Funding Liquidity without Banks

by Restrepo F., Cardona-Sosa L. and Strahan P.

Discussion by
Jacopo Ponticelli - Northwestern

BIS CCA Research Conference, 2018

What does the paper do?

- Effect of increase in **cost** of short-term credit on:
  - short-term credit (**-**)
  - cash (**+**)
  - trade credit (**+**)

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  - cross-section: below/above 15,000 COP cutoff

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    $\rightarrow$ heterogeneous effects: by size
- Finding:
  - substitution
  - when trade credit less available $\rightarrow$ Investment $\downarrow$

Overall

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- Convincing results, polished writing, lots of robustness.. (v27!)

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Main Comments:

- Institutional Setting
- Empirical Strategy
- Discussion of Results

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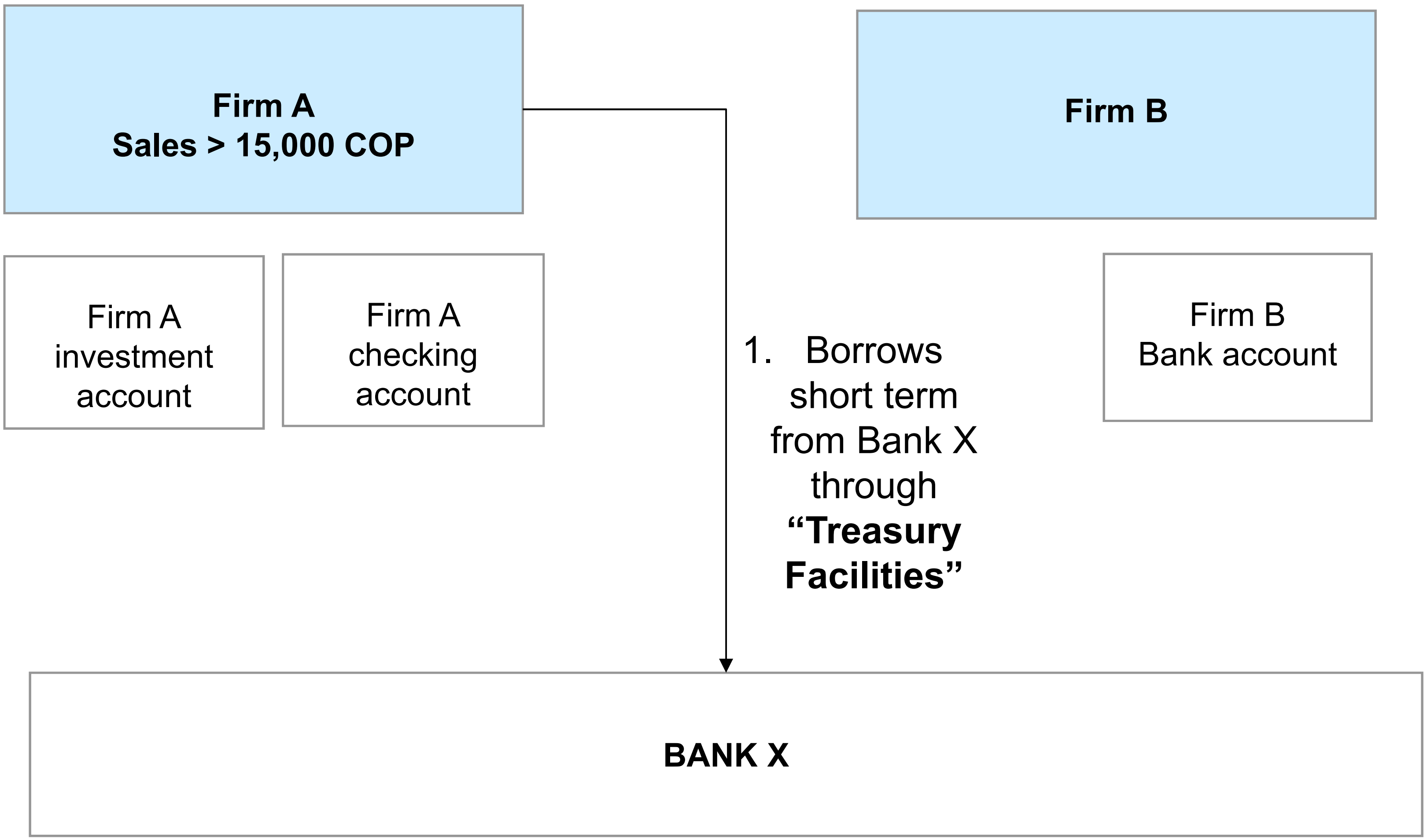
  What changes is ability of large firms to get around it:
  - *before*: can avoid tax using Treasury Facilities
  - *after*: stop this practice

