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Finance and Firm Productivity

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Financial frictions and capital misallocation

Productivity gaps have many sources, I will zoom in on **financial frictions** that stop capital from flowing to the firms with the highest returns

1

What can public policy do?

Evidence on state lending, guarantees, subsidised credit, and public equity

2

Contract design: microcredit made to measure (Morocco)

Can flexible repayment help small firms put credit to more productive use?

3

Lender behaviour: blended finance for women entrepreneurs (Türkiye)

Can credit lines, risk-sharing and loan-officer training steer credit to constrained, productive firms?

Closing: some research-based policy lessons for reducing financial frictions



Productive small firms often can't get the right finance to grow

Some banks still screen strongly on collateral, a long track record, or even borrower gender rather than firm productivity, so high-return firms may stay small. Public policy may reduce such frictions (or create new ones!)

Public lending programs

- State and development banks
- Public credit through private banks & MFIs
- Can ease constraints and support growth, but risk of political capture

Both of today's examples

Risk-sharing & subsidies

Credit guarantees · subsidised credit · export credit agencies

Guarantees have the strongest evidence of raising SME credit and performance but can raise defaults

Subsidised credit seems to work through access more than price

Equity

Publicly backed venture capital · tax incentives for equity investors

Mixed evidence: government-run VC funds often underperform, and investor tax credits raise investment but can crowd out private money or benefit insiders

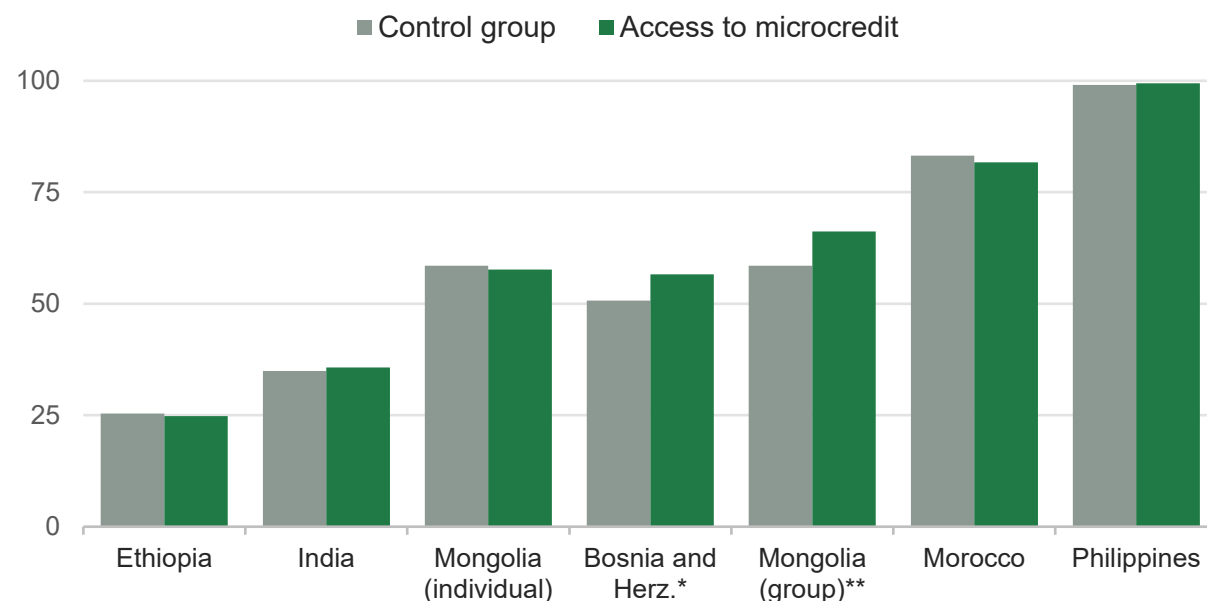
De Haas and González-Uribe (2025), "Public policies for private finance", Annual Review of Financial Economics 17: 243–66



Product design: Microcredit made to measure

First-wave microcredit RCTs: modest average impacts

Business ownership in seven randomised evaluations (%) * $p < 0.10$, ** $p < 0.05$



- **No substantial income gains**
in all seven studies, at 18 months or after 3–6 years
- **Profit gains for only a few**
average profits unchanged; gains confined to a small segment of borrowers who already ran a business
- **No gains in schooling or empowerment**
in most studies
- **But more flexibility, no systematic harm**
households coped better with shocks and shifted from wage work to self-employment

Why? Few profitable projects, credit not binding, poor contract fit, or limited awareness? Can better contract fit help?

