Empowering Female Leaders in Group Lending

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Abstract

Despite the importance of group lending in microfinance for financial inclusion, about one third of these loans in Bolivia are in default, challenging financial stability and economic development. Group loans leverage social capital rather than physical assets as collateral, yet increasing defaults suggest this social mechanism is weakening over time. This study investigates the frictions in social capital mechanisms in group lending and tests whether targeted leadership interventions can strengthen these social bonds to improve microfinance outcomes. In partnership with IDEPRO IFD, a major Bolivian microfinance institution, we implement a randomized controlled trial evaluating the impact of strengthening and incentivizing leadership within group loans. Our study includes 165 groups corresponding to 1,485 households across 10 urban branches in La Paz and El Alto. Our intervention consists of two components: (1) a peer-to-peer leadership and mentorship program where exemplary role model leaders train and counsel other group leaders using a co-created Handbook of Group Loan Management Practices, and (2) a reward-based incentive system for group leaders tied to group repayment performance. Drawing on previous experimental research, we hypothesize that motivated and well-equipped leaders can generate positive spillovers by improving coordination, accountability, and social cohesion. We examine effects on members' financial outcomes, social dynamics, and business performance.

Introduction

Group lending in microfinance substitutes social capital for physical collateral. Social capital enables lending through trust networks, peer monitoring, mutual accountability, and knowledge transfer. Yet, this crucial social mechanism has limited effectiveness in Bolivia, where an alarming third of group loans are in default. Theoretical work suggests coordination failures reduce the effectiveness of social capital [5, 7]. Recent research shows peer-to-peer knowledge diffusion positively affects business performance and financial behavior [10, 6], while incentivized group leaders increase coordination toward profitable investments [5, 3, 4]. It has also been shown that training and incentivizing leaders is effective in promoting the adoption of financial practices [11]. In this study, we leverage the institutional role of the group loan leader to strengthen social capital with their groups with an ultimate goal to reduce high default rates. This project implements a leadership training and mentorship targeting group leaders coupled with performance-contingent incentives to address these social frictions. To do so, we recruit role model leaders from the same institution to transfer their leadership knowledge to the fellow peer leaders. The analysis relies on rich high-frequency monthly loan repayment data with a detailed endline survey two months after the intervention ends. Our research addresses the following research questions:

1. What is the impact of a leadership and mentorship program on group loan performance? [*Knowledge and skill barriers regarding group loan management practices*]
2. Do reward-based incentives for group leaders provide additional benefits beyond leadership training alone? [*Moral hazard*]

Background

We partner with IDEPRO, a Bolivian microfinance institution offering group credit known as *Banca Comunal* – a form of joint liability lending. Groups average 9 members (minimum 8), with loan amounts ranging from \$430 to \$2,160 and repayment cycles of 6–12 months. Loan sizes vary within groups, but cycles are fixed. Groups have been active for up to 45 loan cycles. Group lending represents 8% of IDEPRO's portfolio, with an annual interest rate of 34% and a default rate of approximately 30%. Most of the borrowers in the group loans are small market vendors.

In November 2024, we conducted semi-structured interviews with five loan officers and 15 group loan clients. Our qualitative research revealed that leaders struggle with a lack of skills, especially in managing group dynamics and addressing the emotional stress members face from repayment pressures. We identified two main challenges within these groups: (i) lack of willingness of the group to cover the installments of defaulting members and (ii) intense group pressure to repay loans. As a result, group cohesion suffers, and leaders fail in effective repayment coordination.

RCT Design

A total of 165 group loans across 10 agencies in urban areas of La Paz and El Alto will be randomly assigned to three experimental arms – Treatment arm 1 (T1), Treatment arm 2 (T2) and Control (C). The randomization will be stratified by agency and number of previous loan cycles. The target population for the intervention are 115 group leaders from T1 and T2 arms. Group leaders in T1 will receive a set of intervention: (i) peer-led leadership training delivered by the role model leaders, (ii) three in-person individual counseling sessions delivered by the role model leaders, and (iii) handbook of management practices. Group leaders in T2 will additionally receive a performance reward incentive contingent on timely group repayments.

