From Group Lending to Individual Lending

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Work in progress...

• Main theoretical arguments for group lending include (Armendariz – Morduch (2005):

  - Low “agency costs”

    screening, monitoring, enforcement

  - Social Capital
However

• Too much pressure \(\rightarrow\) discourage good borrowers from applying for a loan

Particularly married women borrowers who often have to surrender return realizations to their husbands

Q: What would be the effect of removing “group lending under joint responsibility” on women empowerment?
Case Study: FUDEMI (Nicaragua)

- An NGO created in 1994

- Operating in Managua, Masaya, Granada, Carazo and Rivas

- Offers financial services, mostly loans

- About 6,000 borrowers

- About 70% are (married) women
Sample

• 2,500 married women in different regions

• A randomly selected group offered to exit voluntarily “group lending under joint responsibility”

• Control group remained under standard “group lending techniques”
Baseline (2007):

Questions pertaining:

- Income

- Household expenditures (food, health, education, inputs of production)

- Decision making power
Two immediate effects

• All women borrowers in treatment group voluntarily accepted to sign into individual contracts

• Repayment rates across borrowers in the control and treatment groups remained the same
Hope to shed light on the following questions:

• Percentage changes in income from investment differ?

• Expenditures in health and education change?

• Empowerment (intra-household decision making) differ?
Policy:

• Common wisdom: sparsely populated areas, group lending methodologies are not appropriate

• Evidence thus far on “acceptance rates” (100%) suggests that women clients might be better off under individual loan contracts

• Evidence thus far on “repayment rates” suggest that other mechanisms might be at work
Which mechanisms?

• Frequent (i.e., weekly repayment)

• Progressive loan “incentives”

• Public repayments

• Targeting women…may suffice
Questioning group lending

• Even in densely populated areas, the trend toward individual lending is observed...including Grameen in Bangladesh!

• Opens the scope for future research, in particular, on the potential negative effects:
  (a) “social capital”
  (b) Pressure on men might be greater
  (c) Incidence of violence against women (socially accepted) without reporting to NGOs

Thanks -😊