



Social Capital through Microfinance: A Theoretical Outlook

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ABSTRACT: The term 'microfinance' isn't unprecedented to the world any longer. Over the past few decades this concept has persisted as one among the most admired taglines for humankind and the institutions grappling against poverty. Microfinance has been contemplated quite possibly the most operational tools for poverty alleviation and all-round development with developing countries in the past few years. Innumerable Non-Governmental Organizations (NGOs) presently working as Microfinance Organizations (MFOs) have established innovative microfinance programs that have provided financial services to the poor. While the significant emphasis of all microfinance programmes is income-generation for the poor, one of the important outcomes is the creation of Social Capital. In this study, the researcher studied the present scenario of social capital formation through the microfinance programmes. The study outcomes suggest that a microfinance programme does not essentially generate effective social capital unless enforced by the microfinance organization. Social capital formation through microfinance programmes mostly depends on well-designed social capital building strategy of the respective microfinance organization and its actual execution in the grass-root level.

KEYWORDS: Social Capital, Microfinance, Poverty Alleviation, Self Help Groups, Development

I. INTRODUCTION

Despite the incredible technological advancements and industry development in the past century, poverty remains a tragedy in various parts of the world, especially in developing countries. The most important challenge facing the global community today is eliminating poverty. Promoting Self Help Groups accelerates the process of enhancing the living conditions of the rural deprived (Gupta, 2003). The basic concept of this programme is to build up the capacity of the group to resolve its

burning problems by itself. It consists of motivation, awareness, technical and economic support for poverty alleviation. Self Help Groups, besides enhancing accessibility to resources, start performing as a collective unit, which can address common problems through group action and determine its rightful share in the development process. While successfully playing their pre-determined role in economic empowerment, the SHGs have also begun to function as vehicles of social progress.

Microfinance programmes characteristically using group-lending methodology are regarded to utilize existing social capital, embodied in personal relationships and networks. Social capital is vital for getting information about a prospective Microfinance Organization and consequently it enhances poor's access to microfinance. Social capital also substitutes for physical collateral to serve as guarantee for small loans to poor households. As described by Van Bastelaer (1999), collective liability lending systems draw on personal relationships among borrowers to transfer from institutional lenders to groups the tasks of selecting borrowers, monitoring their loan use and enforcing repayment. It is believed that microfinance also build new social capital, because it boosts group solidarity and trust among group members and build horizontal and vertical networks of the microfinance group members. While the researchers have studied the success of microfinance in many aspects, with a few exceptions, researcher paid little attention to social capital building aspect of microfinance. In this study, researcher studied social capital formation mainly through microfinance programme in a rural area.

SOCIAL CAPITAL

from the past numerous years, the concept of social capital has become increasingly popular in a wide array of social science



disciplines. A mounting number of economists, sociologists and political scientists have invoked the concept of social capital in the search for answers to a wide range of questions being challenged in their own fields.

According to Putnam, Leonardi and Nanetti (1993), social capital signifies the 'features of social organization, such as trust, norms and networks, that can improve the effectiveness of society by facilitating coordinated actions. It generally refers to 'trust, concern for one's associates, a willingness to live by norms of one's community and to punish those who do not' (Bowles and Gintis, 2002). Fukuyama (1997) defines social capital as 'the ability of people to work together for common purposes in groups and organizations. Social relation is the main source of social capital (Adler and Kwon, 2002) and there are mainly two forms of social capital: structural and cognitive. Structural social capital which is 'relatively objective and externally observable' assists in 'information sharing, and collective action and decision making through established roles, social networks and other social structures supplemented by rules, procedures and precedents' (Grootaert and Bastelaer, 2001). On the other hand, cognitive social capital that is 'more subjective and intangible' includes 'shared norms, values, trusts, attitudes and beliefs' (Grootaert and Bastelaer, 2001).

Social capital can be split into three connecting strands: bonding social capital (strong ties between immediate family members, neighbours, close friends and business associates sharing similar demographic characteristics); bridging social capital (weaker ties between people from different ethnic, geographical and occupational backgrounds but with similar economic status and political influence); linking social capital (ties between poor people and those in positions of influence in formal organizations such as banks, agricultural extension offices, schools, housing authorities or the police) (Woolcock, 1998). Poor people typically have plenty of bonding social capital-links with people in similar circumstances to themselves; they have some bridging social capital-scattered friends, acquaintances and distant relatives in other areas; but next to no linking social capital or 'friends in high place' to help deal with commercial, educational, legal, or political organizations. It is believed that microfinance groups are mobilized by existing bonding social capital of the members. Then bridging and linking social capital are built gradually as the group members get involved with

microfinance programs actively.

MICROFINANCE

In a narrow sense microfinance is the micro level initiatives by the non-governmental organization for small scale finance to the poor who needs cash for his day-to-day routine life.

'Micro finance refers to small-scale financial services for both credits and deposits - that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas. Micro finance may be defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards".