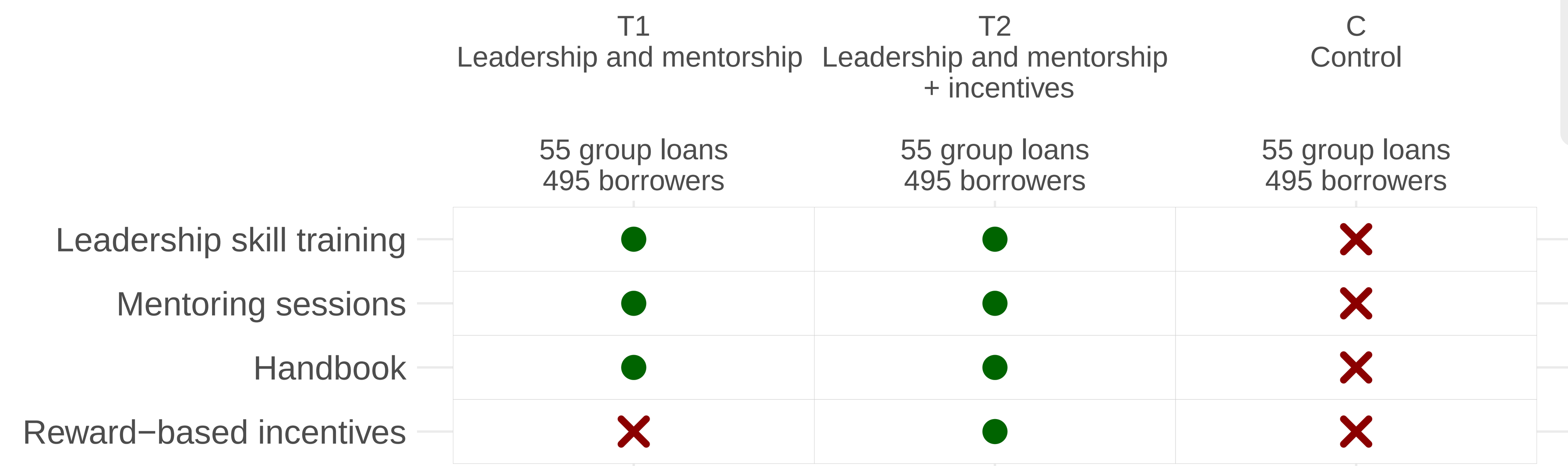

Figure 1: Overview of treatment arms

Intervention Details

Leadership and Mentorship Program (T1 & T2)

1. **Selection of role model leaders:** Exemplary leaders are competitively recruited from IDEPRO's branches based on leadership experience and loan officer recommendations. These role models co-create the handbook in a two-day workshop and receive compensation for training and mentoring other leaders.
2. **Handbook development:** Successful practices collected through interviews with exemplary group leaders to create a structured handbook. This approach overcomes typical barriers in peer learning by codifying tacit knowledge.
3. **Two-day training program:** Group leaders attend workshops facilitated by successful role model leaders with IDEPRO support. Sessions focus on peer knowledge-sharing using the co-created Handbook of Group Loan Management Practices, covering leadership skills, group dynamics, and repayment coordination.
4. **Three counseling sessions:** Leaders receive personalized mentorship from role model leaders throughout the loan cycle. These one-on-one sessions address specific challenges, provide tailored advice, and help resolve conflicts to enhance group cohesion and improve coordination.

Reward-Based Incentive System (T2 only)

Leaders receive monthly stamps on a voucher card when their group makes timely repayments. After the six-month loan cycle, accumulated stamps (up to six) are exchanged for gift baskets of proportional value.

