Two Sides of the Same Rupee? Comparing Demand for Microcredit and Microsaving in a Framed Field Experiment in Rural Pakistan*

Uzma Afzal[†], Giovanna d'Adda[‡], Marcel Fafchamps[§], Simon Quinn[¶] and Farah Said[‖]

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Abstract

Standard models predict that people should either demand to save or demand to borrow, but not both. We hypothesise instead that saving and borrowing among microfinance clients are substitutes, satisfying the same underlying demand: for a regular schedule of deposits and a lump-sum withdrawal. We test this using a framed field experiment among women participating in group lending arrangements in rural Pakistan. The experiment — inspired by the rotating structure of a ROSCA — involves randomly offering credit products and savings products to the same subject pool. We find high demand both for credit products and for savings products, with the same individuals often accepting both a credit product and a savings product over the three experiment waves. This behavior can be rationalised by a model in which individuals prefer lump-sum payments (for example, to finance a lumpy investment), and in which individuals struggle to hold savings over time. We complement our experimental estimates with a structural analysis, in which different 'types' of participants face different kinds of constraints. Our structural framework rationalises the behaviour of 75% of participants; of these 'rationalised' participants, we estimate that two-thirds have high demand for lump-sum payments coupled with savings difficulties. These results imply that the distinction between microlending and microsaving may be largely illusory; participants value a mechanism for regular deposits and lump-sum payments, whether that is structured in the credit or the debt domain.

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[†]Lahore School of Economics

[‡]Milan Politecnico

[§]Stanford University

[¶]University of Oxford

[‖]Lahore School of Economics

1 Introduction

Saving and borrowing are often considered to be diametrically different behaviors: the former is a means to defer consumption; the latter, a means to expedite it. This view is widespread in traditional debates on microfinance in which microsaving and microlending are seen as serving different human needs. This distinction, however, collapses under two important conditions that are common in developing countries. First, many in poor communities struggle to hold savings over time, e.g., because of external sharing norms (Anderson and Baland, 2002; Platteau, 2000) or internal lack of self-control (Ashraf, Karlan, and Yin, 2006). Second, the poor occasionally wish to incur lumpy expenditures, for instance to purchase an 'indivisible durable consumption good' (Besley, Coate, and Loury, 1993) or take advantage of a 'high-return but lumpy and illiquid investment opportunity' (Field, Pande, Papp, and Rigol, 2013).

If these two conditions hold — as they clearly do in many poor communities — then the same individual may prefer to take up a saving product than to refuse it *and* simultaneously prefer to accept a loan product than to refuse it. This demand has nothing to do with deferring or expediting consumption. Rather, both products provide a valuable mechanism by which a lump-sum expenditure can be implemented at *some* point in time. In doing so, each product meets the same demand for a regular schedule of deposits and a lump-sum withdrawal. No longer do saving products and borrowing products stand in stark juxtaposition to each other; they are, rather, two sides of the same coin.

In this paper, we run a framed field experiment in rural Pakistan to test directly between these two competing views of microfinance. We take a simple repayment structure — loosely modeled on the idea of a ROSCA — and offer it as an individual microfinance product. We repeat the exercise three times. In each repetition, we randomly vary the day of repayment: thus, within the same structure and the same respondent pool, we randomly offer some participants a microsaving contract and others a microcredit contract. We also randomly vary the repayment amount: some respondents receive a payment equal to their total contribution, some receive a payment 10% larger, and some receive a payment 10% less. Together, these two sources of variation allow us to test between the 'traditional' model of microfinance in which participants prefer *either* to borrow or to save, and an alternative model in which participants welcome *both* borrowing and savings contracts as opportunities for lump-sum payments.

We find substantial evidence against the traditional model of demand for credit and saving services. Demand for our microfinance product is generally high, with approximately 65% take-up. Sensitivity to interest rate and day of payment is statistically significant but not large in magnitude. Results indicate that the same pool of respondents simultaneously holds demand *both* for microcredit and for microsaving. Indeed, over the course of the three experiment waves, 270 of our 688 respondents were offered both a credit contract and a savings contract; of these, 142 (53%) accepted both a savings and a credit contract.

We extend this analysis using a structural estimation approach allowing for maximal heterogeneity. Specifically, we build competing structural models of demand for microfinance products, and we use a discrete finite mixture method to estimate the proportion of respondents adhering to each model. Our structural framework rationalises the behaviour of 75% of the participants. Of these 'rationalised' participants, two-thirds have high demand for lump-sum payments coupled with savings difficulties. Together, the results imply that the distinction between microlending and microsaving is largely illusory. Rather, many people welcome microcredit and microsavings products for the same reason: that each provides a mechanism for regular deposits and a lump-sum payment.

This insight is useful for understanding recent research on microfinance. Growing empirical evidence suggests that savings products can be valuable for generating income and for reducing poverty (Burgess and Pande, 2005; Dupas and Robinson, 2013; Brune, Giné, Yang, and Yang, 2014). Standard microcredit products — with high interest rates and immediate repayments — increasingly seems unable to generate enterprise growth (Karlan and Zinman, 2011; Banerjee, Duflo, Glennerster, and Kinnan, 2013). In contrast, recent evidence shows that an initial repayment grace period increases long-run profits by facilitating lumpy investments Field, Pande, Papp, and Rigol (2013). This is consistent with estimates of high and sustained returns to capital in at least some kinds of microenterprise De Mel, McKenzie, and Woodruff (2008, 2012); Fafchamps, McKenzie, Quinn, and Woodruff (2014).

A growing literature suggests that part of the attraction of microcredit is as a mechanism to save — whether to meet short-term liquidity needs (Kast and Pomeranz, 2013), as a commitment device against self-control problems (Bauer, Chytilová, and Morduch, 2012; Collins, Morduch, Rutherford, and Ruthven, 2009), or to resist social or familial pressure (Baland, Guirkinger, and Mali, 2011). We make several contributions to this literature. First, we introduce a new experimental design which, to our knowledge, is the first to allow a direct test between demand for microsaving and demand for microcredit. This design can easily be replicated in a wide variety of field contexts. Since it is based on the structure of a ROSCA, it is easily understood in most developing economies. Second, our design generates new empirical results in which we find, for the first time, that the same respondent population has high demand for both microcredit and microsaving. Indeed, the same individuals often take up either contracts within the span of a couple weeks. Third, we make a methodological contribution through our structural framework. Specifically, we parameterise a Besley, Coate, and Loury (1993) model to test the demand for (latent) lumpy purchases. We show how to nest this model in a discrete finite mixture framework to allow for maximal individual heterogeneity. The approach confirms that only a small proportion of respondents (12%) adhere to the 'traditional' model. A much larger proportion (about 50%) behave as if having a demand for lump-sum payments coupled with a difficulty in saving.

The paper proceeds as follows. In section 2, we provide a conceptual framework. This motivates our experimental design, which we describe in section 3. We report regression results in section 4. Section 5 parameterises our conceptual framework for structural analysis. We discuss identification and show structural results. Section 6 concludes.

2 Conceptual framework

This section develops a theoretical framework to motivate our experiment. We use a dynamic model in which we introduce a preference for infrequent lump-sum payments. We begin with a standard approach, in which individuals may either demand a savings product or demand a loan product, but not both. We then show how this prediction changes when we impose that people cannot hold cash balances. This theoretical framework provides the conceptual motivation — and the key stylised predictions — for our experimental design. It also provides the foundation for the structural analysis, which follows in section 5.

We are interested in understanding the demand for individual financial products by the poor. We start by noting that the simple credit and savings products used by the poor can be nested into a generalised ROSCA contract. ROSCAs are common across the developing world; they are used by consumers to purchase durables, and by small entrepreneurs to save for recurrent business expenditures, such as paying suppliers: Besley, Coate, and Loury (1993).[1] In some countries, agents have begun offering ROSCA-like contracts to individuals, but without the need to form a group. These agents — known as 'susu collectors' in Ghana, for instance — operate de facto as small financial intermediaries, albeit largely outside the formal financial sector.

We build on these observations to derive a model of demand for generalized ROSCA contract with a single payout period and a fixed series of installments. The contract involves periods $t \in \{1, \ldots, T\}$, and a single payout period, $p \in \{1, \ldots, T\}$. In periods $t \neq p$, the participant pays an installment of s; in period $t = p$, the participant receives a lump-sum equal to $(T-1) \cdot s \cdot (1+r)$. Parameter r represents the interest rate of the contract, which can be positive or negative. In a standard ROSCA contract, $r = 0$ and p is determined through random selection. In a typical (micro)credit contract with no grace period, $r < 0$, the lump-sum is paid in period $p = 1$, and installments s are made in each of the remaining $T - 1$ periods. A typical set-aside savings contract (e.g., retirement contribution) is when $r > 0$, the lump-sum is paid in the last

[1] In West Africa, ROSCAs are known as 'tontines', in India as 'chit funds', in Egypt as '*gam'iya*' and in Pakistan as 'committees'.

period ($p = T$), and installments s are made from period 1 to period $(T - 1)$.

