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Repayment Frequency in the Law of Microfinance

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Comment

Repayment Frequency in the Law of Microfinance

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Recent debates over microfinance regulatory frameworks have misunderstood an important instrument: repayment frequency. Despite recent laws mandating lower microfinance repayment frequency under the banner of consumer protection, this Comment argues that repayment frequency is unable to protect borrowers beyond what substantive anti-coercion rights and procedural law can, and have begun to, accomplish. Moreover, repayment frequency, because of its link to meetings in group lending schemes, can produce social capital among borrowers, a byproduct that has been ignored in regulatory debates. By using a more holistic framework to measure financial regulation's effects, this Comment recommends reconsidering laws forbidding weekly repayment.

Introduction

The "miracle" of microfinance has lost much of its luster.[1] Highly publicized suicides, regulatory crackdowns, popular anti-lender movements, and mass defaults unsettled the industry in India a few years ago.[2] Mohammad

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1. Esther Duflo et al., *The Miracle of Microfinance? Evidence from a Randomized Evaluation* 34 (Nat'l Bureau of Econ. Research, Working Paper No. 18950, 2013), http://www.nber.org/papers/w18950.pdf ("Microcredit therefore may not be the 'miracle' that it is sometimes claimed to be . . . .").

2. Lydia Polgreen & Vikas Bajaj, *India Microcredit Faces Collapse from Defaults*, N.Y. TIMES, Nov. 17, 2010, http://www.nytimes.com/2010/11/18/world/asia/18micro.html ("[S]ome

Yunus, who won the Nobel Peace Prize for founding the seminal microfinance organization known as the Grameen Bank, attributed the microfinance crisis to commercialization, particularly for-profit "loan sharks," and lent his support to stricter government regulation.[3] Amidst recent regulatory battles in India, Yunus, in April 2013, reiterated his position that microfinance must renew its focus on people.[4]

This Comment addresses how the law of microfinance can do just that by building social capital through an overlooked legal lever: repayment frequency. Given the global growth in laws and regulations addressing microfinance,[5] understanding this lever's potential to advance various goals can help in optimally regulating this significant segment of the international financial landscape. Despite recent provisions mandating lower repayment frequency under the banner of consumer protection, I argue that repayment frequency is unable to protect borrowers beyond what substantive anti-coercion rights and procedural laws can, and have begun to, accomplish. Rather, increased repayment frequency has the unique potential to build social capital.

In Part I, I introduce the law of microfinance. In Part II, I introduce repayment frequency and argue that recent experimental studies refute claims that repayment frequency affects short-term financial outcomes such as entrepreneurial investment and default.

In Part III, I establish the connection between repayment frequency and social capital. Since repayments are made in the context of group meetings, higher frequency repayment facilitates greater social interaction and risk-sharing, of particular importance in risk-laden emerging economies. In Part IV, I then argue that alternative regulatory instruments in recent microfinance laws increase consumer protection in a way that lower repayment frequency cannot.

Indian officials fear that microfinance could become India's version of the United States' subprime mortgage debacle."); *see also RBI Submits Affidavit on AP Microfinance Law Jurisdiction*, HINDU BUS. LINE, July 29, 2012, http://www.thehindubusinessline.com/industry-and-economy/banking/rbi-submits-affidavit-on-ap-microfinance-law-jurisdiction/article3699615.ece (noting that regulation passed "in the wake of a spate of suicides by the borrowers allegedly due to the coercive recovery practices by the MFI agents").

3. Muhammad Yunus, Op-Ed., *Sacrificing Microcredit for Megaprofits*, N.Y. TIMES, Jan. 14, 2011, http://www.nytimes.com/2011/01/15/opinion/15yunus.html.

4. David Bornstein, *Beyond Profit: A Talk with Muhammad Yunus*, N.Y. TIMES: OPINIONATOR (Apr. 17, 2013, 7:00 AM), http://opinionator.blogs.nytimes.com/2013/04/17/beyond-profit-a-talk-with-muhammad-yunus ("I dismiss personal profit, and focus exclusively on people and planet.").

