

RESEARCH NEWSLETTER

Household Debt & Financial Decision Making (December 2018)



FEATURED



The World's Largest Debt Relief Program Offers a Cautionary Tale for Developing Countries

In 2008, the government of India faced a critical decision: how to help millions of poor farmers struggling to repay their debts against the backdrop of the global financial crisis and weakening global commodity prices. In March, the government announced the *Agricultural and Debt Waiver and Debt Relief Scheme*, perhaps the largest household

bailout in history. A series of new studies are now shedding light on whether the program achieved its stated goals of reducing household debt, stimulating economic activity, and aiding farmers in regaining access to the formal credit market.

In a recent [Policy Research Talk](#), economist [Martin Kanz](#) summarized the results of these studies. His findings should serve as a cautionary tale for developing countries: debt forgiveness resulted in a wave of defaults among borrowers who had previously been in good standing, but had no offsetting positive effects on consumption, investment, or productivity in the agricultural sector. Kanz concluded that while better program design could improve economic outcomes, ultimately the best solutions are those that avoid the need for one-off relief programs.

[Presentation](#) | [Video](#)

RESEARCH HIGHLIGHTS

✓ [The Economic Effects of a Borrower Bailout: Evidence from an Emerging Market](#)

[Xavier Giné](#) and [Martin Kanz](#), *Review of Financial Studies* 31(5): 1752-1783, 2018.

One of the largest household debt forgiveness programs in history, intended to help highly indebted rural households in India, increased loan defaults in districts with high bailout exposure, and led to banks shifting new credit away from these areas. The program had no offsetting positive effect on productivity, wages, or consumption.

✓ [What Does Debt Relief Do for Development? Evidence from India's Bailout for Rural Households](#)

[Martin Kanz](#), *American Economic Journal: Applied Economics* 8(4): 66-99, 2016.

India's debt relief initiative changed the composition of household debt, but did not affect savings, consumption, or investment as predicted by theories of debt overhang or balance sheet distress. Instead, debt relief leads to greater reliance on informal credit, reduced investment, and lower agricultural productivity among recipient households.

✓ [The Limits of Commitment: Who Benefits from Illiquid Savings Products?](#)

Niklas Buehren, Markus Goldstein, [Leora Klapper](#), Tricia Koroknay-Palicz, and Simone Schaner, World Bank Policy Research Working Paper 8633, October 2018.

The impact of a commitment savings product for salaried workers in Ghana suggests that people with access to liquidity may fail to benefit from such products because they can undo their commitment with other financial instruments. Yet, individuals who avoided credit before the commitment period significantly increase savings during and after.

✓ [The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution](#)

Asli Demirguc-Kunt, [Leora Klapper](#), [Dorothe Singer](#), Sanjiya Ansar, and Jake Hess, World Bank Report, 2018 | [Blog: Releasing the 2017 Global Findex Microdata](#) | [Download the microdata](#) »

The Global Findex Data released in April 2018 includes data on how adults in more than 140 economies access accounts, make payments, save, borrow, and manage risk. The micro database released last month includes individual-level survey responses from 150,000 adults globally, which makes it easier to summarize the data by individual characteristics such as gender and income.

✓ [Information Disclosure and Demand Elasticity of Financial Products: Evidence from a Multi-Country Study](#)

[Xavier Giné](#), Cristina Martínez Cuellar, and Rafael Keenan Mazer, World Bank Policy Research Working Paper 8210, October 2017.

Simplified disclosure formats can improve financial decision making. While financial literacy correlates with better decision making, the simplified disclosure format for loans has an effect about three times as large as that of financial literacy and makes prospective consumers more price sensitive.

✓ [Making It Easier to Apply for a Bank Account: A Study of the Indian Market](#)

Asli Demirguc-Kunt, [Leora Klapper](#), Sanjiya Ansar, and Aditya Jagati, World Bank Policy Research Working Paper 8205, September 2017.

New individual-level survey data from India on the costs of opening an account and the efficiency of the account application process in India show a recent increase in account ownership, especially by women and poor adults, one of the goals of India's financial inclusion program, the *Jan Dhan Yojana* scheme.

To access the latest Policy Research Working Papers, please click [here](#).

RELATED

Research Digest: World Bank Research Focusing on India

This issue features recent Policy Research Working Papers that empirically analyze the persistence of poverty and inequality in India and discuss ways of overcoming these challenges.

[Read the digest »](#)

UPCOMING EVENTS

- January 15–16, 2019: [Globalization: Contents and Discontents](#) (Kuala Lumpur)
- January 22, 2019: [Policy Research Talk | Inequality as Cholesterol: Attempting to Quantify Inequality of Opportunity](#)
- March 25–29, 2019: [Land and Poverty Conference 2019: Catalyzing Innovation](#)
- June 17–18, 2019: 12th International Conference on Migration and Development | [Call for papers](#) open until February 15, 2019

To see more events, please click [here](#).

BLOGS

Service delivery to the poor: A labor of love or just another job?

[Sheheryar Banuri](#), [Damien De Walque](#), [Philip Keefer](#), [Paul Jacob Robyn](#) | *Let's Talk Development*, 12/10/2018.

When the going gets tough, do the tough need higher pay?

Many public policies and nearly all international aid aim to improve the well-being of the poor. Front-line service providers may not embrace this goal, however. Is this mismatch important? Can it be corrected? These questions are crucial for the success of public policies meant to equalize services to the poor and non-poor. Recent evidence suggests that money helps—but how we select service providers matters, too.

[Read the blog »](#)

The shifting gravity of global poverty

[Daniel Mahler](#) | *Let's Talk Development*, 11/29/2018.

Thirty years ago, 1 in 7 of the world's extreme poor – those living on less than \$1.90 a day – were in Sub-Saharan Africa. Over the years, as other regions successfully reduced their poverty levels, this number has increased and by 2015, 4 in 7 of the global poor were living in Sub-Saharan Africa. The newly published Poverty and Shared Prosperity Report warns that as many as 9 in 10 of the world's poor may live in this region by 2030 if current trends continue.

[Read the blog »](#)

First day on the job

[Pinelopi Goldberg](#) | *Let's Talk Development*, 11/26/2018.

After months of early NY Penn Station mornings trying to remember whether to get on the Amtrak north to New Haven or south to DC, I am thrilled to transition from incoming Chief Economist to Chief Economist. We have so many fascinating problems to tackle and I truly hope my experience and humble efforts will contribute to the Bank's mission.

[Read the blog »](#)

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This newsletter is produced by the Development Research Group, part of the Development Economics Vice Presidency of the World Bank Group. Please send your comments and feedback to: research@worldbank.org.

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