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DO MICROFINANCE ORGANIZATIONS INCREASE SOCIAL CAPITAL? AN EVALUATION OF THE EVIDENCE

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ABSTRACT

Since the 1980s microfinance organizations have been operating in developing countries with the goal of reducing poverty. These non-governmental organizations provide small loans to the poorest women and rely on the power of groups, as opposed to traditional physical collateral to enforce repayment. Microfinance organizations claim to socially and financially empower women through building social capital. Social capital refers to the relationships, norms, and customs in a society that make up social interactions. Higher degrees of social capital have been found to foster economic development. The literature discussing microcredit organizations' impact on social capital is extensive and varied. This paper provides an analysis of the literature and concludes that the level of social connectedness in communities allows for different degrees and types of social capital to be built from microcredit organizations, experimental evidence produces a more compelling argument than anecdotal evidence, and that more research is needed to determine the true effect of microcredit organizations on social capital.

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Chapter 1

Introduction

Throughout the developing world, from Southeast Asia to Africa to Latin America, non-governmental programs called microfinance organizations have been operating since the 1980s with the intention of reducing poverty. Poverty in these areas is often overwhelming and staggering. To improve the quality of life for the most impoverished citizens, women and children, microfinance organizations make small loans to women while requiring no collateral at all. Instead of relying on physical capital to enforce repayment, loans are made to groups where members ensure that other members pay back the loans. It is thought that after receiving a loan, women can use it to start a microenterprise, fund her child's education, or better the living conditions for her family.

The literature on the effect of microfinance organizations is vast and rife with differing conclusions. One subset of the literature focuses on whether microfinance organizations improve the lives of women by increasing their social capital. Social capital refers to the positive relationships and interactions between people, and is theorized to promote economic development. The theory is that by forcing women to interact with other women in their borrowing groups, microfinance organizations build new social networks for their participants and therefore increase their social capital.

In the next section of this paper, chapter two, I will examine social capital theory and determine its application to microfinance organizations. Chapter three will discuss aspects of society that limit microfinance organizations' ability to increase social capital. In chapter four I will analyze certain commonalities in the literature that determine the different trends in conclusions and discuss the effectiveness of different arguments. I will conclude with suggestions for the direction of future research.

Chapter 2

Traditional Social Capital Theory and its Application to Microfinance

The Definition of Social Capital

In order to determine whether or not microfinance programs increase social capital, we first need to understand what social capital is. When examining the current social structure in developing countries, it is clear that networks and gender relations have a long way to come before equalizing those of the western world. One theory of how to advance human relations to propel economic growth is that of social capital accumulation.

What is social capital? It is something that everyone encounters every day. A group of students coming together to study for an exam utilize social capital to get better grades. A mother enrolling her child in dance classes or a sports team understands the benefits of social capital. A citizen exercising his/her right to vote is using social capital. A businessman networking in the boardroom needs social capital to survive. To put it simply, social capital is the relationships formed between people that offer mutual benefits.

In economics, capital is a type of resource that can be used in the production process. Examples include physical capital, machines, buildings, and inputs that go into the creation of a product, and human capital, the amount of education, training, or experience a person has in doing their job. We can think of social capital as being relationships that make production more efficient.

As defined by the World Bank "Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions." In different parts of the world, interactions between people differ greatly, as does the degree of economic development. Countries with more densely connected social networks have more potential for economic growth. (Putnam 1993)

Robert Putnam developed a theory of social capital that became widely popularized in the 1990s. He theorizes that social capital has three critical parts: moral obligations and norms, social values, and social networks. People form social networks because normal social values obligate them too. Putnam acknowledges that in order for relationships to form this way, people must have trust. Trust that the positive actions they take will have beneficial consequences. When this trust is present, people reciprocate positive actions, and friendship connections are formed.

Putnam accompanied his theoretical proposition with empirical evidence in *Making Democracy Work: Civil Traditions in Modern Italy.* He measured social capital in different regions of Italy through actions such as voting activity, newspaper readership, and participation in social clubs. He concluded that regions with higher social capital had stronger governmental and economic systems. All of Putnam's research is well and good for advanced countries such as Italy, but how does his theory of social capital apply to developing nations, where microfinance organizations operate?