The term Micro Finance refers to the provision of financial services to lower income groups, which also include self-employed people. Grameen Bank in Bangladesh introduced the concept of micro-finance and now it is a worldwide movement as it was replicated in different countries. This is the approach, which focuses on reducing poverty by providing services and other services through institutions that are funded by various donors and government subsidies. To provide access to institutional credit to the poor sections of the society, micro finance is one of the most sustainable and effective tools. Where micro credit refers to availability of loans in small quantities, micro finance has a broader meaning and it includes other financial services like, savings insurance, etc.

SOCIAL CAPITAL AND MICROFINANCE: RELATIONSHIP AND VALIDATION

In the form of social relationships, social capital can primarily benefit the entrepreneurs and the self-employed by providing or facilitating 'productive information' about markets, 'psychological aid' in a form of behavior emulation and through 'instrumental support' by provision of personal level assistance (Sanders & Nee 1996). Social relations can help small entrepreneurs also through advertising or 'getting the word out' about products or services produced by customer referrals (Holzer 1987). Thus, socially excluded individuals lacking relational characteristics such as 'adequate social participation' or 'social integration and power', are prone to suffer with longer



unemployment (Badelt 1999; Darity & Goldsmith 1996; Room 1995). This is why participation in microfinance programs which provide access to relational development, enables women to have better social relations and thus a better chance of survival of their entrepreneurial or self-employment activities. Gomez and Santor (2001) point out the importance of those individual actions which are facilitated by social relations or social capital and how these are essential for the success of micro entrepreneurs. They also reveal social capital as a positive determining factor of self-employment and socio-economic development amongst microfinance borrowers, enabling individuals to overcome a lack of financial collateral (Gomez & Santor 2001). Social capital can be used by the poor in exchange for human and physical capital and can have a positive impact not only on the household but also to the well-being and prosperity of an entire community (World Bank 2001). Indeed, this could be the very reason why social capital is one of the four indicators in the World Bank's wealth accounting system. Putman et. al. (1993) reveals the most important aspect of social capital to be the "association of people who have a positive outcome on the productivity of a community". This association includes civic involvement and expression of social norms.

ROLE OF NGOS AND MICROFINANCE GROUPS IN SOCIAL CAPITAL FORMATION

The significant characteristic of the social capital phenomena is that it flattens the progress of coordination and cooperation among the members for mutual benefit, promotes confidence and ideals and reduces the scope of opportunistic behaviour (Khan 2000; Serageldin & Grootaert 2000). Thus, social capital upsurges the efficiency of action and develops cooperative behaviour (Nahapist & Ghoshal 1998). Besides, there is an increasing literature identifying social capital as an essential element to the functioning of microfinance programs and supporting the necessity to continue strengthening social capital (Mayoux 2001); (Bernasek & Stanfield 1997; Mayoux 2001; Molyneux 2002; Quinones & Sebel 2000). MFIs such as the Grameen Bank in Bangladesh use social collateral as an alternative to asset-based collateral. Key emphasis is placed on the intervention of financial intermediation between borrowers and lenders through Groups or a small solidarity group (Ledgerwood 1999). Social capital can enable the poor to organize into groups, co-operatives or as a social organization. As Mayoux (2001) describes: "the underlying assumption is that the material

benefit which clients receive in terms of access to credit and savings is an acceptable exchange for material contribution in the form of interest rates and social capital". Grass root organizations like MFIs can play a major role also by acting as complementarities to macro level organizations and the level of social capital is also increased by the mutual reinforcement between micro and macro level institutions (Serageldin & Grootaert 2000). These MFIs are NGOs that provide microfinance programs with the dual role of financial and social advocacy. They provide assistance to groups which generally do not have access to traditional sources of funding and other necessary resources (Lable 2001). The group enforcement mechanism used by MFIs to ensure repayment is also based on reciprocal understanding between borrowers. Thus, microfinance systems depend largely on social capital structures of the poor and of society (Grieco & Holmes 2001). Group-based microfinance plays a significant role in poverty alleviation and women's empowerment and enables women to build 'social capital' through developing and strengthening their economic and social networks (Mayoux 1999). Consequently, women gain the power to negotiate change in the household and engage in collective social and political activity (Sebstad, Barnes & Chen 1995).

World Bank's "Back of the Envelope" calculation revealed the effect of social and human capital to be greater than that of natural capital and produced assets. Thus, social capital increases the development of impulsive social cooperation (R.D., Leonardi & Nanetti 1993). Grass root organizations like MFIs could also play a major role by acting as complementarities to the macro level organizations and the level of social capital is also increased by the mutual reinforcement between micro and macro level institutions (Serageldin & Grootaert 2000).

II. CONCLUSION

Group actions like microfinance have high potential to generate social capital among rural poor which may significantly affect their capacity to organize for development. Microfinance organizations (MFOs) can play a vital role in creating social capital among their group members through enforcement and mobilization. This study revealed that social capital is not a natural outcome of microfinance. Social capital formation through a microfinance program mainly depends on well-designed social capital building strategy of the respective MFO and its actual implementation in the grass-root level. This study suggests that a microfinance



organization should be careful in making and changing its policy so that it may create desired social capital through microfinance activities because without social capital formation the objectives of poverty alleviation and socioeconomic development could not be sustainably achieved.

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