BEFORE 2011:
WORK-AROUD not to pay the BAD tax



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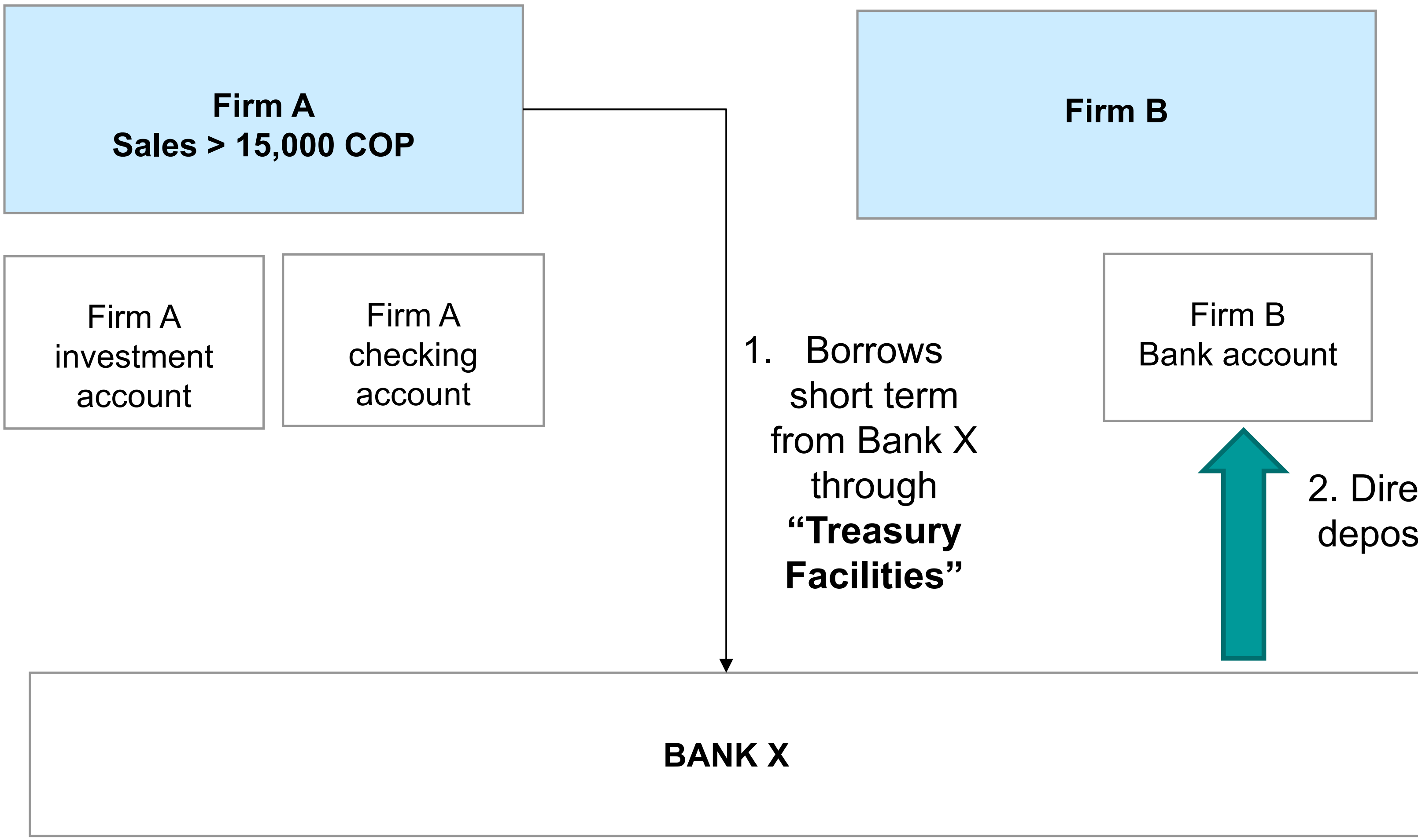