Microcredit made to measure: tailored repayment pays off

RCT with Al Amana (Morocco): 3,068 rural loan applicants randomly offered a standard loan, a 5-month grace period, or instalments tailored to their expected revenues

Effect of the offer after ~18 months, % of standard-loan group mean



Gains concentrated in the upper tail and in non-farm firms: more working capital in existing businesses, not new firms or fixed investment.

≈ 1/3

of applicants chose a new contract when it was offered; the two contracts attracted different borrowers

81–84%

borrowed in every arm: the menu changed which loan people took, not whether they borrowed

No rise

in arrears or unpaid instalments, and no larger loans; gains came from better timing, not more credit

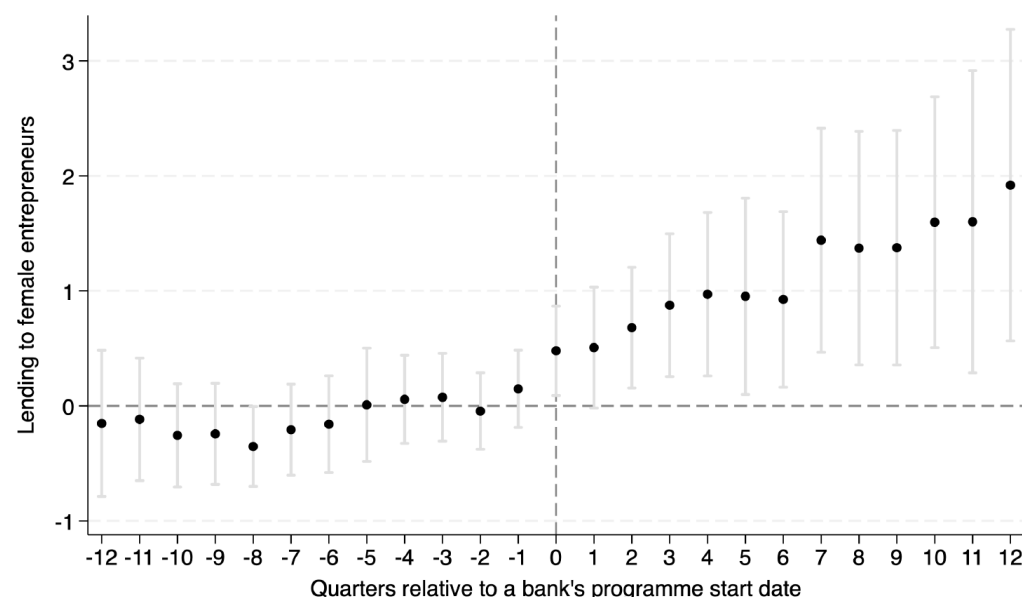


Product design: Blended finance

Blended finance: Multipronged supply-side intervention

EBRD Türkiye Women in Business: (1) €300m credit lines to 5 banks, (2) first-loss cover of up to 10% and (3) loan-officer training; staggered bank entry 2015–17

(Log) lending to female entrepreneurs, synthetic DiD, quarters since bank entry



+2.3 pp

female share of new lending: +28% on a pre-programme 8.3% (synthetic DiD: +18%)

54 - 28 - 18

% of the relative increase from repeat, poached and first-time borrowers

No rise

in NPLs for women or men, and no offsetting drop in other banks' lending to women

