

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 → 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 -😊