

MICROCREDIT AND MECHANISM DESIGN

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Individual microcredit loans are not necessarily simple fixed debt obligations, but rather may have contingencies and procedures suggested by the theory of mechanism design. Further, group or joint-liability lending may not be the single miracle cure practitioners claim nor operate the way the logic of a single theory might suggest. There are multiple theories, these theories can be distinguished in data on repayment rates, and the best-fit theory may vary with the environment. Finally, the debate about whether to lend to individuals or lend to groups may be misplaced. Under simple theories of selection, the Pareto superior regime, which is predicted to emerge, varies with exogenous environmental characteristics.