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**Sample Size**

Microentrepreneurs in 4 cities in which Pro Mujer Peru offers financial services

**Research Implemented by IPA**

Yes

# Group vs Individual Micro-Lending in Peru

## Abstract

One of the most famous innovations of microfinance was the idea of “social collateral” – a way to guarantee the loans of people who have limited physical assets. However, it’s not clear that requiring group liability is actually a good thing. For instance, it can drastically raise the cost of a loan for a good client if she is forced to cover for other loans. Furthermore, it can force someone to guarantee people who take out much larger loans, which may prove to be impossible. It’s possible that, at least for some clients, individual liability loans may be better if the other mechanisms of microfinance (such as social embarrassment of being a debtor) ensure high repayment rates. IPA ran a study in the Philippines testing this question, and found that repayment rate under individual liability did not go down, while growth increased. We are replicating the study in Peru. The first phase of the study, in 2010, is to convert pre-existing communal banks (depending on if the group is in a rural area, the associations range from around 8-20 clients who all guarantee each other) to individual liability products, maintaining the rest of the group structure. Depending on the results, it’s possible that as Pro Mujer expands to new regions we’ll test impact with new associations. We hope to implement financial diaries in the field in order to see, among other things, if clients under different liability structures have different approaches towards repaying their debts.

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