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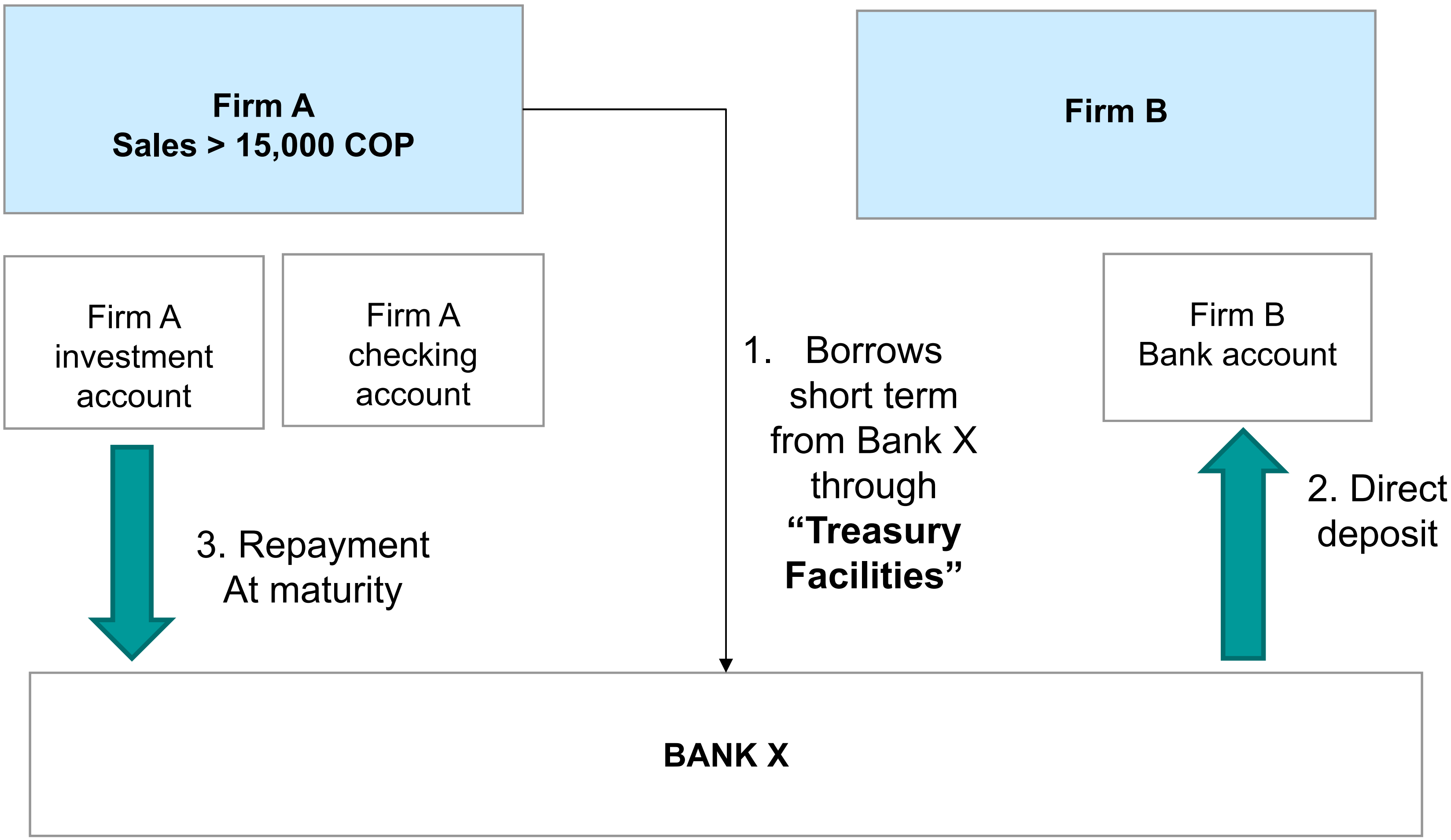

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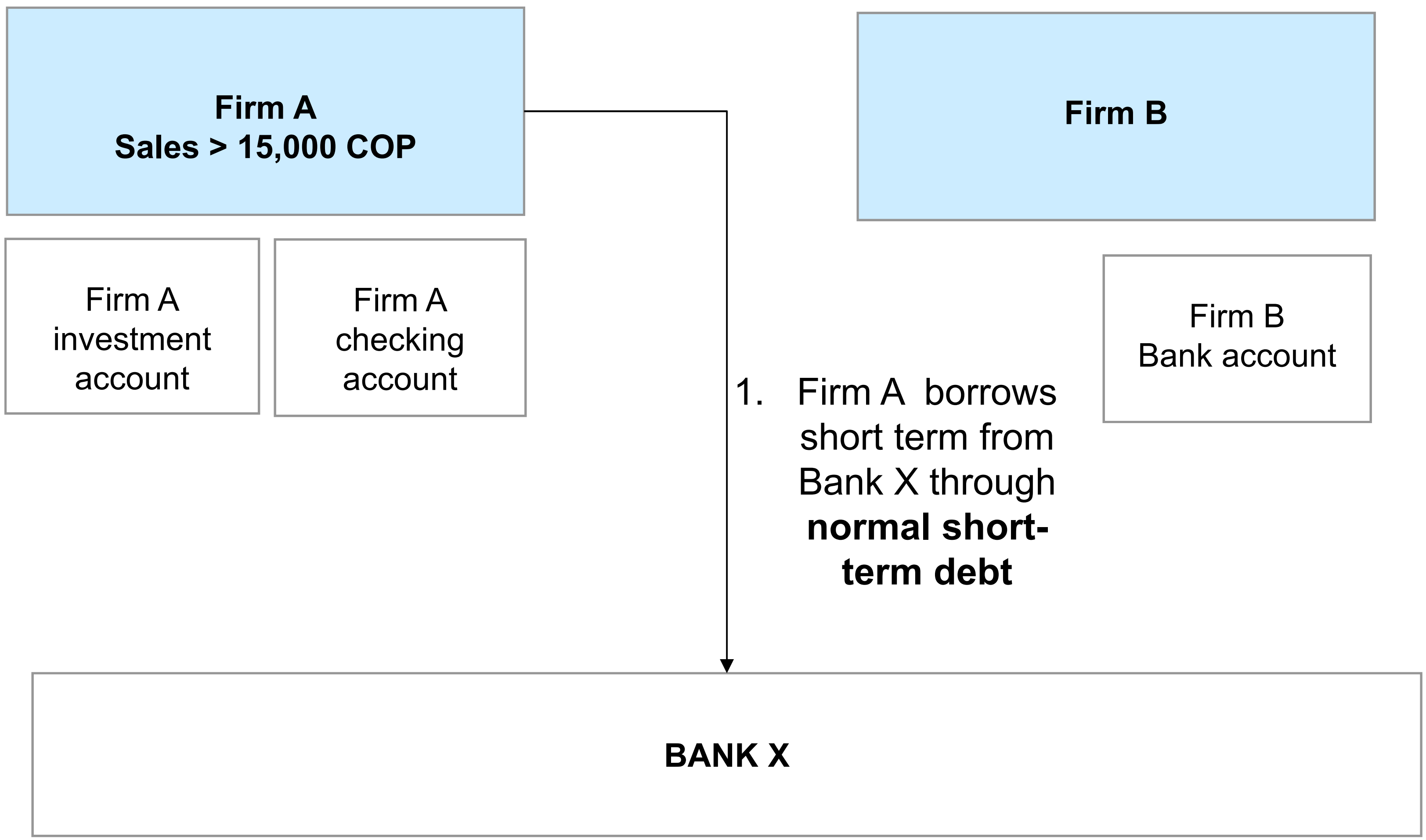
Firm A
Sales > 15,000 COP
Firm B
Firm A investment account
Firm A checking account
Firm B Bank account
1. Firm A borrows short term from Bank X through normal short-term debt
BANK X

