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RESEARCH SEMINAR

organized by the

Centre for European Research in Microfinance

Prof. Xavier GINE

(Senior Economist, The World Bank, Washington DC, USA)

“Strategic Default in joint liability groups: Evidence from a natural experiment in India”

Paper co-authored with K. Krishnaswamy (Research Associate, The Institute for Financial Management and Research, India) and Dr. A. Ponce (Senior Economist, The World Justice Project, Washington DC, USA)

Tuesday, September 11th, 2012

From 12.15pm to 1.45pm

**At Seminar Room R42.2.107 (ground floor)
of the Solvay Brussels School of Economics and Management
Université Libre de Bruxelles - ULB**

Abstract:

Despite the high repayment rates claimed by microcredit programs around the world, some groups of borrowers eventually default and are subsequently disbanded. Exposure to common shocks and strategic default are reasons for the deterioration in group repayment but identification of the precise mechanism is difficult. In this paper we exploit an announcement issued by the Anjuman Committee of a town in southern India banning all Muslims from repaying their microfinance loans. Using administrative data we find that borrowers in Muslim-dominated groups have higher default rates after the announcement compared to the same borrowers with loans in Hindu-dominated groups. We conclude that strict adherence to joint liability rules may have triggered strategic default that might have been avoided if lenders had allowed more flexibility in repayment.

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