

# Group lending or individual lending?

## *Evidence from Mongolia*

Produced by the Office of the Chief Economist, EBRD

01

EBRD IMPACT BRIEF

MAY 2012



# Assessing the impact of different *lending techniques*



**Microfinance institutions across the world are moving from group lending to individual lending. Yet there is not much rigorous evidence on how these types of microcredit affect borrowers, and this makes it difficult to either substantiate or challenge such a strategic move. This EBRD Impact Brief presents some such evidence from a recent randomised field experiment in Mongolia.<sup>1</sup>**

The ability of microcredit to combat poverty remains hotly debated. After years of rapid growth, various microfinance institutions have been struggling with increased repayment problems among their borrowers. Scepticism has also been fuelled by a small number of randomised field experiments which show that the capacity of microcredit to lift people out of poverty might be less than previously thought.

In a nutshell, while evidence suggests that microcredit may reduce liquidity constraints, help families cope with economic shocks and encourage entrepreneurship, the ultimate impact on poverty indicators, such as income and consumption, remains ambiguous.

Learning about the impact of microcredit is also important because the microfinance industry itself is changing. A number of leading institutions have moved from joint-liability lending, as pioneered by Grameen Bank in the 1970s, to individual lending.

Under joint liability, small groups of borrowers are responsible for the repayment of each other's loans. Group members are treated as being in default if at least one of them does not repay and all members are then denied subsequent

1





2



3



4

- 1: Over 1,000 rural Mongolian women participated in the experiment
- 2: Tsetserleg, capital of Arkhangai province
- 3: Group borrowers, Ikhtamir village, Arkhangai province
- 4: Poor, female borrowers are an underserved market in rural Mongolia

loans. Group lending typically involves time-consuming repayment meetings and relies heavily on social pressure, making it onerous for borrowers. To make their lending products more attractive and less burdensome, and to make sure that potentially good borrowers are not discouraged from applying for loans, microfinance institutions are increasingly moving from joint to individual lending.

Somewhat surprisingly, very little evidence exists of the merits of individual and group lending in terms of borrower impact. This Impact Brief summarises some such evidence from a randomised field experiment in rural Mongolia. The study was undertaken by the EBRD in collaboration with Mongolia's XacBank and the Institute for Fiscal Studies in London.

**For more information visit:**

[www.xacbank.mn](http://www.xacbank.mn)

[www.ebrd.com/pages/research/economics](http://www.ebrd.com/pages/research/economics)

<sup>1</sup> For more details see Orazio Attanasio, Britta Augsburg, Ralph De Haas, Emla Fitzsimons and Heike Harmgart (2011), *Group lending or individual lending? Evidence from a randomised field experiment in Mongolia*, EBRD Working Paper No. 136, European Bank for Reconstruction and Development, London.

“““  
Learning about  
the impact of  
microcredit is  
important because  
the microfinance  
industry itself is  
changing rapidly

# *The experiment*

Mongolia is the most sparsely populated country in the world and this makes disbursing, monitoring and collecting small loans very costly. The aim of the experiment was therefore to find out whether group lending could be an effective and efficient way to lend in this context. Note that, unlike in many other countries, Mongolian microcredit has traditionally been provided as individual loans, reflecting concerns that the nomadic lifestyle of indigenous Mongolians had impeded the build-up of sufficient social capital.

Our experiment took place in 40 villages (see map). XacBank was interested in expanding access to those borrowers who are both poor and female, an underserved market segment. The bank also regarded the study as a demonstration project for a potential expansion strategy outside Mongolia. A total of 1,148 women from the poorest parts of the population participated, and detailed face-to-face interviews took place with each of them during March and April 2008 (the baseline survey). The survey was used to measure variables that reflect households' living standards and that could in principle be affected by access to microcredit during a 1.5-year period. These outcome variables include:

- income, consumption and savings
- entrepreneurial activity and labour supply
- asset ownership and debt
- informal transfers, such as financial support of friends or family.

