

Discussion of:
Credit Guarantees and New Bank Relationships

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Research Question

- Are Credit Guarantee Schemes (CGS) effective in stimulating lending to SME's?
 - Total debt, banking relationships, and operations

Implementation:

- Use discontinuity in guarantee program eligibility in Chile to examine causal impact of CGS on SME debt financing

Findings:

1. Eligible firms increase borrowing
2. Program selection increases number of banks from which the firm borrows
3. Some evidence of increase in default rates for treated firms



Motivation and Positioning

- Why should we care about this?
 - Primary tool that governments use to support SME financing around the world
 - Some question as to whether these programs are necessary or efficient

Contribution:

- Unbelievable data and careful empirical work
 - Authors see the universe of Chilean firms
 - Also see firm level bank relationships/debt levels, sales, employees



Motivation and Positioning

- Primary motivation: lack of clear causal evidence on the effect of CGS on small business borrowing
 - Is this true?
 - Literature generally finds a relief of credit constraints (Brown and Earle (2017), Banerjee and Duflo (2014))
- Is additionality really the key basic question?
 - Seems like this is necessary, but not sufficient: efficiency is largest concern
- The evidence on the formation of new banking relationships is novel and important
 - Major benefit of data



Motivation and Positioning

Policy:

- Are there any policy prescriptions to be gleaned from these results?
 - What does the program cost/how is it funded?
- Can/should this program be ramped up to include other firms as well?
 - If credit constraints are pervasive for smaller firms, larger SME's could benefit as well



Empirical Approach

- Exploit discontinuity around sales cutoff which determines FOGAPE eligibility
 - Based on 12-month rolling sum of sales and IRS model
 - Eligibility is unknown to borrower and bank
- Fuzzy RDD- use discontinuity as instrument for receiving FOGAPE loan

$$Treatment_{it} = c + \gamma_0 Eligible_{it} + \gamma_1 Sales_{it} + \gamma_2 Eligible \times Sales_{it} + \delta_t + u_{it} \quad (2)$$

$$Outcome_{it} = a + \beta Treatment_{it} + \phi_1 Sales_{it} + \phi_2 Treatment \times Sales_{it} + \eta_t + \nu_{it} \quad (3)$$



Empirical Approach

- More information about the program would be helpful in understanding borrower and firm incentives
- Is there any benefit to the borrower (interest rate cap, longer maturity, less collateral, etc.)
 - Could help get at whether customer would even *want* to manipulate program eligibility
- How many banks participate? Why do they participate?
- Can banks sell guaranteed portion of loans?
- How are banks allocated guarantees (volume, number, etc.)?



Empirical Approach

- The cutoff is described as “extremely opaque”
 - Cumulative sales over previous 12 months
 - Since this is the heart of the empirical section, it would be worthwhile to discuss more what this cutoff looks like or how it might be opaque
- How did this cutoff come about?
 - Important for examining whether other firm characteristics are discontinuous at the cutoff (Employees, total assets, fixed assets)



Empirical Approach- Minor Questions

- Are sales in the baseline specification current sales or the rolling 12-month cumulative sales?
 - Should be the “forcing” variable
- Data runs from 2005-2013: majority of data is discarded
 - FOGAPE rules and funding changed substantially during the 2009-2010 period
 - Can you examine default rates for firms receiving funding before 2009?



Conclusion

- Very cool setting and interesting analysis
- Thank you for the opportunity to discuss!

