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

by
Rebel A. Cole

Stijn Claessens
Assistant Director, Financial Studies Division
Research Department, International Monetary Fund

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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

(1) Need Credit?
   No → Non-Borrower
   Yes → Apply for Credit?

(2) Apply for Credit?
   No → Discouraged Borrower
   Yes → Get Credit?

(3) Get Credit?
   No → Unsuccessful Borrower
   Yes → Successful Borrower
Another way: Access vs. Use
Shows (slight) differences

Population

Users of formal financial services

Non-users of formal financial services

Voluntary self-exclusion

Involuntary exclusion

No need

Cultural/religious reasons not to use/indirect access

Insufficient income/high risk

Discrimination

Contractual/Informational framework

Price/Product features

Access to financial services

No access to financial services
Another way: Access vs. Use

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Successful-borrowers

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Non-borrowers

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Discouraged borrowers and/or Unsuccessful borrowers

Discrimination

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Price/Product features

Access to financial services

No access to financial services
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?