Does Flexibility in Microfinance Pay Off? Evidence from a Randomized Evaluation in Rural India

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Université de Mons - UMONS

Abstract:
Microcredit institutions apply rigid and fixed repayment schedules when disbursing micro credit to reduce transaction costs and product complexity, and to inculcate fiscal discipline for better repayment behavior. Microcredit clients, however, do not typically have smooth income throughout the year. Thus this generates a cash flow disconnect, and given the presumed liquidity constraints of the typical microcredit client, this is resolved either through underinvestment, sale of productive assets, or failure to smooth consumption. A flexible repayment schedule could help microcredit clients manage repayments better, leading to higher demand for credit as well as higher return investments or smoother consumption. Using data from a randomized field experiment with dairy farmers in rural India we analyze the effect of structured flexible repayment schedules on borrowers' investment level, consumption smoothing, and default. In particular, we estimate the extent to which two different type of structured repayment schedules influence investment level, consumption smoothing, and default behavior. Additionally, we compare the fixed repayment schedule product to a loan product with a lower initial loan amount.

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Please confirm your presence by November 6th, 2011.