Empirical Economics Letters, 25 (8): (August 2026), pp. 45-59 *ISSN 1681 8997*
https://doi.org/10.5281/zenodo.21853739

Social Capital and Loan Delinquency in Microfinance Institutions

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Abstract: This paper examines the relationship between social capital and loan delinquency in microfinance institutions (MFIs). Using a cross-country sample of MFIs, we find that higher social capital is associated with greater loan delinquency, contrary to the conventional view that social capital improves repayment outcomes. The association is stronger in MFIs with closer borrower–officer relationships and more limited monitoring capacity, particularly in civil law countries, where weaker formal enforcement increases reliance on informal mechanisms. Overall, the findings suggest that social capital may weaken repayment discipline when monitoring and enforcement are limited.

Keywords: Social Capital, Loan Delinquency, Microfinance Institutions, Legal Origin

JEL Classification Number: G21, G32, Q01

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