The Journal of Socio-Economics 40 (2011) 679–691

Contents lists available at ScienceDirect

The Journal of Socio-Economics

journal homepage: www.elsevier.com/locate/soceco

Social capital and loan repayment performance in Southeast Asia

Thomas Dufhues[a,*], Gertrud Buchenrieder[a], Hoang Dinh Quoc[a], Nuchanata Munkung[b]

[a] Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO), Theodor-Lieser-Straße 2, 06120 Halle an der Saale, Germany
[b] Kasetsart University, Bangkok, Thailand

ARTICLE INFO

Article history:
Received 8 July 2010
Received in revised form 15 April 2011
Accepted 30 May 2011

Keywords:
Southeast Asia
Rural finance
Loan repayment performance
Social capital
Personal networks

ABSTRACT

This paper analyses the effects of different forms of social capital on credit repayment behaviour. In the context of development economics an innovative data collection approach is used that originates from the field of sociology. A personal network survey is carried out to measure the individual social capital of borrowers. We distinguish four social capital variables between the respondent and his/her network members according to tie strength (bonding/bridging) and social distance (bonding$_{link}$/bridging$_{link}$). The effects of social capital vary according to socio-cultural context. For instance, in Thailand bonding and in Vietnam bridging$_{link}$ social capital has a positive effect on loan repayment.

1. Introduction

Social capital can facilitate access to credit, but also affect repayment behaviour of borrowers (van Bastelaer, 2000). Many studies link repayment performance to social capital (Cassar et al., 2007) or to social ties (Ahlin and Townsend, 2007). However, these scholars use joint liability credit groups as the unit of analysis. Little research exists on repayment performance of individual borrowers and social capital or social ties. Most studies focus on social ties crossing power differentials in which powerful individuals exploit the credit program. In addition, their methodological design is often anecdotal e.g. Vaessen (2001). Moreover, the literature on loan performance within credit groups concentrates on intra-group ties, but excludes ties to persons outside the group. An important aspect of social capital is thus left out. Research in development economics has only recently begun to pay heed to social relations or ties. Often, measurement of these ties has been rather crude, focusing for instance on role relationships like friends, relatives, or neighbours. Our approach to measuring social ties is more elaborate. We use a survey tool from the field of sociology hitherto rarely used in development economics.[1] This technique involves the use of instruments referred to as 'name generator' and 'position generator' to measure the personal network, or preferably a sample of the respondent's personal network. These network data are then used to create measures of the individual social capital of borrowers. The empirical part of this work focuses on the influence of social capital on repayment behaviour of rural borrowers. While Ahlin and Townsend (2007) have applied the concept of social capital, albeit using a different definition, to joint liability groups in Thailand, no research so far has applied the concept of social capital to repayment behaviour of individuals in the rural credit market in Southeast Asia.[2] The case-study countries here are Thailand and Vietnam. In both research countries, the Government offers various credit lines intended to foster the socio-economic development of the rural population. In Thailand most of these credit lines are administered by the Bank for Agriculture and Agricultural Cooperatives (BAAC). Furthermore, the Thai government manages different lending schemes such as the One Million Baht Village Fund and the Poverty Eradication Fund. About 80 percent of all villages in Thailand have access to the One Million Baht Village Fund (NSO, 2003). The Vietnamese Government offers various credit lines to support rural households. Most of these are issued by the Vietnam Bank for Social Policies (VBSP) or the government based mass organizations. Another major player in the rural loans market is the Vietnam Bank for Agriculture and Rural Development (VBARD). In both countries, formal and semiformal lenders have enormous outreach but with a trade-off: many of their borrowers are not creditworthy. Rescheduling of loans is therefore common, ultimately

* Corresponding author.
E-mail address: dufhues@yahoo.de (T. Dufhues).

[1] Exceptions include Kajisa (2007) who used a position generator tool to measure personal networks. Fletschner and Carter (2008) or Matuschke and Qaim (2009) employed name generators to create a reference group. None of the mentioned scholars combined position and name generators as done in this paper.

[2] Scientists have not yet agreed upon a uniform definition of social capital. Great care must therefore be taken when quoting earlier works on the topic. Nevertheless, social networks or social ties are part of almost all definitions of social capital.

1053-5357/$ – see front matter © 2011 Elsevier Inc. All rights reserved.
doi:10.1016/j.socec.2011.05.007

Table 1
Review – social ties and credit group repayment.