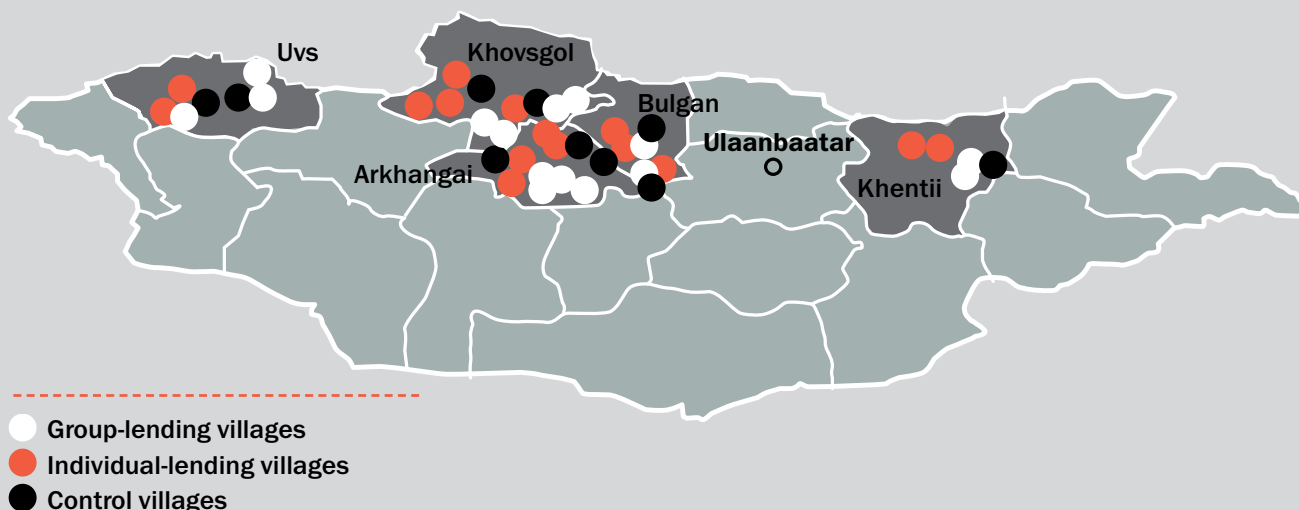
After the baseline survey, randomisation took place at the village level: women in 15 villages received access to individual loans and women in another 15 villages had access to group loans. In the other 10 control villages XacBank did not lend to any of the participating women for the duration of the experiment. The randomisation successfully removed selection bias, allowing the research team to attribute post-treatment differences in outcomes to the two lending programmes.

The treatment period (that is, the period during which XacBank disbursed loans) lasted 1.5 years, from April 2008 to September 2009, with some variation across villages. During this time, 57 per cent and 50 per cent of the respondents in the group- and individual-lending villages, respectively, borrowed from XacBank. The probability of receiving a microloan during the experiment was 24 percentage points higher in treatment than in control villages.

In October-November 2009 the research team conducted a follow-up survey to once more measure the poverty status and economic activities of all the participating women. The data of both survey rounds were then combined and used to measure the impact of the programmes on poverty. All women who initially signed up in treatment villages, irrespective of whether they borrowed, were compared with those who signed up in the control villages.

## **PARTICIPATING PROVINCES AND VILLAGES**

This map shows the geographical location of the 10 control villages as black dots, the 15 individual-lending villages as orange dots, and the 15 group-lending villages as white dots. The five Mongolian provinces that participated in the experiment are highlighted in dark grey.





## AT A GLANCE

From March 2008 to November 2009.

# 1,148

women from the poorest parts of the population took part

# 40

villages participated

# 1.5

number of years during which XacBank disbursed loans

# 24%

increase in probability of participants in treatment villages receiving a microloan compared with control villages

- 1: A family by their traditional ger
- 2: A group borrower discusses her enterprise with the research team and XacBank, Bulgan village, Arkhangai province
- 3: Herders outside Ulaanbaatar, Mongolia's capital

1



2



3



# Group lending versus individual lending: *similarities...*

Although XacBank's loans were intended to finance business creation, about half of all credit was used for household rather than business purposes in both the group- and individual-lending villages. For instance, at the end of the experiment the probability of owning a VCR or radio was 17 and 14 per cent higher in the group- and individual-lending villages, respectively, than in the control villages. For large household appliances the corresponding figures are 9 and 7 per cent.

A second finding that holds for both treatment programmes is that less-educated women seemed to benefit more. Education can be seen as a proxy for long-term poverty, more reliable than a wealth indicator as it is easier to measure and is more stable over time. The results suggest that it was the poorer part of the targeted population that benefited most from XacBank's microcredit, regardless of how it was delivered.

