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Debt Traps?

Market Vendors and Moneylender Debt in India and the Philippines

by

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Abstract

A debt trap occurs when someone takes on a high-interest rate loan and is barely able to pay back the interest, and thus perpetually finds themselves in debt (often by re-financing). Studying such practices is important for understanding financial decision-making of households in dire circumstances, and also for setting appropriate consumer protection policies. We conduct a simple experiment in three sites in which we paid off high-interest moneylender debt of individuals. Most borrowers returned to debt within six weeks. One to two years after intervention, treatment individuals were borrowing at the same rate as control households.

keywords: debt; moneylender; household finance

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