

Group Lending, Rural Productivity and Social Integration in the Philippines

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The success of Grameen banking led to the popular belief that group lending is a viable microfinance option for many to get out of poverty. However, the illusion becomes critical when it is adopted in communities characterized by heterogeneity or diversity. With heterogenous in-group membership, group lending may not be able to address the market failures that it is fundamentally designed to resolve, e.g. adverse selection, moral hazard, enforcement, due to adjustment/intolerance costs. Working on some Philippine data, the study found that, on average, diversity is negatively associated with trust, repayment rates and monitoring and verification. Diversity is also likely to restrain welfare impact.

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