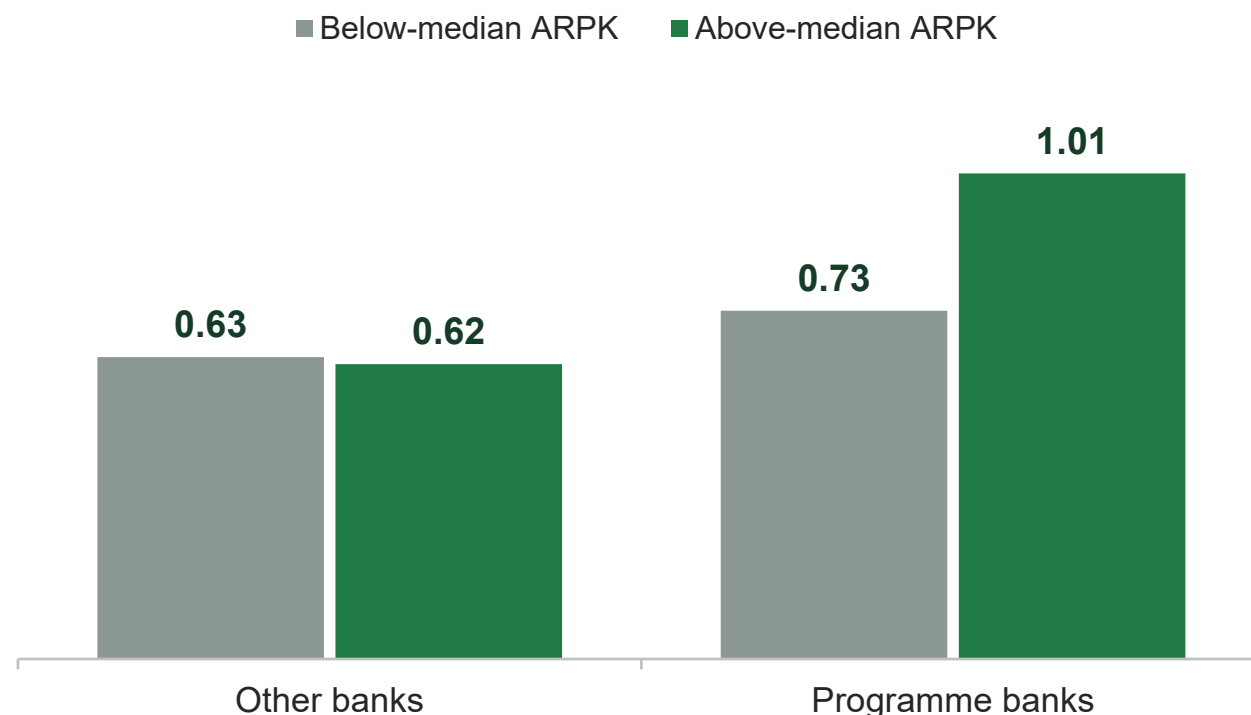
Substantial program effects on women-owned businesses

Real outcomes of women-owned firms: response to a 1% credit supply shock from programme (WiB) and other (non-WiB) banks

Outcome	Investment	Sales	Profit	Exit	Employment
WiB firms	0.122 ^{**} (0.059)	0.132 ^{***} (0.042)	0.927 ^{***} (0.351)	-0.027 ^{**} (0.012)	0.173 ^{***} (0.045)
Non-WiB firms	0.011 (0.041)	-0.027 (0.029)	0.255 (0.205)	-0.009 (0.008)	0.060 [*] (0.031)
p-value: WiB = Non-WiB	0.067	<0.001	0.055	0.156	0.011
Observations	51,342	51,342	51,342	51,342	39,504

Blended finance reached constrained, more productive firms

Borrowing response of women-owned firms to a 1% credit supply shock, by pre-programme capital productivity (ARPK)



0.87 vs 0.62

programme credit shocks pass through more fully into borrowing than shocks from other banks