Traditional views among economists about the demand for credit and savings are shaped by the standard utility maximizing model. To illustrate the predictions this framework makes about the demand for generalized ROSCA contracts, we consider a short-term T-period model with cash balances $m_t \geq 0$. Each individual is offered a contract with an installment level s, a payment date p, and an interest rate r; we can therefore completely characterise a contract by the triple (s, p, r). The individual chooses whether or not to take up the contract, which is then binding.

Let y be the individual's cash flow from period 1 to T.[2] The value from *refusing* a contract (s, p, r) is:

$$V_r = \max_{\{m_t \geq 0\}} \sum_{t=1}^{T} \beta^t \cdot u_t(y_t + m_{t-1} - m_t)$$

where $u_t(.)$ is an instantaneous concave utility function (which may be time-varying), $\beta \leq 1$ is the discount factor, and $m_0 \geq 0$ represents initial cash balances. Given the short time interval in our experiment, β is approximately 1. Hence if $u_t(.) = u(.)$, the optimal plan is approximately to spend the same on consumption in every period. In this case, demand for credit or saving only serves to smooth out fluctuations in income.[3]

The more interesting case is when the individual wishes to finance a lumpy expenditure (e.g., consumer durable, school fee, or business investment). We treat the purchase of a lumpy good as a binary decision taken in each period ($L_t \in \{0, 1\}$), and we use α to denote the cost of the lumpy good. We consider a lumpy purchase roughly commensurate to the lump-sum payment: $\alpha \approx (T - 1) \cdot s \cdot (1 + r)$. Following Besley, Coate, and Loury (1993), we model the utility from lumpy consumption $L = 1$ and continuous consumption

[2] We could make y_t variable over time, but doing so adds nothing to the discussion that is not already well known. Hence we ignore it here.

[3] When $u_t(.)$ is constant over time but y_t variable, people can in principle use saving or credit contracts to smooth consumption. However, in our experimental setting, any contract (s, t, r) with a fixed installment schedule is unlikely to fit a particular individual's cash flow $\{y_t\}$, especially if the time interval is short. Hence we would expect little take-up if this were the only reason for take-up. We do not focus on this case here.

c as $u(c,1) > u(c,0)$. Without the generalised ROSCA contract, the decision problem becomes:

$$V_r = \max_{\{m_t \geq 0, L_t = \{0,1\}\}} \sum_{t=1}^{T} \beta^t \cdot u(y_t + m_{t-1} - m_t - \alpha \cdot L_t, L_t).$$

With the ROSCA contract, the value from taking the contract (s, p, r) is:

$$V_c = \max_{\{m_t \geq 0, L_t = \{0,1\}\}} \left\{ \sum_{t \neq p} \left[\beta^t \cdot u\left(y_t - s + m_{t-1} - m_t, L_t\right)\right] \right.$$
$$\left. + \quad \beta^p \cdot u\left[y_p + (T-1) \cdot s \cdot (1+r) + m_{p-1} - m_p - \alpha, L_p\right] \right\}. \qquad (1)$$

If α is not too large relative to the individual's cash flow y_t, it is individually optimal to accumulate cash balances to incur the lumpy expenditure, typically in the last period T. Otherwise, the individual gets discouraged and the lumpy expenditure is either not made, or delayed to a time after T. Taking up the contract increases utility if it enables consumers to finance the lumpy expenditure α. For individuals who would have saved on their own to finance α, a savings contract with $r > 0$ may facilitate savings by reducing the time needed to accumulate α. Offering a positive return on savings may even induce saving by individuals who otherwise find it optimal not to save (McKinnon, 1973). Hence we expect some take-up of savings contracts with a positive return.

A credit contract allows paying for lumpy consumption right away and saving later. Hence, for a credit contract with a positive interest charge to be attractive, the timing of $L_t = 1$ must be crucial for the decision maker. Otherwise the individual is better off avoiding the interest charge by saving in cash and delaying expenditure L by a few days. This is the reason that — as discussed earlier — we do not expect an individual to be willing to take up *both* a credit and a savings contract at the same time: either the timing of $L_t = 1$ is crucial or it is not.

In addition to the above observations, the presence of cash balances also generates standard arbitrage results. The predictions from the standard model can thus be summarised as follows:

1. Individuals always refuse savings contracts ($p = T$) with $r < 0$ (*i.e.*, a negative return). This is because accepting the contract reduces consumption by $T \cdot s \cdot r$. Irrespective of their smoothing needs, individuals can achieve a higher consumption by saving through cash balances.

2. Individuals always accept credit contracts ($p = 1$) with $r > 0$ (*i.e.*, a negative interest charge). This is because, irrespective of their smoothing needs, they can hold onto $T \cdot s$ to repay the loan in installments, and consume $T \cdot s \cdot r > 0$.

3. Individuals refuse credit contracts ($p = 1$) with a large enough cost of credit $r < 0$. This follows from the concavity of $u(.)$: there is a cost of borrowing so high that individuals prefer not to incur expenditure L.

4. Individuals accept savings contracts ($p = T$) with a high enough return $r \geq 0$. This too follows from the concavity of $u(.)$: there is a return on savings so low that people prefer not to purchase L and hence choose not to save.

5. The same individual will not demand *both* a savings contract (with a positive return $r > 0$) and a credit contract (with a non-negative interest cost $r \leq 0$).

Things are different when people use credit or ROSCAs as a commitment device to save. Within our framework this is most easily captured by assuming that people cannot hold cash balances (that is, $m_t = 0$). This could arise for a variety of reasons that we do not model explicitly, e.g., because people succumb to impulse buying, because they are subject to pressure from spouse and relatives, or for any other reason. Since accumulating in cash balances is now impossible, the only way to take the lumpy purchase is to take the (s, p, r) contract. This creates a wedge between V_r and V_c that increases the likelihood of take-up: the contract enables the individual to incur the lumpy expenditure, something they could not do on their own.

If the utility gain from buying the lumpy good is high, individuals are predicted to accept even contracts that would always be refused by someone who can hold cash balances — such as savings contracts with a negative return or credit contracts with a high interest charge.

Take-up predictions under the commitment model can thus be summarised as follows:

1. Individuals may accept savings contracts ($p = T$) with $r < 0$ (*i.e.*, a negative return); the arbitrage argument no longer applies.
2. Individuals do not always accept credit contracts ($p = 1$) with $r > 0$ (*i.e.*, a negative interest charge). This is because they cannot hold onto $(T - 1) \cdot s$ to repay the loan in installments.
3. Individuals refuse credit contracts ($p = 1$) with a large enough cost of credit $r < 0$. This prediction still holds since it follows from the concavity of $u(.)$.
4. Individuals refuse savings contracts ($p = T$) with a low enough return r. This again follows from the concavity of $u(.)$. The only difference is that now the threshold interest rate r may be negative.
5. Time of payment (p) is irrelevant: if an individual accepts a credit contract with s and r, (s)he also accepts a savings contract with the same s and r.

3 Experiment

3.1 Experimental design

Each week, each participant is offered one of 12 different generalized ROSCA contracts, where the type of contract offered is determined by the random draw of cards.[4] The 12 contracts differ by (i) timing of lump sum payment p and (ii) interest rate r but all share the same installment size s. Lump sum payments are either made on Day 1, Day 3, Day 4 or Day 6. Day 1 refers to the day immediately following the day of

[4] This is equivalent to exploiting the structure of a one-off lottery random ROSCA (Kovsted and Lyk-Jensen, 1999) implemented on an individual basis.

the contract offer. This short delay serves to mitigate against distortions in take-up arising from differences in the credibility of lumpsum payment between contracts (Coller and Williams, 1999; Dohmen, Falk, Huffman, and Sunde, 2013). On any day that the lump sum is not paid, the participant is required to pay $s = 200$ Pakistani rupees (PKR). The base lump sum payment is either 900 PKR (that is, $r = -10\%$), 1000 PKR ($r = 0$) or 1100 PKR ($r = +10\%$).

The following table illustrates the payment schedule for a contract with lumpsum payment on day $p = 3$ and interest rate $r = +10\%$:

	DAY 1	DAY 2	DAY 3	DAY 4	DAY 5	DAY 6
Participant pays	200	200		200	200	200
Bank pays			1100			

Since there are three possible interest rate values and four possible days for the lumpsum payment, 12 different contracts are used in the experiment to represent each combination of p and r. At the beginning of the week each participant in the experiment is offered one of these contracts, and must make a take-it-or-leave-it decision whether to accept it. We are interested to test (i) whether there is demand for this generalized ROSCA contract, and (ii) if so, how demand varies with the terms of the contract.