5. *See, e.g.*, Thankom Arun & Victor Murinde, *Microfinance Regulation and Social Protection*, EUROPEAN UNIV. INST. (2010), http://erd.eui.eu/media/2010/Arun-Murinde.pdf (detailing emerging microfinance regulation in Africa); *Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria*, CENT. BANK OF NIGERIA (Dec. 18, 2012), http://www.cenbank.org/Out/2013/CCD/Amended%20Regulatory%20and%20Supervisory%20Guidelines%20for%20MFB.pdf; *Russian Federation - Microfinance Development Project*, THE WORLD BANK (Dec. 17, 2012), http://documents.worldbank.org/curated/en/2012/12/17167625/russian-federation-microfinance-development-project (developing a proper legal, regulatory, and supervisory framework for Russian microfinance).

In Part V, I recommend a reconsideration of laws forbidding installments due as frequently as once per week.

I. The Law of Microfinance

While definitions of microfinance vary, it is generally thought to include not only lending, or microcredit, but savings schemes and insurance products as well.[6] Microfinance products traditionally are of low monetary value, intended to encourage entrepreneurial activity, and targeted at poor women. I focus on group microcredit, which involves making one collateral-free loan to a group of people who are all responsible for its repayment. This group lending, which is microfinance's most recognized subsector, purportedly provides a liability structure when the lack of individual collateral makes traditional, non-group lending infeasible.[7] The classic group microcredit model created and disseminated by the Grameen Bank involves jointly liable "solidarity groups" of five people.[8] The Grameen model also requires that installments be paid weekly, setting a periodicity standard for the field.[9]

As microfinance has grown, so have the legal structures in which it operates. West African countries developed a multinational framework to regulate microfinance.[10] Individual countries, including the Kyrgyz Republic,[11] have passed legislation exclusively addressing microfinance, while Bolivia[12] and others regulate microfinance under preexisting banking law.[13] Countries may vest regulatory power over microfinance in a supervising authority, often

6. Dean Karlan & Nathaniel Goldberg, *Impact Evaluation of Microfinance*, THE WORLD BANK 3 (2007), http://karlan.yale.edu/p/Doing_ie_series_07.pdf.

7. *Id.* at 3-4.

8. *Id.* at 5.

9. Namrata Acharya, *Microfinance Institutions Drift from Traditional Grameen Lending Model*, BUS. STANDARD, Jan. 2, 2013, http://www.business-standard.com/article/finance/microfinance-institutions-drift-from-traditional-grameen-lending-model-113010200032_1.html ("The Grameen model, dating back to 1976, stipulates weekly repayments under group lending . . . .").

10. The 1994 Projet d'Appui à la Réglementation sur les Mutuelles d'Épargne et de Crédit (PARMEC) law regulates licensed microfinance institutions in the UMOA region, comprising Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. Korotoumou Ouattara, *Microfinance Regulation in Benin: Implications of the PARMEC Law for Development and Performance of the Industry* 16 (The World Bank Africa Region Working Paper Series, Paper No. 50, 2003), http://www.worldbank.org/afr/wps/wp50.pdf.

11. Ctr. for Fin., Law & Policy, *The Kyrgyz Republic Law on Micro-finance Organizations in the Kyrgyz Republic*, BOS. UNIV. (2002), http://www.bu.edu/bucflp/files/2012/01/Law-No.-124-on-Microfinance-Organizations-in-the-Kyrgyz-Republic-English.pdf.

12. *La Regulación y Supervisión de las Entidades Microfinancieras en Bolivia* [*The Regulation and Supervision of Microfinance Institutions in Bolivia*], AUTORIDAD DE SUPERVISIÓN DEL SISTEMA FINANCIERO, http://www.bu.edu/bucflp/files/2012/01/Regulation-and-Supervision-of-Microfinance-Institutions-in-Bolivia.pdf (last visited Feb. 14, 2014).

