

What Drives Farmers to Repay Loan?

Randomized Experiments on Restructuring, Lotteries and Ease of Payment

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Abstract

More than half of Thai farmers have currently been trapped in persistent debt, whereby loan repayment could barely cover principle. We implement a large-scaled randomized experiment with Thai agricultural bank branches nationwide to test three interventions designed to address key causes of low repayments including i) “debt restructuring” to allow those with small income to be able to repay toward principle through flexible debt moratorium with fully subsidized interest from government allowing very first baht of repayment to go directly to deduct principle ii) “debt repayment lottery” designed to incentivize borrowers to repay more and more often especially among those who earns more frequent income with mismatched annual contract and those with various behavioral biases impeding loan repayment and iii) “mobile debt collection” to make loan repayment easier and cheaper to borrowers with branch officers coming to collect repayment in the village monthly. Our results will shed some light on the design of scalable and cost-effective interventions to stimulate loan repayment, especially among borrowers with large debt but small, frequent but irregular income.

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