To bring social capital theory into context for the framework of this paper, we must look at it from a slightly different angle. Woolcock and Narayan (2000) present a comprehensive view of social capital, better fitting the theory to societies in developing nations. In what they refer to as the 'synergy view', social capital is most important when thought of in terms of interactions between citizens and government officials. The more relationships and communication channels there are between these two groups of people, the better the economy will function. The success of these relationships depends on complementarity and embeddedness. (Woolcock and Narayan 2000) In their view, complementarity refers to the degree to which private citizens and public officials support each other. Embeddedness refers to the type and amount of connections there are between these groups of people. The synergy view explains situations in African nations because connections between citizens and governments are weak. Social capital was so weak between government and citizens that a massive genocide occurred in Rwanda. (Woolcock and Narayan 2000) In countries such as Benin and Tongo, women in particular lack credit access because of low complementarity and emeddedness. (Woolcock and Narayan 2000)

The synergy view of social capital has two important implications when it comes to increasing economic growth in developing nations. First, it is "critical to invest in the organizational capacity of the poor", and second, local people must be able to assist with developmental projects so they can build social capital. (Woolcock and Narayan 2000) Microfinance programs accomplish both of these goals. They are, in and of themselves, development programs that require direct participation of local residents and foster the creation of social capital. Organization is created through placement in borrowing groups and implementation of repayment deadlines.

Social capital theory states that mutually beneficial relationships and networks between people are the resources that drive economic growth and political stability. It is important to focus on the aspects of networks between private citizens and public officials when analyzing economic growth in developing countries. As an example of this, this paper will examine the way microfinance organizations influence social capital. The next section will discuss how the two interact.

Social Capital Theory Applied to Microfinance Organizations

When we consider microfinance organizations' goal of enhancing economic growth through poverty reduction and their strategy of group lending, we can see that microfinance organizations are operating through social capital theory. Let's examine the aspects of microfinance programs that relate to social capital.

Loans are given out to groups, usually with 3-10 members, who are responsible for repayment. As the poor do not have many physical possessions that can be held as collateral, microfinance organizations rely on other members of the borrowing group to enforce loan repayment. If one member of the group does not repay their portion of the loan, the whole group suffers the consequences. Borrower groups act as a form of social collateral. Lending to groups also allows the organization to reduce costs that would normally occur if they had to enforce loan repayment themselves. (Larance 1998)

These individual group members must meet in order to discuss repayment. It is hoped that not only will the loan recipients invest the funds to better their welfare, but also that interactions had during the required meetings will lead to recipients forming relationships with the other group members and enhancing their social capital.

Berenbach and Guzman (1992) studied borrowing groups from microfinance organizations in Asia, Africa, and the Americas and found that they tend to be successful because of a sense of solidarity inherently found in all of the groups. Group members, having received strength and support from other group members, were better able to escape limiting pre-existing relationships and form more beneficial new ones. (Berenbach and Guzman 1992) Positive relationships are the key to building social capital.

The vast majority of microcredit borrowers are women. Armendariz and Morduch 2005 cite many reasons as to why this is the case. Women have been proven to have better pay back rates than men. Women are often the very poorest people in their communities, and are therefore very credit constrained, and are more likely to seek out a microcredit loan. Women are more easily influenced by their peers and loan officers, leading to higher pay back rates. Women are also less mobile than men because they are more strongly connected to their children, who are hard to move around. Because of all of these factors, it is easier for loan officers to keep track of women than men.

Not only are women the most profitable borrowers from the prospective of the microcredit lender, microfinance organizations also want to get the most bang for their buck in improving welfare. One way to do this is to lend to the citizens who can benefit the most from a micro loan. Not only are women the most economically challenged group of people in developing countries, they are also some of the most socially oppressed. Women are lacking in collateral, literacy, numeracy, and mobility (Rankin 2002), all of which lead them to have low existing social capital and few economic prospects. Although a man would still benefit from participating in a microfinance program, a woman would benefit more because she gains social capital that a man may already have.

The Downside of Social Capital

Now that we have covered what social capital is and how it interacts with the microfinance markets, there are potential complications that we need to consider. Several downsides to social capital theory have been brought up in the literature. This section of the paper will discuss these complications and how they apply to social capital accumulation in developing nations.

Traditionally, social capital is meant to be examined on a small, local, community scale, not a national scale. (Portes and Landolt 1996) In this case, Woolcock and

Narayan's citation of the Rwandan genocide as being an outcome of a lack of social capital in the country may be faulted. The studies we will be dissecting in this paper refer to social capital accumulation of female participants in microfinance programs; a very small scale evaluation that allows us to avoid the complication of analyzing social capital on a national scale.

