

# **Discussion of „Does Money Buy Credit? Firm-Level Evidence on Bribery and Bank Debt”**

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# Determining the Effect of Bribery on Bank Debt

- Firm-level data on bank debt and survey-level data on bribery
- 14 transition countries

Main findings:

1. Bribery increases firms' bank debt ratios
2. Effect only for short-term debt
3. Effect is moderated by institutional environment
  - Higher financial development of a country
  - Lower market share of state-owned banks  
→ lower impact of bribery
  - presence of foreign banks reinforces the negative effect of bribery on long-term bank debt

Overall: thought-provoking, very few empirical examples

«We argue that fighting corruption will not contribute to better access to bank credit in all situations.»

# 1. Transmission channel & hypotheses

→ Show that channel exists

- Use of survey measure of general bribery:  
*“It is common for firms in my line of business to have to pay some irregular “additional payments/gifts” to get things done with regard to customs, taxes, licenses, regulations, services etc.”*
- Authors claim that this measure captures bribery practices taking place between firms and banks.
  - Mention correlation with “It is necessary to make informal payments to get bank loans”

→ Discuss the channel

→ «How does it work in practice?»: loan officer and customer manager

→ Example of Chen et al (2013) for China: different banking system

→ Access to loans?, size of the loans?

→ What are the hypotheses:

→ competitive bribery, greasing the wheel

## 2. What is the estimated effect?

$$Y_{it} = \beta \text{Bribery}_{ct-1} + \gamma X_{it-1} + \alpha_i + \mu_t + \varepsilon_{it}$$

Source of bribery measure: Cell average from survey for following cells:

- Country
- 1999-2001, 2002-2004, 2005-2007
- Industry
- Firm size: micro (1-10 workers), small (11-49 workers), medium and large (more than 50 workers) firms
- Location size: capital, city with a population above 1 million, and all others

FE estimator with time fixed effects:

- eliminate all firm-specific effects that do not vary over time
- account for time effects across countries

## 2. What is the estimated effect?

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What is the heterogeneity? And which variations identify the coefficient of bribery?

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Assumption: observation  $i$  at  $t$  is independent from all  $s$  at all times seems violated → statistical matching

Generated regressor: median 6 observations

Dependent variable is a ratio

## 2. What is the estimated effect?

$$Y_{it} = \beta \text{Bribery}_{ct-1} + \gamma X_{it-1} + \alpha_i + \mu_t + \varepsilon_{it}$$

Interpretation of  $\beta$ ? What is your experiment and which policy conclusions follow?

- Average effect across region-time (Slovenia, Russia)
- If the bribery level increases by 0.3 (sample average), then short-term bank debt increases by 0.54%, average value of the sample (5.01%).

Underlying assumption: «A lot of sameness»

- Experiment assumes that bribery fluctuates within countries-regions-industries-time-location cells

Reduce sameness

- Sample splits (interaction variables are still restrictive)
- Show that effect exists in narrower subsamples

### 3. Discuss alternative channels

- Firms that bribe are part of a «club», i.e. they have access to business opportunities, financing, government orders, etc.
  - Would this generate similar response?
- Role of banks: suppose firm  $i$  is customer of 2 banks
- Role of monetary policy (interest rates)

# Finally

## → Statement

“We argue that fighting corruption will not contribute to better access to bank credit in all situations.”

could be wrong

Ecological fallacy: Aggregate vs. individual correlation

## → Cluster at other levels