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Trade Credits: the Benefits of Going Cashless

Millions of mom-and-pop stores in the emerging world are supplied every day by multinational manufacturers and their distributors. Because these microbusinesses are informal and independent, all transactions with their suppliers are conducted with cash. Also, store owners are cash constrained, leading to severe underordering and inefficiencies in the distribution process. In this context, we examine the benefits that suppliers realize by providing these stores with trade credits. Trade credits serve three purposes: first, they serve as a reliable alternative to complete transactions when shopkeepers run out of cash. Second, they increase coordination in the supply chain. Finally, they serve a commercial purpose, enabling stores to increase assortment levels.