Efficacy of Loan Waiver Programs

- The aim of this paper is to “estimate the efficacy and sustainability of the popular loan waiver programs in achieving their announced targets”.
- What is not made adequately clear is how the words “efficacy and sustainability” are to be interpreted.
- The authors study the loan waiver program in UP which was announced in 2011.
- The authors set up a neat theoretical model
- It is argued that as the probability of enforcement of the contract increases (ie the level of expected penalty) consumption would be would be discouraged and investment would be encouraged.

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- The authors then use state level data and data based on a primary survey to make the following assertions.
- A drastic fall in the repayment rates were observed in 2011 and these repayment rates do not recover to levels observed in 2009 and 2010, by 2013.
- Loan waivers lead to higher consumption
- Loan waivers lead to higher social spending.
- Loan waivers lead to lower productivity (production per acre).
- These basic results are further counter checked by using difference in difference analysis and some robustness checks.

Efficacy of Loan Waiver Programs

- The important question that needs to addressed is that in what ay do these results add to our understanding of the phenomenon in question?
- What do we already know?
- Kanz (2012) studies the 2008 waiver based on a sample of 2897 debt relief beneficiaries in Gujarat.
- Approximately one year after the debt relief program households that received full debt relief remained significantly less indebted than households that were eligible for a partial relief.
- The debt relief increased dependence on informal credit reduced investment prompted a decline in productivity (compared to a control group).

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- Recipients of unconditional debt relief are significantly concerned about their future access to institutional credit and exhibit investment behaviour consistent with of future credit constraints.
- Gene and Kanz (2017) use panel data on 489 districts on credit market outcomes and real activity over the period 2001-2012.
- They find a significant reallocation of bank lending from away from districts with greater bail out exposure.
- Sharp increase in defaults, concentrated among borrowers that were not in default at the the program came into effect.

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- No effect on productivity, real wages and per capita consumption.
- De and Tanti (2013) use data on 12645 farmers who received a crop loan.
- Complete transaction records from October 2005 to May 2012.
- Number of days taken to repay debt increases for all borrowers following a waiver.
- Rationally predicting adverse borrower behaviour lending institutions generating ex ante inefficiency.
- Access to finance for poor households declines following unconditional debt waivers.
- Point out that relief at the time of droughts may lead to some real benefits.

Efficacy of Loan Waiver Programs

- Comparing the size of data sets used in earlier studies and their conclusions with the present study what are the new conclusions offered.
- Apart from what has been said about social spending nothing much seems to be new.
- Of course the conclusion on consumption is very different from earlier studies we are not told anything much about what drives this difference.
- Given the smaller sample more could have been done to focus on a further analysis on cross sectional differences.
- For example, if information on land holdings were available then a comparison over farm size would have been interesting.

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- One of the control variables used is “interest rate charged on the loan”
- If these loans fall under the “priority sector lending” then the these rates should more or less be the same across farmers.
- The information collected could be presented in a more meaningful way. For example figure 5 describes the number of loans, but would not amounts be more informative?
- With the empirical results presented in the paper it may be difficult to convince a referee that the addition to knowledge is significant enough to warrant acceptance.