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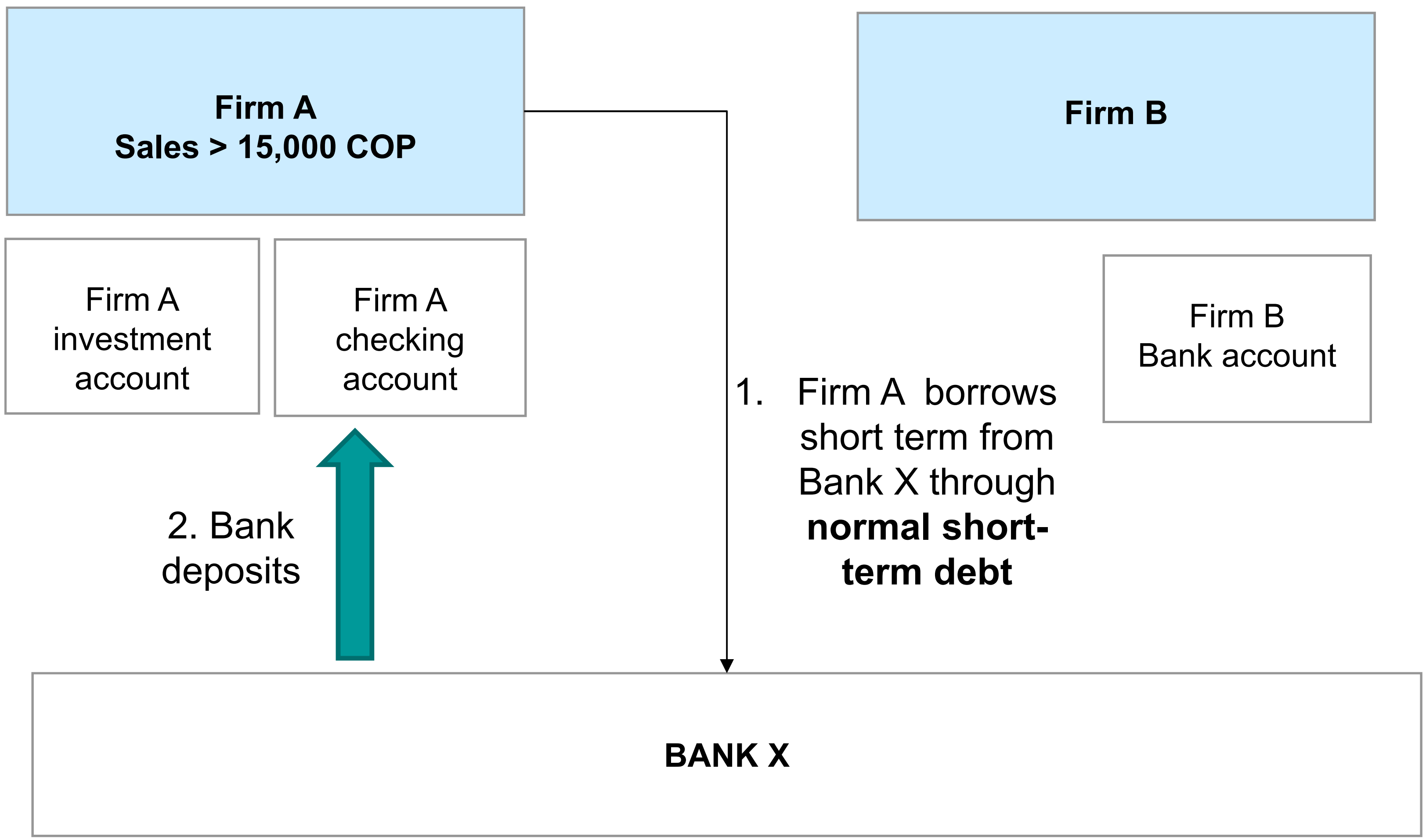

