Microcredit Repayment Performance in A Metropolitan Area

Selay Sahan

Abstract

This study uses metropolitan data to test the implications of the most frequently cited theoretical papers in microcredit literature. This is the first documented study which sheds light on the importance of the names chosen by groups on their repayment performance. Also, it uses concrete measures to identify out the distances in respect of the locations of the borrowers. The results show that groups in which all members work in the same sector do not perform well; this is probably due to the limited diversification of risk. Moreover, it is found that as the minimum distance between group members increases, they perform worse. In contrast, groups which choose names that highlight cooperation, solidarity and a drive for success perform better. It also points out that the presence of loan officers is crucial in improving the repayment performance of borrowers. Finally, the results show that the increase in the degree of joint liability among members, and diversity in income streams improves repayment performance.

Keywords: Joint Liability, microcredit, group names, borrower proximity, metropolitan, Turkey
JEL classification: D03, D82, G21, O01, R11, Z13

Dynamic Analysis of Default in Joint Liability Group Lending

Selay Sahan

Abstract

This study uses data from a Turkish microcredit institution to test whether the process of simultaneous default is different from the process of non-simultaneous default of the group members in joint liability group lending. The results show that the processes for simultaneous and non-simultaneous default are significantly different. We also find that the source of difference arise from difference in respect of both the covariates and duration dependence. While the groups with higher degree of joint liability are more likely to default simultaneously (in other words collude), larger groups are more likely to default in a non-simultaneous way (less likely to collude). On the other hand, groups involved in same sector businesses and with more experienced members are less likely to default simultaneously. We find that groups with names reflecting cooperative and solidarity elements are less likely to default non-simultaneously. The hazards associated with default show a changing pattern. While in the first two instalments the default hazard increases, we see that towards the end of the loan, the hazard is relatively lowered.

Keywords: Joint Liability, microcredit, survival analysis, competing risks model, duration dependence, Turkey

JEL classification: D03, D82, G21, O01, R11, Z13