The only types of relationships that are referred to in social capital theory as we have discussed it so far are positive ones. (Siisiainen 2000) Anything negative has been thought to have occurred because of a lack of positive relationships, not because of a presence of negative ones. Social capital theory ignores the fact that some relationships are not entirely beneficial, and some are entirely detrimental. This is very important for our purposes of examining the role that microfinance has in developing social capital for women, it is important to understand the degree of social capital that these women are starting out with. In some of the later examples, women are incredibly isolated. They may be forced by their families and societal norms to stay in and around their family homes, or plain lack of resources can lead to limited mobility. In this case, we can assume that any relationship they form will at least have some positive effects. On the contrary, women interact socially and financial outside of microfinance organizations in other societies. In these cases, conflict and negative interactions do form among women. (Mayoux 2001)

A woman in a borrowing group may learn many things from other members of her group. She may learn valuable life lessons in regards to self empowerment or economic strategies. She also might face someone from a completely different ethnic or religious group that she believes she has nothing in common with. Although frequently borrowing groups are formed by women who are familiar with each other, such as extended family members, there are many documented instances where a group may lose a member and the microfinance organization will fill that vacancy with a random woman. (Larance 1998) But with the interaction that microfinance organizations require of their borrowing groups, we can assume that members will at least have more broadened horizons as a result of their experience, which is a positive asset to have.

In their article, *The Downside of Social Capital*, Alejandro Portes and Patricia Landolt cite problems that can occur in social networks. Well integrated social groups can easily exclude outsiders or newcomers. This is a possible issue that comes up in developing nations with weak governments. Ethnic conflicts are one thing that comes to mind. The larger more powerful group may subject the weaker one to discrimination. But again, our context is on a much smaller scale, focusing on groups of 3-10 women, and this is a problem that occurs more with increasing size and connectedness of a network.

When an individual conforms to fit the norms of a large, integrated group of people, it can result in a restriction of their individual freedoms. (Portes and Landolt 1996) This is a valid point that has some significance in first world countries, where people, especially young people, feel the need to fit in to fit in very strongly, and often change aspects of themselves in order get approval from someone else. However, this is not the case in the poor villages of African and Asian nations where microfinance is the most common. In those places, you will not find teenagers complaining about the kinds of shoes their mom bought for them because they are not the same kind that everyone else at school is wearing. In a small African village, a child of that same age would feel lucky just to have a pair of shoes on his feet and privileged to be able to attend school. In a place where the nearest source of drinking water may be miles away by foot and the source of the next meal is uncertain, it is silly to worry about things as trivial as personal freedoms.

Another concern involves the ease of forming relationships and equality in society. Social capital theory may overestimate how equal people in society are, and the degree to which they want the same things. (Siisianinen 2000) When different groups of people in society are of unequal social standing, it is unlikely that they would share the same goals. It can be hard for them to come to common ground and build the positive, mutually beneficial relationships that are characteristic of social capital and necessary for economic growth. In the case of developing countries, in Sub-Saharan Africa and South and Southeast Asia in particular, women take a subservient role to men. Because of this, women have a difficult time forming adequate social capital.

This overestimation of equality and its negative influence on relationships is a complication that may have valid standing in our context of social capital theory applied to microfinance programs. To further understand how much this problem is, in fact, a problem, we must delve into the dynamics of gender relations in developing countries.

Chapter 3

Aspects of Social and Family Structure in Developing Countries that Limit Success of Microfinance

So far we have established that social capital theory is valid when it comes to explaining and interpreting the success of microfinance organizations. In addition to the downsides to social capital that were previously addressed, there are certain aspects of society in the developing world that have an impact on the degree to which social capital can be built. These societal aspects are all related to family structure, and we will look at them primarily with a focus on how they impact a woman's role because women are the primary targets of microfinance organizations.

There are many reasons that women are primary targets for microfinance organizations. Women are proven to have better payback rates than men because they are more easily influenced by their peers and loan officers. (Armendariz and Morduch 2005) This makes women more profitable clients. The most prominent reason for women receiving the most loans is that loans to women are more likely to go towards bettering the lives of children and reducing poverty (Armendariz and Morduch 2005), causes that are very important to microfinance organizations.

The Communal Society

Social capital theory relies on the assumption that citizens have similar goals. In the developing world, society members may be seen as being very similar because of their way of working together within extended families. Extended families share resources and work together towards improving the situation of the entire family.

Culture in developing countries is very different than culture in the western world. One of the key differences is that society in developing countries is traditionally communal, that is, the needs of the group are put above the needs of the individual, so resources are shared. (Richmond and Gestrin 2011) This is opposite of western culture where individualism is highly emphasized. When money and goods are scarce, extended families work together and pool resources. This sharing of resources is so prevalent because of how economical it is and because extended family structure is so common. If one family member owns a bicycle, they may lend it to their cousins or brothers when they are not using it. A young girl may go to work in a factory but bring her wages home to her father, who shares them with the entire household. However, the more members a household has to support, the poorer that household tends to be. (Ssendi and Anderson 2009).