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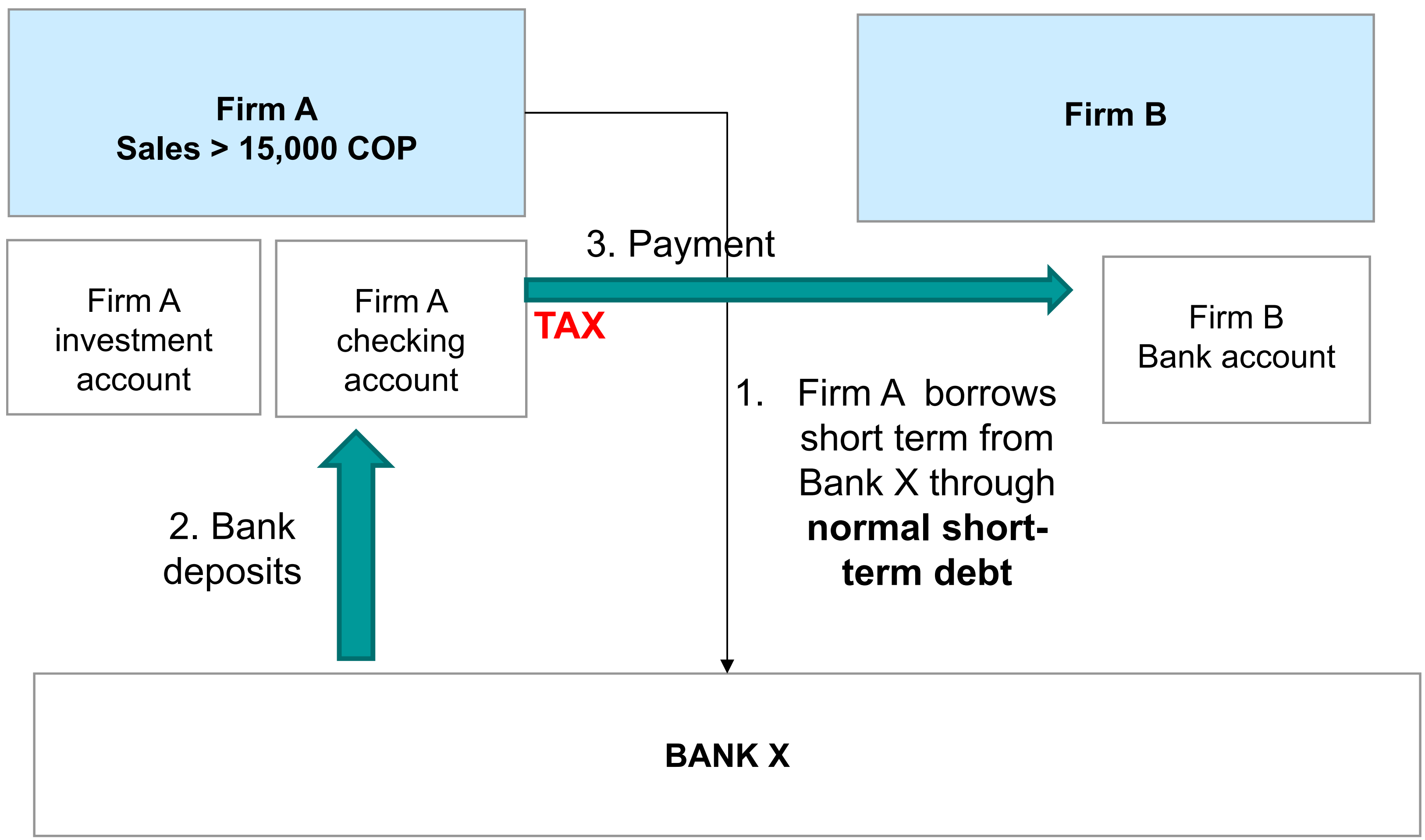
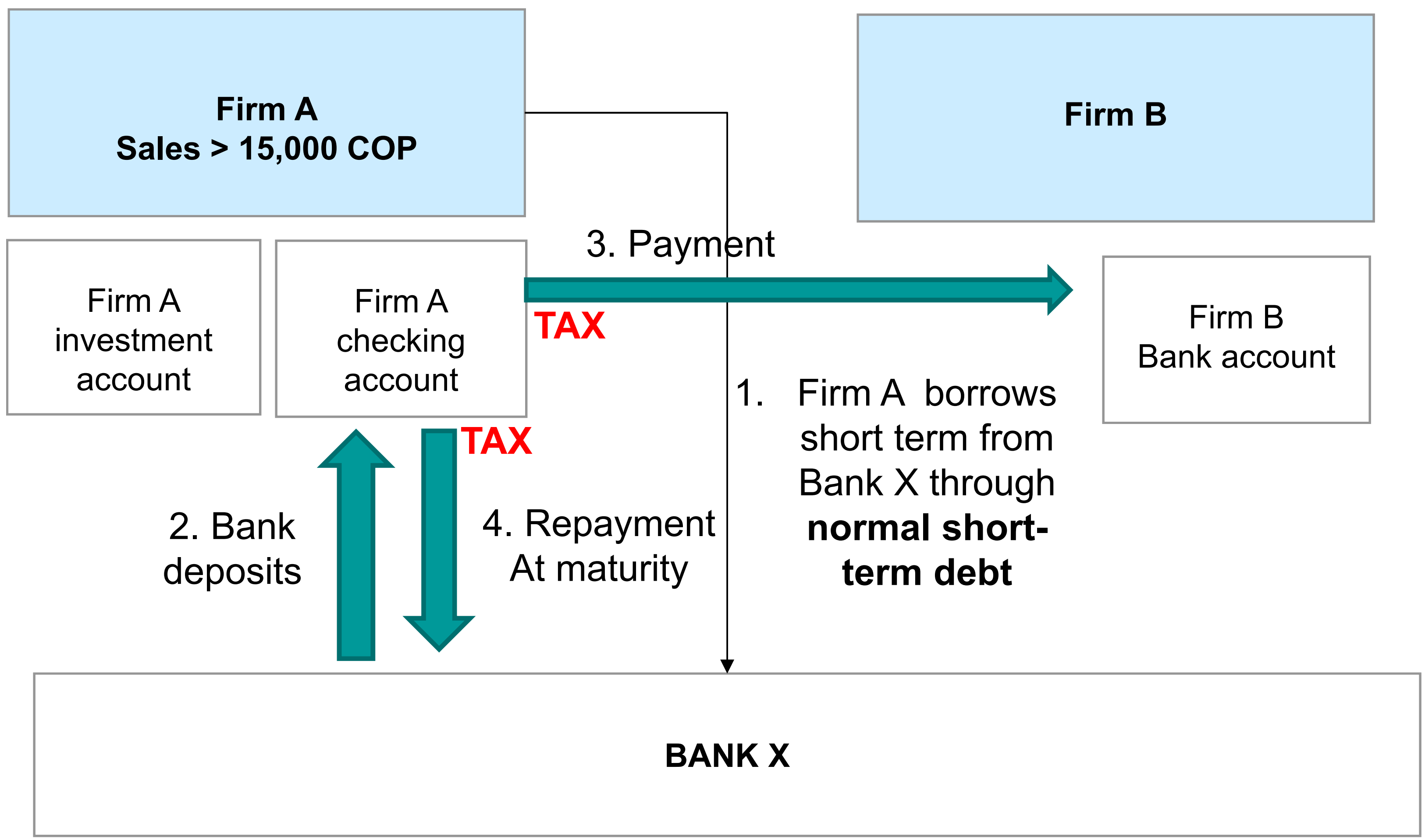


