Reciprocal Dynamics

SOCIAL CAPITAL AND MICROCREDIT

By Warner P. Woodworth

SOCIAL CAPITAL is an important dimension of the microcredit process, yet it has received but scant attention in the literature. My close friend and mentor, Muhammad Yunus, recently declared that the system of microcredit he values "gives high priority on building social capital."[1] Likewise, James Wolfensohn, former head of World Bank, has declared that social capital is the "glue" that "holds societies together."[2]

At the outset, I want to make a preliminary point about types of microcredit programs. On the Grameen Bank's web site several months ago, Yunus argued that we need to be more precise when writing about the term *microcredit* because of the various models and different features that are emerging. Per his suggestion, I will use the following criteria, paraphrasing Yunus: The mission must help poor families help themselves to overcome poverty, should particularly target poor women, and should not be based on collateral but on trust. Further, such credit is to be used to create self-employment and income-generating activities, not consumption. Finally, to receive a microloan one needs to be a member of a borrower peer group.

The type of microcredit on which this paper focuses must be centered on the norms and values of Yunus' description. With this context, let us define social capital, address ways that it can play a role in the MFI movement, and articulate the need for further action research that will foster greater amounts of social capital in the future.

CHARACTERISTICS OF SOCIAL CAPITAL

We start with what social capital is *not*, as a way to approach it by the back door. The opposite of social capital may best be described as "social Darwinism." British philosopher Herbert Spencer coined the phrase "survival

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EMI representatives at a village bank group meeting in Manila, Philippines

of the fittest" in 1866, before Darwin's scientific view of evolution was published.[3] He and his associates claimed that might makes right and that not only nature was a jungle but so was human society.

On the other side, a more optimistic concept of human value—social capital—emerged. It was a term first used nearly a century ago in the United States by a rural West Virginia school administrator, Judson Hanifan. He suggested that as the rural poor enjoy relationships such as good will, fellowship, and interaction, there will be an accumulation of resources that moves a person from isolation toward a sense of community and cooperation.[4] Decades later, sociologists and political scientists began to reference the concept. They argued that social capital was an alternative to the notions of financial capital, intellectual capital, and even the more recent, human capital. While some authors tend to describe social capital rather abstractly, my use of the term draws from such practical notions as networks, trust, and mutual engagement. To me, social capital is an intangible, yet significant, resource that bridges human relationships through common or shared interests. It generates a sense of mutual interdependence in which human beings develop a level of confidence and interest in one another, along with respect and willingness to help each other. I suggest that microcredit approaches must have a high degree of social capital. Microcredit is not just about money. It is not simply a financial construct. Instead, genuine microcredit must generate social dynamics between the borrowers during their acquisition of microloans and their progress out of poverty.

In fact, it seems that the MFI movement was derived from the lack of social capital in society, particularly in the third world. By and large, the third world poor have suffered from social isolation or marginalization that has kept them at the base of the societal pyramid. Those at the top and in the middle are linked together by the formal economy, the political infrastructure, the national education system, and so forth. In contrast, those at the base are disenfranchised and disconnected and lack the bonds that tie society together. The consequence is often a struggle for survival—fighting over land or jobs, shame and disintegration of the family, and so forth. Economic poverty has the damaging consequence of fostering social poverty, thus perpetuating the proverbial law of the jungle that everyone is out only for themselves.

With these assertions, we now turn to two research cases to describe how social capital can or does play a role in the process and system known as microcredit.

MICROBUSINESS MENTORS

This MFI began as a university laboratory for service learning in 2003. As a project in my social entrepreneurship course, a team of graduate students worked with others at Brigham Young University to conduct a needs assessment of the growing inner-city Latino community adjacent to campus in Provo, Utah.

In our surveys of inner-city Latino families in Provo, we learned that 48 percent reported having no savings and 71 percent had annual incomes of under US$30,000. When we inquired about their potential interest in becoming self-employed, 81 percent answered in the affirmative. Likewise, 78 percent reported they would be interested in receiving business training. But surprisingly, only 55 percent expressed interest in obtaining a loan.[5]

Thus, we began to feel that the delivery of business skills should be our first priority. Based on these data, MicroBusiness Mentors (MBM) was created to begin marketing our services for empowering the poor near the university campus.

MBM Programs: We designed a four-pillar system for operating our program: Spanish language training, group support, mentors, and loans. Briefly put, training seemed to be of interest to 78 percent of Latino adults in our survey. So we designed eight modules, focusing on one each week for eight weeks. During these weeks, the participants learn about each other, work on training cases as a team, and share ideas and experiences, all culminating in the creation of a microenterprise business plan. This system of mutual support builds solidarity and trust, which becomes very important due the following reality.