If a woman procures a microloan, she may be required by societal norms to share it with her husband and family rather than use it to invest for her own benefit. She also may want to share the loan, rather than keep it for herself. In this communal society, asset ownership is generally attributed to the patriarch. (Garikipati 2008) So if a woman goes out and gets a loan, it is highly likely that her husband will have the final say as to what to those funds are used for. In addition, if a woman uses loan funds to purchase tools to better her business, that capital addition may be attributed to her husband.

The communality of society in developing nations can foster strong relationships amongst family members and villagers. By definition social capital is positive relationships between people. It would seem that this type of community would lead to higher social capital. But is it also limiting? Is the dependency on extended family and close friends preventing people from forming social and economical relationships with other people who could potentially help them even further?

The sharing of resources amongst extended family members is a disincentive to the accumulation of physical capital. (Richmond and Gestrin 2011) Because they are able to rely on their extended family members to share physical resources with them, people have low motivation to go out and acquire those same resources for themselves. Similarly, because relationships are strong in the extended family, people are lacking the incentive to create social capital beyond what they already have.

Female Subservience within a Marriage

In his *Treatise on the Family* (1981), Gary Becker established a household model where members were allocated to the jobs that would be most productive to the entire household. If a man could earn a higher wage outside the home, he would work and the wife would do domestic work, such as cooking, cleaning, and child-rearing. This theory assumes that all family members are in agreement as to the allocation and has been applied to western cultures and developing countries.

More recently, other models of the household have explored settings in which family members are not in agreement upon who should take on which role and decisions are made based on bargaining power. For example, a woman may hold power in the family based on her ability to leave the household. (Browning and Chiappori 1998) Microfinance advocates believe that procurement of a loan may increase a woman's prospects outside a marriage, and therefore her decision making power in the family. (Armendariz and Morduch 2005) To determine if this belief is correct, we must understand a woman's role in marriage in a developing country.

In developing countries, women marry at young ages, often times in their early teen years. Traditionally, marriages were arranged by the families of the husband and wife. In more contemporary times, marriages are seen as an agreement between two families. (Richmond and Gestrin 2011) This is quite different from the way marriages come about in many western cultures. In developed countries, a man and a woman will get to know each other on a trial basis, called dating, in order to determine if they are compatible with each other. In developing countries, women and men often have little to no interaction with each other before they enter a marriage. This prevents them from being able to form a healthy relationship on the basis of communication and understanding. As opposed to the western tradition of a marriage being a mutual bond and attachment between two people, in developing countries it is seen more as a contract between the families of the husband and wife, one that obligates the participants to take care of each other.

Once they have entered a marriage, men and women fall into the traditional roles. It is more likely for the man to work outside the home, because he can earn a higher wage, and the women to take on domestic responsibilities, as Becker's model suggests. In developing countries, this situation is so common that many women believe that they need a man to take care of them. (Richmond and Gestrin 2011) It is socially acceptable for a woman to be completely dependent on her husband.

When a woman takes on the responsibilities of maintaining the household, she has less and less time to herself, and less and less time to form relationships outside the home. Men go out and work every day outside of the home. Men are able to have social lives, while women aren't. (Richmond and Gestrin 2011) This further increases a wife's dependency upon her husband because it is so difficult for her to form other relationships.

In societies where women are traditionally dependent upon and subservient to men, abuse towards women is escalated. Physical harm done to a wife by a husband, or domestic violence, is not only common but also condoned by other family members, peers, and even government officials. (Richmond and Gestrin 2011) Many wives come to accept the abuse, perhaps because they feel they have no alternative, or perhaps they witnessed it in their home growing up, between their mother and father.

Implications to Social Capital and Microfinance

All of these aspects of culture in developing countries lead to women having little to no power in their role in the household. If they were to obtain a microcredit loan, they would be culturally obligated to share it not only with their husband, but with their extended family as well. There is no such thing as 'dating', so women and men have no time to form a relationship of mutual respect and understanding before their marriage. Even if that were possible, women would still be expected to obey the men in their lives, both by men and other women. So if they get a loan, they must do what their husband pleases with it. If a woman found herself a victim of domestic violence because her husband was angered at her acquiring a loan, she would have no sympathy from her family, peers, village, or government because it is such a common phenomenon. The complexities in gender relationships in Sub-Saharan Africa lead Richmond and Gestrin to reach the conclusion that programs aimed to improve the situation of women, whether they be microcredit or something else, would be more efficient if they included the whole family, especially the husband.

Marriages in developing countries have many aspects that result in the wife maintain a subservient role to the husband. The partners don’t have the opportunity to get to know much about each other before they enter the marriage, the husband can have a social life while the wife has seemingly few prospects outside of the home, and domestic violence is common and widely overlooked. What do these factors say about social capital and microfinance?