Firm A
Sales > 15,000 COP
Firm B
3. Payment
Firm A investment account
Firm A checking account
TAX
Firm B Bank account
1. Firm A borrows short term from Bank X through **normal short-term debt**
2. Bank deposits
BANK X

AFTER 2011:



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Complex (5 pages...).

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1. Treatment: maturity of a loan vs payment schedule
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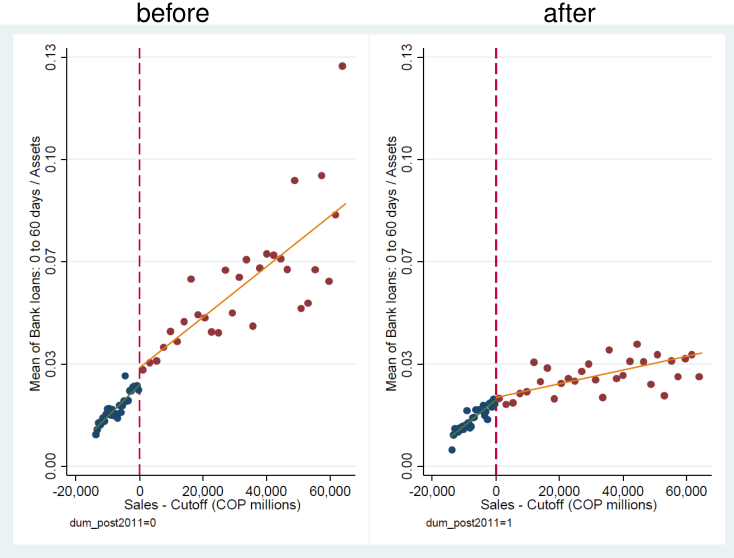
2. Role of investment accounts
   - Can firms still use them after 2011?
3. "Other changes" to tax code in 2011 need discussion
   - Affect differently firms of different size?
   - Any discontinuity at "preferential client" threshold?

