

# Does Contingent Repayment in Microfinance Help the Poor during Natural Disasters?<sup>1</sup>

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## Abstract

Microfinance in Bangladesh introduced a contingent repayment system beginning in 2002, which allowed rescheduling of weekly saving and installments during natural disasters for disaster-affected members. This paper examines the determinants of rescheduling and its consequences on individual livelihoods using evidence from a nation-wide flood in 2004. The empirical analysis employs the instrumental variable model to correct for the endogeneity of the rescheduling treatment.

In employing a uniquely collected dataset, I find that the contingent repayment plays a role of safety net; the rescheduling decreases the probability that people skip meals during negative shocks by 4.6%. It is also found that the determinants of rescheduling include the transportation cost to attend member meetings, financial ability to pay saving and installments, and flood intensity.

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