**Microcredit, the Timing of Strategic Default, and the Role of Third Party Lending**

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***Abstract:*** *We analyze a three-stage microfinance model that incorporates strategic default and instalment payments. A novel feature of our analysis is the modelling of opportunities for strategic default at various times (or stages of the game). Instalments payments are often due before the returns from the project. We show that strategic default, and the low level of collateral that poor borrowers can provide, make single instalment loans infeasible for the MFI. Multiple repayments, on the other hand, force the poor borrower to be dependent on loans for a third party lender for the repayments that are due before her project yields a return. The third party is often a local moneylender with less vulnerability to strategic default. This, together with the nature of strategic default in our paper, has a significant impact on the constraints within which the terms of a feasible microcredit contract must be determined. Next, we consider a “benevolent” MFI whose objective function includes not just its own profit, but also the income of the borrower, and show that the results do not change in any significant manner. Our paper demonstrates the importance of taking into account the existence of both strategic default and repayments at various points in time during the life of a microcredit contract.*