Microequity and Mutuality Experimental Evidence on Credit with Performance-Contingent Repayment

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We conduct the first field experiment of a performance-contingent microfinance contract. A large food multinational wishes to help micro-distributors in its supply chain with the financing of a productive asset. Working with the firm in Kenya, we compare asset financing under a traditional debt contract to three alternatives: (i) a novel equity-like financing contract, (ii) a hybrid debt-equity contract, and (iii) an index-insurance financing contract. Experimental results reveal large positive impacts from the contractual innovations. These findings demonstrate the economic appeal of microfinance contracts that leverage improved observability of performance to achieve a greater sharing of risk and reward.

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