3.2 Experimental implementation

We ran this experiment over September and October 2013 in Sargodha, Pakistan Punjab. Our sample comprises female members of the National Rural Support Programme (NRSP) who are currently, or have in the past, been clients of microfinance products being offered by the NRSP. The experiment was conducted through four NRSP offices in the Sargodha district.[5] Female members of these four branches were invited to attend meetings set in locations near their residences. Members who stayed for the first meeting were

[5] The Sargodha office is also the NRSP regional head office for South Punjab.

offered a generalized ROSCA contract randomly selected from the 12 possible contracts described above. Participants were free to take up or reject the contract offered in that week. Even if they refused the contract offered to them in that week, participants were still required to participate in the meeting held the following week, when they were again offered a contract randomly selected from the list of 12. In total, there were three weekly meetings; those who attended all three weekly meetings (whether choosing to accept or reject the product for that week) received a show-up fee of 1100 PKR at the end of the trial. The purpose of this show-up fee paid at the end of the experiment was to ensure that non-compliance with contract terms (e.g., default on a loan) was never individually rational since the amount saved by defaulting on a contract is always strictly dominated by complying and collecting the show-up fee.

< Table 1 here. >

We implemented the experiment in NRSP branches located within a 30 km radius around Sargodha. Table 1 describes the sample of women who participated in the first meeting and made a decision on an offered contract.[6] The sample ranges in age from 18 to 70, with a median age of 38. 90% of our participants are married, and only 30% have any education (that is, have completed at least one year of schooling). By design, our respondents live close to the meeting place (the median is four minutes' walking time). This is important for ensuring that take-up decisions are based primarily on the financial costs and benefits of the products offered, rather than on the time and effort of commuting to the place of payment.

For each respondent characteristic, Table 1 also shows the p-value for a test of balance in randomisation.[7] This shows that two of the 17 variables are mismatched at the 90% confidence level: the number of years as an NRSP client; and a dummy variable for whether the respondent makes the final decision on household spending (either individually or jointly with her husband or others). As a robustness check we control for

[6] A small number of women attended the first meeting but declined to participate further in the research. We discuss this shortly.

[7] This is generated by estimating equation 4, treating each covariate in turn as an outcome variable, and running a joint test that all parameters other than the intercept are zero.

these two variable in the subsequent analysis, but doing so does not affect our results.

At baseline we asked respondents to imagine that NRSP were to loan them 1000 rupees and asked them an open-ended question about how they would use the money. Approximately half gave a non-committal response (e.g., domestic needs or something similar). Of those who gave a specific answers, a majority listed a lumpy purchase, that is, an expenditure not easily made in small increments. Of the lumpy purchases described, the most common are sewing equipment, chickens or goats, and school materials (particularly school uniforms).

We implemented the experiment in 32 microfinance groups. In three of these groups, there were breaches of experiment protocol, through no fault of our research team or our implementing partner, NRSP. This is discussed in more detail in the appendix. We drop these three groups from the analysis, a decision taken before we began any of the analysis. This means that we have a total of 29 microfinance groups or clusters in the analysis reported below.[8]

4 Regression results

In this section we present linear regression results. We use the identification strategy outlined in our Pre-Analysis Plan, which was submitted and registered with 3ie's Registry for International Development Impact Evaluations before we began our analysis. We start by presenting stylized facts about take-up.

4.1 Stylised facts about take-up

We begin by highlighting four important stylised facts on product take-up. Figure 1 shows average take-up across the 12 different types of contract offered. The figure shows the first two important stylised facts.

[8] Our results are robust to the use of Moulton-corrected standard errors (results available on request). This is not surprising given that most of our regression results of interest are highly significant.

First, overall take-up is very high (approximately 65%, on average). *Second*, take-up varies with contractual terms – respondents are more likely to take a contract when $p = 1$ than when $p = 6$. But the variation is not large, and certainly not nearly as stark as the variation predicted by the standard model with $m_t \geq 0$.

< Figure 1 here. >

Table 2 shows an important *third stylised fact*: there appears to be important heterogeneity across individuals. Of the 688 individuals completing all three experiment waves, 306 (44%) accepted all three contracts offered, and 119 (18%) accepted none of the contracts offered. This was despite the vast majority of respondents having been offered three different contracts.

< Table 2 here. >

The implication of this is clear, and is a *fourth stylised fact*: many individuals accepted both a credit contract and a savings contract, even over the very short duration of the experiment. Of the 688 respondents completing all waves, 270 were offered both a savings contract ($p = 6$) and a credit contract ($p = 1$). Of these, 142 accepted at least one a savings contract and at least one credit contract.

< Table 3 here. >

This fact already challenges the standard model. Recall Prediction 5 of that model: the same individual will not demand both a savings contract with $r > 0$ and a credit contract with $r \leq 0$. Table 4 considers those respondents who were both offered a savings contract with $r > 0$ and a credit contract with $r \leq 0$. There were 86 such respondents; of these, 43 (50%) accepted both a savings contract with $r > 0$ and a credit contract with $r \leq 0$.

< Table 4 here. >

Similarly, the standard model predicts that individuals always refuse savings contracts ($p = T$) with $r < 0$, and always accept credit contracts ($p = 1$) with $r > 0$. In our experiment, 177 respondents were offered at least one savings contract with $r < 0$; of these 81 accepted at least one (46%).[9]. 224 respondents were offered at least one credit contract with $r > 0$; of these, 28 rejected at least one (13%).

Together, these stylised facts suggest strongly that saving and borrowing among microfinance clients are substitutes, satisfying the same underlying demand: for a regular schedule of deposits and a lump-sum withdrawal. Indeed, as Table 5 summarises, our experiment provided 426 of our 688 respondents an opportunity to violate at least one of the specific predictions of the standard model: 148 of them did so.

< Table 5 here. >

4.2 Product take-up and contract terms

We begin by testing sensitivity of take-up to interest rates, and to the day of lump sum payment. Define y_{iw} as a dummy variable for whether individual i agreed to the offered contract in experiment wave $w \in \{1, 2, 3\}$, and define $r_{iw} \in \{-0.1, 0, 0.1\}$ as the interest rate offered. We estimate the following linear probability model:

$$y_{iw} = \beta_0 + \beta_r \cdot r_{iw} + \mu_{iw}.$$

Define $rneg_{iw}$ as a dummy for $r_{iw} = -0.1$ and $rpos_{iw}$ as a dummy for $r_{iw} = 0.1$. We also estimate allowing for asymmetric interest rate effects:

$$y_{iw} = \beta_0 + \beta_{neg} \cdot rneg_{iw} + \beta_{pos} \cdot rpos_{iw} + \mu_{iw},$$

where zero interest rate is the omitted category.

Symmetrically, we estimate the following regression to test sensitivity to the day of lump sum payment p. Define $p_{iw} \in \{1, 3, 4, 6\}$ as the day of payment, and $p1_{iw}$ and $p6_{iw}$ as corresponding dummy variables

[9] Indeed, 80 of these 81 accepted all such contracts that they were offered: 157 respondents were offered one such contract, of whom 68 accepted it, 18 were offered two such contracts, of whom 11 accepted both, and two were offered three such contracts, of whom one accepted

(leaving days 3 and 4 as the joint omitted category). Then we estimate:

$$y_{iw} = \beta_0 + \beta_d \cdot p_{iw} + \mu_{iw} \tag{2}$$

$$y_{iw} = \beta_0 + \beta_1 \cdot p1_{iw} + \beta_6 \cdot p6_{iw} + \mu_{iw}. \tag{3}$$

Finally, we estimate a saturated specification (leaving as the base category an offer of a zero interest rate with lump sum payment on either day 3 or day 4):

$$\begin{aligned} y_{iw} = {} & \beta_0 + \beta_{neg} \cdot rneg_{iw} + \beta_{pos} \cdot rpos_{iw} + \beta_1 \cdot p1_{iw} + \beta_6 \cdot p6_{iw} + \gamma_{neg,1} \cdot rneg_{iw} \cdot p1_{iw} \\ & + \gamma_{neg,6} \cdot rneg_{iw} \cdot p6_{iw} + \gamma_{pos,1} \cdot rpos_{iw} \cdot p1_{iw} + \gamma_{pos,6} \cdot rpos_{iw} \cdot p6_{iw} + \mu_{iw}. \end{aligned} \tag{4}$$

Table 6 shows the results. We observe a significant response to the interest rate (column 1): relative to a zero interest rate, we find a significant negative effect of a negative interest rate, and a significant positive effect of a positive interest rate (column 2). Similarly, we find a significant effect of the day of payment (column 3); a significant positive effect of receiving payment on day 1, and a significant negative effect of receiving payment on day 6 (column 4). Column 5 shows the saturated specification: the coefficients on day of payment and interest rate barely change from columns 3 and 4, and the interaction effects are not significant.

