

Comments on:
Who Needs Credit and Who Gets Credit?
**Evidence from the Surveys of Small
Business Finances**

by
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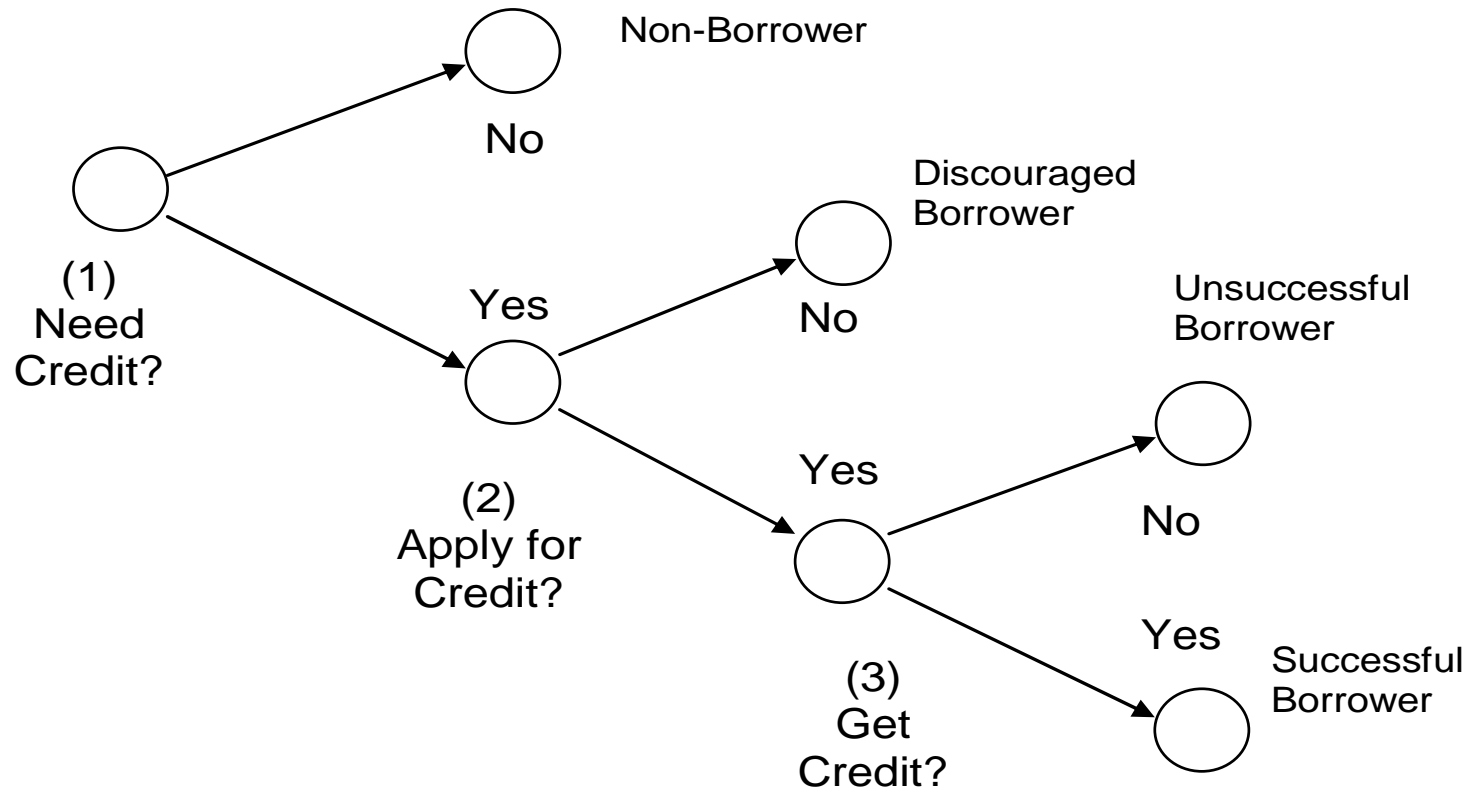
Conference on Small Business Finance
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General Comments

- Topic much explored, theoretical and empirical
 - Access to credit for SMEs obvious of policy relevance
 - Especially for developing countries, but also in developed countries, witness the many SME-programs
- But paper has new angle and new/better data (usage)
- General comments
 - Can one really identify the various categories of borrowers?
 - Can one do this empirically?
 - Can it be done better?