Because women are more or less generally confined to their homes, they lack opportunities to build social capital. One possible way for them to build social capital would be to participate in a microfinance organization. There are different ways that this participation may come about. A wife may tell her husband that she is going to obtain a loan and then she may successfully invest in a business that she runs herself and that allows her to interact with many people. She may obtain a loan and then give the funds to her husband to use as he sees fit. She may tell her husband she is going to get a loan and that may not please him. She may seek out microcredit loans behind his back which could lead to conflict, which in turn leads to increased domestic violence. (Rahman 1999)

Since women have little to no bargaining power in these types of marriages, Becker’s traditional household model seems more fitting and the view that microloans would increase a woman’s bargaining power in the household, seems incorrect. Society is too communal and husbands are so dominating in relationships that a woman cannot reap the financial and economic benefits of her own microloan.

But does she gain social capital from participating in group lending? Simply interacting with other women should in theory provide a new network and set of experiences that will give a woman resources outside of the home. And does that social capital lead to positive, long term financial effects? The next section of this paper will provide an analysis of recent work on microfinance organizations' impact on social capital, determination of factors that contribute to trends in the literature, and evaluations of the strengths of arguments.

Chapter 4

An Evaluation of Evidence for Microcredit Organizations' Impact on Social Capital

When examining the literature on the effect of microfinance on social capital, many different trends compete for dominance. Some studies show that microcredit organizations only exacerbate the lack of social capital in the community while others demonstrate increased social and financial empowerment of women simply due to mandatory attendance at repayment meetings. There are two primary factors that account for these such drastic differences. First, cultural characteristics that result from social norms and location have a strong influence on microfinance's degree of impact. And second, the type of evidentiary analysis and data representation has an impact on the validity of the researchers' results. In this section of the paper I will evaluate four different studies that exemplify the trends in the literature. I will analyze them in the context of these trends and factors while also commenting on their strengths and weaknesses.

Background on the Four Studies

Of the four studies that will be examined in detail, two share a conclusion that microfinance programs' attempts to build social capital amongst women do nothing to foster new healthy relationships and in fact actually worsen the social issues already present in the community. These two studies both took place in communities where the participants were already engaged in a significant amount of social relationships. Both lack any sort of statistical or mathematical analysis of their data and instead present their findings anecdotally and theoretically.

In her 2002 paper, *Social Capital, Microfinance, and the Politics of Development,* Katherine Rankin discusses the former in the context of a Nepalese ethnic group known as the Newars. The Newars' society is composed of "extraordinarily dense forms of associational life". (Rankin 2002) The community is divided into castes and each one follows specific rules of interaction, many of which are designed to keep the lower class in its place. Rankin claims that the customary codes for interaction are so deeply ingrained in the culture, that even when presented with opportunities such as microloans the poor are too powerless to do anything to better their situation.

Linda Mayoux examined seven different microfinance organizations in Cameroon and their effects on social capital in her 2001 article *Tackling the Down Side: Social Capital, Women's Empowerment and Micro-Finance in Cameroon*. She describes the culture in Cameroon to be abundant in social relationships. Women and men both form groups, called tontines, to help each other out with money and work. (Mayoux 2001) For example, money tontines contribute funds each month and one member each month collects the total contributions. In Cameroon, women lack control of funds in the household, domestic violence is prevalent, and families often discourage the formation of networks outside of the home. (Mayoux 2001) Mayoux concludes that in some instances, group lending can improve social capital, but in other cases microfinance organizations simply strain the relationships between women in groups.

The other conclusion reached in the literature is that microfinance organizations have overwhelmingly positive effects on social capital, which in turn leads to positive long-term economical benefits for the female loan recipients. These next two studies reach that conclusion and report their findings in a more analytical fashion than the previous examples.

Lisa Larance surveyed and interviewed all members at two loan centers in Bangladesh for her 1998 study *Building Social Capital from the Center: a Village-Level Investigation of Bangladesh's Grameen Bank.* In these villages, women are confined to the homes of their husbands or fathers. When they do leave the home, women only interact with other family members or very close neighbors. Larance finds that by attending weekly loan repayment meetings, women form new relationships that allow them to expand on their economical networks. The meetings provide opportunities for women to meet others outside their family, a reason to leave the home and explore their village, and the confidence to expand their networks.