However, none of the estimated effects are particularly large. For example, column 2 shows an average take-up of about 67% for clients with $r = 0$; this falls only to 54% for clients offered $r = -0.1$, and rises to 73% for clients offered $r = 0.1$. Similarly, column 4 shows an average take-up of 63% for clients with $d = 3$ or $d = 4$, which rises to 75% for clients offered $d = 1$ and falls to 57% for $d = 6$.

< Table 6 here. >

4.3 Product take-up across experiment waves

Next, we test whether respondents react differently to different types of contracts in each of the three experiment waves. Table 7 first tests the effect of experiment wave on product take-up (columns (1) and (2)). The table then estimates the 'saturated' specification separately for each experiment wave (columns (4), (5) and (6)), and reports p-values for parameter equality across waves (column (7)). The results show a large and highly significant general decline in willingness to adopt (that is, the intercept term is significantly smaller in the third experiment wave); this is in addition to a significant increase in sensitivity to a positive interest rate, and to receiving a negative interest rate on the first payment day.

< Table 7 here. >

4.4 Product take-up and heterogeneous effects

We now disaggregate by key participant characteristics to test for heterogeneous product demand. We begin with literacy. Table 8 shows that literate respondents were about 10 percentage points less likely to take up the product than illiterate respondents, and were significantly more responsive to the interest rate (in particular, they were substantially more likely to react positively to a positive interest rate).

< Table 8 here. >

Table 9 considers heterogeneity by the distance that the respondent lives from the meeting place. We bifurcate the sample into those respondents living more than four minutes' walk away and those living less (four minutes' walk being the median distance in the sample). We find generally similar responses to the contracts offered, with the notable exception of being offered payment on day 1: respondents living further away were significantly and substantially more likely to agree to a contract offering payment on day 1.

< Table 9 here. >

Table 10 disaggregates by occupation — that is, by whether the respondent (or her spouse) receives income from growing crops for sale, runs a business, or earns income from salaried work or casual labour. (That is, we compare women meeting *any* of these categories with women who meet *none*. Relatively few women — only 58 — fall into the latter category.) Responses are generally homogenous between these two groups. (Columns (5) and (6) imply that women without income are sensitive to negative interest rates only when they are offered on day 6 — but it seems likely that this result is driven by the small number of women not earning income in this way.)

< Table 10 here. >

Finally, we consider various measures of respondents' demand for lump-sum payments, and for their ability to hold cash balances; we test heterogeneity by whether the respondent reported that she would save/invest a hypothetical loan of 1000 rupees (Table 11), whether family members request money whenever the respondent has it on hand (Table 12), whether the respondent reports difficulty in saving (Table 13) and whether the respondent described a lumpy purchase with a hypothetical loan of 1000 rupees (Table 14).

There are several significant differences among the first two of these four comparisons. First, take-up is generally higher among those who described saving or investing a hypothetical loan than those who did not (see particularly columns 1 and 2 of Table 11). Similarly, those who did not describe saving or investing such a loan were significantly more responsive to the offer of a negative interest rate than those who did (columns 3 and 4, Table 11). Similarly, respondents who did not face family pressure were significantly more responsive to the interest rate (in particular, the offer of a positive interest rate) than those who do face such pressure (columns 1 and 2, Table 11). We interpret these results as suggestive evidence that some respondents value the product — whether offered in the credit or the debt domain — as a means to insulate income in return for a lump-sum payment.

< Table 11 here. >

< Table 12 here. >

< Table 13 here. >

< Table 14 here. >

4.5 Robustness

We have run several robustness checks. First, we have confirmed that our results are not being driven by 'day of week' effects. Second, we have re-run the estimations including the two covariates for which the randomisation was unbalanced (namely, years as a microfinance client, and whether the respondent makes the final decision on spending). Third, we have re-run estimations using only the participants who remained in the experiment for all three rounds. In all cases, our results remain robust; results are available on request.

5 Structural analysis

The regression results show (i) a high take-up in general, (ii) a small but statistically significant sensitivity to the terms of the contract, and (iii) some interesting heterogeneity on baseline observable characteristics — particularly on whether respondents would save/invest a hypothetical loan, and whether respondents report pressure from friends or family to share cash on hand. Together, these results cast doubt on the standard model and on the sharp contrast traditionally drawn between microsaving and microcredit contracts.

The regression analysis is however insufficient in this case: it documents the general pattern of take-up, but it does not identify the type of individual heterogeneity that can account for this pattern. Put differently, the regressions identify Average Treatment Effects — but they do not identify the underlying distribution of behavioral types among participants. Yet this underlying distribution is a critical object of interest for our study: we want to know what proportion of participants behave as the standard model predicts, what proportion follow the alternative model presented in the conceptual section, and what proportion follow none of the two.

To recover that underlying distribution, we need a structural framework. In this section, we parameterise the models developed in section 2 and use numerical methods to obtain predictions about the take-up behaviour of different types of decision-makers. We then nest those predictions in a discrete finite mixture model. Our results show that approximately 75% of participants can have their decisions rationalised by at least one of the scenarios considered by our model; of these scenarios, the largest share comprises women who value lump-sum payments and who struggle to hold cash over time.

5.1 A structural model

We begin by making several assumptions to parameterise the conceptual framework of section 2.

Assumption 1 (UTILITY FUNCTION) *Respondents have log utility in smooth consumption, and receive an additively separable utility gain from consuming the lumpy good:*

$$u(c, L; \gamma) = \ln c + \gamma \cdot L, \tag{5}$$

where $L \in \{0, 1\}$.

Remark. The parameter γ is thus fundamental to our structural estimation. If $\gamma = 0$, respondents behave as if they have no preference for lumpy consumption; as γ increases, the importance of lumpy consumption increases relative to the importance of smooth consumption.

Remark. The assumption of log utility could readily be changed — for example, by using a CRRA utility. However, the curvature of that function (*i.e.* reflecting the intertemporal elasticity of substitution) is not separately identified since there is nothing in our experimental design to shed light on individuals' intertemporal substitution preferences. We therefore use log utility for convenience.[10]

Assumption 2 (NO DISCOUNTING) *Respondents do not discount future periods:* $\beta = 1$.

Remark. This assumption, too, could be changed by setting another value for β. Since our experiment is not designed to identify intertemporal preferences, it is convenient to set $\beta = 1$ given that the time horizon of the experiment is very short (i.e., 6 days) and that sensitivity to present preference is mitigated by separating

[10] We could vary this assumption; doing so would not change any of the predictions of our model, and would therefore not change any of our structural estimates. It would, of course, require a reparameterisation of the critical values of γ in Table 15 — but these values serve simply as an expositional device for the preference for lumpy consumption.

take-up decisions (taken on day 0) from payments, which taken place on the other six days of the week. [MARCEL: PLEASE VERIFY THAT WHAT I HAVE WRITTEN IS CORRECT]

Assumption 3 (COST OF LUMPY CONSUMPTION) *The lumpy expenditure is equal to the smallest lump-sum payment:* $\alpha = (T - 1) \cdot s \cdot (1 - 0.1) = 900$.

Remark. We are interested in lumpy expenditures made possible by the kind of ROSCAs found in our study area. The magnitude of these expenditures has to be commensurate with what participants can save on a daily basis. Setting $\alpha = 900$ is equivalent to making a maintained assumption that participating individuals have a desire to incur lumpy expenditures of that magnitude. Given the high take-up observed in the experiment, this assumption appears unproblematic.

Assumption 4 (DAILY INCOME FLOW) *We assume that* $y_{iw} = 1039$ *Pakistani rupees for all participants and all waves.*

Remark. For analytical tractability, we need a single value of y across all observations. The value $y_{iw} = 1039$ is drawn as the average household income across the district of Sargodha from the 2010-11 PSLM survey (corrected for CPI inflation since 2011). [11]

5.2 Solving the model numerically

We solve the problem numerically, by a series of nested optimisations:

1. We consider each possible path for $(L_1, \ldots, L_T)$. For each path, we solve two optimisation problems:
   (a) We find whether *any* vector $(m_1, \ldots, m_T)$ is feasible; this is a *linear programming* problem.
   (b) If and only if there exists a feasible solution, we use a 'direct attack' method (Adda and Cooper, 2003, p.10) to solve for optimal $(m_1, \ldots, m_T)$ and record the indirect utility; we implement this as a one-shot *non-linear program*.

[11] In our original Pre-Analysis Plan, we had specified a simpler structural model that we intended to estimate; this was the method that we specified for constructing the daily income flow without the contract. That structural model said nothing about consumption of lumpy goods. We have abandoned that model in favour of the current model. Results from that model are available on request — but they add nothing of substance to the current structural results.

2. There are 2^T possible paths $(L_1, \ldots, L_T)$. Having solved across each of them, we then choose the single optimal path. This is a simple *binary integer programming* problem.

