

# What does debt-relief do for development?

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## Overview of the paper

- ▶ Analyzes of the impact of the *Indian Debt Waiver and Debt Relief Program for Small and Marginal Farmers, 2008* on beneficiary households
  - ▶ Investment,
  - ▶ Productivity, and
  - ▶ Financial access.
- ▶ Uses the Regression Discontinuity methodology based on program eligibility criteria.
- ▶ Finds no impact on the investment or productivity of beneficiary households.
- ▶ Does find a strong and persistent shift away from formal sector lenders.

## Eligibility

- ▶ Benefit status not dependent on land pledged?
  - ▶ Marginal farmer [Small Farmer] means a farmer **cultivating** (as owner or tenant or share cropper) agricultural land up to 1 hectare [between 1-2 hectares]. *Source: 3.5 and 3.6, Agricultural Debt Waiver And Debt Relief Scheme, 2008.*
  - ▶ Other Farmer means a farmer **cultivating** (as owner or tenant or share cropper) agricultural land of more than 2 hectares. *Source: 3.7, Agricultural Debt Waiver And Debt Relief Scheme, 2008.*
- ▶ Loans include those given to SHGs and JLGs. *Source: 3.1, Agricultural Debt Waiver And Debt Relief Scheme, 2008.*
- ▶ May have an implication on how households treat the cleared collateral.

## Part I

### Impact on level and composition of debt

## Estimates of borrower households

Region	% of total	
	March 2009	March 2011
Ahmedabad-Kheda	5.26	3.07
Banaskantha-Dahod	0.98	2.22
India	26.50	11.67

Source: Consumer Pyramids, CMIE

## Sources of borrowing

% of borrower households that borrowed from:

Region	Banks	Money-lenders	Relatives
<b>March 2009</b>			
Ahmedabad-Kheda	46.92	9.03	34.53
Banaskantha-Dahod			71.14
India	19.69	24.62	45.78
<b>March 2011</b>			
Ahmedabad-Kheda	<b>1.38</b>		11.84
Banaskantha- Dahod	0.57		55.85
India	25.50	14.70	28.11

Source: Consumer Pyramids, CMIE

## Part II

# Impact on investment

## Investment and source of financing

- ▶ The paper finds a reduction in investment in irrigation and agricultural inputs, potentially as a result of the shift towards more expensive sources of financing.
- ▶ Maybe the other way around: The shift towards expensive source of financing may be because of a shift away from agriculture.
- ▶ If formal sector finance restricted to agricultural activities, this may explain the shift to informal sector finance.



## Percentage of population in farming

Region	March 2009	March 2011
Ahmedabad-Kheda	4.73	5.42
Banaskantha-Dahod	18.48	17.02
India	7.68	7.44

Source: Consumer Pyramids, CMIE

## Part III

# Supply of formal sector credit

## Supply of credit

- ▶ Difficult to estimate if there was absolutely no decrease in the supply of credit by the formal sector.
- ▶ This is to some extent supported by the worry that beneficiaries have about future access to credit, especially from co-operative banks (Slide T10).

## Default on formal-sector loans

- ▶ Paper finds debt relief beneficiaries more likely to default on formal sector loans in the future.
- ▶ Are they not worried about losing the land (or collateral)? How important is land (collateral)?
- ▶ The scheme included tenants/sharecroppers? Are they driving this result as opposed to owners?

## Part IV

### Impact on consumption

## Debt relief and consumption

- ▶ Did the debt relief act as a positive income shock?
- ▶ Did the debt relief just get consumed?
- ▶ Estimates on household expenditure on food, health, education?
- ▶ Especially useful to compare it to the households that got only a 25% waiver.

## Purpose of borrowing

% of borrower households that borrowed for:

	Consumption	Investment/Business	Repay debts
<b>March 2009</b>			
Ahmedabad-Kheda	55.47	6.62	8.39
Banaskantha-Dahod	36.51	5.77	
India	39.04	13.16	9.32
<b>March 2011</b>			
Ahmedabad-Kheda	10.46		1.38
Banaskantha- Dahod	49.10	1.13	0.57
India	39.50	12.14	3.97

Source: Consumer Pyramids, CMIE

## In conclusion

- ▶ The paper asks a very important question.
- ▶ The shift to informal sector finance is intriguing.
- ▶ Links up to a broader literature on debt-overhang and moral hazard.
- ▶ Potentially link up to the 2010 micro-finance crisis in Andhra Pradesh, where borrowers were asked to default on MFI loans.



Thank you.