13. *Regulatory Requirements for Microfinance*, DEUTSCHE GESELLSCHAFT FÜR TECHNISCHE ZUSAMMENARBEIT GMBH 2 (2003), http://www.bu.edu/bucflp/files/2012/08/Regulatory-Requirements-for-Microfinance.pdf ("The legal system for microfinance may be specified in a law catering exclusively or foremost for MFIs (Bosnia and Herzegovina, Ethiopia, Ghana, Honduras, Kyrgyz Republic, Nepal, Pakistan, Uganda) [or] in a decree or regulations under the Banking Law (Bolivia, Indonesia) . . . .").

the central bank,[14] though some governments retain the authority to approve or reject central bank rules.[15] Subnational jurisdictions have also regulated microfinance, as in the recent and controversial microfinance law passed in the state of Andhra Pradesh, India.[16]

II. The Theory and Empirics of Repayment Frequency

While different countries have different repayment frequency norms,[17] most microfinance institutions (MFIs) in Bangladesh and India follow the classic Grameen model of weekly repayment installments.[18] Andhra Pradesh rejected this schedule and mandated a minimum time interval of one month between repayments.[19] The national Micro Finance Institutions (Development and Regulation) Bill, which was pending before the legislature as of September 2013, delegates authority to India's central bank to regulate the "periodicity of repayment" but does not specify a standard.[20]

Behavioral economists argue that the weekly Grameen cycle illustrates how frequent repayment can act as a commitment device and build "fiscal discipline."[21]

Yet stringent terms may impose collateral costs on consumers: one report suggested that the need to produce frequent repayment installments could discourage long-term investments (which would not be expected immediately to generate returns that could be used to repay the loan).[22] The experimental

14. *Id.* at 8.

15. *Id.* at 9 (In both Nepal and Pakistan, "rules made by the central bank must be approved by the government.").

16. *See* Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Ordinance, 2010 Andhra Pradesh Ordinances No. 9, http://www.bu.edu/bucflp/files/2012/01/Andhra-Pradesh-Micro-Finance-Institutions-Ordinance.pdf.

17. Kirsten Weiss, *The Microfinance Evolution Toward MSME Lending: Lessons from Pakistan*, SHOREBANK INT'L LTD. 3 (Feb. 2008), http://www.microfinancegateway.org/gm/document-1.9.30942/The%20Microfinance%20Evolution%20Toward%20MSME%20Lending%20Lessons%20from%20Pakistan.pdf (noting how group lending in Pakistan usually requires fortnightly or monthly repayment).

18. Erica Field & Rohini Pande, *Repayment Frequency and Default in Microfinance: Evidence from India*, 6 J. EUR. ECON. ASS'N 501, 502 (2008) (noting "the almost universal practice of weekly repayment among MFIs").

19. ANDHRA PRADESH GAZETTE, Rules Supplement to Part VII Extraordinary No. 2, The Andhra Pradesh Micro Finance Institutions (Regulation of Money Lending) Rules (Oct. 19, 2010) r. 20(1)(a), http://gazette.ap.gov.in/gt_PublicReport.aspx (search for rules promulgated on "19102010") [hereinafter Andhra Pradesh Micro Finance Rules].

20. The Micro Finance Institutions (Development and Regulation) Bill, Lok Sabha 62, 15th L.S. § 25(I)(2)(c) (2012) (India), http://www.prsindia.org/billtrack/the-micro-finance-institutions-development-and-regulation-bill-2012-2348/ [hereinafter India Micro Finance Bill].

21. Sendhil Mullainathan & Sudha Krishnan, *Psychology and Economics: What it Means for Microfinance*, INNOVATIONS FOR POVERTY ACTION 3 (2008), http://scholar.harvard.edu/files/mullainathan/files/psychology_and_economics_what_it_means_for_microfinance.pdf ("[D]ecreas[ing] the frequency of repayments and group meetings . . . will disrupt fiscal discipline in borrowers.").