3. We repeat this entire process for each unique value of (r, p) (*i.e.* for each of the 12 contracts that we offered).

4. We repeat again, across a fine grid of possible values for γ.[12] For each possible value, we solve both for the case $m_t \geq 0$ and the case $m_t = 0$.

Table 15 shows the consequent take-up predictions. Note the close congruence to the predictions in section 2; the structural specification is a parameterised version of the earlier model, so all of the general predictions in section 2 hold in Table 15.

< Table 15 here. >

5.3 A discrete finite mixture framework

We want to estimate our model in a way that allows for maximal heterogeneity: we want to allow heterogeneity in γ, and in whether the decision-maker is constrained to $m_t = 0$ — rather than, say, forcing all of the heterogeneity into an additive error structure. To achieve this, we estimate a discrete finite mixture model, for which we take the predictions in Table 15 as foundation. We define this model over combinations of three offered contracts — that is, the contract offered in the first wave, the contract offered in the second period and the contract offered in the third period. We index all such offered contract combinations by $k \in \{1, \ldots, K\}$, where K is the total number of contract combinations offered.[13] For each contract combination, a respondent can make eight possible choices for (y_{i1}, y_{i2}, y_{i3}). We index these eight possible choices by $c \in \{1, \ldots, C\}$.

[12] We rule out any cases where $\gamma > \log(1039) - \log(139) \approx 2.01$; once γ becomes so large, the respondent prefers to purchase the lumpy good in every period even without the contract. This is not a meaningful case to consider in this context.

[13] There are $12^3 = 1728$ possible contract combinations that could have been offered; in practice, only 536 of these possible combinations were actually offered.

Table 15 shows that we can identify six distinct types; we index these types as $t \in \{1, \ldots, T\}$. (Note that the model makes identical predictions for 'Type C' and 'Type E'; we therefore cannot separately identify these types, so we combine them into a single 'Type C/E'.) Define a matrix $\boldsymbol{X}$ of dimensions $(KC) \times T$, such that element $\boldsymbol{X}_{C\cdot(k-1)+c,t}$ records the probability that type t will make choice c when faced with contract combination k. To illustrate, consider 'Type A' from Table 15. Suppose that someone of this type is offered the following three contracts: $(r, p) = (0.1, 1)$, then $(r, p) = (0, 3)$, then $(r, p) = (-0.1, 4)$. Table 15 shows that this person should accept the first of these, but not the second or third; thus, with probability 1, someone of Type A should respond to this contract combination by choosing $(1, 0, 0)$.

Define a (KC)-dimensional vector $\boldsymbol{y}$, such that element $\boldsymbol{y}_{C\cdot(k-1)+c}$ is the sample probability of a respondent choosing choice combination c, conditional on having been offered contract combination k. Define $\boldsymbol{\beta}$ as a T-dimensional vector for the proportions of each type in the population (such that $\sum_t \boldsymbol{\beta}_t = 1$). Then, straightforwardly, $\boldsymbol{y} = \boldsymbol{X} \cdot \boldsymbol{\beta}$. $\boldsymbol{\beta}$ is the key structural parameter of interest. By standard properties of the Moore-Penrose pseudoinverse, $\boldsymbol{\beta}$ is identified if and only if rank$(\boldsymbol{X}) = T \leq KC$. (In the current application, rank$(\boldsymbol{X}) = 6$ and $K \times C = 4288$; $\boldsymbol{\beta}$ is therefore identified.) Assuming that $\boldsymbol{\beta}$ is identified, we can estimate efficiently by maximising the sample log-likelihood. Let the sample size be N, and let the number facing contract combination k be n_k. Then the log-likelihood for the sample is:

$$\ell(\boldsymbol{\beta}) = \sum_{k=1}^{K} n_k \cdot \sum_{c=1}^{C} \boldsymbol{y}_{[C\cdot(k-1)+c]} \cdot \ln\left(\sum_{t=1}^{T} \boldsymbol{\beta}_t \cdot \boldsymbol{x}_{[C\cdot(k-1)+c],t}\right). \tag{6}$$

5.4 Structural results

The structural estimates are reported in Table 16 (where we include 95% confidence intervals, from a bootstrap with 1000 replications). The results are stark: we estimate that about 60% of respondents are constrained in holding cash between periods (namely, Types D, F and G). For about 50% of respondents (*i.e.* Types F and G), this is coupled with a large value on lumpy consumption purchases (in the sense of $\gamma > 0.98$). These proportions dwarf those of respondents who adhere to a standard model, in which $m_t \geq 0$:

the total mass on such respondents is only about 12% (Types A, B, and C).

< Table 16 here. >

In Table 17, we estimate our mixture model separately for different subsets. We disaggregate by (i) whether the respondent is literate, (ii) whether the respondent faces pressure from family members to share available funds, and (iii) whether the respondent reports difficulty in saving. In each of these three cases, we fail to reject a null hypothesis that the proportion of types is equal across the respective subsamples. Nonetheless, there are two differences that are interesting. First, among respondents who report that they do not face pressure from family members, we estimate a higher proportion having $m_t \geq 0$: specifically, we estimate about 16% in Types A, B and C, as against about 10% for those who do report such pressure. Similarly, for those who do not report difficulties saving, we estimate about 14% having $m_t \geq 0$, as against about 11% for those who do. In each case, much of the difference appears to be explained by variation in the proportion of respondents whose behaviour can be rationalised by the model.

< Table 17 here. >

6 Conclusions

In this paper, we have introduced a new design for a framed field experiment, which has allowed us to test directly between demand for microcredit and demand for microsaving. Standard models predict that people should either demand to save or demand to borrow. This, however, is emphatically not what we find. Rather, we find a high demand both for saving and for credit — even among the same respondents at the same time. We hypothesise that saving and borrowing are substitutes for many microfinance clients, satisfying the same underlying demand for lump-sum payments and regular deposits. We have tested this using a new structural methodology with maximal heterogeneity; our results confirm that a clear majority of respondents have high demand for lump-sum payments while also struggling to hold cash over time. This result has implications both for academic research and for the design of effective microfinance products, and forms the basis for an ongoing research project.

Table 1: **Description of sample**

	N	Mean	S.Dev.	1st Q.	Median	3rd Q.	Min.	Max.	Balance (p-values)
Age (years)	888	38.6	10.4	30.0	38.0	46.0	18.0	70.0	0.842
Dummy: Any education	889	0.3	0.5	0.0	0.0	1.0	0.0	1.0	0.760
Dummy: Literate	889	0.3	0.5	0.0	0.0	1.0	0.0	1.0	0.408
Distance (minutes)	887	4.5	3.8	2.0	4.0	5.0	1.0	30.0	0.313
Log (distance (minutes))	887	1.2	0.8	0.7	1.4	1.6	0.0	3.4	0.363
Years as a client	889	2.7	1.6	1.0	2.0	3.0	1.0	10.0	0.039**
Dummy: Owes more than 20,000 PKR	889	0.4	0.5	0.0	0.0	1.0	0.0	1.0	0.381
Dummy: Household larger than 6	889	0.4	0.5	0.0	0.0	1.0	0.0	1.0	0.997
Dummy: Respondent makes final decision on spending	889	0.3	0.5	0.0	0.0	1.0	0.0	1.0	0.048**
Dummy: Family members request money	889	0.7	0.5	0.0	1.0	1.0	0.0	1.0	0.660
Dummy: Respondent finds it hard to save	889	0.4	0.5	0.0	0.0	1.0	0.0	1.0	0.308
Dummy: Respondent or family owns livestock	889	0.5	0.5	0.0	0.0	1.0	0.0	1.0	0.238
Dummy: Respondent or family grows crops for sale	889	0.2	0.4	0.0	0.0	0.0	0.0	1.0	0.717
Dummy: Respondent or family runs a business	889	0.3	0.5	0.0	0.0	1.0	0.0	1.0	0.454
Dummy: Respondent or spouse earns from salaried/casual labour	889	0.7	0.5	0.0	1.0	1.0	0.0	1.0	0.816
Dummy: Respondent married	889	0.9	0.3	1.0	1.0	1.0	0.0	1.0	0.438
Dummy: Respondent would save/invest a 1000 PKR loan	888	0.3	0.4	0.0	0.0	1.0	0.0	1.0	0.415

