Referee report

Reviewed paper: What Determines Firms’ Credit to Access in the Absence of Effective Economic Institutions: Evidence from China

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1. Strengths

Paper try to explain alternatives to standard market institutions when institutions are weak and market failures happen in developing countries. This is an important topic for academics to shed light on so that policy making in developing countries can be better informed.

2. Weaknesses

This paper has some fundamental flaws as follows:

- Outdated data are used to make arguments about time-dependent policy results such as access to credit due to government intervention. Almost all data used are pre-2005 when recent data are readily available such as structure of financial market or enterprise survey data.

- The measure of government intervention is not acceptable. The survey questionnaire is designed to measure regulatory/administrative burden enterprises have to shoulder in form of manager’s time to deal with regulatory requirements. The question itself explains: “assignments refer to handling the relationship with the government workers, consolidating and submitting various reports or statements”. It cannot be interpreted as a government effort to support enterprises to gain access to credit.

- It’s not clear how to collateral to loan ratio is measured.

- IV method is flawed because if a company is has been inspected for public security reason banks will take that into account when supplying
credit to it. Access to credit depends on compliance profile of firms.
- The paper makes unfounded claims on the usefulness of government intervention as an alternative to standard market institutions.

3. Recommendations
- The paper should be rejected.