Our clients emigrate from a large mix of South and Central American nations, each with different Spanish pronunciations, slang, customs, norms and values, and occasional antipathies toward those from other countries. In certain cases, their backgrounds may have included middle-class comforts that they no longer enjoy. In a few instances, their countries may have gone to war

PHOTO: MBM

Graduates, teachers, and student volunteers of the MicroBusiness Mentors Class of 2007 over territory disputes, military conflicts, or most likely, soccer rivalries. Thus, the social capital that grows during their solidarity group experience becomes vital to their microenterprise accomplishments in MBM and, more importantly, to their success in American society. As I have observed, this type of mutual support becomes a critical ingredient.

If group members go on to complete the eight sessions of training and qualify for US$500 loans, they attend a MBM graduation ceremony and receive certificates of completion as well as the loans. Each member of the group signs a commitment to repay each others' loans in addition to one's own—the group thereby acting as social collateral. This technique is sometimes referred to as peer lending, village banking, or solidarity group loans. Group commitment and peer pressure serve to minimize borrower default rates.

MBM Results: MBM is yielding quite promising results for facilitating self-employment. I am happy to have played a key role in its founding and to act as board chairman. Hundreds of Utah Latinos have received orientation and/or training. Those who have completed the training have received loans and have started microenterprises, and, so far, 100 percent of them have paid back their microcredit debts. Currently, MBM is partnered with Centro Hispano in Provo, a 501(c) 3 affiliated with the Community Action Agency. Therefore, donors may claim their financial support as a tax deduction. Through this process, MBM will be able to expand its services and loan capital to greater numbers of poor families.[6] The power for creating social capital through MBM's group process appears to have important consequences among such disparate emigrants from Latin America.

Social capital GENERATES A SENSE OF MUTUAL INTERDEPENDENCE IN WHICH HUMAN BEINGS DEVELOP CONFIDENCE AND INTEREST IN ONE ANOTHER, ALONG WITH A WILLINGNESS TO HELP EACH OTHER.

ENTERPRISE MENTORS INTERNATIONAL

Enterprise Mentors International (EMI) is a microcredit NGO launched by a team of Marriott School students, alumni, and myself between 1989 and 1990. In the summer of 1989 in the Philippines, my students and I sought to assess the challenges and difficulties of poor, urban Filipino families. We met with government officials, policy makers, NGOs, and academics to learn about the country's issues. After our research, we organized a strategy session with Filipino policy experts and academics, US consultants, officials of The Church of Jesus Christ of Latter-day Saints, and our BYU team. With a consensus to continue, we designed and established Enterprise Mentors International, to be based in the United States, as a kind of parent NGO to those we would launch in the third world.

Gradually, indigenous MFIs were formed in the Philippines. The first, in 1990, was the Philippine Enterprise Development Foundation based in Manila. In 1993, a second MFI, Visayas Enterprise Foundation, was established in Cebu, the central region of the Philippines. A third nonprofit organization was established in the southern islands of the Philippines in 1995, the Mindanao Enterprise Development Foundation.

EMI Social Processes: The range of services offered by these MFIs are intended to address microenterprise needs for start-up, growth, productivity, and profitability, with the ultimate objective being individual, family, and community self-reliance. Like MBM, most loans are offered to a group of microentrepreneurs who commit to paying back everyone's loan, not just one's own. Again, this process functions as a type of social collateral that, in turn, fosters a sense of mutual support and interconnectedness. Over time, trust expands, one's legitimacy and dignity grows, and social capital begins to provide community dividends, not just financially but also socially.

The larger picture of EMI as the parent organization is also quite impressive. Altogether it offers more than thirty thousand microloans annually, totaling more than US$5 million and averaging approximately US$150 per loan. Since its organization, EMI has provided microenterprise tools, offered training, and used best practice development services and free consulting. So far, Filipinos have received small loans to start and/or expand microenterprises. Nearly 61 percent of the borrowers are female, and the pay-back rate is 96 percent.

The loans offered through EMI are processed as a type of collaborative credit system formed by the borrowers themselves. Members are responsible for one another to pay back the loans. A person will access a loan with his or her peers even though they have no collateral or credit history. The borrower works with people he or she knows or trusts. The group members pay interest and principal daily, but not at exorbitant rates. After the first round of paying back a small loan, the borrower qualifies for a larger loan each successive time.

The self-employed entrepreneurs who participate in the program for more than a year boast more than a 93 percent survival—an outstanding success rate for self-employment. Because of the high repayment rate of loans, EMI's three Filipino MFIs are nearly 100 percent financially self-sufficient at present.

