

# 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.”<sup>21</sup> Likewise, James Wolfensohn, former head of World Bank, has declared that social capital is the “glue” that “holds societies together.”<sup>22</sup>

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.<sup>3</sup> 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.<sup>4</sup> 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