22. *See* Field & Pande, *supra* note 18, at 502.

microfinance literature has documented how increased repayment frequency increases self-reported financial stress.[23]

Repayment frequency laws are theoretically motivated by these consumer protection concerns. In response to allegations of microfinance's dire outcomes for borrowers, India's central bank commissioned a committee led by Yezdi Hirji Malegam to produce a report (hereinafter, the Malegam report) studying issues in the microfinance sector.[24] The report recounted several theoretical burdens purportedly imposed on borrowers by weekly repayment, including de facto liquidity requirements that prevent illiquid entrepreneurial investment and possible repayment delinquency.[25]

Empirical research testing these theories among borrowers in India does not support these fears regarding the financial effects of frequent repayment. First, recent experimental evidence demonstrates that initial grace periods encourage illiquid, entrepreneurial investment choices even when repayment frequency is held constant.[26] Since traditional group lending models begin repayment almost immediately after loan disbursal, a short grace period between disbursal and the first installment's due date can improve both short-term investment and long-term profits.[27]

At the same time, experimental evidence documents no effect of monthly repayment on short-term default.[28] The Malegam report echoed this growing consensus that repayment frequency has insignificant effects on default rates.[29] In the following Part, I therefore focus on what repayment frequency can affect: social capital.

III. The Role of Social Capital

Robert Putnam famously defines social capital as "features of social organization, such as trust, norms and networks" that can facilitate collective action.[30] Commentators often cite the centrality of trust, norms, and networks in

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23. Erica Field et al., *Repayment Flexibility Can Reduce Financial Stress: A Randomized Control Trial with Microfinance Clients in India*, 7 PUB. LIBR. SCI. ONE e45679 (2012), http://www.plosone.org/article/info%3Adoi%2F10.1371%2Fjournal.pone.0045679.

24. Y.H. Malegam et al., *Report of the Sub-Committee of the Central Board of Directors of Bank of India to Study Issues and Concerns in the MFI Sector* (2011), http://rbidocs.rbi.org.in /rdocs/PublicationReport/Pdfs/YHMR190111.pdf.

25. *Id.* at 8.

26. Erica Field et al., *Does the Classic Microfinance Model Discourage Entrepreneurship Among the Poor? Experimental Evidence from India*, 103 AM. ECON. REV. 2196 (2013).

27. *Id.*

28. Field & Pande, *supra* note 18, at 501.

29. N. Srinivasan, *Microfinance India: State of the Sector Report* 36 (2010), http://www.microfinancegateway.org/gm/document-1.9.52504/State%20of%20the%20Sector%20Report%202010.pdf.

30. ROBERT D. PUTNAM, MAKING DEMOCRACY WORK: CIVIC TRADITIONS IN MODERN ITALY 167 (1993).

facilitating group lending.[31] However, the role of group microcredit in *creating* social capital has, until recently, been largely neglected despite its importance. The Grameen model brings together borrowers, usually women who are neighbors but not "friends," in the repayment meetings.[32] The meetings facilitate both public repayment and general social interaction, a particularly valuable experience given "traditional norms of female isolation" in India and other large microfinance markets.[33]

These mandatory short-term interactions lead to increased voluntary long-term interaction. An experimental study found that members of lending groups (where each borrower nonetheless had an individual liability contract) assigned to weekly repayment schedules ended up spending significantly more out-of-meeting social time with other group members than did members of groups assigned to pay in monthly installments.[34] Members of the weekly groups continued to socially interact at higher rates even after the loans were repaid.[35] Weekly members more successfully endured financial shocks, exhibited lower long-term default rates in subsequent loan cycles (despite the fact that all clients had reverted to the same fortnightly repayment schedule),[36] and were more inclined to share risk with fellow group members.[37] Since a lack of risk sharing impedes individual advancement and economic growth in risk-laden emerging economies, repayment meetings provide a promising way to promote development.[38]

More broadly, trust and social networks, as dimensions of social capital, are increasingly viewed as mechanisms for poverty alleviation, economic growth, and social development.[39] The microeconomics of repayment

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31. *Cf.* Xavier Giné & Dean S. Karlan, *Group Versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups* 3, 26, 29 (Ctr. for Global Dev., Working Paper No. 111, 2011), http://karlan.yale.edu/p/GroupversusIndividualLending.pdf (finding that, when borrowers select the members of their repayment groups (presumably from among people already in their networks), group liability has little additional effect on mitigating moral hazard or default).