In NBER Working Paper 16018 *Building Social Capital through Microfinance*, Benjamin Feigenberg, Erica Field, and Rohini Pande present the first experimental evidence on the subject. They randomly assigned loan recipients in India's West Bengal state to either weekly or monthly meetings, and found that those who met weekly built stronger relationships throughout the loan cycle than those who met monthly. In addition to that, Feigenberg et. al. completed a follow up experiment to determine if the women had built lasting economically cooperative relationships. This experiment found that women in weekly meetings trusted their counterparts for financial help more so than women who participated in monthly meetings. This study presents unprecedented statistical evidence but lacks a real description of the culture of the community where it took place.

Cultural Characteristics that Impact Results

After analyzing the literature, there are two primary factors relevant in these studies that influence the effect microfinance loans have on social capital. They both relate to norms of interaction within society. The first is the formality with which members of society interact with one another, and the second is the isolation of women.

Different cultures have different levels of social interaction. Some may be so geographically isolated that all necessary activities are completed in the village and members have no need to travel outside the village or interact with non village members. Others may be closer to a city where members can travel in and out to markets and interact with more diverse groups of people. Some may have set norms that govern the way and frequency with which a person interacts within their own culture, village, and even family.

The more structured, formal, and frequent the norms for social interaction within a society, the less of an impact microfinance organizations have on social capital formation. There are different ways in which societies can have organized social interactions. For example, castes force people into certain groups and each group has its own place in the societal hierarchy. Customs enforce the maintenance of these castes. Even when members of the lowest castes receive microloans, the caste system is too overpowering for those people to make any significant improvements in their social capital. (Rankin 2002)

In some cases, societies may not require membership in groups based on social status like castes, but people may form groups on their own for their own benefit. In Cameroon, people form groups called tontines that function to help other members with work and money. These groups function in a similar way to many microcredit organizations in that they feature a sort of lending system and groups of either women or men working together. Microcredit organization lending groups can exist in the same villages where tontine groups are active. When this happens, there are some positive effects for loan recipients, for instance, female recipients may find improved standing within the home, but more often times group loan repayment aggravates the already complicated relationships between women in society. (Mayoux 2001)

In communities where social interactions are less formally controlled by society and are more concentrated within the family, microfinance organizations can have a much bigger impact on participants' social capital. In small Bangladeshi villages where women are confined to the immediate neighborhoods surrounding their homes and only have social relationships with family members and close neighbors, participation in group lending programs can lead to significant increases in social capital, by allowing them to travel outside of the neighborhood and introducing them to people they wouldn't have otherwise met. (Larance 1998)

From the above evidence it is clear that understanding the amount of organized social interactions in a society is crucial to determining whether or not microfinance organizations can improve upon social capital. An explanation may be that in these formally connected societies, social capital levels are already relatively high and that microfinance participation can only build social capital to a certain point, a point that has already been met in certain societies. Based on traditional social capital theory presented previously, it would seem logical that if the amount of social interactions is higher, the amount of social capital in a society is higher as well. Further research on personal interactions could tell us more about existing levels of social capital, but if there is a limit to the amount of social capital that can be built through microfinance it would be extremely difficult to quantify.

The second crucial cultural characteristic present in the literature that affects how and if microfinance organizations build social capital is the social isolation of women. In some societies where microfinance organizations have operated, women are generally confined to their homes and nearby areas, limiting their social interaction, while in other societies women are permitted by their families to form groups that help one another out in times of need. The more socially isolated a woman is in society, the greater an impact microfinance organizations can have on increasing her social capital.

When it is a normal occurrence in society for women to form their own groups outside of the family that lend money in times of financial distress and help out with child care when a mother is busy working, these women have complex relationships. Certain women take more powerful roles in the group and can abuse their power by exploiting the more inferior women in the group. (Mayoux 2001) When women from these groups opt to participate in microfinance group lending as well, the complicated power relationships affect the building of social capital; the conflicts between women are only exacerbated and the relationships are not improved. (Mayoux 2001)

On the contrary, in places where women are prevented from forming relationships with other women prior to joining a lending group, the social capital increases can be quite substantial. In situations like these, women report forming friendships with other group members, visiting these friends outside of group meetings, and relying on them for economic help in various situations. (Larance 1998)

Again, a possible explanation for the disparity in results could be because women who have relationships with other women have already met their social capital limit and microfinance organizations can't provide any additional improvements for them. More isolated women have more to gain and therefore show greater improvements in social capital. An alternative explanation could have to do with attitudes going into the experience. Perhaps the women who experienced negative affects in prior groups, microfinance or otherwise, are pessimistic about their new group, and therefore don't take as much away from the experience. And women for whom this is their first group experience may have a more positive attitude and are therefore more receptive to the program. Further research on this matter could be conducted by surveying the women prior to entry about their expectations for microfinance organizations' effectiveness in building social capital.