Figure 1: **Product take-up by contract type**

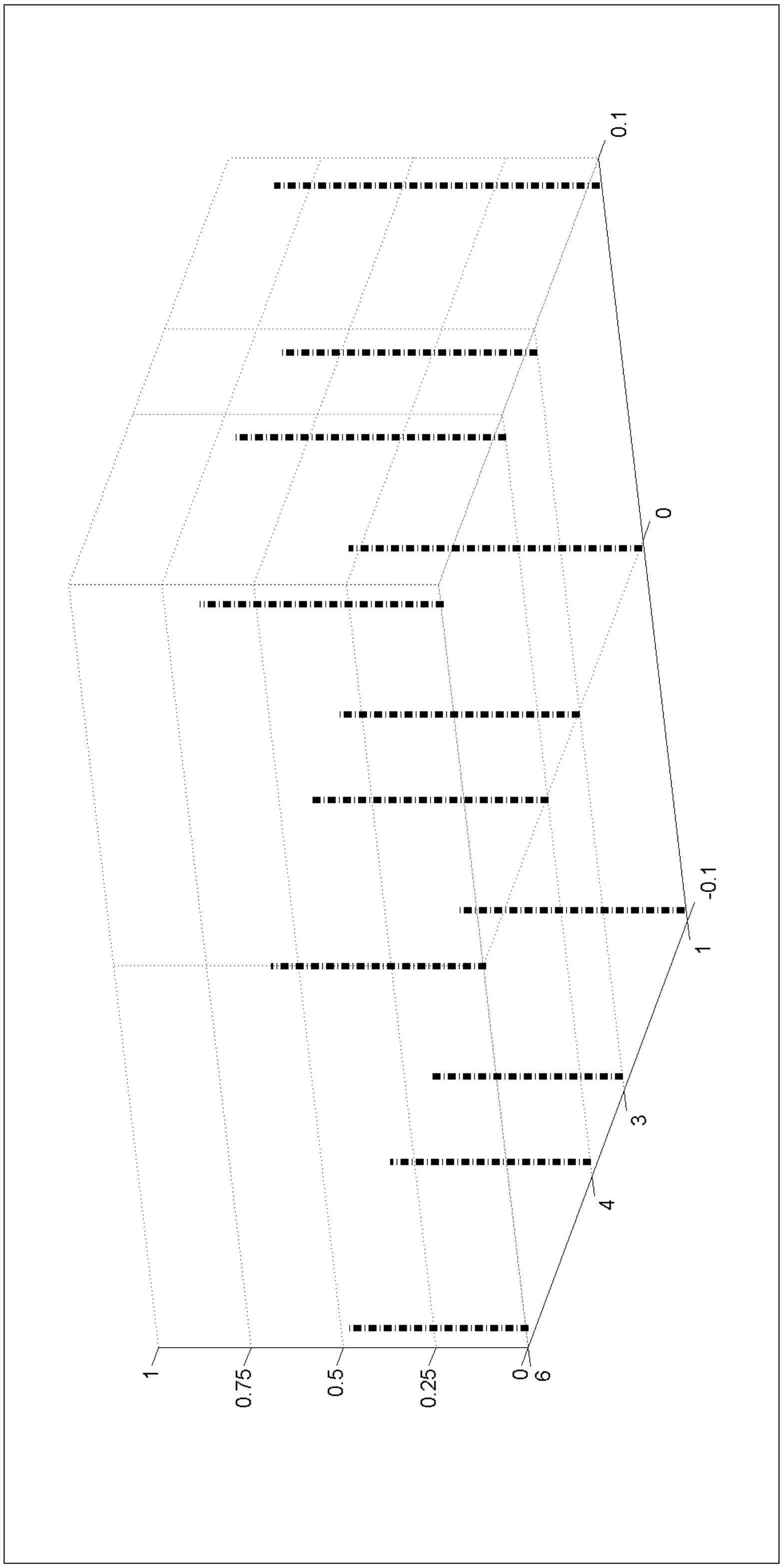

Table 2: **Individual heterogeneity**

ACCEPTANCES	UNIQUE CONTRACTS OFFERED			TOTAL	
	3	2	1		
0	92	26	1	119	(18%)
1	88	15	0	103	(15%)
2	132	24	4	160	(23%)
3	230	71	5	306	(44%)
	542	136	10	688	(100%)

Table 3: **Acceptance of both credit and savings contracts**

accepted a credit contract?	*accepted a savings contract?* NO	YES	TOTAL
NO	44	19	63
YES	65	142	207
TOTAL	109	161	270

Table 4: **Acceptance of savings contracts with $r \geq 0$ and credit contracts with $r \leq 0$**

	accepted a savings contract with $r > 0$?		
accepted a credit contract with $r \leq 0$?	NO	YES	TOTAL
NO	15	11	26
YES	17	43	60
TOTAL	32	54	86

Table 5: **Violations of the standard model**

PREDICTION	OPPORTUNITY TO VIOLATE PREDICTION	PREDICTION VIOLATED
will not accept savings with $r > 0$ *and credit with* $r \leq 0$	86	43 (50%)
always refuse savings with $r < 0$	177	81 (46%)
always accept credit with $r > 0$	224	24 (88%)
any prediction	426	148 (35%)

Table 6: **Determinants of take-up: Interest rate and payment day**

	(1)	(2)	(3)	(4)	(5)
Dependent variable: **Whether the respondent accepted the offer**					
Interest rate	0.929				
	(0.142)***				
Payment day			-0.036		
			(0.005)***		
Dummy: Negative interest		-0.125			-0.099
		(0.030)***			(0.048)**
Dummy: Positive interest		0.063			0.082
		(0.024)**			(0.045)*
Dummy: Payment day is 1				0.126	0.152
				(0.030)***	(0.052)***
Dummy: Payment day is 6				-0.055	-0.042
				(0.025)**	(0.056)
Dummy: Negative interest and payment day is 1					-0.077
					(0.073)
Dummy: Negative interest and payment day is 6					0.011
					(0.071)
Dummy: Positive interest and payment day is 1					-0.010
					(0.054)
Dummy: Positive interest and payment day is 6					-0.042
					(0.060)
Constant	0.646	0.668	0.776	0.627	0.628
	(0.039)***	(0.045)***	(0.040)***	(0.044)***	(0.056)***
Obs.	2347	2347	2347	2347	2347
R^2	0.026	0.027	0.023	0.025	0.053

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 7: **Determinants of take-up: Learning over time**

	(1)	(2)	(3)	(4)	(5)	Equality (p-value)
Dependent variable: **Whether the respondent accepted the offer**						
Experiment wave	-0.052 (0.021)**					
Dummy: Experiment wave 2		-0.017 (0.041)				
Dummy: Experiment wave 3		-0.107 (0.042)**				
Dummy: Negative interest			-0.171 (0.066)**	-0.122 (0.061)*	0.012 (0.091)	**0.257**
Dummy: Positive interest			-0.029 (0.066)	0.112 (0.057)*	0.194 (0.090)**	**0.024****
Dummy: Payment day is 1			0.146 (0.069)**	0.115 (0.059)*	0.222 (0.082)**	**0.437**
Dummy: Payment day is 6			-0.025 (0.068)	-0.132 (0.084)	0.039 (0.076)	**0.229**
Dummy: Negative interest and payment day is 1			0.087 (0.089)	-0.117 (0.091)	-0.241 (0.132)*	**0.061***
Dummy: Negative interest and payment day is 6			-0.001 (0.089)	0.078 (0.105)	-0.053 (0.141)	**0.701**
Dummy: Positive interest and payment day is 1			0.031 (0.081)	-0.037 (0.075)	-0.050 (0.103)	**0.723**
Dummy: Positive interest and payment day is 6			-0.012 (0.083)	0.029 (0.102)	-0.149 (0.099)	**0.420**
Constant	0.752 (0.058)***	0.690 (0.044)***	0.714 (0.072)***	0.667 (0.064)***	0.473 (0.072)***	**0.011****
Obs.	2347	2347	889	745	713	
R^2	0.008	0.009	0.060	0.070	0.065	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 8: **Heterogeneity by literacy**

	(1)	(2)	(3)	(4)	(5)	(6)
Literate?	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.092	-0.143			-0.023	-0.135
	(0.055)	(0.037)***			(0.099)	(0.060)**
Dummy: Positive interest	0.147	0.022			0.144	0.054
	(0.045)***	(0.027)			(0.076)*	(0.059)
Dummy: Payment day is 1			0.171	0.106	0.196	0.131
			(0.040)***	(0.035)***	(0.070)***	(0.054)**
Dummy: Payment day is 6			-0.070	-0.047	-0.048	-0.038
			(0.037)*	(0.029)	(0.086)	(0.066)
Dummy: Negative interest and payment day is 1					-0.125	-0.055
					(0.155)	(0.069)
Dummy: Negative interest and payment day is 6					-0.069	0.043
					(0.119)	(0.088)
Dummy: Positive interest and payment day is 1					0.016	-0.024
					(0.072)	(0.069)
Dummy: Positive interest and payment day is 6					0.000	-0.066
					(0.100)	(0.088)
Constant	0.599	0.701	0.598	0.641	0.548	0.667
	(0.062)***	(0.043)***	(0.057)***	(0.043)***	(0.083)***	(0.054)***
Obs.	746	1601	746	1601	746	1601
R^2	0.042	0.024	0.042	0.018	0.085	0.044
Parameter equality: Intercept (p-value)	0.057*		0.300		0.125	
Parameter equality: All other parameters (p-value)	0.051*		0.185		0.148	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 9: **Heterogeneity by distance**