32. Benjamin Feigenberg et al., *The Economic Returns to Social Interaction: Experimental Evidence from Microfinance*, 80 REV. ECON. STUD. 1459, 1463 (2013).

33. *Id.* at 1476.

34. *Id.* at 1469-70.

35. *Id.* at 1469.

36. *Id.* at 1461 ("Those who met weekly during their first loan cycle were three times (5.2 percentage points) less likely to default on their subsequent loan, despite the fact that all clients had reverted to the same repayment schedule.").

37. *Id.* ("[G]reater social interaction among clients on a weekly schedule was accompanied by increased willingness to pool risk relative to monthly clients.").

38. Arun Chandrasekhar, Cynthia Kinnan & Horacio Larreguy, *Informal Insurance, Social Networks, and Savings Access: Evidence from a Lab Experiment in the Field*, CONSORTIUM OF FIN. SYS. & POVERTY 2 (2012), http://www.cfsp.org/sites/default/files/publications/chandrasekhar.kinnan.larre.guy.2012.pdf ("Individuals in developing countries face large amounts of risk (weather, health, prices, etc.). Interpersonal insurance can potentially play an important role in buffering this risk, but evidence suggests that it is incomplete: not all idiosyncratic risk is insured.").

39. *See generally Social Capital*, THE WORLD BANK, http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTTSOCIALCAPITAL/0,,contentMDK:20185163~menuPK:418217~pagePK:148956~piPK:216618~theSitePK:401015~isCURL:Y,00.html (last

frequencies can therefore create positive macroeconomic consequences. Despite concerns over how social capital might breed group-based corruption and rent-seeking, retrospective empirical research provides no evidence that such associational inefficiencies neutralize the positive effects of social capital.[40] The experimental research on repayment periodicity thus demonstrates how laws "tweaking the design of standard development programs to encourage social interaction can generate economically valuable social capital."[41]

IV. Effective Consumer Protection

Given the importance of frequent repayment for building social capital, policymakers should find alternative avenues to address their legitimate consumer protection concerns. Such protection is better accomplished through direct anti-coercion regulatory tools, such as limits on employing collection agents, efficient complaint procedures, and substantive civil and criminal punishments to hold lenders accountable, as are used in the Andhra Pradesh state rules,[42] the Indian national bill,[43] and beyond.[44] Lowering repayment frequency cannot accomplish anything approximating, much less anything more than, these substantive and procedural laws can.

Procedurally, microfinance borrower rights must be enforced swiftly and effectively, particularly since developing countries with large microfinance sectors are unlikely to have transparent and efficient judiciaries. One key innovation in Andhra Pradesh has been a free telephone line to file administrative complaints, exploiting the ubiquity of cellular phones among even the poor to bypass the slower formality of the Indian judiciary.[45] Beyond this ease of accessibility, Andhra Pradesh also mandates investigation by the appropriate authorities within a mere week of a complaint's receipt.[46] The authorities can punish noncompliant lenders by canceling their registrations,[47] which goes beyond civil fines by denying an MFI's right to operate. An MFI

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visited Feb. 14, 2014) ("Increasing evidence shows that social cohesion—social capital—is critical for poverty alleviation and sustainable human and economic development.").

40. Stephen Knack & Philip Keefer, *Does Social Capital Have an Economic Payoff? A Cross-Country Investigation*, 112 Q.J. ECON. 1251, 1274 (1997) ("This attempt at distinguishing types of groups thus provides no empirical support for our conjecture that groups have neutral effects on performance because positive 'Putnam' forces are counterbalanced by negative 'Olson' influences.").

41. Feigenberg et al., *supra* note 32, at 1462.

42. Andhra Pradesh Micro Finance Rules, *supra* note 19, rr. 24, 28, 29.

43. India Micro Finance Bill, *supra* note 20, cl. 25(2)(h)-(i).

44. *Microfinance: Consumer Protection Guidebook*, PHIL. NAT'L CREDIT COUNCIL 1-20 (2007), http://www.bu.edu/bucflp/files/2012/01/Microfinance-Consumer-Protection-Guidebook.pdf (listing consumer protection provisions including substantive laws against deceptive and unfair borrowing practices and procedural innovations like toll-free call centers for consumer complaints).