Evidentiary Analysis and Data Representation

The dominant type of evidence cited in the literature is anecdotal evidence. It is common for researchers to conduct interviews and surveys of group lending participants and then make generalizations about the answers. Most often the interview transcripts or full survey results are not made available in the literature articles. The reader must assume that the author has drawn valid conclusions after looking at all of the anecdotal information, and presented the most important in the paper.

Anecdotal evidence can be useful. Stories about individual women's experiences can make the information more real and pressing. It allows for a detailed picture of what it actually means to these women to build social capital through microfinance organizations. For example, new social networks may mean that a woman can now borrow a *sari* for a special occasion, in order to make a better impression. (Larance 1998)

Both Rankin (2002) and Mayoux (2001) rely only on anecdotal evidence conducted through interviews and surveys. This is problematic because there is no way to statistically determine whether the effect microfinance organizations are having on the increase in social capital is statistically significant or not. We can see whether there is an impact being made on a case-by-case basis, but not on an aggregate one. As a reminder, both of these studies concluded that microfinance organizations were failing to significantly increase social capital. Single reports of interview findings are not strong types of evidentiary support upon which to base a conclusion. Quantifiable information would greatly enhance the validity of their arguments. Something as simple as determining whether each interviewee reported a positive or negative influence on her social capital and then interpreting those numbers as a percentage of total interviewees would provide stronger evidence.

Anecdotal evidence can be strengthened when accompanied by statistical analysis. Larance (1998) presents a combination of anecdotal evidence and simple percentage level analysis of survey results, giving a stronger argument for microfinance organizations increasing social capital. Throughout the body of the paper, Larance cites percentages determined from interviews such as how many women had made friends in their borrowing group or how frequently they travel outside of their neighborhood. These statistics are supported by anecdotal evidence such as quotes from participants or village members. Statistics form the meat of the argument and anecdotes provide complementary support. Although statistics are reported throughout the text, not all are represented numerically in tables. In the few cases where the numbers collected are given, it provides a clear visual representation of where the statistics are coming from. Take, for example, Table 1:

Table 1. Change in Member's Social Networks- Larance (1998)

Relationships Among Center A Members	Before Membership		After Membership	
	Number	Percent	Number	Percent
Total possible relationships	1,482	100%	1,482	100%
Direct relationships	531	35.8%	1,367	92.2%
Indirect relationships (through one other woman)	809	54.6%	77	5.2%
Indirect relationships (through two other women)	67	4.5%	0	0%
Relationships not formed	75	5.1%	38	2.6%

If more of the statistics in this paper were presented this way the argument would be strengthened.

Feigenberg et al. (2010) is one of the first experimental studies of the causal effects of microfinance organizations on social capital. In it the researchers set up randomized trials, regress different variables, and determine the significance of weekly vs. monthly meetings on relationships and trust between group members. This paper lacks anecdotal evidence that would supplement its experimental data, but the experimental data is much stronger on its own than any data presented in previous studies. After randomly assigning first-time borrowers to groups that either met weekly or monthly, they found that those who met more frequently were 90% more likely to visit each other outside of group meetings and 19% more likely to engage in financial transfers with non-family members.

This study is strong because of its randomized trials. This allows for a causal relationship to be determined. A randomization check was performed and no baseline characteristics of participants were significantly different, as reported in Table 2:

Table 2. Group-level and Client-level Randomization Check – Feigenberg et al. (2010)

