

Access to Loans and Local Development

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Resource constrained local government & access to loans

- ▶ Local governments are de facto implementers of policies in many countries
- ▶ Although high social return opportunities, funds are often non-existent or captured/put to waste (from some sources)
- ▶ Loans can help governments (just like firms) to invest and grow
- ▶ Besides, I would argue that the paper highlights an innovation to more effectively transfer funds from federal to local governments
- ▶ Very important policy problem since
 - ▶ Decentralized implementation & centralized revenue collection is a prevalent structure in many developing countries
 - ▶ Inter-government transfers is massive— $\approx 85\%$ of total expenditure

Important to improve governance of inter-government transfers

- ▶ Even when inter-government transfer leads to substantial fiscal multiplier (Corbi et al, 2019), they are often “wasted” leading to zero public services gains (Brollo et al, 2017)
- ▶ Although property-tax funded spending leads to greater public service benefits (Martinez, 2020; Gadenne, 2018) (and presumably a greater multiplier) much of local government resources are still inter-government transfer based!
- ▶ Standard practice has been: Inter-government transfer **...heavily audited and constrained by federal governments**
 - ▶ While federal controls can improve allocation (Martinez and Carreri, JEEA 2025), it can lead to its own distortions

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 - ▶ While federal controls can improve allocation (Martinez and Carreri, JEEA 2025), it can lead to its own distortions
- ▶ **Federal guarantee to loans** offers a nice way out: (1) Enable less heavily controlled funds to local governments; (2) engage private sector as a interest party to do the controlling → Core of my discussion will focus on these two features

This paper: Summary

- ▶ Question: How a federal guarantee loan facilitation program affect local government expenditures and development outcomes?
- ▶ RD method: discontinuity in qualifying thresholds for cheaper loans (effectively increasing cheaper loans obtained)
- ▶ She finds
 - ▶ Increase capital investments 6× more than current expenditure
 - ▶ Improved public service indicators associated with the areas where spending increased
 - ▶ Much larger implied fiscal multiplier

- ▶ A lot to love about the paper
 - ▶ novel/unexplored in academic circles policy context
 - ▶ Very important policy problem
 - ▶ Plausible exogenous variation

- ▶ I will focus on four main comments
 1. Refining paper's claim & Quality of expenditure improvement
 2. Capital expenditure motivation
 3. Validity of Empirical Strategy
 4. Fiscal multiplier & magnitudes

1. Refining the paper's claim & Quality of expenditure improvement

What is the claim the paper makes?

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- ▶ Claim 2: More loan-based resources $\rightarrow$ improved quality of expenditure and hence $\uparrow$ funds-to-outcomes elasticity

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- ▶ Claim 1: More resources (regardless of sources) → improves outcomes ✓
- ▶ Claim 2: More loan-based resources → improved quality of expenditure and hence
↑ funds-to-outcomes elasticity (not yet there...)

Any missing elements for “improved quality of expenditure” claim?

1. Improved expenditure (relative to what?)

- ▶ Counterfactual: municipality without the resource (not one with a non-loan type o resource)
- ▶ Now, It indeed looks a great allocation: no personnel added expenditure & 6 × more capital than current expenditure
- ▶ but does this *strict* process –that selects just 14% –choose municipalities that would already have spent any extra money that way?
- ▶ **My suggestion:** Can you show how this type of municipalities spends other type of funds - using RD on population cutoff a la Corbi et al (2019)

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2. How does loan-based resources do the effectiveness trick?

- ▶ Process: project-based funds - what does it do with next budget planning? and next federal funds allocation?
- ▶ Conceptual– can you engage on whether any of the two seems relevant
 - 2.1 Private banks screening and oversight leads to better resource allocation —a la Holmstrom and Tirole
 - 2.2 Less-heavily-controlled resources leads to greater flexibility with use of funds and reduced “useless” requirements to fulfill —a la Ezra Klein

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 - 2.2 Less-heavily-controlled resources leads to greater flexibility with use of funds and reduced “useless” requirements to fulfill —a la Ezra Klein ⇐ Relates to next point