	(1)	(2)	(3)	(4)	(5)	(6)
Distance > 4 minutes?	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.121	-0.133			-0.110	-0.093
	(0.045)**	(0.037)***			(0.071)	(0.070)
Dummy: Positive interest	0.072	0.053			0.081	0.083
	(0.035)**	(0.035)			(0.072)	(0.073)
Dummy: Payment day is 1			0.063	0.173	0.057	0.223
			(0.039)	(0.034)***	(0.069)	(0.060)***
Dummy: Payment day is 6			-0.061	-0.051	-0.037	-0.048
			(0.036)*	(0.033)	(0.068)	(0.075)
Dummy: Negative interest and payment day is 1					-0.078	-0.085
					(0.112)	(0.075)
Dummy: Negative interest and payment day is 6					0.049	-0.018
					(0.097)	(0.099)
Dummy: Positive interest and payment day is 1					0.068	-0.068
					(0.084)	(0.075)
Dummy: Positive interest and payment day is 6					-0.098	0.001
					(0.099)	(0.085)
Constant	0.645	0.688	0.635	0.623	0.637	0.624
	(0.059)***	(0.054)***	(0.050)***	(0.060)***	(0.067)***	(0.080)***
Obs.	1039	1302	1039	1302	1039	1302
R^2	0.027	0.028	0.010	0.041	0.046	0.070
Parameter equality: Intercept (p-value)	0.516		0.858		0.890	
Parameter equality: All other parameters (p-value)	0.932		0.012**		0.022**	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 10: **Heterogeneity by economic activity**

Respondent or spouse grows crops for sale, runs a business or earns from salaried/casual labour?	(1) **YES**	(2) **NO**	(3) **YES**	(4) **NO**	(5) **YES**	(6) **NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.125	-0.108			-0.111	0.133
	(0.031)***	(0.146)			(0.052)**	(0.237)
Dummy: Positive interest	0.070	-0.064			0.082	0.067
	(0.024)***	(0.104)			(0.044)*	(0.151)
Dummy: Payment day is 1			0.119	0.258	0.143	0.290
			(0.031)***	(0.095)**	(0.053)**	(0.152)*
Dummy: Payment day is 6			-0.059	0.015	-0.066	0.324
			(0.026)**	(0.112)	(0.055)	(0.156)*
Dummy: Negative interest and payment day is 1					-0.076	-0.111
					(0.078)	(0.220)
Dummy: Negative interest and payment day is 6					0.047	-0.606
					(0.072)	(0.283)**
Dummy: Positive interest and payment day is 1					-0.009	0.019
					(0.056)	(0.195)
Dummy: Positive interest and payment day is 6					-0.021	-0.352
					(0.059)	(0.213)
Constant	0.663	0.739	0.629	0.595	0.634	0.533
	(0.045)***	(0.107)***	(0.044)***	(0.093)***	(0.054)***	(0.167)***
Obs.	2223	124	2223	124	2223	124
R^2	0.029	0.009	0.023	0.065	0.054	0.129
Parameter equality: Intercept (p-value)	0.424		0.682		0.484	
Parameter equality: All other parameters (p-value)	0.319		0.301		0.000***	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 11: **Heterogeneity by whether or not the respondent would save/invest a hypothetical loan of 1000 PKR**

	(1)	(2)	(3)	(4)	(5)	(6)
Respondent would save/invest a loan for 1000 PKR?	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.186	-0.102			-0.132	-0.091
	(0.060)***	(0.033)***			(0.084)	(0.052)*
Dummy: Positive interest	0.009	0.085			0.007	0.105
	(0.039)	(0.028)***			(0.068)	(0.047)**
Dummy: Payment day is 1			0.124	0.126	0.114	0.158
			(0.042)***	(0.035)***	(0.073)	(0.051)***
Dummy: Payment day is 6			0.027	-0.093	0.077	-0.101
			(0.033)	(0.032)***	(0.089)	(0.063)
Dummy: Negative interest and payment day is 1					-0.085	-0.067
					(0.124)	(0.071)
Dummy: Negative interest and payment day is 6					-0.066	0.040
					(0.130)	(0.081)
Dummy: Positive interest and payment day is 1					0.107	-0.039
					(0.088)	(0.049)
Dummy: Positive interest and payment day is 6					-0.063	-0.019
					(0.101)	(0.071)
Constant	0.793	0.620	0.687	0.607	0.726	0.598
	(0.033)***	(0.057)***	(0.039)***	(0.053)***	(0.057)***	(0.064)***
Obs.	631	1715	631	1715	631	1715
R^2	0.041	0.025	0.014	0.032	0.062	0.059
Parameter equality: Intercept (p-value)	0.007***		0.129		0.083*	
Parameter equality: All other parameters (p-value)	0.220		0.005***		0.006***	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 12: **Heterogeneity by whether family members request money whenever the respondent has money on hand**

	(1)	(2)	(3)	(4)	(5)	(6)
Family members request money whenever it is on hand?	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.122	-0.132			-0.092	-0.129
	(0.037)***	(0.046)***			(0.055)	(0.080)
Dummy: Positive interest	0.037	0.121			0.034	0.177
	(0.031)	(0.038)***			(0.057)	(0.063)***
Dummy: Payment day is 1			0.109	0.165	0.122	0.205
			(0.037)***	(0.040)***	(0.066)*	(0.065)***
Dummy: Payment day is 6			-0.080	-0.001	-0.081	0.030
			(0.030)**	(0.040)	(0.069)	(0.076)
Dummy: Negative interest and payment day is 1					-0.092	-0.029
					(0.087)	(0.100)
Dummy: Negative interest and payment day is 6					0.018	0.007
					(0.087)	(0.119)
Dummy: Positive interest and payment day is 1					0.031	-0.086
					(0.072)	(0.075)
Dummy: Positive interest and payment day is 6					-0.010	-0.103
					(0.076)	(0.095)
Constant	0.680	0.641	0.644	0.592	0.661	0.570
	(0.050)***	(0.076)***	(0.042)***	(0.083)***	(0.060)***	(0.084)***
Obs.	1629	718	1629	718	1629	718
R^2	0.020	0.047	0.026	0.026	0.048	0.075
Parameter equality: Intercept (p-value)	0.648		0.529		0.316	
Parameter equality: All other parameters (p-value)	0.080*		0.292		0.021**	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 13: **Heterogeneity by whether the respondent reports difficulty in saving**

	(1)	(2)	(3)	(4)	(5)	(6)
Respondent reports difficulty saving?	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.139	-0.112			-0.157	-0.057
	(0.046)***	(0.033)***			(0.058)**	(0.068)
Dummy: Positive interest	0.018	0.096			0.032	0.122
	(0.042)	(0.025)***			(0.053)	(0.066)*
Dummy: Payment day is 1			0.144	0.115	0.143	0.161
			(0.037)***	(0.042)**	(0.062)**	(0.073)**
Dummy: Payment day is 6			-0.057	-0.046	-0.073	-0.016
			(0.044)	(0.036)	(0.077)	(0.076)
Dummy: Negative interest and payment day is 1					-0.009	-0.126
					(0.073)	(0.115)
Dummy: Negative interest and payment day is 6					0.081	-0.039
					(0.084)	(0.101)
Dummy: Positive interest and payment day is 1					0.020	-0.040
					(0.085)	(0.079)
Dummy: Positive interest and payment day is 6					-0.025	-0.048
					(0.070)	(0.087)
Constant	0.646	0.684	0.580	0.661	0.618	0.635
	(0.064)***	(0.051)***	(0.047)***	(0.063)***	(0.060)***	(0.077)***
Obs.	1015	1332	1015	1332	1015	1332
R^2	0.021	0.034	0.029	0.020	0.053	0.055
Parameter equality: Intercept (p-value)	0.591		0.481		0.844	
Parameter equality: All other parameters (p-value)	0.188		0.321		0.802	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 14: **Heterogeneity by whether the respondent described a lumpy purchase at baseline**

	(1)	(2)	(3)	(4)	(5)	(6)
Respondent described a lumpy consumption good?	**YES**	**NO**	**YES**	**NO**	**YES**	**NO**
***Dependent variable:* Whether the respondent accepted the offer**						
Dummy: Negative interest	-0.168	-0.108			-0.117	-0.091
	(0.042)***	(0.035)***			(0.076)	(0.051)*
Dummy: Positive interest	0.049	0.069			0.044	0.099
	(0.036)	(0.028)**			(0.080)	(0.047)**
Dummy: Payment day is 1			0.139	0.122	0.222	0.133
			(0.039)***	(0.037)***	(0.079)***	(0.058)**
Dummy: Payment day is 6			-0.026	-0.067	-0.055	-0.037
			(0.047)	(0.030)**	(0.117)	(0.054)
Dummy: Negative interest and payment day is 1					-0.227	-0.026
					(0.118)*	(0.074)
Dummy: Negative interest and payment day is 6					0.055	-0.008
					(0.142)	(0.080)
Dummy: Positive interest and payment day is 1					-0.036	-0.008
					(0.084)	(0.056)
Dummy: Positive interest and payment day is 6					0.029	-0.070
					(0.143)	(0.054)
Constant	0.716	0.649	0.643	0.621	0.667	0.612
	(0.037)***	(0.054)***	(0.045)***	(0.053)***	(0.075)***	(0.063)***
Obs.	657	1690	657	1690	657	1690
R^2	0.040	0.023	0.023	0.026	0.074	0.050
Parameter equality: Intercept (p-value)	0.212		0.695		0.508	
Parameter equality: All other parameters (p-value)	0.517		0.743		0.513	

Parentheses show standard errors, which allow for clustering by microfinance group.
Significance: $* \Leftrightarrow p < 0.1$, $** \Leftrightarrow p < 0.05$, $*** \Leftrightarrow p < 0.01$.