	Weekly	Monthly	Clients	Clients	Voucher Prize	Voucher Prize
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Group-level						
Number of Clients	10.233	10.300	-0.067	-0.063		
	[0.689]	[0.709]	(0.153)	(0.156)		
Month of Formation	5.667	5.657	0.010	0.043		
	[1.561]	[1.371]	(0.312)	(0.315)		
Fraction Muslim	0.000	0.077	-0.077	-0.079		
	[0.000]	[0.192]	(0.045)	(0.046)		
N	30	70				
Panel B: Client-level						
Age	33.376	33.461	-0.085	-1.056	-1.75	-0.328
	[8.330]	[8.387]	(0.683)	(0.765)	(1.086)	(1.200)
Literate	0.853	0.838	0.015	0.021	0.030	0.011
	[0.355]	[0.369]	(0.031)	(0.042)	(0.052)	(0.055)
Highest School Class Completed	6.556	6.670	-0.115	0.138	0.215	0.059
	[3.484]	[3.638]	(0.367)	(0.491)	(0.639)	(0.640)
Married	0.876	0.865	0.011	-0.011	-0.018	-0.004
	[0.330]	[0.342]	(0.025)	(0.035)	(0.057)	(0.043)
Household Size	3.974	3.915	0.058	0.059	0.233	-0.124
	[1.148]	[1.410]	(0.093)	(0.135)	(0.207)	(0.174)
Member Worked for Pay in Last 7 Days	0.585	0.530	0.055	0.043	-0.004	0.092
	[0.494]	[0.499]	(0.046)	(0.061)	(0.071)	(0.081)
Balance of Household Savings Account	3616	2445	1171	-917	-1646	-152
	[31086]	[12286]	(1876)	(811)	(1322)	(894)
Value of Assets (Rs.)	10704	9038	1666	547	3042	-2071
	[27016]	[21923]	(1953)	(2118)	(3849)	(1597)
Number of Transfers Made to Group Members	0.000	0.001	-0.001	-0.003	-0.006	0.000
	[0.000]	[0.038]	(0.001)	(0.003)	(0.006)	(0.000)
Years Living in Neighborhood	15.327	16.997	-1.670	-2.635	-3.326	-1.910
	[10.275]	[10.152]	(0.739)	(0.985)	(1.320)	(1.579)
Impatient	0.438	0.454	-0.016	-0.035	-0.115	0.05
	[0.497]	[0.498]	(0.060)	(0.066)	(0.081)	(0.087)
Financial Control	0.905	0.868	0.038	0.024	0.034	0.014
	[0.293]	[0.339]	(0.044)	(0.049)	(0.049)	(0.068)
Fraction Distant Relatives	0.067	0.052	0.015	0.005	0.019	-0.010
	[0.121]	[0.106]	(0.015)	(0.018)	(0.021)	(0.019)
Fraction Close Neighbors	0.109	0.107	0.001	-0.001	0.055	-0.059
	[0.200]	[0.167]	(0.033)	(0.034)	(0.043)	(0.029)
Fraction Distant Neighbors	0.385	0.418	-0.033	-0.029	-0.084	0.029
	[0.324]	[0.323]	(0.045)	(0.048)	(0.053)	(0.062)
Fraction Didn't Know	0.334	0.326	0.008	0.007	-0.014	0.028
	[0.339]	[0.346]	(0.048)	(0.054)	(0.059)	(0.069)
N	306	710	1016	428	219	209

Feigenberg et al. (2010) present all of their results in tables such as Table 2 in the appendix of their study. Simply by including this data, their argument is more valid because the reader can easily follow along with their work.

This is one of the first studies to regress independent variables on social capital accumulation and it is a great starting point for further research. Feigenberg et al. run the regression:

$$Y_g = \beta_1 W_g + X_{g\gamma 1} + \alpha_g + \varepsilon_g$$

Where Y_g is the social capital index, W_g is an indicator for whether the group met weekly or not, α_g is a loan officer fixed effect, and X_g is the set of group-level controls found in Table 2. This regression indicated that simply by meeting weekly as opposed to monthly, members increased their social contact outside of meetings by four standard deviations. These results could have been strengthened by defining the loan officer fixed effect or by separating out the group-level controls. A logical next step to go after this regression would be to regress the same variables except use client-level controls rather than group-level, to see if the individuals had an effect on their own increase in social capital.

Feigenberg et al. provides a great example as to how further research the effects of microfinance organizations on social capital should be done. Although it lacks a great analysis of cultural and social factors in the location of study, the strength in empirical analysis more than makes up for that. We have seen that cultural characteristics can have an impact on the conclusions of papers and that experimental vs. observational data has an effect on the strength of those conclusions.

Chapter 5

Conclusion

Throughout this paper I have discussed how microfinance organizations can increase social capital of their female participants, and therefore improve their economic and social opportunities. The literature shows that it is possible for microfinance organizations to do this, but factors such as endogenous social capital can reduce the benefits from microfinance participation, and even increase conflict amongst participants. When women are more isolated and have less social capital to begin with, they have more social capital benefits to gain from microfinance participation.

The current literature is lacking in experimental evidence and relies heavy on observational data. It is common for researchers to make a claim and then back it up with anecdotal evidence. Further research in the field should concentrate on experiments involving randomized controlled trials, similar to that in Feigenberg et al. (2010), as opposed to surveys, questionnaires, and interviews. These trials allow better determination of the causal effect of microfinance organizations on social capital. Logically it would seem that group lending makes a greater impact on social capital than individual lending because of forced interaction between group members, but a randomized trial of group lending vs. individual lending would be important to determine the efficiency of the two trends.

It is possible for microfinance lending can provide economic and social opportunities for impoverished women that they wouldn’t otherwise have access to. The literature shows that their success depends upon existing norms of social connectedness in the community. The literature would be strengthened with more experimental data to supplement the already strong observational data.

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