

Thoughts on over-indebtedness research

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Research help with OI is urgently
needed, because...

It's a clear and present danger,
and...

We are flying blind.

Why worry about OI?

Recent research raises more doubts about strong income and poverty effects.
Therefore...

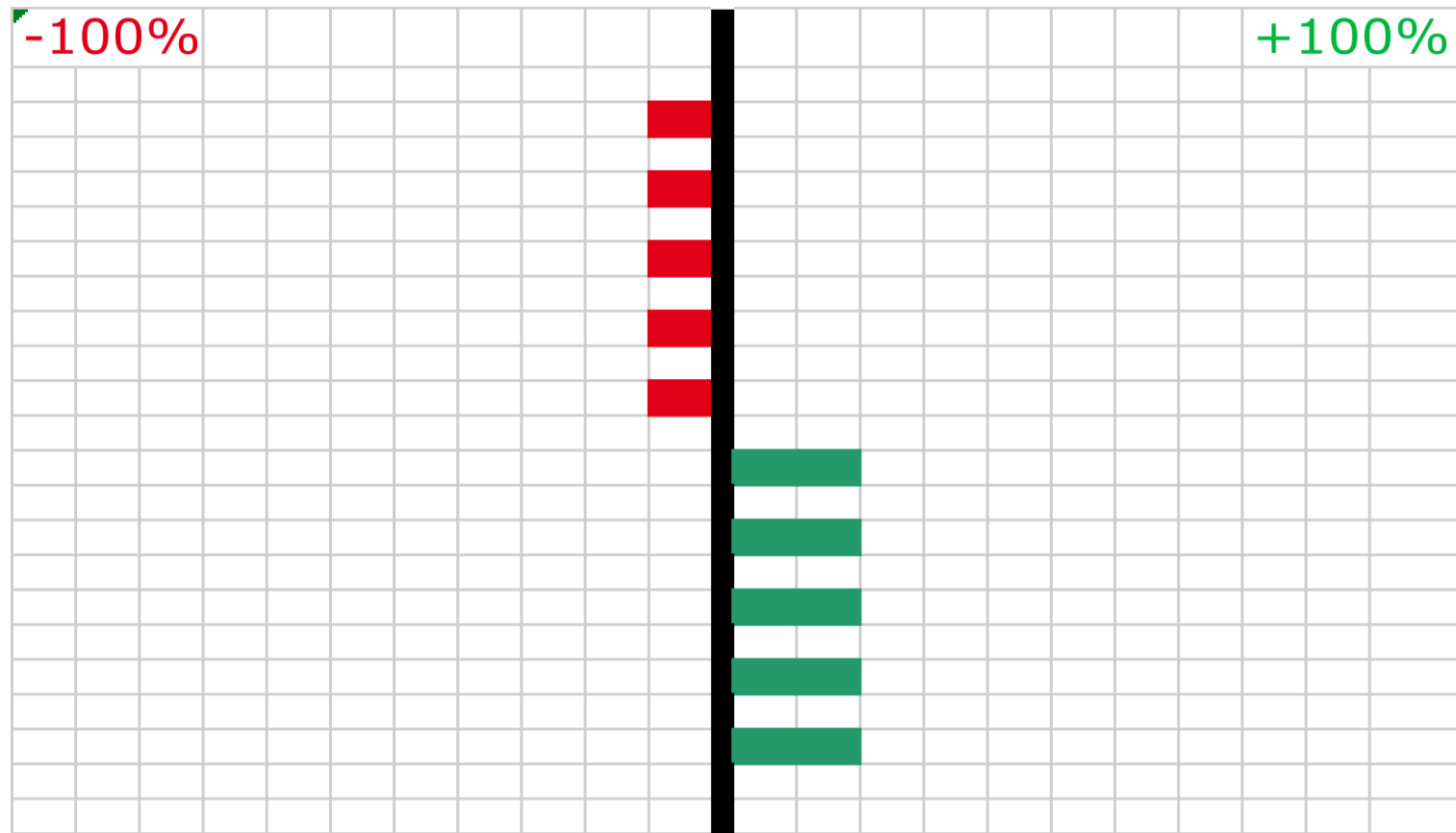
- [More caution about subsidies]
- Less tolerance for overindebtedness

Why worry about serious OI? (2)

It's plausible.