Table 15: **Definition of possible respondent types**

		CONTRACT OFFERED											
	r	-0.1				0				0.1			
	p	1	3	4	6	1	3	4	6	1	3	4	6
TYPE	**DEFINITION**	**DECISION ($1 =$ ACCEPT)**											
'TYPE A'	$m_t \geq 0$ and $\gamma < 0.85$	0	0	0	0	0	0	0	0	1	1	0	0
'TYPE B'	$m_t \geq 0$ and ($\gamma \in [0.85, 0.9)$ or $\gamma > 1.14$),	0	0	0	0	0	0	0	0	1	1	1	0
'TYPE C'	$m_t \geq 0$ and $\gamma \in [0.9, 1.14]$	0	0	0	0	0	0	0	0	1	1	1	1
'TYPE D'	$m_t = 0$ and $\gamma < 0.9$	0	0	0	0	0	0	0	0	0	0	0	0
'TYPE E'	$m_t = 0$ and $\gamma \in [0.9, 0.98)$	0	0	0	0	0	0	0	0	1	1	1	1
'TYPE F'	$m_t = 0$ and $\gamma \in [0.98, 1.08)$	0	0	0	0	1	1	1	1	1	1	1	1
'TYPE G'	$m_t = 0$ and $\gamma \geq 1.08$	1	1	1	1	1	1	1	1	1	1	1	1

(Note that we rule out any cases where $\gamma > \log(1039) - \log(139) \approx 2.01$; once γ becomes so large, the respondent prefers to purchase the lumpy good in every period even without the contract. This is not a meaningful case to consider in this context.)

Table 16: **Structural estimates**

TYPE	ESTIMATED PROPORTION	95% CONFIDENCE	
		LOWER	UPPER
'TYPE A'	3.8%	1.1%	6.6%
'TYPE B'	5.2%	1.9%	8.4%
'TYPE C/E'	3.3%	0.7%	5.8%
'TYPE D'	11.7%	8.8%	14.7%
'TYPE F'	12.1%	8.8%	15.4%
'TYPE G'	39.8%	35.6%	44.0%
NOT RATIONALISED	24.1%	21.0%	27.3%
N	688		
log-likelihood	-516.546		

Table 17: **Structural estimates: Disaggregating by baseline characteristics**

TYPE	ESTIMATED PROPORTIONS					
	LITERATE?		FAMILY MEMBERS REQUEST MONEY?		DIFFICULTY SAVING?	
	YES	NO	YES	NO	YES	NO
'TYPE A'	8.3%	2.7%	4.5%	2.2%	3.7%	3.9%
'TYPE B'	3.4%	4.8%	5.1%	5.8%	3.4%	6.0%
'TYPE C/E'	6.5%	2.6%	1.0%	8.4%	3.6%	3.2%
'TYPE D'	9.2%	12.5%	11.1%	12.8%	15.9%	9.0%
'TYPE F'	15.0%	11.0%	11.7%	13.3%	9.2%	14.0%
'TYPE G'	34.2%	42.0%	40.2%	38.6%	35.4%	43.2%
NOT RATIONALISED	23.4%	24.5%	26.4%	18.9%	28.8%	20.7%
N	222	466	482	206	296	392
log-likelihood	-165.9	-346.8	-343.2	-168.9	-205.4	-306.9
H_0 : Same proportions (p)	0.27		0.19		0.21	

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Appendix: Construction of the variables

The following table — taken from the Pre-Analysis Plan — describes how each variable was constructed.

VARIABLE	DEFINITION	SOURCE
	DATA ON CONTRACTS OFFERED:	
y_{it}	A dummy variable for whether individual i accepts the contract in period t.	Individual contract offers.
r_{it}	The interest rate offered in period t, such that $r = 10\%$, $r = 0\%$ or $r = -10\%$.	Individual contract offers.
d_{it}	The day payment is received by individual i in period t, such that $d = 1$, $d = 3$, $d = 4$ or $d = 6$.	Individual contract offers.
$rneg_{it}$	A dummy variable equal to 1 when the interest rate in period t is -0.1; 0 otherwise.	Individual contract offers.
$rpos_{it}$	A dummy variable equal to 1 when the interest rate in period t is 0.1; 0 otherwise.	Individual contract offers.
$d1_{it}$	A dummy variable equal to 1 when the payment is received by individual i on the first day of the product cycle in period t; 0 otherwise.	Individual contract offers.
$d6_{it}$	A dummy variable equal to 1 when payment is received on the sixth day of the cycle in period t; 0 otherwise.	Individual contract offers.
	DATA ON INDIVIDUALS:	
Age	The age of individual i.	Baseline questionnaire (Q.10).
Education	A dummy variable for whether individual i has 1 or more years of schooling.	Baseline questionnaire (Q.11).
Literate	A dummy variable for whether individual i assesses that she can read and write.	Baseline questionnaire (Q.12).
Distance	A continuous variable for the number of minutes i reports that she takes to walk from her home to the meeting place.	Baseline questionnaire (Q.13).
Log(Distance)	The natural log of the 'distance' variable.	Baseline questionnaire (Q.13).

Years as a client	The number of years that individual i has been a client of NRSP.	Baseline questionnaire (Q.14).
Money owed	A dummy variable for whether individual i owes money above the median level of money owed by the sample.	Baseline questionnaire (Q.15).
Household size	A dummy variable for whether individual i has a household size above the median household size of the sample.	Baseline questionnaire (Q.16).
Final decision	A dummy variable for whether individual i makes the final decision about spending money in the household (either alone or jointly).	Baseline questionnaire (Q.17).
Family pressure	A dummy variable for whether family members request money whenever individual i has money on hand.	Baseline questionnaire (Q.18).
Difficult to save	A dummy variable for whether individual i finds it hard to save money.	Baseline questionnaire (Q.19).
Owns livestock	A dummy variable for whether individual i or her family owns livestock.	Baseline questionnaire (Q.20).
Grows crops for sale	A dummy variable for whether individual i or her family grow crops for sale.	Baseline questionnaire (Q.23).
Runs a business	A dummy variable for whether individual i or her family run a business.	Baseline questionnaire (Q.26).
Income from salaried work or casual labour	A dummy variable for whether individual i or her spouse earns income from salaried work or from casual labour.	Baseline questionnaire (Q.30 and 32).
Save or invest	A dummy variable for a hypothetical situation in which NRSP loans Rs 1000 to individual i, and individual i chooses to save or invest it (0 if the individual lists other purposes).	Baseline questionnaire (Q.34); to be coded by Uzma Afzal and Farah Said, based on individual responses.
`group`	An index for the individual's experiment group.	Baseline questionnaire (ID control section).

Appendix: Breach of experimental protocol

In three of the 32 groups, our research assistants observed serious breaches of the experiment protocol. In summary:

1. In one group, one woman (who was not supposed to be present) pressured the others into a mass walk-out; as a result, only six out of 45 women agreed to participate in the research.
2. In a second group, one man gathered all the participants and spoke to them before the ballots at the second meeting. He also told research assistants that participants in the area are 'too busy' for this kind of scheme. When drawing the contracts, it seemed that at least some of the participants exchanged glances with this gentleman when prompted for a decision. At this group's first meeting, 24 of the 27 participants accepted the contract offer; whereas at the second meeting, 0 of the 16 remaining participants accepted the contract offer.
3. In a third group, all women declined the offer in the third meeting, because the owner of the host house was ill and she apparently instructed everyone to decline so that she would not have to host the daily payment meetings. The week 2 ballot may also have been affected by these considerations, since she was apparently already ill in week 2.