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Group versus individual liability: Short and long term evidence from Philippine microcredit lending groups

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ABSTRACT

1. Introduction

Group versus Individual Liability: Short and Long Term Evidence from Philippine Microcredit Lending Groups

Group liability in microcredit purports to improve repayment rates through peer screening, monitoring, and enforcement. However, it may create excessive pressure, and discourage reliable clients from borrowing. Two randomized trials tested the overall effect, as well as specific mechanisms. The first removed group liability from pre-existing groups and the second randomly assigned villages to either group or individual liability loans. In both, groups still held weekly meetings. We find no increase in short-run or long-run default and larger groups after three years in pre-existing areas, and no change in default but fewer groups

created after two years in the expansion areas.

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