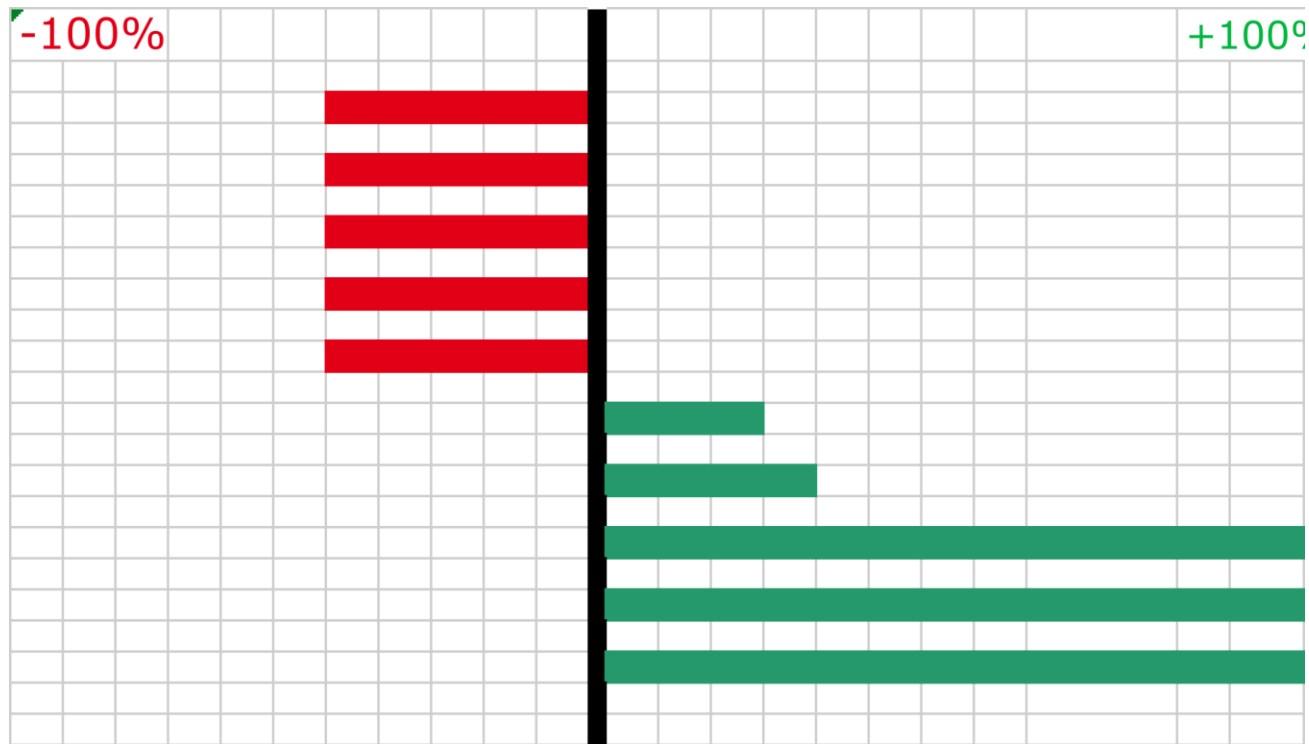
- Experience with consumer credit
- Substantial borrower biases (behavioral econ.)

Avg income effect = 10%...



Looks OK?

Avg income effect is still 10%...



Do we like this result as well as the previous one?

What is OI?

- Definition is *really* hard
- Is OI the same as negative impact?
- Jessica Schicks' research definition
 - Continuously struggling to repay, and
 - Unacceptable and unexpected sacrifices to repay
 - (Incorporates subjective borrower reports)

Here's the most important slide...

The big research question is...

- Not just how much OI there is in a given site
- But more importantly: are there easily measurable proxies for OI?

Delinquency/default as a proxy for OI?

- Only a trailing indicator
- Borrowers may repay at the cost of heavy sacrifices.
(But do big sacrifices necessarily mean the loan hurt the borrower?)

What do repayment (and new loans) tell us?

- New loan = decision to “do it again.”
 - Are many repeat borrowers in a debt trap?
- Comparison with cigarettes, fatty food, alcohol, drugs?
 - All those, unlike borrowing, often involve biochemical addiction
 - But compulsive debting is a well-known clinical phenomenon

Does repayment motivation for microcredit make a difference?

- Main motivation for most microborrowers is to keep their access to a valued service.
- The repayment of each loan represents a decision to pay a substantial amount to keep that access (unlike cigarettes etc? or not?)

Debt service/income as a proxy?

- Measuring income is tough
- What's an acceptable ratio??
- This ratio is the main risk assessment tool of many individual lenders.

OI vs. Impact as a research topic

- Prof. Duflos: answering the impact question(s) will take a long time and a lot of (RCT) studies.
- Determining OI and proxies for it may not require RCTs
- There are very plausible reasons to worry about OI.
- Lots of regulators want a way to measure OI.