EMI Ripple Effects: Coupling this loan system with the microenterprise training and hands-on consulting programs makes EMI's and its MFI partners' strategy to lift poor Filipinos important because it helps people collectively borrow as a group, thereby leveraging their skills and energy. In recent research my students and I found that through this collaborative model, many social ties and networks were established with potential suppliers and customers from references from the group members.[7]

In EMI's Filipino solidarity groups, we witnessed on certain occasions that when a group member experienced problems either related to his or her business or even to his or her personal life, many of the other members would communicate with the individual to find out how they could help and to offer solutions. In other group settings, babysitting and accompanying children to school became a shared responsibility among many of the female entrepreneurs.

AMERICANS ARE MORE **isolated** NOW THAN AT ANY TIME IN HISTORY. PEOPLE DO NOT TRUST THEIR GOVERNMENTS, THEIR COMMUNITIES, OR EACH OTHER.

SOCIAL CAPITAL DISCUSSION

Drawing from the microcredit cases in the Philippines and Utah, social capital seems to be embedded in the group processes of microentrepreneurs. It is strengthened by training, solidarity group responsibilities, social interactions, mentoring, and sharing best practices. Connections become established, reputations enhanced, influence increased, and friendships deepened. There is an increased access to resources and ideas among participants, and future favors and access to further resources become possible. All of these factors help to establish a reservoir upon which to draw in the future as needed.

In his classic volume on social trust, Francis Fukuyama advocates that social capital is built upon specific informal norms and values, which are shared among a group.[8] He suggests that social capital also facilitates the creation of cooperation within a society. It builds a spirit of community. It creates strong social ties to others within a system or collective network. I see a logical extension to microcredit systems of the kind defined at the outset of this paper. This enhances communication and the exchange of information, from which groups of microentrepreneurs greatly benefit. Solidarity groups meet weekly, but not simply to pay back a portion of their loan principle and interest. Together they are able to identify problems, explore root causes, and brainstorm potential solutions. The outcome is increased community well-being.

Similarly, the perspective of Robert Putnam's work regarding social relations in the United States offers an added twist. His Harvard research bemoans the decline of social capital in the country during past decades, claiming that Americans are more isolated now than at any time in history.[9] People do not trust their governments, their communities, or each other, leading to increasingly lower levels of civic participation. The primary importance of social capital for his Harvard project is using it as a resource for public good, for societal involvement—in other words, civic engagement. Putnam writes that social capital has to do with "the collective value of all 'social networks' and the inclinations that arise from these networks to do things for each other."[10]

Perhaps social capital becomes an asset embedded in relationships that facilitate instrumental action among people and the sharing of knowledge and resources from one person to another, as occurs in effective microcredit solidarity groups. In essence, social capital may