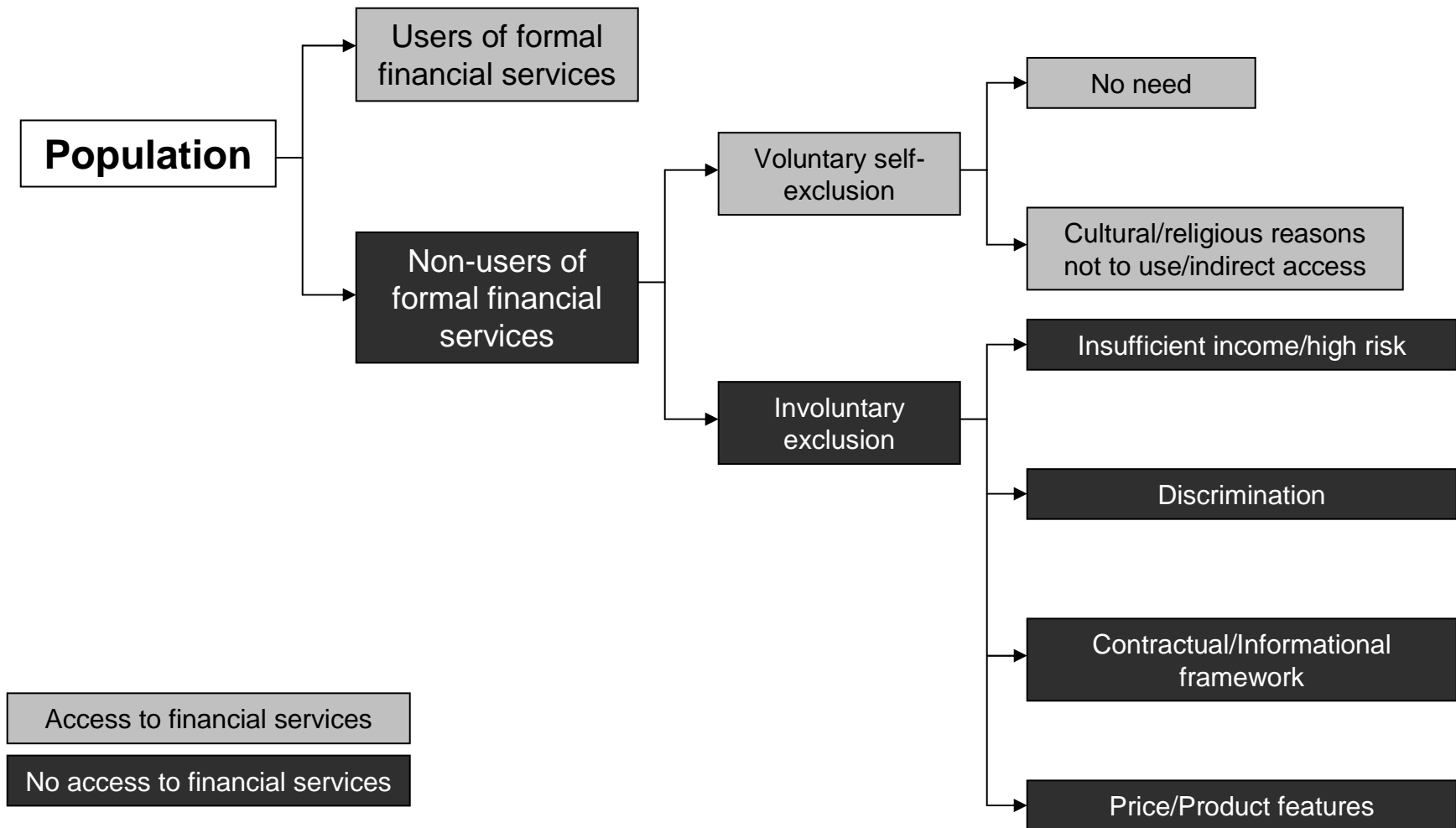
Conceptual framework

Figure 1:
Who needs and who gets credit?
A sequential model



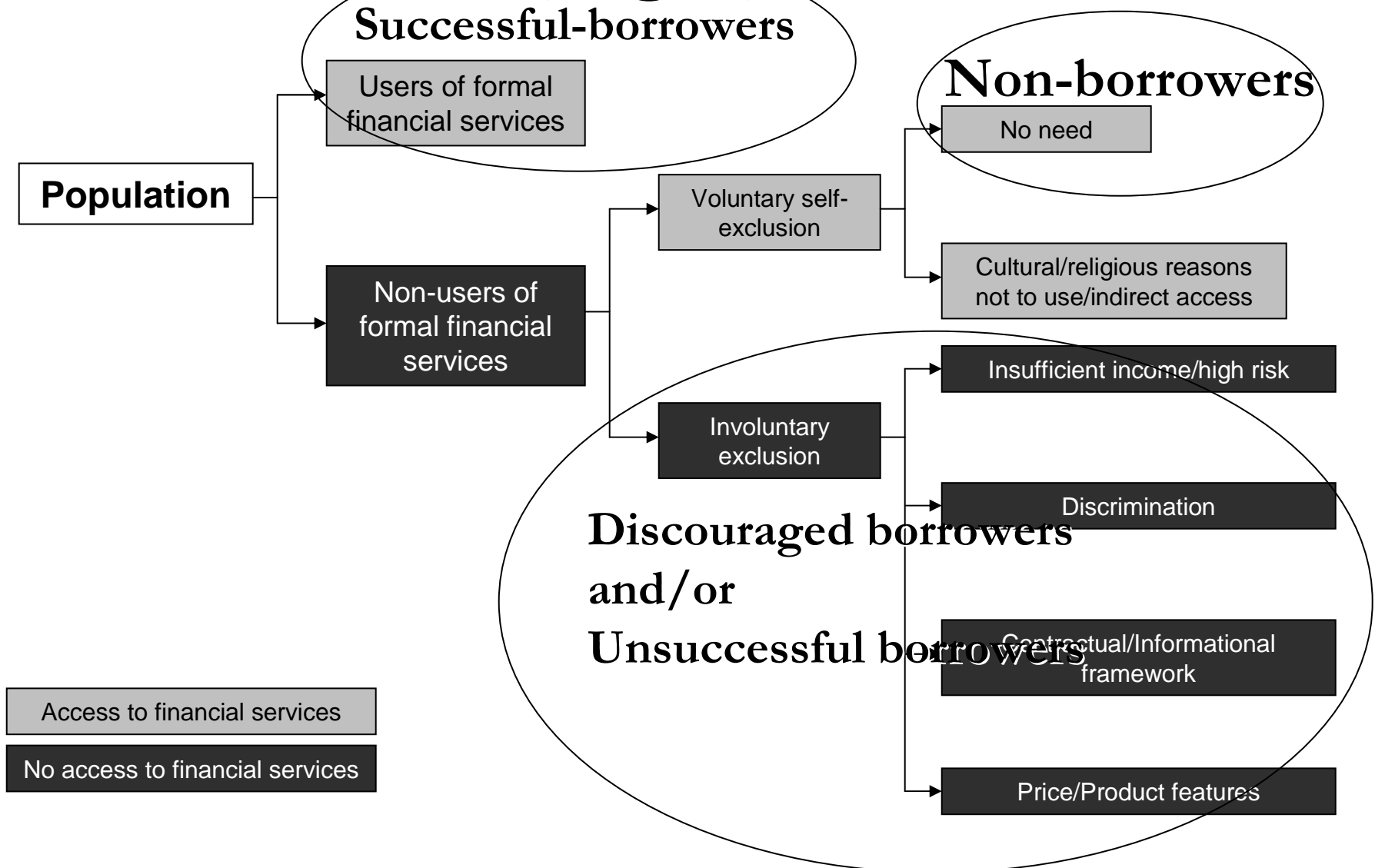
Another way: Access vs. Use

Shows (slight) differences



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Some conceptual questions

- Need credit: have to consider demand/need conditions
 - How do we really know who needs bank credit?
- Can one really tell non- from discouraged borrowers?
 - What if financial institutions set prices, do not open branches, do not advertise, etc. as do not want to supply?
 - Is one discouraged once, forever, or for a (short) time?
- Hypotheses related to classifications are very hard
 - Like to see more “theory” on (direction of) the hypotheses
 - Many appear speculative (behavioral: “discouraged borrowers” behave irrational → less educated (maybe), older (why?), more profitable (less in need or smarter?), less levered (by definition?). All not so clear

Empirical questions

- Demand is hard to estimate
 - Are demand & supply factors at play at the same time
 - Assessing financing constraints is very difficult in general. Hard to estimate credit demand functions, many other factors
 - There are other, better tests of presence of credit constraints; nothing new tried here
- Empirical classification and findings not so clear
 - Do firms fall nicely into these four categories? Is there not overlap: non-borrowers are 1. voluntary plus 2. discouraged plus 3. unsuccessful? Do firms not vary over time?
 - Findings were not obvious to me at all, e.g., age, sector, size, return on assets: is this pecking order?
- Data good, but with problems, not to be ignored
 - Best to use all variables at the same time? Many are correlated

Some suggestions, given data, for better empirics

- Work more on the supply side
 - Are there differences across markets in terms of supply features? Concentrated markets, less/greater distance?
- Use more detail on firm financing structures
 - Do these firms borrow from other financial institutions? At what cost? Do they have other credit lines, overdrafts, accounts? Can be used to identify financing needs
- Other identification strategies
 - Are there special government programs that target certain borrowers? Are these programs identifiable in some way? Do borrowers react differently?

Can one think through a better model to test exclusion

- Doing/expecting too much with/from the data
 - Asking too much, risk mixing concepts, e.g., discrimination with need
- What other approaches can be done, could be they better? What is best design to test voluntary vs. involuntary exclusion?
 - Panel data, changes over time, before vs. after test Perhaps due to
 - Financial reform (before/after, varying by state)
 - Introducing new type of lenders
 - Changes in ease of access through regulations/laws/etc
 - New government programs
 - Shocks
 - By sector, types
 - Experimental?