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Tropical Lending: International Prices, Strategic Default and Credit Constraints among Coffee Washing Stations

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Abstract

We use detailed contract level data on a portfolio of 197 coffee washing stations in 18 countries to identify the sources and consequences of credit markets imperfections. Due to moral hazard, default rates increase following unanticipated increases in world coffee prices just before (but not just after) the maturity date of the contract. Strategic default is deterred by relationships with the lender and foreign buyers: the value of informal enforcement amounts to 50% of the value of the sale contract for repaying borrowers. A RDD shows that firms are credit constrained. Additional loans are used to increase input purchases from farmers rather than substituting other sources of credit. Prices paid to farmers increase implying the existence of contractual externalities along the supply chain.

Keywords: Credit Constraints, Commodity Prices, Relationships, Exports, Account Receivable.

JEL Codes: O12, O16, L14, F14, G32, Q13, Q14.

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