

Loan

Repayment Frequency and Default in Microfinance: Evidence from India

Erica Field, Rohini Pande (2008)

Data Collection Organisation: "Village Welfare Society"

Location: Kolkata, West Bengal

Sample: 1026 first-time borrowers

Timeline: April 2006 – September 2006

Outcome of Interest: Repayment frequency and default rate

Primary Data Available?: Yes

Data Available: Survey Data

Keywords: Microcredit, Repayment, Loan default, Client Behaviour

Type of Indicator	Indicators Present
Identifiers	ID
Demographics	Age, Literacy, Religion, HH size, Shocks
Household assets/finances	Property ownership, Financial drain, Wages
Loan indicators	Repayment details, Loan details
Expenditures	Business costs, Household costs
Behavioural	Risk appetite, Patience threshold

Abstract:

In stark contrast to bank debt contracts, most micro-finance contracts require that repayments start nearly immediately after loan disbursement and occur weekly thereafter. Even though economic theory suggests that a more flexible repayment schedule would benefit clients and potentially improve their repayment capacity, micro-finance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default. In this paper we use data from a field experiment which randomized client assignment to a weekly or monthly repayment schedule and find no significant effect of type of repayment schedule on client delinquency or default. Our findings suggest that, among micro-finance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default.

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