- How, if profits don't increase?
  - Are small enterprise loans used for consumption in the short-run?
  - Measurement issue: Poor separation of household and business costs could understate profits

(b) Non-food consumption



Policy implications

- SME owners with small enterprise loans face insurance and savings constraints

→Offering products to address these constraints can improve business and household outcomes

- Flexible repayment contracts don’t increase default, but they lead to more repayment delays
  - Lenders may be able to increase interest rates to offset these costs