Third, there were no differences in repayment behaviour between both lending programmes. Giné and Karlan (2010) also compare repayment rates between group and individual lending – both with mandatory weekly repayment meetings – and find no significant differences.<sup>2</sup> In the Mongolian case neither loan programme included mandatory repayment meetings.

---

<sup>2</sup> X. Giné and D. Karlan (2010), *Group versus individual liability: Long-term evidence from Philippine microcredit lending groups*, mimeo.



1: Inside a branch  
of XacBank  
2: Loan officers,  
Bulgan Province

---

# ...and differences

The research team also found that some effects of group loans differed from those of individual loans, suggesting that the former were more effective. For group loans they found a positive impact on female entrepreneurship, one of the main intermediate objectives of the programmes. This was largely driven by less-educated women who, at the end of the experiment, had a 29 per cent higher chance of operating a business compared with similar women in control villages. This difference is 10 per cent for highly educated women. Enterprise profits increase over time as well.

Did increased entrepreneurial activity feed through to improved household well-being? To answer this question, the team used detailed information on household consumption that was elicited via the surveys. They found a significant and robust increase, relative to control villages,

in food consumption in group-lending villages. Access to group loans led to higher and healthier food consumption, in particular of fresh items such as fruit, vegetables and dairy products. Total food consumption was 17 percentage points higher. Over time there is also an increase in the use of combustibles and felt for the insulation of *gers* – traditional Mongolian felt tents – as well as in the use of other non-durables and total consumption.

As for individual loans, it was found that there was no impact on female entrepreneurship or consumption, not even with increased exposure to credit. But the study does show that over time there is an increased probability that women operate a business jointly with their spouse – and that these joint enterprises gradually become more profitable. Nevertheless, it is not clear whether these longer-term effects translate in the same way into higher consumption as they do for group borrowers. There is no evidence that food consumption goes up with exposure to credit in individual-lending villages.

There is at this stage no evidence of changes in income as a result of either of the programmes, though it may simply be too early to observe such effects. The more sustained and more generalised increase in consumption in group-lending villages seems to indicate that these loans are more effective at increasing permanent income. Why?

One possibility is that joint-liability ensures better discipline. Group discipline may not only prevent the selection of overly risky investment projects, it may also ensure that a substantial part of the loans is actually invested in the first place. The background paper to this Impact Brief includes results on informal transfers that seem to support this hypothesis: women in group-lending ➔



2

“““

Group loans  
had a positive  
impact on female  
entrepreneurship



1

villages decrease their transfer activities with families and friends, the opposite to what is found in individual-lending villages. This could reflect that groups replace some of their informal financial networks with financial interactions within the borrowing group but further analysis is needed to explore this.

The weaker results for individual loans may also reflect that borrowing at baseline (that is, before the experiment started) was somewhat higher in individual- than in group-lending villages. Moreover, since group lending was an innovation in Mongolia, the unmet demand for this product – and its marginal impact – may have been larger. Loan take-up was indeed higher in group-lending villages. This could indicate that some women, in particular the less-educated, had not been comfortable with borrowing alone but were willing to borrow as part of a group.

This would imply that group and individual lending are complementary services for which the demand differs across borrower types. The move by microfinance institutions towards individual lending may therefore run the risk that certain borrowers – that is, those who are not able or willing to borrow on their own – may gradually lose access to finance.

Group and individual lending are complementary services for which demand may differ across borrower types



2

1: Traditional herding activities  
2: XacBank branch

## CONTRIBUTORS

Ralph De Haas (EBRD)  
dehaasr@ebrd.com  
Heike Harmgart (EBRD)  
Britta Augsburg (IFS)  
Orazio Attanasio (IFS)  
Emla Fitzsimons (IFS)

## PHOTOGRAPHY

EBRD (p5 bottom right, p6/p7 main), Luke Distelhorst (p8 bottom, p6 top), Ib Katznelson (p8 top), Ralph De Haas (Front cover, p2, p3, p5 top, p5 bottom left)

EDePo@IFS  
Evaluation of Development Policy  
at the Institute for Fiscal Studies

XacBank  
Right Bank



European Bank  
for Reconstruction and Development