

Building Social Capital through Microfinance: A Case Study of American India Foundation's Rickshaw Sangh Program

Praniti Maini

Background

There is a growing recognition that differences in economic outcomes cannot be explained fully by differences in “traditional inputs” (Grootaert, 1999). One such concept, generically known as *social capital*, includes the various networks of relationships among economic actors, and the values and attitudes associated with them (Bastelaer, 1999). Microfinance is an area in which the role of social capital has been given considerable attention (Ito, 2003). In fact, a basic principle of group-based microfinance is to replace physical capital or collateral required for acquiring loans with social capital or peer pressure and monitoring.

Though income generation continues to remain the focus of group-based microfinance, there is a growing belief among development practitioners and institutions, that this approach can also create social capital. While considerable research has been done on studying social capital as a variable explaining better repayment performance and the importance of social capital for a microfinance intervention to succeed (for example, Ito, 2003; Zephyr, 2004; Cassar et al., 2007), there appear to have been very limited attempts to study the impact of microfinance interventions on the creation of social capital.

Research Objective

This study seeks to contribute to the growing literature on social capital in general, and on the inter-relationship between social capital and microfinance in particular, with specific focus on the impact of microfinance on social capital.

The specific objective of this study is to examine the impact of a microfinance based livelihood program - Rickshaw *Sangh* Program¹ - on social capital at the micro level, as a result of the Program.

1 Initiated by American India Foundation (AIF), Rickshaw *Sangh* Program addresses the livelihood issues of cycle rickshaw drivers by organizing, formalizing and collectivizing them in a way that enables them to own their vehicles and have a greater degree of control over various terms of engagements (which are often exploitative otherwise), and thus, live with greater dignity and confidence.

Methodology

The study draws from both – primary and secondary sources of information. The target population for this study is joint liability group (JLG) members from Sitapur, Uttar Pradesh (India) who have accessed credit under the Rickshaw *Sangh* Program. The Program was initiated in Sitapur in 2009 and till March 2012, there were 4473 beneficiaries from the area.

Primary data was collected using structured interviews and focus group discussions (FGDs) in Sitapur between March and May, 2012. The sample size for the interviews was 188 and sampling method was convenience random sampling. Taking into account the population and sample size, the confidence level is 95% and the confidence interval (margin of error) is 7%.

Findings and Discussion

For the purpose of data collection and analysis, six dimensions², have been used as indicators of social capital. Each dimension has been independently discussed below.

i. Groups and Networks

This section explores the structural dimension of social capital through respondents' associational activity. Primary data shows evidence of strong bonding, moderate bridging, and even linking social capital for limited sections of the community. Horizontal ties extend beyond people with similar demographic characteristics to bridging ties, such as those between people from different religions (Hindus and Muslims) and diverse occupational backgrounds (rickshaw drivers, vegetable vendors, farmers, milk sellers etc.). Linking capital, i.e., ties between poor people and those in positions of influence in formal institutions such as banks, agricultural extension officers, schools etc. too was evident.

Within such networks, the aims of exchange vary from meeting basic needs to maintaining social obligations; ranging from personal thoughts to information to goods, agricultural produce, rickshaws and even clothes. For their day to day problems, the group members earlier relied solely on the

2 The six dimensions have been proposed by Grootaert and Bastelaer (2002), as part of the World Bank's Social Capital Initiative.

Village *Sarpanch* (head); however, now the weekly meetings have become an equally important platform to resolve such issues. The importance of the network created through the JLG is also evident in members' increased access to facilities like education (including training), health, water supply and agricultural inputs.

ii. Trust and Solidarity

This section, organized around the themes of trust and solidarity, represents the cognitive dimension of social capital. Trust is an abstract concept that is difficult to measure, in part because it may mean different things to different people. Most group members have known each other for at least four-five years, and some even since birth. Based on their life experiences in the community, over half the respondents believe that most people who live in their respective village can be trusted and are willing to help each other. However, when viewed in the context of specific transactions, such as lending and borrowing, four out of five respondents reported that people in their respective villages generally do not trust each other in financial matters.