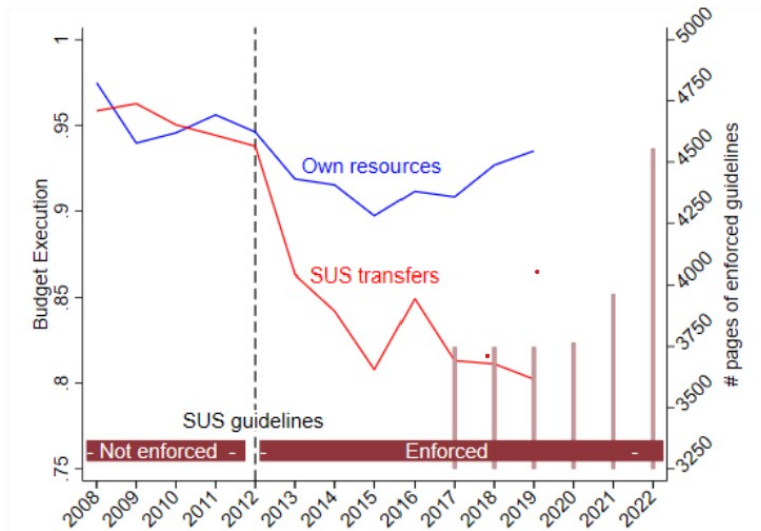
2. Capital Expenditure Motivation

Capital expenditure with greater emphasis

- ▶ She finds a large increase in capital expenditure!!
- ▶ Execution of capital expenditure seems a very important bottleneck in this context
—And practitioners attribute to the extensive federal regulation and oversight
- ▶ Despite this, paper give little emphasis to capital expenditure
- ▶ Exploring this direction can help with paper's motivation and serve to ground the “how loan-based funds does it”
- ▶ For instance, some facts from the setting corroborate this narrative:
 1. Loan-based funds are municipality-owned and not constrained by the same oversight and regulations as federal transfers
 2. Such regulation inhibit execution of public funds
 3. Limited execution is a relevant problem in this setting
 4. particularly problematic for capital expenditure

(2) Such regulation appears to inhibit execution of public funds

From Moreira et al. 2025 in local gov in Brazil

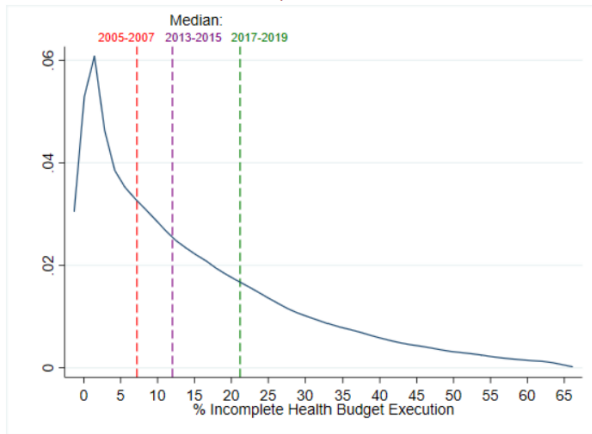


(3) Limited execution relevant in this context

From Moreira et al. 2025 in local gov in Brazil

Incomplete Budget Execution (2000-2019)

Excludes automatic spending (transfers, payroll and interest payment)



- ▶ WB/WHO categorizes 15% as chronic under-execution. The % of chronic:
 - ▶ 38.7% of municipalities-years; 20% of municipalities were chronic for at least 10 years

(4) Limited execution —particularly capital expenditure —relevant

From WB/WHO report

Figure 9:

Health budget execution by spending categories, average 2009-2018

Source: BOOST data; authors' calculations



2. Validity of Empirical Strategy

3. Validity of Empirical Strategy

- ▶ It is reassuring that there is smoothness on the density around the discontinuity providing support for “no manipulation” empirical strategy assumption
- ▶ But a test of discontinuity of baseline covariates would enhance the validity of empirical strategy for a couple of reasons
 1. Maybe there is indeed “no manipulation” but due to small “defacto” sample, noise leads to unbalance driving results
 - ▶ 14% of municipality-years take the loan (≈ 770); but how many are unique municipalities and within optimal bandwidth of threshold variation?
 2. Manipulation for the much smaller sample that intent to take up the loan
 - ▶ the density test presented includes the entire sample but it is likely that only those who actually **intent and can** get an loan actually manipulates
 - ▶ It seems arguably easy to pay a debt or limit execution of funds if you have plans to access an loan
- ▶ Moreover , there might be some counfounders: (1) Anticipation effect due to certainty in loan approval); (2) Complementary federal government funds provided

4. Magnitudes

Useful to more closely guide interpretation of magnitudes

1. **loan-expenditure elasticity** Loan led to BRL 23.30 per person (.5% of total expenditure) increased resources; But enabled an increase of 5% of expenditure [Table 6 & 7]?
 - ▶ measurement: feature of the "log" vs holds for per capita specification ?
 - ▶ Are they getting access to additional funds from federal government expanding other sources of revenue? or what is the story that enables this?
2. Fiscal multiplier of loan based funds
 - ▶ Nice comparison with Corbi (2019) fiscal multiplier of inter-government transfer—but how the expenditure composition change in their setting?
 - ▶ These are loan-based funds—guaranteed by federal government—which makes it less likely to activate taxpayer accountability due to future taxes, and large estimate is somewhat more surprising
 - ▶ At the same time this is cheaper for local government—interesting to understand the cost of such a guarantee for the federal government?