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 discouraged and investment would be encouraged.
Efficacy of Loan Waiver Programs

- 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 be addressed is that in what way 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).
Efficacy of Loan Waiver Programs

• 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 program came into effect.
Efficacy of Loan Waiver Programs

- 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.
Efficacy of Loan Waiver Programs

- One of the control variables used is “interest rate charged on the loan”
- If these loans fall under the “priority sector lending” then 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.