

Social Capital and Access to Microcredit: Evidence from Rural Bangladesh

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Abstract

Social capital is considered as an important factor for any development outcomes. This paper examined the effects of social capital on access to microcredit in rural Bangladesh. A cross-sectional study was conducted in Toker Bazar Union Parishad in Sylhet district, Bangladesh and data was collected through face to face interview by social survey method. Descriptive statistics was applied to present the data and probit regression was applied to measure the effects of social capital on access to microcredit. The results show that all dimensions of social capital were low in this area. The results show that age of the household head was positively associated but size of the family was negatively associated with access to microcredit. The study revealed that aggregated social capital was positively associated with access to microcredit. Among the social capital dimensions, density of membership, cash contribution and labour contribution were positively associated with access to microcredit in this area. So, this study revealed that the social capital enhance the probability to access to microcredit in rural areas.

Keywords: Social Capital, Credit Access, Probit Regression, Bangladesh.

1. Introduction

Microcredit is an important strategy to poverty reduction in developing country (Balogun et al., 2013). In this microcredit scheme, credit has been given to the poor through less restrictive process (Balogun et al., 2013). Traditional banking system have failed to give credit to the poor because here need to mortgage parallel property (Zohir, 2004). Moreover, Traditional banking systems are not interested in lending to the poor because these loans are not suitable for their commercial purpose (Daniel et al., 2013). Poor people in rural and urban households have major constrain to access credit for their economic development and establishment of small and micro enterprises (Mwangi & Ouma, 2012). The traditional composite capital (labour, land, natural, physical and human capital) cannot explain accurately about the difference in economic outcomes at the individual, household or state level (Lawal et al., 2009). Evidence supports that along with other capital, social capital is an important factor for sustainable development (Lawal et al., 2009). Microcredit is not charity, but an investment, and considered an important strategy to fight against poverty in developing country (Mamun, 2005). Microcredit is provided to the poor for that they can be involved in income generation activities and repudiate from poverty (Balogun et al., 2013). Access to credit in agriculture sector is also so hard because there is limited capital sector in this base (Lawal et al., 2009). When the poor people have difficulty in access to credit, it has negative outcomes for income generation activities and household welfare and agricultural efficiency (Adams and Pischke, 1980). The poor people have no asset as collateral to gain cash money or they have little opportunity to find credit to productive activity (Kanak & Liguni, 2007). Even when the poor people earned cash money, most of the money is used for their household expenditure. Due to lack of credit they have hardly opportunity to begin new income generation activity. While the formal credit market failed to reach poor people, microfinance provided small credit to the poor people for starting new income generation activity (Kanak & Liguni, 2007). Informal credit is also important for rural people in Bangladesh. Most flexible source of informal credit is friends and relatives (Bastelaer, 2000). Traditional money lenders are another source of credit in rural areas of Asia where the loans are given with high interest compare with other source like microfinance program (Bastelaer, 2000). Microcredit is most important in crisis-coping mechanisms, creating new income generation activities, building assets and improves the status of women (Zaman, 1999). Microcredit program often give loans through the process of group meeting and group lending techniques that are promote social capital and strengthen human capital (Anderson, 2002). Informal credit is exchanged among the people who have trust in each other and have a sound social relationship.

Some lenders are not interested to lend the money to the borrowers who have lack of collateral sable assets or lack of information about them (Mwangi & Ouma, 2012). Those poor borrower usually resorted to use their social capital to get the credit (Mwangi & Ouma, 2012). Evidence supports that poor people have access to credit easily those have high social networks to the lenders or have good social collateral (Bastelaer, 2000).

Social capital is a resources that can be use to pursue interest (Baker, 1990). So, this social resource is useful to gain credit.

Social capital is the connection of individual with the combination norms of reciprocity and social trust among these networks (Putnam, 1995). These networks are created by various ways like interacting the individual in the group. These networks build up in various ways like directly, regularly, and in many-sided interaction. These networks may include in various forms as neighborhoods, friends, professionals, businessmen, gangs, colleagues and students etc. (Mwangi and Ouma, 2012). These types of network may helpful to gain credit because here build up interpersonal trust and norms of reciprocity. Social capital is a brokage opportunity in networks that provides opportunity to use one's financial and human capital (Burt, 1992). So, social capital is a resource of gaining benefits. Woolcock (1998) refers social capital as the information, trust, and norms of reciprocity get from ones social network. This social relation and trust is useful for borrowing and lending credit because the most of informal credit is exchanged among the people who have trust each other and have a sound social relationship. Under the NGOs's microcredit groups lending scheme, social capital is formatting within the groups. When the microfinance institutions target to give loan to the individuals, they asked the others rural household who known well them that act as a guarantors (Mwangi & Ouma, 2012). Evidence supports that borrowers of Grameen Bank in Bangladesh, BancoSol in Bolivia have overcome many problems related to access to microcredit issues like adverse selection, moral hazard, state verification, and contract enforcement (Mwangi & Ouma, 2012). Bourdieu define social capital as "the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition"(Bourdieu,1986). He defines social capital as the norms and networks that are useful for collective actions. Social capital is a vital factor for the success of any development issues (Basargekar, 2010). So, it is clear that social capital facilities the people access to microcredit. But the effects of social capital on access to microcredit are unclear in Bangladesh because there is little research that focuses the role of social capital on access to microcredit. So, this study tries to investigate the effects of social capital on access to micro credit in rural Bangladesh.