Despite these contradictions, 80.9% believe that the level of trust has increased since the formation of the JLGs, and only one respondent felt that the level of trust had deteriorated. Having seen other members being responsible with their money and paying their installments on time, the trust net of most members has expanded to include select group members.

iii. Collective Action and Cooperation

Cooperation and collective action among peers is the foundation on which group-based microfinance is built. From the initial stages of group formation, to providing peer guarantees to democratic decision making within the group, the need for cooperation is evident at all stages. This collectivization (group formation, weekly meetings, and annual get-together at the launch) is the medium through which social capital operates and re-invests itself. At the same time, it is also an outcome of social capital (pre-existing in the community, as well as new).

Even prior to the formation of the JLG, community members in Sitapur collaborated with one another through village meetings in order to solve day to day problems, as well as larger issues such as land disputes. It has been a norm for villagers to assist each other during festivals and ceremonial events such as weddings and funerals. It appears that collective action in the study sample consists primarily of community-organized activities for building and maintaining infrastructure and for accessing critical services. Though an important aspect of community life, there were no examples of collective action being politically oriented and being used to lobby elected officials to provide more services to the community.

iv. Information and Communication

The importance of this dimension is two pronged. It is both – a process through which the social capital building takes

place, as well as an outcome wherein social channels contribute to increased knowledge and awareness. By providing a platform for regular borrowing and lending, the weekly meetings facilitate social capital through repeated exchanges (advice, favors and information) among group members.

When asked about the three most important sources of information about what the government was doing (such as agricultural extension, work-fare, family planning), the most commonly cited choices were newspaper, groups and associations and local markets, with three-fourth respondents selecting 'groups and associations' as one of the three options. Regarding the three most important sources of market information (jobs, prices of animals or crops), a slightly lower but still significant number selected 'groups and associations'.

This highlights the relative importance of groups and networks as important information sources, compared to *impersonal* sources such as radio or television. Also, since information on government activities and markets is directly relevant for the generation of income and/or for non-monetary aspects of well-being, it indirectly contributes to household welfare, which is an implicit goal of the Program.

v. Social Cohesion and Inclusion

This dimension brings together three related topics - inclusion, sociability, and conflict and violence.

The concept of 'inclusion' has been explored through general perceptions of social unity and togetherness of the community. Over half the respondents acknowledge a feeling of togetherness or closeness in their respective villages, while only less than 5% feel that community members lack togetherness.

A corollary issue is that of exclusion and the extent to which a community is characterized by differences (for example, differences in wealth, income, social status, ethnic background, race, caste, religious or political beliefs). A third of the respondents feel that such differences characterize their respective villages to a small extent, while less than 5% feel that these differences are apparent to a large extent. The differences that most often cause problems are those in education and in wealth/material possession, followed closely by differences in religious beliefs.

Exploring whether membership to groups such as the JLG leads to differences, majority of members felt that in fact the group had to a certain extent 'bridged' differences among the women and their respective families. However, it is important to point out that the findings may be not the same for those excluded from group membership. In the case of the JLGs, this exclusion is largely because women usually form groups with those from a similar economic status and/or with a proven track record of being able to repay debt. New entrants to the community or those in debt are rarely included.

vi. Empowerment and Political Action

The final dimension takes a broader view that transcends to members' sense of happiness, decision making in everyday life, personal efficacy and capacity to influence both local events and broader political outcomes.

In general, six out of ten respondents consider themselves 'very happy' or 'moderately happy' and a similar number said they were 'neither happy nor unhappy', while only one respondent considered herself 'moderately unhappy'.