45. Andhra Pradesh Micro Finance Rules, *supra* note 19, r. 28(1).

46. *Id.* r. 28(2).

47. *Id.* r. 10(1).

has the right to an appeal before its registration is cancelled, but that right must be exercised swiftly, preventing strategic delays by powerful lenders.[48]

These procedural innovations, however, are only pertinent because of the underlying substantive rights they protect, particularly the right to be free from the coercive debt collection practices of MFIs. The Andhra Pradesh rules not only prohibit "coercive" methods, but they also require MFI CEOs to sign a pledge that their MFI will not "deploy any agents for recovery."[49] In banning the deployment of recovery agents, Andhra Pradesh limits MFIs to using only those collection personnel reported at the time of MFI registration.[50] This prevents informal, ad hoc relationships with difficult-to-monitor recovery agents from arising in the course of lending. By limiting the employment of such agents and holding employers responsible for employee recovery practices, Andhra Pradesh holds MFIs directly accountable if borrowers experience stressful harassment at the hands of coercive collection agents. These legal provisions therefore broadly combat the "lack of professionalism" and lack of quality management within the sector, characteristics that can imperil vulnerable borrowers.[51]

Beyond their theoretical appeal, these consumer protection provisions have been practically enforced and have encouraged a needed change in lender behavior. Initiatives to educate the police and media attention have spread awareness and ensured enforcement in a country where the legal problems of the poor are often ignored.[52] In the first case under the Andhra Pradesh law that resulted in arrests, the borrower alleged coercion based on the defendants' debt-related intimidation, setting a public example of how the law criminalizes illegitimate exertions of lender power.[53] Politicians have pointed out the need for such regulation to shape MFIs into "responsible lenders" and to end their "strong-arm tactics."[54] While the exact contours of the law's "coercion" definition continue to unfold, Andhra Pradesh's strong anti-harassment legal provisions reflect the sort of streamlined "consumer grievance redressal process" endorsed by microfinance experts[55] to enhance consumer protection.

Other jurisdictions, however, do not comport with the Andhra Pradesh model. Procedurally, some jurisdictions severely limit the enforcement ability

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48. *Id.* r. 10(2).

49. *Id.* Form-2.

50. *Id.* r. 24.

51. *Microfinance Banana Skins*, CTR. FOR THE STUDY OF FIN. INNOVATION 7 (2012), http://www.citi.com/citi/microfinance/data/news120628.pdf.

52. *See Police Arrests Staff of SKS & Spandana Microfinance Cos*[.] *on Harassment Charge*, ECON. TIMES, Oct. 22, 2010, http://articles.economictimes.indiatimes.com/2010-10-22/news/27623314_1_sks-microfinance-kurnool-police-sks-spandana.

53. *Id.*

54. *Microfinance Institutions Must Be Responsible Lenders: Rangarajan*, HINDU, Aug. 29, 2012, http://www.thehindu.com/business/Economy/microfinance-institutions-must-be-responsible-lenders-rangarajan/article3836532.ece.

55. Abhijit Banerjee et al., *Help Microfinance, Don't Kill It*, INDIAN EXPRESS, Nov. 26, 2010, http://www.indianexpress.com/news/help-microfinance-don-t-kill-it/716105.

of MFI regulators: in Ghana, for example, bank liquidation requires a pretermination petition to the High Court, an appellate body.[56] Jurisdictions such as Indonesia and Honduras spur vicarious institutional liability in favor of employee liability for certain MFI regulatory violations, a practice that diminishes institutional compliance and accountability.[57] Andhra Pradesh sits at the frontier of microfinance consumer protection, in spite of, rather than because of, its repayment frequency regulation.

V. Rethinking Repayment Frequency as a Regulatory Instrument

Repayment frequency should be used as a regulatory instrument in pursuit of what it can accomplish, social capital formation, as opposed to what it cannot, consumer protection. The main rationales articulated to justify less frequent repayment are that it improves investment flexibility and reduces stress on borrowers, yet these claims do not withstand careful scrutiny. First, with regard to the flexibility to pursue illiquid investment, grace periods should be the primary regulatory instrument. Second, with regard to borrower stress,[58] qualitative and quantitative evidence suggests that social capital can actually reduce stress.[59] Therefore, the possibility of short-term financial stress should not deter lawmakers from using repayment frequency to build stronger social networks that reduce stress more broadly.