Empirical Strategy

- Heterogeneous treatment effect of the 2011 Tax Reform



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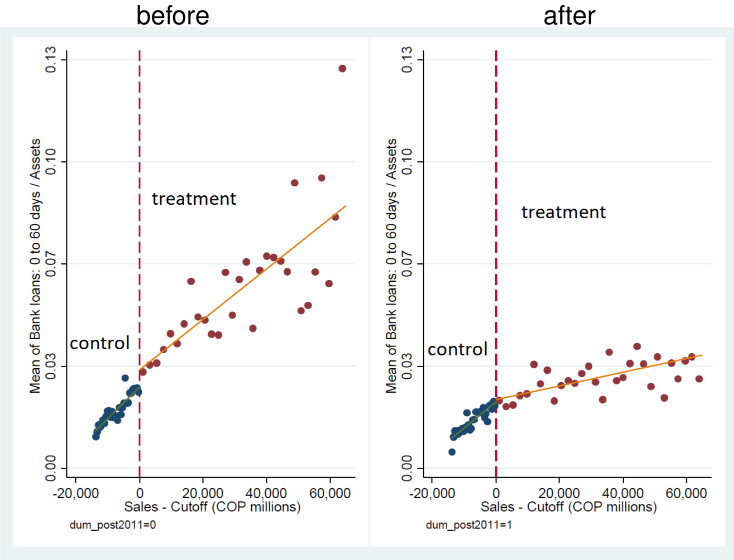

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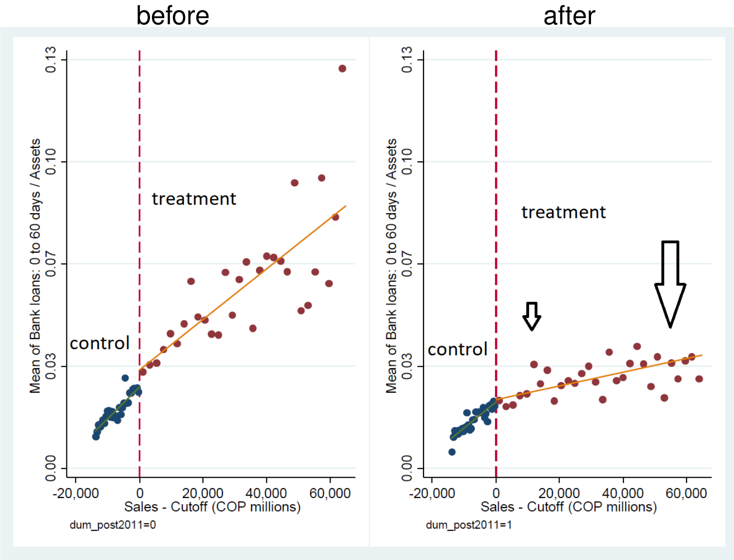

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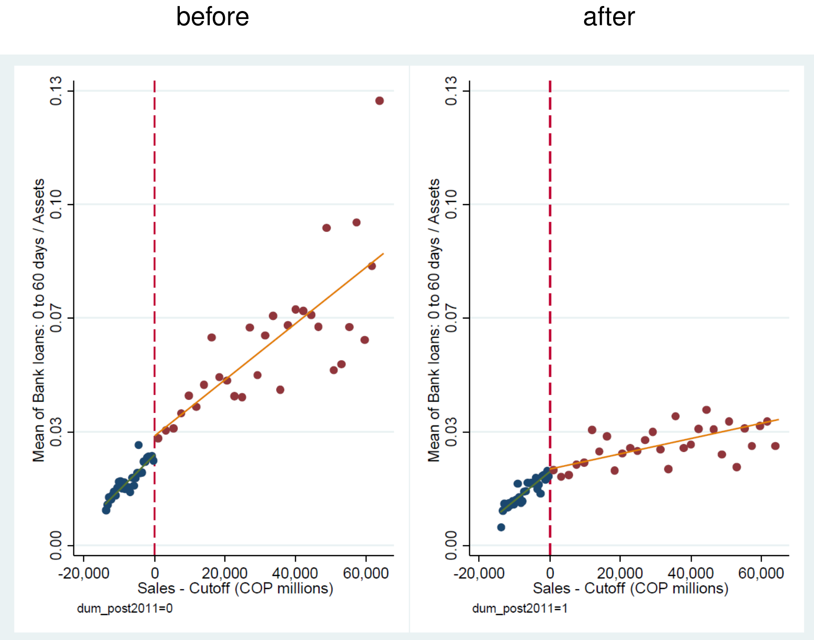
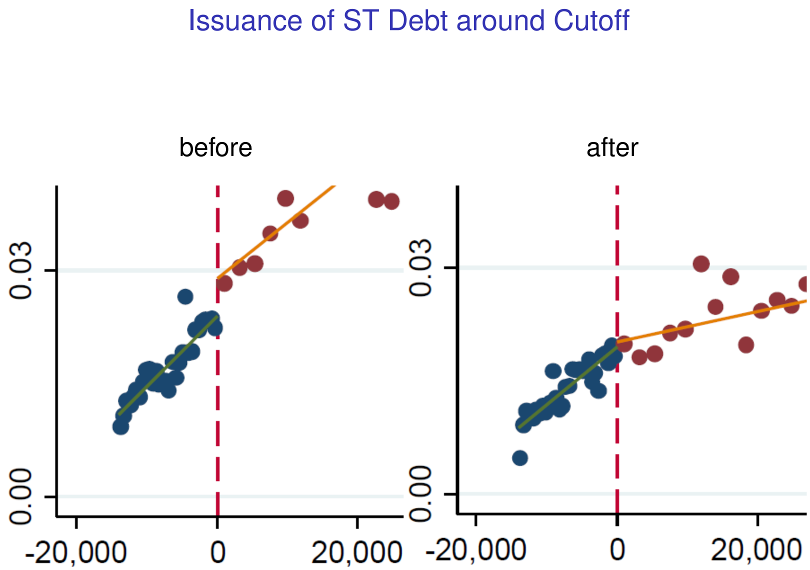
   - smoothness around cutoff in other observables: testable
   - there is a clear *discontinuity* at the threshold!