For the purpose of this study, empowerment is narrowly defined as the ability to make decisions that affect everyday activities and may change the course of one's life. Over a third of the respondents believe that they have control over all decisions affecting their everyday activities, while two-thirds believe that they have control over some decisions. Specifically, the ownership of a rickshaw (which was the objective of the Program and purpose of the JLG formation) has given the women and their families much greater control over multiple decisions affecting daily activities.

Another aspect is that of self-confidence that comes with owning an asset. For many families, a cycle rickshaw obtained through the Program is often their first economically valuable asset. This pride is evident not just in the well maintained and colorfully decorated rickshaws, but also in how the JLG members and their families refer to the vehicles as their *gaadis* (cars). Further, the group discussions highlighted that legal ownership of rickshaws (and license), as well as being associated with a formal organization has reduced the demand for illegal bribes (for allowing plying of rickshaws) and the number of incidents of harassment by officials.

Conclusion

This study was initiated with the aim to build on the existing understanding of social capital, particularly in the realm of group-based microfinance, and fill in the empirical research gap in explaining how group-based microfinance schemes impact micro level social capital of program beneficiaries. The findings show that there appears to be a mutually reinforcing relationship between microfinance and social capital. In other words, social capital is a pre-requisite for a successful group-based microfinance intervention and subsequently, group-based microfinance leads to strengthening/creation of social capital. Thus, though the creation of social capital was not the primary or even an explicit objective of the particular microfinance program, the process of mobilizing pre-existing social networks of poor has positively influenced their social capital.

References³

- Adler, P. and Kwon, S., 2002. Prospects for a New Concept. *The Academy of Management Review*, 27 (1), p.17-40.
- Bastelaer, T., 1999. Imperfect Information, Social Capital and the Poor's Access to Credit. *IRIS Center*, (Working Paper No. 234).
- Bastelaer, T., 2000. Does Social Capital Facilitate the Poor's Access to Credit?. *World Bank - Social Capital Initiative*, (Working Paper No. 8).
- Bastelaer, T. and Grootaert, C., 2001. Understand and Measuring Social Capital: A Synthesis of Finding and Recommendations from the Social Capital Initiative. *The World Bank Social Capital Initiative*, Working Paper No. 24.
- Bastelaer, T. and Grootaert, C., 2002. Understanding and Measuring Social Capital: a multidisciplinary tool for practitioners. *World Bank Publications*, (Volume 1).
- Cassar, A. et al., 2007. The Effect of Social Capital on Group Loan Repayment: Evidence from Field Experiments. *The Economic Journal*, February (117), p.F85-F106.
- CGAP, n.d. [online] Available at: <http://microfinance.cgap.org/> [Accessed: May 9, 2012].
- Coleman, J., 2000. Social Capital in the Creation of Human Capital. In: Dasgupta, P. and Stiglitz, J. eds. (2000) *Social Capital - A Multifaceted Perspective*. 1st ed. Washington: The World Bank, p.13-39.
- Grootaert, C., 1999. Social Capital, Household Welfare and Poverty in Indonesia. *The World Bank Local level Institutions Working Paper Series*, (6).
- Grootaert, C. et al., 2003. Integrated Questionnaire for the Measurement of Social Capital (SC-IQ). *Social Capital Thematic Group*.
- Ito, S., 2003. Microfinance and Social Capital: Does Social Capital Help Create Good Practice? *Development in Practice*, 13 (4), p.322-332.
- The World Bank, n.d. *What is Social Capital*. [online] Available at: <http://web.worldbank.org/> [Accessed: March 18, 2012].
- Woolcock, M. and Narayan, D., 2000. Social Capital: Implications for Development Theory, Research, and Policy Revisited. In: Bebbington, A. eds. (2012) *The Search for Empowerment: Social Capital As Idea And Practice at the World Bank*. 1st ed. Bloomfield, CT: Kumarian Press, p.31-62.
- Zephyr, A., 2004. Money is Not Enough: Social Capital and Microcredit. *Issues in Political Economy*, 13 (August).

3 This paper is a summarized version. For a comprehensive list of references, please refer to the original study.