

Economics Seminar, Indian Statistical Institute, New Delhi.

SPEAKER: Rohini Somanathan, Delhi School of Economics

TITLE: The Distributional Implications of Group Lending

TIME: 11:30 AM -1:00 PM

DAY & DATE: Tuesday, 1st December 2009

PLACE: Seminar Room 2, New Building

Abstract:

The ideology and practice of poverty alleviation has been deeply influenced by the idea that group lending can empower the poor by providing them access to credit. In recent years however, the value of joint liability and social networks in expanding credit outreach has been questioned and several prominent microfinance institutions have initiated a shift from group loans to individual contracts with members of groups. The purpose of our paper is to build on the theoretical work on group lending to better understand links between contractual structure, credit outreach and borrower welfare.

We focus on the ex-post moral hazard problem of repaying a loan on completion of a successful self-employment project and show that in the absence of social sanctions, the largest available loans are offered under individual and not group contracts. Social sanctions within groups can, under certain conditions, improve enforcement and outreach but they cannot, in general, substitute for bank sanctions. For those that benefit from group lending, we show that welfare gains are increasing in initial wealth.

<http://www.isid.ac.in/~pu/seminar.html>