Issuance of ST Debt around Cutoff

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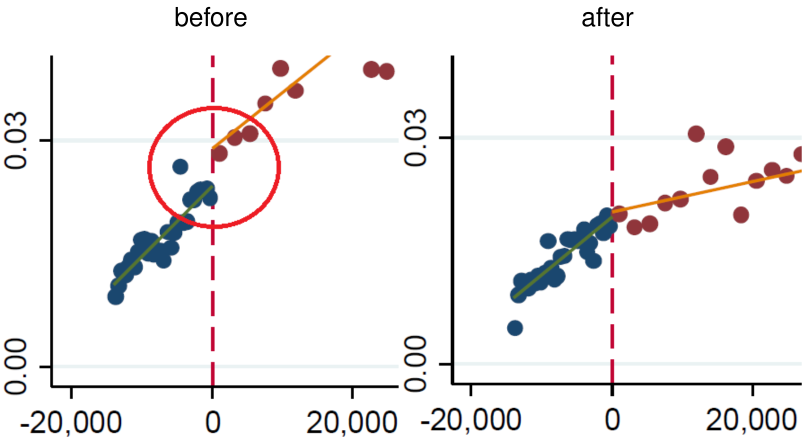

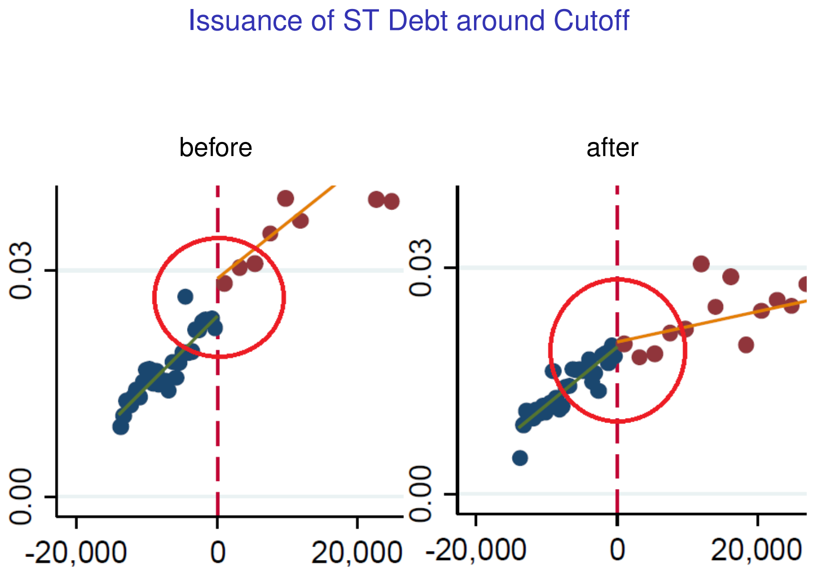
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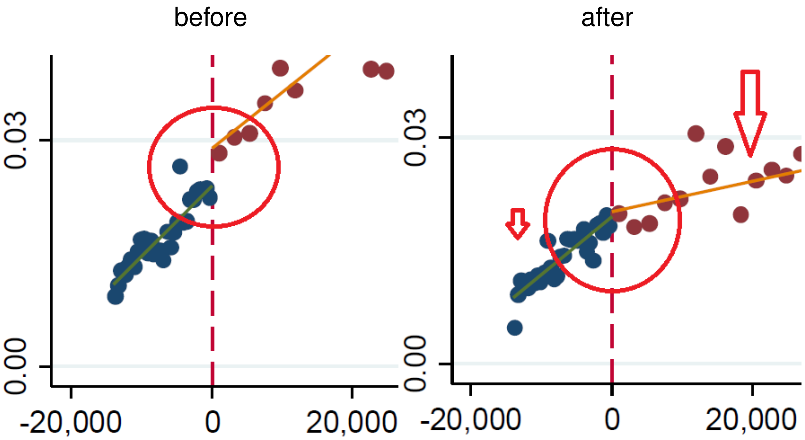

Discussion of Results

1. Additional outcomes:
   - vertical integration
   - informality
   - alternatives to banking sector (fintech?)

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   - vertical integration
   - informality
   - alternatives to banking sector (fintech?)
2. Results suggest substitution with trade credit almost seamless.
   - is it really?
     - back of the envelope quantification
   - intensive vs extensive margin of trade credit
     - relationships already in place for large firms?
     - upfront costs: negotiating contractual terms, building trust

To Sum up

- Fascinating results
- Well written paper
- Some suggestions for empirical strategy and discussion