1.1 Review of literature

Ajani & Tijani (2009) found that social capital was helpful for access to credit in Ekitia state in Nigeria. They found that borrowers received the additive information and other benefits from their consisting networks. Social networks and membership of any associations may improve the quality access to credit. Hamdam & Damirchi (2011) found that social capital was positively associated with different aspects over entrepreneurship. So, face to face meeting should be increased to formation social capital among the group members. Kanak & Liguni (2007) investigated the social capital formation through the microfinance program in rural Bangladesh. Microfinance programs generally not create social capital unless the microfinance program is given strong enforce. The formation of social capital largely depends on its proper implementation of social capital building strategy in the grass hood level. Epo (2012) analyzed the both impacts of social capital and microcredit on female entrepreneurship in Cameroon. They found that women were suitable positions that had both social capital and access to microcredit compared with who had neither access to micro credit nor social capital. Mwangi & Ouma (2012) found that social capital enhanced the access to credit in Kenya. They suggested that financial institutions should give special emphasis on the role of social capital to enhance information related matter. Basargekar (2010) investigated the formation of social capital through microfinance program at Pune city in India. He found that microfinance program not only created social capital but also empowered the women in decision making process. Mamun (2005) analyzed the effects of microcredit on poverty alleviation and creation of social capital in Bangladesh. He showed that microcredit program of NGO created the formal network, formation of norms and trust among group members that enhanced the social capital. Daniel et al. (2013) identified the social capital dimensions and others socio economics factors that influenced the household participants in microcredit group in Kenya. Along with others socio-economic factors, heterogeneity index, density of membership, decision making index of the social capital dimensions were related to household participants in microcredit group. Dufhues et al. (2012) examined the effects of social capital in Thailand. They measured social capital in three dimensions-bonding, bridging and linking social capital. They found that bonding social capital reduces the constraint to access to microcredit. Guiso et al. (2000) examined the effects of social capital on financial development in Italy. They found that people with higher level of social capital were more likely to use checks, higher probability to access to credit. They also found that the effects of social capital were more effective whether the legal institution was weaker and among the less-educated people. Togba (2009) analyzed the determinants of credit choices from Banks, formal microfinance institutions (MFIs), and informal sources in Cote D'ivoire. He found that lack of trust reduced the probability to choose MFIs. He suggested that Ivorian microfinance institutions should create strong social networks among themselves and between them and borrowers. Liu and Spajers (2005) examined the notion of exogenous social capital and the relationship between the social capital and level of investment in the credit-constrained market, social capital and the incentives to

repay informal loans. They found that social capital help to access loans. But an inverse relationship was found between the social capital and small loans.

2. Data and Methods

The study is based on the finding of a survey on primary data, aimed to understand the effects of social capital on access to microcredit in Tukur bazar Union Parishad under Sylhet Sadar Upazilla in Sylhet district. At first ward no 3 and ward no 4 were randomly selected from Tukur bazar Union Parishad. Then total 153 respondents were selected by using multistage stratified random sampling method. The survey was conducted in December 2013. The data was collected through face to face interview and a semi-structured questionnaire was applied to collect the data from the respondents. The questionnaire was divided two sections: first sections focusing the respondents' socio-demographics characteristics and the second sections focusing to measure for social capital of the respondents and credit history of the respondents.

2.2 Analytical techniques: To measure the social capital variable, here used the Grootaert (1999) social capital measurement-density of membership, heterogeneity index, meeting attendance index, cash contribution, labour contribution and decision making index. But to measure of aggregate social capital index, principle component analysis was used (Ajani and Tijani, 2009). At first summary statistics was presented as percentage, mean, standard deviation of the variable. Next, probit regression model was applied to understanding effects of social capital on access to microcredit. Three probit models were run in this analysis. The first basic model where included only socio-demographics variables, in second models included with aggregate social capital variable with socio-demographics variable and in third model included social demographics variable and social capital dimensions.