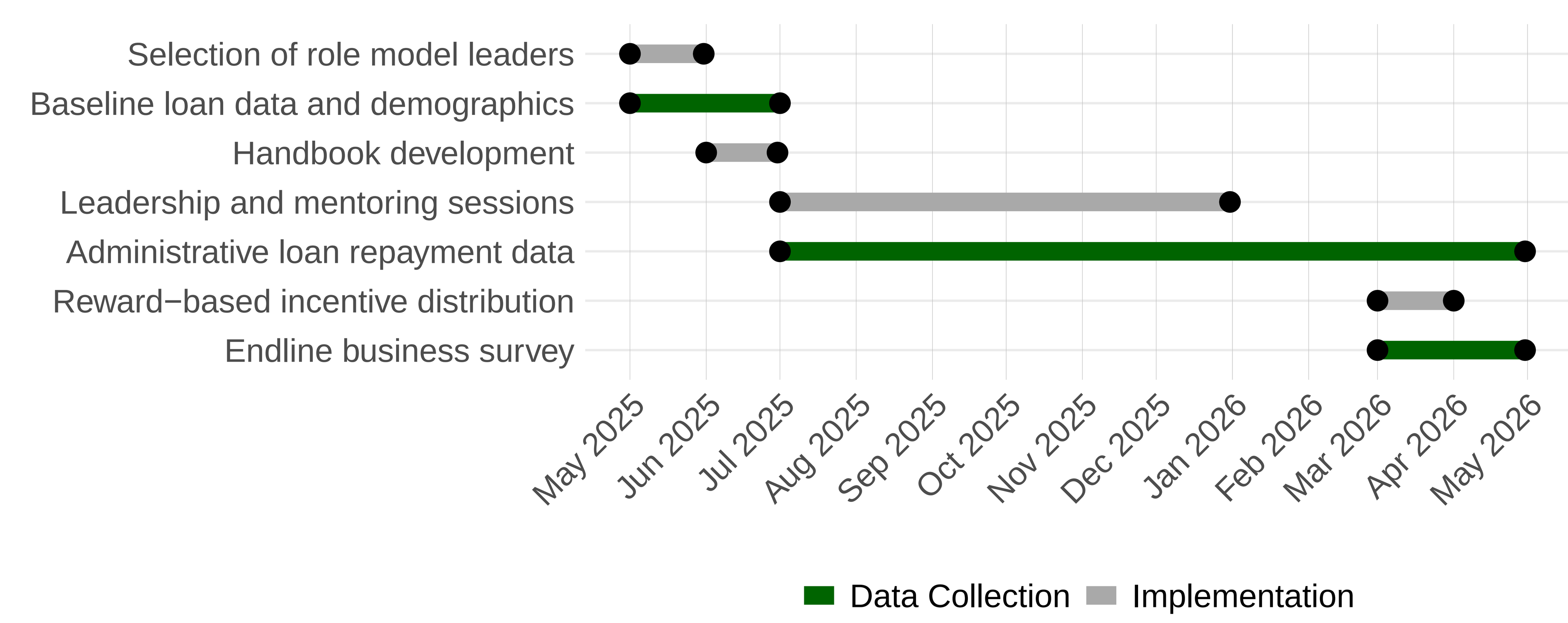

Figure 2: Timeline of interventions

Pre-Analysis

We estimate treatment effects using the following regression model:

$$Y_{ij} = \alpha + \beta_1 T1_j + \beta_2 T2_j + \gamma \bar{X}_{ij} + \delta_a + \nu_l + \varepsilon_{ij}$$

where Y_{ij} is the outcome for individual i in group j, $T1_j$ and $T2_j$ are indicator variables for treatment assignment, $\bar{X}_{ij}$ is a vector of baseline controls, δ_a is agency fixed effects, ν_l is loan cycle fixed effects, and ε_{ij} is the error term clustered at the group level.

	Intermediate Outcomes		
Immediate Outcomes	**Financial Outcomes**	**Social Outcomes**	**Business Outcomes**
↑ leadership skills ↑ conflict resolution ↑ motivation for leaders ↑ repayment coordination ↑ meeting attendance	↓ defaults ↑ timely repayments ↑ savings	↑ group cohesion ↑ mutual familiarity ↓ excessive peer pressure ↑ aspirations	↑ productive investments ↑ business practices adoption ↑ business knowledge

Table 1: Overview of immediate and intermediate outcomes measured

Conclusion

This research addresses two types of constraints facing group loan leaders: *managerial constraints* that prevent leaders to coordinate members and *institutional constraints* reflecting inadequate recognition of leadership roles. In this RCT, we leverage the role of the group loan president to promote financial and social stability of the groups. Our intervention combines a leadership and mentorship program leveraging peer knowledge transfer [6, 10] to promote productive loan use [2], and reward-based incentives to motivate leaders [9]. This approach aims to revitalize social collateral mechanisms by strengthening group cohesion [1, 8] and aligning incentives to reduce defaults in group lending.

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