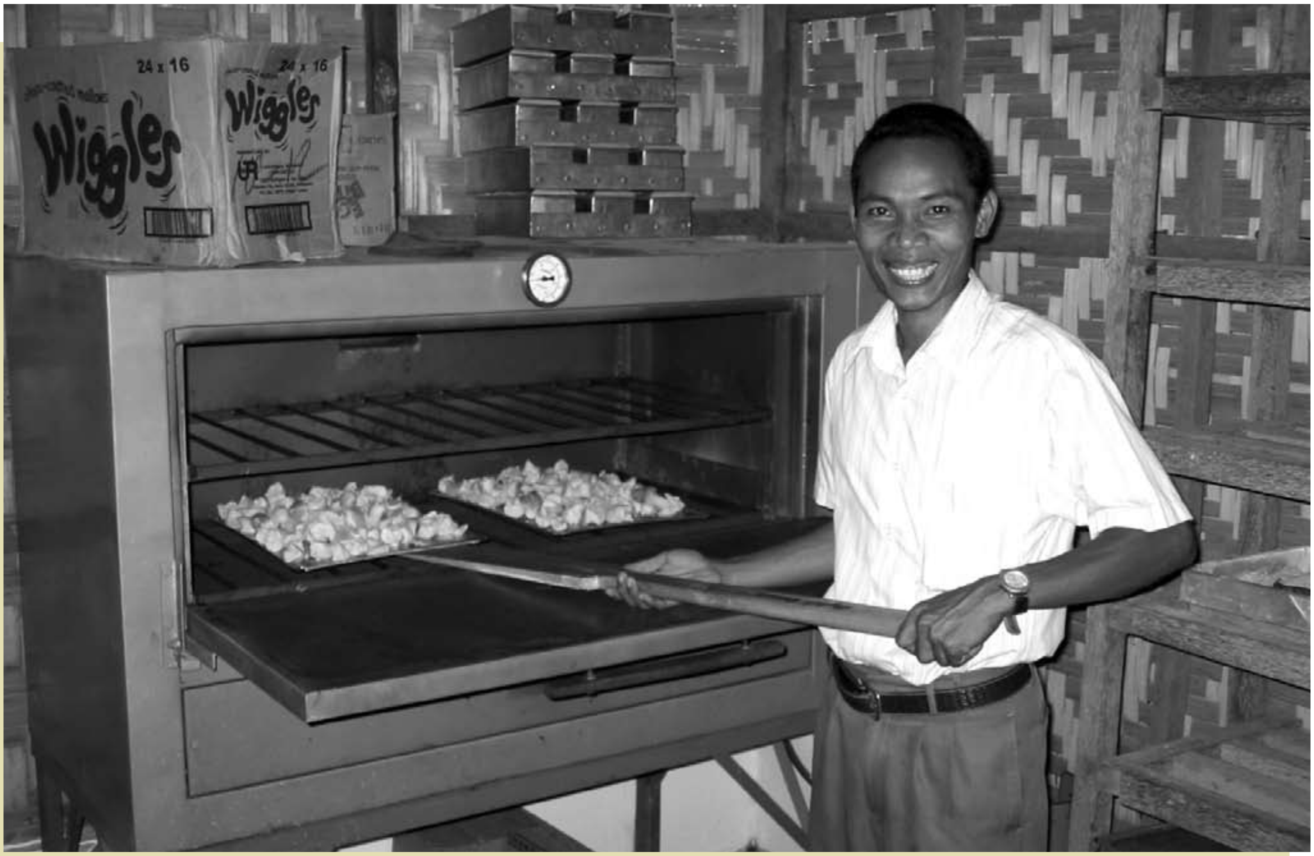

PHOTO: MEDF

George Liwagon, a microentrepreneur of Mindanao Enterprise Development Foundation in Davao, Philippines, running his baking business

establish connections that allow microcredit clients to exchange resources and manage knowledge effectively. Organizational theorists might suggest that social capital also reduces organizational costs by increasing an organization's ability to acquire new knowledge.

Thus, the benefits of social capital are huge, and one might argue that social capital is, at least initially, more important than the amount of financial capital a microcredit client starts with in his or her first loan. There is much potential for give-and-take as the relationship between the solidarity group members becomes symbiotic. Members benefit greatly as their businesses grow and new tools are developed. All this is much greater than the act of a single individual or even a group that lacks social capital. Microentrepreneurs are able to leverage their relationships, and for the MFI, such dynamics also attract new clients and borrowers who want to achieve the same.

Thus, solidarity groups germinate more groups, and as time passes, social networks expand exponentially. In this sense, social capital becomes interpersonal bonding capital. Accomplishments are rewarded. MFI members recognize each other's successes and build up future favors by doing so, thus expanding social capital of their own.

Microentrepreneurs gain power from the support of others. They feel they can overcome any difficult situation and move toward greater self-actualization—for the group, not just one individual.

CONCLUSIONS

In applying the concept of social capital to these microcredit cases, it becomes clear that the work of MFI managers is not simply a matter of accounting or repayment of loans. Instead, a significant amount of their time and energy needs to go into facilitating the processes of social capital among their bank members. In essence, it becomes an intangible but important asset for the MFI. With a growing stock of social capital, I would predict that not only will microentrepreneurs expand their tiny enterprises faster, larger, and be able to achieve greater economic success on the business side, but they will become increasingly committed to the MFI's mission and the attainment of long-term impacts. Such experience will

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Marcial H. and Jocelyn V. Namoca operating a small eatery at the Los Amigos Public Market in the Tugbok district

give them a deeper sense of purpose and meaning and a greater amount of confidence that they can eventually climb out of poverty by collaborating with others. Furthermore, I would suggest that the power of social capital reduces group members' stress that stems from economic adversity, death of a loved one, the devastation of natural disasters and wars, etc.—all of which are so common among the poorest of the poor, those who are socially disadvantaged.

As described in Yunus' criteria for microcredit, an emphasis on group interactive processes is critical. Financing the poor and using social capital in doing so serves to foster resiliency among such individuals and may build economic self-reliance. It will also generate greater socioeconomic justice in a world where millions of families now suffer. ESR

SOCIAL CAPITAL IS MORE IMPORTANT THAN THE AMOUNT OF **financial capital** IN A FIRST MICROCREDIT LOAN.

ABOUT THE AUTHOR

Warner P. Woodworth is a social entrepreneur and professor at Brigham Young University's Marriott School of Management. He is also a consultant to major corporations, governments, NGOs, and trade unions. Woodworth has produced ten books and more than two hundred articles, book chapters, and conference papers. He has been a founder and/or director of sixteen NGOs that in 2007 alone raised more than US$28 million and grew to more than 3 million poor clients.

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Endnotes

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