

Discussion of “Identifying Financial Constraints from Production Data”

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- Financial constraints are extensively theorized but hard to measure in practice
- This paper proposes and tests a novel approach to studying financial constraints
 - Based on ‘foregone profitability’ relative to comparison set which suggests firm faces binding (financial) constraint
 - Tested on dataset of ~ 725,000 firm-year observations across five countries from 2005-2015, compiled by the ECB And Bureau van Dijk
- Estimates substantial foregone profitability on average
 - Interesting heterogeneity by firm size, time period and country
 - Relatively low correlation with traditional measures of financial constraints (which have been shown in other work to be perhaps poor measures of FC)

- Interesting paper with a different take on an important question in the literature
- Focus of my comments
 - Conceptual differences in measure used and traditional view of financial constraints
 - A few thoughts on the empirics

Conceptual Difference

- Traditional view:
 - Financing constraints conceptualized as NPV positive project that does not get financed due to inability to raise capital from outsiders
 - Wedge between internal and external cost of finance due to (typically information-related) frictions
- In theory:
 - Could be at profit maximizing point given current inputs and still be financially constrained (current projects financed through internal cash flow but new growth opportunity needs external finance)
 - Could be off the profit maximization point given inputs and not be financially constrained (e.g. large adjustment costs)
- *Discuss conceptual distinctions and implications in more detail*

Empirics

- What are (small and micro) firms optimizing?
 - Leisure and non-pecuniary benefits?
 - Tax shield and business expenses through firm?
- Can financial constraints be treated as exogenous to production behavior of (small and micro) firms?
 - Credit rationing due to over-optimism, managerial quality (discipline of external finance)
- Lack of customer demand
 - Seems particularly salient given time period; on average firms self-report as being twice as much an issue as financial constraints
 - Current tests reassuring but more can be done