1.01 vs 0.73

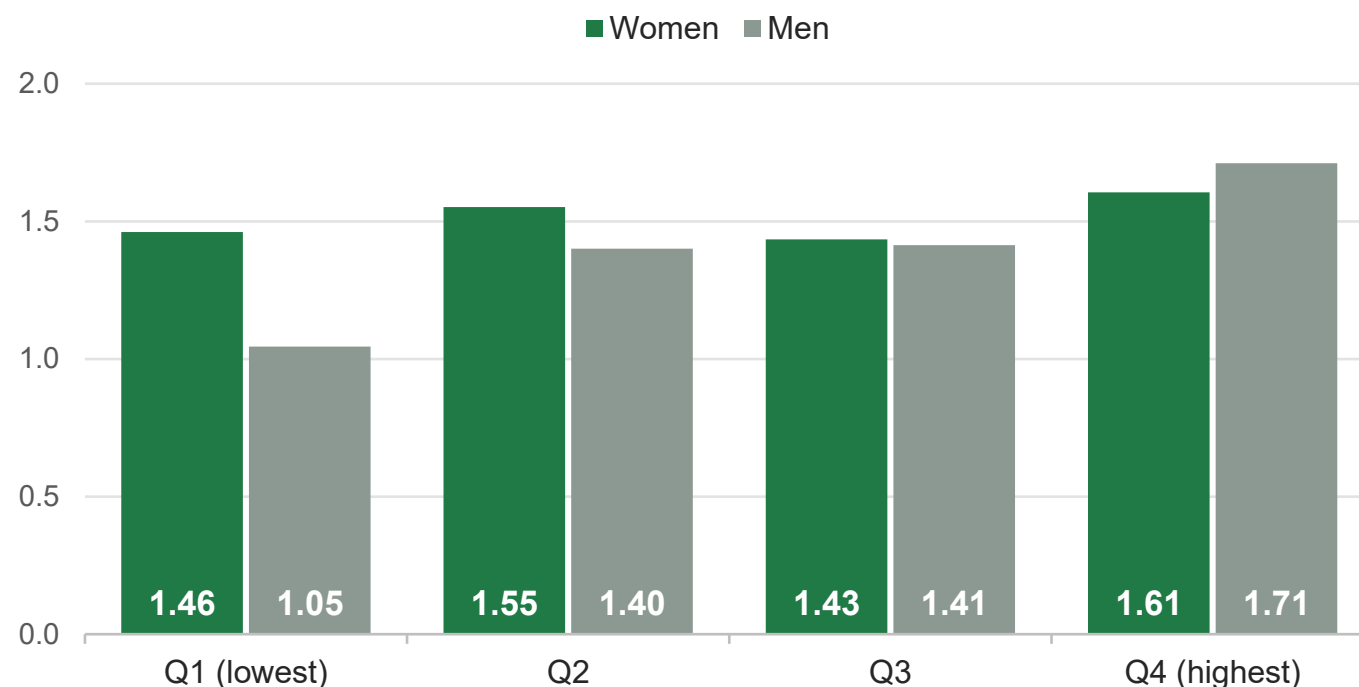
at programme banks, firms with above-median capital productivity borrow more; no such gradient at other banks

ARPK converges

these high-productivity firms' ARPK falls towards the mean: previously constrained firms expand capacity

Uniform gains for women, productivity-tilted gains for men

Programme effect on (log) lending volume, by borrowers' pre-programme capital productivity (ARPK quartile); 95% confidence intervals



Women: the same gain at every productivity level

Borrower numbers rise equally across quartiles too.

Men: gains rise with productivity

Banks became more selective in lending to men...

Suggests women were rationed regardless of productivity, while male credit was reallocated rather than crowded out

Reducing financial frictions: some lessons for policy

1 Target the right tail

Many interventions have modest average effects. Gains concentrate in the right tail of the firm-size distribution, where a subset of entrepreneurs scale up. Who receives finance matters.

2 Build a credit ladder

MFIs and fintechs can offer a first foothold, but micro-only mandates or separate micro and SME units should not trap fast growers in small loans.

3 Fit terms to cash flows

Repayment better matched to cash flows can raise profits without a rise in arrears. Offer a menu of contract types.

4 Incentivise lenders to reach new borrowers

Loan-officer training can durably shift lending. Stimulating banks to reach more opaque clients, such as first-time borrowers, may require higher-powered incentives such as generous first-loss covers or interest discounts tied to portfolio goals.

5 Avoid new distortions

Untargeted subsidies and state-run lending risk political capture and crowding out.

Sources: De Haas and González-Uribe (2025), ARFE; Bryan, Karlan and Osman (2024), AER; Crépon et al. (2026), JDE; Aydın, Bircan and De Haas (2026), REStat





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Thank you!

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