At the very least, emerging subnational, national, and supranational laws of microfinance should not follow Andhra Pradesh's lead by banning the weekly Grameen repayment schedule. More ambitiously, regulatory frameworks could affirmatively encourage the development of social capital by providing subsidized government lending at below-market interest rates to MFIs contingent on their provision of group lending schemes with weekly repayment schedules. Particularly where subsidized capital schemes are already a part of, and will remain a part of, government lending policy, this could be an effective deployment of public resources.[60]

While repayment and meeting are intertwined both in the classic Grameen model and empirically in practice, these subsidies could also be provided contingent on simply meeting more frequently, even when participants' repayment schedules are not aligned. These subsidies would incentivize and

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56. *Regulatory Requirements for Microfinance*, *supra* note 13, at 34.

57. *See id.*

58. Field et al., *supra* note 23, at 1.

59. Martin Gächter, David A. Savage & Benno Torgler, *The Relationship Between Stress, Strain and Social Capital* (Univ. of Innsbruck, Working Paper No. 4, 2010), http://eeecon.uibk.ac.at/wopec2/repec/inn/wpaper/2010-04.pdf (using retrospective, multivariate analysis to show that increased social capital correlates with lower individual stress).

60. In addition to India, Sri Lanka, for example, provides public and private subsidies through both discounted capital and administrative support. Anura Atapattu, *State of Microfinance in Sri Lanka*, INST. OF MICROFINANCE 54 (2009), http://www.inm.org.bd/publication/state_of_micro/Sri%20Lanka.pdf.

encourage the positive externalities, such as deterring opportunistic default,[61] that arise from social capital formation in microfinance.

VI. Conclusion

Repayment frequency—and particularly weekly repayment as in the original Grameen model—constitutes a promising regulatory instrument to build social capital. Recent laws have embraced lower repayment frequency based on an incorrect presumption of repayment frequency's role in consumer protection, which is better addressed by substantive anti-coercion rights and procedural innovations to enforce them.

I do not advocate strict trans-jurisdictional harmony in the law of microfinance repayment frequency. Much of the experimental evidence I have drawn upon, for example, comes from politically stable regions.[62] In conflict or post-conflict regions where stress is already relatively high, the precise calculus of balancing added financial stress against social capital gains may be different.[63] Moreover, group lending schemes traditionally allow for pre-formed groups to join (rather than MFIs randomly assigning individuals to groups), and if those groups reinforce preexisting ethnic or political divisions, heightened repayment frequency might simply perpetuate intra-group interaction rather than promote inter-group interaction.

There are crucial universal lessons from recent laws' underuse and misuse of repayment frequency as a regulatory instrument in microfinance. Just as microfinance's aims transcend narrow financial indicators, so must the metrics against which we measure effective regulation in developing countries. A commitment to protecting vulnerable borrowers requires laws that facilitate interaction and community-building.

61. Orazio Attanasio et al., *Risk Pooling, Risk Preferences, and Social Networks*, 4 AM. ECON. J.: APPLIED ECON. 134, 135 (2012) ("We show that individuals prefer to group with close friends and relatives with similar risk attitudes. When grouping with individuals outside their social network, untrustworthy individuals are opportunistic, defaulting on risk-sharing arrangements when it pays to do so and lying about their type, i.e., both their trustworthiness and their level of risk aversion, in order to convince others to group with them.").

62. Many studies cited in this paper were conducted in partnership with the Village Welfare Society's peri-urban and urban clients in India.

63. For a discussion of post-conflict microfinance, see Milford Bateman et al., *Bosnia's Microfinance Meltdown*, AM. ECON. ASS'N. ANNUAL CONFERENCE (2012), http://www.microfinancegateway.org/gm/document-1.9.56293/Bosnia_Meltdown.pdf.