2.3 Probit model

When the dependent variable is binary then the probit regression model was appropriate. The dependent variable of this study access to microcredit that have only two binary values: 1 if a respondent access to credit and 0 if she does not.

The probit model can be expressed as

$$P_i[y=1] = [Fz_i]$$

$$\text{Where, } Z_i = \beta_0 + \beta_1 X_{i1} + \dots \dots \dots (1)$$

$$y_i = \beta_1 + \beta_2 X_{2i} + \dots \dots \dots B_k X_{ki} + u_i \dots \dots (2)$$

$$y_i^* \text{ is unobserved but } y_i = \begin{cases} 1 & \text{if } y_i^* > 0 \\ 0 & \text{if } y_i^* \leq 0 \end{cases}$$

$$P(y_i=1) = P(y_i^* \geq 0)$$

$$= P(u_i \geq -\beta_1 - \beta_2 X_{2i} - \dots \dots \dots B_k X_{ki}) \quad \text{Ajani \& Tijani, (2009, 127)}$$

Here,

Y_i = Household access to microcredit (1=yes, 0=no)

β = Vector of unknown coefficient

X_i = independent variables

X_1 = Sex (male=1, 0=female)

X_2 = Age

X_3 = Education

X_4 = Household size

X_5 = Aggregate social capital

X_6 = Meeting attendance Index

X_7 = Decision making index

X_8 = heterogeneity index

X_9 = Density of membership

X_{10} = Cash contribution

X_{11} = Labour contribution

μ_i = error term

3. Results

The summary statistics shows the social capital dimensions and other socioeconomic factors in Table-1. The minimum score of density of membership was 0, heterogeneity index was 0, meeting attendance was 0, participation in decision making was 0, work contribution score was 0 and cash contribution score was 0. Among the background characteristics, the minimum age of the household head was 20 year, minimum household size was 2 members and the minimum years of schooling was 0 year. The maximum score of density of membership was 6, heterogeneity index was 80, meeting attendance was 70, participation in decision making was 78, work contribution score was 75 and cash contribution score was 80. Among the background characteristics, the

maximum score of age was 70, the maximum household size was 14 and the maximum years of schooling was 18 years. The mean score of density of membership was 2.05, heterogeneity index was 39.35, meeting attendance was 46.32, participation in decision making was 33.98, work contribution score was 34.84 and cash contribution score was 39.35. Among the background characteristics, the mean score of the age was 44.79, household size was 4.43 and the year of schooling was 9.58.

The Table 2 shows the regression coefficient of the effects of social capital on access to microcredit. For basic model, the coefficient of age was 0.022 at 5% significant level. This means that for a one unit increase age, the Z score increases by 0.022. So, an increase in age increases the predicted probability of access to microcredit. The coefficient of family size was -0.016 at 5% significant level. This means that a one unit increase family size, the Z score decreases by 0.016. So, increase in family size, decreases the predicted probability of access to microcredit.

For model with aggregate social capital, the coefficient of density of membership was 0.033 at 1% significant level. This means that for a one unit increase age, the Z score increased by 0.033. So, an increase in density of membership increases the predicted probability of access to microcredit. The coefficient of cash contribution score was 0.033 at 1% significant level. This means that for a one unit increase cash contribution score, the Z score increases by 0.012. So, increases in cash contribution score increases the predicted probability of access to microcredit. The coefficient of labour contribution score was 0.011 at 1% significant level this means that for a one unit increase labour contribution score, the Z score increases by 0.011. The coefficient of family size was -0.014 at 5% significant level. This means that for a one unit increase family size, the Z score decrease by 0.014.

For the final aggregate social capital model, the coefficient of aggregate social capital was 0.412 at 1% significant level. This means that for a one unit increase social capital, the Z score increases by 0.412. This means that an increase in social capital increases the predicted probability of access to microcredit. For a one unit increase family size, the Z score decreases by 0.015. This means that an increase in family size decreases the predicted probability of access to microcredit.