Studies	Method/area	Measurement of social ties and related measures	Findings
Positive effects			
Abbink et al. (2006)	Experiment	'Level of acquaintances between group members' – contact frequency; 7 point-Likert-scale	Closer-knit groups have higher repayment rates but only in the beginning
Besley and Coate (1995)	Game modelling	Indirect via social penalties	High degree of social connectedness has positive effects on repayment
Cassar et al. (2007)	Experiment/South Africa, Armenia	'Social ties' – group homogeneity and measures of trust between members	Social ties have positive effects on repayment
Karlan (2007)	Survey/Peru	'Strong social connection' – living in closer proximity or being of a similar culture	Stronger connections within groups induce higher repayment
Ghatac and Guinnane (1999)	Theoretical/different case studies	–	Strong social ties support repayment through social penalties; if ties are too weak they have the opposite effect
de la Huerta (2010)	Survey/Thailand	'Social ties' – sharing among non-relatives, cooperation, clustering of relatives, village-run savings and loan institutions	Social ties must be strong enough to enforce agreements
Feigenberg et al. (2010)	Experiment, Survey/India	'Social ties' – knowledge of and interactions outside of meetings with other group members	Strong social ties maintain repayment through coping with shocks
Zeller (1998)	Survey/Madagascar	'Social cohesion' – ethnicity, location of dwelling, kinship, sex	Groups with higher levels of social cohesion have better repayment rates
Ambiguous effects			
Hermes et al. (2005)	Survey/Eritrea	'Social ties' – member is born in the survey area, member knows the other members before forming the group, member has been a member of another group	Social ties of the group leader have a positive effect on repayment, via controlling moral hazard, whereas this is not true for the ties of other members
Kritikos and Vigenina (2005)	Survey/Georgia	'Social ties' – common characteristics of group members: gender, age, education, income, place of living	The effect of social ties among members is statistically insignificant
Wydick (1999)	Survey/Guatemala	'Social ties' – same sex groups, all members were friends before the group, joint social activities, number of years members were acquainted before forming group	The effect of social ties among members is statistically insignificant
Negative effects			
Ahlin and Townsend (2007)	Survey/Thailand	'Strong social ties' – sharing among non-relatives, cooperation, clustering of relatives, village-run savings and loan institutions	Strong social ties have adverse effects on repayment performance
Godquin (2004)	Survey/Bangladesh	'Social ties' – the age of the group	Social ties had a negative impact on the repayment rate
van Bastelaer and Leathers (2006)	Survey/Zambia	'Personal bonds' – members of the same church	Strong church-based personal bonds can weaken the enforcement of repayment
Sharma and Zeller (1997)	Survey/Bangladesh	'Social ties' – kinship	High share of relatives in the group negatively affects repayment

adding to the amount of nonperforming loans. Our two hypotheses are:

- H_{01}: Regardless of the form of social capital, it does not affect individual loan repayment.
- H_{02}: The basic socio-economic principles underlying loan repayment behaviour in both countries are different.

2. Loan repayment and social capital

2.1. Credit groups, social ties and repayment: an overview

Hardly any scholarly literature is available on social capital or ties and individual loans. One exception is Gine and Karlan (2006), who find that default is lower under individual liability for those with stronger social networks.[3] Our review therefore focuses to a large extent on social capital affecting credit groups. However, some of the empirical findings may also be applicable to individual loan arrangements.

Being aware of the perils of free-riding or shirking, credit institutes working with credit group schemes usually incorporate a number of safeguards. The most prominent of these is that credit groups are self-selecting, the expectation being that group members choose trustworthy persons from their personal network to join, and that close social ties enhance peer pressure and group solidarity. Thus, theory seems to suggest that social ties and group homogeneity[4] are linked to repayment performance as they can facilitate peer monitoring and increase the potential social sanction of peer pressure (Besley and Coate, 1995; Godquin, 2004).

However, the empirical evidence relating to the impact of social capital or 'social ties' on the repayment performance of credit groups is rather mixed. On the one hand, this is likely to be due to the fact that in one situation the effect of social and/or financial sanctions associated with the solidarity group arrangements are important, while in other setups the incentive of continued access to loans is the driving factor behind repayment (Ito, 2003). On the other hand, this ambiguity may also be due to the great diversity of study designs in this area. Credit groups can have different traits and exist in many countries and cultures. Also, the studies use diverse methods and terminology (see Table 1). The literature compiled in Table 1 is by no means complete. Yet it vividly depicts the diversity of approaches and the ambiguity of

[3] But even they used former credit groups which were converted into groups without joint liability.

[4] Group homogeneity is an often-discussed topic in group lending. The concepts of group homogeneity and social ties are related. For example, close social ties are often found among people who are homogenous in terms of social strata. This is due to the sociological phenomenon of homophily, see McPherson et al. (2001). A good review on group homogeneity and group loans can be found in Godquin (2004).