

Comments to Session 1A
“Entrepreneurship and
Access to Credit”

Xavier Gine

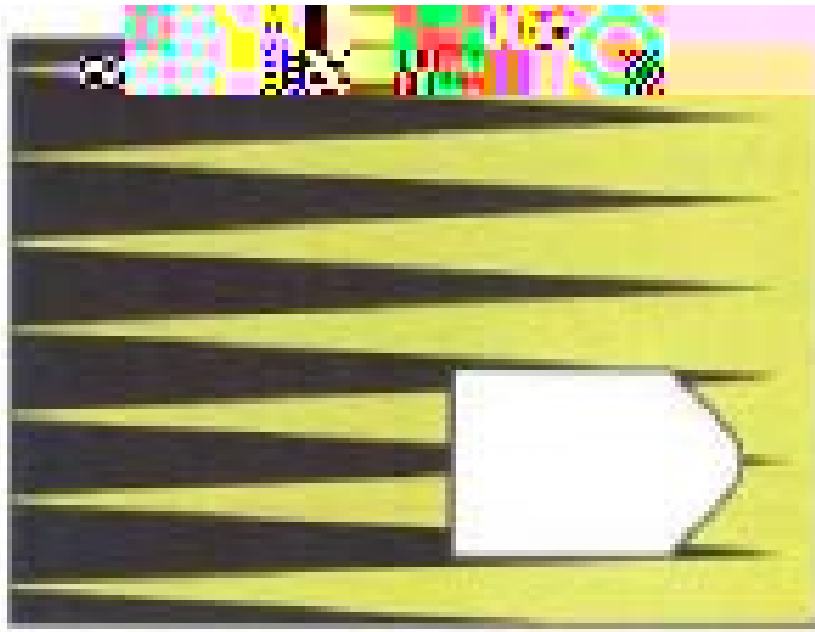
World Bank

Summary of “Psychometric tests”

- Goal of paper is to use a **psychometric tool** to improve **credit scoring**
- So what is a credit score?
 - Fancy probit model to predict the probability of default based on individual characteristics and past credit history
 - No data for previously “unbanked” individuals
 - Limited sharing and coverage of information

Summary of “Psychometric tests”

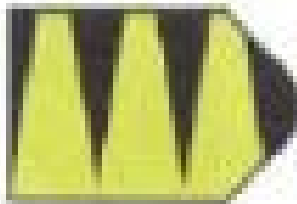
- What is a psychometric tool?
 - Assesses individual traits with a personality assessment “Big 5 model”, digit span recall, an integrity assessment and Raven matrices.



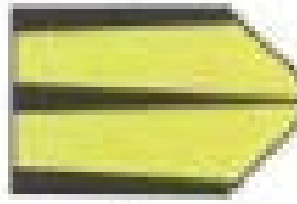
a



b



c



d



e



f



Summary of “Psychometric tests”

- What is a psychometric tool?
 - Assesses individual traits with a personality assessment “Big 5 model”, digit span recall, an integrity assessment and Raven matrices.
 - Goal is to measure the ability and willingness to repay

Comments on “Psychometric tests”

- Who is the tool applied to?
 - If there is division of management into finance / production / etc, then who is the relevant person? Is one trying to capture the culture of the business?
- Overfitting using new model. Are data used to fit the model different from data to validate it?
- Sample: Data only available on applicants?
 - How does EFL distribution compare among applicants and non-applicants?

Comments on "Psychometric tests"

		Traditional Model decision (TM)	
		Accept	Reject
		(1) Accepted	(2) Accepted


unbanked) Accept (20.6% unbanked) (10.1%

Comments on "Psychometric tests"

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H1



Comments on "Psychometric tests"

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Comments on “Psychometric tests”

- H1. Among accepted by TM, those rejected by EFL should have higher default.
 - H1 holds for banked but not unbanked sample
 - Unbanked more likely than bank to have sole manager. Yet, results show no improvements for the unbanked.
 - Is this about power ($N = 1167$ vs $N = 352$)?
- H2. Rejected individuals by TM but accepted by EFL should have same default as those accepted by TM
 - H2 does not hold for banked sample but it does for unbanked sample.
 - 0 result could be due to low power.
- H3. Among unbanked, individuals accepted by EFL should have higher probability of getting a loan
 - Result holds but it is akin to a “first stage”.