4. Discussion:

We found that density of membership increase the probability to access to microcredit. Evidence supported that membership in a group increased the probability of informal loan (Mwangi & Ouma, 2012). People being a member in more groups, have the higher probability to access informal loan (Mwangi & Ouma, 2012). Household that have a membership in development groups (business association, non-governmental organization, self-help group, savings group, or agricultural co-operative) is treated as valuable sources of insurance (Myroniuk et al., 2014). Our study reveals that cash contribution score is positively associated with access to microcredit. Lawal et al. (2009) found in Nigeria that more cash contribution score in Coca farming household, would increase the probability in credit access. Cash contribution can play as a deposit and a sign of commitment that helpful to access to credit (Lawal et al., 2009). Our study reveals that household size decreases the probability to access to microcredit. Evidence supported that household size was negatively associated with access to microcredit (Lawal et al., 2009). People with large family size are less likely to accept microcredit (Lawal et al., 2009). Ajani and Tijani (2009) found that labour contribution score was positively associated with access to microcredit. Men who give labour contribution in their association are more likely to considerate for giving loan (Ajani & Tijani, 2009). We found that aggregate social capital was positively associated with access to microcredit in this area. So, social capital is building trust in local level institution that is helpful to access to credit. Social capital can be considered as a source of social control, family support and network-mediated benefits (Olomola, 2002). This social bonds and control increased the probability to access to credit in a group lending scheme (Olomola, 2002). Using existence social ties, an important process to access to credit for the poor (Bastelaer, 2000). Social capital helps an entrepreneur by providing non-interest bearing loans (Sanders and Nee, 1996). Strong ties with socially distant networks members reduces the constrained about access to formal credit (Dufhues et al., 2012). Bonding, bridging and linking social capital reduces the constraint against access to credit by providing new and innovative information (Dufhues et al., 2012). Social networks or social capital play a vital role information exchange through in social relations. Social capital reduces the transactions cost that is important to improve peoples' access to financial services (Fafchamps and Minten, 2002). Participation in credit groups creates the bonding social capital and this bonding social capital reduces the constraint access to credit (Dufhues et al., 2012). A study conducted by Shoj et al. showed that credit constraint household had low social capital (Shoj et al, 2010). Moreover, lack of trust reduces the probability to access to credit from formal microfinance institutions (Togba, 2009). Social capital can be considered as a source of loans because social capital constitute of the network of parents, relatives, neighbors, religious communities etc, are cheaper source of credit (Togba, 2009). Trust is important to any kinds of lending and higher level of trust increases the probability to more lending's (Guiso et al., 2000). Social capital plays a vital role to access to informal credit because here is no authority to monitor the activity and this type of credit on the relation between the borrowers and lenders (Khanh, 2011). These types of credit scheme largely fully dependent on trust and relation between

the borrowers and lenders. So, social capital increases the probability to access to credit not only formal institution but also semi-formal and informal institution too.

5. Conclusion

Our study reveals that social capital increases the probability to access to credit in rural areas in Bangladesh. People with have more membership in groups, more Cash contribution in group and more labour contributions have the higher probability to access to microcredit. So, social capital is a truly capital that valuable for positive economic outcomes.

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Table 1. Summary statistics of the variables

variables	Minimum	Maximum	mean	Standard deviation
Age	20	70	44.7908	12.01783
Household size	2	14	4.4379	2.2385
Education	0	18	9.5817	3.7505
Social capital dimensions				
Density of membership	0	6	2.0458	0.8983
Heterogeneity index	0	80	39.3529	23.1352
Meeting attendance	0	70	46.3203	21.75995
Index of participation in decision making	0	78.00	33.9804	23.0386
Work contribution score	0	75	34.8366	23.093
Cash contribution score	0	80	39.3529	23.0386

Table 2. The regression coefficient showed the effects of social capital on access to microcredit

variables	Basic model			With aggregate social capital			With social capital dimensions		
	Estimate	Std. Error	Z	Estimate	Std. Error	Z	Estimate	Std. Error	Z
Sex	0.166	0.156	0.477	0.172	0.165	1.043	0.166	0.168	0.747
Age	0.022**	0.366	-6.756	0.012*	0.006	1.945	0.005*	0.007	0.811
Education	0.056	0.020	2.852	.024	0.021	1.132	0.033	0.023	1.456
Size	-0.016**	0.005	-3.509	-0.015***	0.005	-2.876	-0.014**	0.006	-2.443
Aggregate social capital				0.412***	0.085	4.854			
Meeting attendance index							0.003	0.005	0.579
Decision making index							0.001	0.004	0.342
Heterogeneity index							-0.005	0.005	-1.134
Density of membership							0.033***	0.005	6.150
Cash contribution							0.012***	0.004	2.497
Labour contribution							0.011**	0.005	2.431
Intercept	-2.469	0.366	-6.740	-1.897***	0.407	-4.665	-2.821***	0.437	-6.451

***p<0.01;* p<0.05;* p<0.10

Total 153 households

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