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Repayment Frequency and Default in
Micro-Finance: Evidence from India

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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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