Role of government in improving SME access to financing: Credit guarantee schemes and the way forward

Discussion by Krislert Samphantharak
University of California, San Diego

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The Study

- The question:
  - What are the effects of government-provided credit guarantee on SMEs?
- The approach:
  - Using loan-firm-year level data to study Portfolio Guarantee Schemes provided by Thai Credit Guarantee Corporate (TCG) on SMEs and their bank loans
- The findings:
  - The availability of loan guarantee is related to credit additionality, subsequent asset growth, and incentive misalignment
  - Results are diverse across sectors

Appraisal

- Unique detailed data
- Interesting findings
- Important policy implications

Discussions

- Data and Method
- Findings and Interpretations
- Extension

Data & Method

- Data
  - Monthly loan-level data on bank lending to a single borrower during 2008-2013 (from Bank of Thailand)
  - Yearly firm characteristic data during 2008-2011 (from Ministry of Commerce)
  - Yearly data of firms joining PGS during 2009-2012 (from Thai Credit Guarantee Corporation, TCG)
  - Juristic IDs of SMEs according to Ministry of Industry definition (from Office of Small and Medium Enterprises Promotion, OSMEP)
- Eliminate financial firms, government agencies, and international organizations
- Eliminate observations from banks not participating in any PGS and banks without firms joining any PGS

Data & Method - 2

- Final data for analysis: 64,011 observations
  - 63,336 control observations (non-PGS)
  - 675 (1.05%) treated observation (PGS, i.e., bank-firm-year observations that participated in PGS)
- Very unbalanced non-PGS versus PGS observations
  - Vulnerable to different distributions of relevant variables for PGS and non-PGS groups
  - Alternative methods: Matching, Regression Discontinuity?

Data & Method - 3

- Who are the non-PGS?
  - Firms with sufficient collaterals
  - Firms with insufficient collaterals but not *eligible* for PGS (net fixed asset >200 MB)
- Who are not in the data?
  - Firms that did not get bank loans
    - No need for bank loans (have alternative financing, no need for expansion, etc.) => These firms were not financially constrained
    - Need bank loans, but did not get ones
    - Need bank loans, expected not to get ones hence not applying
- What are the appropriate counterfactuals we should look for? What are the appropriate control groups?

Some Findings & Interpretations

- (1) Effects of PGS for services sector:
    - Credit additionality
        - Credit addition
        - Decrease in collateral pledged to credit line ratio
    - Contribution to the economy
        - Asset growth
    - Incentive misalignment
        - NOT significant effect (no moral hazard)
- Implication from the findings:
    - Services sector should be targeted (the impact from asset growth is the highest while the cost from incentive misalignment is not significant)

Some Findings & Interpretations - 2

- Comments:
    - Who are these firms in services sector? What do they do?
    - Only 0.78% of PGS in total observations from services sector (1.59 for construction; 1.40% for utility; 1.24% manufacturing)
        - Why is the percentage so low for services? Are they less financially constrained (i.e. sufficient collaterals)? Are they financially constrained but not eligible for PGS (i.e. firms too large)?

Some Findings & Interpretations - 3

- (2) Effects of PGS for manufacturing, commerce, and construction/real estates/utility (C/R/U) sectors:
    - Credit additionality
        - Credit addition (manufacturing and commerce, but not C/R/U)
        - Decrease in collateral pledged to credit line ratio (all sectors)
        - Decrease in average interest rate (all sectors)
    - Contribution to the economy
        - NOT significant effect on asset growth
    - Incentive misalignment
        - Become *more* delinquency

Some Findings & Interpretations - 4

- Comments:
  - Why is there no effect on growth of fixed assets? Where do the loans go?
    - Financing current assets (e.g. working capital) instead of fixed assets?
      - Check: Effect on revenue (expansion of production) rather than investment in fixed assets
    - Repaying or substituting other existing loans (crowd out effect)? => These firms already have access to finance
    - Using loans on other risky activities (high delinquency)?
  - Also, is the absence of growth of fixed assets for manufacturing and C/R/U (more physical capital intensive sectors) while there is a positive effect for services (less physical capital intensive) counterintuitive?

Some Findings & Interpretations - 5

- (3) Effects on delinquency are heterogeneous across banks!
    - The authors can identify the banks that PGS is associated with higher delinquency
    - Possible explanation: Decrease in screening and monitoring of loan
    - Do the banks with higher delinquency (Bank A and Bank F) have larger loan portfolio under PGS as well?
- (4) Year fixed effect on delinquency?
    - Declining or increasing as PGS grows over time?