The Impact of Irregular Payments on Consumption in Uganda

Most public-sector workers and many private sector employees in developing countries are paid monthly, a schedule that means large lump-sum payments follow periods of relative scarcity. Employees who receive wages following a cash-strapped period may be more likely to buy temptation goods—spending large sums of money in ways they later regret. In Uganda, where most employees receive their wages in a single monthly payment, researchers are working with Innovations for Poverty Action to evaluate if an alternative, divided payment schedule reduces regretful spending.

Policy Issue

Most public-sector workers and many private sector employees in developing countries are paid monthly, which means they receive large lump-sum payments after periods of relative scarcity. People who receive cash in large disbursements following a cash-strapped period may be more likely to buy “temptation goods,” spending money in ways they later regret. Researchers theorize that the larger the payment, the more likely it is that people make purchases they later regret. What would happen if instead of one lump-sum payment, employees received a small amount of their payment first, followed by the remainder one or two days later? Might they spend the initial amount on temptation goods, but be more patient when they received the large amount later? While some evidence from the United States supports this theory, evidence on this topic from developing countries is limited. Yet optimizing payment structures in low-income countries may have relatively large impacts on people’s wellbeing because people have relatively little cash, irregular payments are common, and increased consumption can have a relatively large effect on people’s lives.

Evaluation Context

Participants in this study are Ugandan employees of firms that use Beyonic’s payroll management system for mobile money. Beyonic is a U.S.-based firm (with offices in Kampala) that enables employers to make electronic payments to employees using local mobile money networks. Like teachers, police officers, other government officials, and many private sector workers in Uganda, the employees in this study receive wages on a monthly basis, rather than biweekly as is more common in the United States.
Details of the Intervention

Innovations for Poverty Action is working with researchers to evaluate the impact of a divided payment schedule, as opposed to one monthly payment, on regretful spending. The study also measures demand for the alternative schedules and whether they lead to changes in spending habits.

Researchers are introducing a small variation into the payroll process for employers who use Beyonic’s mobile money payroll management system in Uganda. Four-hundred twenty employees will be randomly assigned to one of the following groups:

10-90 divided payment: Employees will receive 10 percent of their salary two days in advance of the usual payment. The remaining 90 percent will be transferred on the regular payday.

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Comparison group: Employees will receive one lump-sum payment on the regular payday (the status quo).

Researchers will measure monthly spending for two months using mobile phone-based surveys.

After the initial two months are over, a second phase will begin. Researchers will randomly re-assign employees in the comparison group and 10-90 groups to one of three groups: the comparison group, the 10-90 group, or a third group that is given a choice between the status quo (comparison group) or the 10-90 schedule. The 90-10 group will remain unchanged. This will reveal employee preferences for the alternative payment schedules. This phase will last an additional two months to enable researchers to measure habit formation and impacts over a longer time horizon, in addition to estimating demand for the divided payment.

Results and Policy Lessons

Project on-going; results forthcoming.