Other Comments

- Why use old (using coefficients from Africa) and new (using coefficients from data from actual lender) used? What do we learn, exactly?
- Correlation between both (EFL and TM) measures? Scatter plot of each measure in each axis, with lines in the relevant cutoffs.
- What happens if the actual (continuous) EFL measure is used, rather than dummy for accepted / rejected?
- GE effects. Results with only one lender using EFL measure. What if lender uses it?

Summary of "Opportunity vs Necessity"

- Goal is to classify female microbusinesses into necessity and opportunity business.
 - Proxy for opportunity is "reason to start business"
- Important for policy
 - Better targeting of government programs to either ease transition into wage work or to provide business training and access to services

Comments on “Opportunity vs Necessity”

- Measure of Opportunity:
 - Would be nice to have panel data.
 - Perhaps people ex-post rationalize answer... successful businesses tend to say they started a business because of opportunity
- Instrument may not satisfy exclusion restriction. GDP growth and state of economy may directly affect outcomes.
 - Also, controls are endogenous... so why have them at all?

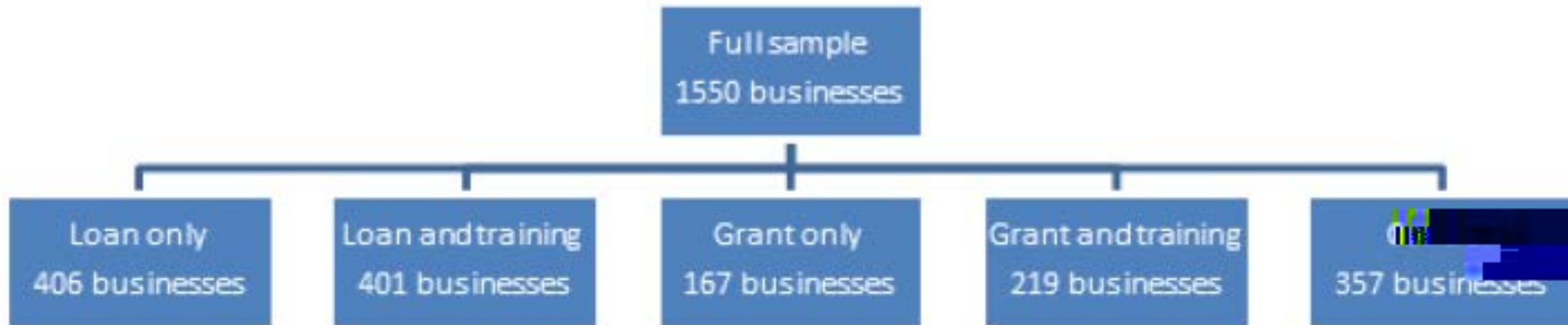
Comments on “Opportunity vs Necessity”

- Data Quality
 - If opportunity firms have better recordkeeping, then measurement error is non-classical
- Timing of elicitation
 - Can non-cognitive skills and business practices be learned? If so, then to say that opportunity firms have higher profits and better business practices & non-cognitive skills may be a bit tautological.
 - Ideally one would like pre-determined predictors of opportunity
 - Comparison of opportunity with high necessity

Comments on "Opportunity vs Necessity"

Summary of “Business is Tough”

- Interesting design to measure the impact of different policy options to improve productivity of small businesses



Summary of “Business is Tough”

- Results:
 - Men benefit from Loan & Training only
 - Women do not benefit from anything
 - When interactions with willingness to hide money are included
 - Single men perform best
 - Married men that do not hide do well too, but those that hide show no impact
 - Opposite effects for women

Comments on “Business is Tough”

- Definition of business ownership and control in a household
 - Do both spouses have a business that they have full control over? Or do both spouses work in the same business under different capacity?
 - If the former, are there cross-reports of business profits? Are there accurate?
 - Is it typically the case that male businesses are larger and with more potential than female businesses? Could this explain the contradictory results in the game?

- Sample
—

- Timing of loans / grants relative to training?
- Hiding game:
 - Correlation between hiding income and decision-making power
 - Could game proxy for bad performance? If so, then pressure to share is correlated with outcome and one has reverse causality. Results would be